

MS. SOMSON: Good morning. Good morning to you, Mr. Chairman, and members of the Commission. I bring fraternal greetings to you, Chairman Becker, from President Yokich of the UAW. I am pleased to testify today on behalf of the 1.3 million members of the United Auto Workers.

The United Auto Workers has been sounding alarms about the trade deficit for 20 years. The cumulative merchandise trade deficit over that period is \$2 trillion. As President Sweeney said, and Mr. Montgomery acknowledged, the trade deficit is setting new records each year, and is due to do so again this year.

Train and automotive products regularly account for a substantial share of the overall U.S. trade deficit. This year through August, the \$68.3 billion U.S. deficit in auto trade was 33 percent of the overall trade deficit.

As in the past, much of the overall U.S. trade deficit is concentrated in trade in Asia. Just two countries, Japan and China, accounted for more than half of the total deficit last year. The U.S. auto trade deficit with Japan has remained consistently above \$30 billion for the last 10 years. This is despite exchange rate fluctuations, macroeconomic fluctuations, threats of retaliation under U.S. and international trade law, and negotiations with numerous market opening agreements with

Japan, and despite Japanese investment in the United States, in assembly of vehicles in this country.

U.S. trade with the People's Republic of China has produced sharply higher U.S. deficits year after year. Right now, U.S. imports from China are six times higher than our exports to that country. The UAW has identified China's industrial policies for the automotive and aerospace industries as violations of the 1992 so-called Memorandum of Understanding. That MOU commits China to end its import substitution policies and to refrain from adopting new ones. But in 1994, China announced its auto industrial policy, making auto manufacturing one of its pillar industries, in direct violation of the MOU commitment.

Since the auto policy went into effect in 1994, the U.S. auto trade balance with China has shifted from a modest surplus to a growing deficit. Unless action is taken to enforce this MOU, the deficit will continue to accelerate sharply.

There should be no misperception, however, that trade with Asia is our only problem. Trade with our neighboring countries contributes an important share to the U.S. 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 sizeable deficit since NAFTA was enacted. Auto trade contributed a \$16 billion deficit to the U.S.-Mexico trade last year. The trend this year is even worse.

UAW members are well aware of the profound impact of the trade deficit on American jobs and living standards. Plant closings and layoffs, as Mr. Montgomery has pointed out, attributable to increased U.S. imports, have been a constant feature over the last 20 years. Studies have shown that a large share of the millions of displaced workers, including many of our autoworkers; do not find new jobs at the same compensation as their old jobs.

We believe, moreover, that the trade deficit has contributed to the overall stagnation in wages for American workers, and the growth in economic equality that has occurred in this country 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. Trade in the automotive industry vividly demonstrates the fallacy of judging the impact of trade on the economy by looking only at exports. Since 1993, U.S. exports of vehicles and parts to Canada and Mexico increased by

\$16 billion, 46 percent. This sounds good. These must be additional jobs related to the production for a larger market. But a closer look shows that this 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 our neighboring countries are identical, perfect substitutes. When imports from these countries increase, they replace U.S. production of the same products.

For example, when Chevrolet Suburbans are shipped to the United States from Mexico, they are displacing Chevrolet Suburbans that are made in Indiana. The same is true for Dodge Neons and Ford Escorts, and any number of other models that are being assembled in both or all three countries. The same is true for many of the most sophisticated automotive parts like engines and transmissions.

The UAW does not believe that economic isolation is a desirable policy. We believe that international trade can contribute to improving living standards and working conditions. The UAW advocates placing worker rights and the environment at the core of U.S. trade policy objectives, and incorporating

provisions on these issues into the rules of international law.

We advocate removing provisions of U.S. tax law that encourage U.S. firms to move production abroad. We support the negotiation of true results-oriented trade agreements that establish specific standards of success in assessing trade problems as those with Japan, and effective enforcement measures. We insist that the U.S. utilize its trade laws to ensure that other countries comply with trade agreements they have negotiated.

Until these and other changes are made, 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.

I thank you for the opportunity to testify, and will answer any questions that I can that you ask me.