

NAM Board Votes In Favor Of Multinationals In Debate Over China's Currency; Domestic Manufacturers Are Left Wondering What To Do

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For members of the National Association of Manufacturers' Domestic Manufacturers Group, September 28 will be a day to remember. Their two-year effort to persuade NAM to endorse a currency manipulation bill was rejected by the association's executive committee and board of directors. Members of the Domestic Manufacturers Group (DMG) claim the loss was the result of opposition from the large multinational corporations that benefit from China's pegged currency working in concert with NAM's senior leaders intent on quashing an uprising. NAM leaders counter that the legislation was not going to force a sovereign nation of 1.3 billion to change its policies any time in the near future.

The 100-plus members of the DMG are now regrouping after the NAM board voted 55 to 25 not to endorse the legislation (HR-1498) sponsored by Reps. Duncan Hunter (R-Calif.) and Tim Ryan (D-Ohio). The legislation is co-sponsored by 178 members of the House of Representatives. The NAM board vote is said to be about proportional to the dues structure of the organization: 70 percent from large multinationals and 30 percent from small- and medium-sized manufacturers.

Members of the DMG are considering their options: quietly dropping out of NAM one by one; creating a new organization that would lobby on behalf of domestic manufacturers; or staying in NAM and continuing to fight for their cause. The DMG expects to meet again before the end of October to discuss the options. "It's going to be very interesting to see how it goes," said one member of the group.

The NAM board vote is not sitting well with many of the domestic manufacturers that put so much emotional energy into the initiative. These companies -- particularly in the metal forming industries -- are struggling to remain competitive with the multinationals' Chinese production and Chinese suppliers. They believe that the multinational companies are the real "protectionists" -- defending unfair subsidies that the Chinese government is erecting in their favor, especially a currency that is estimated to be at least 25 percent, and perhaps as much as 60 percent, undervalued.

In an e-mail sent to NAM president Gov. John Engler, Nucor chairman and CEO Dan DiMicco said, "John -- You just don't get it." NAM's refusal to acknowledge unfair trade as being the primary cause of declining U.S. industrial competitiveness is a "blatant stab in the back" to domestic manufacturers, DiMicco wrote Engler. NAM's efforts "have shown us that the current NAM does not represent domestic manufacturing interests and we will have to deal with that soon," writes the Nucor CEO. "You have left us no choice."

The NAM executive committee took up the matter of Hunter/Ryan during the association's annual fall board meeting. After a discussion during which the leading proponents and opponents made their case, the board overruled a vote taken on June 27 by the association's International Economic Policy Committee (IEPC), which favored NAM's endorsement of Hunter/Ryan. That vote passed the IEPC by a margin of 75 to 46.

NAM executives at the board meeting told members of the DMG that domestic manufacturers were able to achieve a lopsided -- though temporary -- victory on June 27 by packing the room and allowing companies to vote via proxy through Washington representatives and via teleconference.

The domestic manufacturers were especially displeased when, two weeks before the NAM board meeting on Sept. 28, Engler sent a letter to the 130 or so board members with a legal brief describing how the Hunter/Ryan bill may not be compliant with the WTO. Those favoring Hunter/Ryan claim that brief made a specious argument and they countered it by providing the NAM board with legal briefs of their own. Thirty-two members of Congress signed a Sept. 27 letter to Engler, stating that his correspondence to NAM's board was "flawed in certain fundamental respects."

"We clearly knew where Engler was and what he was trying to do," says one DMG member. "At the meeting, Engler led the opposition. People are now blaming John Engler for killing the Hunter/Ryan bill."

The NAM board spent little time discussing Hunter/Ryan's WTO compliance, and instead focused on whether it would provide relief to U.S. companies any time soon. The consensus was that it would not.

NAM asked that everyone in attendance at the Sept. 28 board meeting not talk to the press about the meeting, as a means to allow a more open conversation.

Word of the domestic manufacturers' loss spread quickly throughout the country. "It is now clear what the NAM is and whose interests count," wrote one member of the DMG in an e-mail to some members of the group, a copy of which was forwarded to MTN.

Dave Frengel of Penn United Technology Inc., a leader in the Domestic Manufacturers Group, said he was disappointed with the outcome, but not defeated. "We're energized by this," he said. "They missed an opportunity to take a position on an issue that's getting

bigger and bigger. We've worked together as a group and have taken the high ground. I just feel disappointed that NAM isn't doing likewise."

Others state that NAM is in a precarious position. It claims to represent the interests of all U.S. manufacturers, but that really is not the case, and U.S.-based producers have proof in the form of a vote that was directed against their interests.

"If they want to be an organization that says it works for a small group of powerful people with lots of money then they can't claim to represent the rank and file and tell us that the silent majority ought to just pay their dues and stay silent," the president of one small company member of NAM told MTN. "We're not going to do that and we're not going to play that role."

Another participant in the meeting said afterward: "Small manufacturers have every reason to feel slighted that their interests and concerns are not being addressed. For NAM to say that we agree with you that something should be done to put pressure on China and then not to do something, then their interests are not being served by the NAM. If NAM wants to have a unified manufacturing structure then every once in a while the [domestic] guys have to get their way. This might be that once in a while."

One large corporate member of the DMG who is also on NAM's board said NAM president John Engler "is taking one heck of a risk with this for the organization. I don't think he realizes that within this group of smaller manufacturers there are quite a few trade associations that are specialized to very narrow industry segments and they represent thousands of companies. These manufacturing associations provide a vehicle for communication that is pretty significant. If they communicate to their members that NAM is a bad thing, their members will listen to the guy they talk to more often and the organization they have influence in."

Others associated with the DMG couch the debate between U.S.-based manufacturers versus multinationals in a grand societal scheme, saying the struggle is as important as the civil rights and environmental movements of the 1960s. One executive commenting on the vote says that it is like the beginning of the end of feudalism in previous centuries. "The whole history of mankind is a movement away from slavery and serfdom to liberty and freedom," he says. "We have always figured out how to get the power back away from the few -- the people with all the money making all of the decisions -- to the many. It takes a while for the masses to figure out how to wrench it away from the smart and clever and powerful. We figured out how to deal with kings and that took a long time and they aren't a problem any more. Mankind has not yet determined how to deal with a multinational."

The NAM board did take action on the China currency issue, however. It passed a resolution to create a task force to work with Treasury Secretary Henry Paulson on pressuring China to let its currency float at market rates. "We believe that Sec. Paulson must be given some time to implement the newly enhanced high-level engagement and dialogue with China's top leaders that he announced last week to accelerate movement in

China's currency," says the NAM board resolution. "We are hopeful that his new approach will work and we urge him to redouble his efforts."

Some of the domestic manufacturers feel this is a step in the right direction, but they virtually unanimously and vehemently disagree with Engler's characterization of NAM's role in "leading the charge" on China's currency. "NAM has opposed every piece of legislation with any enforcement teeth in it," says a DMG e-mail rebutting NAM's claim. "Its idea of tough enforcement is a higher pile of required reports from the Treasury."

NAM supported filing a Section 301 case, then opposed it, resulting in a split in the Fair Currency Alliance in August 2004, said the e-mail. The China Currency Coalition, of which NAM is not a member, has been pushing the issue ever since. NAM's Coalition for a Sound Dollar, says the e-mail, raised some awareness on the issue in 2003 and 2004, but it has "ceased to function," says the DMG analysis. "It has not even met this year, even as the trade and current account deficits spiraled to unprecedented levels."

Moreover, NAM has worked "overtime to frustrate the clear will of the majority of its members for meaningful action on currency problems. This campaign reached a new low when NAM commissioned a poorly argued and fundamentally flimsy attack on HR 1498, embraced its novel arguments uncritically and then sent the document out to all board members as if it were the last word on the subject."

If NAM insists on taking credit for "leading the charge" on the China currency issue, then "it should get commensurate credit for the results to date: a further weakening of the renminbi since July 20, 2005 in real terms (i.e. when taking account of China's inflation). This is not the sort of 'meaningful results' that America's manufacturers require." Finally, says the e-mail, "Gov. Engler by his actions and words, both in private as well as in public, seems to be saying to NAM's silent majority that numbers many thousands: please remain silent; do not participate in our committee deliberations, do not exercise your right to a proxy; just keep sending your dues checks."

NAM doesn't deserve such criticism, says Pat Cleary, NAM senior vice president of communications. The issue "is on everybody's screen and that's great," he says. "There are not a lot of organizations in this town that are going to thrash this out. Nobody walked away from [the NAM board of directors meeting] thinking that this an issue that's going to go away. Everybody knows this is a huge issue for us as an organization and one that we're going to have to continue to deal with."

Adds Frengel: "The conversation in D.C. is changing and it is all moving in our direction. We haven't won the big votes yet. We haven't gotten anywhere near winning them, but when we look at the progress we've made compared to this small setback, we're pretty pleased. We're not going to run away."