Presentation of Linda Dempsey before the Farm Foundation
April 26, 2017

Thank you, Constance. It is a great pleasure to be with all of you today. Especially to talk about how we can harness our trade policies to grow jobs throughout every part of the United States.

The National Association of Manufacturers – the NAM -- is the largest manufacturing association in the United States, representing over 14,000 manufacturers small and large in every industrial sector and in all 50 states. Manufacturing employs more than 12 million women and men across the country, contributing more than $2.17 trillion to the U.S. economy annually.

If U.S. manufacturing were a separate country, it would be the ninth-largest economy in the world.

The NAM represents that diverse manufacturing economy. More than 90 percent of our businesses are small and medium sized companies that are the backbone for the country and also for our larger manufacturers.

Manufacturers are in virtually every district, including throughout rural America.

Indeed, according to the Department of Agriculture's Economic Research Service, 341 rural counties were manufacturing dependent, accounting for nearly 18 percent of rural counties, second only after farming.

And more wages are made in manufacturing than in farm production in rural America. Notably manufacturing wages are the second highest wages in rural America, just behind mining.

Overall, U.S. manufacturing wages are higher on average than other sectors of the economy, with an average wage of more than $81 thousand.

Also, manufacturing sectors tied to the agriculture economy have grown as agriculture production has grown over the past decade.

For example, from 2005 to 2015, U.S. fertilizer value-added manufacturing increased by 165 percent, and U.S. farm machinery and equipment output increased by 67 percent, while U.S. crop and animal value-added production increased by 60 and 54 percent respectively. So if you're hearing that farm production is increasing, that's good news for manufacturers across America too.

Yet, time and again, we read headlines saying that manufacturing in the United States is yesterday's news, that jobs aren't coming back, or that we can't grow our industry.

That simply isn't true. Manufacturing isn't disappearing. It is changing. It is transforming.

Modern manufacturing doesn't look like a lot of the manufacturing we grew up with or our parents grew up with.

So, saying manufacturing's best days are behind is like someone saying, "Well, young people don't have landline telephones at home, so the telecom companies must be gone?"

We are innovating. Manufacturing is present across rural and metropolitan America. We remain the backbone of the U.S. economy and are manufacturing more than ever before. And we still haven't reached our full potential.

Also in stark contrast to the headlines on manufacturing's demise is what manufacturers in all states are telling us is one of the greatest challenges facing modern manufacturing in America: that is filling the jobs we are creating.

Today, there are more than 350,000 manufacturing jobs UNFILLED across the nation. Within 10 years, manufacturing is forecast to have more than 2 million positions <u>open</u> and unfilled. And these are jobs of all types from electrical engineers to electricians, from research scientists to machinists and welders.

This is deeply troubling because we hear so often about the other side of the manufacturing story—changing times have caused some facilities to consolidate, others to close in many states across the nation where workers lose their jobs, impacting many communities. Where manufacturing facilities remain in place, they are often manned by many fewer workers, even as the output has increased. While trade has often been used as a scapegoat, it is a fact that America manufactures much more than ever before, but does so with fewer workers. Productivity, lean manufacturing and efficiency and a move to more high-value manufacturing is at the heart of many of these changes.

But if you're a manufacturing worker of many years, and your community's facility had to shut down, it doesn't matter to you if the larger industry is thriving or your company is producing more, by consolidating operations in a different state. Your world has been turned upside down.

In the most recent election, we saw—like never before—the frustration of people who feel stuck in communities where new opportunities haven't yet matched those losses. We must find ways to bring more of these Americans—the ones wondering if they still have a place in the modern economy—into the world of modern manufacturing where jobs exist now and can continue to grow it we get our domestic and international policies right.

It's not just about "bringing jobs back" from the past. It's about connecting more people with jobs needed now and in the future. We must rethink our country's outdated approach to education and training, so we prepare Americans for the jobs that will be in demand in the coming years and decades—and "future-proof" their careers.

We also need to create more jobs – which frankly requires more demand – and more production and more sales to meet that demand. To build those opportunities for growing the U.S. manufacturing workforce, America must undertake actions to boost its competitiveness. Tax and regulatory policy, and modernizing infrastructure are vital to improve the fundamentals of the American economy to make it more competitive.

Improved trade policies and agreements, including a modernized NAFTA, also can and should play an important role.

> Advances in technology and transportation over recent decades have created substantial new opportunities for manufacturers in the United States to reach millions of foreign consumers.
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> That interconnection has also brought increased competition from growing manufacturing sectors around the world, in some cases fueled by market-distorting and discriminatory trade practices that put our manufacturers, workers and communities at an unfair disadvantage.
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> With the world's most productive manufacturing sector in the world, but a domestic market that represents only ten percent of global consumption and growing global competition, manufacturers in the United States need more robust trade policies and agreements to grow.
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> When markets are open and rules of fairness and equal opportunity are enforced for all, manufacturers in the United States can and do succeed.

What we've all heard from the new administration is that a NAFTA renegotiation will be the first major trade policy endeavor. That is fitting given that NAFTA was the first of the modern free trade agreements negotiated globally and put into place 23 years ago.

> It was completed before we could hold access to the internet in our hands or on our wrists. Before major technological and energy innovations helped changed what and how we manufacture here, and around the world.

For manufacturers in America, the North American commercial market is our most important market today.

> Consider that value-added manufacturing output has nearly doubled since 1993 to its highest level ever and the United States exports more than half of what it manufactures.
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> <u>Yet, over one-third of U.S. manufactured exports are sold just to Canada and Mexico</u>, which is frankly incredible when you consider that those countries represent only 5 percent of world GDP minus the US
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> Manufacturers have <u>tripled exports to Canada and Mexico since 1993</u> and manufacturers in the U.S. sell more to Canada and Mexico than our next top ten foreign trading partners combined.

Both countries purchase more from the United States than anywhere else in the world – by far. Indeed, 51 percent of Canada's imports and 43 percent of Mexico's worldwide imports of manufactured goods come from the United States.

Consider as well that more than 2 million manufacturing workers at over 43 thousand manufacturing firms across America currently depend directly on **exports** to Canada and Mexico for their jobs and many more workers depend on the trade and investment relationship. Notably 94 percent of manufacturing firms that export to Canada and Mexico are SMMs.

Many manufacturing industries boast North America as their largest overseas sales market.

- 36 out of 42 manufacturing sectors in the United States count Canada or Mexico as their top foreign purchaser, including chemicals, motor vehicles and parts, electrical equipment, etc.
- Canada and Mexico purchase 50 percent or more of the total U.S. manufactured goods exports for 14 U.S. manufacturing sectors, including steel, HVAC and refrigeration equipment, and motor vehicles bodies and trailers.

Canada or Mexico are the foreign top destination for manufactured goods from 40 states and the top one or two destination for 47 states.

As well, manufacturers benefit from the growth experienced by other sectors of the economy in the North American market. Consider that when as farmers have greatly expanded their exports to Mexico, they require more tractors, cold storage equipment and many other manufactured goods in their production. Manufacturing, agriculture, services and technology are more connected than we sometimes think about.

Consider the example of Terry Wanzek, a pinto bean farmer in Jamestown, North Dakota, who ships beans to Mexico. Terry said in a July 2016 Grand Forks Herald op-ed that when Mexico buys his pinto beans, his family pours the money paid by Mexican buyers into local businesses, from the dealer who sells and services their tractors and machinery to the insurance agents who protect them against losses and all the other vendors who supply their operation.

The 23-year old NAFTA is certainly in need of updating and we are looking closely with our broad membership at areas of potential improvement.

We know that barriers and problems continue to exist in both Canada and Mexico that have not been dealt with under NAFTA, from weaker intellectual property protection than in the United States, to challenges in customs and trade facilitation that limit more cost efficient and speedy access into Mexico and Canada.
For example, both countries have very low *de minimis* thresholds, subjecting small-value shipments to much higher customs documentation requirements than the United States.

There remain technical barriers to entry in both markets. Mexico has also exempted its energy sector and others from some core rules of the road that limit the ability of manufacturers in the United States to participate as fully as they'd like in those sectors, to the detriment of manufacturing goods exports and sales.

But as we think about a next stage NAFTA, there are some key principles that are critical for manufacturers as we define that renegotiation, which I call doing it RIGHT.

By RIGHT, I Mean

R = rules. We need strong rules reflecting U.S. principles, U.S. law, and U.S. values because those rules promote fair competition and a level playing field.

- We need rules of <u>fairness and transparency</u>;
- Rules that <u>prevent discrimination</u>;
- Rules that ensure that <u>regulatory processes are open, fair and science-based</u>;
- Rules that <u>protect and enforce our basic private property rights</u>, including intellectual property and investment, as contained in our laws and our constitution.
- Rules that provide reciprocal access to government procurement markets.
- Rules that will be enforced through strong <u>neutral dispute settlement</u> – including state-to-state and investor-state – to ensure <u>full enforcement</u> of these rules.

And we need to work on rules to strengthen basic trade principles with respect to third countries. For example, could we see greater collaboration and coordination by our three countries to address <u>unfair trade from China and elsewhere, subsidies and overcapacity, global IP theft other common trade challenges.</u>

Congress identified the core rules as part of the Trade Promotion Authority legislation enacted in 2015 and are vital to promote U.S. manufacturing competitiveness.

Many of those rules are already in the NAFTA to some degree although there is certainly more work to be done, particularly on global challenges.

I = innovation. A lot has changed since 1993 when the NAFTA negotiations were concluded. So whether it is the digital economy, our machine to machine, GPS and NASA mapping technologies that help our farmers see crop yields at the dashboard or the intellectual property rules that have helped promote that innovation, the North American commercial relationship and rules that govern it need to reflect better and promote that innovation.

G = growth. I can't emphasize enough that North America is U.S. manufacturing's largest market. It is also a competitive platform which has already helped US manufacturing grow in a tough competitive world. Manufacturers in the United States have been able to use partnerships with Mexican firms and Canadian firms to produce more efficiently and produce better products that compete more successfully in the United States and overseas. The rules and the outcomes of an updated NAFTA need to promote even greater growth and competitiveness.

H = help not hurt America's industries and workers. As we work to improve this agreement, we cannot put at risk the over 2 million manufacturing workers whose jobs depend on exports to these two countries or harm the over 43 thousand manufacturing firms in the U.S. export to these 2 companies, most of them small businesses.

It is worth noting that NAFTA gives the United States much more preferential access to Mexico than its gives Mexico to the United States.

> In the absence of NAFTA, manufacturers in the United States would face an average industrial tariff in Mexico (5.7 percent), which is nearly twice as large as the tariff that manufacturers in Mexico would face on their exports to the United States (3.2 percent).

As we look at what can and should be done to improve that relationship, let's make sure it helps those workers, their communities and those firms and many others. And that changes are not ones that undermine U.S. manufacturing competitiveness in a very tough global economy.

T = timely. Depending on the scope of these negotiations, they could move quickly or take longer time. Negotiations that go on for a long time worries manufacturers a great deal.

I hear frequently from small companies, from medium size companies and even from the larger companies. They're telling me that the customers are calling with questions. Will they still be able to supply our manufacturing goods? What is going to change? Are our costs going to go up? Oftentimes the customer was prompted by our rivals in Asia, Europe, and South America that have called into question the reliability of products made in the United States and in North America.

Make no mistake, our competitors overseas see a real opening with the current uncertainty to secure more of the market in our country, and in Canada and Mexico, from manufacturers in the US. And they are going to keep pushing our customers that our products are not reliable until the uncertainty is over. So any NAFTA renegotiations needs to be done in a very timely manner.

In short, we want a negotiation that has the core

- Rules of openness and fairness
- Innovation at the heart;
- Grows our manufacturing economy;
- Helps not Hurts; and
- Is Timely.

Spell that out and you get a NAFTA renegotiation that must be done R –I- G- H- T-.

The NAM looks forward to working with the administration, congress, our businesses, communities and other stakeholders around the country to get a NAFTA renegotiation done RIGHT.

To that end, I would just like to conclude by emphasizing how important it is for the Senate to move on the nomination of Ambassador Robert Lighthizer, to be U.S. Trade Representative – the congressionally designated lead U.S. trade negotiator.

> Bob is extremely talented, smart and dedicated advocate for U.S. industry, jobs and fairness in the global economy. Although formally nominated on January 20, he has yet to be confirmed by the U.S. Senate. I am happy to see that he was approved unanimously by the Senate Finance Committee just yesterday.
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> Manufacturers want to see the Senate move swiftly to get this nomination done, so we can have strongest possible team – with Secretary Wilbur Ross at Commerce as a leading voice for manufacturers as well – to move forward a robust trade policy.

With strong leadership, partnership with congress, and a focus on getting this negotiation done RIGHT, I am hopeful that a NAFTA negotiation will help manufacturers in the United States grow even stronger and help our communities throughout rural and all America to grow and provide the good-paying jobs that every American deserves.