COMMITTEE ON FINANCE
NEWS RELEASE

Max Baucus (D-Mont.)
http://finance.senate.gov

For Immediate Release
October 13, 2010

Contact: Scott Mulhauser/Erin Shields
(202) 224-4515

BAUCUS CALLS FOR NEW PATH FORWARD IN US-CHINA ECONOMIC RELATIONSHIP

In Beijing, Baucus Addresses Business Leaders, Says United States and China Must Find Solutions That Help Both Countries Grow

Washington, DC – Senate Finance Committee Chairman Max Baucus (D-Mont.) delivered a speech in Beijing today before the U.S. –China Business Council and the American Chamber of Commerce stressing the importance of finding a new path forward for the U.S. and China on bilateral economic and trade issues in an effort to improve economic relations between the world's two largest economies. Baucus is in China this week meeting with several top Chinese Government officials, including Vice President Xi Jinping, Vice Premier Wang Qishan, Foreign Minister Yang Jiechi, Commerce Minister Chen Deming, and People's Bank of China Vice Governor Yi Gang. Baucus is using his trip to press the leaders on China's currency undervaluation, ineffective protection of intellectual property rights, discriminatory indigenous innovation practices and unjustified restrictions on U.S. agriculture exports, particularly beef. The full text of the speech follows below.

American Chamber of Commerce & U.S.–China Business Council
Remarks of Senator Max Baucus
October 13, 2010

Thank you for that kind introduction, Ted.

This is my eighth trip to China. And as I stand here today, I think back to my first trip around the world. It was 1963. I was a young man from Montana. I was brimming with ideals and energy. And I wanted to see the world.

So I threw a backpack over my shoulder. And I hitchhiked my way across the globe.

During that trip, I faced a fork in the road that shaped the rest of my life. I was in what was then the Belgian Congo. I had been traveling for several months. I had opened my mind to new cultures, new foods, and new languages.

And there, in the Congo, I grasped both the vastness and the smallness of the world. The Congo was different in so many ways from Montana. But the people, and their dreams for their children, were so very similar.

"Globalization" was a term of the distant future. But I realized then that the world was shrinking at an incredible rate.

I stand before you today because of that fork in the road. I decided then and there to turn away from the path that led back to the family ranch. And I decided to turn towards the path that led to public service. I decided that I could play a part in shaping our ever-shrinking world.

It was not an easy decision. But I know that it was the right decision.

The United States and China have also faced forks in the road. One such fork put us on the path that we are traveling today. It was the year 2000. And the world economy was changing rapidly. The globalization concept that I had started to grasp back in 1963 had become a reality.

China was the world's seventh-largest economy. It was the ninth-largest exporter. And it was the tenth largest importer.

China had a growing GDP. And it had an enormous population.

It was trying to find its place in the global community, in part by seeking admission to the World Trade Organization. But one significant barrier stood in its way. The United States had not normalized trade relations with China.

Rather than treating China as a permanent, normal trading partner, the United States Congress each year voted to provide China with conditional most-favored nation status, or MFN.
Each year, this vote caused furious debate in the Congress. China was an attractive market for U.S. companies. But its market was largely closed to our exports. And serious concerns persisted about China's rule of law and human rights record.

But in 2000, the nature of the debate changed. Because of China's growing role as an economic power, economic and trade reformers in the United States began to question why we were fighting the same issue on an annual basis.

It was clear to me that China's place in the world was changing. And that we could no longer treat China the same way. So when President Clinton turned to me one day in the White House and asked how the United States should treat China, the answer to me was clear. I said we needed to treat China with respect. And to me, that meant granting China Permanent Normal Trade Relations, or PNTR.

But the path to PNTR was not easy. A debate raged within Congress, and Members raised concerns about everything from the effect of Chinese textile and apparel imports to China's labor and human rights record.

Congress also faced a fork in the road. We could bring China into the world trading system. We could harness China's seemingly limitless growth potential for our exporters. Or we could give in to our fears. We could act to keep China out.

Congress chose the path of inclusion. We granted PNTR to China.

At the same time, a debate raged in China. That debate was about whether to enact the legislation needed to liberalize its economy and join the WTO.

Economic reformers sought to lower tariffs and open China's closed services sectors. Reformers sought to attract the foreign investment and technology that China needed to leap-frog into the 21st Century.

But others argued that America was forcing China to make unreasonable commitments to join the WTO. They argued that China was already increasing its exports without joining the global trading system.

Like the United States, China faced a fork in the road. It could enact the necessary reforms and join the WTO. Or it could play by its own rules and remain on the fringes of the global trading system.

China chose the path of inclusion. China joined the global economy.

As with my own fork in the road in the Congo, these were not easy decisions. They were not easy for the United States. And they were not easy for China.

But as with the fork in the road in the Congo, I know that they were the right decisions.

After PNTR entered into force, U.S. goods exports to China increased from $19 billion in 2001 to almost $70 billion last year. And China's goods exports to the United States nearly tripled over the same period, from just over $100 billion to almost $300 billion.

But with the onset of the recent financial crisis, the world has again changed dramatically. Consumption around the world has plummeted. And exports have fallen along with it.

As U.S. demand decreased, China's exports to the United States decreased by nearly 60 percent between October 2008 and February 2009. And unemployment has soared around the world.

Ten years after Congress granted PNTR, the United States and China now face another fork in the road. As the effects of the global financial crisis have lingered, tensions in both countries have risen.

Angry rhetoric abounds in each country. People in both countries complain about the protectionist policies of the other. And workers in both countries continue to suffer.

The United States and China share similar goals – to secure the stability of our economies, ensure jobs for our workers, and help realize the dreams of our people. And both countries have acted in their self-interest to fulfill these goals. But our self-interests do not have to be inconsistent with our mutual interests.

Today, there are two clear paths before us. We can go down the path of division and discord. Or we can work together to find mutually-beneficial solutions to what divides us.

Resolving our differences does not mean papering them over. But it does mean we must respect the impact our policies have on one another.

China's policies have a significant impact on the United States. Economists estimate that China's currency is undervalued by 20 to 40 percent. And correcting this imbalance could create up to 500,000 new U.S. jobs. The U.S. House of Representatives recently passed legislation designed to correct this imbalance. The Senate is poised to follow suit.

And the United States is not alone in its desire for change. A vocal chorus of countries is feeling the effects of China's currency practices. The European Union, India, and Thailand have all called on China to appreciate its currency. And World Bank President Robert Zoellick recently stated that China's currency is undervalued.

In the meantime, China's currency undervaluation has a significant effect in China, as well.

Chinese officials have long stated that China must appreciate its currency to rebalance its own economy. It needs to do so to move away from export-oriented growth, and create incentives for domestic consumption. And it needs to do so to gain control over its own monetary policy.

We must find a path forward that allows China to meaningfully appreciate its currency to the benefit of both of our economies.

We also must find a mutually beneficial path forward on intellectual property rights.

The United States is the world's leading innovator. Intellectual property generates hundreds of billions of dollars in revenue for U.S. companies every year. But IP infringement leads to 750,000 lost jobs in the U.S. every year.

And the piracy rates in China are astounding. Estimates show that almost 80 percent of software in China is pirated. Software piracy alone cost U.S. companies $7.6 billion in 2009. And more than 80 percent of the pirated goods seized at the U.S. border are of Chinese origin.

As with an undervalued currency, lax IP protection and enforcement also hurts the Chinese economy. China cannot continue to attract foreign investment and cutting-edge foreign technology unless it adequately protects the innovation behind that technology. And as China seeks to move from a low-value manufacturing economy to a burgeoning high-tech economy, it must show its own innovators that it is willing to protect their IP.

We must find a path forward that encourages China to protect innovation. And that would benefit both of our economies.

And we must find a mutually beneficial path forward on China's indigenous innovation policies.

These policies seek to develop a Chinese innovative sector in part by forcing foreign companies to move their research and development operations to China in order to access the Chinese market.

This heavy-handed approach, coupled with China's ineffective IP protection for our R&D, raises significant concerns for American companies operating in China.

But as with currency undervaluation and lax IP protection, indigenous innovation policies also hurt the Chinese economy. Requiring U.S. companies to shift their R&D operations to China will not make China more innovative. It will simply make U.S. companies think twice before investing or expanding their operations in China.

We must find a path forward that encourages China to revise its indigenous innovation policies in a manner that benefits both of our economies. We need a path that fosters the creation of innovative Chinese companies without discriminating against American companies. And we need China to live up to the commitment it made ten years ago and join the WTO Government Procurement Agreement.

Forks in the road are difficult. But the correct paths are ultimately clear.

As a young man, I chose a life of public service. As a Senator, I chose to fight to admit China into the world trading system.

And today, the United States and China must choose to work together to stabilize and strengthen our bilateral relationship, the global trading system, and the global economy.

As before, the fork in the road is difficult. But the correct path is clear.

###