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Washington International Trade Association Annual Awards Dinner

Max S. Baucus

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Remarks of Senator Max Baucus
Ronald Reagan Building, Atrium Ballroom, 7:00-9:00 p.m.
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Thank you, Susan, for your kind introduction. Your distinguished service as U.S. Trade Representative was marked by many accomplishments. But Montanans will remember you most fondly for bringing the fifth round of the Korea FTA negotiations to Big Sky in 2006.

During that round, you and I dined with Korean Ambassador Lee on safe and delicious Montana beef. And your visit to Montana blazed the trail for Big Sky to host the APEC trade ministers next May. You can bet that Montana beef will be on the menu again!

I would also like to thank WITA ("WEE-tah") for presenting me with its Lifetime Achievement Award. For nearly 30 years, WITA has been a leading forum for the discussion of international trade issues. I am deeply grateful for this honor.

The 19th century French writer Alphonse Karr said:

"The more things change,
the more they are the same."

This quote is familiar and enduring, because it rings true. The world of international trade has changed significantly since I was elected to the Senate in 1978. But the fundamentals of good trade policy remain the same.

During the last 32 years, the centers of economic power have multiplied.

In 1978, the United States, Europe, Canada, and Japan accounted for nearly 70 percent of the world economy. Today, their share is just over 50 percent.

In 1978, China, India, and Brazil represented 5 percent of the world economy. Today, their share has nearly tripled, and is rising fast.

Our trade with Asia has also grown dramatically. In 1978, China was our 43rd largest trading partner. Today it is second.

India was our 33rd largest partner. Today it is 13th.

And in 1978, the value of U.S. trade across the Pacific roughly equaled the value of U.S. trade across the Atlantic. Today, trans-Pacific trade exceeds trans-Atlantic trade by nearly 50 percent.

The trade rules themselves have also expanded. In 1978, the 84 members of the General Agreement on Tariffs and Trade were in the final stages of the Tokyo Round. The GATT system applied only to industrial and consumer goods. It had no enforceable dispute settlement. And it was led by two members — the United States and Europe.

Today, the World Trade Organization has 152 members. In addition to goods, its agreements now cover agriculture, services, intellectual property, product standards, and food safety. The WTO provides mandatory, enforceable dispute settlement. And its leading players include developed economies as well as major emerging economies like China, India, and Brazil.

And modern technology has revolutionized international trade. The services sector is a good example.

In 1978, most services simply could not be exported from the United States. An architecture firm in Dallas could not expect to win a contract to design a shopping mall in Mumbai, at least not without a lot of frequent flier miles.

But with the internet, e-mail, and advanced telecommunications, last year U.S. services firms exported $231 billion to customers around the world.

The international trading system has thus changed substantially. But the more it has changed, the more the fundamentals of good trade policy have remained the same.

It's time that we returned to those fundamentals. I suggest that we focus on four main goals.

First, we must increase exports and create jobs.

The U.S. economy has stepped back from the brink of a second Great Depression. We have experienced positive growth in the last 3 quarters.

But troubling signs remain. After 5 months of employment gains, the economy lost 125,000 jobs in June. Consumer confidence declined sharply. Fifteen million people are still looking for work.

Although we avoided economic doomsday, we are not out of the woods. Our most urgent economic goal must continue to be jobs.

Exports create jobs. Last year, America exported more than $1½ trillion in goods and services. And those exports supported nearly 10 million U.S. jobs.

But we are not meeting our export potential. We are the world's largest economy. We are nearly three times the size of our nearest competitor. But we are only the third largest exporter. We trail China and Germany. As a share of national income, America exports less than <u>all</u> of our major trading partners.

We must improve our export performance. To do so, we must break down barriers and open commercially meaningful markets.

Last year, I urged the President to launch the Trans-Pacific Partnership negotiations. I am pleased that they are now underway.

Our exports to just one of the TPP partners — Vietnam — have increased more than five-fold since 2002. Vietnam is the second-fastest-growing economy in Asia. So we have only scratched the surface of its potential for U.S. exports.

And we have only scratched the surface of the TPP's potential to increase U.S. exports throughout the Asia-Pacific region. I hope and expect that the TPP agreement will expand to include additional countries that are willing to uphold its high standards in this dynamic region.

We also must provide more support to small and medium-sized exporters. Small businesses represent 97 percent of exporting firms but only 30 percent of exports. There's clearly room for growth.

But in order to grow, small businesses must get the resources that they need to export. And we must be as aggressive as our competitors in providing these resources.

Canada spends 50 percent more than the U.S. on export promotion. The United Kingdom spends three times more. We cannot afford to lose ground in the race to increase exports and create jobs.

The Senate is considering legislation that would help make up some of this lost ground. The Small Business Jobs Act would increase support for financing, technical assistance, market research, and other programs to promote small business exports.

And the President's National Export Initiative is also expanding export assistance, particularly for small businesses. I strongly support the N.E.I. goal of doubling exports within 5 years.

But, as with all of our export promotion initiatives, the success of the N.E.I. cannot be measured by the size of its budget or the number of bureaucrats it employs. It must instead be defined by the size of the exports it generates and the number of jobs it creates. It must, in short, be defined by results, rather than process.

In order to achieve these results, we must return to a second fundamental goal — ensuring that our trade policy serves our economic interests.

In 1962, Congress transferred responsibility for trade policy from the State Department to what is now the Office of the U.S. Trade Representative. Congress wanted to ensure that economic rather than foreign policy interests would drive American trade policy. Nearly 50 years later, our goal remains the same. But we have not yet achieved it.

For example, when it comes to China, we must adopt a new approach that places economic concerns at the center of the relationship. For too long, our economic interests have taken a backseat to our foreign policy interests. We must develop a comprehensive, coordinated economic strategy for China, separate and apart from our diplomatic strategy.

And we must pursue this economic strategy aggressively to tackle a range of Chinese barriers to U.S. exports, including

- **its ineffective protection of intellectual property,**
- **its discrimination against non-indigenous innovation,**
- **and its currency undervaluation.**

I do not suggest that we ignore our foreign policy interests. But we must assert our economic interests with equal vigor.

We also must continue to press for an ambitious outcome to the Doha Round that provides real economic benefits to our exporters.

The United States is under intense diplomatic pressure to drop our demands for additional market access. I commend Ambassador Kirk and his team for standing firm.

We must get a better deal. We must insist that the Doha Round create meaningful new export opportunities for our ranchers, farmers, manufacturers, and service providers.

And we must ensure that the terms of Russia's WTO accession serve our economic interests, as well. I welcome the renewed push to resolve our outstanding issues with Russia. As the world's seventh largest economy, Russia should be a member of the WTO. But I will support Russia's membership in the WTO only if and when Russia complies with the obligations of membership.

Our trade policy will serve our economic interests if we also return to a third fundamental goal — strengthening the rules-based trading system.

International trade and investment rules are the lifeblood of global commerce. They open markets and level the playing field for American goods, services, and investment. And they help governments to resist political pressure to erect barriers that stymie competition.

American ranchers and farmers rely heavily on trade rules that require countries to base their food safety measures on science. As with high tariffs and other protectionist barriers, unjustified food safety measures can block U.S. producers from the markets on which their livelihoods depend. <u>Science</u>-based trade rules ensure that our ranchers and farmers can deliver their world-class products to consumers around the world.

I welcomed the commitment by President Obama and Korean President Lee to resolve the outstanding beef and auto issues in the U.S.-Korea FTA. I have long supported FTA negotiations with Korea. In fact, it was 5 years ago this week that I gave a speech on the Senate floor urging the previous administration to redirect its FTA energies toward key markets in Asia, particularly Korea.

But Korea must adhere to the rules-based trading system. The World Organization for Animal Health has determined that U.S. beef of all ages and cuts can be safely traded. More than 60 U.S. trading partners follow this standard.

Korea agreed to do the same. But in practice, it limits our access to beef from cattle less than 30 months of age.

Korea is not the only country that fails to comply with international standards on beef. Japan imposes a more severe age restriction. China effectively bans U.S. beef entirely.

But we are not considering FTAs with those countries. If we do not require our FTA partners to comply with a rules-based trading system, then what is the value of that system? And if we do not require compliance from our FTA partners, how can we expect it from others?

I care deeply about this issue. It affects the ranchers in my home state of Montana.

But this is about much more than beef. It's about whether U.S. exporters — our beef exporters, our auto exporters, and in fact all of our exporters — can rely on rules rather than government discretion for their market access. And it's about whether our trade agreements will strengthen or weaken the rules-based trading system.

I will work closely with the administration and Korea in the coming months to address these concerns. I hope that we will reach agreement. Failure should not be an option.

And we will strengthen the rules-based trading system if we also return to a fourth fundamental goal — enforcing our trade agreements.

Failing to enforce our agreements undermines the agreements' capacity to increase exports and create jobs. And failing to enforce our agreements erodes public support for future agreements.

We must identify trade violations and resolve them — through consultation, when possible, or through litigation, when necessary.

We should recognize that our resources are finite and focus our enforcement efforts on the barriers that matter most.

The Airbus case is the perfect example. Last month, a WTO panel determined that Europe provided illegal subsidies to Airbus. This decision delivered a clear victory to Boeing and the rest of the U.S. aerospace industry.

That industry employs nearly half a million workers and produced a trade surplus of nearly $50 billion in 2009. And this decision will level the playing field and enable the industry and its workers to achieve even greater success in the future.

Intellectual property is another area where we could achieve significant commercial bang for our enforcement buck.

U.S. motion picture, software, and other information companies employed three million people and sold $650 billion in copyrighted products in 2009. That included more than $100 billion in foreign sales and exports.

But the contribution that intellectual property industries make to the economy here at home is undercut by the theft of their products abroad. One recent study found that 80 percent of software in China is stolen — 80 percent. That's an astounding figure.

I commend USTR for filing and winning two I.P. cases against China in the WTO.

But piracy of software and other products still exists on an enormous scale. We must develop a plan with China to make meaningful, measurable progress. China wants U.S. investment and technology. American businesses want access to Chinese consumers. And enforcement of U.S. I.P. rights is imperative to meeting both of these goals.

I urge USTR to work with China on a roadmap to improve I.P. enforcement. And as with the N.E.I., our progress on this roadmap must be defined by real results.

We should also carefully inventory our existing I.P. enforcement tools. And we should strengthen those tools where they are inadequate. The customs reauthorization bill I introduced with Senator Grassley would significantly enhance our ability to stop infringing goods from crossing our borders.

And the "Special 301" bill that I introduced with Senator Hatch would significantly enhance our ability to crack down on infringing goods abroad.

I intend to move these bills in the coming months. Strong results require strong enforcement tools.

Yes, the world of international trade has changed significantly during the last 30-plus years that I have represented Montana in the Senate. And it will continue to change over the next 30-plus years.

But the fundamentals of good trade policy are, and will remain, the same.

Let us focus our attention on these fundamentals.

Let us increase exports and create jobs. Let us put economic interests at the center of our trade policy. Let us strengthen the rules-based trading system. And let us rigorously enforce those rules.

The strength of our economy may well depend on it.

Thank you again for the honor you have bestowed on me tonight.