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On Behalf of
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Hearing On
China's Industrial, Investment, and Exchange Rate Policies:
Impact on the U.S.

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Mr. Chairman and Members of the Commission:

I am pleased to testify today on behalf of the National Association of Manufacturers (the NAM), and I want to compliment the Commission for holding this important hearing.

The NAM represents 14,000 U.S. manufacturing companies, including 10,000 small and medium-sized firms. No other trade subject comes close to commanding the attention that China is getting from both large and small NAM members. China poses a unique set of challenges for U.S. manufacturers. While competition from Chinese imports and fear that U.S. manufacturers will move production to China dominate the concerns of many companies, others see China as their only growth market and want to ensure that the trade relationship does not deteriorate.

Competition with China cannot be viewed separately from the broader competitive problems facing U.S. manufacturers – importantly including the factors that are making it more expensive to produce in America at the same time that cost increases cannot be passed on in the form of price increases. Illustrating the problem, since 1994 prices in the rest of the economy have risen 18 percent, but prices of manufactured goods as a whole have fallen steadily and now stand nearly 6 percent below their 1994 level. Cost pressures, though, have continued, including those from tax and regulatory policy, excessive litigation, increasing health care costs and energy prices. Something had to give, and that has included a lot of manufacturing jobs.

Over 2.7 million American factory jobs have been lost over the past three years in a roughly one in every six jobs. That is an astonishing figure, unprecedented in such a period of time. The losses are continuing, and manufacturing lost 44,000 additional jobs last month alone.

The current economic slowdown is essentially a manufacturing recession – a deep one. The rest of the economy, while not growing at its usual rate, has not felt the same pain as manufacturing. Manufacturing represents 14 percent of the American workforce, but has accounted for nearly 90 percent of all the job losses since total U.S. employment peaked in March 2001. No wonder 75 percent of manufacturers in a recent NAM survey said that manufacturing is in crisis.

Despite recent promising signs that the manufacturing sector is recovering from its three-year long recession, U.S. manufacturers continue to struggle in the face of weak demand and the most intense global competition in history. As stated earlier, the cost of manufacturing in the United States is rising steadily. At the same time, global competition prevents manufacturers from raising prices to offset these costs. Notwithstanding significant increases in productivity, many manufacturers have found no alternative but to cut back production, relocate plants abroad or stop producing altogether.

Before going further, let me address the question of whether manufacturing matters to the United States. It is not uncommon for me to encounter individuals who say that since manufacturing only represents about 16 percent of the nation's output, who cares? Isn't the United States a post-manufacturing services economy? Who needs manufacturing?

The answer in brief is that the United States economy would collapse without manufacturing, as would our national security and our role in the world. That is because manufacturing is really the foundation of our economy, both in terms of innovation and production and in terms of supporting the rest of the economy. For example, many individuals point out that only about 3 percent of the U.S. workforce is on the farm, but they manage to feed the nation and export to the rest of the world. But how did this agricultural productivity come to be? It is because of the tractors and combines and satellite systems and fertilizers and advanced seeds, etc. that came from the genius and productivity of the manufacturing sector.

Similarly, in services -- can you envision an airline without airplanes? Fast food outlets without griddles and freezers? Insurance companies or banks without computers? Certainly not. The manufacturing industry is truly the innovation industry, without which the rest of the economy could not prosper. Manufacturing performs over 60 percent of the nation's research and development. Additionally, it also underlies the technological and mechanical ability of the United States to maintain its national security and global political leadership.

Manufacturing, moreover, makes a disproportionately large contribution to productivity, more than twice the rate of the overall economy, and pays wages that are about 20 percent higher than in other sectors. But the most fundamental importance of manufacturing lies in the fact that a healthy manufacturing sector truly underlies the entire U.S. standard of living -- because it is the principal way by which the United States pays its way in the world.

Manufacturing accounts for over 80 percent of all U.S. exports of goods. America's farmers will export somewhat over $50 billion this year, but America's manufacturers export almost that much *every month!* Even when services are included, manufacturing accounts for two-thirds of all U.S. exports of goods and services. If the U.S. manufacturing sector were to evaporate or become seriously impaired, what combination of farm products together with architectural, travel, insurance, engineering and other services could make up for the missing two-thirds of our exports represented by manufactures?

The answer is "none." What would happen instead is the dollar would collapse, falling precipitously -- not to the reasonable level of 1997, but far below it -- and with this collapse would come high U.S. inflation, a wrenching economic downturn and a collapse in the U.S. standard of living and the U.S. leadership role in the world. And that, most basically, is why the United States cannot become a "nation of shopkeepers."

But manufacturing is definitely at risk because for too many years it has been taken for granted, and burdens and costs have been imposed on manufacturing that are now being reflected in falling unemployment and growing outsourcing. The evidence has been building for some time. A recent study commissioned by the NAM's Council of Manufacturing Associations, *Securing America's Future: The Case for a Strong Manufacturing Base*, prepared by noted economist and former Council of Economic Advisors member Dr. Joel Popkin, documents the serious challenges facing manufacturing and the erosion of our industrial base.

But even more importantly the study examines just how important manufacturing is for supporting overall economic growth, technological innovation and a high standard of living for American workers. The study is clear in its warning that **"if the U.S. manufacturing base continues to shrink at the present rate and the critical mass is lost, the manufacturing innovation process will shift to other global centers. If this happens, a decline in U.S. living standards in the future is virtually assured."**

This must not be allowed to happen.

The NAM has initiated a campaign to promote economic growth and manufacturing renewal through education, involvement and advocacy. A key goal is to make the public and policymakers aware of the pressing challenges that manufacturers face in an increasingly competitive global marketplace and obtain needed public policy changes.

We are very pleased with the rising level of awareness on the part of the Administration and the Congress. On Sept. 15, Commerce Secretary gave a major speech in Detroit announcing the launch of a new Administration initiative on manufacturing that includes many of the NAM's own recommendations. In addition, Members of Congress have shown more interest in manufacturing issues and proposed several resolutions that address concerns the NAM has raised, notably on China's undervalued currency.

The NAM is now working to harness the energy of other organizations concerned about manufacturing. This month the NAM started forming a *Coalition for the Future of Manufacturing* that will seek to raise public awareness and promote public policy changes needed to strengthen manufacturers' competitiveness and global leadership. The coalition will bring together national, state and local organizations, as well as individual companies and their employees, that are interested in promoting economic growth, job creation and high living standards through a strong manufacturing base.

Advancing these goals will require a sustained long-term effort. Much, however, can be done in the remainder of the 108th Congress and the Bush Administration. We have identified the following as priority initiatives that could be achieved in 2003-04 and would help materially to grow the manufacturing sector, create jobs and strengthen American competitiveness. But this will be an evolving process, and we will make additional refinements as the need arises. There are five critical areas:

1. Leveling the international playing field

- Launch a new strategy on China that deals firmly with any violations of WTO rules and unfair trade practices, including counterfeiting and subsidies, and redirects additional resources for fact-finding, analysis and enforcement.
- Press key trading partners, particularly China and other Asian countries, to adopt a flexible, market-oriented exchange rate and stop currency undervaluation to gain unfair competitive advantage.
- Advance negotiations on the Free Trade Area of the Americas (FTAA), other free trade agreements (notably with Australia and Central America) and, to the extent possible, the WTO Doha Development round, and ensure that the final negotiating frameworks include the complete or substantial dismantling of market barriers to manufactured imports.
- Expand and strengthen U.S. export promotion and develop more active programs in countries, such as China, where export markets are growing fast but language, cultural and infrastructure barriers limit access by U.S. companies.

2. Reducing production costs in the United States

- Enact asbestos and class action reform legislation.
- Pass comprehensive energy legislation that helps to ensure adequate, affordable and reliable energy supplies, including natural gas.
- Establish a more systematic way for the whole U.S. government to review and assess the impact of all relevant regulations on manufacturing in the United States and provide adequate resources to undertake this function.
- Replace immediately the 30-year Treasury bond interest rate used for pension calculations with a more accurate long-term corporate bond rate, and over the longer term, policymakers should focus on reforms that both enable and encourage employers to participate in the private pension plan system.

- Seek to reduce the rapid increases in health care costs and make health care more affordable by enacting Medicare and medical liability reforms, expanding tax-based assistance and group purchasing through association health plans and encouraging greater individual responsibility.

3. Promoting innovation, investment and productivity

- Pass legislation to resolve the FSC/ETI dispute in a fair and equitable way that improves the competitive position of U.S. manufacturers. In addition, simplify and reform current international tax rules to level the playing field for U.S. companies.
- Support continued movement towards a capital cost recovery system that allows companies to expense capital equipment in the tax year it is purchased. Strengthen and make permanent the R&D tax credit set to expire on June 30, 2004. Continue to press for repeal, or at a minimum significant reform, of the Alternative Minimum Tax (AMT) – the "Anti-Manufacturing Tax."
- Challenge the world's major trading nations to match the U.S. with a harmonized, cost-based, electronically based patent system by 2008, and begin by fully funding the Patent and Trademark Office and ending the diversion of patent fees.
- Survey the full range of government programs that contribute to manufacturing R&D and seek additional funding for R&D programs that have proven successful in promoting manufacturing innovation and competitiveness.
- Restore full funding in the FY2005 budget to the Advanced Technology Program (ATP) and Manufacturing Extension Partnership (MEP), two key programs that encourage public-private partnerships to stimulate business innovation and spread its benefits throughout the economy.

4. Ensuring an adequate supply of skilled workers and effective help for workers needing re-training and re-employment

- Make greater efforts to demonstrate the linkage between "leaving no child behind" and the need to educate young people for competing in the global marketplace.
- Redirect funding in the reauthorized Carl D. Perkins Act to update vocational and technical training in high schools and establish technical career paths into junior college and universities.
- Strengthen implementation of the Workforce Investment Act to channel more of existing funds into business-directed "one stop service centers," with particular emphasis on involving small and medium-size companies.
- Ensure that transparent and efficient visa policies enable the United States to access the best global business talent and facilitate personnel movement around the world while also effectively protecting homeland security.

5. Improving the policy infrastructure to advance the manufacturing agenda

The Administration has demonstrated that it is taking manufacturers' concerns seriously and making credible efforts to promote economic growth and manufacturing renewal. Secretary Evans has announced several important initiatives to improve performance in the Department of Commerce. The following steps should be part of government-wide efforts to create a stronger policy infrastructure on manufacturing issues:

- Ensure that the new Commerce Department assistant secretary for manufacturing has adequate resources and staff to advance the manufacturing agenda in Commerce and other U.S. agencies. Redirect more resources to investigating and following up on unfair trade practices of our trading partners Provide sufficient expert staff to the new Office of Industry Analysis to assess the costs and economic impact of new rules and regulations on the manufacturing sector.
- In conjunction with these Commerce Department initiatives, establish a senior-level position in the White House National Economic Council staff to work with the new Commerce assistant secretary and help drive the interagency policy process, enlisting the support of the President and his senior staff as needed.
- Form a Presidential Council on Manufacturing that would make independent recommendations to the President and issue an annual report card on implementation of the Administration's manufacturing agenda. On a regular basis, highlight and review progress on the manufacturing agenda in the President's annual economic report and the federal budget presentation.

The Role of Trade

As is obvious in the NAM agenda, trade is not the only problem facing manufacturing, but it is an important one. Trade – both imports and exports – affects manufacturing much more than the rest of the economy. In fact, trade is seven times as large a factor in the manufacturing sector than in the rest of the economy. Trade has been a key factor in the current manufacturing recession – particularly the decline in U.S. manufactured goods exports. These exports fell $84 billion in the last two years, accounting for roughly one-third of the total fall in U.S. manufacturing shipments during that time. Given that U.S. data on manufacturers' shipments includes double-counting and exports do not, the actual export loss is almost certainly more than 40 percent of the total loss.

Imports have also been a factor in the current situation, but less so than the export loss. Since 2000 import penetration (the import share of the U.S. market for manufactured goods) raised U.S. imports of manufactured goods by about $40 billion above where they would have been had the import share had not increased.

It is important to stress that imports are not "bad" for the economy. They must, of course, be consistent with international trade rules and U.S. trade laws. Imports are how we receive goods and services that can be produced more efficiently in other countries, and exports -- which tend to be the goods and services we make most efficiently -- are how we pay for what we import. Imports provide a broad range of products to industry and consumers and enhance the U.S. living standard.

So long as trade is in reasonable balance, some U.S. industries are growing while others are contracting -- but manufacturing as a whole gains and becomes more productive. This doesn't alleviate the difficulties of individual companies or industries, but tends to bring about the movement of resources within the economy in a way that generally benefits all. But when trade is not in reasonable balance, then manufacturing as a whole can be hit hard and firms losing customers cannot find other outlets for their production and workers displaced from one industry cannot find employment in another.

The overall U.S. merchandise trade deficit rose from $180 billion in 1997 to $470 billion last year -- roughly a $300 billion increase. About 80 percent of that increase occurred in manufactured goods trade, which went from a deficit of $130 billion in 1997 to a deficit of $360 billion last year. The $230 billion increase in the manufactured goods deficit has had a very serious effect on U.S. production and jobs. A robust manufacturing recovery and restoration of many of the lost jobs just is not possible until manufactures trade turns around.

Imports from China have played an important role here, but have not been the only factor. For example, the largest increase in the U.S. trade deficit since 1997 was not with China, but with the European Union – where the deficit increased from $16 billion in 1997 to $82 billion last year. The U.S. deficit rose virtually everywhere in the world. China, however, now accounts for nearly one-third of the U.S. trade deficit in manufactured goods, up from a little over one-fifth in 2000.

The fundamental cause of the overall deterioration in the trade balance was the seriously overvalued dollar. No other factor even comes close. After a decade of stability, the dollar started rising against other currencies in 1997, and peaked at an increase of 30 percent in February 2002 – making U.S. exports 30 percent more expensive and imports up to 30 percent cheaper. For example, the euro fell from $1.17 to $0.86, making it impossible for many American companies to compete in Europe or against European companies. This particularly affected smaller U.S. manufacturers and had a disastrous effect on our trade. This is why the NAM worked so hard to obtain a dollar policy based on market-determined exchange rates reflecting economic fundamentals.

The Administration began enunciating such a policy last year, and since then the dollar has moved about two-thirds back to normal levels, when viewed against major currencies. Recently, Treasury Secretary Snow has been very definite in his statements that markets must set currency values free of intervention to prop currencies up or keep them below market-determined rates. A dollar reflecting economic fundamentals is by far the most important factor needed to cut back the enormous U.S. trade deficit.

The euro is now about $1.15, which is close to the $1.20 average value during the 1990s for the European currencies that now constitute the euro. The Canadian dollar also rose significantly, from $0.63 to $0.73 – an increase that will do much to alleviate some of the significant trade tensions that have arisen with Canadian trade.

IMPORTS FROM CHINA

Let me now turn specifically to trade with China and its effects on U.S. manufacturing. Beginning in the 1970s, the United States granted what is now called "Normal Trade Relations" (NTR) status to China, opening the way for China to begin selling into the U.S. market. China faced the same small U.S. import duties that we applied worldwide, averaging less than 2 percent for manufactures.

The Chinese market, however, stayed very closed to U.S. exporters. Over the years, this situation led to faster growth of China's exports to the United States than was the case for U.S. exports to China. In fact, for the last 20 years, U.S. imports from China have grown at an average annual rate of 20 percent per year, while U.S. exports to China have grown at an average annual rate of 12 percent.

Last year U.S. merchandise imports from China were $125 billion, while exports to China were $22 billion, resulting in a trade deficit of $103 billion – the largest with any country in the world. U.S. imports from China are now six times as large as exports to China, making it a very difficult task merely to halt the growth of the deficit much less than to reverse it -- as is shown in Exhibit 1 (attached). The exhibit contains a matrix showing the trade balances with China that would result from various alternative growth rates for exports and imports. If, for example, the 20-year trends of 20 percent import growth and 12 percent export growth were to continue for just five more years, the U.S. trade deficit with China would triple to over $330 billion.

The problem is still manageable if it is addressed now. Apparent consumption of manufactured goods in the United States (using the North American Industrial Classification System -- NAICS -- employed in U.S. government statistics) was $4.325 trillion during January - July, 2003, at an annual rate. Manufactured goods imports from China during this period were $134 billion at an annual rate -- 3.1 percent of apparent consumption of manufactures.

This sounds like a small number, incompatible with the pain being expressed by many U.S. industry sectors. The reason for this pain, however, can be seen by examining what is happening at the margin -- what is happening to changes in production and imports. In 2000 China accounted for 2.1 percent of apparent consumption of manufactures, so its share increase to 3.1 percent so far in 2003 represents a 50 percent increase. Viewing the situation differently, between 2000, when the U.S. manufacturing industry entered its severe recession, and 2003 to date (at an annual rate), apparent consumption of manufactured goods *fell* 6 percent. Imports of manufactured goods from the world fell 2.4 percent. But imports from China rose 38 percent during that period.

Frequently, we are told by our member companies that Chinese products are being offered for sale at prices so low that the U.S. company just cannot compete. In fact, it is not unusual to hear that the Chinese product is being offered for sale at prices below the cost of the U.S. company's component or raw material costs. One NAM member told us, "I recently lost a job to China when they built three molds for my domestic customer for a total of $1,800. The cost of the steel is more than that!" That raises serious questions that need answering, for even low labor costs and an undervalued currency could not bring about such a phenomenon.

The situation is not uniform, though. Not all of China's rapid export growth to the U.S. market is necessarily competing with U.S. production. For example, Japan's share of U.S. imports has fallen as China's has risen -- implying the possibility of considerable substitution of Chinese for Japanese goods in the U.S. market. Consider, for instance, that China is now the largest supplier of computers and related components into the U.S. market. Yet as recently as 2000, China was only our fifth-largest supplier of these products. Though total U.S. imports of computers and components fell from 2000 to 2002, imports from China soared nearly 50 percent, while imports of these products from Japan fell 50 percent and from Korea fell over 40 percent.

CHINA AS A MARKET

It is also very important to avoid viewing China in a one-sided manner. In addition to being a rapidly rising supplier of imports into the U.S. market, China is also a quickly growing market for foreign goods and services, and this must not be overlooked. Last year China was our fastest-growing export market. While our overall exports fell 5 percent, our exports to China were up 15 percent. Last year China was the second-largest market for U.S. commercial jet aircraft. China has the same potential for many products.

Moreover, the growth is accelerating. In the first quarter of this year our exports are up over 37 percent compared to the year-ago period -- by far the fastest growth to any market in that time period. Moreover, there is enormous potential for expansion. Less than 10 percent of China's imports come from the United States. The European Union, for example, sells 30 percent more to China than we do.

It is also important to contemplate the significance of the fact that China's trade with the rest of the world as a whole is in deficit. In 2002, using U.S. data, China's surplus with us was $103 billion. China's global trade surplus was $30 billion, implying a $73 billion deficit with the rest of the world. Much of this is imports of oil and other commodities, and large amounts are also comprised of electronic components that China purchases from other Asian countries to assemble into final products for export to the United States.

It is clear that the United States must have a balanced approach to China, considering the import impact being felt, but also considering that China is about the only growth market in the world right now -- and that it has the potential to be among the world's two largest import markets in the future. We need a productive two-way trade relationship.

INVESTMENT IN CHINA

Another growing concern among many companies is the fear that U.S. factories are closing their doors and that production is moving to China. There is a considerable amount of anecdotal information regarding U.S. plants shutting down and new American plants being opened in China. The statistical data, however, do not bear this out--at least not so far.

Commerce Department data show that total sales of U.S. manufacturing affiliates in China in 2000 (latest data available) were $26.0 billion, of which $18.3 billion were sold in China, $4.8 billion were exported to countries other than the United States, and $2.9 billion were exported to the United States. Thus, according to U.S. government data, only 3 percent of U.S. manufactured goods imports from China in 2000 came from U.S.-owned companies. The rest came from Chinese or foreign-owned plants. Additionally, over 90 percent of U.S. affiliate exports of manufactures to the United States were computers and other electronic components.

Preliminary data for 2001 do not indicate a significant change. Global U.S. foreign direct investment outflows for manufacturing in that year were $36 billion, of which 80 percent went to Europe and Canada. This is in keeping with typical patterns, for the vast bulk of U.S. foreign direct investment in manufacturing typically goes to Europe, Canada, and other high-wage countries to supply local demand. New U.S. manufacturing investment in China in 2001 was $1.4 billion, according to the Commerce Department's data.

The statistics and the anecdotal information seem to be saying different things. In seeking to reconcile this, it should be noted that the statistics would not reflect instances in which a U.S. firm ceased production and rather than investing in China, simply started to import products made by Chinese-owned or other foreign-owned factories. Additionally, we may just be at the beginning of the problem. It is a rare executive who returns from China without shaking his or her head and saying that unless things change they just don't see how we can compete against Chinese production and keep American manufacturing from moving offshore.

A POSITIVE AGENDA

The question is, what do we do about this? How do we assure the health of our nation's manufacturing industry in the face of this rapidly growing challenge? At the outset, we must reject protectionism as the answer. We cannot undo seventy years of trade liberalization and the attendant benefits to our standard of living and our competitiveness that have resulted from trade. Protecting industries from competition is not a formula for success and would likely result in a spread of protectionism around the world that would end up hurting everyone -- including ourselves.

We need a positive agenda in addressing China. We need to recognize that China is not only our fastest-growing competitive problem right now, but also that it is going to be among our fastest-growing markets in the world. We need a combination of steps to ensure that trade follows market principles and is free of government distortions, and to ensure that U.S. productivity and technology continues to provide us a competitive edge.

The first step has already been taken: getting China into the WTO so it has to follow global trade rules. We worked hard to get China into the WTO for this very reason. We need to dispel the too-common view that China's entry into the WTO is the cause of the rapid rise of imports from China. The U.S. market was already open to China before its entry into the WTO. The United States made no import concessions when China entered the WTO -- no reductions in U.S. tariffs or other trade rules whatsoever. All of the concessions, and all of the reductions in barriers are on the Chinese side. That was the price they had to pay to join the WTO.

Our exports, on the other hand, have clearly broken from their earlier trend and have started rising considerably more rapidly than before China's entry into the WTO. This is exactly what we expected -- the direct result of the reduction in tariff and trade barriers that has already taken place in China. As China implements its several-year schedule of further market opening moves, much more U.S. export growth is achievable. Had China entered the WTO a decade ago, there is no question that our trade deficit with China would be much smaller today than it actually is.

In the NAM's view, we now need to pursue a set of steps to ensure more market-driven trade between China and the United States. This would include:

1. **Seek full WTO Compliance.** We must ensure that China complies with its commitments as a new World Trade Organization member to follow all international trade rules and open its internal market in accordance with specific benchmarks set forth in its membership agreement. The NAM has established a WTO compliance monitoring program of its own and submitted its second annual compliance report based on member input to the U.S. Trade Representative (USTR) on Sept. 10. We have also pressed for more Commerce and USTR resources for monitoring and investigating compliance problems.

2. **Stop Currency Undervaluation.** We must press China to end the manipulation of its currency and allow the yuan/dollar exchange rate to be determined by the market. Economists estimate that China's currency is undervalued by as much as 40 percent, and this is having a huge distorting impact on trade. Currency undervaluation is one of the key factors pushing China's trade surplus with us to a record $130 billion this year. China is now purchasing U.S. dollars at the rate of $120 billion a year to prevent appreciation of its currency against the dollar. Secretary Snow's visit to Asia was an excellent start in raising the issue, and getting the G-7 Finance Ministers to agree that the China currency situation is a global problem added considerable further forward movement toward a resolution. The International Monetary Fund (IMF) is also raising its voice, pointing out that Asian currency manipulation is a dangerously destabilizing element in the global economy.

3. **End Subsidized and Non-Market Production.** We must ensure that the development of Chinese industry follows market principles and does not benefit from direct or indirect subsidies that distort trade flows. We hear too many reports from NAM members that Chinese imports cost less than the cost of raw materials. In our dialogue with China, we must insist that the prices of traded goods are determined by real economic costs and not costs artificially set by the government.

4. **Address Counterfeiting and IPR Violations.** We must take firm actions to end China's rampant counterfeiting of U.S. and other products. Today, China is the epicenter of world counterfeiting, costing us tens of billions of dollars in lost exports and the related jobs. Moreover, counterfeit products pose significant risks to health and safety — such as in bogus pharmaceuticals or phony brake linings. We must also insist that the Chinese government take effective action to enforce the protection of patents, copyrights, trademarks and other intellectual property.

5. **Expand Export Promotion to Support U.S. Business.** Finally, we must undertake a massive joint public-private export trade effort to increase U.S. exports to China. In 2003, China is set to become the world's 3rd largest importer ($380 billion) but the United States only has an 8 percent share of all Chinese imports. U.S. companies need to increase their marketing efforts but greatly expanded Commerce Department and other promotion assistance is also needed.

CONCLUSION

Let me conclude, Mr. Chairman, by stating that we will not succeed in preventing the migration of our manufacturing base to China and other foreign countries if we do not address the high cost of manufacturing in the United States and get the U.S. economy moving again.

U.S. industry is burdened by legal and regulatory systems that retard growth and destroy jobs. Unrestrained asbestos liability alone, for example, could cost U.S. industry $250 billion, resulting in the bankruptcy of even large corporations. Rapidly rising health care costs are a constant worry, particularly for small manufacturers. Uncertainty over sources of energy supply has led to price volatility. Lack of support for research and development threatens to undermine U.S. leadership in cutting-edge technology. And shortages of skilled workers have left many manufacturers wondering how they will keep the engines of industry running when growth does resume.

Additionally, bilateral, regional and WTO trade agreements must be negotiated as quickly as possible to get foreign trade barriers eliminated, or at least down to our own low level. U.S. tariffs on manufactured goods average less than 2 percent, while in many parts of the world U.S-made goods face tariffs 10-15 times higher -- or even more.

Unless these challenges are also addressed, we can expect a significant further erosion in the U.S. industrial base. Competition with China will only accelerate the trend. However, if we begin to act now, with both a refocused and positive trade policy toward China and a concerted strategy on economic growth and manufacturing renewal, we can restore the dynamism and competitiveness of U.S. industry and ensure the global leadership that is so central to our economic and national security.

Thank you, Mr. Chairman.

Alternative U.S. Trade Deficits With China

20-Year Trend: Exports to China up 12 percent per year;
Imports up 20 percent per year

If these trends continue for five more years the China trade deficit will be $330 billion— an increase of $227 billion.

Export% / Import%	**12%**	25%	33%
20%	**-$330**	-$290	-$252
15%	-$246	-$205	-$167
10%	-$178	-$138	-$100
7%	-$144	-$104	-$66

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