Statement of
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Mr. Chairman, members of the Commission, my name is Ron Gettelfinger. I am the president of the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW). I appreciate the opportunity to present the UAW's views on the impact of U.S.-China trade and investment on the automobile and automotive parts industries.

The UAW first became deeply concerned about automotive trade with China in the mid-1990s, when China announced an industrial policy for the automotive industry that established it as a "pillar industry" of the Chinese economy. The announcement in June of this year of a new "Development Policy" that identifies the auto industry as a "backbone industry" has only added to our concerns. China is now the world's third largest market for vehicles and the fourth largest producer. The plans for future development of the industry by the Chinese government and the world's automotive companies will have a profound effect on the location of production around the world and the jobs and incomes of UAW members and other American workers in this critically important industry.

We have seen automotive imports from China grow at a rapid pace in the past ten years. We are deeply concerned about the impact on U.S. automotive production and employment that will occur if the Chinese government's goals for the continued rapid development of the industry are achieved. The objectives of China's automotive policy include becoming the world's largest automobile manufacturer and a producer of its own brands of vehicles and parts for international markets by 2010 -- that is only five short years away. The size of recent investments in vehicle and parts production capacity that have taken place and been announced makes these projections quite realistic. If all of the additional vehicles and parts were consumed in China, there would be a relatively small impact on workers and produces in other countries. The question that must be answered, though, is whether demand in China will grow fast enough to consume all that production. We believe that such growth is not at all likely.

While the new Chinese auto policy has eliminated several of the 1994 policy's obvious violations of international trade rules (for example, local content requirements, quotas on imports, limits on distribution rights, and more), it still shows a bias toward local production over imports and forced investment in order to participate in the local market. Those who argue that such provisions cannot be required and cannot be enforced are not familiar with the auto industry's history of development internationally or with China's governmental and industrial structure.

China is not the first country to aspire to a major role in the international auto industry. Government industrial policies propelled the Japanese companies in the 1970s and 1980s and Korean companies in the 1990s into successful international producers. Brazil's industrial policies encouraged massive investment there in the 1990s and now the same strategy is being pursued in China. The result has been an accumulation of global excess capacity that allows the shrinking number of major producers to threaten their workers in every country with the loss of jobs and plant closings unless they become "competitive." With the rise of China as a major auto producing country, being "competitive" means compensation of as low as a dollar an hour, no independent union rights and broad government intimidation of the pursuit of workers' legal rights. These conditions have become the new standard of competition for companies around the world, to the detriment of workers everywhere.

The less restrictive rules in China's new auto development policy are not comforting to us because the course of U.S.-China automotive trade has been largely set by the decisions already made by the Chinese government and the multinational corporations that dominate the global industry. Under the terms of the 1994 Chinese auto industrial policy, companies invested in China, made alliances with Chinese companies, made commitments to high levels of Chinese content in their vehicles and agreed to set up R&D and technical centers to transfer the latest technology. This led to substantial Chinese investment by the global auto parts companies, often in joint ventures with Chinese firms, that mirrors the assemblers' investments. The elimination of the specific Chinese government requirements in the newly adopted industrial policy will not alter this pattern at all. The U.S.-based assemblers and suppliers will only export products from their U.S. and other global production facilities to China until their local production and local sourcing arrangements are fully in place. The huge investments in Chinese production ensure that the companies will not want to add to competition in the Chinese market by importing any more than they must. We have seen the same pattern develop in Mexico, Brazil and other countries that established tight rules for participating in perceived high-growth markets and then let those rules fade away as they were no longer needed to produce the desired result.

Since 1993, the U.S.-China automotive trade balance has moved from a surplus of more than $500 million to a 2003 deficit of $2.2 billion. Through June 2004, the deficit grew by more than 25 percent from last year, indicating a 2004 deficit of $2.8 billion. That would result in a doubling of the deficit in only three years. Recent announcements by the Big 3 auto companies of additional exports of vehicles to China over the next couple of years will not be enough to keep the U.S. auto trade deficit with China from growing. Past experience with announcements of this sort, which are intended to distract attention away from the soaring U.S. trade deficit with China rather than to fundamentally change that imbalance, makes us skeptical that the exports will actually be made.

Though U.S. exports of automotive products to China have increased significantly in the past two years, they are still no match for the increase in U.S. imports. The growth in exports is consistent with a rapid increase in production of new models in China. In the past, the local content of Chinese-assembled vehicles has increased over time, in line with the commitments of U.S.-based companies that have formed joint ventures with state-owned Chinese companies. With more than 30 new model launches last year and this year, Chinese imports of auto parts have been substantial. However, most of the imported parts come from other countries, limiting the benefit of the joint ventures for U.S. production and employment.

In 2003, according to Automotive News ("U.S. suppliers miss boat in China," April 12, 2004), a Chinese auto industry group reported that China's imports of auto parts totaled $9.5 billion, with Germany supplying $3.13 billion, Japan $2.92 billion and the U.S. a mere $268 million. GM's claims that it exported $1.4 billion in parts and machinery to China in 1995-2002 and will ship $1.3 billion in 2004-2005 do not seem consistent with the official U.S. export numbers. In addition, some of GM's parts imports into China come from its traditional suppliers in Europe, Brazil and elsewhere in Asia.

Using U.S. Department of Commerce trade data, it is clear that modest increases in U.S. auto parts exports will not come close to offsetting climbing parts imports from China. The U.S. deficit in automotive parts trade with China has grown from $121 million in 1993 to $1.4 billion in 2000 and to $2.3 billion in 2003, even though U.S. auto parts exports increased from $218 million to $510 million from 1993 to 2003. Through June 2004, the U.S. parts deficit with China jumped by an additional 24 percent despite an 87 percent increase in exports – the value of imports grew to $1.8 billion from $1.4 billion, while exports were up by only $165 million. Over time, we are confident that Chinese-made parts will replace the limited U.S. parts exports. The number of auto parts companies that are establishing new plants in China assures that U.S. exports will be displaced and that U.S. imports of auto parts from China will continue to grow rapidly.

The escalating U.S. deficit in automotive trade with China must be viewed in the context of the overall U.S. automotive trade picture. The worldwide U.S. vehicle and parts trade deficit was $128 billion in 2003; through June 2004, it was up 11 percent and should be above $140 billion for the full year. We now have deficits of more than $40 billion each with Japan and with our NAFTA partners, Canada and Mexico. If China achieves its ambitions, it will join this club of countries with huge automotive trade surpluses with the U.S. and undermine the jobs of UAW members and other American workers in this critical U.S. industry.

Looking at what has happened to U.S. automotive sales, production and trade since NAFTA and China's auto industrial policy went into effect provides a sobering picture of the impact of globalization on the U.S. industry and its workers. In 1993, when the U.S. economy was slowly coming out of a recession, U.S. vehicle production was nearly 11 million and sales were nearly 14 million. The auto trade deficit was $50 billion at a time of depressed sales and a relatively weak dollar. Imports from outside North America accounted for 15.5 percent of sales. Ten years later, U.S. sales had increased by three million, or more than 20 percent, but U.S. production increased by only 1.1 million – more than 60 percent of the increase in sales came from imported vehicles, as the non-North American import share jumped to nearly 20 percent. The automotive trade deficit reached $128 billion. Employment of American auto workers was left at about the same level as in 1993, despite the increase in U.S. production and the larger increase in U.S. sales. NAFTA contributed a significant part of this deterioration in trade – the deficit with Canada and Mexico of $13.1 billion in 1993 grew to $41.0 billion in 2003. The deficit with Japan grew from $33.4 billion to $43.9 billion.

Much of this damage, though, has occurred in the past three years. From 2000 to 2003, when the U.S. economy fell into recession and a barely visible "recovery," U.S. production fell, and imports from Japan, Germany, Korea and other countries increased. And, contrary to past experience with recessions, the trade deficit increased despite the decline in U.S. sales. Employment in the industry has fallen by more than 100,000 jobs during that time, and the auto trade deficit continued to climb. The same pattern has continued this year – during the first half of 2004, employment is down, along with U.S. production, but sales of imports are up and so is the trade deficit. Most of those job losses have been in the auto parts industry and thousands of workers in Ohio and other states have been the victims.

While the automotive industry is an important contributor to the nation's economic well-being, it is especially important to Ohio's. The downward pressure on the wages and working conditions of American auto workers that results from increasing competition from Chinese products, especially auto parts, has had a serious negative impact on the employment opportunities available to workers in Ohio and to the compensation that they can hope to earn. The auto parts industry accounts for the majority of the jobs in the automotive industry and it is in this area that intense price competition has led to intense cost competition between producers. That competition has led many companies to search for lower and lower labor costs; many of those companies have moved their production to China. Pressure from the assemblers has also contributed to some companies deciding to move production to China.

Just one company, Delphi, which has numerous Ohio production facilities, has invested $500 million in China during the past decade, setting up 14 operations and, soon, a research and development center in Shanghai. By 2009, Delphi expects to have 1,400 employees at its technical center. They will be added to the 7,000 current Delphi employees in China. And what are the savings to Delphi from setting up a local technical facility? A young electrical engineer in China earns less than $400 a month, while a new U.S. engineer earns about $4,000 month.

While it is very difficult to pin down the compensation of auto industry production workers in China, manufacturing workers in Shanghai, where GM and other auto producers are concentrated, earn about $1.50 per hour in wages and benefits. That is about half of what Mexican auto workers are paid and as little as five percent of the compensation of an American auto worker.

That is one of the reasons why assemblers from around the world invested $6.3 billion in Chinese facilities in the past two years and have promised to spend another $10 billion in the next three years. And it is why GM expects to purchase $4 billion a year in parts from China for its operations around the world.

The announcements by General Motors and Ford that they expect to source $10 billion annually in parts from China within three to six years sends a compelling message to their suppliers that they had better make investments in China in order to retain the business of their traditional customers. The losers in that race to China are the American workers who are making high-quality products in highly efficient production systems, using high-technology equipment. This pressure undermines their jobs and their skills. It also eliminates the livelihoods of the workers who make materials and components for those products that are now made in China and it impoverishes the communities where those workers live.

The Chinese government has reinforced this process. A Vice Minister has announced that China expects to export between $70 billion and $100 billion in automotive products, 40 percent of total production, by 2010. Last year, China's exports were $4.7 billion and the government's target for 2005 is $15-20 billion. The growth rate of exports that is being pursued is simply staggering. Every objective observer has acknowledged that hundreds of thousands of American jobs will be lost if these projections are on the mark.

According to a recent report by the International Metalworkers' Federation, automotive production in China will double by 2007, but demand for vehicles will increase far more slowly. The result will be excess capacity in China that adds to the excess capacity that exists already around the globe. But what market will be open to receiving the extra vehicles and parts that can be produced in China? Will Korea, which has resisted imports from all over the world for more than 20 years, open up to imports from China? Will Japan accept the displacement of local production, or Thailand, or India? Even Europe is unlikely to accept large numbers of vehicles from China. But the U.S., with its history of running huge automotive trade deficits with all major auto producing countries, seems like the obvious dumping ground for Chinese excess capacity.

Even today, excess capacity in China is visible. With vehicle sales slowing down this year (as pent-up demand is exhausted, banks cut back on loans), JPMorgan reported that excess supply for this year will be 11 percent and it will grow to 23 percent next year. And that is before much of the new capacity begins to operate. The finances of the companies could change dramatically as a result. The high prices of vehicles that were fed by the scarcity of modern vehicles are disappearing as more and more new models hit showrooms and lower tariffs make imports more competitive. High profits will be squeezed and the pressure to keep plants running at capacity will be even stronger. The companies also have memories of Brazil firmly in mind. In the late 1990s, multinational auto companies saw rapid sales growth in Brazil and responded with massive investments in new capacity. The spillover of the Asian financial crisis put a hole in Brazilian sales and Argentina's economic crisis eliminated a major export market. About half of Brazilian capacity has been idle, and the auto companies cannot afford for that to happen again in China. They will be under intense pressure to keep their Chinese plants profitable. And that will mean large Chinese exports of vehicles and parts to the markets that are open to them.

Before starting to examine how the U.S. government should respond to the current and future automotive trade problems with China, it is important to identify two important factors that intensify the U.S.-China automotive trade imbalance – the exchange rate and the absence of independent Chinese trade unions. It is accepted by virtually all analysts that China manipulates the yuan-dollar exchange rate to keep it fixed at 8.2781 yuan to a dollar. China's central bank has bought billions of dollars of government bonds to maintain the fixed exchange rate as China's trade surplus with the U.S. has exploded. The undervalued yuan subsidizes China's exports and overprices U.S. exports. While the Chinese government has paid lip service to the need to upwardly revalue the yuan, it has taken no action to achieve it. The purchases of U.S. assets continue and the trade imbalance continues to expand. This situation sustains China's exports to the U.S. and Chinese economic growth, while it undermines the strength of the U.S. economy and extends the adverse impact of the trade imbalance with China into ever more U.S. industries.

The absence of any action by China to reverse the absolute repression of independent trade unions demonstrates the continuing repressive nature of China's social and economic system. The most fundamental of worker rights, freedom of association, is brutally repressed in China, as are the other worker rights covered by the International Labor Organization's Fundamental Principles and Rights at Work. A petition filed under Section 301 of U.S. trade law by the AFL-CIO on behalf of the UAW and other U.S. unions provided a stunning picture of the depths of that repression and its devastating impact on Chinese workers. The large profits reported by many of the automotive joint venture companies in

China are the result, in part, of the inability of Chinese workers to form independent labor organizations that can represent the interests of workers in receiving a fair share of the value of their contribution to the production process. The widespread evidence of health and safety problems is another indicator of the harm done to Chinese workers as a result of the repression of independent unions.

Along with other unions, we have focused attention on the cases of Yao Fuxin and Xiao Yunliang as examples of the intensity of the attacks on workers' rights in China. They were arrested, charged with subversion and convicted for leading peaceful protests against the failure of a shuttered Ferro-Alloy factory to pay pensions and other benefits legally due to former workers. Yao was sentenced to seven years in prison and Xiao to four years for exercising basic rights that are legal in China. Both men suffer from serious illnesses and should be released from prison on medical grounds, but they remain imprisoned despite an appeal by the Freedom of Association Committee of the International Labor Organization for their release. The Chinese government's behavior in these cases, and in countless others, is shameful and inexcusable. We will carry on our efforts on behalf of Yao and Xiao and all other workers and their advocates who have the courage to stand up for the rights of Chinese workers.

Are there effective solutions to the threat of sharply higher Chinese auto and auto parts exports to the U.S. in the future? We believe there are at least five ways to address this problem, but they require making up for lost time. The U.S. government should have included these measures in the WTO accession negotiations with China.

First, the Administration must also take decisive action to bring about the upward revaluation of China's currency. The current exchange rate does not reflect the competitiveness of China's industries in general, and the automotive industry in particular. For international trade to be fair and balanced, the exchange rate must adjust; China's policy of fixing the value of the yuan to the dollar eliminates the pressure for that adjustment to take place. The reluctance of the U.S. Treasury Department to tackle this issue, in deference to China's large purchases and holdings of U.S. government securities, is simply unacceptable. China is preventing an upward revaluation of the yuan in order to ensure that it can continue to increase its exports to the U.S. and keep its factories humming. The resulting displacement and injury in the U.S. requires action by our government to remedy the situation and eliminate the unfair currency advantage that China creates. The currency manipulation that is taking place is actionable under U.S. trade laws and action must be taken.

Second, to address the routine abuses of workers' rights in China, renegotiation of the WTO accession agreement or a new set of negotiations is required. The Section 301 worker rights petition demonstrated that the effect on the prices of Chinese-made goods of the violation of workers' rights is substantial. As a start, that petition must be accepted for review next year when a new Administration takes office. However, it is also necessary to move beyond that case. We cannot achieve a level playing field for U.S.-China trade without ensuring that China will implement internationally recognized worker rights or allowing the U.S. to retaliate against abuses through a non-discretionary procedure, similar to the handling of anti-dumping charges. Just as a special safeguard procedure was recognized as appropriate for trade with China, a special worker rights provision is needed as well.

The UAW and other unions must also take advantage of corporations' commitments to comply with fundamental worker rights through the negotiation of International Framework Agreements (IFAs). These agreements apply to a company's own operations and to those of its business partners and suppliers. And they apply in countries where those rights are not legally protected as well as in those where they are. IFAs have already been negotiated with several automotive firms (DaimlerChrysler, Volkswagen, Bosch), opening the possibility of insisting on their Chinese workers, and the workers of their joint venture partners and suppliers, being able to exercise the right to freedom of association, to form a union of their own choosing. We will be looking for opportunities to take advantage of IFAs to improve the lives of Chinese workers, through higher compensation, improved health and safety conditions and a voice for workers in the organization of their work.

Third, vigorous enforcement of China's trade agreements must be implemented. The Bush Administration has failed to pursue clear violations of intellectual property rights protections, including the counterfeiting of auto parts and the illegal appropriation of vehicle designs by Chinese companies. China's market opening commitments must also be fully enforced so that the inadequate level of U.S. exports is not limited even further by discrimination against imports at the border or in distribution channels. While the Bush Administration has created "offices" for monitoring and enforcement of China's trade commitments, there has been precious little action to achieve results.

We strongly urge the Bush Administration to advise all companies doing business in China that they should report any inappropriate or illegal behavior by Chinese public officials or corporate officials. This should apply to communications that contradict China's trade obligations or that promise special treatment in return for certain behavior, such as investing in China rather than supplying the market with imports, meeting "suggested" local content levels rather than importing parts. The Bush Administration must follow up on any of these activities by insisting on Chinese government action to reverse them.

Fourth, the Administration must be willing to invoke the special safeguard provisions in China's WTO accession agreement and strengthen the U.S. measures that protect domestic industries against injury caused by surges of imports. The potential for rapid increases of imports from China, of vehicles and parts, should be clear from the rate of expansion of production capacity there. The U.S. government must be ready to respond if the U.S. industry and its workers are threatened with injury by such imports. Recent experience with the U.S. import surge protections of Section 201 of the trade laws has shown that they must be strengthened to be effective.

Fifth, the U.S. government must penetrate the lack of transparency in China's industrial policies to identify all government programs, at the national, provincial and local levels, that promote local production, discourage imports and reward exports. There are provisions in the new automotive industrial policy that are intended to accomplish this result, but they have not been spelled out clearly. The U.S. government must press the Chinese government to obtain that information. A variety of other government policies, such as taxes applied to foreign-owned enterprises that discriminate in favor of those producing for export, must also be examined. Because of the complex set of inter-governmental relationships in China, it is critical to have information about the policies in place at each level of government and about their interactions in practice. We have not seen any evidence that the Bush Administration has spent the necessary effort to investigate these policies.

Mr. Chairman, members of the Commission, thank you for coming to Ohio to get a first hand look at the serious economic problems facing workers in America's heartland and for your interest in the impact of the U.S.-China trade relationship on the U.S. auto industry and its workers as well as the denial of workers' democratic rights in China. Your past efforts to bring the challenges created by U.S.-China trade to the attention of the public and to policy-makers have made a valuable contribution to their understanding of what is at stake in our economic and security relationship with China. We urge you to support our proposals for government action. In the weeks and months ahead, we look forward to assisting the Commission's examination of the industry and answering any questions you may have.

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