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Hearing on the Impact of U.S.-China Trade and Investment on Pacific Northwest Industries

I want to thank the commission for holding this hearing in Seattle. It is a clear recognition of the long and important trading relationship between Seattle, Washington State and China.

There is no institution for whom this relationship is more important than the place I work, the Port of Seattle. When the small bulk carrier Liu Lin Hai docked at the Seattle waterfront in April 1979, it was the first ship flying the flag of the People's Republic of China ever to call at a U.S. port. Yet when that 637-foot ship arrived in Seattle it arrived empty – China did not know what it produced that would be of interest to a sophisticated, developed economy like the United States.

The Liu Lin Hai returned to China with a load of corn valued at about $5 million. It was a small beginning, but from that small exchange, trade with China has grown tremendously in Washington State and the rest of the United States.

In 1979, two-way trade between Seattle and China was estimated at about $50 million, probably represented by Boeing sales of a few 707s to China. By 2003, two-way trade between China and Washington State totaled $16.9 billion.

I have been going to China for 25 years. Six months after the Liu Lin Hai called at Seattle, the Ports of Seattle and Shanghai signed a Friendship Ports Agreement, a relationship that over the years has allowed for exchanges of technical knowledge and management experience. I may not yet qualify as an old China hand, but those of us with a long perspective can truly appreciate the changes that have occurred there.

When I first went to China, the main "highway" from the Beijing International Airport to the city was a two-lane road -- hardly the "grand" entrance to a major world capital city. In Beijing itself, bicycles were the major means of transportation. The people wore drab clothes with little color. The haze and acrid smell of coal smoke from a million open stoves hung over the city in winter. Anyone traveling in China in those days almost always returned with a cough.

Well into the 1980s, the Park Hotel was the only building in Shanghai that was more than 20 stories. Walking along the Bund -- in the old European colonial part of the city -- a Westerner would soon be surrounded by young Chinese trying out their English. Across the Huangpu River was an area called Pudong, mostly farmland, with an occasional low-rise building.

Today, Shanghai has more than 1,500 buildings of more than 20 stories, most of them built in the 1990s. The World Financial Center, now under construction, will be the tallest building in the world when it opens in 2007. Pudong, where the center is being constructed, is a thriving commercial area. In that same period, Shanghai built 100 miles of freeway, bored two tunnels under the river, finished four subway lines and added light rail lines in the surrounding area.

Today Beijing is a gleaming capital with a multi-lane highway into the city. Traffic chokes the streets where bicycles once reigned. Construction cranes dot the skyline as the city prepares for the 2008 Olympics – in true Chinese fashion the Chinese expect to have everything finished by 2006.

There are similar stories throughout much of China. Guangdong Province in the south flourishes with thousands of large and small factories, capitalizing on its key location near Hong Kong. In the north Harbin enjoys enormous progress in its economy and urban construction. The city grew into a major river port and now has set itself a grander goal -- to become an important international economic and trade center city in Northeast Asia.

While much of the growth – and wealth – is concentrated along the coastal cities, interior China is beginning to change as well. Chongqing, Seattle’s sister city in Sichuan Province is booming. New buildings rise and a monorail transportation system is taking shape, much of it in tunnels drilled through the city’s hilly landscape. As the waters back up behind the huge Three Gorges Dam down river from Chongqing, the city will see even more development. Chengdu, capital of Sichuan Province, Washington State’s sister state, is experiencing similar development.

No country has seen as much change in the past decade as China has. It has transformed its economy into one of the world's largest, totaling more than $1 trillion in gross domestic product in 2002. China has consistently had the highest growth rates in the world, its GDP frequently increasing 10 percent a year. It has created a middle class of entrepreneurs who have changed the political and cultural face of China.

This growth and change applies in the arena of human rights as well as in business and economics. But those of us who have been going to China for some time now have no illusions about it. It is a totalitarian state that brooks no question about its leadership and its power. I was in Hong Kong, ready to get on a plane to Beijing, the morning of the Tianenmen Square protest 1989. Needless to say the flight was canceled. Those events still echo among many of us who watch and study China. There is corruption in some interactions between business and government – the greased palm unfortunately has replaced the iron rice bowl. Such wide-scale development in its cities could not have occurred without a ruthless land-use policy.

We Americans often talk about China in terms of human rights and the environment. China's standards clearly don't yet reach ours yet. China will not become an American-style civil society any time soon, but we should recognize the amount of change and progress that has been made in such a short time, and that includes both human rights and environmental concerns.

There is no nation in the world where things have changed so much so quickly for the ordinary people. China remains relatively poor although it passed a milestone in 2003 when per capita income rose above $1,000 for the first time. But that masks the huge increase in wealth in the cities where per capita income can be four or five times as much. China still has a large rural peasant population, but in its large coastal cities, China has created one of the largest and fastest growing middle classes ever. There has never in history been such a similar period of wealth creation and transfer as there has been in China.

At the Port of Seattle, we celebrated our 25th anniversary of trading relations with China last year. But the modern-era connections between China and the Northwest began not long after President Nixon's trip to China in 1972.

Later that year, the Civil Aviation Administration of China ordered 10 Boeing 707s, shifting from a largely Russian fleet to one built by Boeing.

Today Boeing aircraft represent about 70 percent of the commercial aircraft in China.

How important is China to Boeing? Recent news reports said China may put a lid on aircraft purchases next year. Boeing stock fell 2 percent on the news that day. It shows the impact of China on the regional economy, even if the initial news likely is less significant than first reports said.

At the Port of Seattle, China became our largest trading partner last year – over taking Japan – and it will continue to be one of our major customers in the years to come. In 2003 about $8.8 billion in two-way trade passed through the port alone. We've spent more than $800 million over the past few years upgrading our terminal facilities and we plan further expansion to accommodate the increased trade we know is heading our way.

Total exports from Washington State to China totaled more than $3.2 billion in 2003. Boeing aircraft made up more than half of those exports -- $1.8 billion in 2003 – but the list of other products from Washington going to China includes food products from Eastern Washington, computer equipment, paper products, forest products, fish and many other miscellaneous categories. Much of that moves on container ships that call at the port or on the many air cargo flights that depart each week from the Seattle-Tacoma International Airport.

The Port Commission recently voted to re-open Terminal 25 because our Terminal 18 has become so busy. We are considering expansions to both Terminals 18 and 5 to accommodate more growth in the future. Some commentators in the recent past forecast the end of Seattle as a viable seaport. We were losing market share to the huge ports of Long Beach and Los Angeles in Southern California and could no longer compete effectively, they said.

This could be no farther from the truth. . The recent problems and bottlenecks in Southern California have shown there still is a need for the Ports of Seattle and Tacoma in Puget Sound. Shippers have learned they need another entry way to the United States. As a result, 2004 was the best year in history for the Port of Seattle. Some of our critics recently predicted we might be able to move 1.8 million containers by 2014. We reached that mark in 2004. We likely will reach two million containers this year. Our vision of three million containers by 2010 is looking better and better.

I want to talk for a minute about another key relationship we are building with China. This year, Seattle will host the ***Pacific Rim Sports Summit: The Road to Beijing***. Planned as a run up to the 2008 Summer Olympics in Beijing, the event will bring together elite athletes from both nations as well as other Asian countries to compete in a variety of sports.

Along with the sports events, plans are under way for a major arts, cultural and scientific program as part of the summit. The Fred Hutchinson Cancer Research Center and the National Bureau of Asian Research's Center for Health and Aging are planning a Pacific Rim Health Summit as well.

Another factor to keep in mind is that trade with China in not restricted to goods. There is substantial trade in services, often hard to count and measure. But it is there and important. For example, several local architecture firms – especially Mulvanny G2 and Callison – have an extensive practice in China, exporting architectural expertise and importing the fees they earn. Starbucks Coffee, with a significant and growing presence in China already, also sees China as one of its top global markets in the years ahead.

But the real story about China, and the one causing concern and fear in the United States, is how we deal with China as a manufacturing powerhouse.

We need to recognize right up front that we will not be able to protect our local manufacturers through old-style trade barriers. When it comes to manufacturing, China will almost always win because of its lower production costs.

There's a good example right at our port. We use huge cranes to move containers on and off of increasingly large ships. The Shanghai Zhenlua Port Machinery Co. on the Yangtze River near Shanghai captured much of the market for these huge harbor cranes in the past 10 years, a good example of China's ability to make increasingly sophisticated equipment at world competitive prices.

The recent end to textile quotas under the World Trade Organization raises other questions about the future. Many experts believe China, and a few other places such as India, will be winners under the new system. China, aware of fears that its production will swamp the world with its low-cost production, has imposed a textile tax on its producers. But if China is a winner, the port should benefit. We already are a major port of entry for Chinese textiles.

One of the big issues in the past year has been the outsourcing of jobs to economies like China, India and Russia. Unlike the past, when most of the jobs moving overseas were blue-collar jobs, the jobs moving now are in the high-tech fields of engineering and software development. This is less of an issue in regard to China, but as the Chinese economy develops, it is likely to become more prevalent. Another way of looking at the issue is to consider the other side of the job question, what's called "insourcing," or the number of people employed by foreign companies doing business here.

According to the Bureau of Economic Analysis, there were 103,900 jobs in Washington State in 2001 at the U.S. subsidiaries of foreign companies in which the foreign ownership was at least 10 percent. In August, the BEA changed its methodology to include only U.S. affiliates where the foreign ownership was a majority. That reduced the number to 84,100 jobs in 2002, still a substantial number.

If the usual share of the state's workforce holds true among these workers – about 60 percent of state jobs are in the Seattle area – then more than 62,000 jobs in the Seattle area are tied to insourcing. That's more employees than Boeing, and twice as many as Microsoft employs in the Seattle area.

As China's wealth as a country continues to grow – its foreign reserve holdings are now among the largest in the world – China will begin to invest overseas itself.

Just recall what has happened with Taiwan to see what is likely to occur with China. Taiwan's economy is well-developed now, and Taiwanese investments and developments have flowed into the Northwest in recent years. Taiwanese investors, for example, own and are developing the Eaglemont Golf Course near Mount Vernon, Skagit County.

What we are seeing happening here is a repeat of a principle the world's nations have used with great success since World War II. To the extent that we trade with each other, and our economies become intertwined, we are less likely to go to war with each other. As countries with political differences do more and more business together, the conflicts that separate them tend to fade into the background. It becomes in both their self-interests to keep a lid on their differences. I have seen this first hand in China. As entrepreneurs and businesses began to exert more and more influence on the economy, the heavy hand of government slowly was lifted. More business translated into more freedom.

Clearly this is a key concept for the United States and its policy toward China. We ought to support China and its economic drive – we certainly can't stop the flow of goods from China to the Pacific Northwest and elsewhere in the United States -- so we ought to capitalize on it.

Boeing not only sells airplanes to China, but also is helping the Chinese improve their airports and air traffic control systems. Mid-level executives at Chinese airlines regularly come to the U.S. to participate in Boeing's program to teach them modern Western business practices. Local architecture firms have designed some of the top buildings in China. These companies take the U.S. expertise in designed buildings, retail space and community development and help China to create places that are people oriented. Two-way trade in services, often overlooked, is one of the keys to the future relationship with China.

Microsoft has a large and growing presence in China. Its sophisticated products still have a competitive advantage. Software will be an important part of the future for China, especially as it continues to improve its laws on intellectual property. And the lesson for us is that we can take advantage of China's growth and development by continuing to develop our own highly skilled, highly trained workforce of the future.

Clearly, the growing trade imbalance between the U.S. and China – nearly $100 billion last year -- is a political flashpoint. It is reminiscent of the backlash against Japan in the 1980s when that country became an export powerhouse.

A recent article in the Washington Post outlined how pervasive China is in our economy:

Two-thirds of the telephones sold in the United States are made in China, as are nearly three-fourths of the toys, the Post said quoting Chinese government statistics. "The Chinese company Qingdao Haier claims half of the American market for small refrigerators, according to the official Jiefang

Daily newspaper. About 70 percent of artificial Christmas trees in the United States are made in factories in Guangdong, according to a Chinese financial Web site, Homeway.com, and 80 percent of the world market for cigarette lighters is controlled by small-scale factories in the city of Wenzhou in Zhejiang province," the Post said.

We can see China's emergence in the world economy as a threat or we can see it as an opportunity. The trade imbalance can be a political problem or it can be a reflection of a vibrant market between the two countries. We can dig our heels in as a nation, but we can't stop the flow of goods. What we can do, however, is capitalize on the growth.

Many American and European companies are investing in China so they can gain access to that growing market. Starbucks is not investing in China for cheap goods, but to sell coffee there. Microsoft is not investing in China for cheap labor, but to sell software. That trend is important for the Pacific Northwest where more local companies are increasing their global reach. We will continue to benefit from two-way trade and the movement of goods through our port. But for many companies here, the importance of China is not trade but new markets, new business and sales to the growing Chinese middle class.

Like trade the "sales" will not all be in goods. Seattle companies are well poised to take advantage of changes coming as China matures. Environmental companies here, for example, will be able to tap into China's growing recognition that it must increase its attention on the environment.

China will continue to be an important market for the Pacific Northwest. Boeing forecasts that China will need nearly 2,400 new jet airplanes worth $197 billion over the next 20 years. By 2022, China's commercial airplane fleet will be second only to the United States. Much of the growth we expect here at the Port of Seattle will be from China. Other local companies -- Starbucks, Costco, Weyerhaeuser and Paccar – have significant operations in China and expect more.

The Pacific Northwest has some of the strongest ties in the country to China. We can benefit from the relationship that grows between us perhaps better than any other region. We have to be ready with a vibrant, well-educated work force to take advantage of the growing connections – we will compete with our minds and our innovations, not with our factories.