

**June 9, 2010**

**Supplementary Statement on Policy and Structural Changes to Deal with  
Manufacturing Issues**

**Testimony Before The U. S. - China Economic Security Review Commission**

**Hearing on “Evaluating China’s Past and Future Role in the World Trade  
Organization”**

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At the June 9 hearing on China and the WTO, Chairman Mulloy suggested that witnesses could submit further information or proposals regarding structural changes to deal with trade issues with China and problems in the manufacturing sector. Below is a brief discussion of such structural changes which should be undertaken, particularly as they relate to U. S. manufacturing.<sup>1</sup>

**I. Changes in the Structure of Government**

**A. Create a Secretary of Manufacturing**

There needs to be a voice for manufacturing within the Executive Branch policy structure. Though the Secretary of Commerce and the United States Trade Representative clearly have some responsibilities in this area, they are pulled in too many directions and deal with too many other demands to be a consistent voice calling for policies that favor U. S. manufacturing. It is critical that whenever key decisions are made in the government, whether it be how to spend stimulus or defense dollars, what trade policies to adopt, or on how to respond to challenges from China which involve both economics and foreign policy, there be a Cabinet level official who will speak up for U. S. manufacturing, just as there are Secretaries of Agriculture, Energy and Labor.

**B. Create a Permanent Unfair Trade Strike Force**

There should be a cross-agency Cabinet level body charged by the President with developing unfair trade cases, and moving them forward through the appropriate legal and policy channels,

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<sup>1</sup> It should be noted that many of the problems referenced here are occurring not only in the manufacturing sector, but throughout the U. S. productive base including the services sector, and the solutions discussed here could in some instances be applied more broadly.

including self-initiation of trade cases by the U. S. government. This could alleviate some of the issues raised at the hearing about lack of multinational corporate support for trade cases and industry standing problems. But more importantly, it would set up a strong government-wide body charged with formulating and prosecuting unfair trade actions. This was used in prior Administrations to bring key unfair trade cases on DRAM semiconductors.

## **II. Undertake a Comprehensive Reexamination of the U. S. Trade Laws to Deal with the Decline of Manufacturing**

There has not been major trade legislation in the United States since 1994. United States' trade relationships have changed dramatically in the past sixteen years, particularly with respect to China. Since that time China joined the WTO and China has had the largest and longest running trade surplus with the United States, of any country in our history. We need a comprehensive reexamination of the trade laws, focusing on what needs to be done to assist U. S. manufacturing.

Key issues which should be incorporated in this bill are:

- A. Strengthened authority for the U. S. to offset subsidies, including currency manipulation subsidies, in China and other countries engaging in unfair trade.
- B. Strengthened rules that punish any foreign companies that fail to follow our trade rules or lie to our trade enforcers
- C. Additions of presumptions in the trade laws making it easier to prove injury in cases where respondents have lied to the U. S. Department of Commerce or have withheld information, or where there are high margins of dumping and subsidies.
- D. Changes to the trade laws to make trade actions faster and more accessible particularly for smaller companies and for workers.

## **III. Revise our Trade Agreement Strategy**

A great deal of work has gone into the Doha Round negotiations and we should not terminate the negotiations at this time (though as noted below we should set deadlines). But we should revisit each of the objectives set by the prior Administration and Congress and make sure the objectives set are consistent with reviving manufacturing in this country (surprisingly, this review has not been undertaken and there has been no resetting of priorities since the groundswell election of 2008). Three objectives which must be in the forefront of our strategy, which are critical to manufacturing and dealing with China, are the following:

- A. Change the WTO treatment of tax rebates on exports. Because of a peculiarity in the GATT system foreign countries can rebate their VAT taxes upon export of products, but the U. S. cannot rebate income taxes. This creates an enormous financial disadvantage for U. S. manufacturers and exporters, both in our own market and in foreign markets. The WTO agreements must be changed to remedy this.

- B. Payments to communities, workers and companies harmed by unfair trade must be authorized, financed by the tariffs on unfairly traded goods.
- C. We must revise our trade agreements to deal with labor rights and wage disparities that undercut our workers. It simply makes no sense that major multinationals can move manufacturing off-shore and pay workers 65¢ an hour. Modern logistical systems means these workers are essentially 100% incorporated into the U. S. production stream but are paid wages less than 10% of the U. S. minimum wage.

We also need to set a deadline for completing the Doha Round and stop expending our trade negotiation time and energy (which is limited) if the deadline cannot be met. If it is not met, we should begin a new trade negotiation focusing on problems related to U. S. manufacturing. It is time we used our political and trade capital to deal with these issues, and we may well be surprised to find that many of our trading partners see similar problems to those we are experiencing with China, and seek similar solutions.

#### **IV. Apply the CVD Law to Currency Undervaluation**

The single biggest unremedied unfair trade action by China is currency undervaluation. Trade action must be taken now to off-set currency undervaluation by China. Legislation that has been suggested on this issue could enhance the United States' ability to do this, but action under the countervailing duty law is currently authorized and can be taken without legislative change.

#### **V. Study of the Cost of Manufacturing in the U. S. and China and other Jurisdictions**

We need to do a major study on the cost of manufacturing a number of key products, for example semiconductors, autos, paper and steel, in each of four or five venues, such as China, Taiwan, Korea, Germany, and the United States. We need to pinpoint the causes of cost differences in order to address them.

#### **VI. Make Critical Structural Changes in our Economy and Legal Structure to Revive Manufacturing and More Generally our Productive Base**

We have arrived at the situation where we are losing millions of manufacturing jobs because of a U. S. government that has not prioritized keeping these jobs here, because of trade policies that do not favor manufacturing job retention, and, finally, because of certain structural disincentives which undercut the goal of keeping jobs here.

The main disincentives which need to be remedied are the following:

- A. U. S. (and foreign flag) companies that put jobs in the United States need to be rewarded. These rewards could take the form of tax benefits or other financial rewards. At a minimum, it cannot be more advantageous in terms of taxes and financial benefits to locate jobs abroad. In addition there should be increased sales opportunities for products made domestically. To like effect, selective R & D and start-up grants have been very effective in priming the pump to build U. S. industry, as has been done by the Defense Advanced Research Projects Agency

(DARPA) which contributed significantly to our aerospace industry and to the start-up of the internet.

- B. President Obama and the Congress need to lead the way in resolving the apparent conflict between strong U. S. environmental laws and their potential trade effects on U. S. companies and workers. We cannot require U. S. companies to pay millions of dollars to clean up their plants if our foreign competitors do not have the same requirements. We will become uncompetitive and there will be substantial “leakage” of U. S. jobs abroad. One recent study shows that these costs are about \$77 billion a year for U.S. manufacturers. China, Taiwan and many other foreign jurisdictions have no environmental costs of any significance, because they either have no environmental laws or companies do not comply with them. One way to deal with this is to implement a border measure that would levy an extra tax at the border if the imported products originate from a foreign manufacturing plant that is not environmentally sound.
- C. The United States also has laws and regulations to keep our products and workplaces safe that we do not require of our trading partners. We need to take steps to equalize the costs of such workplace and safety requirements.
- D. We have to deal with differential health care costs between U. S. companies and their foreign competitors. Several years ago General Motors estimated that health care costs add about \$1600 to the cost of each of its vehicles. In many foreign jurisdictions there are no health care costs imposed on manufacturers.

## **VII. Set-Up a Conference on the Renaissance of U. S. Manufacturing, in order to Mobilize the Policy and Political Base**

The Committee to Support U. S. Trade Laws (“CSUSTL”), in cooperation with certain other groups, is planning a Conference on the Renaissance of U. S. Manufacturing for the fall of 2010. The purpose of this Conference is to set a policy and political agenda for reviving the manufacturing sector in the United States. It is essential that the policy thinkers who care about this issue devise a coherent agenda, and that the agenda carry over into the 2010 elections and become a political touchstone. We will not revive the manufacturing sector without changing the political landscape, as there are too many vested interests making money by undercutting U. S. manufacturing and by moving jobs offshore.

The Committee to Support U. S. Trade Laws anticipates that this will be a one-day or half-day conference with four discussion modules:

- A. Legal Challenges to Reviving Manufacturing in the United States (a discussion of trade laws and trade agreements and what needs to be changed)
- B. Economic Challenges to Reviving Manufacturing in the United States (a discussion of economic policy changes)

- C. Structural Challenges to Reviving Manufacturing in the United States (a discussion of tax, environmental, and other regulatory problems besetting manufacturing)
- D. Political Challenges to Reviving Manufacturing in the United States (a discussion of how we mobilize political support for needed changes and tie this into the 2010 election)

### **VIII. Apply time frames and metrics to our efforts to revive U. S. manufacturing**

Without specific goals, and means to measure progress, little can be accomplished. As a country, we need to set specific goals with respect to the revival of American manufacturing, as we have done with other great challenges we have faced.

### **IX. Conclusion**

If each of the above steps is taken, there is a reasonable chance that significant changes can occur in our manufacturing base, and we can begin to recover the millions of manufacturing jobs that have been lost to China and elsewhere.