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EXTENSION OF NONDISCRIMINATORY TREATMENT TO PRODUCTS OF THE PEOPLE'S REPUBLIC OF CHINA

JANUARY 10 (legislative day, JANUARY 3), 1980.—Ordered to be printed

Mr. LONG, from the Committee on Finance, submitted the following

REPORT

[To accompany S. Con. Res. 47]

The Committee on Finance, to which was referred the concurrent resolution (S. Con. Res. 47), having considered the same, reports favorably thereon without amendment and recommends that the concurrent resolution do pass.

I. SUMMARY

Senate Concurrent Resolution 47 would approve the extension of nondiscriminatory (most-favored-nation (MFN)) treatment to products imported from the People's Republic of China (PRC) into the United States. The extension of such treatment was the subject of a trade agreement between the United States and the PRC. This agreement was signed on July 7, 1979. The President proclaimed the extension of nondiscriminatory treatment to imports from the PRC on October 23, 1979. Under section 405(c) of the Trade Act of 1974 and the terms of the October 23, 1979, proclamation, neither the trade agreement nor proclamation is effective until both Houses of Congress adopt a concurrent resolution of approval with respect to the extension of MFN treatment.

II. GENERAL EXPLANATION

THE STATUTORY FRAMEWORK

Title IV of the Trade Act of 1974 authorizes the President to extend, under certain circumstances, MFN treatment to countries whose products did not receive such treatment on the date of enactment of the Trade Act, i.e., January 3, 1975. The only countries not now receiving MFN treatment are certain Communist nations. Poland and Yugoslavia received MFN treatment prior to enactment of the Trade Act,

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and Romania and Hungary received MFN treatment pursuant to title IV of the Trade Act. Under title IV, only countries entering into bilateral commercial agreements with the United States may receive MFN treatment. This treatment may remain in effect only so long as the agreement remains in force between the United States and the nonmarket economy country concerned, or until the President suspends or withdraws such treatment, which he may do at any time.

All title IV bilateral agreements between the United States and a nonmarket economy country are required to include provisions for:

1. Suspension or termination for reasons of national security;
2. Safeguards against disruption of U.S. markets;
3. Protection of patents, if the nonmarket economy country is not a member of the Paris Convention for the Protection of Industrial Property, and protection of rights such as copyrights;
4. Settlement of commercial disputes and the promotion of trade and other commercial arrangements; and
5. Consultations for reviewing the operation of the agreement and relevant aspects of relations between the United States and the other country.

Trade benefits, including MFN treatment, under any bilateral agreement must be limited to an initial period not exceeding 3 years. Thereafter, an agreement may be renewed for additional periods, each of not more than three years, providing that a satisfactory balance of concessions in trade and services has been maintained and that U.S. reductions in trade barriers have been reciprocated by the other party. Services include transportation and insurance and other commercial services associated with international trade.

All bilateral commercial agreements entered into under title IV between the United States and a nonmarket economy nation are subject to approval by both Houses of Congress. Under section 405(c) of the Trade Act of 1974, an agreement may take effect only if a concurrent resolution of approval is adopted within 60 working days (up to 45 working days for committee consideration, and 15 working days for floor consideration) after the President submits the agreement to Congress. Special procedural rules for congressional consideration of the resolution are contained in section 151 of the Trade Act.

In addition to the requirements regarding content of the agreement and specific approval by Congress, title IV imposes another condition on the delegation of authority to the President to enter into such agreements and to extend MFN treatment. Section 402 of the Trade Act provides that no country is eligible to receive MFN tariff treatment or U.S. Government credits, credit guarantees or investment guarantees if the President determines such country: (1) denies its citizens the right or opportunity to emigrate; (2) imposes more than a nominal tax on emigration, or on the visas or other documents required for emigration, for any purpose or cause whatsoever; or (3) imposes more than a nominal tax, levy, fine, fee or any charge on any citizen as a consequence of the desire of such citizen to emigrate to the country of his choice. A country may become eligible for nondiscriminatory treatment under title IV, and may receive U.S. Government credits or credit or investment guarantees, only after the President had determined that it has not violated any of the above conditions and so reports his determination to Congress.

Title IV does contain a provision allowing the President to waive the freedom-of-emigration requirement for any country if he reports to Congress that: (1) he has determined that such a waiver would promote the objectives of free emigration, and (2) he has received assurances that the emigration practices of such country will henceforth lead substantially to freer emigration. The waiver authority may be extended by Presidential action for one-year periods, unless either House of Congress disapproves the extension.

PRESIDENTIAL AND COMMITTEE ACTION

On October 23, 1979, the President transmitted to Congress pursuant to section 407 of the Trade Act the Agreement on Trade Relations Between the United States and the People's Republic of China along with a proclamation extending nondiscriminatory treatment to imports of products from the PRC. Pursuant to section 151 of the Trade Act providing for congressional implementation procedures, an approval resolution—Senate Concurrent Resolution 47—was introduced in the Senate on October 24, 1979, and was referred to the Committee on Finance. The resolution would approve the extension of nondiscriminatory treatment and permit the commercial agreement to become effective.

As noted, in addition to congressional approval of the trade agreement itself, commercial agreements under title IV with nonmarket economy countries are subject to the freedom-of-emigration requirements of section 402 of the Trade Act. The requirements may be waived by the President, subject to congressional review. At the time of submission of the US-PRC trade agreement to Congress, the President waived the freedom-of-emigration requirements for the PRC, reporting to Congress that he determined that the requirements for such waiver were met. This action also permits the granting of U.S. government credits and credit or investment guarantees to the PRC.

The procedures for congressional consideration of a freedom-of-emigration waiver are separate and distinct from the approval procedures for the trade agreement and extension of MFN treatment. No action with respect to the waiver is required now by the Senate. Under the Trade Act, congressional review of this waiver by the President occurs when the President recommends to Congress that his authority to waive the freedom-of-emigration requirements be extended for a 1-year period. The President must request such an extension of the waiver authority at least 30 days before its expiration. Either House of Congress, within 60 days after the end of the previous extension, *i.e.*, July 3, 1980, may disapprove such extension entirely or for individual countries by adoption of a simple resolution of disapproval. Such disapproval would terminate MFN treatment.

The committee held a public hearing on S. Con. Res. 47 and trade relations between the United States and the PRC on November 15, 1979. The testimony received was generally favorable regarding approval of the trade agreement and extension of MFN treatment. On December 14, 1979, the committee met with Deputy Secretary of State Warren Christopher regarding emigration matters relating to the PRC.

The United States-People's Republic of China Trade Agreement

On July 7, 1979, the United States and the People's Republic of China entered into a trade agreement. The following is a brief description of the main provisions of the agreement.

The agreement contains general commitments by the parties to promote the development of their bilateral trade. It provides that such trade shall be effected on the basis of commercial contracts and customary international trade practice and commercial considerations such as price, quality, delivery and terms of payment.

The agreement provides for reciprocal nondiscriminatory (MFN) treatment of the parties' imports and exports, including nondiscriminatory tariff treatment.

The agreement takes note of China's situation as a developing country. It provides for equitable treatment in the event that quantitative restrictions are imposed. It commits each party to reciprocate satisfactorily concessions made by the other in the area of trade and services.

The agreement addresses issues related to the facilitation of business activities, including, subject to national laws and physical abilities, the stationing of business representatives and the establishment of business offices and the improvement in the conditions under which these offices operate. It provides for nondiscriminatory treatment in business facilitation matters. The agreement also calls for promoting visits by economic, trade and industrial groups. The agreement takes note of the importance of government trade offices, and contains undertakings to facilitate their operations.

The agreement contains provisions regarding international payments and facilities for international financial, currency, and banking transactions. Payments for transactions may not be restricted except in time of declared national emergency. It provides for the participation on a national treatment basis of financial institutions of each country in appropriate banking services related to international trade and finance in the other country. Each party is to provide on an MFN basis, subject to its laws, all required authorizations for international payments, remittances and transfers, and uniform application of rates of exchange. In addition, the two parties agree to facilitate the availability of official export credits in accordance with applicable laws and procedures.

The agreement provides for reciprocal and equivalent protection of patents, trademarks, and copyrights. It also includes provisions for the protection of other industrial rights and processes.

Bilateral trade problems, including market disruption due to rapidly rising imports, will be the subject of prompt consultations. Should such consultations not result in a satisfactory resolution within a reasonable period of time, either party may take whatever action it believes appropriate. In an emergency, action may be taken before consultations are held.

The agreement endorses non-judicial procedures, including third-country arbitration, for the prompt settlement of commercial disputes.

The agreement leaves the parties free to take whatever actions they deem necessary to protect their security interests.

The agreement will take effect when the domestic legal processes of each country necessary to make the agreement effective domestically have been concluded. The agreement will be for a three year renewable term. It can be suspended if either party loses its domestic authority to carry out its obligations.

United States–People's Republic of China Trade

Overview.—Trade between the United States and the PRC has increased for the last several years, and the United States now ranks third as a major supplier of goods to the PRC (behind Japan and West Germany) and third as a major market for PRC exports (following Hong Kong and Japan). In 1977, total US-PRC trade approximated $375 million with a negative trade balance for the United States of approximately $31 million. In 1978, total trade approximated $1.1 billion. This surge in trade in 1978 is largely accounted for by increases in U.S. exports of wheat, cotton, and chemicals, and resulted in a favorable balance of trade for the United States of about $0.5 billion. Trade for the first six months of 1979 almost equalled trade for all of 1978, with the United States running a favorable balance of about $0.45 billion.

Leading U.S. imports from the PRC include crude petroleum (first imported in 1979), fireworks, antiques, white cotton shirting, shrimp, carpets, crude or processed bristles, bamboo baskets and bags, and feathers. Leading U.S. exports to China include yellow corn, cotton, wheat, soybeans and soybean oil, polyester fibers, oil/gas drilling machines and parts, and chemicals.

Major PRC exports to the United States include textile products, as noted. The Administration and the PRC have been engaged in discussions with respect to a bilateral agreement on textiles to prevent disruption to the U.S. market because of PRC textile imports. Although progress has been made, no agreement has been reached yet. The United States has taken unilateral action imposing quotas on seven categories of imports, including cotton gloves, shirts and blouses, and manmade fiber sweaters. The Administration has indicated an intention to take further action if the need arises.

U.S. exports.—Beginning in 1978, the PRC began modifying many aspects of its past policies relating to international trade, modifications which should have a positive impact on U.S. exports to the PRC. In particular, it indicated a willingness to accept foreign products and financial and technical services on a large scale, representing a sharp break with past PRC policies of self-reliance. The PRC has also dropped the long-standing policy of not borrowing abroad to finance capital purchases. PRC officials now show interest in obtaining financing from industrial countries, both from private sources and national and international lending institutions.

In November 1978, China requested economic aid from the United Nations for the first time. By mid-1979, China had reached major credit agreements with government credit agencies and private banks in Japan, France, Italy, the United Kingdom, and Canada totaling some $23 billion. In addition, during his visit to China in August 1979, Vice President Mondale announced that the United States would make $2 billion available to China in direct Export-Import Bank (Eximbank) credits over the next 5 years. The extension of these credits depends on China's ability to come up with appropriate projects, which must then be approved on a case-by-case basis.

In a further significant departure from past policies, China adopted a joint equity venture law on July 8, 1979, which is expected to expand significantly the role of foreign firms in China. In so doing, China anticipates that it will increase its export earnings, acquire advanced technology, and train its labor force. Prior to the promulgation of this law, China allowed product buy back agreements and compensation trade, but did not allow foreign ownership. The new law sets no upper limit for foreign ownership. In addition, under the new law, China will grant a two-to-three year tax holiday for foreign investors who provide current technology by world standards. Moreover, foreign partners' after-tax profits may be repatriated.

China announced a revised 10-year plan in March 1978 for the remaining 8 years of the 1976–85 plan period. It aims at bringing the PRC to ". . . an economic and technological level in most fields close to that of the most developed capitalist countries by the year 2000." Growth of industrial output is scheduled at over 10 percent per year. Farm production is intended to grow by 4 to 5 percent annually, twice the rate experienced in 1973–77, and the output of grains is to be expanded by more than one-third over the period. The main part of the plan comprises 120 key projects, including steel plants and nonferrous metal complexes, oil and gas fields, coal bases, electric power stations, harbors, and railroads. The plan includes a program for substantial imports of equipment and technology from Japan, Western Europe, and the United States, in that order. Although the plan provides for larger exports to pay for additional imports, the PRC must borrow heavily to satisfy its vast needs. Some believe that this indebtedness will ultimately act as a constraint on the growth of United States-PRC trade, as has already occurred with other countries, although the actual impact is subject to debate.

China's 10-year plan has been further modified during 1979 as China confronts internal constraints to increased growth. The expanding economy has already run up against shortages of fuel, power, raw materials, and rail transportation capacity—shortages that resulted in high-cost, low-quality production. Industry grew at an average annual rate of 14 percent during 1977 and 1978, but this growth rate will probably be reduced in the short run. Signs of this slowdown were already evident in the first half of 1979. Industrial output was only 4.1 percent higher in the first 6 months of 1979, or only a third of the rate of the previous 2 years, and well below the 10 percent growth achieved between 1952 and 1974.

Growth in agriculture is constrained by the limited percentage of cultivatable land in China. Since only about a tenth of its land is cultivatable and this is already intensively farmed, China will have to increase output by increasing irrigation, developing new, high-yield seeds, and applying fertilizers more scientifically. Agricultural production, which was stagnant between 1974 and 1977, improved considerably in 1978, but over the 1974–78 period has lagged behind population growth. The Chinese government reacted to the ensuing food shortages by increasing investment in agriculture from 10.7 percent of the total budget in 1978 to 14 percent in 1979. Nonetheless, the reduced inventories of food stocks mean that China will probably have to import large amounts of grain (estimated to be in the range of 10 to 13 million metric tons annually) over the next several years from all sources.

To help pay for imports of heavy capital equipment, technology, and agricultural products, China intends to increase its exports of oil and light industrial goods. Since increased oil exports offer a means of sharply increasing foreign-exchange earnings, China has involved a number of Western oil companies, including U.S. firms, in its oil resource development program. Some evidence has emerged that China will postpone decisions on the scale of all capital equipment imports until it can determine the extent of its oil resources, since this will directly relate to its ability to borrow from foreign sources. In the light industry sector, China has increased investment from 5.4 percent in 1978 to 5.8 percent in 1979. This increased emphasis on light industry is based on Chinese officials' belief that compared with heavy industry, light industry offers a faster return on investment, yields higher rates of return, provides more diversified sources of export earnings, and creates greater employment opportunities. Planned supplies of raw materials and semiprocessed goods to light industry were increased 17 percent in 1979. In addition, the plan calls for imports of technology and equipment to update light industry, financed mainly through compensation agreements. Within the light industry sector, the textile industry will receive first priority in the allocation of raw materials and electric power.

Despite the increased emphasis on light industry, heavy industry (which includes the oil industry) will continue to receive the bulk of investment over the balance of the 10-year plan. Investment in heavy industry has been cut back from 54.7 percent of the total budget in 1978 to 46.8 percent in 1979. Coal, oil, electric power, transportation, communications, and building materials will receive the highest priority within heavy industry since the slow growth of these sectors has acted as a restraint on China's overall modernization program. It is expected that opportunities for the United States will be greatest in the following areas: mining equipment and technology for the development of the iron ore, coal, and nonferrous metals industries; oil drilling equipment and technology for the petroleum industry; equipment and technology for the electric and hydroelectric power industries; transport equipment; communications equipment; and hotel construction.

In 1978, U.S. exports to China amounted to $818 million, almost five times more than in 1977 (table 1). Food and crude materials jointly constituted over 70 percent of these exports. In contrast, in 1977, there were virtually no U.S. sales to China in the food category, and exports of crude materials that year accounted for less than a quarter of such exports in 1978.

TABLE 1.—UNITED STATES EXPORTS TO CHINA, BY SITC NUMBERS (REVISION 1 AND 2),[1] 1972–78, JANUARY TO JUNE 1979

[In thousands of U.S. dollars]

SITC community code No.	Description	1972	1973	1974	1975	1976	1977	1978	January June 1979
0	Food and live animals	55,990	410,084	329,699	15	0	27	362,253	243,034
1	Beverages and tobacco		1,359	2,718	0	1	5		45
2	Crude materials—inedible, except fuel		171,903	341,432	100,133	13,020	52,349	223,905	181,969
3	Mineral fuels, lubricants, etc		4	230	200	108	64	1,765	198
4	Oils and fats—animal and and vegetable	2,200	19,207	7,539	7	0	31,987	37,775	35,894
5	Chemicals		7,850	10,475	5,278	10,443	19,595	60,494	55,589
6	Manufactured goods classified by chief material		9,078	18,587	73,751	43,300	10,837	25,296	64,017
7	Machinery and transport equipment	2,015	68,756	106,754	118,803	65,118	51,881	93,007	102,349
8	Miscellaneous manufactured articles	1	863	2,706	4,974	3,380	4,541	13,706	20,588
9	Commodities and transactions not elsewhere classified			349	471	17	32	40	186
	Total[2]	60,205	689,104	820,480	303,631	135,388	171,318	818,241	703,869

[1] Data for 1972–77 are based on the Standard International Trade Classification (SITC), revised, but have been adjusted by the inclusion of nonmonetary gold. Data for 1978 and January to June 1979 are based on the SITC, revision 2. Because of changes in classifications between the 2 revisions, data for 1978 and January to June 1979 on a 1-digit basis are not comparable with data for earlier periods.

[2] Because of rounding, the sum of the column may not equal the total.

Source: U.S. Department of Commerce, Bureau of East-West Trade.

Two grain items were responsible for all exports in the food and live animals category—wheat and yellow corn. These were the first U.S. grain sales to China since 1974, although China has been a substantial grain importer from other sources since the early sixties. Its principal suppliers have been Canada and Australia, countries with which China has long-term trade agreements. In 1973 and 1974 China bought large quantities of grain from the United States also, but made no U.S. purchases in 1975–77, despite significant imports from other sources. Chinese officials have indicated that the discovery of TCK smut (a plant disease) in 1974 shipments was the primary ground for the rejection of U.S. grains. In 1978, China resumed grain purchases from the United States, sourcing more than one-half of its total grain purchases from the United States. U.S. grain deliveries exceeded 2 million metric tons of wheat and 1 million metric tons of corn in 1978, a joint value of $362 million. However, China purchased more than double this quantity during the year, part of it for delivery in 1979.

Renewed Chinese grain purchases from the United States stemmed from several causes, including a poor harvest in China for the second year in succession, coinciding with the limited availability of exports from China's traditional suppliers making substantial imports from the United States a necessity. The interest of Chinese officials in U.S. grains was strengthened by assurances from the Secretary of the U.S. Department of Agriculture that the quality problems of past U.S. grain shipments would not arise again.

The occasion for such assurances was the Secretary's visit to China in November 1978. Chinese officials indicated at that time that the United States could become an important regular supplier for China, instead of a residual one. They said that China's grain imports are expected to amount to 10 million metric tons annually, of which U.S. grains could account for 5 million to 6 million metric tons. Indeed, despite the ambitious grain output targets specified in the 10-year plan, China's grain imports are likely to increase substantially. The Government's recent emphasis on livestock, pork, and poultry production for increased domestic meat consumption will generate greater demand for imported feed grains. Higher per capita human consumption of grains and the Government's avowed policy of stockpiling will also create additional demand. With steadily normalizing relations, the United States is expected to capture a substantial share of this growing market. For 1979, a continuation of large U.S. grain deliveries was expected on the basis of purchases already made last year. U.S. exports of grain to China totaled $238 million during January–June 1979, compared with $31 million in the corresponding period of 1978.

U.S. sales of crude materials to China amounted to $224 million in 1978. Cotton constituted 70 percent of this value, polyester fibers and soybeans the rest. In 1978, China resumed cotton purchases from the United States on a large scale. U.S. exports amounted to $157 million or more than 500,000 bales. Exports in 1977 were less than 18,000 bales, following a hiatus in 1976. In 1975, the last year of meaningful cotton exports to China prior to 1978, U.S. sales amounted to about half of sales in 1978. As with grains, data on U.S. cotton exports in 1978 indicate only part of the Chinese purchases made during the year. On the basis of deliveries scheduled for 1979, major U.S. cotton exports to China in 1979 were a virtual certainty.

Although dwarfed by soaring agricultural sales, U.S. exports of manufactures to China also rose in 1978. Exports of machinery and transportation equipment amounted to $93 million, 80 percent more than in 1977. Exports consisted of capital equipment, led by parts of machinery and equipment for oilfield and gasfield drilling, steam turbines, air and gas compressors, and pumps. Other principal export items in the group were diesel engines and trucks. U.S. sales of chemicals tripled in 1978; they rose to $60 million, reflecting increased sales of fertilizers.

There are currently no U.S. exports of consumers' items to China, and very few are expected, in view of China's limited ability to pay even for high-priority capital goods. Exceptions will be products used by tourists. U.S. sales of Coca-Cola in China, agreed on by the Coca-Cola Co. and Chinese officials, come under this heading.

No change in the basic composition of U.S. exports to the PRC is expected in the sense that agricultural exports will remain dominant, and manufactures will be concentrated in capital equipment. But the latter are expected to be not only much larger than before, but also more diversified. It is estimated that the United States has already reached agreements involving sales of capital equipment for over $2 billion. These include sometimes complete plants with associated technology and equipment. For example, Bethlehem Steel and U.S. Steel agreed to develop iron mining and processing establishments, and the Fluor Corp. agreed to plan and build a copper-mining project for China. In addition to large projects, U.S. companies have agreed to sell, among other products, agricultural machinery, aircraft, capital goods for coal mining such as shuttle cars, drilling, pumping, and prospecting equipment, and oilfield vehicles for the petroleum industry.

It should be noted that exports to China of U.S. technology involving air transportation and petroleum already had precedents, principally between 1972 and 1975.

U.S. imports.—U.S. imports from China increased 60 percent to $317 million in 1978 (table 2). Imports of certain labor-intensive items diversified and rose markedly even though most of these items are subject to the higher duties under column 2 in the Tariff Schedules of the United States (non-MFN duties).

TABLE 2.—UNITED STATES IMPORTS FROM CHINA, BY SITC NUMBERS (REVISION 1 AND 2),[1] 1972-78, JANUARY TO JUNE 1979

[In thousands of U.S. dollars]

SITC community code No.	Description	1972[2]	1973[2]	1974[3]	1975[3]	1976[3]	1977[3]	1978[3]	January June 1979[3]
0	Food and live animals	4,244	5,973	13,465	14,233	23,505	25,514	26,057	23,353
1	Beverages and tobacco	31	653	576	1,240	245	200	643	245
2	Crude materials—inedible, except fuel	12,265	14,622	16,194	17,709	37,603	43,970	57,375	29,621
3	Mineral fuels, lubricants, etc	(4)	419	11		1	950	(4)	42,733
4	Oils and fats—animal and vegetable	5	734	373	1,905	2,429	55	3,262	2,849
5	Chemicals	2,145	8,227	16,975	15,166	17,701	21,369	32,795	21,356
6	Manufactured goods classified by chief material	7,360	21,008	38,993	79,741	63,972	47,868	93,082	39,244
7	Machinery and transport equipment	67	373	91	297	906	750	565	392
8	Miscellaneous manufactured articles	6,059	11,157	17,966	24,416	46,646	55,041	101,993	71,085
9	Commodities and transactions not elsewhere classified	144	786	1,109	1,563	1,641	1,684	972	774
	Total[5]	32,320	63,952	105,756	156,271	194,649	197,400	316,743	231,650

[1] Data for 1972-77 are based on the Standard International Trade Classification (SITC), revised, but have been adjusted by the inclusion of nonmonetary gold. Data for 1978 and January to June 1979 are based on the SITC, revision 2. Because of changes in classification between the 2 revisions, data for 1978 and January to June 1979 on a 1-digit basis are not comparable with data for earlier periods.
[2] U.S. general imports.
[3] U.S. imports for consumption.
[4] Less than $500.
[5] Because of rounding, the sum of the column may not equal the total.

Source: U.S. Department of Commerce, Bureau of East-West Trade.

U.S. purchases of miscellaneous manufactured articles, the leading major product class of imports from the PRC, almost doubled in 1978 compared with their level in 1977. This group includes antiques and baskets, which are traditional imports from the PRC, but also comprises cotton gloves, shirts, jeans, blouses, and nightwear, the imports of which rose rapidly.

Another major import category from the PRC in 1978, with almost twice the import value of that in 1977, was manufactured goods classified by chief material. This group includes textiles, imports of which rose rapidly. Purchases of textiles began to increase slowly after United States-PRC trade relations resumed in 1972. They became significant in 1976, but declined in 1977. Imports reached record levels in 1978. U.S. purchases of print cloth shirt material made of cotton, the number one item among all U.S. imports from China, amounted to $13 million in 1976, $8 million in 1977, and $20 million in 1978. This fabric is used for making shirts as well as other clothing items. Imports of cotton textiles rose most rapidly, but those made of wool and man-made fibers also increased.

The U.S. textile and apparel industry expressed concern about these developments with respect to textiles and apparel and expressed concern about the threat of further increases, especially if China is granted MFN treatment. The administration is attempting to negotiate a bilateral agreement with the PRC to prevent market disruption because of increased textile imports. Pending conclusion of such an agreement, the United States has imposed, unilaterally, import quotas on seven categories of textile and apparel products which include: Cotton gloves; women's, girls', and infants' knit cotton shirts and blouses; women's, girls', and infants' woven cotton blouses; women's, girls', and infants' coats of man-made fibers; men's and boys' cotton shirts; cotton trousers; and man-made fiber sweaters. The committee understands that it is the policy of the administration to continue to prevent market disruption from PRC textile and apparel imports by conclusion of a bilateral agreement or use of unilateral quotas.

Unwrought tin, another traditional import item from China, is also included in manufactured goods classified by chief material. Imports by value more than tripled from their unusually low level in 1977 to $15.5 million in 1978. For years China has been an important U.S. supplier of tin.

Imports of crude materials rose by 30.5 percent from 1977, amounting to $57 million in 1978. Feathers, with imports amounting to $15 million in 1978, are the leading item in the group. China has been historically the dominant U.S. supplier of feathers. In January–September 1978, imports from China accounted for 36 percent of all U.S. imports by volume. Compared with imports in 1977, the value of U.S. imports increased 21.7 percent in 1978, but as prices increased even faster, the volume of imports has actually declined. Other important crude materials from China are tungsten ore and raw silk.

Column 2 (non-MFN) tariff discrimination is most evident on imports of textiles, where the rates of duty are two to four times higher than the corresponding column 1 (MFN) rates. Other items facing a significant column 2 tariff differential include bags and baskets of bamboo, bristles, cashew nuts, tungsten ore, and antimony. However, a number of items which the United States imports from China enter either duty free or at the same rates as imports from MFN countries. These include tin, fireworks, antiques, cotton gloves, tea, cassia oil, and raw silk. Imports of feathers and down from China have entered duty free since the duty rates of 15 percent for column 1 countries and 20 percent for column 2 countries were temporarily suspended in April 1975. The duty exemption on these items expired on June 30, 1979, when the former rates came once more into effect.

Several new items appeared among the leading import items during the period January–June 1979. The most important of these was crude petroleum, imports of which were valued at $43 million, making it the leading import item during the period. In November 1978, China agreed to sell 0.5 million tons (about 3.6 million barrels) of crude oil to Coastal States Trading Inc., a Texas-based oil company. The contract with Coastal States represented the first Chinese oil exports to a private corporation, as previously Chinese crude oil was sold only on a government-to-government basis. Delivery of the oil began in early 1979. The level of future oil imports from China will depend on, among other things, the outcome of agreements currently under consideration between China and large U.S.-based multinational oil companies, Exxon, Union Oil, Phillips, Pennzoil, and possibly others, concerning U.S. assistance in the development of China's oil resources. Such agreements would involve U.S. imports of crude oil as "pay-back" for equipment, technology, and other services.

Other leading import items during January–June 1979 included raw shrimp, licorice root, tung oil, brads and nails of iron and steel, women's footwear, floor coverings of unspun vegetable materials, and menthol. The first three items enter the United States duty free, but the last four are subject to tariff differentials up to five times the MFN duty rate.

Impact on U.S. imports and exports of approval of the trade agreement.—It is difficult to assess the precise effect which approval of the trade agreement and the provision of MFN treatment to the PRC will have on imports from the PRC and on U.S. producers. The reduction of duties that will be experienced will result in some increases in imports and some effect on U.S. producers. However, the increases and effects will be limited to a certain extent by supply and infrastructure constraints in the Chinese economy, the extent to which the duty reduction results in lower prices of PRC imports, whether some of the increase in PRC imports will result in a displacement of imports from other countries as opposed to additional imports, and the level of U.S. demand for imports from the PRC.

Estimates from the Department of Labor indicate that if the PRC had enjoyed MFN in 1978, U.S. imports from that country would have exceeded actual imports by about $80 million. In general, the leading U.S. imports from China, including textiles, apparel, basketwork, carpets, feathers, tungsten ore, furniture, household articles (including tableware), and menthol will experience the greatest tariff reductions when MFN is granted to China. U.S. imports of these items can be expected to increase in varying degrees. Of course, to the extent that market disruption occurs from rapidly increasing imports of these or other products, relief will be available under section 406 of the Trade Act of 1974. It is expected that the joint economic committee which has been formed between the United States and the PRC to manage the further development of the US–PRC economic relationship will keep track of developments in trade between the United States and the PRC, with a view toward identifying potential opportunities and problems and helping resolve disputes that may arise.

U.S. exports will be facilitated as a result of the approval of the trade agreement in a number of ways. The provision relating to patent and copyright protection, facilitation of commercial and financial activities, and measures for dispute settlement, should enhance prospects for U.S. exports and investment in the PRC. In particular, the agreement contains a commitment to make purchases on the basis of customary international trade practice and commercial considerations, including price, quality, delivery, and terms of payment. Thus, commercial considerations, as opposed to political considerations, are intended to determine trade between the U.S. and the PRC. U.S. exports which are likely to benefit include exports of grain and other agricultural products, mining equipment and technology for the development of the iron ore, coal, and nonferrous metal industries, oil drilling equipment and technology for the petroleum industry, equipment and technology for the electric and hydroelectric power industries, transport equipment, communications equipment, and hotel construction.

III. Regulatory Impact of the Bill

In compliance with paragraph 5 of rule XXIX of the Standing Rules of the Senate, the committee states that the provisions of the bill should not result in new major and continuing regulatory activity.

IV. Vote of the Committee in Reporting the Bill

In compliance with section 133 of the Legislative Reorganization Act of 1946, the committee states that the bill was ordered reported by voice vote.

V. Budgetary Impact of the Bill

In compliance with section 252(a) of the Legislative Reorganization Act of 1970, and sections 308 and 403 of the Congressional Budget Act, the following statements are made relative to the costs and budgetary impact of the resolution.

The provisions of the resolution do not provide new budget authority or tax expenditures. The Committee accepts the estimates of the Congressional Budget Office on the impact of the resolution. The report received by the committee from the Congressional Budget Office follows.

U.S. Congress,
Congressional Budget Office,
Washington, D.C., January 4, 1980.

Hon. Russell Long,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

Dear Mr. Chairman: In accordance with the Budget Act, the Congressional Budget Office has examined Senate Concurrent Resolution 47, which would extend nondiscriminatory treatment to the products of the People's Republic of China.

The resolution does not provide any new budget authority or any new or increased tax expenditures.

We agree with the methods used by the International Trade Commission in their analysis, and that the actual revenue loss may fall within a wide range. A reasonable estimate of the probable loss is shown below:

Decline in tariff revenue due in MFN

	In millions of dollars
1980	$70.7
1981	95.3
1982	118.8
1983	149.1
1984	183.5
1985	223.0

Sincerely,

Alice M. Rivlin, *Director.*

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