CHINA'S IMPACT ON THE NORTH CAROLINA ECONOMY: WINNERS AND LOSERS
FIELD HEARING IN CHAPEL HILL, NORTH CAROLINA

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CHINA'S IMPACT ON THE NORTH CAROLINA ECONOMY: WINNERS AND LOSERS

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THURSDAY, SEPTEMBER 6, 2007

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION
Washington, D.C.

The Commission met at the University of North Carolina at Chapel Hill, The Kenan Institute of Private Enterprise, Kenan Conference Center, Chapel Hill, North Carolina at 8:30 a.m., Chairman Carolyn Bartholomew, and Commissioners Jeffrey Fiedler and Kerri Houston (Hearing Cochairs), presiding.

OPENING REMARKS OF CHAIRMAN CAROLYN BARTHOLOMEW

CHAIRMAN BARTHOLOMEW: Good morning, everyone, and welcome to our hearing. My name is Carolyn Bartholomew. I'm the chairman of the U.S.-China Economic and Security Review Commission. We are, as many of you know, an advisory body to the U.S. Congress. We were created by legislation in 2000 to advise Congress on policy toward the People's Republic of China. We hold eight hearings each year, and we produce a book-length annual report to Congress, which includes our recommendations for legislation and other actions related to U.S. policy on China.

One of those hearings each year is dedicated to going out to a state in the country and listening to witnesses and citizens of that state. We have been to Dearborn, Michigan, to Akron, Ohio, to Seattle, Washington, northern California, southern California, Columbia, South Carolina, and this year I am very pleased to say that we are here in North Carolina.

I should point out that I'm not a newcomer to the Tarheel State. I attended graduate school up the road at Duke University. I have many fond memories of North Carolina, especially, of course, the basketball teams.

I would most particularly like to thank today Mr. Tom Martineau

for the work he has done in coordinating the hearing, providing the meeting room and many of the arrangements, and for suggesting witnesses for our hearing.

He seems to wear many hats here at the University: China Projects Manager; Associate Provost for International Affairs and for the Institute for Global Health and Infectious Diseases. He took time from his busy schedule to help us, and for that we are grateful.

We want to thank also the University of North Carolina for hosting the Commission on this beautiful and amazingly growing Chapel Hill campus.

With that, let me introduce the cochairs of today's hearing: Commissioner Kerri Houston who is standing in for Dennis Shea, who had an emergency and was unable to be here today; and Commissioner Jeff Fiedler. Thank you. Kerri.

OPENING STATEMENT OF COMMISSIONER KERRI HOUSTON, HEARING COCHAIR

HEARING COCHAIR HOUSTON: Thank you. Hello and thank you all for coming. The Commission chose North Carolina for its annual field hearing because it has a great deal of experience with the challenges of globalization and with competition from China which is rapidly developing into the world's factory floor.

As we will hear during this hearing, the clothing and textile manufacturing industry here has been forced to retrench. Many of its workers, among the most productive in the world, have to find other jobs, take early retirement, lower-paying jobs, or leave the state.

Part of the problem we look forward to hearing more about is that there is no level playing field. It is difficult to reach the goal line when you're forced to run uphill to meet your opponent. China's industries benefit from direct government subsidies. Many of China's industries are the government. They also benefit indirectly from an artificially depressed currency, which they keep that way and that makes their exports cheaper and ours more expensive.

The solution is for the Chinese to allow their currency to float on the international currency markets, as we've heard through many of our previous testimonies, but Beijing has refused to do so.

The government of North Carolina continues to meet the challenges of globalization by recognizing that the future requires different skills and we hope to gain a lot of information about how that is being done in this state during this hearing.

We will be hearing just how the state through the Research Triangle high tech and biotech is providing graduates of its excellent college systems with lasting jobs and the community college system is

also helping the current workforce to adapt to today's global pressures. We look forward to hearing a full day of testimony today.

Thank you. I will turn it over to my cochair, Commissioner Fiedler, for his opening remarks.

OPENING STATEMENT OF COMMISSIONER JEFFREY FIEDLER, HEARING COCHAIR

HEARING COCHAIR FIEDLER: Thank you. As you have heard, the Commission is here in North Carolina today to gather information on the state's economy which has been buffeted by the winds of globalization, particularly those from China.

North Carolina's manufacturing industries have been particularly hard hit. Its clothing and textile manufacturing workforce has shrunken dramatically, as we will hear. The wooden furniture industry has been hard hit by imports from China. In both cases, Washington has taken action to help reduce job losses and to provide for those who have lost their jobs.

We're going to hear from the management of the Research Triangle Park. The Park is an early effort to harness the power of state government and private enterprise to create a large technology and research center that will continue to attract industries that are as yet only a gleam in the eye of some of the engineering students and science students here at Chapel Hill and at Duke and at North Carolina State.

At the end of today's session, we hope to have an open mic period to hear from others who will have five minutes each. We have a registration procedure for those who want to register for the open mic.

I'll give you two gentlemen our simple rules. We would like testimony of seven minutes from each from you. We'll put your formal testimony into the record, of course, but we'd like to leave time for each of the commissioners who have five minutes each for questions, and hopefully we'll have enough time for a second round.

On our first panel today we will be hearing from Rick Weddle. Mr. Weddle is the President and CEO of the Research Triangle Foundation, the owner and developer of Research Triangle Park. He's in the process of determining the Park's strategic direction for the next 50 years. I don't know how you picked 50.

We are also fortunate to hear from Dr. Patrick Conway, an economics professor at the University here. His research has focused on the international aspects of trade and finance with developing countries. Among those topics he has researched is the impact of imports on North Carolina's textile and apparel industries.

We'll start with Mr. Weddle.

PANEL I: NORTH CAROLINA'S CHANGING ECONOMY

STATEMENT OF MR. RICK L. WEDDLE, PRESIDENT& CEO RESEARCH TRIANGLE FOUNDATION OF NORTH CAROLINA RESEARCH TRIANGLE PARK, NORTH CAROLINA

MR. WEDDLE: Good morning, Chairman Bartholomew, Cochairs Houston and Fiedler, members of the Commission, distinguished guests and visitors. I am Rick Weddle. I am pleased and honored to be here with you this morning and have the opportunity to address this important Commission. One quick response to the 50-year time frame is that in January of '09, RTP will be 50 years old, and so we are beginning to plan for the next 50 years.

In the time allotted to me this morning I will try to address my remarks from the perspective of my position as head of the Research Triangle Park. As such, you will note that I am not an economist but rather an economic developer. I'm not someone who spends a lot of time thinking or theorizing, but rather a lot of time doing and working to bring new jobs and economic prosperity to North Carolina and the region.

As you may know, the Research Triangle Park, or RTP as it's often known, is one of the largest and oldest examples of strategic investments in education infrastructure and business climate which can positively impact an economy. RTP's success was built around its first-mover status in the field of science parks, its ability to build a critical mass of technology companies and knowledge workers, and its linkages with the region's fine universities' research and development strengths.

The business of research parks as an industry is continuing to evolve today, as many of the early developments were semi-urban in nature with a relatively small and enclosed campus.

With globalization increasing, countries and regions across the world are using research and science parks as a way to jump start their knowledge economies. Newer entrants into the research park market such as China are developing research parks on such a huge scale that they are changing the market dramatically.

RTP and other research parks will need to adopt and adapt to changing market conditions. Our ability to compete with the Chinese and other global models and its future success will depend on our ability to marshal our assets and to reinvent ourselves to better address these changing global and technology trends.

RTP was once the first mover in research park development and it's long been viewed as a model for success. I can report to you today

that we believe that RTP and, therefore, North Carolina, is well-positioned to respond to the threats presented by globalization, specifically the threats of China as a research park and economic development competitor.

Supporting data for my remarks is included in a detailed paper, which to your note will not be gone into in great detail but has been provided to you. That paper is broken down into four fundamental parts:

Overview and history of RTP, which I will not cover in any great detail, but it is important to note as you peruse the genesis of the Research Triangle Park and how it has evolved over time;

The impacts of RTP and the transformational nature of it on a regional economy. This covers how the Park has had a role in changing the face of at least the Research Triangle region's economy and in many ways North Carolina.

Since 1970, the Research Triangle region has evolved on the strength of activities at RTP from among the poorest in North Carolina and among the poorest in the southeastern United States in terms of per capita income to among the richest in the state and among the richest in the southeastern United States as compared to the national per capita income.

That has been made possible primarily because of the scale and scope of RTP and its ability to establish well-developed technology clusters tied to the strengths of the Research Triangle university community;

The third part is also RTP's position in the changing landscape of research parks globally. In this section I attempt to describe how RTP has evolved to meet the new challenges and demands facing research parks, but more importantly for today's discussion, framing the competitive impact of China's research parks both on RTP and on North Carolina.

Since 1970, there has been a 17-fold increase in the number of research parks in the world. Today there exist 700 formal research parks across the globe, 400 outside of the United States.

The vast majority of the research parks in the world are less than 250 acres. The average size in the U.S. is about five hundred acres. RTP is 7,000 acres which is more than twice as large as the second-largest park in the United States.

The scale of China's development is such that following the RTP model, they have over 70 percent of their parks larger than 250 acres, many larger than RTP in and of itself. So China has taken our model to the nth degree if you will and has expanded dramatically on that over the last, beginning in 1984 with some of the large parks coming on line in that regard.

The other impact is the flow of R&D investment. As we have seen over that same period of time, China has now eclipsed both the U.S. and Japan in terms of R&D investment of major projects on an annualized basis as evidenced by IBM's Global Investment Locations Database reports that are produced annually, which we track in the economic development industry.

While the U.S. remains the number one source for R&D investments, we now rank behind both China and India as the location for such R&D investments;

The final section summarizes and reaches some conclusions about what we can learn about the RTP experience going forward. There are important lessons to be gleaned from this experience. In a globally driven knowledge economy, even the most competitive regions are consistently challenged from above and threatened aggressively from below.

It is difficult to displace top players in regional competitiveness. Yet, the challengers from below continue to advance. The Research Park model is a way to meet both threats by cultivating knowledge assets of a region and attracting the critical mass of high technology-advanced companies to build a region's base.

Regions have to demonstrate their unique value proposition to be competitive in a world economy where more and more operations can be located anywhere around the globe. To compete or remain competitive as a location of choice, regions must play to and enhance their strengths.

RTP continues to engage with its top-tier research universities and build upon this critical mass of companies and knowledge workers to maintain its position.

In essence, we present to you and submit the thought that the strategy that North Carolina began and that now many regions in the U.S. are pursuing to remain globally competitive is the same strategy that it was 50 years ago when the Park began, and that is the strategy that we think makes sense today, which is to build upon these knowledge assets and build upon the strength of these universities to create new clusters of advanced technology operations to be successful.

RTP and the U.S. research parks have much to learn from the Chinese and what it will take to compete in the future: scale, nimbleness, speed-to-market, and flexibility to attract talent and recruit expatriates to return. Just as the manufacturing sector has to rethink and retool how it works because of the emergence of China and globalization, the R&D sector is also being impacted and must respond accordingly.

RTP is a microcosm, I believe, of how regions can and must

compete going forward. So, in closing, let me again thank you for the opportunity to address today's meeting, and I'll be happy to respond to questions specifically.
[The statement follows:][1]

HEARING COCHAIR FIEDLER: Thank you very much. Dr. Conway.

STATEMENT OF DR. PATRICK CONWAY, BOWMAN AND GORDON GRAY PROFESSOR OF ECONOMICS, UNIVERSITY OF NORTH CAROLINA, CHAPEL HILL, NORTH CAROLINA

DR. CONWAY: Commissioners, Chairman Bartholomew, session Chairs, it's a pleasure to be here to speak with you today. I've worked a great deal here in North Carolina with the non-durable manufacturing sector, specifically with textiles, and I'm quite pleased to be able to share my experiences with you.

What you'll have in front of you is a background paper that responds to Paul Magnusson's request that I look at the economic evolution of North Carolina. You'll see that I begin with a rather broad overview, and then I focus on manufacturing, as we go ahead.

I have a few handouts here for those who don't have the paper copy. I apologize in advance that I won't be able to stay through the whole day. I do have to teach today. I also notice I have a number of students here. This is a very valuable experience, but there will be o extra credit for this.

Let me begin with the seven, eight major points that I make in that paper. Then if you'd like I can answer more detailed questions during the question time. The first point: North Carolina over the last 40 to 50 years has grown more rapidly than the country as a whole. It still remains a relatively low income state as measured by per capita income, but if you look at Figure 1 in my handout or in my paper, you'll see that relative to the United States as a whole, the population has been growing and so also has the income per capita relative to the rest of the states.

That growth towards the mean ended in 1999 and North Carolina's share in the total has stagnated since then. The second point: one major difference in the North Carolina relative to other states will be seen in the manufacturing sector. While the entire economy of the United States has been evolving over the last 50 years away from manufacturing and towards agriculture and services, North Carolina has been doing so at a much more rapid rate. If you look at

[1] Click here to read the prepared statement of Mr. Rick Weddle

Figure 3,you'll see the percent of employment in manufacturing for the states with the highest percentage in the United States and then for the U.S. average. If you look at the bottom line in that figure indicates that the share of manufacturing employment in total employment in the United States as a whole has been declining over time from 1990 on. That's due to the fact that manufacturing has been more productive than other sectors. Therefore, employment in other sectors has necessarily had to increase to meet steady demand growth in all sectors.

The heavy-line superimposed upon the others at the top of that diagram is the share of manufacturing employment in North Carolina. As you'll note in 1990, North Carolina was by far the largest site, the state with the greatest concentration of manufacturing employment.

By 2005, North Carolina had lost that position and, in fact, had lost ground at a fairly rapid rate. The reason for that is, as the commissioners mentioned at the beginning, the fact that North Carolina among U.S. states has specialized in non-durables manufactures, specifically textiles and apparel. Textiles and apparel have lost U.S. production at a much greater rate than other manufacturers have. To that extent, North Carolina is the site of much of the competition that we're describing here, the competition with foreign producers.

It's also important to notice that that ratio of manufacturing employment to total employment will be moving down for another reason. We have had rather robust growth in other sectors of the economy. It's important as well as to note that North Carolina is at the national average in unemployment rates.

This is not a state like Michigan, for example, in which unemployment rate is greater than in the rest of the country. We simply have our unemployment concentrated in the manufacturing sectors while in construction and in many services, we have rather robust employment growth.

If you look at the table, Table 1 in the paper, and you'll find that on about the third page of the handout, you'll see that between 1990 and 2001, manufactures growth has been quite anemic, but the growth in construction, transportation, retail trade, financial services, other services, even government, has been much more rapid. This is an economy in transition. Unfortunately, for the manufacturing sector, it's in transition away from manufacturing.

Third point: Is international trade the cause for this? It's certainly one of the causes. The problem that manufacturers are facing, which I've seen both through the statistics and through my many interviews with textile and apparel executives, is that the manufacturers are caught in a price scissors, price-wage scissors.

Wages continue to rise, not rapidly, but they continue to rise throughout the economy, even in the non-durable sector. In the period from 1997 to 2004, they went up by 25 percent in manufacturing.

At the same time, prices for final goods in the manufacturing sector have stayed roughly constant except in some niche areas. The reason for that constant price is fairly evident. There are a large number of foreign countries able to provide those goods at the same price, and they don't have the same upward price pressure that exists with the wage growth in the United States.

So if you look at Figure 6 in your handout or in the paper, you'll see a chart that I prepared with Robert Connolly of the business school here from a survey of textile executives. We asked them how much had the price of their major good changed in the last seven years. And you can see that while a few of the respondents said that their price had gone up by more than 30 percent, that's only a very few.

The others indicated that either the price has been stagnant or it has fallen. That coupled with the increased cost of wages and other costs of doing business (for example, transport) has made it difficult to impossible for manufacturers to continue in their current positions, and many of them have found shut down as a result.

Fourth point: that's only one side of it. The other side is that the international trade has offered a great number of opportunities for textile and apparel manufacturers. Some of our most successful manufacturers in North Carolina have taken advantage of international supply chain relationships to become larger businesses, even to increase employment, although not employment in basic manufacturing. Their employment growth is in design, it's in sales, it's in logistics, but it tends not be in the basic low-skill manufacturing jobs that we have become accustomed to in North Carolina.

Fifth point: this mismatch of employment opportunities and skills is a big problem for North Carolina. It's a problem of adjustment. Betty McGrath will be speaking later about the way that the North Carolina Employment Security Commission has handled these problems in the past, most specifically the Pillowtex closure. This is a very difficult problem, but it's one that we face whether or not China is one of our trading partners.

Sixth point: While I agree with many of the facts that the commissioners brought up earlier, I disagree on the implications of this. I do not see China at the center of this evolution. China is a major trading partner with the United States; China is the source of many of the low-cost goods that we import. If China were not there, there would be other sources as well. Textiles and apparel as it was done in the 1950s and '60s is no longer a comparative advantage

industry for the United States, and that has consequences.

As we adjust to that, we have to be cognizant of the needs of our citizens, but I do not see this as a reason to lay the blame on the steps of China or any other country for that matter. It is an international trade problem, it's one that we can alleviate by negotiation, but it is not one that we can solve by pointing fingers at any one country.

I'd be happy to answer any questions.

[The statement follows:][2]

Panel I: Discussion, Questions and Answers

HEARING COCHAIR FIEDLER: Thank you very much. Commissioner Wessel.

COMMISSIONER WESSEL: Thank you, gentlemen, for being here and for the University hosting us. As Chairman Bartholomew pointed out, and as your figures point out, Dr. Conway, about construction, we certainly saw quite a bit of that this morning and the growth here is formidable and exciting.

DR. CONWAY: We do our small part.

COMMISSIONER WESSEL: Well, it's evident. I'd like to understand the connection between both what you're doing at the RTP and the changing nature of North Carolina's economy, the decline of the non-durable sector as you pointed out.

Mr. Weddle, you talked about, if I remember, the number was 700 technology parks worldwide, and certainly RTP is one of the leaders of that. Technopolises in Japan and many other nations have sought to harvest what they can do domestically.

In our examination over some time, we've seen a change, though, in the way that China has approached international competition: that when China PNTR was done in 2000, the concern was about toys and textiles, the lower wage industries. But now we see moving up the food chain to the point where we now have a deficit in advanced-technology products.

We've seen that China has begun creating vast technology parks focused on what many consider to be the bright stars of the future: optical-electronics, nanotech, biotech, et cetera, many of the things that I believe North Carolina is focused on.

How do we compete with that? How do we compete with a state actor that is not just looking to advance employment in the non-durable sectors to employ their people, but really is moving up the food chain? How do you as a RTP compete against that with a state actor with billions of dollars attracting U.S. and other foreign national

[2] Click here to read the prepared statement of Dr. Pat Conway

businesses to invest there, to do R&D there, to be agents of change in their industry. How does that affect other industries in looking to the future at not only the durable sector but the high tech sector? MR. WEDDLE: Yes, I think a very, very good question. In October I'll return to China for my third trip in the last 18 months or so, and you are well informed with regard to the impact of China's move to the top. It is not all just about low-cost manufacturing. In fact, one of the pressing concerns in the Chinese business mind-set today is how they are going to compete with the low-cost producers of Vietnam and other locations, and so they are moving quickly in the urban centers to develop advanced technology niches in that regard.

How do we compete with that because it's true and indeed we are competing our region against country-sponsored initiatives, and they have the Bank of China as a financier of many of their operations? We have to compete and we have to compete aggressively, and I think we have a window of opportunity to compete at the very, very top of the food chain.

Our universities excel way beyond what is currently the capacity of Chinese universities. And so we still have huge advantages there, but we have to seize the advantages, and those of us at the local and regional and state level need all the help we can get from the federal government. It would be advantageous if we had more tools in our tool box to be able to compete.

China has created these high-tech industrial zones that really incentivize the location of U.S. or Western European advanced technology product companies for locating in these zones and they are making huge strides in that area.

But we do have to compete, and I think that it is the one area where we enjoy limited time but significant current advantages and we have to build those niches and strengthen those niches in that process.

Much of the R&D that's moving to China and India today is not the higher order R&D but rather R&D that supports manufacturing, R&D that supports their sales offices and those things of that sort. So we still have a niche there. It's tough. It's going to be very tough. It will be a lot more difficult ten years from now if we don't have U.S. federal support for these kinds of things.

COMMISSIONER WESSEL: Can you qualify before you answer, Dr. Conway, what the nature of federal support is here and has it increased, decreased, stayed the same over the last years? We've had operations like SEMATECH and many others over many years that have seemed sporadic. What are you seeing in terms of federal support these days?

MR. WEDDLE: The one area where the federal government could help a great deal is with their own funding for research,

university research and development, which has been declining as a share of overall R&D spending in the U.S., and so we need to reverse that pattern.

We could find maybe some additional tax credits or something. There needs to be something to offset the tax holidays that are fundamentally provided to U.S. firms entering into those markets.

COMMISSIONER WESSEL: Okay. Dr. Conway, any comments?

DR. CONWAY: The issue of technology driven growth is, I think, very important both in China and the United States. There was a very interesting article recently by Keith Bradsher in the New York Times discussing the problems that China is having in keeping up its low-level or low-tech production. We're proud of him. He's one of our UNC grads.

COMMISSIONER WESSEL: A friend as well, yes.

DR. CONWAY: He has an economics degree and so everything he knows, he learned here. Princeton was just a finishing school for him.

The problems in technology, I think, are problems that are problems of investments, and technology is an investment. It has a cost and it has a payoff. Our university systems are tremendous incubators of technology. So also is the Research Triangle Park, the Research Triangle Institute and other nonprofits and even some for-profit activities in this region.

Once we get past the incubation stage, that technology then has to be put into place and at this point, it’s being put into place where the production is expected to occur. That tends to be in China and India.

We can reverse that, but as I say, it's a costly process. The investment in basic research has been spotty. We've had searches in various areas that the government said this is a good area to put money into, but we’ve seen atrophy in other areas. I'm perhaps too macroeconomic in nature--I fall back on the fact that China is a country which is saving a great deal at this point, and that saving is going into investment throughout the country.

If you think that we have construction on the UNC campus, I suspect that you’d consider it peanuts relative to that observed in Beijing. We're not anywhere near that. Technology is expensive and while we have the raw materials to produce it here, we do have to provide the resources to make that technology happen and to implement it.

If we were to say (in line with something perhaps Dr. Gereffi will say later) that we wish to create a cluster of technology like the RTP and we want to see some innovated technology actually manufactured here, as it worked out with IBM when the RTP started,

we can make it happen. But it's a costly enterprise. It is the case, and I think this is the point we share, that the Chinese government is invested in that, and if we wish to compete in that area, our government needs to be invested in as well, not taking ownership, but providing support.

COMMISSIONER WESSEL: Thank you.

HEARING COCHAIR FIEDLER: Commissioner Wortzel.

COMMISSIONER WORTZEL: Gentlemen, thank you for being here and for your testimony. I have a specific question on your Figure 7, Dr. Conway. And then I'm actually going to continue to pursue this idea of what can be done either by government or the federal government or states or universities to make not only employees but research more competitive.

Figure 7--all your charts are great--but I notice that Hong Kong specifically and Macao, given their area, just have tremendous numbers of--these are shirts. Do you know if a lot of that out of Hong Kong and Macao specifically is really made there or are we looking at simply reexporting things that are done inside China?

DR. CONWAY: Re-export has become much less of a problem for these types of statistics since the end of the agreement on textiles and clothing, but it is still the case that Hong Kong has limited manufacturing capability on its own. These indicate that once the quotas came off, China no longer was sending its low-cost goods through Hong Kong. That's a contention on my part; that's not a fact although I think a lot of people would agree to that.

So those goods, the low cost goods, are coming more directly from other countries. Hong Kong has become a place for more specialized type shirts. Now even when we talk about knit cotton shirts, this might be something you'd buy at Lands End. It could be something you'd buy at Target. There are different gradations in cost and in quality even within that category.

The point for this figure is simply to illustrate that if you look at the cost of shirts coming into the U.S., if you measure the cost after tariffs, after shipping, after everything else, as they enter the United States, there's still a great deal of variation in that price per dozen. China is not the lowest cost supplier. It is the supplier with the best supply chain, and this is, I think, something Dr. Gereffi will talk to you about later. The supply chain is the most reliable, and if you're Lands End, you're willing to pay a bit more if you can be sure those things are going to be on your doorstep on the date that you agreed.

If you look at Egypt--I hope they're no Egyptians here--not to pick on Egypt, but if you look at Egypt, its prices are also quite low, but its reliability as a supplier is much less, and so purchasing shirts from Egypt is a much more speculative activity.

The figure shows that China is not the lowest-cost producer. Putting restrictions on Chinese exports to the U.S. or any intervention in that way may take one of the lines out of this diagram, but the rest of them are going to be there, and there is capacity in those countries to provide those goods.

COMMISSIONER WORTZEL: Thank you very much. I'm interested from either or both of you in the incentives from the surrounding cities or the state to attract in industry whether the tax structure is set up to incentivize that. We went to Zhongguancun and a couple of other centers in China—and there are these tax holidays. There is infrastructure support provided by the national government and provincial or, in the case of Beijing, municipal governments to provide a legal support and administrative support in centers like that.

A little historical stuff--did that happen when Research Triangle Park started, or did companies take it out of hide and does it go on today? I'd be very interested in the percentage of Park employees that are actually from North Carolina? Are you able to find the intellectual capital or the working knowledge capital here in the state or are these all imported people?

We visited an $11 billion oil cracking facility out in the middle of nowhere in northeast China, and none of the employees came from the area, and no businesses were spun off it, no service industries or anything. So is that the phenomenon here?

If you can't get that capital here, are you working with the state or municipalities or colleges to develop that kind of capital? And that gets to where people go when they lose jobs out in other industries. Do they go to service? Can they move into this kind of thing, the opportunities to do that?

Finally, if you had to craft a specific legislation--and this is a good business school project, if you had to craft specific legislation--either for state legislature or for the Congress, how would you craft that legislation given what you've laid out and you've learned about getting people moved into other forms of manufacturing?

HEARING COCHAIR FIEDLER: He asked you a lot of questions. I hope you were taking notes.

MR. WEDDLE: I'll take a quick cut at the first one and let my colleague answer all the rest. You've raised some very, very interesting points. Let me say on the subject of incentives, and I've been in the economic development business for 30 years, and I've worked in five states. I would say that almost all U.S.-based, and by that I mean specifically, by and large, state and local-based incentives for industry are designed to help us compete with each other. We view cross border moves as from North Carolina to South Carolina, from California to Arizona and so on and so on.

The China incentives today are country-based, and that's an inherent differentiation point. I don't think we've enjoined the debate or discussion in the U.S. today about the role of federal government in helping to nurture or meet or address these challenges.

How would we craft that legislation is a question that we must first ask how are we going to craft that policy? We can get to the specifics of the legislation once we reach agreement that the federal government is going to play some in that space around, and I don't think we are there--

DR. CONWAY: Right.

MR. WEDDLE: --anywhere near that. In China today, the Central Party, which is how they now refer to what we used to refer to the Communist Party, has two fundamental objectives: one is staying in power and the other is economic growth. And that's their policy, and there is no other policy than that.

So all of their actions, their tactical actions, stem from how do they facilitate economic growth, and they are making massive investments in improving their university excellence opportunities. They're making massive public infrastructure investments to create the zones, the areas of activity. They're providing massive tax holidays if you will, but then not to be outdone by themselves, they're now moving quickly and making very structured investments to bring Chinese intellectuals home, to recruit home their expatriates, to recruit the talent back that we have so well trained in our schools and universities in the U.S. over these years, and they are actually providing direct financial incentives to those individuals to come home and start new businesses.

So they are in consensus on the issue of economic growth and they know they've got to keep double-digit growth going to stay in power and so they are working very hard in that area.

Regarding the percentage of employees at RTP that work or who are from North Carolina, we don't have hard data. It's hard to collect that data. I would just submit to you that early on, RTP was established to stem a brain drain where students and children of North Carolina went to school at these fine universities and had to go to Chicago or Washington or New York or Atlanta or somewhere else or Philadelphia to get good jobs, and so it was about the business of creating good high-paying jobs for North Carolinians.

We have now probably created a demand curve that exceeds our ability to create those technology workers even though we're soaking them up as fast as we can as we create this going forward. So probably we are now, instead of brain drain, we're a brain magnet, if you will, and lots of people come from all around the world and all around the country to work here.

That's my best cut at as many of your questions that I could remember.

COMMISSIONER WORTZEL: I appreciate it. Yes.

HEARING COCHAIR FIEDLER: Dr. Conway.

DR. CONWAY: As you say, those are very good questions. Let me make a few points about them. First of all, let's address the question of industrial recruitment because, as Mr. Weddle says, we have a history of that in North Carolina. For us, it is typically interstate competition rather than competition in attracting from the rest of the world.

We do have memories of trying to attract Mercedes and BMW to the state, and so there is an international component to it. But it is, when you compare that with the Chinese activity, we are a state competing with a state's resources. China's is a national government and that is inherently going to be unequal.

Whether that is the best way to attract those companies to North Carolina is another question that I would leave open because I'm not sure that industrial recruitment is the best way to handle that.

One of the problems that you raise in terms of mobility of workers is one that I think is very important for North Carolina, and I touched on it very obliquely in my earlier remarks. North Carolina really is a state of two states. I'm not cribbing that from John Edwards, but we actually are a state of two states. And one of the states is highly educated, mobile, willing to move to places like the RTP for higher paying jobs. The other part is rural, and by rural, I don't mean living on a farm necessarily. North Carolina is one of the most rural states in the nation because of its many small towns throughout the east and west, and those small towns are often built around one textile plant, one apparel plant.

Those plants were willing to attract individuals who hadn't even finished high school yet, and they said come work here, we'll pay you well, you'll have a job. We've been in the location for a hundred years. When Pillowtex closed, for example, at least 30 percent of the people had not finished high school. When those people, when those residents leave a job like that, they don't have that many other opportunities. Moving to RTP to work at the IBM plant is out of the pale. So in our rural sectors, there's this difficulty of moving not only because you have a house and you've got a mortgage and your kids are in school, but also what do these skills that I've gotten translate into? That rural/urban distinction, I think, is the one that is the most difficult to handle for North Carolina right now.

Finally, what is the best policy for addressing this and bringing high tech manufacturing back? Well, let me give you three, and they may not sound like manufacturing policies, but I'll stand by them.

One is pretty straightforward and that would be an investment tax credit, an R&D tax credit. In 1997, from my reading of the textile plants in North Carolina, they stopped investing. That was the end. Even though they kept running for awhile, they stopped investing because they saw international competition flipping the cost benefit on new investments into negative territory.

Up until that time, textiles had been a very capital-intensive industry. It had been an area in which investment into productivity enhancement was central to competitive strategies. After 1997, it was as if that strategy was abandoned. We saw very little of that after that. So investment tax credits to change that calculus, I think, is one policy.

A second is a solution to the health care problem. When you look at a plant, especially a plant that has been in business a hundred years, a sizable number of your workers are going to be older. You're going to have a legacy cost of people who have retired and are still insured. These are heavy costs for a business in a low markup arena. And the third one--this goes back to the very beginning of my talk--North Carolina is a state of manufacturing, but it's also a state in which our manufacturing workers were not well educated. Probably the best strategy at this point would be to raise workers' skills so that our producers could be productive competitive with those higher productivity workers.

It's a, I dislike saying it given the quality of the University of North Carolina and given the quality of individual primary and high schools throughout the state, but on average our school system has not been as supportive as it could be. If we raise that, I think we'd become more competitive right away.

HEARING COCHAIR FIEDLER: Thank you. I have a quick couple of factual questions. First, we were at the Dalian software park in April, which is thousands of acres actually, and we were there for three or four hours. You said that the Chinese--we're behind the Chinese now on investment in research parks, essentially; right? Is that largely because of the massive infrastructure costs that the Chinese are putting into it now? Is that a temporary lead they have?

MR. WEDDLE: I think it is because at the national level, at the country level, China has concluded that the model, that the research and science park model, is an appropriate model for them to attract the advanced technology product, whether it's manufacturing or software development in that regard, and that they have created country specific investment initiatives to cause those things to happen.

HEARING COCHAIR FIEDLER: We also saw it was less a research park even though they claim to have had 10,000 students studying computer science there. As we talked to them, we discovered

that they were wide open to what we would call outsourcing. There were call centers developing there. There were a lot of other things. So that I thought I concluded in the end that it wasn't so much a research park as it was they needed to fill the space with the outsourcing as well.

MR. WEDDLE: That's a good point, but I think if you study large-scale parks like RTP in the U.S., what you'll find is that while there are research and development occupational activities occurring in the park, you'll also find many other occupations. With the 11,000 IBM workers here, you'll have marketing; you'll have revenue accounting; you'll have sales; you'll have a lot of different things.

So I'm not too troubled by their brand confusion on some of that, but they are very, very competitive. All you have to do is look at the difference that infrastructure makes between China and India in their research park models, and where most of the Indian R&D activities are company driven, where the companies have to go and build their own sewer plants and their own water plants and their own infrastructure to make that happen, but in China that's--

HEARING COCHAIR FIEDLER: In China they don't.

MR. WEDDLE: --it's heavy-duty up-front government funded to make that and to accommodate that growth.

HEARING COCHAIR FIEDLER: Thank you. Dr. Conway, one question. You said that the North Carolina unemployment rate was tracking the national average, but what counties in this state have out-sized unemployment rates? What are the highest rates of unemployment?

DR. CONWAY: That's related to the two states' notion. If you look at this area, the Research Triangle area, and then you draw a line down I-85 to the Triad and then to Charlotte, that is an area of below-average unemployment for the state. If you go into the mountain counties and you go out to the coastal counties, those are the areas with above-average unemployment.

HEARING COCHAIR FIEDLER: Twice or three times?

DR. CONWAY: Some of that is by choice. Some of that is the cyclical nature of the tourism business because the coast and the mountains are both tourist driven to a large extent, but a lot in the mountain areas is due to the closure of all these small manufacturing plants.

There's a town called Spindale in Rutherford County, a small town. It counts as a rural area because it is such a small town. It had three textile mills at its heart and they closed down in quick succession, '98, '99, 2000. There's high level of unemployment there still because those workers remain tied to their homes, to their families, and nothing entrepreneurial has come in to replace it. That's

the real tragedy of those areas. There was one entrepreneur a hundred years ago, put that plant into this. We haven't seen the next one come in.

HEARING COCHAIR FIEDLER: Thank you. Commissioner Houston.

HEARING COCHAIR HOUSTON: Thank you very much, and thank you, gentlemen, for being here with us this morning. I wanted to delve just a little deeper, Mr. Weddle, into the RTP's relationship with China. And correct me if I'm wrong. The Research Triangle Park started in about 1970; is that right?

MR. WEDDLE: Actually it started in 1959.

HEARING COCHAIR HOUSTON: Oh, okay. It's not even as old as I am. So one of my questions then is, it started in '59, it's obviously grown. At some point China emerged, and lots of people have different numbers about when China emerged, but for the sake of argument, most people agree with the PNTR and the WTO, it was around '99, 2000. How did China's immersion into the world market change what you do at RTP? How did it change your goals, your strategies, and where you see the Park going now, and if you didn't have a huge China emergence, where would it go?

My second question has to do with partnership with China. You mentioned you've been over there a number of times. Do folks from China come over here? Do they visit the RTP and what kind of things are they looking for if they do?

And my third question, which both of you could probably address at some level, is that one of the things we hear repeatedly in our hearings are problems with intellectual property theft--IP, widget theft, reengineering, from fake persons to fake Microsoft software and everything in between.

What are the concerns of the members, in particular the member companies in the RTP, about intellectual property and how does that fit in with your relationship with China and the going back and forth and the sharing of ideas?

MR. WEDDLE: Yes. Three very important questions. How did the issue of China affect our approach, strategy, the way we're going about our business? If you look on page 11 of our detailed report, there's a chart that shows the time line of very select large parks, and you'll see that at about the mid-'80s was when China began to really develop very significant research parks around certain university cores in that area.

I would suggest to you that that followed a series of visits around the world. Yes, they are prone to appropriate intellectual property, but they'll also steal good ideas wherever they can find them. So they have copied RTP, they've copied Cummings Research Park,

they've copied a lot of strategies at the local level, very aggressively and very capably. We probably have 35 to 40 foreign visits a year at RTP from countries, regions of the world looking at how to duplicate or emulate this kind of clustering of university and industry technology operations together.

So how did that change? I think it woke us up and caused us to realize that we're not just all about us, and that while we can be the biggest in the U.S., and oldest in the U.S., and the most successful in the U.S., that the scale and the nimbleness and the country support that the parks in China have mean that there's a whole different--it's completely releveled, renormed, if you will, the playing field;

So we oftentimes find that our competition is really not other U.S. locations but global locations. We're a little bit different than that. So it's caused us to look at it differently.

Our relationship with China. We are actively involved in a number of ongoing discussions with different locations in China, both park to park, but our China Center in North Carolina and the World Trade Center are actively involved in cooperative relationships, trying to figure out how to build sustainable business models that will enable us to benefit both our companies and their companies and begin to break down some of these just pure competitive relationships. So we're probing and trying to figure that out together.

Intellectual property. I think companies are being very careful and cautious. I don't know that anyone has an answer to how you protect against that directly. All you have to do is walk the streets in Shanghai or Beijing and look at the knockoff goods, whether it is watches or whether its you name it, and you realize that it's a huge and prolific problem.

HEARING COCHAIR HOUSTON: Dr. Conway, do you have anything to add?

DR. CONWAY: I don't think so. On the question of the research parks, I think Mr. Weddle had handled it perfectly. On intellectual property protection, that's a difficulty in every country that we go to, in every country you visit. China is a larger country and it's perhaps not policing it as much.

HEARING COCHAIR HOUSTON: Right.

DR. CONWAY: I don't have any added information.

HEARING COCHAIR HOUSTON: It would be nice to know, and I don't think it's probably even possible to know, to say because China has stolen this, that or the other IP, it's disaffected North Carolina in this much or disaffected any state in that amount. I suppose in the economist’s world, there is no way to count and calibrate and quantify that issue?

MR. WEDDLE: It's probably not data that's collected publicly.

I've never seen a report on stolen IP.

HEARING COCHAIR HOUSTON: Yes.

MR. WEDDLE: My guess is it's very difficult to aggregate that data; is it not?

HEARING COCHAIR HOUSTON: Yes.

DR. CONWAY: I believe that would be the case, and if it were possible, I think Mr. Weddle would know. Many of the places that we have been worried about, many of the manufacturing establishments were not built upon new technology; they were built upon existing technology.

HEARING COCHAIR HOUSTON: Right.

DR. CONWAY: And so intellectual property theft was not as important for many of the textile and apparel businesses.

HEARING COCHAIR HOUSTON: Right.

DR. CONWAY: It was a question of just simply moving existing technology from one place to another.

HEARING COCHAIR HOUSTON: Thank you very much, gentlemen.

HEARING COCHAIR FIEDLER: Chairman Bartholomew.

CHAIRMAN BARTHOLOMEW: Thank you very much. Gentlemen, thank you for appearing here today. It's really wonderful to have both a thinker and a doer on the same panel. Though I don't think we've played you off against each other as much as we possibly could. Thank you also for your commitment to improving the lives of the people of North Carolina, and it is, just even sitting here already, to look at North Carolina as a microcosm of the challenges facing a lot of other states is a really important thing.

Two questions. Mr. Weddle, one is how do you balance giving the Chinese what they probably want to learn from Research Triangle Park with what you need to be able to do to maintain your competitive edge as we move forward into the next 50 years? You mentioned you were thinking about that.

And then I'd like both of you to step back just a little bit. You said you've been doing this work for 30 years. You've been here for 24, 25 years as an academic--

DR. CONWAY: Twenty-five.

CHAIRMAN BARTHOLOMEW: --economist, though I understand you've also actually had some practical experience out there, but some of the things that we've learned have called into question even Ricardo's theorem, that the China challenge is so much bigger and so much faster than anybody could have predicted. I would just like your observations on that.

Mr. Weddle, you have worked in a number of regions of the country. You've been doing this for 30 years. You talk a little bit

about the nature of the problems, but are they so much bigger than any of us could have predicted and how do we get a handle on that if that's the case?

MR. WEDDLE: First question is how do we balance the tradeoff with what they want to learn from us? I think of it as a little bit of an even swap. I would be remiss if I didn't note that there's much that we can learn from the Chinese. They are leapfrogging many, many things. We've had to go, what we've done in 50 years at RTP, they're doing in 15 years and replicating that now and even shortening those time horizons in five to seven to eight in some of their smaller things. So there are some things we can learn about nimbleness and focus and some things in that regard.

They are global almost to a fault in their thinking in many ways. We toured a research park there in Suzhou that is a joint venture between the Chinese government and Singapore. We wouldn't even think about that. They partner up in ways that we wouldn't even think about or we might have issues or get all caught up in our knickers worrying about how it works out in this, that, and the other.

So I think it's an even swap. I think there's a lot that we can learn from them and we need to learn that even as they attempt to continue to learn things from us. We'll always kind of be a little bit guarded because they're not on our team yet really as we look at that.

From the larger scale, I think that the world has changed in ways that we could not really have imagined when the fall of the Iron Curtain, the rapid onslaught of a quarter of the world's population that were heretofore not in the free market economy moving into the free market economy. The labor arbitrage that that created, just a seismic shift that that created in terms of how industry integrated in that whole process, I think we're still learning. We're still just beginning to chip away at the edges of what does that mean.

Because I don't think of it as globalization; I think of it as global integration because it's totally different. We are now moving, in my opinion, from, I'm not sure we have many big U.S. based companies. They're really transnational companies and they're becoming fully integrated not only supply chain but also human capital chains in that regard.

I think we're still kind of myopic. You may have a different view. We're still kind of myopic in the U.S. in thinking we're the center of the universe, and we're just one place in the universe of economics and we have to learn how to function in a globally integrated environment better than we have before.

HEARING COCHAIR FIEDLER: Dr. Conway.

DR. CONWAY: It would be difficult, and I know I'm the thinker so I should respond to the Ricardo part.

CHAIRMAN BARTHOLOMEW: Especially if you have students here.

DR. CONWAY: I know the economics profession would make me give up my tweed coat if I said that Ricardo has been overturned. So I'm not going to do that.

Let me first say, to echo what Mr. Weddle has said, I don't believe that it's necessarily useful to talk about the competition side so much as the cooperation. I know that even in my interviews with--I'm thinking of one apparel assembly group, especially they operate out of Mount Airy. They outsource to various countries. They provide the design. They provide the logistics and they sell to places like Lands End.

They told me that they had been working traditionally with the CAFTA countries, with Mexico and also with the Central American countries in their assembly operations. Once they went to China and started operating there, they learned a great deal about what was possible in that type of operation, not in a bad way. We're not talking about exploitation here, but simply in the ability to organize the production that they were able to bring into their operations elsewhere.

So even they wouldn't say this is a big competition. This is an opportunity for cooperation.

Now, has Ricardo been overturned? I'd say not. I agree with Mr. Weddle that what we've seen with the addition of China to international trade is a tremendous shock to the international trading system. We have a country that has insatiable demand for raw materials, not insatiable--that's not a good economic term--but they have very large demands for raw materials, and they have very large capacity for supplying non-durable goods and even moving up to durable goods and high tech goods.

That change in the overall supply and demand balance has led to a great deal of adjustment throughout the rest of the world. We may think of ourselves in North Carolina as being at the epicenter of that, but after spending time at UNCTAD and elsewhere talking with others with textiles and apparel sectors throughout the world, we're just getting the ripples. The hurricane is hitting elsewhere.

And it is a very large effect on all other textile suppliers and by analogy to all other suppliers with whom China now is in competition. That said, the rules of competition remain the same. Supply and demand still hold, and what we're going to find is that, and this is what I thought Keith Bradsher did so nicely in his article, that once they come in, once the Chinese face the demand for their goods, they're going to find that they run up against the same sort of constraints that we all do. It's a larger country and so it takes longer.

But they're now having to pay higher wages for their workers,

they're having to search elsewhere for their workers, and as they do that, the system reequilibrates. We will be back in supply of some goods. We will be finding niches in which we can operate in North Carolina. Throughout the United States and throughout the world, people will settle, countries will settle back down again, suppliers will settle back down again.

CHAIRMAN BARTHOLOMEW: It's interesting, just an observation, and that is your comments both still posit a global economy that is based on free market principles and the Chinese economy is state-controlled. I think that that's where some of the questions come. How does a Research Triangle Park compete with a series of research parks, R&D parks in China, that have been created based on an industrial policy and a state-controlled economic strategy that has deep pockets that go along with it.

It seems to me that there are real questions about these free market principles and how they survive with a state-controlled economy of the size of the Chinese. I know we have other questions, but I always think about in that context, too, that if the Chinese government were doing what's really free market principles, this all might be unfolding differently, but they aren't. It's probably not fair to just put that out there.

MR. WEDDLE: Let me make one comment and you may want to comment on this. The issue of state control, I think in my visits to China, I think that I've redefined my own thinking about what state-controlled means.

I think that they have evolved to the state as an active player rather than necessarily the state as state-controlled as we are hardwired to think of the China government. I think the state is an active player, an advocate, a partner, a ruler to some degree, but it's more of a proactivity than just control. I don't know if you would agree with that or not, but that's been one of the observations I would make as where we still have our state as more of an enabler in a free market creating, and they're more of an active player, but you walk the streets in Shanghai, and you do not get the feeling of state control. You get the feeling of wide open free markets but maybe not free people, and more the Hong Kong model I think is what you see in that regard.

So I may argue a little bit about what we think of as state control, and we may get caught up in our semantics on that because I see it as a state player actively driving.

There is something like 22 criterions by which public officials at the local and state level in China are evaluated to see if they get to keep their job each year, and 17 or 18 of those have to deal with economic growth. So it's pretty wide open, I think, in that regard

when it comes to making deals and doing business. At least that's my anecdotal references.

DR. CONWAY: I haven't done direct research on the degree of state control in terms of Chinese government telling workers or telling employers this is what you must do at this time. From what you have discussed, and I hope you'll ask some of your other panelists because I'm really not the one to address the degree to which the state is telling individual suppliers what they must do at any point in time, what I'd like to do is break your comments into two parts.

It is certainly the case that the government is one of deep pockets and that those deep pockets are being used to provide the infrastructure, to provide the training, to provide the R&D, the R&D locations like the Research Triangle Park, which facilitate their success, the Chinese success.

But the success is nevertheless going to be at the firm level, and that firm is competing with other firms to get workers and is forced to pay higher wages when it can't find the workers it wants. To that extent I see them as facing the same degree of market forces.

I would agree with you that the Chinese government is more active in providing resources to enable that competition, but as I say, there may be others who you will be talking to today who can talk more about a diregiste approach of the Chinese government to you produce this now for that price.

HEARING COCHAIR FIEDLER: I'd like to come back to that in a second round, but I want to get Commissioner Videnieks in here on the first round.

COMMISSIONER VIDENIEKS: I'd just like to follow up on the chair's comment about industrial policy. Both you gentlemen used the term. One used industrial; the other, or vice versa, policy. It was not used together until the chair brought it up. Does PRC have industrial policy? Should we have one? Or is it a dirty word in our system?

And the other question I'd just like to comment on is one of the tables here where you have 36 percent increase in construction in the state. If construction were to be considered manufacturing, the whole picture would change. Just a comment. But first there was a question.

MR. WEDDLE: Does China have industrial policy? My sense is yes in matters of degree. They have economic growth policy, and when I think of industrial policy, I think of, well, are we picking this sector or this industrial sector? Are we going to bet on plastics? Are we going to bet on semiconductors? Are we going to bet on these things, and they may be doing that?

I think the far more impactful things that they are doing is exactly what Dr. Conway said--investing in infrastructure that creates platforms, creates places, and facilitates firm growth across a wide

array. Just as Commissioner Fiedler said, you find a lot of outsourcing. You find a lot of different things under the roofs of these parks that they're creating, but they're creating the host locations for that.

But my sense is their move to create excellence in their higher education systems, their move to train workers, their move to invest in infrastructure, and their move to recruit expatriates back in higher-end technology is, I guess maybe that's industrial policy. It is economic policy to me. Do we have one? Not at that scale or at that level of proactivity, I think.

COMMISSIONER VIDENIEKS: Is the question of centralization? The states compete against states, and over there maybe advantages and disadvantages of an autocratic government, they're right or they're wrong. Just a comment.

DR. CONWAY: Let me jump in there. I believe that, as you say, China has more of what we would call an industrial policy than we have. They will pick industries. They'll say okay, we're going to develop these industries. Perhaps they don't build the plants themselves but they provide the infrastructure, they provide loans, perhaps tax holidays and so on.

I don't have the facts on this, but I believe they're wrong just about as often as they're right about that, and it's the ones that are right that stick and that we notice. I do know that over many more people have lost their jobs in textiles in China than have lost their jobs in the U.S., and that I believe is due to their regional industrial policy of closing down, putting out of competition local textile plants, pulling the workers down into the special economic or enterprise zones, and then producing there.

There has been a great deal of churning going on as they followed this policy to enhance their economic growth. What we observe are the winners. This is similar to the discussion we had 15 years ago about Japan. Japan was a country with, is a country with industrial policy. They would pick winners; they would pick losers. But they would pick. We've decided not to do that or we aren't as vociferous about doing that.

One point--I liked your comment about the growth in North Carolina--

COMMISSIONER VIDENIEKS: Construction.

DR. CONWAY: --construction versus manufactures. Let me make one important difference between those.

COMMISSIONER VIDENIEKS: Wage rates. Relative wage rates.

DR. CONWAY: True. Here's how I would explain what's been happening, and you can take this as an ivory tower explanation if you'd

like. We are a country of excess demand. We are consuming much more than we produce. We can see that from our current account. The deficit is five percent of GDP. That means we're spending more than we're consuming.

Some of the things that we buy can only be bought here. That includes buildings. So why do we have a construction boom? Well, because we can't import it. And because of that, construction costs are going up; wages for construction workers are going up. We're actually seeing a lot of immigration in North Carolina and much of construction is done by immigrants at this point.

So you get that growth process for non-traded goods. Construction and services are non-traded goods. This excess demand is causing demand for these. They can't be met elsewhere. It pulls workers into those two sectors.

We also have excess demand for manufactures. But there's a difference for manufactures. They're traded and we can buy them somewhere else. Others are willing to supply them to us and the prices don't go up.

This is in the academic literature: it is called the "Dutch disease," and it often happens for natural resource exporting countries. When the natural resource prices goes up, other manufacturing declines because of this type of effect. In this case, what we've got is just a growth in national debt. We're borrowing more; we're having this excess expenditure. Construction and finances are booming, services are booming, but the manufacturing which can be replaced from foreign sources is being replaced.

But that all comes out of that excess demand, and I would say it's a U.S. source, not a Chinese source, at that point.

COMMISSIONER VIDENIEKS: Thank you very much.

HEARING COCHAIR FIEDLER: I'm going to take the prerogative to start the second round here. I want to continue this discussion, but in a slightly different way. Mr. Weddle, you talked about semantics earlier, and I'll take a little issue with that. Every economist that we've had testify this year, I have asked pretty much the same question, and since we're in an academic atmosphere and you've got students here, I would ask you the same question, and I would then proffer the notion that probably you ought to have somebody do a master's thesis or doctoral dissertation on the question, and it's not semantics.

What is it that we call the phenomenon of the Chinese political economy? What is it that we are facing? We sit here and we talk about tax holidays, terms of economic development we use in the United States, but are they really applicable there? Okay. What is it?

Now some of the answers--Dan Rosen, an economist who

specializes in China, sort of mumbled a bit when we asked him this question. I said is it state capitalism? Some have called it bureaucratic capitalism. Is it undemocratic capitalism? Is it fascism?

It's an old word, but a lot of the criteria fit. We're hesitant to use that term because you wouldn't get a visa to go back to China. If you said yes to me, I would understand that.

What is it? Because unless we understand what it is, it's not just another actor in the international trading system like Botswana; China is just a country like Botswana. What is it is necessary to really get at and understand before we can determine how we compete with it, how we act with it, how we develop policies about it?

It's not a specious or semantic exercise, I think. I haven't gotten a lot of good answers, I must tell you.

DR. CONWAY: I must tell you you're not going to get a good one from me. And some of my students have left already. They knew there was no good answer coming from this guy. I agree. I think you're both asking the same question. Is it appropriate to talk about economic principles and international trade and the market system if you're dealing with an actor that doesn't play by those rules?

My answer takes two parts. One is that, yes, the international trading system will still operate in the same way. But number two, and this is your point, if we don't understand the motivation of the Chinese government, then we're going to have a great deal of difficulty understanding what to expect from this international trading system.

I don't have the answer to the second one. My reading, my casual empiricism, is that this is a country that has one goal and is working very strongly to achieve that goal. Perhaps I'm seeing it through blinders. It looks to me as if it's the same strategy that was used by the Four Tigers before it. China is just a bigger country.

But you're right. If I don't, if you as a group and if I don't understand the motivations of that, I won't be able to explain what types of interventions to expect from them in the world marketplace.

MR. WEDDLE: And the award for best question goes to--
I think you're right. This is a difficult question. I think you are well on task with probing to understand what it is to know how to respond to it. I started my remarks by saying I am not an economist; I'm an economic developer. Those of us in the economic development business in the U.S. have struggled with this question for several decades of what is it that we do because is it a profession or is it a practice?

I would posit to you that what we're seeing in China today is a lot of the practice of economic development at a national level, and just as we don't understand it much in the U.S. because when we talk

about economic growth in the U.S., we tend to have academics and theorists and politicians and others talk about it from the profession point of view, but not at the practice level, but a lot of the work is done at the practice level.

So what we're seeing in China today is a lot of practice of economic development, of putting fundamental programs and plans together to do--you asked the question do we have industrial policy? At the local and regional and state level in the U.S., we do. We do. We have not aggregated that at the national level.

RTP is an example of industrial policy, 1950s, picking high technology. Back then it was chemistry. We thought that was pretty much where it was going to be, but picking a sector, investing heavily. 1984 with the biotech center established in North Carolina, we picked a sector and made strategic investments, and saw huge benefits and dividends come from that. Today we're the fifth largest concentration of life science activity in the U.S.

So we do at the local. At the practice level, we have those policies. My guess is since no one else has given you a good answer, I'll say it's the practice of economic development that's going on over there, and it was the Tigers were doing, and it's how they engaged markets in a proactive way with the state as player and not just arbiter.

HEARING COCHAIR FIEDLER: Okay. Thank you. Mr. Wessel, you had one.

COMMISSIONER WESSEL: Yes. Thank you. This has been very interesting and probably we could take most of the day just having this interaction. Dr. Conway, I believe North Carolina has probably been one of the greater uses of trade laws. If you look at furniture, you look at steel, you look at paper or wood products, I guess shrimp on the coast, you have some shrimpers, textiles, et cetera, and I guess one of the greater targets has been the question of China.

How does all this play in your view in terms of how we interact with China? Certainly our trade problems are not solely caused by China, but they seem to be the accelerating force in many of our problems, and looking at the trade data, I would probably look at North Carolina as being a microcosm of the utility of the trade laws and how maybe they need to be enhanced in terms of their effectiveness.

DR. CONWAY: I'd separate the trade laws into two parts. And your question is well posed because as a source of nondurables plus the furniture sector, as you point out, which has taken quite a bit of--has faced a great deal of competition--the North Carolina economy is one of import competition. The trade laws are designed to lessen the impact of trade competition on import competitors. We can talk about

trade laws as being either the tariff system or the temporary quotas like the Multi-Fiber Arrangement or the Steel Reference Agreements.

COMMISSIONER WESSEL: Or the addressing, which is WTO illegal for us to address dumping subsidies, et cetera.

DR. CONWAY: Right.

COMMISSIONER WESSEL: So not protectionist practices, but trying to ensure market forces are being applied appropriately.

DR. CONWAY: Uh-huh. In those cases in which there is unfair competition, as we define it, then, yes, we are benefiting to some extent. Those have not been that important in the area of textiles because quite frankly most everyone knows that that type of competition is low cost, but it's not meeting the definition of dumping.

There have been examples of application of what's known as the "escape clause."

COMMISSIONER WESSEL: Surge protection.

DR. CONWAY: Yes. Surge protection. And those have helped out the economy, the North Carolina economy, helped out the existing members in North Carolina economy to some extent.

In my interviews with the textile executives, I found four different strategies that these guys had developed to respond to import competition. And they were all guys. I'm sorry. There were no women among these. The first was to--and that doesn't include shutting down so that would be the fifth--the first was simply to do what they called "harvesting," and that meant no new investment; we're simply going to run our plant until it no longer runs. We'll sell our product till then and then we'll be out of the business.

The second was to keep the existing brand but to purchase all the product overseas so that they remained in business, but they didn't produce anymore. Those were usually places that had some brand that they could rely upon, but otherwise were high cost producers.

The third is the group that you're describing, the group that is in favor of the types of policies you're describing, and that is the group that said, well, we just need to get a little protection and then we'll be back on our feet, so they would put through requests for escape clause Section 201 or Section 301 for antidumping or export subsidies.

And then the fourth group simply said, okay, it's a new world marketplace. We want to be able to compete with all of these guys in other countries. Let's integrate our operations around the world. That's an extended digression, but it leads to the point that I wanted to make now, and that is that while the trade policies have been successful in helping that third group, who then have to decide whether or not they're going to modernize in order to remain in business, it has worked against the fourth group, which is trying to be forward looking and is trying to integrate with the world economy, but

cannot make those choices of where to site their operations until they know what the trade laws are going to be.

The trade laws are shifting as these things go into place. For example, if someone wanted to cooperate with China, to have a plant in China, have a partner in China, and they were producing socks, and in June 2005, they found out, well, no, you can't, you're now going to have to face a whole new game, you can't use that cooperation anymore in the way you wanted to, go find something else. That kind of on and off trade policy helps some, and it could be useful in the adjustment process, but doesn't help others who are trying to compete on that international marketplace.

The part of trade policy that I think is extremely important is the part you'll hear about in your next session, and that is the Trade Adjustment Assistance, because textiles have always been a churning business. There have always been plants closing down, plants opening up, often in the same building, but new operations, a new product.

This churning leads to a lot of layoffs. It leads to downsizing, and it leads to people who are no longer in the jobs they've become accustomed to and need to move. Trade Adjustment Assistance is designed to handle those people, to help them to move to that new job, and that's the part of trade policy that I think is frankly of most value to the residents of North Carolina.

You can pick individual companies that will benefit from the surge protection, from antidumping, from countervailing duty activities, but it's that adjustment, the structural adjustment, that I think is actually in the long run the most important to North Carolina.

HEARING COCHAIR FIEDLER: Thank you, Dr. Conway.

COMMISSIONER WESSEL: Could I just make one quick comment? I would say it's not the trade laws. It's the application of the trade laws.

DR. CONWAY: Okay.

COMMISSIONER WESSEL: Because since 2000, we really have had no big changes other than maybe the Byrd Amendment to the trade laws. It's a question of uncertainty as to whether the laws are going to be applied consistently across all these issues.

HEARING COCHAIR FIEDLER: I want to thank you, gentlemen. You've been very interesting.

CHAIRMAN BARTHOLOMEW: Very interesting.

HEARING COCHAIR FIEDLER: We're going to have our next panel now.

DR. CONWAY: Thank you very much. We appreciate your coming here to ask our views.

CHAIRMAN BARTHOLOMEW: Very interesting. Thanks.

MR. WEDDLE: Thank you.

PANEL II: HOW CHINA TRADE HAS AFFECTED NORTH CAROLINA'S ECONOMY

HEARING COCHAIR FIEDLER: Dr. Gary Gereffi is Professor of Sociology at Duke University and Director of the Center on Globalization, Governance and Competitiveness. He has published extensively on globalization and its effects.

One of his principal interests is analyzing the competitiveness of North Carolina's industries. Dr. Gereffi currently is completing a major study on employment in North Carolina.

Dr. Betty McGrath is the Manager of the Office of Policy Program Evaluation and Research at the North Carolina Employment Security Commission. For the past ten years, she has watched firsthand the effects of Chinese imports and globalization on the industries of North Carolina.

You are familiar with our rules of seven minutes and then lots of questions. Dr. Gereffi, would you like to start?

STATEMENT OF DR. GARY GEREFFI DIRECTOR, CENTER ON GLOBALIZATION, GOVERNANCE & COMPETITIVENESS (CGGC), DUKE UNIVERSITY, DURHAM, NORTH CAROLINA

DR. GEREFFI: Thank you very much for inviting me and I'm glad to see we had such a lively initial session when all those hard questions are already out of your system and we're on easier things.

HEARING COCHAIR FIEDLER: Oh, no, we can ask them again.

DR. GEREFFI: Okay. That's fine. In the remarks I prepared I wanted to focus on a series of issues having to do with North Carolina's position in the global economy, and I want to start with two observations that have come up in this initial session as well.

The first is that I think North Carolina in many ways really is a microcosm of the U.S. economy. We have such a broad range of industries that have been important to the state. We have traditional manufacturing industries, textiles and apparel, and furniture, where North Carolina has been the leading producer in the U.S. for decades. We have resource-based industries like tobacco and hog farming, but we also have high-tech industries like biotechnology, information technology, banks and finance.

And when you think about all of those industries in a state of ten million people that has very active government policies and labor market initiatives, I think trying to balance the industries that are in decline with the industries that are on the rise, labor-intensive

industries and research-intensive industries, we get a good sense of the challenges that the country as whole is facing.

So in many ways, this is a great state to look at to try to deal with those issues. Similarly, North Carolina, like the rest of the U.S. has definitely been very affected by globalization. But as has already come up in some of these initial comments, it's really clear that because of this mix of industries, globalization is not viewed as a zero-sum game from the point of view of the state. There are ways in which North Carolina has been hurt by international competition, but there are also ways in which it has been advantaged by international competition.

So hopefully in the rest of the remarks that I'll summarize here, I can give you a sense of how that takes place.

In the first part of my written testimony, I wanted to highlight a data resource that I think is very useful for your Commission and others looking at North Carolina, which is a Web site called North Carolina in the Global Economy. In this Web site, which we put together over several years at Duke University, we deal with seven of the state's most important industries: textiles and apparel, furniture, tobacco, information technology, biotechnology, banking and finance, and hog farming. They represent really different characteristics.

We've tried to bring together the best available state-level data, like the kind that the North Carolina Employment Securities Commission provides at a county level, and we've supplemented that with firm-level data from a source called Reference USA.

What this allows us to do is to really zero in on the employment effects of how these industries have changed over time and also where North Carolina's unique competitive advantage is in each of these industries and how that's changing over time.

It initially started out as a teaching tool and a research tool, but now I think it actually has quite a bit of public policy relevance as well. Just yesterday, we released a new version of it on the Website that has lots of updates and upgrades, and some of those are described in the paper, and I encourage you to visit it and you'll see for yourself.

The one point I'd like to emphasize, though, in analytical terms about how we look at North Carolina's industries, is that we contrast the clusters model with something that we call global value chains. In this original cluster model of development, the idea was that if you could get concentrations of firms including related and supporting industries in one place, and you could support that, the industry will grow and become competitive.

It was definitely a place-based model of development and that worked very well when we were still thinking about production inside U.S. borders. We still have states competing with one another, but it's

really trying to say if we're in this location, we have a critical advantage if we can bring these pieces together.

In the Web site, we take a different approach, which we call global value chains. The whole idea of global value chains, or global supply chains, is that all industries now have become globally dispersed, and increasingly fragmented. North Carolina in every one of these industries is trying to capture certain pieces that it has and maintain the advantage of those pieces, and it's seeing other part of the industry migrate elsewhere, and thus it raises questions such as what are the critical pieces of textiles to have if low wage production is moving offshore?

If furniture is experiencing a lot of intense competition, can you add in a design piece that might actually supplement what you've done traditionally to make you more competitive? How do you bring in R&D? How do you bring in branding, logistics, and different elements of a complete notion of global industries?

It's not just the production of goods anymore, but also the provision of critical high level services. I think with that kind of a framework, we have a much better feel for the changes that are affecting these North Carolina industries and how this state and other states in the U.S. are trying to deal with those changes in a way to remain globally competitive. So the framework is as important as the data that are there.

In terms of the central part of the paper, I tried to divide globalization or the global economy into four dimensions that are affecting North Carolina.

One is international trade. Another is foreign direct investment. Another is immigration, and the fourth is education. We can think about these as four kinds of flows that have created this interconnectedness: flows of goods; flows of capital; flows of people; and flows of ideas.

The question is: How is North Carolina positioning itself vis-à-vis China, for example, in all of these different areas? International trade is certainly the issue that's gotten the most attention, especially given China's role as an emerging export phenomenon in the global economy, but especially with trade we see some of the complexities in looking at this U.S.-China relationship and the China-North Carolina relationship.

When you look at China's role as an exporter, last year, once again, it set another record in terms of bilateral trade deficits with the United States. The deficit was something like $233 billion. So it means China was exporting to us around $290 billion and importing around $55 billion.

But the fact is China's role as an exporter belies the fact that it

really imports most of the components it's using in a lot of those products and it's playing this role as an assembler of final parts.

So exports that had been coming to us previously from Japan, Taiwan, South Korea, and Singapore, have actually now been going directly into China and are being re-exported as final products. China still has an important role to play, but I cite in the paper the example of Apple's iPod. There was an interesting article in the New York Times in June that took the iPod and decomposed it in terms of where all the parts came from and what China's role was since China assembles iPods and exports them to the U.S.

The retail cost of this 30 gigabyte video iPod is $299. Of that $299, Apple gets $80 for the design and conception of the product. Apple has no factories to make it, but it created the product. The biggest component in that is the disk drive, that Toshiba, the Japanese company, makes and it costs $63. When you put together what all of the American companies involved in that supply chain get, it's about $163 or 55 percent of the total value of the iPod.

China's costs to assemble that and sell it to the U.S. is about $4 per unit. That means China is getting just one percent of the retail value of the iPod in terms of its assembly work, but when you look at our bilateral trade relations with China, the wholesale value of those exports is $150, so China is getting charged $150 for every iPod that it sends out, but itself is really only contributing about $4 out of that value chain.

This shows the difficulty in trying to understand China's role or any of the countries' roles in this kind of a global economy where things are spread all over. From an accounting points of view, China is going to get charged with whatever comes out from its borders, but in terms of what China’s real capabilities are, we need to break apart these industries in this kind of detail.

And that's just one example. I give an example of Wal-Mart as well. China's role as an exporter has largely been facilitated by U.S. brands, U.S. manufacturers and U.S. retailers that see China as this great source of low-cost goods. Wal-Mart gets over 70 percent of all the goods that it sells around the world from China. Wal-Mart has moved its global procurement centers to Shenzhen.

Now how does China become so successful in all these different consumer goods industries--clothes, toys, shoes, televisions, sporting goods, on and on, everything we can find in a department store shelf?

They're taught that. They're given those specifications and taught to be good exporters by the Mattels, the Nikes, the Apples, and the Wal-Marts of the world. Nothing bad about that. That's the way global competition works nowadays, but it certainly shows how U.S. companies are positioned in one part of these global industries. The

supply base has moved elsewhere, and it's not just China; it's Mexico, Eastern Europe.

We need to understand this kind of complexity. What came out in the first session [this morning], which I think is extremely important, is that China is moving very, very fast up the value chain. It really doesn't want to just keep doing that low-end assembly work and all the discussion on the R&D parks and the high tech development is extremely important.

The second dimension is direct foreign investment. Table 2 in my paper lists the number of companies in North Carolina and in China that invest in each other. We have the IBMs, Dell, and a whole set of high tech companies. I think it's through foreign direct investment, not through the trade, that we start seeing how China is trying to move into these high-tech industries, but also how North Carolina companies are trying to tap in with these R&D parks.

The latest statistics are that China has, depending on how you count them, one thousand of these multinational corporation R&D parks in the country, and that's an enormous source of their competitive advantage.

Let me just focus on two points that weren't brought up in the first session, the point about immigration and the point about education, because I think they're important for North Carolina.

Pat Conway used the notion that North Carolina is two states: the urban state and the rural state, or higher income/lower income, different ways of cutting it. In terms of immigration, there are also two types of immigration that have been very, very important in North Carolina. One has been the South to North, low-wage and largely Hispanic immigration that has moved into agriculture, moved into some of the low-end manufacturing and lots of service industries.

Over the last ten to 15 years, North Carolina has probably been among the most important states in the U.S. in terms of attracting Hispanic migrants.

But there is an upper end of that immigration stream as well, the people who are coming from China, India, Taiwan and elsewhere who are moving into the high tech industries, biotech, IT, et cetera.

I think both of those streams are extremely important if North Carolina is going to continue to be competitive and I refer in the paper to a set of studies we've been doing recently on this topic of immigrant entrepreneurship in the U.S.

We looked at the number of technology start-up firms in the U.S. between 1995 and 2005. We asked of those technology start-ups, how many of them had a founder that was not born in the U.S. It turns out 25 percent were set up by immigrant entrepreneurs.

In this state, most of those entrepreneurs, about 25 percent, come

from India. We also have the Chinese; both mainland Chinese and Taiwanese are extremely important in places like Silicon Valley, all throughout California. One of the things we need to understand is what role do we want immigration to play or will it play in how North Carolina is trying to make some of the adjustments to the way its industries are changing.

Let me just conclude with a note on education. As brought up in the first session, North Carolina's universities and also its community colleges are extremely important in its ability to move into this higher technology, research oriented, and high value end of the way different industries are moving.

There have been studies, for example, of supply of engineers in the U.S., China, and India. The numbers that have previously been given was that the U.S. produces about 70,000 engineers a year; India, 350,000; and China, over 600,000.

With some colleagues at the engineering school at Duke, we revisited those numbers, and found that the China and India numbers were really inflated compared to the four year bachelor's degree numbers for the U.S., and we readjusted them because one of the implications for the National Academy of Engineering in the U.S. is, if that's the case, then we should double or triple the number of engineers.

This kind of a response, that it’s a quantity problem, not a quality problem, isn't right. What kind of engineers do we need? When you look at the Ph.D.s and the M.E.s being created in India, their slope or rate of growth is much greater than we have in the U.S.

They're being trained to do the kind of work that U.S. multinationals want them to do because of those R&D centers, and I think this is something that's really contributing to the competitiveness of China. What we're doing in the U.S. in engineering schools and in science departments, is trying to figure out how w increase or create something called “dynamic engineers” who know business, who know communication, and who can actually play a critical role in innovation.

China is copying us, but we're definitely trying to stay ahead of the curve by changing the way we educate our own engineers and scientists. So let me stop there.

[The statement follows:][3]

HEARING COCHAIR FIEDLER: Thank you. Ms. McGrath.

STATEMENT OF MS. BETTY MCGRATH
LABOR MARKET INFORMATION DIVISION

[3] Click here to read the prepared statement of Dr. Gary Gereffi

EMPLOYMENT SECURITY COMMISSION OF NORTH CAROLINA, RALEIGH, NORTH CAROLINA

DR. McGRATH: Good morning. I'm not as versed in the globalization and trade economics as some of your earlier panelists, but what I hope to do for you today is to share with you some information about what is happening to the workers in North Carolina and our ability to track their reemployment experiences and the workforce development services that they receive.

Our nation's economy is undergoing a major economic transformation. This transformation is evident in the major changes that are occurring in our industrial employment.

Our goods producing industries which once were the cornerstone of our nation's economy have shed millions of jobs. At the same time, our economy is being dominated by growth in our service-providing industries.

According to data from the Bureau of Labor Statistics' Current Employment Statistics Program, between 1996 and 2006, our nation's total non-farm employment added over 16.5 million jobs. Between 2000 and 2006, our nation's economy added over 4.3 million jobs.

This includes the growth of over 6.4 million jobs in our service providing industries, and the loss of over two million jobs in our goods producing industries.

Within our goods producing industries, the largest change has been the decline of our manufacturing employment. Between 2000 and 2006, our nation's manufacturing industries have lost over three million jobs. In 1996, manufacturing employment accounted for 14.4 percent of our nation's total employment, and by 2006, manufacturing accounted for only 10.4 percent of our total employment.

Here in North Carolina, our economic transformation has been even more pronounced. During the latter have of the 20th century, manufacturing was seen as the source of good stable jobs for our workers. Between 1996 and 2006, our economy has added over 480,000 jobs.

This includes the addition of over 687,000 service providing jobs and the decline of over 200,000 goods producing jobs. Within our goods producing industries, we have experienced the loss of over 256,000 manufacturing jobs.

In 1996, manufacturing accounted for 22.9 percent of North Carolina's total non-farm employment, or 809,400 jobs. By 2006, manufacturing accounted for only 13.8 percent of our total employment, or 553,000 jobs. Job losses have been experienced in both durable goods manufacturing and non-durable goods manufacturing.

Our durable goods manufacturing has lost over 74,000 jobs, and our non-durable goods manufacturing has lost over 181,000 jobs. Within our durable goods manufacturing, the largest declines have come within our furniture industries.

These include large declines within household and institutional furniture manufacturing, but North Carolina's largest declines have come within our non-durable goods manufacturing industries.

These include declines in textile mills, textile product mills, and apparel manufacturing industries. In 1996, these industries accounted for 237,000 jobs. By 2006, they accounted for a little over 80,000 jobs.

Much of the declines in our manufacturing industries have been due to mass layoff events which have impacted thousands of workers across North Carolina. Without the services provided through our unemployment insurance, Wagner Peyser, Trade Act and Workforce Investment Act programs, these layoffs would have been even more devastating to our workers and to our communities.

I have brought with me two maps produced by the United States Department of Labor's Employment and Training Administration. The first map depicts the number of trade certified events that have occurred across America and the second map, which provides the number of trade certified workers by the location of the event.

Did you get a copy of them? As I'm sure you are aware, Trade Adjustment Assistance helps individuals who have become unemployed as a result of competition from foreign trade. The program encourages the reemployment of eligible individuals, provides training and income support necessary for workers to achieve reemployment and assist individuals with becoming reemployed in fields where they are likely to remain employed and with wages which are comparable to their prior employment.

In fiscal year 2006, there were over 1,400 Trade Act certifications covering an estimated 120,000 workers nationwide. Between fiscal year 2004 and fiscal year 2006, trade petitions certified over 387,000 workers. The largest number of workers were in the textile industry, followed by the electronic and other electrical equipment industry, apparel industry and rubber and plastics industries.

As you can see from these two maps, North Carolina leads the nation in trade impacted layoffs, TAA petitions certified, and the largest number of workers enrolled in TAA training.

Between fiscal year 2004 and fiscal year 2006, North Carolina had 39,849 workers certified for trade services. During this same time period, we provided training to over 21,000 of those worker through our Trade Act programs.

In addition to the services provided through our Trade Act programs, between July 2001 and June 30, 2006, over 270,000 manufacturing workers applied for unemployment insurance benefits through the Employment Security Commission. Almost half of these workers enrolled in education and training programs through the North Carolina community college system. Over 24,000 of these workers participated in employment and training programs operated by our workforce development boards, and almost all of these workers registered for Wagner Peyser employment services with the Employment Security Commission.

In 2003, North Carolina experienced the largest mass layoff event in our state's history when Pillowtex closed. This closure impacted over 6,000 workers nationwide and over 4,800 workers here in North Carolina.

The majority of these workers were located in Cabarrus, Rowan and Rockingham counties. In August of 2003, Cabarrus County's unemployment rate rose to 9.7 percent. In 2002, Cabarrus County's average unemployment rate was 5.5 percent.

In August of 2003, Rowan County's unemployment rate rose to 9.5 percent. In 2002, Rowan County's average unemployment rate was 6.3 percent. In August of 2003, Rockingham County's unemployment rate rose to 10.1 percent.

In 2002, Rockingham County's unemployment rate was eight percent. Rockingham is a county which has been impacted by other layoffs and closures within its textile and apparel industries over the last several years.

The events surrounding the Pillowtex closure brought with it national attention due to the number of workers impacted by the closure, both national attention to the manufacturing industry and the role of workforce development services to dislocated workers.

The impacts felt by workers involved in other layoffs and closures are just as devastating to those workers, their families, and the communities in which they live.

Due to the large number of workers impacted by the Pillowtex closure, we have been undertaking a longitudinal study so that we can understand the post-layoff employment patterns, educational experience and impacts of workforce development services.

Utilizing data from the Unemployment Insurance System along with data from our other workforce development partners, we have been tracking the post-layoff experience of these workers. We have been following 4,820 Pillowtex workers.

The services provided by our Trade Act, UI, Wagner Peyser, and WIA programs have been critical in assisting Pillowtex workers with skill upgrading, education, and reemployment services.

The education and training services provided by the North Carolina community college system is critical in assisting our workers with upgrading their skills, obtaining GEDs and post-secondary credentials.

Between 2003 and June 2006, 2,417 Pillowtex workers enrolled in our community college system. Over 950 of these workers enrolled in basic skills programs which helped to prepare them for obtaining GEDs and adult high school diplomas. Over 930 workers have enrolled in curriculum programs which lead to associate's degrees, certificates and diplomas, and 683 individuals enrolled in occupational training.

Utilizing North Carolina's unemployment insurance wage files, we have been able to attract the reemployment and wages of Pillowtex workers. In the fourth quarter of 2003, just a few months after the layoff, only 27.8 percent of Pillowtex workers were found to earn wages from a North Carolina employer. By the fourth quarter of 2004, the percentage rose to 45.7 percent, and by the fourth quarter of 2005, the percentage rose to 58.8 percent.

By the fourth quarter of 2006, the percentages reached 60.4 percent. In the fourth quarter of 2006, the average quarterly wage of workers who have been reemployed is $6,122, and their median wage was $5,490.

We have also been able to analyze the industries of their reemployment. A large number of these workers, 30.4 percent, were found to be employed in the manufacturing sector.

23.3 percent of them are employed in the trade, transportation and utilities industries, 22 percent in our education and health services industries, and 15.2 percent in professional and business services industries.

During our analysis of Pillowtex workers, we have been noticing a trend within our professional and business services industries. What on the surface appeared to be a positive outcome for these workers, upon further analysis revealed a growing trend in our industrial employment statistics.

A large number of workers who are finding employment within professional and business services industries are on the payrolls of temporary health firms. A substantial amount of growth that is occurring in professional business services is actually due to the growth of temporary health services.

Our research regarding Pillowtex workers continues today. We hope that this research can help us shed light on the reemployment experiences of a broader group of manufacturing workers. What we have learned from our Pillowtex experience and experience with other layoff events is that many of our dislocated manufacturing workers had skill sets which prepared them for other manufacturing jobs.

Many of these workers are in need of additional training in order to prepare them for our growing service providing industries. You will hear later today from Dr. James Owen, President of Piedmont Community College, who will be able to provide you with additional information regarding the programs and services provided by our community colleges and the challenges that they face in serving displaced workers.

You will also hear from Mr. Thomas White with the North Carolina Department of Commerce's Division of Workforce Development regarding the state's response to our many layoffs and closures.

North Carolina's economy is undergoing a major transformation. Our economy continues to shed jobs in our manufacturing industries, but at the same time is experiencing tremendous growth within our service providing industries. I hope that I have helped to shed some light on the critical changes that have occurred within our economy, and I thank you for your time.

[The statement follows:][4]

Panel II: Discussion, Questions and Answers

HEARING COCHAIR FIEDLER: Thank you. Thank you very much. Commissioner Wessel.

COMMISSIONER WESSEL: Thank you both. Very helpful testimony. Dr. Gereffi, you were involved, from what you said earlier, in the debate that occurred last year on the number and quality of engineers between the U.S. and China and India.

Did I hear correctly that you said that your most recent data indicated that there is now a quality increase or a numerical increase in the number of higher level engineers coming out of India, and what is the case with China?

DR. GEREFFI: The most recent results come in an article called "Where the Engineers Are" that I cited in my written report that was presented at National Academy of Sciences. In the initial study, we were just focusing on undergraduate degree holders, and when we redid the numbers and made U.S., Indian and Chinese graduates comparable in terms of four-year degrees and stripped out the computer science and IT workers, it turns out that U.S. and India are producing about the same number of engineers at the undergraduate level and China is producing about three times as many.

However, what we added in more recent studies is information about the master's and Ph.D. level training which had not been

[4] Click here to read the prepared statement of Dr. Betty McGrath

available before. When you look at those numbers, China in particular has a very, very steep increase in Ph.D. and master's engineers compared to both the U.S. and India. I think this reflects the fact that China in 1999 said they wanted to increase engineering and science, and it's reflected also in this 15 year science and technology plan that China came out with that covers 2006 to 2020.

You were talking earlier about industrial policy and things like that. China is very explicitly trying to develop a science and technology policy and part of that is to get more people trained to go into these fields at the higher level. So the newer figures reflect the Ph.D. and M.E. statistics that we didn't have before.

COMMISSIONER WESSEL: If you could send the staff a copy of those recent articles, we would love to see them.

DR. GEREFFI: Absolutely.

COMMISSIONER WESSEL: Ms. McGrath, I appreciate your testimony and am fascinated by the longitudinal study of Pillowtex. I think that information could be very helpful to policymakers.

I'd like to get a little comparison from you relating to some of the data. As I understand what you said, roughly 40 percent of those workers are still unemployed as of the fourth quarter of last year?

DR. McGRATH: Of 2006; correct.

COMMISSIONER WESSEL: Correct.

DR. McGRATH: I would say that we have not been able to find them as employed.

COMMISSIONER WESSEL: I understand.

DR. McGRATH: You can actually be in non-covered employment or self-employment or other types and not be in--

COMMISSIONER WESSEL: You also give some quarterly wage data here. How does that compare to what they were making prior to this? Are these wages above, equal to, or below what their comparable wages were from their previous employment?

DR. McGRATH: When you go back in time, since many of those workers had been on temporary layoffs in the quarters following so you don't have as complete picture when you try to track them back. But if you go back to say the fourth quarter of 2002, about six months, although some of them are on layoff at that time, the average wage of all workers was $6,592, and their median wage was $5,642.

Of the ones who have become reemployed, comparing that 2006 quarter four, those wages, when you go back in time were actually slightly higher.

COMMISSIONER WESSEL: Adjusted. So in an adjusted sense--

DR. McGRATH: No, that's without an adjustment for inflation. Those workers made $6,760 on average in a quarter.

COMMISSIONER WESSEL: So would that mean that we have

roughly a $1,300 average reduction per quarter or--is that right?

DR. McGRATH: It's about $600 without adjustment--

COMMISSIONER WESSEL: $600. So it's up to $5,400. Okay.

DR. McGRATH: Yes. You take $6,760 in the fourth quarter of 2002, compare it to $6,120--

COMMISSIONER WESSEL: Okay. So roughly a ten percent non-adjusted impact per worker?

DR. McGRATH: For those who have become--

COMMISSIONER WESSEL: I understand. Also as it relates to health care and other benefits, and this only deals, I assume, with wages and not total compensation--

DR. McGRATH: Right.

COMMISSIONER WESSEL: --my understanding of the federal programs that relates to trade adjustment and the ability to get health care is that most states have a three to five percent take-up rate at most because the cost of the health care is prohibitive.

What's happened to these workers in terms of the health care?

DR. McGRATH: Actually, as you just asked your question, our Trade Act supervisor walked into the room. Curtis Morrow, who is standing in the back fanning himself. One of the issues with Pillowtex, I believe it was, Curtis, and correct me if I'm wrong, is that this was the first time that the federal government was able to take advantage of the HCTC tax credit; correct?

MR. MORROW: Yes, it was. In fact, one of the things that we suggested to the company, and excuse me for fanning, because I've got a backache this morning and I walked up. But we encouraged the company to submit their trade-backed petition so that those workers would be eligible not only for the health coverage tax credit, but so they would also be eligible for the advance payment option, which means that the IRS, once they're in the national system, would pay the 65 percent up front instead of the worker.

In North Carolina, we also did something a little different than in most states, and most states have copied it now. There was some money available through the Workforce Investment Act, their National Emergency Grant System, and we used what we call a "Bridge Program," and that was during the application period into the National Health Coverage Tax Credit System. We, the Employment Security Commission in North Carolina would also pay the trade impacted worker if they were trying to obtain health care coverage. We would pay their 65 percent up front.

What we would do is mail a check to the worker after we gathered information about their health insurance plan and allowed them to add the 35 percent to it and submit it to their health care provider. And this bridged them from not having to pay such large

premiums.

When you go from group coverage to individual coverage, most Americans have no clue how much of a disparity that is, and our folks in North Carolina got a real eye opener when you go from paying $200 a month to $750 or $1,000 a month. So those were the kinds of things that we started at Pillowtex, and we continued it through, even up to today.

I think over the last four years, we have paid out over $5 million in health insurance premiums to North Carolinians. And that by far is tops in the country.

COMMISSIONER WESSEL: I apologize. Just one clarifying question. I don't know who to direct it to. That tells me about the 65 percent, but the 65 percent, for example, in the steel industry has still been--35 percent has still been a barrier to a lot of people getting health care.

And, in fact, the three to five percent take-up rate recognizes the 65. Do you know what the take-up rate has been in your Pillowtex workers?

DR. McGRATH: No, I do not. Curtis, do you?

COMMISSIONER WESSEL: Is that something you're measuring?

MR. MORROW: No, no. We haven't measured.

HEARING COCHAIR FIEDLER: We can ask Harris when he comes.

MR. MORROW: The problem is for health care coverage it's even with the 65 percent, folks just can't afford the 35 percent. We recognized that from day one.

DR. McGRATH: One of the reasons also that some people couldn't even take advantage is that they couldn't afford even that piece.

COMMISSIONER WESSEL: I understand. They're trying to increase it, I believe, to 90 percent at the federal level, but--

HEARING COCHAIR FIEDLER: Before I go to Chairman Bartholomew, let me ask a quick question. The loss of manufacturing jobs, or let's take Pillowtex and then the larger number of jobs, has it had a more dramatic effect on the African American population in North Carolina than others?

DR. McGRATH: I think I can give you the statistics from the population. About 57 percent of them were white; almost 30 percent were black; about 5.2 were Asian, actually, I think, North Carolina's population is about 2.8 percent Asian, so it's interesting. And we have another 7.7 which are other, and we had over 340 Hispanics.

So it depends on where in the state. I think some of the other presenters have talked about, that we have two North Carolinas. I

think there are many of us who actually try to analyze the data and report before the state realize that there are multiple North Carolinas where you have the issue of our eastern counties which are heavily populated by African Americans and very rural and poor. You have our major urban areas which are expanding in terms of their diversity, and you have some other areas. We have the mountains which are predominantly white.

So we span large demographic characteristics of the state, and it's changing, as our co-presenter said. We have one of the largest growing Hispanic populations in the nation.

HEARING COCHAIR FIEDLER: Thank you. Chairman Bartholomew.

CHAIRMAN BARTHOLOMEW: Thank you to both of our witnesses for very interesting testimony. I feel like we're delving into some of the guts of what's going on here. I have two very different kinds of questions.

Dr. McGrath, are you also tracking the impact of the ripple effect from layoffs in these communities? I'm presuming that it's not just the Pillowtex workers who lost their jobs, but the businesses that surrounded them that have also experienced layoffs?

DR. McGRATH: We have noticed in some of the surrounding economies that they have been impacted by our manufacturing losses. Even some of our service restaurants that were in the area are no longer there. And there also were I believe three or four companies who are what are called secondarily impacted companies, companies who actually provide services. One I believe was an electrical company who had workers on site at Pillowtex. You have a primary impact under trade and then you can have other industries which also are certified under trade, depending if they kind of have a downstream effect from that company.

We have not done as much analysis in that area, but it is definitely something that happens.

CHAIRMAN BARTHOLOMEW: Okay.

DR. McGRATH: And in some of these small communities, also besides Pillowtex, the manufacturing plant was more than just the place of work. It was the core and center of that community, many generations. I'm not from North Carolina. I grew up in the Bronx.

CHAIRMAN BARTHOLOMEW: You do not sound like you grew up in the Bronx.

DR. McGRATH: So learning the culture over the last ten years, and I actually live out right now in a very rural area, and you go through some of the small towns, and you see what were mill houses, and you see the one large manufacturing plant that was there, and you see a house which was obviously the manager or the plant owner, and

you could see that there is very little left in those communities. So while they may not have major restaurants and other services, it was the core of that community, and in some cases, those workers lived in houses that they either rented or bought from the textile manufacturer.

Sometimes you can't see it, and some of our data can't get down as low. We have a hundred counties in North Carolina and struggle many times to even produce accurate estimates at our lowest level. But when you drive around the state and see these areas, that's where it's being impacted. And what's also happening is the young people are leaving many of these areas. They're leaving because there are no jobs.

CHAIRMAN BARTHOLOMEW: When we were in Ohio a couple of years ago, we were told that Ohio's biggest export was its young people because there was no future for them there. In Columbia, South Carolina, people were talking about the impact, the consequences for health care providers in communities where there was no health insurance. The demands were going up for their services at the time that the local tax revenue was going down and that even the churches were finding that they were not being given as much in the plates at Sunday services and had fewer resources to meet greater demands. So the consequences--

DR. McGRATH: I will say that many of our faith-based communities around the Pillowtex layoff actually played a big role in trying to assist those workers. So it was not just our government programs that tried to aid the massive amount of workers that hit at one time, but many of our churches and other local social service entities stepped up to the plate.

CHAIRMAN BARTHOLOMEW: Thank you. I'd like to shift gears completely. Dr. Gereffi, you mentioned the debate or the discussion we had in our first session, and two questions for you.

I understand that North Carolina was buffeted by clothing imports from Mexico even before the China tidal wave came in. Do you see that there's anything different about China as a competitor, different from Mexico?

My second question: you mentioned hog raising. There was a piece in the Washington Post Business Section in the past couple of days, a small piece about how the Chinese government is driving an increase in pork production because it is very concerned about inflation, and one of the ways that it is intending to manage inflation over a course of time is to drive the price of food down and pork is a very large consumption item.

Do you have any observations--this gets to the nature of China's economy and its ability to actually do something like command a major change in the production of a resource.

DR. GEREFFI: In terms of China-Mexico competition, they're direct competitors in terms of the U.S. market. Mexico has been very concerned about Chinese competition, and they've been losing out in almost industry after industry, but there are some exceptions. Textiles and apparel, when the whole debate about NAFTA was going on in 1992-93, there was a split in the North Carolina industry.

The textile firms, by and large, decided that they were going to go with NAFTA. The apparel firms opposed it. The reason for the logic of the textile firms was that if you didn't have NAFTA, all of the apparel sourcing would go to Asia, and if it goes to Asia, then the textiles would come from Asia. But if you had the North American Free Trade Agreement or CAFTA after it, and apparel firms stay in the hemisphere, it's easier for North Carolina textile firms to supply them.

So in some ways they did that, and that provided about a five-year respite for the industry, but then the North Carolina textile firms also have been investing in Mexico, as well.

I cite a statistic in the paper about exports from North Carolina's textile industry. There was a recent article saying how these are going up. And it mentioned that there is $52 million in exports of North Carolina textiles to China. The number of exports--China is the number eight export market for North Carolina textile makers.

The number one market is Honduras with $500 million of exports. Mexico is number two with like $380 million, et cetera. So it's clear that Mexico and Central America still have a much bigger weight for the North Carolina economy than China does because of the proximity and because of the ways we're tied into Mexico and Central America in terms of what's called production sharing in the U.S.

In terms of the hog production, I didn't see that particular article about how China might be trying to move food prices down, but there is a general observation about Chinese government that relates to your earlier conversation as well.

Business Week had a cover story in July 23, 2007 called "Broken China." And the main idea of this is that the central Chinese government, which is largely ruled by the Communist Party, comes out with these ideas, has been coming up with a series of major reforms like the need for environmental safeguards, the need to have stricter intellectual property rights, et cetera, that all make a lot of sense from the point of view of the pressures China is feeling and where the country wants to go and how it's dealing with things like food shortages and other problems.

But the fact is that it's the local level governments in China, the municipal governments, which after decentralization and privatization in the early '90s got tremendous power vis-à-vis the companies that are located there to try to increase production. And so the mismatch is

that China is so large and there are these different levels, the central government, provincial government and municipal, as we have here, but the municipal governments are much stronger.

In a sense, I think they actually drive a lot of the real changes on the ground that may or may not be occurring in China. So the real difficulty they confront in terms of this planning is not just coming up with state plans at the central level, but figuring out can you really implement those plans because China has so many different regional dynamics. The southern part, Guangdong Province, exported oriented to the U.S.--is growing so much faster than other parts.

And I think what China is really trying to do is, as somebody said in the earlier session, start to move the labor intensive export-oriented industries from the coastal provinces inward. And they're still having difficulty getting the municipal governments to go along with that plan. So there is a planning impasse.

HEARING COCHAIR FIEDLER: Can I add something on the pork?

CHAIRMAN BARTHOLOMEW: You're in charge.

HEARING COCHAIR FIEDLER: China has disease among its pigs in the south and so Smithfield Foods, for instance, just negotiated a deal where they're going to do 40 to 60 million pounds of pork because it takes a long time for producing sow to be productive--you'll see a temporary burst in pork exports from North Carolina to China, but it will probably not be sustained over a long period of time.

The unevenness of economic development in North Carolina geographically, even after the massive layoffs, resulting, and you correct me if I'm wrong, resulting in more systematic continuous unemployment in certain counties that had large manufacturing enterprises before seems not to have been included in the economic development plan.

We're not getting new businesses. I haven't heard anybody talk about new businesses in the towns that you were describing. What is being done to develop new employment in those places?

DR. McGRATH: I'm not the expert in our economic development activities. I think this afternoon, you may hear from somebody who has a little bit more experience who was a local economic developer, Tom White, when he speaks, and he could probably talk more on that issue.

One of the issues that you can talk about is, and these are very, very small towns, and so sometimes when you get a major manufacturer to come into a small town and locate there, there are issues related to that. But I think Mr. White could probably give you, I would suggest that you save that question. He's nodding his head out in the back.

CHAIRMAN BARTHOLOMEW: We don't want to steal his thunder either.

DR. McGRATH: He has worn both sides of the hat and he was on the economic development side and now he's on the workforce development side and business development. So he probably could give you the best answer.

HEARING COCHAIR FIEDLER: Okay.

DR. GEREFFI: I do have a comment on that. I think the North Carolina community colleges developed a course called "Bio-Work" that was specifically intended to try to train people who were laid off in textiles and furniture counties into learning some of the skills to get into the biotechnology industry. Nichola Lowe, a professor at UNC, has been tracking that very carefully, and I think a lot of people have been looking at it. So that seems to actually have been one successful mechanism to get the skills in.

In terms of the cities, my understanding is that those Pillowtex facilities, in fact, have now been purchased by somebody who is trying to put a science park--and people will know the name of this individual--right there in those same places.

There was an article in Monday's Washington Post by Peter Goodman that talked about another biotech company moving into an old textile plant.

So one kind of succession that seems to be occurring is to take the facilities in some of these towns that had been in one industry, textiles or furniture, and try to move something like biotech or software in and then training the people to fill those.

The one other thing about unevenness, nobody has thus far mentioned, Research Triangle Park, this part of North Carolina, is clearly very R&D oriented. But 90 miles or so to the west, there's the Piedmont Triad area, Greensboro-Winston Salem-High Point, and they got a $15 million grant from the U.S. Department of Labor over a three year period, and they are in the midst of an economic restructuring plan that says how will they take industries like tobacco and textiles and furniture, which are all concentrated in that eight county region, and refashion those in ways that move beyond that.

And some if it is taking pieces of those industries and moving them high tech. But others are looking for completely different replacements, so some of the tobacco farms are moving into vineyards and trying to do wine.

I think that could be a part of the state that you could look at as a microcosm again of these shifts and what they're trying to do in terms of developing new forms of investment in place of the old.

HEARING COCHAIR FIEDLER: Commissioner Wortzel.

COMMISSIONER WORTZEL: Dr. McGrath, we actually heard

very similar stories in Ohio in manufacturing. One of the things that struck me there was--I don't want to call it inertia, but a general unwillingness despite educational or training programs of the population to move. So to what extent have you been able to measure intrastate migration for work or do people end up tied to a community--I grew up here, my grandfather was here, I'm on the family farm or the family plot of land, and if no entrepreneur comes here, I'll just stay unemployed. To what extent is that a factor?

DR. McGRATH: I don't have any hard data on that. I do know after the Pillowtex layoff, there were actually jobs down just north of Charlotte which would have required transportation, and many of the people did not want to leave their communities.

But many of those workers, it's been a long generational issue. When one manufacturer was who they worked for, somebody else came in right behind them and bought it. So, in many instances, they thought somebody else was coming, and yes, my co-presenter here is correct, is that those plants have been imploded now, and in its place is the North Carolina Research Campus, which is going to be a part from Dole Food who is trying to put biotechnology into food production.

But there are issues with having people to uproot themselves and go to where the jobs are. Those are real, and I know our case managers talk about those issues, but I think that's where in some of our programs we need to provide more case management career counseling services that have not necessarily been always provided in some of our Trade Act programs.

The dollars in terms of our shrinking federal programs have removed a lot of what were the career counselors and the numbers are dwindling.

So when you have large numbers of laid off workers standing in front of you to try to work with them, the amount of time that you can work one-on-one to really explain that, no, that employer is not coming back, here's where the jobs are growing. And then case management, not just send somebody--these are people--. I go back to a story that I read in the Charlotte paper of a woman, after the layoff--this was several months after the layoff.

She was I believe in her late 30s, early 40s, she had gone to work at that plant when she was 16. She had dropped out of school. And she worked there. Her husband worked there. Her sister-in-law worked there for years and years and years.

At the time of the layoff, she had made $13 to fold fitted sheets. She did not drive, and at the time of the story, she was enrolled in Rowan-Cabarrus Community College and struggling with basic skills. So now their whole world has changed. It’s very easy for--I left my

home in the Bronx and went to Delaware and have lived in Chicago. The way that we perceive where job opportunities are is different.

It's very different, and here in North Carolina, the thing that I have realized is that the sense of community is very inherent in people, the place of land--my family emigrated from Ireland. To us the sense of our homeland is there. Here, it's down the road where my mother lives. It's down the road where my family farm is.

There are many people who live here in Orange County or in Raleigh, and they have a sense of where their home place is, and it's an hour away. So it's easy to say go take advantage of training and go get a new job. It's a complete overhaul of their perspective on what their relationship to work is.

COMMISSIONER WORTZEL: Can I follow on that?

HEARING COCHAIR FIEDLER: Please.

COMMISSIONER WORTZEL: In a lot of these rural communities, you had one industry, and that's the center. The other center in some of the rural communities tends to be built around small church communities. And that suggests larger organizations depending on the denomination.

Has there been any work or assistance to help create a magnet in religious communities or communities where you could attract people away and they would find jobs. Has that helped or does it exist?

DR. McGRATH: Meaning the role of our faith-based--

COMMISSIONER WORTZEL: Yes, the faith-based organizations.

DR. McGRATH: --in assisting. Yes, I think that is happening in some instances. Some of our federal programs are trying to have more involvement with our faith-based communities, and I know in the Pillowtex situation, there was a big role of our faith-based community to assist workers in helping to make those transitions.

COMMISSIONER WORTZEL: Or even to help with moving. Here's another community, but you don't see that?

DR. McGRATH: I couldn't speak to that.

COMMISSIONER WORTZEL: okay.

DR. McGRATH: You may have to ask somebody else.

HEARING COCHAIR FIEDLER: Commissioner Wessel or Chairman Bartholomew. Both of you had a question.

CHAIRMAN BARTHOLOMEW: I have a quick question. Has anybody quantified how much it costs to go through a retraining process and provide the kinds of health insurance subsidies or anything? Do we have any sense of how much federal tax revenue, state tax revenue costs to do this?

DR. McGRATH: No. I think if you tried to add up all the dollars, it would be a lot depending on all the different funding

streams that come into provide it. I see Dr. Owen has arrived. He could probably tell you the cost of going to one of his community college campuses and the cost to people in retraining when he speaks later this afternoon.

CHAIRMAN BARTHOLOMEW: All right. We'll ask him later.

HEARING COCHAIR FIEDLER: Commissioner Wessel.

COMMISSIONER WESSEL: A quick question, and, Dr. Gereffi, if you need to provide this later, that's fine. What has been the experience regarding foreign-born students in the engineering and technical applications in North Carolina?

Do you have a large percentage in the schools here? Are they, in fact, staying here and going into RTP and other state-based activities? Are they the proverbial sea turtles, as they say, that go home after their education is done?

DR. GEREFFI: There are a large number. In places like NC State, which has probably the best college of textiles for high tech in the world from what I can tell, draws a lot of--when you look down the list of who's done all these scientific advancements, they're all people who were born somewhere else. The same thing is true in Duke and UNC, I'm sure, in the science, engineering fields.

I think the real problem that's now occurring is really around this H-1B visa program, and whether people can stay after getting the degree. This has now become another part of the immigration debate. I will give you a report that the Kauffman Foundation just came out with last week, and the issue is really that a lot of the people who are getting advanced degrees that are foreign born and are trying to get citizenship through H-1B, there's just this big backlog.

We have 120,000 H-IB visas allowed a year. The backlog is 500,000 people in the process and up to a million when you count in family members. So what we're starting to find out is people are saying they've been working four and five years in a job after getting their degrees in a technology field, and then their H-1B visa runs out, they have to get a green card or go home, and they can't get through the system.

One of the real problems that this immigration entrepreneur literature is also revealing is if, indeed, we have a lot of patents that are being filed in the U.S. by people born elsewhere but their Ph.D. is here, people working here, and the factor that came out in the first panel, China, Taiwan, South Korea, all want to try to get their best and brightest to come back, so they're creating very attractive packages in terms of labs like nanotechnology and engineering.

So we're losing, and there's a lure. I think we are in the process of beginning to have a reverse brain drain. I mean that we are going to cut off that pool of people because in terms of entrepreneurial

opportunities, there is no place that rivals the United States, and when you talk to the best-trained people everywhere, they'll look at the U.S. as the place they would like to come and set up a business, and I think that's now running into some real roadblocks, but there's plenty of people in the system.

It's just that whether they can stay and develop technologies and start businesses and work in these firms, that's questionable.

COMMISSIONER WESSEL: Do you believe there are not enough U.S.-born people with the technical skills necessary to fill these jobs?

DR. GEREFFI: Great question. It's come up in a number of studies. Richard Freeman did one on the science and technology workforce. It's not that there are not enough very smart U.S.-born people who could do this. It's when you look at our universities like Duke and all the others, they have so many options in terms of other professional fields to go into, that going into business or medicine or law or consulting often looks a lot more attractive than going into engineering or computer science when they're also reading reports that increasingly a lot of those jobs can now migrate to India or China.

So the real problem is competing for that talent pool. Also, as we know, you go back and look at science and technology education in middle schools, in high schools. We really need to do a much better job, as all the engineers and scientists will say, in developing a pipeline. So, sure, I think we should do more to get U.S.-born people going into these fields, but they've got plenty of other very attractive and good options.

I just heard on the radio today that Wipro, one of the biggest Indian IT outsourcing companies, is setting up a firm in Atlanta for 500 software developers, and they're making the argument that, in fact, the U.S.-trained people living in the U.S. have a variety of additional skills you can't find elsewhere.

So there is a talent base here that we definitely can tap further, and other countries are going to start coming in and doing the same, but I think we've got to figure out how do we attract our best and brightest into those fields to the degree we think is necessary.

HEARING COCHAIR FIEDLER: On that note, I'd like to thank you both for your testimony, and we will have a ten-minute break before we start our next panel. Thank you really very much.

[Whereupon, a short break was taken.]

PANEL III: CASE STUDIES OF CHINA'S IMPACT ON THE FURNITURE, TIRE, TEXTILE, AND CLOTHING INDUSTRIES

HEARING COCHAIR FIEDLER: The time has come for our third panel. I'd like to welcome Harris Raynor, the International Vice President of UNITE HERE, the union that represents many clothing and textile workers in the United States. Mr. Raynor is the union's Southern Regional Director, which includes North Carolina. Mr. Raynor also has served in positions with the United Furniture Workers of America so he is very familiar with the problems of manufacturing workers in North Carolina.

I'd also like to welcome Darryl Jackson. He is the President of United Steelworkers Local 959 in Fayetteville. This local represents the workers at the Goodyear tire plant there.

As those of you who follow this industry know, China has become a major producer of tires and tire imports from China have been the subject of unfair trade complaints and I would add a major safety problem of late.

I would like to start with Mr. Raynor and remind you that we have seven minutes of oral testimony. We'll put your written testimony if any into the record and then the commissioners will ask you questions so you'll have lots of time to go back and forth.

STATEMENT OF MR. HARRIS RAYNOR, VICE PRESIDENT, UNITE HERE, UNION CITY, GEORGIA

MR. RAYNOR: Thank you very much for allowing me the opportunity to testify before this Commission again.

This is not the first time that I've been here, and I do appreciate your introduction, saying that we represent a number of workers in the clothing and textile industry. Unfortunately, that's less true everyday.

That industry has basically disappeared in this country for all intents and purposes. What is left of the sewn products industry, which is the labor-intensive side of the clothing industry, is mainly some of the finer manufacturers of custom-made clothing and custom-made suites like Hart, Shaffner and Marx, but at a modicum of their former size, and military contractors who under the Berry Amendment are able to survive the onslaught of foreign competition.

In the textile industry since the last time that I testified before you, I note that only a few weeks ago, a very well-respected friend of mine who owns, whose family has owned Springs Industries for over a hundred some odd years, Crandall Close Bowles, announced that she was resigning as CEO of the company, and that she would stay on the board, but that family, which has owned Springs Industries, which was the third major home furnishings textile manufacturer in this country, was exiting, basically exiting the industry.

They now have a South Carolina-based company, in Fort Mill. They now will have 700, less than 700 employees in the state of South Carolina, all of whom will be in distribution, none in the manufacturing of textile products. And that company was sold, by and large, to a Brazilian company called Coteminas, which is now operating. But here we have the last of the real venerable textile families in the home furnishing side of the textile business exiting the manufacturing. There were thousands upon thousands of Springs' workers in this country at one point.

I had the opportunity to deal with this, and in some ways an honor of dealing with some of this stuff because of the workers that I have dealt with, as the chief negotiator for the union with Pillowtex Corporation, which we think of much more as Fieldcrest Cannon. Pillowtex was a small pillow company that bought Fieldcrest Cannon, after Fieldcrest had bought Cannon, and then he bought them, and we lost 8,000 members across the United States, the bulk of them in this state, in one day.

I distinctly remember it was a day in June when the company human resource officer called me and said, Harris, I can't believe what I have to tell you. I said what's that, Don, and he said, well, we have all the vacation checks: (In the textile industry, everybody gets their vacation pay on the same day for the whole year, traditionally before the shutdowns that occur on July 4.) He called and he said I have all the vacation checks written, and I've been told by the banks that we can't release them because they're not going to give us the money to cash them.

So if I give them to your people, they're all going to bounce. And I said, gee, Don, how can you do that? And he said I can't live with myself; I don't know how I can do it, but I've got to do it because this is what's going to happen and I hope like hell that you can fight for these people and do something.

I am still the head of the unsecured creditors committee at Pillowtex, and we have--I'm not going to talk a lot about it because there's some papers that were written by a gentlemen who's in this room and some other people about the rapid response to that, that I think really actually reflects a lot about Pillowtex, but I will say that we were able to, through the bankruptcy return $13.5 million to the collective group of employees, which made up for their weeks of vacation, which I consider to have been stolen from them.

That was their money that they got returned to them after they lost their homes and their jobs and their cars and their kids couldn't go to college. So a couple of years later, I stood up with the governor of North Carolina in a church in Kannapolis and announced the settlement, and people cheered and hugged me and kissed me, and I

looked at them and said, gee, what did I do? I just got you what you deserved and what was yours.

And we got a little extra bit of pay because there was no warning notice given. It was a despicable event, and it was a very tremendous tragedy. Almost all those workers, as the papers have shown, almost all those workers could not afford health insurance. There were no government programs available for them. What programs there were were totally inadequate, did not understand workers, did not understand the education level of these folks, many of whom tried to go to school, many of whom thought that they had to go to school to get the extended unemployment benefits that were there, and most of whom wound up taking remedial classes because they couldn't even read well enough to take the classes that they needed to take in order to get degrees and do the jobs that they have.

I know a bunch of them. I would say less than 15 percent of the Pillowtex workers, most of whom were in their late 40s, early 50s, had three of four weeks of vacation, had paid medical insurance that they maybe paid 20 percent of the cost of, had a pension plan that now is paid for through the PBGC, they had good jobs. And their kids were able to go to college and have decent lives and have a chance of living the American dream.

That's all gone. Now, they meet you at Wal-Mart and say welcome to Wal-Mart, here's your shopping cart, and they have no medical benefits and they're working part-time, and anybody who tells you that unemployment in North Carolina is the same is a liar and doesn't know anybody who is unemployed.

Those people are all underemployed. Those people are all suffering. And they continue to suffer by and large, and you don't have to ask a union rep that. You can just go out and meet those people. I got 26 seconds. I'm never going to make that.

HEARING COCHAIR FIEDLER: That's okay. Keep going.

MR. RAYNOR: I think that my point is not that people suffered. We'll deal with our suffering. As a union, we're going to stay on that bankruptcy. I would be proud to say publicly that not one worker, not one union worker has spent one penny being represented in the bankruptcy despite what corporations love to say about unions, how all we care about is people's dues and everything else. We represented those workers and continued to for years when none of them have paid dues to the union since 2003, and we will continue to represent them in that bankruptcy and continue to get money for them, and not one penny of that goes to my organization. It goes to my former members who deserve every penny of it, much more than Pillowtex did for them, I would add.

But at the end of the day, this didn't have to happen the way it

happened. Our union is not about saying that people in the rest of the world don't deserve to make a decent living, don't deserve to have jobs and that we can somehow roll back the clock of globalization. Everybody seems to paint this debate in black and white. You're either for free trade or you're against free trade and you're some kind of Neanderthal. In thinking about my testimony, I turned on the TV the other day, and I watched something that I think is sort of an example of what goes for civil and political and economic discourse in this country. I turned on one of the early morning news shows, and they were four talking heads. It was right after the market had just gone way down for the problems that were going on with the subprime issue and the Fed had just talked about changing the rates.

And so there were four people, and their idea of political discourse was to yell at each other across the TV screen, and the poor moderator was trying to get them to stop talking at the same time, and they were all saying the Fed shouldn't do anything, the market should take of this, the Fed should stay out of it, the Fed should leave us alone, as if Alan Greenspan, Bernanch and the Fed never existed.

I thought about them, and I thought about that imbecile who's on--I can't remember which station he's on--but that guy who runs around giving economic advice and smashes little balls and yells and screams and rolls up his sleeve. I think his name is Cramer; right.

HEARING COCHAIR FIEDLER: Cramer.

MR. RAYNOR: And that's what passes for an economist in this country these days. I think about those people and what they say about free trade, and I think about if we believed what they believe, which is that the market will take care of everything, what is the market? The market is about supply and demand. The market is about who has dollars or currency and who wants it.

It's not about poor people that don't have purchasing power. It's not about children who need schools and education and maybe don't want to work overtime in a sweater factory, taking the stuff home with them in Central America. It's about who has money. And we look around at what happened with trade in this country. It's our American companies--my friend from Goodyear is going to tell you about Goodyear in China--it's about our American companies that are operating all over the world, and those business leaders are labor statesmen, they're talked about in the papers, they're enhancing shareholder value, they're doing all these wonderful things.

Now that's capital. There's something else called labor. That's human beings. Let some poor human being who happens to live in Mexico walk across an imaginary line that we all created called the border and say you know what, I am willing to go into a country where I don't speak the language, where I'm going to be exploited, where I'm

going to have to borrow money at ridiculous rates of interest, where I'm going to have to shop in someplace that cheats me and that has prices four times higher than any other supermarket in my area because I have to walk, I don't have a car, I got to go from my trailer park.

I'm going to leave my entire family, my kids, my wife and everybody else, and I'm going to live underground, and this man, according to many of our politicians and my good friend Lou Dobbs, this is a criminal, a felon. I think they're heroes. I think they're somebody trying to feed their family and take care of their children and making an enormous sacrifice.

But labor has no mobility; labor has no rights. Labor is illegal. Capital goes all over the world, does whatever it wants, and they're heroes. I don't quite get it frankly. I took some economics when I was in college and this didn't make a lot of sense to me.

We don't have a trade policy that says if you want access to our markets, there is a price to be paid for that access, and that price ought to be that you have to do things properly. We don't care about what happens in China until the babies get poisoned with the toys with lead poisoning. Then all of a sudden, there is this big hue and cry, and we should regulate what's happening from China.

China is no different than any other country. All of a sudden, now we care about the standards in China, just like we cared whether we had sprinkler systems in buildings after the Triangle Shirtwaist fire, not before.

If our country were to use its economic muscle to say if you want to trade with us, then you need to have certain standards, maybe you need to actually pay the minimum wage that your country says it has, maybe you need to have standards about children getting educated and not working in factories, maybe there oughtn't be slave labor and maybe, God forbid, your workers ought to have a right to organize and speak for themselves, a right that we don't really practice very much in this country either, maybe all of those things ought to be what we do, and maybe, just maybe, if the United States enforced that as the price for access to our markets and our capital and our financing and our businesses going everywhere else in the world, maybe the people in those countries would say, hey, you know what, it's the United States that uplifted our standards, that created better education for our people, that did things that made us a better country, rather than it's U.S. companies that are exploiting our children and that are making them work in Nike soccer factories or sneaker factories or whatever it is that they've got, and look at our country as the ugly Americans rather than as the Americans that bring a positive side to trade.

So I'm sorry to have gone on so long, but I owe it to an awful lot of people who lost their jobs under my watch to try to express what I

think most of them feel. So thank you.

HEARING COCHAIR FIEDLER: Thank you very much. And we'll come back to you on questions. Darryl.

STATEMENT OF MR. DARRYL JACKSON, PRESIDENT, UNITED STEELWORKERS LOCAL 959, FAYETTEVILLE, NORTH CAROLINA

MR. JACKSON: Good morning. I'd like to thank you for the opportunity to be before you this morning and talk to you about this issue. This is something last year I spent five months in negotiations with Goodyear Tire and Rubber Company talking about the very thing that we're talking about this morning.

One of the things they wanted to talk about was shutting down a factory, and one of the factories they wanted to shut down, we started out negotiations, they wanted to shut down three factories in North America and to see anybody lose their job is difficult. When you see someone that you know and you love and you come to know over a period of time, many years, and you've seen them once or twice, three times in a year, you become close to them, and in negotiations this last time, I spent five months in Cincinnati, and they shut down, they announced that they're going to shut down Tyler, Texas at the end of this year.

Tyler, Texas is a factory that's very productive. They're reaching 100 percent of their goal everyday. They're in ticket compliance, very high in ticket compliance. They're one of the best plants that Goodyear has, so you might ask yourself, well, why are they going to shut down the Tyler, Texas plant?

The reason why they're going to shut down the Tyler, Texas plant is because Tyler can't compete with China. They can't compete whenever China can sell tires four for $99. It's just impossible to compete with that type of labor price when we have the labor price we have in the United States.

In 2003, I wasn't there, thank God. It was difficult enough negotiating settlement shutting down a plant in 2006. 2003, they shut down Huntsville, Alabama. So they shut down Huntsville, Alabama. People's lives are affected. Any time you shut down a facility--the Huntsville plant employed between 12 and 1,400 employees--any time that a plant shuts down, there's two percent of people that commit suicide.

We're not just talking about people's livelihood. We're talking about people's lives. I think, and this is one thing I've told my membership because we recently went through an 86-day strike--we went through this 86-day strike, and I told the membership, I said

there was two things the company promised me. I said, Goodyear, when I got hired 29 years ago, told me that if I worked 30 years, I could retire with a full pension and full medical benefits.

I said that's two promises they made to me. I said, so, therefore, I'm going to hold Goodyear to the promises they made to me. I said they never promised me they'd never shut your plant down. I said as bad as I hate it and as bad as I hate to see anybody lose their job, Goodyear never promised me that we'll never shut your plant down. I said that fight is with our government.

Our government has got to stop the bleeding. They have got to stop allowing our jobs going overseas. That fight you can't expect Goodyear not to go overseas when Bridgestone Firestone, Michelin, Uniroyal is going overseas, how can Goodyear not afford to go overseas if they're going to stay competitive in the market?

So therefore, that's the reason why I think it's such an opportunity for us here in the United States to do something about the imports that's taking place.

I will tell you this, in Fayetteville, we have been affected by it as well. Ten years ago or less we were the largest tire plant in the United States. We put out between 65 and 70,000 tires a day. By us putting out 65 and 70,000 tires a day and people were proud, people in that plant had a great deal of pride. Now, we're down to producing 48,000 tires. We're still very viable. We're still very competitive.

But the reason why we've reduced our ticket 15 to 17,000 tires is because of the low value-added tires. We can't compete with China. No company, no plant in the United States can compete with China, not in their labor costs. But you've got to look at the whole situation as a whole. You've got to look at it and say, just like I tell people everyday, you get what you pay for.

If you go and you hire somebody for $10 an hour and somebody right beside them is make $25 an hour, do you think that person making $10 an hour is going to do the same job as the person working beside the same person doing the same job at $25 and one is making ten? It's not going to happen.

You get what you pay for in life. And what we're doing, I think, as a society to the working men and women of the United States is we're saying we're going to do nothing till after it happens, and then when everybody loses their job, and I think at some point, we're going to become a third world country because we're continuing to allow our jobs to go overseas. I've been very fortunate to live a life and be able to prosper with a high school education.

I went to work at Kelly Springfield, used to be Kelly Springfield, now it's Goodyear. I started my senior year in high school. I worked third shift and went to school to graduate. I've been

very fortunate to maintain a high standard of living. I'm very insecure about the future of my children. I have two daughters, and my grandchildren that I don't have right now, which one day I hope to have.

I don't see the way the American people are looking at it and the way our government is looking at it protecting our jobs. We've got to do something. We must do something. And we must act now.

One of the other things we talked about in local negotiations or master negotiations was this: looking at trying to come up with alternatives when people lose their job, and what do we do as far as training them to be prepared to go out into the workforce and to better themselves in the market?

If we'll spend more time worried about not losing those good-paying jobs, then I think that's the right avenue to take. Respond, react before you need to respond. So if we'll do that, I think we'll be much better people.

I will say this, the China market has flooded the United States in the last two years. It's about a 40 percent increase, and as bad as I hate to say this, in the last four years since I've been union president at my location, which I represent a little over 1,800 members, I told the people, I said if our government doesn't do something about it, I said within the next ten years, you'll see two to three plants in the Goodyear family in North America, I said so we have to position ourselves to be one of those two or three plants.

Now, we have an opportunity from the state of North Carolina. We've been working on it for the last four to five months trying to get incentives from the state of North Carolina, 35 to $40 million incentive from the state of North Carolina, so Goodyear will invest 200 to $250 million into the workers and into the equipment at the plant to guarantee our future.

It passes the Senate and it passes the House overwhelming, and then we have a governor that decides that no, he's worried about protecting 750 jobs. It's nonsense. He's jeopardizing 2,700 jobs. It has to stop. We have to wake up and we have to use some common sense, and I would appreciate anyone that will listen to me to react to that.

Thank you.

Panel III: Discussion, Questions and Answers

HEARING COCHAIR FIEDLER: Thank you very much. First question. Harris, I'd like to talk about your comments on underemployment and the future prospects for the folks at Pillowtex, and the folks at Pillowtex are just an example of many, many other

members and folks who have lost their jobs throughout North Carolina.

How systemic is that underemployment and what is the North Carolina Economic Development Authority doing to bring jobs to those areas?

MR. RAYNOR: I can't speak as well as to what they're doing. I think that it is systemic. It relates to a number of issues and Darryl talked about some of them. You're talking about in the Pillowtex case and in most of the textile industry because it's a seniority based thing so we had layoffs before and the people who finally lost their jobs were the more senior workers, you're talking about people who are the product of the education system in this state and throughout the South in general.

Anybody who reads the papers can look and see what the SAT scores were for this part of the country and what we invest in education here. You're talking about people who went to elementary school 25 years ago, which magnifies this problem even worse, and I think that was one of the biggest issues that happened, is that our members came back, the members who went to the community colleges and tried to go into the training program, and they said this isn't for us, we don't understand, we don't read well enough, we don't do the math, we don't have the skills, we're embarrassed to be in these classrooms.

Adult education for people of that age in any one of these states is a pretty difficult task, and these are proud people who were making a living and they're adults. They don't want to go into a classroom and feel like children; they don't want to be embarrassed about the fact that they have to sound out words.

It makes training a very difficult thing. And so what we have, and then the other question is what are we training people for? Where is the growth in this country? The growth is in the service industry?

I'll be honest with you. My union, which used to be called UNITE when I started testifying before this Commission, is now called UNITE HERE. UNITE once stood for the Union of Needle Trades, Industrial and Textile Employees. We don't have very many of those. HERE is the Hotel and Restaurant Employees.

My best paid members right now are servers at Disney World who make upwards of 50, 60, $70,000 a year or more waiting tables at Walt Disney World in Orlando. That's a job and I have nothing against that, and I think it's a great thing, and I love having those members, but at the end of the day I've got to wonder, I've got to wonder what we produce at Disney World that somehow makes this country stronger and makes our economy more viable.

I say that with a real hesitancy because I don't want to in any way impugn my own members or the people who do that work because

it's hard work and they earn every penny of it they get. But end of the day, we're not producing product, and I really worry about that.

I think my members in Kannapolis, mainly the ones who got jobs, other than few skilled maintenance people, the vast majority of them are not in manufacturing any longer. They're in service industries and those industries tend to have lots of retail, tend to have lots of part-time employment and lots of uninsured employment, and that's what's happened to people. Most of my members do not have any insurance any longer.

HEARING COCHAIR FIEDLER: Carolyn.

CHAIRMAN BARTHOLOMEW: Thank you. Thank you both for appearing today and for the work that you're doing on behalf of American workers. In your experience, how would you rate the federal programs such as Trade Adjustment Assistance in terms of helping workers to adjust?

Are the benefits and eligibility criteria easy for people to understand? Is the application process user friendly? Is there enough assistance as people need to try to get into these programs? And do dislocated workers get enough information?

MR. JACKSON: I can't honestly answer that question, Carolyn, as far as to tell you on every answer, every question you ask there. I can tell you this: it's too late to wait till people lose their jobs to react. My suggestion would be is we need to respond prior to just like what I spoke about a few minutes ago. We've got a thing working on our agreement now in our master agreement called "Institute to Career Development."

It's a good procedure, but why do you have something in the contract that allows people to get prepared for their next thing, and even though we're getting ready to start it at our location because we know what's going on with the American workforce today, but if the government would respond and stop the bleeding that's taking place, that's the answer. It's not about more programs to help people to adjust, in my opinion.

I think it's to stop the bleeding that's taking place so that the American people can keep their jobs, and as my brother, Mr. Raynor, suggests, it was we are producing a product. The rubber industry is a product. Everyone in this room has to have tires to ride on their vehicles. If you have to have tires to ride on your vehicles, I don't want China building my tires. I don't want Russia. I don't want anybody else. I'm an American and I want to ride on American-made product, not to mention the safety aspect of it. I don't trust riding around on foreign tires.

HEARING COCHAIR FIEDLER: Harris.

MR. RAYNOR: Let me answer that in two ways. Number one, I

agree completely with Darryl about the idea of this--when we talk about these kinds of issues, for me it's kind of like, okay, well, what kind of casket are we going to have at the funeral and how are we going to comfort the bereaved. I'm interested in not having funerals.

But I think to talk about the government programs, my experience with government programs is they are the most worker unfriendly programs that exist. Somehow very well intentioned people in Washington design things that become such bureaucratic messes that nobody can navigate through them.

I think that part of the problem is that there's not enough worker input into what would work for us, just like the education programs that I describe at the community colleges where our people need to be educated just to participate in the program.

There were some very good community groups in North Carolina that helped us through. And I got to say to you the governor of this state and his staff from the labor department were wonderful to Pillowtex because we were right at the cusp of where there was a program coming in to provide people for benefits that had been passed by Congress. It was not enacted yet. It wasn't here, and they tried all kinds of things to get it to happen quickly in North Carolina.

But even when it did, the cost, what people didn't realize, they tried to do a tax credit. Our people didn't have the cash to pay for the benefit; what good is a tax credit. When you're talking about workers, you're talking about people have no money in their pockets. You talk about people who raided their 401(k)s. I know people who quit jobs just so they could get access to a 401(k) so that they could have cash.

This doesn't make sense to me. So I do think that there are some things that we can do, but I go back to what Darryl was saying before. I'm a little bit less about caring about where things are made. I realize that we have to make things all over the world, and I realize that citizens of other countries ought to have as many rights as we do. I want to have a world where everybody can prosper.

But I think you've got to have planning and you got to have control. And right now, we have a system that is hell bent on going with an unregulated marketplace. My union was formed on ending sweat shops. We had an unregulated marketplace and what that did was it goes to the lowest bidder. That's why China is doing so well, because China has the lowest pay. India is right behind them and other people.

If we had a trade system that said we could do this in a more planned manner, we could have time to plan about dislocation. We could have time to plan about educating people and at the same time we could use trade policy as a political tool to uplift the rest of the world. That's what makes sense to me.

What doesn't make sense to me is when people say that nobody in academia, nobody in government can do anything right, and therefore what we have to do is just let this Malthusian marketplace run the world. It just doesn't work; it's never worked. And if it did work, we wouldn't have unemployment insurance, we wouldn't have Social Security, we wouldn't have government programs, we wouldn't have the health and safety agency, we wouldn't have an EPA, and on and on and on.

HEARING COCHAIR FIEDLER: Thank you. Commissioner Wessel.

COMMISSIONER WESSEL: Thank you both for being here. We know what a tough job you have at times going back to your membership and translating some of the difficult things that happen in the economy that directly affect their lives. I don't envy you for having to do that at times.

Over the last 15 years, I guess, we've seen NAFTA, we've seen PNTR, we've seen a number of individual free trade agreements, and I think, I'll just say my perspective, is that they haven't necessarily yielded the benefits that the proponents have argued for.

We seem to be in a stand-still on most of this right now. That gives us an opportunity to try and rebalance the equation. As you've dealt with the companies out of Pillowtex, the others that have come and said we've got to shut operations, we got to be competitive, have they ever come to you to try and work things out in advance? Have they ever said we made mistakes in supporting these trade deals; we want to work with you on a new approach?

We're dealing with 23-year-old analysts on Wall Street who tell me they've got to eke out another penny of earnings, we've got to eke out another penny of earnings this quarter. We'd like to go to some other system.

What do we do positively? How do we change things at the federal level first? That's where the trade policies are made and then at the state level. Other than the burial insurance that many people view TAA and other programs, what do we do positively to stop this hemorrhage so that we don't have to turn to these people with the burial policies?

MR. RAYNOR: An interesting question. I've had a number of companies that have come to us. Pillowtex did. This was the second bankruptcy. It wasn't that it was unknown. We've had a number of companies come to us and say, look, we have to do things smarter and better and more efficiently.

End of the day, we've had a tough time succeeding in doing that because of the difference in cost between--again, that's why I say there's got to be some kind of a floor set that says these other

countries have to raise their costs by doing more for their people. But we have, and there isn't enough government money to support some of these kinds of programs.

I represented a manufacturer of synthetics fibers in Mobile, Alabama, a company called Courtaulds. The synthetics fibers industry in this country was the most automated of all of the textile industries. It was just an incredible operation. Very, very old-fashioned labor relations. We had this guy's job was there so you didn't touch this; he didn't move that over there.

And the company came to us and they said we've got to do some things. We brought in an employee workplace development consultant. We put into place a program, and I remember the manager of that company calling me one day and saying, Harris, you're not going to believe this, and I said what's happened, Dave? Are my people walking out again?

He said no, no, no. He said your entire executive board is out in the plant painting fire hydrants and stuff because we're having visitors coming in, customers. These are people who would have said that's the painter's work; I'm never going to touch that again. But we had by educating people and by giving them a real sense of what the business was doing and what was important for the business and treating workers as if they actually had a brain, rather than doing what most companies do, which is try to discipline people into doing what they're told rather than bringing us in as partners and explaining to us how the business is and what we've got to do and what the customers' needs are, we have the wrong kind of labor relations.

We did that, and that plant was closed. That plant is now closed and that work is now offshore, partly because we couldn't overcome the environmental costs that our country demanded of us here that was not demanded in the rest of the world. We couldn't overcome some of the wage differentials. We couldn't overcome the fact that the customers had left this country so the advantages that we have in producing here, because it's a fiber, right, so producing for the sewing industry that wasn't here anymore didn't do very much good.

But I tell you that manager who now works for another company in Canada called me one time and said, you know, nobody knows how great we did. We did everything right and it still didn't matter. So I do think if the government would support more of these kind of programs, and we could have started earlier, I do think there's ways of looking at this industry and doing some very, very positive things.

HEARING COCHAIR FIEDLER: Commissioner Videnieks had a question.

COMMISSIONER VIDENIEKS: I'm a -former member of street pavers and sewer diggers local in Tacoma, Washington. So my

question is going to be not necessarily anti-labor. What percent would you estimate are labor costs in the tire here in a U.S. as compared to labor costs in China? And what is the value added in China? Do they import rubber from someplace?

What I'm really talking about is the argument of environmental impact and the law as applicable to the production process. How much weight should we really be giving to the difference in labor costs in tire manufacturing?

MR. JACKSON: I would say the labor costs is somewhere probably between 60 and 80 percent of the cost per tire, at least--

COMMISSIONER VIDENIEKS: Here and there?

MR. JACKSON: Yes. Well, at least 60 to 80 percent. So if you take the American worker wage rate here and you take other countries here, it's hard to compete.

COMMISSIONER VIDENIEKS: Do the Chinese manufacture the entire tire?

MR. JACKSON: Yes. From what I understand they do.

COMMISSIONER VIDENIEKS: They import the rubber from some--.

MR. JACKSON: I have never been to a Chinese factory, but from what I understand they do the whole process the same as we do.

HEARING COCHAIR FIEDLER: We have.

COMMISSIONER VIDENIEKS: That answers my question.

HEARING COCHAIR FIEDLER: We were in the Goodyear tire plant in Dalian and if I recall correctly, the top wage was probably around $200 a month.

MR. JACKSON: We make a bit more than that.

HEARING COCHAIR FIEDLER: Yes.

COMMISSIONER VIDENIEKS: Well, that answers the question, 60 to 80 percent.

MR. RAYNOR: But there are some interesting things to say about that. It's clear that we can't compete on just hourly pay alone. Our U.S. minimum wage would make a citizen in China wealthy. So I mean there's no way that we can compete, but then you also look at what we call loaded labor costs if you're looking at true labor costs, right, and in the steelworker case, the UAW, we're talking about the cost of retiree benefits, we're talking about the cost of health insurance, but again, that's what I'm trying to say to you about trade policy.

This country saddles private industry with all these costs like health insurance. When we sit down and negotiate a contract--I think I'm speaking for both of us here--the first thing you do is you say, okay, how much do we have to feed the benefits cow and is there anything left over for wages; right?

When I talk to my brothers and sisters in Canada, they don't have to do that--right? In the rest of the civilized world, the responsibility of health care is the responsibility of an entire country and you pay for that through a different method of taxation. In the U.S., we have employment-based health care. We have employment-- in many ways we have a minimal retirement system and we have employment-based retirement.

I applaud the UAW for what they're trying to do right now in negotiations about the unions taking over the provision of retiree health care. Now whether they're going to be successful or not, I don't know. But I am a pension fund trustee and I understand something about how these kinds of things work.

The way U.S. pension laws have worked, it makes it very, very difficult for a private company to maintain a pension plan, which I would say to you is by far the best form of retirement, much better than the nonsense about 401(k)s, which I won't start about now.

But what we've done to reform pensions has actually been anti-pension and has forced many private companies to say we can't continue to carry these things on our books in the way we have to, and it's all about manipulation of finances. It's not necessarily about making healthy retirement plans. Luckily for us, we have multi-employer pension plans with the unions that have some real advantages that way.

But still it's a private system and I would say in this country probably 45 to 50 percent of labor costs is benefits.

COMMISSIONER VIDENIEKS: Right. Which are absent I guess in China?

MR. RAYNOR: Yes.

MR. JACKSON: Yes. That's one of the things we recently did in master negotiations with the steelworkers. We negotiated our health care because Goodyear wanted to walk away from the health care responsibilities and now it's been turned over, not to the steelworkers, but it's been turned over to an independent fund.

COMMISSIONER VIDENIEKS: But the question that Commissioner Wessel was asking, I think, was what should the U.S. government do? Maybe "P" is not a bad word, okay, or protectionism. But what specifically are the unions pushing for the U.S. government to do to not bleed?

MR. JACKSON: I think one thing Brother Raynor just said, he's very right in what he's saying as far as American, we have to, any time you go to the table--he's absolutely right--you go to the table, first thing you talk about his health care. Health care is a big important part of the process. If there's anything less, then we'll look at other things.

Normally there's nothing left after you get through with health care. It's not fair for Canada and different countries that don't have the same rules. I think one thing, to answer your question, is I think it's time that we look at a health care system for everyone in the United States so that we can make it a more even playing field.

MR. RAYNOR: Let me also respond to that a little bit if I can.

HEARING COCHAIR FIEDLER: Sure.

MR. RAYNOR: I don't want to sit here and say to you the unions have the answer. We don't have a clue what to do, and half the time we're as jingoistic and protectionist as anybody else and ought not to be.

I think the question is, number one, we've lived for eight years under the most anti-labor administration in my used to be not so considerable lifetime, I guess considerable lifetime now. And so there is really no input into government policy from working people, which only have a way of having input from labor organizations; I guess we can rely on Elaine Chao to tell us what workers think. So we don't have any kind of effective input, number one.

Number two, we have to get our act together, and we have to get our act together, I think, between labor and academia. I've spoken at a number of conferences about globalization--at universities--and we, again, there's a whole right segment of the Republican Party and some of the Democratic Party in this country that basically have become the "know nothings," and they don't believe that people can plan and think their way out of the economic mess that we're in.

But very simply--and I think we all know this-- we've got a global economy that we're trying to regulate through national institutions and it doesn't work. I didn't elect anybody to the WTO, but they have an awful lot to do with everybody's life in this room.

So we're so far behind where the economic system is, I don't want to pretend that labor knows what to do with it; I can’t snap my fingers and tell you a magic solution. But I do think that we need to begin this kind of debate and under this, the present government that we have in this country, their ain't no debate. It's those yelling screaming guys on CNN or the cable news networks or Fox and the ignorance caucus.

It's a guy in Atlanta, one of the most popular radio personalities, who talks about government schools like that's some terrible sin. All the rest of the world would love to have government schools, any schools. I just don't understand what's happened.

HEARING COCHAIR FIEDLER: Larry.

COMMISSIONER WORTZEL: Mr. Raynor, one of the points you made really got me thinking about these older workers that lose jobs and —their 30s, 40s, 50s, who can't read, are frustrated, can't do math.

I quit high school when I was 17 years old, went in the Marine Corps. Got sent overseas, first sergeant called me in, and I guess was a PFC, and of course, being a young man, the first thing I wanted to do was get off post, get off the base, get downtown and go party with the other marines and my squad, and he said I see you quit high school. And I said, yes, I did.

He said you're not getting off this post, you're not getting a liberty pass until you get a GED. And he called in a platoon sergeant and they picked a bunch of guys from the squad or in the platoon and said, okay, you're going to work with this guy in English, you're going to work on math, and by God, within about a month, I was going downtown getting drunk. And that was my goal.

What I don't understand is how as an organization you unions can let a man or a woman go to the age of 30 or 40 without those skills. I'm very interested if you could describe what you as a union do? Here this first sergeant said you're just not going to do anything. How can you let a person be a full union member and get through an apprenticeship without the basic skills to do a checkbook?

What are you doing for these people? Do you have internal programs that say we're going to help you, but you're not going to be full union member until you can read and write and add up a checkbook? Can either of you talk about those kinds of programs in your unions? Do they exist?

MR. JACKSON: Yes, let me respond to that. That's one reason this ICD that I'm talking about, this was a negotiated benefit we just come up with in 2003 for the union members, and I say union members, anyone that works in the plant. Unfortunately, working in North Carolina, a right-to-work state, it's hard enough anyway to get people to understand the right thing to do is join a union.

So when you go start putting restrictions on telling somebody you're not going to do this and we're not going to let you do this, they'll tell you, fine, I didn't really care to join your organization to start with. On top of that, then they'll look at it and say, well, we're going to get the benefits and we're going to get the wages anyway, so you keep paying our way. So that's the first point.

Second point is the only reason I supported this ICD, and this was a negotiated item, was because I had mixed emotions in supporting it. It's the Institute Career Development. It's a good thing, but when workers are having to pay more for their retirement, your benefits are going up and things of that nature, I had a major problem with the ICD, us doing something. If you've got steak, then put something else with that steak, but when you're eating hamburger, I really had a difficult time.

But to answer your question, now with us starting this ICD

program, we're going to open it up and ask the membership in the plant what they want to take. You're exactly right because the best workforce you can have is an educated workforce, whether if that's all they ever do in their life. Just like Brother Raynor said over here, a lot of people are too scared to tell someone they can't read or they can't do the basic skills.

This is one thing that we're hoping to do in this ICD career development, is to be able to open up basic courses so people can further their education just to have the basics. It's just like the other day my wife and I, we both have strengths and weaknesses, and her weakness, one of her weaknesses--she has many--of course, nobody quote me on that--but we were somewhere and she was shopping, and it was 40 percent off, and getting there, and it was additional 20 percent off, and she looks at me and she says how much is that going to be? I'm the type person, when it comes to numbers and math and things of that nature, I couldn't imagine not knowing in my head exactly what it was prior.

And so this ICD will help the membership, it will help people, like you said, people that's 50, 55 years old, that would like to be able to do the basic things in life so that when they get grandkids--

COMMISSIONER WORTZEL: They want to get to 50.

MR. JACKSON: Yes. Don't let them get to 50--

COMMISSIONER WORTZEL: Like that. Yes.

MR. JACKSON: Unfortunately, that was a society that 50 and 60 and 70 years old, that some people did go through the cracks. And I'm not saying that it doesn't happen at 30 and 40. It can happen at 30 and 40, but it's a whole lot less susceptible to happening today in today's standards.

MR. RAYNOR: Think about your life experience that you just described. This happened to you. You said you dropped out of high school so I imagine you were 19 or 20 years old.

COMMISSIONER WORTZEL: 17.

MR. RAYNOR: Okay. At a time in life when you could still change and still have an effect on your life. When you are dealing with people who are 45 and 50 years old, and you have to understand the textile industry, there are no apprenticeship programs.

COMMISSIONER WORTZEL: Well, that's my question. What are you doing today for new people?

MR. RAYNOR: The textile industry and the apparel industry didn't ever have these things. People got trained. You don't have to have a lot of education to put your foot on a sewing machine and sew. You didn't have to have a lot of education, and there wasn't a class on how to weave or how to run a creeling machine.

So people learned. They were trained on the job. There was on-

the-job training. They were trained by other people. The problem is that they're very productive and they're very good, but they have very specialized skills. We had maintenance mechanics who could fix the most complicated equipment, but couldn't read a blueprint. When all of a sudden we went to having computerized processing equipment, they couldn't repair it anymore, right, because they were used to working--it's like a car mechanic.

You probably know plenty of people who can time a carburetor and to make a car run and change the points and all that kind of thing. You don't do that anymore. You drive up to the place; they plug it into a machine and all of that stuff is done.

So, number one, these are very, very difficult issues at that age in life. Number two, as he said, we're right-to-work states down here. You don't tell our members what to do; you ask them what to do. In your case, the military had a good ability to tell people what to do.

HEARING COCHAIR FIEDLER: Yes.

MR. RAYNOR: But we're not the military. So we've got to do some things differently, and I think part of that is the responsibility of the general society. All we have to fund these kinds of things with is either money we can negotiate from the employers, which then adds to the burden of their labor costs, or using our own union dues, which in a state like this where you've got to fight for every single member, where you have to represent everybody in the workplace, but yet none of them have to pay for that representation. It's a very, very difficult process for unions to survive in the South and it's why many of them don't try.

MR. JACKSON: One last thing to respond to that, though. In today's technology, you're absolutely right. In today's technology, you can't take the basic worker like go over there and show him anymore, you go over here and lift this and do this. Now, it's here. You've got to have a whole lot more advanced technology.

So that's another thing with the ICD program that we're going to be working on to try to get people up to par with the technology of today.

HEARING COCHAIR FIEDLER: Yes, your turn.

CHAIRMAN BARTHOLOMEW: Thank you very much. This is a very interesting panel and I feel like I should note for the record that while Commissioner Wortzel might have partied a lot when he was a child, and he still has a bit of a reputation. He's now the most educated of all of us and has a Ph.D. and is actually an expert on China and a number of other things.

Darryl, I also really wanted to mention, of course, that you know that George Becker, the former President of the Steelworkers, was a very cherished and valued member of this Commission. Our 2006

Annual Report was dedicated to him.

He paid a lot of attention to the working conditions and the rights of workers in other countries. What you could tell us about what are you competing against with workers in tire factories in China?

MR. JACKSON: First of all, we're dealing with the mentality that you go to work and you do what you're told to do. I'll compare it a little bit to Smithfield here in North Carolina. They don't have a union there at Smithfield and sometimes--the reason I know this for a fact, not just media, is because we've had some workers to come from Smithfield Packaging that have recently--we've hired about 360 people, and they've told me some horror stories--be standing in water and they say something to their supervisor about it, and the supervisor will tell them, hey, you keep working. Your options are keep working or quit and go home, whatever you want to do.

Same working conditions, I think, overseas. I think a lot of times that they're not monitored. They're not under the same type of conditions that we are here in the United States, and I thank the Lord everyday for a union, and I constantly make this point to my membership.

If I owned a company, an American company, there would be no need for a union because I know how to treat people. Unfortunately, today's corporations, it's all about the dollars; it's all about the one more tenth of a percent; it's all about what Wall Street says. And it should never be about what Wall Street says.

It should always be about the workers; it should always be about being fair and treat people fairly. That is the problem that we're having today, is that we're competing in America where we try to treat people as human beings, whereas in other countries, they don't treat their people with respect and dignity. They treat them with anything less than you and I would call unacceptable behaviors.

Therefore it's very hard to compare United States versus other countries because we're just on total different, in every aspect. The brother mentioned earlier as far as, even environmentally. We have so many restraints that are put on corporations today, you can't mess with the redpecker. You can't do anything. You can't touch this tree here, and overseas they don't have to compete with that type of thing. And so it's very difficult for the American, even as a corporation, it's hard, it's very unfair for them to have to compete in the market overseas.

HEARING COCHAIR FIEDLER: Harris.

MR. RAYNOR: Again, the answer to that is not to say let's blame the woodpeckers. The answer to that is to say let's get the rest of the world to stop polluting the air and the water, and we've just seen all this stuff of the lead-based paint and everything else that came

in from China, and the pet food contamination and all that, that says, hey, we should be using this to bring everybody else up to these standards, not let sink to the lowest common denominator.

So I think that there are, there are a lot of things that we can do, and I think our members will do a tremendous amount of things when they're asked. They do very, very little when they're told.

I think one of the things that has to happen, and one of the reasons that I love having unions, is because when people are represented, they have a right, they have a right to say no.

Unfortunately I have stories of things that don't work, but at the last Pillowtex negotiation before the bankruptcy, the company came to us and they said we cannot give a raise. We're in big trouble, and we're negotiating. We had just organized this company a few years ago. We were bragging about the biggest election of a textile industry in the South since J.P. Stevens, bigger than Stevens actually.

And the company came to us and they said we can't give a raise, and I said, look, I've got an 80 person negotiating committee that's here, you're going to have to convince them if you can't give a raise that there is hope for this company and there's a reason to do things. And I asked the president of the company to come to negotiations, to lay out his business plan that said this is how I think I can save this company. He was a guy named Mike Gannaway. He was a very decent man.

He came, he laid out that plan; it was a cogent plan. It didn't work, partly because of Wal-Mart, and partly because of China coming into the WTO in 2005. He laid out that plan and he got those workers convinced that it wasn't a sure thing, but if we had a wage freeze, we would give it a shot, and the company met us halfway. And they agreed when we said you’re going to freeze wages, then you can't raise what we pay for benefits.

And so all right, they froze the insurance portion and they took the risk there; we froze wages for three years. At the end of that meeting, it was really amazing to me, my entire negotiating committee, it was all workers from the plant--these are not paid union officials--got up and stood up to a person, to a man and a woman, and applauded a negotiation where they had just frozen wages for three years, and the head of the company's negotiating committee came to me and he had tears in his eyes. He said I can't believe what good people these are.

One of the workers came up to us and said no president of the company ever asked me for my help before; of course I'll give it to him; of course I want to save my job. I just want to believe that this guy has a plan that goes beyond screwing me.

It doesn't take much to treat people with respect. It's usually pretty free as far as I can tell.

HEARING COCHAIR FIEDLER: Commissioner Wessel, you had a question.

COMMISSIONER WESSEL: No.

HEARING COCHAIR FIEDLER: I talked in the earlier panel about words, and see if I'm off here or not. You often get called protectionist because you're trying to protect jobs. Someone who's trying to protect their intellectual property doesn't seem to be a protectionist even though it's international property protection.

Free trade has always struck me as an easy concept. You sell us what you make and we'll sell you what we make doesn't take a lot of lengthy documentation to come up with it. Complicated trade agreements seem to me to be less than free, and so you were earlier talking about the debate, the jingoism that goes on here. There seems to be very little concern for the meaning of actual words.

All right. And so Trade Adjustment Assistance--burial insurance, as you put it. These words have different meanings, and I think in our debates, we have to actually think whether these words mean what they are connotatively intended to mean. And I think you've done a great deal today in terms of talking about the human impact of this and, yes, we've heard lots of statistics, but in fact, the human impact is not yet fully described, and I want to thank you guys for going a long way to doing that.

Thank you.

MR. RAYNOR: I appreciate it.

CHAIRMAN BARTHOLOMEW: Thank you, gentlemen, for appearing before us today. The Commission is going to take a short lunch break . Many of the people in the audience are aware that there's a nice cafeteria in the building to the right as you walk out of the main entrance, and we hope that everybody will be able to return and join us again for this afternoon's session that will begin at 1:15. Thank you.

[Whereupon, at 12:35 p.m., the Commission recessed, to reconvene at 1:20 p.m., this same day.]

PANEL IV: CASE STUDY OF CHINA'S IMPACT ON THE NEW ECONOMY

HEARING COCHAIR HOUSTON: If everyone will take their seats, we'll get started. Welcome back to the U.S.-China Commission hearing here in North Carolina. We will now hear from Michael Chen, Vice President of Corporate Marketing at Red Hot--Red Hat--red hot--that wouldn't be so bad either--

Red Hat Software which is headquartered in the Research Triangle Park. Mr. Chen was instrumental in establishing Red Hat's

offices and operations in China when he was General Manager of Red Hat China.

He will talk about what it takes to be a successful competitor and exporter to China. It is important to note that although China does send us $6 of exports for each dollar that goes out of the United States, trade with China is not just a one-way street.

Mr. Chen is well-known in Raleigh-Durham-Chapel Hill area. He received his MBA from UNC, a master's degree in computer engineering from N.C. State and a bachelor's from Nanjing University.

Mr. Chen will provide us with Red Hat's case study on China's impact on the new economy, or perhaps what many would consider making lemonade from imported lemons. Mr. Chen.

STATEMENT OF MR. MICHAEL CHEN
VICE PRESIDENT OF CORPORATE MARKETING, RED HAT SOFTWARE, INC., RALEIGH, NORTH CAROLINA

MR. CHEN: Thank you, Kerri. Thank you, everybody, for your time. I think it's a great opportunity for me to sit here and share with you some stories, and whether you define that as a good or bad, lessons were learned from China. So I think a little more background about Red Hat.

Red Hat is North Carolina Raleigh based software company. We're the number one open source software provider in the world. Today we have 70 percent of the Linux software market share around the world, and we are currently operating in 58 countries, but our product and services are provided in 117 countries around the world.

It's a company that's growing very fast as well, the fastest growing software company in the country, and right now we have about 2,000 people worldwide. Last year, our revenue is $400 million and we're growing at 40 plus percent on an annual basis.

I joined Red Hat about four years ago in 2003. When I joined Red Hat we had about 600 people. So talk about globalization, I think globalization is something that's inevitable. When I joined Red Hat, Red Hat, our CEO and current CEO as well, Matthew Szulik, has a very strong opinion that we have to have 60 percent of our revenue coming from outside of the United States.

It's a very bold statement where I think the entire company has been rallying around. Today we are at about 50 percent, somewhere between 40 to 50 percent coming from worldwide, Asia-Pacific, India, and Latin America.

There are three key points where I want to talk about in North Carolina and China. I think the first one is globalization, like I mentioned, is inevitable. No matter if you like it or not, it's here.

Instead of having some kind of a defense strategy, I think just face it and starting to think about what's the right business strategy and global strategy to go afterwards. That's my point number one.

Number two, if you look at China specifically, this is a country which has a sixth of the population around the world. When China gradually opened up--I was born and raised in China, by the way. I grew up in a place where we had no bathroom in our house, no refrigerators, no TV, television, in my house. The entire country was in totally different shape, but today if we look at China, everybody is driving a Ford, a GM, I think right now GM is a very popular. Buick is a very popular brand in China.

And they're running on Goodyear tires. Everybody is drinking Coca-Cola. If you go to Beijing you can see hundreds of McDonalds. I think that's my second point, is that when China grew and China became an economic superpower, it generated a lot of demands.

There's a difference between China and India. China is a very centralized controlled country. So if you look at the policy of China, they have a very strong central government that controls the tax dollars. What the central government can do essentially is take the taxes and starting to spend a lot of this money into the infrastructure.

China today has the second-longest in terms of the mileage highway system in the world, just after the United States. The port system, electronic system--everything infrastructure-wise is in pretty, in very good shape.

That generated a lot of internal demand. And that demand is a very attractive marketplace for a lot of global players including a lot of North Carolina companies such as Red Hat. That's my second point. So China is a place where there's a lot of internal and domestic demands that are waiting for good services, get products to tap into.

My third point, is essentially for a software company like us, we use a development model we call open source development model. Open source, unlike the proprietary software such as Microsoft, where you have 40, 50,000 people sitting in one room in one company and develop software in that way, Red Hat we have anyone of our competitors is about 30 times of my size.

Essentially my R&D team today is very small, but how come we can have the same quality products as many other companies? That's because we're using a community. So it's not only Red Hat but also the Intel, the IBM, the AMD, all the companies global-wide, NEC, NTT in Japan as well. They contribute into this community and where we collaborate and where we produce and we challenge each other so we can get the innovation faster. We can get the quality better.

That's how we develop our software. Essentially if you look at that development model, there's no boundaries. It's not a U.S.

controlled community. It's not a Japan controlled community. It's a worldwide community.

Taking that as an assumption, we have to think about what's the supply chain for open source and how can we tap into the global communities worldwide. We found that China has the best engineers. It's one of the places in the world that they have the best engineers and the very disciplined working philosophy where we currently I think we're growing our R&D team in China at a very fast pace.

Look at the supply chain, look at the ecosystem and find a place where you can leverage the strengths of Chinese economy and Chinese talent. I think that's my third point.

Red Hat has done a very good job in terms of entering into China and have a very strong strategy on globalization and it's started to build our capacity and our competitive advantage by leveraging Chinese community and tapping into Chinese marketplace.

With that, I'm going to close my statement and wait for any questions you may have.

Panel IV: Discussion, Questions and Answers

HEARING COCHAIR HOUSTON: Okay. Great. When we were last in China in April, we went to Dalian which is building a huge port. There was an enormous software park there, which was somewhat subsidized by the government as far as land and building the infrastructure and those kinds of things.

Does Red Hat have a presence in those new software parks that are popping up all over China, and what benefit, if you look at participation in China for Red Hat, what direct benefit do you see coming back to the U.S. as far as exchanging of ideas, exchanging of personnel, those kinds of things?

The other question would be what about intellectual property? Do you have any concerns or problems with IPR because of your business model that does or does not apply to you?

MR. CHEN: Thank you, Kerri. I think the first question is about benefit. Yes, the Chinese government, I think in China today from what I know, they have 34 software parks and at least seven to eight of them have very strong government background and very strongly subsidized by the government.

Just take an example, Suzhou Industrial Park. The entire operation tax in the park can be, I think they have 15 percent as the entire tax you have to pay versus outside of the park, you have to pay normally 30 to 40 percent of the tax. So, yes, they are using this. They are building a lot of software buildings where they give you the free rental so you can stay there for three to four years. They attract a

lot of people coming from overseas to start their own companies in those parks.

Our strategy Red Hat in China is not to go and take advantage of all those policies. I think the best benefit we can get from China is tap into the community. We actually formed this open source innovation center where we have our best engineers. We recruit some of the best talent in Chinese Linux community to become the thought-leader in China where we're starting to connect the Chinese community and global community.

For example, on the Linux kernel development, right now probably one of the top two developers in the world, one is in the U.S., one is in the UK, and then we were able to hire the third one in China based in Beijing, working hand-in-hand with the other experts in the world and to develop a kernel-based Linux kernel.

I think that's how we can get the benefit from China. I think because of the business model is so different, that we are trying to focus on the intellectual property side so the talent, the people and the skill set of Chinese community.

Coming back to the intellectual property, I think Red Hat unlike the proprietary software company where they have a very strong patent in the IP department to protect, that's the way they're trying to hold on to their competitive advantage. Whereas, in Red Hat, we follow a licensing model we call GPL, which is general public license.

So under GPL--does anybody have any background on GPL?

HEARING COCHAIR FIEDLER: No. Please give it to us.

MR. CHEN: Very simple rule. There are three things that you have to do. You can freely download. You can freely redistribute. You can freely use the software that's under GPL license. But there's only one condition. So whatever change you make in the software, you have to put it back into the community.

That creates, like I mentioned before, the open source development model. You can take this core, take this Linux kernel and start to do things in your own way and put your change, and put your updates back to the community so everybody can share.

With that model, we are not so concerned about the IP issue in China. I think the best thing that we can leverage in China is actually to leverage their talent, to build a global community, where we can innovate faster, we can build better quality software. So on the IP issue, I think we don't have such a big issue as many other companies.

HEARING COCHAIR HOUSTON: Thank you very much for your answer. Commissioner Wessel.

COMMISSIONER WESSEL: Thank you for being here, and I apologize for asking a couple of naive questions to understand the GPL and the Linux system, et cetera.

Am I right in understanding your operation as somewhat of a clearinghouse for Linux developers? You said that it's freely available, freely downloadable. It's a community operation. What's your revenue based on if anyone can download it for free and develop it? Are you the clearinghouse for people coming back and saying here's a change that needs to be done? That your company evaluates it quicker and redistributes it and people pay for that distribution? How does, what's the revenue model that you're operating on?

MR. CHEN: About eight years ago, a group of execs went to Virginia and went to kind of an outdoor activity. They ran into this gentleman in Virginia and basically asked the same question.

What do you guys do? They said we sell free software. I said, well, that's hard. So the business model, I think, essentially if you look at the software business, the knowledge is supposed to be open; right. If you look at all the poems, all the great articles from generation and generations before, those are the knowledge that the entire human beings can share.

Today, the software is the same thing. If you look at certain programs, the way you put it together, the way you put all the certain functions together, I think it's common across the board. So the value of holding on to software and sell that as a product is decreasing.

However, the real value comes from the maintenance and the service and the ongoing support of that software. I think in recent years, you've heard this term "software as a service." That's where I think we really give the power back to the customers and let them decide how they should pay for the software.

If you look at the cost for producing the software, it's basically, I think the initial cost, the fixed cost is big, but the incremental variable cost is almost to zero; right. But if you look at the use and also the deployment and implementation side of the software usage, I think there is a lot of investment in there.

If I'm a company who is running multi-million dollar in operation on a core system, I don't want this system to go down. If there are any issues, I want that to be fixed as soon as possible.

If there is any security issues, I want the updates and the security bug fixed immediately, instant on time. Those are the values, and whenever there's a value, there's a need, and for business people, that's where you should focus on to produce your value, to help the customer to recognize that.

COMMISSIONER WESSEL: So should I be looking at your product more as a service than as a software? Going back to the earlier questions and the question of IP, you want to have Linux, Red Hat Linux distributed as broadly as possible so that you can provide the service if a company wants to protect its core operations, get any

kind of support they need? Is that?

MR. CHEN: In a nutshell, yes. But we are selling this as a subscription.

COMMISSIONER WESSEL: Okay.

MR. CHEN: Think about a magazine. When you pay $3.95 for the Time magazine, you are not buying the media; right? You're not buying for the paper. You're buying for the content, you're buying for the brand and you're buying for the services you get from that.

This is true for Red Hat. So it's not only a box where you go back and a registration number; that's the money. I think the money is the unlimited phone support, 1-800-Go-To-Red Hat, unlimited support. Unlimited updates on whatever the new updates come out but fix instantaneously push to your machine. So we package all those together. We call it an annual subscription. You can buy it for one year, two year, or multi-years, and that's essentially our business model.

COMMISSIONER WESSEL: So the semantic or one of the other virus--a free virus platform, you're providing the updates and the service and support long term.

MR. CHEN: Yes.

COMMISSIONER WESSEL: Are Chinese companies competing with you in terms of trying to provide service for your product and is that a violation of any of your core rights?

MR. CHEN: I think the competition comes back to how do you want to compete? Yes, we do we have competitors in China. We have a competitor called Red Flag. That's a funny name, but essentially what they do is, remember GPL, right, so they can take our code base freely and take that and get rid of all the trademarks that Red Hat has because that's owned by Red Hat. So put out all the trademarks and put on a Red Flag trademark and say this is Red Flag Linux.

What they forgot is they thought this is a product-based competition so they made this and they pushed this to the market. Whenever a new box, a new update comes out, they cannot keep up. They just cannot get the instant service to the customers.

That's how we win that. They forgot that the competition is not only about product but also about the business model.

COMMISSIONER WESSEL: But you said, and I apologize, just to go over it once--

DR. GEREFFI: That's okay. We have time.

COMMISSIONER WESSEL: If you said that the community developed some of the updates and they're freely available, I assume, through chats and the community rooms and all the various other things, can they not supply the similar updates to what you're doing or are you also doing a lot of internal development?

MR. CHEN: Theoretically they can, but I think the development is one thing, and also the quality control, the certification with thousands of hardware and software vendors. Those are some of the value that Red Hat can provide with our brand name, with our global appearance we have the best ecosystem in the world.

As I said, it's not only about a box of product, it's the entire supply chain, entire ecosystem. It comes back to what I said earlier. If you think about North Carolina and China, and now I heard a lot of people talk about that China took away because their labor is cheap, the price is cheap, but for example, if we really look at industry, look at ecosystem of the industry, I remember I read an article either in Business Week or Time talk about the entire supply chain of a clothing company.

For example, if the retail price is US$100, I think a lot of the value is recognized by the brand, by the design, and by the distribution of these clothes, and the manufacturing part of it, it's very minimum. So I think if you look at the entire ecosystem, as a business leader, you have to think where should I put my effort and invest my energy so I can get the best return?

I think that's a different argument. It's purely business focused. If you have any interest, I'd love to explore that further off line.

HEARING COCHAIR HOUSTON: Thank you very much. This is a great learning curve for us. Commissioner Fiedler.

HEARING COCHAIR FIEDLER: I want to explore the intellectual property question again. So do you have any property that you consider to be intellectual property?

MR. CHEN: I do. For example, there is some company, so our licensing agreement, our subscription agreement basically says for each server that you use our operating system, you have to purchase one subscription.

We have customers who, let's say, buy one--

HEARING COCHAIR FIEDLER: And load it ten.

MR. CHEN: And load it up on hundreds of machines. I think there are two strategies we took. One is I'm a strong believer that if I cannot provide value to the customers, there is no reason why I should get the money from them.

So oftentimes it's not that they want to do that; it's they don't fully understand what the service and support we can provide to them. We have one of these customers in Shenzhou in China--when we really approached them and showed our technical expertise, they are overwhelmed by our capability to help them to solve the problem.

This one case, their entire data, I think that's their active media data got deleted in an accident, 14 tigabytes [terabytes?] of data got deleted, and we took about 24 hours to recover 90 percent of that data

for them, and 48 hours to recover everything, and after that accident, the customer totally turned around and said this is your value. This is how much I installed last year; this is how much I should pay you.

So that's one strategy which is really to understand what their needs are to provide our value and to show our value.

The second strategy is actually still working with the Chinese government. I think the Chinese government has put in a lot of pressure to focus on the IP issue. I think the overall situation is improving. So we are working with the Chinese government bodies and to lead them to understand what a subscription model is and what our economic model is.

I think we've done a good job in terms of educating the government so that they can start to have some policies to support our business model as well.

HEARING COCHAIR FIEDLER: Do you have Chinese government customers?

MR. CHEN: Yes, we do.

HEARING COCHAIR FIEDLER: Do you mind telling us which ministries or what areas of the government is using open source?

MR. CHEN: I think we had talked about the government customers. They have two major camps. One is the state-owned enterprises, and these are the groups, for example, the Bank of China, China Construction Bank, China Telecom, China Mobile. These are more of an enterprise type, even though they are owned by the government, but they act like Western companies.

These companies are pretty much the same. They want industry expertise; they want best technology. We have a lot of customers like this.

There's another camp which is purely government agencies. For example, Ministry of Finance, Ministry of Quarantine Control. The Ministry of Finance has their entire analytical system and high performance computing environment running on Red Hat. I think that's another area where they focus more on the capability, on the best technology, versus where does this software come from.

Essentially what we want to position in China is open source doesn't have a boundary. It's not a U.S. open source; it's not a UK open source. It's the entire world's open source.

The value comes from the service and support we can provide at the end user that way.

HEARING COCHAIR FIEDLER: Thank you.

HEARING COCHAIR HOUSTON: Mr. Chen, you'd be interested to know, two years ago, we want to visit MOFCOM, and they told us there was no actual IPR violations in China, zero, none whatsoever. We should all go home and not worry about it, and then this year, they

found out that there actually were. They admitted that there were IPR violations and they were working on fixing them.

So perhaps somewhere between two years ago and this year, they found the value of Red Hat. Maybe that's why they decided they shouldn't use pirated software anymore themselves. I don't know.

Commissioner Bartholomew.

CHAIRMAN BARTHOLOMEW: Thanks very much. Thank you, Mr. Chen. This is very interesting, and parts of it are very difficult to comprehend--the workings of the virtual world. I shared Commissioner Wessel's question, but I would have asked it in a much more simple and direct way, which is how do you make money? But it sounds like it's through the subscription fees.

I lived in San Francisco during the dot.com boom and was there for the dot.com bust. So I find myself still sometimes trying to really understand what these products are. But I have a different question for you.

You mentioned both that open source doesn't have a boundary and you mentioned the importance of connecting the Chinese community and the global community. There are a number of people in the Chinese government who are interested in not seeing that happen in terms of controlling content of what's going into China and what access to information people have.

Do you come up against those issues and if so, how do you handle them?

MR. CHEN: You mean the content within the software?

CHAIRMAN BARTHOLOMEW: The Chinese government tracking of who is using what kind of data, Internet police, limited numbers of routers controlling information going in and out of China, and sort of control over access to the free flow of information, which is really what the promise of the Internet is.

MR. CHEN: At an infrastructure level, a software company, so if you think about the IT world, we have the machine, right, at the bottom. Then you have the infrastructure software operating system, middleware, some of the database; and then you have your applications. I think today a lot of that control happens at the application level and also at the Web base--the Internet content level.

To us, it's less of an issue. But we do see in certain cases where the customers, they don't want to tell us anything about their applications. There was one case we're working with Chinese Army. I think all we know is there's a big order, big deployment; this is how much the POS, and that's it. Don't ask more.

So our approach going to a different country and doing business over there, you always have similar issues. Our approach is we do what we can the best and we leverage our partners to do that. So we

do have a very strong partner network in China.

We believe that the infrastructure level, the software itself, like I said, it's community-based. It's commoditized. It's supposed to be shared worldwide. However, the real value creation comes from the applications, comes from the top layer. So our approach in China and our position in China is this is actually a good way, you know, the open source and Red Hat is a good company and good software to enable Chinese government to build a local software industry on top of this infrastructure software.

And because our standard is open, our interface is open, our code base is open, you can go and download and see all the code of our software, it's less of an issue where they think you might have a back door. You might have a security issue in the software. I think that's actually our advantage, going into a market such as China.

CHAIRMAN BARTHOLOMEW: Can I ask a question in a slightly different way? Are any of Red Hat's applications increasing the ability of the Chinese government to censor information that isn't available to Chinese consumers?

MR. CHEN: I think right now, I don't think that's directly related. So if you have to find a connection, you would say all the computing power would enable them to do that; right. And all the computing power consists of the CPUs, the machines, and the operating system.

Most likely some of those operating systems, there's one or maybe ten or 15 percent of that is Red Hat. But I don't think as a company, we don't have the strategy to go and say this is the direction we want to go and this is how we want to handle our business. We're focusing on how can we improve the computing power and how can we improve the performance of people's machines?

And many times, if it's very government related and like I said, it's mainly our Chinese partner to deal with the issue; it's not Red Hat.

CHAIRMAN BARTHOLOMEW: Thank you.

COMMISSIONER WORTZEL: You've described your major Chinese customers. How about here in the U.S.? Do you have a major customer base here in the United States?

MR. CHEN: Yes, we do.

COMMISSIONER WORTZEL: I'd appreciate it if you'd talk a little about them and who's using it, because it seemed as though if you're doing that much in China, why be here? MR. CHEN: The U.S. still today is our biggest marketplace.

COMMISSIONER WORTZEL: Oh.

MR. CHEN: Right. If you look at our revenue base, I think the U.S. today has North America in total, U.S.-Canada, has 40 percent plus of our total revenue. So on the technical side, I always believe

that U.S. is the innovator, is the leader around the world in terms of creating technology, adopting technology, and leveraging technology to create productivity. There is no doubt.

In general, if you look at adoption cycle around the world, Europe is about a year behind and Asia-Pacific excluding Japan and Australia, I think in general is three to four years behind, at least.

As a U.S. based company, our global strategy is very clear. We do our innovation and a lot of new tests, actually our biggest customer group is on Wall Street. All the Wall Street key investment banks are Red Hat customers. When we tap into these innovators starting to have a mature business model and mature business in the supporting system, we are starting to leverage this, what we've done, and starting to recognize value around the world. That's pretty much our philosophy in terms of globalization.

HEARING COCHAIR HOUSTON: Just a little bit of a corollary to what Chairman Bartholomew said. When I was in China last year, I couldn't check my e-mail because I work for a think tank called Frontiers of Freedom. I couldn't get the Web site because it had the word "freedom" in it. So I would only hope that all that Red Hat is doing in China would actually kind of reverse the censorship problem at some point.

I have just a really very simple question. We're here in North Carolina to discover the impact of China in North Carolina, winners and losers, positive and negative. Clearly, for Red Hat, that has been a positive. We see in many states, Michigan, for example, Ohio, where they're still bleeding jobs, and the state itself hasn't really caught up with itself as far as a loss of its manufacturing base.

I'm just curious if North Carolina was an accident for Red Hat or did you come here because of the Research Triangle? Was there something that the state itself was doing to help Red Hat that made you lodge here?

MR. CHEN: I think that's a very interesting because when I talk about the global issues, it reminds me why I came to North Carolina; right. Like I said, it's the innovation, it's the idea, and I came here to study. I came here first to N.C. State and then came to this lovely campus, got MBA, because they have the best technology, and they have the best business education in the world. There's no doubt.

If you look at the entire economy as a supply chain or supply network, there are certain places that North Carolina is shining around the world. So how do you focus on those and start to create a competitive advantage based on those strengths?

I think given the pressure from China, given the new economy, given the globalization, it's the business leader, it's the policymakers have to take a step back and really think through how we can really

build a new economy?

Education in general in North Carolina is very good. That's why when we moved back from China to here, once I asked my wife, I said we might think about another state to live, and she basically told me no, your daughter is getting ready for the school age, and this is the place we're going to live.

So I think as people who live here and study here for a long time and work for a company, local company here, I do think that North Carolina has great potential. But it's the responsibility of each community business and government leaders to really have that globalization mind-set and start to have a new set of strategy going forward.

HEARING COCHAIR HOUSTON: I have one more quick question, and then I will defer to our chairman. As you know, we've discussed your CEO was a good friend of mine in college, and I just want you to know that he was thinking big thoughts even then. And in the "big thought department," you mentioned that Red Hat is in 58 countries, and so is part of that big thought process that you sort of piggyback on innovations from one country to another? So, for example, if you're in China, Red Hat is in China, and there is some new software developments, do those new developments also move throughout the world to benefit Africa or Europe or South America or any other countries?

MR. CHEN: Yes. The answer is definitely positive. When we build our R&D team in China, we have this philosophy of "in China, for China and by China." So I think that's a very strong statement not only for the company but also for Chinese government that when we're in China, we say "in China," that's basically go and leverage their labor, go and leverage their skill sets. When we're starting to say "for China," that's essentially you want to build something for this market to satisfy their domestic needs. And eventually what you want to get is "by China," is something that China can do the best around the world so the entire world can share from that and can leverage that.

Globalization creates a very big challenge to each one of us, especially for the business people, which is if you are the best in the United States, you should be the best in the world. And vice versa, if you are the best in China, you're supposed to be the best in the world.

So suddenly you have this kind of very direct competition around the world. So I think how to have a good business model, how to have a good set-up strategy and have the best talent around the world to compete, I think, I believe that Red Hat is on the right track, and if had a chance, I would love to share our further experience with the audience.

HEARING COCHAIR HOUSTON: Well, thank you so much. We

have time for one last question from our chairman.

CHAIRMAN BARTHOLOMEW: Yes. Thank you, Mr. Chen. Again, this is very interesting and I was going to ask why North Carolina, but we got that answer, because I wanted to tie us back into the theme of why we're here. But now you mentioned "in China, for China, by China." Does that hold also, "in the U.S., for the U.S., by the U.S."?

MR. CHEN: Absolutely. I think maybe the better statement is "in the world, by the world and for the world" because there are no longer boundaries between countries and hopefully one day the entire world is one society where people just live together in a harmonious society.

CHAIRMAN BARTHOLOMEW: One more question. How many employees do you have in North Carolina and of those employees, how many of them are from North Carolina percentage-wise perhaps and/or educated here?

MR. CHEN: I walk back to the campus, and when I joined, I said it's 600. It's pretty much, I would say 60 percent of those are based here. Today with the much bigger pool, I think we have two buildings on N.C. State's Centennial Campus. I would say somewhere between six to 800, but we're growing in Westford, in the Boston area. We're growing in Mountain View, in many other countries.

I think the majority of the people here went to schools in this region and if I walk into the building, I should be very careful in terms of what color of shirts I'm wearing. So I think white is always the right choice. But thanks for asking.

HEARING COCHAIR HOUSTON: Thank you so much, Mr. Chen.

CHAIRMAN BARTHOLOMEW: Thank you. Thanks.

HEARING COCHAIR HOUSTON: This has been very enlightening and we really appreciate your being with us this afternoon.

HEARING COCHAIR FIEDLER: Thank you very much.

MR. CHEN: Thanks for your time. Thanks for sharing.

PANEL V: HOW EXISTING REMEDIES TO UNFAIR TRADE HAVE PERFORMED IN NORTH CAROLINA: THE BEDROOM FURNITURE INDUSTRY AND THE TEXTILE INDUSTRY

HEARING COCHAIR FIEDLER: Thank you. We will now hear from Mr. Wayne Bassett, President of Vaughan-Bassett Furniture. The company has a furniture factory in Elkin and Mr. Bassett lives in Winston-Salem.

MR. BASSETT: That's correct.

HEARING COCHAIR FIEDLER: He's a fourth generation furniture manufacturing executive so he knows something about the business.

The company manufactures more all wood bedroom furniture than any company in the United States, the company says. This is even more impressive given the fact that the Chinese bedroom furniture has been exported to the United States and sold at below the cost of production, according to the U.S. Department of Commerce and the U.S. International Trade Commission.

We'll also hear from Mr. James Chesnutt, President and CEO of National Spinning Company of Washington, North Carolina. Mr. Chesnutt has been in the textile business since 1973 and has served as the President of the American Yarn Spinners Association and as chairman of the National Council of Textile Organizations.

We'll begin with Mr. Bassett and you know our rules--we'll try to stick to seven minutes of testimony, and then we'll go back and forth on questions. Mr. Bassett.

STATEMENT OF MR. WYATT BASSETT, PRESIDENT OF VAUGHAN-BASSETT FURNITURE COMPANY, GALAX, VIRGINIA

MR. BASSETT: Earlier this week, I was at my junior high school son's parents night, and there was a sign on the wall of his science class that said when all else fails, follow the directions. For my prepared testimony, I've stuck to what the questions were in the outline, and I'll be happy to answer anything you'd like.

The first question is how have Chinese imports affected the wooden bedroom industry in North Carolina?

Simply stated, Chinese imports have devastated the wooden bedroom industry in North Carolina. Several of the largest wooden bedroom producers in North Carolina have closed all of their factories. Two of the largest and best known are Broyhill Furniture based in Lenoir and Lexington Furniture based in Lexington.

Ten years ago, they operated more than a dozen woodworking plants. Today, all of those plants are closed and they import their bedroom furniture.

A quick look at most of the major domestic bedroom producers, most of whom are either based or have significant operations in North Carolina reveals the extent of the devastation. I listed about 40 companies. The ones with significant operations in North Carolina include Broyhill, Thomasville, Henredon, Drexel, Lexington, Kincaid, American Drew, Lee, Hooker, Stanley, Century Bernhardt, Bassett, Progressive, Ethan Allen, Vaughan Bassett, Athens, Cochrane,

Universal and Southern Furniture Reproductions. Those among 40 total companies had over 125 woodworking plants open ten years ago.

Today, over 80 percent of those plants have closed their doors. Over two-thirds of these companies are either totally out of business or no longer have any domestic bedroom manufacturing operations. Most of those that remain open are operating at reduced capacity with fewer plants, fewer and fewer workers. The cumulative reduction in wooden bedroom manufacturing has almost certainly exceeded 90 percent.

These closings have been accompanied by a surge of unemployed workers in many North Carolina communities. In wooden bedroom alone, 53 Trade Adjustment Assistance applications were certified between January of 2001 and October of 2004.

I can't tell you exactly how many since then. The reason I have that time period is that's when the antidumping investigation was going on. There have been several obviously since October of 2004.

With its large furniture manufacturing base and home of the largest furniture market in the U.S., which is the High Point furniture market, North Carolina has also been uniquely situated as supplier to the furniture industry. In addition to the hundreds of vendors who supply materials and supplies to the furniture trade, North Carolina is home to many companies and jobs that provide services to the industry.

Accounting firms, advertising agencies and photographic studios are only a few. While the loss of direct employment in wooden bedroom plants has probably exceeded 90 percent, it's difficult to estimate the full effect on employment of the loss of bedroom furniture manufacturing in North Carolina.

Next question is how have legal and programmatic remedies to unfair trade worked in the case of the North Carolina furniture industry? Imports of wooden bedroom furniture from China for the 12 months ending December 1999 were about $200 million.

Imports of wooden bedroom furniture from China had exploded to over a 1.6 billion, which is an increase of about 715 percent for the twelve months ending June 2004, which was the last month before preliminary antidumping duties on wooden bedroom furniture from China went into effect.

If you look at the chart on page three of the handout, you'll see a pretty dramatic increase in imports of wooden bedroom from China.

In the three years since antidumping duties have gone into effect, imports of wooden bedroom furniture have been essentially flat. They've increased a total of less than two percent in the last 12 months ending June 2007 versus the 12 months ending right before the antidumping order went into effect.

The market share for Chinese wooden bedroom imports relative to total wooden bedroom imports from all countries has also been dramatically affected. In December of '99, China accounted for 15.6 percent of all imported wooden bedroom furniture. By June of 2004, immediately prior to antidumping duties, China's share had grown more than threefold to about 53 percent, which is more than every other country in the world put together.

That's an increase of about eight percentage points per year during that period. Since the duties have gone into effect, China's share has not only not increased, it's actually dropped by about seven percentage points to 46 percent.

While results for furniture companies in the U.S. have been inconsistent, some companies focused and dedicated to domestic bedroom manufacturing have fared comparatively well. Vaughan Bassett where over 97 percent of our wooden bedrooms are from product produced in our U.S. plants, our two U.S. plants have earned almost $8.5 million of operating income cumulatively in the two years since the final antidumping order has gone into effect.

2007 is widely considered to be the most difficult year in furniture in over 50 years. A vast majority of manufacturers, importers, suppliers, retailers, have seen their sales this year decrease by ten to 30 percent. The median is probably about 15 percent. Our sales decrease this year has been in the single digits and we've remained profitable during that time.

Importantly, we continue to employ over a thousand workers in our two U.S. bedroom plants. This headcount is within ten percent of our maximum ever employed in these two plants and we're working our total workforce a full 40-hour week. Without the antidumping order, we could not have achieved these results.

In fact, many large companies who have converted from domestic manufacturers to importers of bedroom furniture have not fared nearly as well in this climate.

What changes to laws are needed to make them effective in discouraging/preventing unfair trade and what else can the government do?

I'm going to cut this kind of short. Very frankly, the first thing that could be done is just not to weaken the antidumping and trade laws. There are people proposing--obviously those whose primary or only interest is in importing the cheapest possible goods from offshore that would like to see us unilaterally without requests from even our trading partners weaken these antidumping laws.

That would cause us irreparable harm. Between the original investigation and the recently completed first administrative review of our antidumping case, the U.S. Department of Commerce has

calculated significant dumping margins for the vast majority of the mandatory respondents who had been individually investigated.

The weighted average dumping margin was calculated to be over 35 percent in a recently released final results of the first administrative review.

If for any reason dumping at these rates were allowed to occur unchecked by vigorous enforcement of our trade laws, it would pretty much guarantee the destruction of the rest of our industry. We can't compete with someone who undercuts us 35 percent illegally unchecked. It will result in destruction.

The final thing I'll note is in addition to weakening our antidumping laws, the greatest threat posed is through circumvention of the antidumping order. I'll be happy to answer questions about exactly how this would occur and what can be done, particularly by the Commerce Department, but the use of combination rates and administrative reviews will be a great help to us.

[The statement follows:]

Prepared Statement of Mr. Wyatt Bassett, President of Vaughan-Bassett Furniture Company, Galax, Virginia

How have Chinese imports affected the wooden bedroom industry in North Carolina?

Simply stated, Chinese imports have devastated the wooden bedroom industry in North Carolina.

Several of the largest wooden bedroom producers in North Carolina have closed all their plants used to produce wooden bedroom. Broyhill Furniture based in Lenoir and Lexington Furniture based in Lexington, two of the largest wooden furniture manufacturing employers in North Carolina, operated more than a dozen woodworking plants ten years ago. Today all those plants have closed and both these companies import their bedroom furniture.

A quick look at most of the major domestic bedroom producers (most based or with significant operations in North Carolina) reveals the extent of the devastation. These companies (Broyhill Furniture, Thomasville Furniture, Lane Furniture, Henredon Furniture, Drexel Heritage Furniture, Lexington Furniture, Kincaid Furniture, American Drew Furniture, Lea Furniture, Pennsylvania House Furniture, Hooker Furniture, Pulaski Furniture, Stanley Furniture, Century Furniture, Bernhardt Furniture, Bassett Furniture, Progressive Furniture, Ethan Allen, Vaughan Furniture, Webb Furniture, Vaughan-Bassett Furniture, Virginia House Furniture, Sumter Cabinet, Athens Furniture, Keller Furniture, Dover Furniture, Moosehead Furniture, Cochrane Furniture, Universal Furniture, Cresent Furniture, Samuel Lawrence Furniture, Richardson Brothers Furniture, Southern Furniture Reproductions, Blackhawk Furniture, Boyd Furniture, Florida Furniture, Kushwood Furniture, Pilliod Furniture and Rock City Furniture,) had over 125 woodworking plants 10 years ago; today, over 80% of those have closed their doors. Over two thirds of these companies are either out of business or no longer have any domestic bedroom manufacturing operations. Most of those that remain open are operating at reduced capacity, with fewer plants and with fewer workers. The cumulative reduction in wooden bedroom manufacturing has almost certainly exceeded 90%.

These closings have been accompanied by a surge of unemployed workers in many North Carolina communities. In wooden bedroom alone, 53 Trade Adjustment Assistance applications were certified between January of 2001 and October of 2004. With its large furniture manufacturing base and home of the largest furniture market in the U.S. (High Point Market), North Carolina has also been uniquely situated as supplier to the furniture industry. In addition to the hundreds of vendors who supply materials and supplies to the furniture manufacturing trade, North Carolina is home to many of the companies (and jobs) that provide services to the furniture industry. Accounting firms, advertising agencies and photographic studios are only a few. While the loss of direct employment in wooden bedroom plants has probably exceeded 90%, it is difficult to estimate the full effect on employment of the loss of bedroom furniture manufacturing in North Carolina.

How have legal and programmatic remedies to unfair trade worked in the case of the North Carolina furniture industry?

Imports of wooden bedroom furniture from China for the twelve months ending December 1999 were $202,351,000. Imports of wooden bedroom furniture from China had exploded to $1,649,125,000 (an increase of 715 %) for the twelve months ending June of 2004, the last month before preliminary antidumping duties on wooden bedroom furniture from China went into effect .

(amounts in 1,000's of dollars)

In the three years since antidumping duties have gone into effect, imports of wooden bedroom furniture from China have been about flat increasing only 1.8 % in the last twelve months ending June 2007, to $1,679,310,000.

(amounts in 1,000's of dollars)

The market share for Chinese wooden bedroom imports relative to total wooden bedroom imports from all countries has also been dramatically affected. In December of 1999, China accounted for 15.6 % of all imported wooden bedroom furniture. By June of 2004, immediately prior to antidumping duties going into effect, China's share had grown more than three-fold to 52.9 % (more than all other countries combined), an average increase of over 8 percentage points per year. Since the antidumping duties have gone into effect, China's share has not only not increased, but has actually dropped by almost 7 percentage points to 46.0 %.

While results for furniture companies in the U.S. have been inconsistent, some companies focused and dedicated to domestic bedroom manufacturing have fared comparatively well. At Vaughan-Bassett, where over 97 % of our wooden bedroom sales are from product produced in our U.S. plants, our two U.S. plants have earned almost $8,500,000 of operating income cumulatively in the two years since the final antidumping order has gone into effect (FY 2005 and FY 2006). 2007 has proved to be what most consider the industry's most challenging year in over fifty years. A vast majority of manufacturers/suppliers and retailers are reporting sales decreases of 10 % to 30 %, with a median decrease of about 15 %. Our sales decrease has been in the single digits and we have remained profitable this year. Importantly, we continue to employ over 1,000 workers in our two U.S. bedroom plants; this headcount is within 10 % of our maximum ever employed in these two plants, and we are working all of our workforce a full forty hour schedule. Without the antidumping order, we could not have achieved these results during this trying time. In fact many large companies who have converted from domestic manufacturers to importers of bedroom furniture have not fared nearly as well in this climate.

What changes to laws are needed to make them effective in discouraging/preventing unfair trade? What else could the government do?

Our industry never asked for any special help from the government or any protectionist measures. All we ever requested was that our government enforce the laws already on the books to give dedicated U.S. bedroom furniture manufactures a chance to compete with legally priced imports. Companies in our industry that have made the necessary financial commitment to compete, have benefited from these laws being enforced. These benefits could be quickly and irretrievably reversed if our trade laws are weakened. Between the original investigation and the recently completed first administrative review, the U.S. Department of Commerce has calculated significant dumping margins (greater than deminimis) for the vast majority of the mandatory respondents who have been individually investigated. The weighted average dumping margin was calculated to be over 35 % in the recently released final results of the first administrative review. If for any reason, dumping at these rates were allowed to occur unchecked by

vigorous enforcement of our trade laws, it would almost certainly guarantee the destruction of the remaining U.S. wooden bedroom manufacturing industry.

The U.S. Commerce Department's adoption of combination rates in administrative reviews for wooden bedroom furniture from China would dramatically help avoid circumvention of the enforcement provided by our antidumping laws.

In addition to weakening our antidumping laws, the greatest threat posed to our industry is through circumvention of the antidumping order. The easiest way for Chinese manufacturers to circumvent the order is to simply export their product through a different Chinese exporter who has been assigned a lower dumping margin.

- Evasion of Duties Under current U.S. Department of Commerce practice, which I'll discuss in more detail in a moment, imports from China that are subject to an antidumping duty order are assessed cash deposit rates under a process that identifies only the Chinese exporters. Remarkably, no attention is given to the manufacturer that actually produced the merchandise. Consequently, exporters that have been assigned low antidumping duties can, if they are willing, serve as a conduit for imports from any Chinese producer, even producers that have been assigned high antidumping duty margins.

- We and others have been unsuccessfully asking Commerce to exercise its acknowledged authority to adopt a policy of assigning "combination rates" instead of exporter-specific rates. Combination rates are cash deposit rates assigned to groupings of an exporter and the producer or producers that actually manufactured the merchandise. A change to combination rates would be significant for U.S industries involved in antidumping cases. Here's why.

- The first administrative review of the antidumping duty order on Wooden Bedroom Furniture from China demonstrates the threat presented by Commerce's policy of assigning cash deposit rates only to exporters, rather than to exporter/producer combinations.
    - First -- there are a huge number of Chinese producers, some say more than 30,000, and the first administrative review involved more than 100 companies.
    - Second -- the applicable antidumping duties and corresponding cash deposit rates established by Commerce ranged from 0.5 percent to 216 percent. Most Chinese exporters have rates of 7 percent, 35 percent, or 216 percent.
    - Here's what all this means. Under current Commerce practice, the manufacturer responsible for the exports assigned the 216 percent rate could quite easily export merchandise to the U.S. by paying cash deposits as low as 0.5 percent. In fact, because Commerce refuses to adopt a policy of assigning combination rates in administrative reviews all that stands in the way of this occurring are the people running the Chinese exporters with the low rates. If those individuals can be persuaded to act as the exporter for any high-margin producer then their low cash deposit rates would be applied by U.S. Customs. Given the huge number of producers and the wide array of margins assigned in the last administrative review there are many opportunities for producers and exporters to collude and funnel products through low-cost import channels.
    - Again, all this is because Commerce only identifies exporters and not exporters and producers when assigning cash deposit rates in administrative reviews.

- Current Practice Now I'll give you some background on Commerce's current practice, and the inexplicable nature of the agency's refusal to adopt a policy of assigning combination rates in administrative reviews of exports from China.

- First, Commerce already applies combination rates in all investigations, whether the exporter is a located in a market economy such as Japan or in non-market economy country such as China. In April 2005, the agency officially adopted use of combination rates in investigations involving non-market economy countries, saying it was the only way it could "prevent the 'funneling' of subject merchandise through exporters with the lowest rates." When it adopted that policy the agency said it was evaluating extension of the practice to administrative reviews.
- Second, in early 2006 Commerce stated that there is no legal barrier to simple adoption of combination rates in administrative reviews involving exports from China. It specifically addressed the issue in an administrative review involving crawfish from China, and in doing so it straightforwardly asserted that it could adopt the policy without undertaking the formal notice and comment process associated with modifications to its regulations. Consequently, Commerce can start assigning combination rates in administrative reviews at any time. It just does not want to do so and it has never given a satisfactory explanation for that reluctance.
- Third in early 2004 Commerce assigned combination rates in an administrative review involving pistachios from Iran, a so-called market economy country, although when issuing this decision the agency set out a potentially difficult test. Still, with these three developments the agency is now applying combination rates in all proceedings except administrative reviews involving imports from non-market economy countries like China.

▪ Commerce's handling of this issue in the Wooden Bedroom Furniture We raised this issue with Commerce in the just-completed administrative review on Wooden Bedroom Furniture. Commerce's answer was very disappointing.

▪ In response to arguments from Chinese producers opposing adoption of combination rates in reviews, the agency reasserted its position that it has legal authority to adopt the policy, and that it can do so at any time without going through the onerous procedures associated with administrative rulemaking. This is a good.

▪ The agency then went on to recognize exactly the threat we are facing: numerous Chinese producers and opportunities for funneling imports through low-margin exporters, but once again denied the domestic industry's effort for this additional, important form of protection, saying:

> While the respondents in this administrative may have the ability to source wooden bedroom furniture from a large pool of PRC suppliers, some of which may be subject to a high "PRC-wide rate" [that is, the 216 percent rate], we do not find the facts in the instant review are persuasive enough to warrant issuance of a combination rate to all respondents and their producers at this time" Wooden Bedroom Furniture, Final Decision Memo at Comment 5.

▪ Closing It is difficult for us to understand the Department of Commerce's reluctance to adopt combination rates in administrative reviews involving imports from China. The agency has repeatedly said it has authority to do so, it has adopted the policy in every other type of antidumping proceeding it handles, and it has repeatedly acknowledged the threat of imports being "funneled" through exporters that have been assigned low deposit rates, but it still leave us without this simple remedy for an acknowledged threat.

HEARING COCHAIR FIEDLER: Thank you. Mr. Chesnutt.

STATEMENT OF MR. JAMES CHESNUTT, PRESIDENT & CEO NATIONAL SPINNING, INC., WASHINGTON, NORTH CAROLINA, FOR THE NATIONAL COUNCIL OF TEXTILE ORGANIZATIONS

MR. CHESNUTT: It's going to be hard to beat this guy. One second is left and he puts his paper down.

Commissioner Fiedler and Commissioner Shea and other distinguished members of the Commission, thank you for the opportunity to be here today on behalf of the textile industry and especially the North Carolina textile industry and the impact of China on it.

My name is Jim Chesnutt. I'm President and CEO of National Spinning Company, an employee-owned company, and I emphasize a majority-owned employee company in Washington, North Carolina. We have almost 1,000 employees in our facilities, all located in the state of North Carolina.

We are primarily an acrylic and synthetic yarn manufacturer, producing yarns for home furnishings, industrial apparel and hosiery end uses. I'm also on the board of directors of the National Council of Textile Organizations.

First, I want to debunk some commonly held beliefs about the U.S. textile industry. I've often heard elected officials and so-called trade experts describe our industry as one that is not prepared to meet the challenges of manufacturing in the 21st century.

In fact, the opposite is true. The U.S. textile sector continues to be one of the largest manufacturing employers in the United States. Our industry is the third-largest exporter of textile products in the world, exporting more than $16 billion in 2005. From 1994 to 2004, the U.S. textile industry invested more than $33 billion in new plants and equipment and has increased productivity by 49 percent over the past ten years.

As you can see, the textile industry is an innovative, productive industry that can compete head-to-head with any textile sector in the world. Unfortunately, our industry, like so many others, cannot compete against state governments, which is what we're being forced to do with China and maybe some others, but this is specifically about China today.

Since China joined the World Trade Organization in 2001, the U.S. textile and apparel industry has lost 365,000 jobs. This represents a 38 percent decrease of our entire workforce. In fact, the industry lost more than 44,000 jobs from 2005 to 2006 alone. North

Carolina has been hardest hit by these job losses and has lost more than 11,000 textile jobs over the last year, a 12 percent decrease in our textile workforce.

As a noted economist and Nobel Prize winner Paul Samuelson recently stated: "It is not protectionist to complain about policies that are predatory; China's are just that."

Our enormous trade deficit, the loss of more than 1.5 million jobs, and the very real possibility that the Bank of China may soon have more control over our economy than our own Federal Reserve Bank is disturbing, a legacy that we face today after decades of inaction on the part of our government.

In this context, I would like to focus my remarks on actions that the U.S. textile industry believes the Congress and the government should take to rebalance the playing field and ensure that global trade rules are applied uniformly.

Before getting into specifics regarding what can be done, I want to share briefly with you how the Chinese government works to ensure that it's textile sector dominates world trade and textiles and apparel.

The Chinese government's efforts are clearly defined in its 11th Five Year Plan for the textile industry. And I think we heard about a national industrial policy today. I think China has one as it relates to the textile industry.

This plan sets specific benchmarks for its textile and apparel sector over the next five years, continuing a pattern that has been in place for more than 50 years. The plan is implemented through an extensive array of subsidies and other preferences given to the Chinese textile industry by the government.

NCTO has done a review of the subsidies that China extends to its textile and apparel industries. The Chinese government offers 73 different subsidy programs and as a result has pumped tens of billions in government assistance to the sector.

I should note that these subsidies are in addition to the enormous financial support which Beijing offers through its managed exchange rate which most economists estimate is undervalued by 20 to 40 percent.

To better understand how these subsidy programs have enabled China's textile manufacturers to dominate the market, let's review a few statistics. During the last ten years, the Chinese textile sector has purchased 65 percent of all knitting machines, 62 percent of all weaving machines, and 46 percent of all the spinning machines sold in the entire world.

These efforts by the central government in Beijing have reaped unparalleled rewards for its textile sector and have made China by far the largest producer and exporter of textile products in the world.

From 2000 to 2005, China's worldwide exports of textiles and apparel jumped from $81 billion to $150 billion, an increase of $69 billion in five years. As a result, China controls over 40 percent of the global textile apparel trade and nearly 50 percent of apparel trade alone.

We believe, however, the battle with China is not one that we have to lose. In this vein, we recommend nine specific actions that we maintain could lead to the revitalization of U.S. manufacturing. I will talk about four of these today:

Pass strong currency legislation. The Congress should pass and the President should sign into law meaningful and effective legislation that allows U.S. manufacturers to offset the benefits of the undervalued yuan.

In our opinion, the most effective legislation currently before the U.S. Congress is introduced by Representatives Ryan and Hunter, the Currency Reform and Fair Trade Act, or H.R. 2942.

This legislation would allow U.S. industry to file countervailing duty cases against China's currency manipulation.

Secondly, extend or replace the current China safeguard. Congress and the administration should ensure that the textile safeguards currently in place against China are either extended or replaced until China fulfills all of its WTO accession commitments. The textile safeguards which have helped to prevent China from monopolizing the U.S. textile apparel markets in key categories will expire on January 1, 2009, and they cannot under WTO law be unilaterally renewed.

Number three, create a comprehensive subsidy database. Establish a subsidy database on China at the Department of Commerce that can be utilized by government and industry. Despite its protests and concern about China, the U.S. government still has not created a database that small and medium-sized manufacturers can use.

In fact, the government subsidy review page on the Commerce Department's Web site has not been updated since 2004. Even worse, China is not listed as employing a single subsidy.

Number four, increase and reprioritize enforcement efforts at USTR and the Department of Commerce. Today, trade enforcement is seen as a career dead-end within the U.S. government. Instead negotiating new agreements rather than enforcing existing agreements is seen as the best way to advance within the ranks of Commerce or Trade.

Commerce and the USTR need to be restructured to give trade enforcement, particularly in the subsidy area, a higher priority and more status within the agencies.

Other areas that we suggest action include increasing

government assistance to small and medium-sized manufacturers in regards to dumping and countervailing duty cases; increasing customs enforcement efforts; penalize companies which import products that cause severe environmental degradation; and going after the Chinese government's WTO illegal support of its state-owned industrial sectors.

In conclusion, I want to thank you again, the Commission, for its leadership it has shown in the struggle to preserve U.S. jobs and U.S. manufacturing. Through your hard work, you have helped to lift the veil not only on the mercantilist practices of the Chinese government but the cost of these practices to workers across America.

We look forward to working with you and other concerned groups to fashion a new trade policy that supports manufacturing and other jobs in this country, and I think I took an extra minute.

[The statement follows:][5]

PANEL V: Discussion, Questions and Answers

HEARING COCHAIR FIEDLER: That's quite all right.

MR. CHESNUTT: Thank you very much.

HEARING COCHAIR FIEDLER: I'm going to invoke the prerogative of the chair to ask Mr. Bassett a question that I started with before we began this hearing.

I need to understand the economics of furniture in the following way. Xinjiang, which is the far northwest province of China, you cannot get much farther from here in China; is that fair, Larry?

COMMISSIONER WORTZEL: That's fair.

HEARING COCHAIR FIEDLER: Is a major exporter of furniture to the United States. It has poor infrastructure; it has a desert between it and the rest of the country; it doesn't have roads that go through; it's got to have trains to go. I don't understand how you can economically send finished furniture from Xinjiang to the United States and sell it at a profit unless you're doing something wrong.

Could you give us a little enlightenment on what we're talking about in terms of the illegal dumping, the things you faced before?

MR. BASSETT: As briefly as I can, I'll first of all say I agree with you, we don't understand it either, which is frankly where the antidumping investigation came from. For years, we underestimated the threat China posed to our industry domestically. It's always been commonly known and said that China has very inexpensive labor. We looked at the labor content of our furniture. At the same time we looked at the transportation costs to get furniture from China to the

[5] Click here to read the prepared statement of Mr. James Chesnutt

United States, and we felt as long as that transportation cost exceeded the cost of our labor in a comparable amount of furniture, China would have a difficult time competing here.

Well, they somehow manage to sell furniture a heck of a lot cheaper in spite of the transportation cost, even assuming their labor was zero, and trying to understand it or explain it, I can't explain how they could produce furniture and sell it as cheaply as they do and be profitable.

One major issue, and I agree with Mr. Chesnutt, is the currency which I didn't touch on. It might surprise you that certainly in our company and our family and a lot of our people in our industry are very committed free traders, but we're also fair traders, and don't believe you can have free trade without the free float of currency.

It's a rigged game. A member of the CATO Institute I think spoke to some furniture people in the last couple of months, explaining why the currency is a total red herring, that in reality that Chinese currency was allowed to float against the U.S. currency, it would actually drop, which again I'm no economist, but that was the case he was making.

It's been explained to me he was also involved in coming up with our government's policy years ago for how we ended up with the situation.

COMMISSIONER WORTZEL: CATO is, they're allowed to smoke dope, too.

MR. BASSETT: Well bless their hearts. In any case, I give you one comparison to try to talk about the effect of currency in the furniture trade. I referred to some Chinese figures from a period I think the last 12 months of 1999 comparing how much they grew until the 12 months ending June of 2004, when the antidumping order went into effect.

During the period where China went up 715 percent on wooden bedroom imports in the U.S., Canada, in spite of this huge surge, also went up four or five percent on their bedroom imports into the U.S., actually competed pretty well with China in the U.S. market. However, in roughly the three years since that time, when the antidumping order has been in effect, the shipments of Canadian bedroom furniture have dropped 46 percent.

Now, also during that time, the Canadian dollar has appreciated 27 percent against the U.S. dollar. So during the time China was growing unchecked, Canada actually held their own and grew on exports to the U.S.

During the time the antidumping order has been in effect, you would expect them to benefit just as we have domestically in the U.S. market; they've actually lost about half their shipments in the U.S.,

again, not uncoincidentally, their currency has gone up 27 percent in that time. Every single one of them will tell you, guys, that's why they lost half the market here.

By the same token, we found it a little easier to compete exporting our product into China. Again, I can't explain it. I can tell you there are other factors from government subsidies to a huge proliferation of illegal logging that comes into China from places like Russia, Indonesia, some other places, Burma, that's not only doing incredible environmental damage, but also contributes to their low, low prices.

HEARING COCHAIR FIEDLER: One quick question. Do either of you sell to Wal-Mart?

MR. CHESNUTT: Yes.

HEARING COCHAIR FIEDLER: So you do?

MR. BASSETT: We have in the past; we don't currently.

MR. CHESNUTT: It's my biggest customer.

HEARING COCHAIR FIEDLER: Commissioner Houston.

HEARING COCHAIR HOUSTON: Mr. Bassett, you just answered the question I was going to ask about logging, but maybe we can get into that a little more. And I want to thank you for solving the mystery in my house. We cannot figure out why the Ethan Allen dresser drawers keep falling out of the tracks. I think we know now, because we were so proud of ourselves that we bought Ethan Allen because, of course, it's made in America. So from now on, it will be Bassett.

But could you talk a little bit more about the logging issue. It's something we haven't touched on here today. Obviously, the wood for any kind of furniture has to come from somewhere. When an American manufacturer goes offshore to China to create the bedroom furniture or the tables and chairs or whatever, I'm assuming that they are getting all that wood from somewhere in Southeast Asia, and as you pointed out, Burma and other places.

We've seen first-hand in our trips to China the deforestation, the degradation, the pollution. It's just a nightmare over there. Is there any policing at all? Do American companies ignore the deforestation? Do they ignore where these wood products are originating from?

Is there any kind of dialogue there within the American furniture community about the potential problems that globally this kind of deforestation can have?

MR. BASSETT: The easiest way to answer is my father quotes his mother, my grandmother, who would have been about a hundred at this point, who used to tell him, if you don't want anybody to know what you're doing, you probably shouldn't be doing it.

You're not going to hear anybody who brings bedroom furniture

in from China talking about this issue. There is a tremendous amount of deforestation, illegal logging, incredible environmental damage being done in Asia. Again, you talk about Burma, Indonesia. There is a huge illegal logging trade coming out of Russia, and very frankly it takes a pretty small cash bribe at the border to bring in all the wood you want from Russia into China.

China has had some issues with that internally, and I'm going to encourage you to look at two resources that I've read recently. One is a New York Times article a couple Sundays ago. I'm not sure if it was August 27 or 6th, but that's about right, on environmental damage that's going on in China with the huge industrial boom.

Another was a Washington Post article back in April that I think particularly talked about logging, if I'm not mistaken, and the extent of what's going and the devastation. But one of those articles talked about China actually addressing internally in their country some restrictions on logging, and trying to take better care of their own forests and their own land.

However, they make no effort to curtail the damage being done from wood that's being imported from these other countries. You also ought to be aware that in the United States, where the timber industry for years, of course, one of their primary, if not primary, customers in this area was the furniture industry. Today, they export a huge amount of that.

In fact, in most of their cases, a vast majority of what they cut to China to be turned into furniture, among other things like flooring and stair treads, so it can then be shipped back to the U.S., but there is a huge export market of timber from the U.S. going straight to China to be produced for inexpensive product to be brought back here.

With the lumber guys we deal with, a vast majority of them stopped concentrating on the domestic market years ago. A number of those guys are coming back because business is not quite as good in China as it once was. In essence, a lot of them put all their eggs in one basket.

Now, why their business isn't good, of course, furniture industries had a tough, tough, tough year. In addition to that, if the Chinese can get cheaper materials illegally from places like Indonesia and Burma and Russia, then why pay the U.S price?

HEARING COCHAIR HOUSTON: Right. I realize it's not your industry per se, but I would guess it would be fair to say that the logging industry in the United States along with the furniture industry has taken a hit from this as well?

MR. BASSETT: It's taken a hit but a much smaller hit because their business that was lost in the U.S. for at least some time was largely replaced by exporting the same material to China. So they

basically had a new set of customers.

HEARING COCHAIR HOUSTON: Okay.

MR. BASSETT: They weren't as affected as we were by any stretch.

HEARING COCHAIR HOUSTON: Mr. Chesnutt, I have a question for you. About a year and a half ago, my husband and I were in Turkey, in the middle of nowhere Turkey in a donkey cart. No one spoke English, and we were at a textile factory. We watched the silkworms getting pulled out of the barrel and made the silk rugs. And here we were in the middle of nowhere Turkey, and all they're talking about is China through our interpreter and how China is just killing Turkish rugs.

And they talked about some friends they had in Africa who are having--South Africa in particular--who are having the same problem with the dumping of cheap product by China.

I wondered, in your industry, is there a dialogue with other countries? Have you identified ways that countries can get together and talk about this problem and bring it to a world body, or is it an isolated country-by-country issue?

MR. CHESNUTT: Certainly there has been dialogue, and if you'll excuse me--what was the group with the Turks that we had the dialogue--

AUDIENCE MEMBER: GAFTT, the Global Alliance for Fair Textile Trade.

MR. CHESNUTT: The Global Alliance for Fair Textile Trade. I can't get all the acronyms right. And certainly China is a threat to all of the world, and to follow on what you said about the logging in the article in the New York Times, if you will look at a recent article in the New York Times about the price that's been paid in the environment, because of the textile industry, the rivers are running red because the biggest knitting mill in the country is dumping all of their effluents in the river without being treated.

Yes, it's an issue in the world with China and its dominance for all the reasons that I have outlined earlier about the reason that China can dominate the textile and apparel industry.

I get very, very concerned that our largest export market is Central America, and Central America is beginning to reach the point that it simply can't compete with China. It should be a big concern for the State Department with Chavez just a few miles away and Noriega down in Nicaragua, although there are some American investments in Nicaragua, it should be a great concern, and it is a great concern for our industry because many of those exports that we make actually go into Central America and come back here duty free and quota free.

HEARING COCHAIR HOUSTON: Thank you.

HEARING COCHAIR FIEDLER: Commissioner Wessel.

COMMISSIONER WESSEL: Thank you, gentlemen. Very helpful testimony. Mr. Bassett, I want to understand a little bit more about your operations. I followed the case quite closely, the one that was brought. Are you a public company? Publicly traded?

MR. BASSETT: We're not a listed company, but we have something over 150 shareholders and we do provide our financial information to those shareholders and basically anyone else who asks. So we're not technically by the SEC I think a listed company, but our information is public.

COMMISSIONER WESSEL: You're closely held.

MR. BASSETT: We're a closely held company, sure.

COMMISSIONER WESSEL: So you don't face the pressures that many of the other firms in the furniture industry face from Wall Street and penny off estimates, that kind of thing?

MR. BASSETT: No. And that affords us some longer time horizons to make what we think are some better decisions.

COMMISSIONER WESSEL: Are you, and Mr. Chesnutt, I'm also interested in the same line of questioning for you, do you face any issues with your banks when you're looking for credit, assuming periodically you're getting credit lines, that they're saying to you, you really, you're going to do better if you go overseas? Are you getting pressure from anyone? Are you unique because of being the closely held, family-oriented business, that, you know, you're the guys who are going to stay here. The guys who go to the open market for cash can't succeed?

MR. BASSETT: Absolutely, and there's some information I know in the ITC report, the final one on furniture--it doesn't list the particular companies, but some aggregate information that includes a lot of those public companies who talk about some of that. We're very fortunate in that my father, who has run our company for some time, had the foresight to look back about six or seven years ago and saw what was coming and took our company from a position of being in debt, although not recklessly in debt, to not only not in debt, we have a significant amount of cash in the bank.

That financial position is part of what's allowed us to weather this storm. I'll be the first to say that today in U.S. bedroom manufacturing, if you're not 100 percent committed to what you're doing, if your workers aren't committed to competing, if you're not committed to putting the money into your plants and equipment to be the absolute best competitor you can, nothing on the books, including antidumping, is going to save you.

I'll also say that a lot of companies including some public companies, the fact they closed their plants was a self-fulfilling

prophecy. If you go back and look at the money they were reinvesting into these plants, as long as seven or ten years ago, we had a very easy time competing with them because we have for decades made the necessary investment to be competitive.

Those domestic competition we have that didn't do it frankly we had a great deal of success competing against even before the Chinese did. So for some of these companies, it was very much a self-fulfilling prophecy, and I will tell you that with the laws on the books today and the antidumping order, if we don't stay committed, we won't stay in business.

COMMISSIONER WESSEL: Final question, again, the same line. The Department of Commerce is considering once again allowing industries in China to be considered to be market-based rather than going off and doing the whole country as market-based, which would change antidumping and other calculations. Do you consider the furniture industry to be market-based?

MR. BASSETT: No. Can I add one quick thing? In addition to plenty of government help for these companies and subsidies and government interference with a lot of these companies and government control over these companies, you have so many inputs to what it takes to make a piece of furniture that are not part of market economies. Start with the labor. Labor in China is not market economy labor. That is a significant input in furniture.

How can you have a market economy industry in China that depends on labor where they're not allowed to freely organize, among other things. You can go right on through illegal logging. You can go on timber that's provided from Chinese land, of course. The vast, vast majority of Chinese land is government owned. The vast cost of timber is not in the cost of the wood itself, but the rights to cut that timber. If the government owns it, they can essentially give it away.

So while there may be some foreign ownership of furniture factories in China, it's absolutely incorrect to consider that it could be considered market oriented.

COMMISSIONER WESSEL: Thank you.

MR. CHESNUTT: Back to your original question, though, as far as banking is concerned, and we too are very fortunate because our company is essentially debt free. My bank is a California bank, and that's interesting that the North Carolina banks don't support the textile industry, and I say that at 30,000 feet as a general statement. It is very difficult for the textile industry to have access to capital.

In terms of being a public-owned company, in our case, we're an ESOP, and the employees own almost 60 percent of the stock. Very, very difficult to meet with your employees every quarter and know that's the basis, the cornerstone of their retirement.

So to look those employees in the eye, and we share all of our numbers every quarter with our employees, is very difficult when you know that you hold in your control, if you will, in making management decisions with your management team what their future may be in terms of their retirement.

We've talked about a lot of things here today. If you look at North Carolina, and I think that many times that Wall Street, Washington, Raleigh, North Carolina, and some of my friends in academia are completely out of touch with Main Street, and especially in North Carolina because Main Street to so many people in North Carolina is Charlotte, the Triad, the Triangle, Greenville and Wilmington. It's great.

But have you been to Wilson and Rocky Mount and Lincolnton, and many other towns that you can talk about in North Carolina that are really in tough shape? In our company, our average age of our employee increases one year every year. No one leaves. I have a very, very old workforce.

Our company spends $6,500 per year on our health care plan, every year. Our employees look at what they're paid, and our average pay is pretty good in the state of North Carolina because our people have been around a long time. But they really have no clue, although we pass that on as a piece of information, how much money we spend for health care.

We've had to go through right-sizing, downsizing, if you will. We're a smaller company than we were, and I'll give you one anecdotal story. At the Hampton Inn Ritz in Washington, North Carolina, which is when you come to Washington, you stay at the Hampton Inn or the Comfort Inn. The Hampton happens to be newer. And I see this lady that worked for our company and got caught in the right-sizing, in the morning having breakfast, picking up fellow employees or customers, whomever may come to town.

Everyday that I see her, she says, Mr. Jim, I really would like to come back to my job at National Spinning. She said I come here every morning at four o'clock, and I put out the buffet for breakfast. That's finished and put away by about 9:30 and I go over to the EconoLodge and I clean my block of rooms, and the number of hours that I get is based on the number of people that stay there the night before. Two jobs.

She said I've been to New Bern, Greenville, Williamston, Washington, trying to find a job. Now, she doesn't have a lot of education, but she's just a great woman. She said I have no health care. I have no vacation pay. I have no dental plan. I don't have a 401(k) as I had when I was your company, and this is the kind of things that many, many, many people in our state that you were in your

industry and my industry and a lot of others face everyday when they get up.

And I'm going to give her back a job one of these days. I'm not sure when, but one day we'll find her a job.

COMMISSIONER WESSEL: Thank you.

CHAIRMAN BARTHOLOMEW: That's a very compelling testimony that you both are giving. Thank you very much. Thank you also for having some concrete suggestions as to what the policymakers in Washington can do. Mr. Chesnutt, in particular, you've mentioned a few that we haven't heard before. So that's really good, and I would also like to really acknowledge appreciation for focusing, for your focus on small and medium-sized enterprises because they often have challenges just taking advantage of the remedies that are out there that other companies don't have.

Mr. Bassett, I'd like to ask a question that focuses on product safety. Obviously, there's been a lot in the news lately about formaldehyde in clothing and pet food problems and toothpaste problems, and I noticed in American metal markets the other day that some people who are buying tubing from China need to start at least doing some more quality control and be concerned about what's going on.

Should American consumers be concerned about how the wood that's used in Chinese produced bedroom furniture is treated?

MR. BASSETT: Sure. It not only can conceivably health implications--obviously, there are environmental implications--some other issues are the finishing materials used on furniture, everything from lacquers to stains to paints. Lead is one issue. I think California is the only state in the union with the formaldehyde standard, but that's an issue as well.

Probably the biggest hindrance to watching this more closely right now in talking to other people in the industry are chain of custody issues: who at the end of the day is responsible for it? In a lot of cases, the bedroom furniture from China is being sold to a U.S. someone who was once a manufacturer, is now a distributor, who's reselling it. In some cases, it's going directly to the retailer.

In the instance of formaldehyde, it can be particle board of fiber board or plywood within the furniture. Then you have to go back to who actually is responsible for determining that that particle board or fiber board meets a certain standard. Is it the manufacturer? Is it who bought the board? Is it who bought the furniture? Is it who imported the furniture? Is it who retailed it to the U.S. consumer?

There are CPSC issues, particularly with children's furniture, bunk beds, cribs that involve everything from again things like lead paint, to in the case of bunk beds, if you were to snag pajamas or

something on it, potentially getting hung. There are tipability issues. Small children sometimes get up to the top of a tall chest, start pulling out the drawers and climb up them like a ladder.

Again, it's a little bit the Wild West out there in terms of imports. I can't remember the name of the company, but the one who has most recently had trouble with defective tires, who basically is an importer, not a manufacturer, who originally when they said they were going to have to do a tire recall, they said, look, all we do is sell the tires; we don't have the money to recall all these tires.

And, finally, they basically said, we'll recall them till the money runs out. You know ultimately when you're talking about importers and factories in China, there often is nobody essentially here in the U.S. with any real resources to basically get your hands on.

CHAIRMAN BARTHOLOMEW: I think one of the issues that has come up with all of this product safety is that people are starting to think about the chain of production. I bought a pet toy recently for a cat and it was proclaimed that it was handcrafted in Pennsylvania of organically grown Pennsylvania catnip, and as I bought this, I thought, I have no idea where the fabric that it was made out of was produced and what chemicals might have been in that fabric.

So, Mr. Chesnutt, are there similar concerns in terms of things that are being made out of--

MR. CHESNUTT: There could be, and you've seen that New Zealand has just had some action against China because they found some chemicals that were used to finish fabrics in China that might not have been what they should have been. I do believe that we're going to see some of that coming into this country. It just hasn't presented itself yet.

One other issue, and kind of your comment, and Mr. Bassett certainly knows this, but the concern that I have about our industry is our customers. The two major producers of upholstery fabric in this country have gone bankrupt this year, two of my very big customers. The furniture manufacturers that made upholstered furniture in this country certainly played a part in their demise because of imports or because of pushing prices down so much that it simply wasn't feasible or not possible to make a profit.

And just in the last few weeks, the furniture people, the upholstery people, are calling us and asking where can we get the goods now? The infrastructure to do lots of things in this country is coming apart and we might think every morning when we get up that there's something that might can happen to get it back or to get part of it back, but how long would it take you to tool up to get it back in this country because many of the great textile plants have been dismantled and auctioned off and exported.

CHAIRMAN BARTHOLOMEW: Shipped to China.

MR. CHESNUTT: It's a big concern, and, I'm sure this Commission shares those concerns that our infrastructure is coming apart.

CHAIRMAN BARTHOLOMEW: One quick comment, and that is the irony of North Carolina banks not supporting the textile industry but California banks doing so, and, of course, one of our great California banks is now headquartered here in North Carolina.

MR. CHESNUTT: That's right.

CHAIRMAN BARTHOLOMEW: Interesting.

MR. CHESNUTT: My previous employer as a matter of fact. My bank is Wells Fargo. My commercial is in. Okay.

HEARING COCHAIR FIEDLER: Mr. Bassett, you made reference in your testimony to circumvention of the antidumping orders as a result of investigation. Even though it may be a little arcane, let's talk about what they do to get around our decisions.

MR. BASSETT: The first thing I'd say is briefly, and I think in common English I can talk about combination rates, which is extremely important. In your handout, you'll see there's a lot more information, a lot more technical than I'm going to get. Please read it. But very simply, an individual exporter's rate out of China is based on that exporter's rate.

In the case of the furniture antidumping investigation, there are literally over a hundred exporters, probably hundreds of exports, several hundred, maybe thousands of bedroom furniture manufacturers in China.

So there is a huge number of these companies out there. The individual companies have a wide array of rates. Some companies were individually investigated and have their own rate. In the original investigation, there's a rate that applies to a great number of companies. In the first administrative review, there's a different rate that applies to another hunk of companies, but the rates range from half a percent to 216 percent.

Because there is such a wide disparity in rates, there's a great incentive on the part of Chinese manufacturers if they have a high rate to actually ship their product through another exporter who has a lower rate. And there's a great deal of opportunity to do it because there are so many different companies over there.

In the most recent administrative review, which is the second review, the Commerce Department has named three mandatory respondents. These are the three biggest exporters who were left on the list of potential companies to be investigated in the second administrative review.

What that means is if you weren't one of these three biggest

companies, your individual information is not going to go looked at, so if you're not one of the biggest three or four or ten companies over there, you can act with a great deal of impunity.

A combination rate, why I cannot explain it very well technically, it will not only look at an exporter's individual rate, it will also look at the rate of any other manufacturer they are exporting product for.

What it will do is raise the risk to those who export, who try to circumvent the order. So much of the effort we put forward and the Commerce Department has put forward can literally be circumvented in a snap. All it takes is the will of that exporter or manufacturer in China to do it.

The Commerce Department has already stated that they have the authority to assign combination rates. They do it in investigations now. Unfortunately, they changed that policy since our original investigations, and they do it in administrative reviews. They've simply declined to do it in our case while at the same time they've acknowledged the huge threat to our industry.

The only thing I can say is we are indebted to the Commerce Department because with a finite amount of resources, we think they've done a great job with an incredibly big and complex case in bedroom furniture.

Our antidumping case against China in bedroom furniture is the biggest case that's ever been brought against China in a dumping case. It's also extraordinarily complex. Unlike steel or some chemicals where there are a fairly limited number of inputs to figure out and cost in the sale of the product, in furniture, there are tens of thousands.

The Commerce Department we think is doing a great job with the resources they have. To start looking at combination rates might create some additional work, might create some additional complexity for them. But without looking at these combination rates, there is a huge loophole open for basically the biggest cheaters in China to cheat and get away with it scot-free, and it has a direct impact on our business and our workers.

HEARING COCHAIR FIEDLER: Thank you very much. Any other questions by anyone?

MR. CHESNUTT: By the way, as you well know, antidumping or countervailing duty cases in our case is almost impossible because we don't have standing.

HEARING COCHAIR FIEDLER: Yes.

MR. CHESNUTT: So it's a very difficult issue. One other issue as it relates to my company's segment of the industry and a large part of the industry in this country, there is no acrylic fiber made in the United States of America, zero. We pay an average duty for every

pound that we bring into this country of about six percent.

So we're paying duty, a tax on our company, for a product coming into this country that is no longer made here. So we get great support from our government.

HEARING COCHAIR FIEDLER: That's nice. Commissioner Wortzel.

COMMISSIONER WORTZEL: Mr. Bassett, I wonder if I could take you back to Xinjiang for a minute here.

MR. BASSETT: Sure.

COMMISSIONER WORTZEL: It also struck me as you were describing this that there's just no raw materials there. It's all got to come in by rail or road. When you begin to factor in all these other costs, you haven't so much as said so, but you're really suggesting very heavy state subsidies in order to, I infer, to gain market share.

MR. BASSETT: Sure. Absolutely. In the case of bedroom furniture, about half of the total cost of our product is material, producing it here in the United States. In several cases, the product is being produced in China is well under half of our total costs. So they're producing it, entire production costs or sales price for in some cases substantially less than our material costs.

COMMISSIONER WORTZEL: Do you know where they're getting this lumber into Xinjiang from?

MR. BASSETT: Not specifically, no. We certainly know a lot of it comes from Russia.

HEARING COCHAIR FIEDLER: Yes, this actually may be the Russian timber.

COMMISSIONER WORTZEL: You think this is the Russian stuff coming down?

HEARING COCHAIR FIEDLER: Yes, yes.

MR. BASSETT: At least, according to what I've read, Russia is not even absolutely tickled about it. They feel like it is not beneficial to their economy to the extent the lumber is coming out and they have laws against it. They have limits on what should be exported. They would rather see that lumber stay in Russia and contribute to their economy.

Again, bribery is so easy and prevalent along the border, it's not a complicated thing to do. Again, the New York Times article and Washington Post article has a lot more information about it than I provided.

COMMISSIONER WORTZEL: Mr. Bassett, I wonder if you would again describe this database that hasn't been updated since 2004?

HEARING COCHAIR FIEDLER: Mr. Chesnutt.

COMMISSIONER WORTZEL: Mr. Chesnutt. I'm sorry.

Because I would really like to capture that in the annual report we have to write. That's something that needs to be corrected.

MR. CHESNUTT: That's the Commerce--

COMMISSIONER WORTZEL: And what it would do for your industry if it was updated?

MR. CHESNUTT: It's the Commerce Department database of the subsidies that are available to the textile and apparel producers in China. It would be great information to have so that loaded with that data, that we could certainly go to Commerce or Trade or wherever we have to go in order to make our case. And it just simply doesn't get updated.

Maybe it's lack of staff. Maybe they were all working on the bedroom furniture.

HEARING COCHAIR FIEDLER: All two of them. Yes.

MR. CHESNUTT: But, you know, it would be great to have up-to-date information.

COMMISSIONER WORTZEL: Thank you.

HEARING COCHAIR FIEDLER: Commissioner Videnieks.

COMMISSIONER VIDENIEKS: A brief question to both of you. It appears that PRC doesn't have to do it, but I've heard from a lady in the furniture business--she installs shelving and stuff in schools in Pennsylvania--that apparently China has factory ships stationed outside the continental limit that are able to compete. Just like I've heard about fish products and so forth.

The question is have you heard about this in the textile industry or the furniture industry that such an approach is being taken by China, being considered? It's anecdotal.

MR. BASSETT: That's a new one on me.

HEARING COCHAIR FIEDLER: It's historically--when we sold logs to Japan, the ships that the Japanese sent over processed the logs prior to landing in Japan. That technology has existed on the sea for two decades.

MR. CHESNUTT: I have not heard of processing any textile on the shipboard. Only the logs and certainly seafood processing that may go on.

HEARING COCHAIR FIEDLER: Yes.

MR. CHESNUTT: That may occur on the boat.

COMMISSIONER VIDENIEKS: Thank you both.

HEARING COCHAIR FIEDLER: Commissioner Wessel.

COMMISSIONER WESSEL: One more question. You didn't mention zeroing. Is that an issue you spend time on as well?

MR. BASSETT: That's a huge issue with us absolutely.

HEARING COCHAIR FIEDLER: Could you explain zeroing to the rest of us?

MR. BASSETT: I'll do the best I can.

CHAIRMAN BARTHOLOMEW: You did a great job already. We might be giving you all of these concepts to explain to us.

MR. BASSETT: In dumping investigations, the product is divided up into I believe they're called CONNUMs, but different groupings of different types of product, and dumping margins are calculated for each of those products. In some cases, you have positive margins. In some cases, you might have negative margins.

I believe the current policy is--and then at the end, you take all those margins and weighted average, put them together, and come up with a final weighted average rate.

I think that actual calculation of the rate takes the negative margins and puts them to zero instead of uses them as a negative margin to offset the positive margins. I know there has been some criticism maybe at the WTO level that we do that. I don't believe we're the only ones who do do it. I know it's been policy for quite awhile.

Again, in our industry, there is such a huge variety of products. One thing that would hurt us terribly is if, again, not only do you have beds, you have king beds, queen beds, twin beds, full beds, bunk beds, loft beds, storage beds, you have headboards, footboards, rails, canopies, steps.

You have dressers, chests, chest on chest, highboys, armoires, mirrors, nightstands. I can go on and on and on. There is such a wide variety of product, what would hurt us is if to the extent they could pick a certain number of those, essentially sell them at essentially a fair price, and use that to offset the products that are being sold at a horribly unfair price. If zeroing were not there, it might allow for a way to selectively still attack our industry and basically destroy it.

Now, our lawyers in Washington certainly can do a better job of explaining the rest in arguments to you, but unfortunately that's about the limit of my--

HEARING COCHAIR FIEDLER: Actually, I doubt that.

COMMISSIONER WESSEL: It would take them several hours. As I understand it, they explained it to me, if you're stopped for speeding on the highway, going five miles over the limit, what the WTO is saying, well, if you didn't speed for the last five days, they'll give you credit for that. So in furniture, you would have no margins and if they do the right thing on the armoires or the mirrors or something, they get to deduct that and you have whole segments that could go out of business.

MR. BASSETT: Absolutely. And there are whole segments of our industry that no longer exist here. For instance, bunk beds. There is no longer a bunk bed industry here. All bunk beds are essentially

imported. If they want to drive the price up on those, to use it to offset underselling what they are competing with us that's still made here, it's kind of like getting a get-out-of-jail free pass.

HEARING COCHAIR FIEDLER: Thank you very much, gentlemen. It's been very educational.

MR. BASSETT: Thank you.

MR. CHESNUTT: Thank you.

HEARING COCHAIR FIEDLER: We'll probably be calling on you again. We're now going to break till 3:30 and have our next panel.

[Whereupon, a short break was taken.]

CHAIRMAN BARTHOLOMEW: Before we begin our next panel, I just wanted to thank the people here who helped put this hearing together for us. Particularly, again, I'd like to acknowledge Tom Martineau, the China Projects manager, the Associate Provost for International Affairs and Institute for Global Health and Infectious Diseases.

I'd also like to acknowledge the assistance of Jennie Baybour and Katie Mackowiak, who worked on logistics, and also Courtland Rudon who is our event technology specialist today. So thank you very much to everybody. We really appreciate your assistance. We wouldn't be able to do these kinds of hearings without you. I'll turn the hearing over to Commissioner Houston.

PANEL VI: THE HUMAN COSTS TO NORTH CAROLINA OF CHINA TRADE, AND AMELIORATING THOSE COSTS

HEARING COCHAIR HOUSTON: I have to say we've all been chatting, and it's been a wonderful experience for us to be in North Carolina. It's just been great. For our final panel, we'll hear from Dr. James Owen, the President of Piedmont Community College. Dr. Owen is a life-long educator who has spent most of his career in the community college systems of North Carolina, Tennessee, Florida and Georgia.

North Carolina has a reputation for having a very strong community college system and for its innovative efforts in retaining displaced manufacturing workers for the new economy. I think we probably should send you to Michigan.

We'll also hear from Thomas White, Director of the Division of Employment and Training in the North Carolina Department of Commerce. Mr. White holds degrees from Duke University and N.C. State, so he is also a local.

The division he heads has the responsibility of administering the Federal Workforce Investment Act, which is up for reauthorization this

year, which I guess we need to take note of. Perhaps we can take back to Washington some of his suggestions.

Mr. White, if you will start, that would be great.

STATEMENT OF MR. THOMAS J. WHITE, DIRECTOR BUSINESS AND INDUSTRY SERVICES, NORTH CAROLINA DEPARTMENT OF COMMERCE, RALEIGH, NORTH CAROLINA

MR. WHITE: Thank you very much and thank you for conducting these hearings in our great state. I'm sorry that you had to point out that biographical affiliation with Duke and N.C. State—you just ruined my credibility with the nice reporter from the Daily Tarheel.

HEARING COCHAIR FIEDLER: You didn't think you were going to be able to pretend; did you?

CHAIRMAN BARTHOLOMEW: Wait, wait. I'm a Duke alum so it's okay.

MR. WHITE: I do have the pleasure and privilege of working at the Division of Employment and Training. We're currently undergoing a reorganization, and our Workforce Commission and our State Board and Division of Employment and Training are becoming the Division of Workforce Development in the North Carolina Department of Commerce.

Our organization does serve as the grant recipient and administrative entity for the Federal Workforce Investment Act through which we serve youth, adults and dislocated workers.

In our last fiscal year, we served approximately 30,000 individuals with $80 million of formula funding in a variety of employment and training projects and programs operated and contracted by our 24 local area Workforce Development Boards throughout our state.

This afternoon, we will focus upon one growing segment of that population: dislocated workers. Our division has the responsibility to implement our governor's Rapid Response Program, through which we provide early intervention and comprehensive transitional services.

These services are activated upon the occasion of plant closures or downsizings and significant reductions in force that result in major worker layoffs.

Rapid Response is perhaps the quintessential support service intervention, and it remains a critical component of how we attempt to mitigate the economic impact and the social upheaval experienced by individuals, families, neighborhoods and communities, and in fact regions that can frequently occur as a result of the major job loss

precipitated by global competition and related market forces.

We would respectfully offer the Collins and Aikman plant closing in Roxboro, North Carolina that was announced in April of 2006 as one salient example of a manufacturing enterprise that was compelled to cease operations of its automotive fabrics production facility, in effect putting 545 individuals out of work.

Our local and state coordinated rapid response effort has in many respects served as a model for an effective intervention, and an efficient, effective deployment of our array of support services that are delivered in such circumstances, some of which have already been alluded to by individuals such as Betty McGrath earlier today from the Employment Security Commission, along with Dr. Owen, constitute our primary institutional partners, the Employment Security Commission, and our great community college system.

Ms. McGrath also alluded to the 2003 Pillowtex phenomenon. Our state is one of nine states participating in a demonstration project with the U.S. Department of Labor called the SHARE Network, sharing how access to resources empowers, capitalizing upon our strong faith-based and community organization network.

Pillowtex was the first time (Curtis Morrow is here from ESC and played a very key role in this critical effort)--that this strategy was deployed. It's been very effective and we are trying to make that a statewide service. About 50 percent of our local area boards today have this SHARE Network as a resource. In effect, many JobLink Centers that help extend our service delivery to the neighborhood level to try to help individuals in those circumstances, augmenting our 100 plus official JobLink Career Centers throughout the state.

A cursory review of the time-line of the Collins and Aikman facility may be instructive. We received an official announcement via a WARN notice on April 6, 2006, that the Roxboro plant would close. A sister plant in Farmville in eastern North Carolina also would be closing, impacting approximately 595 workers.

The company was certified for Trade Adjustment Assistance. Subsequent to the initial Rapid Response meeting, the company was also certified for Alternative Trade Adjustment Assistance. We'll confine our testimony this afternoon to that Roxboro event in respect of our time constraints.

On April 18, a Rapid Response on-site presentation was made to the Collins and Aikman operations management. Our Commerce Division led this effort, ably assisted by our local and state JobLink Center partners including the Kerr-Tar Workforce Development Board, the Employment Security Commission, and Piedmont Community College.

A number of subsequent sessions were held with various

employee subgroups, and this is very important to convey information in a timely cohesive fashion, to apprise them of the wide array of support services available including counseling, retraining, reemployment, as well as health insurance and housing assistance, which were talked about this morning.

In addition, an extra effort was put forth to conduct intermediary joint strategy sessions and subsequent job fairs designed to engage and involve our economic development partners and surrounding new and expanding industry that could provide good job opportunities.

This was alluded to as well this morning. It's critically important in our public workforce system that we engage and involve our economic development partners. These are the individuals at the local Economic Development Commission level or Chambers or Commerce. In North Carolina, we have seven economic development regions and we have our State Department of Commerce with state offices as well as local outreach recruiters in business and industry.

It's critically important that that be done because they're the source of the new job opportunities for reemployment. And that hasn't always been done in our country. It's being done more now because it's a logical partnership. It's very efficacious and it works. It's just a pragmatic way to go.

The Person County Economic Development Commission, in fact, and our Research Triangle Regional Partnership were outstanding institutional partners in facilitating these important commitments which have helped produce the following results after the plant officially shut down one year ago this week.

Today, according to a follow-up analysis performed by the North Carolina Employment Security Commission regional staff--Muriel Offerman is here--they give great support in things like this--226 of those 545 individuals from Collins and Aikman have secured gainful employment, many with manufacturing enterprises throughout the region.

Our system has used on-the-job training contracts with firms such as AW North Carolina as an effective mechanism to cultivate industry-based reemployment opportunities.

We have 114 individuals enrolled in academic competency or occupational skills training via Workforce Investment Act or the Trade Adjustment Act, most of whom are at Dr. Owen's Piedmont Community College.

We've also utilized the Alternative Trade Adjustment Assistance Program to secure and sustain job procurement for many of the impacted individuals who are over 50 years of age.

According to the ESC data, we have 120 individuals receiving unemployment benefits; 114 receiving Trade Adjustment Act benefits

only. Some of the remaining dislocated workers have opted to retied or have moved out of state. Some have not maintained contact with our system.

Our primary point of emphasis is that thanks to our solid economic development collaboration, facilitated by our Department of Commerce, which is represented here by Libby Smith, we have been able to mitigate the impact that this event has caused employees.

I'm not going to finish this. I got 19 seconds.

HEARING COCHAIR FIEDLER: That's okay.

MR. WHITE: It is important to note that some of our clients and customers are still struggling in their valiant efforts to secure reemployment. As Ms. McGrath noted so poignantly in her testimony this morning, the decline of our legacy commodity industries in apparel, textiles and furniture and tobacco have been devastating to a lot of those local communities that she described.

The Rapid Response services via both the Workforce Investment Act and the Trade Adjustment Act to attend to the multiplicity of needs that are faced by our impacted workers and their respective families are critically important.

Let me close by reading a testimonial or endorsement of Rapid Response by Mr. Wesley Stone, who was the human resources manager for this great company. He's now reemployed by Louisiana Pacific in Roxboro, North Carolina.

I quote: "I cannot say enough about the support that the state, local community college, Workforce Board and ESC offices provided to the employees of Collins and Aikman when the shutdown was announced. This team presented options under the Trade Act and Workforce Investment Act, meeting with employees to review what would be best for them and their respective futures. Plans were made before many employees actually lost their jobs, and this made the transition much easier and manageable for all involved.

"No one wants to be told that they're losing their job and the feeling of hopelessness and helplessness that comes with that. However, the programs that the Commerce staff have brought have eased the minds and brought a sense of peace for many. As I see many of my former coworkers throughout the community, they are now engaged, encouraged, and excited about what the future holds for them."

Thank you very much for the opportunity to submit this testimony.

HEARING COCHAIR HOUSTON: Thank you very much, Mr. White. Dr. Owen.

STATEMENT OF DR. H. JAMES OWEN

PRESIDENT, PIEDMONT COMMUNITY COLLEGE
ROXBORO, NORTH CAROLINA

DR. OWEN: It's a pleasure, commissioners, to be here to represent community colleges. Piedmont Community College serves Person County and Caswell County, which are in the north central section, central section of our state. We serve about 8,900 different adult individuals per year. The entire North Carolina community college system serves about 800,000 of our citizens each year.

There are 58 community colleges of which we are one. The mission of our college is to serve as a catalyst for economic development and to improve the quality of life for our citizens. I have served as President of Piedmont Community College now for 21 years, and have gone through a number of these Rapid Response activities that Tom White just discussed. He gave a very fine case study of Collins and Aikman.

The key to doing what we do with the Rapid Response activity is to have empathy and a heart for helping people. It's not like teaching calculus and saying ya'll come and get it, here it is; you must work very diligently with people who have worked for the same company for 20, 30 and 40 years. You must make sure that they understand the options that are available to them.

If you look at the testimony that I submitted, we talked about such things as the various companies and secondary businesses that lose employees as a result of these layoffs and plant closings; these also are very important, such as the restaurants, the people in the furniture business. We lost a Winn-Dixie store very recently that was very large operation in our community.

A question was raised earlier this morning about the role of the various funding sources. . We receive funds to assist dislocated workers from the Workforce Investment Act through the Local Workforce Development Board. I have served as a vice chair of our Local Workforce Development Board for a number of years.

The Workforce Investment Act funds, which we receive, and it was noted that it's up for reauthorization in Congress, we could not do the type of work that we do if we depended solely on the sorts of funds that we have available to us from the state.

We also have tremendous support from our Economic Development Commission locally, which is a vital asset. When you look at the activities that people go into, as Tom noted, one of the activities that we engage in is helping people understand if they want to become an entrepreneur and as they're being laid off, how do you become an entrepreneur. We work through our small business center and NC Real to do that.

Among the list of things that we find include that many people do not have computer skills. Many people do not have a high school diploma. So what we've got to do is work with people through assessment of their skills. We are using the Work Keys assessment tools of reading, math and locating information.

We are using tests which help people determine where they are, but if they're not where they need to be, we are using remediation tools as well. We have a whole Workforce Development Center that is provided to us by our county government, and the Center's job is to make sure that these folks who are being laid off are also being treated well.

Our business is an up and down business. We go to a rapid response location where people there are being laid off--we just had one about a month ago, Alsco, a metals firm had announced that they were laying off 67 people, and that's depressing for us, of course, to do that.

But the very next week, we had an announcement of a new industry coming to town providing 270 jobs whose job it is to make the successor to the Humvee, the Cheetah vehicle that you've read about in USA Today and The New York Times, Washington Post, Wall Street Journal.

This company will be employing 270 people, so we are using the Workforce Training Center to do the necessary assessment of Work Keys and the Key Train remedial preparation. Many of the people being laid off from Collins and Aikman and about to be laid off by Alsco and others are coming to the Workforce Training Center to be assessed and then interviewed there by members of the new company.

So it is a part of our society that says these things are happening. I was just looking at a picture today of 13 years ago when we had the groundbreaking of a textile firm in our industrial park called Crown Crafts. Now 14 years later, we are now working with the third company in that same building.

So one of the things that the college has done in every one of those instances is to provide the new and expanding industry training to provide the assessment capability for the people being laid off or the people that are being trained for the new company, whether it's tobacco, or whatever the firm might be.

What we do is just a part of our mission. Piedmont Community College deals with adult basic skills, basic reading and writing. It deals with adult high school, GED preparation. It deals with certificates and diplomas and associate degrees, college transfer programs, the whole realm. Therefore, the North Carolina Community College System is about as comprehensive a system as you'll find anywhere in the country.

But the excitement of the rapid response program is that this is a very significant activity, and our people take it very, very seriously because it reflects on our community. It's what's keeping our community together so we can help people who have a sense of place and have a sense of wanting to stay in the area, by helping them learn what can they do and how we can help them do that.

We do not want people simply fleeing because they don't have a job. We want to get additional jobs for them to take and to help to take them to where they need to go.

Thank you.

[The statement follows:][6]

Panel VI: Discussion, Questions and Answers

HEARING COCHAIR HOUSTON: Thank you very much. I think we probably have a few questions for you gentlemen. We're not totally out of questions yet.

Mr. White, I'm curious, in a lot of the literature that we read before coming here, there was a lot of talk about something that I think has become even more obvious to us today during the hearing, which is captive geographical employment.

You have a small town and they have a textile mill, everybody works there, you don't finish high school, you go to the mill, the mill goes away, and you're just really out of luck. So it seems that the state of North Carolina has really recognized that as a problem and really faced it head on through the community college system and so many other assets that you've deployed to help that, which I think is great.

One of my questions is, it's not everyday we see somebody from commerce sitting with the academe, which is kind of cool. It doesn't happen very much. I wonder who else is in your universe? Certainly where you don't have the captive local employment anymore, you've got to look to public education from kindergarten up to keep kids in school.

Also, you've got the adult learning part of community college versus the--transitioning from high school to college or for whatever reason young people go to community college. So I wonder if each of you could take a little piece of that and talk about the demographics of the people that are coming in as well as who else is in that universe that you operate in to help these folks?

MR. WHITE: Just real briefly, in all of these major periodical rankings of best places to live, the reason why the Research Triangle is always at the top, the Raleigh-Durham market is because historically the Research Triangle Park was predicated on a partnership that

[6] Click here to read the prepared statement of Dr. H. James Owen

included academia, business and government.

That's the basis for it. So it really isn't unusual in our state to see academia and business working together. Dr. Owen's vice president is currently serving as the President-elect of the Roxboro Area Chamber of Commerce.

DR. OWEN: I'm a past president of the Roxboro Area Chamber of Commerce, as well.

MR. WHITE: And so you see that. That's not an unusual occasion. So his faculty and staff have great respect throughout the business community and vice versa.

One of the first innovative things we did was with a 12 or 13 county consortium, we have seven regional economic development consortia throughout the state. The Research Triangle Regional Partnership goes up to Vance and Warren County at the Virginia line, including Person County, all the way down to Moore County in Pinehurst, but it includes that central portion known as Research Triangle, Orange-Durham-Wake, which is the core generator of great job opportunities, good jobs at good wages.

So one of the first things we did was have a meeting with employers and economic developers from those 13 counties to tell them we have 545 good workers from Collins and Aikman who have great work ethic, who wanted to explore gainful employment opportunities. So that's imperative that you try to engage that resource immediately.

And then you structure your job fairs accordingly and have multiple job fairs with mobile job links and recognize that geographic diversity.

Dr. Owen mentioned Alsco. You were just in Ohio. That company is headquartered in Ohio. When we had the Rapid Response, we learned from their human resource manager that many of his workers actually live in Virginia or up towards the border. So we went up to Ikea-Swedwood. We had lost them in an economic development competition with our neighbor to the north, talked to their HR director, who happened to be a dislocated worker from Konica Minolta in Greensboro and still is a North Carolina resident but commutes.

So it's not only going across county lines; it's going across regional lines and sometimes going across state lines. So you have to deal with that diversity because the ESC has given us some wonderful origin destination survey data, and people live and work and commute far greater distances now than ever before, and it was alluded to by Betty McGrath today, those mill towns, historically people almost walked to work. Their residential capacity was actually taken care by the industrial employer at the time. So that's changed. So transportation is always a big challenge for us. We try to coordinate

that.

DR. OWEN: Tom, one of the things we talk about in today's society is silos. And if you have the economic development silo and the community college silo and another silo somewhere, doing their own thing, you're not going to meet the need that we're talking about here today.

It requires a partnership; it requires support from the federal level, state level and local level and it needs to be, we don't care who gets the credit as long as we get the job done and as long as people get the education they need to get the job and sure, our people commute from our county, 20, 30 and 40 miles to get a job. But our job when we get them is do you have computer skills, which virtually every job today requires that.

Well, no. Here we'll put you in a computer lab. Well, I'm afraid of that. So you'll see in the testimony and in the materials submitted the activities that we use to familiarize people with how to get a job, how to search for a job, how to develop a resume, how to use a computer, because most of these people who work for a company for 30 years, they never knew what an interview was or a resume.

In our parlance, they just showed up for work. Our job is to prepare them, so when they do show up for work, and they do come in for the interview for the new company, in our Workforce Training Center, that they're Johnny-on-the-spot with what they need to have so they can be successful and get that job.

HEARING COCHAIR HOUSTON: Let me ask another question to probably particularly you, Mr. White, about wages. One of the things again that we've learned since we've been here is that as you transition from a manufacturing environment and you go perhaps to a service environment, that even though your unemployment numbers show that you're one for one equally employed, the wages are depressed.

How much of an impact has that had on the state, and I know that the immigration issue has been a real political hot button here in North Carolina, and how much does that put pressure on these folks who are having to be moved out of manufacturing into the service sector?

MR. WHITE: That's been mentioned on multiple occasions throughout the testimony. It's an issue, and that's why the TAA certification was so critically important because some folks have realized wage loss, and they are working in service industries without benefits.

But there are concomitant success stories where we've attracted advanced manufacturing in high wage jobs and with the community college capacity to train individuals, we've seen some wonderful stories where people have actually through the training been able to

assimilate occupational skills that have led to higher paying jobs with better benefits.

They're making transmission that are in Toyota Camrys. They're at BD Biosciences making laboratory apparatus, but that's all contingent upon a market that's generating those new job opportunities.

You have the institutional capacity and then you have to convince the folks, you may have to commute now, so many of the people that lived in Timberlake and Roxboro are now traveling across county lines into Durham's Treyburn Corporate Park working for these multinational companies that are paying very good wages. So that's what we aspire to. We want to repeat that kind of success.

HEARING COCHAIR HOUSTON: Wonderful. Commissioner Wessel.

COMMISSIONER WESSEL: Thank you. Very impressive testimony, very impressive work that you're doing, and I commend you. It's, I know, deeply appreciated by the people here who are at risk.

I want to understand a couple of things, if I could. You were here earlier today and heard some of the questions about training and some other issues. If you look at some of the industries that are at risk, furniture, textiles, tobacco, et cetera, maybe pork, as we heard earlier, to what extent is there an ability to get in there, in fact, before any of the closures?

How integrated? What support networks are there from the state to say, look, we have these workers who are 40, 50 years of age who don't have any of the computer skills, may not have all the literacy skills that we want, not only do we need to prepare them for a downturn, but to the extent we train them now, we potentially make them more competitive and, in fact, avoid any downturn by giving them as the new equipment comes in?

How does that work? Is that totally left up to the employers to come out of their pocket or a union, if there is one, to, in fact, demand a training program or pay for it? If you can respond to that.

DR. OWEN: That's a very, very excellent question. Through our Workforce Development Boards, we have incumbent worker grants that are available, and we have been successful in our community in getting several of those to train--

COMMISSIONER WESSEL: I'm sorry. Do those go to individuals or do those go to--

DR. OWEN: They go to the company. And the company uses that to train individuals within their company who are incumbent workers, and the community college in our case is a very important participant in the development of that because XYZ company is maybe

turned off by all of the paperwork that they have to go through to get one of these grants. So if our staff can assist them in framing what their needs are, they really appreciate that.

Also we have a program in the North Carolina Community College system that deals with training incumbent workers who are already employed. Many people are involved in our electronics program, in our Electric Power Production Technology program, in Facility Maintenance, Industrial Maintenance, training and upgrading maintenance mechanics, that type of thing.

Many of the programs at the college are used to help retain the company from thinking about leaving. Our faculty will teach courses of a short-term nature within the plant as well as on campus. We do not have a barrier at the front door of the college. We are part of that industrial setting.

Now, you realize the population of our county is 36,000 people, and in the last seven or eight years, we've lost about 2,000 jobs in large groups, about 16 groups, which I have detailed, and that is not the same as Pillowtex, but it's our Pillowtex in terms of a relative relationship to the number of people that we serve and the number of people who do not have jobs.

So it's incumbent on us to work with as many companies as we can with the incumbent workers that they have. Community college tuition is very low in North Carolina. We can offer, for instance, a 140 clock hour welding program; the tuition would be $65 for a person who's currently employed to take that program. Well, industry is very pleased with that.

MR. WHITE: I'd echo those sentiments. The fact that Force Protection comes up from South Carolina and in an adaptive reuse fashion goes into that very Collins and Aikman facility is a demonstration of their faith in the community. They're investing a lot of capital, and 270 new jobs are being created, and it would not be surprising at all to find a number of Collins and Aikman individuals who are retrained and reemployed making that Cheetah vehicle for the U.S. military at probably higher wages and probably better benefits.

So that's some faith in that community, but the capacity to retrain individuals--it would be great if you could have a layoff aversion program, and we have that somewhat at the Department of Commerce, making visits all the time, how can we help you, are you experiencing any market difficulties? Do you have any workforce issues?

We spend about $10 million annually on that incumbent worker training program and serve many thousands of individuals. So that's a productivity enhancement. That's probably our most popular product along with on-the-job training. I mentioned Konica Minolta. About

40 miles west of here in the Greensboro market, we have a WIRED grant of $15 million Workforce Innovation Regional Economic Development grant over 3 years from the U.S. Department of Labor.

Konica Minolta is not in textiles or legacy commodity industries. They were in photographic paper and because of digital photography, they went out of business. So you have half a million square foot plant, high visibility on a major interstate, and that happened in October of 2006. Today, the plant has been resold to Zinc Imaging, which makes inkless paper products and the machinery and the paper. It has imbedded heat crystals.

The former president of Konica Minolta is now the plant manager of Zinc Imaging. He has 59 employees, all of them are former Konica Minolta employees, and it's interesting to know what happened to the management. The management is just as unemployed as the rank and file in the production.

CHAIRMAN BARTHOLOMEW: Right.

HEARING COCHAIR FIEDLER: Yes.

MR. WHITE: So we all ask that at a Rapid Response. What are you going to do? If you're not going to retire, where are you going to go? One of the HR people I mentioned is at Ikea Swedwood up in Danville, Virginia. Another is the HR manager at Honda Jet. Honda Jet's world headquarters is in Greensboro. Their plant is under construction, 250 to 500 employees. So we have connections with those people. They're satisfied customers.

They're dislocated workers who have been able to retrain somewhat, very rather short-term basis, and reemploy because they have good latent occupational skills. Where do you think we'll go to try to seek employment opportunities for our dislocated workers in those industries? To Honda Jet, to Ikea Swedwood.

You form that capacity, and those are individuals we can get a testimonial from--Bob Harris, in the same way that we got from Wesley Stone. Ironically enough--he wouldn't mind me mentioning this--Wesley Stone is going to try to get on with Force Protection. He says I love Louisiana Pacific, but I think I can do a better job for this company because I'm into a production modality.

So people make a difference. They really do make a difference. So if you build that rapport and that esprit d'corps with the management, it's good to follow where they go because they'll probably reemploy faster, and they can help. There's a real attachment to the individuals that they worked with for decades.

DR. OWEN: Collins and Aikman had a 430,000 square foot plant. It was vacant after the closure. Into that plant comes Force Protection, but there were three Collins and Aikman plants in town so into one of the other plants comes a group of people who used to be

employed by Collins and Aikman who now employ 60 people making paint rollers, P&A Paint Roller.

So also in that building is a new industry is starting. The college will be, we already are doing new and expanding industry training for P&A Paint Roller before we started doing it for Force Protection, but that involvement across different lines of communication is the key.

HEARING COCHAIR HOUSTON: Chairman Bartholomew.

CHAIRMAN BARTHOLOMEW: Thanks very much and thank you, gentlemen, for very interesting testimony. Commissioner Houston mentioned what a treat it is to see the thinkers and the doers on panels together. It could just be that in Washington, D.C., we have a thinking class, which I suppose sometimes we're grateful that they actually don't go out and try to do anything with what they're thinking, but--the think tank community that I'm referring to.

HEARING COCHAIR HOUSTON: Hey.

CHAIRMAN BARTHOLOMEW: I have several questions, one of which is, Dr. Owen and Mr. White, for both of you. You've talked about several places where you're in the third generation of company that has moved into the same place. Does the transition get any easier for the workers after they've been through this once or twice?

And how much of a commitment are you finding that people are making to upgrade their skills or are they so relieved when they get another job that the possibility that that job might not last--are people thinking about that? I'm asking you to generalize, which obviously are different personal decisions, but how much of a commitment do you see that people are making to try to put themselves into a position where this isn't going to happen to them again?

DR. OWEN: When we have a Rapid Response activity, we spend a number of hours interviewing, doing questionnaires, having workshops with the people being laid off. We try to assess what their interests are and what their needs are, and then we tailor a program, you know, to fit that.

Now, some might want to become a truck driver. Some might want to become a nursing assistant. Some an LPN. Some go into welding. So it could be a short-term program or a medium-term program. So what we try to do is to look at the overall job market and then tailor that.

But first many people need some basic skills before they can move into welding, and so we try to ameliorate and overcome that problem by making sure that through an assessment and through the Work Keys and the Career Readiness Certificate which is growing at a fast pace across the country in terms of reading, math and locating information, to make sure that a person is prepared for that job.

Now, sometimes when they do get upgraded through their training, they're going to have to travel 30 or 40 miles to get the job, but I think we in the questioning and in the counseling and in the working with people, we try to let them know that if you don't do anything, you know, you're likely to be here next year as well when the company that you take up space with takes you in because you don't have any skills as well.

So we try to impress upon them that the future is for those who are prepared, and that has resonated because you can tell by Tom's assessment. In a very short period of time with the 545 folks laid off from Collins and Aikman, they have tracked where they are and what they're doing. We know that about half have already found new jobs.

That to me is the proof of the pudding if we have people--I can tell you about people who in the last five years have had three different jobs, been laid off twice, and that's when we really say, look, you've got to get a hold and a grip on this, and that really makes the point when that happens, but we try to avoid that at all costs.

CHAIRMAN BARTHOLOMEW: Mr. White, anything to add?

MR. WHITE: No, Curtis Morrow has testified on Capitol Hill recently about that phenomenon, and we talked about case management. That was alluded to this morning. Most of the people that I've encountered want to go back to work immediately, and Mr. Raynor mentioned they may have an apprehension about going to even a wonderful community college because it's such a foreign environment to them. They haven't been in school for decades and perhaps didn't experience success when they were in that environment.

So you be creative; maybe you can engage literacy councils to do one-on-one tutor training or mentoring, and you can do that in our state because we have community-based organizations that offer complementary training, and community college is very inviting of that partnership.

The ESC local managers know these individuals. They know their families. They live with them. So frequently they'll see--it's hard to generalize because each individual person and each individual family is different. But we mentioned the North Carolina Research Campus. That is now where what was Pillowtex, it's being created. There are some rather high lofty hurdles there to overcome to get a job at a facility that's going to be a biotech Mecca for our state.

We're the third-largest state in biotech behind California and Massachusetts. But the threshold to get into those jobs, and it's being created as another partnership with our universities, community colleges, but Mr. Murdock also has a Dole packaging plant for fruits and vegetables down in Gaston County.

Former Governor Hunt--Libby worked for him--he was asked a

question at the announcement when they announced this wonderful plant. And one of the former Pillowtex workers asked him, do you think I can get a job here? And Governor Hunt was real candid. He said I don't know if you can get a job. This gentlemen was in his 60s. But I guarantee you your sons and daughters can get jobs and your grandchildren can get jobs here at this facility, and maybe there are some jobs for you, too, perhaps not in biotech, given the fact that you don't have the educational credentials, but certainly there's going to be a multiplicity of jobs that are vendors around here, and maybe in Gaston County in Mr. Murdock's other facility, which doesn't have that high threshold.

So you constantly want to be doing both. You want to attract new industry because of what that brings to us. It brings a higher standard of living with higher wages, but we also want to see if we can attract those traditional manufacturing industries. So that's a nice complement, Mr. Murdock's investment both at the high end and at the more basic level.

CHAIRMAN BARTHOLOMEW: May I ask another question?

HEARING COCHAIR HOUSTON: Sure.

CHAIRMAN BARTHOLOMEW: Which is we've really had the benefit today of the experience and the expertise of so many people, and we're very grateful for that. I'd like to ask you to take a step back. We came here to take a look at the impact of China on North Carolina's economy, the losses, the gains. This is not a reflection on either your youth or your age, but you've been doing this for awhile. Have you seen a change over the 20 or 30 years in which you've been doing this work about the extent to which the dislocations have taken place, the speed with which they're happening?

And do you attribute any of this to changes that are brought about by China's economy?

MR. WHITE: We mentioned during the break with your wonderful staff here, Scott and Paul, the fact that Lenovo having a North American headquarters in Research Triangle Park after their acquisition of IBM's PC division. I have been doing this long enough. I remember when IBM was building a presence here, and to see that happen at the same time that we're having Rapid Response service delivery, because there's 450 individuals who are being laid off, there's about three or 400 high tech workers are coming into this marketplace with Lenovo to staff the headquarters operation, which is a tremendous coups, you wouldn't ever envision that five years ago perhaps.

So the alacrity with which these things are occurring. So you have to have some balance. You want to go ahead. It's an $80 million brand new office complex in Morrisville, North Carolina. We won the

competition as a great state. North Carolina is continually ranked by Site Selection magazine and other journals as being number one in the country in the ability to run an economic development program that produces that kind of success.

But you want to make sure that you take care of the 450 people, 350 Lenovo, 100 manpower, temporary service phenomenon too, and fortunately in this market, we can probably be successful at both ends. We can accommodate those newcomers while we're also trying to help them be successful and the people that were laid off. Yet the alacrity with which that happens today is astonishing and it is challenging.

CHAIRMAN BARTHOLOMEW: Dr. Owen?

DR. OWEN: Well, I was looking at the list of plant closings and layoffs in our area, and when I came to our community 21 years ago, Collins and Aikman had probably 2,200 employees. So what's happened over the last 20 years is when they closed, it was 500 and some, so there has been over the last 20 years a decline, and the same thing would be true with the others. And about 60 percent of the jobs that I have portrayed in my report were eligible for TAA assistance.

So the basic place for that would either be Mexico or China. Now, we have two textile firms that are maybe very interesting case studies. We recently attracted a textile firm from Israel, Spuntech, very high narrow woven medical type wipes, very high tech textiles. They're putting in about $40 million worth of equipment and they'll probably have 75 employees.

The ratio of equipment to employees is most interesting, and the plant manager said to me if it weren't for this high tech equipment here, we wouldn't be here in your town. He made that point very carefully.

Now, we have another firm in the south side of town that makes parochial school uniforms and the college helped them years ago transition from a cut and sew operation into a new specialized activity and they still have 165 employees and they're probably the leading company in the country for uniforms for school kids. So there are some examples in our immediate area of specific things which the college has worked with that have retained textile activity, but they had to be a specialized niche market activity to be successful.

HEARING COCHAIR HOUSTON: Commissioner Fiedler.

HEARING COCHAIR FIEDLER: Thank you. It's been very impressive today, and you two gentlemen are very impressive. But I want to ask you a hard question perhaps and I don't mean at all to be impertinent. What are you not doing right? What could you do that you're not doing now?

What resources? What resource constraints hold you back from doing more? Because if we were just to listen to what you said, it's a

full success story, and I don't do everything right. I certainly don't do everything right all the time. And if I had more money, I think I could do things better.

So what's your hard cold analysis of your problems going forward?

MR. WHITE: Our public workforce system is a greatly underappreciated, undervalued asset. Now, we have a dearth of effective marketing materials. In Tom Friedman's not his last book, The World is Flat, but in the Lexus and the Olive Tree, you have to get to page like 350, and he says of all that I've seen in our country's ability to deal with the ramifications of job loss, this Workforce Investment Act is a tremendous asset, but it's totally sometimes not even appreciated as to what it is. We don't do a good job of telling our story out there in the marketplace.

And not only to the corporate community but also to elected officials. We need to do a better job of educating city council members, mayors, county commissioners, members of our General Assembly and our Congress, as to what the Workforce Investment Act and the Trade Act, what they mean to our country and how incredibly important they are to economic and workforce development.

So coming up with a viable effective marketing plan that can be targeted to the media, too, so that they understand how we deal with this consternation and upheaval that's caused. It's so essential and affecting so many people today in a far more rapid fashion than ever. So we could do a lot better job of that in making ourselves understandable. Our light is under a bushel basket.

We need to get that out there. The elected official population, too. That's an opportunity for us, not just to lobby, but to actually let them know what the resource requirements are, because there are not enough resources to deal with all of the elements of what we've talked about today.

We're so fortunate in this state to have a great Employment Security Commission, a great community college system that's now 50 years old, and a workforce development system that's believed in by our governor and our legislature. So we're fortunate to have that.

But we're still dealing with, even with the tremendous economic development, you can see the numbers that Betty quoted. When you go down to the Department of Labor in Atlanta and you see those figures--right, Curtis--and you see us stand out in per capita income. So a lot of the things that we've dealt with today, so it's an ebb and flow that is really challenging. So more resources would also help us deal with that.

HEARING COCHAIR FIEDLER: Dr. Owen.

DR. OWEN: Our Workforce Development Boards do an

excellent job, but they could do a better job in the area of incumbent workers. I think we need to have more incentives that are available to existing companies to help them see the importance of improving the skill level of the employees that they have so that they can continue to stay in business and be with us.

Also, in my experience, the requirements of the Trade Adjustment Act that we have to deal with in terms of time clocks and when it starts and how long it can go and when it ends, and Mary tells Suzy who's under it, this is what I'm going to do, and because Suzy hasn't done any study, she just follows what Mary does, but by the time they start their clocks are different, one has run out of their support, and they're only halfway through a program of study.

I think if we could simplify how all those processes work so that a person is able to finish completely a program of study, so they can be well prepared to go into another business, which will not likely fall apart in the next two or three years, I think those are two areas that we could focus on that would help a lot.

HEARING COCHAIR FIEDLER: Thank you very much.

HEARING COCHAIR HOUSTON: Thank you. Did anyone else have another question?

COMMISSIONER WESSEL: I'd like to go back to the Collins Aikman just to understand how we disaggregate some of this data because if I remember correctly, you said 226 out of 544, if I remember, had received gainful employment.

MR. WHITE: Right.

COMMISSIONER WESSEL: Meaning half had not, more than half had not. If you were to look at that 226, how would you qualify them? Are we looking at an age-based problem? You're nodding your head so I'll let you--

MR. WHITE: No. Absolutely. Because we've gotten to know these people. We've gone to multiple--the company has been great, and we have an elected official there, State Representative "Winkie" Wilkins, who represents that district, that seemingly knows every single one of these individuals. So we had a lot of hands-on support.

And when you talk to people, yes, the younger generation has inculcated those skills and they're proficient with computers. You can just see it when they're filing for unemployment insurance. You can see that generational gap, so it takes a little bit more time, and also you become--we've talked to some folks in their 50s and 60s, their moms and dads worked at this plant. So there's a lot of attachment to that building, and they live closer to that particular site.

The younger folks are more mobile, and they've prepared for that change, and they've read about it, and they have some of those occupational skill sets that make them more employable, and they're

willing to move. We talked about that phenomenon where people don't even want to work outside their county.

So we've had to get across that because a lot of the job generation in that RTRP market is in Orange County, in Durham County, in Wake County. And sometimes in Virginia actually.

COMMISSIONER WESSEL: So are we seeing the 40 plus year of age, the people who have been at the plant probably 18, 20 years, whatever--

DR. OWEN: More than that.

COMMISSIONER WESSEL: Or more than that, that you're hitting a wall in terms of how to provide services to those 40 plus? The 25-year-old is a lot easier to train, I assume, probably can migrate into a job easier. Are you hitting a wall that if you were to look at this 226, the remaining 300 are probably mostly 40 plus and married and et cetera, et cetera?

MR. WHITE: I don't know that I can generalize. There are folks in their 50s and 60s that are working at AW. Corey Jones worked for 37 years--I did some interviews for Industry Week for an article by our Secretary of Commerce, Jim Fain-- and he worked for 37 years there, and now he's working at AW making more money, putting together transmissions.

Another gentlemen, Mr. Pulliam, was a manager at Collins and Aikman, and he's working at AW as a supervisor, and when you ask people, and you say are you better off now? He said I'm making a little bit more money, and I got much better benefits, but I was a manager, you know, so there was a lot of pride in that. So you're dealing with a lot of that, but there is some talent in that cohort. I'm not sure I can go that far as to say it's, you know, totally age related.

COMMISSIONER WESSEL: Are you seeing any adverse selection because of the group rating on these policies that, again, somebody who's 50, an employer coming in may want a younger workforce with lower health care? Are there any things you can generalize on those areas? Things that we may have a separate class of people we have to focus on in a different way?

DR. OWEN: One of the things we need to do and try to do constantly is to make sure that people don't raid their 401(k) immediately when they are laid off because they have to pay for their car or their washing machine or something of that nature. So that is done through workshops and through working with a company to make sure that people understand that.

One of the more difficult things, though, is to continue their medical insurance, and we try to give workshops on how medical insurance works and what they can do to overcome that. But it's a real difficult situation, especially if you have significant health problems.

But I don't know that I have heard of any significant points where a person was discriminated against because of their age when it comes to health insurance. I don't think it's a great problem that I've heard of.

HEARING COCHAIR HOUSTON: Thank you, gentlemen. I just had a question, and Dr. Owen, you had alluded to this chart a little while ago.

DR. OWEN: Yes.

HEARING COCHAIR HOUSTON: The 1998 to 2007 chart listing closings, and I see Collins and Aikman with automotive fabric, which is certainly something that probably is now coming in from offshore.

You list all kinds of reasons here-- consolidation, lost contract, bankruptcy, import competition. That's sort of the reason, but I wonder what's really the reason? For most of these, is this internal pressures, external pressures, i.e., China and Mexico? Or what would you attribute most of the sort of fundamental reasons of these closings for?

DR. OWEN: I know that Alsco Metals is consolidating their operation, half of their operation in Roxboro, keeping half of it, and moving half of it to Ohio to their home plant. So that's a relocation within the United States.

The others I would say foreign competition would be a very important consideration, you know, even the tobacco, and I know that Bromma has gone to Malaysia. They made the large cranes that are down at the ports that pick up the container modules and put them on a ship and this type of thing, these huge cranes. And I know they went to Malaysia.

Certainly Burlington Industries is competition. Dialight has gone to Mexico. Irvin Aerospace makes parachutes and they have been helped with contracts from the government and they left and merged with an operation in Fayetteville. So there must be some aspects of foreign competition involved in many of these.

HEARING COCHAIR HOUSTON: Thank you very much. And one last question, I had discussed this with actually one of my fellow commissioners at lunch. I know there are a lot of military boots on the ground in North Carolina.

DR. OWEN: Yes.

HEARING COCHAIR HOUSTON: Fort Bragg is the pride of North Carolina. In the literature that I saw listing industries, I didn't see a lot of military applications, and certainly with fabrics and manufacturing, one of the things we've heard that scares us a lot in a number of our hearings is that our military folks are really having trouble sourcing material to fix tanks, you know, moving vehicles,

uniforms, the whole thing.

They're getting really stuck because so much tool and die and so much manufacturing has closed down in the United States, which really has a national security implication for all of us.

So I wondered, is there anything coming in in military contracting?

DR. OWEN: Yes, yes. We just discussed a minute ago Force Protection, which makes the successor to the Humvee, the Cheetah vehicle, which is used by the Marines in Iraq and also has tremendous homeland security applications beyond the military, and that's coming into our community, into the plant being vacated by Collins and Aikman, and where Collins and Aikman might have had over 600 positions in that plant, this company will be producing maybe more value with 270 employees to start in that plant.

So we do have, we do have some examples of military contracts in our community. We need more.

MR. WHITE: In Fayetteville, about an hour south of here, we have a BRAC regional task force that just recently was informed of a $5 million demonstration grant for dislocated workers. It's an 11-county consortium, so that represents a tremendous opportunity. We're a winner in the BRAC sweepstakes. FORSCOM is coming up here from Atlanta so all those companies, Northrop Grumman, General Dynamics, they are great prospects for us, not just for manufacturing but also for research and development--we do that very well here--and for regional administrative headquarters.

So there's a great opportunity there. So that's already in play. We have a $1.8 million national emergency grant for spouse employment for military and that's working very well. So that augments that. So there will probably be in three or four years a variety of those contractors.

We have the third largest military presence in the country in the state of North Carolina.

DR. OWEN: Fayetteville Technical Community College in Fayetteville has a military business operation that is funded by the state legislature to promote across the state of North Carolina, getting into government contracts. How do you do it? What are the barriers? They send out people to local communities, working with Economic Development Commissions and Chambers of Commerce to make sure they understand what is available and out there that companies in North Carolina can apply for when it comes to military contracts, and that's been going on for a couple of years, and they do a very good job.

HEARING COCHAIR HOUSTON: Just as a side note, I do a lot of work in the Baltics and the Balkan states, and I was in Serbia a couple of weeks ago, and somebody said to me, well, how come it is

that some of these countries over here are doing really well, and then the guy next door, like Belarus, is a mess? And I said, you know, I've thought about this a lot and I think it depends on the actual individual people who are taking care of the switch and the changeover when the changeover happens.

I've been thinking about that today here in North Carolina, that you have such a leg up on so many other states, and we're very glad to hear of what you're doing. You really are making a difference, and Mr. White and Dr. Owen, you've certainly contributed to that for North Carolina, and it's nice to go out on a very high note.

MR. WHITE: Thank you very much.

HEARING COCHAIR FIEDLER: Thank you very much, gentlemen.

HEARING COCHAIR HOUSTON: Thank you.

DR. OWEN: Thank you.

HEARING COCHAIR FIEDLER: Before we have our open mike session, I'd like to thank our Commission staff: Paul Magnusson, who was the lead policy analyst on this; Scott Bunton, our Executive Director; M.L. Faunce and Omar Aslam, who do a lot of the real work. And every word that you have said today has been captured by that young woman over there, Vicki McLaughlin, who captures all the words of the Commission. Thank you.

We'll take a five minute break before the open mic.

COMMISSIONER WESSEL: Sometimes too many.

[Whereupon, a short break was taken.]

HEARING COCHAIR FIEDLER: Before we go to the open mic session, our chairman would like to make a couple of comments.

CHAIRMAN BARTHOLOMEW: Because I realized that we did not explain the makeup of our Commission earlier and some of you may not be familiar with it, I would like to take a moment to explain. The Commission is established by Congress. There are 12 commissioners. There were a lot of conflicts; it's not any lack of interest on the part of the other commissioners who couldn't be here.

We're very proud of the fact that we are one of the only functioning bipartisan institutions in a city that has gotten bitterly partisan over the course of the past however many years, and we end up with an annual report that is a consensus document. We actually sit down and go over the draft sentence by sentence and sometimes word by word to hash it out. So we are very pleased with that, and really what I wanted to say also is thank you to the audience who sat here all day long today, most of you.

We post all of our hearing transcripts on our Web site, www.uscc.gov, so you can get access to other people who we have had testify in front of us, and thank you again, and let's just move forward

now.

HEARING COCHAIR FIEDLER: We have three folks who have registered for the open mic. I'll take them in order. The first is Doug Longman. The basic rule is you have five minutes and we'll have to hold you to it.

HEARING COCHAIR HOUSTON: Even though we don't have the gavel.

MR. LONGMAN: No problem. Thanks very much for affording me the opportunity. My name is Doug Longman. Despite the color of my shirt, I claim no institutional affiliation at this point. I'm speaking simply as a citizen of North Carolina and as a consumer. When I think about trade discussions, and having listened to the trade discussion today, they almost always tend to emphasize only one section of the total equation of trade. But all households, in fact, have two sides: they have a wage income earning side, but they also have a consumption side to them.

And I believe that essentially having low cost imports available to consumers is very important to the quality and standard of living of individuals, and in point of fact, if I can restrain inflation and if I can gain goods, whether it's flat panel TVs or shirts or whatever it is, at lower prices than I would have to pay otherwise, I clearly benefit from this on the consumption side of it.

So I guess my point is to say that consumers are substantial winners from trade with China, and I would hope that we would not adopt policies in terms of our trade with China that would in some sense cause considerable increase in prices or restrict their ability to export to us. To phrase it in a somewhat flip fashion, if Mr. Hu Jintao wants to discount his currency 40 percent, in other words, have a 40 percent off sale, how badly do I feel about that in terms of the goods that I'm receiving?

In point of fact, I think I feel fairly good about that. In essence, he's asking the Chinese people to subsidize my consumption. So I'm happy about that.

The second point I wanted to make is the very essence of trade theory, and I'm not going to lecture you about Ricardo or any of the rest of this, but the gains of trade necessarily assume a redeployment of resources. That's how you get the gains of trade on both sides.

And what we've heard a great deal of today is the pain associated with that redeployment, and I don't minimize that for a moment. I've spent a little bit of time studying the Pillowtex situation, and I'm very familiar with what went on there, and it's very real pain. But in the larger scheme of things, what we need to be thinking about is the question of how do we achieve the gains of trade? Where do we look for comparative advantage and how do we best proceed along that line?

We've heard something about burial insurance and Trade Adjustment Assistance in forums such as this, and I think the point is very well-taken, that these are sort of reactive measures as opposed to proactive measures. And it is incumbent upon us to be thinking in a much more proactive way.

Now, you can call this industrial policy if you want. I wouldn't, but when you look at K through 12 education, you look at university level support, you look at R&D spending coming from the federal government, all of these are critical components of economic growth and of potential employment opportunities for our population. So I would very much encourage the Commission to think in those terms, in forward looking terms.

Now, going from the more cosmic to the very tactical quickly, the recent amendments to the Trade Adjustment Assistance Act included something for health care, and you've heard a little bit about that.

And what I wanted to speak to there was, again, I have direct familiarity with the situation of Pillowtex, and the fundamental problem there of offering a health care tax credit is, first of all, people don't have any money. Giving them a tax credit is not a particularly helpful way to go about it.

But more fundamentally, you've taken them from a group rating plan and put them into an individual rating plan, which for many of these people just becomes totally unaffordable regardless of the 65 percent subsidy. It doesn't work. The actual take rate on this is minuscule. So a well-intended policy pretty much falls apart when it comes to execution where it really counts.

I believe you may be considering some options, but one possible alternative, and this is just a policy suggestion, is obviously the state of North Carolina runs a very large employment base with employees. If people defined as eligible under this situation could be put into that pool and operate under a group rate with a risk sharing formula, this would be a far more attractive and a far more equitable outcome from my point of view.

HEARING COCHAIR FIEDLER: Thank you very much.

MR. LONGMAN: Thank you very much.

HEARING COCHAIR FIEDLER: Joan Kestun.

MS. KESTUN: Good afternoon. I have a consulting practice for international business development. I'm a J.D. by training and also have a master's in international law. What I wanted to address today was the burden of due diligence that's being placed to the extreme on American businesspeople that is not being placed on other nationals from other countries, particularly the Foreign Corrupt Practices Act.

I think that when you look at the unilateral placement of the

costs and the inability of American businesses to function in a competitive manner the way that other country's companies do, I think we're penalizing American businesses and, as increasingly in the world business background, you're increasingly having alternatives to doing business with American businesspeople.

I think that will jeopardize American businesses in the long run. I do not condone corruption by any means. I lived in Brazil for ten years as a Brazilian and I know what it is to be in a developing country subject to how things are done. However, I think that our enforcement and our influencing on corruption should be done at an international legal level, whether it's through conventions or treaties or through encouraging countries to enforce their own corruption legislation as opposed to imposing our legislation against U.S. businesspeople.

I also think that when it comes to export is one issue. When it comes to import, it's possible that that same act could be applied since foreigners are coming in to take advantage of our marketplace on their efforts in their country to export from their country to our country.

I think that due diligence in general is very expensive, and our companies can't compete as well internationally in light of that. And I'm very concerned about it, very concerned about what I see internationally.

As a side light, although we have a very established lobbying industry in the U.S., a lot of developing countries do not have official lobbying, although they do have legislative influencing that happens. And because of the way the DOJ and the SEC has been enforcing the FCPA over the last five years, it's had a chilling effect on all business that U.S. companies perform in any of these countries.

They do need to deal with legislative influencers, whether or not you call them lobbying or not, or lobbyists or not. Business will not be done in a country that has a 3.3 ratio or 3.3 indicia of corruption which is China, Brazil, India. And my question is at what point do you, can you function? Is there an assumption that if your indicia is 3.3 or below, that corruption is happening, no matter what you do?

Is the due diligence a cost that you really want your American companies to absorb when they're going into an export mode, and foreign companies coming into the U.S. are not being affected by that cost at all? And I'm very concerned about that, and I would like these things expressed more so in Washington.

When I make this comment to government people, normally I hear, well, that's the way it is to do business with the U.S. You need to understand the U.S. Well, I think that attitude is affecting the longevity and success of U.S. businesses going forward.

Thank you.

HEARING COCHAIR FIEDLER: Thank you very much. And the last registered speaker is Duane Long.

MR. LONG: Good afternoon, ladies and gentlemen.

HEARING COCHAIR FIEDLER: Good afternoon.

MR. LONG: Commissioners, Mr. Chairman. I am Duane Long, and I hope that you've enjoyed your visit here to North Carolina and that you've not only learned a lot about our economy, but I hope you've seen, too, that this is a great place to live, be educated and to raise a family.

You've seen a lot of the talented people who have helped make our state just the way it is today. I am the chairman of the North Carolina China Center. That is a nonprofit organization that helps build a bridge between the People's Republic of China and North Carolina. It's for business, educational and cultural opportunities.

And in my professional life, if you will, I'm an entrepreneur. My family and I operate a couple of companies called Longistics, and that's in the logistics industry.

But in my capacity as the chairman of the North Carolina China Center, something that I have learned is that the Chinese people are just like us. They are people who care about their families; they love their mothers and fathers just like we do. They love their brothers and their sisters and really what they're trying to do is very similar to what we're doing in our lives, and that is they want to achieve the best quality of life that they can and they are working very hard to do this, and this is something that I have observed during all of my trips to China and in meeting a number of the Chinese Americans that live here in our region.

By the way, in this region, we have over 25,000 Chinese Americans living in the Research Triangle region. So they are just like us and what I'd like to say to you today is that we should, all of us, get motivated in such a way that we can figure out a way not to just compete against one another, but to compete and cooperate so that everybody wins.

We might be able to achieve some day that vision that Mr. Chen from Red Hat said, a harmonious world. So as you're making your deliberations and you take your policies back to our good friends in Washington, I hope you'll give them some of that information as well.

HEARING COCHAIR FIEDLER: Thank you very much.

HEARING COCHAIR HOUSTON: Thank you very much.

MR. LONG: Thank you again for being here in North Carolina and you're welcome back any time.

CHAIRMAN BARTHOLOMEW: Thank you.

[Applause.]

HEARING COCHAIR FIEDLER: We're adjourned.

[Whereupon, at 4:45 p.m., the Commission was adjourned.]