U.S. export policy will hurt American industry, not China

by Marsha Freeman

Over the past year, while China and other nations of the "Survivors' Club" have been turning toward real economic growth through investment in infrastructure and new technologies, trade policy in the United States has turned more and more toward using various spurious arguments to limit exports to those nations. It has been claimed by the new Cold Warriors that eliminating high-technology exports to China is necessary to stop the flow of dual-use products that the Chinese military can use to upgrade its capabilities.

Because virtually any advanced technology that will enhance industrial production could be used in defense applications, the logical extension of this "enemy image" point of view would leave industry in the United States unable to export virtually anything to China, that China would be interested in importing.

This push to increase the restrictions on exports to China comes at a time when the U.S. domestic market has shrunk because of the contraction of the U.S. physical economy. The goods this country needs are increasingly being provided by imports that are "cheaper" because they come from developing nations whose currencies have been devalued by speculative attack. Decreasing domestic demand has left high-technology industry in the United States more dependent on exports than it has ever been before.

In the past, the government has put sanctions on certain high-technology exports to China, in response to Chinese behavior that the United States did not approve of. The changes in export policy that are being considered, and are already being implemented, are not called sanctions, but they are heading in that direction. These restrictions and controls are unilateral, as other industrial nations have not been so foolish as to institute the same export constraints. Therefore, China will continue to import satellites, computers, nuclear power plants, and machine tools that are needed for its economic growth that the United States refuses to sell to it, from other nations. As U.S. industry is making absolutely clear, it is not China, but American companies and American workers who will suffer.

The attack on aerospace

One year ago, a handful of relatively minor violations of export rules for American satellites sent to China for launch on the Chinese Long March rocket, were blown up into a national political scandal, resulting in the convening of a special Congressional committee to investigate the transfer of dual-use technology to China that could enhance that nation's military capabilities. The investigation by that committee, chaired by Rep. Christopher Cox (R-Calif.), centered around the satellite technology transfer question, but included other aspects of U.S.-China relations.

In February, for the first time in the history of the U.S. aerospace industry, a company was denied an export license for a commercial communications satellite that was to be purchased by an Asian consortium, majority-owned by the Chinese, to be launched on a Chinese rocket. Despite denials by officials of the Clinton administration, this decision represents a change in U.S. export policy. It is a change that was recommended by the Cox committee as part of the "tightening" of export restrictions.

According to the Aerospace Industries Association (AIA), U.S. aerospace exports to China totalled $2.256 billion in 1997, and an estimated 27,585 highly skilled jobs were generated in the industry from that trade. In commercial jet aircraft alone, China is expected to purchase 1,800 airplanes over the next 20 years, worth $125 billion.

In testimony to the House Committee on International Relations subcommittee on International Economic Policy and Trade on March 3, AIA vice president Joel Johnson pointed to the dramatic shift in aerospace sales over the past decade. Ten years ago, he said, more than 60% of their business was with the Department of Defense, and overall government sales accounted for 75%. Today, only 40% of aerospace sales are to the government, and of the remaining 60% (commercial sales), *three-quarters* is for export.

Johnson proposed that U.S. companies should be allowed to sell products that are available to China from other sources, that if unilateral controls are imposed they must terminated if there is no multilateral support for controls, and that economic sanctions should be limited in any case because they do not accomplish their objective. Johnson referred to export controls as "unfunded mandates," because the cost of such political action is imposed on labor and industry, and not on the Federal budget, which is supposed to fund foreign policy.

Machine-tool exports stalled

At the March 3 hearing of the House International Economic Policy and Trade subcommittee, the most astonishing picture of what export controls are doing to industry was presented by Dr. Paul Freedenberg, the Director of Government Relations of the Association for Manufacturing Technology (AMT). Freedenberg was Assistant Secretary of Trade Administration and Undersecretary of Export Administration in the Reagan administration. AMT represents 370 member companies which produce machine tools, manufacturing software, and measurement devices. Freedenberg began by reporting that of the $7 billion of product the machine industry sells annually, one-third is for export.

He indicated that the export regulations that are *in place now* have made it almost impossible to sell advanced machine-tool systems to China. China is the largest overseas market for U.S. machine tools, Freedenberg said, "and it has the potential to grow significantly from its current total of machine-tool imports from all sources of $2 billion."

But restrictions on exports to China of high-technology machines have led to the approval of only a handful of licenses per year, 25 in the past five years. Unlike the European nations, the U.S. government is "far more likely to disapprove machine-tool licenses," he said.

Because the U.S. restricts machine-tool exports to China, while not to other Asian nations, China only imports 9.9% of its machine tools from the United States. By contrast, South Korea, which is not subject to such controls, imports 22.3% of its machine tools from the United States. "It can be argued," Freedenberg said, "that the cost to U.S. machine-tool builders of the restrictive export control policy is approximately a quarter of a billion dollars per year in lost export sales to China."

The export controls limit what China can buy from the United States not only in number, but in cost—an indication of the sophistication and precision of the product. "Western European countries are exporting to China modern machine tools that would be unlikely to be licensed by the U.S. government," Freedenberg said. In 1996, the average price of a machine tool sold to China by a U.S. manufacturer was $155,000. The average for Italy was $208,000; for Switzerland, $348,000; and for Germany, $407,000.

A particular source of frustration of American machine-tool manufacturers, Freedenberg said, is that the restrictive U.S. export policy has meant that in factories in China that are joint ventures and have co-production arrangements with American companies, where the Chinese factories are monitored or supervised by American executives, the machine tools inside them are produced in Europe!

The Association for Manufacturing Technology recommends that there be a strong provision of "foreign availability" for any export restriction, so that the American firms are on a "level playing field" with foreign competitors. AMT also recommended strongly against the Cox committee proposal that China must agree in advance to surprise inspections as a precondition to license approvals. (The White House termed this condition a threat to national sovereignty.) Finally, Freedenberg advised that the United States first figure out what its China policy is, and then try to come to some agreement with the other nations of the world on technology transfer.

What is an 'advanced' computer?

The third industry representative testifying at the subcommittee hearing was Dave McCurdy, president of the Electronic Industries Alliance. He stated that, similar to the other advanced industrial sectors, one-third of what the U.S. electronic industry produces, more than $150 billion in goods, is exported. "That means more than a third of the 1.8 million employees who work for U.S. electronics companies depend on exports for their jobs," McCurdy said. "And the percentage goes up every year."

Echoing a point that had been made recently by Undersecretary of Commerce William Reinsch, McCurdy said that no amount of government subsidy could have done more to develop certain European technologies than U.S. export controls. "While the U.S.-China relationship may be controversial in this country," he said, "there is no such dilemma for our allies. For them, China is a strategic partner to cooperate with, on a wide range of political and economic issues."

McCurdy reported that the FY 1998 National Defense Authorization Act had already increased the export control restrictions on computers, and that "the U.S., alone among exporting nations, keeps an extensive list of individuals, companies, and organizations with whom commercial business is prohibited from dealing." He said that the list now comprises nearly 3,000 entries, and is expanding "at a staggering rate."

According to the March 16 *Wall Street Journal,* U.S. computer companies have formed a lobbying group called the Computer Coalition for Responsible Exports. It has released a study showing that U.S. export restrictions are so out-of-date, that by the end of this year, computer manufacturers could have to apply for licenses to export run-of-the-mill laptop computers to China.

Kenneth Kay, chairman of Infotech Strategies, told the *Journal* that last year the Commerce Department reviewed 300 export licenses. "The study we're unveiling," Kay said, "suggests that we could soon have as many as 300 licenses a day," indicating how the growth in the export market could overwhelm the current system.

While the China-bashers complain that U.S. national security is threatened by selling high-technology to China, the point has been correctly made that real security depends upon a healthy domestic economic base, which, in the United States, is increasingly being eroded by destructive economic policies, including export controls.