

NATIONAL PRESS CLUB LUNCHEON WITH THOMAS DONOHUE

SUBJECT: THE STATE OF WORLD TRADE

MODERATOR: ALAN BJERGA, PRESIDENT, NATIONAL PRESS CLUB

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ALAN BJERGA: (Sounds gavel.) Good afternoon, and welcome to the National Press Club. My name is Alan Bjerga. I'm a reporter for Bloomberg News, and the President of the National Press Club. We're the world's leading professional organization for journalists and are committed to our profession's future through our programming and by fostering a free press worldwide. For more information about the Press Club, please visit our website at www.press.org. To donate to our programs, please visit www.press.org/library.

On behalf of our members worldwide, I'd like to welcome our speaker and our attendees to today's event, which includes guests of our speaker as well as working journalists. I'd also like to welcome our C-SPAN and Public Radio audiences. After the speech concludes, I will ask as many audience questions as time permits. I would now like to introduce to you our head table guests.

From your right, William Cassidy, Senior Editor for the *Journal of Commerce*; Frank Maisano, Senior Principal for Bracewell & Giuliani, LLP; Anthony Marenga, a student of political communication at George Washington University and partner in Imagination firm; Liz Reilly, Director of the U.S. Chamber's Trade Routes program, and a guest of our speaker; Marilyn Geewax, Senior Business Editor for National Public Radio; John Murphy, Vice President of International Affairs for the U.S. Chamber of Commerce, and a speaker's guest.

Turning over the podium, we have Andrew Schneider, Associate Editor for Kiplinger Washington Editors, and the Chairman of the National Press Club Speakers

Committee; skipping for a moment over our speaker, Joe Winski, Managing Editor of the Americas for Bloomberg News; Laura Baughman, President of the Trade Partnership, and a guest of our speaker; Michelle Hirsch, a reporter with the *Fiscal Times*; Alicia Mundy, reporter in the Washington bureau of the *Wall Street Journal*; and Tejinder Singh, broadcast journalist with AHN Media, TV Today, and the Chairman of the NPC's Newsmakers Committee. Thank you. (Applause)

For the past 75 years, the U.S. Chamber of Commerce has occupied one of the most enviable physical locations in Washington, D.C. At 1615 8th Street, Northwest, the site of what was once the home of Daniel Webster, the Chamber's headquarters stands directly across Lafayette Park from the White House. No president can look out his front window without it commanding his attention.

The relationship of these neighbors may be described as less than harmonious since the current occupant of the White House moved in. President Barack Obama and the Chamber have clashed often. But, the two have found common ground on the capacity of trade to create jobs and promote growth. Two weeks before President Obama delivered his 2010 State of the Union Address, our speaker delivered his own annual message on the state of American business. Both speeches called for the doubling of U.S. exports in the next five years, which is a bold target. Factoring out inflation, the last time American exports expanded that quickly was World War II. But no one has ever accused our guest of lacking vision.

Thomas J. Donohue took over as President and Chief Executive Officer of the U.S. Chamber of Commerce in September, 1997, after 13 years at the head of the American Trucking Association. The Chamber was then suffering badly from defections in the aftermath of its partial support of the Clinton healthcare plan four years previously. Today, the Chamber can once again claim the mantle of the world's largest business federation with all of the political clout that measure entails. Please welcome to the National Press Club, Tom Donohue. (Applause)

MR. DONOHUE: Thank you very much, Alan. Good afternoon, ladies and gentlemen. I'm very pleased to be here. And a special thanks to all of our friends that we were able to coerce to join us for this event.

Let me start with a very clear statement, that the greatest priority for our country today is creating jobs. The unemployment rate is 9.9 percent; it soars beyond 17 percent when you count those who have stopped looking for work and the under-employed. We have lost roughly eight million jobs in the last two years. By the U.S. Chamber's estimate, we would need to create 20 million jobs in the next decade to replace those lost during the recession and to keep up with the growing population.

Although we've created 145,000 thousands per month on average this year, it's not near enough. Under these circumstances, World Trade Month is the perfect time to point out that expanding American exports makes more sense than ever. Unlike past recoveries, we cannot simply rely on domestic consumption. American consumers are

tapped out in some ways, and the U.S. government, some would argue, are maxed out. So if domestic demand is weak and the government's ability to stimulate the economy minimized, who will buy our products and services? Where will demand come from?

The answer? The rest of the world. Ninety-five percent of the world's consumers, 87 percent of its economic growth, and 73 percent of its purchase power, resides outside the United States. Last September, the Chamber set a national goal of doubling U.S. exports in the next five years, and then doubling them again. If we succeed, this would put us well along the way to creating those 20 million jobs. We were pleased that President Obama echoed that goal in his State of the Union message.

So, what's standing in the way of our achieving this shared goal? Look abroad, and right here in Washington for the answers. Countries all over the world continue to raise protectionist barriers to tilt the playing field in their advantage, to favor domestic industries, and keep their markets closed. Nothing new, this happens in every recession. Here at home, U.S. trade policy seems stuck in a state of suspended animation. There's been a lot of great talk, but precious little action.

So what does all this mean as we attempt to assess the state of the world trade system today? On one hand, there's plenty of trade and cross border investment going on today. After a sharp decline during the financial crisis, global commerce is now recovering. Yet, that's only part of the picture. The rest of the picture is not so attractive. In fact, if I had to describe the state of the world trade today, I would do so in two words: missed opportunities. Missed opportunities to create new jobs, to lift millions out of poverty, to raise the global standard of living and to bring people and nations closer together.

The good news is we have the capacity to recapture these opportunities and unleash a new wave of growth, progress, and prosperity here at home and across the globe. Now, we must begin with the reality that global markets are not as open to American products and services as we are to theirs. The playing field is not level. In fact, since the financial crisis, the playing field has become even more unlevel (sic). We're aware that the WTO has found that new protectionist measures enacted since the financial crisis began to cover just one percent of the world's merchandise trade. But, it has done little to gauge the impact of the behind the border measures that countries around the world are deploying at an alarming rate. There are the visible obstructions to trade, and are the quiet, hidden ones.

At the forefront of our concern, is the resurgence of state owned enterprises, which are then bestowed with preferential treatment that puts foreign enterprises at a disadvantage. China, for instance, is using industrial policies and an array of regulatory tools to force the national champions and to promote the transfer of technology and innovative capacity to their country. A case in point, China's so-called indigenous innovation strategy. I'll be going to China next week to meet with the leaders in Beijing and Shanghai and to address our growing concerns of our members on issues ranging from innovation, procurement, IP and currency.

Looking beyond China, India, Brazil, Korea, and other emerging and developing markets also need to play by the same rules that we play by. They should take steps to further open their markets. India, for example, from which I came back just a few weeks ago, needs to open its markets to services, to retail and insurance, and express delivery services. Japan Post, a government-owned enterprise that provides insurance, banking, and express delivery services, enjoys unfair regulatory advantages over its private competitors, both domestic and foreign.

Nearly 90 percent of the world's proven oil reserves are in countries where exploration and production are dominated by state monopolies. And how did Brazil respond to its new large offshore oil finds? By laying plans for a new state owned company to control it all.

In this antitrust arena, some nations manipulating their policies to protect domestic producers and keep competitors out, are not playing according to the rules. There is also an ongoing assault against intellectual property around the world. In addition to criminal enterprises, IP is also under threat by some governments that promote the view that IP rights are an obstacle rather than a catalyst to economic development and growth. The United States must continue to work with likeminded nations to raise standards for the protection of IP by concluding a robust and comprehensive anti-counterfeiting trade agreement this year.

This array of obstacles facing American exporters and investors abroad, raises a critical question: how should we as a nation and as a business community respond? Let me begin to answer that by first stating how we must not respond. We must not respond by closing our own markets. There's too much at stake, and it won't work. Even with all the obstacles, the United States is still the world's largest exporter of goods and services. One in four factory jobs depends on exports and one in three acres of planted land in this country is for hungry consumers abroad. More than five million American jobs are supported by foreign direct investment.

An example of one way not to respond was the Buy American provisions in the 2009 Recovery Act. These provisions delayed shovel-ready infrastructure projects as local governments sought legal advice on how to comply. Because other countries retaliate with Buy National policies of their own, such measures are much more likely to destroy jobs than to create them.

American workers are also paying a high price for U.S. failure to open our highways to safe Mexican trucks. Mexico has imposed \$2.4 billion worth of retaliatory tariffs on U.S. manufacturing and agricultural products. By our estimates, these actions have cost the United States 25,000 jobs. There are other policies and proposals here in our own country that throw sand in the gears of commerce and that snap the U.S. competitive advantage. We already have an uncompetitive corporate tax system. Yet, every day we hear about some new punitive tax proposal that would put key industries at

a disadvantage globally; banks, insurers, energy companies, and firms that defer income tax on profits earned abroad. Pick your target and pick your poison.

Furthermore, our immigration and visa policies are plainly broken. A complex and emotional subject that requires a whole other speech, and I'd like to come back and do it some day. Then there are some suggestions we should lash out at the wrongs of others with high tariffs or quotas. But I fail to see how punishing our consumers will help families or create new jobs. These measures would do nothing to expand our own sales abroad. We need a smarter, bolder, and more comprehensive approach, one that opens markets and expands trade and investment, not one that closes markets and cedes the global marketplace to our competitors.

It all starts with our need for a robust trade expansion agenda, built on the ratification and negotiation of trade and investment agreements across the globe. Regrettably, we don't have such an agenda in our country today. The reason why is clear as it is indefensible. Organized labor spent in excess of \$400 million in the last election to help elect the current administration and the Congressional majority. And for reasons that defy logic, or common sense, they vehemently oppose the very policies that could create millions of new jobs for American workers, many of them unionized workers. So as the rest of the world races to complete new deals, America is being locked out and left behind.

According to the WTO, there are 262 free trade agreements in force around the globe today. But the United States, the largest economy in the world, has just 11 free trade agreements covering 17 countries. America is a party to only one of more than a hundred negotiations of bilateral and regional trade agreements. We are also far behind in the race to enact bilateral investment treaties. Guess what? The unions don't like these, either. It is especially inexcusable for Congress and the administration to be sitting on three excellent free trade agreements with Colombia, Panama and South Korea. Six months ago, the Chamber released a study which warned that the U.S. could suffer a net loss of more than 380,000 jobs and \$40 billion in lost export sales if we failed to implement the Colombia, South Korea agreements while the EU and Canada went ahead with theirs.

Unfortunately, the scenario is already unfolding. The EU will sign its FTA with Colombia next Wednesday. The EU concluded negotiations for an FTA with South Korea last November. The Canadian parliament is poised to give final approval to an FTA with Colombia as early as next month, and Canada and Panama are signing a new FTA today.

Now let's be very clear. What does all this mean? It will mean that the EU and Canada will be able to sell their products in those markets at a much better price. That means we will lose market share and jobs. It's simple as ABC. But that's not all. The South Korean pact has the potential to be a model for other agreements across the Asia Pacific, a region that now accounts for half of the global economy. We're talking about the future right now. And then there's President Uribe and the people of Colombia, good

friends and critical regional allies who have courageously and at great cost stood up to the drug lords and reclaimed their country. And the United States gives them the back of the hand. It's unconscionable.

Now, if facts matter at all, I hope those who oppose these market openings and job creating agreements will listen closely to the results of a new study we commissioned and are releasing today. We looked at our FTAs implemented over the past 25 years covering 14 countries. Here's what we found. The FTAs created 5.4 billion American jobs. The overall trade relationship with those 14 countries supports a grand total of 17.7 million American jobs. I defy anyone in this town to name another budget-neutral government initiative that has generated anything like this number of jobs. And, what about the trade deficit? Trade skeptics always cite the trade deficit as the reason not to negotiate FTAs. But taken as a group, the United States is now running a trade surplus in manufacturing goods with our FTA partners. And that's on top of our global trade surplus in services and in agricultural products.

Now, let me underscore a critical point. If we don't act, not only will we miss out on opportunities to create new jobs, we will lose existing jobs as well. How can Congress and the administration and the unions thinking about their members that they represent sit by and allow this to happen? Bilateral trade and investment agreements are critical as well, but we must take other vital steps along the way. We must not give up on Doha, a global agreement. No matter how many obituaries that are written about it, a global pact covering goods, agriculture and services is essential to the goal of opening markets and leveling the playing field for the United States.

Regional pacts also hold promise, especially a transpacific partnership agreement and other arrangements designed to expand our presence in the world's fastest growing region.

Of course, we need to enforce our existing trade and investment agreements. They aren't worth the paper they're written on if we don't act to enforce them. We must work with allies around the globe to combat economic nationalism. We must also resist economic isolationism at home. Failure to comply with our own principles or obligations under trade agreements endangers American jobs and undercuts our efforts to open markets around the world.

We need to modernize the U.S. export control system. And at this point, I want to give the administration an important credit. We know that they're reviewing this matter and crafting a proposal. We like what we've heard so far, and we look forward to progress in the future. We need to do a better job of promoting exports. More than 280,000 U.S. small and medium sized companies export and they account for nearly a third of all U.S. merchandise exports. Even so, 99 out of 100 U.S. small companies don't export, and we need to change that.

Finally, we need to get our own house in order. To compete globally, fiscal discipline is critical. Runaway entitlement spending may be the biggest challenge we

face, domestic or international. And our country is at the front of the list. In addition, poor K-12 education systems, inadequate infrastructure and high U.S. corporate tax rates all erode the global competitiveness of American companies. And we're working at the Chamber to forge positive solutions to these problems.

Now, let me conclude and let me do so where I began, assessing the state of world trade. There's a lot of trade going on around the world all the time, and it's growing again and it's got to keep growing and we need to be a part of it. Policymakers at home and abroad can act to accelerate this growth, or stand in its way. Standing in the way means fewer jobs, less prosperity, and missed opportunities. The global business community could be doing a lot more to create jobs, to lift people out of poverty, to raise standard of living and to force a greater understanding and stability among nations if only our government and political leaders would let us do so.

Leaders from Beijing to Brussels to New Delhi to Washington must rise above political interests. They must foster a positive, dramatic environment in which capital goods, services and people with all appropriate ground rules and safeguards can flow freely across the globe. Leaders in the business community and the labor movement have responsibilities as well. Businesses must refrain from running to government to seek unfair competitive advantages in the global marketplace. Union leaders must accept the reality that their members' livelihoods rely on the growth of world trade. They can no longer be allowed to dictate our global trade and commercial policies.

Those of us who believe in free enterprise and free trade have a responsibility, too. We must do a far better job of explaining the benefits of open markets while not glossing over the disruptions that affect some workers and communities. And make no mistake about it, we have got to do something about that. We must devise ways to support effective programs to help those people that are disenfranchised. But that's no excuse to turn our back on the promise of trade expansion and all the new jobs and opportunities it can provide across this country.

Friends and allies abroad are starting to wonder and worry and ask, "Where is the United States when it comes to a bold, ambitious and visionary trade policy?" We understand the political pressure facing the administration and Congressional leaders. But understanding it doesn't mean we should accept it. Jobs are at stake. America's competitiveness is at stake and our role and image in the world is at stake. Waiting until after the next election is neither plausible or defensible because there's always a next election. And it's no secret that the business community and our current national leaders differ on some issues.

But I'm here to say that bold, positive action to move the nation's trade agenda forward would receive the enthusiastic support and praise from the Chamber and the American business community. Not only would we support it, we would praise it. We would work our hearts out on The Hill and across the country to move this agenda forward. The world economy is clearly not what it was 50 years ago, 20 years ago or 10 years ago. And it's time that we all embrace the future. We've got the best products,

we've got the best services and the most innovation, and we have the best workers and the best companies in the world. We've also got more and tougher competition than we've ever faced before. We've been sitting on the sidelines too long, ladies and gentlemen. It's time to get back in the game. Thank you very much. (Applause)

MR. BJERGA: And thank you very much for your time, Mr. Donohue. There are many questions that we have to ask you this afternoon, and many very timely questions related to current events, of course. I don't know if there's ever a day when the head of the Chamber of Commerce would be in and we couldn't say that, as so many business issues are always happening in the world 24/7.

And one of the big issues happening right now, of course, is the issues involving the euro and the Greek debt crisis and impact that could have on U.S. exports. The European Union continues to lag much of the world in recovering from the global recession. For several euro zone members and for Great Britain, deep budget cuts to contain burgeoning debt loads may hamper growth even further, and we're starting to see signs of this playing out. How will Europe's situation affect the prospects for doubling U.S. exports within five years?

MR. DONOHUE: Your introduction to that question is something I've been thinking about a great deal. The last sentence, I wasn't sure where you were going. Were you going to ask a trade question, or the future of Europe or what about the currency. So let me just take a moment and make a couple of comments. What's going on in Europe is really serious. I really believe that the whole concept of the euro and some of the issues about the EU are under challenge. I'm particularly concerned about Chancellor Merkel losing that election the other day because we need her in Europe right now. We all saw the new coalition that's formed in Britain, and now we're looking at what happens in Greece, what happens in Portugal, what happens in Spain and what happens in Italy. We can't bail all those people out.

So I think there are three things to understand. It's going to have an effect on our currency. We're going to be involved in that, we already are. Second, it is going to have some effect on trade because we have a massive trading and investment relationship with the EU, although a large portion of it is with Germany and France and the U.K.

And finally, I do believe it's going to have an effect on the geopolitics that we're all engaged in. Europe has a fundamental problem in the whole question of demographics. And that follows, and we all read in the *Washington Post* on Monday, an extraordinary social compact that costs a lot of money. We have to be helpful, we have to be thoughtful. The most important thing we have to do? We have to look ten years down the road and ask a question: do we look like Greece, do we look like Germany, or do we look like something else we want to look like? And we'd better learn something from this and do so very quickly.

MR. BJERGA: Many of the European countries experiencing difficulties are considering, or in the case of Greece, actually being ordered to carry out fairly substantial

tax increases to balance their budgets on the understanding that near term economic pain is necessary if they're going to avoid worse in the long run. What role would you see for taxation in reducing U.S. government deficits?

MR. DONOHUE: There are a number of things that the IMF and the contributing nations are demanding of the countries that are going to get their share of this trillion dollar stack of money. And the first thing they're demanding is to change the cost basis. And that's what the big argument is about and all of the violence in Greece right now, because the free lunch is going to start changing.

There is also going to be some increase in taxes. The major increase in taxes that I would support in Greece is the whole idea of people pay taxes that owe them. I mean, only about 30 percent of the people in Greece pay taxes. Now, here in the United States we have a much more vigorous payment system.

Let me say this, though. We have a history of understanding what happens when you raise taxes. You know, you could take all the money that the people of means have in this country, just take it all, and you're not going to do away with all these deficits. I think the President did the right thing in appointing a really good commission to look at the deficits. They're obviously going to have cuts in them. And nobody likes those, by the way, but we're going to have to deal with them over time. We're going to have to deal on the tax side, and there are places where we ought to reduce it, and some places where we can increase it.

But we need to look for a third way to do this. Is it an energy security deal where we begin to develop our own resources and sell them around the world? That has shown a way for Brazil to fundamentally change their economic quotient. But this is something that I think is going to become more and more a current issue here. The American people, if you look at the polls, are very concerned about fiscal deficits and long-term deficits accumulating, and we haven't even looked at the pension funds and at the states. We got a hell of a problem here, and I hope that all of the elements of our society can work together on it. We're going to certainly try.

MR. BJERGA: Following up on your remarks on Greece's tax code, do you think enough people in the U.S. are paying taxes? Or to reduce the budget deficit, do more Americans need to be paying taxes?

MR. DONOHUE: Well, most people that make-- that are well compensated or have their own businesses, the payment rate is in the high 90 percent. And the other people usually find their way eventually to jail. I mean, we have an extraordinary compliance system. Now, when you get into small companies and entrepreneurs, all around the-- what do we have, 26, 30 million small companies? I would suspect that the IRS is right, that some of those guys aren't paying all their taxes.

There was a thing, I don't know whether you noticed, there was a thing in the healthcare bill that is going to hire all kinds of new IRS agents, and it's going to require

companies after they buy more than \$600 worth of goods or services from someone, or some company, to file their tax number as well as their own. And at the end of the year, to give a cumulative amount of money that they've bought from, they think there's a lot of money there. I think it's going to be interesting to see what small companies will think about that.

MR. BJERGA: The EU debt crisis shows that debt can be a major problem. What cuts to U.S. spending would the Chamber cut? If tax hikes would be harmful, where would you find, for example, \$500 billion in cuts in spending for fiscal year 2011?

MR. DONOHUE: If all we had to do was find \$500 billion, that would probably be pretty easy. When you get to \$600, it'd probably get really hard. I'm not being funny about that, but let's just think about something; 62 percent of the federal budget, it's 61 and change in case somebody disagrees, of the federal budget is entitlements. It's Medicare, it's veterans healthcare, it's all that sort of stuff. And then you go to the states and we have huge Medicaid costs, and then there's pensions, Social Security. And by the way, Social Security stops giving us money to spend. We've been spending the Social Security payments and saying, "We owe it to you." So we have a real set of issues here, and we're going to have to start looking at ways, first of all-- and by the way, there have been great efforts to try-- we're going to have to have means testing, we're going to have to have some people working longer. After all, when they put Social Security and Medicare together, the average death age was 62 years. It's now 79. Let's keep working.

By the way, I take responsibility for lousing this stuff up. People are living so much longer, that's part of the problem. And I like it. But, the deal is you've got to look at entitlements.

And let me give you one other thing. We're building all these deficits while the interest rates are right down here. Suppose they go back to 5 or 6 or 7 percent? You know, you're looking at payments on an annual basis that'll scare you to death. So we need to take a real careful look into this. It's always the game, what spending cuts would you support? I'll support more of them than you think if we're doing a real legitimate program.

MR. BJERGA: Many Congressional Democrats have opposed ratification of free trade agreements, the ones you discussed and others, negotiated by the Bush Administration on the grounds that they do not adequately address labor or environmental concerns. Are labor and the environment legitimate concerns in crafting free trade agreements? If so, is there some middle ground that can be found among business, organized labor and environmental interests in support of future trade accords?

MR. DONOHUE: Okay, first of all, environmental and labor issues are legitimate questions between nations, and among nations. I personally don't think you ought to put them in free trade agreements. But if you listen to the arguments the unions are making about the labor issues, I can tell you countries we trade with all over the world are not going to U.S.-- I'm not talking about health and welfare-- but U.S. labor

standards and U.S. pay levels because their economies are at a much lower-- but we're taking people and moving them with all this trade out of serious and challenging positions. We're taking more people out of poverty and more people out of near poverty than you can imagine. And the environmental side, we're negotiating environmental issues all over the world. We're doing it here, we tried just to do it in Copenhagen.

I would suggest to you, if you ever could take those issues and solve them right now, that tomorrow morning the labor unions would have another issue. And by the way, these are not stupid people. They're very, very concerned about jobs. I respect that, I'm concerned about jobs. But they're not helping jobs. And when you look, more than half the labor, organized labor in this country now, are public employees. And they're worried about trade? We're not going to trade them away.

And I'll give you an idea. You want to make a note of what's going to be going on in this country in the next five years? There's going to be a war between public employees that are unionized and private employees that are unionized as public employees require more and more tax increases, and other payments, to pay for their very, very attractive pension, health and welfare things and huge salaries to be paid for by a lot of people including only 7 percent of the workforce that's unionized in the private sector.

MR. BJERGA: Following up on the fault line that you expect to happen in the labor movement, are there fault lines within the business community and your own organization that you're dealing with right now? And what may those fault lines be?

MR. DONOHUE: That's a good question. People ask me that all the time. How can you have 300,000 members and a representation through the state and local chambers and others to three million companies and not have disagreements? I said, "What do you mean not have?" We have disagreements every day. Every day. You know, the worst thing is when you get to tax bills, and then they all come and form a circular firing squad facing in, shoot each other. This year we're going to try to get them to face out.

But the deal is, the differences in the business community are driven very often in a natural way. Difference between people in the service business, and manufacturing business, difference between people in the technology business and the agriculture business. One of our great challenges and our great strengths is the breadth of our membership. But we look like we're doing pretty well in holding them together. But I can tell you, I spend as much time doing that as I do negotiating with the Congress.

MR. BJERGA: You've discussed exports much today. Are you forgetting about imports and its effect on jobs and manufacturing? And what are you doing to police bad guys dumping?

MR. DONOHUE: Well first of all, imports are very, very important to us. Very important. There are a lot of commodities that we can't get from our own country. There are a lot of products that we want to have we can't get. And by the way, these labor union

guys, or their leaders, that all complain about trade, they all go to Wal-Mart to shop because you get quality products at lower prices. And by the way, yes, does that set up a lot of competition? It sure as hell does, and that's good for a competitive economy.

Now in terms of dumping, I'm opposed to dumping and we have taken rather significant steps under the Bush Administration and under the Obama Administration to respond to some of the places where there's obvious dumping, as we should. On the other hand, there are some people around the world that think that some of the things we're pushing around the world are coming in great numbers. You don't get to be the largest exporter in the world without selling a lot of stuff to other people. Balance is important, quality is important, safety is important, but that's no reason not to negotiate agreements and stick with them to create more American jobs.

MR. BJERGA: There are, of course, several questions dealing with China. The exchange rate of the dollar and the Chinese Renminbi has been a recurring source of tension with Beijing. How significant a factor is currency in driving the growth of the U.S./China trade deficit? How does it compare with other factors, such as Chinese state subsidies or the shift in production of goods to China from other U.S. trading partners?

MR. DONOHUE: Well, China is a complex, fascinating subject. Let me just say a word about the question of the value of the currency. I have long associated myself with those that believe the currency ought to be adjusted. The Chinese have a very clear objective, by the way. They want to keep these hundreds and hundreds of millions of people employed. Their system of government requires to do that because otherwise they don't know how to deal with that many unemployed people and the unrest that goes with it.

I am probably more concerned about the theft of our intellectual property, about the changes that the Chinese are making on the innovation side in trying to domestically control a lot of that. The counterfeiting of American products, which happens here in the United States-- Just so you don't get too excited, it's a theft of intellectual property and counterfeiting in the United States is a quarter of a trillion dollar problem to our economy. You know I'm going there next week. We will talk about currency. I thought they were there not very long ago, and I think they're just about getting there. I hope something happens at the G20.

My own view, if you make a moderate adjustment, it's not going to have a lot to do to affect the trade balance a great deal. It'll help a little, because the Chinese, to keep all those people working, one of the things they will do if it gets difficult, they'll just drop the price some more which will help us on what we import and it'll hurt us on what we're trying to sell competitively around the world.

China's getting one other problem. Their economy is getting more sophisticated and they're getting more middle class and the cost of doing things are getting up. Now countries all around the world are trying to think, taking some of their production down the daisy chain to Vietnam and Cambodia.

The other issue, which is very, very important to understand, I talk all the time around the country and people say, "All these jobs left Michigan and Pennsylvania and New York and went to China." The hell they did, they went to Atlanta and Texas and Arizona. Most of the jobs, with some very visible exceptions, most of the jobs that have gone to Asia have gone there to try and take advantage of half of the global economy. And to go in there and make business and keep the intellectual property and the engineering and all that stuff in the United States.

It is clear that companies, the box stores and others, who can get greater efficiencies of scale, are over in China and other places to try and provide a better product at a lower price.

MR. BJERGA: U.S. trade is measured by physical exports and imports, are but a fraction of the value of U.S. sales through foreign based affiliates of U.S. companies, and purchases from U.S. based affiliates of foreign firms. How much attention should be paid to foreign affiliate sales when assessing the size and impact of the U.S. trade deficit?

MR. DONOHUE: Well, that by the way, is a great example. And you can see it in three and four places. Our largest trading partner is Canada. A lot of that is in the automotive and heavy industry area. And you know, if it weren't the border, we'd just go back and forth across the bridge. If you took the border away, it's an integrated system. So the question that's asked, how much of the in and out is really being done across a border that is really an integrated system, and when you look in China and other places in Asia or in the Americas, sure there are some-- as I mentioned, the box store and others-- who are doing a lot of producing in foreign countries and bringing it in.

Now, one other thing. You know, since we've been working on this immigration, remember I'm going to come back some day and talk about immigration. Since we're working on immigration and tightening down the border, it's much, much harder to get seasonal workers and agricultural workers and all of that, legal or illegal, and so what are the farmers in California doing? They've gone to Mexico. They're renting space in Mexico, land in Mexico, growing the crops there and exporting them into the United States. So you've raised a very, very good question. Having the exact numbers, I'm not sure. But we have been doing this for many, many years and the best place to look is Mexico and Canada.

MR. BJERGA: Let's talk about immigration for a second. What is your reaction to Arizona's immigration law and what ripple effect could that have on U.S. labor costs and business?

MR. DONOHUE: First of all, let me say what I think about immigration. There may be one American Indian in here, but the rest of us are all immigrants. I had an extraordinary experience on Saturday night. I was on Ellis Island to get an award on some things that the Chamber had been doing over time in immigration. That's not why I went. I took the award, but I went because my wife's mother and her father, separately, came to

this country from challenging circumstances through Ellis Island. And so you can imagine. I have some very emotional feelings about this. And so many people in this country that made so many great things happen here arrived here in the same way.

I think we need an immigration bill. We need to find a way to have guest workers come back and forth to this country when we need them; seasonal workers, agricultural workers. We desperately need to find ways to keep the H1B and other visa people that come here and get to be a Ph.D. in chemical engineering, and we used to be able to keep them. But now it's much harder, and we need these people. We need to do something about the illegal workers here. There are about, I don't know, 12 million, 13 million of them and their families. And a lot of people, you go up to the Hill, they want to send them home. Well, first of all, you can't find them. And if you send them home, that'd be over in a big hurry because it would be that telephone call that said to you, "You need to come down and get your mother-in-law and bring her home from the nursing home and she has to live with you." That'd change a lot of people's views about this.

But the bottom line is we need a rational immigration program. We have 12 or 13 million people working in this country who are hard working, who care, who are trying to make a living for their family. And quite frankly, we don't have the people to replace them. And so, I would-- and by the way, let me stop. We have to protect our border. I'm not worried about the people coming here to work, I'm worried about some of the other crazy people and the drug people and all those people are getting in.

So now get to Arizona. I think a lot of the argument in Arizona was because of all this drug violence. And as President Calderon will be here Wednesday, we're hosting him for the whole afternoon and we're trying so hard to help him. I mean, this guy bets his life every day to try and stop what's going on in the drug trade, which by the way comes to the United States where we are the consumers. We have got to work on this very hard.

But my final view is Arizona went too far. They went too far. We do not associate ourselves with those that want to stop the all star game or stop trading with people. Everybody else could say, "Let's not trade with California because we don't like their environmental rules." I mean, but we need to fix the Arizona thing and we need to do it in a hurry because it's fundamentally un-American.

MR. BJERGA: You made a passing reference to Native Americans, and we actually have a Native American-related question. Do you include Native American tribal businesses with your trade tours, i.e., China and India? And can you demonstrate the benefits of FTAs with Native American free trade ports?

MR. DONOHUE: Let's separate that because I can do the first part. Native American companies are certainly welcome on all of our travel deals. In fact, I think we had a little conversation with some people before. I'm not going on Gary Locke's trade promotion deal. I'm encouraging our members to go to China. I'm going there to have some very serious, in your face conversations with a few people in the room that you can't do with a group big enough to be here in this room.

So, I welcome any Native American companies who are members of the Chamber, who play by the rules as we all try and do. And I'd be happy to have them. I'm not sure, I know something about the free port issues. I don't know enough. And if the person that wrote the question would grab me on the way out, I'll get myself educated.

MR. BJERGA: Moving on to some other issues, a few weeks ago we had Ron Kirk here. And he was talking about one of the problems that he is having, is that his deputies are not being approved to implement trade policy. Is that causing any problems for you in terms of your own efforts and your own relations with the government?

MR. DONOHUE: Ron Kirk is one of the best people the President appointed. He was a mayor, right down on the border with Mexico. He's a good man, he's trying very hard. He certainly should have his people confirmed. You know, a year? It took a while to get him appointed, but now we're trying to get them confirmed. We are encouraging their confirmation. We generally don't oppose any of those folks. And the Congress is playing some games on that, and part of it is on the trade deal and part of it is this same problem that I articulated before.

But Ron's got a problem. I mean, hopefully he's going to get a winner real soon on the whole issue of our contracting arrangements that we're going to make on sensitive goods and I'm very hopeful that's a winner for him. But he's got to get some help from the White House and from the Congress starting with the White House or we're never going to do these trade deals. And by the way, his patience will wear thin pretty soon.

MR. BJERGA: Does the Chamber have any major objections to Elena Kagan's nomination to the U.S. Supreme Court?

MR. DONOHUE: I'm going to answer the question at the end of the sentence. At every Supreme Court nominee, we have a system through our Institute for Legal Reform, where we review their qualifications. We do that and in almost every instance, we support them. It was the President's choice. If they're approved by the ABA and they're competent people, we're pretty much inclined to support them. We do the process, however, and keep doing it for the occasion once in how many times that everybody might want to rally around that.

And I will tell you, the Chamber hasn't finished its process, but I have no objection to her.

MR. BJERGA: With the 2010 elections coming up, in what ways will the Chamber take advantage of the Supreme Court ruling removing corporate union limits on campaign funding?

MR. DONOHUE: Well, first of all, we plan to be in the election. Second of all, the most incorrect information I've seen in this town in a long time is all the stuff that came out on the Citizens United decision out of the Supreme Court. And the effort by

members in the House and the Senate to construct a bill that would basically, if you look at all the numbers and the configurations, be aimed at one thing. And that's keeping the Chamber out of the midterm elections. There was some testimony up in the House the other day, and our lawyer, Olson, who's probably the best constitutional lawyer in the country, and who won the case originally in the Supreme Court, went up and testified and said, "Oh, this stuff's all fine except it's all unconstitutional." And that'll be very interesting in the courts.

And a lot of the members up there said, "Well we don't really care about that so much. We just want to delay you and keep you out of the elections this time." It's sort of what he said. That's not going to happen. It's still got to get through the Senate. It is so patently political by people who if they were distinguished, long-term members of the Congress and the Judiciary Committee arguing, constitutional issues would be one thing. But these are the guys are the ones responsible for seeing who gets elected in the Democratic side of the House and Senate. I mean, it ought to be embarrassing. And guess what? Even the *Washington Post* thinks so.

MR. BJERGA: If you take a look at the polls for 2010, the predictions are that there should be some significant gains for Republicans in the midterm elections. If that were the case, do you think it will be easier to get trade agreements passed in 2011?

MR. DONOHUE: First of all, what's today? Today is May, right? Election in November, right? Now, there are going to be some elections next week, and of course there are the primaries and we saw what happened to Bennett in Utah and what's going to happen in Pennsylvania next week, what's going to happen in Hawaii. You know, all the political pundits that are running around will tell you who's going to get elected, I mean they get up every morning. There are about a thousand of them, and they get up every morning and they call each other until about 11:00 in the morning, they all get excited.

Me, you know, great. We'll be there when the primaries are happening some, but not much, and we'll be there in the elections. With me, we support Democrats and Republicans. I get a lot of heat from some business people for supporting important Democrats who vote with us. And I get heat from business people for supporting too many Republicans. But what we do is we have a system. We bring it up from the state and local chambers and they tell us who's important and then no matter who you are, if you vote with us 70-some percent of the time, we always support you.

But the bottom line is very simple. We're going to be in this election. When you get all finished, we'll have some more of these and fewer of those, or whatever it turns out to be and you're going to have to fight the same fight on the trade stuff because you've still got the unions around. But I would say that if we could balance the numbers a little, no matter who's in charge, I think we'd have a better chance.

MR. BJERGA: We are almost out of time. But before we ask the last question, there are a couple of important matters to take care of. First of all, I'd like to remind our members and guests of future speakers. Next Wednesday on May 19th, we have the

honorable Tim Kaine, the Chair of the Democratic National Committee who will discuss his party's prospects in the 2010 elections. I guess he's one of that one thousand people you referred to.

MR. DONOHUE: Yeah, he is.

MR. BJERGA: On May 21st, we'll have Ted Leonsis, the owner of the Washington Capitals addressing a luncheon. And on May 26th, Barbara Bush, the daughter of George W. Bush and the President of Global Health Corp. will be here discussing.

Second, we'd like to present our guest with the traditional National Press Club mug.

MR. DONOHUE: Thank you very much. (Applause)

MR. BJERGA: And now it's time for the final question, and I'm going to read this one word for word. The questioner asks, "Okay, don't hold back. Tell us what you really think about U.S. labor unions?" (Laughter)

MR. DONOHUE: We work with U.S. labor unions on infrastructure, on immigration, on national defense issues. Many of them are made up of people that come from my families, extended family. I don't have any problem with labor union members. I have a problem with labor union leaders who have lost sight of what's in the best interests of their members and are in this town holding back this economy and reducing the opportunities to create new jobs in labor union members, and in non-labor union members.

I think when the government gets bigger than the people they govern, we have a real problem. And as I predicted, I think you're going to see some conflicts within the unions. We now have a new person running the SEIU, we've got a new person running the AF of L/CIO. I think it'll be an interesting time. I came here not to talk about them as people or as organizations, but to talk about the behavior that has caused us to leave a lot of jobs on the side of the road, and a lot of Americans wishing they had them. Thank you very much. (Applause)

MR. BJERGA: And thank you for coming, Mr. Donohue. We would also like to thank the National Press Club staff including its library and its broadcast operation center for organizing today's event. For more information about the National Press Club, and especially about joining the National Press Club, and on how to acquire a copy of today's program, please visit our website at www.press.org. Thank you again for coming today. This meeting is adjourned. (Sounds gavel.)

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