

Remarks by Congressman Les AuCoin  
to Export Managers Association

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#### CHINA TRADE IN THE REAGAN YEARS

I chose to talk to you about China, not just because of my experiences with the Chinese government, and not just because we happen to be watching a new administration attempt to make what it hopes will be a "New Beginning."

Sometimes the things that shape world history can be seen in the bud. One of those things is China — and how Ronald Reagan deals with it. That's why it is important to discuss China today.

U.S.-China relations had a dramatic rebirth eight years ago when the Nixon Administration signed the historic Shanghai Communique. Since then, relations have steadily developed, with important benefits to both sides.

Now relations are at a crossroad. Power has changed hands within America. A new president governs. After two weeks in office, Ronald Reagan clearly is not hesitant to countermand policy decisions of past administrations. In fact, Mr. Reagan's willingness to question one of the policies of the Carter and Nixon Administrations — the status of Taiwan — has brought America to a crossroad with the government of China.

The president's campaign remarks implying that the U.S. might recognize Taiwan on a more official, perhaps quasi-governmental, basis forces the administration to decide for itself what Taiwan's status should be. It reopens an old issue that didn't have to be opened again.

This decision will have far-ranging ramifications for America's world security. And, for reasons I'll explain in a moment, the economic stakes are very high for each of you and for all of the people of Oregon.

This needs to be first: There is only one China, not two. A civil war was fought. One side won. That side formed a government that became the People's Republic of China.

You and I may wish the outcome had been different. But wishing doesn't change reality, and nothing is more important now than for the United States to see the world clearly — especially at this moment in a dangerous world.

To understand the explosive nature of Mr. Reagan's flirtation with the status of Taiwan, you have to see the issue through China's eyes. A Chinese official told me that they look at Taiwan as we look at Florida. He said we would feel as they do if the Soviet Union tried to recognize Florida a sovereign state and sent it foreign aid!

If Peking thought this question was just campaign rhetoric, it was rudely awakened at the inaugural. A few days before the swearing-in, the Chinese Embassy discovered that Mr. Reagan's staff had given a Taiwan delegation an official invitation — the same kind given to officially recognized governments. An 11th-hour agreement was finally pounded out which referred to the Taiwanese as "unofficial" guests. This was the only thing that kept the Chinese ambassador from boycotting the event and creating headlines around the world that could have been embarrassing, if not damaging.

Finally, just three days after the inaugural, Taiwan publically asked the United States of F-16 Fighters and other weapons. As of today, our government hasn't officially rejected the request.

No wonder Deng Xiaoping speaks of a "crisis in Sino-American relations."

To the Chinese — whose new, reform government is not secure — these episodes are gravely troubling.

To understand the full impact of such seemingly innocent political and diplomatic flaps and their implications for our trade with China, you have to examine the internal challenges that Deng Xiaoping's government faces

Domestic politics inside China play a large role in setting the level of foreign trade and the future course for U.S.-China commercial ties. And believe me, Chinese political competition is intense.

We think of the Communist government in China as speaking with one voice, having one mind, quashing all dissenters. Popular views aside, this is clearly not the case in China.

Deng Xiaoping committed himself to normal relations and the modernization drive with his dramatic visit to the United States just about two years ago. But the trip — and Deng — were not without critics. And these critics have seized upon Ronald Reagan's rhetoric to embarrass Mr. Deng.

This comes on top of these other targets of Deng Xiaoping's opponents:

- An inflation rate estimated by the CIA at between 10 and 15 percent;
- Growing unemployment, pegged by the CIA at 10 percent;
- A budget deficit estimated at more than \$6 billion — which is small in comparison to our deficit but equal to 10 percent of China's planned revenues.
- Low morale in the armed forces because they are taking a back seat to industrial modernization.
- And, finally, the highly political factions, and totally unparalleled and highly risky trials of Chairman Mao's widow and other leaders of the "Gang of Four" clique.

Attacks based on these problems are not idle sniping from ineffective malcontents. Remember this: at least half of the party's 38 million members owe their jobs to leaders who Mr. Deng has replaced.

One China watcher recently observed that "party officials have long experience in going along when the leaders are strong, being noncommittal when they do not know, and resisting when they sense weakness."

As he has made his courageous and extraordinarily bold moves, Deng has managed to weather the storm — so far. At this point, only on the Taiwan issue is he vulnerable. Only on Taiwan can dissidents sack Deng. It was the main obstacle to normal relations with America. It is the Achilles heel of Deng's power and — more important for us — it could decide the future of the modernization of China.

What would it mean for us, if Deng and his reformers fail?

In global political terms, it would mean a swing of the pendulum back to the days of Mao and radicalism; a vindication of the "Gang of Four" and their followers who are now lying low; a return to the rabid anti-Americanism of the 1950's when Americans and Chinese saw the world in simple black and white; a loss of billion-dollar markets to our trade competitors, principally Japan; worst, a rapprochement with the USSR.

That would be devastating because the U.S. would forfeit one of the few points of leverage we have on the Soviet Union. We should have learned from Afghanistan that our foreign policy options are extremely limited for manipulating the Soviets and responding to their adventures around the world. China is simply one option we cannot afford to foreclose. Its friendship with the U.S. confronts the Soviets with the prospect of a two-front war, a plus we must not throw away.

For international business, trade experts the world over concede the great potential within grasp of the China market, even if the reality of it is not immediately forthcoming. Not only is expansion of foreign trade the key to Deng Xiaoping's Chinese modernization, but to lose it would mean consigning a market to Japan.

Assuming the U.S. government wouldn't be so foolish that it would destroy relations with China, let's look at the shape of Chinese trade opportunities.

In order to rebuild their industrial infrastructure, the Chinese have immediate needs for equipment for oil drilling, coal mining and steelmaking.

For the time being, they need agricultural imports — primarily grain.

They are also putting enormous efforts into power generating projects, beefing up their petrochemical industry and transportation system, including port development.

Even in this initial period, for Oregon the dividends will be great. In wheat exports, China was the leading foreign buyer of Pacific Northwest wheat in December, with orders valued at about \$23 million. This represents an increase of 5.5 million bushels over the monthly average of 2 to 3 million bushels a month since August.

Some of this increased volume is due to weather and production problems at home. Thus, we can't count on these levels as absolute base levels. Still, these transactions provide groundwork for continued purchases.

On this note, an interesting project should be noted. The Chinese ministry of light industry is now working with the U.S. to install a modern, mechanized bakery to produce loaf bread, and bread rolls. Bread as we know it is not a part of the Chinese diet, so this demonstration project promises to introduce a change which may in turn influence consumption and demand.

Once the bakery is opened — scheduled for this fall — it will be used to train technicians from throughout China in modern baking processes.

One of the side benefits of this venture is that the machinery — the ovens, mixers and conveyor belts — is being produced by 11 U.S. manufacturers, large and small, and is to be shipped from Portland early this spring. The potential for future bakery installations is obvious if the project succeeds.

Naturally, increasing the consumption of grain in the Chinese diet in this way also has obvious implications for enhanced American grain sales.

Other ventures for Oregon include orders for such light industrial products as lift trucks and basic materials such as aluminum ingots and liner board, all of which have been moving through the Port of Portland.

You probably have been told that the Chinese can be difficult for smaller enterprises to deal with. You'll continue to hear this, and with some truth. But it also is true that the Chinese have a natural affinity for the less complex business patterns of smaller concerns. And organizations such as the National Council for U.S.-China Trade in Washington and the PRC Affairs Division of the Commerce Department are making efforts to help small business exploit the China potential. As an exporter, if you want to become familiar with the information services these organizations provide, please contact my Portland office.

Let me stress, however, that we will not realize the potential of present or future orders — for large or small businesses — overnight. It was clear to me from my conversations with the Chinese that this market will develop slowly, constrained in large part by the lack of foreign exchange but also by the stability of the domestic economy.

Nevertheless, the market is worth the investment for our state, for our industry, and for our workers. There is a future for Oregon in China if we're smart enough to seize it.

By building our ties now, we lay the foundation for cooperation in a growing volume of business ventures and economic growth for the state for years to come. As slow and methodical as they appear, the Chinese build on successful relationships — however small — and nurture them into bigger things.

And that really says it all on the China question — both for Oregon and for the United States. For both international politics — and for international trade.

I believe that the Reagan presidency has occurred at a decisive point in world history. I believe that in ways even the White House doesn't realize, Ronald Reagan has the ability to forge permanent new structures in the Pacific rim that could make the world a safer and more prosperous place.

For Oregon, that could mean tremendous economic benefits. It could mean a new prosperity based on Pacific rim trade — new industrial orders and thousands of jobs up and down the Willamette Valley and the mighty Columbia River Basin as we capitalize on our strategic location on the Pacific rim.

Ronald Reagan holds history in his hands. You have a special stake in watching how his administration deals with it, and so do all Oregonians. The truth is that America's actions during the Reagan years will either be a downpayment on a more secure future through the building of new world alliances, or on a future that lets history march right on past the United States, leaving America with fewer jobs, fewer economic opportunities and fewer national security options.