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Council On Competitiveness Says U.S. Has Little To Fear, But Fear Itself

BY RICHARD McCORMACK

The United States is the most competitive nation on Earth and policymakers should not view the burgeoning trade deficit as an accurate measure of the nation's economic health, according to the Council on Competitiveness's latest "Innovation Index: Where America Stands."

"A lot of the debate and discussion today is really quite misleading and full of misperceptions of where the United States stands and how to interpret what's going on," said Harvard University professor Michael Porter, the main author of the council's index. The United States is not losing its edge in innovation, nor is particularly important for the nation to worry about the perceived loss of manufacturing. "America is better positioned than perhaps any other country to benefit from the forces that are reshaping the global economy," he writes in the introduction to the index.

competitiveness challenge facing the United States today is education. "Education is perhaps the single biggest threat to future American prosperity," said Porter.

"We believe that it's very important to understand that the United States is now participating in a very radically different global competitive environment than we faced 20 or 30 years ago," said Porter.

"What's important for you to understand is that the U.S. in many respects created that new environment. We led it. We drove it. American companies are by far the leaders in prospering in that environment, but that environment has dramatically raised the bar for Americans and American companies. And raising the bar is leading to stresses and strains, insecurities and the dislocation that we feel today."

The U.S. economy faces "serious issues," said Porter. "But often those issues and the implications of what we need to do are not what they first seem."

For instance, there is a sense that China is becoming a world innovation superpower. "Fact: China is virtually nowhere in terms of genuine innovation and patenting," Porter said. "Right now, China is performing relatively low-value-added manufacturing activities often in high-tech industries."

There is a sense that the United States is losing its manufacturing base. Wrong, said Porter. The United States remains the world's largest manufacturing economy. It is not losing manufacturing, it is losing manufacturing jobs, Porter told a press conference in Washington, D.C. "That is a fundamental distinction. Services are becoming much more important in the economy. We used to think of services as flipping hamburgers, now we have to think of services as rocket science. Services are where the high value is today, not in manufacturing.

U.S. China Commission: Time For Action Is At Hand

December 11 marks the five-year anniversary of China's admission to the World Trade Organization, and this anniversary is a good time to assess whether it has lived up to the commitments it made upon entering the 149-member organization, says the United States-China Economic and Security Review Commission (USCC). "One of the things that has changed in five years is there were a number of people who were very optimistic" about China's entrance into the WTO, said USCC vice chairman Carolyn Bartholomew upon the release of the group's 2006 annual report. "All these [U.S.] industries thought they would have market share open and that it would help production in the United States, but it hasn't worked

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Census of Manufactures: Lots Of Growth

Manufacturers spent $128.3 billion on capital expenditures last year, up from $114 billion in 2004, but far lower than the peak year of 2000, when they spent $154 billion, according to the Census Bureau's Annual Survey of Manufactures.

Value added for the manufacturing sector increased substantially last year, to $2.2 trillion, up from $2.041 trillion in 2004, while total value of shipments skyrocketed to $4.735 trillion, up from $4.308 trillion the previous year.

Wages for production workers rose modestly, from $332 billion in 2004 to $337 billion in 2005; and far from the peak year of 2000 ($363 billion). Production workers logged 19 billion hours, down from 19.3 billion in 2004 and down substantially from the peak years dating back to the 1970s, when the average was around 27 billion hours.

The Census Bureau's annual survey of manufactures describes in detail for every industrial sector the number of employees, hours worked, wages, value added, total cost of materials, value of inventories by stage of fabrication and total value of shipments, with a comparison to the previous four years. Most industries are experiencing substantial growth (food manufacturing, wood products, chemicals, mineral products, forging and many others), though some are headed in the wrong direction, like motor vehicle components and parts and apparel manufacturing.

The 340-page report, Statistics for Industry Groups and Industries, is located at http://www.census.gov/prod/2006pubs/am0531gs1.pdf.

Growth Of Consumer Electronics Drives Semiconductor Industry To New Heights

The world semiconductor industry is projected to grow by 9 percent this year to $249 billion, followed by a projected increase of 10 percent next year to $274 billion, according to the Semiconductor Industry Association. In 2008, growth is projected at 10.8 percent to $303.4 billion.

The reason for the robust growth this year is consumer purchases of electronic products, especially digital cameras, televisions and MP3 players, which combined account for nearly 20 percent of semiconductor consumption. Cell phones drive another 20 percent of consumption. Unit sales of cell phones are expected to increase by more than 20 percent this year to more than one billion units.

"With the average semiconductor content of $41 per unit, the cell phone market is now the second-largest consumer of semiconductors, after personal computers," says SIA.

The unit growth of digital cameras this year should top 11 percent; MP3 players, 35 percent; digital televisions, 56 percent; and personal computers, 10 percent.

"Consumer purchases of electronic products have also taken on increased importance as a driver of technology advances for the semiconductor industry," says SIA president George Scalise. "The highest-performance, most expensive PCs on the market today are not designed for corporate use, but for gaming enthusiasts who demand theatre-quality sound and graphics, which in turn require extremely high-performance microprocessors, graphics processors and large amounts of the highest-performance memory available."

Cell phones that include cameras, MP3 capability and television access also require a new generation of high-performance semiconductors. In China, almost 90 percent of the cell phones being sold have color screens, 60 percent have cameras and 50 percent have MP3 capability. Next year, another generation of cell phones will be introduced with built-in GPS systems, which require high-performance flash memory, DSP circuits, RG chips and image-sensing devices.

GAO Faults Department Of Defense On Business Transformation

"Business transformation" at the Department of Defense isn't going very well, according to the Government Accountability Office. The agency is making some progress in transforming its business operations, but "it has yet to develop a comprehensive, integrated and enterprise-wide plan that covers all key business functions and contains results-oriented goals, measures and expectations that link organizational, unit and individual performance goals, while also being clearly linked to DOD's overall investment plans," says GAO in a recent audit. "DOD also continues to need a chief management official with significant authority, experience and tenure to provide sustained leadership and integrate DOD's overall business transformation effort. Without formally designating responsibility and accountability for results, reconciling competing priorities in investments will be difficult and could impede DOD's progress in its transformation efforts."

A great deal more "remains to be accomplished" in DOD's effort to modernize its business and financial management systems, says GAO. "DOD components continue to invest billions of dollars in thousands of new and existing business system programs" that are not linked to other business and financial systems, leading to "profound risks" associated with not having a common architecture. The report, "Defense Business Transformation, A Comprehensive Plan, Integrated Efforts and Sustained Leadership are Needed to Assure Success" (GAO-07-229T), is located at www.gao.gov.

Presidents Of Two Mfg. Associations Spar Over How To Deal With China

National Association of Manufacturers' president John Engler is trading barbs with Steel Manufacturers Association president Tom Danjczek over the issue of Chinese currency manipulation. Danjczek, whose trade association represents U.S. mini-mills, wrote a letter to Engler condemning NAM's decision not to endorse legislation that would provide relief to U.S. manufacturers from unfair currency manipulation. That decision, a reversal from an earlier NAM international policy committee recommendation, was made in favor of a "handful of multinational companies" and shows that "NAM has now directly opposed the interests of domestic manufacturers," wrote Danjczek to Engler shortly after the NAM board decision on Sept. 28.

In his response to Danjczek's letter, Engler said that he was "more than a little surprised with both the inaccuracies and the tone of your letter.

"You state that the NAM Board was hijacked by a handful of multinational companies who convinced it to oppose the interests of domestic manufacturers and to act against the wishes of a majority of its members in deciding not to support H.R.-1498, the Hunter-Ryan bill," Engler wrote on Nov. 8. "You say the NAM Board's decision is 'unacceptable' to you and that you 'reject' it because in your view the NAM's lack of support for H.R.-1498 indicates the NAM is insincere in seeking revaluation of the Chinese yuan. These are pretty heavy words.

"I have to tell you that I am very disappointed you have chosen this approach, for these statements are untrue," Engler wrote. The NAM board's decision not to endorse the Hunter-Ryan bill "was in no way a move to dismiss China's currency manipulation as of diminished importance to the NAM. The Board heard all points of view and gave every member the opportunity to voice an opinion. After reviewing the legislation and the current situation, the Board felt that the bill would provide neither meaningful relief to affected companies, nor effective leverage on China, while risking significant negative effects on the U.S.-China trade relationship."

The NAM board decision not to support the bill was done so out of "tactics, not goals," Engler explained. "HR-1498 would be likely to move us away from our goal of a more rapid Chinese revaluation, rather than toward it," he wrote. Further, it could cost small companies between $500,000 and $1 million to file a duty case and the chance of success "seems slim."

In order to gain relief, the Treasury Department would also need to label China as being a currency manipulator, which it has declined to do. Engler said the Hunter-Ryan bill is also of "questionable legality" under WTO rules, and that it would require the IMF to rule on whether China is violating the IMF Basic Articles of Agreement. IMF "has never made such a finding against any country in its 50-year history, and in fact has already stated that China's currency regime does not violate IMF's rules," Engler wrote Danjczek.

"In the end, it was far from a 'handful' of companies that decided the NAM position. The board disagreed with your position that HR-1498 would provide a real means for addressing China's currency manipulation and reached this decision by a majority of more than two-to-one — including many small- and medium-sized manufacturers that voted not to support HR-1498."

Instead, the NAM board has opted to support Treasury Secretary Paulson's "U.S.-China Strategic

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Manufacturing Jobs Continue Disappearing

Manufacturing workers continue to bear the brunt of layoffs. In October, there was a net loss of 39,000 manufacturing jobs, falling to 14,181,000 (or 4.7 percent of the total U.S. population). It was the fifth consecutive month of job losses in the manufacturing sector. Since August of 2005, employment in manufacturing has dropped by 135,000. During that same period, overall U.S. employment in non-farm industries rose by 455,000, to 135,398,000. Overall employment in October was up by 89,000 jobs. The biggest gains were in professional and business services (up 43,000); leisure, hospitality and food services and drinking places (up 35,000); and health care (up 27,000). In manufacturing during October, the motor vehicle and parts industry lost 15,000 workers; the rubber and plastics products sector lost 14,000; and wood products lost 5,000. The report is located at ftp://ftp.bls.gov/pub/news.release/empsit.txt.

Meanwhile, the Bureau of Labor Statistics' monthly report on mass layoff actions that involved at least 50 people from a single establishment found that manufacturing accounted for 32 percent of all events. Manufacturing workers represented 47 percent of those laid off in mass events in October, despite the fact that manufacturing accounts for about 12 percent of GDP. There were 1,171 mass layoff actions in October, with 398 taking place in the manufacturing sector, impacting 54,852 people. The total number of people impacted by mass layoffs in October was 113,724. The manufacturing sectors with the highest number of people impacted by mass layoffs were transportation equipment (19,224), food manufacturing (5,246), and machinery manufacturing (5,167). The report is located at ftp://ftp.bls.gov/pub/news.release/mmls.txt.

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Economic Dialog." NAM has created a U.S.-China Business Relations Task Force to work with Paulson, and that task force includes the participation of John Surma, CEO of U.S. Steel Corp.

"In concluding my letter to you, let me also say that it is time to stop the fiction that America's multinational corporations are not domestic producers and that they have an agenda 'opposed to the interests of domestic manufacturers,' " Engler wrote. "Over 70 percent of U.S. multinational company global production takes place right here in the United States. Only 30 percent of their global production is overseas, and nearly nine-tenths of that is for consumption overseas rather than for shipment back to the United States. Furthermore, these companies comprise America's largest exporters.

"...Rather than seeking to denigrate the NAM and its member companies, I believe the interests of steel manufacturers would be better served by working with us to find solutions that work for American manufacturers — including finding a solution that will actually move China's currency more quickly, a goal we both share. Sincerely, John Engler."

Engler's letter didn't stop Danjczek from responding. "Respectfully, we disagree with NAM's intended approach, which we believe has little potential for success," wrote Danjczek in a Nov. 15 letter to Engler. The United States ran an $850 billion trade deficit over the past 12 months — the highest in world history — and China accounts for one-quarter of this total, he noted. The Clinton administration ignored the problem and the current administration has had six years of "friendly jawboning" with Chinese authorities, "to no avail," wrote Danjczek.

"We have met with [Treasury] Secretaries O'Neill, Snow and Paulson, all with the same story: the Chinese will not budge. Why should they? They clearly recognize that there is little real will on the part of the U.S. to act if China rejects a U.S. demand to revalue their currency versus the dollar, since they face no limitations on access to the U.S. market, which would negatively affect their quarter-of-a-billion-dollar annual trade surplus with the U.S...We believe that establishing a task force to engage in polite discussions with China will produce little. The U.S. needs to convene an international monetary conference to achieve a realignment of its currency against those of several other nations. It needs a border-adjustable partial value-added tax to give U.S. manufacturers the same 15 to 20 percent cost advantage that almost all other countries have both in export markets and in their own markets. It needs legislation in one form or another as necessary leverage to produce these results. There are legislative opportunities available to us, consistent with GATT/WTO articles, which would, indeed, help us to achieve common goals. Otherwise, we shall be kept talking by China and other trade surplus countries, with no results for another two decades, until the dollar collapses and we are then subject to world scorn.

"Nevertheless, policy leaders seem to be continuing to fiddle while Rome burns. Forgive us for hoping for and expecting more from public policy officials and the NAM. Sincerely, Thomas A. Danjczek."

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Manufacturing stuff per se is relatively low value. That is why it is being done in China or Thailand. It's the service functions of manufacturing that are where the high value is today, and that is what America can excel in if we have the right kind of workforce and we have the right kind of environment. We have to stop this notion [of believing] that manufacturing is [essential]. It's a real problem because it distorts our thinking. It reflects a simplistic view of the international economy and how companies compete in their overall value chain."

United States multinationals have "aggressively pursued" a new business model built on outsourcing, which has resulted in large investments overseas. But these companies sell three times more through their foreign affiliates than they export. "The old model where we exported stuff — and that is how we engaged in the international economy — has been shattered irrevocably," said Porter.

This new economic system of global supply chains producing in the most efficient areas is far more complex than any that has ever existed, but it has not led to the loss of jobs in the United States. Evidence proves that "internationalization is not at the expense of the U.S.," said Porter. "The global economy is not a zero-sum game. There is not a fixed pie out there that we are dividing. An R&D job [created] abroad doesn't mean an R&D job lost at home. We have to not think of the global economy in a zero-sum sense that dominates most of the accounts of globalization. If we do that, we're going to make fatal, horrendous mistakes in economic policy going forward."

U.S. multinationals are successful because they are following growth occurring in overseas markets. "GM is the leading car manufacturer in China," Porter said. "The reason GM is investing so heavily abroad is so they can be the leading car manufacturer in China, which is where the growth market is. The markets are not in the traditionally advanced world in Europe and America."

Furthermore, the trade deficit is not an accurate reflection of the competitiveness of the American economy. The trade balance of negative $800 billion "is not that big by international standards," Porter told reporters during an hour-long lecture on the latest competitiveness index. "There are many other economies in the world that run trade balances at this

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percentage of GDP for periods of time. It's not epic."

The trade numbers may not even be right, he said. "We are confident that we are under-measuring our exports because it's very hard to capture service exports and intellectual property," he claimed. "It was pretty easy when all you did was export goods. Now what are we exporting? Intellectual property and services. How do you count services crossing borders? The answer is you don't count them very well. So there's a deep concern that the actual measurements we use to measure the trade balance are grossly distorted and incorrect. They're not capturing most of what really matters in international economic flows."

Nor are the trade measures capturing the hundreds of billions of dollars per year American companies are making in profits from their foreign subsidiaries, Porter pointed out. "Hundreds of billions per year. How does that show up in the current accounts? The answer is not very clearly. So how we measure whether we have a current account deficit has been complicated well beyond our capacity to understand these complicated issues."

Nonetheless, the United States cannot sit idly by as it suffers from a "massive theft" of intellectual property, said Porter. "In copyrights alone, the best estimates are around $20 billion a year. That's got to be too low and there are many more kinds of IP besides copyrights. The problem we have in the U.S. is the stuff we sell, others are not paying for."

The United States needs to "call a spade a spade and take a more forceful role in making sure the international system is fair to us because we're more exposed to it and more open to it and we have to work harder to enhance the economic prospects of other nations," Porter said.

Globalization has inflicted Americans with a tremendous sense of unease, Porter noted. "Today, there is a sense that Americans are struggling, but if you actually look at the data, Americans have prospered over the last 20 years remarkably compared to most countries." (Though there is no measure in the index of Americans' indebtedness over that period.)

The sense of growing insecurity is the "consequence of the new competitive environment" that has been created by the success of American companies adopting the new global supply model. That insecurity also has been created by growing wage inequality. "Inequality has clearly gone up, but what you must understand is that it has gone up pretty much everywhere," said Porter. "This is not a unique American phenomena. It's not due to unique American policies. It's not particularly due to tax changes. It's happening in all advanced economies in the world and it's happening because the bar is rising. It means those who have education and skill do better and prosper more. Those who don't are struggling more and more and more, even if they happen to be in America."

Inequality is overwhelmingly affected by educational achievement and this "is getting more and more true every day," said Porter. "We have to face the fact that it is the underlying issue we have to address. The least skilled are the most vulnerable to the new global economy and therefore need the most help and support. Educational access is crucial. Access to college is crucial. Help in financing college is crucial and the success of our education system is crucial. All of those are areas where we are falling down."

The United States remains the wealthiest country in the world. Japan got as close as 85 percent of U.S. per capita income in 1991, but it has fallen back to 72 percent. Europe has gotten less prosperous compared to the United States, due to the extraordinary performance of the productivity of the American economy. Seventy million Americans have 401k plans, which have grown in value from $500 billion in 1996 to $2.5 trillion in 2005, a five-fold increase during a period when incomes have gone up by only 30 to 40 percent. "So wealth has increased faster than income," Porter noted.

> ***"Manufacturing stuff per se is relatively low value. That is why it is being done in China or Thailand."***

Jobs have been plentiful. The United States has one of the lowest unemployment rates in the world and it has trended downward over the past 20 years. "Compared to other countries, we look really quite amazing," said Porter. The problem is not jobs, but the skills workers have for better jobs, he added.

Churn in the American job market is another reason for growing insecurity. The United States created 31 million jobs last year, but destroyed 29 million. "This is very uncomfortable," said Porter. "This is very unsettling. The chances are if you lose a job in the United States, you'll get another job within 12 months. The odds are very high — almost everybody does it, but this process leads to insecurity, particularly with the health benefits issue, it creates even greater insecurity."

But the dynamism in the job market and the flexibility of America's labor pool is what constitutes America's great success as an economy. "Can we stop this?" Porter asked. "Probably not. Do we want to stop this? Probably not. But we have to create a system in this country and a set of rules and institutions that allow all of us to compete successfully with this reality."

Economic growth in the country has been "remarkable" over the past 20 years — an average annual rate of 3.1 percent. The United States has grown faster than any advanced economy in the world — "despite our extraordinary high per capita income," Porter explained. "This is nothing short of astounding."

This growth has been driven by improved productivity, rapid adoption of information technology,

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outsourcing that has led to a more efficient way of organizing production, innovation, high skill levels and a thriving level of entrepreneurship. Over the past 20 years, the United States has accounted for one-third of all growth in the global economy.

"Now that has led to some imbalances for which we are paying the price and is creating some concern," Porter said. "This is unhealthy. The U.S. should not be driving one-third of global economic growth. We should have other countries like Japan, China and India driving global economic growth. That would be a much better thing for the U.S. economy and the world economy."

The United States is by far the most popular place in the world for foreign investment. "Inbound FDI is twice as high as anywhere else, and six times as high as in China," said Porter. "That is because we have such an extraordinary favorable productivity business environment. Everyone wants to be here to do business and to do R&D."

The United States remains an innovation powerhouse. It is not losing its lead in R&D, despite the widespread perception that it is, Porter said. U.S. companies are offshoring R&D, "but guess what? There's more foreign R&D operations coming to the U.S. than U.S. operations offshoring to other countries," Porter told reporters. The ratio of R&D taking place in the United States relative to the amount of R&D overseas has stayed roughly the same. "U.S. companies are growing their U.S. R&D just as much as they're growing their offshore R&D. So isn't the impression we have wrong if we simply read the press accounts every day?"

The global share of R&D being conducted in the United States has gone down, but "do we think that is a problem?" Porter asked. "No. It's astounding if it wouldn't have taken place. It's a good thing for other countries in the world to do R&D and have scientists. Again, the global economy is not a zero-sum game; it's a positive-sum game. If everybody can improve their productivity, everybody can get more prosperous."

The growing number of scientists and engineers in China and India is also a misleading indicator of America's flagging competitiveness, said Porter. "When you look at the sheer numbers of scientists and engineers in India and China, you have to be very, very careful," he said. "Careful studies show that many Chinese engineers don't have the capability [to] work in world-class companies in a multinational setting." Only 10 percent of Chinese engineers have the skills suitable to work for a multinational enterprise. Most of the R&D being done by U.S. multinationals in these overseas markets is "focused on market access — how do you facilitate market access in China to adjust products and improve their features and translate software into the local language," said Porter. "Basically that's its thrust."

The U.S. share of global patents has dropped by only 2 percentage points from 54 to 52 percent. U.S. universities account for 17 of the world's top 20 research universities worldwide, with only Cambridge (second place), Oxford (10th) and Tokyo University (19th) making the list.

Poverty is down dramatically over the past 20 years, but the country has hit a plateau and is "now facing headwinds," said Porter. "The global economy has raised the bar, raised the skill level, raised the standard to participate in the economy, and therefore future gains in poverty reduction are going to be a bit harder."

The American economy faces four primary challenges: education, energy, health care and legal costs. The U.S. tort laws are "a disadvantage" particularly to small- and medium-sized companies, Porter said. The tort system "is broken and we need to change it." Health care also needs to be restructured. The country has to get serious about improving energy efficiency. But education remains the number-one weakness of the U.S. economic system, Porter claimed.

"My view is we have to make structural changes, we can't just tinker here." If this is the case, then what is Harvard doing to restructure itself, *Mfg. & Tech. News* asked Porter. "The university system in America is not the problem, it's K-12," he responded. "That's not to say that the Georgia Techs, Harvards and Yales can't do better. But by and large, many universities are investing aggressively today and changing the way they do business, including Harvard."

When asked if the Council On Competitiveness is a mouthpiece for the multinationals, given that there is paltry representation on its board from small- and medium-sized domestic manufacturers and labor leaders involved in manufacturing industries, Council President Deborah Wince-Smith said: "Absolutely not. I am very proud that I have revitalized the relationship we have with labor. We have a very, very dynamic vice chairman, Doug McCarron, the head of the United Brotherhood of Carpenters and Joiners. If you go to his training facility in Las Vegas, it's the most advanced in the world. This is a union that is building big manufacturing plants, big hotels — highly skilled. Ed McElroy, the new head of the American Federation of Teachers, is very much engaged with us and is going to be working very hard on how to deal with the challenges of pay for performance for teachers."

Porter was also asked how it is good for U.S. competitiveness for there to be 120 major chemical plants being built worldwide but only one being built in the United States — and for there to be 28 major semiconductor fabs being built in China and only two in the United States. Porter's answer: "A lot of those fabs and chemical plants are probably located in those locations because that is an efficient way to serve international markets as opposed to exporting stuff from the United States and that is why we're seeing a lot of localization of activity."

Porter said he is a "supervisor" on the board of Taiwan Semiconductor Manufacturing Co., the largest chip foundry in the world with 14 fabs. "The Taiwanese investor in fabs is not convinced they can find the talent pool in the United States to compete with Taiwan for those investments," he said. "The hard cold truth is we have to deliver value if we're going to attract investments. What would be unfortunate is that some of

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China Commission Laments Inaction...

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out that way. The question becomes, what do we do now?"

The USCC, a congressionally chartered group of 12 commissioners split between Democrats and Republicans, agreed unanimously on 44 recommendations for Congress to take action in bringing about change in the U.S.-China relationship.

"I wish that I could stand here today and say that things are going well and that the Chinese government is meeting the test of meeting their international obligations," said USCC chairman Larry Wortzel at a packed press conference in the Dirksen Senate Office Building in Washington. "But I can't help you by creating a nice rosy picture of things significantly improving....across a range of political, economic and security areas."

The promises made by China and by U.S. proponents of Congress's decision to end the annual Most Favored Nation (MFN) trade extension debate "have proven spurious," said six commissioners in their "additional views" included at the back of the USCC's annual report. "The current approach is failing to meet our core objectives. The status quo must be changed."

Ending MFN was touted at the time as a means for China to become more open, democratic and free. "The record proves the emptiness of these claims," said the six commissioners — George Becker, Richard D'Amato, Thomas Donnelly, Kerri Houston, Patrick Mulloy and Michael Wessel. China has not changed its iron-fisted approach to human rights, religious freedom, Internet access or workers' rights. "And, we now see that U.S. business interests who claimed that they would be agents of change in China are, in fact, fighting efforts to promote workers' rights in that country," said the six commissioners.

Both China and the United States have done little to address problems that are growing bigger by the day, said commissioners Wortzel and Bartholomew. "People have been satisfied with talk, but we have not seen sufficient action and sufficient results," said Bartholomew at the press conference filled with Asian reporters and television cameras. "But [while] all of the talk goes on, the consequences of what's happening continue to reverberate throughout our country and that is an issue of serious concern. While we spend a number of years talking about currency manipulation, small- and medium-sized manufacturing firms go out of business...and once they go out of business they can no longer reestablish themselves."

The trade imbalance must be addressed in a meaningful way, added commissioner Patrick Mulloy. China has amassed a trillion dollars' worth of foreign currency reserves — "the largest trove of foreign currency the world has ever seen," he said. "Without demonizing China, I've often told my Chinese friends that the imbalance of the economic relationship continuing year after year would in time poison the political relationship. When the economic relationship is perceived as so one-sided, it will in time impact the political discussion here of what [the United States] is getting out of this."

> ***"We now see that U.S. business interests who claimed that they would be agents of change in China are, in fact, fighting efforts to promote workers' rights in that country."***

Added Bartholomew: "The lack of Chinese government action on a number of these critical issues is really shaping the American perception of China and it would behoove the Chinese government to actually start taking action. It is a very frustrating thing to hear from some of the same [U.S. government officials] year after year after year who come before our hearings to say, 'Well, we're talking.' For a number of people talk is a success. Some of us believe the talks should lead to something in order for it to be successful."

The new Congress might be more willing to pressure the Bush administration to take action, said Bartholomew. Many of the new members of the House were elected because of voter dissatisfaction with economic trends. Even in geographic regions that are benefiting from increased trade, the commission in its field hearings

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those investments go offshore not because of efficiency or productivity but because of some artificial regulatory or other barriers that are driving them outside the U.S. unnecessarily. The answer to a question like that is we have to see it in a textured way. We have to see it in the context of this international global competitive environment. Most of these things raise issues, but they raise issues that are very specific and very focused and very actual."

The latest Competitiveness Index was funded by the Department of Commerce's Economic Development Administration, foundation support and the Council on Competitiveness's National Innovation Initiative Leadership Council. A copy of the 102-page document is available at http://www.compete.org.

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heard anxiety about the future. In Seattle, "Boeing workers are producing planes now but they know the technology is being transferred," said Bartholomew. "To get elected, members [of Congress] have to be intensively out there in their community and this is an issue we know they heard about," she said. "So we can be hopeful that they are interested in taking some sort of action."

Not all of the commissioners were particularly pleased with the annual report and its recommendations, however. In his additional views, commissioner William Reinsch, president of the National Foreign Trade Council, said he voted for the report "as much because of what it is missing as because of what is there." The commission's latest annual report (its fourth in its five-year history), "avoids some of the flights of semi-hysterical rhetoric that have plagued it in the past as well as many of the poorly conceived recommendations made in past years," he wrote.

The commission's decision not to include previous recommendations because they remain legitimate and don't need to be repeated made Reinsch's decision to vote in favor of the report easier. Those recommendations may still be in force, "but since I doubt anyone remembers them, we can let them muddle about in the obscurity they deserve," Reinsch wrote.

Reinsch said he believes the commission is making a "slow lurch towards credibility," but that the report tends to be a list of complaints about China that the United States can't do much about. "The report once again treats China as an economic and security threat in everything but name, implying a number of apocalyptic outcomes — to our manufacturing base, our economy generally, to Taiwan, to our role in the Pacific — if we don't get busy countering their actions," he wrote. "In doing so, the commission once again demonstrates its gift for making the complex far too simple. Everything bad happening to America is not China's fault, and even if China takes actions the commission favors, such as revaluing its currency, our problems will largely remain."

Reinsch and other commissioners say that next year they intend to concentrate on the impact China is having on the U.S. defense industrial base. "It is an important issue to pursue," said Reinsch. At the Commission's Dearborn, Mich., hearings "we heard things that made people sit up and take note," added Bartholomew. "What does it mean when our tool and die makers can no longer produce? We heard stories that in order for equipment to be provided for the Iraq War, [the military] is having to cannibalize triggers even for howitzers. We really want to put some facts out there."

The 265-page report, which lists its 44 policy recommendations and was criticized by China's Ministry of Foreign Affairs before it was even published, can be viewed at http://www.uscc.gov.

U.S.-China Commissioner Mulloy Expresses Concern Over Whether Multinationals Are Good For U.S.

The growing distrust of U.S. multinationals made its way into the annual report of the congressionally-chartered United States-China Economic and Security Review Commission. The report, read closely in China, includes an "additional view" from commissioner Patrick Mulloy, who says the interests of U.S.-based multinational corporations "which have done so much to influence our current policies toward China, are often not aligned with the broader interest of our nation." This theme is "implicit" in the commission's annual report, but needs to be stated "explicitly," he wrote.

The Chinese, Mulloy said at the press event releasing the report, "have figured out how to incentivize American corporations to move manufacturing, R&D and other technologies to China" as a means for U.S. companies to increase shareholder value. "This is not because our corporations are evil. It's because they are focusing on shareholder value," he said. The Chinese are not evil. They want to build their industrial technological base. But this is very harmful to us as a nation and we need to construct incentives to drive this economic relationship."

U.S. companies "are not charged to consider the larger impact of their decisions on the American economy and workers, and the impetus they give to China's growing international, political and military strength," Mulloy wrote in his additional view. By taking advantage of Chinese subsidies and currency manipulation "America's corporations may achieve short-term increases in shareholder value by cooperating with such a strategy, but overall the situation poses a long-term threat to America's economic primacy and even our national security as we lose skills and capacities essential to our defense industrial base. America's policymakers must understand that the interests of the multinational corporations and the policies they advocate toward China are not necessarily serving the larger interests of our citizens and our nation."

Top Officials Head To China

U.S. government talks with China will continue, but at a much higher pitch. Treasury Secretary Henry Paulson will lead a high-level delegation to Beijing Dec. 14 - 15 for the inaugural meeting of the U.S.-China Strategic Economic Dialogue. He will be joined by Commerce Secretary Carlos Gutierrez, Labor Secretary Elaine Chao, Health and Human Services Secretary Mike Leavitt, Energy Secretary Sam Bodman, U.S. Trade Representative Susan Schwab, EPA Administrator Stephen Johnson, Federal Reserve Chairman Ben Bernanke and other Bush administration officials. The group will meet with Chinese vice premier Wu Yu and other top Chinese leaders to discuss a range of issues "including assuring continued global growth, China's economic development and further integration into the world trading system, stable energy markets and cooperation on the environment," says the Treasury Department.

It Is Time To Stop The Madness; We Have Lost Our Minds

BY DANIEL DiMICCO
PRESIDENT & CEO, NUCOR

As the United States' trade deficit grows so does the accompanying debate on trade policy. More specifically, free trade and protectionism. Unfortunately, the debate often degenerates into affixing labels to those who may have a different view on the direction of trade policy. Labels like protectionist or protectionism are commonly applied to those who might have a different view from the academic definition of free trade. To clear the air on the label discussion it might be best to define some concepts, some real life — not theoretical — trade practices and then determine what constitutes protectionism, or not.

Free trade in its pure form essentially says that if I have the proper resources to make widgets and I can make widgets better than anyone else, I should make most of the widgets. However, we all need gizmos in addition to widgets. If you can make gizmos better than anyone else, you should end up making a lot of gizmos. And so on.

The Ricardian concept of comparative advantage demands little interference in this system of free trade. However, because the reality of global trade includes massive government interventions I'll call this the academic version of free trade. The fact of the matter is that there is a long history of government and other intervention in the concept of free trade. As a result, we have gravitated to a trade regime that is rules based.

A critical assumption is made that the rules will be fair; they will consider natural advantages; and will create as level a playing field as possible for competition to determine market winners and losers. Unfortunately, even that assumption has suffered its own form of intervention.

Today, the WTO debates which forms of subsidy should be considered allowable and which not; which taxes should be rebated and those that should not; and whose moral standards will prevail and whose will not, and so on. Yes, we have even entered an era where it is a violation of WTO rules for states in this country to ban Internet gambling even if that is the will of the people in a state. The WTO has now entered our system all the way down to states' rights.

WTO decisions now cut more deeply than ever into the sovereignty of this country. Before anyone leaps to the conclusion that I'm suggesting we get rid of the WTO, I'm not suggesting that. What I am pointing out is that the WTO process is broken.

So is the concept of free trade as we'd like to think of it. The reality today is managed or managed strategic trade. Trade is managed for national advantage in most places BUT the United States.

Let me relate to you why free trade and often even rules-based trade is broken. To understand that let's get into how the game is played in real life.

The largest explosion of steelmaking capacity in the history of the world just happened in China. Their most recent three-year expansion — yes, just the expansion — represents a number larger than the entire steel capacity of North America.

Is China a great spot to make steel? NO!

Let's take a look. China is not blessed with high-grade iron ore. They are forced to import over 250 million tons annually since their expansion. The projection this year is 300 million tons. China is not blessed with a lot of scrap. They import that as well. China's transportation infrastructure is inadequate to support that kind of growth. Power generation has lagged industrial expansion. China is extremely energy dependent as well.

Steelmaking is an environmentally sensitive process. The Chinese and many other countries are totally irresponsible environmentally. This is more important than some might think. How about labor? At Nucor, labor costs are less than half of ocean freight to this market. Cheap labor is hardly the issue.

What drove this kind of expansion in a country that had no apparent natural advantage? In a sound bite — national policy. And, by the way, it isn't just China. This is a pattern duplicated elsewhere. Their advantage is gained by things like currency manipulation and a tax regime that centers partially on border adjustable taxes. These taxes are rebated for exports and act as an additional tariff on inbound goods. On average, manufacturers in this country face an 18 percent global disadvantage because of this issue.

Subsidy regimes are also enormous. Nucor, on behalf of the industry, launched a comprehensive study of the various forms of subsidy available elsewhere. We have posted the submission we made to the Organization for Economic Cooperation and Development (OECD) on our Web site. The first two countries we've studied are China and India. How about subsidies like the transfer of ownership from one state company to another? There is no need to lay out a bunch of capital to buy someone — just grow by assignment of ownership.

Default on a loan to a central or provincial bank and it turns to equity on the part of the state. Here in the USA I believe banks are a bit more serious about collecting on loans. The cousin to this is state directed loans to totally non-creditworthy firms.

Beyond the rebate of border adjustable taxes there is a regime of tax incentives specific to exports for firms with significant foreign investment. The local incentives for investment make state business development incentives in this country look like chump change.

Often transportation, power and even raw materials are subsidized. How about this for an energy subsidy? Did you realize that the Chinese oil refinery industry is the only known major refinery sector to have lost money

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in recent years. The purpose? The Chinese government sets fuel and energy prices at levels that provide a significant so-called indirect subsidy to their industries.

China and others also use national policy to interfere in commodity and raw materials markets to their advantage.

In some countries the concept of intellectual property rights is a farce. Our advantages are stolen with regularity.

I could bore you to tears with stories of non-tariff barriers of many descriptions. I'm sure every industry has its own set of unique market access barriers.

The contrast is virtually free market access here.

Enormous subsidy is on top of the extremely large advantage provided by currency manipulation, tax regimes and a huge difference in the amount of regulation that is placed upon companies here. Let's get into the details starting with what is the largest of the issues in our view.

The simplest description of government currency intervention is when governments acquire another country's currency in amounts that are out of proportion of any normal need for foreign currency reserves. There are no hard and fast rules, but the amount of foreign reserve holdings should be appropriate for normal trade volume and exchange purposes. In essence, a government prints more of its own currency to make it less valuable. In using their devalued currency to buy someone else's currency, or in our case our debt, they thus drive up the value of the currency they're buying.

Let's take a look at what reality demonstrates. Starting with the change in dollar reserves in the hands of Asian countries from 2002 to 2003, Japan and China's exchange holding growth was in the 40 percent range. In other words, they were increasing their dollar denominated holdings and driving up the value of the dollar while depreciating theirs. Since the initial Chinese devaluation in 1994 and the subsequent collapse in Asian currencies in general in 1997 this has been a repetitive pattern to varying degrees by many Asian countries. After all, they have to "be competitive" with China. Every major Asian economy was still in a heavy acquisition mode of U.S. denominated reserves.

Year to date, China's dollar reserves have surpassed those of Japan. Current Chinese dollar reserves exceed $820 billion and overall reserves are estimated to be about $1 trillion. The result is a currency under-valuation of at least 40 percent. Some economists put the number closer to 60 percent.

What does it mean? If we assume a 40 percent under-valuation and we apply a trade weighting to the under-valuation it means that China's government intervention has created a so-called competitive cost advantage of 25 percent, minimum. In plain terms, it means that before an American worker even starts his day, his company is at least 25 percent higher "cost" than the Chinese counterpart. I use the word cost facetiously because it is really an advantage conferred upon exporters by government and has nothing to do with efficiency, productivity or earned competitiveness. The numbers vary for other Asian countries but the same problem prevails.

It means that Chinese goods are at least 25 percent under-priced due to currency alone. The real world impact is a skewed playing field in favor of Chinese exports here and to others and a de facto barrier to United States exports. It also means that China is preventing its own citizens from becoming consumers of our goods. Our goods become that much more expensive. The Chinese worker ends up grossly underpaid and thus unable to even become a significant consumer of his own country's goods. Those goods must be exported.

Under such conditions one might question a trade policy that focuses on market opening. But that is the current approach to trade — open markets at any cost while ignoring what some have called the elephant in the room. Such a policy is sheer folly until the currency issue is corrected.

To make matters worse, our trade negotiators do not even consider dealing with currency manipulation in trade negotiations. Talk about ignoring the elephant in the room!

Every year the Treasury Department has the opportunity to address the manipulation issue by naming China a manipulator. Sadly, the U.S. Treasury Department has punted on this issue instead of stepping up. They have even used faulty data to avoid naming China a manipulator in pursuit of "jawboning" the Chinese to change their valuation and practice. They trust notoriously wrong Chinese trade data in their economic models that evaluate manipulation in the face of documented proof from China's trading partners that demonstrates how grossly understated Chinese trade surpluses are.

At the end of the day there is no incentive for the Chinese to change their behavior. So the illegal game goes on. There are bills in Congress to address this that have not gotten past committee and so-called leadership to make it to the floor for a vote. The bill in the House that addresses much of this is H.R.-1498, commonly called the Ryan-Hunter bill.

The next largest trade imbalance factor we face is taxation. We also get "help" (using the term loosely) in this area from the World Trade Organization. The United States is one of few countries globally that relies on income taxes for its primary source of government revenues. Virtually all of our major trading partners use consumption taxes and/or a combination of lower income taxes and consumption taxes for their tax revenues. The World Trade Organization considers value-added taxes or border adjustable taxes as indirect taxation and allows such taxes to be rebated to their exporters as an incentive to export. The WTO has also determined that direct taxation such as income taxes cannot be rebated for exports.

The WTO ruling is important to understand. The United States had an income tax rebate program for exports that was comparable to the border adjustable tax rebates exporters have elsewhere. The U.S. program essentially offset the foreign tax rebates but certainly did

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not tax foreign goods coming into this market like our goods are taxed entering our foreign markets. Based on the WTO decision against the U.S. program, it was terminated.

This decision creates a gross trade distortion. The end result is that U.S. exporters face, on average, an 18 percent border tax on what they ship abroad. It is nothing other than a tariff. Conversely, our foreign competitors are rebated those taxes for exports to the United States. AND, they face no like taxes here.

The effect on the U.S. manufacturer is a tariff outbound and a subsidy to competitors in international markets.

Again, it gets to the question of a market opening focus in trade policy now with an elephant and a hippo in the room. Do we really think that market opening elsewhere is a logical approach to an unsustainable trade deficit? NO! We need to address the issues that cause the distortions and not dance around them.

Oh and, not incidentally, provisions to address such rebates are not even part of our free-trade negotiations. Border adjustable tax rates can change after an agreement is signed and in some cases such systems were installed post-agreement.

What are the consequences of what I've covered so far?

The end result has been a continued erosion of our entire manufacturing sector. If you make the simple comparison to job loss in the sector, in spite of a growing economy, to the growth in our trade deficit you see a very interesting picture.

The loss of many jobs in manufacturing is directly related to our growing trade deficit. The job losses are certainly no coincidence. The impact on the economy has been estimated to be a 1 percent GDP growth loss annually. In other words, the economy could well have grown by 25 percent more than it did had there been a level global playing field in trade.

The United States also penalizes its manufacturers through regulation, highly questionable energy policies, frivolous litigation and the like. But one area of regulation I want to touch on in some detail is environmental. We all have an obligation for environmental responsibility. There is a huge cost attached. In reality, not theory, so-called developing countries get a free pass on this huge cost. And, by the way, many of the emission issues we deal with in this country originate elsewhere.

The infamous Asian pollution cloud is having an interesting impact on our West Coast. Scientists have determined that approximately 24 percent of the particulate matter falling on the West Coast originates in Asia.

How about their treatment of water resources? There was a recent Wall Street Journal article on the amount of pollutants carried by China's major aquifer, the Yangtze River. By China's own estimate, 25 billion tons of waste is carried into the ocean by this river. 80 percent of it is untreated — 20 billion tons!

How about greenhouse gases? The EU space agency looked at hot spots for greenhouse gas generation in Asia and found high concentrations in the eastern China industrial areas.

How bad is bad? In the case of China, carbon emissions are at nearly an 8:1 ratio per unit of GDP versus the United States. India is about 4:1.

The Kyoto agreement was and is a disaster for the environment. It forces the shift of manufacturing from areas where emissions are much lower per unit of production to areas with terrible environmental records. Who are we kidding here?

What's the point of all of this?

First, the concept of comparative advantage has been manipulated into a non-entity. Free trade is anything but free.

If the rules-based trade system we have today is to succeed, it requires that the rules are rational and that they don't overwhelm and reverse true comparative advantage. Sadly, even so-called rules-based trade is failing because we aren't very smart about how the rules get made or how we enforce agreements and rules. Accountability is missing, among other things.

In our view, we live in a world of managed trade and the free trade model is not going to prevail in the global environment. Like it or not, we need to change our approach. Reality suggests that if we don't we will continue to pay a steep price.

But wait, you say: "Manufacturing is doing just fine! Look at the profit performance of the sector!" Yes, things are seemingly sunny at the moment. However, the totally unsustainable trade deficit, among other things, suggests some serious underlying problems. The manufacturing sector has lost over three million jobs over the past four years. Contrary to trade policy apologists it isn't all about productivity. We should have regained over two million of those jobs if the global playing field was even close to level. The manufacturing sector is under-achieving its potential — big time.

We often hear we aren't producing enough technical graduates. Here are some dots to connect. If offshoring, outsourcing and downsizing is the press coverage highlight reel for manufacturing, why would someone want to study to go into the sector? Consider that manufacturing drives and consumes over 60 percent of R&D in this country. What is the incentive to go in that direction?

Recently, one of the premier research and development think tanks and laboratories in the United States, Battelle, announced it was setting up operations in Asia. That they are expanding isn't an issue. The stated reason is: they feel that Asia will become the center of R&D and engineering development globally. We are rapidly losing the driver of R&D and technical achievement — manufacturing. Ladies and gentlemen, we are selling our future via failing trade and manufacturing policies.

If you take a deep dive into the jobs data you will see some disturbing subtle shifts occurring. Studies demonstrate that trade sensitive areas of the economy are far more productive than those that are not. Non-tradable jobs are generally in low-level service sectors not impacted directly by trade. The trade sensitive sectors pay more and have better benefits. When we see

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employment shifts from higher pay to lower pay and lesser benefit sectors we are seeing an erosion of our standard of living. We see a subtle but continuing shift to greater income disparity. The haves will have more and the have-nots will struggle.

But just wait another minute! We have a very low unemployment rate! Don't be seduced by a number that measures those actively looking for work. The percentage of adults who are eligible to participate in the workforce has declined by about 1.5 percent. For a variety of reasons they have stopped looking for work and have been dropped out of the unemployment statistics. We are under-stating unemployment to that extent.

The job of a CEO goes well beyond what happens in the next quarter. We have to plan for the future. We must anticipate changes and adjust. We must change those things we can that could negatively impact our companies and position our companies to take advantage of opportunity. We hope our political leaders have the same job requirements. That issue is becoming a question mark.

Let's look at what the future might hold by looking at how manufacturing, if it is doing so well, is responding to the future. First, we are not expanding. I recently read where certain government officials were touting manufacturing's capital investment in new plant and equipment. Yes, we are investing in new equipment. However, I can hardly get excited about new manufacturing construction that is bouncing along near-25 year lows in terms of new square footage.

Nor can I get very excited when I see manufacturing consistently below 80 percent capacity utilization. It suggests an under-performing sector with some strategic issues facing it.

I haven't even commented on the burdens we place on ourselves. They are well documented by the National Association of Manufacturers. Things like excessive tort costs, energy, health care costs and regulatory costs lead the NAM to the conclusion that U.S. manufacturers face a further cost disadvantage in excess of 30 percent.

You come to the conclusion that U.S. manufacturing must be world class competitive to export ANYTHING. As mentioned previously, it also suggests a sector that is grossly under-achieving its potential. And, finally, it suggests that we are literally giving our future away unnecessarily. Worst of all, we have no one to blame but ourselves. That others take advantage of our ignorance is OUR problem, not theirs. It is up to us as citizens and businesses to demand a change.

We certainly don't have all the answers but we certainly recognize negotiating leverage when we see it. In this case it is our market. I can almost hear some moaning about protectionism coming from some circles in D.C. and elsewhere. My response to those who call the use of our major leverage to deal in a world of managed trade — protectionism — is for them to take a close look at the realities I've just discussed. The absolute worst form of protectionism is exemplified by the mercantile practices of countries like China. Demanding a level playing field plus trade rules and practices that make sense is anything but protectionism.

We have let the currency issue get out of hand with China, in particular, and other Asian currencies in general. The magnitude of the distortion makes correction all the more difficult and dangerous. The under-valuation cannot be fixed quickly or we risk damage to both economies. But the longer we wait to correct the problem the worse and more dangerous it becomes.

The damage we're doing to our future cannot be reversed by the present thrust of market opening. I would challenge anyone to name specifically what this country has left to export, or replace imports, that will substantially reduce or eliminate a trade deficit rapidly approaching $800 billion annually.

In many areas we have lost the ability to produce the things we import. I would also challenge policy makers to be specific and tell me where they are going to find over three million new jobs that are of comparable value to manufacturing jobs, and that also drive the creation of technical jobs we're shipping abroad as well

A recent Business Week article suggests that the sum total of private sector jobs generated since 2001 can be found in the health care field. Those jobs do NOT pay as well as manufacturing jobs nor do they generate the multiples that manufacturing does in ancillary jobs.

Some say education is the way out. Let me suggest that if we wait for education to reverse the damage being done to our future by a failed trade policy we're kidding ourselves. In the Carolinas, where I live, less than 65 percent of students who enter high school graduate. In

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reality, how fast is that going to change?

Nucor employees understand the emphasis we put on education and the tools we offer employees to help themselves and their families. Other manufacturers have their own programs.

We're slowly but surely shutting off that resource as well.

It is long past the time that policymakers get out of their theoretical dream world and into the real world.

Time is not on our side and by allowing the continuing erosion of this country's manufacturing sector they are selling our future.

I'll say it again. Time is not on our side in these matters. As an industry and as a company we have embarked on a top-down and grassroots-up educational and activism program to wake our political leaders to the realities we face. Our industry is not alone in this effort. There is a growing move by U.S.-based manufacturers to force the level playing field issue. We welcome and encourage like-minded people to join in this effort.

I quote Dr. Peter Morici, of the University Of Maryland Robert H. Smith School of Business, an expert on global trade and former chief economist at the International Trade Commission, that summarizes much of what I've said:

"The following is what you need to know about the external debt created by the trade deficit: Each year the trade deficit requires the U.S. to borrow or sell assets to the tune of $800 billion. This is a net figure. We borrow and sell more than that but we also loan and buy foreign assets. About 85 percent of what we borrow or sell is borrowed — i.e., it is sales of Treasury securities, bank deposits and the like; that number fluctuates quarterly and from year to year.

"An overseas holding of U.S. debt has now reached $5 trillion in the first quarter, and is growing about $700 billion a year! At 5 percent interest, that comes to $250 billion a year in interest expense.

"Those 'everyday low prices' are an illusion. Our government, all of us, is borrowing to keep those cheap stereos on the shelves at Wal-Mart, Target and the like. Two billion dollars a DAY! The total is now over 5.5 trillion dollars! How long until we are broke? We'll be indentured to foreign creditors if this madness persists."

It is time to stop this madness and it is up to each and every American to be sure we do!

Keep in mind that we incurred these dangerous deficits and other problems due to our own ignorance as a country.

We kow-tow to special interests
We play geopolitics.
We are a slave to theory in the face of reality.
We lack the will to change.

In short, we have lost our minds.

We cannot blame the Chinese, Japanese, Koreans, Russians or anyone else for the dangerous place we're in.

The game we've allowed to be played to our disadvantage is quite complex but all the dots connect.

It is our government's responsibility to give us a level playing field with other countries and governments.

It is our responsibility to compete and win on that level playing field.

Shame on our government they don't provide that level playing field.

Shame on you and me if we don't demand it.

And shame on us and other U.S. manufacturers if we can't compete and win on a level playing field.

How can you help? Start by educating yourselves on the issues. Let your legislators know these issues are important to you and the remedies you support. Write, call, visit. In fact, nothing beats a visit if you can do it.

Educate your employees on these issues — their jobs may depend on it. Provide them with information and help them contact legislators. Talk to your suppliers and get them doing likewise.

The same holds true for talking with your customers who may be getting killed due to such a skewed playing field. The Metal Service Center Institute has a wealth of information on these issues. Visit with their leadership. Visit the Nucor Web site on the Governmental Affairs page. Talk with your state and local leaders. Let them know what they face. Grass roots efforts can and do change outcomes in Washington.

Finally, become champions — demand that your elected leaders, local, state and federal, provide that level playing field. You have to connect the dots for them so that they understand what all is involved. If we can do this as an American manufacturing sector the American manufacturer will win! Just like we do in a fair fight every day.

—From a speech given before the Westside Industrial Retention and Expansion Network (WIRE-Net) in Cleveland, Ohio, and its Northeast Ohio Campaign for American Manufacturing (NEOCAM).

Steel Imports Are Soaring

Steel imports are setting records this year, according to the American Iron and Steel Institute. Based on data for the first 10 months of the year, total imports of steel will top 46.5 million net tons, an all-time high, easily surpassing the previous record of 41.5 million net tons in 1998, says AISI. Through October of this year, total steel imports are up by 45 percent over the same period last year.

"The rise in YTD 2006 imports compared to the previous year remains pronounced for countries with a history of unfair trading, especially in Asia, including Thailand (up 165 percent), China (up 125 percent) and South Korea (up 61 percent)," said AISI. "Imports from Russia are up 106 percent versus last year. In October, for the fourth month in a row, China, a non-market economy, was the single largest source of steel imports to the United States with 596,000 net tons. Imports from China were 338 percent higher in October 2006 than in the same month last year and at their present pace will exceed 5 million tons this year."

If the U.S. government fails to strictly enforce the nation's trade laws, the industry's 1.2 million workers will face "crisis conditions that prevailed earlier in this decade," said Louis Schorsche, CEO of Mittal Steel's Flat Product Americas and chairman of AISI.

United States Trade Representative Susan Schwab Responds To Election Results In Which Trade Played A Key Role

Now that the mid-term election is over, there is suddenly a great deal of talk about bipartisanship, especially from Republicans who barely involved Democrats in any aspect of governance prior to the election, particularly when it came to matters involving trade. The latest comes from USTR Susan Schwab, who outlined the Bush administration's trade agenda on Nov. 28 before the U.S. Chamber of Commerce. She is facing a transformed and potentially disruptive political reality that she cannot avoid. Here is an edited version of her prepared speech.

Conventional wisdom persists that the election will hobble or stop the administration's trade agenda dead in its tracks. It makes for good copy — a "new partisan clash shaping up in Washington," or "Democrats flexing their muscles," etc.

Great stories of partisan power plays are contradicted by the facts. Democrats and Republicans have worked together for over 70 years, particularly since the formation of the GATT to the Doha Development Round. Multilateral trade agreements have generally met with strong bipartisan support.

More recently, FTAs with Chile and Bahrain, just to name a few, passed with overwhelming bipartisan backing. There have been strong bipartisan votes in times of split party control: in 1988 with Reagan and a Democratic Congress; and in 2000 Clinton and the GOP Congress agreed on PNTR for China.

People ask me if the administration's trade agenda will have to change now that Democrats are in the majority. The answer is no. The mission of opening markets, spurring development and keeping the United States at the fore of a rules-based trading system transcends party ID. The specifics are always the subject of negotiations — between the executive and legislative branches of government — and *within* the legislative branch.

My hand is outstretched to any and all members of Congress — the new Democratic leadership and our Republican colleagues. And, after a firm handshake, I look forward to getting to work, building on shared principles and sorting out honest differences. We must think about the next generation, not just the next election.

In coming months, farmers, ranchers, businesses large and small, consumers and governments around the world will be watching closely whether we rise to the challenge or shirk our responsibilities.

Basic Principles:

At the core of our responsibilities and, hence, our agenda, are some fundamental, overarching principles.

Principle One: We pursue trade liberalization agreements for their inherent value — their economic and commercial benefits. At home and abroad they spur growth and alleviate poverty. Trade deals generate new trade flows and generate growth — growth in the U.S. and the global economic pie.

Moreover, all Americans — Democrats and Republicans — want to help people in need. We open our hearts and wallets in many ways. Economists of every stripe tell us that trade is a vital tool if we want to teach people to fish instead of giving them fish.

The World Bank has noted that in the 1990s, those countries that opened their markets and liberalized their economies grew at three times the rate of developing countries that rejected such reforms. Moreover, the World Bank studies have found that tens of millions of people can be lifted out of poverty through trade. Full trade liberalization would provide a $142 billion income boost to the developing world, dwarfing foreign aid and debt relief.

Principle Two: We lead by example. We are the most open market in the world and also have the most innovative, strongest and biggest economy. It's not an accident or trick of fate. The countries that emulate the United States grow. Those that reject our model are confronted by intractable economic difficulties.

We must stay engaged. Recent Asia-Pacific Rim trips noted dozens of FTAs are taking shape, some include us, some don't. It's a potent reminder that the U.S. must not be on the sidelines as the world integrates and strengthens trade ties.

The third basic principle is a corollary to the first two: Isolation, including economic isolation, is harmful to the people of this country and all countries.

It is easy to demagogue against trade. Any pain is narrow and concentrated, while the benefits of trade are widespread and diffuse. In a time of globalization and change there is natural anxiety. Even the 95.6 percent of us who have jobs worry about the pace of change.

But this does not change the basic fact that 95 percent of the world's population live outside our borders. Unfortunately, there are those in the extremes of both parties ready to preach retreating to protectionism and economic isolationism. We must confront these forces in a bipartisan way. The good news is that the leaders and people in responsible positions in both parties know better.

We need to recall these broad principles and shared

(Continued on next page)

Schwab...

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beliefs as we consider specific aspects of our aspirations and agenda.

The Doha Round. Democrats and Republicans agree the U.S. should strive for a multilateral agreement to open up new trade flows in agricultural goods, industrial products and services. This could benefit all countries. The risks of failure are profound. To avoid squandering the development opportunity of Doha, the U.S. must speak with one voice in the coming months. We walked away from a bad deal in July; if necessary we will do so again, but we cannot let a strong, potential Doha agreement slip through our fingers.

Two, we aim for state-of-the-art FTAs that encompass all aspects of modern commerce, agriculture, manufacturing, services, investments, IPR and procurement. These are the most effective ways of opening trade flows. On a parallel track with our Doha efforts, these FTAs set bar-raising precedents. We must not be held hostage to less-developed country advocates in the multilateral setting.

What does the 2007- 2008 trade agenda look like? We will pursue Vietnam PNTR (2006), and FTAs with Peru/Colombia, Panama, Korea and Malaysia. We will eventually seek strong bipartisan votes.

A third specific area of agreement is labor and the environment. Despite well-publicized differences, many Republicans and Democrats alike see how trade liberalization on its own promotes higher standards and protections — when countries trade more, they prosper; when they prosper, they seek high standards for their people and the environment. Thanks to Trade Promotion Authority, the U.S. has raised the global labor and environment standard in every one of our FTAs. Multiple activities are taking place on the environment. In the MOU with Indonesia, logging, and fish subsidies are part of the negotiations as part of the Doha round.

A fourth specific issue on which there is bipartisanship is the recognition that trade can cause dislocations. We must address the needs of these workers directly, through improved education and training and assisting communities through difficult transitions. But one thing we must not do is retreat from trade enhancement. The widespread and deep economic hardships caused by retreat will dwarf the occasional dislocation that comes from economic engagement.

Finally, Democrats and Republicans agree that rules and terms must be enforced. The United States has pursued legal options in dozens of cases, from high fructose corn syrup to apples to auto parts to steel, and has done so successfully for the most part. The United States brought the first case to go to the panel stage against China in the WTO. We are looking seriously at bringing additional cases when the Chinese refuse to live up to their commitments.

But effective enforcement requires a number of tools, not just filing cases. It is easy to lash out at our trading partners' practices, but WTO cases must be focused and well constructed. When we file a case, we file it to win. Our formal disputes cannot be merely political statements of frustration. Likewise, trade remedies such as countervailing duties and anti-dumping measures must be maintained, but must be utilized effectively so that they actually help U.S. workers and companies adversely affected by unfair trade practices.

We have an opportunity to make bipartisan history in trade over the next two years, from the WTO Doha Round to commercially significant FTAs with emerging economic powers, to new approaches to the challenges of trade at home and abroad. As we go about it, bipartisanship on trade should not be an historical concept but a driving force for the future. I am pleased by statesman-like Democrats (Rep.) Charley Rangel and (Sen.) Max Baucus and their comments on trade post-election. Rangel is right when he said, "Foreign countries shouldn't negotiate separately with Democrats and Republicans."

But bipartisanship needs to be an every-day thing. I believe the leaders of the next Congress are sincere in what they have said and expect these issues will be worked on with a goal of expanding trade, not restricting it. In the coming weeks and months, Democrats and Republicans will be shaping their principles and presenting their priorities regarding a number of issues, including trade. At this point, there are probably as many opinions as there are members!

As positions are formed, the administration will continue to reach out — we will continue to listen, debate and exchange ideas to craft sound policies that reflect our values and advance our economic and security interests. Divided government means shared responsibility. Let's look forward to the future as partners. The world is watching.

Colombia Offers China A Cheap Way Into U.S.

The vice president of Colombia was in China during the week of November 21, proposing a plan that would allow Chinese companies to use that nation to export goods to the United States without having to pay duties, according to the Bloomberg News Service. Chinese companies would save $7 billion in U.S. import duties a year on 200 products, Colombian vice-president Francisco Santos Calderon told a press briefing in Beijing. "Chinese manufacturers pay a lot of taxes when they export to the U.S.," said Calderon as quoted by Bloomberg. "We want to demonstrate the benefits of using Colombia as an intermediary." Bloomberg wrote that Colombia "hopes to leverage free-trade agreements with the U.S., the EU and other Latin American countries to help its companies win contracts to help Chinese companies finish making their products."

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