

World Trade by Richard Freeman

Companies heading for China

Trade follows the Carter administration flag thanks to a deal with the Fortune 500.

During 1980, total U.S. trade with the primitive People's Republic of China will be greater than U.S. trade with the advanced industrial Soviet Union. For the first half of 1980, U.S. exports to China were \$1.2 billion; U.S. industry groups predict total trade will reach \$4 billion by year's end. Projected U.S. exports to the Soviets for the year are \$1.8 billion.

This intensification of economic ties with the PRC—although in hard capital terms still modest, to say the least—is the outcome of a political-strategic pact cemented between the Carter State Department and a representative portion of America's so-called Fortune 500 firms. In early June, Chase Manhattan Bank's David Rockefeller hosted a joint forum of 300 major U.S. corporations and top officials from the Bank of China and the China International Trust and Investment Company.

Rockefeller's party, which was held at Chase's headquarters in New York, occurred two weeks after State Department official Richard Holbrooke returned from a visit to China to announce that attempts to balance U.S. relations with the PRC and the Soviets no longer apply. And, in fact, U.S. trade with China this year is an outcome of the new approach of building ties with China *against* the Soviet Union.

The strategic folly of trying to "play the China card" is even greater than the real economic problems

entailed in U.S.-China trade. Although three years ago, when PRC officials first approached Western countries with offers of major trade packages, they were thinking in terms of immediate multibillion dollar transactions, this was quickly proven impossible. Out of its one billion population, Chase Manhattan estimates that the PRC has no more than 100 million people living in its relatively modernized port cities. Even these are run, day to day, on 1930s technologies. In addition, the PRC still needs to accumulate foreign exchange to finance capital goods imports. Earlier this year, it joined the International Monetary Fund to gain access to concessionary development loans. The China International Trust and Investment Co., whose formation 18 months ago has been followed by the creation of five more trust companies representing provincial governments, is hobnobbing around Hong Kong and Shanghai, seeking private investment, especially from expatriate Chinese investors. For such private placements, the PRC often offers free labor instead of repayment.

With the opening of the Hong Kong-Quandong "Common Market," or free trade area, the PRC has gone in recent months into joint venture ownership with Western firms. One hundred joint venture petitions with Western companies are currently under review, including 20 from the U.S.

By this fall, the PRC may test

the Euromarkets for its first syndicated borrowing, according to U.S. government experts. This would occur just at the point that the PRC is scheduled to announce its new Ten-Year Plan. The details of the plan, which was the product of a two-year review of the PRC economy, was launched in the fall of 1978 after initial efforts to import Western technology had failed.

On July 21, U.S. Ambassador to China Leonard Woodcock discussed the new Ten-Year Plan in an address before the Commonwealth Club of San Francisco, which represents California's leading firms. Woodcock reported that the last two years' reevaluation had led the PRC to the conclusion that industrialization will be impossible unless general living standards are improved. First priority in the new program will therefore be agriculture; by 1990, the first shift towards large-scale heavy industry imports would occur.

Woodcock's characterization is hard to believe. The central consideration driving U.S.-PRC relations is a military-strategic alliance against the U.S.S.R., and the PRC is known to be committed to beefing up, its military hardware.

The strongest base for U.S. trade into China is California. Kaiser Industries, Bechtel and Fluor have been in the forefront of encouraging U.S. "China card" strategic and economic policies. Kaiser has just completed an engineering design project for two iron ore installations in the PRC; when completed, at a cost of over \$1 billion, they will form the largest iron ore complex in the world. Kaiser meets regularly with PRC officials, who will be visiting their headquarters in Oakland next month.