S. Hrg. 110–1193

IMBALANCE IN U.S.-KOREA AUTOMOBILE TRADE

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERSTATE COMMERCE,
TRADE, AND TOURISM

OF THE

COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

SEPTEMBER 24, 2008

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IMBALANCE IN U.S.-KOREA AUTOMOBILE TRADE

WEDNESDAY, SEPTEMBER 24, 2008

U.S. SENATE,
SUBCOMMITTEE ON INTERSTATE COMMERCE, TRADE, AND TOURISM,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10 a.m. in room SR–253, Russell Senate Office Building, Hon. Byron L. Dorgan, Chairman of the Subcommittee, presiding.

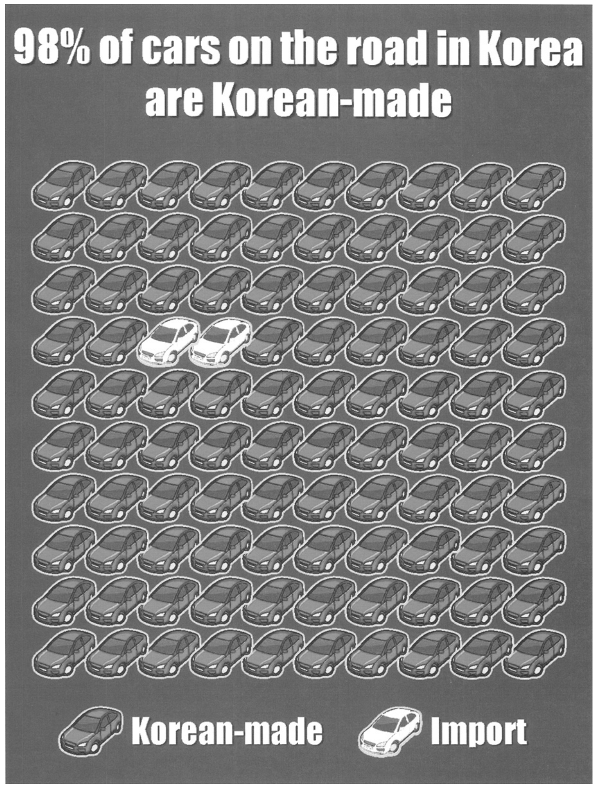
OPENING STATEMENT OF HON. BYRON L. DORGAN, U.S. SENATOR FROM NORTH DAKOTA

Senator DORGAN. The hearing will come to order.

This is a hearing of the Commerce Subcommittee on Interstate Commerce, Trade, and Tourism. The subject of today's hearing is the imbalance in U.S.-Korea automobile trade.

I've called this hearing because the Senate may be asked, at some point soon, to approve a free trade agreement with Korea, and it appears to me that our trade negotiators have learned nothing from the failure of U.S. trade policy over the last several decades. This bilateral trade in automobiles between the United States and Korea, for me, is a case in point, and I wanted to have that discussion today with some folks who know about it.

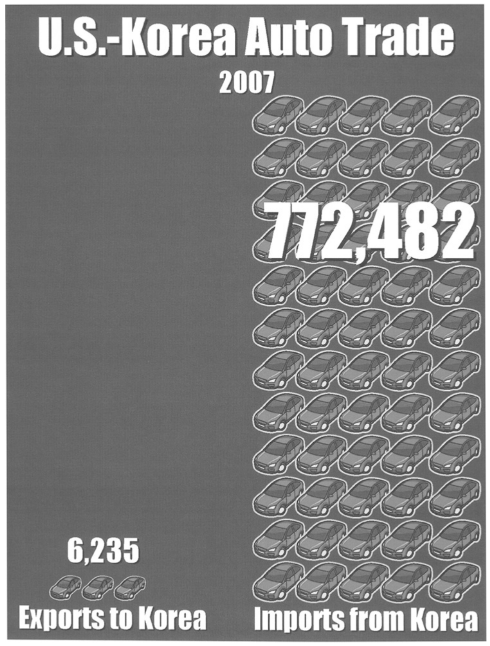
The number one product category that we trade with Korea, on a value basis, is automobiles. But, it is almost entirely a one-way trading relationship. In 2007—and I have some charts to show—in 2007, we bought over $8 billion worth of Korean automobiles. Korea, by contrast, produced—or, purchased, rather—very, very few American-made cars. There's a simple reason for this, and it is that the Korean government has done everything it can to prevent U.S. cars from being sold in the Korean market. Over time, the Korean government has done everything, from singling out purchasers of foreign-made cars with tax audits to declaring foreign-made cars unsafe. The result is that 98 percent of the cars on the roads in Korea are Korean-made.



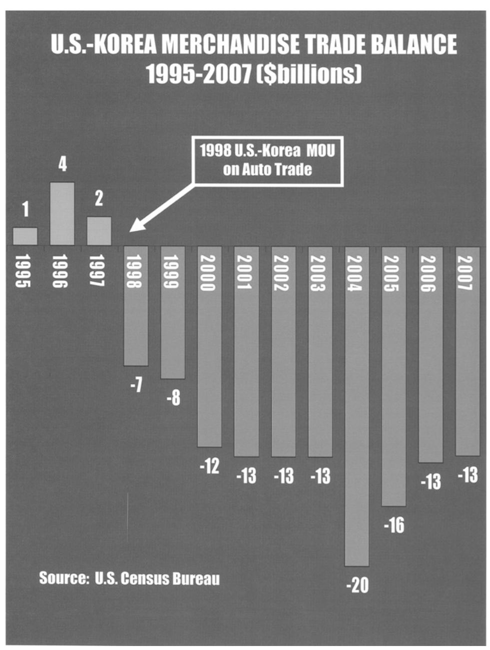
Senator DORGAN. Imagine that. You can stand on a street corner, I am told, in Seoul, for an hour and not see a foreign-made car drive by. Would that happen in Washington, D.C.? It's a modern metropolitan area of 23 million people in Seoul, Korea, the second-largest city in the world, and it's very difficult to spot a car that was not made in the country of Korea.

In fact, the few foreign cars that are sold in Korea are typically purchased by expatriate businessmen and women who live in just a few areas of the city, and occasionally the Korean government will purchase a few U.S.-made cars, just to be able to say it's doing what it can. But, ordinary Koreans have largely gotten the message, and they don't buy foreign cars, don't dare buy foreign cars.

This next chart shows our automobile trade balance with Korea last year, or, I should say, our automobile trade imbalance. The Koreans shipped 772,000 Korean-made cars to America, and we were able to ship 6,200 U.S.-made cars to Korea. This lopsided ratio translates directly into the loss of thousands of well-paying U.S. jobs, whether in Michigan, in Ohio, or other states around the Nation. This ratio has remained essentially unchanged for over a decade, and it's remarkable, because the U.S. has signed, not one, but two separate trade deals with Korea to open up the Korean auto market. The Koreans have simply failed to live up to their commitments.



Senator DORGAN. The most recent agreement negotiated with Korea on auto trade was signed in 1998, and I have a chart that shows the trading relationship with Korea after that agreement was signed.



Senator DORGAN. You'll see that, up through 1997, we had a positive trade relationship with Korea; in fact, a positive net trade balance with Korea. Since that time, since 1998, when we signed an agreement on automobile trade, our trade balance with Korea fell into the red and has been consistently in deficit since.

Since the mid-1990s, we've had a small surplus, but in 1998 the trade negotiators signed a deal to increase our access to the Korean market. No sooner had we signed the deal in 1998 that our trade balance began to deteriorate, as you will see in this chart. We began to run huge trade deficits with Korea. The automobile trade imbalance represents 85 percent of those red lines.

Now our trade negotiators want us to approve another trade agreement with Korea that they have negotiated. This agreement opens up our automobile market completely to the Koreans by eliminating the remaining 2-and-a-half-percent tariff on Korean cars, but it does not commit Korea to allowing a single additional U.S.-made automobile into the Korean market. Instead, it merely lowers the tariff rate on U.S. cars entering Korea. That assumes the Korean government is sincere about allowing U.S. cars into that country.

This would be the third trade agreement trying to deal with automobiles, the first two having failed. Frankly, I've not seen a shred of evidence that the Korean government has changed its mind on this issue.

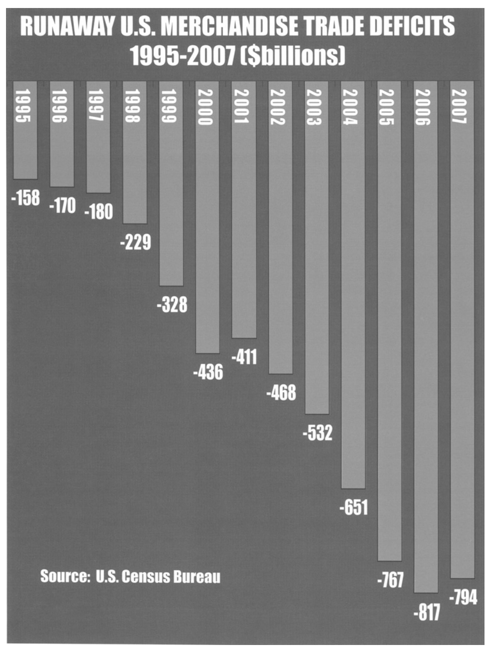
U.S. automakers and autoworkers have pleaded with the U.S. Trade Representative to include specific market-access benchmarks in the agreement so that our tariffs on Korean cars would not be lowered until we were actually exporting more cars to Korea. We have a very low tariff, but it would not be lowered even further until we saw results from Korea. But, our trade negotiators scoffed at that idea.

My own view is, this new trade agreement would be another heaping teaspoonful of the same flawed trade policies that have brought us to where we are in automobile trade. This Korean trade deal is, in my judgment, not going anywhere, as long as that remains the case.

I do want to make one additional comment before I introduce the witnesses. I have spoken at length, both in this Committee and on the floor of the Senate, about the issue of bilateral automobile trade with China, which is not yet reaching the area of automobile trade with Korea. But, in our bilateral agreement with China, our country signed an agreement that said it will be all right, after a phase-in, for our country to impose a 2½ percent tariff on Chinese cars being shipped into the United States, and it will be all right for the Chinese to impose a 25 percent tariff—ten times higher—on U.S. cars that would be sold in China.

The Chinese are ramping up a very large and aggressive effort to be a major exporter of automobiles, including to the U.S. market. Don't know exactly when that's going to happen—a year, 2 or 3 years—but it will happen. And when it happens, we will have signed up to a bilateral agreement China, with whom we have a large—very large trade deficit—last month, I believe it was $23 billion, in a month—we will have signed up to a trade agreement with China that said, "You go ahead and impose a tariff that is ten times higher than our tariff on bilateral automobile trade.” I think that is almost unbelievably ignorant of our country’s own economic interests.

I don’t believe we should put up walls around our country. I don’t believe that we should be protectionists for the sake of being called protectionists. But, I do believe that trade in this country, as we negotiate it with other countries, ought to be mindful of our own economic interests. Trade that produces giant, relentless deficits, year after year after year, as has been the case, now in the $600 billion and $700 billion and $800 billion-a-year area, inevitably will weaken this country’s currency, inevitably will be repaid with a lower standard of living in the United States. And if this country does not wake up, and policymakers do not wake up at some point and decide that we must have some basic balance in our trade relationships, and decide that trade agreements must be negotiated in a manner that is competent rather than incompetent, ultimately this American economy will pay a very large price.



Senator DORGAN. We’re starting to see some of that, even now, on Monday of this week, with respect to what has happened to the value of the dollar and the electronic herd that runs after a currency they believe that is representative of a weak economy.

So, I have invited a number of people to testify about this subject: Robert Cassidy served as Deputy U.S. Trade Representative under the Clinton administration and led negotiations with China on market access to that country prior to China gaining permanent normal trade relations. Mr. Cassidy recently wrote an editorial warning that some critical flaws in our trade policy with China were about to be repeated with Korea.

Mr. Ron Gettelfinger is the President of the United Autoworkers, which represents 640,000 active members and has more than 800 local unions. I'm pleased to welcome him back before the Committee.

Mr. Gettelfinger, welcome.

Mr. John Bozzella is Vice President for External Affairs and Public Policy at Chrysler Corporation. I look forward to his testimony. And I know that Ford Corporation has been vocal in expressing concerns about the Korean trade deal, and I'm interested in hearing Chrysler's views today.

Charles McMillion has testified before this Committee before. We welcome him back. He's President of MBG Information Services, a business information analysis and forecasting firm based in Washington, D.C. Mr. McMillion is the former Associate Director of the Johns Hopkins University Policy Institute and has held Staff Director and Chief Economist positions in both the U.S. Senate and the U.S. House.

And finally, Mr. Myron Brilliant, who is the President of the U.S.-Korea Business Council and a Vice President for the Asia Division of the U.S. Chamber of Commerce.

I want to thank all of the witnesses for appearing today, and look forward to their testimony.

And, Mr. Cassidy, I will call on you first.

Let me say that your full statements will be a part of the permanent record of this Subcommittee, and we would ask all of you to summarize.

Mr. Cassidy?

STATEMENT OF ROBERT B. CASSIDY, DIRECTOR, INTERNATIONAL TRADE AND SERVICES, KELLEY DRYE WARREN LLP

Mr. CASSIDY. Thank you, Senator. Thank you for this opportunity to speak before the Subcommittee on the imbalances in U.S.-Korea automotive trade.

Let me start by saying that these comments are my own and do not necessarily reflect the views of the firm that I work with, Kelley Drye Warren LLP, or any of its clients.

Sir, after 15 years of experience in negotiating trade agreements with USTR—and, I might add, one of those agreements was the first agreement on automotive trade with Korea, and then the second one that you mentioned is the 1999 market access agreement with China—I have reluctantly come to the view that we have failed to address the underlying fundamental market distortions that skew the benefits toward a few, while leaving behind the rest of the economy.

China's agreement to enter the WTO is a perfect example. In order to join the WTO, China made unilateral concessions to reduce, and, in some cases, eliminate, barriers to the entry of U.S. goods and services. While U.S. exports to China may have grown faster than to any other country, it did so only because it grew from a very low number. In fact, we exported 70 percent more, in absolute terms, to the EU and 40 percent more to Canada than we exported to China, and neither of those countries made any concessions to the United States in that time.

On the import side, the United States made no concessions to China, yet U.S. imports from China in 2007 were more than triple the pre-accession levels, to $322 billion in 2007, almost matching the imports from the entire European Union. In contrast, increases in imports—that's the increases in imports from Canada, our largest trading partner—rose by only $82 billion, and imports from the EU increased by $134 billion. Clearly, we did not expect these results.

The beneficiaries of the agreement with China fall into two groups: multinational companies that moved to China and the financial institutions that financed those investments, financed those trade flows, and financed those deficits. Sourcing by U.S. companies from China, whether through direct investment or through licensing arrangements, have allowed companies to cut costs and increase profits, as reflected, until recently, in increased corporate profits and the surge in the U.S. stock market.

Conversely, it is doubtful that the U.S. economy or its workers are better off. U.S. manufacturing jobs declined by 2.5 million after China joined the WTO in 2001. While services jobs increased during this time, with the exception of the telecommunications sector, nontradeable jobs accounted for the most significant portion of that increase. Wages have been stagnant, and real disposable income for three-quarters of U.S. households has been stable or declining. Only the top quartile of families have seen significant increases in real disposable income.

I realize there are many factors involved, but certainly my conclusion is, we're not seeing the expected results from such a major trade agreement.

Let me emphasis that the free trade model does have a valid theoretical basis, but the premise and the promises are flawed, because trade does not exist in a free market petri dish, where there are no barriers to competition.

Using China as an example, once again, proponents of the free trade model argue that China has a competitive advantage in wage rates that make it ideal as a global manufacturing center that it has become. A closer examination, however, reveals that China has adopted an export-led development strategy, the centerpiece of which is an undervalued currency, of about 30 to 40 percent undervalued at the present time. Thus, China's wages, in U.S. dollar terms, are 30 to 40 percent cheaper than they would have been if the currency were allowed to freely float. Chinese exports receive a 30 to 40 percent subsidy. Foreign investors receive a 30 to 40 percent subsidy to develop operations in China. To add insult to injury, our exports are taxed at an effective 30 to 40 percent rate.

U.S.-Korea FTA is another perfect example of why such agreements tend to fail to live up to their expectations. First, Korea, as does China, uses an undervalued exchange rate to maintain its competitive position in the U.S. market and in third-country markets. Six months prior to the initiation of negotiations on the FTA, during the pre-negotiation stage, Korea began to appreciate the Korean won by almost 15 percent, until it reached its peak, just prior to the conclusion of the negotiations. Three months later, the currency depreciated, until it is now, once again, at the initial exchange rate.

Korea's exchange-rate movement indicate how Korea is likely to manage its exchange rate to achieve maximum commercial advantage, effectively subsidizing its exports and taxing imports through its exchange rate.

Second, after years of observing and negotiating with Korea over a wide range of products and services, I have learned that Korea uses non-tariff barriers, particularly standards, as a means of providing advantage to its domestic producers.

Third, in the case of automobiles, Korea tax authorities have been known to harass purchasers in Korea of foreign automobiles, as you mentioned, through tax audits, and that's an allegation that's been substantiated by the Europeans and other North American producers. This harassment has discouraged Koreans from purchasing foreign-made automobiles, in addition to other products.

Fourth, Korean population is biased against purchasing foreign-made products.

Simply put, none of these issues are addressed adequately, or, in some cases, at all, in the bilateral FTA. And furthermore, the dispute settlement mechanism for automobile trade is deficient. Although there is a special provision that deals only with automotive trade, it deals with automobiles under Harmonized System (HS) number 8703. However, the bilateral exchange of benefits in the agreement for this sector relate to automotive trade for the United States, while granting greater access for Korean trucks in the United States. So, it's an automobile-for-truck deal.

But, by limiting retaliation in that special provision to automobiles, it effectively eliminates any incentive for Korea to give special access, or real access, to the United States-produced automobiles.

In conclusion, until the FTAs and other trade agreements address the specific distortions to trade that occur through currency undervaluation and practices that impede competition, the imbalances in automotive trade between the United States and Korea will only increase.

Thank you, sir.

[The prepared statement of Mr. Cassidy follows:]

PREPARED STATEMENT OF ROBERT B. CASSIDY, DIRECTOR, INTERNATIONAL TRADE AND SERVICES, KELLEY DRYE WARREN LLP

Thank you for the opportunity to testify before this Subcommittee on the U.S.-Korea Free Trade Agreement (FTA). In examining the issues relating to the imbalance in U.S.-Korea automobile trade, I would like to approach that assessment from a different perspective, first, by examining why the trade agreements that we have negotiated have often failed to live up to the expectations of those of us who negotiated those agreements; second, how those negotiating failures relate to the U.S.-South Korea FTA and its impact on the imbalance in U.S.-Korea automobile trade. Let me emphasize at the beginning that these comments are my own and do not necessarily reflect the views of Kelley Drye Warren LLP or its clients.

By way of background, most of my 30-year career of service for the U.S. Government has been directly involved with U.S. international trade and finance. My most recent experience involved 15 years with the Office of the U.S. Trade Representative (USTR), under both Republican and Democratic administrations, negotiating sectoral agreements on steel, shipbuilding, transportation vehicles, and intellectual property rights, as well as bilateral agreements with the EU, South Korea, Taiwan, Thailand, and the Philippines, and also plurilateral agreements mostly among Asian countries. My most recent experience was as chief negotiator for the U.S.-China

Market Access Agreement of 1999 which was the basis for China's later accession to the World Trade Organization (WTO). I mention this experience only because my views derive not from exhaustive academic research, which of course is valuable, but from years of negotiating—in the trenches, so to speak—on behalf of perceived U.S. economic interests.

Since retiring from government service, I have had some time to reflect on the negotiating accomplishments of the past and have concluded that the agreements that we negotiated did not live up to our expectations. We failed to address the underlying fundamental market distortions that skew the benefits toward the few while leaving behind the rest of the U.S. economy. As George Soros, in a Bloomberg News interview on the financial crisis, recently said, ". . . the system, as it currently operates, is built on false premises." The premise on which our trade agreements are negotiated is at best flawed, if not broken.

Failed Expectations

China's agreement to enter the WTO is a perfect example of failed expectations. In order to join the WTO, China made unilateral concessions to reduce and, in some cases, eliminate barriers to entry for U.S. goods and services. While no one claimed that the bilateral deficit would be reduced, claims were made that U.S. exports of goods to China would increase, thus creating jobs in the higher-paying export sector.

U.S. exports to China have increased and, as USTR often emphasizes, at a higher rate than to any other country. But such claims distort the real truth that exports grew faster because they grew from a very low level. In absolute terms, the increase in U.S. exports of goods to the EU was almost 70 percent greater than the increase in exports of goods to China, and the increase in U.S. exports to Canada was 40 percent more than to China. Neither of those trading partners made any trade concessions to the United States during this period.

Conversely, on the U.S. import side, the United States made no concessions to China, yet U.S. imports from China in 2007 were more than triple the pre-accession levels, to $321 billion in 2007, almost matching imports from the entire European Union. In contrast, increases in imports from Canada, our largest trading partner, rose by $82 billion, and imports from the EU increased by $134 billion.

Who Benefits?

The beneficiaries of the agreement with China fall into two groups: multinational companies that moved to China, and the financial institutions that financed those investments, trade flows, and deficits. Foreign direct investment (FDI) in China accelerated at a time when such investment to other parts of Asia was declining and, in 2001, even matched FDI to the United States. Sourcing by U.S. companies from China, whether from direct investment or through licensing arrangements, has allowed companies to cut costs and increase profits, as reflected, until recently, in increased corporate profits and the surge in the U.S. stock market.

Conversely, it is doubtful that the U.S. economy or its workers are better off. U.S. manufacturing jobs declined by more than 2.5 million after China joined the WTO in December 2001. While services jobs increased during this period, with the exception of telecommunications, non-tradable jobs accounted for the most significant portion of that increase. Wages have been stagnant, and real disposable income for three-quarters of U.S. households has been stable or declining. Only the top quartile of families has seen significant increases in real disposable income.

The beneficiaries of these trade agreements try to divert attention from these facts by arguing that our trade in services has increased or that our competitiveness has declined. Those arguments, however, don't explain why our exports of goods to countries that made no concessions increased more than our exports to China, which made significant tariff and non-tariff concessions. Such arguments also fail to explain why our imports of goods from China increased more than our imports from other major trading partners. Is there any wonder that the people on Main Street think that trade agreements do not work?

Broken Premises

Were this simply a problem with our bilateral trade relationship with China, policymakers could focus on resolving that dysfunctional relationship. However, the problem extends to nearly all trade agreements since they are based on the flawed premise that free trade benefits the economy. Let me be clear, the "free trade" model has a valid theoretical basis. But the premise is flawed and broken since free trade does not exist in a "free market" Petri dish where there are no barriers to competition.

Using China as an example once again, proponents of the free trade model argue that China has a competitive advantage in wage rates that makes it ideal as the global manufacturing center that it has become. A closer examination, however, reveals that China has adopted an export-led development strategy, the centerpiece of which is a currency that is undervalued by 20–80 percent, with the consensus leaning toward 30–40 percent at the present time. Using this consensus estimate, China's wages, in U.S. dollar terms, are 30–40 percent cheaper than they would have been if the currency were allowed to freely float. Chinese exports receive a 30–40 percent subsidy. Similarly, foreign investors receive a 30–40 percent subsidy to develop operations in China. To add insult to injury, our exports are taxed at an additional effective 30–40 percent rate.

While China has allowed its currency to appreciate somewhat nominally against the U.S. dollar since July 2005, China has a long way to go to bring it to equilibrium levels. In addition, China's internal barriers to trade not only restrict U.S. exports, but also restrict China's market for Chinese domestic producers, thus reducing the size of the domestic economy. It is not surprising that, until the last few months, our imports from China continued to accelerate, jobs continued to move overseas, and our exports to China consisted primarily of raw materials. The weakened U.S. dollar has only recently had a positive impact on U.S. exports. Europe, Canada, and other countries with freely floating exchange rates face comparable trends in their trade relationships with China.

Implications for the U.S.-Korea Free Trade Agreement

The implications for FTAs are obvious. While FTAs with small economies have relatively small impact on the U.S. economy, the same cannot be said for FTAs with the larger economies such as Canada, Mexico, and now Korea. Our FTAs are based on the premise that free trade benefits all economies, at all times, and in all circumstances. The argument is similar to Adam Smith's premise that perfect competition results in the most efficient allocation of resources. Unfortunately, free trade, like perfect competition, rarely if ever exists but that premise nevertheless remains the theoretical and philosophical underpinning of FTAs. Furthermore, anyone who argues against free trade and especially those who vote against Free Trade Agreements are castigated as know-nothings or, worse yet, as "protectionists."

Advocates of FTAs argue that these model agreements level the playing field so that U.S. companies, and U.S. workers, can compete in markets free of distortions. The U.S.-Korea FTA is a perfect example of why such agreements fail to live up to their expectations. First, Korea, as does China, uses an undervalued exchange rate to maintain its competitive position in the U.S. market and in third country markets. Six months prior to the initiation of negotiations on an FTA, during the pre-negotiations stage, Korea began to appreciate the Korean won by almost 15 percent until it reached its peak just prior to the conclusion of the negotiations. Three months later, the currency depreciated until it was once again at the initial exchange rate. Even to the unpracticed eye, Korea's exchange rate movements have been convenient in the extreme and indicate how Korea is likely to manage its exchange rate to achieve maximum commercial advantage. Whether intended as a means to gain an unfair competitive advantage or not, Korea's undervalued exchange rate subsidizes its exports, subsidizes foreign direct investment, and taxes foreign imports into Korea.

Second, after years of observing and negotiating with Korea over a wide range of products and services, I have learned that Korea uses non-tariff barriers, particularly standards, as a means of providing an advantage to its domestic producers. Because the Korean market is relatively small, foreign suppliers are at a disadvantage. As a share of their sales, the Korean market is not large enough to justify meeting those extraordinary standards requirements and, when standards are met, the cost per unit is high. When taxes are added to the product, those taxes are applied to the full cost of the product, thus increasing the absolute price disparity between products. U.S. companies, and thus their workers, must absorb much of those increases through lower profit margins and stagnant wages.

Third, in the case of automobiles, Korean tax authorities have been known to harass purchasers in Korea of foreign automobiles, a practice which has been substantiated by European and North American producers. This harassment has discouraged Koreans from purchasing foreign-made automobiles in addition to other products. The impact on automotive trade is more extreme because of the visibility of those products.

Fourth, the Korean population has a bias against purchasing foreign-made products. While this is probably true in many countries, the impact on some products, particularly automobiles, is much larger than one would expect.

This list is incomplete and, to be fair, Korea could likely draw a list of obstacles to trade in the United States, such as inconsistent state regulations governing many services. But because the U.S. markets are so much larger, Korean suppliers can adjust to meet those increased costs and can do so profitably. With the exception of exchange-rate manipulation, it is difficult to assess the adverse economic impacts of many of these measures unless they are evaluated on a product-specific basis. Nevertheless, cumulatively these barriers, if allowed to exist in a bilateral FTA, can have significant effects on whether the benefits of an FTA are realized.

Whither the Future of the U.S.-Korea FTA

The dilemma facing Congress is whether the deficiencies of the agreement are serious enough to warrant disapproval and renegotiation. For the record, I support the negotiation of bilateral Free Trade Agreements, especially those that push the envelope for more open, transparent and global markets. But I am concerned that this agreement with such a large and important bilateral trading partner will set a dangerous precedent because it does not address in any meaningful ways the distortions to trade that result from currency depreciation and non-tariff barriers such as standards. Equally important, the agreement as negotiated incorporates seemingly product specific provisions for automobile trade that really do nothing to address the longstanding dispute the United States has had with South Korea in this sector.

The dispute settlement mechanism for automobile trade is deficient on a number of levels. First, the provision deals only with trade in automobiles (HS 8703). The bilateral exchange of benefits in the agreement for this sector relate to automotive trade for the United States while granting greater access for Korean trucks in the United States. By limiting the retaliation in that special provision to automobiles, it effectively eliminates any incentives for Korea to give real access to U.S. produced automobiles. A more effective mechanism would provide for a snap-back in truck tariffs if Korea nullifies or impairs U.S. access to Korea's automobile market because of exchange rate undervaluation, commercially restrictive standards or through other coercive measures such as tax harassment.

A second, though less serious problem, relates to the term of retaliation. The provision requires that retaliation cease when the other party eliminates the non-conforming measure. In my experience, Korea frequently reaches agreements but does not implement those measures at all or does not implement them as expected. Consequently, retaliation should only be reversed once the dispute settlement panel can be assured that the non-conforming measure has been eliminated.

Conclusion

The decision on whether to approve this agreement in its current form or whether to send it back for renegotiation now rests with the Congress. But until these FTAs and other trade agreements address the specific distortions to trade that occur through currency undervaluation and practices that impede competition, trade agreement rarely will deliver the results that Main Street expects and deserves.

Senator DORGAN. Mr. Cassidy, thank you very much. We appreciate your testimony.

Next, we will hear from Mr. Ron Gettelfinger, who is the President of the United Autoworkers.

Mr. Gettelfinger, thank you for returning to the Committee.

STATEMENT OF RON GETTELFINGER, PRESIDENT, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)

Mr. GETTELFINGER. Thank you, Mr. Chairman.

My name is Ron Gettelfinger, and I am President of the UAW, and the UAW very much appreciates the opportunity to testify before your Subcommittee on the subject of the imbalance in U.S.-Korean automobile trade.

The statistics on auto exports and imports in 2007 vividly demonstrate how lopsided and unfair the auto trade situation is between the United States and Korea. In 2007, Korea exported, as you pointed out, somewhere in the neighborhood of 668,000 vehicles to the U.S., but U.S. producers were only allowed to export 6,500 vehicles to Korea. The net result was a $10.3 billion U.S. automotive trade deficit with Korea.

Historically, Korea has kept its market almost completely closed to U.S.-built automotive products, as well as products from other nations. This has been accomplished through a combination of tariff and nontariff barriers. At the same time, the U.S. market has been largely open to imports of Korean vehicles and auto parts. As a result, Korean imports have grown, and the U.S. auto trade deficit with Korea has risen dramatically.

In 1995 and 1998, the U.S. negotiated the Memorandum of Understandings with Korea that were intended to eliminate Korea's barriers to competitive automotive imports. Despite these agreements, Korea continued to maintain a variety of nontariff barriers that kept its market closed to U.S.-built automotive products. As a result, the U.S. automotive trade deficit with Korea soared from $1.3 billion in 1994 to the $10.3 billion in 2007.

Unfortunately, the auto provisions in the proposed U.S.-Korea Free Trade Agreement negotiated by the Bush administration are deeply flawed and would exacerbate the imbalance in auto trade between the U.S. and Korea. They would immediately eliminate the 2.5 percent U.S. tariff on the vast majority of auto and auto imports from Korea. In addition, they would phase-out our 25 percent tariff on imports of pickup trucks. These provisions would trigger a surge in automotive imports from Korea.

But, this trade deal would allow Korea to maintain a series of nontariff barriers that have effectively kept its market closed to imports of U.S.-built vehicles and parts.

The United States would not have any effective remedies to challenge a continuation of these Korean trade barriers. As a result, KORUS FTA would inevitably lead to an increase in the enormous unfair automotive imbalance between the U.S. and Korea. This would threaten the jobs of tens of thousands of American workers, exacerbating the already serious difficulties facing the U.S. auto industry and its workers and retirees.

For these reasons, the UAW strongly opposes the Korean FTA. The UAW's analysis of the impact of the KORUS FTA is supported by the International Trade Commission and statements by the Korean government. In September of 2007, the ITC released a report which concluded that this trade deal would increase the annual U.S. trade deficit with Korea by $1–$1.3 billion. It found that the KORUS FTA would trigger a surge in automotive imports from Korea with little offsetting increase in U.S. auto exports. In addition, shortly after the proposed trade agreement was announced, the Korean government stated that it expected the trade deal to boost Korea's auto trade surplus by roughly $1 billion annually. The chief negotiator for Korea also stated that Korean manufacturers would probably be shipping pickups to the United States in 5 years to take advantage of the phase-out of the 25 percent tariff on imported light trucks.

In response to these dismal analyses, the Bush administration has continued to extol the virtues of the auto provisions in the KORUS FTA. However, the truth is, the KORUS FTA does not guarantee that Korea will have to eliminate all of its nontariff barriers. It still allows Korea to continue an array of taxes that discriminate against U.S.-built vehicles with larger engine sizes. It also allows Korea to continue the practice of arbitrarily placing imported vehicles in high-risk insurance classifications, and it allows Korea to continue to use safety emissions and other technical standards as a tool to discriminate against imported automotive products instead of having to accept U.S. or international standards. Most importantly, there is absolutely nothing in this trade deal to prevent Korea, as it has in the past, from coming up with new nontariff barriers to keep its market closed to U.S.-built automotive products.

The Bush Administration also has touted the dispute resolutions provision in the KORUS FTA as containing an innovative process for settling disputes on auto-related measures. However, these provisions cannot provide any effective relief. The automotive working group has no enforcement powers to address any nontariff barriers. Furthermore, it would be extremely difficult for the United States to prevail in any case under this new dispute resolution procedure. And, even if an arbitration panel were to rule in favor of the U.S., the only relief that is provided is that the U.S. would be allowed to reinstate our former 2.5 percent tariff on autos. However, this snap-back provision does not apply to the 25 percent pickup truck tariff; thus, the remedy provided by the tariff snap-back is largely toothless, since it does not apply to the most important U.S. tariff concessions.

In conclusion, the UAW appreciates the opportunity to testify before this Subcommittee on the imbalance in the U.S.-Korea automobile trade. UAW calls on Congress to reject the KORUS FTA until its auto provisions are renegotiated and replaced with measures that will require Korea to dismantle its nontariff barriers to U.S.-built automotive products before it is granted any additional access to our market.

Thank you.

[The prepared statement of Mr. Gettelfinger follows:]

PREPARED STATEMENT OF RON GETTELFINGER, PRESIDENT, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)

Mr. Chairman. My name is Ron Gettelfinger. I am President of the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW). The UAW represents one million active and retired members, many of whom work or receive retirement benefits from auto manufacturers and parts suppliers throughout the United States. We appreciate the opportunity to testify before this Subcommittee on the subject of the imbalance in U.S.-Korea automobile trade.

Korea is the fifth largest producer and fourth largest exporter of motor vehicles in the world. In 2007, Korea produced 4.1 million motor vehicles. The top three Korean producers were Hyundai, GM-Daewoo, and Kia. Korea exported 2.8 million motor vehicles to the rest of the world.

In 2007, imports of Korean automotive products into the U.S. were valued at $11.3 billion, while U.S. exports of similar products to Korea amounted to just $1.0 billion. The net result was a $10.3 billion U.S. automotive trade deficit with Korea.

Primarily due to the decline in the value of the U.S. dollar, our overall trade deficit with Korea decreased 18 percent (to $5.97 billion) though the first 6 months of 2008. However, over the same period, the U.S. deficit with Korea in automotive products *increased* 2.4 percent (to $5.86 billion). Thus, the deficit in automotive products now accounts for 98 percent of our overall trade deficit with Korea.

The statistics on auto exports and imports in 2007 vividly demonstrate how lopsided and unfair the auto trade situation is between the United States and Korea. In 2007, Korea exported 668,000 vehicles to the United States. But U.S. producers were only allowed to export 6,500 vehicles to Korea.

Historically, Korea has kept its market almost completely closed to U.S. built automotive products, as well as products from other nations. This has been accomplished through a combination of tariff and non-tariff barriers. Indeed, Korea's market has the lowest level of import penetration of any major automotive producing economy in the world. Imported cars made up just 4.3 percent of the overall Korean auto market in 2007. A total of only 27,985 cars were imported into Korea from all other countries.

At the same time, the U.S. market has been largely open to imports of Korean vehicles and auto parts. As a result, Korean imports have grown, and the U.S. auto trade deficit with Korea has risen dramatically.

In 1995 and 1998, the U.S. negotiated Memoranda of Understanding (MOUs) with Korea that were intended to eliminate Korea's barriers to competitive automotive imports. Despite these agreements, Korea continued to maintain a variety of non-tariff barriers that kept its market closed to U.S. built automotive products. As a result, the U.S. automotive trade deficit with Korea soared from $1.3 billion in 1994 to $10.3 billion in 2007. The deficit grew particularly quickly after the 1998 MOU, during a period of regular consultations with the Korean government designed to make progress in opening the Korean market.

Over the past decade, U.S. exports of automotive products to Korea increased by just $330 million, while imports of Korean automotive products increased by $8.7 billion. As previously indicated, the U.S. deficit in automotive trade now accounts for 98 percent of the total bilateral trade deficit with Korea, compared with less than one-third in 1998.

Unfortunately, the auto provisions in the proposed U.S.-Korea Free Trade Agreement (KORUS FTA) negotiated by the Bush Administration are deeply flawed, and would exacerbate the imbalance in auto trade between the U.S. and Korea. They would immediately eliminate the 2.5 percent U.S. tariff on the vast majority of auto and auto parts imports from Korea. In addition, they would phase-out our 25 percent tariff on imports of pickup trucks. These provisions would trigger a surge in automotive imports from Korea, as it would be relatively easy for Korean manufacturers to ramp up production for export to the United States.

Although this trade deal would require Korea to drop its tariffs on U.S. automotive products, it would allow Korea to maintain a series of non-tariff barriers that have effectively kept its market closed to imports of U.S.-built vehicles and parts. The United States would not have any effective remedies to challenge a continuation of these Korean trade barriers. As a result, the KORUS FTA would inevitably lead to an increase in the enormous, unfair automotive trade imbalance between the U.S. and Korea. This would threaten the jobs of tens of thousands of American workers, exacerbating the already serious difficulties facing the U.S. auto industry and its workers and retirees. For these reasons, the UAW strongly opposes the KORUS FTA.

The UAW submits the KORUS FTA would move us in precisely the wrong direction. Instead of providing guarantees that Korea will have to dismantle its auto trade barriers and give U.S. auto and parts producers access to its market, the KORUS FTA would make our auto trade imbalance with Korea even worse. This is not just the UAW's perspective.

In September 2007, the International Trade Commission (ITC) released a report on the impact of the KORUS FTA. Significantly, the ITC concluded that this trade deal would *increase* the annual U.S. auto trade deficit with Korea by $1 billion to $1.3 billion. It found that the KORUS FTA would trigger a surge in automotive imports from Korea, with little offsetting increase in U.S. auto exports.

For a number of reasons, the UAW believes the ITC report actually underestimates the negative economic impact of the KORUS FTA on the U.S. automotive industry. First, the ITC's analysis did not adequately take into account the tremendous negative impact of the phase-out of the 25 percent U.S. light truck tariff. The Bush Administration has tried to minimize this impact by arguing that Korean companies will be increasing production of pickups at their facilities in the United States. But it is precisely the existence of the 25 percent U.S. pickup truck tariff that has provided the incentive for Korean producers to locate production in the U.S. and employ American workers. After the announcement that the KORUS FTA would phase-out this tariff, the Korean companies have already indicated that they are examining plans to export pickup trucks to the U.S. to take advantage of this tariff phase-out. This past May, Hyundai announced that it was canceling plans to build a pickup for both the Hyundai and Kia brands at its West Point, Georgia plant. In addition, other Asian companies are likely to use Korea as a platform to export pickups to the U.S. Because of these factors, in future years the U.S. auto trade deficit with Korea would balloon even further.

Second, the ITC report asserts that the surge in auto imports from Korea will be partially offset by the "diversion from other import sources." However, the report did not provide sufficient evidence to support this assertion. The UAW believes it is extremely unlikely that non-Korean producers—such as Toyota, Nissan and Honda—would passively accept such a large reduction in their exports to the U.S. Indeed, the history of NAFTA's implementation suggests otherwise. The drastic increase in automotive imports from Mexico after 1995 did not displace Japanese or European imports of similar products.

Third, the ITC report did not take into account the adverse impact of Korea's non-tariff barriers on auto trade with the United States. This is because the ITC's method of analysis, a computable general equilibrium (CGE) simulation model, is unable to quantify the impact of non-tariff barriers on automotive trade and investment flows. But, it is the Korean government's effective and continuous use of non-tariff barriers that has kept its market closed to U.S. built automotive products.

The conclusion by the ITC that the KORUS FTA would increase the U.S. auto trade deficit with Korea is buttressed by statements from the Korean government. Shortly after the proposed trade agreement was announced, the Korean government stated that it expected the trade deal to boost Korea's auto trade surplus by roughly $1 billion annually. It expected Korean exports of finished cars and auto parts to increase substantially, whereas there would only be a minimal rise in imports of U.S. built automotive products. In addition, the chief negotiator for Korea, Kim Jong Hoon, stated that Korean manufacturers would probably be shipping pickups to the United States in 5 years to take advantage of the phase-out of the 25 percent tariff on imported light trucks. This would further exacerbate our auto trade deficit with Korea.

In response to these dismal analyses, the Bush Administration has continued to extol the virtues of the auto provisions in the KORUS FTA. It has repeatedly claimed that this trade deal makes great strides in eliminating the non-tariff barriers that have historically kept the Korea market closed to U.S. built automotive products.

However, the truth is the KORUS FTA does *not* guarantee that Korea will have to eliminate all of its non-tariff barriers. Indeed, it still allows Korea to continue an array of taxes that discriminate against U.S. built vehicles with larger engine sizes. It also allows Korea to continue the practice of arbitrarily placing imported vehicles in "high-risk" insurance classifications. And it allows Korea to continue to use safety, emission and other technical standards as a tool to discriminate against imported automotive products, instead of having to accept U.S. or international standards. Most importantly, there is absolutely nothing in this trade deal to prevent Korea, as it has in the past, from developing new non-tariff barriers to keep its market closed to U.S. built automotive products.

The Bush Administration also has touted the dispute resolution provisions in the KORUS FTA as containing "an innovative process for settling disputes on auto-related measures." For several reasons, however, these provisions cannot be expected to provide any effective relief. The Automotive Working Group, which would be established under the KORUS FTA, has no enforcement powers to address any non-tariff barriers.

Furthermore, it would be extremely difficult for the United States to prevail in any case under this new dispute resolution procedure. It would not be sufficient for the U.S. to show the existence of non-tariff barriers that are still keeping our automotive products out of the Korean market. Instead, we would have to prove "non-conformity" with Korea's obligations under the trade agreement, which is unlikely given its vague and weak provisions. The U.S. would also be required to demonstrate that our automotive producers have suffered "injury" as a result of Korea's non-tariff barriers. This would be a difficult hurdle to overcome because Korea can always allege that other factors are keeping down sales of U.S. built automotive products.

Most importantly, even if an arbitration panel were to rule in favor of the U.S. under this dispute resolution procedure, the only relief that is provided is that the U.S. would be allowed to reinstate (*i.e.,* "snap back") our former 2.5 percent tariff on autos and auto parts. *However, this snap back provision does* ***not*** *apply to the 25 percent pickup truck tariff.* Thus, the remedy provided by the tariff "snap back" is largely toothless, since it does not apply to the most important U.S. tariff concession.

The UAW wishes to underscore that we are not opposed to any trade agreement with Korea. In March 2007, a bipartisan group of Members of Congress sent a proposal to the Bush Administration for addressing the automotive trade imbalance between the U.S. and Korea. This proposal provided incentives for Korea to open its market to U.S. built automotive products *before* it granted additional access to the U.S. market. This proposal also contained a mechanism for dismantling Korea's non-tariff barriers, and protections against a surge in imports from Korea. Significantly, it stipulated that the U.S. tariff on imported pickup trucks should be left for resolution through multilateral WTO negotiations, in order to address the likelihood that any tariff reduction for one country would lead to a shift in pickup production from Japan and Thailand.

The UAW publicly endorsed this bipartisan proposal. We believe it could serve as the basis for a fair trade agreement between the United States and Korea. Unfortunately, the Bush Administration totally ignored this proposal, and instead negotiated a one-sided trade deal that would give Korea further access to our automotive market, without first receiving any guarantees that the U.S. will get greater access to the Korea market. This represents a huge step backward, and will only serve to exacerbate our huge and growing auto trade deficit with Korea.

In conclusion, the UAW appreciates the opportunity to testify before this Subcommittee on the imbalance in U.S.-Korea automobile trade. For many years auto trade between the U.S. and Korea has been totally one-sided. Korea has used a variety of tariff and non-tariff barriers to keep its market closed to U.S. built automotive products, while steadily expanding automotive exports to the U.S. Unfortunately, the KORUS FTA would make this bad situation even worse. It would trigger a surge of Korea automotive imports into the U.S., without getting any guarantees that Korea will dismantle its non-tariff barriers and give U.S. auto and auto parts companies greater access to its market. For this reason, the UAW calls on Congress to reject the KORUS FTA until these auto provisions are renegotiated and replaced with measures that will require Korea to dismantle its non-tariff barriers to U.S. built automotive products, *before* it is granted any additional access to our market. Thank you.

Senator DORGAN. Mr. Gettelfinger, thank you very much for your testimony and for being here.

Next, we will hear from Mr. John Bozzella, who is the Vice President of External Affairs and Public Policy for Chrysler.

Mr. Bozzella, welcome. And I have read your statement. Your entire statement will be part of the record, and you may summarize. You may proceed. Thank you.

STATEMENT OF JOHN T. BOZZELLA, VICE PRESIDENT, EXTERNAL AFFAIRS AND PUBLIC POLICY (AMERICAS), CHRYSLER LLC

Mr. BOZZELLA. Thank you, Mr. Chairman. It's nice to be with you.

My name is John Bozzella. I am Vice President for External Affairs and Public Policy for Chrysler LLC. Thank you for the opportunity to provide Chrysler's views on the imbalance in U.S.-Korea automotive trade.

Chrysler sells and services vehicles in roughly 120 countries around the world. Chrysler alone exported over 400,000 vehicles from the United States last year, or about 25 percent of our total U.S.-based production. Chrysler believes that the U.S. continues to have the best workforce and most innovative environment for creating globally successful products which are desired across the globe.

Because of our history and our philosophy, Chrysler has supported every free trade agreement ever negotiated by the U.S. We didn't do it blindly. We did it carefully, after reviewing the merits of each and every agreement.

Senator DORGAN. Mr. Bozzella, would you pull the microphone a little closer.

Mr. BOZZELLA. I'm sorry, Mr. Chairman. Is that better?

Unlike our American counterparts at GM and Ford, we do not have extensive production outside of North America. As a result, exports from North America remain a critical component of our business.

Now I'd like to turn to the subject of today's hearing, the imbalance in U.S.-Korea auto trade. We will highlight the causes of the imbalance and explain why we simply cannot support the U.S.-Korea Free Trade Agreement, in its current form.

This is a difficult position for us, and one we do not take lightly. But, we do believe this agreement is flawed, and it's an example of the twisting of the principles of free trade in a way that harms the interests of the U.S. economy and its workers.

There is probably no greater example of the huge and damaging one-sided trade than the flow of automotive trade between the U.S. and Korea. The U.S. auto industry simply cannot afford to lock in one-sided trade deals. In short, we believe that this FTA rewards Korea's poor behavior for failing to honor two prior automotive trade agreements with the U.S.; it narrows, but does not eliminate, discrimination against U.S. importers; and it eliminates the little U.S. leverage left to address Korean nontariff barriers.

The hostility to imported autos is not directed just to the U.S., I might add, and its manufacturers; in fact, total imports consisted of only 4 percent of the Korean market. South Korea is recognized throughout the global automotive industry has having the most restrictive import market. Korea ranks 30th out of 30 among the OECD countries, in terms of import market access.

While limiting imports to 4 percent of their home market, Korean automotive manufacturers exported 70 percent of their production in 2007. Over 16 percent of their production was exported to the United States alone.

Because of its history of trade restrictions and discrimination, 80 percent of the $13-billion U.S. trade deficit with Korea is autos. That fact tells us that the first thing the U.S. should have negotiated with Korea in any agreement that confers on them the special status of a free trade partner is an acknowledgment that confronts this directly and ensures that this unacceptable one-sided trade in our largest trade product is decisively reversed.

Our U.S.—our work with USTR and Korea did not begin with the U.S.-Korea Free Trade Agreement. In—two previous agreements have been referenced already; I won't spend too much time talking about them now. But, it's safe to say that this is round three, and we remain skeptical, based on what this agreement looks like, that we will make major progress.

My written testimony highlights several examples of barriers to entry in that market. I will not revisit those in my statement, except to highlight one, which is Korea's auto insurance reform proposal, which I think is illustrative of the challenges we face.

In September 2006, the Korea Insurance Development Institute released a reform package for automobile insurance calculations that was set to start in April 2007. The result is that insurance rates increased for most imported vehicles, compared to comparable domestic vehicles. Under the reform, for example, a Chrysler 300C is about 28 percent more expensive to insure each year than a comparable Korean vehicle, even though the prices are similar and the driver's profile is identical.

Regardless of KIDI's intentions, the result of the reform is, consumers that buy imported vehicles will pay higher auto insurance rates. As soon as they were made aware of this problem, the import industry objected, stating that the rates should not be higher, based on whether a vehicle is imported, and insurance should be allowed for all vehicle categories. Based on this pressure and that of the U.S. Government, Korea made some marginal changes that mitigated the worst effect of the insurance rate schedule, but the new schedule continues to result in higher insurance rates for imports versus domestics.

Members of the U.S. auto industry, along with numerous Members of Congress, worked closely with USTR, up to and including the day of the agreement—the day the agreement was initialed, in April of 2007. After reviewing the agreement, we immediately called it unacceptable and not even close to what we and others in the industry had told the U.S. officials repeatedly was necessary to secure true change in the Korean market.

It quickly became clear that most of the U.S. industry and our workers are—as well as many Members of Congress, including our congressional leadership, believe that the automotive provisions were inexcusably weak and ineffective, and needed to be redrafted and expanded in order to obtain sufficient congressional support.

The response so far? In more than a year since the signing of the agreement, the Korean government has not sought dialogue with our elected representatives or anyone in our industry to address these concerns and inadequacies. Interestingly, they didn't seem to have a problem seeking alterations to the beef agreement their president just signed.

For its part, the U.S. Trade Representative has repeatedly made clear that the U.S. has no intention of asking the Koreans to sit down and improve on the automotive chapter of the FTA. However, the USTR has negotiated vigorously on the beef issue, which, ironically, isn't even part of the FTA. Autos, unlike beef, are a pillar industry in Korea, and require a significant commitment on the part of the administration for real change to occur.

The U.S. automotive market is, by far, the largest and most open in the world. This fact provided our agreement—excuse me—our Government with substantial leverage in its negotiations with Korea. We clearly articulated the need for a robust agreement which would pry open a Korean automotive market that has been blatantly and pervasively protected for decades. We believe the administration has miscalculated the dynamics in Korea.

We are ready and willing to resume discussions with the Administration and the Korean government on how to improve the automotive provisions of the U.S.-Korea FTA. We appreciate the support we have received from both Senate and House members regarding this issue.

And, once again, thank you, Mr. Chairman, for arranging this hearing and asking for us to testify.

Thank you.

[The prepared statement of Mr. Bozzella follows:]

PREPARED STATEMENT OF JOHN T. BOZZELLA, VICE PRESIDENT, EXTERNAL AFFAIRS AND PUBLIC POLICY (AMERICAS), CHRYSLER LLC

Thank you for the opportunity to provide Chrysler LLC's views on the imbalance in U.S.-Korea automobile trade. Chrysler LLC, headquartered in Auburn Hills, Michigan, is an indirect wholly owned subsidiary of Chrysler Holdings LLC, which in turn is owned 80.1 percent by Cerberus Capital Management LP and 19.9 percent by subsidiaries of Daimler AG. Chrysler LLC sells and services vehicles in roughly 120 countries around the world.

The Importance of Trade to Chrysler

International trade has become a defining characteristic of the automobile industry. Many people might already know that automotive is the largest import sector after oil for the United States ($231 billion or 12.5 percent of total imports), but maybe fewer recognize that it is also our largest export sector ($111 billion or 9.5 percent in 2007). Finished vehicles and parts are traded in massive volumes on a daily basis. Chrysler alone exported over 400,000 vehicles from the United States last year, or about 25 percent of our total U.S.-based production. The dramatic and often painful changes in recent years in the U.S. automotive market are emblematic of the immense forces that the global economy have had in our economy. But these changes and the recent economic turmoil in the U.S. also reinforces the need to have a global approach to your business. Chrysler believes that the U.S. continues to have the best workforce and most innovative environment for creating globally successfully products which are desired across the globe. We also believe in building partnerships with other automakers to forge new business opportunities both here and abroad.

Because of our history and philosophy, Chrysler has supported each free trade agreement negotiated by the U.S. We didn't do this blindly, rather we carefully reviewed the merits of each agreement. The very first "free trade agreement" negotiated by the U.S. was the 1965 Auto Pact between the U.S. and Canada, which still stands as a model of how free trade can build prosperity and grow jobs in both partner countries. Our industry was at the forefront of many agreements such as the North American Free Trade Agreement (NAFTA). Our exports have grown exponentially with our free trade partners. Two recent trade agreements provide just a quick example. Since the U.S.-Chile Free Trade Agreement was implemented, Chrysler's U.S.-based exports to that country have grown by 365 percent. Similarly, Chrysler's U.S.-based exports to Australia have risen by over 115 percent since that FTA has been implemented.

Chrysler has made a commitment to grow sales outside North America, and has been successful in achieving significant sales growth for its international business. Key factors that contribute to this growth have been expanding the international dealer network, and the development of a vehicle portfolio that reflects the needs of global customers. In order to serve diverse international markets, over the last 5 years Chrysler has nearly tripled the number of right-hand-drive models (from 6 to 17), quadrupled the number of models with diesel powertrain options (from 4 to 17), and developed several vehicle packages specifically for our customers outside North America.

Unlike our American counterparts at GM and Ford, we do not have extensive production outside of North America. As a result, exports from North America remain a critical component of our business. This is evidenced by the fact that we remain one of the largest U.S.-based automotive exporters. For example, we exported over 40 percent of our production from our Belvidere, Illinois assembly plant last year, helping us maintain jobs that would otherwise have been lost due to the weakened U.S. market. We have also highlighted our intent to increase collaborative alliances with other manufacturers in the future, such as our cross-production arrangement announced this year with Nissan. Such alliances will allow us to deliver customer demanded vehicles in an even quicker fashion across the globe.

The U.S.-Korea Auto Trade Imbalance—Why Chrysler Can't Support the U.S.-Korea FTA in its Current Form

The points I have highlighted make it clear that maintaining a system of open and fairly traded automotive products is vital to maintaining the strength of Chrysler's manufacturing base in the U.S. and to creating a business model for the company's future in a global automotive market. Now I would like to turn to the subject of today's hearing, the imbalance in U.S.-Korea auto trade. We will highlight the causes of the imbalance and explain why we simply cannot support the U.S.-Korea Free Trade Agreement in its current form. This is a difficult position for us, one that we do not take lightly. We are not promoting any form of protectionism nor do we believe in erecting any barriers to the growth of more open trade in the global economy. Far from it, we understand that an open and growing trading system is the future of our company and of the U.S. economy. We do believe that this agreement is flawed, and is an example of twisting the principles of free trade in a way that harms the interests of the U.S. economy and its workers. We see it as a classic example of why so many Americans have grown skeptical of the claims that such free trade agreements bring real benefit to American workers.

We do not believe the agreement as written will lead to a true free flow of goods. There is probably no greater example of huge and damaging one-sided trade than the flow of automotive trade between the U.S. and Korea. The U.S. auto industry simply cannot afford to lock in one-sided trade deals. In short, we believe that this FTA:

1. Rewards Korea's poor behavior for failing to honor two prior auto trade agreements with the U.S.
2. Narrows, but does not eliminate discrimination against U.S. importers.
3. Eliminates the little U.S. leverage left to address Korean non-tariff barriers.
4. Begins a process by which we will have to turn grievances over to lawyers when we should be hiring sales people to sell vehicles (the so-called gold standard dispute resolution mechanism).

Chrysler has a long and painful experience trying to operate normally in the South Korean market. We first entered the market in 1992. We currently sell more imported vehicles than GM and Ford combined (and more than the majority of foreign brands as well), and the 4,100 vehicles we sold in 2007 was a 53 percent increase from the previous year. However, we need to put these numbers in perspective. We sold almost twice as many vehicles in South Africa, a market which is about half the size of South Korea's. The hostility to imported autos is not directed just to U.S. manufacturers. In fact, total imports consisted of only 4 percent of the Korean market. More starkly, three local Hyundai dealers in the U.S. sold more cars through their individual dealerships in 2007 than Chrysler, Ford or GM sold in the entire Korean market last year. In fact, two of those dealers sold more than Chrysler in the Republic of Korea; nine dealers sold more than Ford; and more than 400 Hyundai dealers sold more vehicles than GM.

South Korea is recognized throughout the global automotive industry as having the most restrictive import market. Korea ranks 30th out of 30 among the OECD countries in terms of import market access. While the method for protecting the market has transitioned from a blatant ban on imports several decades ago, to a more nuanced but very effective approach of other forms of discrimination, make no mistake, the Korean government has systematically thwarted true competition in the Korean market.

The fortress the Koreans created for their domestic manufacturers has created an unnatural export powerhouse. While limiting imports to 4 percent of their home market, Korean automotive manufacturers exported 70 percent of their production in 2007. No, that is not a misprint. Over 16 percent of their production was exported to the United States. Now, if Chrysler could export 16 percent of our U.S. production to Korea, we'd be sending over 260,000 units over there instead of 4,000! Alright, you might say "let's get real." Well, if the U.S. share of the Korean market was similar to the Korean share of the U.S. market (4.2 percent as opposed to 0.5 percent), the U.S. would be exporting 50,000 vehicles valued at about $1 billion. This happens to be more than the value of the U.S. beef which was exported to Korea before they imposed the ban.

Speaking of beef, there has been great attention paid to the restrictions Korea has placed on imports of American beef. I can say that as a representative of a company that has faced the barrage of bans, regulations, and unfair restrictions on imports of our products, we understand the frustration of our colleagues in the beef industry. Yet, while the Administration has told the Koreans and the Congress repeatedly and unequivocally that this FTA cannot be approved until U.S. beef enters the Korean market, the Administration has not taken such a position when it comes to the auto industry, and we have to ask why.

While we have alluded to the inadequacies of this agreement, let us be a bit more specific. We would first like to point out that we work with the Administration in general and the office of the United State Trade Representative (USTR) in particular on many trade issues. We have the utmost respect for the bright, dedicated and hardworking individuals at USTR who work tirelessly on many different fronts in trade negotiations. In the vast majority of cases, we believe the U.S. negotiators achieve a result in which U.S. national interests are advanced in a proven effective way. However, we do not believe this was the case with the U.S.-Korea FTA. The fact is, more should have been done.

Let's start with the fact that, because of its history of trade restrictions and discrimination, 80 percent of the $13 billion U.S. trade deficit with Korea is autos. That fact tells us that the first thing the U.S. should have negotiated with Korea in any agreement that confers on them the special status of a free trade 'partner' is an acknowledgement that confronts this directly, and ensures that this unacceptable one-sided trade in our largest traded product is decisively reversed. It seems to us that asking our negotiators to ensure that companies have a realistic and credible guarantee of true open and fair market access in Korea before granting Korea unconditional free market access here, doesn't seem, as the lead U.S. negotiator told us, to be a "bridge too far."

Our work with USTR on Korea did not begin with the U.S.-Korea FTA. In response to evidence of outrageous examples of Korean restrictions and downright harassment to keep U.S. auto imports out of Korea, in 1995 the U.S. negotiated and signed a Bilateral Trade Agreement (MOU) with South Korea in an attempt to address non-tariff trade barriers limiting U.S. exports. Within 2 years, it became clear that this agreement was a failure. The Koreans signed this agreement but did little to change their behavior, while simply exporting more and more cars to the U.S. In a rebuke to the Korean's behavior, the U.S. negotiated a second automotive trade agreement in 1998. The intent of both agreements was clear—there had to be unequivocal evidence that all evidence of discrimination and restrictions on imports of U.S. autos had stopped and that sales were increasing as evidence of a 'normal' mature market. But while making token changes, the Korean government simply crafted new barriers and certainly did not meet the spirit of the agreement as evidenced by the numbers. Fool me once, shame on you, fool me twice . . .

The history of Korean automotive non-tariff barriers which drive our concern with this agreement have been articulated publicly before on several occasions. I assume that the UAW will highlight some of them today as well. Unlike tariffs, non-tariff barriers are not easy to address. Korea has used a myriad of such non-tariff barriers ranging from outright bans to implementing complex regulatory requirements that upon first glance do not appear to be discriminatory but in practice are.

Today, I would like to focus on the actions Korea has taken since the FTA was concluded last April. We would just like to point out that the Koreans have engaged in this activity knowing that the FTA is pending Congressional consideration. Given that they would engage in these activities now, we wonder what awaits us should the agreement enter into force as signed.

Non-Tariff Barriers Imposed Since the FTA Was Signed

The following are examples of Korean actions since the FTA negotiations started that have disrupted importers' operations in the Korean auto market.

Korea's Auto Insurance Reform Proposal

In March 2008, the Korea Insurance Development Institute (KIDI) released a reform package for automobile insurance calculations that was set to start in April 2007. The new methodology to determine the insurance rate was based on vehicle model brand (Chrysler) for imports, and vehicle model (Sonata) for domestics. The result is that the insurance rates increased for most imported vehicles compared to comparable domestic vehicles. Prior to the reform, the premium paid was determined by each individuals (insured) characteristics, not the model brand or source (domestic or import) of the insured vehicle. Under the reform, for example, a Chrysler 300C is about 28 percent more expensive to insure each year than a comparable Korean vehicle even through the prices are similar and the driver's profile is identical.

Regardless of KIDI's intentions, the result of the reform is customers that buy imported vehicles will pay higher auto insurance rates. As soon as they were made aware of this problem, the import industry objected stating that the rate should not be higher based on whether a vehicle is imported or not, and insurance should be allowed for all vehicle categories. Based on this pressure, and that of the U.S. Government, Korea made some marginal changes that mitigated the worst effect of the insurance rate schedule, but the new schedule continues to result in higher insurance rates for imports vs. domestics.

FTC Korea Government Investigation of Importers

In early December 2007, the Korean Fair Trade Commission (FTC) arrived unannounced at the Korea Automobile Importers and Dealers Association (KAIDA) offices to investigate alleged unfair business practices (keep in mind that this is supposedly the anti-monopoly commission which is raiding an association representing 4 percent of the market). Some documents and files (meeting minutes, e-mails, agendas and letters) were seized in the raid. Several KAIDA members companies were also investigated/raided.

The reported purpose of the investigation was that KAIDA importers were allegedly colluding against grey market (parallel) auto importers, and price collusion in the import dealer network. The FTC claimed that it was supporting a law that protects unauthorized parallel importers in Korea. All major authorized auto importers, including Chrysler, are members of KAIDA. The result of the FTC investigation is still unknown, but the intimidating message it sent is clear.

Witness Testing

In February 2008, U.S. automakers certifying vehicles for sale in Korea were informed, by Korea's governing regulatory agencies, of a significant change to Korea's auto emissions testing/certification process—no longer allowing importers to certify by witness tests at the location of the automaker's test facilities. The Korean government claims that the change was a cost and a corruption reduction effort.

This change would have adversely affected the ability of U.S. automakers to introduce several new models into the Korean auto market in 2008, and going forward would also introduce unnecessary complexity and lack of consistency into an emissions testing process that has worked well to date.

U.S. automakers (Chrysler, Ford and GM) had scheduled witness tests for nine vehicle models in 2008. U.S. automakers requested that Korea's governing agencies continue to allow for auto emissions witness testing, which has been a successful and effective practice to date. After the U.S. Government brought considerable pressure to bear on the Korean government, the Korean government agreed to back away from the change.

In June 2008, the Korean government officially backed off of its plans to end witness testing and instead offered some alternative approaches. This ultimately ended up being a successful outcome, but demonstrates that Korea's longstanding habit of creating new non-tariff barriers to auto imports has not ended.

These are just a few recent examples of the type of issues we face in Korea. As I mentioned, there are other long-existing non-tariff barriers which USTR tried to address in this agreement, but we believe the remedies are inadequate. I am happy to discuss these other non-tariff barriers, such as Korea's discriminatory tax practices, regulatory or certification issues or general anti-import bias.

How to "Fix" the Agreement

Members of the U.S. automotive industry, along with numerous Members of Congress, worked closely with USTR up to and including the day that the agreement was initialed in April 2007. After reviewing the agreement, we immediately called it unacceptable and not even close to what we and others in the industry had told the U.S. officials repeatedly was necessary to secure true change in the Korean market.

It quickly became clear that most of the U.S. industry and our workers, as well as many Members of Congress, including our Congressional Leadership, believed that the automotive provisions were inexcusably weak and ineffective and needed to be redrafted and expanded in order to obtain sufficient Congressional support.

The response so far? In more than a year since the signing of the agreement, the Korean government has not sought dialogue with our elected Representatives or anyone in our industry on how to address these concerns and inadequacies. Interestingly, they didn't seem to have a problem seeking alterations to the beef agreement their President just signed. I don't say this to be flip, but because it goes to our fundamental concern.

For its part, the U.S. Trade Representative has repeatedly made clear that the U.S. has no intention of asking the Koreans to sit down and improve on the automotive chapter of the FTA. However, the USTR has negotiated vigorously on the beef issue, which ironically isn't even part of the FTA. We find this frustrating and odd. Autos, unlike beef, is a pillar industry in Korea and requires a significant commitment on the part of the Administration for real change to occur.

And so there is a stalemate, not because there is a problem that can't be solved but because neither of the parties is willing to acknowledge that a critical part of the Agreement was perhaps rushed, and a more careful and deliberate set of proposals and agreements need to be hammered out.

The United States automotive market is by far the largest and most open in the world. This fact provided our government with substantial leverage in its negotiations with Korea. We clearly articulated the need for a robust agreement which would pry open a Korean automotive market that has been blatantly and pervasively protected for decades. We believe that the Administration miscalculated the dynamics in Korea. Their assumption was that the leadership in Korea was receptive to openness and we should therefore complete an agreement as quickly as possible to take advantage of this newfound, enlightened view in Korea.

Unfortunately, the longstanding and pervasive nature of the Korean government's protective meddling and nationalism cannot be undone overnight (note beef). While the leadership may commit to these changes, it is the Korean bureaucracy which would be responsible for implementing the agreement. And given their history, they have proven time and again that they are extremely adept at creating new barriers.

Changing this culture will not be easy. That is why we asked USTR to remove the existing U.S. barriers only after Korea had demonstrated that its auto market is open and that import access would be sustained. We believe that only this approach would provide the necessary incentive to the entire Korean bureaucracy to systemically eliminate the protectionist mentality and actions it has practiced for decades.

Similarly, Congressional leadership recognized the same concerns. In a March 1, 2007 letter to the President, House Leadership presented a Congressional Proposal to Open Korea's Automotive Market. There are two key components to the Congressional proposal. The first part addresses the phase-out of the U.S. passenger vehicle tariff and creates a positive incentive for Korea to open its market to U.S. vehicles. The second part addresses Korea's current non-tariff barriers and creates a "self-help" mechanism—available to all industries—for the United States to take action against future non-tariff barriers. Attached to our written testimony is a copy of that letter.

We are ready and willing to resume discussions with the Administration and the Korean government on how to improve the automotive provisions of the U.S.-Korea FTA. We appreciate the support we have received from both Senate and House members regarding this issue and once again thank Senator Dorgan for arranging this hearing and asking Chrysler to testify.

CONGRESS OF THE UNITED STATES
Washington, DC, March 1, 2007

The PRESIDENT,
The White House,
Washington, DC.

Dear Mr. President:

We are writing in advance of the eighth round of U.S.-Korea Free Trade Agreement negotiations, to present the enclosed *Congressional Proposal to Open Korea's Automotive Market.* This proposal reflects a pragmatic, trade-expanding, WTO-consistent approach that provides concrete, achievable positive incentives for Korea to open its automotive market and ensure the elimination of current and future non-tariff barriers in all industries. This proposal represents what we believe the United States needs to negotiate to achieve a satisfactory resolution to Korea's closed automotive market. In addition, it is a proposal that should be welcomed by Korean consumers and by the Bush Administration because it will lead to a more competitive market in Korea with greater choice of products and more competitive prices.

We have developed this proposal out of our growing concern that these negotiations will fail to effectively tear down Korea's non-tariff barriers, prevent Korea from using future non-tariff barriers to maintain its closed market indefinitely, and ensure access for imports to Korea's automotive market. For decades, Korea has enjoyed open access to the U.S. auto market. At the same time, it has kept its own market virtually shut to foreign competition through the use of an import ban, followed by high tariffs, coupled with a complex and discriminatory tax regime, coupled with systemic, comprehensive and longstanding regulatory barriers, coupled with periodic anti-import campaigns by the Government of Korea.

The issue of our inability to break down long-standing and discriminatory barriers in a bicameral negotiation would seriously undermine our ability to address non-tariff barriers in the more comprehensive multilateral negotiations underway at the World Trade Organization. Given the importance of this issue, we have made consistent and repeated calls for the United States to undertake a new approach with Korea that addresses in a complete, comprehensive, and systemic way the longstanding policies by which Korea created and maintains a fundamentally closed automotive market. The U.S. automotive industry and union leadership also have called upon the Administration to take a new approach. To date, however, no new approach has been put forth that would lead to genuine market opening in Korea. Instead, we understand that the proposals which have been exchanged have been similar to the same ones that were tried repeatedly in the past and that have failed to achieve any meaningful access for U.S. products.

Our proposal moves beyond previous negotiating strategies and embarks on such a new approach that addresses the United States' legitimate concerns that Korea will not obtain additional access to the U.S. market unless there is reciprocal opening of the Korean auto market. There are two key components to the Congressional proposal. The first part addresses the phase-out of the 2.5 percent U.S. passenger vehicle tariff and creates a positive incentive for Korea to open its market to U.S. autos. The second part addresses Korea's current non-tariff barriers and creates a mechanism—available to all industries—for the United States to take action against future non-tariff barriers. A copy of the proposal is enclosed, as well as a briefing paper that summarizes its key elements.

The Korean automotive market presents a significant potential market for U.S. exports of cars and automotive products and would greatly benefit the U.S. automotive industry and the hundreds of thousands of workers it employs and supports. U.S. automotive manufacturers can compete effectively in an open and fair Korean auto market. We look forward to discussing how our proposal achieves a truly open market and more balanced automotive trade with Korea.

Sincerely,

Hon. CHARLES B. RANGEL
Chairman, Committee on Ways and Means

Hon. SANDER M. LEVIN
Chairman, Subcommittee on Trade
House Committee on Ways and Means

Hon. JOHN DINGELL
Chairman, House Committee on Energy and Commerce

Hon. DALE E. KILDEE
Co-Chair, House Auto Caucus

Hon. RON KIND
Member, House Committee on Education and the Workforce

Hon. ELLEN O. TAUSCHER
Chair, New Democrat Coalition

Hon. CANDICE S. MILLER
Member, House Committee on Armed Services

Hon. THADDEUS MCCOTTER
Member, House Committee on Budget and Foreign Affairs

Hon. CARL LEVIN
Co-Chair, Senate Auto Caucus

Hon. GEORGE V. VOINOVICH
Co-Chair, Senate Auto Caucus

Hon. EVAN BAYH
Chairman, Senate Banking Subcommittee on International Trade, Finance, and Security

Hon. DEBBIE STABENOW
Member, Senate Committee on Finance

Hon. FRED UPTON
Co-Chair, House Auto Caucus

Hon. JOE KNOLLENBERG
Member, House Committee on Appropriations

Hon. VERNON J. EHLERS
Member, House Committee on Transportation and Infrastructure

CONGRESSIONAL PROPOSAL TO OPEN KOREA'S AUTOMOTIVE MARKET

There are *two key components* to the Congressional proposal. The first part addresses the phase-out of the U.S. passenger vehicle tariff and creates a *positive incentive* for Korea to open its market to U.S. autos. The second part addresses Korea's current non-tariff barriers and creates a "self-help" mechanism—available to all industries—for the United States to take action against future non-tariff barriers. The key elements of this proposal are described further below:

Part I—U.S. Tariff Reduction Tied to Opening Korea's Auto Market

- *Tariff Reduction*—Korea's 8 percent auto tariff will go to zero immediately. The U.S. 2.5 percent passenger vehicle tariff will go to zero at the conclusion of the longest phase-out period provided for in the agreement, or 15 years, whichever is longer. The U.S. 25 percent pick-up truck tariff will continue to be negotiated with Korea, Japan and other countries at the World Trade Organization.
- *Positive Incentive to Open Korea's Auto Market*—As a positive incentive for Korea to open its auto market to U.S. autos during the tariff phase-out period, Korea will get a benefit in the form of duty free entry for a specified number of autos every year that U.S. auto sales in the Korean market increase from a designated baseline. The benefit will be measured on a car-for-car basis, and apply in the next calendar year. The baseline, and any subsequent increase, will be determined by an FTA Committee comprised of the respective U.S. and Korean commerce ministries. The positive incentive is structured so that the more open Korea allows its market to become, the greater will be Korea's benefits.
  - *Example—The agreement comes into force on January 1, 2008, and the baseline is established at 3,000 (a hypothetical figure representing the number of U.S. autos sold in Korea in 2007). If 4,000 U.S. cars are sold in Korea in 2008, then Korea may receive duty free entry to the U.S. for 1,000 cars in 2009.*
- *Auto Safeguard with Incentive to Increase U.S. Market Share in Korea*—An automotive safeguard will come into effect immediately upon the full phase-out of the U.S. auto tariff. The safeguard will apply automatically in the event that the United States determines that imports of Korean autos are increasing significantly. The penalty will be a predetermined "snap-back" of the 2.5 percent

auto tariff. The penalty will remain in place until the United States determines that imports are no longer increasing significantly. As an incentive for Korea to increase access to its auto market and promote full competition in that market to benefit Korean consumers, the safeguard will be suspended for each year that the market share of U.S. auto sales in Korea equals or exceeds Korea's auto market share in the U.S.

Part II—Non-tariff Barriers.

This provision will apply to all sectors, not just automotive.

- *Elimination of Current Barriers*—Korea agrees to eliminate current specified measures prior to the agreement coming into effect. The proposal will contain a list of specific current barriers identified by the automotive industry, as well as other industries.
- *Addresses Future Barriers Through Dispute Settlement by Providing Self-Help for U.S. and Creating A "Reverse Burden of Proof" for Korea*—The proposal enables the U.S. to take immediate, unilateral compensatory action to counter any future barrier (or any current barrier not specifically identified in the agreement) based on a standard of "reasonable evidence" relative to the existence of a Korean measure that discriminates against imports. The compensatory action (such as a tariff snap-back or tariff increase on other products) would remain in effect until Korea established conclusively that the measure does not exist, or does not operate to afford protection to a domestic industry in Korea.

Senator DORGAN. Mr. Bozzella, thank you very much.

Next, we will hear from Dr. McMillion.

Again, I have read the statements that all of you have submitted.

And, Mr. McMillion, thank you for being here, and you may proceed.

STATEMENT OF DR. CHARLES W. MCMILLION, PRESIDENT AND CHIEF ECONOMIST, MBG INFORMATION SERVICES

Dr. MCMILLION. Thank you, Mr. Chairman. I'm especially glad to come before you today as the full Senate, the country, and the world face the crises built from 28 years of naïve financial deregulation.

I'd like to focus on three broad and closely related points. First, this naïve or cynical ideological obsession with deregulation that has now bankrupted the U.S. financial system is inextricably intertwined with the obsession for deregulation of commerce, particularly of global commerce and what is often called "free trade."

Second, as with financial deregulation, all of the major theories used to sell deregulation of global commerce have long failed the test of experience, undermining U.S. production of goods and services, and forcing dependence on soaring debt and asset sales to foreign interests in China and elsewhere.

Third, as within the endangered financial system, now is the time for an urgent, careful reversal in the deregulatory global commercial policies that have so very clearly failed.

Just since NAFTA with Mexico was implemented, 14 years ago, the U.S. has accumulated over $6 trillion in current account deficits, $4.6 trillion just since 2001. These massive trade deficits occurred despite unprecedented debt-exploding tax cuts and wage stagnation in the U.S. to make the U.S. supposedly more competitive.

The severely threatened U.S. auto industry has suffered more than $1 trillion in trade losses over just the last 8 years. Even now, the U.S. auto industry faces production losses and global trade deficits of $10 billion each and every month. The U.S. now imports half again as many autos from Mexico as the U.S. exports to the entire world. Let me repeat that. Fourteen years after NAFTA, last year the U.S. imported over a million cars from Mexico and exported only 673,000 cars to the entire world.

Including auto parts, Korea exported $11.3 billion of autos, trucks, and parts to the United States in 2007, compared with only $1 billion of U.S. exports to Korea. This 11-to-1 U.S. imbalance of Korean imports to exports is worsening, so far this year, our worsening deficits in auto parts. The difference is with parts, Senator.

I hope there's time to discuss some of the key false assumptions behind the claims of those that, even today, continue to push deregulation—further deregulation of global commerce.

But, after 28 years of trade deregulation, today's $2-billion-per-day production shortfall and forced U.S. foreign borrowing continues to put enormous pressure on global financial markets, it constrains U.S. policy options, and it clearly undermines U.S. living standards today, as well as in the future.

Further deregulation of global commerce should not be a serious consideration for anyone concerned with the United States of America and its economy. Now is the time for an urgent, careful reversal in the deregulatory global commercial policies that have so clearly failed. This is the time for renewed global cooperation toward new, sustainable, and mutually beneficial objectives of raising living standards here in the United States and around the world.

Thank you, Mr. Chairman. I look forward to the discussion.

[The prepared statement of Dr. McMillion follows:]

PREPARED STATEMENT OF DR. CHARLES W. MCMILLION, PRESIDENT AND CHIEF ECONOMIST, MBG INFORMATION SERVICES

Thank you Mr. Chairman and the other Senators on the Subcommittee for inviting me to testify before you today. I am especially glad to come before you today as the full Senate, the country and the world face some of the enormous consequences of 28 years of naïve antigovernment, ideological extremism and financial deregulation.

This naïve or self-serving antigovernment extremism is also behind 28 years of careless deregulation of commerce, especially global commerce, that has undermined our productive economy and left the U.S. deeply dependent on foreign debt and asset sales. This is reflected in today's auto industry crisis where, even now, the industry faces production losses and trade deficit of $10 billion each month. Often celebrated as "free" trade, the dire consequences of this global commercial deregulation are inextricably intertwined with today's financial crises.

After 200 years of U.S. history, Federal and household debt combined equaled $2.4 trillion in 1980. Twenty-eight years later, this debt has grown 10-fold, surging past $24 Trillion. As a share of GDP, this debt fell from a high of 138 percent during the World War II emergency, plunged to 83 percent in 1980, and has since methodically soared to 168 percent now—far worse than ever before.

Whatever emergency rescue plan the Congress adopts for our bankrupt financial system and its powerful Wall Street leaders this week, the adjustments to our living standards and to our policies that begin next week will be long and difficult.

In the past 28 years the U.S. reversed its previous trade *surpluses* and accumulated over $7 trillion in current account trade *deficits.* Since NAFTA with Mexico was implemented 14 years ago, the U.S. has accumulated over $6 trillion in current account deficits, $4.6 trillion just since 2001. These massive trade deficits occurred despite unprecedented, debt-exploding tax cuts and wage stagnation to "make the U.S. more competitive" and reflect the substitution of foreign debt and asset sales (and Wall Street commissions) for U.S. production of goods and services.

Even as the worst U.S. financial crises since 1933 began to become more widely apparent, in 2008-Q2 the U.S. was required to borrow or sell-off assets of over $2 billion (net) *per day* to foreign interests in China and elsewhere to pay for trade deficits. This, of course, is in addition to the fact that U.S. policymakers are limited to activities that will reassure foreign creditors and prevent them from calling massive loans or selling off assets already owned by China and other foreign interests.

As with the financial system more directly, the theoretical judgments of those urging deregulation of global commerce has proven over and over again for decades to be remarkably naïve or cynical. For example, heavily-promoted (and quoted) advocates for NAFTA with Mexico, assured that the agreement would benefit U.S. production and jobs by constantly extending commercial *surpluses* with Mexico for decades. Rather, U.S. trade surpluses with Mexico immediately vanished as the confidently assured 15 years of theoretical *surpluses* totaling $140 billion became, in fact, constantly worsening losses totaling $630 billion in real *deficits,* lost production, lost jobs and new U.S. foreign debt.

New commercial agreements or other "key," "breakthrough" developments are announced several times each year between the U.S. and China. Indeed, it was assured that following NAFTA, trade with Mexico would help reduce or eliminate the then $23.8 billion U.S. trade deficit with China in 1993. Since then there have been market access agreements, agreements on intellectual property, Permanent Normal Trading Relations, World Trade Organization membership, lowered tariffs and much more. And yet the result is U.S. current account losses to China soaring to $289.7 billion in 2007, rising toward $300 billion in 2008, and totaling $1.5 Trillion in just the past 8 years.

Borrowing to pay for these massive commercial trade deficits, U.S. *debt service* and other investment payments to China in 2007 were $36 billion *more* than all profits earned by U.S. business and investment in China. These U.S. net payments are increasing rapidly.

Those promoting commercial deregulation often ridiculed concerns for low wage competition from countries like Mexico, China or Korea by assuring that this is more than offset by far higher overall productivity rates in the U.S. But as post-NAFTA U.S.-Mexico auto trade demonstrates, overall productivity rates are irrelevant when commerce is dominated by the same modern, global transnational companies. The U.S. now *imports* half again as many autos from Mexico (1,009,300 in 2007) as the U.S. *exports* to the entire world (673,100) including to Mexico.

Korea exported $11.3 million of autos/trucks and parts to the U.S. in 2007 compared with only $1.0 million of U.S. exports to Korea. This left a U.S. auto-sector deficit with Korea of over $10 billion and an 11-to-1 ratio of U.S. import payments (or debt) to export earnings. From January to July 2008, the cost of U.S. auto-sector imports from Korea is up 2.3 percent (concentrated in auto parts) while the value of U.S. industry exports to Korea is down −9.4 percent, indicating a worsening U.S. deficit and net loss of auto-sector production.

Similarly, promoters of deregulation often argue that the technological superiority of the U.S. allows for the loss of older industries—now, perhaps including the auto sector—imports of which can be paid for with surpluses in modern technologies and intellectual property royalties and fees. However, since 2002, the U.S. also has lost its post-World War II commercial trade surplus in advanced technology goods with the nominal value of ATP deficits now larger than any past surplus.

This ATP deficit is worsening rapidly with Mexico, China, Korea and others as modern transnational corporations transfer their best technologies and new products where they are cheapest to produce. Despite the near-record weakness in the foreign currency value of the dollar, ATP deficits now virtually offset all net earnings on IP royalties and fees from companies chartered in the U.S. That is, technology goods and services now pay virtually no part of the U.S. bill for foreign military operations or for the net import of oil, autos, electronics, clothing, etc.

Rapid changes in the global profile of the U.S. economy and trade are reflected in recent U.S.-Korea trade patterns. Obsolete economic theory suggests that countries like China and Korea with economic growth faster than world growth will have Current Account deficits while countries like the U.S. that has grown far slower than the world economy in each of the past 9 years—and only half the growth rate in Korea—would have Current Account surpluses. Yet China and Korea each have had substantial Current Account surpluses for many years while the United States' Current Account deficit averaged 5 percent over these past nine troubled years.

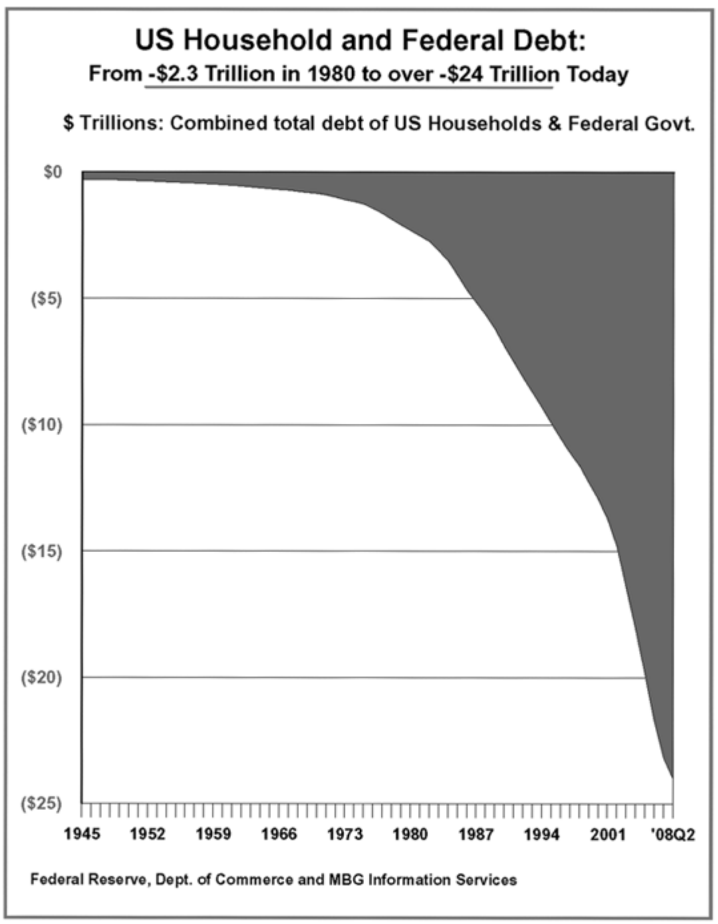
Similarly, in addition to Korea's now consistent surplus in autos and ATP trade with the U.S., Korea enjoys large surpluses with the U.S. in electronics, machinery, textiles/apparel, iron and steel products and most other manufactured goods. Most of the industries in which the U.S. enjoys surpluses with Korea are agricultural and commodities such as cereals and organic chemicals, although the U.S. does retain surpluses in aircraft and some specialty medical and optic instruments. Through the first 7 months of 2008, U.S. agricultural trade surpluses with Korea are rising (on soaring prices) while U.S. deficits with Korea are worsening for manufactured goods including ATP, autos and parts.

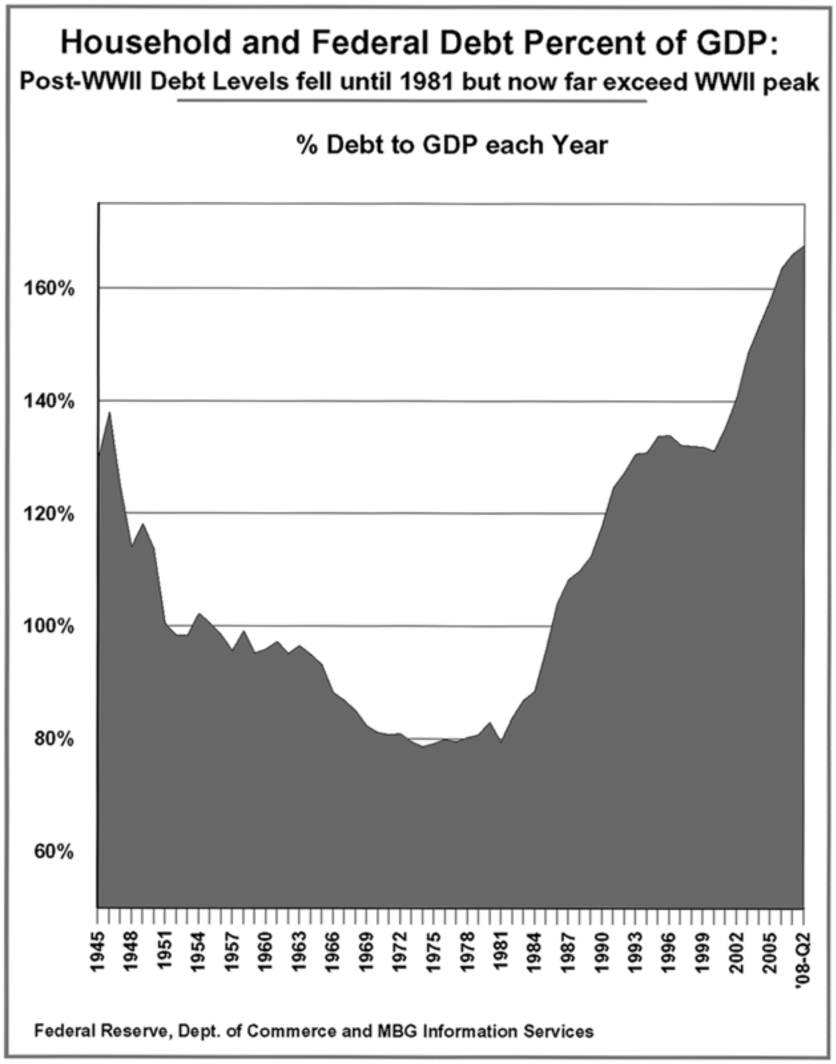
Over the past 8 years the U.S. has accumulated Current Account deficits of about $98 billion with Korea including merchandise deficits of $112 billion and manufacturing deficits of $123 billion.

These rapidly changing patterns of global trade illustrates another key obsolete article of faith for those that promote further deregulation of global commerce. Against all evidence, it is still claimed that unregulated trade drives growth in U.S. productivity, wages and living standards. However, the contrary evidence has been overwhelming for over 20 years. Unregulated global commerce is eliminating highly productive U.S. manufacturing output and jobs and forcing dependence on massive new debt to create far less productive, lower-paying service sector jobs that are protected from global competition. Of the 3.4 million new U.S. jobs created over the past 8 years, more than *all* have been in health care (2.4 million new jobs) and in bars and restaurants (1.5 million new jobs.)

After 28 years of trade deregulation, today's $2 billion *per day* production shortfall and forced U.S. foreign borrowing continue to put enormous pressure on global financial markets, constrain U.S. policy options and undermine the U.S. living standards. Further deregulation of global commerce should not be a serious consideration for anyone concerned with the United States of America and its economy.

As with the endangered financial system, now is the time for an urgent, careful reversal in the deregulatory global commercial policies that have so clearly failed. This is the time for renewed global cooperation toward new, sustainable and mutually beneficial objectives of raising living standards.




Household and Federal Debt Percent of GDP:
Post-WWII Debt Levels fell until 1981 but now far exceed WWII peak
% Debt to GDP each Year
160%
140%
120%
100%
80%
60%
1945
1948
1951
1954
1957
1960
1963
1966
1969
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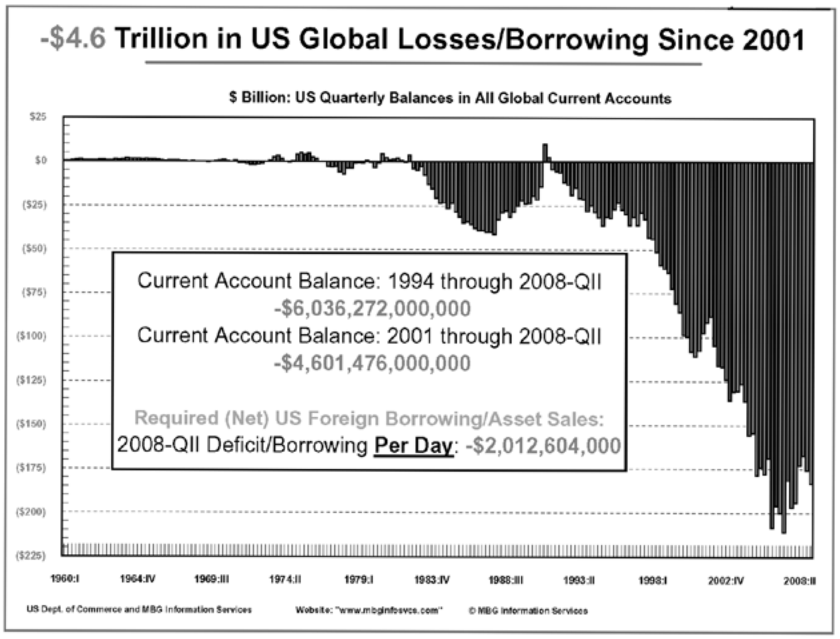
-$4.6 Trillion in US Global Losses/Borrowing Since 2001
$ Billion: US Quarterly Balances in All Global Current Accounts
$25
$0
($25)
($50)
($75)
($100)
($125)
($150)
($175)
($200)
($225)
Current Account Balance: 1994 through 2008-QII
-$6,036,272,000,000
Current Account Balance: 2001 through 2008-QII
-$4,601,476,000,000
Required (Net) US Foreign Borrowing/Asset Sales:
2008-QII Deficit/Borrowing Per Day: -$2,012,604,000
1960:I
1964:IV
1969:III
1974:II
1979:I
1983:IV
1988:III
1993:II
1998:I
2002:IV
2008:II
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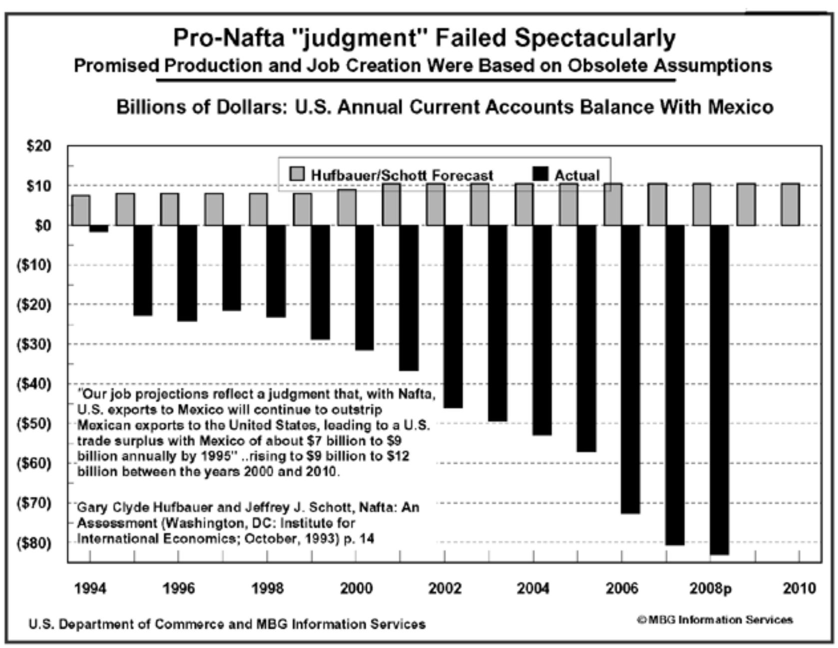
Pro-Nafta "judgment" Failed Spectacularly
Promised Production and Job Creation Were Based on Obsolete Assumptions
Billions of Dollars: U.S. Annual Current Accounts Balance With Mexico
Hufbauer/Schott Forecast
Actual
$20
$10
$0
($10)
($20)
($30)
($40)
($50)
($60)
($70)
($80)
"Our job projections reflect a judgment that, with Nafta, U.S. exports to Mexico will continue to outstrip Mexican exports to the United States, leading to a U.S. trade surplus with Mexico of about $7 billion to $9 billion annually by 1995" ..rising to $9 billion to $12 billion between the years 2000 and 2010.
Gary Clyde Hufbauer and Jeffrey J. Schott, Nafta: An Assessment (Washington, DC: Institute for International Economics; October, 1993) p. 14
1994
1996
1998
2000
2002
2004
2006
2008p
2010
U.S. Department of Commerce and MBG Information Services
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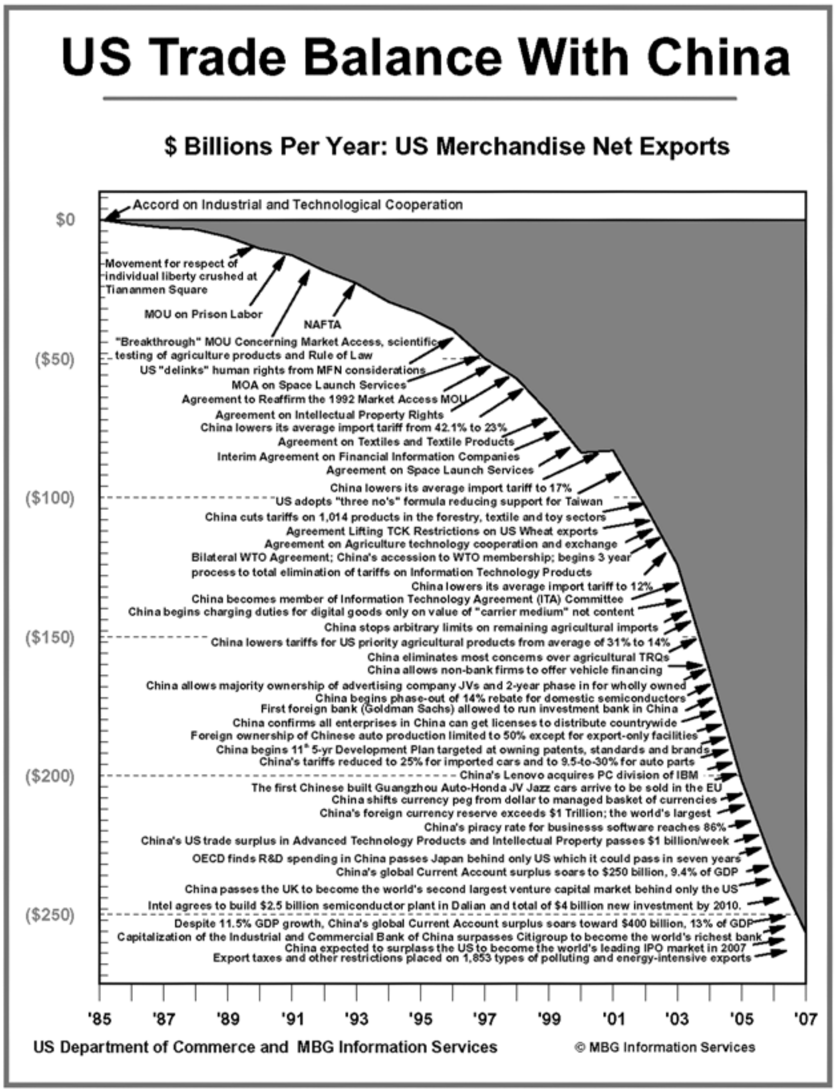
US Trade Balance With China
$ Billions Per Year: US Merchandise Net Exports
Accord on Industrial and Technological Cooperation
$0
($50)
($100)
($150)
($200)
($250)
Movement for respect of individual liberty crushed at Tiananmen Square
MOU on Prison Labor
NAFTA
"Breakthrough" MOU Concerning Market Access, scientific testing of agriculture products and Rule of Law
US "delinks" human rights from MFN considerations
MOA on Space Launch Services
Agreement to Reaffirm the 1992 Market Access MOU
Agreement on Intellectual Property Rights
China lowers its average import tariff from 42.1% to 23%
Agreement on Textiles and Textile Products
Interim Agreement on Financial Information Companies
Agreement on Space Launch Services
China lowers its average import tariff to 17%
US adopts "three no's" formula reducing support for Taiwan
China cuts tariffs on 1,014 products in the forestry, textile and toy sectors
Agreement Lifting TCK Restrictions on US Wheat exports
Agreement on Agriculture technology cooperation and exchange
Bilateral WTO Agreement; China's accession to WTO membership; begins 3 year process to total elimination of tariffs on Information Technology Products
China lowers its average import tariff to 12%
China becomes member of Information Technology Agreement (ITA) Committee
China begins charging duties for digital goods only on value of "carrier medium" not content
China stops arbitrary limits on remaining agricultural imports
China lowers tariffs for US priority agricultural products from average of 31% to 14%
China eliminates most concerns over agricultural TRQs
China allows non-bank firms to offer vehicle financing
China allows majority ownership of advertising company JVs and 2-year phase in for wholly owned
China begins phase-out of 14% rebate for domestic semiconductors
First foreign bank (Goldman Sachs) allowed to run investment bank in China
China confirms all enterprises in China can get licenses to distribute countrywide
Foreign ownership of Chinese auto production limited to 50% except for export-only facilities
China begins 11th 5-yr Development Plan targeted at owning patents, standards and brands
China's tariffs reduced to 25% for imported cars and to 9.5-to-30% for auto parts
China's Lenovo acquires PC division of IBM
The first Chinese built Guangzhou Auto-Honda JV Jazz cars arrive to be sold in the EU
China shifts currency peg from dollar to managed basket of currencies
China's foreign currency reserve exceeds $1 Trillion; the world's largest
China's piracy rate for businesss software reaches 86%
China's US trade surplus in Advanced Technology Products and Intellectual Property passes $1 billion/week
OECD finds R&D spending in China passes Japan behind only US which it could pass in seven years
China's global Current Account surplus soars to $250 billion, 9.4% of GDP
China passes the UK to become the world's second largest venture capital market behind only the US
Intel agrees to build $2.5 billion semiconductor plant in Dalian and total of $4 billion new investment by 2010.
Despite 11.5% GDP growth, China's global Current Account surplus soars toward $400 billion, 13% of GDP
Capitalization of the Industrial and Commercial Bank of China surpasses Citigroup to become the world's richest bank
China expected to surplass the US to become the world's leading IPO market in 2007
Export taxes and other restrictions placed on 1,853 types of polluting and energy-intensive exports
'85
'87
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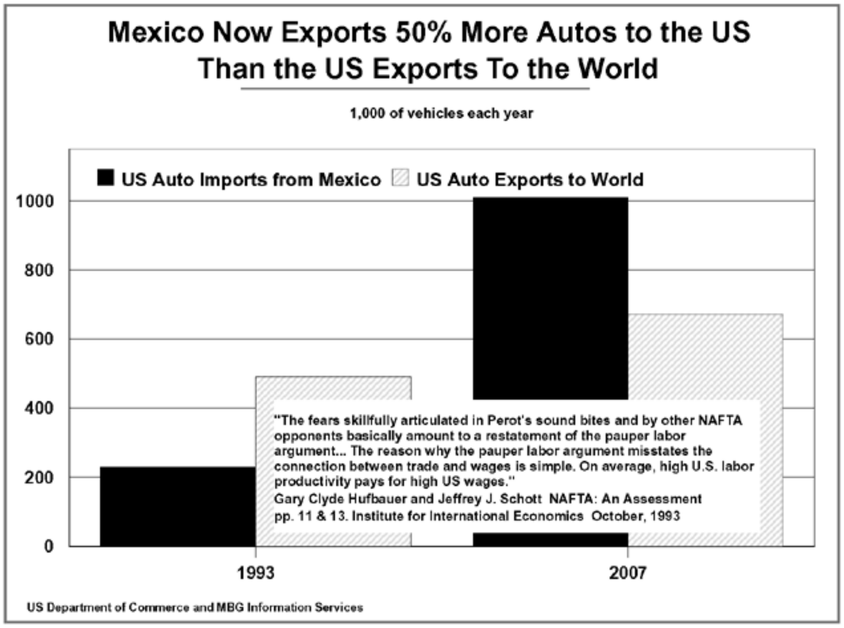

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Over -$1 Trillion in US Trade Deficits from the Auto Vehicles Sector: 2000 to 2007

Net Exports ($Millions)	Cars, Trucks & Parts Totals 1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
TOTAL	-$63,088	-$65,891	-$68,540	-$79,787	-$106,559	-$117,586	-$115,502	-$124,842	-$127,842	-$137,409	-$138,532	-$144,746	-$121,484
Australia	817	875	548	627	447	575	485	569	828	896	1,090	1,493	1,997
Austria	725	657	473	842	943	770	282	424	-240	-985	-132	-1,362	-3,501
Belgium	7	-93	-20	-364	-505	-588	-730	-564	-604	-1,004	-1,048	-671	-282
Brazil	-141	-384	-446	-444	-964	-987	-1,060	-1,428	-1,500	-1,373	-1,635	-1,770	-772
Canada	-11,065	-12,707	-11,320	-13,410	-19,462	-19,324	-18,075	-15,556	-14,584	-18,043	-17,046	-12,537	-5,486
Germany	-7,499	-7,868	-9,554	-11,933	-14,879	-16,391	-15,968	-18,492	-20,222	-21,283	-21,995	-19,663	-15,773
Japan	-33,258	-30,093	-31,993	-34,181	-40,380	-44,483	-42,342	-46,578	-44,117	-46,678	-50,625	-57,876	-52,897
Korea	-1,653	-1,735	-1,871	-2,122	-3,402	-5,511	-7,084	-7,763	-9,099	-11,385	-10,737	-11,598	-10,282
Mexico	-11,746	-15,061	-14,419	-16,566	-21,755	-24,038	-24,192	-25,567	-25,879	-25,994	-26,672	-31,865	-30,748
Saudia Arabia	887	1,240	1,147	1,190	745	862	1,065	1,104	864	1,270	2,371	2,530	2,513
Sweden	-1,753	-1,999	-1,952	-2,124	-2,184	-2,300	-2,291	-2,184	-2,939	-2,568	-2,551	-2,329	-2,320
Taiwan	292	-142	-327	-715	-982	-950	-1,101	-1,332	-1,327	-1,581	-1,767	-1,900	-2,028
United Kingdom	-1,287	-1,448	-1,659	-1,822	-2,090	-2,784	-2,231	-3,711	-4,466	-4,516	-5,807	-4,805	-2,943
Other	2,589	2,849	2,853	1,233	-2,091	-2,537	-2,260	-3,764	-4,557	-4,166	-1,977	-2,393	1,039

Net Exports ($Millions)	Cars 1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
TOTAL	-$47,092	-$50,064	-$56,117	-$64,663	-$80,145	-$92,525	-$88,758	-$93,527	-$92,254	-$97,952	-$93,234	-$100,759	-$90,376
Australia	92	56	-140	37	48	-26	-56	-28	125	-86	35	113	635
Austria	14	12	5	14	8	-38	-623	-292	-505	-1,234	-581	-1,905	-3,591
Belgium	-381	-504	-835	-955	-887	-838	-898	-839	-820	-1,180	-1,146	-787	-492
Brazil	377	143	203	62	18	-145	-614	-617	-534	-214	-201	-137	16
Canada	-16,617	-17,451	-16,708	-20,168	-24,842	-24,715	-21,941	-20,852	-19,804	-25,571	-24,292	-23,542	-21,759
Germany	-5,980	-6,329	-7,972	-9,794	-12,280	-13,465	-13,209	-15,002	-15,774	-16,350	-16,607	-14,048	-10,449
Japan	-18,818	-17,718	-21,475	-23,597	-28,441	-31,351	-30,542	-34,584	-31,731	-31,743	-34,603	-43,019	-43,082
Korea	-1,585	-1,698	-1,821	-1,692	-2,863	-4,809	-6,311	-6,713	-7,857	-9,992	-8,654	-8,522	-7,873
Mexico	-5,506	-7,038	-7,169	-7,760	-8,078	-12,999	-11,059	-10,395	-9,328	-8,068	-7,452	-10,717	-9,808
Saudia Arabia	473	608	509	533	375	304	615	839	640	1,018	2,130	2,208	2,133
Sweden	-1,721	-1,884	-1,777	-1,939	-2,042	-2,130	-2,148	-2,091	-2,844	-2,321	-2,141	-1,883	-2,225
Taiwan	951	588	415	165	101	121	5	-57	-29	-43	-41	-52	-35
United Kingdom	-1,155	-1,252	-1,359	-1,285	-1,825	-2,465	-2,174	-3,387	-4,128	-3,975	-4,857	-3,956	-2,658
Other	2,766	2,404	2,009	1,716	561	36	199	492	337	1,809	5,177	5,489	8,811

Net Exports ($Millions)	Trucks 1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
TOTAL	-$5,083	-$4,639	-$4,993	-$4,367	-$10,957	-$8,861	-$11,295	-$10,704	-$9,281	-$8,521	-$8,051	-$7,662	-$3,721
Australia	119	201	234	199	120	128	117	167	249	459	533	774	694
Austria	1	4	10	5	2	4	1	1	0	5	5	7	2
Belgium	-61	-13	384	187	133	-29	-92	-22	-64	-69	-62	-96	-52
Brazil	70	53	55	47	1	4	56	3	22	-26	-2	-22	-70
Canada	-4,242	-3,906	-4,471	-3,097	-6,293	-5,464	-5,562	-4,539	-3,140	-2,104	-2,256	-282	2,037
Germany	127	194	136	25	-25	-6	-56	-25	-4	-49	-104	-125	-86
Japan	-1,012	-543	-582	-582	-610	-349	-396	-495	-465	-730	-742	-906	-607
Korea	24	48	31	4	-38	-22	6	16	12	13	16	20	60
Mexico	-1,859	-2,839	-2,866	-2,856	-5,179	-4,316	-6,362	-6,580	-6,859	-7,013	-6,555	-8,545	-8,643
Saudia Arabia	245	428	384	431	199	385	289	116	77	92	85	115	132
Sweden	26	3	-2	-55	-14	-13	-18	-10	-56	-146	-184	-179	-108
Taiwan	32	31	54	27	17	-12	-4	6	2	9	25	3	4
United Kingdom	-71	-92	-110	-160	-169	-190	-173	-156	-212	-352	-518	-573	-281
Other	1,519	1,794	1,750	1,458	900	1,020	900	814	1,156	1,389	1,708	2,145	3,197

Net Exports ($Millions)	Parts 1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
TOTAL	-$10,913	-$11,188	-$7,430	-$10,758	-$15,457	-$16,301	-$15,449	-$20,611	-$26,307	-$30,936	-$37,246	-$36,324	-$27,386
Australia	605	618	453	392	279	474	423	431	454	524	522	605	669
Austria	710	641	459	822	933	804	905	715	265	244	444	537	88
Belgium	449	424	431	404	250	279	259	297	279	244	160	212	261
Brazil	-587	-560	-705	-551	-983	-847	-502	-813	-988	-1,133	-1,432	-1,611	-718
Canada	9,794	8,652	9,859	9,855	11,672	10,855	9,429	9,836	8,359	9,632	9,501	11,287	14,236
Germany	-1,645	-1,733	-1,719	-2,165	-2,574	-2,921	-2,702	-3,465	-4,443	-4,884	-5,283	-5,489	-5,238
Japan	-13,429	-11,832	-9,936	-10,001	-11,329	-12,782	-11,405	-11,499	-11,921	-14,205	-15,280	-13,952	-9,207
Korea	-92	-85	-80	-434	-501	-679	-779	-1,067	-1,255	-1,406	-2,099	-3,098	-2,469
Mexico	-4,382	-5,184	-4,384	-5,951	-8,499	-6,723	-6,771	-8,593	-9,691	-10,912	-12,665	-12,602	-12,296
Saudia Arabia	170	204	254	226	172	174	161	149	147	160	156	207	248
Sweden	-59	-118	-173	-130	-129	-157	-126	-82	-39	-101	-226	-267	13
Taiwan	-691	-761	-795	-907	-1,100	-1,058	-1,101	-1,281	-1,300	-1,547	-1,751	-1,852	-1,997
United Kingdom	-62	-104	-190	-376	-96	-128	116	-169	-125	-188	-432	-276	-3
Other	-1,696	-1,349	-904	-1,941	-3,551	-3,593	-3,359	-5,070	-6,050	-7,364	-8,861	-10,027	-10,970

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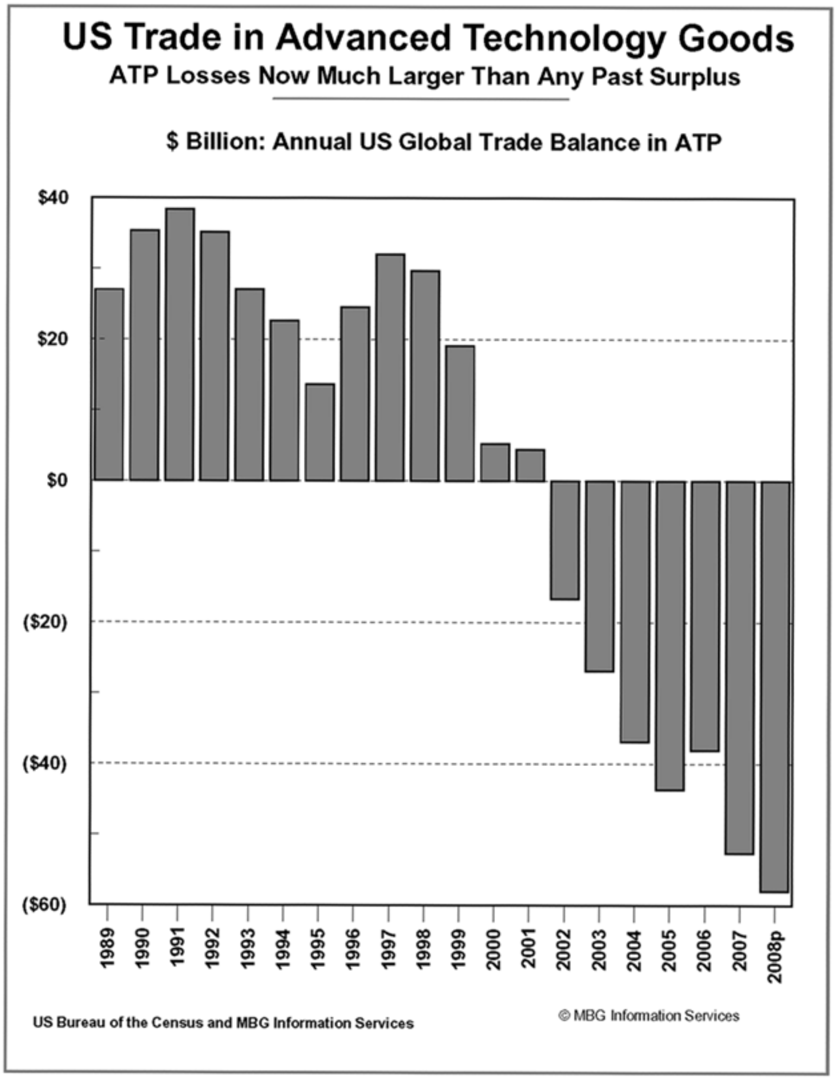
US Trade in Advanced Technology Goods
ATP Losses Now Much Larger Than Any Past Surplus
$ Billion: Annual US Global Trade Balance in ATP
$40
$20
$0
($20)
($40)
($60)
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008p
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US Trade Balances With Korea:

Deficits Are Concentrated in Advanced Manufactured Goods

HS Industry Codes: $Millions	Annual 2001	2002	2003	2004	2005	2006	2007	2008p	Total 2001-'08p
Merchandise Totals	-$13,001	-$12,996	-$13,157	-$19,755	-$16,016	-$13,362	-$12,918	-$10,751	-$111,956
Manufacturing Totals: HS28-96	-14,343	-14,743	-15,385	-21,104	-16,230	-13,816	-12,957	-14,899	-123,478
Agriculture Totals: HS01-24	2,072	2,207	2,478	2,022	1,785	2,461	3,065	5,805	21,895
Machinery/Computers: HS 84-85	-9,130	-9,054	-8,892	-13,132	-8,834	-7,293	-9,624	-12,969	-78,929
Textiles and Apparel HS50-63	-2,812	-2,840	-2,492	-2,514	-1,914	-1,696	-1,314	-1,033	-16,616
85 Electrical Machinery	-$6,366	-$6,061	-$6,637	-$10,535	-$6,699	-$5,139	-$7,356	-$10,740	-$59,533
87 Vehicles, Not Railway	-6,375	-6,945	-8,218	-10,357	-9,528	-10,116	-9,680	-8,844	-70,062
84 Machinery/Computers	-2,765	-2,994	-2,255	-2,597	-2,135	-2,153	-2,269	-2,314	-19,481
73 Iron/Steel Products	-571	-564	-551	-728	-955	-1,035	-1,134	-1,380	-6,919
27 Mineral Fuel, Oil Etc	-510	-223	-84	-362	-1,234	-1,885	-3,221	-1,352	-8,871
40 Rubber	-400	-478	-528	-666	-823	-869	-881	-936	-5,581
61 Knit Apparel	-1,039	-1,122	-998	-961	-702	-621	-446	-365	-6,254
O Specl Impr Provisions	-169	-166	-174	-222	-212	-223	-237	-236	-1,639
48 Paper,Paperboard	-117	-152	-192	-233	-245	-280	-247	-211	-1,678
60 Knit,Crocheted Fabrics	-271	-304	-272	-266	-237	-233	-214	-180	-1,978
55 Manmade Staple Fibers	-81	-95	-114	-143	-161	-168	-192	-178	-1,130
83 Misc Art Of Base Metal	-56	-47	-46	-60	-93	-153	-143	-154	-753
98 Special	-197	-188	-122	-236	-249	-215	-128	-121	-1,456
82 Tool,Cutlry, Of Base Mtls	-117	-126	-127	-143	-159	-139	-132	-107	-1,050
59 Impregnatd Text Fabrics	-48	-45	-60	-66	-81	-84	-89	-86	-559
54 Manmade Filament,Fabric	-205	-185	-145	-131	-176	-164	-133	-84	-1,223
94 Furniture And Bedding	-47	-36	-33	-40	-85	-99	-99	-79	-517
62 Woven Apparel	-1,115	-911	-763	-812	-431	-255	-120	-58	-4,466
65 Headgear	-137	-120	-114	-111	-67	-67	-53	-49	-718
96 Miscellaneous Manufacturing	-111	-91	-77	-62	-50	-63	-51	-48	-553
19 Baking Related	-13	-32	-25	-41	-39	-24	-28	-34	-235
63 Misc Textile Articles	-75	-132	-128	-102	-76	-69	-41	-30	-654
92 Musical Instruments	-112	-99	-85	-84	-75	-62	-45	-28	-590
58 Spcl Woven Fabric,Etc	-30	-37	-33	-41	-35	-30	-27	-27	-260
95 Toys, Video Games, Sports Equip	-163	-102	-89	-102	-96	-73	-19	-23	-666
50 Silk;Silk Yarn,Fabric	-32	-31	-28	-32	-31	-29	-25	-23	-230
49 Book+Newspapr;Manuscrpt	0	0	-21	-40	-42	-60	-17	-22	-202
25 Salt;Sulfur;Earth,Stone	31	10	-0	-2	-50	-63	-69	-9	-153
57 Textile Floor Coverings	-5	-4	-5	-7	-9	-19	-14	-9	-72
22 Beverages	4	0	9	-2	5	0	12	-8	20
67 Artif Flowers,Feathers	-26	-19	-13	-11	-10	-7	-5	-6	-97
46 Straw,Esparto	-3	-2	-2	-3	-3	-2	-0	-5	-21
56 Wadding,Felt,Twine,Rope	5	5	4	2	5	-2	-5	-5	9
52 Cotton+Yarn,Fabric	91	28	57	55	31	-12	-2	-3	243
53 Other Veg Textile Fiber	-0	-2	-2	-2	-2	-3	-2	-3	-15
06 Live Trees And Plants	-1	-0	-1	-2	-3	0	-1	-3	-10
51 Animal Hair+Yarn,Fabrc	-6	-7	-6	-8	-9	-7	-2	-2	-46
86 Railway;Trf Sign Eq	9	3	9	1	-3	5	2	-2	25
66 Umbrella,Wlk-Sticks,Etc	-0	-0	-1	-1	-1	-0	-0	-1	-5
16 Prepared Meat,Fish,Etc	-25	-15	-13	-26	-13	-12	-5	-1	-110
36 Explosives	-2	-1	-2	-3	6	3	2	-1	3
79 Zinc+Articles Thereof	-25	-65	-28	-14	-6	-1	0	-0	-139
14 Other Vegetable	0	0	1	-0	0	0	0	0	1
24 Tobacco	130	57	29	-4	-12	4	0	0	204
45 Cork	7	12	20	10	9	11	2	0	72
80 Tin + Articles Thereof	0	1	0	1	1	2	-1	1	5
91 Clocks And Watches	-1	-9	-7	-4	-2	1	1	2	-19
68 Stone,Plastr,Cement,Etc	-10	9	5	5	-3	-25	-20	3	-37
69 Ceramic Products	2	3	22	5	-2	3	11	3	47
37 Photographic/Cinematogr	19	23	28	26	30	6	6	6	144
09 Spices,Coffee And Tea	3	4	4	4	5	5	4	6	35
89 Ships And Boats	13	11	-321	-556	-239	8	9	6	-1,071
13 Lac;Vegetabl Sap,Extrct	12	15	12	11	15	13	13	8	97
01 Live Animals	7	6	8	6	10	13	11	10	71
05 Other Of Animal Origin	11	15	25	5	7	8	10	13	93
17 Sugars	26	16	13	11	14	23	37	23	165
07 Vegetables	9	10	20	33	14	16	10	23	134
11 Milling;Malt;Starch	5	2	1	2	1	2	8	25	45
43 Furskin+Artificial Fur	24	31	17	19	25	33	32	26	208
42 Leathr Art;Saddlry;Bags	-127	-72	-24	-4	25	9	32	28	-133
18 Cocoa	14	31	29	33	32	39	44	32	255
64 Footwear	-96	-59	-37	-36	-22	18	8	40	-183

US Trade Balances With Korea:

Deficits Are Concentrated in Advanced Manufactured Goods

HS Industry Codes: $Millions	Annual 2001	2002	2003	2004	2005	2006	2007	2008p	Total 2001-'08p
35 Albumins;Mod Strch;Glue	12	14	22	24	16	29	36	44	198
78 Lead	3	2	3	7	5	8	13	50	91
75 Nickel+Articles Thereof	13	16	10	23	27	40	56	75	261
70 Glass And Glassware	72	62	72	55	50	93	66	83	553
31 Fertilizers	130	120	148	172	231	126	90	83	1,099
32 Tanning,Dye,Paint,Putty	66	70	88	72	57	84	83	96	616
04 Dairy,Eggs,Honey,Etc	27	28	30	32	46	51	74	101	389
97 Art And Antiques	31	59	54	33	53	176	198	116	721
74 Copper+Articles Thereof	58	41	46	95	53	117	170	121	701
34 Soap,Wax,Et;Dental Prep	69	71	60	69	67	77	90	125	630
81 Other Base Metals, Etc	37	37	40	51	43	66	107	132	512
20 Preserved Food	87	91	87	74	83	81	105	140	749
72 Iron And Steel	-365	-226	73	-149	-507	-1,093	-368	141	-2,494
21 Miscellaneous Food	114	124	99	111	96	91	122	157	915
33 Perfumery,Cosmetic,Etc	101	134	103	109	123	152	155	178	1,054
03 Fish And Seafood	293	264	352	310	353	365	305	184	2,426
44 Wood	114	130	134	133	149	144	174	227	1,205
93 Arms And Ammunition	144	278	79	188	110	220	288	228	1,535
15 Fats And Oils	27	76	44	25	29	57	97	229	586
30 Pharmaceutical Products	117	115	128	159	196	235	247	242	1,441
08 Edible Fruit And Nuts	65	92	118	141	162	187	208	250	1,222
23 Food Waste; Animal Feed	46	49	51	41	44	70	107	266	674
41 Hides And Skins	616	487	444	390	365	349	342	299	3,293
02 Meat	485	750	915	81	194	274	368	377	3,443
71 Precious Stones,Metals	34	-73	-35	84	148	294	231	402	1,084
12 Misc Grain,Seed,Fruit	283	329	388	382	307	252	351	416	2,709
47 Woodpulp, Etc	238	308	313	323	295	275	349	428	2,528
76 Aluminum	83	23	59	93	151	278	423	534	1,643
26 Ores,Slag,Ash	84	47	77	116	120	203	431	545	1,624
38 Misc. Chemical Products	248	216	235	271	285	313	460	584	2,612
39 Plastic	91	109	19	-36	-147	-96	58	652	649
28 Inorg Chem;Rare Erth Mt	250	211	253	407	323	437	587	862	3,329
29 Organic Chemicals	551	832	1,342	2,032	1,435	908	1,485	1,049	9,635
90 Optic,Nt 8544;Med Instr	896	821	1,040	1,522	1,737	1,825	2,236	1,676	11,754
88 Aircraft,Spacecraft	2,447	2,246	1,735	1,640	1,718	3,244	3,025	2,337	18,391
10 Cereals	465	293	281	796	433	945	1,215	3,882	8,309

2008 data are projected from Year-to-July actuals.
US Department of Commerce and MBG Information Services

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Senator DORGAN. Mr. McMillion, thank you very much for being with us again.

And finally, we will hear from Mr. Myron Brilliant, who is the President of the U.S.-Korea Business Council and the Vice President, Asia, U.S. Chamber of Commerce, on behalf of the U.S. Chamber of Commerce and the U.S.-Korea Business Council.

Mr. Brilliant, welcome, and you may proceed.

STATEMENT OF MYRON BRILLIANT, PRESIDENT, U.S.-KOREA BUSINESS COUNCIL; VICE PRESIDENT, ASIA, U.S. CHAMBER OF COMMERCE; ON BEHALF OF THE U.S. CHAMBER OF COMMERCE, THE U.S.-KOREA BUSINESS COUNCIL, THE AMERICAN CHAMBER OF COMMERCE IN KOREA AND THE U.S.-KOREA FTA BUSINESS COALITION

Mr. BRILLIANT. Thank you, Chairman. On behalf of the U.S. Chamber of Commerce, the U.S.-Korea Business Council, the American Chamber of Commerce in Korea, and the U.S.-Korea FTA Business Coalition, I'd like to thank the Interstate Commerce, Trade, and Tourism Subcommittee for the opportunity to provide our views on the U.S.-Korea Free Trade Agreement and the United States automobile industry.

It won't be a surprise to this Committee that our views are very different—vastly different than those already expressed on this panel today.

Our organizations believe that the U.S.-Korea FTA will provide enormous, enormous market access opportunities and represents the most commercially significant U.S. trade agreement concluded in over a decade. Once implemented, it will provide very substantial benefits to all sectors of the U.S. economy, including the U.S. auto industry. And it does enjoy very broad support among U.S. manufacturers, farmers, and service providers. That is why the U.S.-Korea FTA Business Coalition now comprises of over 500 U.S. companies, trade associations, industry organizations, and chambers of commerce, representing millions of businesses of every size in every part of the U.S. economy. We seek the agreement's ratification.

Once implemented, the agreement will lead to a substantial reduction in trade barriers, in every sector of the Korean markets, to U.S. goods and services, and thereby generate billions of dollars in new U.S. exports, creating new American jobs and economic growth. At this critical time, we would think such an agreement would be an imperative for the U.S. Congress to pass.

Under the agreement, nearly 95 percent of bilateral consumer and industrial-goods trade will become duty-free within 3 years. Almost all remaining tariffs and goods will be eliminated within 10 years. Korean tariffs on U.S. industrial products average approximately 6.2 percent, or twice as high as the equivalent U.S. rate. In addition, there are unprecedented provisions to address nontariff measures, which I'm happy to discuss in the question-and-answer session.

The agreement will also guarantee transparent and predictable regulatory and rulemaking procedures in Korea, enhance investment protections, protect and enforce intellectual property rights, and help ensure that fair and transparent application of competition policy for all U.S. companies doing business with Korea, a $1-trillion economy. Moreover, in deepening ties between the United States and Korea, we will reinforce a bilateral relationship that has promoted regional security and prosperity in East Asia for more than 50 years. My full statement goes into more details.

Turning to the U.S. auto industry, our organizations are clearly sensitive to the challenges facing the U.S. automobile industry in the current domestic and global economy, including in Korea. Indeed, Ford, GM, and Chrysler are members of the U.S. Chamber of Commerce. GM sits on the Executive Council of the U.S.-Korea Business Council. And Chrysler has, in the past. We fully recognize the leadership role that the U.S. automobile industry has played in opening markets and removing unfair trade barriers to U.S. goods and services all around the world, to the benefit of the entire U.S. economy. AMCHAM Korea and the U.S.-Korea Business Council repeatedly have called on the Korean government to eliminate impediments to imports of U.S. vehicles, and the FTA does just that.

The auto commitments in the FTA are comprehensive, meaningful, and binding. It is important to recognize just how much of— the U.S.-Korea FTA does to reduce Korean trade barriers to U.S. autos.

First, the agreement will eliminate, immediately, Korea's tariff of 8 percent on U.S. passenger vehicles, 10 percent tariff on U.S. trucks, and almost all duties on U.S. auto parts, which currently range from 3 to 10 percent.

Second, the FTA reduces substantially the discriminatory effect of Korea's automotive taxes on U.S. and other foreign vehicles, and significantly reduces these taxes.

Third, the Korean government has also made a commitment under the FTA not to impose any new engine displacement taxes or to apply these taxes on a nondiscriminatory manner.

Fourth, the agreement includes commitments by the Korean government to address three specific standards of concerns, and also an overall requirement that Korea not employ technical regulations that create unnecessary barriers to trade.

Fifth, the FTA includes a unique and innovative mechanism for resolving auto-related trade disputes. It will provide expedited resolution of disputes under the agreement by cutting in half the dispute settlement process.

Sixth, the FTA establishes an autos working group to address regulatory issues that may arise by providing U.S. stakeholders opportunity for early involvement in the Korean regulatory process.

All these commitments are binding—binding obligations.

Seventh, in addition to the auto-specific provisions, the U.S.-Korea FTA also addresses standards and technical barriers to trade. Under the agreement, the Korean government is required to provide transparency and national treatment to U.S. entities in the development of standards, technical regulations, and conformity assessment procedures, and we've already seen early indications of their commitment to this, this summer.

Moreover, we should also be encouraged by statements by the Korean government that it will not discourage the purchase or use of U.S. goods or services, an important commitment, in light of past anti-import campaigns in Korea.

The ITC, the International Trade Commission, in 2007, in its study, forecasted that, "U.S. exports of passenger vehicles to Korea would likely experience a large percentage increase as a result of the FTA", following full implementation of the FTA provisions. It estimated that exports of U.S. motor vehicles and parts to Korea would increase by $294 million and $381 million, or 45 percent to 58.9 percent over current levels.

The ITC report did note that U.S. imports of Korean motor vehicles and parts would also increase by 9 to 10—to 12 percent, but forecasted that much of the increase—55 to 57 percent of the estimated increase—would be diverted from other foreign motor vehicles and parts sold in the United States. For this reason, the U.S. ITC concluded that the risk of any decline in output or employment for the U.S. automobile industry and U.S. auto parts manufacturers from the FTA would likely be negligible.

We note that Korea is no longer the closed market it once was to U.S. and other foreign automobiles. Foreign import penetration of the Korean auto market has grown rapidly in recent years. For the first 7 months of this year, the total market share of foreign autos in Korea was 6.5 percent. In sharp comparison, the market share for foreign vehicles in Korea was 0.26 percent in 1999. We'd like to see our cars do better. But, U.S. automakers sold 6,000-plus cars in Korea in 2007, an increase of nearly 37 percent over 2006 sales levels, and those trends continue in 2008.

Delaying or rejecting the U.S.-Korea FTA is not a solution for addressing the imbalance in U.S.-Korea automobile trade, and could erode the competitiveness of the U.S. auto industry in the Korean market for years to come. Korea is close to completing its FTA with the EU. If that were the case, the U.S. auto producers would be at a substantial competitive disadvantage to European competitors. That would not help the situation, but it would, in fact, exacerbate the imbalance in bilateral auto trade.

The best way to reduce our imbalance is to reduce Korean taxes, tariffs, and nontariff measures on U.S. automakers. Once the FTA is implemented, we are committed—committed to working hand in hand with the U.S. auto industry to make sure that Korea fulfills all of its FTA obligations and commitments.

Our organization, in sum, believes that this agreement will level, ensure—will ensure great market access to our industries, including autos, in one of the most advanced and dynamic overseas markets.

Thank you for the opportunity to testify this morning.

[The prepared statement of Mr. Brilliant follows:]

PREPARED STATEMENT OF MYRON BRILLIANT, PRESIDENT, U.S.-KOREA BUSINESS COUNCIL; VICE PRESIDENT, ASIA, U.S. CHAMBER OF COMMERCE; ON BEHALF OF THE U.S. CHAMBER OF COMMERCE, THE U.S.-KOREA BUSINESS COUNCIL, THE AMERICAN CHAMBER OF COMMERCE IN KOREA AND THE U.S.-KOREA FTA BUSINESS COALITION

The U.S. Chamber of Commerce, the U.S.-Korea Business Council, the American Chamber of Commerce in Korea (AMCHAM Korea), and the U.S.-Korea FTA Business Coalition would like to thank the Interstate Commerce, Trade, and Tourism Subcommittee for the opportunity to provide their views on U.S.-Korea automobile trade.

The U.S. Chamber is the world's largest business federation representing three million businesses of every size, sector and region. The U.S.-Korea Business Council, an affiliate of the U.S. Chamber, is composed of U.S. companies that are significant investors in and exporters to Korea. AMCHAM Korea represents hundreds of U.S. companies doing business in Korea. The U.S.-Korea FTA Business Coalition is a group of over 500 U.S. companies, trade associations, industry organizations, and chambers of commerce representing businesses of every size and sector of the U.S. economy that support the U.S.-Korea Free Trade Agreement (FTA), which was signed on June 30, 2007. The U.S.-Korea Business Council serves as the Coalition's secretariat.

Our four organizations believe that the U.S.-Korea FTA is the best solution for addressing many of the factors that have contributed to the historical imbalance in U.S.-Korea automobile trade. This is one of the reasons why the member companies and associations of our organizations enthusiastically endorse the U.S.-Korea FTA, the most commercially significant U.S. trade agreement concluded in over a decade.

This agreement provides very substantial benefits to all sectors of the U.S. economy. It enjoys broad support among U.S. manufacturers, farmers, and the services sector. By eliminating trade barriers in every sector of the Korean market to U.S. goods and services and securing a more open and competitive Korean market, the agreement will generate billions of dollars in new U.S. exports, creating new American jobs and economic growth.

Under the U.S.-Korea FTA, nearly 95 percent of bilateral consumer and industrial goods trade will become duty-free within 3 years; almost all remaining tariffs on goods will be eliminated within 10 years. According to the U.S. Department of Commerce, Korean tariffs on U.S. industrial products average approximately 6.2 percent—twice as high as the equivalent U.S. rate. Over 80 percent of U.S. merchandise exports to Korea are manufactured products, and the agreement will bring tangible and significant benefits to U.S. manufacturers—including U.S. auto producers and auto parts makers. We note that the agreement covers trade in remanufactured goods, which will additionally create new export and investment opportunities for U.S. firms producing these products, including machinery and auto parts.

Korea's complex regulatory system and other non-tariff barriers have in the past limited opportunities for U.S. manufacturers and others to compete and succeed in the Korea market. The U.S.-Korea FTA addresses these challenges with strong provisions and protections that open Korea's market, protect U.S. interests, and set the bar higher for future trade pacts. These provisions include expanded market access for U.S. producers in Korea in sectors where they currently face restrictions on investment and on their operations. The agreement will also guarantee transparent and predictable regulatory and rulemaking procedures in Korea, protect and enforce intellectual property rights, enhance investment protections, and help ensure the fair and transparent application of competition policy for all U.S. companies doing business in Korea. These and other elements of the FTA will level the playing field for U.S. businesses competing in Korea's dynamic $1 trillion economy. Moreover, the FTA will deepen the ties between the United States and Korea, reinforcing a bilateral partnership that has promoted regional security and prosperity in East Asia for more than fifty years.

While today's hearing focuses on the issue of U.S.-Korea automobiles trade, we are including as an attachment to this testimony a report issued by the U.S.-Korea Business Council on the broader and very substantial benefits that the U.S.-Korea FTA will provide the U.S. economy if the Congress approves the agreement.

Our organizations are sensitive to the challenges facing the U.S. automobile industry in the current domestic and global economy. We recognize the leadership role that the U.S. automobile industry has played in opening markets and removing unfair trade barriers to U.S. goods and services all around the world, to the benefit of the entire U.S. economy. Moreover, we are acutely familiar with the challenges that the U.S. automobile industry long encountered in the Korean market. AMCHAM Korea and the U.S.-Korea Business Council repeatedly have called on the Korean government to eliminate tariff and non-tariff barriers and other discriminatory policies that have severely limited opportunities for U.S. automakers to compete in the Korean market.

We urged Korean and U.S. trade negotiators to include strong provisions addressing these issues in the U.S.-Korea FTA. And that is, in fact, just what they did. We are pleased that the U.S.-Korea FTA includes commitments by the Korean government to address virtually every tariff and non-tariff market access barriers to U.S. automobiles in Korea raised by the U.S. auto industry during the FTA negotiations. Once the FTA is ratified, we are committed to working hand-in-hand with the U.S. auto industry to make sure that Korea fulfills all of its FTA commitments.

Delaying or rejecting the U.S.-Korea FTA on the basis that it does not go far enough in opening Korea's market to U.S. autos will not right the imbalance in bilateral automobile trade. Rather, the best way to accomplish this goal is by ratifying the U.S.-Korea FTA and by focusing our energy on ensuring that Korea faithfully fulfills its FTA commitments. If we do that, we can ensure that Korean tariff burdens on U.S. auto makers are eliminated; that tax burdens are significantly reduced; that existing non-tariff barriers are addressed and new ones are not imposed; and that the Korean government does not dampen sales in other ways.

How the U.S.-Korea Free Trade Agreement Will Reduce Barriers to Auto Trade

It is important to recognize how much the U.S.-Korea FTA does to eliminate many of the Korean trade barriers to U.S. autos. The agreement will eliminate immediately Korea's tariff of 8 percent on U.S. passenger vehicles, 10 percent tariff on U.S. trucks, and almost all on U.S. auto parts, which currently range from 3 percent to 10 percent. These cuts will instantly give U.S. auto and auto parts manufacturers a price advantage in the Korean market.

The FTA reduces substantially the taxes levied on autos, and eliminates their discriminatory effect on U.S. and other foreign vehicles. Under the FTA, the Korean government will amend its Special Consumption Tax and Annual Vehicle Tax to reduce existing maximum tax rates and to further eliminate aspects of these policies that have discriminated against U.S. autos on the basis of engine size. This "cascading" set of taxes disproportionately affects U.S. automakers because U.S. vehicles tend to have relatively larger-sized engines than Korean vehicles. The Korean government has also made a commitment under the FTA not to impose any new engine displacement taxes or to apply these taxes in a discriminatory manner. Korea will also publicize the availability of an 80 percent refund of its Subway Bond Tax for purchasers of new automobiles, yet another tax that has been a barrier in the Korean market for U.S. autos. These reforms, when implemented, will reduce tax rates on U.S. autos in the Korean market to the same level as virtually all Korean autos and increase their price competitiveness.

The FTA includes specific commitments in the automotive area by the Korean government not to employ technical regulations that create unnecessary barriers to trade, and to cooperate on harmonizing standards. In particular, the Korean government has agreed not to apply emission standards more stringent than those used by the state of California and agreed to use a less stringent standard used in California for small volume manufacturers. Low volume manufacturers (those which sell fewer than 4,500 vehicles a year) are exempted entirely. The FTA provides for imported motor vehicles to be exempt from any new or amended Korean regulations related to self-certification for safety standards for at least 2 years after the date on which the regulations or amendments are issued; these standards will then only apply to models under certain conditions. By bringing Korean standards more closely in line with those applied in the United States, the FTA will further lower manufacturing costs and retail sales prices for U.S. autos in the Korean market.

The FTA includes important mechanisms for resolving autos-related trade disputes. A unique and innovative autos-specific dispute settlement mechanism will provide expedited resolution of disputes under the agreement. If the agreement's dispute settlement panel finds that Korea has not complied with its obligations in the agreement's auto provisions, it can authorize the United States to reimpose import duties on Korean automobiles. To enhance the enforcement effect, this expedited process—just for autos—will result in decisions in half the time of the normal dispute settlement mechanism. The FTA also establishes an autos working group to address regulatory issues that may arise and to review and provide comment on potential new Korean regulations affecting auto manufacturers. Under the FTA, when the Korean government is developing new regulatory measures for consideration, it must provide information on these proposals to the working group, thereby giving U.S. stakeholders an opportunity for early involvement in the process. In addition, the FTA ensures that non-governmental parties, including auto companies and labor unions, may provide advice and input to the U.S. Government throughout the dispute resolution process. These and other stakeholders may take part in the activities of the autos working group. All of these commitments are binding obligations, something the United States did not have in past automotive arrangements with Korea.

In addition to its autos-specific provisions, the U.S.-Korea FTA also addresses standards and technical barriers to trade ("TBTs") and many other practices that the Korean government long used to protect Korea's market for a variety of manufactured goods from foreign competition. During the FTA negotiations, our organizations urged that the FTA eliminate Korea-unique standards and standards-setting, testing and certification procedures that are not in line with international norms, not carried out in a transparent or predictable manner, and that have adversely affected the ability of U.S. companies to provide goods and services in the Korean market. The FTA includes commitments by the Korean government to enhance transparency in the development and implementation of technical regulations and related conformity assessment procedures. Under the agreement the Korean government will provide national treatment to U.S. entities for participation in the development of standards, technical regulations, and conformity assessment procedures. Korea has also committed to publishing the criteria used to recognize conformity assessment bodies, and to explain objectives and how proposed regulations will address those objectives when regulations are notified for comment and again when they are adopted as final. The Korean government will also make publicly available all comments received on proposals, notify proposals for comment even if they are based on international standards; allow at least forty days for written comments on proposals; publish notice of proposed and final regulations in a single official journal; and in publishing final regulations will include responses to significant comments received together with an explanation of the revisions made to the proposal.

Under the FTA, the Korean government is required to promote reliance on international standards that are consensus-based. Moreover, in areas where Korea recognizes non-governmental bodies to perform testing and certification for compliance with its technical regulations, the agreement includes the Korean government's commitment to provide national treatment to U.S. conformity assessment bodies and for Korea's government authorities to provide national treatment when testing and certifying U.S. products. The agreement also provides for the establishment of a bilateral committee to strengthen FTA and WTO commitments on TBTs, which will monitor implementation and promote cooperation.

Beyond these important provisions, the U.S.-Korea FTA contains further commitments by the Korean government that stand to benefit the U.S. auto industry and thus contribute to reducing the imbalance in U.S.-Korea automobile trade. These include: enhanced intellectual property rights protections and enforcement; new protections for U.S. investors and a more stable legal framework in Korea for investment-related cases; strong competition policy provisions; and statements by the Korean government that it will not discourage the purchase or use of U.S. goods or services—an important commitment in light of past "anti-import" campaigns in Korea.

In short, the U.S.-Korea FTA has stronger and more comprehensive provisions related to the automotive sector in the areas of taxes, tariffs, standards and technical barriers, and dispute settlement, than any other U.S. trade agreement. It provides a powerful tool for restoring balance to U.S.-Korea automobile trade and an important opportunity for ensuring that U.S. automakers and auto parts manufactures can fairly compete in the Korean market.

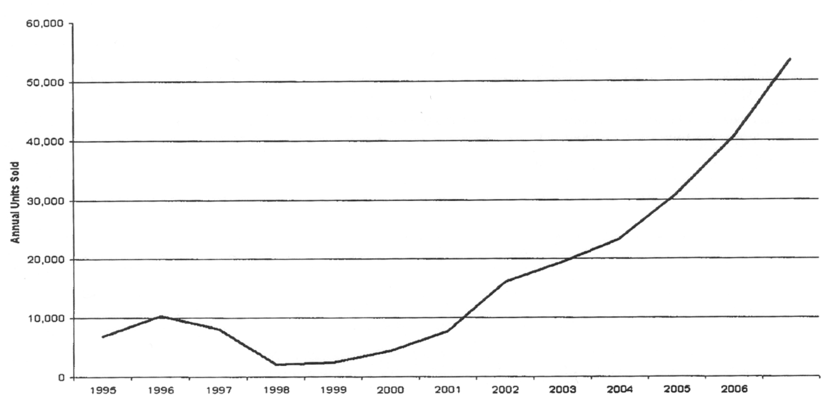
Anticipated Economic Effects of the U.S.-Korea FTA on the U.S. Auto Industry

The U.S.-International Trade Commission (USITC) noted the agreement's benefits to the U.S. automotive sector in its September 20, 2007 assessment of the possible impacts of the FTA. The USITC forecasted that *"U.S. exports of passenger vehicles to Korea would likely experience a large percentage increase as a result of the FTA"* following full implementation of the FTA's provisions on standards and certification requirements, taxes, regulatory reforms, and other measures addressing non-tariff barriers.[1] Its economic simulation estimated that exports of U.S. motor vehicles and parts to Korea would increase between $294 million and $381 million (45.5 percent to 58.9 percent).[2] The USITC observed that the removal of Korea's 8 percent tariff on U.S. passenger cars and 10 percent tariff on light trucks under the agreement would "likely have a positive effect" on U.S. exports, enabling U.S. companies to lower the price of their vehicles in the Korean market. It also concluded that the tax reforms included in the FTA would "more or less" equalize the total taxes paid on imported and domestic vehicles. While the USITC simulation also forecasted that U.S. imports of Korean motor vehicles and parts could increase by $1.3 billion to $1.7 billion (9 percent to 12 percent), it also forecasted that *55 percent to 57 percent of this estimated increase would be diverted from other foreign motor vehicles and parts sold in the United States.* [3] For this reason, the USITC concluded that the risk of any decline in output or employment for the U.S. automobile industry and U.S. auto parts manufacturers from the FTA "would likely be negligible." [4]

Rapid New Growth for U.S. Auto Exports to Korea

It is important to recognize that Korea is no longer the closed market it once was to U.S. and other foreign automobiles. In fact, foreign import penetration of the Korea haven auto market has grown exponentially in recent years—as evident from the below chart. [5]

Total Import Sales in South Korea, 1995-2007



For the first 7 months of this year, the total market share of foreign autos in Korea was at 6.54 percent. In comparison, the market share for foreign vehicles in

[1] U.S. International Trade Commission (USITC). *The U.S.-Korea Free Trade Agreement: Potential Economy-Wide and Selected Sectoral Effects.* Washington, D.C.: U.S. International Trade Commission, September 2007. p. 3–74.
[2] USITC, *ibid.,* p. 2–8.
[3] USITC, *ibid.,* p. 3–82.
[4] USITC, *ibid.,* p. xviii.
[5] Korea Automobile Importers and Dealers Association.

Korea was 5 percent in 2007, 3.89 percent in 2006, 2.7 percent in 2005, and 0.26 percent in 1999. U.S. automakers sold 6,235 cars in Korea in 2007, an increase of nearly 37 percent over 2006 sales levels, and have already sold more cars in Korea during the first 7 months of this year—4,584 vehicles—than they did in all of 2006.[6]

The U.S.-Korea FTA would be beneficial to U.S. companies looking to increase their market share and product offerings in Korea. For example, General Motors announced earlier this year a study to examine the potential for introducing the Chevrolet brand into Korea. Currently, GM only sells the Cadillac brand in Korea, apart from its Korea-manufactured Daewoo brand. Ratification of the FTA could provide incentives for U.S. automakers to expand their brands and models available to Korean consumers. Indeed, the best way to continue to increase U.S. market share in Korea's auto sector is through Congressional approval of the U.S.-Korea FTA.

The Costs of Inaction

Delaying or rejecting the U.S.-Korea FTA on the basis that it does not go far enough in opening Korea's market to U.S. autos is not a solution for addressing the imbalance in U.S.-Korea automobiles trade, nor will this promote the competitiveness of the U.S. auto industry in the Korean market. Rather, it risks placing the U.S. automotive industry at risk of further market imbalances and erosion of its market share in Korea. European and Japanese automakers are subject to the same tariffs, non-tariff barriers, standards and regulations in Korea as U.S. motor vehicles, yet have rapidly increased their market share in Korea; through the first half of this year, Japanese and German models comprised Korea's top ten-selling foreign autos.

The foreign auto companies' proven success in Korea is a cogent argument for ratification of the U.S.-Korea FTA soon. Another is Korea's current negotiation of a network of bilateral and multilateral trade agreements with the European Union, India, Canada, and other countries. Korea is also studying possible FTA talks with China and the possible reopening of its FTA negotiations with Japan, which are currently in a hiatus. The U.S.-Korea FTA, if put into effect first, will help to set the terms for these negotiations and other future trade agreements. That is important as we do not want to have less comprehensive agreements set the rules of trade for us. Korea is close to completing its FTA with the European Union. If that agreement was put into effect before the U.S.-Korea FTA, the U.S. auto producers would be at a substantial competitive disadvantage to European competitors. This would only further exacerbate the imbalance in bilateral auto trade.

Conclusion

The U.S. Chamber of Commerce, the U.S.-Korea Business Council, AMCHAM Korea, and the U.S.-Korea FTA Business Coalition believe that the best way to address the U.S.-Korea auto trade imbalance is through the ratification and implementation of the U.S.-Korea FTA and the strict enforcement of its provisions. Our organizations and our member companies view the agreement as a landmark opportunity to level the playing field in one of our country's most important overseas markets and international partners, and in doing so generate new jobs and economic growth across the United States. Our organizations welcome the opportunity to provide the members of the Interstate Commerce, Trade, and Tourism Subcommittee with additional information about the U.S.-Korea FTA.

Senator DORGAN. Mr. Brilliant, thank you very much.

Let me ask you a question first. You talk about the U.S. Chamber and the groups you represent pushing the Koreans to own up to their agreements. Have you been pushing the Koreans to own up to their 1998 agreement that they made with this country?

Mr. BRILLIANT. We were very involved, past 1999, in 1998, in that effort. Let me just be clear, though: there are specific commitments that Korea has lived up to in the 1995 and 1998 agreements. First of all, they lowered their tariff rate to 8 percent. Second, they reclassified minivans, as they committed to. And, third, they definitely shifted the certification standards. So, there are some commitments, specific commitments, they lived up to.

[6] Korea Automobile Importers and Dealers Association.

We would like to see more market access for our companies, which is why we pushed hard for the U.S.-Korea FTA to include robust, meaningful, comprehensive obligations of the Koreans in—with respect to the auto industry.

Senator DORGAN. But, Mr. Brilliant, it appears to me, on automobiles, 8 years—10 years after the 1998 agreement, there is largely one-way trade. You have done an awfully good job in trying to portray it as some modicum of success by talking about a 37-percent increase to 6,000 vehicles that we sell in South Korea. But, the fact is—if I can have the chart again—they sent us 800,000, and we only sent them 6,000.

You all might want to read the story about the Dodge Dakota pickup truck and their experience. Chrysler was very excited because it looked like they were going to start to sell the Dodge Dakota pickup truck in South Korea. I think they sold 50 a month for a few months. It looked like that was kind of a promising market, looked like the South Koreans kind of liked the Dodge Dakota pickup truck. Then the South Korean government shut it down, just like that, despite all of the progress, despite all of the things that you described. This describes what I think is largely one-way trade that cannot possibly be described as successful.

I've got some questions—additional questions for you, Mr. Brilliant, and I'm going to let you have plenty of time, as well, but I do want to go to Mr. Cassidy.

Mr. Cassidy, you know, I've been speaking—this goes to China, but it's the same problem that we have with Korea. We did an agreement with China that was unbelievably, in my judgment, ignorant of our own self-interest. We said to the Chinese, who are ramping up a very robust automobile export program, and it's going to hit us very soon—we said, "When you send a car to the United States of America, we will only impose a 2½ percent tariff, but if we send American cars to China, you may impose a 25-percent tariff." A country with whom we had a very large trade deficit, we said, "You can impose a tariff that is ten times larger than we will" on bilateral automobile trade.

You no doubt have heard me—I've spoken on the floor about this many times, saying I'd love to meet the person that actually did that, 2½ percent versus 25 percent, because I'd like to fire them personally. You don't work for me, but I understand that you had something to do with that. Can——

[Laughter.]

Senator DORGAN. Because—and I ask you about it, only because it is related directly to the way the South Korea agreement has also, in my judgment, been incompetently negotiated. Tell me the background of all of this.

Mr. CASSIDY. Yes. I am the person who negotiated that. And I've been waiting for this opportunity. I——

[Laughter.]

Mr. CASSIDY.—no longer work for the U.S. Government, so you can't fire me.

[Laughter.]

Senator DORGAN. You know, you're right, I can't get rid of you, but I've actually asked you to testify so I understand what has caused us to do these things that appear, clearly, not to be in our interest.

Mr. CASSIDY. Well, at the time, China's tariffs were 110 percent, and we reduced the tariff on fully assembled automobiles to 25 percent. But, the story behind it is somewhat more complex, because the only company that was shipping fully assembled automobiles—or shipping exports to China in the form of a fully assembled automobile—was Chrysler. Well, let me just rephrase that. Ford and GM were sending their automobiles fully assembled from other countries—Australia or in the EU. Chrysler, on the other hand, was shipping unassembled automobiles to China. So, what we did, because it had more direct impact on U.S. exports, is, we reduced the tariff on—the average tariff on parts, automotive parts—my Boston accent, that's P-A-R-T-S——

Senator DORGAN. I got it.

[Laughter.]

Mr. CASSIDY.—we reduced that to 10 percent. And thus, it would cover fully unassembled automobiles. So, for U.S. exports, the benefit was in the automotive parts. So, effectively, for the only product that was being exported from the United States in a knockdown version was Chrysler, and that's what we negotiated. The other ones were being shipped from other countries, and I figured, well, let's let the other countries negotiate their tariffs down. But, it was not going to help us.

But, let me just say, further on, that, even with that tariff, the problem with the China deal is not necessarily in the tariffs, but the problem with the China deal is in the other things that typically are not negotiated within the framework of trade agreements, like currency undervaluation. And, you know, these are the things that have the greatest impact on automotive trade. So, even it if were down to 2.5 or zero, we still wouldn't be exporting——

Senator DORGAN. No, Mr. Cassidy, I understand that. And, in fact, the same problem exists with currency with Korea and the——

Mr. CASSIDY. Right.

Senator DORGAN.—nontariff barriers. I understand all of that. But, can you understand how someone in a policymaker position serving in Congress would take a look at this and say, "We have a—an unbelievable abiding resistant trade deficit with China that continues and continues and continues, because that's the way they want it, and they're now gearing up a huge automobile export industry, and we're going to be flooded with these cars, and we're going to charge 2½ percent, and when you—when Chrysler tries to ship a car to China, they charge 25 percent, and we, by agreement, said that's OK"? So——

Mr. CASSIDY. But, Chrysler was going to be charged a 10 percent tariff——

Senator DORGAN. I under—well, I understand——

Mr. CASSIDY.—not a 25 percent tariff. And, you know, the expectation was—remember, these were unilateral concessions on the part of China. The United States gave nothing.

Senator DORGAN. Oh, we——

Mr. CASSIDY. And certainly they——

Senator DORGAN. No, no, we agreed for China to go to the accession to the WTO. Of course we——

Mr. CASSIDY. Yes, we agreed to that, but——

Senator DORGAN. That was a big, big deal.

Mr. CASSIDY.—they got the benefits of the agreement, in any case. They got MFN provision anyways.

Senator DORGAN. Yes, but—but, I mean, it's not—we shouldn't suggest China didn't get anything. The result of all of this—a terrible trade agreement with China, in my judgment.

But, let me—let me go on, because Senator McCaskill is with us—I want to ask a couple more questions, then I'll call on Senator McCaskill.

Most of us, I think, would believe, although there are a few that don't, that this trade deficit is destructive of our long-term interest. It's not a sign of economic health, it's a sign of trouble. Now, I know that some would look at me—I'm for trade, and plenty of it. I like trade. I insist that trade be smart and represent our interests. Some view me as, you know—or view people who—like me, who talk about these things, as xenophobic isolationist stooges that just don't get the theory of free trade. In fact, I think what is happening to us is—incrementally, agreement after agreement after agreement, we eat away and erode the basic economic foundation here, and it's because we don't stand up for our interests.

Now, Mr. Gettelfinger, I assume that American workers, through labor unions, had access to the USTR, and pushed hard to say, "What you're signing us up for here is more joblessness." You know, is that the case? Did you have access to USTR? And what was their response when you told them your assessment of what this trade agreement with South Korea would do to your autoworkers?

Mr. GETTELFINGER. Well, we don't really have the access that our workers should have. There's really not a voice there when these trade agreements are negotiated. And I would just refer you to Miami, when the trade ministers met. We went down—the AFL–CIO led a delegation down there, and we wanted to go down and peacefully protest. It was like a military zone. It was like a war zone. Literally, streets were blocked off, hotels were locked down, police were everywhere. They even used some of the money that was set aside for Iraq to have water cannons, just because we came down to peacefully protest. So, workers don't have a voice, really, and workers don't have a say when these agreements are put together.

It just seems to us, in this particular case, this is a no-brainer. It is a no-brainer. We're, as a country, on the losing end of this agreement. So, I think that if you just step back and say, "Well, where does the worker come into play?" the worker comes into play in the unemployment line.

Senator DORGAN. Dr. McMillion, I've long appreciated your work, in which you've mapped out and charted and described what trade deficits mean to our country. Describe for me the ways that we, in 2008, end up with a largely wide-open market in our country for automobiles from around the world to come here, and, standing on a street corner of Seoul, not being able to see a foreign car. That doesn't happen by tariff. I mean, Mr. Brilliant described the 6.2 percent tariff. It's not a tariff issue, is it, with South Korea?

Dr. MCMILLION. No, it's not a tariff issue, it's—there are so many different things involved, Mr. Chairman. But, this is a system that evolved after World War II, when the United States was, far and away, the most technologically superior country in the world, and the rest of the world was in ruins. And our trade policy developed as part of our foreign policy, not as—not with very much consideration—really not with any consideration toward job creation and production here in the United States. It was a time when we thought we could pay any price and bear any burden. And now, as you say, incrementally, one free trade agreement—or one trade agreement following another, we've ended up with $2 billion a day that we have to borrow from foreign interests. Even in the middle of this worst financial crisis since 1933, today we're having to borrow $2 billion to pay for all the cars and computers and cell phones that we import.

Senator DORGAN. Let me just ask, isn't it the case that, with each succeeding trade agreement, things have gotten worse? I mean, this——

Dr. MCMILLION. Well, I——

Senator DORGAN.—this is a chart that shows the trade deficit, year by year by year. It seems to me it's very hard to describe those growing deficits as a success for our country.

Dr. MCMILLION. Yes, sir. And there are many things—let me just say two of them that are—that I think are particularly important. In, I believe, each of the years that you have up there, the United States was growing far slower than the world economy, half the rate in Korea, about a quarter of the rate in China. Now, the theory is that, trade balances, you have surpluses and deficits, depending on your position in the business cycle, but certainly if you're growing slower than the global economy, you're supposed to have a surplus. And so, not only have we been running these world-record deficits, about 5 percent of GDP over the last 8 or 10 years, but we've been doing them at a time when we're growing slower than the world.

Senator DORGAN. It's more than 5 percent, at the moment, as you know.

I want to ask Mr. Bozzella a question, and then Mr. Brilliant, and then I'm going to call on Senator McCaskill.

Mr. Bozzella, you're a member of Mr. Brilliant's organization, right?

Mr. BOZZELLA. I am, yes. Yes——

Senator DORGAN. Chrysler belongs——

Mr. BOZZELLA. Yes, we are.

Senator DORGAN.—to the Chamber of Commerce?

Mr. BOZZELLA. Right.

Senator DORGAN. And I have spoken to the CEOs of GM, Chrysler, Ford to say, "I don't hear much from your participation in the U.S. Chamber, except the U.S. Chamber is the biggest cheerleader for these trade agreements, and you're inside, apparently believing that the South Korea agreement, at least, undermines your own company's interest." Are you making that case inside the Chamber of Commerce?

Mr. BOZZELLA. Well, we have made that case inside the Chamber of Commerce. And, as you know——

Senator DORGAN. Has it leaked out?

[Laughter.]

Mr. BOZZELLA. Well, Mr. Chairman, we recognize that we have a difference of views with several members within the Chamber. You know, we certainly value the Chamber's efforts on a whole host of business issues. We disagree vigorously with them on this, and we would suggest that this is not, by the way, as some might suggest, you know, maybe one or two members of the Chamber who are concerned and disgruntled; we're talking about 80 percent of this imbalance being automotive. And so, it's essential that we not think of this in terms of the needs of maybe one or two members of the Chamber of Commerce, but we think about it in terms of addressing 80 percent of this imbalance.

Senator DORGAN. Now, Mr. Brilliant, you represent—and the Chamber does—what it perceives to be the interests of the Chamber—members of the Chamber and the country, as they see it, right? And——

Mr. BRILLIANT. Yes.

Senator DORGAN.—I'm trying to understand, this—we have been confronted here with U.S.-Canada trade agreements, with NAFTA, with CAFTA, with—you know, with all kinds of trade agreements, and you see what has happened to these deficits, year after year after year, going back to 1995. I could go back further. The deficits get worse. It appears to me—and I felt, at the time, I thought NAFTA was a horrible agreement, in terms of our own economic interests, and—Dr. McMillion points out that we now import more cars from Mexico, by far, than we export to the entire rest of the world. I have felt that these agreements have really undermined our economic interests rather than enhanced them, because the trade has not been two-way trade that is fair trade.

How do you see this chart with the red ink? Do you view it as a success?

Mr. BRILLIANT. Well, I think, first of all, the goal of U.S. trade policy should be to level the playing field in overseas markets to ensure we have market access. And if you look at the free trade agreements that we've conducted and concluded in recent years, we've not—we've seen gains, actually, in our export sales to those markets, whether it's Singapore or Australia or other markets. And we've ensured that we have greater market access. We've ensured that there are protections for intellectual property rights and for other issues.

Let me tell you—you've mentioned China several times this morning, Mr. Chairman—we have a very comprehensive paper on the state of the U.S.-China relationship which yearly we provide to the U.S. Government, with recommendations on how to address ongoing barriers to trade in that market, and we would welcome sharing that with you and your staff. We take on a host of issues, many of which are not tariff barriers.

So, when you look at the issue of merchandise trade deficits, we recognize your concerns, but we think the answer is in opening up other markets, ensuring that those countries that are not playing by international rules and standards do. And major trading partners of the United States, including China, have areas which we'd like to see addressed.

Senator DORGAN. But, you seem to be acknowledging that nontariff trade barriers are a problem, and yet, you do not insist that they be dealt with or corrected in the very agreements that we're discussing. The South Korea Free Trade Agreement that has been negotiated does not address the nontariff barriers that the South Korean government creates to try to prevent U.S. vehicles from entering their marketplace.

Mr. BRILLIANT. Well, this is where we would differ. We think that the U.S.-Korea FTA agreement does address many nontariff measures. It's the most robust on measures on transparency and dealing with standards. It allows our industry to get in very early in the process and address standards rulemaking in Korea. And we've seen evidence of this already, before the agreement is implemented in South Korea. This summer, our negotiators were in, talking about standards that affect the auto industry. So, I think—and I believe the U.S. auto industry was very much a part of that process. So, I think there is evidence that the South Korean government understands its obligations, but the value of this agreement is that the obligations are binding.

Senator DORGAN. It just seems to me that if the three major auto companies in the U.S., members of your organization, believe that 80 percent of the trade deficit with Korea is automobile trade-related, and they believe the protections in the agreement are not sufficient to address the nontariff issues, it seems to me that ought to be dispositive for the Chamber of Commerce.

Mr. BRILLIANT. Well, can I just make one additional point here?

Senator DORGAN. Yes.

Mr. BRILLIANT. There is one company of that three that has taken a neutral position on the issue of the FTA. And it's important to note for the record that General Motors anticipates possibly selling—exporting Chevrolets to South Korea as a result of the U.S.-Korea——

Senator DORGAN. I have visited——

Mr. BRILLIANT.—FTA.

Senator DORGAN.—with General Motors folks. I must say—let me just say how much I appreciate Chrysler being at the table, because it's not easy for them to come. Most auto companies will not come to the table and speak publicly about these issues. There all kinds of ramifications for doing so. It takes some courage for Chrysler to be here, but it's—I would say it's about time. Thank you, Chrysler. But, I understand why the industry has been eerily quiet for a long period of time, even as trade agreements, I think, have not served their interests.

Senator McCaskill? Thank you for——

STATEMENT OF HON. CLAIRE McCASKILL, U.S. SENATOR FROM MISSOURI

Senator MCCASKILL. Let me follow up——

Senator DORGAN. Thank you for being patient.

Senator MCCASKILL. Sure, yes.

Let me follow up with the silence of General Motors. I mean, isn't it true that, among all of our domestic auto producers, they're the only ones that have, in fact, invested in a plant in South Korea?

Mr. BRILLIANT. Well, General Motors does have a joint-venture relationship with Daewoo, but——

Senator MCCASKILL. So, Daewoo——

Mr. BRILLIANT.—but they are not silent, in the sense that they have provided input into the process, and they have made it clear that their position is officially neutral, but they do see benefits for the automobile industry.

Senator MCCASKILL. Let's talk turkey, here. I mean, GM is neutral because they've got skin in both sides of this game. I mean, GM is neutral because they've invested in a South Korean company, and they are anticipating making money off the cars they're making in South Korea with South Korean workers and shipping them to the United States of America. Isn't that true, Mr. Brilliant?

Mr. BRILLIANT. Well, actually, it's not true—that's not a full picture. First of all, every company has its own unique set of circumstances, and they need to represent themselves before this Subcommittee. But, let me tell you——

Senator MCCASKILL. Well, you're the closest I can get to them, since they're not here.

[Laughter.]

Senator MCCASKILL. Believe me, I'd be——

Mr. BRILLIANT. I appreciate that.

Senator MCCASKILL.—asking them, if they were here——

Mr. BRILLIANT. I appreciate that.

Senator MCCASKILL.—since they—they're kind of lurking around our offices right now, asking for seriously, seriously big taxpayer money.

Mr. BRILLIANT. I'd make a few points. First of all, Chrysler was on the Executive Committee of the U.S.-Korea Business Council. General Motors sits on it, currently. I think that speaks of their commitment to work with our Government and with the Korean government to address substantial barriers to trade that exist in that market, and have existed for years. We share the concern of the auto industry, broadly, about the competitiveness of the industry, in light of challenges to the industry here, domestically, but we also believe that the best answer is to knock down the barriers that exist in that market, which is why we were supportive of the U.S.-Korea Free Trade Agreement, because it does have binding obligations.

With respect to General Motors, I can tell you—because one of their top executives is—sits on our executive board—he has said, repeatedly, that they are going to look at opportunities to export from this market to South Korea once the FTA is implemented. I think that's an encouraging sign, that the Subcommittee should recognize.

Senator MCCASKILL. Let me ask you this, in an honest assessment, do you disagree that this free trade agreement will increase our automobile trade deficit with South Korea?

Mr. BRILLIANT. Well, I've seen evidence that it will increase exports to South Korea. The ITC report says that, for both passenger vehicles, as well as auto parts, it will increase exports. We anticipate, also, an increase of imports into the United States from South Korea. The percentages are obviously smaller, in terms of imports, because they're starting from a larger volume base. But, a lot of that could be diverted from other trading partners, whether it's Thailand or Japan or other places where automobiles are exported to the United States. And so, the overall impact is not clear.

What I can tell you is that—which was referenced earlier—we don't anticipate South Korea having the ability to ramp up its trucks and selling—because, first of all, they don't have that capacity, currently, and the tariff reduction is over 10 years. It's not like to—to have any evidence, short term, that that will, in fact, hurt our domestic automobile manufacturers here in the United States, the tariff reduction.

Senator MCCASKILL. It was a long answer. Let me try again. Do you disagree that this free trade agreement will, in fact, increase our automobile trade deficit, rather than decrease it?

Mr. BRILLIANT. I think the short answer is, it will have a negligible impact, either way, but it will, in fact, lower barriers, both tax and tariff, as well as dealing with nonstandard issues, that will provide more market access for our companies, going forward.

Senator MCCASKILL. OK.

Let me ask—the ITC report talks about hybrids being attractive. We've obviously had a tough time in Missouri with Chrysler. We've lost 3,800 jobs this year in automobile manufacturing in my state. Those families are sitting around today, scratching their heads, reading the news. They're trying to figure out exactly what has happened to them. I read, yesterday, there's a $3.5 billion bonus pool that is staying intact for Lehman Brothers as Barclays buys them, for the executives. And those families in O'Fallon and South County are sitting around, asking, "What has happened that we're writing checks of billions and billions of dollars everywhere?" I'm trying my best to let them know I get it, that I understand that they're scared and frustrated and mad as hell.

I guess one of the things that provided a little bright light in the materials I prepared for today was this idea that maybe there is a market for our Ford Escape hybrid in Korea. Maybe one of you can speak to that, whether or not you think there is, in fact, an appetite for hybrids, since they're not domestically producing hybrids, it's my understanding, in South Korea, and whether or not this would help, in terms of exporting of hybrids.

Mr. GETTELFINGER. I personally, Senator, do not think that it would. Look, South Korea's the fifth largest producer of vehicles in the world, they're the fourth largest exporter of vehicles. I'm hearing the positive spin on the agreement, but if this is true, why wouldn't it simply be done that, before we open our market further to them, that they open their market to us? That should be a precondition of going into this. Then, if—on the 2.5 percent tariff, that snap-back, if it exceeds what is reasonable or the trade starts getting unbalance, then put that 2.5-percent tariff back on. Let them step up to the plate and say, "Look, we are going to eliminate nontariffs." And then, let's put in this compensatory action to counter them by going after other exports, in the event they take advantage of us. And then, leave the 25 percent pickup tariff to a bilateral commission of the World Trade Organization. That was proposed, by a bipartisan group of Senators, to the Bush administration when this was being negotiated, in March of 2007.

I think you hit the nail on the head. On the one end of the table, we're talking dollars and cents and big bucks, and on the other end of the table, we're talking about how workers, their families, their lives, and their communities are impacted by these unfair free-trade agreements that are destroying our country.

Dr. MCMILLION. Can I say, Senator——

Senator MCCASKILL. Dr. McMillion? Yes.

Dr. MCMILLION.—that Toyota and others, in joint ventures with Chinese state-owned automakers, are already producing hybrids in China and exporting very heavily to Korea already. So, that's the competition. I think the idea that we're going to produce them here with our health and safety and all other costs related here, and sustaining our living standard with wage rates that we have to pay to pay——

Senator MCCASKILL. Unrealistic.

Dr. MCMILLION.—the mortgage, and export them to Korea is not in the cards.

Senator MCCASKILL. Mr. Brilliant?

Mr. BRILLIANT. I just would make one point, here, that for those hybrid models that are being sold right now into the Korean market, the tariff rates would go down to zero upon implementation of the FTA agreement. So, we could see expansion of trade. There are different phase-ins, generally, for hybrid vehicles, depending on the power system.

But, I'd go back to one other point. There are 70,000, now, vehicles being sold in South Korea, foreign vehicles being sold in the market. We have only 6,000 of that 70,000 share. I'd like to see us increase our overall percentage of the vehicles sold in South Korea, and I think the only way to do that is to make sure Korea lives up to binding obligations. I'm not sure the answer—I'm sure the answer is not letting the Europeans and the Japanese have more of that market. And the only way to ensure that is to make sure that we follow through on our commitments here.

Mr. BOZZELLA. I'm sorry, Senator, may I just——

Senator MCCASKILL. Sure.

Mr. BOZZELLA. I'm sorry. On the—this hybrid question, I think it is important to note, to Mr. Brilliant's point, that, in fact, the issue of covering the hybrids in a tariff cut was something that the Koreans resisted until the very last moment. Number one.

Number two, again, the issue isn't the tariff rates. The issue is a continual outcropping and uprising of nontariff barriers that have been—we've been in this market for 20 years now in Korea, so it's not like we've come to this lately. And so, if this agreement does not have a robust approach to nontariff barriers, I would be concerned about our ability to drive cutting-edge technologies that we develop here in——

Senator MCCASKILL. Which we're going to do, right?

Mr. BOZZELLA. Which we are going to do. And, as I said earlier, Senator, we are a company that exports around the world. We have—we do not have extensive manufacturing operations around the world. We are dependent on good free trade agreements being negotiated in order for us to gain market access.

Senator MCCASKILL. I heard you mention the Chamber of Commerce board of directors, and I want to say that I am not—I kind of—you know, pitched a tent in the middle on a lot of these issues. I've tried to be reasonable as it relates to the reality of world trade and the ability of the people I represent to export around the globe and participate in the global economy. I also, you know, want to look at every one of these trade agreements carefully and make sure they're fair to the men and women who work in America.

And I know that the Chamber of Commerce is on the front line here. And you mentioned your board of directors. And I just want to say to you today, Mr. Brilliant, even if you are not there at those board meetings, if the decision was made, in a Chamber of Commerce board meeting, to spend somewhere between $15 and $20 million on political advertising this cycle, completely on the other side of the aisle, I would like to understand the rationale behind that.

And we are all noticing it's unprecedented for the Chamber of Commerce to become this politicized in our election cycle. And for General Motors and Chrysler and all the members of the Chamber of Commerce, I hope they fully understand that this is a decision that somebody made at the Chamber. And I don't know on what basis it was made. But, for all of us who consider ourselves moderate votes, who consider us willing to listen to every side of every question—I have abandoned my party line with more frequency than almost any other Democrat in my caucus, and when I see these advertisements that are completely being paid for by the Chamber of Commerce, it really—it just makes me scratch my head. Who is making this decision, and why, and what are you saying to the people here that are trying to find the middle?

I just—I would be really interested to know if your board of directors signed off on that decision. Do you know whether or not they did, Mr. Brilliant?

Mr. BRILLIANT. Well, just a point of clarity. When I referenced "the board" where GM and Chrysler sat, I was referencing the U.S.-Korea Business Council, an affiliate of the U.S. Chamber of Commerce. I sit as president of the U.S.-Korea Business Council. I also sit as an officer of the U.S. Chamber of Commerce. But, my reference to Ford and—sorry—to GM and to Chrysler, in this context, was with respect to the U.S.-Korean Business Council.

Senator MCCASKILL. Well, I'm confused. Are you a member of the governing board——

Mr. BRILLIANT. I wear——

Senator MCCASKILL.—that decided to do this? Do you—were you aware of this decision? Did you have a part in it?

Mr. BRILLIANT. I personally did not have a part in this decision. It's a very complex, or a very detailed process by which we determine which candidates—or which candidates for elective office that we will support or not support.

Senator MCCASKILL. Doesn't look like it to me. It looks like——

Mr. BRILLIANT. Based on their——

Senator MCCASKILL.—it's pretty simple. If it's a Republican, you run it for them, and if it's a Democrat, you run them against it.

Mr. BRILLIANT. I'm sympathetic to your views. I am not here today to talk about that.

Senator McCASKILL. I get that, but——

Mr. BRILLIANT. I represent——

Senator McCASKILL.—it's on my mind.

[Laughter.]

Mr. BRILLIANT. Understood.

Senator McCASKILL. And it's on a lot of people's minds. And I just—I—you know——

Mr. BRILLIANT. Our Congressional staff is responsible for this and I will let them know of your concerns.

Senator McCASKILL. You want to——

Mr. BRILLIANT. I can follow up with your office.

Senator McCASKILL. Yes. You want to know why this place gets so divided and partisan? And you want to know why we can't come together and solve real problems that face our country? It's because this kind of stuff happens, and everybody around here, you know, starts seeing the Chamber of Commerce, not as a legitimate coming together of American businesses to try to promote American businesses, but the arm of one political party or the other. And it happens on both sides. I get just as cranky when I think folks on our side—but, this year there only appears to be one major actor, and it's the Chamber of Commerce. And I just wanted to—it's on my mind right now. I wanted to convey that to you. And I have a feeling you'll tell somebody about it.

Mr. BRILLIANT. I appreciate that, and——

Senator McCASKILL. Thank you——

Mr. BRILLIANT.—I will convey your views to the proper people in the chamber.

Senator McCASKILL.—Mr. Brilliant.

Senator DORGAN. Senator McCaskill, I think you just told somebody about it.

[Laughter.]

Senator DORGAN. Let me thank you for your comments and your participation.

And she raises a point that is very important, and a point that we hope you will deliver soon.

Does anybody on this panel believe that there is some epiphany that's occurred in South Korea that persuades them that they would like to reduce their trade surplus in automobile trade with the United States?

Mr. Cassidy, do you believe that? Let me just add, the reason I ask the question is, it seems to me they have had a very deliberate strategy for a long period of time, even post-1998, since we had an agreement, since we would have expected them to own up to the terms of the agreement—they have a decision about how they want to run their economy. They want to produce vehicles to be sold here. They don't want us to produce vehicles to be sold there.

So, the question is: Has the Government of South Korea, based on what they have told us and what they have said and so on, had some epiphany that tells us that the whole strategy there has changed, they'd like to actually have more U.S. cars shipped there and reduce their trade surplus with us on a bilateral automobile trade?

Mr. Cassidy?

Mr. CASSIDY. Senator, I think I concur with you on this, but my—the way I do that is, I've been looking at the exchange rate of the Korean won during—prior to and after the negotiations. And, in part, we were looking at all of the Asian currencies, because of our focus on China—why was China not working? And I kept noticing that, during the negotiation phase, that Korea was appreciating its currency. And I thought, well, maybe this was because of the finance minister, Han Seung-soo, who was, I thought, a very responsible finance minister. And then, after the negotiations were over, the exchange rate then depreciates again. And this seemed, to me, classic Korean policy of using the exchange rate during the negotiation to keep that offer on the table, and then, after the negotiation is reached, that the agreement has been notified, the exchange rate goes down.

And I've seen this far too often in my dealings with Korea, in particular; other countries, as well, but, I think this was a classic example.

So, I come to the same position that you are, but I come to it through the—just observing the exchange rate.

Dr. MCMILLION. Senator, could I say that——

Senator DORGAN. Yes.

Dr. MCMILLION.—there has been a epiphany in the business community and the political community in Korea over the last 2 or 3 years, and that epiphany is an appreciation of the challenge that they face from China. There is enormous discussion in Korea, in the business community and the political community, about the technological threat that they feel very intensely from China. And the last thing they want to do is to see their auto and other industry surpluses with the United States and the West reduced, because they're so worried about competition from China. So, there is an epiphany, but it goes exactly in the other direction.

Senator DORGAN. Mr. Brilliant?

Mr. BRILLIANT. We have opportunities, obviously, through the Council, to meet with the senior leadership of Korea all the time, and we're constantly reminding them of the obligations that they're undertaking in the South Korea Free Trade Agreement. We'll see the Prime Minister later today in New York, we'll see the President of Korea in October, in Seoul. And of course we're going to continue to remind them of the importance of living up to—or following through on the obligations they're undertaking in this U.S.-Korea Free Trade Agreement.

And we know the history, here, and we are very sensitive to the concerns of the U.S. auto industry. Our view is just that, if you look at the totality of circumstances, this is a very good agreement, not just for the auto industry, but for service providers, for farmers, for manufacturers, which is why we are putting our weight behind this agreement.

Senator DORGAN. Mr. Brilliant, you say you know the history. Has the history largely been a failure, at least for the automotive sector in this country? Would you view the history with South Korea as less than satisfactory, or, as I would call it, a failure?

Mr. BRILLIANT. I wouldn't call it a failure, but, of course, market access in South Korea for foreign vehicles, and particularly U.S. auto manufacturers, has not been satisfactory. It needs to be better. But, managed trade is not what we're looking for. What we're looking for is to eliminate the barriers that exist in South Korea that prevent our automobile manufacturers from selling in that market. And we think the FTA takes into account well, addresses many of them—not all of them, but many of them.

Senator DORGAN. Do you——

Mr. BRILLIANT. And the answer is not to let the Europeans and Japanese seize the opportunities that may exist if we don't get this deal done.

Senator DORGAN. Mr. Cassidy, he just described managed trade. In your judgment, is China, South Korea, just to name two, engaged in managed trade?

Mr. CASSIDY. Well, I would certainly say, in the case of Korea, that's been my experience, in that it has been much more managed. That's a small economy; and being surrounded by major countries, I think the policy position of the government has been to make sure that their trade position is maintained.

I think China's is a little bit more complex, and I see that as an evolution of the economy. So, I can't honestly say that they manage it in quite the same way that the Koreans do, or that they are capable of doing that, but they are able to manage it through their exchange rate. And, once again, I raise that issue as a critical item.

Senator DORGAN. I read the piece that you wrote about the runup in the won during the negotiation——

Mr. CASSIDY. Well, that's——

Senator DORGAN.—and prior to——

Mr. CASSIDY.—the won. But, even in the China case——

Senator DORGAN. I——

Mr. CASSIDY.—what they have done is, they have—that currency has depreciated——

Senator DORGAN. I'm sorry.

Mr. CASSIDY.—by a significant amount.

Senator DORGAN. Even more than Korea.

Mr. CASSIDY. That's right.

Senator DORGAN. And China is a huge——

Mr. CASSIDY. And what happens in Asia is, most of the Asian currencies are aligned to China. So—to maintain their competitive position, vis-à-vis China—so, I—yes, they do, but not quite to the same detailed way that, I think, the Koreans do.

Senator DORGAN. Mr. Gettelfinger, you indicated you didn't have much access to USTR, in terms of the voice of workers having some sort of input on what these agreements might mean to people that work for a living in this country. That's a shame, because it seems to me, United States trade Ambassadors negotiate on behalf of our country's interests, and a portion of those interests is the interests of American workers, in a very real way.

Mr. Bozzella, you apparently did have access. Chrysler, you indicate in your testimony, did have access to USTR, and continually pushed USTR, but to no avail. Can you describe that again?

Mr. BOZZELLA. That is accurate. We did appreciate the opportunity, over a period of time, to engage with the USTR. I would note that, as we got to the end of the process, frankly, with a U.S.-sided, self-imposed deadline, that that access and that opportunity for dialogue ended, and we were, frankly, surprised at what ended up coming out of the automotive chapter.

We have said—had said, repeatedly, that, given our history—and Mr. Brilliant knows the history—we lived the history, we've been at this for 20 years—that we argued that what we needed was demonstrable progress prior to the U.S. giving up what little leverage it has. And that was clearly rejected.

Senator DORGAN. Mr. Bozzella, what has happened to sales from your corporation of Dodge Dakota pickup trucks in South Korea?

Mr. BOZZELLA. Well, the Dodge Dakota pickup story is instructive, for a number of reasons. We have really seen—we had a promising product that was a small, compact pickup truck that was designed to appeal to trades people and small-business people in Korea. We launched that vehicle, with high expectations. And, frankly, we ran into three barriers along the way, very significant ones. I think you alluded to them a little bit earlier.

But, just to illustrate, because I think it's important, after launching the vehicle and seeing an increase in sales, albeit off a very, very low base, we were informed by authorities in Korea that the tax status of that vehicle was going to be reclassified. In other words, the vehicle, which is a truck—it is a—it's built on a frame, it's a pickup truck, it has got a bed in it, it's a pickup truck on—in every country on Earth—in Korea, it was reclassified to a car, which resulted in a tax increase of almost $5,000. We were, of course, dismayed by that and saw a drop in sales. We engaged in a process to try and get that turned around, and we were, fortunately, able to do so, and then ran into a second barrier.

At that point, it was told to us by a different authority, a safety authority, that, in fact, this Dodge Dakota vehicle, with a cover on it, which, of course—any trades person or small-business person who wants to use a pickup truck's going to put a cover on it—that the cover was illegal. There was press accounts to this event—to this effect, which created another drop in sales. And then, we, frankly, through—had an intercession with the embassy, through Senate staff, to raise this issue and to say we really need to have some fairness with regard to this product.

I would say there was an interesting sort of irony and Catch 22. The other authority that declared the vehicle a car and then let it become a truck again then said, "When you put the cover on it, it looks like an SUV, so maybe we should tax it as a car again." Now, we managed to avoid that little problem, and then had the vehicle—finally, the safety authorities in Korea agreed that it should, in fact, be legal with the cover on it. And then, just finally—they came back and said, "No, covers with glass windows would be illegal"—and then, finally, we just gave up. We put bars on the windows and sold the vehicle like that.

Senator DORGAN. And so, what have sales of Dodge Dakota pickup trucks been in——

Mr. BOZZELLA. Well, needless to say, they've been low. And we have two problems. One is, we've—the Korean government has left consumers with great uncertainty in their minds as to whether this product is a legitimate product. And, number two, you've got to really wonder about the tenacity of a company to kind of continue to——

Senator DORGAN. Yes.

Mr. BOZZELLA.—try and get——

Senator DORGAN. Well——

Mr. BOZZELLA.—into this market.

Senator DORGAN.—it seems to me the Korean government did exactly what it wanted to with the Dodge Dakota pickup truck. They, through a series of approaches, sent signals to the Korean consumers, "Don't buy this." And that represents what I think has been a modus operandi of the Korean government. I raise it—I wrote it, a while back, and I suppose, because my state's name is in Dodge—we kind of like the name "Dodge Dakota." We like somebody that would name a pickup truck after our state.

[Laughter.]

Senator DORGAN. But, from what I read and understood, that vehicle all of a sudden garnered some attention and some consumer preference in South Korea, and you began to see some excitement of, "Maybe this is the vehicle that would really capture attention." You saw that in the sales, and immediately the Korean government began to take action that is not described in these agreements. It's just the action that they want to take to have the Korean people understand, "You need to be driving Korean cars, cars made in Korea, produced by Korean workers." There's kind of a sophistry of low expectation by everybody, I think, on these trade agreements.

Mr. Brilliant, I remain surprised that you would not call it a failure when we do a 1998 agreement with South Korea, and the deficit increases substantially, and we end up with a very substantial deficit in bilateral automobile trade, with all kinds of self-evident actions by the South Koreans to keep our vehicles out. It seems to me, just by classic definition, that has been a failure. And had you said you agreed with that, then I would have asked, if you believe that's a failure, what gives you a belief that there's going to be a different result from doing the same thing?

I'll give you a chance to respond to this chart that shows the statement of South Korea's trade minister. "The free trade pact with the United States is expected to boost South Korea's auto-related trade surplus by roughly $1 billion annually," the Korean government said Wednesday. The [Minister of Commerce] said . . . that exports of finished cars may shoot up around $810 million due to Washington's scrapping of its 2.5 percent tariff for South Korean cars. Imports could rise $72 million after Seoul removes its 8 percent tariff, giving South Korea a surplus of about $740 million a year."

I assume you must disagree with the Korean government, because if you agreed with the Korean government, you would think this wouldn't be much of a deal for us with respect to bilateral automobile trade. So, you would take issue with the Korean government with respect to their assessment of this trade agreement?

Mr. BRILLIANT. Well, just to be clear, Senator, what I said before was, one, some of the specific commitments that were made in 1995 and 1998, the South Korea Government did implement. However, I did not say—and I would not say—that that led to a sufficient market share for U.S. automobile manufacturers. Clearly, it did not. Which is why we feel strongly that it was important to address some of the outstanding barriers—tariff and nontariff barriers—

deal with regulatory transparency, ensure that we have a strong, robust, and innovative dispute resolution process, and, of course, deal with issues regarding standards, which this agreement does deal with, and, once implemented, would help level the playing field. It doesn't guarantee market access, but it certainly puts our automobile manufacturers in a better position than they would be in the alternative——

Senator DORGAN. But, it——

Mr. BRILLIANT.—in our view.

Senator DORGAN. But, it is a curious way to grade a foreign government, in terms of what they did rather than what they didn't do. What they didn't do is much more important to those of us who are evaluating a trade agreement with a country that did not do the things that it represented in the previous two agreements. Why would you not emphasize, here, what was not done that was represented to us as something that would be done, and use that as some guidepost of whether this agreement makes much sense?

Mr. BRILLIANT. Well, one thing about this agreement is that the various undertakings are binding obligations. And I cannot underestimate the importance of, one, our automobile manufacturers being part of the standards process. I mean, there has not been regulatory transparency in Korea—not just for the auto industry, but for a lot of industries—which is one of the fundamental tenets of this FTA agreement, which is to ensure regulatory transparency in the process, allow our auto manufacturers the ability to engage, early and often, in the process to provide input on standards. That's an important step forward, and it's already evidence of the reaction of the South Korean government to those obligations by sitting down with the U.S. Government, this past summer, and addressing one of the standards that our industry was concerned about.

Senator DORGAN. I want to give the rest of you an opportunity to answer whether you think these so-called, "binding agreements," are measurably different, in terms of the results they will achieve, than any other promises or agreements that have resulted from the previous two attempts to deal with the bilateral trade relationship with South Korea.

Mr. Cassidy?

Mr. CASSIDY. That's a very good point, because it—the question is, what is the nature of the binding agreement? Under the FTA, it would be a binding panel—arbitration—binding arbitration. But, that's not to say that all the other agreements were not binding. They were. We have section 301, in the United States, that provides an opportunity, when a country does not live up to its agreements, to take action. So, there are different forms of binding. And all of those agreements were binding in that sense. They were agreements, they were covered under the provisions of section 301.

So, it's—this deals, on the FTA, with the specific mechanism—a bilateral panel that would presumably make independent decisions. But, all the agreements that we negotiated were binding.

The question is, are they going to be implemented? Will the government—will the administration take action when those agreements are not met? Using China, again, we negotiated a section in the China agreement, section 421, under which—when market disruption takes place, the administration could take action against China. All the cases that were brought to the Government—I think there were five cases—all of them were denied by the Administration. So, the effectiveness of that provision is eliminated.

So, the question about the agreement is, are the provisions meaningful, but will the Administration—whatever Administration—will they actually implement them?

So, I think it's a ruse to say, "This has binding commitments; whereas, no other agreement, presumably, did." That's not correct.

Senator DORGAN. Mr. Gettelfinger, any comment on that? Do you have——

Mr. GETTELFINGER. Well, other than that I think that we have seen a lack of enforcement of trade agreements over the years, whether it's Korea or other countries, and the mechanism that's put in here has nothing to do with nontariff barriers—nontariff, from a standpoint of the arbitration process. So, I just see this as—everything I hear is "could" and "would" and "may" and "perhaps we will gain benefit." We see this as a total failure, in its current state.

Senator DORGAN. Mr. Bozzella?

Mr. BOZZELLA. Well, again, I want to—I want to make it clear, we seek to achieve success in Korea. We want to—we want to be a winning company there. We want to be successful in that market, and we value the opportunity to do so. I think the provisions that have been discussed, the dispute resolution procedure and the like, are not a—an adequate match for the challenges we face, in terms of Korea's history with regard to nontariff barriers.

Senator DORGAN. Dr. McMillion?

Dr. MCMILLION. Mr. Chairman, I may be the only nonlawyer on the panel today, maybe the only one in the room, so let me say that—maybe I can get away with saying this—that this seems like a full employment for lawyers set of interests. It seems to me that the concern should be for the results. Whether you're running a company or you're running trade policy, it seems to me that the objective should be the results, not trying to stab little beads of mercury with each of these—I understand the need for a rules-based system, but at some point it's the results that matter, and we're not getting the results we need.

Senator DORGAN. Mr. Brilliant, you wanted to make a final comment?

Mr. BRILLIANT. I do, just three quick points.

First of all, I think the snap-back provisions are very important and should not be understated in the dispute resolution process. If, in fact, we see a nullification or impairment of the obligations that South Korea is undertaking in this FTA, and the tariff was put back on vehicles coming from Korea to the U.S. market, that would have a annual impact of about $200 million on South Korean auto manufacturers. So, that's not insignificant.

The second point I'd make is that the detailed processes laid out in the agreement—dealing with regulatory transparency, dealing with the working group and the ability to get in early in the process—that's not insignificant either. It's much more detailed than in past agreements, which is why this aspect of it is not to be understated.

And the third thing is, I think we have to be somewhat encouraged by recent statements by Korean government officials acknowledging past import campaigns—anti-import campaigns—and recognizing they have to address this in a very public way.

Now, obviously, we need to hold them—their feet to the fire on that. And we need to make sure that those campaigns are a thing of the past. But, we have not seen recent evidence of that in the last year, and we're going to continue to work on that, because we have our members' interests at heart when we advocate for these agreements.

Senator DORGAN. I want to thank all of the witnesses today. I do want to make a short comment on what we have heard.

In other areas of this Capitol, we have hearings going on about $700 billion bailout to address a prospective financial collapse if nothing is done. And one portion of that, that has undermined the economic foundation of this country, in my judgment, has been the trade deficit. Now, there are a lot of things that have gone on. The selling of toxic mortgages by greedy brokers, greedy mortgage banks, greedy hedge funds, investment banks, all the way up the line; mortgages that, as most of you have read and seen, that advertise, "If you've been bankrupt, come to us, we'll give you a loan. You have bad credit, slow pay, no pay, bankrupt, sick credit, we'll help you out. You can get a loan from us." I've shown all those advertisements on the floor of the Senate, and will do some more this afternoon.

So, we had a lot of bad loans being made, called subprime loans; in some cases, with 1- and 2-percent entry interest rates, and resetting at 10 and 11 and 12 percent, 3 years later, in circumstances where the borrower couldn't possibly repay. In some cases, no principal payment. In some cases, no principal payment and no interest payment for the first 12 months, all of it put on the back end of the loan. All of them—almost all of them, with prepayment penalties locked into 9-, 10-, 11-, 12-percent interest rates in 3 years when it resets, with prepayment penalties, so they could put these together in securities, like you pack sawdust into sausage, years ago, you put together good and bad and securitize it, settle it upstream. Everybody was making massive amounts of money. And now the whole thing is collapsing, and they're all scratching their heads, wondering why.

At the same time that all of this happening, you have a trade deficit of $700–$800 billion a year, you have a fiscal policy budget deficit that President Bush says is something between $400 and $500 billion. It is not that at all. The deficit is what we have to borrow each year in fiscal policy, and it's closer to $800 billion than it is to $500 billion.

So, add trade and fiscal policy deficits, you get a $1.5 to $1.6-trillion deficit. That's before the bailout of AIG, it's before Freddie and Fannie. It's before the $29 billion for the Bear Stearns acquisition. It's before the $700 billion.

All of this plays a role in undermining the economic—foundation of this country's economy. I don't know what the solution is, but it seems to me you start, a step at a time, putting things back on track. If you're going to start, a step at a time, in trade, it seems to me that you create trade policies that encourage trade, because

I think trade is good, and I think plenty of trade is better, as long as it is fair. But, trade and trade agreements, in my judgment, must be mutually beneficial to the countries that engage in them. And this country has been, in my judgment, unbelievably ignorant in being willing to accept trade agreements that are not mutually beneficial.

You don't have to take my word for it. Take a look at the map that shows the unbelievable avalanche of red ink, year after year, that grows.

And so, this is one piece, this discussion, a small piece of a larger problem of trade. This is about a South Korea agreement. It's about bilateral automobile trade inside that agreement. But, step by step, and block by block, piece by piece, all of this adds up to a great deal of insecurity in this country by people who take a look at this and say, "What on Earth is going on? Who's standing up for our interests here? How is it you sign up to deals that undermine the interests of this country?"

That's why I've held a hearing just on this subject, trying to understand, how is it we get ourselves in this position? It's not surprising to me that we have a substantial economic difficulty in this country if we have people shuffling around with their hands in their pockets, watching bad loans being made—at the Fed—yes, Treasury—regulator offices all across this state were—or, all across this city, rather—have been boasting, for almost a decade now, that they won't regulate. They're very interested in being willfully blind.

All of this goes on under the lack of interest by those that we are paying each month to provide oversight, and we've had bad decisions made in 1999 by deciding what we're going to is create financial homogenization of big holding companies by getting rid of Glass-Steagall, the very protection that we put in place following the Great Depression so that we didn't merge banking with unbelievably speculative areas of real estate and securities. Got rid of that in 1999. I didn't support it, but Congress got rid of it, under the rubric of something called, "financial modernization," a misnamed piece of legislation, if ever there was one.

So, we find ourselves, today, on a Wednesday, in pretty deep trouble, one part of which deals with international trade causing very large deficits that undermine this country's currency—play a role in undermining this country's currency at a time when we need to see evidence of economic strength and not economic weakness.

My hope is that, as Congress works through all of these areas in the coming days and weeks, that we will begin to rethink, not whether our country wants to lead the world in the right direction, because we have leadership responsibilities as we put this back together, but, in trade, whether we want to lead in deciding that there's a new day for trade. We say to South Korea, "No more bad deals with you. First of all, we're going to negotiate deals with you and China and others, that are mutually beneficial to you and to us, that enhance trade between our countries, enhance trade that is fair. And you should understand it's a new day. If you're not interested in that, then maybe you can sell all those 800,000 cars in Kenya. But, if you're interested in resolving the disputes and the differences and the imbalances that have grown, and want to have a trade relationship with this country that's fair to both countries, sign us up, we're interested in that."

This trade agreement, in my judgment, falls far, far short of that, and, in my judgment, will almost certainly not be supported by this Congress now. It's not going to be taken up before the end of this Congress, I believe, unless it is modified in a very substantial way. This trade agreement will not be embraced by any Congress, because I think it's a new time and a new day, and there are new requirements that we set for our country in our participation in the global economy.

It is a global economy. We are participating in that global economy. But, we must insist that participation represent our interests, as well. Too many of these trade agreements have not done that.

I thank the witnesses for being willing to come to Capitol Hill today and lend your voice to a public discussion about these issues.

This hearing is adjourned.

[Whereupon, at 11:50 a.m., the hearing was adjourned.]

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