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The U.S.-China Trade Agreement and its Implications for Southern Legislative Conference (SLC) States

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What is the future of U.S.-China trade and what does it mean for the South?

On November 15, 1999, the United States and China signed a historic trade agreement, an agreement that was negotiated sporadically for 13 years—spanning the administrations of three U.S. presidents and two Chinese leaders—by dozens of high-level trade negotiators on both sides. The agreement lays the groundwork for the acceptance of China, the world's most populous nation with 1.3 billion people, into the global trading system. The agreement ensures that China reduces tariffs on a range of industrial and agricultural products and paves the way for American banks, insurance, telecommunications and automobile companies to enter the huge—and potentially lucrative—Chinese market to compete on a relatively level playing field. In fact, a U.S. House of Representatives Ways and Means Committee study earlier this year estimated that greater access to China's economy and a reduction in tariffs would boost U.S. exports by an additional \$11.6 billion once fully phased in, while the lowering of investment barriers would result in another \$2.4 billion in increased earnings for a multitude of U.S. corporations.[1]

Given the blazing pace of the Chinese economy's recent growth and the desire of the Chinese leadership to continue to liberalize and expand the economy, the opportunities for American businesses remain tremendous. China is now expected to enter into similar trade agreements with the European Union, Canada and emerging economic powerhouses such as Brazil. Few analysts expect these negotiations to be stymied for too long, as all these nations are eager to take advantage of the reduced tariffs and the policy permitting foreign companies to invest in and augment their current Chinese operations.

The November 15 agreement also ensures that the United States now will support China's application to join the World Trade Organization (WTO), the 135-member global body that sets the rules for international commerce, that met in December 1999 in Seattle, Washington. China has been extremely interested in joining the WTO and continuing its progress down the path of economic liberalization initiated by its leadership in the late 1970s.

China's efforts to join the WTO actually began in 1986 when it applied to join the General Agreement on Tariffs and Trade (GATT), the precursor to the WTO. China decided that membership in the world trade group would not only expand its economic status, but also elevate the country into the ranks of global powerplayers. However, the active support of the United States was the *sine qua non* for China's admission into both global trade groups, and reaching a trade agreement with the United States was a necessary element in securing this support. Even though trade negotiations between the two countries began in 1986, they ebbed and flowed with the vagaries of U.S.-China diplomatic and political relations. During certain times, the negotiations were particularly precarious and required the intervention of officials, both American and Chinese, at the highest level for their resumption on a more positive footing. (Two good examples of the fragile nature of the U.S.-China relationship are the following: In June 1989, talks on the trade front were suspended by the United States in the light of the crackdown on pro-democracy demonstrators by the Chinese government in Tianamen Square. Similarly, in May 1999, China suspended trade talks when U.S.-led NATO forces mistakenly bombed the Chinese Embassy in Belgrade, Yugoslavia. In both these instances, talks were resumed a few months later at the behest of very high-level government officials.)

Notwithstanding the euphoria surrounding this historic trade agreement, analysts are quick to point out that substantial work remains to be done in the United States if the benefits of the agreement can be fully realized. Even though Congressional approval is not necessary, Congress will have to vote on giving up its right to review, on an annual basis, China's trade status. This vote on "most favored nation", i.e., low-tariff, trading status for China, has become an annual ritual in Congress, during which opponents and proponents take the opportunity to present their respective viewpoints. On the side of the proponents, the argument is made that freer and fairer trade with China will lead to significant benefits for American industry, exports, jobs and the American public. The argument is also made that continued economic involvement with China will lead to improvements on the non-economic, i.e., political, front. Conversely, opponents point to serious human rights abuses in China,[2] allegations of Chinese spying at American military installations, illegal contributions to American political campaigns, suppression of worker rights and religious freedoms. Even though the vote in Congress—set for sometime in February 2000—is expected to be close, analysts anticipate that supporters of the trade agreement with China will prevail and that China will be granted permanent trading status.[3]

Major Points of the Agreement

In return for American support in gaining admission to the World Trade Organization, the U.S.-China trade agreement includes the following key elements:[4]

- ***Telecommunications***: Foreign phone companies now will be able to own up to 49 percent of all telecommunications service ventures as soon as China enters the WTO, and up to 50 percent two years later. These terms are a major achievement since until a few weeks ago, China's Ministry of Information Industry maintained that the telecommunications sector involved "national security" and insisted that foreigners were banned from all telecommunications and Internet services. While an independent regulatory agency will be set up, state-control over the industry will be phased out, clearing the way for lower prices, better service and shorter telephone installation/connection times for hard-pressed Chinese consumers.
- ***Internet***: Foreigners may now invest in Internet companies across China, including the content providers. As indicated previously, this represents a bold diversion

from the total control strategy employed by the Chinese government previously. Internet companies such as Yahoo and America Online will be able to invest in Chinese on-line ventures.

- ***Distribution***: Manufacturers can import and export without government "middlemen," and distribute and sell products to China's entire population. In sum, American companies now can establish wholesale, retail, distribution and after-sales networks within China, a trend that was not possible prior to the signing of the agreement.

- ***Movies***: China will import 20 foreign films a year, double the current level.

- ***Automobiles***: Automakers now will have full distribution and trading rights in China. Specifically, by 2006, China will reduce tariffs on automobiles to 25 percent from the current 80 percent to 100 percent. China also will allow foreign financing of automobile purchases. American automakers have tremendous opportunities here since China's 120 or so automobile manufacturers, according to *The Economist*, "are fragmented and inefficient." These local manufacturers, protected for years by government regulations and sheltered by high tariffs, will be forced to drastically improve the quality and performance of their vehicles, cultivate better customer service techniques, and bring their costs down by at least two-fifths, if they are to survive competition from foreign automakers. Experts expect that many of the local Chinese auto manufacturers will not be able to survive the rigors of competition and will be forced to close down.

- ***Banking***: This is another area in which the November 1999 agreement will initiate some radical changes. Under the agreement, U.S. banks will be able to offer services in local currency to Chinese business enterprises two years after China joins the WTO and to individual Chinese consumers three years later. As *The Economist* notes, this will be "a severe test for domestic banks," that have never been exposed to competition from profit-oriented financial entities.[5] The local banks will have to quickly acquire the skills to identify the best projects; eliminate the policy of granting loans for non-economic reasons; and remedy their balance sheets. If not, deposits from local consumers will flow to the U.S. (and other foreign) banks with better performing borrowers, fewer non-achieving loans and, consequently, higher interest rates on deposits. In a few years, Chinese consumers will be able to buy General Motors cars with the G.M.A.C. loans Americans are so familiar with, a further boon to U.S. automakers.[6]

- ***Agriculture***: Tariffs on agricultural products will fall to 14.5 percent, and China will begin to eliminate all export subsidies and quotas for low-tariff agricultural commodities. (The reduction in trade barriers will particularly assist foreign wheat, corn, rice, cotton, maize, and soy oil imports to China.) The net effect of these moves will be the inability of the Chinese government to maintain domestic wheat prices, for instance, far above world market levels. As *The Economist* notes, while wheat imports soon will be available at much lower prices to Chinese consumers, the vast areas of land in northern China currently devoted to growing wheat could be gradually shifted to such high-value crops as fruit and vegetables.

- ***Management***: Foreign firms will be allowed minority stakes in securities fund management joint ventures. Initially, these foreign stakes will be limited to 33 percent, rising to 49 percent three years after China joins the WTO.

- ***Professionals***: American lawyers, doctors and accountants will have more freedom to work in China. In this connection, several Missouri professional operations are eager to expand their current workload in China.[7] Bryan Cave, a leading St. Louis law firm, opened an office in Shanghai in April this year and commented that "it [the agreement] will very much assist us—and our clients—in what we're trying to accomplish." Similarly, Remi Wrona, a company providing consulting services to U.S. and European companies interested in China from offices in St. Louis and Singapore, observed that the agreement was "an important landmark."

Along with these elements that will enable American companies to aggressively court the business of Chinese consumers and entrepreneurs, the agreement also included provisions that would allay American concerns regarding two contentious issues: one, mechanisms to deal with the anticipated surge in Chinese imports into the United States with the lowering of trade barriers under the WTO; and, two, methods to identify "when the Chinese might be 'dumping,' i.e., illegally selling products below cost."[8] Even though China wanted these measures phased out quickly, the U.S. negotiators held their ground and insisted on a transition period so that Americans and the U.S. Congress would continue to support the administration's stance on the agreement. Specifically, the Chinese agreed to import-surge protections for a 12-year period and the anti-dumping regime for 15 years.

One of the most politically sensitive, critical areas of concern to American negotiators concerned the textile industry, and, in this instance, it was the Americans who were calling for restrictions on free trade with China. Under the terms of the international Multi-Fibre Agreement (MFA), China's share of the world market in garments is restricted to 17 percent. Since membership in the WTO does away with all such restrictions, U.S. negotiators, in the November 1999 agreement, ensured a phase-out of the MFA quotas by 2005 (when the MFA expires), though some tariffs and anti-import surge safeguards will remain in effect for an additional four years. China wanted the phase-out of the MFA quotas to occur immediately.

In sum, the terms of the November 1999 agreement between the two governments, while prying open the Chinese economy to foreign competition, will force efficiencies upon a wide swath of areas in the Chinese economy. This will eventually generate profits and related benefits to American companies willing to immerse themselves in the potentially huge and growing Chinese economy.

The U.S.-China Trade Relationship

In the past several years, the United States has run sizable trade deficits (importing more goods and services than it exports) with a number of its major trading partners, a trend that has raised alarm in certain circles. The U.S.-China trade scenario is one such relationship in which the United States has a huge trade imbalance. In the aftermath of the mid-1997 East Asian economic downturn, this trade deficit was exacerbated with the contracting East Asian economies and their diminished ability to purchase American goods and services. The sapped demand for goods and services in East Asia negatively affected the other economies of the world, too, a development that further reduced the sale of American goods and services abroad. All of these factors, alongside the recent upsurge in world crude oil prices, contribute to a worsening United States trade deficit.

Overall, the American annualized trade deficit for the first 10 months of the year (through October 1999, the most recent month with statistical data), totals $262 billion, substantially more than the $164 billion trade deficit for all of 1998. Despite the American trade deficit's huge increase in dollar terms, it is significant that it plays a smaller role in the overall economy. For instance, in 1987, the trade deficit accounted for 3.3 percent of gross domestic product; in 1998, it represented 1.9 percent even though it shot up to 2.6 percent in the first half of 1999.[9]

In more recent months, the deteriorating economic scenario in East Asia and certain other parts of the world (Western Europe, for instance) has improved marginally with the pace of economic growth picking up. An important corollary to this minor international surge is a slight slowing in the hitherto voracious American demand for imported goods and services. In fact, import growth actually slowed, rising by only 0.1 percent in September 1999 compared to the previous month, despite the significant rise in world crude oil prices. However, in October 1999, imports rose by 1.6 percent to a record $107.9 billion, catapulted by the 126 percent surge in oil prices from a 25-year low of $9.20 per barrel in January 1998 to $20.74 per barrel in October 1999. This huge rise in imports, coupled with the anemic rise in exports—though the first 10 months of 1999 exports only rose 1.9 percent compared to the same period in 1998—accentuates the nagging problem of sluggish economic growth rates in East Asia, especially Japan. These twin facts wreak havoc on America's trade deficit and continually push it to all-time highs. Hence, it should be stressed that despite the minor upswing in economic activity in East Asia, the region has a considerable way to proceed to attain the type of growth achieved in prior years.

As mentioned, the worsening overall U.S. trade deficit scenario is symptomatic of the U.S.-China trade relationship, and for October 1999, the deficit between the two countries inched up to $7.2 billion from $6.9 billion. In fact, during this month, the amount the United States bought from China was more than six times what it sold. The widening, monthly trade gap with China (along with an almost identical $7.2 billion trade gap with Japan for October 1999), is the most ever the United States has recorded with any country. Table 1 provides a breakdown of the American trade balance with China since 1985.

Table 1 displays the widening trade rift between the United States and China and also indicates its rapid acceleration in the last 15 years. From a mere $6 million deficit in 1985, the deficit leapt to almost $57

United States Trade with China 1985 to 1999
(Millions of Dollars)

Year	Exports	Imports	Balance
1985	$3,855.7	$3,861.7	($6.0)
1990	$4,806.4	$15,237.3	($10,430.9)
1995	$11,753.6	$45,543.2	($33,789.6)
1997	$12,862.3	$62,557.6	($49,695.3)
1998	$14,241.3	$71,168.7	($56,927.4)
1999 (Oct.)	$10,997.4	$67,568.9	($56,571.5)

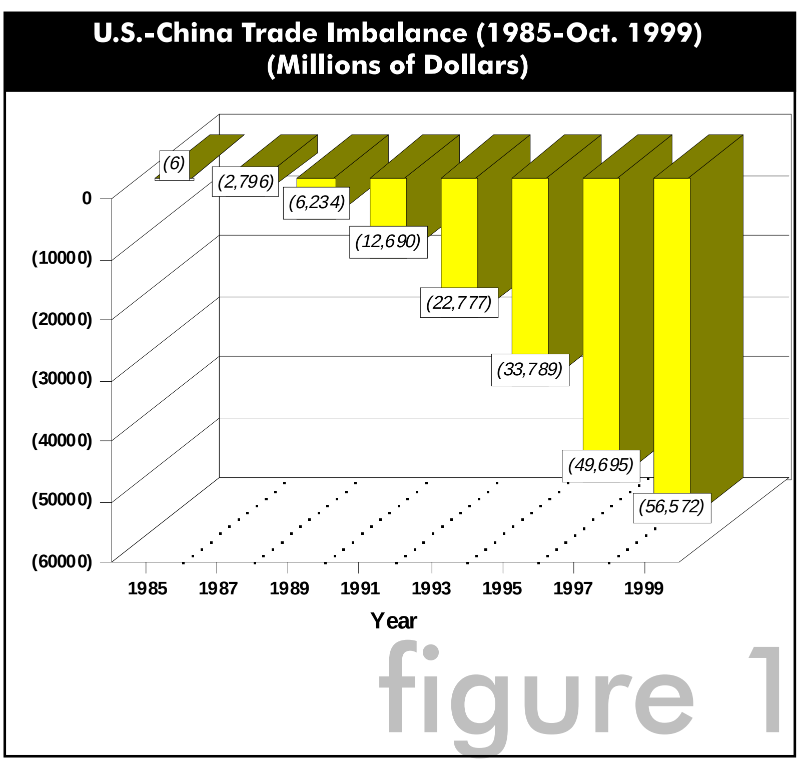
table 1

Source: U.S. Census Bureau

billion in 1998 and will be even higher at the end of 1999. It should be noted that in 1978, China shipped goods worth a paltry $324 million to the United States, a stark contrast to the approximately $70 billion expected in 1999. Proponents of the recently concluded U.S.-China trade agreement stress that this steep trade disparity, in China's favor, (about $68 billion in imports and about $11 billion in exports through the first 10 months of 1999) reinforces how important it is for China's markets to be open and accessible to American companies so that the increased sales in their goods and services in China will see a slimming of the trade deficit. Specifically, the U.S. Department of Commerce notes that "[T]hese data highlight the importance of implementing the recent U.S.-China trade agreement to open up China's markets to U.S. goods and services."[10]

The ever-widening trade imbalance in the U.S.-China relationship is represented graphically in Figure 1.

The importance of China as a dominant U.S. trading partner is evident in a review of the nation's top 10 trading partners.[11] In this breakdown, as of October 1999, China was America's fourth largest trading partner, carrying out $78.57 billion in trade, in the first 10 months of the year. So far this year, China was only behind Canada, Mexico and Japan, in that order, and was ahead of such traditional economic affiliates as the United Kingdom, Germany, Korea, Taiwan, France and Singapore. Even in 1998, China was America's fourth largest trading partner with $85.41 billion in trade behind Canada, Japan and Mexico. Given the fact that China attained this impressive trading role prior to the clinching of the November 1999 agreement, it is expected that the greater access to China's markets will result in this trading relationship burgeoning even further. Figure 2 demonstrates the data for the top 10 countries with which the United States traded in 1998 and for the first nine months of 1999.



Source: U.S. Census Bureau

SLC States and Trade with China

In the SLC state economies, as in the rest of the country, international trade continues to assume an increasingly important role. The sweeping wave of globalization ensures that, for example, a machinery company in south Georgia exports its products to faraway Pacific Rim countries, and a Fuquay-Varina, North Carolina-based company manufactures and exports its medical diagnostic products to Indonesia. In addition to the export-oriented jobs that are propelling state-economies, a recent U.S. Department of Commerce study demonstrates that exports are driving the economies of the cities around the nation too.[12] According to this study, "export sales from the 253 metropolitan areas grew by $166.5 billion from 1993-98, representing a total gain of 45 percent. Metro areas studied accounted for $536.4 billion, or nearly 80 percent, of all U.S. exports in 1998." In stressing the importance of expanded trade across the globe, U.S. Treasury Secretary Lawrence H. Summers notes "[T]his means more jobs for Americans. It means larger export markets for American producers to provide high-wage jobs. It means a more stable, competitive global economy."[13] Notwithstanding these impressive gains, a tightly knit global economy means that economic events in certain parts of the world have potentially negative repercussions in other parts of the world.

In this vein, trade between the 16 states in The Council of State Governments' southern office, the Southern Legislative Conference, and China, when considered cumulatively, has been expanding steadily in the five-year period 1993 through 1998. For instance, total exports to China from the SLC states increased from $1.35 billion in 1993 to $2.28 billion in 1998. It should be noted that the economic contraction experienced in the entire East Asian region, including China, in 1997 and 1998, impacted negatively on trade between China and the SLC states.[14] Specifically, exports flowing from the SLC states to China declined by over 20 percent between 1997 and 1998, a trend in stark contrast to the impressive growth of over 67 percent in exports between 1993 and 1998. Table 2 provides a breakdown of exports from the SLC states to China between 1993 and 1998.

America's Top 10 Trading Partners
1998 and Jan.-Oct. 1999

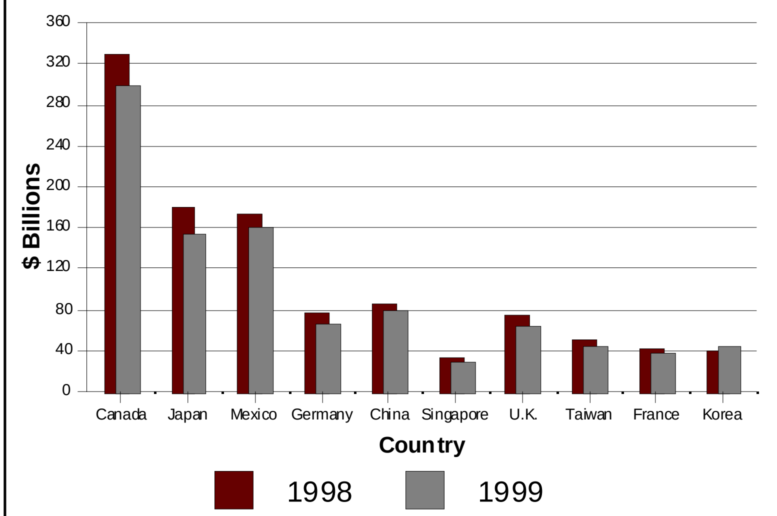


figure 2

Source: U.S. Census Bureau

As indicated in Table 2, between 1993 and 1998, exports to China increased in 12 of the 16 SLC states and declined in the remaining four SLC states. Among the SLC states that experienced expansion, growth rates were particularly impressive in Louisiana (546.5 percent); Kentucky (413.7 percent); Tennessee (168.8 percent); and, Florida (146.4 percent). In terms of decline, Alabama experienced the most significant (41.3 percent) with Oklahoma (33.6 percent), West Virginia (13.1 percent) and South Carolina (3.1 percent) following in descending order.

The deteriorating economic misfortunes that engulfed the entire East Asian region are clearly reflected in the shrinking exports to China from the SLC states between 1997 and 1998. As indicated earlier, the 20.2 percent cumulative decline was most seriously felt in Mississippi (64.9 percent); Tennessee (64.3 percent); and Arkansas

SLC State Exports to China: 1993 through 1998 (Thousands of Dollars)

SLC State	1993	1995	1997	1998	% Change 1997-98	% Change 1993-98
Alabama	89,103	57,054	58,000	52,295	-9.8%	-41.3%
Arkansas	5,220	13,657	21,391	10,330	-51.7%	97.9%
Florida	200,794	565,877	640,106	494,663	-22.7%	146.4%
Georgia	112,147	136,092	186,852	148,460	-20.5%	32.4%
Kentucky	5,524	17,668	36,388	28,374	-22.0%	413.7%
Louisiana	26,914	236,167	92,292	173,990	88.5%	546.5%
Maryland	49,071	68,063	84,915	75,319	-11.3%	53.5%
Mississippi	4,913	28,093	17,297	6,070	-64.9%	23.6%
Missouri	63,776	80,288	167,391	137,841	-17.7%	116.1%
North Carolina	153,216	175,125	230,382	215,615	-6.4%	40.7%
Oklahoma	57,604	80,740	50,260	38,245	-23.9%	-33.6%
South Carolina	36,436	54,020	45,938	35,299	-23.2%	-3.1%
Tennessee	57,577	1,100,553	433,211	154,747	-64.3%	168.8%
Texas	398,695	714,971	651,845	583,440	-10.5%	46.3%
Virginia	79,258	119,874	134,210	109,738	-18.2%	38.5%
West Virginia	19,286	20,506	8,951	16,768	87.3%	-13.1%
SLC Total	1,359,534	3,468,748	2,859,429	2,281,194	-20.2%	67.8%
U.S. Total	8,767,104	11,748,447	12,805,416	14,257,953	11.3%	62.6%

table 2

Source: U.S. Department of Commerce

(51.7 percent). Of the 16 SLC states, only two, Louisiana and West Virginia, saw an expansion in their exports to China during this two-year period.

It is also relevant to compare the performance of SLC state exports to China to overall United States exports to China during this same period. In this connection, U.S. exports to China expanded by over 11 percent between 1997 and 1998 and increased by over 62 percent between 1993 and 1998. As indicated earlier, the SLC states experienced a 20.2 percent decline between 1997 and 1998 and a 67.8 percent increase between 1993 and 1998.

Exports to China as a proportion of total SLC state exports is another useful way to assess the impact of the recently concluded U.S.-China trade agreement. In this connection, Table 3 presents the comparative information, in thousands of dollars, for the period 1993 to 1998.

As displayed in Table 3, there has been a slight increase in the importance of exports to China from the SLC states, as a proportion of total exports. Specifically, the percentage increased from 1.3 percent in 1993 to 1.4 percent in 1998. Once again, certain SLC states experienced more significant increases than others, with Louisiana (0.8 percent to 4 percent); Florida (1.4 percent to 2.1 percent); Missouri (1.3 percent to 2.0 percent); and Tennessee (0.9

percent to 1.6 percent) being the most prominent. Some of the SLC states that experienced percentage declines in the proportion of exports to China between 1993 and 1998 included Alabama (3.6 percent to 1.1); Georgia (1.9 percent to 1.3 percent); Oklahoma (2.5 percent to 1.5 percent); South Carolina (1.1 percent to 0.6 percent); and West Virginia (2.6 percent to 1.4 percent). Even though the overall percentage breakdown does not appear to be of striking importance, exports to China from the SLC states still amounted to $2.28 billion in 1998, a significant dollar value indeed. It is expected that the proportion of SLC state exports to China will increase with the enhanced access to the Chinese economy negotiated by the recently concluded agreement.

Another valuable piece of information deals with the composition of SLC state exports to China. Table 4 provides this information, broken down by manufacturing, agriculture and livestock products and other commodities, for 1993 and 1998. This enables a comparison of the export market to China and also hints at certain developing trends between 1993 and 1998.

A majority of the SLC states enjoyed an increase in all three categories

SLC State Exports to China as a Proportion of Total Exports: 1993 and 1998 (Thousands of Dollars)

SLC State	1993			1998		
	Total Exports	Exports to China	% Change	Total Exports	Exports to China	% Change
Alabama	2,504,344	89,103	3.6%	4,560,189	52,295	1.1%
Arkansas	1,109,771	5,220	0.5%	1,934,109	10,330	0.5%
Florida	14,695,824	200,794	1.4%	23,172,624	494,663	2.1%
Georgia	6,050,113	112,147	1.9%	11,212,056	148,460	1.3%
Kentucky	3,325,866	5,524	0.2%	7,439,971	28,374	0.4%
Louisiana	3,220,327	26,914	0.8%	4,391,867	173,990	4.0%
Maryland	2,713,706	49,071	1.8%	4,013,739	75,319	1.9%
Mississippi	803,332	4,913	0.6%	1,414,043	6,070	0.4%
Missouri	4,733,284	63,776	1.3%	6,832,445	137,841	2.0%
North Carolina	7,967,373	153,216	1.9%	12,919,909	215,615	1.7%
Oklahoma	2,334,587	57,604	2.5%	2,623,241	38,245	1.5%
South Carolina	3,219,519	36,436	1.1%	5,856,943	35,299	0.6%
Tennessee	6,151,139	57,577	0.9%	9,872,507	154,747	1.6%
Texas	35,622,483	398,695	1.1%	59,029,288	583,440	1.0%
Virginia	8,118,380	79,258	1.0%	11,459,928	109,738	1.0%
West Virginia	754,077	19,286	2.6%	1,178,228	16,768	1.4%
SLC Total	103,324,125	1,359,534	1.3%	167,911,087	2,281,194	1.4%

table 3

Source: U.S. Department of Commerce

of exports to China in 1998, when compared to 1993. Manufacturing exports declined in only four of the 16 SLC states during this period while agriculture and livestock exports declined in five SLC states. Other exports declined only in a single SLC state—Maryland—in this five-year period. Some of the items classified as manufacturing exports included chemical products, industrial machinery and computers, electric and electronic equipment and transportation equipment; other exports included fish and other marine products, non-metallic products, scrap and waste products and used merchandise.

SLC states such as Florida, Georgia, Louisiana, Kentucky, Missouri and Texas displayed the most impressive export growth to China between 1993 and 1998 in the manufacturing sector, while Louisiana, Georgia, Tennessee, Texas and Virginia demonstrated solid growth in agriculture and livestock product exports to China during the same period. In terms of other exports, performance in Alabama, Florida, Georgia, North Carolina and South Carolina remained impressive.

In a comparison of the relative importance to the SLC states as a whole of these three types of exports,

Composition of Exports to China from the SLC States: 1993 and 1998 (Thousands of Dollars)

SLC State	1993				1998			
	Manufac.	Agri./ Live.	Other	Total	Manufac.	Agri./ Live.	Other	Total
Alabama	88,881	215	7	89,103	50,641	113	1,541	52,295
Arkansas	5,044	137	39	5,220	10,267	4	59	10,330
Florida	184,777	14,293	1,725	200,795	474,135	12,012	8,516	494,663
Georgia	110,906	191	1,050	112,147	141,617	748	6,095	148,460
Kentucky	5,424	100	0	5,524	28,340	0	34	28,374
Louisiana	19,744	7,171	0	26,915	82,502	91,422	65	173,989
Maryland	46,116	0	2,955	49,071	74,475	35	810	75,320
Mississippi	4,913	0	0	4,913	5,826	178	66	6,070
Missouri	38,561	24,289	926	63,776	117,291	17,745	2,805	137,841
North Carolina	152,256	705	255	153,216	209,488	1,405	4,721	15,614
Oklahoma	57,548	0	56	57,604	37,385	0	860	38,245
South Carolina	36,048	0	389	36,437	32,381	281	2,637	35,299
Tennessee	50,648	6,802	127	57,577	93,496	60,856	395	154,747
Texas	388,713	139	9,842	398,694	563,995	7,195	12,250	583,440
Virginia	78,374	0	885	79,259	97,638	11,088	1,012	109,738
West Virginia	19,277	0	10	19,287	16,716	0	52	16,768
SLC Total	1,287,230	54,042	18,266	1,359,538	2,036,193	203,082	41,918	2,281,193

table 4

Source: U.S. Department of Commerce

Note: Totals may vary slightly due to rounding it appears that there has been a gradual shift towards agriculture and livestock product exports to China, away from manufacturing exports, between 1993 and 1998. Specifically, in 1993, SLC state exports to China consisted of manufacturing (95 percent); agriculture and livestock (4 percent) and other (1 percent). This breakdown shifted in 1998 with manufacturing declining to 89 percent of the total, agriculture and livestock increasing to 9 percent of the total and other exports also increasing to 2 percent. Given the opening of the Chinese market under the agreement, it is anticipated that agriculture and livestock exports from the SLC states will continue their upward movement in the coming years.

Reports from Selected SLC States on the U.S.-China Trade Agreement

In general, the response from SLC states, such as Missouri, Maryland and North Carolina, on the recently concluded U.S.-China trade agreement remains positive and enthusiastic. The reports from these states indicate that from major manufacturing companies to smaller niche businesses to agriculture concerns to law firms, there is agreement that better and clearly defined trading relations with China will create more trade, more revenue and more jobs. The following section provides a sampling of these responses in several SLC states.

• ***Missouri*:**[15] Some of Missouri's largest corporations, such as Anheuser-Busch, Monsanto, Ralston Purina, Boeing and Multiplex Co., have hailed the agreement as a boon to their existing—and future—operations in China. Anheuser-Busch owns a brewery in Wuhan, China, and expects the agreement to enhance its current operations. Boeing also notes that its Missouri operations will benefit from the agreement given the projections that China will buy 1,600 commercial airplanes over the next 20 years. Monsanto also anticipates greater receptivity in China to its agriculture technologies (such as crop genetics) with the agreement, given the sheer population base and agriculture needs of the country. Multiplex Co., which sells beverage dispensing equipment to local restaurants, as well as American chains in China such as McDonald's and Kentucky Fried Chicken, expects to increase its business operations in China too. Just in the last year, Multiplex Company sold over $1 million of equipment made in the St. Louis area to the Chinese.

On the agriculture front, Missouri's Department of Agriculture notes that the state's agriculture and food-processing sectors "will see their exports rise with the agreement." Given Missouri's ranking among the nation's top soybean, cotton and corn producers, the 300 million broiler chickens produced in the state and the numerous state businesses involved in dairy foods and pet feed, the Department confirms that lowering agriculture tariffs in China by about 50 percent, as delineated in the agreement, "will be good for Missouri farmers." The Department also notes that while 37 percent of the jobs produced by agriculture exports are related to the farm with the remaining 67 percent involving "off-farm" jobs in processing, transportation and international banking, the expected benefits of the agreement will extend beyond rural Missouri.

Given the access granted to telecommunications companies under the agreement, U.S. telecommunications companies stand to gain immensely. Missouri is particularly strong in this industry since Southwestern Bell, MCI/Worldcom and Sprint all have substantial operations throughout the state, particularly in St. Louis and Kansas City. As an added bonus, the drop in tariff rates on imported cars in China provides significant possibilities for the Big 3's automobile operations scattered across the state as well. China's agrarian economy will generate a need for trucks (a development with positive effects for the Chrysler truck plant in Fenton, Missouri), while the potential market for millions of automobile consumers in China increases opportunities for Missouri's automobile plants.

Since the mid-1990s, Missouri's exports to China have risen sharply, and it is reported that these exports translate into about 4,000 jobs across the state. It should be noted that salaries at these export-oriented jobs run about 15 percent higher than jobs not involving exports. On the negative front, Missouri has about 25,000 apparel or textile jobs. According to experts, about 10 percent of these apparel-related jobs will be lost nationwide, due to the trade pact with China and Missouri is expected to face a similar setback.

• ***Maryland:***[16] A number of state officials, groups, associations and corporations in Maryland have welcomed the U.S.-China trade pact as an opportunity to gain increased access to the huge Chinese market. Maryland operations in industrial equipment, agriculture and technology companies are expected to be among the first to benefit from the improved relationship with the most populous nation in the world. According to the state's Department of Business and Economic Development, some of the Maryland companies that will see immediate benefits due to the trade pact include Marriott; Hughes Network Systems; Perdue Farms, Inc.; the design firm RTKL Associates Inc. (RKTL is currently designing a $200 million science museum in Shanghai); dredge-maker Ellicott International; and cooling system-maker Baltimore Air Coil. The Department, which operates a 12-person trade office in Shanghai, has worked with more than 100 Maryland companies since it opened in 1997. While one-fourth of these companies already has operational projects in China, the terms of the agreement and the expected reduction in bureaucratic delays will see this number increase substantially.

As indicated previously, the telecommunications and financial industries in Maryland are cited as potential beneficiaries of the trade agreement. Given the telecommunications needs of the huge Chinese market and the stiff trade barriers that were in place, American companies were prevented from competing on fair terms. The agreement's stipulations have transformed this atmosphere and several Maryland companies are eager to compete aggressively in the Chinese market. One such company is a joint-venture between Bethesda satellite communications company Comsat Corporation and a Chinese company. Even though this joint-venture generated only about $700,000 in revenue last year, the new environment is envisaged to lead to higher profits. Tessco Technologies Inc., a Hunt Valley company that sells wireless telephone equipment, already does a great deal of business in the Pacific Rim countries and hopes to expand its China operations. The cost and convenience factors associated with a wireless telecommunications system as opposed to the traditional land-based system affords this Maryland company great possibilities in the Chinese market.

The loosening of regulations in the financial industry, with access granted to foreign participants in the Chinese economy, also extends opportunities for Maryland's financial sector. Not only would these Maryland financial institutions offer their services to American companies doing business in China, but they would eventually offer their product lines to Chinese consumers and businesses in China. Finally, the expected explosion in trade between Maryland and China will lead to increased activity at the Port of Baltimore, a development that generates an array of direct and indirect economic impacts.

• ***North Carolina:***[17]
North Carolina's hog and poultry producers are expected to see a multi-million dollar boost in exports to China as a result of the agreement that opens the Chinese economy to competition from American companies. According to the state's department of agriculture, the trade agreement slices import duties on poultry and pork products going into China in half, enabling North Carolina to "double our exports of poultry in 10 years and triple or quadruple our pork exports in the same period." Currently, North Carolina farmers export about $75 million in poultry and about $5 million to $10 million in pork to China annually. However, state agriculture officials do not predict a sharp rise in the state's tobacco exports to China since Chinese officials are concerned that the state's tobacco could be a source of blue mold, an element that could potentially damage China's own tobacco crop.

While chemical products, primary metals, industrial machinery and computers, electric and electronic equipment were North Carolina's main exports to China in 1998, a number of other industries are expected to gain from the trade pact. For instance, banks, software companies and telecommunications equipment companies will reap enormous benefits. North Carolina is already in tune with China's immense trade potential and, in 1998, Governor Jim Hunt led a 45-member delegation of business and government officials on a 10-day trade mission to China.

As the responses from exporters in Missouri, Maryland and North Carolina indicate, there is a great deal of anticipation of the potential benefits from the new agreement and the ability to generate greater economic opportunities for businesses in these states. For instance, reports from Houston in the aftermath of the agreement noted that last year, the Port of Houston alone shipped $235 million in exports to China while taking in $135 million in Chinese imports.[18] (While most of the exports were machinery and organic chemicals, a bulk of the imports were iron and steel articles.) *The Virginia Times-Dispatch* recorded that "the number of cigarette smokers in China is equal to the entire population of the United States."[19]

Conclusion

In exploring the impetus for successive U.S. administrations assiduously courting a trade agreement with China in the past decade or so, the rising importance of China as an international economic power player is quickly evident. As noted earlier, the decision of China's political hierarchy to liberalize their country's trade environment—a process that began in the late 1970s—and seek membership in the WTO coincided with America's and the rest of world's realization of the vast, untapped potential of China as a locale to export a myriad of goods and services. China's rather swift integration into the global trading system is more than apparent when one considers the fact that the value of China's exports to the rest of the world have risen on average by 15 percent per year for 20 years while China's imports has grown by an annual average of 13 percent. As *The Economist* notes, "that beats even the expansion of Japan's trade in the golden years between 1953 and 1973."[20] Last year alone, China shipped out $184 billion in goods and imported $140 billion, a clear indication of the capacity of the Chinese economy.

The desire of China's political leadership to continue on the economic liberalization path is propelled by the need to modernize and heighten efficiency in an economy that is still largely controlled and administered by inefficient state-run operations. These operations run the gamut from telecommunications to agriculture to financial services to manufacturing. Chinese leadership is gambling on the fact that the injection of foreign ideas, capital, technology and competitive energies will drive the Chinese economy to more efficient heights. The Chinese government also realizes that it cannot afford to subsidize these costly state-run enterprises and that it needs to wean the economy away from the state. China's gradual efforts in this sphere over the last 20 years have afforded abundant opportunities for China's people, and the trade agreement with the United States and membership in the WTO are additional steps along this path.

For the SLC states, the opportunities remain tremendous, and businesses have the potential to significantly add to the $2.28 billion in goods and services exported to China from the region in 1998. Even though this amounted to only 1.4 percent of total SLC state exports, the growth of the Chinese economy and its enormous demand capacity ensure abundant trading possibilities. Currently, even though manufacturing exports comprise a sizable portion of overall SLC-state exports to China, the agriculture exports have shown steady increases. Most of the SLC states have entered into public-private partnerships to expand international trade opportunities, and engaging the Chinese in more trading opportunities is an important component of this overall strategy. The signing of the U.S.-China trade agreement and subsequent Chinese membership in the WTO have the potential to enhance trade between China and the individual SLC states while generating revenue and creating jobs in the region.

Notwithstanding the impressive economic achievements attained by China in the past few years, the recently concluded U.S.-China agreement will accentuate the need for even greater reforms in the economic arena. This process will undoubtedly place additional pressures on the Chinese government—causing fissures within Chinese society—and force the government to strike the right balance between political and economic freedoms. In sum, the expanded economic contact with the United States and the rest of the world will result in unprecedented social and cultural transformations in Chinese society. As a consequence, issues such as labor laws and working conditions, human rights and political freedoms and religious freedoms all will surface and require the Chinese government to devise a response that remains palatable to both its people and the international business community. This will be the political price the Chinese government will pay to advance into the next century adequately equipped with technological, economic and scientific information gleaned from all corners of the globe. From the U.S. perspective, it is important that American players, both private and public, are aware of the radical changes that will undoubtedly sweep all aspects of Chinese society and be alert to the need to enforce both the letter and the sprit of the recently-concluded agreement and other WTO rules and regulations.

Footnotes

[1]"China Deal Lauded, Blasted." A story reported by *The Associated Press* and carried in *The Charleston [WV] Gazette*, November 16, 1999.

[2]Interestingly, New York-based *Human Rights Watch*, a major human rights organization, came out in favor of the agreement and China's admission into the WTO. According to the group, "China's membership in the WTO could increase pressure for greater openness, more press freedom, enhanced rights for workers and an independent judiciary." (*USA Today*, November 16, 1999.) The fact that an essential element of the trade agreement permits foreign companies to invest in Internet companies, including the content providers the government says they are barred from, remains illustrative here. The vast capabilities of Internet in promoting free speech and other forms of political activity are the kinds of pressures *Human Rights Watch* is hoping for in supporting China's admission to the WTO.

[3]The most recent vote on China's trading status occurred in June 1999, when 260 members of the U.S. House of Representatives voted in favor of granting "most favored nation" trade status to China and 170 members voted against it.

[4]Details on the key elements of the U.S.-China trade agreement are extracted from "U.S., China Agree on Trade," *The Baltimore Sun*, November 16, 1999; "Major Points of the Trade Agreement," *USA Today*, November 16, 1999; "The Real Leap Forward," *The Economist*, November 19, 1999.

[5]"The Real Leap Forward."

[6]"U.S. Reaches an Accord to Open China Economy as Worldwide Market." *The New York Times*, November 16, 1999.

[7]"Businesses here Welcome Pact with China." *The St. Louis Post Dispatch*, November 18, 1999.

[8]*Ibid*

[9]The information on the trade deficit is extracted from "Statement by Secretary Commerce William M. Daley On U.S. International Trade in October 1999," U.S. Department of Commerce Press Release, December 16, 1999; and, "Trade Deficit Swells to $25.9 Billion, 7th Record This Year," *The New York Times*, December 17, 1999.

[10]"Statement by Secretary of Commerce William M. Daley On U.S. International Trade in October 1999."

[11]It should be noted that in October 1999, these 10 countries accounted for 70 percent of the nation's imports and 67 percent of the nation's exports, a clear indication of their dominance in total United States trade.

[12]"President Clinton Releases Commerce Department Study Showing Exports Driving Economies of U.S. Cities." *U.S. Department of Commerce Press Release*, November 10, 1999.

[13]"After 13 Years, a Sweeping Trade Accord, but Congress Remains a Hurdle." *The New York Times*, November 17, 1999.

[14]For a lengthier discussion of the relations between East Asia and the SLC states see *"Global Linkages: The Impact of the East Asian Economic Downturn on the SLC States"* published in July 1998 and the *Update* published in September 1999, both released by the SLC. The *Update* indicates that the favorable economic signs from the East Asian region are already reflecting positively on the region's trade relationship with the SLC states.

[15]"Businesses Here Welcome Pact with China." All quotes in the Missouri section are extracted from this article.

[16]"Maryland hopes China Trade Crosses the Chesapeake, Too." *The Baltimore Sun*, November 16, 1999. All quotes in the Maryland section are extracted from this article.

[17]"China, U.S. Trade Deal would Benefit N.C. Producers of Pork, Poultry." *The North Carolina News and Observer*, November 16, 1999. All quotes in the North Carolina section are extracted from this article.

[18]"Trade Accord Hammered out by U.S., China." *The Houston Chronicle*, November 16, 1999.

[19]"U.S.-China Work has Just Begun/But Trade Deal Will Almost Sell Itself." *The Virginia Times-Dispatch*, November 17, 1999.

[20]"The Real Leap Forward."

This ***Regional Resource*** was prepared for the Southern Legislative Conference by Sujit M. CanagaRetna, SLC Fiscal Policy Analyst/Regional Representative.

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