CONGRESSMAN LES AuCOIN
TESTIMONY ON U.S. - CHINA TRADE AGREEMENT
WAYS AND MEANS COMMMITTEE, SUBCOMMITTEE ON TRADE
November 1, 1979

Mr. Chairman, let me thank you for this opportunity to share with you and your committee my thoughts on the Trade Agreement between the United States and the People's Republic of China. I believe it will prove to be one of the landmark initiatives in revitalizing our international trade policy and in improving our ability to compete in the world marketplace.

In urging that your Committee recommend approval of this agreement, I want to review the vital contribution it will make to American trade and the economy; but I also want to go beyond the numbers and examine the significant implications of the pact that are not reflected in numbers alone.

This treaty signals the end of a 30-year trade hiatus with the People's Republic of China. It comes at a time when our trade deficit has reached record levels, when American firms are being outbid in the international marketplace, and when our competitiveness abroad is being eroded daily.

Last year, our trade deficit was more than $30 billion; and currently, it is running at a rate of $24 billion, only a slight improvement. Moreover, between 1957 and 1977, our share of worldwide exports dropped from 21 percent to less than 12 percent.

This decline has important implications for our domestic economy. Currently, about 14 percent--$1 out of every $7--of all U.S. goods produced are exported. Moreover, better than one out of every nine Americans employed in manufacturing are producing goods for export. Almost as important, however, is the estimate that for every additional $1 billion in international trade that we generate, more than 40,000 jobs are created and another $2 billion added to the gross national product.

But even these figures belie the very important role that export trade plays as one of the great growth sectors of our economy. Between 1960 and 1970, U.S. exports in current dollars increase annually at 8.5 percent. But between 1970 and 1975--just half the time--they grew at a rate of 18.7 percent. When we realize that only 30,000 firms, or less than ten percent of all manufacturing concerns in the country are responsible for this growth, the potential for American trade assumes dramatic proportions.

Since relations between the United States and the People's Republic of China were normalized last January, there has been much speculation about the vast market opening up in the East and what it will do for American exports and our trade deficit. While our optimism about the prospects for the China market is justified, we must recognize that it is not the cure-all for our international trade woes and that the treaty will not reverse our long decline overnight. But it will help.

According to Commerce Department projections, U.S. exports to China are expected to rise between 35 and 70 percent this year alone to $1.1 to 1.4 billion. The long-range prospects, while subject to many factors, could reach $3.5 billion in 1985 with imports at $1.5 billion. Even with downward revision of these figures to accommodate the changing modernization targets of the Chinese, this is hardly a market we can ignore.

Beyond the potential of the China market itself, we must also recognize that there are other benefits to be derived from ratifying this agreement. One of them is stability in our important Pacific Rim trade.

In 1977, U.S. trade with Pacific Rim countries--China and her neighbors bordering on the Pacific Ocean--surpassed our trade with Europe for the first time. Today, Pacific trade equals 25 percent of the U.S. total. An approved trade pact with the People's Republic of China will not only encourage this vital flow of American goods and services, it will enhance the climate for American investment in the Pacific region. Expanded trade will bring expanded shipping and air cargo routes and further help to stimulate this exchange.

Some will raise objections that we should not trade with communist nations such as the P.R.C. because their political systems are oppressive and because they do not place the same value on human freedoms that we do. By trading with them and giving them the "benefits" of the American economic system, the reasoning goes, we endorse their system and emable it to flourish.

Such logic presumes that American goods, American products, and American technology are so overwhelmingly superior, the other nations of the world have no place else to shop. Perhaps there was a time when the U.S. held such a commanding position in world trade. But if it were ever true, it is manifestly not true today.

This is not to say, Mr. Chairman, that we must ignore the harsh realities of life under such systems or close our eyes to violations of human rights. To the contrary, our international policy on human rights is sound and we should pursue it vigorously. But we must do so in ways that will realistically help us to achieve our goals.

Let me turn now, Mr. Chairman, to the less tangible aspects of this agreement. As my colleagues know, I have long been an advocate of expanded trade with the PRC, from the days even before recognition. My interest grows out of an active role in the Banking Subcommittee on International Trade where in the last session of Congress I authored an amendment that would have exempted the People's Republic of China from Section 402 of the Trade Act, opening credits from the Eximbank for sales to China. My purpose in introducing the amendment was to signal the Chinese our interest in normalizing relations and enable U.S. businessmen to enter more forcefully blossoming Chinese markets.

Since that time, I have journeyed to the People's Republic of China to assess first-hand the potential that China holds as a trading partner.

China is a primitive nation. Nevertheless, I found it supremely self-confident. You have a sense that it knows where it's going. And this strikes a visitor from the industrial world, where indecision, uncertainty, and self-doubt have been all too evident.

With such a nation, what are the trade possibilities for the United States? Frankly, as I suggested a moment ago, it's going to be slow -- in the beginning. The Chinese are starting from square one. They are not a consumer market and they won't be for decades. There won't even be a market for many industrial products until the Chinese first update their most basic economic underpinnings.

What they need first are oil drilling rigs and related equipment to get the oil they need to get, in turn, the funds they need to finance that general economic modernization they talk about. They also need immediate port development -- engineering, management, and equipment -- so they can effectively bring in foreign products. They need transportation improvements to distribute those products effectively. And they urgently need irrigation planning for greater crop productivity. Those are among the country's first priorities.

But the trade picture is not all bright. For our basic forest products, there's going to be a wait. Lumber exports are just not a high priority at the moment given the endless list of immediate Chinese needs. Certainly this reality has implications for the economy of my home state, Oregon. And for Oregon wheat, there is yet the problem of TCK Smut to overcome, a fungus that affects wheat from the region and of which the Chinese are scared to death without real cause.

My message in these comments, Mr. Chairman, is that our initial trade will be small. But anyone who belittles the China market of today will watch somebody else laughing all the way to the bank years from now.

A high-ranking Chinese official told me bluntly that U.S.-China trade could reach a level equal to that enjoyed by the Japanese. That's significant. Right now, Japan has a 5-to-1 advantage over us. It was the first time Chinese intentions had been stated so precisely. It was also the first explicit indication that China intends to spread its purchases on a broad basis. Japan may always be China's major trading partner, but this statement suggests a far more open market than many have believed possible.

As for the character of foreign business activity, some policies are being studied that would astonish Americans. With limited foreign earnings in the immediate future, and with a wise reluctance to go too deeply into debt, China appears to be developing a strong joint venture policy. This means partial private ownership.

I was told that the percentage of private foreign ownership might be set at varying, negotiable levels -- in jointly owned factories, energy plants and many other enterprises. The Chinese even appear to be open to the idea of the foreign partner taking earnings out of China for reinvestment -- a critical item for investors.

It was remarkable to hear that such ideas are even under consideration. Imagine little islands of private enterprise on the Chinese mainland!

In conclusion, Mr. Chairman, let me reiterate my strong support for this agreement and pledge my efforts on behalf of its approval. I remind my colleagues of the importance of this pact to American interests in the Pacific and to American trade. It holds the promise of great opportunity if we have the foresight to seize it. It is a sound treaty and should be approved.