

**TESTIMONY OF SCOTT N. PAUL
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BEFORE THE UNITED STATES SENATE COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE, CUSTOMS, AND GLOBAL COMPETITIVENESS
HEARING ON TRADE ENFORCEMENT AND INFRASTRUCTURE:
SAFEGUARDING OUR INDUSTRIAL BASE FROM PRESENT AND FUTURE CHALLENGES
FEBRUARY 16, 2018**

Senator Casey and members of the committee, thank you for the opportunity to testify on behalf of the Alliance for American Manufacturing (AAM) at today's hearing on *Trade Enforcement and Infrastructure: Safeguarding our Industrial Base from Present and Future Challenges*.

The Alliance for American Manufacturing is a non-profit, non-partisan partnership formed in 2007 by some of America's leading manufacturers and the United Steelworkers. Our mission is to strengthen American manufacturing and create new private-sector jobs through smart public policies. We believe that an innovative and growing manufacturing base is vital to America's economic and national security, as well as to providing good jobs for future generations. AAM achieves its mission through research, public education, advocacy, strategic communications, and coalition building around the issues that matter most to America's manufacturers and workers.

Formed in 2007, AAM is proud to have helped call attention to some of the most pressing trade issues impacting American manufacturing companies and their workers – including global industrial overcapacity, dumping and subsidies, state-owned enterprises, currency manipulation, theft of trade secrets, and the need to better negotiate trade agreements. And, with respect to infrastructure, we have been at the forefront of efforts to establish stronger Buy America rules to ensure that our hard-earned tax dollars create jobs here at home.

U.S-China Trade Deficit is Unparalleled in its Magnitude and Adverse Impact

Since Beijing's 2001 entry into the World Trade Organization (WTO), the U.S. bilateral trade deficit with China has more than quadrupled, from \$83 billion in 2001 to a record \$375 billion in 2017. In just 15 years, the impact of the surging U.S-China trade deficit on U.S. companies and American workers has been severe and too often overlooked. Our communities have shed more than 54,000 manufacturing facilities and we've seen our global market share in manufactured exports shrink from 14 percent in 2000 to 9 percent in 2013. Altogether, a staggering 3.4 million jobs, largely in manufacturing, have been lost because of this massive trade imbalance. Each state and every congressional district in the United States has experienced lost jobs. In Pennsylvania alone, 136,700 jobs were displaced, accounting for 2.34 percent of the Commonwealth's workforce. And the losses extend into nearly every sector of the economy, ranging from computer and electronic parts to textiles and apparel, furniture, steel, aluminum, and other capital-intensive sectors.ⁱ

While the China trade deficit is unparalleled both in its magnitude and its adverse impact on our economy, we should not overlook that unfair trade from many other countries – even including our allies – has taken its toll:

- *South Korea*. It was promised that the U.S.-Korea Free Trade Agreement (KORUS) would support 70,000 U.S. jobs and increase exports of American goods by \$10 to \$11 billion. Yet, the U.S. trade deficit with South Korea jumped \$15.1 billion between 2011 and 2015 (from \$13.2 billion to \$28.3 billion), resulting in the estimated elimination of more than 95,000 jobs.ⁱⁱ The

trade agreement hailed as a job creator has not opened new markets for U.S. automobiles and other products, as was promised, and demands improvement.

- *Japan.* Meanwhile, it has been estimated that the trade deficit with Japan – fueled by currency practices – is estimated to have eliminated nearly 900,000 U.S. jobs as the goods deficit reached \$78.3 billion in 2013.ⁱⁱⁱ It has remained at unacceptable levels ever since.

Trade Deficit Reduction Matters

Trade deficits matter and there is compelling research showing that reducing trade deficits would yield positive outcomes for our economy. For instance, a reduction of the U.S. global trade deficit by between \$200 billion and \$500 billion each year “could increase overall U.S. GDP by between \$288 billion and \$720 billion and create between 2.3 million and 5.8 million U.S. jobs.”^{iv}

To those who have made unfounded claims that the loss of five million U.S. manufacturing jobs, or roughly a third of the total amount, since 2000 was the result of increased productivity, and not trade deficits, the data does not support such a narrative.^v According to the Economic Policy Institute (EPI), between 2000 and 2007, 3.6 million manufacturing jobs were lost. Yet, productivity growth declined, falling from 4.1 percent per year in the 1990s to 3.7 percent per year. The drop in the rate of growth of manufacturing output to 0.5 percent per year is largely the result of the rapid growth of the manufacturing trade deficit. Meanwhile, the Great Recession and financial crisis was largely responsible for the decline in manufacturing output and job loss from 2007 to 2014. Manufacturing trade deficits continued to surge over this period following the Great Recession.^{vi}

Proactive Trade Enforcement Approach is Necessary to Eliminate Trade Deficits

For too long, our trade policies haven't been focused on supporting our manufacturing sector but, in many ways, have undermined it. The United States is long overdue for a new approach to trade, especially with China. It is both possible and desirable to create a trade policy framework to support a resurgent, made in America manufacturing base.

The United States has considerable economic leverage to shrink our \$375 billion 2017 trade deficit with China. U.S. exports to China account for less than a percent of our GDP, our banks hold less than a percent of their assets in China, and multinational companies derive less than two percent of their revenue from there.

Using aggressive trade enforcement to strengthen key U.S. sectors is hardly a radical proposition and there is clear precedent in our not too distant past of bold leadership and outside the box thinking. President Ronald Reagan adopted a flurry of measures to address an uneven playing field with European nations and Japan. His administration's aggressive actions helped revitalize our semiconductor industry and the iconic Harley Davidson. The Plaza Accords, which raised the value of currencies in Japan and Europe relative to the dollar, had a positive effect in lowering our trade deficits.

It's Time for the White House to Complete Key Trade and Manufacturing Actions

After a year in office, President Trump has repeatedly promised to crack down on unfair trade and negotiate reciprocal trade agreements. Yet, on many key issues, the administration's words have resulted in either inaction or confusion as to the path forward. A status quo approach means continued persistent trade deficits, lost jobs, theft of our innovation base, and the steady erosion of our manufacturing capacity and workforce.

- *Currency Manipulation.* The President repeatedly promised to label China a currency manipulator. However, China was not listed as a currency manipulator on either the Treasury Department's first two Semiannual Reports on International Economic and Exchange Rate Policies.
- *Section 232.* The President initiated Section 232 investigations on steel and aluminum imports' impact on U.S. national security. However, long and unnecessary delays have made matters even worse as imports continue to surge. I will discuss this issue later in my testimony.
- *Section 301.* The President initiated a Section 301 probe into China's intellectual property abuses, though since the August 2017 announcement there has been little movement towards an action that protects American interests.
- *Pipelines.* In January 2017, the President called for a plan to require American pipelines to be constructed with American steel. More than a year later, there has been no action taken as imports of Oil Country Tubular Goods (OCTG) - a key energy product used in oil and gas extraction - were up nearly 200 percent in 2017.

Recommended Actions for the Administration and Congress

Outlined below are some of the issues AAM believes need to be addressed for the United States both to expand trade relationships in the Asia-Pacific region in a manner that increases domestic production and to ensure that our markets do not become flooded with unfairly traded products.

- *Trade Enforcement.* America's trade enforcement laws are the backbone of U.S. trade law and represent that last line of defense for workers facing unfair trade. Strict enforcement is vital to the preservation of a rules-based trading system – one in which American workers are not forced to compete against the endless resources of a foreign government that props up its state-run companies. Timely enforcement of U.S. trade remedy laws is vital to leveling the playing field for U.S. companies and American workers impacted by unfair trade practices – like dumping and subsidies. While our trade remedy laws help mitigate the damage, rarely do they restore all the lost jobs or make an impacted community whole again. Significant time and cost – and injury – is required to proceed with a trade enforcement case. In some cases, entire plants must be shut down before relief can be delivered. This makes no sense. We must ensure that timely and effective relief from such market distortions is available before plants are forced to close and workers lose their jobs.

We greatly appreciate the leadership and work of this committee in the passage of the *Trade Facilitation and Trade Enforcement Act of 2015*, which provided new tools to speed trade enforcement and to crack down on evasion of existing trade orders. It is simply unfair to U.S. companies and their workers for trade remedies to be circumvented – resulting in further harm and larger trade deficits.

- *Global Industrial Overcapacity.* Many U.S. industrial sectors are suffering from unprecedented challenges due to global overcapacity – largely fueled by China – which dampens prices and has forced plant closures and massive layoffs. Despite slowing demand in the Chinese market, Beijing continues to maintain high levels of production with subsidies and other state support, undermining U.S. companies that compete based on market considerations. In fact, a recent report shows that, despite China's claims of capacity closures in 2016, its net steelmaking capacity actually *increased*.^{vii} China will only respond, and America will only benefit, if there are

enforceable mechanisms to ensure that Beijing is living up to its commitments. For the past ten years, China has delayed concrete action with lofty promises to cut capacity that never materialize. Despite repeated public pronouncements dating back to 2009 of plans to aggressively cut capacity, China's steelmaking capacity has increased over 400 million metric tons, roughly equivalent to five times the total production of the U.S. steel industry in 2016. The G20 Global Forum on Steel Excess Capacity cannot be another tool to be used by the Chinese government to delay meaningful change.

- *Maintain China's Non-Market Economy Status.* No one can seriously claim that Beijing runs a market economy, but the Chinese government desperately wants to be treated that way. Under U.S. law, China is and should continue to be treated as a non-market economy (NME). Any change to this status would severely undermine America's trade remedy laws and expose U.S. companies and American workers to more dumped imports. Such changes can only be made if China meets six specific criteria demonstrating that market forces, and not the government's party leadership, are directing the economy. Presently, China fails to meet the six criteria and it should focus on reforms rather than its attempts to shortcut this issue by way of the World Trade Organization (WTO).
- *Cyber Theft.* It is critical that the government provide support when foreign interests steal trade secrets to manufacture products abroad and send them to the United States. Theft of intellectual property and trade secrets has been a serious problem with China. U.S. companies report that Chinese interests have not only stolen sensitive trade secrets, but that Chinese firms are now commercializing that valuable intellectual property into Chinese products. It is outrageous that U.S. companies are being forced to compete against the very products that they spent years and significant financial resources to develop. If the available trade enforcement tools – including Section 337 of the Tariff Act of 1930 – do not work as intended, Congress should improve them so that our companies are not subjected to dishonest and criminal activity without the opportunity to seek effective and timely relief. And, the President should swiftly complete his Section 301 investigation and take meaningful action to defend domestic companies against foreign theft of intellectual property and technology transfer.
- *State-Owned Companies.* China has many state-owned and state-directed enterprises (SOEs) that send dumped and subsidized goods into the U.S. market. In a disturbing trend, China's SOEs are also now aggressively seeking to invest here in America, putting further strain on U.S. firms that make decisions based on market forces. It is vital that we strengthen our CFIUS system of reviewing foreign acquisitions of strategic U.S. companies and operations so that they do not fall under the control of the Chinese government.
- *Currency Manipulation.* China, Japan, South Korea, and other major trading partners have a long history of currency manipulation, which contributed to the loss of five million U.S. jobs.^{viii} Despite claims that the yuan is no longer undervalued, there is ample evidence that Beijing continues to play an active, daily role in setting exchange rates. We urge the passage of legislation to treat foreign currency manipulation as a subsidy under trade remedy laws. And, we support the inclusion of strong, enforceable rules in trade agreements to deter and penalize currency manipulation. We will also be closely watching as the administration prepares to release yet another Semiannual Report on International Economic and Exchange Rate Policies, due by April 15th.

- *Automobiles and Rules of Origin in Trade Agreements.* A trade agreement's rules of origin determine the national source of a product. This is important because only those countries bearing the risks and responsibilities of signing an agreement should obtain its benefits. We believe the rule of origin on automobiles in NAFTA and other trade agreements should be strengthened, so that workers in signatory countries can enjoy more of the benefits, while minimizing the advantages of non-participating countries. In the context of the NAFTA negotiations, automobiles and auto parts from countries such as Japan, South Korea, and China, all of which heavily protect their own industries, should not be permitted to displace North American production through rules of origin that are set too low. As it relates to KORUS, more work must be done to open the Korean market – one of the most difficult for our automakers to export into despite the signing of a trade agreement intended to open the market.

It's Time to Act on the Section 232 Investigation

Last, but certainly not least, I want to focus your attention to the pending Section 232 investigations on the impact of steel and aluminum imports on U.S. national security. In April 2017, President Trump directed the Department of Commerce to complete these self-initiated investigations under an expedited timeline, saying, "Maintaining the production of American steel is extremely important to our national security and our defense industrial base. Steel is critical to both our economy and our military. This is not an area where we can afford to become dependent on foreign countries." In late-May 2017, the administration said the reports would be released in June and, just days later, the President himself publicly said the 232 reports would be coming "very soon" and that "we're going to stop the dumping." In early June, President Trump added, "Wait until you see what I'm going to do for steel and for your steel companies...We're going to stop the dumping, and stop all of these wonderful other countries from coming in and killing our companies and our workers. You'll be seeing that very soon. The steel folks are going to be very happy."

Despite those assurances, months passed without a clear understanding of when the investigations would be completed. American workers were told that the administration needed to complete tax reform and other legislative priorities before it could again focus on the Section 232 investigations. All the while, the import problem has been worsening for American workers and U.S. companies. Steel imports soared 21 percent in the 3 months after President Trump announced the Section 232 investigation compared to the 3 months before. Overall, total steel imports were up 15.4% in 2017.^{ix}

We recently received the painful news that several steel mills in Pennsylvania would be reducing operations, including one that produces armor plate for the U.S. military and played an important role in supporting the production of armored vehicles to protect our service men and women from IED attacks in Iraq and Afghanistan.^x Meanwhile, the United States is now down to a single manufacturer of the steel needed for America's essential electric grid – grain-oriented electrical steel (GOES). Unfortunately, there are no shortage of threats – both natural and manmade – that could damage or destroy this critical infrastructure. Already reduced to just one domestic producer of GOES, electrical steel imports increased by 101 percent in 2017. But, it's not just a China problem. Electrical steel imports from Japan, China, and South Korea are up a staggering 156 to 269 percent. Without broad action to prevent the loss of this domestic production capability, the United States would be entirely dependent upon foreign suppliers.

Our national security rests on a healthy industrial base. Domestic production of steel and aluminum are vital in the manufacture of America's military and critical infrastructure, including everything from ships and tanks to bridges and energy infrastructure. If domestic manufacturing capabilities deteriorate

further, we may be forced to rely on countries like China and Russia to supply steel for our military and critical infrastructure needs. We cannot let that happen.

The President now has up to 90 days to determine what precise action to take. But, there's absolutely no reason to take that long. He should take bold action today to protect our national security and American jobs.

American-Made Infrastructure Investment

Federal investment in infrastructure is critical to a well-functioning economy and our national competitiveness. U.S. manufacturers benefit from infrastructure investments not just because they generate new demand for steel, but also because an efficient infrastructure network improves their ability to bring goods to market. We desperately need to identify solutions to the funding challenges that stand in the way of addressing the backlog of repairs to our nation's highways, water systems, and other critical infrastructure. According to a Duke University report entitled *Infrastructure Investment Creates American Jobs*, America has 156,000 deficient bridges, an investment backlog of \$85.9 billion for our nation's roads, and \$200 billion in lost economic activity annually from inefficient rail transportation.

Too often the focus of infrastructure has been on "shovel ready" projects, which unfortunately has meant that larger projects that are essential to our steel sector have not moved forward. A prime example is the Soo Locks system that allows ships to move between Lake Superior and the rest of the Great Lakes. The larger of the two locks, the Poe Lock, is nearly 50 years old and the only lock that can accommodate larger vessels that make up almost 70 percent of the potential capacity of the Great Lakes fleet. A recent report by the Department of Homeland Security found that if the Poe lock were to shut down for 6 months, the nation would experience economic hardship as mines and steel mills experience supply chain disruptions, causing a ripple effect throughout the manufacturing sector that could impact as many as 11 million workers. Depending on when such a failure occurred, as much as 75 percent of U.S. steel output could go offline in a matter of weeks. Building a second Poe-sized lock would cost \$580 million, but would spur \$1.7 billion in economic activity.

Strong Buy America Policies Create Jobs Here at Home

Buy America policies are procurement preferences for iron, steel, and manufactured goods that are "produced in the United States." These preferences apply to federal infrastructure programs, ensuring that U.S. companies and American workers have the first opportunity to supply the materials used to build our highways, rail, airports, water systems, and other critical infrastructure. Strong Buy America laws maximize the return on the nation's investment in our infrastructure and are consistent with our international obligations.

I want to offer several recommendations as Congress moves closer to a debate on infrastructure:

- *Include Buy America in the infrastructure package.* As Congress looks to funding solutions, it is necessary to ensure that new funding mechanisms – including public-private partnerships or other new innovative financing tools – are covered with strong Buy America rules. Despite his frequent campaign rhetoric on the issue, we were disappointed to see that President Trump's recently released infrastructure plan made no mention of Buy America. In fact, it goes in the completely opposite direction, proposing to weaken existing application resulting in tax dollars going overseas to purchase foreign steel for our infrastructure needs.

- *Apply Buy America where it doesn't exist.* There are many infrastructure spending programs that are not covered by a Buy America preference. We support a top-to-bottom review of all infrastructure spending programs and enacting Buy America laws where they are absent. An example of this is the Drinking Water State Revolving Fund (DWSRF), which is covered by a temporary Buy America provision. Without action to make this provision permanent, our nation's drinking water infrastructure investments will be open to steel and iron from China and other countries. We cannot let this happen.
- *Close loopholes and improve existing laws.* We should also work to close loopholes, strengthen weak agency enforcement, and reduce the number of unnecessary waivers granted. Bipartisan support in recent transportation bills resulted in language to prevent project segmentation and increase transparency of the waiver process.
- *Reject efforts to weaken Buy America by supporting the 'Melted and Poured' standard.* For 35 years, the foundation of our Buy America laws has been the requirement that all steel manufacturing processes occur in the United States for a product to be Buy America compliant – from the actual steel production to the finishing processes. Regrettably, a few companies whose business model focuses on importing foreign steel are aggressively lobbying to create a massive Buy America loophole that would allow steel from Russia, China, or other foreign sources to qualify as “produced in the United States.” This massive outsourcing loophole should be rejected outright. Steel is made here only if it is melted here.

No More Outsourced Infrastructure Projects

I want to highlight several high-profile infrastructure projects that have found ways to evade federal Buy America laws. In each case, public resources bypassed U.S. companies and American workers and, instead, supported jobs in China and other foreign countries.

- *San Francisco-Oakland Bay Bridge.* Completed in 2013, California state officials used clever accounting gimmicks to bypass federal Buy America laws for the construction of the Bay Bridge. They thought that using Chinese steel would net them \$400 million in savings to the overall project. Rather, the project was plagued with quality issues and cost overruns, all while thousands of jobs were created in China instead of here in the United States. The project was a decade behind schedule and nearly \$4 billion over budget.
- *Verrazano-Narrows Bridge.* In 2013, New York state officials decided to source 15,000 tons of steel, including the fabrication work, from China for the bridge deck replacement at the Verrazano-Narrows Bridge. In shocking fashion, the Metropolitan Transportation Authority (MTA) awarded the contract to a Chinese state-owned company that had never done such work. MTA used a very specific fabrication design, called orthotropic decking, and used it as an excuse to bypass U.S. companies and workers ready to rebuild the bridge.
- *LaGuardia Airport.* Early last year, it was reported that Chinese and other foreign-origin steel is being used in the \$4 billion LaGuardia Airport renovation. While the project does not appear to be covered by a federal Buy America law, it is notable that the Port Authority of NY and NJ has received \$76 million in federal FAA grants for improvements at LaGuardia in just the last 10 years. These funds require U.S.-melted steel to be used. And, the Port Authority will finance the LaGuardia project with \$1 billion in Passenger Facility Charges (PFCs).

Conclusion

Thank you for the opportunity to testify today. We look forward to working with you to advance policies that will revitalize America's manufacturing sector – a major economic driver, foundation of U.S. national security, and source for millions of family-sustaining jobs. Together, we can *Keep It Made in America*.

ⁱ Scott, Robert E. "Growth in U.S.–China trade deficit between 2001 and 2015 cost 3.4 million jobs." *Economic Policy Institute*, 31 January 2017. Web. 9 May 2017.

ⁱⁱ Scott, Robert E. "U.S.-Korea trade deal resulted in growing trade deficits and more than 95,000 lost U.S. jobs." *Economic Policy Institute*, 5 May 2016. Web. 9 May 2017.

ⁱⁱⁱ Scott, Robert E. "Currency Manipulation and the 896,600 U.S. Jobs Lost Due to the U.S.-Japan Trade Deficit." *Economic Policy Institute*, 4 February 2015. Web. 9 May 2017.

^{iv} Scott, Robert E. "Currency Manipulation and the 896,600 U.S. Jobs Lost Due to the U.S.-Japan Trade Deficit." *Economic Policy Institute*, 4 February 2015. Web. 9 May 2017.

^v Gosselin, Peter and Dorning, Mike. "After Doubts, Economists Find China Kills U.S. Factory Jobs." *Bloomberg Politics*, 18 June 2015. Web. 9 May, 2017.

^{vi} Scott, Robert E. "Manufacturing Job Loss: Trade, Not Productivity, Is the Culprit." *Economic Policy Institute*, 11 August 2015. Web. 9 May 2015.

^{vii} Wong, Edward. "Greenpeace Links Beijing's Air Pollution Surge to Steel Factories." *New York Times*, 16 February 2017. Web. 10 May 2017.

^{viii} Peterson Institute for International Economics

^{ix} "Steel Imports Up 15% in 2017." *American Iron and Steel Institute*, 26 January 2018. Web. 12 February 2018.

^x http://chestertontribune.com/Business/arcelormittal_closing_part_of_pa.htm