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Before the

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On China's Impact on the U.S. Auto and Auto Parts Industries

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Mr. Chairman, members of the Commission, my name is Leo W. Gerard. I am the International President of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (USW). I appreciate the opportunity to present the United Steelworkers' views on how trade with China has impacted the U.S. motor vehicle and parts industries, and how that in turn has impacted and will likely impact the members of my union.

I am delighted to appear today with my colleagues Ron Gettelfinger and Richard Trumka before this Commission. I would like to take this opportunity to thank the Commission for holding this hearing today, as well as for its excellent reports and research on a wide-ranging set of economic issues related to U.S.-China relations.

Mr. Gettelfinger has outlined for you in some detail the exploding U.S. trade deficit with China in autos and auto parts, the potential for that trade imbalance to expand drastically in coming years, and the devastating consequences such expansion could have on American jobs and living standards. Certainly his members have been and will continue to be directly impacted by China's unfair trade practices in the automotive sector.

Our union represents workers who produce electronic and mechanical motor vehicle parts, rubber and tire, plastics, aluminum, leather, and glass, as well as steel. The long-term health of the U.S. steel industry, as well as these other components and raw materials sectors, depends crucially on the continued vitality of the U.S. motor vehicles and parts industries, and in particular, on their ability to survive in the United States of America. If we are to avoid further devastation in these industries, our nation's trade and industrial policies need to recognize this inter-connectedness.

While a significant amount of steel production is used in infrastructure, almost 80% is consumed in products that can be made anywhere. If steel's key customers move offshore, it will be much more challenging to sell them domestically produced steel. Our union's experience makes it clear that as America's largest consumers of steel - the manufacturers of autos, auto parts, white goods, and other steel-intensive products - increasingly move their manufacturing facilities elsewhere, the logic for a large domestic steel industry will exit the U.S. with those consumers. There is little that is manufactured that does not somewhere along the line, directly or indirectly, require steel. But this means that the less we make here, the less we need a steel industry here to feed it.[1]

To prevent this dire outcome, steel producers, auto producers, and components producers, as well as their unions, must unite in demanding a coherent and integrated trade and industrial policy that doesn't seek to protect one sector at the expense of another, but rather lays out a framework of trade, tax, infrastructure, and R&D policies that will sustain a vibrant domestic manufacturing sector.

Changing our misguided trade policies with China is an essential starting point. It is crucial that we begin this conversation today, as the Chinese government lays out long-range strategic plans to dramatically increase its presence in international motor vehicle markets - rather than waiting another day - let alone five or ten years - which will be far too late.

As Ron Gettelfinger told us earlier, China has become a net exporter of assembled vehicles in the past two years. Its exports of auto parts have also skyrocketed, while imports of auto parts fell over the same period. In 2005, China became the third largest automotive market in the world and the fourth largest manufacturer of vehicles. But China's production capacity is expected to grow rapidly to 18-20 million vehicles (from 8 million in 2005), while sales in China are only expected to grow to 9-10 million. Excess capacity could thus reach 100 percent in the next five years, with the domestic U.S. auto market a key target for Chinese-built vehicles and automotive parts - exactly the sort of excess capacity that led to dumping and the steel crisis at the turn of the century.

We have more than 175,000 members whose products make it into the domestic auto industry. If China would displace 10%, that would effect more than 17,500 of our members or more than 1,750 members for every percent of erosion of domestic capacity. It is clear that these dramatic shifts in global auto production and capacity are quite relevant for the security of the jobs, wages, and benefits of our members.

This trend is more pronounced for certain sectors. Economists Dan Luria, Matt Vidal, and Howard Wial found in a recent study of component manufacturing that "the assembly plants of ... the U.S.-based automakers remain a huge market for onshore component producers. A U.S.-assembled car gets more than 60 percent of its value from component suppliers ... and nearly 75 percent of that 60 percent comes from U.S. component suppliers." [2] They found this to be particularly true for mechanical parts (as opposed to electrical/electronic components), "which tend to remain clustered in the same areas as the customers that buy them, though global sourcing is making this less and less true." [3]

The Chinese government's targeting of the auto industry as a "pillar industry" eligible for special government support violates China's WTO and other international obligations in numerous ways, and our government must act swiftly and unequivocally to counter these unfair practice.

1 Ron Bloom, "Remarks to Steel Success Strategies XXI," New York, 6/21/06.
2 Dan Luria, Matt Vidal, and Howard Wial, "'Full-Utilization Learning Lean' in Component Manufacturing: A New Industrial Model for Mature Regions, and Labor's Stake in Its Success, p. 5."
3 Ibid, p. 5.

While the U.S. government has identified numerous areas where the Chinese government's actions violate WTO obligations, USTR has initiated relatively few cases - ignoring some key areas such as currency manipulation, violations of workers' rights, and illegal subsidies. The Treasury Department has repeatedly failed to label China a currency manipulator, despite overwhelming evidence that the Chinese government is intervening repeatedly and one-sidedly in currency markets to prevent the yuan from appreciating. The President has rejected all of the 421 import surge cases that have been brought, even in the face of the International Trade Commission's finding of injury.

I join my colleagues Ron Gettelfinger and Richard Trumka in calling on the Administration to act decisively and swiftly on both Chinese currency manipulation and worker rights violations. Each of these contributes significantly to the competitive difficulties facing the motor vehicle and parts industries, as well as their suppliers.

On currency manipulation, we call on Congress to enact H.R. 1498, the Ryan-Hunter bill, which would allow the government to address currency manipulation as an illegal subsidy. On worker rights, we join many of our friends in Congress, on both sides of the aisle, who have called on the Administration to accept the AFL-CIO's Section 301 petition and send a message to the Chinese government that it is neither legitimate nor humane to compete in the global economy through the systematic and violent repression of workers' fundamental human rights.

The Steelworkers support the UAW-endorsed "Marshall Plan" for the auto industry. This plan would stimulate U.S. investment and production of advanced technology vehicles and their components, giving U.S. workers and producers an edge over Chinese and other foreign suppliers. By supporting the development of advanced infrastructure, this plan would also improve fuel economy and the environment, thereby strengthening the nation's economic and national security by reducing our dependence on imported oil.

It would have the added benefit of putting to rest, once and for all, the Hobson's choice that narrow interests have falsely foisted on the American public of jobs vs. renewable energy and environmental integrity.

The policies we have recommended here today must be put in place without delay, as the trajectory of Chinese production and exports in the motor vehicle sector makes their implementation absolutely urgent.

Mr. Chairman, members of the Commission, I would like to express my appreciation and that of my members for your leadership in holding this hearing today and for all the excellent work you have done. I look forward to any questions you may have.