Prepared Testimony of
Assistant Secretary of Commerce for Import Administration
James J. Jochum
Before the Senate Committee on Governmental Affairs Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

December 9, 2003

Thank you Chairman Voinovich, Senator Durbin, and Members of the Subcommittee for inviting me to discuss the enforcement of trade laws and the Bush Administration's plan to boost jobs and help domestic manufacturers. I appreciate your dedication to this issue, and I further appreciate your giving me the opportunity to discuss the Administration's efforts in this regard.

For the President and Commerce Secretary Don Evans, the importance of trade extends well beyond the economic realm. As the President stated:

> "open trade is not just an economic opportunity, it is a moral imperative. When we negotiate for open markets, we are providing new hope and promoting political freedom."

It is because of the economic and social imperative behind trade that the Administration has moved aggressively in pursuing an ambitious trade agenda. We will continue to move forward to expand our trade and the economic opportunities that it creates for all Americans, and to eliminate barriers to the free flow of American goods, services, investment and ideas.

Today's hearing offers me the chance to review some of our findings from the more than 20 roundtable discussions the Department of Commerce held with U.S. manufacturers, both large and small, across the country as part of the President's Manufacturing Initiative. It also allows me to put that initiative and our trading relations, particularly with China, in an appropriate context among the other issues raised by U.S. manufacturers.

The Economic Context of Manufacturing

One of the most important things to understand about manufacturing is that it plays a major role in the overall success of the U.S. economy. The President understands the importance of manufacturing to our economy, our workforce, and to our future. It represents 14 percent of our gross domestic product and 13 percent of total private sector employment.

Manufacturing innovations at home and abroad are important for agriculture and services. Advances in John Deere's cotton-picking equipment manufactured in Des Moines, Iowa, for example, make cotton producers throughout the south and west more efficient and productive. Advances in servers produced by Cisco and Sun Microsystems enable hospitals across the country to offer both higher quality and lower cost health care to millions of Americans. And, nano-technology manufacturing techniques being funded through the National Institute of Standards and Technology have already found their way into the market, offering U.S. semiconductor manufacturers a critical edge in making the next generation of microprocessors.

Having said that, there is a growing perception that American manufacturers are weak, cannot compete, and are being "hollowed out." Much of that stems from the significant pressure that many U.S. manufactures have faced due to the recent downturns in the economy and stiff competition from abroad.

That is why I always like to emphasize that, even in the face of significant challenges, American firms have built the strongest, most dynamic manufacturing sector in the world. The United States remains far and away the largest producer and exporter of manufactured goods in the world. Standing alone, our manufacturing sector would rank as the 5th largest economy in the world – larger than the entire economy of China.

However, fostering an economic environment that attracts investment in manufacturing is key to maintaining the United States' position as the world's leader in manufacturing. And, the key to attracting that investment is ensuring that we offer a competitive environment from which manufacturers can produce not just for the U.S. market, but also globally.

That is why manufacturing not only matters, but also obviously is worth fighting for. Fortunately, the stimulus of the 2001, 2002, and 2003 tax cuts has softened the blow from the recent downturn and set the stage for vigorous economic growth going forward. Indeed, in the third quarter of this year, the U.S. economy expanded at an extraordinary pace of 8.2 percent – the best economic growth in almost 20 years. It now appears that manufacturing, after many months of very slow growth, is beginning to participate in the broader economic recovery. The most recent report from the Institute of Supply Management (ISM), which tracks growth in manufacturing sector shipments through its Purchasing Manager's Index has registered five consecutive months of strong growth and projects stronger growth in manufacturing sales ahead. In fact, the ISM's manufacturing index of 62.8 in November was the highest reading since December 1983.

Even on the employment front, there are very good signs of job growth that are consistent with a stronger economy. The most recent figures from the Labor Department reveal that the unemployment rate, at 5.9 percent in November, has trended down since mid-year. Further, during the past four months, the national economy has added 328,000 jobs while the unemployment rate has fallen 0.3 percentage points.

Just to put that in perspective, many economists agree that due to rapid policy responses, the recent economic downturn was shallower than most others in the past, and unemployment, with the exception of a rise to 6.4 percent in June of this year, generally stayed within 5.6 and 6.1 percent throughout the early stages of the recovery. It is worth noting that in 1993, according to an article in the *Wall Street Journal*, then-President Clinton was encouraging the Congress to take a hard look at our unemployment insurance programs on the grounds that we were at full employment by historical standards – at the time unemployment stood at 6.8 percent. We are now under 6 percent.

The positive news associated with the recovery does not negate the fact that the manufacturing sector has lost well over 2 million jobs during the recent downturn. What has surprised most economists has been the fact that manufacturing has continued to shed jobs even during the recovery. While the recovery in overall employment appears to have begun in earnest, the manufacturing sector is still losing jobs, although at a much slower rate.

What that points to is more fundamental and structural changes under way in manufacturing, both in the United States and globally. One of the causes, ironically, is the same rising productivity that is key to maintaining U.S. competitiveness in manufacturing. Employment in manufacturing has been declining for over three decades due to productivity gains throughout the U.S. manufacturing sector. American manufacturers are finding ways to do more with less, meaning it now takes considerably fewer hours of labor to produce the same quantity of output.

In the last two years, however, productivity growth has accelerated yet further. The increase in manufacturing productivity during the last two-year period, as the economy began to recover, was higher than any two-year period since 1977. In effect, while those productivity gains have helped manufacturers regain their competitive position, they have also meant continuing job losses in the manufacturing sector as a whole.

Stronger economic growth will eventually result in greater hiring, even in manufacturing, but much will depend on the level of business investment. Business investment is still recovering from the excesses of the late 1990s. That too is reflected in the job figures. The most recent job losses in manufacturing began in 2000 when the manufacturing sector entered into a recession about 10 months earlier than the economy as a whole.

In addition, the competition in manufacturing is now more global than ever before. The combined effects of rapid changes in communications, new transportation technology, the end of Cold War economic divisions, and the global lowering of trade barriers, have made the global market place a modern reality. In practical terms, that means expanded markets for U.S. exports, but also stiffer competition in manufacturing, both in export markets and, here at home, from imports.

World trade statistics bear that out. In 1980, the United States, Europe, and Japan accounted for roughly 75 percent of world exports of manufactured goods. Twenty years later, they account for 60 percent of world exports of manufacturers – a drop of 15 percentage points. Some 7 percentage points of that share went to the Asian “tigers” of Singapore, Taiwan, Hong Kong and Korea. But, by far the largest individual gain in market share went to China, which has increased its percentage of world exports from near zero in 1980 to 5 percent in 2002.

More global competitive pressure has meant continuing downward pressure on prices and profit margins due to the excess capacity on the market for manufacturers worldwide, not just in the United States. That is why a recent study by Allied Capital Management showed that China had actually lost more in the way of manufacturing employment than the United States during the last 15 years in percentage terms.

In short, our manufacturers are facing a competitive environment and we should foster an environment in which our firms can compete and succeed in manufacturing. That is why President Bush and everyone in his Administration are committed to working towards an economic climate where everyone who wants a job has that opportunity and our manufacturers remain on top in terms of their competitiveness.

The President’s Manufacturing Initiative

The foregoing discussion helps set the context for the President’s Manufacturing Initiative. In March of this year, during Manufacturing Week, Secretary Evans had the opportunity to speak before the National Association of Manufacturers in Chicago. At that time, he announced the President’s Manufacturing Initiative. As a part of that initiative, Secretary Evans directed Under Secretary for International Trade, Grant Aldonas, to lead a comprehensive review of the issues influencing the long-term competitiveness of U.S. manufacturing. The central goal of the review is to develop a strategy to ensure that government is fostering an environment that promotes a dynamic manufacturing industry.

The Commerce Department’s senior management, including Secretary Evans and Deputy Secretary Bodman, all pitched in. Roundtable discussions were held with manufacturers in the aerospace, automotive, semiconductor, and pharmaceutical sectors, among others, in more than 20 cities across the United States – from North Carolina to Columbus, Ohio, to Detroit to Los Angeles – to develop the report and recommendations.

What we heard from manufacturers in terms of the challenges they face was significant. While the international competition is what has garnered most of the attention in the press, by far the greater weight of the manufacturers= comments focused on domestic issues – what we call "keeping our side of the street clean." This simply means paying attention to the needs of our manufacturers as we develop legislation or implement regulations. It is the steady accumulation of multiple burdens, rather than a single cause, that has had the most severe impact on the competitive environment in which our manufacturers operate.

The list of issues our manufacturers identified should not surprise anyone who has taken a serious interest in manufacturing. While our manufacturers have tightened their belts and raised their productivity in an effort to remain competitive and, in fact, to succeed in the day-to-day competition in the marketplace, they have seen hard-won productivity gains eroded by everything from higher energy costs to higher medical and pension costs to higher insurance costs due to a run-away tort system.

Just a few examples might suggest why manufacturers have seen their costs rise. In Columbus, Ohio, Des Moines, Iowa, and Minneapolis, Minnesota, we met with manufacturers in the plastics and adhesives businesses that are heavy users of natural gas. The companies in the plastics businesses in particular risk seeing whole new markets fall to their foreign competitors who see lower natural gas prices. If we are serious about manufacturing, we have to adopt a national energy plan that will help us access new sources of supply and improved transmission to reduce the cost of energy to our manufacturers as well as to consumers.

We heard from manufacturers in New Jersey that 30 cents of every dollar of revenue went to pay health benefits for employees. Manufacturers gladly pay for their employee=s health benefits because they see their own interest served by a healthy and motivated workforce, but if we are serious about manufacturing, we have to be serious about grappling with the underlying drivers that have created 145 percent increases in health care insurance costs that obviously are not sustainable indefinitely.

In Michigan, officials met with auto parts suppliers that faced continuing pressure from the auto companies to lower their prices by 20 percent or face the prospect that the auto companies would turn to overseas sources of supply. The concern those parts suppliers reflected involve the terms on which they compete with those overseas suppliers, particularly in China. But the auto parts suppliers knew that the ultimate source of the problem lay in an auto industry that is grappling with the same sorts of legacy costs that burdened the steel industry. If we are serious about manufacturing, then these industries will have to get those financial obligations under control.

Another example that we heard from virtually every manufacturing trade association we met with was the need to eliminate the complexity and the disincentives our tax system creates for investing in manufacturing in the United States. A number of issues fall into that category. Take the current tax code treatment of equity financing, which raises the cost of capital, thereby reducing the investment. This treatment also translates into a preference for debt, which yields highly leveraged companies and a highly leveraged country, all the while encouraging the worst sorts of gaming as clever tax lawyers try to find ways to take what is an equity interest and call it debt in order to qualify for an interest deduction. Taken together, even without cutting rates, reforms of the tax code could make a profound difference to the relative attraction of investing in manufacturing in the United States.

But, perhaps the most egregious example comes out of the tort system in this country. One issue, in particular, stood out among the manufacturers' concerns about the tort system. That was the ongoing asbestos litigation. There, the continuing litigation has yet to help many individuals who were harmed by prolonged exposure to asbestos, while, at the same time, the litigation hangs over the heads of virtually all U.S. manufacturing, raising their insurance costs and dampening their returns. Clearly, if we are serious about manufacturing, we have to get serious about reforming the tort system.

Manufacturers also pointed to declining vocational school programs, declining enrollments in engineering and the funding of scientific research, all of which are essential to the productivity gains that keep our manufacturing sector competitive and keep a skilled workforce employed. This Administration is committed to investing in the types of retraining programs our workers need to develop the skills.

In addition to keeping our own side of the street clean, U.S. manufacturers demanded a level playing field internationally. What that means in practical terms is an effort to eliminate tariff and non-tariff barriers to our exports through negotiation with our trading partners, and the vigorous enforcement of both the existing international trade rules and U.S. trade laws. The goal is simply to ensure that everyone on the field is subject to the same rules of the game.

The Administration is willing to exercise the legal remedies available under the WTO and U.S. law. That said, we have also pursued other more practical means to address the problem. For example, to help enforce rule of origin requirements in import preference programs and free trade agreements, and eliminate illegal transshipment, the Commerce Department contracted with the Oak Ridge Laboratories to identify potential "marker" systems to help determine the origin of imports. Three technologies were determined by Oak Ridge to show promise: UV Flourescence, Nanophosphors, and DNA based systems. Industry has also worked with the Department of Agriculture to test the practicality of such a system. We anticipate that further work will be done to develop these technologies and make them available to our industry.

We are also working with U.S. companies to address the negative effects that arise when other governments confer an unfair competitive advantage on their industries. We are doing this through the vigorous enforcement of the trade laws, and through consultations with the governments involved. Virtually all of the manufacturers that Department officials met with in the course of past six months indicated that they were prepared to compete head-on with anyone in the global marketplace; what they were not prepared to do was compete against foreign governments as well.

What we did <u>not</u> hear from the vast majority of the manufacturers that we met with was an interest in outright protection, whether in the form of tariffs or quotas. Rather, our manufacturers see international trade as a simple question of fairness. If we keep our markets open to our trading partners goods, they should do the same for us. But, where our trading partners' do not live up to the terms of our agreements or otherwise heed the rules, our manufacturers expect that those trading partners should pay a price.

While we are still in the process of finalizing the manufacturing report and its recommendations across many fronts, Secretary Evans has taken steps to respond to the concerns we heard from manufacturers, particularly the need for a stronger focus within the U.S. government on manufacturing and the most immediate cases of unfair trade affecting our manufacturers. The first initiative, announced by the President on Labor Day, is a new Assistant Secretary of Commerce to serve as the point person in the Administration and within the U.S. government for manufacturers and as an effective advocate for the manufacturing sector's competitiveness.

The second is the establishment of an Unfair Trade Practices Team to track, detect, and confront unfair competition before it injures an industry here at home. Many of the legal remedies available to counter unfair trade practices are costly, particularly for small- and medium-sized manufacturers. Our goal is to focus on those trading practices that are likely to have the biggest impact on our manufacturers and ensure that they are eliminated, rather than leaving small- and medium-sized manufacturers in the United States with costly trade litigation as the only possible means of addressing the unfair trade practices they face in the marketplace.

And, the third calls for the creation of an Assistant Secretary for Trade Promotion to boost our exports, particularly to those markets that our negotiators have recently opened to our trade - like China.

In addition to moving on the implementation of those recommendations, we intend to do two things to follow up. The first is to go back to the manufacturers we visited earlier this year to get their reaction to what we have suggested and to help us refine our approach as we move forward. The second is to discuss the next set of issues we intend to tackle as part of our on-going commitment to support our manufacturing sector.

Trade Relationship with China

In the more than 20 roundtables that the Department of Commerce held with manufacturers across the country during the past six months, there was no single topic that garnered more attention than our trade relationship China. The stakes involved are high. China is our fourth largest trading partner with bilateral merchandise trade reached $147.2 billion in 2002. Last year, China overtook Japan to become our third largest source of imports. In July of this year, China surpassed Mexico to become our second largest source of imports. Many have noted that our imports from China are more than five times greater than our exports, and that the bilateral trade deficit hit $103 billion in 2002 and reached $65 billion in the first seven months of this year.[1]

However, a large share of what we now import from China used to be imported from other Asian countries. China's role in the restructuring of global manufacturing is that of the final assembly point for most Asian electronic equipment destined for the United States. In other words, China becomes the exporter of record for what before would have been export to the United States from other Asian countries. What that means in practical terms is that it would be more appropriate to look at our trade account with China as an indicator of competition in manufacturing across Asia, as opposed to the rise of Chinese manufacturing alone.

There is an obvious upside to China's growth and the benefit the Chinese derive as investment in Asia shifts toward China for final assembly. That shift, together with China's economic policies, has brought about a rising standard of living in China and a considerable rise in disposable income for the average Chinese -- in turn creating -- a consumer demand that did not previously exist in China. What that means is an expanding market for goods and services, as opposed to the largely one-way street of the past. The fact that China's trade is nearly in balance overall, even though it runs a huge surplus with the United States, reinforces the point about rising consumer demand and growth in imports.

All of this makes China an attractive market for much of what we produce in the United States, including for our manufacturers. China's extraordinary economic growth – currently estimated to grow 8.6 percent this year and another 8 percent in 2004 – right now is an engine of growth for the world economy outside of the United States. What that means in trade terms is that China today represents the fastest-growing market for U.S. goods and services. Our exports to China surged by 19 percent in 2001, 15 percent last year, and by more than 20 percent in only the first 8 months of this year.

[1] Interestingly, despite the attention focused on our bilateral trade deficit with China, our bilateral trade deficit with Europe has grown more quickly in recent years than that with China and our bilateral deficit with Japan remains as high as ever. That simply tends to confirm that what we are seeing in our trade accounts is largely driven by disparities in growth that show up as lower exports to and continued high imports from slower growing economies, and stronger growth in exports to faster growing markets.

We are, moreover, far more likely to sell the sorts of capital equipment in which we have a comparative advantage in China than in most world markets based simply on the growth in the Chinese economy and the nature of that growth. If, for example, we continue to see the construction industry boom in China and a major investment in infrastructure linking the western Chinese provinces with the coast, companies like Caterpillar will find a growing market for what they sell to China. The same is true for Boeing.

Here, it is worth stressing that we need companies like Caterpillar and Boeing to succeed in the Chinese and other overseas markets because their supply chains are filled with what are known in business as tier 3 and tier 4 suppliers. Many of those suppliers are small- and medium-sized (SME) businesses that do not export directly, and the future success of these suppliers depends on whether Caterpillar and Boeing remain globally competitive.

But, it is not just the Boeings and Caterpillars of the U.S. manufacturing sector that see growth in the Chinese market as an opportunity. Direct exports by small- and medium-sized businesses in the United States have grown as well. For example, Bitrode Corporation is a Fenton, Missouri, company that manufactures equipment used by the battery manufacturing industry. Last year the company sold equipment to China to the tune of $1.5 million. The company says their exports to China are growing about 15 percent annually, while their sales in the United States are holding even at best.

Similarly, Numatics, a Highland, Michigan, company that participated in a Commerce Department trade mission in early May 2002 to China, develops and manufactures components for automated machinery used in many branches of industry, including automotive, petro-chemical, aerospace, and medical equipment. It was able to sign deals with four new distributors, each covering different geographic regions of China.

To create more small business success stories, as illustrated by Bitrode and Numatics, Secretary Evans and his counterpart at the Chinese Ministry of Commerce have agreed to discussions fostering greater participation by SMEs in our bilateral trade prior to the next meeting of the JCCT.

One of the basic reasons for negotiating for 15 years with the Chinese over their accession to the WTO was to ensure that we would knock down the many barriers to entering China's market. The situation facing our manufacturers from a competitive perspective was far worse prior to China's entry into the WTO. Our manufacturers lacked access to the Chinese market, but their manufacturers had relatively free access to ours.

Today, by virtue of the WTO, the tariff rates that China imposes on our exports are lower on average than most of the developing, and in some instances, the developed world. In addition, the WTO agreement obliges China to protect the intellectual property of U.S. manufacturers and service suppliers. The agreement also phases out many of the barriers to the free distribution of American goods throughout the Chinese economy. American goods are becoming freer to move through a variety of channels instead of being beholden to trading through a Chinese state enterprise as in the past; our manufacturers are finding new opportunities in the Chinese market.

In the first year following China's accession to the WTO, both Congress and the President showed an extraordinary amount of patience as China reviewed literally thousands of laws and regulations in an effort to make the necessary changes to bring them into compliance with WTO rules. Now, as we conclude the second year of China's participation in the WTO, we need to see actual enforcement of those laws and basic compliance with WTO rules in other areas. I know that the President, Ambassador Zoellick, Secretary Snow, and most recently Secretary Evans have all made that point vigorously with their counterparts in China. And, I can attest that, at a working level, the rest of us have taken up the cause just as vigorously.

But, there is still a very, very long way to go. And, that distance goes to the heart of the complaint many manufacturers have about China. It is the pace of the ongoing reform of the Chinese economy toward a market model, of which the implementation of the Chinese WTO obligations is a part that causes friction within our trade relationship. The WTO rules, and, indeed, the whole concept of trade are based on free competition in the marketplace. But, where one economy is organized under principles that are inconsistent with that free market model, it can cause an enormous amount of injury and friction within our trading relationships. That is the key message that Secretary Evans articulated in Beijing in October.

I recognize that many commentators see a demand for a level playing field, as a demand for protection, but that is not the case. As I said, what most U.S. manufacturers want is simply to ensure that the game is not rigged against them. That same basic maxim extends to our trade with China. We all recognize that we are far better off in a world in which the rules are observed and the competition is fair, than in a world segmented by trade barriers with less trade and slower economic growth for all. But, that depends on our trading partners, including China, complying with the rules and letting competition between companies decide the game.

The Department's Role in Trade with China

The Department of Commerce, in close coordination with the United States Trade Representative (USTR) and other agencies, has adopted an aggressive and multi-pronged approach to ensure that China honors its WTO commitments and that U.S. companies benefit from these opportunities. We will target unfair trade practices wherever they occur. We are exploring the use of new tools to expand our trade promotion activities in China. We are expanding efforts to engage Chinese officials to make sure they Aget the rules right@ as they continue their enormous task of restructuring their economic system.

However, keeping our focus on China's WTO implementation and the country=s other trade practices is only part of the solution. We must continue to enhance the ability of U.S. businesses to compete in China. We are increasing our efforts to ensure that U.S.-developed technical standards are accepted in China just as they are throughout the world. We are launching "Doing Business in China" seminars in cities across the country to address concerns about the Chinese market from small and medium-sized businesses. We are exploring ways to develop more trade leads in China and to provide even more targeted information on opportunities in China for companies in the U.S.

Combined with these domestic efforts, we regularly engage Chinese government officials to ensure trade agreement compliance and market access for our products and services. As I mentioned earlier, Secretary Evans visited China in late October to advance U.S. interests and advocate for a level playing field in our economic relations with China. The Commerce Department is fully committed to ensuring that China comply with WTO rules, open markets, drop barriers, eliminate state subsidies and allow market forces to determine economic decisions. During the Secretary's meeting with the Ministry of Commerce in Beijing, he and his counterpart agreed to launch a dialog on China's industrial restructuring and its impact on our bilateral trade under the auspices of the JCCT. Under Secretary Aldonas met with his Chinese counterpart in Detroit last month to reinforce those points and build on their discussion in Beijing. The Secretary and the Under Secretary will have another opportunity to raise these and other outstanding issues during the JCCT to be held in Washington.

Bringing ITA into the New Global Age

This Administration understands that an aggressive trade liberalizing agenda must be accompanied by the strict enforcement of our trade laws. We understand the value of competition, and that it leads to innovation, growth, and a higher standard of living. But some of our trading partners have failed to fully embrace fair competition. While we continue to encourage the opening of new markets like China, we expect our trading partners to compete on a level playing field, and reduce practices that distort normal and fair trade relations. We must address the unfair practices that some foreign competitors use to exploit our open markets.

ITA's mission is to create economic opportunity for U.S. workers and firms by promoting international trade, opening foreign markets, ensuring compliance with our trade laws and agreements, and supporting U.S. commercial interests at home and abroad. While our mission has not changed, the world in which our domestic industries conduct their business has evolved. It is imperative that ITA makes the necessary adjustments to meet the needs of our clients.

As I said earlier, Secretary Evans is responding to the unique problems of the domestic manufacturers by calling for the Department to focus on developing strategies to make the manufacturing sector more competitive. The Secretary also wants the Department to modernize to help ensure the domestic and international competitiveness of American business.

It's been more than 20 years since the International Trade Administration (ITA) reorganized. While preparing the 2002 National Export Strategy, the Department of Commerce conducted customer surveys. The results of these surveys clarified client needs that we should be meeting by adopting best practices of other governments and private sector entities. We will focus and redeploy our resources where our clients tell us they need it most.

While the details of the ITA reorganization are still being finalized, plans call for a reduction in the number of Deputy Assistant Secretary's from 16 to 12, and sending more resources into the field so we can better serve our clients. Through reorganization, we will redistribute about 110 positions among program units.

The ITA reorganization will feature three fundamental changes to our current makeup of agencies – Import Administration, Market Access and Compliance, Trade Development, and the United States and Foreign Commercial Service. These changes will modernize our efforts and allow us to provide our clients better service. Our plans include: replacing the Trade Development unit with an Assistant Secretary for Manufacturing and Services; consolidating all trade promotion activities within the Commercial Service; and streamlining trade law administration and allocating additional resources to China.

The new Assistant Secretary for Manufacturing and Services will focus on both domestic and international aspects of U.S. industrial competitiveness. The goal will be to provide the Administration with a perspective on what is required to maintain an adequate manufacturing base in the United States. Three Deputy Assistant Secretaries will support the Assistant Secretary in implementing the mission. This new unit will promote strengthened analytic capability to focus on trends in employment and productivity, and help assess the impact of proposed domestic regulations as well as trade agreements on domestic industries.

We will move a number of industry experts into the field where they can better understand and respond to industry needs. The Assistant Secretary will work closely with an Interdepartmental Advisory Committee on Manufacturing, created to focus and coordinate all relevant departmental expertise on the problems of the manufacturing sector.

A second step in the reorganization will be to consolidate all trade promotion services within the Commercial Service. We want to put all of our programs in one place to allow for synergies between the products and more efficient delivery. This will enhance our services beyond help on particular export action. The Secretary, who serves as chair of the inter-agency Trade Promotion Coordinating Committee (TPCC), has asked the other TPCC agencies to become more responsive to their clients and adopt "best practices" used by other governments and the private sector. The Export-Import Bank and Overseas Private Investment Corporation are models on how to successfully streamline operations to focus on customer service.

This initiative will also allow us to link our advocacy efforts more directly to the domestic and overseas networks to enable early project support and post-transaction assistance. Thus responding to exporters' desire for more coordinated United States Government efforts early in the bidding process, a benefit provided to our competitors by other governments. We will also consolidate all market information, trade event planning, databases, and client management into a single location. This provides for a closer linkage to our domestic and overseas field offices for our market information centers, including the Trade Information Center, the Business Information Service for the Newly Independent States, and the Central and Eastern Europe Business Information Center.

Strengthening our domestic manufacturing sectors through enforcement of our trade laws is the final step in our reorganization plans. We will streamline trade law administration and allocate additional resources to investigate unfair trade activities in China within the Import Administration. We would also create an office devoted exclusively to China cases, so that expertise in this market can be better developed. A Deputy Assistant Secretary for Antidumping/Countervailing Duty Policy Negotiations (e.g., steel, lumber) will be created to increase our emphasis on rooting out causes of unfair trade practices. The idea is to preempt unfair trade before major damage occurs, analyzing market trends to anticipate potential problems and then consulting with other governments to address these trends.

Finally, in order to streamline and maximize current operational/human resources, ITA will eliminate overlapping and redundant product service offerings. ITA will extend its performance management program, now in place only at the highest levels, throughout the organization, thus linking individual performance to organizational goals. ITA will be able to manage human capital more strategically by better defining individual roles and responsibilities and how they support ITA's mission; build required skills and capabilities; and management knowledge and succession. All these steps will allow ITA to establish standard operating procedures throughout the organization that will help ensure meeting the needs of our customers.

These proposed changes would simplify access to information and analysis, the products and services most highly valued by ITA's customers and stakeholders, and would further create a more responsive, efficient, and accountable organization.

Import Administration Efforts

That is a quick look at what the new ITA will look like. I'd like a take a few minutes to explain what my unit, the Import Administration, is currently doing to combat unfair trade.

Since 2001, we have initiated 138 new antidumping and countervailing duty investigations, resulting in 57 new orders placed on unfairly traded imports. Examples of the most significant cases include:

- Duties up to 243.46 percent placed on imports of hot-rolled steel from ten countries after Commerce found that hot-rolled steel had been subsidized and dumped into the U.S. market.

- An antidumping duty of 135.18 percent placed on imports of refined brown aluminum oxide from China after Commerce found Chinese exporters/producers were selling their product at less than fair market value in the United States.

- Duties ranging from 20.97 to 31.23 percent placed on imports of Canadian softwood lumber imports after Commerce found that Canadian lumber had been subsidized and dumped into the U.S. market.

- Duty of 44.29 percent placed on imports of Korean semiconductors after Commerce found that production of Korean semiconductors had been subsidized.

- Duties ranging from 36.84 to 63.88 percent placed on imports of frozen fish fillets from Vietnam after Commerce found that Vietnamese frozen fish fillets had been dumped into the U.S. market.

My unit, the Import Administration will be giving priority attention to issues related to trade with China, the object of a disproportionate number of trade complaints. In fact, during the last three years, we have initiated more antidumping investigations and place more antidumping orders against China than any other country, more than twice as many as the next leading country. In 2003, more than 50 percent of all new antidumping orders put in place have been against China (6 of 11 total orders, as of Oct 6).

Our efforts do not end there. We are also more closely addressing fraud and circumvention issues in new shipper reviews than ever before. We reject one-third of all new shipper requests due to increased scrutiny of such requests and recent policy changes addressing these issues. In March 2003, we began limiting the bonding option available to new shippers to the particular producer/exporter combination that qualified for a review. In July, we implemented changes to enhance scrutiny of new shippers during the questionnaire and verification process to ensure that new shippers are legitimate entities. And last August we began collecting interest on entries imported under a new shipper bond in the event the new shipper review is rescinded.

By streamlining antidumping and countervailing duty casework, we will facilitate case specialization on critical issues. As I mentioned earlier, we are also establishing a special office devoted exclusively to cases involving Chinese imports, which will further cultivate the expertise necessary to address the unique problems encountered in that market.

The Import Administration will also house the new Unfair Trade Practices team that will report to the Deputy Assistant Secretary for Antidumping/Countervailing Duty Policy Negotiations. This new unit will strengthen ITA's ability to advance U.S. trade policies and negotiations, and address the root causes of unfair trade. As I noted earlier, the team will be analyzing market trends to identify potential unfair trade practices, and arrange consultations with governments in an attempt to preempt unfair trade cases before they arise. With regards to China, the team will closely track imports from China in 30 key sectors in order to identify unfair trade practices. We will then share this information with the U.S. industry and policy makers. Many of the legal remedies available to counter unfair trade practices are costly, particularly for small- and medium-sized manufacturers. Our goal is to focus on those unfair trading practices that are likely to have the biggest impact on our manufacturers and ensure that they are eliminated.

Conclusion

In conclusion, I want to stress that this Administration has heard the concerns of the domestic manufacturers, and we are committed to ensuring our manufacturers are given a level playing field when competing in today's global marketplace. The Department of Commerce is developing a strategy to ensure that government is fostering an environment that promotes a dynamic manufacturing industry. Part of that plan is a reorganization of the International Trade Administration that will allow us to better respond to the unique problems of the domestic manufacturers.

Thank you for giving me this opportunity to testify on this important topic. I appreciate your support for our efforts and welcome your questions.