



Testimony of

Leo W. Gerard
International President
United Steelworkers

before the

Committee on Ways and Means
U.S. House of Representatives

on

China's Trade and Industrial Policies

June 16, 2010

Good morning Chairman Levin, Ranking Member Camp and Members of the Committee. Thank you for providing me the opportunity to address an issue that is so critical to our members and the survival of many of their industries.

I am Leo Gerard, the International President of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union – the United Steelworkers (USW). The USW is the largest industrial union in North America, and I am proud to speak today on behalf of our hundreds of thousands of members who are working hard every day for their families in communities across the country. We produce industrial products, like steel, tires, glass, and paper. We build ships, refine oil, mine copper and produce uranium and are the backbone of the nation's industrial base. My members – your constituents -- can beat the competition anywhere so long as the competition is fair. We work hard and play by the rules and expect others to do so and that the government will stand up for our members' interests.

In the recent past our government has done just that, but the resolve of these hard-working men and women is being tested as never before. Not only have they had to withstand the most severe economic contraction since the Great Depression -- with the loss of 2.2 million manufacturing jobs since its start in December 2007 (according to the Bureau of Labor Statistics) -- but in industry after industry they are being devastated by deliberate Chinese industrial policies, which have caused the hollowing out of critical sectors of our industrial base and the devastation of industrial communities across the country.

I am particularly appreciative of your holding these hearings to bring greater attention – and hopefully, action – to the problems posed by China's state-run capitalist model which is wreaking havoc on America's workers and farmers.

OVERCAPACITY IN CHINA AND ITS EFFECTS ON U.S. WORKERS

Overcapacity in numerous Chinese industrial sectors is not new but has become pervasive and is becoming more and more destructive to the U.S. and global economies. Such vast build-ups of overcapacity are devastating our manufacturing workers and their communities while the nation's manufacturing base, so critical to our economic well-being, standard of living and national security is being destroyed. China is systematically supporting traditionally labor-intensive industries to gain global market share and to ensure its population is working. Stated simply, it is exporting its unemployment here at a huge cost to American workers and manufacturing.

But, it's also important to understand that many of the sectors and industries that China has targeted are the ones that pay family-supportive wages here and represent cutting-edge industries. I could take you through steel, paper, rubber and other plants here in the U.S. where you're more likely to see a computer-controlled production process manned by a Steelworker than a worker filling some outdated image of what

manufacturing jobs are all about. These are some of our nation's most advanced industries with highly skilled workers and millions upon millions of dollars in new plant and equipment. And, our problems run the gamut. Our nation runs a trade deficit with China in Advanced Technology Products of tens of billions of dollars every year -- \$73 billion in 2009.

China's overcapacity is driven by some key factors, in particular, the fact that a majority of the productive assets are held by state-owned enterprises (SOE) whose goal is gaining market share and not making profits. These entities are not governed by market forces, but by governmental objectives. These companies have the support of their government whether through abundant funding at below market, zero interest rates or by other forms of subsidies, both direct and as subsidized inputs, along with weak or nonexistent regulatory enforcement. Together, these and other practices fuel the fire and encourage off-shoring. Widespread availability of technology at low cost (from piracy and forced technology transfers) also contributes greatly to vast overcapacity – so much of which reaches U.S. markets destroying jobs and our nation's productive capacity.

According to a recent report by the Economic Policy Institute, since China entered the WTO in 2001, 2.4 million jobs have been lost or displaced in the United States because of the massive trade deficit between our countries, which is the most obvious effect of such industrial policies on the United States and American workers. In 2009, in the midst of a great recession, the deficit with China topped \$227 billion. A 2009 report by the European Chamber found substantial overcapacity in several industrial sectors, including steel, aluminum, wind power equipment and chemicals. (*European Chamber: Overcapacity in China, Causes, Impacts and Recommendations*).

For example, China now is the world's number one steel producer and accounts for nearly half of all world production. Chinese output is so great that it equals the combined output of the next four biggest steel makers – Japan, the United States, Russia and India. This largely is the result of a range of supportive policies, including massive subsidization over many years to ensure this strategic industry thrives. The EU Chamber's study found that by the end of 2008 capacity had reached 660 million tons, yet demand was only 470 million tons, an overcapacity of about 200 million tons. As the EU report notes, in the third quarter of 2008 world steel production fell by 20 percent, yet Chinese production accelerated by 15 percent. In 2009, China's share of world production increased to 46.6 percent (up from 37.6 percent in 2008), even while world demand remained low.

Steel is only one of the many industries that China has identified as being key to its economic and national interests. China has a broad plan to develop national and international champions, and it is successfully pursuing it.

As the largest industrial union in North America, the Steelworkers continually take the brunt of harm caused by deliberate Chinese government policies that are not based on market principles and signals but rather on a model of state capitalism

grounded in strategic goals for achieving market share in world markets, cronyism and outright corruption and intellectual property theft. As petitioners in many countervailing duty (CVD) trade cases against China, we have first-hand knowledge of the effect of this anticompetitive model in action. In case after case, we see the same pattern repeated over and over again – a broad assortment of subsidies given to boost production for goods exported to the U.S. market. Main inputs, like steel and aluminum billets, pulp, or rubber are provided at low cost to producers of steel pipe, aluminum extrusions, paper products and tires. Government-owned banks provide low-cost loans, tax breaks are given by provincial and local governments and energy and land are provided at give-away prices. The outcome is all too predictable – our market is targeted with huge volumes of low-priced/dumped goods that often vastly undersell domestic producers (and other imports) leading to plant closures, thousands of lost jobs and shattered lives for workers, their families and communities.

The recent CVD investigation of Oil Country Tubular Goods (OCTG) is a case in point. The volume of imports from China tripled from 2006 to 2008, soaring from 725,000 tons in 2006 to 2.2 million tons in 2008. This incredible surge even continued well into the economic recession, as in the first three quarters of 2009 over 700,000 tons entered. During the latter part of that period, we lost 2,400 jobs in the industry and hours worked were cut in half.

Many other sources, including the annual USTR National Trade Estimate (NTE), document the incredible extent to which China deliberately sets industrial policies to advantage their own industries at home and abroad at the expense of other countries. For instance, in October 2009, a study was released describing the massive subsidies provided to China's glass industry finding over \$30.3 billion (*Through China's Looking Glass: Subsidies to the Chinese Glass Industry from 2004-2008* by Dr. Usha C.V. Haley). Since 2003 glass production in China doubled with the result that China is now the largest exporter in the world of flat glass and glass fiber while the U.S. trade deficit in glass with China, not surprisingly, tripled in the same period. Meanwhile, as a direct result, glass production in the U.S. has suffered with plant closings and as many as 40,000 lost jobs here at home.

While trade laws are necessary and should be strengthened, using the trade laws to take on such pervasive industrial policies sector by sector and product by product is insufficient to counter the havoc being wreaked by massive subsidization and other predatory practices taking place on such a broad and sustained scale. By the time a case is brought, serious harm, often irreparable, has been done; capacity and jobs are lost and working families and communities suffer. Indeed, the repeated targeting of so many manufacturing sectors by unfair and mercantilist Chinese practices encourage the movement of jobs and capacity to China: Many companies simply decide to offshore their production and ship their products back to the U.S. market as the only way to reap a profit. Almost 60 percent of China's exports to the U.S. come from foreign-invested enterprises. In short, the problem is systemic and the answer must be as well. We need an open-eyed, real world response from our political leaders

who must have the courage to deal with the way things are rather than simply hoping for a different outcome.

OVERCAPACITY OF WIND POWER IN CHINA IS UNDERMINING OUR CAPACITY TO CREATE CLEAN ENERGY MANUFACTURING JOBS

In 2010 it is now obvious that the country that harnesses clean and green technology and the manufacturing capacity to supply it will be a world economic leader. The Chinese government understands this very well and has intervened extensively in its market to ensure it becomes a leader in clean technology and -- key to this effort -- creates the good manufacturing jobs that go with it by ensuring that the goods and components used to produce alternative energy are made in China. As described in a study commissioned by the National Foreign Trade Council, China intends that most (if not all) of the renewable energy equipment installed in China will be made in China and eventually will embody Chinese-developed standards. These goals are being achieved through a sweeping array of measures that establish local content rules and domestic preferences for subsidies, tax breaks and other similar incentives. (*China's Promotion of the Renewable Electric Power Equipment Industry, Hydro, Wind, Solar, biomass*, March 2010).

Such policies not only disadvantage U.S. exports of clean technology and equipment, they also undermine our own domestic development of wind power and the good clean manufacturing jobs that we should be creating here. The 2009 European Chamber study indicates that Chinese intervention has created a vast overcapacity in the wind industry. Wind power equipment already exceeds domestic market demand by about 46 percent and due to China's high policy targets, which will require massive and sustained procurement efforts for years to come, overcapacity in 2011 is estimated to reach 50 percent.

It should come as no surprise then that China is forecast to become the world's leading exporter of wind turbines. Even more disturbing, these subsidies and other benefits are mainly going to large state-owned enterprises (SOEs), which are the biggest stakeholders in China's energy sector, and which our companies here and in China must compete against. We have already experienced first hand the results here of such dramatic overcapacity. A joint venture between a U.S. company and a Chinese partner was formed to build a 36,000 acre wind farm in Texas with funding from a government-owned Chinese bank and reportedly U.S. taxpayer dollars (providing a 30 percent tax credit for the wind project), which includes buying 2,000 wind turbines from China. This is absurd. Our taxpayer dollars are helping to create technology, jobs and capacity in China. To make matters worse, a USW-represented maker of wind turbines, Gamesa, was forced to lay off workers due to lack of demand.

Just this past week, the Steelworkers joined with the American Wind Energy Association in announcing a Framework Agreement for a Partnership for Progress. This Agreement represents a private-sector effort to work together to enhance

development and utilization of domestically-located sources of supply and ensure that we have the workers with the training and skills necessary to compete. But, our Agreement also recognizes that this Partnership needs to work cooperatively on a public policy agenda to create the right climate and tools to accelerate development of this industry in the United States. We hope to work closely with this Committee on the matters within its jurisdiction to ensure that the promise of clean and green jobs becomes a reality.

We simply cannot keep making the same mistakes over and over again and expect a different outcome. American taxpayers have a right to expect their government to promote the creation of jobs here at home first and to assist our domestic manufacturers in the face of China's pernicious industrial policies. In transitioning to a clean economy, we cannot be so foolish as to replace our dependence on foreign oil with a dependence on foreign-made equipment whether in the wind, solar, nuclear or any other sector.

EXPLOITIVE LABOR CONDITIONS IN CHINA CREATE OVERCAPACITY AND HARM CHINESE AND AMERICAN WORKERS

The issue of labor rights in China is an issue that organized labor in the United States and in other countries around the world have raised for years. We do so, in part, because of the impact that China's labor regime has on our workers, who are forced to compete against workers in China whose wages, compensation and working conditions are, all too often, inhumane. Our workers compete against workers whose employers often refuse to implement the most basic of safety precautions. The State Department repeatedly has noted the use of both child labor and, indeed, prison labor in recent years, including in export industries.

But, we also raise these issues because internationally recognized labor rights, and their implementation, is a moral issue. Even before the competitive threat posed by China became the reality it is today, my union and unions and their members elsewhere, have raised these issues. Human rights, labor rights and freedom must not be constrained by national borders.

In recent weeks, workers in China are finding their voice, and, in increasing numbers, are fighting for their rights. They are risking their lives, as members of my union did many years ago, to fight for a decent wage, safe working conditions, and self-respect. These stories, often suppressed by Chinese authorities, are now reaching America's newspapers. Their fight must be our fight too. They need to know that we will stand by them against a repressive government that, we all fear, will resume using an iron fist, and deadly force, to quell those workers seeking justice and dignity.

The recent rash of suicides of young Chinese workers working at Foxconn, the world's largest contract electronics supplier highlights the reality that factory workers are being used as cannon fodder in China's march towards world manufacturing

domination. Foxconn supplies big brand names like Apple, Dell and Hewlett-Packard and in China has an enormous factory workforce -- about 800,000. In the past several months there have been at least 13 suicides or attempts by young workers literally jumping from Foxconn buildings. Excessive hours and unpaid overtime, a dehumanizing workplace regime and an unlivable wage of about \$1 an hour are the reality that led to such desperate, heartbreaking acts. Workers in some cities are marching for their rights. Some of their fellow workers in other cities are joining them in parallel actions. Others are watching and rooting for their success but are fearful that their voices will soon be silenced by beatings, prison or execution.

In economic terms, Chinese workers should be paid a living wage and not subjected to exploitive conditions. Certainly, Chinese workers should be afforded their internationally-recognized human rights to freedom of association and collective bargaining – they should be allowed to join together with their co-workers and form their own independent, democratic unions if they choose to do so. Not only are millions of Chinese factory workers suffering from sweatshop conditions, but such conditions fuel overcapacity, as Chinese labor is a cheap commodity and workers' lives are viewed by Chinese factory owners as expendable. That expands output which floods the U.S. market devastating American workers and manufacturers. It is a vicious cycle that must end. Relying on sweatshop labor as a model is unsustainable at every level – morally, ethically and economically – both for China and multinational companies producing goods in China -- and we should be doing all we can as a nation to assist Chinese workers in their struggle for justice, rights and a living wage. Until that happens, it is a pipe dream to expect Chinese citizens to buy our goods in sufficient numbers to create export jobs here to revitalize our manufacturing base, let alone positively alter the balance of trade.

But, in moral terms, Mr. Chairman, their fight must be our fight too.

CONCLUSION

Mr. Chairman, Members of the Committee. My testimony touches upon only a few of the areas of concern but these concerns reflect a broad array of problems inherent in China's competitive strategy. We know that there are no easy answers, no silver bullets. Problems such as China's manipulation of its currency, its theft of intellectual property and many, many other predatory and protectionist practices must be addressed. But solving one or many will not make China a market economy. We must recognize the depth of our problems and develop a comprehensive strategy to deal with them.

I look forward to working with the Committee in developing common sense, realistic solutions to the challenges we face. We cannot afford not to act if we want to restore the ability of our people to have a chance at the American Dream.