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"Currents of Change and Opportunity: Navigating the Asian Pacific"

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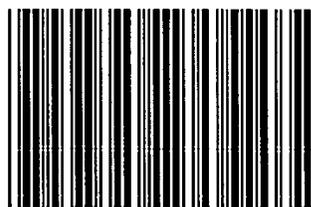
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BAUCUS

Statement of Senator Max Baucus
“Currents of Change and Opportunity: Navigating the Asia Pacific”
The National Center for Asia-Pacific Economic Cooperation
Seattle, Washington

September 5, 2008

Thank you, Sandy, for that kind introduction.

Thanks, as well, to Monica and to the National Center for APEC for hosting this event. You are all doing great work. I know you have been tasked with coordinating the private sector activities of the 2011 APEC summit in the United States. I know you'll make it a huge success.

I would also like to recognize Tim Punke. He is a tremendous talent. And he's a good friend. You are lucky to have him here in Seattle.

Looking out at the Port of Seattle, it is easy to forget that the world's trading fleets were once limited not by technology, the lack of goods to exchange, or the willingness to barter and trade. No, they were once limited by the simple understanding of the world's winds and currents.

Only a little more than 2,000 years ago did the Greek mariner Hippalus (HIP-ah-luss) harness the monsoon winds that blew north in the summer and south in the winter. Hippalus's discovery allowed Greek traders to reach India in just weeks. But the trade remained limited by regional and seasonal winds.

It took another 1,600 years for the Spanish to master the prevailing winds that blow throughout the year, across the globe. In 1562, two Spanish ships sailed the prevailing easterly winds across the north Pacific. They covered 12,000 miles in 4 months. Westerly southern winds brought them home. Guided by their familiar stars and planets, large merchant fleets soon followed the Spaniards and the winds that they had discovered, opening a new era of trans-Pacific and global trade.

The prevailing winds still blow through the Asia-Pacific. Merchant fleets are accustomed to their path. Yet today's traders navigate new and unpredictable winds. They are winds of political, economic, and social change.

The political winds in the Asia-Pacific region have been especially active. In the past year, nearly half of the 21 member economies of APEC felt the winds of political transition.

Some were mild and brought little change, as in China and Russia. Other gusts blew open new political chapters, as in Taiwan and Australia.

In Korea, Malaysia, and Thailand, post-election winds swirl in uncertainty. Looking ahead just a few months, political change may blow through Japan, New Zealand, and the United States.

Strong economic currents push and pull these political forces. They promise differing levels of economic growth and peril in the Asia-Pacific region.

On the one hand, booming commodities prices will buoy exporters in Russia, Chile, Peru, and Australia. In China, 10 percent economic growth will continue to bring prosperity.

On the other hand, much of emerging Asia will experience slower growth and will struggle to pull large populations from poverty. Japan, the United States, and New Zealand will eek out 2 percent growth at best. And export dependent APEC economies will suffer from sluggish consumer demand in Europe, Japan, and the United States. Rapid inflation has become the dominant economic concern in Vietnam, China, and around the world.

The structures through which these economic winds blow are also changing. The World Trade Organization's 153 members have been unable to move the Doha negotiations forward.

Yet Asia-Pacific economies continue to reach trade agreements with each other. Nearly 80 bilateral and regional trade agreements are in place in the region. And more than 100 new trade deals have been proposed or are already under negotiation.

Also stirring throughout the region is growing reluctance to continue market reforms, creeping statism, and economic nationalism, as well as a tide of populist protectionism.

Social changes — ranging from growing income disparities, aging populations, and environmental degradation — are also pervasive in the region. Many of these social changes find their origins — and their solutions — in the ongoing economic and political currents.

Navigating these political, economic, and social winds in the Asia-Pacific region is as significant for trade policy today as the prevailing winds of the 16th century. Finding our way can open trade, create new jobs, and generate economic opportunity across the Pacific. But failing to navigate these winds can drive us off our global economic path, or force us to reverse course.

Finding our way in these new and unfamiliar political, economic, and social patterns is no different from merchant fleets of past centuries. We must orient ourselves by what we know and by what has guided us in the past. Not by stars, planets, and maritime quadrants, but by the principles that have steered us this far.

It is time to get back to basics. Over the past few years, it has been easy to view trade policy as a political exercise. It has been easy to forget why trade is so integral to American economic policy.

To move forward, we must remind ourselves why we have a trade policy at all. We must reaffirm four fundamental principles.

First, international rules help stabilize the global economy. Identifying these rules and sticking to them has made our global trading system fairer and more prosperous.

In a time when some economies in the Asia-Pacific region are tempted to slow or roll back market reforms in favor of mercantilist or state-led policies, defending and expanding these rules is more important than ever.

Second, open market economies create jobs and increase prosperity for everyone. History shows that open economies grow faster and enrich their citizens. By contrast, closed economies fall behind.

Just look to Asia. Korea and Singapore — poor backwaters 40 years ago — chose to engage with the world. Now they are among the wealthiest nations in the region. Burma, regarded as a rising economic star in 1960, turned inward 2 years later. It has since experienced decades of stagnation.

Third, good economic policy makes good foreign policy. Foreign policy must not dictate economic policy. But the two can be mutually beneficial. Economist Frederic Bastiat (BAH-STE-ah-t) had an axiom: Where goods fail to cross borders, soldiers will. That holds true today.

Growing global trade over the past 5 decades has coincided with a significant drop in global violence. Look only to Europe, a continent at nearly constant war until 1945. Or look to America's strong relationship with its former enemy in Vietnam. In these cases, peace and stability had their roots in expanded trade.

By contrast, the violence and instability that we do see today originates in failed, economically undeveloped states on the fringes of the global economy.

Fourth, the world's more prosperous countries are morally obligated to help those less fortunate. We — as Americans, parents, and grandparents — should leave the world better off than we found it. We should leave a world with breathable air, drinkable water, and fertile soils to feed future generations.

Identifying these four principles is not enough. We must act on them.

We must rethink whom we engage economically. And we must rethink the tools that we use to engage them. We must also consider our obligations to the world's poorest countries, and the environmental effects of our actions. I propose four specific actions.

First, we must develop a trade policy for the Asia-Pacific region as a whole. Too often, China has been treated as a proxy for Asia.

As a longtime proponent of U.S.-China engagement, I understand China's critical role in the global economy. We must continue to engage China on all levels. We must encourage China to rebalance its economy, move toward a market based currency, and unwind its unsustainable economic imbalances.

But as we engage China, we must also engage the rest of Asia. APEC, for example, embraces 60 percent of world GDP and more than half of global trade. APEC embodies the world's dynamism, strengths, and challenges. It adeptly addresses issues ranging from open trade, to port security, to consumer safety.

A reinvigorated APEC — one with a clear mission to expand trade between member economies — can be a laboratory for change. It can set an example for the WTO and other trade forums. As the United States prepares to host APEC in 2011, now is the time to reengage it.

Likewise, the United States also must ramp up its engagement with other regional groupings, particularly the disparate economies of the Association of Southeast Asian Nations, or “ASEAN” (AH-zee-ahn).

American leadership in such multilateral forums is not a repudiation of our principles. It is an affirmation of them.

American engagement with APEC and ASEAN is not a concession. Instead, it strengthens the American economy and the global economy.

Second, we must view our trade agreements in a new light. Although we must develop a trade policy for the Asia-Pacific region as a whole, we also know that the region is not a monolith. Our trade agreements should therefore not abide by a uniform standard. We must think outside our free-trade-agreement “box.”

We must view trade policy toward the region as the centerpiece of a puzzle that connects on all four sides. On bottom, this centerpiece connects our existing agreements to today's higher standards and evolving ambitions. On top, this centerpiece reaches to connect to future agreements and greater aspirations. And on either side, the centerpiece broadens the scope of our economic policy to include new partners bilaterally, regionally, and globally.

This more-innovative approach to trade policy could begin with launching a free trade agreement in services with Japan. We often forget that we export \$7 billion in services to Japan each year. Services exports are our greatest strength. And we should capitalize on it. For that reason, we should continue current efforts to pursue a similar agreement with the Pacific Four countries.

This new approach could also stitch together existing U.S. trade agreements with Chile, Singapore, Australia, and Korea. And it could then open such a regional agreement to newcomers, like Malaysia, New Zealand, Taiwan, and Vietnam.

This approach could build on projected bilateral investment agreements with Vietnam and China to achieve greater ambitions. And this approach recognizes that taking small steps with certain Asia-Pacific partners — like transparency with the Philippines or dialogue with Thailand — is better than taking no steps at all.

Third, we must be true to our guiding principles by embracing the region's poorest countries, including Cambodia. It makes no sense that we impose higher tariffs on Cambodian goods than other poor countries that benefit from preference programs. It is immoral that those tariffs are higher than those placed on rich countries.

The United Kingdom's \$57 billion in exports to the United States face an average tariff of less than one percent and raise \$400 million in tariff revenue. We raise nearly the same amount of revenue from Cambodia on only \$2 billion in exports. That's because Cambodian goods face a punishing 17 percent tariff. And that's not right.

Finally, we must implement agreements in the Asia-Pacific region that leave our world better for generations to come. As different and diverse as the countries in this region may be, we all breathe the same air, drink the same water, and require the same resources to grow and prosper. We should protect these resources through a sectoral agreement — in the APEC, the WTO, or elsewhere — in green goods and services. We should also clarify how our trade rules relate to essential environmental policies such as a cap-and-trade system.

Conclusion

There is no better place to discuss these matters than Seattle. Seattle has been, and continues to be, a guiding light for our Asia policy.

As early as 1910, when America still had little contact with Asia, two-thirds of Seattle's imports came from that region. When high tariffs undermined agriculture imports from Asia in the 1920s, Seattle went to China and Japan to drum up new business. Three years later, Seattle cornered 70 percent of American trade with those countries. Today, the Port of Seattle's top ten trading partners are in Asia, and every one is an APEC member.

Seattle has demonstrated its leadership on Asia issues over and over again. I will count on this leadership, and your experience and foresight, as we move to advance our economic engagement with Asia in the future.

So let us master the new winds and currents of the 21st Century. Let us learn to deal with the new winds of political, economic, and social change. And together, let us discover new worlds of commerce and success.