

Prioritizing Industrial Policy in a COVID-19 World *AAM Policy Recommendations for Relief and Recovery Spending*

Dear Senators and Members of Congress:

As our nation continues its response to the coronavirus pandemic, Americans are looking to their elected officials for policy actions to restart a stalled economy and put people safely back to work. At the same time, our citizens are looking to the future and for policies to promote growth and broadly shared prosperity. Americans know that a range of actions need to be taken, from investing in infrastructure, innovation, and manufacturing to better managing trade policy. Your constituents recognize that, on this latter policy area, our flawed relationship with China is the most persistent problem and must be addressed.

Years of tax and trade policies that encourage outsourcing and a failure to invest in our domestic manufacturing base have brought into clear view our inability to protect the health and safety of Americans during a time of national crisis. In recent months we have become painfully aware of the tragic inadequacy of broken supply chains for face masks, ventilators, pharmaceuticals, and other goods essential for a pandemic response. This should be a valuable lesson for policymakers, one that must not be forgotten after the immediacy of this crisis fades. It is simply unacceptable to continue relying so heavily on foreign-produced goods for the products needed to maintain our national health.

America is dangerously dependent on China and other nations, and we must presume the industrial incapacity revealed by the coronavirus response also extends deep into our supply chain for products and materials necessary to equip our military and rebuild critical infrastructure. Now is the time to act. We must be better prepared for the next crisis, and that requires taking bold action, starting right away, that both strengthens our national security and boosts the economic welfare of all Americans.

The United States is desperately in need of an industrial policy that prioritizes domestic production and strengthening supply chains over outsourcing and imports. Outlined below are some key policies that would strengthen American manufacturing, create sustainable jobs, hold our trading partners accountable, and put our nation on a path to being prepared to meet future challenges.

Invest in American-Made Infrastructure. Our nation's policymakers must identify solutions to the funding challenges that stand in the way of addressing the massive backlog of repairs to our nation's highways, rail and transit systems, water systems, and other critical infrastructure – including America's more than 46,000 structurally-deficient bridges. We must also ensure that the infrastructure to support economic growth – new schools, broadband and other such needs – is supported. With borrowing rates at historic lows, there has never been a better time for

the United States to make the needed investments in infrastructure that are vital to a well-functioning economy and our global competitiveness. U.S. manufacturers and American workers benefit from infrastructure investment not just because it generates demand for their American-made products, but also because an efficient infrastructure network improves the ability to bring goods to market. Past stimulus spending on infrastructure has focused on “shovel ready” projects, which overlooks larger projects that are critical to preventing bottlenecks of economic activity. While bridges, locks and dams, and other large-scale projects may take longer to complete than repaving roads, materials-intensive projects generate a greater multiplier return with benefits rippling throughout the supply chain of domestic suppliers while preventing debilitating bottlenecks to the U.S. transportation system and economy.

Enhance Buy America Laws. Americans demand that infrastructure projects be truly American-made. According to a March 2019 survey of likely general election voters conducted for AAM, 80 percent support “requiring that all taxpayer-funded infrastructure projects use American-made goods and materials.” Recognizing the potent economic stimulus impact of infrastructure investment, policymakers have on a bipartisan basis followed suit by establishing and expanding strong domestic content preferences for iron, steel, and manufactured products applied to highway, transit, passenger rail, airport, broadband, drinking water and waste water, and other forms of federally assisted infrastructure projects. Reinvesting tax dollars here at home creates American jobs, invests in goods produced under strong environmental and workplace safety standards, and protects our economic and national security. Without these policies in place, predatory foreign governments would be free to undercut domestic production with dumped and subsidized, environmentally-unfriendly, and substandard products – bypassing American workers and sending U.S. tax dollars offshore rather than reinvesting in the United States.

While existing Buy America laws are of immeasurable importance to American manufacturing, they are nonetheless limited in their application and have been eroded over time with loopholes and weak agency enforcement – leaving billions of U.S. tax dollars spent annually on foreign products. There are numerous infrastructure programs that have no Buy America coverage whatsoever, and those that do apply to only a limited amount of material inputs with as much as 95 percent of capital spending on a highway project, for example, not covered by Buy America. Unfortunately, the “Buy American, Hire American” executive orders signed by President Trump – including one directed at energy infrastructure – fall short and have not resulted in any discernible improvements to the application of our Buy America laws. Moreover, existing laws are under attack from well-funded interests seeking to bypass American workers and domestic companies that are the backbone of our communities. Congress must act to ensure that our infrastructure investments are truly American-made, while also rejecting attempts to undermine Buy America.

Prohibit China's State-Owned and State-Supported Firms from Accessing U.S. Tax Dollars.

Congress has moved quickly to make funding available to businesses of all sizes but has thus far failed to ensure that these dollars are directed back into the U.S. economy. Worse yet, there are no guardrails to protect against China's state-owned and state-supported companies from taking advantage of this massive amount of spending.

Media reports suggest that recipients of Paycheck Protection Program (PPP) loans include a number of Chinese companies and others with ties to China, including electric vehicle (EV) companies Byton, Nio, Karma Automotive, Saleen, Mullen Technologies, and Chang'an Automobile. The EV sector is one of the most heavily-subsidized Chinese industries with EV battery technology a core pillar of the Chinese Communist Party's Made in China 2025 agenda. Meanwhile, the Foremost Group received a PPP loan despite shipping records suggesting that a majority of its ships have mostly Chinese crew members and that 72 percent of the raw materials it has shipped have gone to China.¹ It would be wholly inappropriate if this PPP loan is being used to purchase ships being built by Shanghai Waigaoqiao shipyard, which is owned by state-owned enterprise China State Shipbuilding. This shipyard asset owned and controlled by the Chinese government is already building four bulk carriers for Foremost Group under the terms of a 2018 purchase order. Since 2002, the shipyard has delivered more than a dozen ships to Foremost.²

According to geopolitical consultancy [Horizon Advisory](#), China's leaders are closely watching U.S. spending and positioning its championed firms to benefit from our own recovery dollars – just as they did following the 2009 Recovery Act. According to a Chinese official quoted in the report, “Trump's infrastructure investment plan is an opportunity for China.” Horizon Advisory has also [clearly documented](#) Chinese officials stating their intention to expand abroad in key sectors like 5G, high-speed rail, new energy vehicles, and artificial intelligence.

Whole of Government Approach to Reshoring Manufacturing Capacity Critical to National Security. Both Congress and the administration must assess and take coordinated action to address gaps in our industrial supply chains. Multiple reports have exposed persistent concerns about the Department of Defense's (DOD) reliance on single, sole and fragile source suppliers, not to mention the material shortages, foreign dependencies and erosion of human capital and U.S.-based infrastructure such reliance engenders. While Buy American laws and other domestic preference requirements like the Berry Amendment and Specialty Metals Clause are on the books, there are far too many loopholes and compliance failures, leading to billions of dollars spent on foreign-sourced products. Buy American laws applied to direct federal procurement should be strengthened to ensure DOD spending fosters a healthy and resilient industrial base, and concerted efforts to support key industries should be undertaken.

We must also act to ensure we have secure supply chains in critical infrastructure, including

¹ “A ‘Bridge’ to China, and Her Family's Business, in the Trump Cabinet,” Forsythe, Lipton, Bradsher, Sui-Lee Wee. [New York Times](#). 2 June 2019.

² “Foremost Group Orders Bulker Quartet at Shanghai Waigaoqiao,” [OffShore Energy](#). 5 Feb 2018.

energy. As we work to both improve the resiliency of our energy grid and develop global leadership in next generation technologies, we should enact policies that promote good jobs in clean energy. We should do this through grants and established models like revolving loan funds to ensure greater transparency and programmatic control to maximize the economic impact of our taxpayer dollars. We should maintain strong Jones Act requirements to ensure our sealift capacity is American-made and expand commercial shipyard capacity by requiring that U.S.-built vessels transport significant shares of our liquefied natural gas and oil exports. Currently, the vast majority, if not all, of these energy exports are shipped on foreign-built and foreign-flagged vessels. We must shore up suppliers of key materials, such as electrical steel, that are essential to our energy grid and EV charging infrastructure. There is currently only one manufacturer capable of making the electrical steel necessary for power transformers left in the United States. It makes little sense to exchange one energy dependency, oil from the Middle East, for another dependency on EV batteries, ships, steel, solar panels and other key components of our evolving energy needs from China and other foreign sources.

Create Greater Transparency on a Product's Country of Origin to Empower Consumers and Small Businesses to be Part of the Solution. We should be taking steps to make it easier and more reliable for American consumers to buy products labeled "Made in USA." This requires stronger enforcement of labeling laws, as well as broader application to reflect the changing nature of retail sales. Online retailers currently do not need to disclose country of origin information for products they sell, making it nearly impossible for consumers, who in poll after poll express strong preferences for American-made products, to align their spending with their values.

Further, greater transparency in government procurement would promote domestic manufacturing. A single clearinghouse for all domestic content procurement preference waivers will empower small- and medium-sized manufacturers to identify new opportunities to sell to the government, and in turn encourage investments in domestic production and employment.

Condition Recovery Dollars on Creating Jobs in the United States. Congress and the administration have missed several opportunities to ensure that investments are targeted at recovery here in America, and discouraged from being used for purchases of imported goods. While the Small Business Administration's application for PPP loans includes a certification that "To the extent feasible, I will purchase only American-made equipment and products," the provision is unenforceable and, to our knowledge, being completely ignored. Federal relief assistance granted to multi-national companies should be conditioned on commitments that those dollars be allocated to U.S. operations along with robust reshoring plans. Jobs created or supported should be those of American workers; and critical supply chains strengthened by federal dollars should be those here in America.

Stimulate Demand for U.S.-Made Automobile Purchases. The automotive sector, accounting

for a significant share of America's manufacturing base, has been devastated by economic uncertainty. Millions of jobs are at stake, both in final assembly and throughout the supply chain of component manufacturers which accounts for 75 percent of U.S. auto jobs. Congress should provide meaningful incentives for consumers to purchase American-made automobiles – made by American workers with a significant amount of U.S.-produced content. A number of proposals have already been put forward, and many include a Buy America requirement.

Avert Permanent Layoffs Through Workshare. The unemployment rate within manufacturing and in the overall economy is unacceptably high, and is dismal in comparison with the Eurozone, Japan, South Korea, and other industrialized nations. One mechanism widely employed in other nations to reduce levels of unemployment caused by sudden economic shocks is workshare, under which federal governments subsidize the wages of workers to avert private sector layoffs. Lawmakers on both sides of the aisle have proposed workshare arrangements.

Enforce the Phase One U.S.-China Agreement and Resume Negotiations on Major Structural Issues. For American manufacturing and its workforce, the phase one agreement is completely inadequate. With nearly all the major structural issues left unresolved – including industrial subsidies, overcapacity, state-owned enterprises, predatory investment, currency manipulation and misalignment, cyber intrusions, worker rights, environmental rules, and tax policy – it is necessary to maintain pressure on China, using the leverage of remaining Section 301 tariffs to immediately resume negotiations on a phase two agreement.

In the interim, we must vigorously monitor China's progress in complying with the phase one agreement and the commitments they were willing to make to purchase U.S. agricultural and manufacturing products. If promises are not kept, tariffs should be promptly restored, including those that were scheduled to take effect in December 2019. China has a long history of making oversized promises, only to abandon them when the attention shifts elsewhere.

The decision made by the Trump administration to allow a 90-day deferment of tariff payments and other fees paid by importers shows blatant disregard for American workers and manufacturers who have stepped up for their nation in a time of crisis. It also appears to prioritize imports over domestic producers facing widespread layoffs, furloughs, and closures. Manufacturing has been slower to rebound during economic downturns than other sectors. Making it easier to import products will likely reinforce that outcome. Any additional requests for import relief should be rejected. Any product exclusion requests to Section 301 or Section 232 actions must be highly scrutinized and those granted must be consistent with the underlying goals of strengthening U.S. economic and national security.

Address Global Industrial Overcapacity. Foreign producers of steel, aluminum, and a host of other industrial commodities and finished products continue to add production capacity even as global demand has slowed. This often occurs with the backing of aggressive government

support. Because the United States has a large and open market, it has become the prime target as a dumping ground for this excess supply stemming from overcapacity. Global industrial overcapacity is not solely a problem with China, although Beijing has contributed more to the problem than any other nation with its rejection of market principles and repeated broken promises to address the problem. The United States must make curtailing global industrial overcapacity a top priority in all future trade negotiations and build a coalition of nations willing to address the issue while also preventing China's excess production from further saturating global markets. Until global overcapacity is brought under control, trade enforcements actions, including the Section 232 relief measures for steel and aluminum, must be maintained. For its part, Congress must ensure that our trade laws remain strong and strictly enforced, adding new tools when necessary to address market-distorting and predatory actions of our trading partners.

High Standard Trade Agreements. The United States is currently engaged in trade negotiations with the United Kingdom and Kenya and is beginning talks with Brazil and other nations. Future trade agreements – and any legislation to facilitate their approval – must take aggressive steps to ensure that U.S. companies and workers have a level playing field. At the same time, domestic trade laws should be strengthened so that they remain an effective tool for responding to unfair trade. The results of even well-negotiated deals can fall well short of expectations if unfair trade practices – like dumping, subsidies, currency manipulation, and other market distortions – are left unchecked. The United States must secure high standard agreements that address not only traditional issues, like market access, but also the competitive challenges that our companies increasingly face around the world, including competition with state-owned enterprises, currency manipulation, and overcapacity.

World Trade Organization Reform. The appeals body at the WTO has, over the years, overreached beyond its mandate – drastically weakening the ability of U.S. companies and American workers to obtain relief against dumping, subsidization, and other forms of unfair trade. Already, these laws require that excessive time, cost, and economic harm be incurred by U.S. companies and workers before they can gain relief. Often, by the time “injury” has occurred and can be demonstrated, our markets have already been flooded with unfairly traded goods leading to suppressed prices, plant closures, and layoffs. Reform at the WTO appeals body is necessary, to ensure a properly functioning international trading system, to ensure that the WTO does not impose rules that were never negotiated and to afford U.S. companies and American workers timely, proactive, and effective remedies to counter unfair trade.

Enforce Trade at the Border. Even after U.S. companies and American workers have successfully gained relief from unfair trade, foreign exporters and U.S. importers still find ways to evade U.S. trade laws using deceitful practices like mislabeling products, submitting fraudulent documents at the border, and transshipment of products through a third country. Increased attention is being paid to duty evasion, but more action and funding is needed to

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ensure that Customs and Border Protection better combats circumvention of our trade laws at the border.

Thank you for your consideration of these policy priorities. We look forward to working with you to strengthen American manufacturing, create sustainable jobs, hold China accountable, and put our nation on a path to being prepared to meet future challenges.

Sincerely,

A handwritten signature in black ink that reads "Scott N. Paul". The signature is written in a cursive style with a large, stylized initial "S".

Scott N. Paul
President
Alliance for American Manufacturing