U.S. Manufacturing and Public Policy Conference:

"What the Next President Should Do About U.S. Manufacturing: An Agenda for the First 100 Days"

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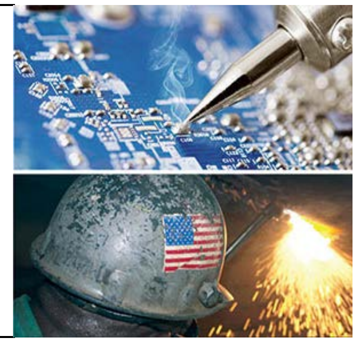

U.S. Manufacturing, China, and the Trans-Pacific Partnership

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Background

To understand fully the challenges facing U.S. manufacturers, it is vital to appreciate the challenges resulting from globalization, including the impact of U.S. trade policy and the actions of other countries – particularly China – on domestic manufacturing. As shown below, there are strong reasons to believe that American manufacturers are not well served by current U.S. trade policy:

- For years, the United States has run massive trade deficits in the manufacturing sector. Data from the U.S. Department of Commerce (DOC) indicate that the U.S. manufacturing trade deficit rose from $361.5 billion in 2002 to $542.1 billion in 2007. After declining to $318.5 billion in 2009 – a decline that reflected the effects of the global economic crisis – this deficit once more began to rise. Last year, it reached an all-time high of almost $630 billion. These figures show that year after year, the value of manufactured goods imported by the United States far exceeds the value of manufactured goods exported by this country. In short, these figures measure the extent to which U.S. manufacturers are finding it difficult to compete with competitors in other countries – both in this market and in other markets.

- Much of the U.S. manufacturing trade deficit results from U.S. trade with China. DOC data indicate that from 2009 to 2015, the U.S. manufacturing trade deficit with China rose from $240.1 billion to $385.0 billion.

- It should also be noted that the challenges facing U.S. manufacturers are not limited to what some think of as "traditional" manufacturing. The difficulties discussed in this paper affect all aspects of

U.S. manufacturing, including new and technologically advanced products. Last year, for example, the U.S. trade deficit with respect to Advanced Technology Products was almost $92 billion.

- U.S. manufacturers often find themselves at an unfair disadvantage due to market-distorting policies in China. Last December, the Office of U.S. Trade Representative (USTR) reported that "Many of the problems that arise in the U.S.-China trade and investment relationship can be traced to the Chinese government's interventionist policies and practices and the large role of state-owned enterprises and other national champions in China's economy, which continue to generate significant trade distortions that inevitably give rise to trade frictions."

- U.S. companies also find themselves at an unfair disadvantage in China due to non-tariff barriers, such as the uneven enforcement of key rules and regulations. Earlier this year, the American Chamber of Commerce in the People's Republic of China reported "although American business in China has exemplary compliance programs in place, there are increasing concerns about transparency, predictability, and fairness of the regulatory environment, and especially in the absence of effective judicial remedies."

- Since October 2000 – when Congressional approval of permanent normal trade relations made it clear that China would enter the Word Trade Organization (WTO) – U.S. manufacturing employment has plummeted. In that month, there were over 17.2 million manufacturing jobs in the United States. Since then, almost 5 million manufacturing jobs have disappeared. Absolute job losses on this scale did not afflict the U.S. manufacturing sector prior to 2000.

- U.S. producers also seem to be at a disadvantage by comparison to their competitors in countries that have free trade agreements (FTAs) with the United States. Based on the figures above, last year the United States had a manufacturing trade surplus of $13 billion with FTA countries. That surplus, however, results from using data for total exports including "re-exports" – products that enter this market and are re-exported without further manufacturing in the United States. If one compares domestic exports to imports for consumption – data that exclude re-exports, and thus focus more precisely on the performance of manufacturers in this country – then last year the United States had a manufacturing trade deficit of almost $100 billion with its FTA partners.

- There is widespread political opposition to current U.S. trade policies. Trade Promotion Authority lapsed completely from 2007 to 2015, due in large part to Congressional opposition, and today it is unclear whether the Congress will approve the Trans-Pacific Partnership – a major trade deal between the United States and 11 other nations.

- These facts raise concerns not only about developments in this country, but about the ability of U.S. manufacturers to access markets elsewhere. There is a risk that political anger over current U.S. trade policy will undermine future efforts to open markets for U.S. exports. The recent vote in Britain to leave the European Union shows that voters unhappy with the effects of globalization can make it more difficult for countries to negotiate trade-opening arrangements. Such a risk should be taken seriously, because it is vital for U.S. manufacturers to have a fair opportunity to compete in global export markets. The potential sales at issue are enormous – last year, total U.S. exports of manufactured goods (including re-exports) exceeded $1.3 trillion. Furthermore, to the extent U.S. manufacturers are denied full access to foreign markets, they are at a significant disadvantage vis-à-vis other manufacturers who do have such access.

- In short, U.S. policymakers have to find a balance that will promote U.S. access to foreign markets, while preventing unfair practices from distorting the U.S. market. The United States should not stop trying to open markets abroad, particularly given that global markets are much larger than the U.S. market. At the same time, however, U.S. policymakers must ensure that American companies and workers have the opportunity to compete on a level playing field in this market.

Recommendations

As shown above, there are strong reasons to be concerned about whether, and to what extent, U.S. trade policy – and market-distorting practices abroad – have put U.S. manufacturers at an unfair disadvantage. At the same time, it is critical that the debate over these issues not be distracted by an outdated dispute between alleged “protectionists” and “free-traders.” Few if any Americans believe that the United States should withdraw from international markets, or prevent import competition in this market. At the same time, to the extent free trade is meant to result in more efficient markets, both here and abroad, U.S. trade policy must remain vigilant against unfair practices that can distort such markets.

In short, there should be a broad consensus behind U.S. trade policies designed to make markets work more efficiently. None of the recommendations below is intended to “protect” U.S. companies or set up “barriers” to true market competition. Instead, these recommendations are designed to: (1) encourage U.S. trading partners (including China) to undertake market-based reforms; (2) ensure that success for manufacturers in the U.S. market is the result of hard work and innovation, not government subsidies or other market-distorting practices; and (3) assure U.S. manufacturers – and those workers and voters concerned about the manufacturing sector – that they are being treated fairly, and that any competition with imports takes place on a level playing field.

These recommendations also reflect our concerns about the significant risks of remaining on the current path. If current trends continue, more industries will be distorted by foreign government policies that are designed, not to promote economic efficiency, but to reward particular well-connected producers. U.S. manufacturers will increasingly have little choice but to go out of business or ally themselves with protected companies abroad.

Moreover, if voters here and elsewhere lose faith in the global trading system, and in its ability to generate fair market outcomes, they will be more likely to support truly protectionist policies that could significantly reverse the long-term trend toward open markets. We are seeing some evidence of this already. It is naïve to expect voters to continue supporting policies if they conclude that those policies are both unfair and harmful to their economic interests, and that they lead to the outsourcing of jobs and ongoing trade deficits.

Finally, we are not unmindful that U.S. exports of manufactured goods have also increased since the economic crisis of 2008, from $917.9 billion in 2009 to $1.316 trillion last year. Exports of manufactured goods are critical to many U.S. companies, and U.S. policy must further such exports.

With these principles in mind, we recommend the following:

- To encourage new thinking, and to avoid becoming distracted by the day-to-day issues necessarily resulting from active trade negotiations, the next administration should announce a pause on all ongoing trade talks for at least one year. It makes no sense to reach new trade agreements until the problems current trade policy creates for U.S. manufacturers have been identified and addressed. The next administration should undertake a complete, top-to-bottom review of all aspects of U.S. trade policy and its impact on U.S. manufacturing. Such a review would be designed both to determine the root causes of current problems and to ensure that future thinking on trade policy is not unnecessarily hamstrung by past practice.

- As part of this review, the president should appoint a high-level, bipartisan commission, consisting of experts on all sides of the debate over trade policy. The commission should include congressional members. The commission should be directed to undertake a complete, top-to-bottom review of all aspects of U.S. trade policy and its impact on U.S. manufacturing. Such a review would be designed both to determine the root causes of current problems and to ensure that future thinking on trade policy is not unnecessarily hamstrung by past practice.

- Currency values have a major impact on international trade – when the U.S. dollar is priced higher than market forces justify, that valuation places an unfair burden on U.S. manufacturers, who find it more difficult to export their products abroad, or compete against imports at home. In the past, both Presidents Nixon and Reagan took actions to address trade problems resulting from an overly strong dollar. In recent years, however, the United States has adopted a more passive approach. Going forward, U.S. currency policy should be sensitive to the effects of misaligned currency on U.S. trade in manufactured goods. Going forward, effective and enforceable currency provisions should be included in new trade agreements. We also advocate the application of the countervailing duty law to currency manipulation, a step the Obama administration has refused to take. In other instances, safeguard relief under Section 201 of the Trade Act of 1974 may be the best way to address import surges resulting from undervalued currencies abroad.

- The next administration should analyze the current roles of government agencies most responsible for trade and manufacturing policy, including the Department of State, the Department of the Treasury, the Department of Commerce, and the Office of U.S. Trade Representative. The next administration should consider administrative and/or legislative changes that may give policymakers more of a focus on manufacturing concerns, including the creation of a Secretary of Manufacturing position. Other sectors, such as agriculture, energy, and federal land management (through the Department of the Interior) have their own cabinet-level advocates. The fact that there is no cabinet level position monitoring and advocating for U.S. manufacturing has contributed to its problems.

- Furthermore, the next administration should commit to having highly-qualified, enforcement-minded persons in all key positions with responsibility for enforcing U.S. trade laws. Such positions would include, but not be limited to, the Secretary of Commerce, the Under Secretary of Commerce for International Trade, the U.S. Trade Representative, and members of the U.S. International Trade Commission. U.S. trade policy necessarily gives policymakers a broad range of discretion, which means that the effectiveness of U.S. trade laws will often be determined by the persons in these and other key positions.

- No new trade deals should be approved, either by the administration or by Congress, unless there is a broad consensus – both inside and outside the administration – that any such deal will result in net benefits for all major sectors of the U.S. economy, including the manufacturing sector. This principle would apply to the Trans-Pacific Partnership as well as any trade agreements currently in negotiation. Given the strong evidence that current trade policy is tilted against manufacturing, it makes no sense to approve new agreements that would make conditions even more difficult for U.S. manufacturers.

- The growth of state-owned enterprises in China and elsewhere – many of which benefit from subsidies – presents a serious challenge for policymakers. Under current law, there are concerns that foreign state-owned enterprises investing in the United States would have an unfair advantage vis-à-vis American companies. To deal with this issue, the next administration should consider policies to ensure that such companies cannot use investments in the United States to distort this market. One potential option would be to strengthen the Committee on Foreign Investment in the United States (CFIUS) to ensure that any U.S. investment undertaken by a state-owned enterprise would be consistent with true market competition. CFIUS should also give special scrutiny to transactions in which Chinese state-owned or state-controlled enterprises seek to buy strategic assets and technologies developed in this country. Another option would be to consider potential new trade remedies to address any market distortions that may result from investments by foreign state-owned enterprises in the United States.

- Article XII of the General Agreement on Tariffs and Trade (GATT) provides that WTO members may, under certain circumstances, restrict imports "in order to safeguard its external financial position and its balance of payments." The next administration should explore all potential options under this provision – or any other relevant provisions of the GATT or other WTO agreements – to identify measures that could be taken against China or other countries to bring about a more balanced trading system.

- U.S. policymakers should commit to policies designed to ensure that U.S. manufacturers do not face unfair competition in this market, including the following:

  - Strictly enforcing U.S. antidumping (AD) and countervailing duty (CVD) laws, including government initiation of trade cases when appropriate;

  - Providing more resources to enforce U.S. AD/CVD laws, including the creation of better early-warning systems to alert government officials to import surges;

  - Continuing to treat China as a "non-market economy" for purposes of U.S. dumping investigations unless and until China fully satisfies all requirements for market-economy status under U.S. law;

  - Pushing back against WTO decisions that undermine the effectiveness of U.S. trade laws, and resisting efforts by our trading partners to obtain concessions in litigation that they were unable to obtain through negotiations. The United States should create a position of WTO Solicitor, and fully staff this office, to make sure we have senior litigators fully committed to preserving the U.S. trade laws handling WTO litigation. For those cases that are wrongly decided, the United States should consider not complying with the WTO decision, a course that is clearly allowed under the WTO agreements;

- Drawing upon all other trade tools available to the U.S. government, including safeguard measures, to encourage U.S. trading partners to comply with their commitments to stop engaging in subsidies and other unfair tactics;

- Continuing strong and directed market opening initiatives in key manufacturing sectors.

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