

News From
Carl Levin

U.S. Senator, Michigan



FOR IMMEDIATE RELEASE
February 24, 2000

Contact: Tara Andringa 202-224-1471
Tara_Andringa@levin.senate.gov

**Statement of Senator Carl Levin
before the
U.S. Trade Deficit Review Commission
February 24, 2000**

Mr. Chairman and Mr. Vice Chairman, I appreciate the opportunity to testify before your Commission today which is examining the underlying causes and impacts of the U.S. trade deficit which reached a record high this year.

The United States trade deficit would be significantly lower if our government had the political will over the past 20 years to insist on equal access to markets in countries which have open access to our markets.

The U.S. automotive deficit with Japan has averaged 60 percent of our TOTAL deficit with Japan over the past ten years. In turn, our bilateral deficit with Japan has averaged 22 percent of our total world-wide deficit over the past ten years. To reduce the bilateral deficit with Japan we must reduce our automotive deficit which is its largest component. We have failed to do this and we are repeating our mistakes in Korea and China that could make Japan's closed markets look like a small problem by comparison.

I recognize that some of the factors contributing to the trade deficit are outside of our control, such as macro economic factors like the economic slump and the weak yen.

However, what is in our control is to say that if we are going to continue to be an open market, often absorbing increased exports from beleaguered economies, thereby helping them get back on their feet, then we will insist on reciprocal and concrete market opening actions by other countries.

Within our control is the ability to use our trade laws to remove barriers to American products. We have tools to open foreign markets and fight discriminatory foreign trade practices. Yet time and time again our trade laws are not used aggressively.

Section 301 and Super 301 are trade laws that provide mechanisms by which the United States can fight unfair trade practices and enforce U.S. rights under agreements. Although many cases have been filed, most have been resolved through trade agreements, the results of which have been questionable. This is especially true in the automotive sector.

For example, the sale of American auto parts in Japan has been blocked by protectionist measures such as government regulations dealing with vehicles certification, inspection, and repair. It is true that Japan has paid a price for this protected market in the form of high automotive prices. For example, the Japanese pay twice as much for an identical spark plug than Americans even when that spark plug is made in Japan and shipped all the way to the United States. That's their choice. But Americans have also paid a high price in the form of huge and persistent U.S. trade deficits with Japan and the loss of American manufacturing jobs in the United States. That's a totally unacceptable choice on our part.

In 1994, a section 301 investigation was initiated into the Japanese automotive market which led to the 1995 Framework Agreement in Autos and Auto Parts. One of the main objectives of the Framework agreement was to deregulate Japan's auto parts aftermarket.

Deregulation in Japan would help reduce our trade deficit with Japan because American products can compete on a level playing field. Unfortunately, this agreement has resulted in no additional penetration of Japan's market nor reduction in our bilateral automotive trade deficit. Japan has not even allowed for brakes, the most obvious replacement part, to be repaired outside of government certified garages, which do not use foreign aftermarket parts despite their significantly lower cost. The promise of further deregulation went up in rhetorical smoke.

We have had a similar experience with Korea, a country where foreign automobiles make up only one percent of the total vehicles sold there. Korea's barriers to auto imports were identified as a "priority foreign country practice" under Super 301 in October, 1997 because Korea was not adhering to a 1995 Memorandum of Understanding (MOU) aimed at removing Korea's trade-distorting practices limiting the sale of U.S. autos in Korea. However, the Super 301 trade dispute was resolved with yet another MOU that is turning out to be as ineffective as its predecessor, even though on paper it appears to be a good agreement.

We must stop kidding ourselves and start behaving like other countries facing barriers by taking determined action to impose reciprocal barriers in order to force their removal. This is a proven way to open markets and obtain a two way street in trade.

Another example of a missed opportunity is the recent steel import crisis and the failure to use all of our trade laws to respond to it. Section 201 of the Trade Act of 1974 allows us to respond if imports seriously injure or threaten to injure a domestic industry by seeking temporary relief so that the domestic industry can adjust to import competition. The recent surge in unfairly traded steel imports is the kind of circumstance section 201 was meant to address. We should be using all of our trade laws, including section 201, to respond to the illegal trade practices that harm U.S. industry and its employees. We should strengthen section 201. Instead we all but ignore it.

Now we are being asked to admit China into the WTO based on their promise to open their market. Yet how much confidence can we have that China will adhere to the terms of its new commitments or that, if it does not adhere to them, will face any sort of consequence? We have not even insisted on compliance with the trade agreements that we have concluded, and there is no specific enforcement mechanism in this new agreement if China fails to keep its promises.

In a 1992 U.S.-China MOU on Market Access agreement China pledged not to require forced technology transfer or forced investment in exchange for issuance of import licenses. China also agreed to end its policies of import substitution, requiring that domestic products be used as substitutes for imports.

Ignoring this pledge, in 1994 China imposed restrictions on imported vehicles and parts to favor a domestic auto and auto parts industry with the goal of eventually displacing foreign with domestic manufacturers. According to USTR, this policy “explicitly calls for production of domestic automobiles and auto parts as substitutes for imports, and mandates strict local content requirements, forcing the use of domestic products, whether comparable or not in quality or price.” China’s industrial policies have also put into place market access barriers and requirements for technology transfer and investment in China as a condition for doing business in China. This was a violation of its 1992 agreement with the United States. What price did they pay? What action did we take?

Instead, there is a proposal that we enter into another agreement with China without insisting on China’s compliance with its existing agreements, which we could do by initiating a section 301 trade action against China. What will be different in the next trade agreement to ensure that China will drop restrictions on our auto products which are more onerous and restrictive toward U.S. autos and auto parts than Japan and Korea’s protective practices combined?

We have tolerated a long history of broken promises from other countries by not enforcing agreements to open their markets and insisting on equal access to their markets as they have to our markets. With this kind of a track record on trade, public scepticism regarding trade agreements should come as no surprise.

And some “market opening” trade agreements themselves contain discriminatory provisions. For example, China would be allowed to retain a 25 percent tariff on U.S. made autos after the U.S.-China WTO accession agreement has been fully phased in, when our auto tariff for Chinese-made autos is only two-and-one-half percent. Why would we approve China retaining an auto tariff on our products that is 10 times higher than our automotive tariff on theirs? Its argued the status quo is worse. The current Chinese tariff on our autos is from 32 - 40 times higher than our tariff on their autos. So why don’t we reciprocate and force equality instead of agreeing to a discriminatory inequality?

President Clinton has expressed concern about “ the nation’s large trade deficit and the need to have a major inflow of foreign capital to finance it.” Yet reversing this trend requires taking steps that are within his, and his successor’s, power to take. They include:

1. Increasing our willingness to use our trade laws when we identify discriminatory barriers and when existing trade agreements are not being adhered to. We have the largest consumer market in the world which is significant leverage. We should be ready and willing to use it to force fairness in trade.
2. Achieving trade agreements that will be enforced and that assure that barriers to our goods will be lowered and measurable by real reductions in trade deficits in the relevant sectors.
3. Developing a new and invigorated approach to opening automotive and auto parts markets in Asia, starting with the expiration of the Framework agreement with Japan at the end of this year. This should include making market access for autos and auto parts a priority negotiating sector due to the size of the deficit in this sector and the importance of this industry to our economy.

If we continue to fail to fight aggressively for the interest of U.S. workers and farmers then our deficit will continue to grow. With China’s WTO accession looming, these problems will only be exacerbated because of the sheer size and low wages of China’s labor force and the domestic protections that it will try to retain.