



U.S.-CHINA ECONOMIC AND SECURITY
REVIEW COMMISSION

Hearing on China's Impact on the U.S. Auto and Auto Parts Industries
Opening Statement of
George Becker
Hearing Co-Chairman

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The Commission is pleased to be meeting today here in Dearborn, an excellent venue for a hearing on China's Impact on the U.S. Auto and Auto Parts Industries. Michigan is the heart of auto and auto parts production here in the U.S. Today's is the first field hearing the Commission has held this calendar year and is intended to respond to our Congressional mandate to assess how the U.S.-China trade and investment relationship is affecting vital regions and sectors of our economy.

The hearing follows an earlier hearing we held in Akron, Ohio in October of 2004 that addressed, in part, the changing nature of China's auto and auto parts sector and its impact on U.S. interests. At that time, we learned that U.S. producers had already set up production activities in China through joint ventures and that U.S. parts manufacturers were setting up shop not only to service these joint ventures, but also to supply U.S. production facilities here at home.

Since our hearing less than 2 years ago, the U.S. auto and auto parts industry have gone through dramatic changes. We've seen Delphi, a giant in the sector, declare bankruptcy. We've seen Ford and General Motors having their debt downgraded as their market share and prospects continue to decline. We've witnessed the offer of buyouts for tens of thousands of workers as the auto producers seek to shed employment and production and reduce their presence here in the United States.

At the same time, we've seen the continuing rise and expansion of China's capacity and capabilities in this sector. Their success has mirrored the failures here at home. China is already exporting auto parts and is but a few years away from exporting built-up vehicles.

The questions we come here to Michigan to seek answers to are: What does China's success mean both for China itself and for our own future here? Is there a connection between their rise and our fall? Is China's success coming at our expense?

These are questions not just for Michigan, but also for our entire nation.

The auto parts and automotive sector is one of the real engines of economic growth here in the U.S. America created the modern automotive industry and helped to open a new age of transportation. The sector has provided innumerable jobs and has helped make the American dream real for countless Americans. It has been an enormous contributor to economic growth and has helped spur innovation in our economy. It has been the largest user of semiconductors integrating high technology into our transportation system. It is a major user of steel, glass, rubber and countless other products. Its industrial capacity has created the demand for skills that have been put to use not only in this industry, while creating advantages in many others. Its industrial capacity has been used in time

of need, to outfit our nation to fight the wars to keep our people safe and to promote freedom and democracy around the globe.

What does the decline of this industry mean for us? What happens when the demand for these skills begins to evaporate? What happens when plants shut down - will we have the surge capacity we may need if a large scale conflict erupts?

Manufacturing is an indispensable part of the U.S. economy. Two-thirds of the money that the U.S. spends on research and development is spent by the manufacturing sector, and 90% of new patents originate in manufacturing. Manufacturing is also important for the maintenance of a middle class, with its jobs paying 20% more than the average American jobs, accompanied by better benefits.

Before we turn to our witnesses - all of whom I want to sincerely thank for accepting our invitation - I want to make a special point of singling out the leadership of the major auto companies, and their trade association, for refusing to appear before us today. It's no secret that they have been expanding their operations in China and have looked to China as a place to source parts and, in the long-term, probably vehicles. Too often, they act as if China is the future, and America is their past. I, for one, don't want to accept that notion.

But, from years of experience on this Commission, it's no secret that too many U.S. companies are reluctant to speak out on China's policies and practices, not to mention their own. I'm told that the Big Three are concerned that criticizing China in any way might result in the advantages that have been showered upon them, in order to persuade them to move their operations to China, to begin to dry up. Indeed, we've been told that already the Chinese have indicated that subsidies and preferences given to joint ventures are going to be withdrawn and that Chinese indigenous companies will begin to expand. They've learned enough from us and are ready to go it on their own.

I look forward to today's hearing to shed some light on these questions. Our nation needs some answers.

Thank you.