

***Testimony of Linda Menghetti Dempsey
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***Re: USTR–2018–0005, Section 301 Proposed Remedies to
China’s Acts, Policies, and Practices Related to Technology Transfer,
Intellectual Property and Innovation***

May 15, 2018

The NAM is the oldest and largest manufacturing association in the United States, representing more than 14,000 manufacturers small and large in every industrial sector and in all 50 states. Manufacturing employs 12.6 million U.S. workers and had a record \$2.25 trillion in output in 2017, about half of which was exported.

Manufacturers have been energized by the President’s commitment to grow manufacturing opportunities across the country. His leadership in securing tax reform and addressing excessive regulation has helped free manufacturers to grow and invest in America. That leadership has also highlighted the urgency of addressing foreign market distortions that have held our manufacturers back for too long. Nowhere is that focus more important than China, which presents both major challenges and opportunities for our manufacturers.

Consider that our manufacturers sell more to China than to any other country outside of Canada and Mexico and those exports alone support hundreds of thousands of U.S. manufacturing jobs. U.S. manufactured goods exports to China have grown five-fold since China joined the WTO, reflecting both China’s market openings and economic growth resulting from that accession. China is now the number one consumer market in the world for cars, food and many other products, with an economy four times bigger than it was in 2001 and a middle class that has grown by hundreds of millions of new entrants. Our manufacturers need to be able to further tap into that enormous growth to support and create more good-paying manufacturing jobs here at home.

Yet our manufacturers have long faced a wide range of distortive activities in China, including many extensively documented by this investigation. These barriers limit U.S. exports, distort market conditions in the United States and third countries and result in the theft and mistreatment of U.S. property and investment. Those activities have crippled manufacturers and their workers. Urgent solutions are required.

The United States has taken many actions to address these challenges, some successful, others less so, including more than 20 WTO challenges, 150 trade-remedy cases, more than 100 section 337 IP actions, bilateral negotiations and ongoing work with our allies. While these approaches must remain part of the solution, they are not sufficient and create no framework to bind China to deeper, broader international rules.

The NAM, therefore, urges the administration to seize the moment with a strong solutions-based approach.

As NAM President and CEO Jay Timmons explained in a letter to the president on January 8, the most effective path forward is a comprehensive and strategic approach that has at its core a modern, innovative, bilateral trade agreement that restructures our economic relationship with China. Such an agreement must:

- Eliminate Chinese barriers;
- Raise Chinese standards and creating new rules to prohibit market-distorting practices that violate free markets and fair competition; and
- Create binding and neutral enforcement to address cheating and violations.

This approach represents the best way to treat the disease, not just the symptoms. We appreciate the Administration's efforts to identify and solve these important problems, and the clear signals sent during discussions in Beijing on the need for a strong, enforceable framework with real Chinese commitments.

The section 301 investigation has certainly raised the level of focus, here and in China, that we hope it will provide just the opening to move forward aggressively on a strategic new approach.

Yet, the actual imposition of tariffs themselves would not solve the underlying problems. All of the proposed tariffs are on manufactured goods, and many would impact inputs critical to sustain U.S.-based manufacturing. While tariffs may provide short-term relief to some, we are hearing regularly and broadly from manufacturers across the country who are deeply concerned about the harmful, albeit unintended, impacts that the imposition of proposed tariffs would have on manufacturing and jobs:

- These tariffs would cripple many manufacturers that depend on imports of covered materials that are not available from U.S. or third-country suppliers.
- These tariffs would increase direct input costs for some manufacturers and their customers, particularly small-and medium-sized manufacturers, challenging their ability to remain competitive at home or abroad against Chinese and other foreign firms.

In short, if tariffs are imposed, many manufacturers would face the unenviable choice of facing a substantial economic loss to foreign competitors or manufacturing overseas to remain competitive.

Manufacturers will also be injured by the loss of sales if China imposes its proposed retaliatory tariffs, nearly 60 percent of which are targeted at U.S. manufactured exports. Chinese proposed tariffs on U.S. agricultural exports would also harm manufacturers by reducing our opportunities for domestic sales of agricultural equipment and supplies.

If tariffs escalate, so will the harm to manufacturers and their workers.

We, therefore, urge the administration to move forward with a strategic, solutions-oriented approach to address once and for all the underlying issues and to put manufacturers and their workers on a fair and competitive playing field with China.

Thank you.