The U.S. Economy and China's Admission to the WTO

May 2000

Staff Report of the

Joint Economic Committee

Office of the Chairman, Connie Mack

http://www.senate.gov/~jec/chinapntr.htm

- China will enter the WTO with or without a US grant of PNTR.

- Granting China PNTR will increase the openness of China's market to US exports, and protect the US market from Chinese import surges.

- Denying PNTR will put US businesses at a significant disadvantage relative to their foreign competitors.

- Granting China PNTR is in the economic interests of the US.

EXECUTIVE SUMMARY

Bilateral negotiations between the U.S. and China have produced a World Trade Organization (WTO) Accession Agreement in which China agrees to substantial reductions in tariffs and other trade barriers, in return for the US providing permanent normal trade relations (PNTR). From an economic viewpoint, this agreement is clearly beneficial to the U.S. It will increase the openness of the Chinese market for U.S. exports, create new jobs, and improve the standard of living of Americans.

China will enter the WTO based on the votes of all 135 WTO members. Denial of PNTR by the U.S. will not affect China's entry into the WTO.

Denying PNTR to China will put US exporters at a significant disadvantage relative to their foreign competitors. The Chinese market of 1.2 billion people would remain substantially closed to U.S. businesses while rival firms in Europe, Japan, and elsewhere build long-lasting trade ties. Because the U.S. market is already open to Chinese goods, denial of PNTR status will exert little impact on the sale of Chinese goods in the U.S.

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1. OVERVIEW OF CHINESE ECONOMIC CONDITIONS

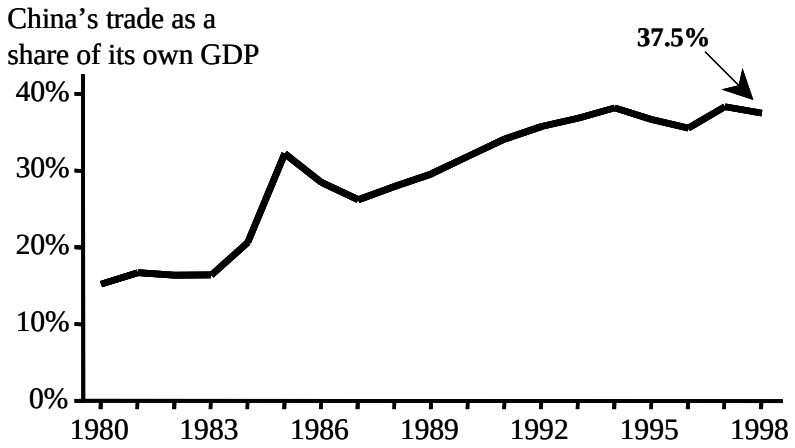
For the past twenty years, China has enjoyed one of the fastest growing economies in the world. Average annual real GDP growth was 10.1 percent for the period 1977-1998.[1] China's economy grew 7.1 percent in 1999, and is expected to grow 6.5 percent in the year 2000.

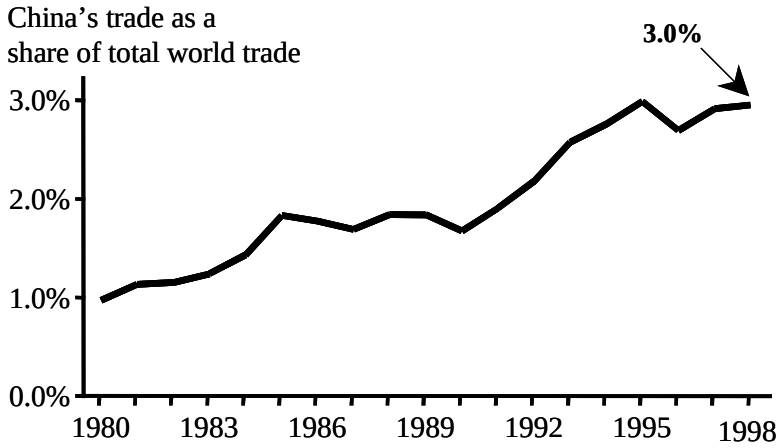
The Chinese economy became more open during the 1980's and 1990's. As Figure 1 (next page) shows, the Chinese trade sector (imports plus exports divided by GDP) increased relative to the size of the Chinese economy and as a share of world trade. Imports and exports together accounted for roughly 14% of the Chinese economy in 1979. By 1998, the trade sector had grown to roughly 37.5% of GDP. As China's economy has grown, and the trade sector as a percentage of it, China's share of total world trade has also expanded. In 1979, China accounted for less than 1% of world trade, in 1998 it accounted for roughly 3%. The increased openness and growth in the size of the trade sector was a major contributing factor in China's rapid growth during the last two decades. China is now the ninth-largest trading nation in the world. It is by far the largest economy outside the WTO.

[1] World Bank Country Brief, 1999: China.
Http://www.worldbank.org/data/countrydata/aag/chn_aag.pdf.

Exhibit 1: The Increasing Importance of Chinese International Trade

Chinese international trade has increased as a share of both its own GDP and total world international trade.





Sources: World Bank, *World Development Indicators*, 2000, and International Monetary Fund, *International Financial Statistics Yearbook*, 1999.

2. US-CHINA TRADE

The Trade Act of 1974 prescribes nondiscriminatory tariff treatment (or Normal Trade Relations, NTR) for all US trading partners, with some exceptions. One such exception, found in Title IV of the Act, applies to China and is the foundation for the current annual review process to extend NTR to China for one-year periods. Title IV mandates that the President deny NTR to products from a country that did not receive NTR treatment at the time the law was enacted (January 3, 1975), unless certain conditions are met. Extension of NTR must be part of a congressionally ratified bilateral trade agreement. This condition was met by ratification of a bilateral trade agreement between the US and China in 1980. The second condition requires that the President certify that China has met standards of freedom of emigration[2] or choose to waive such standards. The waiver is subject to disapproval by Congress.

There is some disagreement over whether or not the action described above is sufficient to meet WTO regulations, or if a grant of permanent NTR must be made. WTO regulations are derived from the terms of the Agreement Establishing the World Trade Organization, and 25 agreements that have been annexed to it. One of those is the General Agreement on Tariffs and Trade 1994 (GATT 1994), which reads in Article I:1:

> With respect to customs duties and charges . . . any advantage, favor, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties.

This section of GATT is not consistent with the annual review process described above that *conditions* extension of NTR on a Presidential determination and Congressional review. Some have argued that as long as NTR is not removed, the US would not be in

[2] Codified in the Jackson-Vanik Amendment. 19 U.S.C. Sec. 2432.

violation. Rulings issued by WTO panels do not uphold this conclusion. Broadly speaking, Title IV authorizes an action that is inconsistent with GATT 1994. WTO panels have ruled that even though such action has not been taken, retaining the threat to impose such action is a violation of GATT.[3]

It is for this reason that Congress must grant China PNTR in order for the US to derive the full benefits accompanying China's membership in the WTO. If PNTR is not granted, China will be able to challenge US law within the WTO Dispute Settlement Body for reasons of unfair trade practices. The US will then be forced to grant PNTR or file for non-application of WTO regulations with regard to China under Article XIII of the WTO Agreement. In that case, China will not be obligated to offer the US any terms of trade beyond those already in current bilateral agreements with China.

Trade relations between China and the US are currently based on the 1979 Agreement on Trade Relations and several other bilateral agreements. This framework prescribes reciprocal Most Favored Nation (MFN) status between the two nations in some trade areas, but covers little else.

> The Agreement with the PRC . . . takes the form more of a set of principles, concepts, and a framework for nondiscriminatory bilateral trade relations obligating both Governments but yet to be worked out in specific measures and procedures.[4]

The 1979 Agreement lacks the specificity and scope of the WTO Accession Agreement and the other WTO agreements.

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[3] Cases: "United States – Taxes on Petroleum and Certain Imported Substances," report of the panel adopted June 19, 1987 (L/6175), GATT, BISD, 34th Supp. 136, P.5.2.2 (1988); and "United States – Sections 301-310 of the Trade Act of 1974," report of the panel December 22, 1999, WT/DS152/R (adopted January 27, 2000).

[4] Trade Staff Memorandum, Committee on Ways and Means, U.S. House of Representatives. "Memorandum on Trade Act Requirements for Extension of Most-Favored Nation and Other Trade Benefits and Their Application to the People's Republic of China", reproduced in H.R. Doc. No. 96-209.

3. OVERVIEW OF THE US-WTO AGREEMENT

I. Chinese Market Openings

China's economy is significantly closed to US imports, and foreign goods in general. The WTO Accession Agreement (the Agreement) goes far to remove these barriers to trade. Under the Agreement, China vows to substantially lower tariffs. Quotas and other quantitative restrictions will be phased out. Some will be eliminated upon accession, many within 2 years, most within 5 years. Quota levels for many products will increase by 15 percent per year until the quota is eliminated. Major service sectors will be opened to US firms. In return for these trade reforms, the US has only to grant China PNTR. The Agreement will not enter into force absent a grant of PNTR.

Under the Agreement, overall industrial tariffs will fall from an average of 24.6 percent today to 9.4 percent by 2005. Tariffs on US priority products, such as capital and medical equipment, will fall to 7.1 percent. This is a tariff rate comparable to that of most major US trading partners. China agrees to participate in the Information Technology Agreement (ITA) that will reduce to zero all tariffs on computers, semiconductors and telecommunications from the current average of 13.3 percent.

Auto trade will be greatly liberalized. Tariffs on automobiles will be reduced from current levels of 80 to 100 percent to 25 percent by 2006. Tariffs on auto parts will fall from 23 percent to an average rate of 10 percent. Import quotas on autos will be eliminated by 2005 and US financial firms will be permitted to offer financing for auto sales.

Overall tariffs for US priority agricultural products will be reduced from the current level of 31.5 to 14.5 percent by 2004. In 1996, China established a system of tariff-rate quotas (TRQ's) for imports of bulk agricultural commodities such as wheat, corn, cotton, and rice. Under the Agreement, TRQ's for agricultural imports will be substantially expanded, and will continue to increase yearly. The TRQ system works by assessing imports up to a specified quota level a low tariff of 1 to 10 percent, while those above that level are

subject to a higher, generally prohibitive tariff. Unscientific sanitary and phytosanitary restrictions that presently limit agricultural exports to China will no longer be adhered to. Export subsidies currently in place for agricultural products will be eliminated.

Fair treatment of foreign, relative to Chinese, firms is significantly addressed. Requirements of technology transfer, local content, and export performance will no longer apply and the Chinese government will be unable to enforce contracts that contain these requirements. Firms wholly or partly owned by the Chinese government will be obligated to make purchases and sales based on commercial considerations, giving US firms the ability to compete for contracts. Currently, US firms are excluded from a large part of Chinese business transactions because purchases by these entities are treated as government procurement limited to Chinese firms.

The service sector will be opened to foreign firms. Major areas that are currently closed include: distribution, insurance, banking, securities, and professional services: legal, accounting, taxation, management, consultancy, architecture, engineering, urban planning, medical/dental, and computer-related services. Transitional periods have been created during which the scope of allowed services will be expanded. During these periods, geographical restrictions on foreign service providers will be removed. Although the length of transitional periods and the permitted amount of foreign ownership varies throughout each service sector, the concessions made by China are generally quite significant for each type of activity covered.

In the banking sector, China has committed to allow foreign firms full access within five years. Local currency business with Chinese clients is now illegal for foreign banks, and few can engage in local currency business with foreign entities. Local currency transactions are strictly the province of state-owned banks. Within two years of WTO accession, foreign banks will be permitted to engage in local currency transactions with Chinese enterprises, and within five years they will be able to do business with households and individuals.

Securities and insurance will be greatly liberalized. In securities, minority foreign-owned joint ventures will be able to engage, on an

equal footing with Chinese firms, in investment activities. They will be permitted to underwrite equity issues and trade and underwrite other securities. China has agreed to allow insurance firms to operate without cumbersome regulations that limit the number of licenses allowed, and to lift requirements that demand proof of economic need in the sector. Majority foreign ownership in joint ventures will be allowed upon accession for non-life insurance firms. Foreign-owned subsidiary arrangements will become legal within two years of WTO accession. Free choice of partnership in life insurance joint ventures at half ownership will be permitted.

The telecommunications sector will witness dramatic changes. Foreign investment in telecommunications is currently illegal. China has agreed to become a party to the Basic Telecommunications Agreement that prescribes international regulatory principles. China will end geographic restrictions for paging and value-added services, mobile and cellular services, and domestic hard-wire services in two, five, and six years, respectively. Foreign direct investment in telecommunications will be permitted for the first time. Minority foreign investment in all telecommunications services as well as half-foreign ownership for value-added and paging services will be permitted in two years.

II. Safeguards for US Industry

The Agreement grants the US special protections from surges in Chinese imports. China has agreed to abide by a "12-year, product-specific safeguard provision, which ensures that the US can take effective action in case of increased imports from China which cause market disruption in the United States."[5] This provision is based on a lower necessary threshold of injury than is normally permitted under the WTO's safeguard provision and represents an important concession by the Chinese. Despite the multilateral nature of the WTO, these safeguards permit action specifically against China; that

[5] Charlene Barshevsky, U.S. Trade Representative, statement before the Committee on Ways and Means, U.S. House of Representatives. February 16, 2000.

is, they allow the US to enact restrictions on only imports from China, rather than being forced to generally restrict them from all countries. Without this provision, China would be able to bring a dispute against any specific action against imports from China in the WTO.

The Agreement further stipulates that the US be permitted to continue using the current non-market economy (NME) methodology in trade disputes with China. This more stringent way of determining marginal cost will be applicable in anti-dumping cases for 15 years after accession. This is important due to the large amount of state-owned enterprises in the Chinese economy that are able to absorb greater losses than market-oriented firms due to capital infusions from state-run banks. NME methodology takes this into account to establish a more rigorous definition of dumping. NME provisions will also be applied to determine the existence of export subsidies. Where there is evidence of preferential treatment for state-owned enterprises, the Agreement establishes that US trade law can be invoked to compensate for unfair trade practices. The Agreement further establishes the US right to "determine whether government benefits, such as equity infusions or soft loans, have been provided to an industry using market-based criteria rather than Chinese government benchmarks."[6]

These are important concessions made by the Chinese that can only be enjoyed if PNTR is granted. If we do not grant China PNTR, and it enters the WTO under the non-application clause, none of these provisions will enter into force. Furthermore, China has to afford these same concessions to the European Union, Japan, India and all other competitors of US exporters. Under these circumstances, a wide array of US businesses will be put at a great disadvantage. Not only will US exporters be weakened relative to their competitors abroad, but industries that primarily supply the US domestic market will be more vulnerable to import surges relative to firms in Europe and Japan.

[6] Ibid.

4. ESTIMATES OF THE AGREEMENT'S EFFECT ON US-CHINA TRADE

There is a great deal of uncertainty about the effect joining the WTO will have on China. Many estimates incorporate slower growth in the short-term as inefficient state-owned industries and banks begin to adapt to more productive foreign competition and reform. In the long-term, opening China's economy will increase productivity, economic growth, and demand for imported goods and services. A study by Standard & Poor's DRI forecasts that China's economic growth will slow in the years 2000 and 2001, but will begin to accelerate in 2002.[7] Trade liberalization is expected to boost productivity, which would in turn raise economic growth by an additional 0.5 percent per year. A Goldman Sachs report estimates that China's total trade and foreign direct investment will double by the year 2005.[8] This study estimates that by 2005, tariff cuts will boost imports by $65 billion, removal of nontariff barriers will account for $20-$30 billion in additional imports, and greater foreign investment will raise imports a further $20 billion.

The uncertainty that surrounds estimates of the Agreement's effect on China's economy affects estimates of US gains from the trade deal. Export gains by the United States must be quantified as increased imports in China, and this depends on China's level of economic growth. If the import gains cited above are realized, and the US can maintain its current share of Chinese imports (12.1%), the US could experience the following export growth by 2005: "$7.9 billion from tariff cuts, $2.4-$3.6 billion from reductions in nontariff barriers, and $2.4 billion from increased US investment in China."[9] Agriculture Secretary Dan Glickman has stated that WTO membership and PNTR for China would increase US agricultural

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[7] Standard & Poor's DRI, *Country Outlook, China, 1st Quarter 2000.* p.92.
[8] Fred Hu, *Global Economics,* Goldman Sachs, Paper No. 14, April 26, 1999, p.3.
[9] Charles Hanrahan and Wayne M. Morrison. Memorandum to the House Committee on Ways and Means, Subcommittee on Trade. Congressional Research Service. February 14, 2000.

exports by $2 billion a year by 2005.[10] In September 1999 the US International Trade Commission issued a study estimating that tariff cuts alone would boost US exports to China by 10 percent.[11] It cited agriculture (especially cotton, beverages and tobacco, and vegetable oils), paper and pulp, chemicals, rubber, plastics, transport equipment and machinery as the sectors with the greatest growth potential. A June 1999 study by the Institute for International Economics estimated that the reforms in this agreement would immediately boost US exports of goods and services to China by $3.1 billion in what they call a "conservative" estimate.[12] The US embassy in Beijing estimated that service sectors would experience revenue gains of $3 to $5 billion if PNTR is granted and the WTO accession agreement enters into force.[13]

These are projected estimates provided to give a general idea of the export gains from this agreement. However, it must be emphasized that these are estimates. They should not be considered concrete, nor should they be used in the future to detract from this agreement for not living up to expectations. The complex nature of quantifying US export gains based on projected import increases in China should be considered when judging the significance of these figures.

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[10] Dan Glickman, U.S. Secretary of Agriculture. Statement before the Committee on Agriculture, Nutrition, and Forestry, U.S. Senate. March 1, 2000.

[11] U.S. International Trade Commission. "Assessment of the Economic Effects on the United States of China's Accession to the WTO", Publication 3229, September 1999, p. xx.
FTP://ftp.usitc.gov/pubs/reports/studies/pub3229.pdf.

[12] Daniel H. Rosen, *"China and the World Trade Organization: An Economic Balance Sheet."* Institute for International Economics, International Economics Policy Briefs, No. 99-6. June 1999, p.2.

[13] U.S. Department of State telegram, "China: Draft 1999 National Trade Estimate," message reference number 000721, prepared by U.S. Embassy, Beijing, January 22, 1999.

5. CHINA'S ACCESSION WITHOUT PNTR

China will enter the WTO regardless of whether the US grants it PNTR. The difference that PNTR makes is whether or not the US will be able to take advantage of the full range of concessions made in the Accession Agreement. If PNTR is granted, China will be obligated to live up to the commitments made in that Agreement, with the accompanying benefits for the US discussed earlier. If PNTR is not granted to China, upon accession it will invoke Article XIII of the WTO Agreement, the "non-application" clause. Under these circumstances, trade between the US and China would reflect bilateral agreements currently in force, rather than the more extensive WTO agreements.

Our trade relations with China will continue to be guided by the bilateral 1979 Trade Agreement, which establishes reciprocal MFN treatment for goods, along with the handful of other bilateral agreements signed by the two nations. The difference between this framework and the WTO accession package is substantial. The 1979 Agreement obligates the US and China "to accord most-favored-nation treatment to each other's products, but only as defined in certain provisions of GATT 1947."[14] To illustrate just how limited the 1979 Agreement is relative to the full range of WTO obligations, the GATT agreement (establishing reciprocal MFN to GATT members, the centerpiece of the 1979 Agreement) is only 1 of 25 significant trade agreements that comprise the WTO legal framework which would be in force if PNTR were granted. Under the MFN framework of the 1979 Agreement, the US would only receive the benefits of Chinese tariff reductions on goods that are made as concessions to other nations. Keeping in mind the sweeping reforms of the accession agreement, this is a significant difference, and even those tariff reductions must be viewed with skepticism. As USTR Charlene Barshevsky has stated:

[14] U.S. Trade Representative. Attachment to letter to the Honorable Charles B. Rangel. March 8, 2000.

> These reductions, however, will be of limited, if any, value absent other rights not available under the 1979 Agreement. The following example is instructive. What value are reductions in auto tariffs if the company cannot distribute autos, provide financing to customers, or repair and maintain the car?[15]

All concessions made in the sectors of services, telecommunications, and others would benefit those nations that have granted China PNTR.

The myriad trade barriers to US exports that currently exist will remain in place. With complete accession, China would be obligated to comply with the General Agreement on Trade in Services, under non-application it would not. The USTR states that the 1979 Agreement "does not create an independent obligation to permit each party's companies to provide services."[16] The same holds true for telecommunications. The WTO Basic Telecommunications Agreement would not apply; all the concessions made in that area would be lost. The loss of negotiated rights continues down the board. All provisions relating to life insurance, professional services, securities, and distribution would be lost for US businesses. Furthermore, China's promise to protect the rights of existing companies in China, or "grand-fathering," would no longer apply. If PNTR is not granted, US businesses will not only miss out on many opportunities, but almost assuredly would see their competitive position in China diminish from today's already limited level.

Our right to hold China to its commitments with regard to its tariff rate quota system would be eliminated. The strict requirements related to allocation of quota shares, the timetable for implementation, and China's commitment to permit a portion of imports to be handled by non-state trading enterprises would all be left to other WTO members for enforcement. Furthermore, the tariff-rate quotas established in the WTO Accession Agreement may be used against the US. It is possible that agricultural imports from

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[15] Ibid.
[16] Ibid.

those nations that have granted China PNTR would be used to fill the quota charged a low tariff and that those of the US would be charged the higher tariff.

The US would be powerless to challenge Chinese export subsidies for products sold in countries other than the US, as well as domestic Chinese subsidies, which make it more difficult for US exporters to compete there. The Chinese will also not be bound by their commitments to refrain from retaliating against import surge protections and the use of non-market economy methodology when calculating market injury. The US will be dependent on other WTO members to challenge Chinese trade barriers if PNTR is not granted, an irony that should not be lost on those who oppose PNTR and the WTO for reasons of sovereignty.

The trade sector commitments made in the accession agreement offer a wide range of benefits for US businesses. These will be lost if China is not granted PNTR. As USTR Barshevsky has stated, if PNTR is not granted:

> Virtually all market access negotiated for services, several critical elements for meaningful market access for goods, key provisions negotiated to safeguard against injurious imports, as well as special rules commitments and vital enforcement rights would not be available.[17]

As this statement indicates, the US will deny its businesses a great deal of opportunity in the Chinese market if it denies PNTR.

Considerations of economies of scale should not be overlooked when analyzing the scenario of Chinese accession without a US grant of PNTR. While US competitors would be able to take advantage of all market-opening concessions, US businesses would enjoy the benefits of relatively few of them. This clearly gives US competitors an advantage in penetrating the Chinese market. With this vast new market, foreign exporters will expand production to meet additional demand. It is likely that this will result, for at least some foreign companies, in achieving higher economies of scale,

[17] Ibid.

with accompanying productivity and efficiency gains. Not only would US exporters be shut out of the gains from trade with China, they may find it more difficult to compete in other foreign markets. Lower production costs derived from higher economies of scale may allow foreign exporters to lower prices, increasing competitiveness in world markets, as well as within the US domestic market.

Critics of granting China PNTR as a condition for WTO accession generally cite labor, human rights, and environmental issues as their main concerns. While these are important issues, the WTO is not the proper forum for their resolution. There are already many standing international organizations that are empowered to work in these areas, such as the International Labor Organization, the UN Environmental Program, and the four standing UN commissions on human rights. Even in the event that such concerns are addressed in a future WTO agreement, denying PNTR to China will render the US unable to enforce any such future WTO agreements with China. In other words, to deny China PNTR due to concerns that the WTO and China do not adequately protect the environment, labor and human rights, will guarantee that the US will not be involved in any such future WTO action involving China. It will enter the WTO under the non-application clause and the US will be unable to enforce any such agreements even if they are enacted.

China is planning to enter today's WTO, but it will be held to its terms well into the future. It is likely that future trade talks will expand the purview of the WTO, bringing more and more areas, such as e-commerce, under its jurisdiction. Denying PNTR to China will proscribe America's power to hold China accountable for its trade actions under current and future WTO agreements.

6. NONRENEWAL OF NTR FOR CHINA

Many critics of granting China PNTR argue that the annual review process offers useful leverage over China to facilitate favorable behavior. An analysis of this issue is essential to understanding what is at stake in granting PNTR. The annual review process, the process by which the US grants China yearly normal trade relations, began in 1980. The US has renewed NTR for China every year since then, despite the Tiananmen Square massacre and the recent allegations of widespread Chinese espionage. It can be said that a high threshold to revoke Chinese NTR has been established.

The debate over granting China PNTR must be viewed with an understanding of what exactly would be entailed if the US were to revoke normal trade relations for China. Reluctance to grant PNTR must logically be based on an inclination to not renew NTR at some point in the future. If NTR were not renewed, US-China trade relations would then be governed by the Tariff Act of 1930, otherwise known as the Smoot-Hawley Tariff Act. Tariffs on imports would increase dramatically, as shown by the exhibit on the next page. The average MFN rate for the items listed is 4.96%, the average full duty rate is 43.1%.

These dramatic tariff increases would likely shift trade patterns for those products previously imported from China to other nations. While US consumers would not absorb the entire cost of these increases, costs for those products would necessarily be higher due to the fact that nations whose production costs are greater than those of China would then account for its market-share. In product areas where China is a major supplier, such as apparel, footwear and toys, there would be a significant time lag for other producers to fill their market share. Price increases for these products would be significantly large and long-term. Furthermore, these price increases on clothing, footwear and toys would be most painful for low-income US consumers because these items account for a greater share of their total consumption costs. A 1996 study by the International Business and Economic Research Corporation

Exhibit 2: MFN and Full Duty Rates Applicable in 2000 to Major Imports from China

Full rate duties are significantly higher than Most Favored Nation (MFN) rates. With MFN rates, U.S. consumers enjoy lower prices.

	MFN rate	Full rate
Toys (all kinds)	Free	70.0%
Plastic or rubber footwear	6.0%	35.0%
Women's low footwear *(rubber sole/leather uppers)*	10.0%	20.0%
Men's high footwear *(rubber sole/leather uppers)*	8.5%	20.0%
ADP machine parts	Free	35.0%
Leather apparel	6.0%	35.0%
ADP printed circuit assemblies	Free	35.0%
Men's high leather shoes	8.5%	20.0%
Cordless telephones	Free	35.0%
ADP disk drive units	Free	35.0%
Sweaters, other than cotton, wool, or manmade material	6.0%	60.0%
Artificial flowers	9.0%	71.5%
Sundry plastic articles	5.3%	60.0%
Women's silk blouses	7.1%	65.0%
Christmas tree light sets	8.0%	50.0%

Source: Harmonized Tariff Schedule of the United States. U.S. International Trade Commission.

calculated that these cost increases would amount to $300 per year for the average American family.[18] While the methodology used in this study has received scrutiny for yielding an estimate that is too high, the figure cited above does not seem exaggerated when one considers the increase in imports from China since the study was issued. It uses 1995 import data, when yearly imports were only 56% of what they were in 1999.

It is possible that China would respond by raising tariffs on American goods sold there, reducing demand for American products and harming exporters. Areas hardest hit would be those with the largest share of the Chinese import market. These include the grain, power-generation machinery, aircraft and fertilizer industries. China may also curtail purchases from the US and acquire those goods from other suppliers. Not only would this hurt US exports to China, but it may also have a detrimental effect on US producers in the domestic market, and other export markets. The aircraft sector is a useful example. Today, American suppliers Boeing and McDonnell-Douglas dominate aircraft sales in China. Nonrenewal of NTR for China may result in a Chinese decision to buy from other suppliers, such as Airbus, in retaliation for US action. This would have several deleterious effects. Obviously, US aircraft exports would quickly decrease. In addition, competitors like Airbus, which would likely absorb the lost US market-share, may achieve higher economies of scale with greater demand and production, while US producers would experience a corresponding drop in economies of scale. This would have the doubly detrimental effect of increasing the productivity of US competitors, while lowering that of US producers. It is likely then that US exporters would face difficulties competing with rivals in other export markets beyond China.

Not renewing China's NTR status would be economically damaging to the US economy. With the consequences of not renewing China's NTR status in mind, it is difficult to justify denying China PNTR when so much is at stake.

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[18] International Business and Economic Research Corporation. "The Costs to the United States Economy That Would Result from Removal of China's Most Favored Nation Status" June 1996. Washington, D.C..

7. CHINA'S PERFORMANCE IN HONORING PAST TRADE AGREEMENTS

Many critics of PNTR for China contend that the true effect of the Agreement is difficult to measure due to skepticism of China's willingness to actually implement all the reforms it has committed to undertake. China's past performance in honoring trade agreements has been less than exemplary. A look at two important trade agreements will show some justification for skepticism of China's commitment to honor the Agreement. China's performance in this regard will also show that it has, in the long-term, generally complied with most aspects of trade agreements, but that vigilance is needed to ensure compliance.

I. Intellectual Property Rights

The US has continuously fought with China over violations of US intellectual property rights (IPR). In April 1991, China was designated a "priority foreign country" under Section 182 of the Trade Act of 1974. Under the Act, the USTR is required to initiate a Special 301 investigation of such countries that do not provide adequate and effective protection of US intellectual property or deny fair and equitable market access to US firms that rely on IPR protection. The USTR alleged that China did not have in place adequate laws to protect patents, copyrights and trade secrets, and threatened to impose $1.5 billion in trade sanctions in November 1991. In January 1992, China agreed to strengthen patent, copyright, and trade secrets laws, and generally increase protection of US IPR.

By June 1994, China was again named a priority foreign country by the USTR due to lax enforcement of laws it had enacted after 1992. By February 1995, the USTR announced that talks with China had not achieved a desirable resolution and issued a list of Chinese products that would be subject to 100% tariffs. Before the imposition of retaliatory tariffs, China and the US signed a formal agreement in March 1995 in which China agreed to take immediate steps to stem IPR violations within 3 months, establish mechanisms

to ensure long-term enforcement of IPR, and allow increased market access for US products.

In April 1996, China was again designated a priority foreign country for not fully complying with this agreement and the USTR again indicated that it would impose sanctions on $2 billion of Chinese products unless there was evidence of progress toward full implementation of previous IPR agreements. By June 1996, USTR Charlene Barshevsky announced that the US was satisfied that China was making sufficient progress toward fulfilling the 1995 agreement. She specifically praised the closing of 15 plants pirating compact discs, as well as many Chinese pledges to improve enforcement.

The USTR and IPR association officials have stated that China is making great progress in the area of IPR protection, but that problems remain. Illegal reproduction of software, retail piracy, and trademark counterfeiting persist. High tariffs and import quotas continue to hamper US exports. The International Intellectual Property Alliance (IIPA) estimates that IPR piracy in China cost US firms $1.7 billion in lost sales for 1999, down from $2.6 billion in 1998.[19] Despite the fact that intellectual property rights violations have been one of the most serious trade disputes between the US and China, the IIPA along with eight other similar business groups support granting China PNTR.[20]

It is important to note that China is not unique in failing to adequately protect IPR. In addition to China, seven other countries have been obligated to take action to more forcefully protect US IPR

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[19] International Intellectual Property Alliance. I.I.P.A. "1998-99 Estimated Trade Losses Due to Piracy." March 13, 2000. *Http://www.iipa.com/2000_ustrpress_losses.pdf.*

[20]These organizations justify their support of PNTR in the following manner:

> Because we are convinced from our own experience that inclusion of China within the framework of multilateral rules and obligations embodied in the WTO is the single best instrument we have to ensure continuing improvement in China's protection of intellectual property.

See: "An Open Letter In Support of China PNTR From America's Creative Industries." February 23, 2000. *Http://www.iipa.com/2000_china_pntr.pdf.*

after a Section 301 investigation by the USTR.[21] These include Korea, Thailand, India twice, Taiwan, Brazil, Honduras and Paraguay. In April 1999, the USTR named *fifty-seven* countries that do not meet US standards for IPR protection and market access. These include Israel, Kuwait, South Africa, Korea and Malaysia.[22]

II. Market Access Agreement

In October 1991, the USTR initiated an investigation into Chinese trade barriers under Section 301 of the Trade Act of 1974. China was faulted for failure to publish trade-related laws, regulations, judicial and administrative rulings; and using import licensing requirements, quantitative restrictions, restrictive product standards, and testing and certification requirements to inhibit imports. A year later, the US and China signed a bilateral Memorandum of Understanding (MOU) committing China to remove market access barriers over a five-year period in return for US commitments to support China's achievement of contracting status in GATT and the liberalization of some export controls. China agreed to increase transparency in the trade sector, eliminate a significant number of nontariff barriers such as standards and testing requirements, end import substitution policies, and significantly reduce certain tariffs.

By January 1994, the USTR stated that China was "substantially in compliance" with the Market Access MOU.[23] In the area of transparency, China published many previously unpublished trade laws, established a central repository for them, and promised that only published trade regulations would be enforced. Despite this progress, 1994 statements by the Department of Commerce and the

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[21] USTR, Section 301 Table of Cases. Cases 301_52 (Korea); 301_82 (Thailand); 301_85 and 301_106 (India); 301_89 (Taiwan); 301_91 (Brazil); 301_116 (Honduras); 301_117 (Paraguay). *Http://www.ustr.gov/reports/301report/act301.htm.*

[22] Office of the United States Trade Representative. 1999 Annual Report. P.290-1. *Http://www.ustr.gov/reports/tpa/2000/vi.pdf.*

[23] General Accounting Office. "Implementation of Agreements on Market Access and Intellectual Property." January 1995.

US Chamber of Commerce in Beijing still characterized China's trade sector as not transparent. Chinese Customs still did not uniformly apply all trade laws, and the Chinese government, at the time, did not offer a list of government projects detailed enough to permit US competition for those contracts.

In the area of nontariff barriers, China pledged to eliminate nearly 90 percent of such obstacles to trade over the period 1992 to 1997. The USTR has praised China's progress. Quantitative restrictions on imports were reduced from about 3000 in 1992 to nearly 400 in 1994 (87%), and there was also a significant reduction in licensing requirements. According to USTR, "obtaining permission to import products [now] subject to quotas or quantitative restrictions appears to be considerably simpler and more transparent than in the past."[24] Although this is a significant amount of progress, the Chinese have dissembled in implementing some of these reforms. China reduced many barriers, thereby obeying the letter of the agreement, only to erect new ones, which were not specifically dealt with by the MOU.

Regarding sanitary and phytosanitary (SPS) regulations, China's progress in implementation has been unsatisfactory. In the MOU, China agreed that all SPS standards and testing requirements were to be based on mutually accepted scientific findings, and would not be used to restrict imports. By August 1994, US government officials publicly stated that China had not lived up to its commitments and continued to use these regulations to limit imports. The Chinese had taken small steps, such as allowing a few shipments and small amounts of previously embargoed agricultural imports. Only recently have the Chinese lifted the ban on large shipments of agricultural products from the Pacific Northwest and California. Interestingly, China agreed to an SPS agreement in April 1999 that contained effectively the same provisions as those found in the Market Access MOU. Despite having agreed to this in April 1999, they failed to implement any of its provisions until recently, citing the bombing of the Chinese Embassy in Belgrade and the breakdown of negotiations for WTO accession.

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[24] Ibid., p.21.

China was found to be in general compliance in the areas of import substitution and tariffs. USTR stated in a September 1994 interview with the General Accounting Office that it was believed that China no longer practiced import substitution.[25] The Chinese government claims to have eliminated a list of 1700 import substitution products. "According to the USTR and Chinese government officials, China has met its MOU commitment to significantly reduce tariffs that were raised in 1988."[26]

China's performance in honoring this MOU has generally been satisfactory. It did not meet all MOU requirements specifically listed for the first deadline of October 10, 1993, but by December 31, 1993 made enough progress to satisfy the USTR. The deadline for full implementation was year's end 1997. There are several important factors that are often cited as obstacles to full implementation. Provincial and local governments are reluctant to implement trade reforms agreed to by the central government because such reforms often weaken local state-owned enterprises, which can lead to unemployment and social unrest. This is also a central government concern due to their vested interests in state enterprises, which can lead to the arbitrary implementation of trade laws depending on their effect on specific industries.

III. China's Compliance Record — Summary and Comparison

China's performance in honoring these trade agreements is a useful indicator of how it is likely to perform in implementing the WTO Accession Agreement. A general summary of China's performance in the past would state that although it has not obeyed each provision in precisely the specified time period, through pressure and negotiation it does comply with agreements in the long-term. With the exception of the SPS provisions of the market access agreement, China has not willfully ignored the commitments it has made in trade agreements. Often overlooked in an examining how China has implemented trade reforms are important mitigating

[25] Ibid., p.24.
[26] Ibid., p.25.

circumstances which, although they do not constitute legitimate reasons for noncompliance, must be considered in understanding the rationale for its actions. Based on the record of trade reform above, with a reasonable amount of monitoring and staunch pressure in the face of noncompliance, it is likely that China will adhere to the majority of the commitments made in the Accession Agreement.

Critics of granting PNTR often label China a chronic violator of trade agreements. This is not accurate. Enforcing trade agreements has always been an ongoing process that demands vigilance. A recent study by the American Chamber of Commerce in Japan puts this topic into perspective.[27] The study evaluates US-Japan trade agreements on a one to ten scale, in four categories, including implementation. Of the thirty separate agreements graded numerically, the average implementation score was 6.38. This corresponds to a "partially successful" average rating.[28] Only seven agreements were rated "fully successful" in implementation and five rated "mostly successful." More than half were deemed partially successful, "successful in only one or two ways," or "unsuccessful."

Another useful tool in evaluating China's trade practices relative to those of our other trading partners is the number of Section 301 investigations brought by the USTR. Since 1980, when trade with China began, the USTR has initiated three Section 301 investigations against it: the two for IPR and the market access case detailed above. In the same period, there were seventeen cases against the EC/EU that resulted in the removal of trade barriers, eleven in the case of Japan, ten for Canada, and nine for Korea.[29] While it is true that US trade with these nations is greater than that

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[27] The American Chamber of Commerce in Japan. *"Making Trade Talks Work: An On the Ground Analysis of U.S.-Japan Trade Agreements by American Businesses."* 2000. The American Chamber of Commerce, Tokyo, Japan.

[28] Ibid.

[29] USTR, Section 301 Table of Cases. EC/EU cases: 301_22, 23, 25, 26, 54, 60, 62, 63, 70, 81, 83, 94, 100, 101, 111, 114. Japan cases: 301_36, 48, 50, 66, 69, 74, 75, 76, 93, 99, 112. Canada cases: 301_55, 58, 80, 87, 98, 102, 113, 119. Korea cases: 301_20, 37, 51, 52, 64, 65, 67, 95, 115. *Http://www.ustr.gov/reports/301report/act301.htm*.

with China, creating more areas for disagreement, these cases offer some perspective on this issue. All of these nations could be criticized for poor compliance with trade agreements. China's performance in honoring trade agreements is not abnormal when viewed from this perspective, and should not constitute a barrier to granting PNTR.

8. THE WTO AND DISPUTE SETTLEMENT

We have seen that China's past performance in honoring trade agreements has been less than exemplary, but in general it has been compliant. However, there is a major difference between the bilateral US-China trade agreements discussed above and this WTO Accession Agreement. In the past, China has been able to flout regulations that it agreed to uphold by playing its trading partners off against each other. Often China did not face severe penalties for its actions because when the US would threaten sanctions the Chinese were able to fall back upon trade ties with Europe, Japan and other nations. They would threaten counter-sanctions against the US and threaten to shift purchases to other suppliers. China knew that the US would be reluctant to impose trade sanctions because other nations would not follow suit. The US was alone in demanding that China live up to its commitments in bilateral agreements.

With China's accession to the WTO, trade disputes and delays in implementation would be governed first by the WTO and its dispute settlement body (DSB). Section 301 specifies that trade disputes in areas covered by multilateral agreements must first be filed through the dispute settlement provisions embodied in such agreements, if such provisions exist. The WTO employs an established dispute settlement mechanism, so trade disputes between WTO members that are covered by WTO agreements are automatically referred to it.

A brief explanation of the WTO's DSB is useful. The DSB is part of the WTO General Council. After a dispute is lodged, the two parties are directed to engage in 60 days of consultation to seek a resolution. If consultation is unsuccessful, the complainant is authorized to ask the DSB to establish a dispute panel, which will normally issue a report on the dispute within six months. A member may appeal a panel report on issues of law and legal interpretation to a standing Appellate Body.

The DSB will normally consider reports within nine months of a panel's establishment, or within 12 months in the case of an appeal. If a report is adopted that recommends a member change its trade practices to comply with WTO rules, that member is required to

submit a plan for implementing the changes necessary to comply with its WTO obligations within 30 days of the report's adoption. Such a plan will generally include an implementation period. If a consensus implementation period cannot be reached, it will be established through binding arbitration. Fifteen months is the maximum time frame allowed for implementation, with some exceptions.

Compensation can be negotiated between the disputing parties if the defendant does not comply within the agreed time period. If a compensation agreement cannot be reached, the complainant may petition the DSB for the authority to retaliate. This petition must be accepted within thirty days of the expiration of the established compliance period, or within sixty days if the level of retaliation must be arbitrated.

The US has been relatively successful in presenting cases before the WTO. It has won 11 of 13 cases as a complainant in which panel and Appellate Body reports were issued. It has lost 6 cases as a defendant when reports were issued. Ten cases brought by the US were settled to satisfaction and eight with the US as a defendant were settled or withdrawn.

The fifteen-month period for compliance established by the WTO is not very different from the time frames for action witnessed in the IPR and market access disputes. In the case of IPR, eight months passed before agreements were reached the first two times China was designated a priority foreign country. When China was designated such in April 1994, an agreement was not reached until almost a year later, in March 1995, and the USTR did not express satisfaction with progress toward implementation of, let alone compliance with, that agreement until 15 months later, in June 1996. In the case of market access, fully two years passed between the initiation of a Section 301 investigation in October 1991 and the first deadline for partial compliance in October 1993. This agreement further allowed six years for full compliance.

Two high-profile cases before the WTO involving the US show that the DSB can be an effective guardian of our trade interests. In the US-European Union (EU) banana dispute, a WTO dispute arbitration panel ruled that the EU's preferential regime for

importing bananas was not in compliance with WTO rules and obligations. The US was granted the right to retaliate by imposing prohibitive duties on $191.4 million of EU imports. In a second trade dispute, a WTO dispute resolution panel ruled that the EU's ban on hormone-treated meat was inconsistent with WTO Sanitary and Phytosanitary Agreement rules. The EU did not meet the WTO's May 13, 1999 deadline for compliance and the US was authorized to retaliate with 100 percent tariffs on an array of EU agricultural products.

China's entry into the WTO would bring it under the jurisdiction of the dispute settlement mechanism, a valuable and effective tool to protect US trade interests. Furthermore, granting China PNTR would not weaken in any way our ability to use existing trade laws. With the exception of Section 301 requirements that disputes in areas covered by trade agreements be first brought to the body set forth in that agreement to be resolved, none of our other trade laws, such as countervailing and antidumping duties, would be weakened.

It is important to note that the WTO recognizes national security concerns and allows for actions inconsistent with its trade laws based on those issues. Article XXI of GATT states:

> Nothing in this Agreement shall be construed to prevent any contracting party from taking any action which it considers necessary for the protection of its essential security interests taken in time of war or other emergency in international relations.

Many opponents of PNTR are wary of granting China a permanent trade status due to its threatening statements toward Taiwan. In the case of Chinese action against Taiwan, WTO commitments would not bar US sanctions based on national security concerns.

9. THE BENEFITS OF TRADE

Often discussions of international trade overlook the underlying reason that trade takes place. US and Chinese workers are best served when they engage in the production of goods where they possess a comparative advantage. With regard to China, the US enjoys a comparative advantage in the production of high-technology goods such as aircraft, computers, and chemicals. In China, these goods are not produced in large volumes, and can command high prices. US workers are better off when they produce those items in the US, and use the income derived from sales of those products to trade for other consumer goods they demand, such as toys and radios. This allows Americans to consume more than they would otherwise be capable of if they had to produce everything themselves. With unemployment near 30-year lows, there simply is not enough workers to allow Americans to produce all the goods they presently consume. The US benefits when its workers concentrate on producing goods where they possess a comparative advantage, US workers benefit as well.

An analysis of average earnings in major trade sectors with China shows that export jobs pay substantially more than import-competing jobs. The average weekly wage for production workers, weighted by trade volume, in the top five export sectors to China was $698.88 in January 2000, the latest available month for non-preliminary data.[30] This translates to a $36,341.76 yearly salary. In the top five import sectors from China it was $495.01 per week, or $25,740.52 per year.[31] Export jobs paid over $200 more per week, and $10,600 more per year, than jobs in import-competing sectors.

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[30] Bureau of Labor Statistics. Series report — Average Weekly Earnings for Production Workers in SIC Code sectors: 37, 35, 28, 36, and 38. Weighted by sector's percentage of top five total. *Http://146.142.4.24/cgi-bin/srgate*. Top 5 commodities are from USITC Dataweb. *Http://dataweb.usitc.gov*.

[31] Bureau of Labor Statistics. Series report — Average Weekly Earnings for Production Workers in SIC code sectors: 36, 39, 35, 23, and 31. Weighted by sector's percentage of top five total. *Http://146.142.4.24/cgi-bin/srgate*. Top 5 commodities are from USITC Dataweb. *Http://dataweb.usitc.gov*.

In addition, these are wages for production workers, not management. It is likely that the difference between average wages would grow larger if management jobs were included.

Many critics of trade contend that American workers cannot compete with low-cost labor and that trade with lesser-developed countries like China brings down American wages. An analysis of wages in the top ten trade sectors with China does not support this statement. Over the past decade, as total trade with China has increased from $17.8 billion in 1989 to $94.9 billion in 1999, real wages, accounting for inflation, in the top five import-competing sectors have actually risen more than real wages in the top five export sectors. Real wages grew by 4 percent in the import-competing sectors from January 1990 to January 2000, and by only 3 percent for the export sectors.[32] US-China trade has grown by 433 percent in the past decade, yet real wages have still climbed.

In the case of China, there are several other important benefits of increased trade, especially the kind that will be engendered by the Accession Agreement's concessions in the area of services. Opening of the banking and distribution sectors will likely diminish the State's power derived from its monopoly in these areas. Openings in the telecommunications sector will likely erode the State's ability to censor news from outside China, and allow a greater inflow of Western ideas. The general reduction in trade barriers should also weaken many inefficient state-owned enterprises, further reducing the government's role in the economy.

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[32] Bureau of Labor Statistics. Series report — Average Weekly Earnings for Production Workers in SIC code sectors: 36, 39, 35, 23, and 31 (for imports) and 37, 35, 28, 36, and 38 (for exports). Weighted by sector's percentage of top five total. *Http://146.142.4.24/cgi-bin/srgate*. Top 10 commodities are from USITC Dataweb. *Http://dataweb.usitc.gov*. Real wage calculated using GDP deflator: 127.6 from Haver Analytics.

10. CONCLUSIONS

The vote on permanent normal trade relations for China is neither a vote on China's admission to the WTO nor a vote on granting China access to the US market. China will become a member of the WTO regardless of this vote's outcome, and it already enjoys open access to the US market. Granting China permanent normal trade relations is in the economic interests of the United States. The WTO Accession Agreement between the US and China greatly enhances the position of US exporters. If PNTR is not granted, US businesses will be put at a significant disadvantage relative to foreign firms from Europe, Japan, and other nations. They will be denied a share of the gains from trade with China and may see their position weakened in other export markets, as well as the US market itself.

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This staff report expresses the views of the author only. These views do not necessarily reflect those of the Joint Economic Committee, its Chairman, Vice Chairman, or any of its Members.

APPENDIX

Appendix 1: World Trade Shares of China, the United States, and Japan

While Chinese trade is smaller than that of both the United States and Japan, it has grown more rapidly over the past two decades.

	International trade as a share of world trade			International trade *(billions of $)*	
Year	**China**	**U.S.**	**Japan**	**China**	**World**
1980	1.0%	12.3%	6.9%	$38.0	$3,923.1
1981	1.1%	13.1%	7.6%	$44.0	$3,895.3
1982	1.2%	13.0%	7.5%	$41.6	$3,616.8
1983	1.2%	13.5%	7.8%	$43.6	$3,519.7
1984	1.4%	15.2%	8.2%	$53.5	$3,745.2
1985	1.8%	15.0%	8.1%	$69.6	$3,799.5
1986	1.8%	14.6%	8.1%	$73.8	$4,168.7
1987	1.7%	13.9%	7.8%	$82.7	$4,894.0
1988	1.8%	14.0%	8.1%	$102.8	$5,591.0
1989	1.8%	14.1%	8.0%	$111.7	$6,074.2
1990	1.7%	13.2%	7.6%	$115.4	$6,905.5
1991	1.9%	13.1%	7.7%	$135.7	$7,121.2
1992	2.2%	13.2%	7.5%	$165.5	$7,602.2
1993	2.6%	14.2%	8.0%	$194.1	$7,546.5
1994	2.8%	14.0%	7.8%	$236.7	$8,577.5
1995	3.0%	14.6%	8.4%	$277.9	$9,302.6
1996	2.7%	13.4%	7.1%	$290.1	$10,774.5
1997	2.9%	14.2%	6.8%	$325.1	$11,161.5
1998	3.0%	14.8%	6.1%	$323.9	$10,978.6

Source: International Monetary Fund, *International Financial Statistics Yearbook*, 1999.

Appendix 2: The Components of Chinese Trade

Over the past two decades, both imports and exports have grown rapidly as a share of the Chinese economy.

	——— *Billions of real Yuan* ———			— *As a share of GDP* —	
Year	**Imports**	**Exports**	**GDP**	**Imports**	**Exports**
1980	60.0	56.9	769.7	7.8%	7.4%
1981	66.6	69.4	813.9	8.2%	8.5%
1982	65.9	79.8	891.9	7.4%	9.0%
1983	76.8	85.1	988.7	7.8%	8.6%
1984	117.2	118.2	1,139.2	10.3%	10.4%
1985	255.9	156.6	1,282.7	20.0%	12.2%
1986	220.2	176.2	1,392.3	15.8%	12.7%
1987	202.5	203.4	1,547.9	13.1%	13.1%
1988	244.6	233.6	1,713.1	14.3%	13.6%
1989	266.2	261.0	1,783.7	14.9%	14.6%
1990	265.7	325.2	1,854.8	14.3%	17.5%
1991	311.6	379.4	2,025.3	15.4%	18.7%
1992	390.6	436.5	2,314.2	16.9%	18.9%
1993	492.8	474.5	2,627.5	18.8%	18.1%
1994	540.4	591.3	2,964.6	18.2%	19.9%
1995	558.2	643.4	3,276.8	17.0%	19.6%
1996	596.0	679.4	3,590.6	16.6%	18.9%
1997	663.0	834.0	3,908.0	17.0%	21.3%
1998	682.7	895.1	4,211.5	16.2%	21.3%

Source: International Monetary Fund, *International Financial Statistics Yearbook,* 1999.

Appendix 3: Top Five U.S. Imports from China, 1995 to 1999

The U.S. imports primarily labor intensive, low value-added goods from China.

	Billions of dollars				
SITC commodity	**1995**	**1996**	**1997**	**1998**	**1999**
Total all commodities	45.6	51.5	65.6	71.2	81.8
Miscellaneous manufactured articles (toys, games, etc.)	10.3	11.9	14.2	15.5	17.3
Footwear	5.8	6.4	7.4	8.0	8.4
Office machines and automatic data processing machines	2.9	3.6	5.0	6.4	8.3
Telecommunications, sound recording and reproduction equip.	4.3	4.6	5.2	6.5	7.5
Articles of apparel and clothing accessories	5.9	6.3	7.4	7.1	7.4
Total Top Five	32.3	36.6	44.2	49.3	57.9

Source: U.S. Department of Commerce, International Trade Commission.
Note: Totals may not equal the sum of the columns due to rounding errors.

Appendix 4: Top Five U.S. Exports to China, 1995 to 1999

The U.S. exports primarily high-technology, high-value added goods to China.

	Billions of dollars				
SITC Commodity	**1995**	**1996**	**1997**	**1998**	**1999**
Total all commodities	11.7	12.0	12.8	14.3	13.1
Transport equipment (mainly aircraft & parts)	1.2	1.7	2.1	3.6	2.3
Electrical machinery, apparatus, appliances, and parts	0.4	0.6	0.7	1.0	1.4
Fertilizers	1.2	0.9	1.1	1.1	0.9
Office machines and automatic data processing machines	0.3	0.3	0.3	0.9	0.8
General industrial machinery, equipment, and parts	0.7	0.8	0.8	0.7	0.7
Total Top Five	3.9	4.4	5.9	7.2	6.2

Source: U.S. Department of Commerce, International Trade Commission.
Note: Totals may not equal the sum of the columns due to rounding errors.