Committee On Finance
Max Baucus, Ranking Member

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For Immediate Release
Monday, July 18, 2005

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Voyages of Trade and Discovery
Senate Floor Statement of U.S. Senator Max Baucus
July 18, 2005

(WASHINGTON, D.C.) U.S. Senator Max Baucus, ranking member of the Senate Finance Committee, delivered the following statement regarding the advancement of free trade and China's place in the global marketplace. The statement follows:

"Six hundred years ago this month, a great fleet of more than 300 ships lifted anchor in Nanjing, China, on the first of seven voyages of trade and discovery. The Chinese fleet counted the largest wooden ships ever built, some with 9 masts, massive keels of teak, and decks 400 feet long.

The Ming Emperor gave his nearly-7-foot-tall admiral orders to sail on July 11, 1405, nearly a century before Christopher Columbus and Vasco da Gama left Europe. And all of those European explorers' ships could have fit on a single deck of one of the Chinese treasure ships. The 36-foot rudder of one of the ships stood almost as tall as Columbus's flagship *The Nina* was long.

The Ming fleet carried a crew of nearly 28,000, with a medical officer for every 150 souls on board. And the fleet carried more than a million tons of silk, porcelain, copper coins, and spices to trade for the riches of the world, on to what the Chinese called the Western Ocean — what we call the Indian Ocean.

They reached Sumatra, Ceylon, and India. They went to the Arabian Peninsula and Africa's Swahili coast. They made a side trip to Mecca.

At each port, ships with colorful prows delivered platoons of Chinese merchants, ready to do business. In Siam, they acquired sandalwood, peacocks, and cardamom. In Indonesia, they acquired tin. In Oman, they traded porcelain for frankincense, myrrh, and aloe. The sultan of Aden gave them zebras, lions, and ostriches. In East Africa, they acquired a giraffe.

In 1451, one of the fleet's interpreters would write a memoir of the voyages, exclaiming: "How can there be such diversity in the world!?"

In Sri Lanka, the admiral engraved a granite slab in Chinese, Tamil, and Persian, seeking blessing from Buddha, Siva, and Allah alike.

In the south-Chinese harbor of Changle, the admiral inscribed on a pillar:

"[We] have recorded the years and months of the voyages . . . in order to leave [the memory] forever."

He listed his destinations, “altogether more than 30 countries large and small.”

He wrote of his efforts, quote, “to manifest the transforming power of virtue, and to treat distant people with kindness.”

He wrote: “We have traversed more than 100,000 *li*” — 40,000 miles — “of immense water spaces and have beheld in the ocean huge waves like mountains rising sky-high, and we have set eyes on . . . regions far away hidden in a blue transparency of light vapors . . . .”

Today, Chinese officials will proudly recall the voyages of the Ming fleet. They will observe that Ming China amassed one of the most powerful naval forces ever assembled. And they will pointedly note that China used the fleet not for conquest, but for business and exploration, trade and diplomacy.

Three weeks ago, on June 24, 2005, a fleet of Chinese-made cars began rolling onto a ship in Guangzhou, China, bound for Europe. The fleet counted cars made at a gleaming new Honda factory on the outskirts of the sprawling city of 12 million souls near Hong Kong.

As reporter Keith Bradsher described: “At the new Honda factory . . . white robots poke and crane their long, vulture-like heads into gray, half-completed car bodies to perform 2,100 of the 3,000 welds needed to assemble each car. Workers in white uniforms and gray caps complete the rest of the welds, working as quickly as workers in American factories — but earning roughly $1.50 an hour in wages and benefits, compared with $55 an hour for General Motors and Ford factories in the United States.”

In America, G.M. and Ford struggle to pay high health care costs for auto workers with an average age of nearly 50. In China, most of Honda’s auto workers are in their 20s. They do not go to the doctor much. And when they do, Chinese doctors charge less than $5 for an office visit and a few stitches.

China’s manufacturing companies are rapidly building wealth. And they have begun to trade that wealth for the riches of the world, across the Pacific Ocean.

At airports throughout the world, airplanes with colorful tail wings deliver platoons of Chinese merchants, ready to do business. In May, the Chinese company Lenovo acquired the personal computer division of IBM. In June, a Chinese company bid $2.25 billion for the Iowa-based appliance company Maytag. Also in June, China National Offshore Oil Corporation bid $18.5 billion for Los Angeles-based Unocal, whose “76” marketing symbol is one of the most recognized and enduring corporate symbols in America. And all this buying pales next to the acquisition by China’s central bank of $230 billion of American Government debt.

China is pursuing trade agreements with India, Australia, New Zealand, and Thailand. China is reaching out to the 10 countries of the Association of Southeast Asian Nations — ASEAN.

The Chinese are visiting the rest of Asia in greater numbers than ever before. They bring with them money and optimism about the “new China.” The new China has gleaming skyscrapers, modern productive industries, and a rapidly developing infrastructure.

China has launched a major charm offensive throughout Asia to promote itself as a desirable place in which to visit, to invest, and to live. Through ventures such as China Radio International, worldwide television broadcasts, and Chinese language and cultural centers across Asia, China advertises itself as an attractive destination. Increasingly Asians are foregoing trips to Los Angeles, traveling to Beijing instead. For many young Asians, the gleaming lights of Shanghai illuminate the new Manhattan.

Already, 90 million people in China's coastal cities have access to the Internet. And the Chinese own more cell phones than any other people in the world. There are more cell phones in China than people in America.

China has the world's largest population, fastest-growing economy, second-largest foreign currency reserves, and third-largest trade. China creates one-fifth of world trade growth.

In 2004, America exported 2½ times more to China than it did in 1999. Montana exported 11½ times more. But America's merchandise trade deficit with China more than doubled in the same time. China accounted for a quarter of America's $652 billion trade deficit in 2004.

And as Tom Friedman writes in his book *The World Is Flat*: "[W]hat is really scary is that China is not attracting so much global investment by simply racing everyone to the bottom. . . . China's real long-term strategy is to outrace America and the E.U. countries to the top, and the Chinese are off to a good start."

China is amassing one of the most powerful economies ever assembled. America must ask: Will the result be as benign as the voyages of the Ming Treasure fleet?

Asia accounts for one-third of the world economy. It is the world's most economically dynamic region. America needs to pay attention.

This administration has launched 20 free trade agreements. But only one has been in Asia — Thailand.

Instead of embracing ASEAN, this administration has largely ignored it. The government has ceded the initiative in Southeast Asia to China. That is how ASEAN views the recent decision of Secretary of State Rice to skip an important annual ASEAN gathering later this month. U.S. Secretaries of State have traditionally attended that conference.

And this administration has failed to use the Asia Pacific Economic Cooperation — APEC — as a platform for trade integration. Rather, this administration has turned the organization into little more than a venue to discuss security concerns.

Since 2000, this administration has negotiated bilateral and regional trade agreements at a furious pace. But most of the agreements that the government has been negotiating offer little real value to America's commercial interests. Why? Because the government is choosing trading partners more for foreign policy reasons than for commercial reasons.

The U.S. Trade Representative has finite resources. To be effective, to deliver the greatest benefits to Americans, the government must direct its efforts where they are likely to have the greatest effect.

In 1962, Congress created the Special Trade Representative — the predecessor of the U.S. Trade Representative — to remove trade policy from the State Department, precisely so that commercial interests rather than foreign policy interests would drive American trade policy.

We must focus trade policy efforts where they promise the greatest return for our ranchers, businesses, and workers. First and foremost, we need to devote more effort to the ongoing Doha Round of WTO negotiations. From all appearances, the negotiations are dragging. The pace of progress will have to improve considerably to meet the goal of an agreement by the end of 2006. And that will require a substantial commitment of U.S. leadership and resources.

And we need to look more to Asia for bilateral agreements, as well. For example, South Korea is our 7th largest trading partner, with two-way trade totaling $70 billion. Korea has promised real reforms in its agricultural markets. It has liberalized investment restrictions and lowered merchandise tariffs. I have met with Korean trade officials on several occasions. They are serious about reforms.

Regional trade agreements in Asia, perhaps under the auspices of APEC, also hold promise. APEC's 21 member economies account for a third of the world's population and about three-fifths percent of world production. American exporters would get a major boost from a regional free trade agreement on this scale.

We also need to seek out further sectoral agreements like the WTO's hugely successful Information Technology Agreement, negotiated largely by America, Japan, and Singapore.

We should launch an initiative in the advanced medical equipment sector. Asia has a rapidly aging population, particularly in Japan, Korea, and China. This demographic shift translates into growing demand for advanced medical equipment. America already exports half a billion dollars a year in medical devices to China and Hong Kong. And these exports are expanding 12 percent a year.

And we need to better enforce our existing trade agreements.

In China, piracy — the theft of American copyrights and patents — is at epidemic levels. In the past 2 years, companies from General Motors to Sony to Cisco have complained that Chinese have stolen their intellectual property. More than 90 percent of software sold in China is stolen. American innovators are losing billions of dollars a year. Combating piracy would help the American economy far more than further agreements with countries whose entire economies are but a fraction the size of our losses to piracy alone.

China also maintains a troubling currency peg. But retaliatory tariffs are not the answer. Tariffs would violate our WTO commitments. Tariffs would inflame already difficult trade relations with China, invite Chinese retaliation in other areas, and make Chinese imports nearly a third more expensive. Tariffs would hurt American consumers who would pay more for many of the goods that they buy. And tariffs would hurt U.S. companies who rely on Chinese inputs to develop their own products.

Having said that, China's currency peg is a problem. It distorts world markets and hurts both America and China itself. China needs to revise its currency policy.

While issues with China dominate the headlines, there are other enforcement priorities, including in our own hemisphere. In Brazil for example, the government recently forced an American pharmaceutical company to reduce its price for one of its medicines. It did so by threatening to break its promise to protect the American company's patent, and to let a state-owned company make generic copies of the medicine.

This is blackmail, pure and simple. And it is illegal. This sort of coercion has no place in our trade relations. It hurts our companies and our workers. And it dampens the incentive to create new and innovative pharmaceuticals.

And our problems with Brazil go beyond just pharmaceuticals. Until recently, Brazil banned the sale of genetically-engineered seeds for use in agriculture. These are the kind of high-tech seeds American companies like Monsanto and Pioneer Hi-Bred develop and sell all over the world — but not in Brazil. How odd then, that roughly 30 percent of Brazil's soybeans are grown with genetically-engineered seeds. The figure is near 90 percent in Brazil's southernmost state of Rio Grande do Sul.

How can this be? Theft. These seeds were smuggled in from neighboring countries where they are allowed, and planted illegally. They were not purchased. They were stolen.

And just like piracy in China, piracy in Brazil costs American industries dearly. Last year, American companies lost $930 million in Brazil because of piracy of audiovisual goods. Some estimate that three-quarters of the audiocassettes sold in Brazil are pirated.

Of course we cannot launch a full-fledged WTO dispute to address each and every foreign trade barrier. And the U.S. Trade Representative often rightly attempts to resolve many of these issues through negotiation and other means.

But there can be little doubt that trade enforcement has received a lower priority of late. In the 6 years from 1995 through 2000, the United States filed 67 WTO dispute settlement cases. In the 5 years since, we have filed only 12. That's about an 80 percent decrease.

Too often, our tools to address trade barriers are lying unused, on the shelf. That burdens Americans with economic losses. But what is more, when Americans see that others are cheating, their enthusiasm for trade cools. And we all suffer as a result.

Americans also cool to trade when they see nothing being done to help those who lose from trade. Lowering tariffs and barriers increases competition and benefits many more than it hurts. But it inevitably hurts some.

For more than 40 years, the government has been helping to retrain workers affected by trade to give them the skills that they need to find new jobs. These programs were expanded in 2002 under the Trade Adjustment Assistance Reform Act — a bipartisan effort and one of my proudest achievements as Chairman of the Finance Committee. The reforms expanded eligibility to new categories of workers, created a new health coverage tax credit, and helped older workers with a new wage insurance benefit. Last year, these programs helped nearly 150,000 workers.

TAA is an integral part of a successful trade policy. A few weeks ago, I discussed this very issue with Federal Reserve Chairman Alan Greenspan during a Finance Committee hearing. Chairman Greenspan stated — as he has before — that our trade policy should [quote] "assist those who are on the wrong side of the adjustment" caused by trade.

But lately, the government has not supported TAA. This year, the administration's budget zeroed out funding for the TAA for Firms Program, which pretty much everyone agrees has been useful and cost effective. And last month, the Senate Finance Committee passed an amendment offered by my Colleague from Oregon, Senator Wyden, to extend TAA to workers in the service industry. But then the administration stripped the language out of the CAFTA implementing bill that it submitted to the Congress.

Liberalizing trade requires a grand bargain with workers. Workers agree to be exposed to increased international competition. But society agrees to erect a strong social safety net to help workers adjust. When workers' old skills become obsolete, society helps them learn new skills to compete. If we undercut this bargain, we do so to the peril of further trade liberalization and our international competitiveness.

But we must press forward with trade liberalization. For, 600 years later, international trade remains as vital to the world economy today as it was to Ming China.

Trade allows Americans to specialize in what we do best. And that allows us to improve our international competitiveness and maximize our standard of living.

What Americans do best today is manufacture capital-intensive goods — airplanes, automobiles, and construction equipment.

Americans invent whole new fields, like biotech and nanotechnology, that lead to new products to make our lives better. University of Michigan scientists recently used nanotechnology to deliver a powerful drug inside cancerous tumor cells, increasing the drug's cancer-killing activity and reducing its toxic side effects.

Americans pioneer new services to make our lives better, like internet banking. We export our services all over the world. Hollywood movies and American television programs are translated into countless languages and watched around the world. American universities educate students from virtually every country on earth. American insurance companies insure assets in jungles, deserts, and savannas.

And American ranchers and farmers feed and clothe people around the globe.

Freer trade helps us find and open new markets for what Americans do best. New markets provide new opportunities for American workers and their companies. New markets mean greater demand for what Americans produce. And new markets mean more jobs and more investment opportunities to meet the demand.

And as we meet the demand of foreign consumers through trade, American products become global products. American brands become global brands. Coke is Coke, the world over. On today's voyages, one can find the familiar yellow arches of McDonald's in Cyprus, Slovenia, and Oman.

The American standard becomes the global standard and the international sign of excellence. Excellence means that half of world's 20 largest companies are American companies. Companies like Citigroup, IBM, and General Electric.

Importing products from our trading partners challenges domestic companies to compete. But competition keeps American companies nimble. American companies are constantly coming up with new products and better ways to make them.

Just look at the number of U.S. patents filed by Americans versus the rest of the world. Americans filed nearly 90,000 patents in 2003 — that's 50,000 more than the next most innovative country, Japan. In innovation, we are still number one.

And the biggest payoff from international trade goes to the American consumer. As more and more companies trade and produce what they are best at producing, prices in supermarkets and department stores plummet. Cheaper products mean that we can afford more of what we need. And our standard of living improves.

The now-ubiquitous cell phone provides a great example. Ten years ago, it was an unaffordable luxury for most Americans. Using one in public aroused curiosity. But trade forced prices to drop. And now many Americans see cell phones as a necessity.

Leaders have not always appreciated the benefits of trade. After the stock market crash in 1929, America enacted the Tariff Act of 1930. That Act imposed the now-infamous Smoot-Hawley tariffs that deepened the Great Depression.

During the presidential campaign of 1932, President Hoover warned that repealing the Smoot-Hawley tariffs would devastate the U.S. economy because Americans could not compete successfully with workers in poorer countries with lower wages and lower costs of production. It was Franklin Roosevelt who argued that worldwide reduction of trade barriers would benefit both America and its trading partners.

Roosevelt's victory, along with his signing of the Reciprocal Trade Agreements Act, ushered in the modern era of American trade policy.

During World War II, Secretary of State Cordell Hull argued that economic protectionism had fed the animosities that led to the War. He advocated freer trade in the postwar era as a bulwark for peace and prosperity.

This vision led to the General Agreement on Tariffs and Trade, or the GATT, negotiated during the Truman Administration. This forerunner to today's World Trade Organization brought down the disastrously high Smoot-Hawley tariffs and freed $10 billion of trade from duties.

Democrats can be proud of our role in expanding free trade. Democratic administrations completed and implemented the last three rounds of GATT negotiations. In 1967, the Johnson Administration completed the Kennedy Round. In 1979, the Carter Administration completed the Tokyo Round. And in 1994, the Clinton Administration completed the Uruguay Round.

And the Clinton Administration completed the North American Free Trade Agreement, negotiated the historic bilateral trade agreement with Vietnam, and granted permanent normal trade relations to China, ultimately paving the way for China's membership in the WTO.

The success of trade liberalization has been spectacular, touching the lives and wellbeing of all Americans. Freer trade has lowered our tariffs from about 40 percent in 1946 to about 4 percent today — and made our trading partners do the same. Freer trade has increased our national income by nearly $1 trillion a year. Freer trade has increased the average American household's income by nearly $10,000 a year. Freer trade with China alone saves American households $600 each year.

Today, 12 million Americans — 1 of every 10 workers — depend on exports for their jobs. International trade now accounts for a quarter of our gross domestic product, up from just 10 percent in the 1950s.

Trade opens our lives to new opportunities and choices. Trade gives us new foods to eat, new movies to watch, and new products to buy.

Strengthening trade ties also contributes to peaceful relations with our trading partners. And our quality of life improves as the world grows ever smaller, shrinking with the better communications and transportation links that develop with increased commerce.

Back in China, Guangzhou airport has a terminal designed by an American company, boarding gates supplied by a Danish company, and an air traffic control tower engineered by a company from Singapore.

America's Dell Computers is giving the Chinese competitor Lenovo a run for its money in China. Dell now has become China's third-largest seller of PCs. And Dell now produces 3 million PCs in China — as many as Lenovo.

America should welcome China's greater integration into the world market. It may mean that we will have to work a little harder, study a little bit harder, and think a little bit quicker, to keep ahead. But those are talents at which Americans excel.

In middle of the 15th century, China made an abrupt change in foreign policy. China turned inward and abandoned outward-looking trade. Imperial edicts banned overseas travel. To reduce commerce with foreign nations, the new Chinese dynasty burned a swath of land 30 miles deep for 700 miles of its southern coast. Any merchant caught engaging in foreign trade was tried as a pirate and executed.

With the Emperor's death in 1435, the government put a stop to the voyages of the Treasure Fleet. Chinese court officials destroyed the plans for the Treasure Ships, the accounts of their voyages, and almost every map and document of the previous period. Sadly, China's golden Ming age came to an end, China's economy fell backward, and the treasure ships became shrouded in the mists of history.

We cannot yet know whether the voyages of today's fleets of Chinese ships will lead to another golden age for China like that of the Ming Dynasty. But we also cannot expect that China will somehow once again abruptly reverse course and turn inward.

Try as regimes after the Ming dynasty did, they could not erase the history of the Ming treasure fleets, whose voyages will leave a memory forever.

Let us respond to today's Chinese fleets with the best spirit of the Ming admiral, and the best spirit of America.

Let us work to advance freer trade, so that for America and for China, we can, in the words of the Ming admiral, "manifest the transforming power of virtue."

Let us work to advance freer trade, to make a better world both for ourselves, and for "regions far away hidden in a blue transparency of light vapors."

And let us work to advance freer trade, because both in terms of new innovations and new trading partners, America's greatest voyages of discovery still lie ahead of her."

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