



Committee On Finance

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SPEECH OF SENATOR MAX BAUCUS REENERGIZE AMERICA'S TRADE POLICY WITH ASIA

Good morning, and thank you for coming. I thank Ambassador Barshefsky for her introduction. I'm honored to share the stage with her. Her leadership on trade issues, and on trade with Asia in particular, has had a profound effect on our world. Her tireless efforts on behalf of America's farmers, workers, and businesses deserve our praise and thanks, and I certainly give her mine.

Thanks to the New America Foundation and Steve Clemons for hosting this event. I also want to thank NAF for launching a project to monitor and educate people on the Trade Adjustment Assistance program that we included in the Trade Act of 2002. This is important work. And they are just the right folks to do it.

INTRODUCTION

Last year, in addition to TAA, we in the Congress worked hard to give the President TPA, or Trade Promotion Authority. With TPA in hand, the United States began negotiating bilateral free trade agreements with Australia, the Southern Africa Customs Union, Morocco, a group of five Central American countries, and now also Bahrain.

Absent from this list is any country in Asia. I point this out not to comment upon any of our ongoing negotiations. I mention it only to illustrate what I believe to be a disturbing trend. In the last several years, I have perceived a steady drift away from Asia in U.S. trade policy and priorities.

THE ACHIEVEMENTS OF THE 1990s

During the 1990s, the United States made great strides with Asia. We launched the free trade negotiations with Singapore that resulted in the implementing legislation now being considered in the Congress.

The United States negotiated and signed a bilateral trade agreement with Vietnam, paving the way for President Clinton's landmark visit to Vietnam in November of 2000. It was the first U.S. Presidential visit since July of 1969, when Richard Nixon spent six hours in South Vietnam during the height of the war.

We virtually eliminated tariffs on a number of important high tech products in the WTO's Information Technology Agreement. That Agreement was negotiated largely by the United States, Japan, Taiwan, and Korea.

We extended normal trade relations to Cambodia; persuaded India to remove non-tariff barriers on literally thousands of products; and strengthened our trading relationships with ASEAN countries. And of course, the capstone achievement in U.S.-Asia trade policy during the 1990s was

the agreement – after more than 14 years of negotiations – on the accession of China and Taiwan to the World Trade Organization. This agreement enabled more than 1.3 billion people – a fifth of the world’s population – to enter the global trading system.

LOOKING AHEAD ON TRADE WITH ASIA

Looking back, it seems to me that the United States simply paid more attention to trade with Asia in the 1990s than we do today. When I look at all that we accomplished in the last decade compared with where we are today, I’m concerned that we no longer have an aggressive trade agenda when it comes to Asia.

I am deeply troubled by that. Asia is home to more than half of the world’s population and six of our twelve largest trading partners, including Japan and China. Those two countries alone present powerful reasons why we should refocus our efforts on Asia.

JAPAN

Let me begin with Japan. Despite over a decade of economic decline, Japan remains the world’s second largest economy by a longshot. It’s more than twice as big as the next largest economy, Germany. Japan alone represents 70% of Asia’s GDP. It is also the third-largest U.S. trading partner and a huge consumer of American agriculture. To put into perspective just how large Japan’s economy still is, think about this: The amount the Japanese spend on their entertainment in one year is roughly the same as the entire gross domestic product of Morocco.

To be sure, there are serious problems in our trade with Japan. A good example is Japan’s recent threat to ban imports of all U.S. beef based upon wholly unsupportable fears of mad cow disease. But this merely illustrates the point. We need to be pressing Japan urgently to continue to deregulate, to reform its banking system, and to open its markets to U.S. products.

The 1993 Framework Agreement with Japan led to real progress in gaining access to Japanese markets for a variety of U.S. products – including beef, automobiles, financial services, and telecommunications equipment. But that success is being eroded by our failure to keep up the pressure. Between 2000 and 2002, U.S. exports to Japan have dropped by more than 21%. I see no plan of action to reverse this damaging slide.

Rather, we appear content to focus our attention on much smaller markets elsewhere and ignore enormous opportunities in the Japanese market. We should re-dedicate ourselves to opening markets and creating opportunities for U.S. farmers, workers, and businesses in Japan.

CHINA

China presents a different challenge. While many U.S. businesses fear competition from Chinese imports, many others view China as their most promising growth market. In the past, China has never lived up to its enormous potential as an export market.

Today, however, China has by far the fastest growing major economy on earth. U.S. negotiators wisely struck a hard bargain in the deal for China’s accession to the WTO. Now we must work aggressively to ensure that the Chinese government lives up to its commitments.

For instance, I believe we should begin preparing a WTO case against the Chinese in agriculture. The Chinese have utterly failed to implement tariff rate quotas for agricultural products as they had agreed in their accession to the WTO. That is unacceptable.

Also unacceptable is the 90% piracy rate for movies, video games, and music. American companies in these sectors contribute at least 5% of America’s GDP and 4% of U.S. employment.

We need to press the Chinese government to protect intellectual property rights. And it needs to be a priority. We need to be vigilant on these matters. We don't want China to become like Japan, where we constantly need to battle for market access.

We also need to make sure that China competes fairly in the global market. Both China and Japan take measures to weaken their currencies to keep the prices of their exports artificially low. This makes U.S. exports less attractive to consumers in comparison. And we do nothing about it. In fact, one U.S. official recently defended this practice by Japan, arguing that Japan needs a strong export sector to finance internal reforms. I find this astounding. We should not be making excuses for our Asian trading partners. We should be protecting U.S. interests.

BROADER ASIA

It goes without saying that Japan and China are not the only important U.S. trading partners in Asia. The United States traded nearly as much with Thailand last year as it did with the whole of Central America. And we traded nearly as much with Taiwan as we did with Thailand, Central America, the Southern African Customs Union, Morocco, and Bahrain put together. Of course, before we could conclude any agreement with Taiwan, the Taiwanese would have to improve their dismal record on intellectual property rights.

There are other important opportunities throughout Asia. Southeast Asia, for example, provides many possibilities for American businesses looking for countries with dynamic, growing markets. But American businesses are not alone in looking for new markets. China is actively pursuing bilateral trade agreements with the ASEAN countries. If we don't act, we will lose market opportunities in Southeast Asia to China.

We also need to erase an awkward legacy of the Vietnam War and grant normal trading relations to Laos.

In South Asia, India – with over one billion people – should be among our largest trading partners. Yet last year, our trade with India was just less than our trade with Switzerland's 7.3 million people. We should do more to address our dismally low trade volume with India.

CONCLUSION

These are just a few of the more pressing issues concerning our trade with Asia that are in need of attention. The point is that while our policies on U.S. trade with Asia have a serious impact on our economy's bottom line, I fear those policies are not getting the attention they deserve.

Now, I'm always wary of those who criticize without offering suggestions. So let me offer a few. First, we should push China in the Doha Round to make further concessions on issues of importance to the United States. As an example, China's accession agreement on services, although an improvement on China's prior practice, leaves a lot of room for improvement. We shouldn't give China a free pass in this Round just because they recently acceded to the WTO.

Second, we should begin preparing a WTO dispute settlement complaint against China's failure to live up to its commitments on agriculture. We must not teach China the lesson that it can pick and choose which obligations to keep and which to ignore.

Third, we should avoid the trap of turning trade policy into merely a subset of foreign policy. Too often we use trade to reward our friends or punish our enemies. Trade is too important to be relegated to such a supporting role. Ask American farmers, workers, and businesses – trade is its own issue, and it deserves center stage. On that point, we should consider potential free trade agreement partners very carefully. President Bush told Congress he would use TPA to, quote "expand commerce and work for higher-paying jobs for American workers." We should not

squander precious resources pursuing trade deals that have minimal commercial value and that won't create a lot of jobs. Especially not when the United States has lost more than 2 million jobs in the last 2 years.

Fourth, we should give USTR more resources to do its job. The House included an additional \$5 million in USTR's budget for next year. The bureaucrats at OMB recently said that additional money for enforcing China's trade commitments is, quote "unnecessary." I could not disagree more. I may believe that there are things we could be doing better, but let me be clear. The people at USTR are working hard, and they do a great job for the American people every day. I think the House has it right, and I'm going to fight to include that additional \$5 million in the Senate appropriations bill.

We should have a vigorous trade agenda in Asia. Many Asian countries offer vibrant, growing markets in which U.S. companies can compete effectively, if given a fair opportunity to do so. And to make certain they get that opportunity, we should hold our Asian trading partners to their WTO commitments and look beyond the WTO to see what more we can do. We should reenergize America's trade policy with Asia.