

“U.S-China Trade: Historical Perspectives and Future Expectations”

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I am delighted to be here with members of the Washington State China Relations Council.

The size and quality of this evening’s audience is a reminder of the strong and enduring interest of the State of Washington’s business community in China. Many of the State’s leading companies are here, representing a wide range of industries.

Thirty years ago, in 1972, after President Nixon’s groundbreaking trip and the Shanghai communique, the first Chinese order for an American product was filled by a company from the State of Washington -- Weyerhaeuser, which began selling fiberboard in China.

One year later, another company with strong local roots, Boeing, received its first order of ten 707s from China. (I’m reminded of one 707 now sitting in the Boeing museum that I took to Beijing with President Reagan in 1984.)

Since then, these and other companies from Washington State -- including relative newcomers like Microsoft and Starbucks -- have become leading exporters to, and investors in, China. In the year 2000, Washington State companies exported more than \$2.5 billion in goods to China, while exports of services and direct investment in China by Washington State companies were equally, if not more, impressive.

Not surprisingly, Washington State companies were also key promoters of permanent normal trade relations and China’s accession to the World Trade Organization (WTO), which took place in December of 2001. Without your efforts, China would not be in the WTO today, and I would have far fewer things to say to you this evening. I would like to take this opportunity to thank you for your past efforts.

If you would allow me, I would also like to take this opportunity to share my perceptions about the meaning and significance of China’s membership in the WTO.

Historical Perspectives

First, let me try to put U.S.-China trade into historical perspective. Since I think its fair to say that never in the history of humanity has a trading relationship come so far, so fast.

Weyerhaeuser's sale of linerboard to China in 1972 was the first trade between the United States and China since Mao's communists came to power in 1949. But it was not our earliest trade with China. For that, you have to go back more than two hundred years, during the Qing dynasty. In February of 1784, a few months after the end of the American Revolutionary War, the first American cargo ship, the Empress of China, left New York bound for Canton. Hired by a merchant named Robert Morris, the ship carried \$120,000 of cargo, consisting of 30 tons of ginseng, considered an aphrodisiac by the Chinese, 2,600 animal skins, and an assortment of other goods. Because foreigners were not free to move about China, the ship's crew spent the next few months isolated on Shamian Island in the Pearl River opposite Guangzhou, where Chinese merchants visited them to conduct trade. The ship returned to the United States in May of 1785, with a cargo of tea, silk, cotton and spice -- which Robert Morris turned into an impressive profit of \$30,000. Other U.S. merchants were quick to understand the value of trading with China, and U.S-China trade began in earnest.

In 1911, when companies like Weyerhaeuser and Boeing were still in their infancy, Sun Yat-sen and his Nationalist colleagues brought down the Qing dynasty and introduced republican government to China. For years, however, trade was largely unaffected by events in Beijing and remained concentrated in the treaty ports.

In 1929, the Western trade experience in China began to change as China's markets began gradually closing to the outside world. Feeding off a rising Chinese nationalism, the Kuomintang of Chiang Kai-shek came to power seeking to recover the lost treaty ports. Over time, the Kuomintang were able to cut back on the privileges enjoyed by foreigners and regain control of China's tariff system. Foreign trade declined significantly.

Throughout the next two decades trade suffered as China was racked by war with Japan and a civil war that delivered Mao's Communist party to power in 1949. Mao's rise effectively shut the door to foreign trade with the world's most populous and perhaps misunderstood nation. For the next 22 years, the United States had no trade with China, while the Chinese people endured isolation from the West, famine wrought by the Great Leap Forward and the tremendous chaos of the Cultural Revolution, which the Chinese themselves still refer to as the "ten bad years."

Throughout most of Mao's reign, the Chinese economy shriveled under communist control, leaving the country economically feeble on the eve of President Nixon's landmark visit in 1972.

When President Nixon stepped off his Boeing 707 in Beijing, China accounted for only 0.7 % of world trade. That was to change. With the signing of the Shanghai communique, not only did the United States and China take the first step toward normalized relations, but they also expressly declared that “[b]oth sides view bilateral trade as another area from which mutual benefit can be derived, and agree that economic relations based on equality and mutual benefit are in the interest of the people of the two countries.” There were some U.S. companies like Weyerhaeuser and Boeing that were quick to pursue new trade opportunities with China. But, overall, it was not until several years later, following the launch of economic reforms by Deng Xiaoping in 1978, that foreign trade began its sustained rise. By 1985, China’s share of world trade more than doubled to 2.0 %. Indeed, Deng’s famous “Black Cat, White Cat” speech which gave birth to the special economic zones in Shenzhen, near Guangzhou, saw trade over 200 years come full circle.

Today, with China a full-fledged member of the WTO, its 1.3 billion people represent one of the United States’ fastest growing export markets. U.S. exports of goods more than tripled during the 1990’s, and reached more than \$26 billion in 2001, while U.S. exports of services reached nearly \$5 billion in 2001. The overall value of our two-way trade is over \$125 billion, and China is now our fourth largest trading partner.

Now, what can we learn from this brief history lesson?

First, it shows that China’s recent accession to the WTO is the culmination of several bold -- and voluntary -- steps taken by China’s reform-minded leadership. In the past, when China had engaged in foreign trade, it had not been on terms that it had freely chosen. The terms were largely dictated by foreign powers. The dramatic economic transformation initiated by the Shanghai communique in 1972 and jump-started by Deng Xiaoping in 1978 was China’s decision, just as was China’s accession to the WTO two decades later.

Second, while joining the WTO is a voluntary step on the path to economic reform, it was taken by China’s progressive leaders knowing that many sectors and regional authorities in China would resist the changes brought about by WTO membership. Curiously, these leaders to some degree are looking to the West to deliver coercive outside pressure on entrenched interests through demands for greater market access under WTO rules.

The third point is a cautionary one. While the transformation of China’s economy now appears to be firmly planted on the path of economic reform, the journey is not likely to be completed soon. China must undergo enormous changes to its economic and administrative systems, as it sheds itself of the vestiges of State planning and begins to take on the characteristics of a market economy. In many ways, the undertaking initiated by China joining the WTO is no less ambitious or risky than

other great leaps China has taken in the past. We are hopeful this one fares better than some of the others.

Now, a few comments about China's accession to the WTO.

In China today, if you go in to almost any bookstore (not just along Wang Fu Jing Street), you will find books on the WTO and translations of the WTO agreements prominently displayed for sale (even a billboard in Lanzhou). The WTO is something that many have heard about and are eager to learn about.

The WTO – the World Trade Organization – is a member-driven organization, made up of most of the countries in the world - 143 to be exact. With both the People's Republic of China and Taiwan now members (with Taiwan called "Chinese Taipei" to satisfy Chinese sovereignty concerns), the most notable country that remains outside the WTO is Russia, and Russia is actively trying to negotiate its way in.

The WTO sets the rules for international trade. Its members have negotiated more than twenty separate agreements, covering such arcane areas as standards, sanitary and phytosanitary measures, customs valuation and rules of origin. But in reality, these agreements are where government rules meet the world of business. The WTO opens the door to global business, creating a system that requires its members to operate with openness and transparency and that stresses the central role of markets and private enterprise.

The negotiations with China started 15 years ago were difficult and intense and were affected by outside events. In 1989, only a couple of years after the negotiations had started, the Tiananmen Square incident took place, causing the negotiations to break down as many trading partners shunned China. A further change occurred not long after the negotiations resumed. By the end of 1994, GATT members were able to conclude a separate round of multilateral negotiations -- known as the Uruguay Round -- which created the WTO and greatly expanded the number and scope of the agreements under which members were obligated. The Uruguay Round changed the accession process dramatically, as members now expected China to make more numerous and more far-reaching commitments.

In the end, China did just that. If you want to have a comprehensive understanding of what China committed to, you will have to read the 1,000 pages that make up China's Protocol of Accession, Report of the Working Party, and Schedules of Commitments on Goods and Services.

Assuming that you do not want me to recite them all now, let me summarize a few of the most important commitments that China made:

- tariffs on industrial goods of greatest importance to the United States are being reduced from an average of 25 percent to 7 percent;
- long-standing bans on agricultural products, such as corn, wheat, citrus products and meat, and on certain fertilizers produced in the United States are being lifted;
- tariffs on automobiles will be sharply reduced from 100 percent to 25 percent over five years;
- quotas for automobiles, grains, soy oil and cotton are being greatly increased;
- U.S. companies will soon have full trading rights in China, meaning the right to import and export without restriction;
- U.S. companies will also soon have the right to distribute their own goods in China through wholesale and retail systems;
- U.S. insurance, securities, and telecommunications companies will have the ability to invest in China at increasing levels of equity and on a national basis;
- tariffs on information technology products are being reduced to zero in less than five years;
- state-owned enterprises in China have an obligation to make purchasing decisions on a commercial basis; and
- China has the obligation to adhere to internationally accepted norms to protect intellectual property rights.

Just as important, all of these commitments are enforceable by utilization of the WTO's dispute settlement mechanism. That means if China were to violate one of these commitments or a WTO rule, the United States could bring China before a panel of trade experts in Geneva; and if the United States were successful, China would have to remedy the violation, or else the United States would be authorized to exact its own relief through measures such as increased tariffs on Chinese imports.

And to help ensure compliance, we are committed to an unprecedented, inter-agency monitoring and enforcement campaign that relies upon close coordination between many agencies of the U.S. government that seeks to ensure China's adherence to its obligations. At USTR, we have beefed up our staff, as have the Commerce and

Agriculture Departments and our Embassy in Beijing, with this goal in mind. We are also drawing upon the assistance of trade associations, chambers of commerce, industry and agriculture groups, and individual companies, which have valuable observations, experience and problem-solving skills that can help in this effort.

There is one question that many of you have, I expect. Will China comply with its commitments?

If you care to invite me back next year, I'd be happy to give you a sneak preview.

China's leaders appear prepared to take on the enormous challenge of implementing China's commitments. They are determined to make China competitive in the international economic arena in the 21st century, and they know that China needs to develop a market economy compatible with the WTO's rules for this to happen. They also know that there will be a price to be paid as this transition takes place.

However, it would be naive to think that commitments negotiated by China's trade ministry, even though blessed by the leadership, will be implemented automatically and then enforced. China's domestic politics are not unlike our own, with a diversity of economic interests and players creating dynamic tensions between Beijing and the provinces. China's challenges in implementing its WTO promises will, in fact, be somewhat similar to our own efforts to pass sweeping trade legislation in the U.S. Congress. Every locality will be heard from, every product will matter to someone.

That is why our monitoring and enforcement effort needs to be extensive, and unrelenting.

Future Expectations

What might China's accession to the WTO mean for the prospects of broader reform in China?

This is obviously a complex, and to some extent speculative, issue. Here in the United States, there has been much debate over the last decade about the relationship between economic development and political reform, and no hard and fast answers emerge. But, there are certain historical realities that may not give us definitive answers, but do give us some clues about what might happen in China.

If we look elsewhere in Asia over the last several decades, we can see that economic development has been an important catalyst. It has led to the development of higher standards of living and the creation of a sizeable, educated middle class in South Korea, Taiwan, Singapore, Malaysia, Thailand and Hong Kong. In each instance, the rule of law has increasingly taken hold. Competing political parties have been established, and democratic institutions have begun to take root, although in some

cases they have been handicapped by government action. Tolerance for dissenting views has also grown, although unevenly.

In China, discussion of political reform was vigorous before 1989, and there were signs that the spectacular economic growth and open door policies might lead to significant political liberalization before long. Tiananmen Square brought a halt to discussion of serious political reform. While impressive economic growth resumed two years later, there has not been a comparable resumption of public political debate. Dissidents continue to be subject to arrest, political prisoners are numerous, and freedom of religion, press and assembly are protected in China's Constitution but not in the real world.

But, that is not the entire story. Two decades ago, most Chinese had their lives controlled by local Communist Party cells, who rationed foodstuffs and clothing, monitored opinions, and determined educational, employment and travel opportunities. This system of social control has broken down, with China's developing free market economic system, increasing prosperity, entrepreneurialism and consumer choice. The average Chinese now buys what he or she wants, need not be concerned that ration cards will be used as an instrument of social or thought control, has some latitude in choosing a school or job, and has the ability to travel at home and abroad if his or her means permit. Though not universal, Chinese villagers also now play a direct role in electing village leaders, who are responsible for management of local public services.

At this point, China's path to a democratic, pluralist society is not a clear one, nor necessarily a straight one. The outcome is not inevitable. Nevertheless, China's path to societal reform is much more likely to be successful in the context of economic development, and the prosperity that ensues, than in the context of misery, deprivation and austerity. It is from this perspective that China's accession to the WTO, I believe, should be viewed as an important milestone, not only in the economic sphere but also in bringing about broader reform.

Thank you very much.