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Thank you, Senator Baucus, and members of the Committee, for the opportunity to testify this morning on the 2007 trade agenda.

It is time for fundamental change in U.S. trade policy.

Our trade deficit hit a staggering $764 billion in 2006. Real median wages and family income continue to stagnate, while productivity growth soars. We have lost more than 3 million manufacturing jobs since 2000—many of them to trade—and good white-collar jobs that pay well are increasingly vulnerable. Estimates range from 14 million to 42 million service-sector jobs that could be subject to offshoring over the next decade -- offsetting many of the promised benefits of trade liberalization.

We see heartrending daily reports of workers' rights abuses—here at home and around the world—as governments and corporations seek economic advantages in a cutthroat global economy with no minimum enforceable international rules to protect workers' human rights. Democratically elected governments find their policy scope increasingly narrowed by global trade rules that impinge on many areas that previously were the domain of national policy—from environmental and public health protections to land-use rules, gambling restrictions, immigration policy and corporate taxes.

Our declining manufacturing capacity poses a serious and growing threat to both our economic and national security. The loss of millions of skilled jobs, the closure of nearly 40,000 manufacturing facilities and the exporting of design, engineering and research and development capacity mean the next innovation, the next generation of products and the next investment will be made in other countries. At the same time, we are losing the capability to supply our military troops with ammunition, uniforms and other essential equipment in a timely and flexible manner. The offshoring of our manufacturing capacity is underwritten by a toxic brew of workers' rights violations, lax environmental standards, currency manipulation and illegal subsidies that global corporations take advantage of.

Most of the costs of this flawed globalization model are paid by workers, family farmers and domestic producers—but all Americans are affected by growing inequality and eroding protections for consumer safety, public health and the environment.

Decades of trade deficits – all record-breakers in recent years – have contributed to a mounting cumulative international debt, which now exceeds $3 trillion. This unsustainable debt has greatly increased our vulnerability to financial crises and speculative currency movements. And the U.S. image abroad has suffered as our government is increasingly perceived as imposing an

anti-development, anti-worker trade agenda on behalf of our multinational corporations. Indeed, workers' rights have not improved, and in some cases have worsened, in Central America. Nor have the promised jobs materialized in most CAFTA signatories. It is no wonder that tens of thousands of workers and farmers have taken to the streets in Korea, Costa Rica and Thailand—among many other countries—to protest proposed trade deals put forward by the U.S. government.

It doesn't have to be this way. The movement of goods, services, money and people across national borders can and often does bring many benefits: increased economic growth and dynamism, as well as the beneficial spread of technology, culture and ideas across borders. The key missing part is how those benefits are distributed—and how to resolve the uneasy compromise between enforceable international rules and democratic decision-making.

The Promise of Globalization: New Rules for the Road

For globalization to live up to its promise to improve the lives of workers and the poor, not just the wealthy and the powerful—here and around the world—we need an entirely new set of rules and institutions.

We need global trade rules that link market access to strengthening protection for workers' fundamental human rights, as laid out in the International Labor Organization's (ILO) 1998 Declaration on Fundamental Principles and Rights at Work: the freedom of association and the right to organize and bargain collectively, and prohibitions on child labor, forced labor and discrimination in employment. These must be enforceable requirements, subject to the same binding dispute settlement and enforcement mechanisms as commercial provisions. No government should gain a comparative advantage in global markets by offering to violate its own workers' human rights—just to keep labor costs down. And no company should profit by taking advantage of vulnerable workers in one country to produce goods to sell to wealthy consumers in another.

Similarly, international environmental commitments under multilateral environmental agreements should be reaffirmed and protected in trade rules. Private investors must not have the right to challenge domestic environmental and public interest laws and regulations before closed international tribunals – leaving taxpayers liable for huge payouts.

We need to strike a better balance between domestic rule-making and international obligations—ensuring that trade rules do not threaten governments' ability to provide affordable and high-quality public services or to regulate labor markets, the environment, public health and consumer safety. Trade agreements must not require privatization or deregulation as a condition of market access, nor should they obstruct developing countries' right to address HIV/AIDS and other health crises through public access to essential medicines. Procurement provisions must not undermine the ability of federal and state governments to use tax dollars to create and maintain good jobs, to promote economic opportunity and development and to achieve other legitimate social goals. Changes in our immigration laws should be made by Congress, not through irreversible commitments offered up in trade negotiations.

We need more transparency and much broader public participation in the negotiation of trade rules, at both the national and international levels. Business is not the only constituency affected by trade and capital market liberalization, and it should not be the only non-government group at the table when these deals are cut.

The Wrong Track: A Record of Failure

On each of these fronts, our own government has let us down over and over again. Since 2001, the Bush administration has failed to seek meaningful protections for workers' rights and environmental standards in free trade agreement negotiations with more than a dozen countries and at the World Trade Organization in multilateral talks.

In fact, the administration recently proposed abandoning the internationally recognized ILO workers' rights as a standard and replacing them with U.S. labor laws in the Peru, Colombia and Panama free trade agreements. This proposal would replace decades of expertise and jurisprudence and hard-won international tripartite consensus at the ILO with a vague standard that our trading partners should have labor laws that are generally equivalent to U.S. labor laws. This is an arbitrary, unworkable and ill-conceived idea that would be an international embarrassment.

At the same time, the administration has aggressively sought excessive trade rules on investment, intellectual property rights, government procurement and service sector access on behalf of multinational corporations—heedless of the impact on workers, the poor or governments' capacity to regulate. In fact, our trade regime pursues corporate rights while leaving other concerns off to the side of the road.

The Bush administration has given America's workers, farmers and producers few reasons to have confidence that it will fight for our interests in the international arena. The administration has failed to enforce our own trade laws, rejecting strong 421 safeguard cases in defiance of the findings of the U.S. International Trade Commission. It refused to even consider four separate Section 301 cases challenging China's violation of workers' rights and currency manipulation. It has failed to effectively enforce workers' rights provisions in existing U.S. trade laws, including the generalized system of preferences and bilateral agreements. It has done far too little to protect our trade laws from international challenge, leading to erosion of those laws as we lose challenge after challenge at the WTO.

President Bush has asked Congress to renew Fast Track (also called Trade Promotion Authority) when it expires in June of this year. We will vigorously oppose any attempt to extend the current flawed Fast Track authority. We cannot simply continue the status quo approach, which has resulted in bad trade agreements, lost jobs, stagnating wages and a spiraling trade deficit.

We welcome a national debate over how best to reform our trade policies—and how to strengthen the role of Congress in this important and contentious area.

The Right Track

The first step in any new trade policy must be a serious strategic review of existing trade agreements *before* the initiation of any new trade negotiations. We need to re-examine the content and performance of current agreements to measure their strengths and weaknesses and determine how we can do better in the future. Tracing the actual trade and investment patterns that result from trade deals by sector and by state, as well as their impacts on employment, living standards, social regulation and communities, would allow a much more nuanced debate about the actual outcomes of trade deals rather than their promised benefits. Such a review must also include recommendations on how to address problems in existing agreements, up to and including renegotiation.

Second, Congress should have a role in choosing trade partners, which it does not have under our current set of rules. Congress should lay out "readiness criteria" to assess any potential trade agreement partner, including: the economic opportunities available for U.S. workers, firms and farmers; a country's legal framework and enforcement regimes; a country's compliance with ILO standards, multilateral environmental agreements and fundamental human rights; and the existence of a democratic governance system. Only countries that meet these readiness criteria should be eligible for negotiations. With these rules, we would not have negotiated a trade agreement with Colombia, whose government is responsible, by act or omission, for the deaths of thousands of trade unionists.

The third key element is to make the negotiating objectives laid out by Congress mandatory, rather than optional. Current Fast Track authority simply lists negotiating objectives without any requirement that each objective be met. For labor in particular, this has yielded terrible results: the corporate sector's objectives jump to the top of the list and ours limp along in last place. *In fact, workers' rights have been among our negotiating objectives for more than 30 years, with very little progress being made.* The U.S. Trade Representative has consistently ignored Congress's instructions with respect to protecting our trade laws and insisting on reciprocal market access, among many other things. These mandatory negotiating objectives should, at a minimum, address the issues listed above: labor, environment, investment, procurement, protecting our trade laws, intellectual property rights, services and immigration.

Fourth, Congress must certify that an agreement has met all the mandatory objectives before the agreement can be signed. Without such certification, an agreement will not receive expedited and preferential consideration and will be subject to amendment.

These represent only the most crucial changes that are needed to get our trade policy back on the right track.

Getting all the Tracks Right: Trade Enforcement, FTA's and Doha.

Last month, the Treasury Department once again, in its biannual currency report to Congress, announced that it was unable to find any "technical violations" of the law by the Chinese government with respect to currency manipulation. Once again, the Secretary assured the

members of the Senate Banking Committee that another high level strategic dialogue will change the situation. Frankly, the time for talk is over, and it is time to act.

We have fully supported the introduction of H.R. 782, the Fair Currency Act, in the House. The AFL-CIO is grateful to Senators Stabenow, Bunning, Bayh, Snowe, Casey, and Levin for their leadership in introducing the companion bill in the Senate. We look forward to working with our business, farm and community allies and all of you on this important legislation.

Other trade actions under way are far more troubling. Even as the fast track debate warms up, the administration is trying to beat the clock with a series of Free Trade Agreements in Peru, Colombia, Panama, South Korea and Malaysia. Each of these proposed agreements fails to include enforceable ILO standards for workers' rights. In addition, they also fail to address the same set of concerns we have raised for over a decade: environment, investment, procurement, protecting our trade laws, intellectual property rights, and services.

The revived Doha Round of negotiations can only be greeted with pessimism. Unfortunately, the framework of the talks laid out in Doha in 2001 fails to address the concerns of working families, both in the United States and in developing countries.

The key WTO issue for the labor movement is moving forward a constructive discussion about how the global trading system can strengthen international protections for workers' rights. If WTO rules can be applied to protect copyrights and patents across national borders, judge whether national environmental or public health laws are legitimate, and pressure governments to eliminate or reform subsidy programs, then surely the WTO can clarify that no country should gain a competitive advantage by violating the human rights of its own workers.

A second crucial issue not on the WTO agenda is currency manipulation. Even though WTO rules in principle forbid frustrating WTO commitments "through exchange action," this provision has never been applied. The WTO's failure to address this issue effectively strains the entire global trading system. Nor will the negotiations address needed institutional reforms at the WTO, especially in the areas of transparency and accountability.

While issues that labor would most like to see addressed by Doha are not even on the table, many issues of great concern are under discussion. U.S. trade and immigration laws are vulnerable, as many countries have expressed interest in weakening our trade laws, and in obtaining new commitments to raise current limits on temporary entry visas. NAMA negotiations put enormous pressure on the few remaining industrial sectors with high tariffs – while offering little hope of progress on workers' rights or significant reciprocal market access concessions. Services negotiations threaten the viability and quality of some public services.

Our nation no longer can continue with status quo trade policies. Those policies have failed— and failed miserably. They have failed our workers, our communities and our environment, and they pose a serious threat to our national security.

Consequences of the Status Quo: Loss of Capacity and Innovation

The free market economists' response to the decline in manufacturing employment is to tell us there is no cause for alarm – that what we're witnessing is merely the natural maturing of our economy — heavy production and labor-intensive industry will move to lower wage labor markets, like Mexico or China, while the U.S. retains high skilled and service jobs. The process, they claim, is inevitable and, in the long-term, benign.

Those knowledge jobs that economists claimed would take the place of lost manufacturing jobs in the globalized "new economy" have proved inadequate – in both quality and quantity – to replace the lost manufacturing jobs. It turns out manufacturing has been a canary in the coal mine for other sectors of the economy that are only now learning about being digitized, outsourced and offshored.

For a majority of American workers, current globalization policies have brought deindustrialization, an attack on unions, declining real wages and vanishing pensions and health care. For manufacturing, it has become a cancer that is destroying our technical capacity to innovate and produce. This sorry record is not benign, but it is a prologue for our future – unless we change course soon.

Jobs, Trade, Output and Productivity

In spite of the raw numbers, free trade advocates continue to deny the impact and implications of our current trade policies. They assert that manufacturing has never been better because output is up, productivity has risen, and capacity utilization has been good. They say this proves that productivity and technology are the real cause of the loss of jobs and facilities. They could not be more wrong. Their false assertions undermine the efforts of thoughtful policymakers.

Job Loss and Trade

There is substantial evidence of a strong link between trade and the loss of manufacturing establishments and jobs since 1998. Between 1998 and 2006 1,326,953 workers were certified as having lost their jobs due to trade, under the Trade Adjustment Assistance program. This represents nearly 40 percent of the 3.5 million manufacturing jobs lost during that period (chart 1). These figures are considered a lower bound. Both the GAO and the Court of International Trade (CIT) has criticized the Labor Department for its inadequate administration of the TAA program. The CIT has overturned more than 90 percent of the TAA denial cases they have reviewed. Many workers are not aware of their rights under the program. Prior to 2005. TAA did not cover indirect job loss.

Studies by the Industrial Union Council of WARN notices in four states found that the trade-related loss ranged between 52 and as high as 88 percent (chart 2). In addition, Economic Policy Institute (EPI) researchers estimate that the U.S. trade deficits with NAFTA partners Canada and Mexico resulted in a net loss of over one million U.S. jobs and that escalating trade deficits with China caused the loss of 440,000 manufacturing jobs from 2002 to 2004.

CHART 1
USDOL/ETA TAA management Information Report
December 31,2006

Year	Manuf. Job Loss	Petitions	Workers	Certified	Workers	Denials	% Denied	Workers
1998	139,000	1,512	157,911	998	108,665	428	28%	47,209
1999	175,000	2,541	239,029	1,579	154,990	812	32%	79,191
2000	100,000	1,393	151,753	822	98,039	481	35%	51,859
2001	1,477,000	1,957	214,682	1,164	147,053	670	34%	60,675
2002	804,000	2,904	348,857	1,674	243,957	1,024	35%	94,484
2003	615,000	4,038	312,751	2,158	204,810	1,270	31%	82,133
2004	+ 1,000	2,691	174,723	1,496	122,272	811	30%	49,728
2005	83,000	2,684	162,742	1,536	117,272	886	33%	45,400
2006	89,000	2,330	155,238	1,414	129,895	692	30%	41,210
Total	**3,481,000**		**1,917,686**		**1,326,953**		**32%**	

Source: U.S. Department of Labor

CHART 2
Summary of Findings - IUC State Job Loss Reports
January 2001- May 2004

State	Manufacturing Share of 2000 GSP	Manuf. Jobs Lost (BLS)	Job Loss Impacts	WARN-Related Layoffs	Trade-Related Layoffs *(WARN-based)*	Trade-Related % of Total. Layoffs	New Jobs' Wages Compared to Lost Jobs
Ohio	23.4%	170,000	1 in 6 manuf. jobs lost	38,830	20, 124	52%	$11,355 less
Wisconsin	25.0%	67,500	1 in 9 manuf. jobs lost	26,243	15,912	61%	$9,312 less
Pennsylvania	18.4%	161,200	1 in 5 manuf. jobs lost	40,733	28,259	70%	$12,456 less
Washington	12.3%	66,700	1 in 5 manuf. jobs lost	30,991	27,196	88%	$18,400 less

Productivity and Manufacturing Output

The manufacturing output and productivity indexes tell a very different story from the one free trade advocates like to tell. Productivity measurements fail to reflect the impact of outsourcing and offshoring, while the output index has slowed to a crawl over the past six years. Both point to the damaging impacts trade has had on the manufacturing sector and the wages of American workers.

Dr. Susan Houseman of the Upjohn Institute for Employment Research has produced a groundbreaking report, *Outsourcing, Offshoring, and Productivity Measurement in*

Manufacturing. The report indicates that "outsourcing and offshoring result in an overstatement of labor productivity." As Dr. Houseman succinctly put it: "thus, the very phenomena that result in an overstatement of productivity measures also place downward pressure on many workers' wages, contributing to the growth of inequality."

The real story on manufacturing output is much the same. Manufacturing output growth has slowed significantly since 2000, compared to the preceding decade. Economic Policy Institute economist Rob Scott debunked the widespread misperception that rapid productivity growth is the culprit for continuing job loss in the manufacturing sector. His February 2007 article, ***Manufacturing job loss: Productivity is not the culprit*, showed that** since 2000, productivity growth nudged slightly upward relative to the previous decade, increasing 4.2% per year while output growth cratered, averaging only 0.8% per year since 2000, compared to an annual growth rate of 3.5% in the preceding decade. At the same time, employment fell 3.2% per year. Dr Scott concludes: "in short, it is slow growth in manufacturing output—not an acceleration in productivity—that makes 2000-06 different from the previous decade and explains the steep fall in manufacturing employment.

Offshoring Investment

There has been a precipitous decline in domestic manufacturing investment, which fell nearly 17 percent in real terms from its peak in 2004, while investment in manufacturing structures declined 44 percent over the same period. At the same time, many of the same firms made and continue to make record offshore investments in R&D, engineering, design, and production jobs.

The investment flows portend future production and exports to the United States. Claims that outsourcing is matched by insourcing (foreign investment in domestic manufacturing) are misleading. Insourced investments are overwhelmingly changes of ownership: *i.e.* there are few new jobs or production facilities. Not so in China, where these are for the most part startups and expansions. The foreign direct investment (FDI) flow into China reached $62 billion in 2004 and continues to soar. Seventy percent of China's FDI is in manufacturing, with heavy concentration in export-oriented companies and advanced technology sectors. Contracted (future) FDI projections are more than double the actual level today.

Recent developments in the domestic auto industry show this trend at work. In the past two years, Delphi, Ford and GM have all announced major R&D and to production investments in China. All have issued announcements about the expected rapid growth in imported parts from China. Last year a memo from GM to its suppliers told them they must start doing a percentage of their business in China. Up until this point the automotive and parts sector has been a domestic stronghold for manufacturing.

Danger Signs: Losing Industrial Capacity

The closures, declining domestic manufacturing investments and massive offshore investments have real consequences for our members. A close look at manufacturing's recent performance sheds much light on the sector's shortcomings. Although the headline indicators suggest U.S. manufacturing output is recovering, other major performance measures reveal serious problems for domestic workers and producers. The following data from a report being prepared by the

AFL-CIO and US Business and Industry Council show the following major trends for these indicators:

- *Manufacturing capacity* growth and the recovery in *capacity utilization* have been very weak since 2001, and capacity growth in high-tech industries has slowed compared to its dramatic growth of the late 1990s, and even relative to its modest growth during the previous three decades. Since 2001, non-high tech manufacturing capacity has declined. Manufacturing capacity utilization is still below its historic average of 79.6 percent, and aside from the recent trough, remains lower than every year since 1983.

- Another critical indicator of U.S. manufacturing competitiveness, *import penetration*—the share of the U.S. market held by imports—also has been growing. A U.S. Business and Industry Council (USBIC) study of 123 six-digit NAICS-based products, including every manufacturing sector that has ever been judged to be a major contributor to the country's prosperity as well as to its security shows an across-the-board increase of 23 percent—from 25.5 percent of domestic consumption to 31.4 percent—between 1997 and 2002. That is, imports grew from one-quarter to nearly one-third of the total value of this large, diverse group of items consumed domestically in only five years.

  The closure of more than 40,000 manufacturing establishments between 2001 and 2005 represent a direct loss of industrial capacity in the following sectors:

  - Computer and electronics: 543,900 workers or 29.2 percent
  - Semiconductor and electronic components: 260,100 or 36.7 percent
  - Electrical equipment and appliances: 152,500 or 26 percent
  - Vehicle parts: 153,400 or 18.6 percent
  - Machinery: 289,400 or 19.9 percent
  - Fabricated metal products: 235,200 or 13.3 percent
  - Primary metals 144,800 or 23.5 percent
  - Transportation equipment: 246,300 or 12.1 percent
  - Furniture products: 58,500 or 13.4 percent
  - Textile mills: 158,500 or 43.1 percent
  - Apparel: 220,000 or 46.6 percent
  - Leather products: 24,700 or 38.3 percent
  - Printing: 159,300 or 19.9 percent
  - Paper products: 122,600 or 20.4 percent
  - Plastics and rubber products: 141,400 or 15 percent
  - Chemicals: 94,900 or 9.7 percent
  - Aerospace: 46,900 or 9.1 percent.

Danger Signs: The Offshoring of Innovation

The impacts of an eroding domestic manufacturing base on national security stem not only from transnational firms moving R&D, engineering and design offshore, but also from the military's growing reliance on commercial cutting-edge technology. Defense procurement policy has put

rapidly increasing emphasis on "dual-use" technology products. The rationale was that drawing on the often more innovative civilian sector would yield not only more up-to-date products, but big cost savings.

The ability of a firm to design, innovate, and improve on defense-critical technologies or devices that it produces for defense markets increasingly depends on its ability to preserve and draw upon the technology edge it has obtained in its commercial business. As military products become more reliant on commercial advanced technologies, technology transfer from commercial technologies into defense-critical products requires a close relationship between the Pentagon on defense contractor customer and the suppliers of these technologies. However, as the commercial industrial base globalizes, the loss of domestic production facilities can lead to the loss of innovation capabilities.

Specifically, the migration of manufacturing offshore is associated with the following trends:

- Weakening innovation capabilities of domestic industrial sectors;
- The transfer—deliberate and unwitting—of cutting-edge technologies and know-how to economic rivals and potential military adversaries; and
- Foreign countries establishing industrial and technology policies aimed at enhancing their technological capabilities relative to America's.

The same trends are apparent in the advanced materials sector. A report by the National Academy of Sciences on the globalization of materials R&D concludes that, as U.S. materials manufacturing disappears and moves offshore, domestic materials R&D capacity has diminished. U.S. companies, attracted to the growing availability of often lower cost foreign intellectual resources, are shifting their materials science and engineering R&D activities to follow their manufacturing operations overseas. The net result is the erosion of U.S. leadership in advanced materials R&D.

The NAS reports on several instances of materials' technology that illustrate this trend:

- *Metals.* Research into the production, processing, and development of metallic materials in the United States has been declining since 1998.
- *Superalloys.* Superalloy R&D has declined significantly over the past decade. Attracted by lower costs, superalloy manufacturers increasingly are locating their production offshore.
- *Composites.* Composites are a critical technology used in major defense systems Once unchallenged, other countries in several areas have supplanted U.S. leadership in composites. U.S. defense and commercial programs—the Joint Strike Fighter and Boeing's 787 Dreamliner—are outsourcing production and supporting R&D in composites overseas.
- *Electronic and Opto-Photonic Materials.* These are critical technologies for maintaining leadership in semiconductors. This industry and its material supply chain are moving toward a global processing and manufacturing infrastructure that is taking some of its R&D capacity with it.

The flip side of the migration of U.S. innovation capabilities offshore is the buildup of other countries' R&D capacity. The strengthening of foreign technology capability does not always result from market forces and commerce-facilitating progress in communications and transportation. Instead, this development often results from multinational companies taking one of three tacks:

- Actively exploiting the business environments created by U.S. trade policy – for which they have lobbied hard – that encourage them to supply the U.S. market even for highly sophisticated manufactures from low-cost foreign facilities;
- Responding to foreign government carrots and sticks; or
- Formulating various investment strategies synthesizing these two approaches.

The carrot-and-stick approach by foreign governments is a direct reflection of a broader strategic and tactical approach to capture markets and technological dominance in specific sectors.

New Rules and A New Trade Agenda

The trade trends are clear, and the crisis is real for American workers and domestic producers. Other nations and global corporations have a strategy. They play by a set of rules that often pits the weakest, most oppressed, workers against workers in advanced industrial nations; they seek the weakest environmental regulations. Many countries seeking an edge engage in currency manipulation and illegal subsidies. All of it is at the expense of workers here and abroad. It has to stop.

We believe trade can provide and often does bring many benefits from economic growth to the spread of technology, culture and ideas. The key missing part is how those benefits are distributed and how international rules and democratic decision-making can work together.

We believe the solution to the trade crisis requires a bipartisan and multi-dimensional approach. This begins with a pause on new trade deals and a review of the existing ones.

We believe the existing fast track system needs to be scrapped and replaced by one that reasserts the role of Congress, outlines readiness criteria, has mandatory objectives, and that Congress must certify that an agreement has met all the mandatory objectives before the agreement can be signed.

We look forward to working with you over the coming years to meet these challenges.

Congress must act now to reassert its voice and control over trade policy, which increasingly affects many areas of domestic policy. Without deep reform, we cannot come together to meet the many challenges we face as a nation.