Committee On Finance
Max Baucus, Ranking Member

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"A Defining Moment for U.S.-China Trade Policy"
Remarks by Senator Max Baucus
at the Council on Foreign Relations
New York City

In two weeks, Hu Jintao makes his first visit to Washington as President of China. He comes to the United States at a time when, on its face, the Sino-American relationship looks to be in pretty good shape.

We have made amazing progress since the days when bicycles jammed Beijing's hutongs and men donned monochromatic Mao jackets. Today, Ford cars cruise the streets of Chongqing. Chinese customers wait for lattes at Starbucks in Shanghai. And Boeing planes traverse China's skies.

But these images mask a more complicated reality. We have reached a dangerous place in our partnership with China. Our economic ties have become fundamentally unbalanced, threatening to unravel the progress we have made together in the past fifteen years. Leaders in Washington and Beijing need to make smart choices now to prevent this relationship from going dangerously off track.

Of course, our relationship has gone through promising and perilous times before, as I was reminded recently when I read 400 Million Consumers by Carl Crow. Many of you may already be familiar with this book.

Written in 1936, this book was once a bible for American entrepreneurs. The China that Crow describes in the early 1900s bears striking resemblance to today's China – full of opportunity but rife with challenges.

If Carl Crow were writing today, he would see the same promising consumer market, the same rampant piracy and counterfeiting, and the same problems with distributors, agents, and contracts.

But underneath these similarities is something very different. The China of 2006 – unlike the China of 1906 – has become fundamentally integrated into the world economy.

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In Carl Crow's time, trade accounted for about seven percent of China's economy. Today, trade constitutes roughly two-thirds of China's GDP and keeps growing.

In Carl Crow's time, China's principal exports were silk, bean products, and tea. Today, they are electronics — televisions, DVD players, and computers.

In Carl Crow's time, China posted modest trade deficits. Today, China has a $150 billion global current account surplus and a whopping $202 billion bilateral trade surplus with the United States.

Most important, China has become a truly vested member of the international economic system. In its historic 2001 accession the World Trade Organization, China bound its economy to the most important set of rules governing international trade.

China promised not to discriminate against imported products. China promised to open its markets to foreign products. And China promised to protect and enforce the intellectual property rights of foreign innovators.

As Ambassador Roy and others will recall, getting here was not easy. It took China 15 years of tense negotiations to join the WTO. It took painstaking work in Washington to build political support to incorporate China into the world community. And, at many times, it took a leap of faith to convince ourselves that China would become a solid and trusted stakeholder in this system.

Over my many years in the Senate and on my seven trips to China, I have worked hard put the Sino-American relationship on solid ground.

In the early 1990s, I fought to end the annual review of China's Most Favored Nation trade status. In 2000, I led efforts in the Senate to grant China Permanent Normal Trade Relations status, paving the way for China's WTO accession. And throughout, I had the privilege to engage with many Chinese leaders, including former President Jiang Zemin, former Premier Zhu Rongji, and, most recently, Premier Wen Jiabao.

But there are danger signals out there. Popular support for trade with China has waned. Across America, factory closures and unfilled pensions fuel deep insecurity among Americans about the relationship between China's growth and American job losses.

Members of Congress, reflecting this sentiment, have introduced legislation to recast our trade partnership with China by rescinding PNTR or imposing tariffs. Even the United States Trade Representative has characterized our relationship with China as lacking "equity, durability and balance."

But most emblematic of what Americans find wrong with our China trade policy is our gaping $202 billion trade deficit with China. That figure is unsustainable economically. It is unsustainable politically. And it has thrown our relationship out of whack.

Neither country itself deserves full blame for the dangerous imbalances we face. But we are in this together, and both the United States and China must work very hard to overcome them.

Let's start with China. China deserves tremendous credit for its efforts to introduce the market into its economy, welcome foreign investment, and implement many international trade obligations.

China bears much responsibility, however, for the economic imbalances that we face. Important WTO commitments remain unfulfilled. And China's currency is seriously undervalued, contributing to our skewed trade flows.

China must now take steps to address these concerns. High-profile purchases of American products – while welcome – won't solve the underlying problems. There are more fundamental steps China can take, such as lifting its non-science based ban on imports of U.S. beef, taking sustained enforcement action to reduce piracy and counterfeiting, ending discrimination in government procurement, allowing the RMB to demonstrate greater market responsiveness, and reducing government intervention in the marketplace.

But these steps must be real – not lip service. Americans can tell the difference.

Americans have heard China's past promises on improving intellectual property rights. But what do they see? That China has rooted out counterfeiting of Beijing 2008 Olympic merchandise at the same time that piracy and counterfeiting rates for foreign products continue to top 90 percent. I made these points to Premier Wen on my last visit to Beijing in January. And last week, I again underscored them in a series of letters to Vice Premier Wu Yi and Commerce Minister Bo Xilai.

I also introduced legislation last month with Senator Chuck Grassley to encourage China and our other economic partners to play by the rules of the international economy. Our bill bolsters trade enforcement. And our bill spells out consequences for countries whose currency misalignments harm the U.S. economy.

This bill is not meant to punish China, or any other country. Rather, it is meant to step up our engagement with our trading partners so that we can address bilateral problems together. Not by shutting off trade but through engagement.

But we would be foolish if we thought that action by China alone to correct these imbalances is the answer. Revaluation of China's currency alone will not be a silver bullet. Increased enforcement by China of intellectual property rights alone will not reduce our deficits to sustainable levels.

We too, bear responsibility for the profound economic imbalances that we have with China and other countries. And, like China, we have serious work to do to correct them.

We will not reduce our trade deficit until we reverse our negative national savings rate.

We will not reduce our trade deficit until we transform unsustainable budget deficits into the surpluses that we once had.

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And we will not reduce our trade deficit until we bolster the competitiveness of the American economy.

We can no longer ignore these priorities. They have become as instrumental to our domestic health as they are to the world economy. We expect China to be a responsible stakeholder in the international marketplace. We must demand the same of ourselves.

Let's be frank. Compared to China, our economic success is a short stretch on the timeline of history. Our current global primacy is not a God-given right. We must work hard to sustain it. But, as a country, we have become too complacent. With our heads in the sand, we Americans risk being the last to see its decline.

I am disappointed that this administration does not seem to understand the imperative of getting our fiscal house in order. I am concerned they have relegated America's competitiveness and its economic future to the back seat. And so doing, they have eroded the confidence of Americans to face the challenge posed by China in a rapidly globalizing economy.

That is why I welcome the creation by Bob Rubin of the Hamilton Project, which will focus on tackling these problems. He has pointed to our fiscal and current account imbalances, entitlements, low personal savings rates, and high debt – a dangerous mix faced by no other developed country. He calls for a special bipartisan process to meet these challenges.

I hope to play my part, too. This year, I have developed a comprehensive competitiveness agenda dedicated to these very goals. I have already introduced legislation on trade, energy, and savings. In the next few months, I will round out these proposals with bills on innovation, education, and health care.

I do not pretend to have all of the answers. But we have to make these tough choices now so that when a future Carl Crow writes about the America of 2006, he writes about the year America recognized the competitive challenge of China, and stepped forward confidently to embrace it.

About a year that America woke up and took responsibility for its economy – and turned uncertainty into opportunity.

About a year when America did not act out of fear, but did not fear to act.

And about a year that America saw China approaching – with all of its consequences – and chose not get out of the way, but to lead the way to a prosperous partnership that would endure for decades to come.

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