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From 1974- 1984, Somson has served since January 1997 as associate general counsel of the International Union of Electrical Workers. From 1976-1 979, she was an associate with the law firm. Miller, Klimist, Cohen, Martens and **Sugarman** in Detroit. From 1974- 1976, she was a field attorney for Region 3 of the National Labor Relations Board in Detroit. Somson is a graduate of Catholic University of America, where she received a juris doctorate in 1974, and of Boston University where she received a bachelor's degree in 1969.

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**Statement of the
International Union, United Automobile, Aerospace and
Agricultural Implement Workers of America (UAW)
on
The U.S. Trade Deficit**

**United States Trade Deficit Review Commission
October 29, 1999**

Mr. Chairman, my name is Barbara **Somson**. I am the Deputy Director of the Legislative Department of the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW). I am pleased to testify on behalf of the 1.3 million active and retired members of the UAW on the U.S. trade deficit. The UAW has been ringing alarm bells about the U.S. trade deficit for twenty years. The cumulative merchandise trade deficit over this period is \$2 trillion. There is a growing sense of urgency about the ability of the U.S. to finance an international debt of this size and about the deficit's rate of growth as a share of U.S. GDP. The UAW shares these concerns. The impact of lost domestic manufacturing production on our members, other American workers, their families and communities has been severe. We hope this hearing and other activities of the Commission will revitalize the debate on the causes of the U.S. trade deficit, its economic consequences and what must be done to reverse it.

The U.S. merchandise trade deficit has set a new record each year from 1995 on. This year will, unfortunately, be no exception. We believe the 1999 merchandise deficit will be about \$300 billion (Customs value basis), up dramatically from \$230 billion last year. Trade in automotive products regularly accounts for a large share of the overall U.S. deficit. This year, through August, the \$68.3 billion U.S. deficit in automotive trade was 33 percent of the total \$206.7 billion total U.S. deficit. The auto deficit has been growing rapidly, as imported vehicles take a larger share of U.S. sales and imported parts are used in vehicles assembled here by U.S. and foreign vehicle manufacturers. In 1980, when the U.S. merchandise trade deficit was \$32 billion, auto trade accounted for the same one-third share that it does today. Trade problems in the U.S. auto industry have, thus, made a critical contribution to the massive growth in the overall trade imbalance that has occurred over the past two decades. As a result of this reality, the UAW has extensive experience in trying to address the trade imbalance and its devastating consequences for our members and millions of other American workers.

As in the past, much of the overall U.S. deficit is concentrated in our trade with countries in Asia. Just two countries, Japan and China, accounted for more than half the total deficit last year and their share this year is only modestly smaller despite sizable increases in the U.S. deficits with both countries. The U.S. auto trade deficit with Japan has remained consistently above \$30 billion for the past decade. It has stayed at this unacceptable level through exchange rate fluctuations, macroeconomic fluctuations, threats of retaliation under U.S. and

international trade law and the negotiation of numerous market opening agreements, despite Japanese investment in U.S. production and the assembly of many vehicles by Japanese companies in this country.

There is no question that the Japanese market is not nearly as open to imports of competitive U.S. products, or competitive products from many other countries, as the U.S. market is open to imports from Japan. The UAW has advised the U.S. government in numerous negotiations conducted by several Administrations to address the auto trade imbalance with Japan. While many agreements have been reached, none has produced any measurable success.

U.S. trade with the People's Republic of China has produced sharply higher U.S. deficits year after year and 1999 will not break that streak. Whatever is accomplished by the policy of economic "constructive engagement" with China, it is not opening China's market to US. exports or reducing China's dependence on the U.S. market as a critical destination for its exports, nor is it creating opportunities for independent union activity for Chinese workers. Intense worker repression and deplorable human rights conditions are characteristics of the Chinese government's control over the economy and society. US. imports from China are now six **times** the value of U.S. exports to China. As U.S. companies accede to Chinese government demands to invest in production facilities there and to transfer advanced technology to local producers, this imbalance will become far worse and the displacement of American workers from high **value-**added jobs will grow.

The UAW has identified China's industrial policies for the automotive and aerospace industries as violations of the 1992 U.S.-PRC Memorandum of Understanding. That agreement commits China to end its import substitution policies and to refrain from adopting new ones. The 1994 auto industrial policy is a direct violation of that commitment and we believe Administration action to enforce the Memorandum is warranted. Since the auto policy went into effect, the U.S. automotive trade balance with China has shifted from a modest surplus to a growing deficit. Unless action is taken, the deficit will accelerate sharply as billions of dollars of investment in new production capacity, for vehicles and parts, flood into China to get around the trade barriers that China has put in place.

The financial crisis that engulfed Asia in 1997 will have profound effects on workers in the U.S. and in Asia for years to come. The measures adopted by Thailand, Indonesia and Korea to obtain loans from the International Monetary Fund ensure that domestic austerity will keep workers' living standards depressed. Production there will focus on export markets, especially to the U.S. market, in order to earn the foreign currency needed to repay the IMF and other international loans. American manufacturing workers have already suffered from the intensified import competition at depressed prices due to dumping and Asian currency devaluations. The interests of workers in the U.S. and Asia are hampered in the process and the US. trade deficit will grow even larger.

U.S.-based multinational corporations and the international financial community are significant beneficiaries of this hardship for workers. Many U.S.-based firms have been able to acquire financially-strapped Asian firms at bargain prices. Dollar-denominated costs for their Asian production have fallen sharply, along with the purchasing power of the wages of workers there. Yet, consumers in the U.S. may not see any of that cost reduction, as these savings can be shifted to the bottom lines of the multinational corporations. In addition, U.S.-based firms that were previously prevented from investing in Asia by local capital controls now find it easier to establish production facilities, as the IMF has insisted on further capital market liberalization. It is worth keeping in mind that many analyses of the Asian financial crisis have acknowledged that the inflow of foreign short-term financing was a critical factor in precipitating the crisis last year.

There should be no misperception, though, that the U.S. faces trade problems only in Asia. Trade with our neighboring countries contributes an important share of the U.S. trade deficit. Since NAFTA went into effect in 1994, the U.S. merchandise trade deficit with Canada and Mexico has more than tripled. The trade balance with Mexico has shifted from a small surplus to a sizable deficit since NAFTA was enacted. Auto trade contributed a \$16 billion deficit to U.S.-Mexico trade last year and the trend this year is even worse. The integration of the two auto markets, built on Mexico's domestic content and trade balancing requirements, fed by the tremendous decline in the wages and purchasing power of Mexican workers since 1981, and reinforced by the peso devaluation in 1994, has led to the consolidation of production in Mexico for sale in the U.S. While U.S. exports of automotive products to Mexico have increased, shipments from Mexico to the U.S. have grown much faster, causing dislocation for thousands of American workers and hundreds of thousands of lost opportunities for high wage, high productivity American jobs.

The U.S. auto trade imbalance with Canada has also increased along with regional economic integration. As was the case with Mexico, Canada maintained an auto policy that promoted Canadian over U.S. production. This policy remains in effect, though its impact has been lessened by the tariff reductions put in place in the U.S.-Canada FTA and reinforced by NAFTA. In 1998, the U.S. auto trade deficit with Canada was \$13 billion, but it has jumped much higher this year, reaching \$9.2 billion for only the first half of 1999.

The UAW's experience with economic integration in the region, under the terms of NAFTA, has strengthened our opposition to this model and convinced us of the importance of preventing the spread of NAFTA through the rest of the hemisphere and elsewhere in the world. That is why we vehemently oppose fast track negotiating authority. The flawed fast track proposals put forward by the Administration and the House Ways and Means Committee and Senate Finance Committee last fall, incorporating the same negotiating agenda that produced NAFTA and the yawning trade deficit, were intended to establish the basis for

future U.S. trade negotiations. UAW members and all American workers would face even more intense downward pressure on wages, working conditions and living standards if that trade agenda moves forward. We simply cannot accept more of the same failed U.S. trade policy.

UAW members are well aware of the profound impact of the trade deficit on American jobs and American living standards. Plant closings and layoffs attributable to increased U.S. imports have been a constant feature of the past twenty years of massive U.S. trade deficits. Studies have shown that a large share of the millions of displaced workers, including those displaced from **auto**-related jobs, have been unable to find new jobs with compensation equal to the jobs that were lost. These workers have either withdrawn from the labor force or accepted lower paying jobs. In both cases, their living standards decline and their communities suffer. All too often, opportunities for effective training in new skills are not available for displaced workers, or there are simply not enough jobs utilizing new or old skills to be found. We believe the trade deficit has contributed to the overall stagnation in wages for American workers and the growth in economic inequality that has occurred in the 1980s and 1990s.

To those who argue that the U.S. economy has been improved and strengthened by the increase in U.S. exports in recent years, the UAW responds that it is the trade balance, not exports alone, that determines the economic impact of U.S. trade with other countries. The displacement of American jobs and production due to the tremendous growth in imports has overwhelmed the gains from increased exports. The most often cited measure of U.S. economic growth, gross domestic product (GDP), measures the contribution of **net** exports, which is the trade balance for the country, to the economy. By that measure, trade has been a consistent depressing influence on the U.S. economy. In 1999, the size of that negative contribution will increase sharply as the trade deficit soars.

Trade in the automotive industry vividly demonstrates the fallacy of judging the impact of trade on the U.S. economy by looking only at exports. Since 1993, U.S. exports of vehicles and parts to Canada and Mexico increased by \$16 billion, or 46 percent. This sounds good -- these must be additional jobs related to production for a larger market. But that is not the full picture. In the automotive industry, a large share of the trade among the NAFTA countries reflects the shifting of production sites within companies. Many of the products made in the U.S. and in our neighboring countries are identical -- perfect substitutes. When imports from those countries increase, they replace US. production of the same products. When Chevrolet Suburbans are shipped to the US. from Mexico, they are not displacing any vehicles other than Chevrolet Suburbans made in this country. The same is true for Dodge Neons, or Ford Escorts or any number of other models that have been assembled in both countries; and the same is true for many of the most sophisticated automotive parts, like engines and transmissions.

In reality, any potential benefit from the \$16 billion increase in U.S. exports to Canada and Mexico has been more than offset by the losses due to the **\$32 billion** increase in imports from those countries. The impact on American autoworkers, despite the increase in exports, has been decidedly negative. And many of the exports of auto parts to assembly plants in Canada and Mexico are not "exports" at all; they are "industrial visitors", spending only enough time abroad to find their way into an assembled vehicle, which is quickly shipped back to the U.S. for sale. Real exports remain abroad for sale and consumption; in contrast, a large share of recorded auto exports return to the U.S. instead.

The rapid growth of the trade deficit and the damage it has caused to the interests of American workers and the domestic economy demonstrates the failure of a U.S. trade policy that reflects the priorities and objectives of multinational corporations, not workers. To reverse the trade deficit, we must change those priorities and objectives. The UAW has been advocating such changes for many years. In fighting fast track negotiating authority, we have argued for putting worker rights, the environment, sustainable development and other important issues at the core of U.S. trade policy objectives and incorporating provisions on these issues into the rules of international trade. We have strongly advocated removing provisions of U.S. law, including the foreign tax credit and deferral of taxes on foreign income, that encourage U.S. firms to move production abroad. We have supported the negotiation of "results-oriented" trade agreements that establish specific standards of success in addressing trade problems and enforcement measures should those standards not be met. We have insisted that the U.S. utilize its trade laws fully to ensure that other countries comply with the trade agreements they have negotiated with the US. and international obligations they have accepted. We have called for reciprocity in our trading relationships, so there is true fairness and equal opportunity for U.S. producers in those relationships.

The UAW believes that international trade can contribute to improving living standards and working conditions for our members, other American workers and workers in other countries. We do not believe that economic isolation is a desirable policy for the nation. But current U.S. trade policies, representing the interests of multinational corporations, not workers, are contributing to just the opposite -- lower living standards. In our view, these policies must fundamentally change for international trade to fulfill its positive potential. Until then, we expect the U.S. trade deficit will remain a serious economic problem and workers will continue to bear the burden of flawed trade agreements, like NAFTA, and the flawed policies that led to their negotiation.

Mr. Chairman, thank you for providing the UAW the opportunity to testify at this hearing and to present our views on an issue that we believe is of great importance to our nation and its future.