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Trade Summit 2006: Crisis and Opportunity
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STATEMENT OF DOUGLAS S. BARTLETT
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Thank you, Jodie, and thank all of you in the audience for your interest in these critical trade policy issues.

I am the owner of Bartlett Manufacturing Co., located in Cary, Illinois, in the greater Chicago area. We produce printed circuit boards, which are a key building block of the American electronics industry. I am also a graduate of the U.S. Naval Academy and served as an artillery officer in the U.S. Marine Corps.

My father started Bartlett Manufacturing in 1952 and today it is the oldest family-held printed circuit board business in America. In my 22 years in the industry, I have gained firsthand knowledge of this industry from shop floor to board room. I have also worked many years with direct competitors to strengthen the U.S. PCB industry as a whole. And one of the strongest conclusions I have reached is that, for decades, America's trade policies have failed both my company and my industry. The consequences for our economy and for our national security have been enormously damaging.

Let me be clear. Bartlett has been doing well lately, and I have no doubt that we'll make it as long as my family wants to remain in the industry. We're small and therefore with enough hustle and smarts, we'll always be able to find a niche. In fact, that's been the key to our success lately.

But it's a much different story for the American PCB industry as a whole, and for the broader electronics industry with which it will stand or fall. Like any industry, it suffered during the last recession. But this time, the jobs and production have not bounced back

as usual, and they're not going to. And although my company will make it, I fear that without big changes in U.S. trade policy, the industry's days as a provider of high-wage jobs and as a major innovator are numbered. Even I won't be able to provide a continually improving living standard for my workers – as opposed to barely holding the line. I also fear that U.S. national security will suffer a body blow if our PCB industry sinks into second-class status.

After all, the printed circuit board industry, like the semiconductor industry, forms the heart of the electronics industry. The PCB is the mounting platform and the interconnecting device that literally makes electronic components function. Without the PCB, an electronics assembly is just a bag of parts incapable of doing anything. Just as important, the PCB, like a semiconductor, is a blueprint for how an electronic device works – from your I-Pod to your PDA to your wireless router to your smart-bomb.

Yet American trade policymakers have long treated the industry like a throwaway. As far back as the late 1970s, Washington has often winked at predatory foreign trade practices like the prolonged Japanese dumping that destroyed the American consumer electronics industry – one of our biggest customers. U.S. leaders also have failed miserably to open foreign markets to U.S.-made products, in particular ignoring the subtle but effective nontariff barriers that protect our foreign competitors.

Perhaps most important, the United States has signed a long string of trade agreements with highly protectionist low-income countries that have actively encouraged even many American high tech companies in particular to offshore their production. As a result, these agreements have exported much of the rest of my industry's customer base. And they have exploded the trade deficit by expanding trade with countries far too poor to buy many American-made products, but amply capable of supplying the U.S. market with a wide range of industrial goods.

The best evidence? A recent study from the consulting firm McKinsey & Co. It shows that, according to the latest government data, one-third of the U.S. merchandise trade deficit came from the trade activity of U.S. multinational companies. And this share began growing rapidly in the late 1990s – once their new foreign factories starting coming on line. In other words, recent trade deals helped most of these companies turn from big exports of goods to big importers.

The impact on the American PCB industry has been devastating. My own company's revenues sank from roughly \$20 million in 2000 to \$8.5 million in 2005. During this period, we cut employment from 140 to 85. Overall North American PCB production shows the same alarming pattern. Annualized sales fell from approximately \$10 billion in 2000 to \$4.5 billion in 2005 – and 20 percent of that is Chinese product that is re-sold. North American employment levels have fallen from 78,000 to 65,000. And high-end-board production has suffered the same fate.

So has most of the remaining American electronics industry. From 1997 to 2005, America's electronics industry trade deficit more than tripled, from just over \$42 billion

to just over \$146 billion. And so far the 2006 figure is 10.5 percent higher than the comparable 2005 figure. In fact, in the printed circuit assembly sector, more than 95 percent of America's two-way trade these days consists of imports. In computers, the figure is more than 80 percent.

As a result, not surprisingly, the American electronics industry is hemorrhaging market share to imports in the United States – the market our domestic producers should know best, and where they face no trade barriers! For example, imports made up about 14 percent of the American computer market in 1997. The latest data show that they comprised nearly 42 percent in 2004. During this period, import penetration in telecoms hardware jumped from 17.7 percent to 43.2 percent, and in broadcasting equipment from 16.1 percent to 51.2 percent.

So what happened? Did an entire industry forget after 50 years how to produce quality products at a competitive price? The downturn may have started with the 1-2 punch of a bursting technology bubble burst and the events of 9-11. But the greatest damage came from low-cost product becoming available in the United States with acceptable quality and delivery – the fruits of our recent outsourcing-focused trade agreements.

Even though my team and I are spending night and day running the company, I have been following the economic policy debates that take place here in Washington. And when it comes to the decisions that will make or break my industry, it's clear to me that our political leaders and our pundits don't have a clue.

For example, a great many Washington policy types wonder why I just don't follow the multinationals offshore. But how can a small company like mine play the political connections game that's needed to manufacture successfully throughout the third world? How can I protect my intellectual property in a place like China? That's a struggle even for the multinationals. It would be suicide for Bartlett. And do we really want a group of products so vital to so many weapons systems supplied entirely or even significantly by the People's Republic? Well, unless American trade policy changes in a hurry, that's the situation we'll be faced within five years, according to a recent study by the National Academy of Sciences.

Similarly, please don't tell me or my employees to help increase the national savings rate. That's a little tough to do for a company whose margins are vanishing thanks to subsidized, cutthroat competition. My factory in particular and my industry in general have made little or no significant capital investments since 2000. And how are my employees supposed to boost their savings when they face stagnant pay and even layoffs, plus ever-increasing costs for health care, housing, and fuel.

Please don't tell me that the key to solving the trade deficit crisis is fixing America's schools. Domestic manufacturers can't wait for the generation or so that that challenge will take. Remember: According to the National Academy of Sciences, the PCB industry may only have five years left.

Moreover, due largely to the flight of so many customers overseas in recent years, I've had to let go of some of the best process and quality engineers you'll find anywhere. As Fed Chairman Bernanke just said, there's no economic point in training lots more American scientists and engineers if there are no jobs for them to hold. And the manufacturing sector employs fully 70 percent of our nation's scientists and engineers.

And please don't tell me to just do better at offsetting low foreign costs with more quality and innovation. The new world of offshoring and global supply chains is steadily destroying that once viable option – and with it, America's best hopes of remaining a high-wage economy.

After all, my new competitors in China and elsewhere in the third world benefit from countless direct and indirect government subsidies that lower their costs artificially, for reasons having nothing to do with genuine innovation. Currency manipulation is only one of these subsidies.

Meanwhile, the multinationals have helped my new foreign competition close the technology gap. They typically transfer their state-of-the-art technologies to their third world facilities as soon as they are perfected in the U.S. And often entire labs are exported. In other words, our foreign competition didn't learn these skills all by themselves.

And the multinationals are offshoring innovation for a perfectly understandable reason. With the production relocated to China and other foreign countries, it makes no sense to keep the research and development and engineering and design back in the United States. Anyone who knows anything about real-world manufacturing knows that the factory floor and the lab form a continuous feedback loop. Because blueprints never translate perfectly into the bricks and mortar world, there's constant communication back and forth. In other words, allow or encourage the outsourcing of production, and the R&D almost always follows.

Unfortunately, virtually none of our trade and economic policymakers know anything about real-world manufacturing. Therefore, they've spent the last 20 years spouting nonsense about the production work going to the third world while the much higher-paying "brain-work" stays in the United States.

In addition, the heavily subsidized price competition from China and elsewhere has virtually destroyed my margins. I have no money to reinvest in new plant and equipment. As the National Academy study emphasized, for a technology-intensive industry like mine, that's the road to obsolescence..

Finally, the businessman in me tells me that, in many ways, our government and economy should be run like a business. We need to balance our revenues with our expenses and we need to have positive cash flow. Congress needs to keep results in mind more than specific procedures. Because the end results are what count most.

I know that the trade deficit figures often make the eyes of American leaders glaze over. But as a businessman, I look at the rapid, unprecedented widening of our trade deficit with alarm – and you should, too. This loss of cash flow cannot be sustained at its current level of acceleration.

How can we solve the problem? I look at it this way: My industry has only a few years left. To survive, the American electronics sector doesn't need further debate about economic theory. It needs a solution now. And for my money, an Article 12 approach is the way to go. It can be implemented by the Executive very quickly. The World Trade Organization allows us to maintain it until a reasonable balance of trade is restored. We can tweak as we wish to exempt vital goods and commodities we no longer produce and to provide major incentives for offshore producers to return home. And we can reinstate it whenever the trade balance spins out of control again.

I am a free market supporter and a free trader. But I am not a blind free trader. I believe in free, fair and balanced trade. I am amazed by how many Americans refuse to even talk about tariffs and subsidies or any types of truly effective trade policy tools when many of our trading partners use them routinely.

We must shift from a trade policy that looks only at “free trade” to one that is “free, fair and balanced.” We must launch an Article 12 action. For the fix is in from both the multinational outsourcers and the foreign subsidizers. And time is rapidly running out for the domestic industries that form our economy's productive heart.

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