

Executive Summary

Comments of
Owen E. Herrnstadt, Director Trade & Globalization Department
International Association of Machinists & Aerospace Workers
before the
U.S.-China Economic and Security Review Commission
January 13, 2005
Seattle, Washington

The International Association of Machinists and Aerospace Workers (IAM) represents several hundred thousand workers in North America in a variety of industries, including ship building and ship repair, electronics, woodworking, defense and transportation, and of course aerospace. Given our unique position, we very much appreciate the opportunity to appear before you today.

U.S. Aerospace Employment is in Crisis

The importance of the U.S. aerospace industry to our nation's economic and physical security cannot be questioned. The industry is directly responsible for the employment of hundreds of thousands of individuals. Indirectly, it is responsible for the employment of several hundred thousand more workers. Many U.S. communities have flourished because of the industry and various regions of our country have grown economically dependent on this essential industry. The health of U.S. aerospace employment also has an affect on our nation's security. As outsourcing, co-production, and other similar activities grow in the defense aerospace industry, U.S. aerospace employment shrinks.

Despite the importance of the aerospace industry, since we last testified before this Commission, the deterioration of U.S. aerospace employment has continued at a dramatic rate. Over 600,000 jobs have been lost in the total U.S. aerospace industry since 1990. Several hundred thousand more workers have lost their jobs in related industries.

U.S. Crisis Fueled by Lack of Comprehensive Policy

U.S. policy makers' continued failure to develop, adopt and implement a comprehensive policy to promote U.S. aerospace employment fuels the current crisis. The negative impact of the lack of a comprehensive policy in aerospace is exacerbated by the fact that other countries have acknowledged and embraced the critical importance of industrial policy -- especially in aerospace. After all, what were once fledgling aerospace industries are now U.S. competitors. As succinctly stated by the Presidential Commission on Aerospace, "...foreign nations clearly recognize the potential benefits from aerospace and are attempting to wrest global leadership away from us."

A country that truly understands the importance of adopting a comprehensive aerospace policy is China. In our testimony in 2001, the IAM singled out China for developing an effective industrial policy in an effort to develop its own "aerospace industry." During our 1998 visit to China to tour aerospace facilities, IAM participants reported the enormous aerospace capacity that existed in China.

How did China develop such a huge capacity for aerospace? While there are obviously many different and related methods China utilizes, one significant method used is by extracting production and technology from other countries through "offsets", one of several forms of outsourcing. "China is one of the most aggressive countries in pursuing offsets agreements and, with its market potential and minimal labor standards, it has substantial leverage in negotiating these agreements." (Jeff Faux)

China's aerospace industry serves as a supplier for premier aerospace companies like Boeing. Boeing is, of course, just one of many aerospace companies investing in China's aerospace industry, including Boeing's

chief rival, Airbus. Brazil's aerospace industry is also teaming up with China. Eurocopter, a subsidiary of EADS, is also involved with China's aerospace industry.

China's aerospace industry is not, however, complacent with its current programs. There are reports that "China is likely to start developing its own large aircraft rather than rely solely on foreign giants Boeing and Airbus" (USAToday.com, "China Studies Building its Own Large Aircraft," 03/15/04, extracted 09/09/04.) China aerospace may also be expanding to space itself: "The Chinese plan to send more astronauts into space next year, to launch a Moon probe within three years, and are aiming to land an unmanned vehicle on the Moon by 2010...." (The New York Times, 1/22/04)

China's Unfair Advantage Regarding Labor

China has the dubious advantage of a workforce that does not enjoy fundamental human rights. Failure to permit labor to enjoy freedom of association through the formation of legitimate trade unions and to engage in meaningful collective bargaining, is a market distorting mechanism that artificially holds down wages. While aerospace workers in China are presumably on the higher end of the wage scale, they indisputably receive only a fraction of pay that U.S. aerospace industry workers receive and "although reliable data on comparable labor costs in China are not available, we can be confident that aerospace wages in China are below Mexican levels, and far below those in the U.S." (Faux)

As China's aerospace industry further develops, its lower cost basis, derived in part from a workforce that cannot legally form its own labor unions let alone engage in meaningful collective bargaining, represents a further detriment to U.S. workers.

Proposals to Restore the U.S. Aerospace Industry and U.S. Aerospace Employment

In order for the U.S. aerospace industry to remain competitive against a growing threat from China, the following proposals should be given serious consideration by U.S. policy makers:

- 1. Acknowledge the growing threat of offsets as well as other forms of outsourcing and implement an effective response for mitigating their negative impact.**
- 2. Adopt the implementation of Economic Impact Statements.**
- 3. Assure that Internationally Recognized Labor Standards, particularly those reflected by the International Labor Organization's Conventions, are incorporated and effectively enforced throughout the industry.**

- - - - -

While these proposals address the U.S. aerospace industry as a whole, they are particularly significant when referring to China. After all, China has in part developed its aerospace industry through the use of offsets and other forms of outsourcing which poses a significant threat to U.S. aerospace employment. China's lack of recognition for internationally recognized labor standards as well as other fundamental human rights has also given it an unfair advantage in world competition. As China's aerospace industry develops, this unfair competition will be exacerbated in a tightening global market resulting in an increasingly negative impact on the U.S. aerospace workforce.