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TRADE WITH CHINA HELPS SMALL BUSINESS EXPORTERS WORK

HEARING

BEFORE THE

SUBCOMMITTEE ON TAX, FINANCE, AND EXPORTS

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

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TRADE WITH CHINA HELPS SMALL BUSINESS EXPORTERS WORK

TUESDAY, MAY 16, 2000

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TAX, FINANCE, AND EXPORTS,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Subcommittee met, pursuant to call, at 10 a.m., in room 2360 Rayburn House Office Building, Hon. Donald A. Manzullo (chairman of the Subcommittee) presiding.

Chairman MANZULLO. The Subcommittee will come to order.

Good morning. I have a very short opening statement, and Mrs. McCarthy has a very short opening statement, and then we will proceed directly to testimony.

Trade with China helps small business exporters work. There is a myth that a U.S.-China WTO agreement is only for big multinational corporations who cannot wait to ship jobs to Chinese workers. I want to dispel that myth right here and now.

Few people know that 82 percent of all direct U.S. exporters to China are small- and medium-sized companies. These exporters generated 35 percent of the dollar volume of all U.S. exports to China in 1997. And out of every country in the world, China ranks third as the largest growth market for small business exporters.

Today, we will look behind the rhetoric and the trade statistics to see if trade with China and, more specifically, the recently negotiated U.S.-China World Trade Organization Accession Agreement, benefits small business exporters.

Before the Subcommittee today is a mere fraction of the real-life stories of the impact of China trade on small business exporters. We all understand that international trade is more than raw statistics. This hearing puts real faces behind these statistics.

Who are these exporters? People like Sharon DeDoncker of Aqua-Aerobic Systems, Inc. Sharon, I always mess your name up. You can pronounce it and we will get it right for the record. We have Sharon from Aqua-Aerobic Systems in Rockford, Illinois, but she is not alone. Many more small- and medium-sized companies throughout northern Illinois export to China. In fact, China represents one of the fastest growing export markets for Rockford, Illinois. Between 1993 and 1998, exports from Rockford to China surged nearly 300 percent.

Small- and medium-sized companies throughout northern Illinois stand to benefit from this agreement with China, either directly as exporters or indirectly as suppliers to exporters. Some of these companies include Coffee Masters of Spring Grove; E.D. Entyre of

Oregon; Clinton Electronics of Loves Park; Abar-Ipsen Industries of Pecatonica; Modine Manufacturing in McHenry, which supplies Chrysler's Jeep Cherokee plant in Beijing; Seward Screw Products of Seward, Illinois, which supplies more than 80 parts to Harley-Davidson; Bergstrom Manufacturing of Rockford, a supplier to the construction equipment manufacturer, Caterpillar; Cherry Valley Tool & Machine of Belvidere, Kysor/Westram Corporation of Byron, and Rockford Spring Company, who are all suppliers to the agricultural equipment manufacturer, Case.

Simply put, this agreement is uniquely beneficial to small business exporters. I commend this administration for reaching this historic agreement.

I look forward to the testimony of our witnesses.

Mrs. McCarthy.

[Mr. Manzullo's statement may be found in appendix].

Mrs. MCCARTHY. Thank you, Mr. Chairman, for scheduling this hearing to discuss the impact of the trade agreement reached between the U.S. and China and American small businesses. I would also like to thank Administrator Alvarez and Chairman Crane, as well as our second panel of guest witnesses, for taking time out of their busy schedules to be with us today.

As we all know, the United States reached a trade deal with China in November of last year, allowing them to become a member of the World Trade Organization. Next week, the House of Representatives is scheduled to vote on granting China permanent trade status in order to reap the benefits touted within the trade agreement.

History has shown that isolationism does not sustain or promote economic growth. Fair trade with other countries can be extremely beneficial to both small and large businesses. This was exemplified in recently passed legislation that promoted trade with African and Caribbean countries.

However, the trade deal reached with China differs significantly from the African trade proposal. Throughout the past 10 years, the United States has engaged in an aggressive trade policy with China. Unfortunately, the U.S. still suffers a large trade deficit with China and encounters numerous trade barriers when attempting to enter their markets. Although the agreement reached between the United States and China removes many of these barriers, I am still concerned over the inefficient monitoring mechanisms needed to protect American businesses and workers.

It is argued that China would fall under the same disciplinary proceedings as other WTO member countries, but this is a slow and daunting process that could take as long as 2 years before any action is taken. During that time, more American jobs and businesses could be jeopardized because of China's noncompliance.

While I believe in fair trade and supported normal trade relations with China in the past, I have several reservations about granting China permanent trade status. Providing small businesses with new markets to export their goods and services is one of the many factors we must address before making this important step. Although trade with China presents several concerns outside the realm of trade, I look forward to the testimony from our distinguished guests on the impact on small businesses.

I thank you, Mr. Chairman, and I look forward to the testimony.

Chairman MANZULLO. Thank you. Our first witness will be Congressman Phil Crane, who is in the neighboring congressional district to the one that I represent. He is the chairman of the Trade Subcommittee on Ways and Means.

Mr. Crane.

STATEMENT OF HON. PHILIP M. CRANE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. CRANE. Thank you, Mr. Chairman. I thought maybe it would be ladies first, but I see it is age before beauty.

I thank you for inviting me to testimony before your Committee in support of granting China permanent normal trade relations and its importance to small businesses throughout the United States. I would like to enter a copy of my statement into the record.

Chairman MANZULLO. Without objection.

Mr. CRANE. Thank you, Mr. Chairman.

I want to share with you the results of a General Accounting Office report I requested on the impact of international trade on small- and medium-sized U.S. businesses. But, first, I want to talk about the overall importance to our country of granting China permanent normal trade relations.

Approving permanent normal trade relations with China will create new jobs for a new economy. We are talking about more American jobs, jobs paying a higher wage because export-related jobs pay an average of 17 percent more than nonexport-related jobs, according to the Department of Commerce.

[The information may be found in appendix.]

Mr. CRANE. The choice facing us on normalizing trade relations with China is historic, perhaps the most important vote the House will cast this decade. The new trade agreement with China is a one-way deal in our favor because it does not increase access to the U.S. market for the Chinese.

The United States represents only 5 percent of the world's population, while China is roughly 20 percent. We can sell only a limited number of products and services within the United States. In order to keep our economy growing, we have to have access to a market the size of China's, not only as it exists today, which is huge, but access, as it continues to grow into the world's largest consuming market.

In a global economy, increasing trade with China is not only the best way to keep our economy growing, but it is also the best way to help improve the standard of living and human rights conditions in China.

This is clearly a win/win for America and for China. While we are all in agreement, we need to continue to keep the pressure on the Chinese Government to improve human rights, labor, and environmental conditions, giving the Chinese people access to products and services, manufactured and created with our standards, is the best way to improve conditions in their country.

Mr. Chairman, as you know, small- and medium-sized businesses are huge exporters of products and services. The nonpartisan GAO study I requested shows that over 202,000 small- and medium-sized businesses in 1997 exported goods to countries around the

world, a figure nearly double the 112,000 companies that exported goods in 1992, just over a 5-year time frame. I would like to enter the complete study into the record. The study also found that companies with fewer than 500 employees accounted for 97 percent of all U.S. exporters in 1997, which is the most recent year that data is available.

[The information may be found in appendix.]

Mr. CRANE. Some of the other highlights of the GAO study include: exports by small- and medium-sized firms account for one-third of the total value of exported U.S. goods. In 1997, these businesses exported goods valued at $172 billion and accounted for 31 percent of total U.S. exports. Ten years before, small- and medium-sized firms exported $42 billion in goods, or 26 percent of all U.S. exports that year.

Small- and medium-sized businesses represented the highest shares of total U.S. exports in miscellaneous manufactured goods, 66 percent; lumber and wood products, 64 percent; and apparel, 51 percent. By value, U.S. goods exports rose from $251 billion in 1987 to $689 billion in 1997. U.S. goods exports increased from 5 percent of gross domestic product in 1987 to 8 percent of GDP in 1997. Similarly, U.S. service exports rose from $99 billion in 1987 to $258 billion in 1997. Since 1990, small businesses have created 75 percent of all net new jobs.

This study shows that it is not just Wall Street that will benefit from trade with China, but Main Street small businesses started by American entrepreneurs that represent the heart of our economy as well. For hundreds of thousands of these businesses, expanded trade has meant more and better jobs, higher wages, and better benefits for their employees. This report is another indication that expanding trade with China will open international markets even more to these diesel engines of our Nation's economy.

In today's international marketplace, small- and medium-sized businesses are no longer competing here in America, but around the world. I hope my colleagues who remain undecided on the upcoming vote on China will remember how vitally important international trade is to small businesses and the thousands they employ in their districts back home.

Thank you, Mr. Chairman.

Chairman MANZULLO. Thank you, Mr. Chairman.

[Mr. Crane's statement may be found in appendix.]

Chairman MANZULLO. Our next witness from the first panel is Administrator Alvarez. She is the Administrator of the U.S. Small Business Administration, a person with whom I have worked on several projects and for whom I have the utmost respect. She is quite scholarly, and I can tell you firsthand she is an excellent administrator.

STATEMENT OF HON. AIDA ALVAREZ, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION, ACCOMPANIED BY JIM WILFONG, OFFICE OF INTERNATIONAL TRADE

Ms. ALVAREZ. Thank you so much. That is very kind, Mr. Chairman.

Mr. Chairman, Ranking Member McCarthy, Chairman Crane and distinguished members here, thank you for inviting me to tes-

tify about America's small businesses and trade with China. I can only echo what Chairman Crane just said about the importance of international trade and the potential opportunities with PNTR for small businesses.

The opportunities, as I said, are growing for small business in the international trade arena. This Subcommittee is well aware of that and the fact that the voice of small business is often ignored in debates on issues of national importance, particularly the permanent normal trade relations for China, which is why we are here today. It is important to note that in the aggregate, small business is big business for this economy. It is the engine that drives the economic growth in this country.

As we heard, 97 percent of all U.S. exporters are small businesses, generating at least one-third of the revenues produced by those exports. With specific focus on China, China is actually the tenth largest export market for U.S. small businesses. As you said, Mr. Chairman, small businesses account for 82 percent—82 percent of the U.S. exporters to China; 35 percent of the revenues generated. And, the growth rate is really impressive. From 1992 to 1997, for example, the number of small businesses exporting to China increased 141 percent.

Clearly, China's growing market is creating unprecedented opportunities for American entrepreneurs. We talked about where a vast part of the world's population resides, and it is in China.

I know that you will be hearing on the next panel testimony from many small businesses that are already trading successfully with China, but I am sure you will hear from them that it has not always been smooth sailing. It is not easy to be a small business trying to do business with China. For small businesses, there are continuing problems with a lack of published rules, high tariffs, requirements to have expensive local partners, requirements to obtain multiple import and business licenses.

What effect, if any, would permanent normal trade relations have on U.S. small businesses? I can tell you from my experience and in talking to small businesses around the country that they believe PNTR would be a big win for them. In fact, I would venture to say that small businesses may even enjoy greater benefits relative to large companies.

For example, Boeing, which has a long-standing presence in China, has the ability to deal directly with the government. Not so for small businesses; small businesses historically have not had that type of clout. With the Chinese Government lowering barriers and opening up more business-to-business contact, we anticipate that the playing field will be significantly leveled for untold numbers of small businesses.

It is not just the owners who benefit from PNTR. We believe that PNTR would also be a big win for the people who work for small businesses. We know, for example, and we heard some of those figures here this morning, small business exporters experience 20 percent greater job growth. They pay wages that are 17 percent higher, on average. They provide benefits that are 11 percent higher, on average, than their nonexporting counterparts.

Let me just highlight a few of the key aspects of the PNTR agreement that will help U.S. small businesses. Under this agree-

ment, China will cut the average general industrial tariff from 24.6 percent to 9.4 percent by 2005; lower information technology tariffs from 13.3 percent to 0 by 2005—which is a real key, given the number of small businesses involved in information technology we see a lot of growth in that sector; lower tariffs on key agricultural products from 31.5 percent to an average of 14.5 percent by 2004, very important to many small businesses that sell processed foods and other value-added agricultural products; and eliminate the required use of Chinese Government-approved middlemen to sell products in China.

U.S. companies will have the right to import and export and to have their own distribution networks in China to sell U.S.-made products directly to customers; allow professionals and service providers to operate within China in accordance with WTO standards—an important development, since many of the accounting law and engineering firms doing business in China are small businesses. China must conform its standards and inspection procedures to WTO norms, so that rules otherwise obscure, will be published, making them more transparent for businesses, which reduces the cost of compliance—there are really savings involved in these reforms; simplify and make uniform customs and licensing procedures, a move that will reduce paperwork costs for small businesses significantly—again, reductions in costs for these small businesses, allowing them to do more; expand its obligation to protect intellectual property, while at the same time providing injured parties access to China's courts and the WTO dispute settlement system.

This is just a very quick overview of some of the benefits to small businesses that would result from PNTR with China.

We have looked at this issue closely because China will enter the WTO regardless of what action the United States takes. Our markets are already open to China, and our assessment is that we gain nothing by withholding PNTR. Our trade representatives, Ambassador Barshefsky and her team, have negotiated critical market-opening gains with China. We run the risk of ceding those gains to other countries.

Congresswoman McCarthy made reference to this: We should not underestimate the difficulty for China in implementing these reforms. These are very difficult reforms for them to implement, and they also need to overcome constituencies opposed to these reforms.

Granting PNTR is our chance to support those in China who seek to advance the type of market-oriented economic reforms that we have been pressing China to adopt, while enabling American small businesses to capitalize on the really substantial trade liberalization commitments that China has made.

I thank you for the opportunity to appear here today, and I would be happy to take your questions.

Chairman MANZULLO. I appreciate that very much. I also appreciate your enthusiasm as to what is going on here.

[Ms. Alvarez's statement may be found in appendix.]

Chairman MANZULLO. Congressman Crane, I have several questions, but the one question I really want to zero in on is your statement, with which I concur wholeheartedly, that the U.S.-China WTO accession agreement is one-sided, in favor of America.

Could you explain that?

Mr. CRANE. Yes, indeed.

I think it is a vitally important thing for all of us to be aware of when this vote comes up, Mrs. McCarthy. There are 135 member-nations in WTO right now. China's accession will add to that number one more; there will be 136 members. If we do not grant permanent NTR, 134 countries in the world will suddenly have access to that market, with the incredible reduction of tariff barriers that will occur, and the only exception will be us.

We are the only ones that will not have access to that market, and they will continue to have access to our market. That is why, as I indicated—I mean, it is truly a win-win proposition, but it is incredible in terms of what the potential for increased U.S. exports amounts to in agriculture alone. They are talking about $2 billion a year. I mean, it is mind-boggling.

And that is not the only thing. I mean, in the auto industry, I can't understand for the life of me why the auto unions are expressing—I mean their leaders, at least—are expressing opposition to this, because it lowers the tariffs on U.S. auto exports 75 percent, and it eliminates quotas on U.S. auto exports to China altogether.

I mean, there are so many provisions in this that are so exciting to contemplate in terms of our expanded opportunities that it truly—I mean, this is the most exciting opportunity, and it has, though, implications beyond economic implications.

As you know, Taiwan has been up to speed and they have sought accession too, and there was a general agreement that Taiwan would come in after China, but that means immediately. I mean, it is China, and then Taiwan, like that.

But there are some security problems, as you know, in that area. For us to create a situation between ourselves and China that distances our improved relations with them since Deng Xiaoping led the crusade for Leninist capitalism, it is the ultimate oxymoron, but he truly believed in free enterprise and he started China down that path. Jiang Zemin embraces it, Tenghui Lee is a total believer. He was unilaterally privatizing state-owned enterprises. Now, that was not good politics over there for him, but he believed in it.

These are the kinds of reforms we want to see accelerate, and the best way to accomplish that is to have that contact, that personal contact with them.

I was in China some years ago and Motorola, which has its corporate headquarters in my district—Motorola was visiting with the head of their plant over there in Shanghai, and he was explaining to me that they have to maintain clean working conditions for their employees; they have to pay overtime for more than a 40-hour workweek; they have to provide health care benefits to their employees. I said, did you bring all that over from the United States? He said, no, those were the guidelines that the Chinese Government imposes on all foreign firms doing business over here. I thought, well, that is a little unfair, because they are not imposing those same standards on domestic businesses.

But I thought about it for a moment, and I thought, gee, if I am working in some grungy Chinese plant and there are no health care benefits, no overtime pay, no clean working conditions, and

Aida is working for Motorola and she is enjoying all of those benefits, and at the end of the long day we are having our Tsing-taos together, and I am moaning about the working conditions and how terrible it is for me, it is only natural Aida is going to say, Phil, why do you work there? Come work for Motorola.

I am reminded, folks, that Ben Franklin made the observation, A good example is the best sermon. We are providing that kind of good example that does have a ripple effect. I mean, it spreads out to help advance the civilized values that we mutually embrace. Having that kind of a presence there is a decided plus for us.

The other point I would make is to keep in mind that we have been at full employment now for almost 5 years. There are, according to Mr. Sweeney, I think, 6 million illegal immigrants working in the United States right now, 6 million. And he is trying to recruit them to join the AFL–CIO. We are in a situation where we almost are required to import labor, because of our problems in that regard. This will increase that kind of pressure.

But the thing to keep in mind is that an increase in the payment for those people that have jobs related to exports, the figures that I quoted in my original statement of, on average, a 17 percent higher pay rate than those people who are simply working for jobs—I mean, doing jobs for our domestic economy.

Chairman MANZULLO. Mrs. McCarthy.

Mrs. MCCARTHY. Thank you, Mr. Chairman. Again, the testimony from both of you—as I said, this is going to be a tough vote for an awful lot of members, because a lot of us do feel both sides are right. I think that should be understood. But we are talking about small business today, and I think that is where I want to stay.

The SBA claims that small businesses will benefit from the use of the WTO dispute settlement process. With small businesses, will they have the direct access to the WTO dispute settlement procedures?

Ms. ALVAREZ. I believe they will. Prior to the WTO meeting in Seattle, we were engaged in conversations with the U.S. Trade Representative's office and the Commerce Department, because there is a strong interest on the part of the administration, for example, to having an assistant secretary-level person at USTR whose exclusive focus would be small business; and we went to Seattle with that in mind. We saw Congressman Manzullo there. The idea is that we need to incorporate the small business interest at every level of the process. I think that would ensure the right outcome.

Mrs. MCCARTHY. With my concern following that up, will our small businesses be able to go through the procedures and the red tape? We know that the WTO, sometimes takes years to have a settlement one way or the other. Can our small businesses sustain that as far as working with them?

Ms. ALVAREZ. Right now we have a relatively modest international effort at the SBA. Nonetheless, it is effective. We have an international trade loan program, we have an export working capital program, we work with the Department of Commerce and other agencies that promote U.S. export assistance centers. We

would have to add to our responsibility the kind of assistance and counseling that is necessary to help these businesses succeed.

I think that could happen. More and more, I see us working together with other Federal agencies so that we can complement what they do in other parts of the world, and I think that that would extend to the China commitment.

Mrs. MCCARTHY. If I could ask one other question, the administration claims that PNTR to China will benefit small business subcontractors, supplying large U.S. companies, who, in turn, will increase exports to China.

What will prevent these large companies from moving their subcontracting needs to Chinese suppliers?

Ms. ALVAREZ. Right now, Boeing, which is a major exporter, is also a major user of U.S. small businesses as subcontractors. In the case of a company like Boeing—and there are many others—we monitor their subcontracting relationships with small business. They also do business with the Federal Government, and if they want to be competitive vis-a-vis other companies in gaining access to the Federal contracting market, they have to have a very compelling subcontracting program, because we have right now, by law, a requirement that 23 percent of all Federal contracts go to small business. So that may be an indirect way to do it, but I can assure you that many of these companies right now maintain a very active small business subcontracting—U.S. small business subcontracting capacity, because we are monitoring that.

Mrs. MCCARTHY. Well, I know we are monitoring that right now. My concern is, once we are over there, especially with the large corporations, and they have their foot there, I am still concerned that our small businesses here could end up getting hurt.

Ms. ALVAREZ. I think that is a fair concern.

Chairman MANZULLO. If I could interrupt you, Mrs. McCarthy, Congressman Crane has a meeting that he has to attend. I beg the indulgence of the other members that don't have an opportunity of questioning him. But you understand the vagaries of the schedules we have here.

What I would like to do is, if you could just suspend for a second, if anybody has a very quick question of Congressman Crane.

Mr. Hinojosa, if you have a question? Do you have a question you want to ask Mr. Crane?

Mr. HINOJOSA. First, I want to thank both Congressman Crane and Administrator Alvarez for coming to talk to us today.

Congressman Crane, do you have small businesses exporting to China today?

Mr. CRANE. Today, in my district? We had a Trade Subcommittee hearing about 5 years ago in my district, and Charlie Rangel was out there with me, and I have the corporate headquarters in my district of Motorola, Sears, Ameritech, United Airlines, Kemper Insurance, and right on my border are Baxter & Abbott and AllState Insurance, so I know that my district—and I think it is a bigger export district even than Don's, and he has a biggee.

But Illinois was the first largest export State, so it was exciting to hear testimony from these people. The revelation that came out of that hearing was that better than 90 percent of our Illinois ex-

porters were businesses employing 500 or fewer, and it was awesome, I mean to Charlie and to me.

In addition to that, though, I then—about a year later, I had a fellow who came in doing business in the Persian Gulf, and he handed me a folder and said, Congressman, this is a list of businesses in your district doing businesses in the Persian Gulf. Do you know how many there are?

I said, I haven't the vaguest idea.

He said, Over 150. He said, These are businesses employing 100 to 150 people.

I opened it up and I looked at the names of them. There was not a single name of those over 150 businesses in my district that I recognized. I never heard of them before—I mean, really small businesses. But this is the awesome part of the role of small business in international trade.

Well, you know, it has always been; the backbone of business in our entire history has been small business. I mean, the giants grew out of small businesses, but small business is the real backbone. But it is an awesome figure.

The one unfortunate thing to me is that the message is not being properly communicated by the heads of those businesses to their employees about the importance of trade to our business, and that translates into the importance in preserving your job.

When I talk about trade at a town meeting back home, people start falling off to sleep. Oh, come on, let's talk about the important things. I mean, it is sad. It is a sad, sad thing that we are not properly getting the message out on the importance of trade.

Mr. HINOJOSA. Well, I asked that question because I wanted to see if you or the Administrator could tell me how these small businesses are financing their accounts receivables and what kind of assistance they are getting in ensuring that there is prompt payment for their goods or services, whatever they may be exporting to China.

Mr. CRANE. Well, I would yield to Aida on that one to respond, if I may. But if that—is it for me, Mrs. Napolitano?

Ms. NAPOLITANO. It would take several hours, sir, and I yield to you.

Mr. CRANE. Well, I will catch you on the floor. Thank you so much.

Mr. Chairman, I appreciate it. Thank you.

Chairman MANZULLO. Thank you, Mr. Crane.

Why don't you go ahead and answer the question here?

Ms. ALVAREZ. I know that Congresswoman McCarthy had also asked——

Chairman MANZULLO. Let's finish the answer to that question.

Ms. ALVAREZ. The other thought, Congresswoman, is, I went out to Washington State, I toured the Boeing plant, I met with the people who are in charge of their small business activity, and I met with some of these small businesses.

These are very sophisticated companies. The people who perform work for these major companies, the small businesses, have very specialized skills. These are not low-skilled activity. There may be nothing to prevent this from happening in China, but I don't know that they have the capacity, the way we do, to generate—to

produce small businesses that have the level of sophistication that we do. Those are the businesses that the "Boeings" and these other companies are hiring.

Part of it is an outgrowth of the reengineering of businesses. When big businesses started to break up and reconfigure themselves, they lost sophisticated workers who went off and started their own companies—and then eventually were actually hired back with their employees by these big companies. This approach lends more flexibility to the operations of the big business. Many big businesses decided that they had core expertise, and that all of the other areas that were required could be provided by small businesses; and that is the sort of model that they are using in this country.

I just don't see these companies, not in the near term, suddenly discovering that China has that kind of a capacity. They will not discover that kind of capacity in China. I do not believe so.

Mrs. MCCARTHY. Thank you.

I think this is really a complicated question, because even as you answer, I start thinking for the future. I happened to think of Japan after World War II when we helped them so much and certainly they started copying everything that we did, and pretty soon, they were competing with us tremendously; and for a long period of time, we did lose jobs because of that.

I am really just trying to find my way through this, because we are supposed to protect our small businesses. I want to make sure that we are protecting our small businesses. Because, gosh knows, you know, even if it is only 5 to 7 years down the road—and I tend to think that certainly in China they have extremely bright people, they are going to be educated, they are going to be trained for jobs, and pretty soon we are going to be competing with them.

Of course, on our end, I happen to think very strongly that we have to take many of our workers and start upgrading them now, not waiting for when they might lose jobs down the road. So that is where I am coming from.

Thank you. I appreciate it.

Ms. ALVAREZ. Yes. I understand.

Chairman MANZULLO. Congressman Hinojosa.

Mr. HINOJOSA. Yes. I asked the question about how——

Ms. ALVAREZ. Financing.

Mr. HINOJOSA [continuing]. The small businesses take care of financing their accounts receivables and what type of assistance do they get for prompt payment.

Ms. ALVAREZ. I think that is really a good question, and it is certainly one of the challenges that we are facing at the SBA. We have a couple of programs that are meant to assist small business and financing, but we find that our programs are actually underutilized, partly because nobody knows about them. Many people, small businesses and the banking community, don't know about them. We experience the same sort of frustration as Congressman Crane expressed at the lack of interest or awareness out there. That is why this hearing is so important.

We have an international trade loan program where we guarantee loans up to $1.25 million for small businesses doing inter-

national activity. We also have an export working capital loan program in which we provide a 90 percent guarantee up to $750,000.

There are different ways of financing transactions. The export working capital program relies on accounts receivable, and inventory for collateral. Under the international trade loan program, the collateral is fixed asset-based. These programs, however, I think are underutilized. Small businesses tend to find financing in other ways.

Jim Wilfong is the head of our Office of International Trade. Jim has been out there visiting with not only the small businesses, but with the finance community, and exploring precisely the question that you just asked.

Chairman MANZULLO. Could you spell your name for the record, please.

Mr. WILFONG. Jim Wilfong, W-I-L-F-O-N-G.

Chairman MANZULLO. You need to bring the mike closer to you.

Mr. WILFONG. Mr. Chairman, as the Administrator said, I have been trying to really find out why small businesses have not been using our programs or some of the Ex-Im programs for small companies as well, and it is exactly as she described.

I called on one area in New England to make sure that I could figure it out in one spot. I went to 15 banks, most of them community banks, because a lot of small business people are doing business there. Before I came to the Small Business Administration, I was an exporter for 25, 30 years. I was doing my business with community-based banks as well.

What I found is that they do not know about our programs. For the most part, they do not know when they have exporters. If I bring 20 to 30 relationship managers from those banks together for each one of the banks, which we did, maybe one of the people who was working there knew that they had an exporter. So it is really a question of education.

They are financing these loans on second mortgages on their houses and with credit cards; they are financing them with irrevocable international letters of credit, wire transfers, cash in advance, a whole host of different ways; but what would really help them is if they really knew more about the export working capital program that we have, which allows them to finance on the basis of the transaction.

Ex-Im has the same program. We handle the smaller accounts in small business, and they handle the larger ones. So I hope that answers your question.

Mr. HINOJOSA. Mr. Chairman, I want to share with the group that yesterday morning at 7:30 a.m. I was in my district, and thanks to the University of Texas Pan American at Edinburg, Texas, we had a digital teleconference with China. We had 25 small businessmen and women from my district talking to about 12 businessmen and women from—I think they were all men, from Shanghai; and we had a terrible connection, so that we could not see them clearly, but we could hear them very clearly, and they said that they were getting a good picture in China.

But I want to share with you that we talked for about an hour, and it was to introduce ourselves to them and to find out what kind of interest they had to bring American products and what Chinese

products they had to let us buy from them. So we could not match the businesses on this first try.

In 30 days we hope to have another one of these digital teleconferences and succeed.

But we did talk about the concerns that there was lack of knowledge about—how do we get the product there, who finances it, how are we going to be assured payment—the kinds of questions that any small businessman who has never exported so far would have.

Now, if we had sent merchandise to Mexico because we happen to be in south Texas, adjacent to Mexico, then that is a lot easier. But we just do not have a lot of experience. In looking at some data that was provided to us this morning, I see that in our metropolitan merchandise export totals from my congressional area, there has only been $117,000 exported in 1998, which is peanuts, you know, for what is being sent to other countries. So obviously, there is lack of information, as the Administrator said, about what help is available.

I was very pleased that for the first time, we brought the Department of Commerce together with the SBA representatives to this meeting so that they could begin to share with our participants in this teleconference that there are programs like the Administrator mentioned, and we just need a lot of help for other small businesses in regions of the country where we do have the capacity to manufacture and to produce agricultural products, and we are just not doing a good job. I can only tell you, we are not doing a good job in workshops and in some way making this help and assistance available.

I look forward to working with you to make it happen.

Ms. ALVAREZ. Yes. I couldn't have said it better. I totally agree.

There has been an evolution, I believe. When I became the Administrator 3 years ago, it was very clear to me that going into the 21st century there were three areas that were of necessary focus for small business: one, the incredible diversity of the small business community; that means women and minorities, which are among the fastest growing of new small businesses. Secondly, the critical importance of technology for small businesses to be competitive. It is not optional; it is necessary. And third, there is a global marketplace for small business.

Now, to me, that makes total sense, and all of my experience bears that out, but frankly it is a new direction, because we have not been positioned in the past to promote these programs. We have been holding seminars and sessions; we have embarked on agreements with other countries where there are strategic alliances already in place at the level of the President and the State Department and so forth, and where we view our expertise is value-added to the peace process; and in the course of that, we believe we will open doors for small business, because it is all about people-to-people.

Next week, there are trade missions going to Egypt and Mexico. We have played a key role in organizing those, working with the Department of Commerce and our sister agencies. This has not happened before, and it reinforces relationships, very important relationships, that we have with Mexico and Egypt.

When we start to think big picture we see how to minimize the cost to the taxpayer by maximizing connections across agencies. And finally I do believe that when the President made SBA a Cabinet-level agency, he was acknowledging the fact that small business was a critical component of our economy.

Mr. HINOJOSA. Administrator Alvarez, I want to say that one thing you could do is inform all the members of the Small Business Committee months in advance before these trade missions, because I knew nothing about Egypt and Mexico trade missions, and I have heard nothing in 3 years that I have been in Congress about your missions. So we are not informed, the left hand does not know what the right hand is doing.

Ms. ALVAREZ. We need to do a better job.

Mr. HINOJOSA. I think you ought to send to Members Only, so that it will come straight to our desks.

Ms. ALVAREZ. There are a lot of channels that we go through, and it does not get to you.

Chairman MANZULLO. Thank you very much.

Congresswoman Napolitano.

Ms. NAPOLITANO. Thank you, Mr. Chairman, and I beg your indulgence for a minute because I will have to go to a markup quickly.

Ms. Alvarez, since I sit on Small Business and I ask all kinds of questions and I am very involved in providing access to SBA for my district, my concern has been, in the past, because in California we did a survey a while back, that NAFTA had adversely impacted small business.

Now, if that is so, what has the SBA done to be able to—if we are going to be working on China, if the WTO is given to China, the PNTR, as SBA, what is the administration going to be doing to prevent the same type of negative impact to small business that was experienced because of NAFTA?

Ms. ALVAREZ. Well, we are just asking Jim if we had statistics on it. There is no question that during my tenure, I was brought into this issue of the impact of NAFTA on small business. I think we could have done a better job.

When I was brought into it, we started playing a very active role in trying to help displaced workers, for example, set themselves up as entrepreneurs, if that was their interest, and we started giving them priority in terms of loans, which they might not have had prior to that initiative.

We view the overall effect of NAFTA as very positive. I myself have gone on trade missions to Mexico with U.S. small businesses, largely from California and Texas, and they have all been very enthusiastic about the access that NAFTA has created for them.

Ms. NAPOLITANO. I understand that, and that is not really where I was going.

I think maybe what my concern is, is that—and you did slightly hit upon the retraining issue for entrepreneurships—but, then again, the small businesses that lost because of NAFTA, whose employees are unable to locate jobs, comparable-paying jobs, and thus, it becomes a problem of unemployment in our districts, such as mine that is still losing jobs.

It is unfortunate that we have not set forth a program involving SBA, Labor and Education, to be able to do just that, those employees, those companies, those secretaries that are affected negatively. They should have something to benefit them out of the benefits of any trade agreement, and that is one of my biggest concerns, because that is where I am coming from.

Ms. ALVAREZ. I totally agree with you. I think we need to do a better job of that, and I think it needs to be coordinated across agencies. The fact is that as you look at patterns, what often happens is, people lose a job; and then they actually migrate somewhere else and find a better-paying job. We have seen studies that show that, but it means they leave your district, it means that the action is somewhere else, given their skills set.

But in the meantime, we need to do a better job of retraining people, I agree.

Ms. NAPOLITANO. One other quick question. Because of NAFTA, of course, right after—it is given to us that as a result of NAFTA, the Mexican peso was devalued, so consequently it eliminated any benefits from the lowering of the tariffs.

What will happen with WTO—with PNTR? Do you think that the yuan might be devalued and thus negate any benefit to our American companies?

Mr. WILFONG. I am not a currency expert, but I do not think so. I don't think that that is going to happen, because the peso was traded on the international currency markets and I don't believe that the Chinese yuan is traded that way. I don't think—it is not traded over the counter that way, so I don't think that that is a factor at this point.

Ms. NAPOLITANO. Thank you, Mr. Chairman.

Chairman MANZULLO. Do any other members have a follow-up question for Commissioner Alvarez?

Thank you very much.

Ms. ALVAREZ. Thank you very much. I appreciate the opportunity.

Chairman MANZULLO. All right. Let's have our second panel. We want to get started as soon as possible because of other committee meetings that are taking place.

We have our second panel, and what I would like to do is to have Congressman Toomey introduce Mr. Olson from Olson Technologies, and then we will start our testimony with him.

Mr. TOOMEY. Thank you, Mr. Chairman. I want to thank you for allowing me the opportunity to recommend Mr. Olson to this Committee, and I want to thank Mr. Olson for coming to Washington today to be with us. I know you have a very hectic schedule, running a thriving business.

I want to say just a couple of words about Olson Technologies that Mr. Olson may not get a chance to tell us, and that is that this is an amazing success story in the Lehigh Valley, right in the heart of the Lehigh Valley of Pennsylvania, which is in my district and in the city of Allentown, which has often been characterized as an area which experienced and lived through the decline of heavy industry, which very, very fortunately—some would say miraculously—has been largely offset by an emerging high-tech service

sector and an export-oriented part of our economy. So the economy generally is thriving.

But Mr. Olson and Olson Technologies are in some ways the exception because they still represent heavy manufacturing in the heart of an old industrial city, and they are doing a wonderful job, and they are very successful and they are thriving I think largely due to the fact that they recognize that the future and their success depends on innovation and expanding markets, which Mr. Olson is going to talk to us about today, and not trying to turn the clock back and erect walls and barriers to prevent trade and to protect narrow sectors of the economy.

So I am just delighted that Mr. Olson was able to come down here today. His company is, as I say, a great success story, and I welcome and look forward to his testimony and that of the other members of this panel.

Thank you, Mr. Chairman.

Chairman MANZULLO. Okay. We are going to get this timer going here. We would like to limit your testimony to 5 minutes.

Mr. Olson, please.

STATEMENT OF JAMES E. OLSON, CHIEF EXECUTIVE OFFICER, OLSON TECHNOLOGIES, ALLENTOWN, PENNSYLVANIA

Mr. OLSON. Good morning. My name is James Olson. I am the CEO of Olson Technologies in Allentown, Pennsylvania. I would like to thank Chairman Manzullo and Congressman Toomey and all of the members of the Subcommittee on Tax, Finance and Exports for inviting me here to come and testify in support of Permanent Normal Trade Relations with the People's Republic of China.

Olson Technologies is a small manufacturer located in eastern Pennsylvania, in downtown Allentown. The company was founded in 1862, and was purchased by the present management in 1984. We employ 47 people and our shop floor is currently represented by the United Steel Workers of America.

One segment of business produces large-diameter butterfly valves for infrastructure projects around the world. These large-diameter valves range from 42 inches in diameter to 12 feet in diameter, and they are used primarily in controlling water in electrical power plants, wastewater treatment plants, and fresh water drinking plants.

Olson Technologies has been involved in international trade for over 25 years. Our international business started with what I affectionately call "piggybacking" with large Fortune 500 companies who secured international projects around the world, and we supplied the valves for them. We would secure a contract to supply a complete set of valves, sold and delivered here in the United States, and the Fortune 500 companies would, in turn, install them in the countries. This business has amounted to about 10 percent of Olson Technology's overall sales and at times has risen to as high as 25 to 30 percent of our business.

Today, Olson Technologies can point with pride to having installed large-diameter valves at numerous Korean nuclear power plants, Pakistani power plants, power plants in Thailand and in a number of other countries throughout the world. Our need to piggyback with Fortune 500 has lessened to some degree, and we now

compete directly for infrastructure projects in the international market.

Because of my company's experience in dealing in the international market and in dealing with China, I support permanent normal trade relations with China. Our experience relating directly to China involves buying products from Chinese foundries and from Chinese machine shops and shipping them into this country. We also build in our shop these large-diameter butterfly valves to the specific Chinese national standard, which is a technical standard we have to meet in China, and then turn around and ship them into China.

Because of this experience, we believe full membership in the permanent normal trade relations with China will provide Olson Technologies with a number of concessions that we don't currently have, but our Chinese valve companies do have these concessions. One of these concessions would lower the tariffs on our products so that we could compete more favorably in the Chinese infrastructure market.

Another concession would remove restrictions on having our own sales force, which would be able to operate in China and free us from using a restrictive Chinese sales force.

Finally, these concessions would allow me to set up my own distribution and communications inside China to assist in getting my products directly to the markets.

Of course, these concessions wouldn't really mean much if China wasn't such a large, growing economy. In the next 25 years, I believe China is going to build out its infrastructure, the same way as other emerging countries around the world have. This will mean a large increase in power plant projects and a large need for the large-diameter valves produced by my company.

It will also mean building wastewater treatment plants, and the specific valves that are designed in my company that the Chinese do not have the technology for. This will all mean building numerous plants and the need for valves.

In the next 25 to 30 years, the production increase at Olson Technologies could be anywhere from 25 to 150 percent. This would mean new hires in Allentown, increased business with our suppliers, and a general boost to the economy for Olson Technologies.

As I mentioned before, Olson Technologies has had experience in dealing with China in both purchasing and selling. Over the past 10 years, at least, China has had more favored terms in selling their products in the United States, and a number of my valve company associates have suffered from the importing of valves into the United States. I am sure many of them are also now purchasing machine parts and castings made in China at very favorable prices.

In conclusion, I would like to state that the recent loss of a large bid for the Beijing water treatment plant number 9 was a very low point in my U.S.-China relationship, but the future of infrastructure built out and improving conditions for the Chinese with new plants and products makes the prospect of doing business in China extremely exciting.

I therefore urge your support for permanent normal trade relations with China for the benefit of Olson Technologies and other mid- and small-sized manufacturers.

Thank you, Mr. Chairman.

[Mr. Olson's statement may be found in appendix.]

Chairman MANZULLO. Thank you very much. I am going to try to calm down these troops outside in line for the Appropriations Committee. I will be right back.

[Brief pause in the proceedings.]

Chairman MANZULLO. Mr. Chabot, do you want to introduce the next witness?

Mr. CHABOT. Yes. We have a witness that we are very pleased to have here from Cincinnati, Ohio, Mr. Jeffrey Gabbour, who is Vice President and co-owner of Prestige International, Inc. It is a private enterprise based in Cincinnati, Ohio, and it was established in 1977, I understand. Its former name was Robbins International, Inc.

The Prestige Robbins Group is a group of manufacturers and exporters of quality residential commercial hardwood floors, and they also have special designer parquets that are often used in commercial, as well as specialized sports systems for multipurpose sports applications. They are used in school gymnasiums, health clubs, recreation facilities, sports centers, et cetera.

They have headquarters in Cincinnati, and they also have manufacturing facilities in Michigan, Wisconsin, Tennessee, North Carolina and Arkansas.

Mr. Gabbour understands and speaks a number of languages—French, English, Japanese, Italian, and reads Spanish as well. He is responsible for manufacturing and overlooking businesses in 55 countries worldwide and working with over 210 distributors and representatives. He is responsible for managing the continued growth of the company and ensuring future development of business within new territories of trade.

He has traveled in mainland China 10 times in the past 10 years and has engaged in business with China since 1976.

We are very pleased to have him here and we look forward to hearing his testimony, and we welcome him here.

STATEMENT OF JEFFREY L. GABBOUR, PRESTIGE ENTERPRISE INTERNATIONAL, CINCINNATI, OHIO

Mr. GABBOUR. Thank you, Congressman. That was half my speech.

Chairman Manzullo, Mr. Chabot and other distinguished members, I really appreciate this forum to voice our views and experience, and appreciate that people really want to hear from us and what PNTR means to small businesses like ourselves.

Our company was set up almost 25 years ago as an export arm to a large U.S. manufacturing firm that was set up in 1896. Our small firm represents 20 percent of overall sales. That means 80 percent of the manufacturing is supported within the U.S. market, the other 20 percent is due to international markets. Our main growth has really been throughout Asia. That is really what spearheaded us in our wave of growth, except for China.

China has really been left out of our mix. It only makes up, currently, 1 percent of our overall sales. Why? For two reasons: tariff barriers and nontariff barriers. So I am going to do my best to share some personal experience on what we have done in China for the past 15 years and what PNTR means to us.

Until now, we have had a number of hurdles for import contracts. In order for us to do business in China currently, we have been constantly asked to move our operations over to China, meaning to move our operations, whether it be from Cincinnati or Arkansas, and to manufacture in Shanghai, Beijing, Hubei and other provinces.

They have asked us to invest. They have asked us to transfer technology. When we do refuse, then they see where we can use local content. They will actually break up our product and say, why don't we have 30 percent of your content be supplied from local Chinese companies?

Our main objective is to use 100 percent North American raw materials and to manufacture 100 percent made in USA goods.

Now, the reason—another reason for this, and this will answer a question that Mrs. McCarthy had—is that we maintain certain industrial standards on our products. We have to meet certain ASTM, FIBA, different association standards. Therefore, we guarantee that all of our subcontracts will be delegated to American factories, because these factories are accredited and certified to manufacture under standards. And that has been our main point, why we can't have local content, because as soon as we have local content, then we lose certification.

Right now, China is pushing to meet certain international standards. We are in the building industry, and they are trying to meet certain international building codes. Our most successful example was in 1997 when we supplied the China national games, their version of the Olympic games. It took us 4 years to promote a three-stadium project. It took numerous meetings, numerous trips to China.

What is the moral of this story, of us being able to supply these projects? Is that after the supply of this job to the government sector, they have actually changed their views on the building industry and building codes and how to build future facilities, again, in the sports industry.

So we feel, even as a small business, we have actually made an impact on a certain industry, and because these were national games, we had people from every single province in China, who attended the national games in Shanghai. So now we started getting inquiries from Xi'an and Hubei and other regions because of what we were able to do in one region.

We have a business philosophy, whether it be for China or international, we call it the "planting seeds philosophy." We went into China really in 1980 when very few American companies were going there. People thought we were crazy to go there. Our idea at that time was to plant seeds, to set a foot in the door, to try to change and influence ideology on our products.

We have proven that after 10, 15 years of patience, we were able to write our first contract in Mainland China. That is why we are a big supporter of PNTR, because whether changes will take place

today or 10 years from now, all we are doing is planting seeds. Without the seeds, we will not be able to influence what kind of business we can do in China.

By lowering the tariffs and also eliminating some of the nontariff barriers, it is going to allow business-to-business—it is going to allow face-to-face meetings. Numerous times I have met with my Chinese counterparts who want to import our goods because they base it on technical merit, but so many times what is the stopping block is that the tariffs are too high. We are eliminated anywhere from $2 million to $5 million contracts because of this.

Now, in closing, I would just like to state that the irony of all of this is that China is actually welcoming our American products into the market, and by voting no, we would basically be putting sanctions on ourselves.

So I strongly urge Members of Congress—and I hope you can understand the point of view of a small business and how it does impact our community and our people and our families.

Thank you very much.

Chairman MANZULLO. Thank you very much.

[Mr. Gabbour's statement may be found in appendix.]

Chairman MANZULLO. I have the pleasure of having two constituents here at this hearing, but I guess that is my prerogative when you are chairman. But aside from prerogatives, it is also the area of expertise.

I have asked Sharon DeDoncker from Aqua-Aerobics to testify. Sharon has been at Aqua-Aerobics for almost 30 years. Bob Phelps, who is a local farmer, to will testify, too.

We will start first with Sharon. Sharon is Vice President for International Sales at Aqua-Aerobics in Rockford. Their international sales and market activities are about $45 million a year, dealing with wastewater treatment equipment.

Sharon, we welcome your testimony.

STATEMENT OF SHARON K. DeDONCKER, VICE PRESIDENT/ INTERNATIONAL, AQUA-AEROBIC SYSTEMS, INC., ROCKFORD, ILLINOIS

Ms. DEDONCKER. My name is Sharon DeDoncker, and I am Vice President of International Sales with Aqua-Aerobic Systems; and I am here today as part of the U.S. Chamber of Commerce PNTR support group.

Aqua-Aerobic Systems is a privately owned company in Rockford. We manufacture and market equipment used for water and wastewater treatment. We sell both to municipalities and to industries. The company has been in business since 1969. We have annual sales of $45 million and we employ 135.

The U.S. market is a mature market for our product, so if we are going to grow, we have to really look at the international market. We have assigned our resources accordingly into that area. Currently, international sales are about 10 to 15 percent of our business, but we are looking at a growth to 20 percent of our business within the next 2 years. One of the best markets for our products is the China market.

In 1997, China spent $7.2 billion on their environment, making it one of the best markets for U.S. environmental technology products. We have aggressively pursued this market.

Over the last year, we now have a rep who works full-time in that area dedicated to China. We have taken part in technology exchange groups. I have been to China three times myself last year, working on relationship-building. Our technical staff has worked with local engineers on writing designs and specifications. We have also hosted many groups at our plant in Rockford, and we worked with the government officials of Rockford's sister city in Changzhou. In other words, we believe in China and we have invested accordingly.

We are a typical small company with very limited resources. If we are successful in an area, it is because we use resources outside of our plant, such as government resources, and that has been crucial to our success in these areas and maintaining business there. But I have to believe, if PNTR does not pass, that the resources for supporting government activities in China will also be limited, which is a real shame for small companies like us since we really desperately need the government's support to maintain our efforts in foreign countries.

We have not been active in China that long, probably only 2 years that we have been aggressively working that market. In that 2 years, though, we have started to see success already. Just last year, we booked a $2.8 million job which we will be shipping next month. That one job will represent 6 percent of our company's total bookings for this year.

One benefit that we like about China is that it is so large. Not only are there a lot of projects there for us, they are huge projects compared to what we normally do. A small project there starts at half a million, and for us, $1 million in additional sales equates to an additional employee.

With passage of the PNTR, we feel our sales to China can grow at a rate of 20 percent a year and sales to this area could represent 50 percent of our international sales in a very short period of time.

Passage of PNTR is very important to Aqua-Aerobic Systems. In fact, it is crucial to our continued work in this area. If it does not pass, there are just too many obstacles for us to overcome, and it is very possible that we will decide to totally suspend our activity in this area. Not only would we lose out on the largest market in the world for our product, but we would lose the time and the money that we have already invested in this area.

The key reason why this is important to us is the price issue. China has agreed to significantly reduce tariffs as a condition of WTO membership. However, without PNTR, China can deny the tariff reductions to U.S. companies while continuing to grant them to the other WTO members. We are talking about reductions in the range of 10 to 15 percent. If you are a salesperson, no matter how well you do, this is a really difficult obstacle to overcome; 10 and 15 percent is a huge difference.

We need equitable tariffs to maintain our price competitiveness with other international companies, which we can get if PNTR is granted. Without having an equal playing field, we cannot be a viable participant in this market.

The U.S. is the largest producer of water and wastewater treatment equipment in the world, and China has a tremendous need. The government there is developing and enforcing pollution regulations, so with passage of PNTR, we can take advantage of this need. Without passage, no U.S. company can benefit, while our international competitors can.

As I said, we are typical of U.S. small companies. We need the same backing that our international competitors get from their governments. We need passage of this measure in order to compete on an equal basis with our international competitors.

I would like to thank you for giving me this opportunity to express our support of passage of PNTR. Thank you.

Chairman MANZULLO. Sharon, thank you very much.

[Ms. DeDoncker's statement may be found in appendix.]

Chairman MANZULLO. Our next witness is Bob Phelps who lives in Rockton, Illinois, in Winnebago County. He has farmed the family farm since 1974 in partnership with his dad. Bob holds a Bachelor of Science degree in Agricultural Economics from the University of Illinois. He is a member of the Illinois Farm Bureau board of directors. He is also local school board member and former president. He is a graduate of the Illinois Agricultural Leadership program in 1992, and was a member of the McCoy Fellowship, the American Council on Germany, in 1996. He is here today instead of planting his crops.

Bob, we welcome your testimony.

STATEMENT OF ROBERT "BOB" PHELPS, OWNER-OPERATOR, PHELPS FARMS, ROCKTON, ILLINOIS

Mr. PHELPS. Thank you very much, Mr. Chairman and members of the Committee.

Chairman MANZULLO. Bob, are the crops in, or is it still too wet to get them in?

Mr. PHELPS. We have been planting. In fact, I think somebody is planting at home today. So hopefully tomorrow we will finish, I think.

Chairman MANZULLO. If you could pull the mike closer to you while you testify. Thank you, Bob.

Mr. PHELPS. Again, Congressman Manzullo, members of the Committee, I appreciate the opportunity to come before you and present today.

My name is Robert Phelps and I am a family farmer. My family has farmed for five generations in Rockton Township north of Rockford, Illinois. We primarily raise corn and soybeans and feed beef cattle. We also raise lesser amounts of wheat and alfalfa.

I am sure you have all heard the numbers surrounding the granting of permanent normal trade relations to China. The amount we export in agricultural commodities, their value, the number of people affected both here and there, and the tariffs and their expected reductions have all been examined and reexamined, and I am not going to reiterate them here. They are all with merit, and they are all important to me.

While I personally do not export a product, the vast majority of my grain and oilseeds do enter the export channel. I know very well the importance of expanded markets and what happens to

farm prices when markets are taken away or their existence threatened. History has shown that when markets are removed through embargoes, increased tariffs, or the threat of retaliation, farm prices drop.

For me, this issue is all about incentives and choices. I am one of the early links in the food chain and for the last few years, I have been selling a product to the next link in that chain for a price that is at or below my cost of production. In any other industry, I could establish my price received based on costs and reasonable return on my investment, but in agriculture, I can only accept or reject a bid offered me, a bid independent of those costs or returns. This is certainly not conducive to profitability.

Additionally, I currently have few, if any, meaningful non-economic incentives to produce that food product. Regulations and restrictions from various agencies and units of government that I must comply with are increasing, all bearing a cost with no means of recovery, while my foreign competitors face far fewer barriers. The majority of my net income in the past few years has come from the government, not the marketplace.

I listen to Alan Greenspan tout the growth of the American economy while rural America stagnates. All of these factors weigh very heavily as I try to economically justify producing food for a growing world.

I believe it is time for a real incentive. There are, in fact, 1⅓ billion of them, the people in the People's Republic of China.

Producing a product that someone wants, is willing to pay for, and having the increased market access that we talked about during the discussion surrounding the creation of the 1996 farm bill is an incentive. Creating enough demand to result in a price for my product that moves toward profitability and away from government subsidization is an incentive for all involved. Increased trade is the safety net we need.

Nobody can predict how much commodity prices would rise with the granting of permanent normal trading relations with China, but increased market access will certainly positively shift the demand curve. If the increased access and resulting demand can generate a modest 5-cent increase in the price of a bushel of corn, a 10-cent increase in the price of a bushel of soybeans, it would, for me, generate enough income to equal the amount that my wife and I pay towards 1 year of our daughter's college education, or it could be used to pay down long-term debt more quickly, or to replace equipment in a more timely fashion.

I might add, it would also offset the cost of last year's interest rate hikes by the Fed and they are talking about that again today. In any case, those dollars are immediately pumped back into the economy. The ripple effect is profound. Every penny per bushel that comes from the marketplace is a penny per bushel that the Federal Government does not have to provide when prices are below loan rates.

I believe another incentive for me would be the knowledge of an improved standard of living for the 1⅓ billion Chinese, primarily in the form of better nutrition. The demand for pork and beef in their diets will have a very positive impact on their nutritional well-being. We enjoy in this country an abundant, diverse, safe and

affordable food supply. There is no reason the citizens of China should not as well.

Earlier I mentioned choices, and I realize that I do have choices. I have the choice of what I grow on my land or how it is used based on what the market tells me. One choice I have is the option of growing houses, and much of my land is well suited for them. I live in a high-demand area for rural real estate, real estate that satisfies the desire of those who want a place in the country.

I also have the option or choice of producing food for people who need it.

Granting permanent normal trade relations to China gives me an incentive to make the choice of using my land for food production. I think that is the right choice. It is the best way I know how to wisely use our resources for the outcome and benefit of a worldwide society.

Again, thank you for providing me the opportunity to present my views.

Chairman MANZULLO. Thank you very much, Bob.

[Mr. Phelps' statement may be found in appendix.]

Chairman MANZULLO. I have to run off to the Banking Committee. I am asking Congressman Chabot if he would come over and chair the rest of the hearing. I don't know if I will have an opportunity to come back. If I don't, again, I want to thank you for coming out, and we really appreciate your interest in traveling all the way to Washington to tell us your life story.

Mr. CHABOT [presiding]. Thank you for the witnesses' testimony so far.

Our next and final witness on this panel is Mr. Keith Parker. Mr. Parker achieved the honor rank of Eagle Scout at the age of 13. He is the last 4-sport letterman to graduate from Longview High School, Longview, Texas, and is a member of the LHS Athletic Hall of Fame. He had a college scholarship in three sports and later spent 3 years playing professional football as a tight end.

Mr. Parker in his professional career is a licensed financial planner with expertise in finance and tax planning, and has earned numerous industry sales awards. He first met Dr. Mohsen Amiran in 1994 and purchased the patent rights to this new fire technology in April of 1998, while Summit was in the registration phase with the Securities and Exchange Commission. He has arranged and attended several nationally recognized demonstrations where FlameOut has been certified according to industry-recognized ratings, Federal Aviation standards and military specifications.

Mr. Parker has been known to set himself afire, put a blowtorch to his arm, or even hold a 5,300 degree piece of magnesium in the palm of his hand to demonstrate the fast-acting and lifesaving benefits of FlameOut. He has dedicated his life to showing the world an entire line of environmental products whose benefits are totally environmentally friendly. Keith Parker founded Summit Environmental Corporation.

Mr. Parker is a pre-law graduate of Texas A&M University, where he majored in both political science and behavioral psychology. He continued his pursuit of higher education at Southern Methodist University and Southwest Texas University with graduate studies in tax law, estate planning and philosophy.

We welcome you here, Mr. Parker. We would like to hear your testimony.

STATEMENT OF B. KEITH PARKER, CHAIRMAN AND CEO, SUMMIT ENVIRONMENTAL CORPORATION, INC., LONGVIEW, TEXAS

Mr. PARKER. Thank you, Mr. Chairman and distinguished members.

Mrs. McCarthy, I would like to thank you for your comment earlier about the access for resolution to disputes, because that is a concern of a small company like Summit Environmental.

I think Summit Environmental represents the true spirit of entrepreneurship in the United States. As my resume says, I am a licensed financial planner. I was in that business for 25 years until I met Dr. Mohsen Amiran in 1994, and the man changed my life because of a product that he developed that I learned about.

In 1992, at the Geneva Peace Conference, a fire-fighting agent, which is the most popular agent that was ever developed in the world called Halon, was banned because it depletes the ozone and its toxic runoff gets into the groundwater. The United States Environmental Protection Agency under the Clean Air Act set up a program called Significant New Alternative Policy, and Dr. Amiran's formulation was the first product ever approved under the program as a replacement for Halon.

Through the long and the short, I founded in 1997 Summit Technologies, which was our initial company, and then in 1998, after going through the SB–2 process, our registration was approved as a public company, Summit Environmental Corporation.

Today, because of the technology we own the patent rights to, we are dealing with the Federal Aviation Agency on replacement of all of the Halon fire extinguishers on board, commercial aircraft, which is a mandated replacement through what is called the minimum performance standards.

We are in current tests with the United States Navy, Naval Research Laboratories' misting system for passenger cabins for this product.

As you have heard in my resume, I have set myself on fire. This is truly a unique product because it prevents reignition. Once fuel has come in contact with this product, it molecularly reorganizes the hydrocarbon chain and renders it nonflammable.

We are currently dealing with the Naval Warfare Center at Patuxent River for the development of another product we have, a turbine cleaner for jet engines that is being tested on the F–16, and we have an absorbent for cleaning up all types of semiliquids and liquids which has U.S. EPA, Department of Agriculture, World Health Organization, California Title 22 approvals. So we are—this is the process that we have entered into.

We do our marketing through Strategic Alliance Partners, and all of these contracts with the Federal Aviation Agency and the United States Navy have come about because of our strategic alliance with a company called International Aero, which is the largest reconfiguration company for commercial aircraft in the world.

In 16 short months after becoming public, we have been able to forge agreements in 48 countries for the acceptance of our product.

Tested just recently, we received the approval of the Forestry Service and the State Fire Department in the Government of Chile. But all of these countries, which are included in my paper submitted as an exhibit—despite all of these 48 countries, is the situation that we run into with China. We have had four attempts that have failed. I would like to just kind of cover those, because they are issues that have been talked about today.

China wants the manufacturing of finished goods domiciled in order to keep their own citizens employed. They request review of patent-pending files under the disguise of verifying their existence. However, when qualifications such as no tape recorder, no cameras, no note pads, no computers, pens, pencils, pads, et cetera, are added, they are no longer interested in seeing if we have a patent pending.

An increasing line of handouts with regards to requests for monthly retainers have come from a myriad of Chinese citizens within the United States, professing to give us introductions which we have no way of verifying whether that introduction will lead to another introduction for another retainer.

The infusion of your own company's capital is often requested as a sign of good faith. Of key importance to Summit is obviously the market size vs. population growth, the product needs and environmental issues which center around the fact that modern firefighting, as it is known today, began in the Province of Hainan in China. We feel like we could be recognized very easily with this technology there.

In answer to Mr. Hinojosa's question earlier about financing, we are forced to deal with either irrevocable letters of credit or 50 percent deposits and the balance due on shipping to ensure that the financial stability of our company stays intact because, like I said, we are a young public company.

I thank you for the opportunity to address the Committee. Thank you.

Mr. CHABOT. Thank you very much.

[Mr. Parker's statement may be found in appendix.]

Mr. CHABOT. We may be able to get in if we limit our questions to about 3 minutes or so, finish this up before we go over to vote, if that would be okay with others.

Mrs. MCCARTHY. I have an amendment coming up, so that means I have to be at the Rules Committee probably by 12 o'clock.

Mr. CHABOT. Okay. I will tell you what I will do. We will limit our questions to 3 minutes, and I will defer to you and let you go first.

Mrs. MCCARTHY. I thank you for that.

This is very hard for me, because I think I have been a fighter for my business people, and I will continue to do that. But I guess I have just so many questions, but I think, you know, here we are dealing with business. On one of my other committees we deal with national security, and then I deal with human rights issues. So, I mean, I have to be honest with you.

For 7 months, I have probably met with over 80 different groups, almost all businesses, trying to get my way through this issue. So it is probably with a very heavy heart—no matter how I vote, it is going to be a hard vote for me, because as I said earlier, I think

both sides are right, and I also think there are some things wrong. So I just want to say that.

My question, I am going back to you, Mr. Olson, because my concern again—and you are in the high-tech industry—so from your testimony, you stated that companies such as yours will effect numerous changes in human rights, working conditions, environmental and a number of other social concerns if PNTR is granted to China.

Can you give me some examples of how Olson Technologies can effect these changes?

Mr. OLSON. Thank you, Congresswoman.

Yes, I feel that the potential of sending some of my people in my plant over for repair of valves and for the installation of valves into the People's Republic of China—that would include sending over some United Steel Workers—I think would have a major impact on the potential changes in what they see and the way they deal with the Chinese.

I also feel that the valves that we make go into the kind of projects that I think need to be built in China and will be built in China, and that the increase of that potential for valves will bring us in closer contact with the Chinese where we have to go over and install, set up, turn them on, actually, when the plant gets started; and I think that the continuous interface with the Chinese will effect those kinds of changes.

Mr. CHABOT. Thank you. The gentlewoman's time has expired.

I am going to keep my questions and comments brief.

I have given a lot of thought to this, as well, on both sides, and it is my determination that it is in the best interests of this country that we do approve permanent normal trade relations, and it is my intention to vote accordingly.

But one of the things that I think that the business community needs to do a better job of is actually educating the work force, the people that work in the plants, the people that work on the line, because they are getting a lot of information, especially from the unions on one side of this, and I don't know that the business community has done as good a job as we need to to educate the workers about how many future jobs are dependent upon trade and how the American standard of living is dependent upon trade, and just how important it is.

Mr. Gabbour, especially since you are from my district, I would be interested to hear anything you might have to say about how we can better get the work force into this whole process and make sure that they understand how significant trade is to actual jobs in this country.

Mr. GABBOUR. Thank you. Actually, I have very specific examples regarding this. Many years ago when the U.S. economy was not doing so well, I remember the phone calls from the various plants to our small office in Cincinnati asking us whether we had any new international orders, because if we did not, then they would have to shut down the plant 2 days a week and only operate 3 out of 5 days a week. The biggest problem with that was the morale of the people, letting them go home 2 days out of the week and not getting paid for it, because there was just simply not enough work to be done.

When the Asian economy really started taking off, our orders started coming in and we kept those plants, not just in Ohio, but in Michigan and Wisconsin and Arkansas, running at full capacity, because we could not even keep up with the orders. Most of them were coming from the thriving economies like Thailand, Korea and Japan, all but China. And what was devastating to us is that every time we looked at projects in China, they were in the range of, like I said, anywhere from half a million to 2 million, up to $5 million that we simply did not have access to because people could not afford our products.

So we have directly seen how it has impacted the work force, even within our own industry, not just the 15 people that work in our headquarters, but there are 1,000 workers that are directly and indirectly related in our field that are affected by this. And because of the Asian economy thriving, we kept the plants running at full capacity.

Now that the U.S. market has come back, we are at full capacity still, and now we cannot even keep up with orders, and we are still making up 20 percent.

Mr. CHABOT. Thank you very much.

Mr. HINOJOSA. Only 5 minutes left to vote and we do not want to miss it.

I just want to commend you because your presentation was excellent, and I am encouraged because the area that I represent does not trade with Asia, and I am convinced that what I learned in China was that there is a great deal of need for lots of services, especially environmental services like what you all represent—medical services, medical equipment, those were some of the things that stood out in what they are asking for. I just hope that the day will come soon, and Don Manzullo says he will make it happen, that we could put you on a video teleconference to visit with some of our business people in south Texas so that they can see examples of those who are successfully trading with China and that maybe that might be a way in which we could turn things around for an area like ours.

Mr. CHABOT. Thank you very much.

Mr. HINOJOSA. We thank you for coming and we appreciate your time.

Mr. CHABOT. We thank the panel for their testimony here this afternoon. This is a very important issue, and you have made an important contribution to Congress as it deals with this issue.

At this time, we are adjourned.

[Whereupon, at 11:45 a.m., the Subcommittee was adjourned.]

House Committee on Small Business
Subcommittee on Tax, Finance and Exports

"Trade With China Helps Small Business Exporters Work"

May 16, 2000

Opening Statement of Chairman Don Manzullo

There's a myth that the U.S.-China WTO Agreement is only for big multinational corporations who can't wait to ship jobs to Chinese workers earning 25 cents an hour. I want to dispel that myth right here and right now.

Few people know that 82 percent – I repeat 82 percent – of all direct U.S. exporters to China are small- and medium-sized companies. These exporters generated 35 percent of the dollar volume of all U.S. exports to China in 1997. This figure is higher than the small business exporter dollar volume share of overall U.S. exports, which was 30.6 percent.

China is the third largest growth market for small business exporters. In fact, the number of small businesses exporting to China grew by a remarkable 141 percent between 1992 and 1997. Plus, the value of small business exports to China more than doubled between 1992 and 1997.

What's even more amazing about these statistics is that they do not count all the small business suppliers to larger firms that export to China. If you add in this dimension, the extent of small business involvement in trade with China is staggering.

Today we will look behind the rhetoric and the trade statistics to see if trade with China, and more specifically, the recently negotiated U.S.-China World Trade Organization Accession Agreement benefits small business.

The U.S. Chamber of Commerce has complied a sample of the real-life stories of the impact of China trade on small business exporters. We all understand that international trade is more than raw statistics. This hearing puts real faces behind these statistics.

Who are these exporters? They are people like Sharon DeDoncker of Aqua-Aerobic Systems in Rockford, Illinois. But she is not alone. Many more small and medium-sized companies throughout northern Illinois export to China. In fact, China represents one of the fastest growing export markets for Rockford. Between 1993 and 1998, exports from Rockford to China surged 283 percent. Rockford exports more to China than to Japan!

Small companies like the 75 employee Coffee Masters of Spring Grove will benefit from this trade agreement. They have tried for years to break into the China market but with no success. They believe this agreement will knock down the numerous trade barriers to their specialized roasted coffee product.

E.D. Entyre of Oregon just announced last week that they received a $53,000 order for road construction equipment for a highway project in Hubei province in China. They believe the agreement will help their 350 employees deal directly with customers in China rather than going through various "middlemen."

Clinton Electronics of Loves Park exports high resolution display monitors for

medical applications. The cuts in tariffs by over 50 percent on medical equipment, along with the elimination of quotas, will help further boost their 250 employee firm's exports to China.

There are also dozens upon dozens of small business suppliers to larger companies that export or wish to export to China. DamilerChrysler makes the Neon in Belvidere. As recently as 1995, there were $7.8 million in exports of Chrysler-related products from northern Illinois to China. Now that figure has dropped to under $30,000 because of China's protectionist Auto Industrial Policy. The agreement wipes away this policy by lowering tariffs and eliminating local content requirements. With this agreement, workers at Belvidere and at other local suppliers such as the 250 employees at Modine Manufacturing of McHenry and the 150 employees at Rockford Spring Company can begin to regain market share in China.

Seward Screw Products of Seward makes 80 different parts for Harley-Davidson's large motorcycle factory in Milwaukee, Wisconsin. Today, Harley is prevented from selling any motorcycles in China because of import license restrictions, import quotas, excessive tariffs, and other significant trade barriers. This agreement substantially eliminates or reduces these trade barriers. In addition, granting PNTR to China will help Taiwan enter the WTO. The U.S.-Taiwan WTO Accession Agreement eliminates Taiwan's import ban on large motorcycle engines. Because both China and Taiwan represents the greatest long range market potential for motorcycles, the workers at Seward Screw Products will benefit by making more products for Harley.

Over half of Caterpillar's 1999 U.S. production was exported. These exports supported about 32,000 U.S. supplier jobs and small and medium-sized enterprises like the 400 employees at Bergstrom Manufacturing of Rockford, which makes the Heating Ventilation and Air Conditioning units. The tariff cuts on construction equipment and the distribution rights in the agreement will help Caterpillar and thus Bergstrom Manufacturing become more competitive in China.

Case combine and tractor sales to China also supports many small business suppliers throughout northern Illinois. The 32 employees at Cherry Valley Tool & Machine of Belvidere make retainer rings for Case's combine. The 225 employees at Kysor/Westram Corporation of Byron makes HVAC's and the 150 employees Rockford Spring Company also makes springs for Case's tractors. Again, the tariff cuts on agricultural equipment and the distribution rights in the agreement will help Case, and thus these small business suppliers be more competitive in China.

Simply put, this agreement is uniquely beneficial particularly to the small business exporters that I am proud to represent. I commend the Administration for reaching this historic agreement that requires China to make a variety of market-opening initiatives. If we reject Permanent Normal Trade Relations for China, we will only turn over the fastest growing market in the world to our foreign competitors, much to the detriment of our small business exporters. Help them overcome these Chinese trade barriers. Help China continue its course towards more free markets. I urge my colleagues to support PNTR for China.

House Committee on Small Business
Subcommittee on Tax, Finance and Exports

"Trade With China Helps Small Business Exporters Work"

May 16, 2000

Prepared Remarks of The Hon. Phil Crane of Illinois

Chairman Manzullo thank you for inviting me to testify before your Committee in support of granting China permanent normal trade relations and its importance to small businesses throughout the United States. I would like to enter a copy of my statement into the record.

I want to share with you the results of a General Accounting Office (GAO) report I requested on the impact of international trade on small- and medium-sized U.S. businesses. But first, I want to talk about the overall importance to our country of granting China permanent normal trade relations.

Approving permanent normal trade relations with China will create new jobs for a new economy. We are talking about more American jobs -- jobs paying a higher wage because export related jobs pay an average of 17 percent more than non-export related jobs according to the Department of Commerce.

The choice facing us on normalizing trade relations with China is historic, perhaps the most important vote the House will cast this decade. The new trade agreement with China is a one-way deal in our favor because it does not increase access to the U.S. market for the Chinese.

The United States represents only 5 percent of the world's population while China is nearly 20 percent. We can sell only a limited number of products and services within the United States. In order to keep our economy growing, we have to have access to a market the size of China's. Not only as it exists today – which is huge—but access as it continues to grow into the world's largest consuming market.

In a global economy, increasing trade with China is not only the best way to keep our economy growing, but it is also the best way to help improve the standard of living and human rights conditions in China.

This is clearly a win, win for America but it is also good for the Chinese people. While we are all in agreement we need to continue to keep the pressure on the Chinese government to improve human rights, labor, and environmental conditions, giving the Chinese people access to products and services -- manufactured and created with our standards is the best way to improve conditions in their country.

Mr. Chairman, as you know, small- and medium-sized businesses are huge exporters of products and services. The non-partisan GAO study I requested shows that over 202,000 small- and medium-sized businesses in 1997 exported goods to countries around the world, a figure nearly double the 112,854 companies that exported goods in 1992. I would like to enter the complete study into the record

The study also found that companies with less than 500 employees accounted for 97 percent of all U.S. exporters in 1997, which is the most recent year that data is available.

Some of the other highlights of the GAO study include:

- Exports by small and medium-sized firms account for one-third of the total value of exported U.S. goods. In 1997, these businesses exported goods valued at $172 billion and accounted for 31 percent of total U.S. exports. In 1987, small and medium-sized firms exported $42 billion in goods, or 26 percent of all U.S. exports that year.
- Small and medium-sized businesses represented the highest shares of

total U.S. exports in miscellaneous manufactured goods (66%), lumber and wood products (64%), and apparel (51%).

- By value, U.S. goods exports rose from $251 billion in 1987 to $689 billion in 1997. U.S. goods exports increased from 5 percent of gross domestic product (GDP) in 1987 to 8 percent of GDP in 1997. Similarly, U.S. service exports rose from $99 billion in 1987 to $258 billion in 1997.
- Since 1990, small businesses have created 75 percent of all net new jobs.

This study shows that it's not just Wall Street that will benefit from trade with China, but Main Street small business started by American entrepreneurs that represent the heart of our economy as well. For hundreds of thousands of these businesses, expanded trade has meant more and better jobs, higher wages, and better benefits for their employees. This report is another indication that expanding trade with China will open international markets even more to these diesel engines of our nation's economy.

In today's international marketplace, small and medium sized businesses are no longer competing here in America, but around the world. I hope my Colleagues who remain undecided on the upcoming vote on China will remember how vitally important international trade is to small businesses and the thousands they employ in their districts back home.

Thank you, Mr. Chairman.

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The United States House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515
Phone: (202) 225-5821 Fax: (202) 225-3587
Email: smbiz@mail.house.gov

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

STATEMENT OF

AIDA ALVAREZ

ADMINISTRATOR

U.S. SMALL BUSINESS ADMINISTRATION

CHINA TRADE IMPACT ON SMALL BUSINESS

BEFORE THE

SUBCOMMITTEE ON TAX, FINANCE & EXPORTS

COMMITTEE ON SMALL BUSINESS

UNITED STATES HOUSE OF REPRESENTATIVES

MAY 16, 2000

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Mr. Chairman, Ranking Member McCarthy and distinguished members, thank you for inviting me to testify today concerning America's small businesses and trade with China. As this Subcommittee is well aware, the interests of small business are often overshadowed by other matters in issues of national importance, such as the China trade debate. But, as this Committee knows well, small business is big business when it comes to international trade. Some may disagree on how best to handle our bilateral trade relationship with China, but I commend all the members of this Subcommittee for recognizing how important the China market is to small business.

Small business is playing an increasingly important role in our international trade efforts. In just five years, the number of small business exporters doubled—from 112,000 in 1992 to 202,000 in 1997. The most recent export profile prepared by the Department of Commerce also shows that small business represents:

- 97 percent of all exporters
- one-third of the dollar value for all exports, up from 26 percent in 1987 (the value of small business exports has increased over 300 percent over the past five years)
- the most dynamic portions of the export economy – technology, services, and e-commerce transactions.

The benefits of trade are reflected in that fact that small businesses exporters are:

- 20 percent more productive than their non-exporting counterparts
- experience 20 percent greater job growth
- pay wages that are 15 percent higher on average, and
- provide benefits that are 11 percent higher on average

But the most promising facts about small business trade are that today about two-thirds of small business exporters are exporting to only one country, and less than 1 percent of the nation's 25 million small businesses are actually involved in trade. Consider the possibilities if we increased this by just one percentage point.

What about U.S. small business and China?

- China is the 10th largest export market for U.S. small businesses
- small business accounts for 82 percent of all U.S. exporters and 35 percent of all U.S. exports to China by value, and
- from 1992-1997, the number of small businesses that export to China increased 141 percent

To illustrate how American small businesses are competing and winning in China's marketplace today, I would like to mention just a couple of examples.

Veris, Inc., is a 20-person, Colorado-based manufacturer of flow sensors for various applications. Exports make up 50 percent of Veris' sales, with China its biggest overseas market. Veris' sensors are being used in Beijing to monitor the city's water supply, and in Hong Kong to monitor combustion air at a coal fired plant that supplies one-third of Hong Kong's power.

Triastoria Trading & Consulting Company, based in New Jersey, sells oil and gas equipment. Exports to China account for around 80 percent of the firm's sales, with a dollar value of more than $2 million. The firm employs 13 people, 10 of whom are salespeople in China.

Even though we can cite many small business success stories in China, that does not mean everything has been smooth sailing. What we hear from our small businesses is that there are continuing problems with a lack of published rules, high tariffs, requirements to have expensive local partners and requirements to obtain multiple import and business licenses.

Given the size of China's market and the complaints we have heard, the question today is whether granting Permanent Normal Trade Relations (PNTR) would benefit U.S. small businesses. I have been on the road discussing this with small business owners, and the clear consensus is that PNTR would be a win for U.S. small business. By granting PNTR, the U.S. government will enable small businesses to benefit from the many significant trade liberalization commitments that China has made in its bid to join

the World Trade Organization (WTO). We believe that small business stands to make even larger gains than large companies because, unlike large firms like Boeing who have had a long-standing presence in China and the ability to deal directly with the government, small businesses historically have not had that type of clout. With the Chinese government lowering barriers and opening up to more "business to business" contact, we expect that the opportunities for American small businesses will expand dramatically.

Let me highlight just a few of the key aspects of the PNTR agreement that will help U.S. small business. Under the agreement, China will:

- lower average industrial tariffs of interest to the United States from 24.6 percent to 9.4 percent by 2005
- lower information technology tariffs from 13.3 percent to 0 by 2005—a real key given the large growth in the number of small businesses involved in information technologies
- lower tariffs on key agricultural products from 31.5 percent to an average of 14.5 percent by 2004—this is important to those small businesses that sell processed foods and other value-added agricultural products
- eliminate the export subsidies that it provides to its industries in various sectors
- eliminate quotas and quantitative restrictions by 2005 (most are eliminated by 2002)

- eliminate the required use of Chinese-government approved "middlemen" to sell products in China. U.S. companies will have the right to import and export, and to have their own distribution networks in China to sell U.S.-made products directly to customers in China. This will allow U.S. companies to oversee commission agents' services, franchising services, transportation, wholesaling, repairs, and retailing of their products.
- allow professionals and service providers to operate within China in accordance with WTO standards—a real benefit to small business since many of our accounting, law, and engineering firms doing business in China are, after all, small businesses
- conform its standards and inspection procedures to WTO norms—a major benefit to small businesses that cannot afford to hire legions of foreign specialists to unearth the rules
- simplify and make uniform customs and licensing procedures—a move that will reduce paperwork costs for small businesses significantly, and
- expand its obligation to protect intellectual property while at the same time providing injured parties access to China's courts and the WTO dispute settlement system

We have looked at the PNTR issue closely. Because China will enter the WTO regardless of what action the United States takes, our assessment is that we gain nothing by withholding PNTR from China. To do so would waste the critical market opening

gains negotiated by Ambassador Barshefsky. The loss would be doubly painful if we cede those gains to other countries.

The agreement moves China in the direction of reform, locking-in an economic reform process that has faced mounting difficulties and formidable domestic opponents. We should not underestimate the difficulty for China in implementing these reforms and overcoming constituencies opposed to them. Granting PNTR is our chance to support those in China who seek to advance the type of market-oriented economic reforms we have been pressing China to adopt, while enabling American small businesses to capitalize on the substantial trade liberalization commitments China has made.

Thank you for the opportunity to appear here today. I would be happy to answer any questions.



AQUA-AEROBIC SYSTEMS, INC.
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6306 N. Alpine Rd.
P.O. Box 2026
Rockford, IL U.S.A. 61130-0026
TEL 815/654-2501
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Subcommittee on Tax, Finance, and Exports
of the
Small Business Committee
of the
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AQUA-AEROBIC SYSTEMS, INC.
Sharon K. DeDoncker

May 16, 2000

AQUA-AEROBIC SYSTEMS, INC.
Sharon K. DeDoncker

Introduction

My name is Sharon DeDoncker, and I am Vice President/International Sales for Aqua-Aerobic Systems, Inc. Aqua is a privately owned company that manufactures and markets water and wastewater treatment equipment and systems used by both municipalities in their sewage treatment plants and by industries for treatment of their process or waste water. I am here in Washington, D.C., to participate in the release of a report by the U.S. Chamber of Commerce on U.S. small and medium-sized businesses in China. Aqua is one of the companies profiled.

Aqua has been in business since 1969 and employs about 135. We sell worldwide from our office in Rockford, Illinois. The company established an international department early in our history. With the maturing of the U.S. wastewater treatment market, we have increasingly recognized the importance of the international market for company growth and profitability. In the last two years, we have increased the number of personnel and the resources allotted to expanding sales internationally. There are now eight full time employees in our international department with an annual budget exceeding $750,000. In addition to the allocated department employees, staff support is provided from other areas of the company.

Traditionally, Aqua's international sales have represented 10 – 15% of company sales. That percentage has been growing, with a target of 20% within the next two years.

Business in China

Although China is one of the best markets for U.S. environmental technology products – China spent an estimated $7.2B on the environment in 1997 - Aqua did not actively enter the China market until 1999. Prior to then, Aqua sales to China were limited to work with U.S. or European companies who in turn supplied the equipment to end users in China. Our first significant sale to China was through Armstrong World Industries in 1995 when they placed an order with us for a plant they were building in the Shanghai area.

In 1999, we realized the China market was too large for us to ignore and we began aggressive sales efforts. We engaged a fulltime commissioned representative with extensive knowledge of our equipment and systems. We participated in a Technology Exchange programs, meeting decision makers throughout China. I personally made three trips to China in 1999 to meet with key industry figures and begin the relationship building so essential in this area. Our technical staff has visited China and worked with local project engineers as they developed designs and specifications. In addition, we have entertained numerous groups of Chinese engineers and officials at our plant.

Rockford has a Sister City in China, Changzhou, and we have met government officials from Changhouz in both Rockford and China. In short, we believe the China market is essential to our company growth and have invested accordingly.

Working the China market has not been an easy one. Relationships are very important to the Chinese, and our international competitors have been there longer than us. We are working hard to overcome this obstacle through frequent visits to China, hosting visitors to the U.S., regular contacts through correspondence and phone contact, and technology training sessions conducted by our representative in China.

We are a typical mid-size U.S. company. We don't have endless resources. Our staff of six covers the world and does everything from filing and making copies to traveling across the world to negotiate multimillion dollar contracts. We are stretched very thin from both a people and financial standpoint. When we enter a new market, we take advantage of all the government services available to us. The Rockford Export Assistance Office, US-AEP, and U.S. Department of Commerce have been extremely helpful and instrumental in the progress we have made internationally. We have received grants from the US-AEP that have helped us with our market development in South America and Asia, but the US-AEP is not active in China and probably will not be unless trade relations are established on a permanent basis. We have used market analyses from the U.S. Department of Commerce in doing our market studies and have used their services in finding local representatives. I believe this support will continue to be available if PNTR is granted, but will diminish if the bill does not pass. Small companies like Aqua need this type of government support to enter and maintain efforts in a foreign country.

The majority of our competitors in China are Asian or European companies. These companies get strong support from their government. The European and Japanese governments are aggressive in putting together financing packages for large projects. Frequently these funding packages are announced in connection with a visit by high ranking officials from the foreign government which adds a political influence. These financing packages usually come with the understanding that the majority of the financed goods must come from the financing countries. The U.S. has been a nonplayer when it comes to providing project funding, which is a major obstacle for U.S. direct participation on many projects. In order to participate on these projects, we are forced to find a European partner rather than form a partnership with other U.S. companies.

The systems we sell normally take two years from concept to order. International jobs generally take a year longer to develop, and we believe the average China job will take three years from concept to order. However, we are seeing some early successes. Last year we booked a $2.8M order for a sewage treatment system to be installed in Shenzhen, a special economic zone. That order represents 6% of total company shipments for this year. We have four smaller projects totaling $3M that could book yet this year. With passage of PNTR, we feel our sales to China can grow at a rate of 20%/year, and sales to this area could account for almost 50% of our international

sales. One attraction of the China market is that the large population causes the projects to be large. As our base in China grows, not only will we be working on a greater number of jobs, but they will also get larger and larger. Each $1M of sales probably equates to an additional hire, and the projects we see coming up tend to be $500,000 and larger.

The importance of the China PNTR vote

The passage of the China PNTR vote is crucial to our continued work in China. If the vote does not pass, we will have to seriously consider suspending sales activity in China. Not only will we lose out on the largest market for our products, we will also lose the time and money already invested.

The market is there, but to be successful against competitors from other countries we have to have a level playing field. This is a country where face and relationships are extremely important. The decision makers are politically aware. When they have to choose between a seller from a country that supports China or a seller from a country that discriminates against China, we are going to come out the losers. If PNTR is rejected, U.S. manufacturers can expect discriminatory treatment relative to suppliers from other WTO member countries.

As a sales person, I recognize that no matter how good a product, price is still the number one consideration. The Chinese are the same as everyone else when it comes to wanting a competitive price. China has agreed to significantly reduce tariffs on industrial products like ours as a condition of WTO membership. However, without PNTR, China can deny tariff reductions to U.S. companies, while granting it to other WTO members. I've heard reports that the tariff difference can be as much as 10 – 15%. No matter how good our products and sales efforts are, a 10 – 15% price disadvantage is almost impossible to overcome. We need equitable tariffs to maintain price competitiveness with other international companies. We can only get this is PNTR is granted. Without an equal playing field, we cannot be a viable participant in this market.

The U.S. is the largest producer of water and wastewater equipment in the world. China has a tremendous need for this equipment, and their government is developing and enforcing pollution regulations. With passage of the PNTR bill, Aqua and U.S. companies can take advantage of China's growing need. Without passage of this bill, other countries will benefit.

The biggest objection I hear to granting favored nation status to China is the human rights issue. I believe the U.S. can have greater influence on China by building economic ties, not by putting barriers between our countries. Cuba is a good example of how economic sanctions have not worked. And since China will most likely become a member of the WTO regardless of how the PNTR vote goes, there will be no significant economic incentive for China to improve on its human rights issues.

Another fear is that passage of this bill will result in our market being flooded with goods from China, with a resulting loss in jobs. This is not the case. The U.S. market is already open to China goods. The PNTR does not give China any special access to our market. Once China joins the WTO, it will receive the same trade treatment as other WTO members.

Conclusion

U.S. businesses need your vote for passage of the PNTR. The passage of this bill gives U.S. exporters like Aqua-Aerobic Systems access to the world's most populous market. Without this measure, we are virtually denied entry to the largest water and wastewater treatment market in the world.

We know this market will be a complicated one for us even if PNTR status is granted, but we are prepared to continue to invest our resources towards the development of the market. However, if permanent normal trade relations is not granted to China, there is a strong chance we will abandon this market as the obstacles will be too difficult to overcome.

Our company is typical of mid-size companies throughout the U.S. We need the China market in order to grow, and we need to be able to compete on an equal basis with our international competitors. Passage of the PNTR will give us this opportunity.

Thank you for giving me this opportunity to testify in support of granting permanent normal trading rights to China.



OLSON technologies inc.
HOMESTEAD VALVES - MOSSER VALVES
160 WALNUT ST ■ ALLENTOWN, PA 18102 ■ PHONE (610) 770-1100 ■ FAX (610) 770-1108

TESTIMONY
to
SUBCOMMITTEE on TAX, FINANCE and EXPORTS
of the
HOUSE SMALL BUSINESS COMMITTEE

JAMES E. OLSON
OLSON TECHNOLOGIES, INC.

MAY 16, 2000



May 16, 2000

TESTIMONY

JAMES E. OLSON

Good morning, my name is James Olson. I am the CEO of Olson Technologies, Inc. in Allentown, PA. I'd like to thank Chairman Manzullo and all the members of the Subcommittee on Tax, Finance, and Exports for inviting me here to come and testify in support of permanent normal trade relations with the People's Republic of China. I am also here participating in the release of a U.S. Chamber of Commerce report on small and medium-sized companies that are doing business in China.

Olson Technologies is a small manufacturer located in eastern Pennsylvania in downtown Allentown. The company was founded in 1862 and was purchased in 1984 by the current management. We employ 47 people and our shop floor is currently represented by the United Steelworkers of America. One segment of our business produces large diameter valves for infrastructure projects around the world. These large diameter valves range from 42 inches in diameter up through 12 feet in diameter and are primarily used to control large volumes of water for electrical power plants, wastewater treatment plants and fresh water treatment plants.

Olson Technologies has been involved in international trade for over 25 years. Our international business started with what I affectionately call piggybacking with large Fortune 500 companies who secured international projects around the world, and we supplied the valves for them. We would secure a contract to supply a complete set of valves sold and delivered here in the United States to one of these Fortune 500 companies. They in turn would ship the project to



the subject country and install them. This business has amounted to about 10% of Olson Technologies' overall sales and at times has risen to as high as 25% - 30% of our business.

Today, Olson Technologies can point with pride to having installed large diameter valves in numerous Korean nuclear power plants, Pakistan power plants and power plants in Thailand and a number of other countries throughout the world. Our need to piggyback with Fortune 500 companies has lessened to a large degree, and we now compete directly for infrastructure projects for these valves in the international market.

Because of my company's experience in dealing in the international market and in dealing with China, I support permanent normal trade relations with China. Our experience relating directly to China involves buying product from Chinese foundries and machine shops and shipping that product to the United States for assembly and resale. We have also built in our shop large diameter valves specifically to the China National Standard, which is demanded in China, for installation in infrastructure plants in that country.

Because of this experience, we believe that full membership in the World Trade Organization and permanent normal trade relations with China will provide Olson Technologies with a number of concessions that we don't currently have and that our Chinese valve companies do have. One of these concessions would lower the tariffs on our products so that we could compete more favorably in the Chinese infrastructure market. Another concession would remove restrictions on having our own sales force, which would be able to operate in China and free us from using a restrictive Chinese sales force. And, finally, these concessions would allow me to set up my own distribution and communications inside China to assist in getting my products



directly to the market without using a Chinese middleman. Of course, these concessions wouldn't really mean much if China was not such a large growing economy.

In the next 25 years, I believe China is going to build out its infrastructure the same way other emerging countries have done. This will mean a large increase in power plant projects that will need large diameter valves similar to those produced by my company. It will also mean building wastewater treatment plants that will also mean large diameter valves similar to what Olson Technologies makes and some specific valves with technology that is not currently available in China. And it will mean building up numerous fresh water treatment plants that will need valves and valve manufacturing companies with the years of experience that we feel we have.

This all means that in the next 20 - 25 years, the production increase at Olson Technologies could be approximately 25% - 150%. That would mean new hires in Allentown, Pennsylvania, increased business with suppliers, and a general boost to the economy affected by Olson Technologies.

What does it mean if we do not grant permanent normal trade relations to the People's Republic of China? It's all very likely that China will join the World Trade Organization shortly. If we do not provide permanent normal trade relations with China, my competitors in Europe and other international locations will gain all the benefits that I was talking about, but Olson Technologies will not. My international competitors in Italy, Germany, Japan, Korea, France will all take advantage of this agreement, and Olson Technologies will be frozen out. I could still bid on those projects, but my tariffs would be approximately 35% higher. I won't be able to



send my sales people or technical people into China as I would like, in fact, I'd be operating at a huge disadvantage.

As I mentioned before, Olson Technologies has had experience in dealing with China from both a purchasing and selling position. Over the last 10 years at least, China has had very favorable terms in selling their products into the United States. A number of my valve company associates have suffered from the importing of valves into the United States, many from China. I'm sure many of them have also purchased machined parts and castings made in China, also on very favorable terms.

In fact, today one of Olson Technologies' other working units purchases from China various castings and machine parts at very favorable terms. What this means is that the Chinese already have all of the favorable terms and conditions that they need to do business in this country. What this means is the Chinese already have what they want, and we at Olson Technologies have the opportunity to move our production of our current products to China and bring them back into this country at very favorable prices. Nothing in this current debate about permanent normal trading relations with China will change any of that. What we don't have are the concessions and the options of doing business the other way around.

If permanent, normal trading relations are not granted to China, then our options of doing business into China may be as they were before. Our current first option would be to sell our technology for large diameter valves to a Chinese company and probably lose it completely in the end game. Our second option would be to build in China in a Chinese company plant, where I feel we would probably befall the same results. Neither of these options seems viable for a small company, like mine, and my protection in either case is very limited. When concerns of



human rights and working conditions are examined in relationship to permanent normal trade relations, I feel that companies like my own and other companies engaging China in viable trade will affect numerous changes in those human rights, working conditions, environment, and a number of other social concerns.

As we're speaking today, one of my current suppliers in Mainland China, who has been supplying me with castings and machined parts, is making a major change in his business. He is relocating his business from a Chinese Communist plant to his own privately purchased plant that will greatly increase his ability to meet the demands of my company and the demands of his other customers. I feel the changes in his company are the kind of changes that will be taking place because of current trade and would accelerate with the passage of permanent normal trade relations with China and China's accession to the World Trade Organization.

In conclusion, I would like to state that recently losing a large bid for the Bejing Wastewater Treatment Plant #9 was a very low point in my China/US relationship. But the future of the infrastructure build out and improving conditions for the Chinese with new plants and new projects, makes the prospect of doing business in China extremely exciting. I know that these projects are going to be built in China, I know they are going to be built with somebody's valves in them, and I would much rather that mine be part of the package. I, therefore, urge your support for permanent normal trade relations with China for the benefit of Olson Technologies and other mid and small-sized manufacturing companies that would benefit in supplying parts, products, and services into the People's Republic of China. Thank you.



11343 Grooms Road
Cincinnati, OH 45242 USA
Tel: (513) 469-6044
Fax: (513) 469-6444

TESTIMONY ON CHINA PNTR

JEFFREY L. GABBOUR
PRESTIGE ENTERPRISE INTERNATIONAL, INC.

MAY 16, 2000

HOUSE SMALL BUSINESS SUBCOMMITTEE
on
TAX, FINANCE, AND EXPORTS

- Robbins Premium Hardwood Flooring
- Prestige Hardwood Floors
- Robbins Sports Surfaces
- Synthetic Sports Systems
- Portable Systems
- Squash & Racquetball Systems
- Sports Equipment
- Prestige Doors
- Building Materials



Robbins, for residential flooring, is a trademark of Robbins Hardwood Flooring, Inc.



TESTIMONY ON CHINA PNTR

JEFFREY L. GABBOUR
PRESTIGE ENTERPRISE INTERNATIONAL, INC.

I would like to introduce myself as Jeffrey L. Gabbour, Vice-President and co-owner of Prestige Enterprise International, Inc., a private enterprise based in Cincinnati, Ohio. I have spent 5 years of my life in Asia, and in the past 10 years, have traveled to the region 60-plus times, with over 10 of those being in Mainland China. I am participating today in the release of the U.S. Chamber of Commerce's report profiling small and medium-sized companies doing business in China. Prestige is proud to be part of this report.

Prestige is a Cincinnati, Ohio-based company established in 1977 (its former name was Robbins International Inc.) as the export arm of our manufacturing partners Robbins Inc. (also a Cincinnati based company since 1894). Prestige/Robbins groups are manufacturers and exporters of quality residential/commercial hardwood floors, special designer parquets that are often used in commercial as well as specialized sports systems for multi-purpose sports applications (used in school gymnasiums, health club, recreational facilities, sports centers, etc.).

Prestige currently has 14 full time employees in our Cincinnati headquarters. Our manufacturing groups -- which are made up of customer service centers, manufacturing facilities and distribution centers -- total close to 1,000 people. Our manufacturing facilities are located in Cincinnati, Ohio, Michigan, Wisconsin, Tennessee, North Carolina and Arkansas.

Because Prestige was set up as strictly an export company, 100% of our business is overseas, currently exporting and distributing to over 55 countries worldwide covering all continents. Prestige has seven Overseas Offices including France, Ireland, Mexico, Egypt, Japan, Hong Kong, and Korea. Additional growth of our company has taken place all over the globe with strong market penetration in Central/Latin/South America, East (mainly Poland, Estonia, Lithuania, Czech) and Western Europe (Portugal, Spain, Ireland, England, Italy, Germany, France, Belgium , Luxembourg) , the Pacific Rim (Australia, New Zealand), and North Africa/Mediterranean region (Greece, Egypt, Lebanon, Jordan, Israel).

Our Business in China

Our company's growth has been strongly influenced with trade and business in the Asian region including Japan, Korea, Hong Kong, Taiwan, Malaysia, Philippines, Singapore, Indonesia, Thailand, Vietnam, and Brunei. China has been relatively absent from our growth region due to limited market liberalization and conditions of trade not conducive to our business. Business in China makes up less then 1% of our

overall sales due to both tariff and non-tariff barriers present within the Chinese market. Business risks have been too vast for a small to medium-sized firm such as ourselves to take on, in addition to the continuous request for us to move operations and invest in plants in China. Our goal is to manufacture US made goods using American raw materials all the way to a finished product and exporting it without use of any local Chinese content in our products.

In 1997, our company was awarded large contracts to become an official supplier to the China National games (Chinese version of the Olympic games). However, it took four years of promotion, numerous meetings with officials and various governmental bodies and extensive trade negotiations. The chance to supply such a nationally recognized project using our latest technology goods promoting safety, performance and durability merits, has allowed Chinese customers to review the overall construction of future gymnasium facilities in incorporating certain international standards.

Prestige is a strong proponent for PNTR, which we expect to lead to increased trade for our own company/manufacturing partners and related suppliers (up to 10% potential growth due to large contracts available in our industry), increased jobs (1,000 current people involved among all factories/related suppliers), and greater influence on future Chinese policies regarding culture, human relations, work conditions, standards of living, trade and education.

What PNTR Would Mean to Our Company

We now have over 15 years experience in dealing with China having first gone in the early 80's to start promoting our ideas, concepts and goods. It took almost 10 years before we had our first successful contract. Within those 10 years, we have utilized the marketing strategy of "planting seeds" which is a philosophy our company embarked in world markets by entering early and at least establishing a presence so that we have our foot in the door. Understanding the cultural differences and the time it takes to break into a market, this strategy has proved fruitful over the years.

Chinese policies regarding trade have clearly changed over the past 15 years due to increased exposure to outside goods and increased travel permits for local citizens creating a demand for imports. Our market breakthrough, however, has been limited to a few scattered projects, which after supplied, was the end of our business. True growth is achieved by "true distribution" such as we have established in other Asian economies (Korea, Japan, Hong Kong, Taiwan) where tariffs on our goods were almost nonexistent. This allows our products to compete on technical merits. Without true distributors and distribution centers allowing the free movement of our goods, it is almost impossible to achieve the exposure required to justify our expenditure of marketing in China.

At this point, there are many Chinese companies that have expressed their willingness to do business with us. However, this has not been economically feasible due to high

tariffs and certain restrictions of trade (having local content present or testing required locally so as to get approval). Once restrictions are out of the way, we will be able to sell based on technical merit, quality, price and service provided, just as we have done in other Asian regions.

New Opportunities Available

From the trade perspective, the contracts that we have seen awarded in other parts of Asia average $30,000 - $50,000 per transaction. Some of the Chinese projects available have been in the range of $750,000 - $2,000,000. Right now, these opportunities simply are not available to our company. If we were to win 3-4 of these projects a year, the impact to our company operations would be additional opportunities for jobs, and a strong growth and profit potential.

Current tariffs on our products have ranged between 27 – 47% making it economically restrictive to sell against competition. Although we have proven to have superior products and internationally accredited products which have recently been in high demand, potential Chinese clients have not been able to justify the wide margin between our USA products and local competition.

Another serious concern has been that European-Chinese manufacturing groups set up in the Free Trade Zones. They have been importing raw materials (logs and lumber) from the USA for processing, which are re-exported and end up competing against us in other world markets. This practice has been detrimental to us in that it is now difficult to differentiate our products from local Chinese products when they are utilizing our raw materials and using European technology to produce them and compete against us in the world markets.

Importance of China PNTR & Prestige Internationals' Position

Next week, you will have the opportunity to vote yes or no on China PNTR.

A "yes" vote provides the following benefits to America: It allows businesses, small and large, to finally enter a lucrative market that has been well protected from mass American goods due to excessive tariffs and infrastructure issues. A consequence to this is expected to be increased production, increased jobs in America, greater growth for American companies tapping into an uncharted market given that the USA alone cannot sustain or support excess production from within. As proof, the boom in Asia during the late 80's and 90's have allowed our small firm to double its sales within a 5-year period. Direct benefits from this have been higher wages to current employees due to our growth, investment in new equipment, new hires, increased production which extended job security for workers, and growth within our own communities.

A "yes" vote will also allow us to continue to engage China in discussions for change, which could eventually allow greater influence and changes in infrastructure, policy, education, human relations, and other important issues. By contrast, A "no" vote for PNTR guarantees a lost forum for change and influence by the United States. The very issues that we criticize will be guaranteed to persist if we lose our only venue for influence.

Moreover, a "no" vote means American businesses will lose opportunities for growth at home by exporting more to this vast market. It has been stated numerous times how Europe and other Asian economies will be the benefactors while America sits on a high moral ground within our own borders. If Congress votes "no," the Chinese will not soon forget. Without a doubt, Americans will be shut out of the opportunities for billions of dollars of new business we could have had. By contrast, our competion will benefit while we watch and suffer from the sidelines. For our company, a $3 million dollar contracts for a new housing development, for example, would automatically go to competing firms.

The irony is that China itself and the Chinese people have been welcoming a "yes" vote to opening up their own markets to American products and ideology. For years, with other nations, America has had to resort to sanctions in forcing those markets to open up to American goods. Now China has said that it is willing to open the door by lifting its restrictions to our products and services. A "no" vote would in fact be putting the restrictions on ourselves.

It is true that the Chinese Government has not made human freedom issues a key part of its plans for prosperity. But, the government has focused on changes in both urban and regional sectors to improve the quality of life for its people, to increase job opportunities, pay levels, and opportunities to engage in new business ventures. Much of this has taken place due to certain market liberalization in the past 10 years. Change in China takes take place slowly and gradually. By opening the doors to China trade, American products and ideas will seep in. Isn't this a much better outcome than shutting the door?

Conclusion

Without question, US-China relations will go through a series of challenges, and that the two countries will have differences in the areas of business, trade, education, health, welfare, and human freedoms. Nonetheless, we have the opportunity to build a better common future. I urge the Members of this Subcommittee to support China PNTR. It is companies like Prestige and the communities who depend on our future growth who will benefit.

I would like to thank you for allowing me to testify on this critically important issue that has significant implications for the ability of Prestige to continue to provide good-paying jobs for the communities across American in which we operate. Thank you.

414 E. Loop 281, Suite 7
Longview, Texas USA 75605

SUMMIT
Environmental Corporation

(903) 758-0551
1-800-522-7841 • fax (903) 758-1903
email seci@iamerica.net

TESTIMONY OF B. KEITH PARKER

HOUSE SMALL BUSINESS
SUBCOMMITTEE ON TAX, FINANCE, AND EXPORTS

MAY 16, 2000

TESTIMONY OF B. KEITH PARKER
HOUSE SMALL BUSINESS
SUBCOMMITTEE ON TAX, FINANCE, AND EXPORTS

MAY 16, 2000

Summit Environmental Corporation, Inc. is a Texas based publicly traded company which specializes in the manufacture and distribution of products environmentally dedicated to cleaning up our environment and removing the toxins taken into our bodies by environmental problems created by years of abusing our land, oceans and atmosphere.

Summit Environmental was conceptualized, founded and later registered as a public company after Chief Executive Officer, B. Keith Parker, was introduced to both a product and its inventor, Surfactant Blend A - FlameOut®.

FlameOut® was the first product formulation approved and certified by the United States Environmental Protection Agency Clean Air Act, Significant New Alternative Program – SNAP, as a replacement for the globally banned, toxic fire fighting agent – Halon 1211.

Summit has formed a joint venture partnership with the inventor, Mohsen C. Amiran, Ph.D., who holds a doctorate in physical organic chemistry from Essex University in England. Dr. Amiran is an environmentalist whose technology and intellectual properties have established him as an expert in the field of environmental clean up.

One of Dr. Amiran's technologies is in the area of the cleaning of contaminated hazardous dredge material from New York/New Jersey Harbor under guidelines of the Water Resource Development Act and the EPA SITE program.

Today, Summit is involved in a number of projects dedicated to solving a myriad of environmental problems created by the use of toxic, corrosive and bio-chemical carcinogens:

1.) FlameOut® - testing to the Federal Aviation Agency Minimum Performance Standards for the replacement of Halon 1211 in the Hand Held Fire Extinguishers on board commercial aircraft.

2.) FlameOut® - currently testing to MIL specification, MIL-F-24385F, as a non-toxic, bio-degradable alternative for the cancer causing fire-fighting agent AFFF developed with United States Navy for petroleum fires.

3.) FlameOut® - currently testing in the Naval Research Laboratories water misting system for the passenger cabins of commercial aircraft.

4.) Ultimate Clean 668™ - non-toxic, non-corrosive, biodegradable engine cleaner for the required maintenance for cleaning the blades of aircraft engines and low horsepower gas turbine generators. Currently undergoing tests at the Naval

Warfare Center at Patuxent River under MIL specifications, MIL PRF87402C on the F-16 and for use in the commercial aviation industry for maintenance servicing.

5.) FlameOut® - recent approval by the Forestry Service and the State Fire Department of the government of Chile.

6.) FlameOut® - recent approvals by the Hong Kong and Singapore Fire Departments.

7.) FlameOut® - initial testing by the Ministry of Defense in Great Britain as an alternative for AFFF.

8.) FlameOut® and FirePower911™ [1] - just completed testing by Feuerschutz Jockel, the largest fire extinguisher manufacture in Germany.

9.) Ultimate Clean 1103™ - current testing at Murphy Farms, North Carolina for the remediation and sterilization of the waste within hog farm feed lots.

10.) Ultimate Absorb™ [2] - current testing at Connoco, the United States Navy, Chevron and International Aero providing an environmentally friendly method for the purpose of capturing and disposing of all types of spills of liquids and semi liquids.

Summit utilizes a series of Strategic Alliance Partner Agreements as its method of marketing. Highlighting this list is:

1.) International Aero, Inc., the world's largest reconfiguration company for commercial aircraft,

2.) Pyrogen UK Limited – a fire products company covering all of the European Union members and a few former eastern bloc countries,

3.) Marketing Perspectives International – a New York based exporter which maintains unique capabilities and relationships with governments and testing agencies worldwide but specifically for Summit in Central and South America.

4.) Pinnacle Consulting Limited – a Hong Kong consulting and distribution company with 20 years experience in Southeast Asia

[1] FirePower911™ is the first ever and only tested, listed and rated fire extinguisher in an aerosol can. FirePower911™ contains FlameOut®. FirePower911™ carries an additional European rating from the Swiss Association for Technical Testing and just recently certified by the State Fire Department in Chile. Recent approvals for Hong Kong and Singapore have also been received. Currently FirePower911™ is undergoing tests in Japan according to the Japanese testing standards.

[2] Ultimate Absorb™ is a super absorbent which is inorganic and non-biodegradable. It meets the standard set by the US-EPA, the USDA, OSHA, the WHO as well as California Title 22. It complies with Federal Regulation Number 1311, 7000, 8150, 8240, 8270 and ASTM DD 2974.

5.) IPS International, Inc. – a product distribution company for the Caribbean Corridor of products for health and safety.

The countries included within this Strategic Alliance Network are contained on Exhibit A, attached hereto.

With regards to China, Summit has failed in four attempts to successfully negotiate and complete agreements with any partners. There are multiple reasons which always seem to surface:

1.) China wants the manufacturing of the finished goods domiciled in order to keep their own citizens employed.

2.) They request review of patent pending files under disguise of verifying their existence. However, when qualifications such as no tape recorder, no cameras, no note pads, no computer, pens, pencils, pads etcetera are added, they are no longer interested,

3.) An increasing line of hands-out with regards to requests for monthly retainers for introduction exist. Each introduction produces a new retainer for the next introduction,

4.) Infusions of your own companies capital is often required as a method of your company showing it's honorable intentions,

5.) Baiting comes about in the form of cosmetic appearances that would lead one to believe that you are on the way. Examples of this can be the presentation of your products labeling in Chinese or a small order of your product,

6.) Small product orders are taken to laboratories with attempts to reverse engineering the technology.

Of keynote importance to Summit other than the obvious regarding market sizes, population growth, product need and environmental issues is the fact that modern fire-fighting as it is known today is said to have its roots from the city of Harbin in Northern China. The People's Government of China hosted the '98 International Conference on Modern Management of Fire-Fighting to promote the cause of Fire-Fighting worldwide.

PNTR is an important act for Summit and companies, which share some, all or more than our issues. In addition to testifying today, I am in town as part of the release of a U.S. Chamber of Commerce report on U.S. small and medium-sized businesses in China, for which Summit was interviewed. Concrete, definitive business practices create an environment whereby smaller companies like Summit can capture a portion of this new global market potential. Small companies will succeed and this will promote business developmental growth within the United States.

Thank you.

414 E. Loop 281, Suite 7
Longview, Texas USA 75605

SUMMIT Environmental Corporation

(903) 758-0551
1-800-522-7841 • fax (903) 758-1903
email seci@iamerica.net

Exhibit A

Mexico	Antigua	Hong Kong
Brazil	The Bahamas	Singapore
Argentina	Barbuda	Japan
Uruguay	Barbados	England
Paraguay	Belize	France
Chile	Dominica	Germany
Venezuela	Grenada	Ireland
Columbia	Guyana	Finland
Ecuador	Jamaica	Sweden
Peru	Martinique	Denmark
Bolivia	St. Kits - Nevis	Belgium
Puerto Rico	St. Vincent	Spain
Dominican Republic	The Grenadines	Portugal
Australia	Trinidad	Italy
New Zealand	Tobago	Greece
Philippines	Netherlands	Switzerland

Proposed PNTR Testimony
Robert Phelps
May 16, 2000

My name is Robert Phelps and I am a family farmer. My family has farmed for five generations in Rockton Township north of Rockford, Illinois. We primarily raise corn and soybeans and feed beef cattle. We also raise lesser amounts of wheat and alfalfa.

I am sure you've all heard the numbers surrounding the granting of permanent normal trade relations to China. The amount we export in agricultural commodities, their value, the number of people affected both here and there, and the tariffs and their expected reductions, have all been examined and re-examined, and I'm not going to reiterate them here. They all are with merit and they all are important to me. While I personally don't export a product, the vast majority of my grain and oilseeds products do enter the export channel. I know very well the importance of expanded markets, as I know all to well what happens to farm prices when markets are taken away or their existence threatened. History has shown that when markets are removed through embargoes, increased tariffs, or the threat of retaliation, farm prices drop.

For me this issue is all about incentives and choices. I'm one of the early links in the food chain and for the last few years I have been selling a product to the next link in that chain for a price that is at or below my cost of production. In any other industry, I could establish my price received based on costs and a reasonable return on my investment, but in agriculture I can only accept or reject a bid offered me, a bid independent if those costs or returns.

This is certainly is not conducive to profitability. Additionally, I currently have few, if any, meaningful non-economic incentives to produce that food product.

Regulations and restrictions from various agencies and units of government that I must comply with are increasing, all bearing a cost with no means of recovery, while my foreign competitors face far fewer barriers. The majority of my net income in the past few years has come from the government, not the marketplace. I listen to Alan Greenspan tout the growth of the American economy while rural America stagnates. All of these factors weigh very heavily as I try to economically justify producing food for a growing world.

I believe it's time for a real incentive. There are in fact one and one-third billion of them – the people in the People's Republic of China.

Producing a product that someone wants, is willing to pay for, and having the increased market access that we talked about during the discussion surrounding the creation of the 1996 Farm Bill is an incentive. Creating enough demand to result in a price for my product that moves toward profitability and away from government subsidization is an incentive for all involved. Increased trade is the "safety net" we need.

Nobody can predict how much commodity prices would rise with the granting of permanent normal trading relations with China but increased market access will certainly positively shift the demand curve. If the increased access and resulting demand can generate a modest 5-cent increase in the price of a bushel of corn and a 10-cent increase in the price of a bushel of soybeans, it would for me generate enough income to equal the amount that my wife and I pay towards one year of our daughter's college education. Or it could be used to pay down long-term debt more quickly, or to replace equipment in a

more timely fashion. In any case, those dollars are immediately pumped back into the economy. The ripple effect is profound. Every penny per bushel that comes from the marketplace is a penny per bushel that the federal government does not have to provide when prices are below loan rates.

I believe another incentive for me would be the knowledge of an improved standard of living for the one and one-third billion Chinese, primarily in the form of better nutrition. The demand for pork and beef in their diets will have a very positive impact on their nutritional well being. We enjoy in this country an abundant, diverse, safe, and affordable food supply. There is no reason the citizens of China should not as well.

Earlier I mentioned choices, and I realize that I do have choices. I have the choice of what I grow on my land, or how it is used, based on what the market tells me. One choice I have is the option of growing houses, and much of my land is well suited for them. I live in a high demand area for rural real estate – real estate that satisfies the desire of those that want a "place in the country".

I also have the option, or choice, of producing food for people who need it. Granting permanent normal trade relations to China gives me an incentive to make the choice of using my land for food production. I think that is the right choice. It's the best way I know how to wisely use our resources for the optimum benefit of a worldwide society.

Thank you for providing me the opportunity to present my views on this critical issue.

THE ROLE OF SMALL & MEDIUM-SIZED ENTERPRISES IN EXPORTS TO CHINA

Results from the 1997 Exporter Data Base

U.S. DEPARTMENT OF COMMERCE
International Trade Administration
Trade Development
Office of Trade and Economic Analysis
January 2000

SMALL AND MEDIUM-SIZED ENTERPRISES PLAY A KEY ROLE IN EXPORTS TO CHINA

- **A total of 9,280 U.S. firms are known to have exported merchandise to China in 1997–the last year for which data are available.** This is more than double the number in 1992, when 4,092 firms exported to China.

- **Twenty-four states had over 100 companies that exported to China in 1997.**

  -- The states with the most exporters to China were California (2,752), New York (954), Illinois (769), Texas (672), and New Jersey (566).

  -- In 39 states, small and medium-sized enterprises (SMEs) made up over half of all exporters to the China market.

- **A dominant and growing share of U.S. exporters to China are small and medium-sized enterprises.** Eighty-two percent of all U.S. exporters to China in 1997 were SMEs. This is up significantly from 1992, when 77 percent of exporters to the China market were SMEs.

- **The number of known SME exporters to China in 1997 totaled 7,564–up from 3,143 SMEs in 1992.**

- **The number of SMEs exporting to China has been rising much faster than the number of large companies.** From 1992 to 1997 the number of SMEs exporting to China surged by 141 percent, compared to 81 percent for large-company exporters.

- **Over the 1992-97 period, the number of SMEs exporting to China rose faster than the number of SMEs exporting to any other major market.**

- **SMEs are responsible for a growing share of U.S. exports to China.**

  -- In 1997, SMEs generated 35.1 percent--over one-third--of all U.S. merchandise exports to China. This is up significantly from a 27.6 percent share in 1992.

  -- Also, the 35.1 percent SME share of the China market in 1997 was higher than the SME share of overall U.S. merchandise exports (30.6 percent) in that year.

- **China is a significant and growing market for SMEs.**

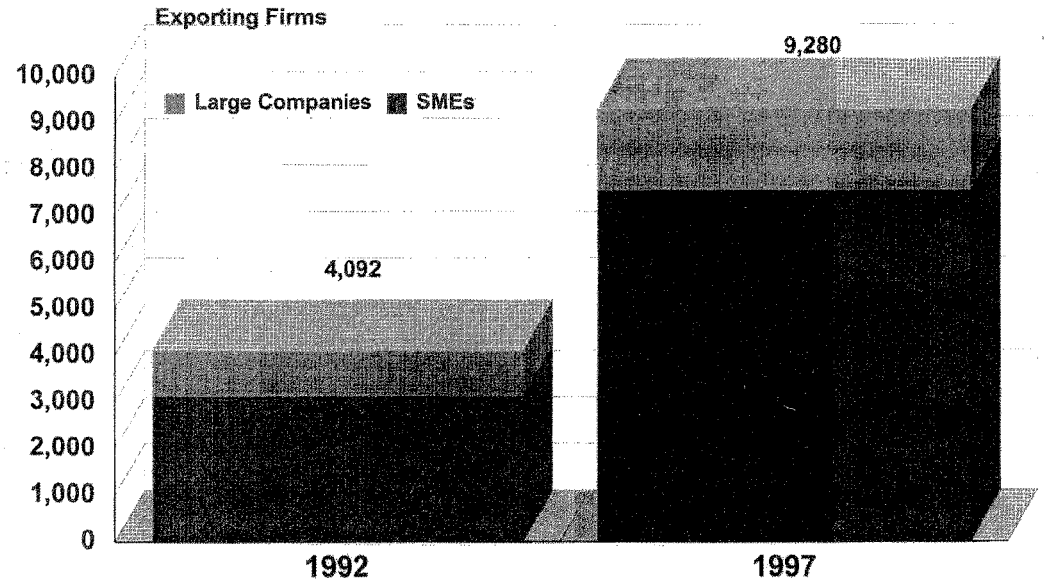
  -- In 1997, China was the 10th largest export market for SMEs, up from 12th place in 1992.

  -- From 1992 to 1997 the value of SME exports to China more than doubled, rising by 107 percent. Among SMEs, only exports to Brazil (291 percent increase) and Malaysia (224 percent) grew faster.

  -- Measurable SME exports to China rose by nearly $2 billion during 1992-97–the eighth largest gain posted by SMEs to any market.

Note: Data covers exporters of goods only. Includes service companies that export goods, but excludes service companies that export only services. Encompasses firms that had at least one export shipment valued at $2,500 or more. All statistics refer to companies, not establishments or locations.
Source: Exporter Data Base, U.S. Department of Commerce and Small Business Administration.
Prepared by: Office of Trade and Economic Analysis, Trade Development/ITA, U.S. Department of Commerce

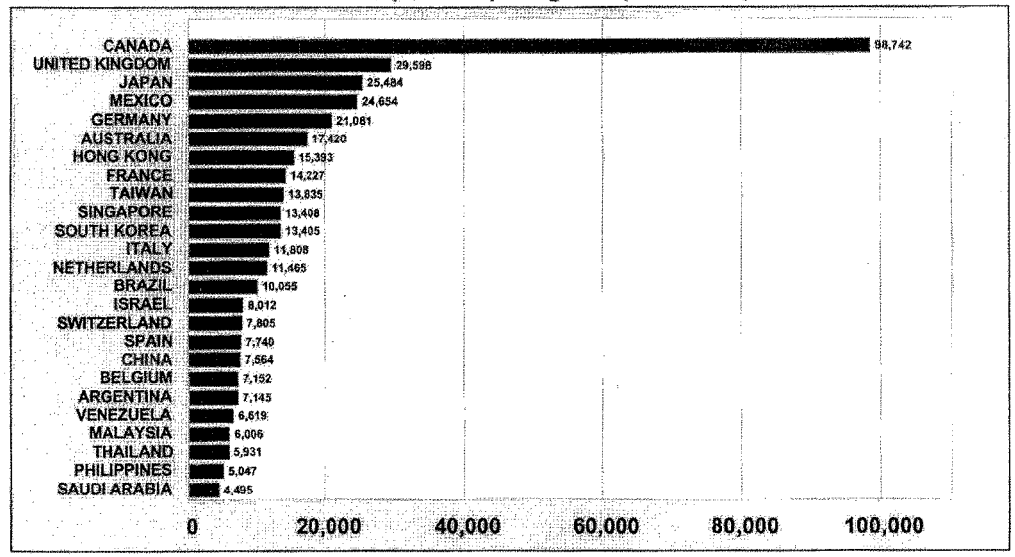
THE NUMBER OF SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) THAT EXPORT TO CHINA SURGED FROM 1992 TO 1997



Notes: Small and medium-sized enterprises have less than 500 employees. Large enterprises have 500 or more employees.
Source: 1992 & 1997 Exporter Data Base, U.S. Department of Commerce and Small Business Administration.
Prepared by: Office of Trade and Economic Analysis, International Trade Administration, U.S. Department of Commerce.

NEARLY 7,600 SMALL AND MEDIUM-SIZED COMPANIES EXPORTED TO CHINA IN 1997

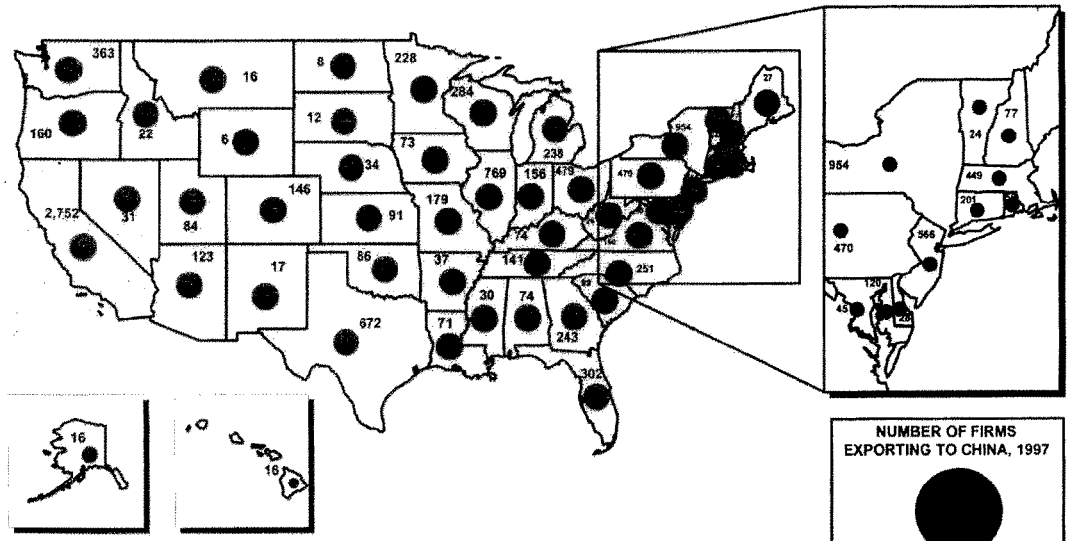
Number of Small & Medium-Sized Companies Exporting To Top 25 U.S. Export Markets, 1997



Note: Firms often export to more than one market. As a result, exporter counts for individual markets cannot be summed to arrive at meaningful totals.
Definitions: small = less than 100 employees; medium = 100-499 employees
Source: 1997 Exporter Data Base, U.S. Department of Commerce and Small Business Administration

IN FORTY STATES, OVER HALF THE FIRMS EXPORTING GOODS TO CHINA ARE SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs)

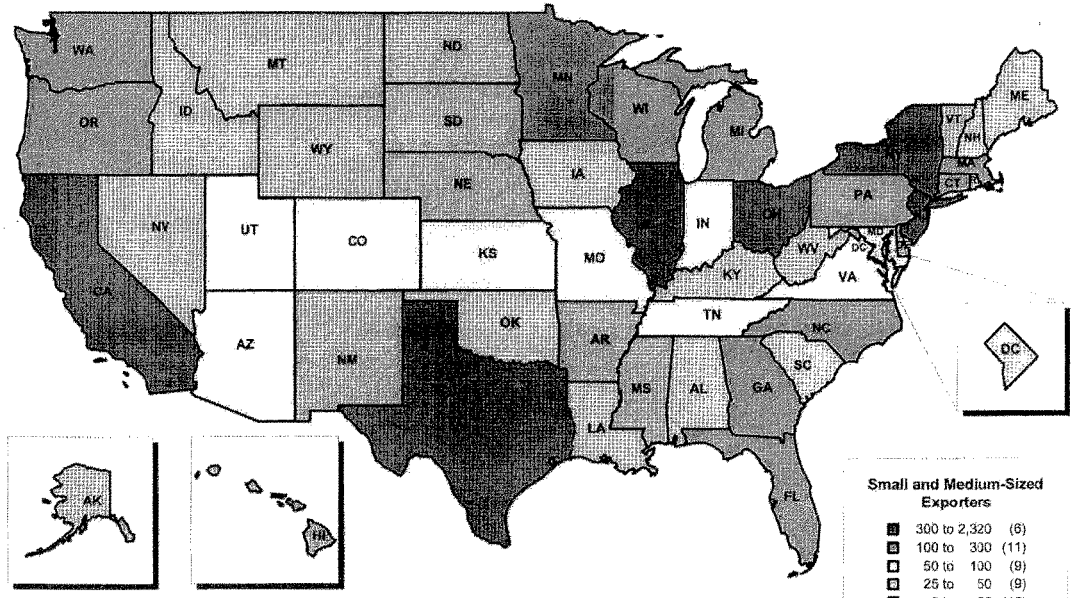
Number of Firms Exporting Merchandise to China by State, 1997



Notes: Each state is labeled with the total number of firms exporting to China from that state in 1997. Of the 9,280 U.S. firms that exported goods to China in 1997, a total of 7,564 (82%) were SMEs. Small enterprises have less than 100 employees, medium-sized enterprises have 100-499 employees, and large enterprises have 500 or more employees.
Source: 1997 Exporter Data Bases, U.S. Department of Commerce.
Prepared by: Office of Trade & Economic Analysis, International Trade Administration, U.S. Department of Commerce.

SEVENTEEN STATES HAD OVER ONE HUNDRED SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) THAT EXPORTED TO CHINA IN 1997

Number of SME Companies Exporting Merchandise to China by State, 1997



Note: Small and medium-sized enterprises (SMEs) have fewer than 500 employees. Of the 9,280 U.S. firms that exported goods to China in 1997, a total of 7,564 (82%) were SMEs.
Source: 1997 Exporter Data Base, U.S. Department of Commerce.
Prepared by: Office of Trade & Economic Analysis, International Trade Administration, U.S. Department of Commerce.

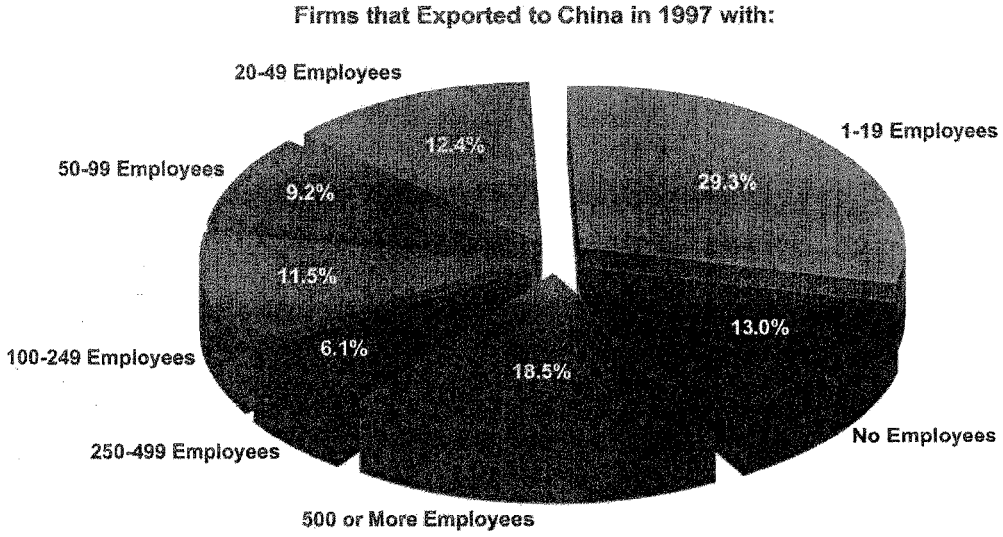
NUMBER OF FIRMS EXPORTING TO CHINA, BY STATE
1997

	NUMBER OF FIRMS EXPORTING TO CHINA		% SMEs*
	Total	SMEs*	
ALABAMA	74	45	60.8%
ALASKA	16	7	43.8%
ARIZONA	123	71	57.7%
ARKANSAS	37	16	43.2%
CALIFORNIA	2752	2320	84.3%
COLORADO	146	85	58.2%
CONNECTICUT	201	129	64.2%
DELAWARE	28	10	35.7%
DISTRICT OF COLUMBIA	45	28	62.2%
FLORIDA	302	201	66.6%
GEORGIA	243	141	58.0%
HAWAII	16	12	75.0%
IDAHO	22	16	72.7%
ILLINOIS	769	522	67.9%
INDIANA	156	96	61.5%
IOWA	73	38	52.1%
KANSAS	91	56	61.5%
KENTUCKY	74	35	47.3%
LOUISIANA	71	45	63.4%
MAINE	27	17	63.0%
MARYLAND	120	78	65.0%
MASSACHUSETTS	449	293	65.3%
MICHIGAN	238	149	62.6%
MINNESOTA	228	125	54.8%
MISSISSIPPI	30	12	40.0%
MISSOURI	179	98	54.7%
MONTANA	16	12	75.0%
NEBRASKA	34	16	47.1%
NEVADA	31	21	67.7%
NEW HAMPSHIRE	77	49	63.6%
NEW JERSEY	566	437	77.2%
NEW MEXICO	17	11	64.7%
NEW YORK	954	757	79.4%
NORTH CAROLINA	251	132	52.6%
NORTH DAKOTA	8	4	50.0%
OHIO	479	301	62.8%
OKLAHOMA	86	49	57.0%
OREGON	160	113	70.6%
PENNSYLVANIA	470	295	62.8%
RHODE ISLAND	56	39	69.6%
SOUTH CAROLINA	99	49	49.5%
SOUTH DAKOTA	12	7	58.3%
TENNESSEE	141	68	48.2%
TEXAS	672	474	70.5%
UTAH	84	52	61.9%
VERMONT	24	17	70.8%
VIRGINIA	160	86	53.8%
WASHINGTON	363	284	78.2%
WEST VIRGINIA	26	11	42.3%
WISCONSIN	284	159	56.0%
WYOMING	6	2	33.3%
PUERTO RICO	22	6	27.3%
VIRGIN ISLANDS	0	0	—
UNKNOWN	987	672	68.1%

*Small and Medium-Sized Enterprises (SMEs) have fewer than 500 employees.

Note: Of the 9,280 U.S. firms that exported goods to China in 1997, a total of 7,564 (82%) were SMEs. Since firms often export from multiple state locations, exporter totals for individual states cannot be summed to the national total.

OVER 80 PERCENT OF ALL U.S. FIRMS THAT EXPORTED TO CHINA IN 1997 WERE SMALL OR MEDIUM-SIZED

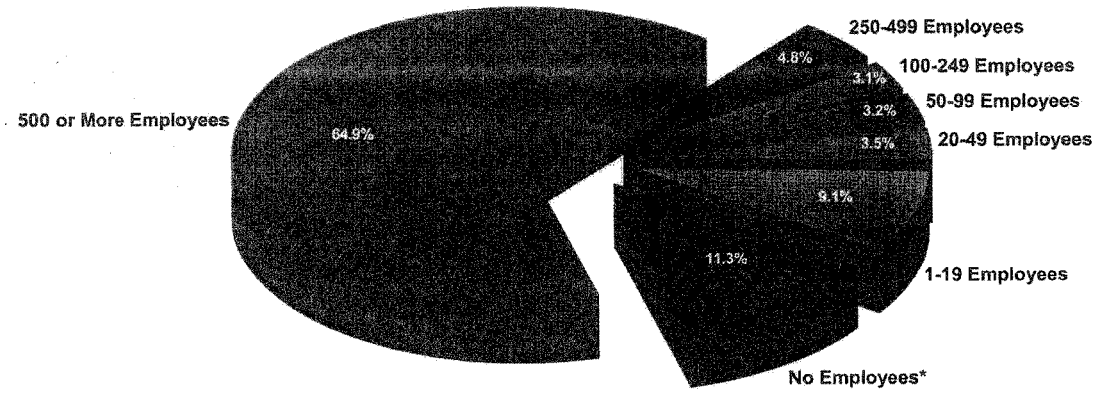


9,280 U.S. Companies Exported Goods to China in 1997

Definitions: small = less than 100 employees; medium = 100-499 employees; large = 500 or more employees
Source: 1997 Exporter Data Base, U.S. Department of Commerce

SMALL AND MEDIUM-SIZED FIRMS GENERATED OVER ONE-THIRD OF U.S. EXPORTS TO CHINA IN 1997

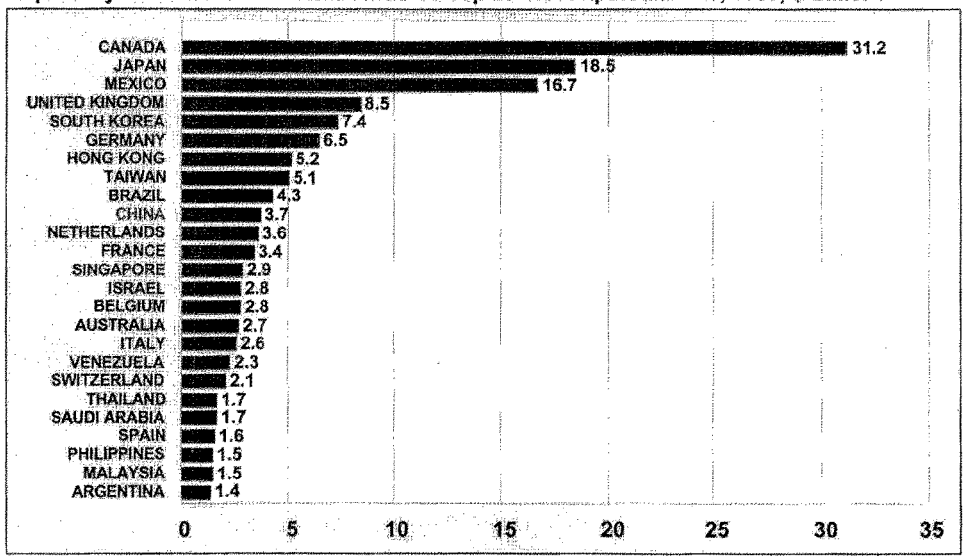
Share of 1997 U.S. Exports to China by Companies with:



** Sole proprietorships, start-ups, firms that rely exclusively on temporary help, and other firms which had no employees during Census reporting periods.*
Definitions: small = less than 100 employees; medium = 100-499 employees; large = 500 or more employees
Source: 1997 Exporter Data Base, U.S. Department of Commerce

CHINA WAS THE TENTH LARGEST FOREIGN MARKET FOR SMALL AND MEDIUM-SIZED COMPANIES IN 1997

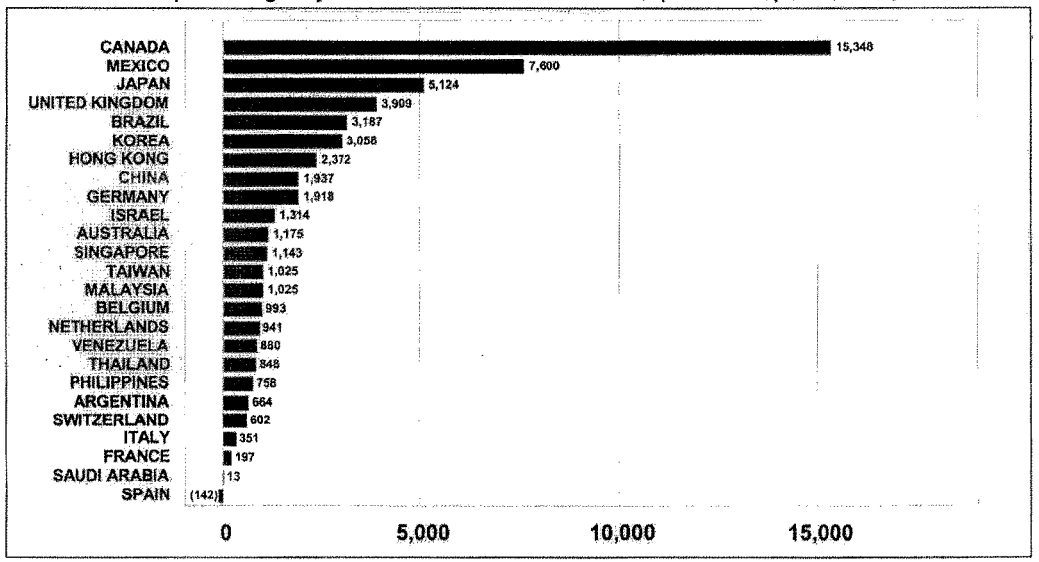
Exports by Small & Medium-Sized Firms To Top 25 U.S. Export Markets, 1997; $ Billions *



** Includes only identifiable or "known" exports--i.e., 1997 exports that can be linked to individual companies utilizing information on U.S. export declarations.*
Definitions: small = less than 100 employees; medium = 100-499 employees
Source: 1997 Exporter Data Base, U.S. Department of Commerce

CHINA ACCOUNTED FOR THE EIGHTH BIGGEST DOLLAR GAIN IN SME EXPORTS FROM 1992 TO 1997

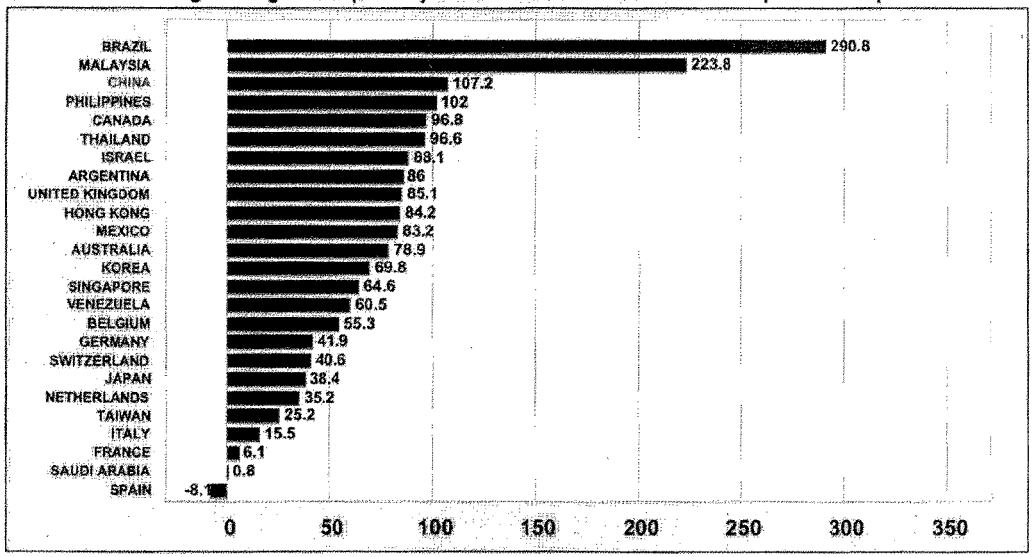
1992-97 Dollar Export Changes by Small & Medium-Sized Firms To Top 25 U.S. Export Markets; $ Millions *



** Includes only identifiable or "known" exports--i.e., 1992 and 1997 exports that can be linked to individual companies utilizing information on U.S. export declarations. Small and Medium-Sized Enterprises (SMEs) are firms with less than 500 employees.*
Source: 1992 & 1997 Exporter Data Base, U.S. Department of Commerce and Small Business Administration

THE FASTEST-GROWING MARKETS FOR SMALL AND MEDIUM-SIZED EXPORTERS ARE BRAZIL, MALAYSIA, AND CHINA

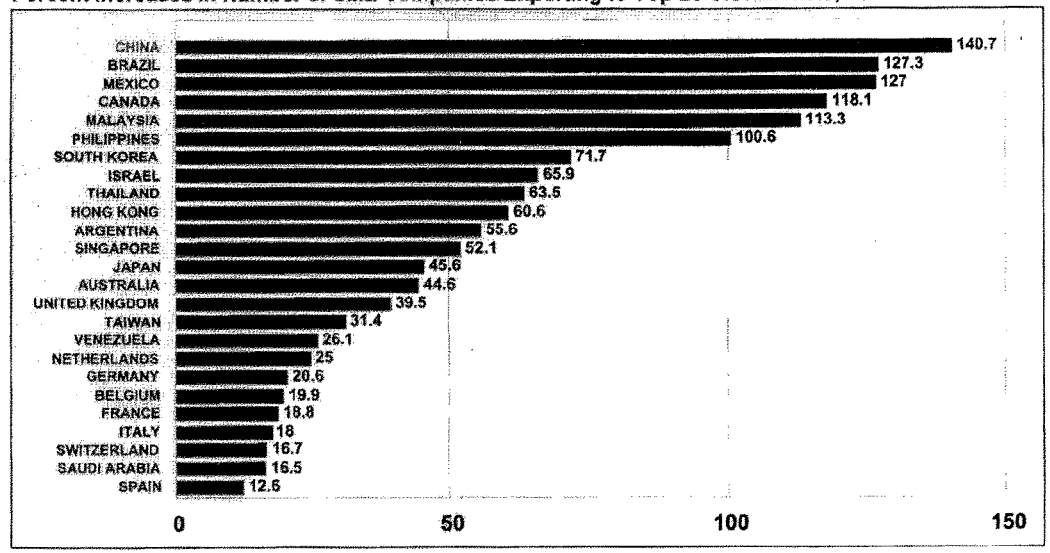
1992-1997 Percentage Changes in Exports by Small & Medium-Sized Firms To Top 25 U.S. Export Markets*



** Includes only identifiable or "known" exports--i.e., 1992 and 1997 exports that can be linked to individual companies utilizing information on U.S. export declarations.*
Definitions: small = less than 100 employees; medium = 100-499 employees
Source: 1992 & 1997 Exporter Data Base, U.S. Department of Commerce and Small Business Administration

THE NUMBER OF SMEs EXPORTING TO CHINA HAS BEEN GROWING RAPIDLY

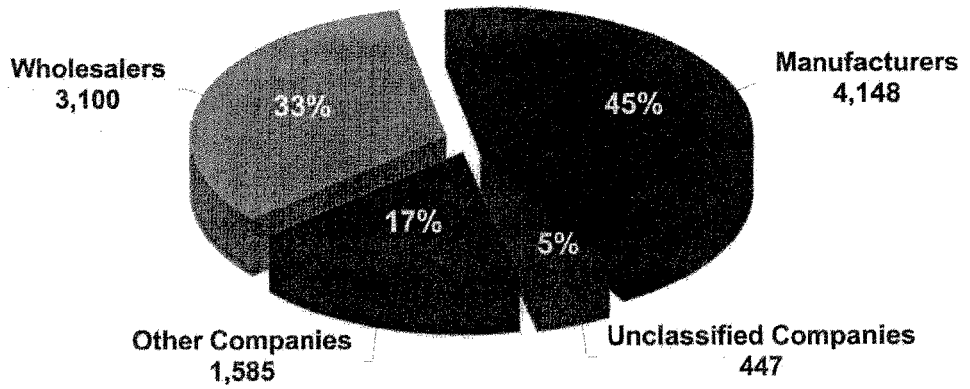
Percent Increases in Number of SME Companies Exporting to Top 25 U.S. Markets, 1992-97*



** Firms often export to more than one market. As a result, exporter counts for individual markets cannot be summed to arrive at meaningful totals. SMEs (small and medium-sized enterprises) are firms with fewer than 500 employees.*
Source: 1992 & 1997 Exporter Data Base, U.S. Department of Commerce and Small Business Administration

NEARLY HALF OF ALL EXPORTERS TO CHINA ARE MANUFACTURERS

Industry Distribution of Firms Exporting to China, 1997



9,280 Firms Exported to China in 1997

Source: 1997 Exporter Data Base, U.S. Department of Commerce
Prepared by: Office of Trade and Economic Analysis, International Trade Administration, U.S. Department of Commerce

WHAT IS THE EXPORTER DATA BASE (EDB)?

- Links Info on Export Declarations to Census Databases on U.S. Firms.
- Provides Reliable Way to Profile U.S. Exporters.
- Furnishes Number of Exporters, Exporter Locations and Characteristics.
- Complete Data for '97.
- '98 Update Underway.

EXPORTER DATA BASE: TECHNICAL NOTES

- **All statistics in this report are from the Commerce Department's Exporter Data Base (EDB), which provides an annual statistical profile of U.S. exporting companies--including their number, size, industry composition, and geographic distribution.** The EDB is a joint project of the Census Bureau and International Trade Administration (ITA).

- **Latest available data from the EDB are currently for 1997.** Statistics for 1998 will be available sometime during first-half 2000, and will initially be available from the Census Bureau.

- **Statistical tables from the 1997 and 1996 EDB can be obtained directly from the Census Bureau for a fee of $25.00.** For more information, see the Census Bureau's Internet site at http://www.census.gov/foreign-trade or call 301-457-2242.

- **The Exporter Data Base is comprised of all enterprises that could be identified from Shippers' Export Declarations (SEDs)** that were filed, per U.S. regulations, for merchandise exiting the country. To identify exporters from SEDs, the Census Bureau used Employer Identification Numbers (EINs) and other SED information to link these documents to the Bureau's Business Register (which contains information on company characteristics and locations).

- **All EDB statistics on exporters refer to companies, not establishments.** Companies are legal entities which consist of one or more commercial establishments. Establishments are individual business units, or locations, where economic activity takes place. Establishments include, for example, factories, warehouses, and retailing facilities. The terms "company", "enterprise", and "firm" are used interchangeably in this report. Also, the EDB includes both U.S.-domiciled companies and U.S. affiliates of foreign firms that export goods from the United States.

- **The linkage process outlined above yielded a 1997 Exporter Data Base consisting of 209,455 exporting firms, accounting for 82 percent of measurable merchandise export value.** Export documents accounting for 18 percent of export value could not be linked to the companies that filed the forms due to a variety of factors--e.g., misreporting by firms, errors in collection and processing, and coverage problems.

- **Because of the inability to link all SEDs to the firms which filed the documents, the EDB may slightly understate the total number of exporters--especially as regards small companies with only a few export transactions.** Nevertheless, the EDB likely captures almost all significant exporters. This is because only one valid export declaration is needed to link an exporter to Census data bases. If a company submits 1,000 export declarations and all but one are invalid, the company is still captured by the EDB.

- **Due to improvements in methodology and data collection, the 1997 match rate of 82 percent (by value) was 4 percentage points higher than the 1992 match rate of 78 percent.** As a result, changes in the number of exporters over the 1992-97 period should be interpreted with some caution. Some portion of the increase in the exporter population was undoubtedly

the by-product of measurement enhancements--however, the extent of the effect is unknown. Whatever the impact, overall trends documented by the EDB are fully corroborated by a large body of anecdotal evidence reported in the media and by an upsurge in U.S. companies seeking assistance from government export promotion agencies.

- **EDB data on individual firms--including company names and addresses--are not available to the public due to federal regulations which prohibit public release of confidential business information provided to the U.S. Government.** All data in this report, as well as in EDB statistical tables available from Census, are in anonymous form. All numbers have been aggregated to a level where individual firms cannot be identified. For data users who desire exporter names and addresses, a number of commercial data base alternatives are available.

- **The EDB only captures companies that have at least one export shipment during the year valued at $2,501 or more.** Also, the EDB tracks only exporters of merchandise--i.e., goods. Firms that export services only are excluded. However, service companies (wholesalers, retailers, engineering and architectural firms, etc.) that also export goods are included.

- **All businesses included in the EDB are *direct* exporters--i.e., entities that ship merchandise from their factories (or other facilities which they own) to a foreign destination.** Excluded from the EDB are so-called "indirect" exporters whose export role is limited to (1) providing components or other inputs to businesses engaged in export production and marketing, or (2) supplying goods to independent intermediaries which, in turn, market the products internationally.

- **Companies in this report are classified according to employment size ranges.** There are no universally accepted guidelines for classifying companies by size. Classification criteria tend to vary with analytical purpose and organizational mission. For the purposes of this report, small firms are defined as those with fewer than 100 employees (very small firms are those with less than 20 employees). Medium-sized firms employ from 100 to 499 workers. Large firms are those with 500 or more employees.

- **Companies in this report are divided into three categories--manufacturers, wholesalers, and "other companies."** Company type for single-location companies is based on the Standard Industrial Classification (SIC) system, and company type for multiple location firms is based on the closely-related Enterprise Industrial Classification (EIC) system. Manufacturers are firms that fall into SIC/EIC classifications 20 to 39. Wholesalers fall into classifications 50 and 51, as do brokers, agents, and similar entities which are primarily engaged in the distribution of goods to businesses. The term "other companies" embraces all remaining SIC/EIC categories. Included here are resource extraction companies, retailers, freight forwarders, engineering firms, and miscellaneous service companies which often market goods abroad and act as exporters of record. Firms for which a valid SIC/EIC was not available are labeled "unclassified companies."

- **Export product categories referenced in this report are on a SIC basis.** For information on the types of products contained in individual SIC categories, consult OSHA's Internet site at www.osha.gov/oshstats/sicser.html.

- **Many companies export products that fall into more than one SIC category.** It follows that such companies can be represented multiple times in tables and graphs that profile exporters by type of product exported. This means that one cannot simply sum up exporters in various product categories to arrive at totals.

- **Any EDB statistics in this report that profile exporters at the state or local levels were compiled on an Exporter Location (EL) basis.** Tabulations on an EL basis assign exporters to sub-national jurisdictions based on the zip code location of the "exporter of record" as specified on export declarations. The exporter of record is the party principally responsible for effecting export from the United States.

- **The exporter's zip code location is very often the point of sale, or marketing location.** In some circumstances, the exporter's location may also reflect the location of the company's home office ("headquarters effect") or the location where export paperwork was performed. While this introduces some uncertainty into interpretation of the data, it merits attention that 85.5 percent of all 1997 exporters, and 88.2 percent of small and medium-sized exporters, were single-unit companies. Thus, for the vast majority of exporters all corporate functions are typically conducted at the same site.

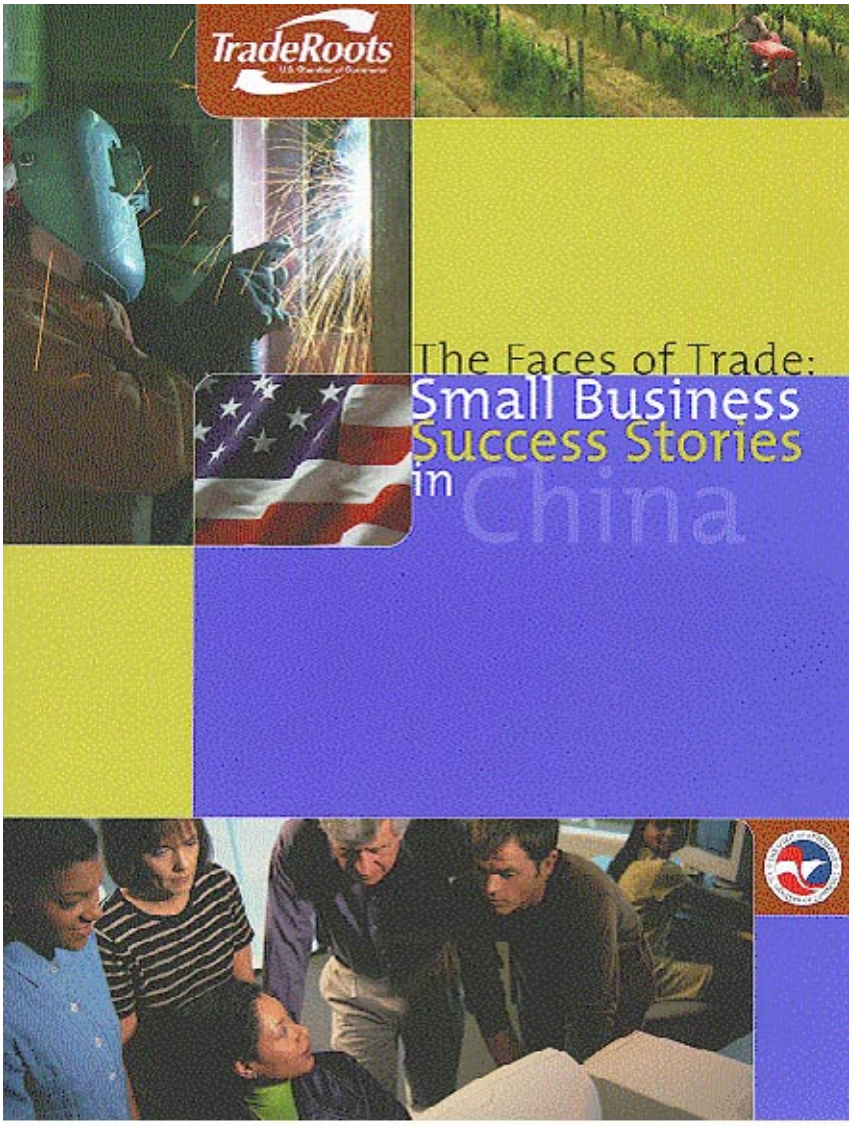
- **Conclusions about export-related production or employment in a state, metro area, or zip code should not be made solely on the basis of data in this report.** While the locations of production, marketing, and export paperwork processing *often* coincide, they do not *always* coincide. This is especially true for non-manufacturing companies, which were responsible for 32.1 percent of U.S. goods exports in 1997. Single-unit wholesalers, for example, may perform export marketing and paperwork at one site but obtain export products from unaffiliated manufacturers located elsewhere. In the case of multi-unit exporters (manufacturers and non-manufacturers alike), production and sales activities are often separated geographically. Multi-unit firms, while in the minority among exporters, nevertheless generate about 80 percent of total U.S. merchandise export value.

- **Exporter counts shown for states, metropolitan areas, or zip codes cannot be summed to arrive at national or regional totals.** To do so often results in double-counting, because some exporting companies--especially large multi-establishment firms--frequently export from multiple locations.

- **Any statistics in this report regarding the number of employees in exporting companies refer to the total number of workers, not just workers whose jobs are supported by exports.** "Employment" also refers to part-time as well as full-time workers on a firm's payroll during Census Bureau reporting periods.

- **All export value data in this report are on an f.a.s (free alongside ship) basis and include both domestic exports and re-exports of foreign merchandise.**

- **Statistics in graphs and text have been rounded to enhance readability.** For this reason, details may sometimes not add exactly to totals.


TradeRoots
The Faces of Trade:
Small Business
Success Stories
in
China

As in past years, the U.S. Chamber has worked with our state and local chambers of commerce and small businesses around the country to increase awareness of the benefits of international trade. In 2000, the focus of our TradeRoots educational program has been on promoting a better understanding of the importance of China's WTO accession and permanent normal trade relations (PNTR) status to U.S. businesses and workers at the local level.

The TradeRoots China program has received the support of many companies, and we want to acknowledge, in particular, the support of the ten corporate sponsors that made this report possible. We very much appreciate their assistance and are pleased to release this report as part of our TradeRoots China initiative.

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The U.S. Chamber also acknowledges support for this report from AT&T, Merck & Company, and Oracle Corporation.

Report Prepared By:

ASIA TEAM

Myron Brilliant, Managing Director, Asia
Leslie Griffin, Director, Asian Affairs
Josh Knights, Director, Asia Trade Policy
Andrew Davis, Consultant

NATIONAL CHAMBER FOUNDATION

David Hirschmann, Executive Vice President
Leslie Schweitzer, Senior Trade Advisor
Michelle Sprang, Program Coordinator

Thank you to Patrick Donnelly, Kyle Holcomb, Aimee Olsen, Jason Roberson and Wendy Shih for their efforts to produce this report.

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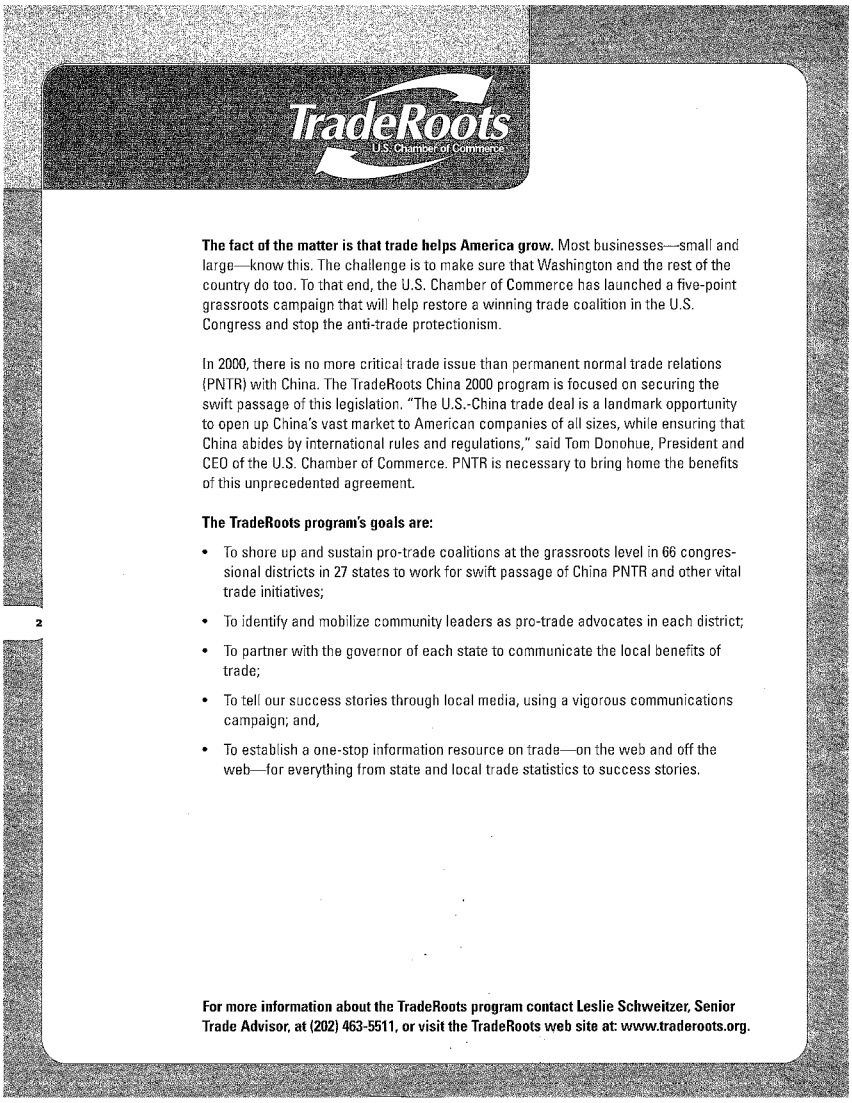

The fact of the matter is that trade helps America grow. Most businesses—small and large—know this. The challenge is to make sure that Washington and the rest of the country do too. To that end, the U.S. Chamber of Commerce has launched a five-point grassroots campaign that will help restore a winning trade coalition in the U.S. Congress and stop the anti-trade protectionism.

In 2000, there is no more critical trade issue than permanent normal trade relations (PNTR) with China. The TradeRoots China 2000 program is focused on securing the swift passage of this legislation. "The U.S.-China trade deal is a landmark opportunity to open up China's vast market to American companies of all sizes, while ensuring that China abides by international rules and regulations," said Tom Donohue, President and CEO of the U.S. Chamber of Commerce. PNTR is necessary to bring home the benefits of this unprecedented agreement.

The TradeRoots program's goals are:

- To shore up and sustain pro-trade coalitions at the grassroots level in 66 congressional districts in 27 states to work for swift passage of China PNTR and other vital trade initiatives;
- To identify and mobilize community leaders as pro-trade advocates in each district;
- To partner with the governor of each state to communicate the local benefits of trade;
- To tell our success stories through local media, using a vigorous communications campaign; and,
- To establish a one-stop information resource on trade—on the web and off the web—for everything from state and local trade statistics to success stories.

For more information about the TradeRoots program contact Leslie Schweitzer, Senior Trade Advisor, at (202) 463-5511, or visit the TradeRoots web site at: www.traderoots.org.

A Message from Thomas J. Donohue
President and CEO, U.S. Chamber of Commerce



The U.S. Chamber of Commerce is pleased to present this report on behalf of small and medium-sized businesses across the United States, which are finding success in international markets in increasing numbers. Many U.S. small companies are setting their sights on the China market, and this report highlights both their challenges and their successes. Because small business makes up the vast majority of our membership, the U.S. Chamber is uniquely positioned to share these stories.

Opportunities for American business will skyrocket after China enters the World Trade Organization (WTO). For decades, China has remained isolated from the rest of the world. China now permits commerce, but with strict controls. Entry into the WTO will change all that. By agreeing to abide by international trade rules, China will open its markets to the outside world as never before.

Small and medium-sized businesses will be among the big winners of market-opening in China. The companies profiled in this report are already taking advantage of the countless opportunities in the Chinese market. They are succeeding because of their perseverance and their entrepreneurial nature. Their horizon could soon be expanded tremendously once China joins the WTO.

Members of Congress are preparing to vote on legislation that would normalize trade relations with China on a permanent basis. For the last 20 years, Congress has voted on an annual basis to keep U.S. markets open to China. Now, the United States has the chance to gain unprecedented access to China's market of approximately 1.3 billion people. All it has to do is extend to China permanent normal trade relations (PNTR), which is the same commercial treatment we extend to almost every other country in the world.

American businesses of all sizes will watch the PNTR vote closely. Extending PNTR will allow American companies to take advantage of the market-opening measures China agreed to in its bid to join the WTO. Without PNTR, China would still join the WTO, but our competitors in Europe, Asia and elsewhere would be the beneficiaries of China's major concessions. By contrast, a vote for PNTR will strengthen engagement with China, enhance our national security, and better enable us to address human rights and other vital issues.

I would like to thank the small business owners who took part in this project. They represent a much larger group of entrepreneurs who are increasingly responsible for the growth in U.S. trade. Given the impact that China PNTR will have on American businesses of all sizes, it is little wonder that so many have called the vote on China PNTR the most important trade vote of our generation.



Thomas J. Donohue
President and CEO, U.S. Chamber of Commerce

MEMBERS OF THE CHAMBERS FOR CHINA TRADE COALITION JOIN THE SMALL BUSINESSES FEATURED IN THIS REPORT IN URGING CONGRESS TO PASS PERMANENT NORMAL TRADE RELATIONS WITH CHINA FOR THE BENEFIT OF AMERICAN COMPANIES AND THE WORKERS THEY EMPLOY.

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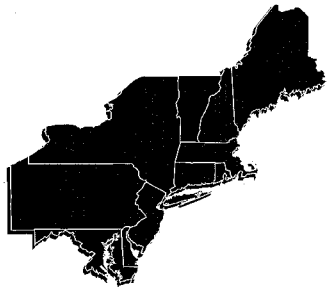
The East





ACTS Testing Labs, Inc.
Buffalo, New York
Kevin O'Brien, President
http://www.actstesting.com

Industry: Services
Number of U.S. Employees: 201 in New York, Illinois, New Jersey, Florida, and California.
Major Services Provided: Testing, inspection, and consulting services to the consumer product industry
Years of Involvement in China: 12

ACTS Testing Labs provides services to numerous retailers and manufacturers of toys, textiles, promotional premiums, and electronics. Active in China since 1988, the company offers technical assistance to Chinese firms in an effort to raise quality standards of locally manufactured products and offer the timeliness of delivery that is required in the United States, Europe, and other key markets.

ACTS tests and inspects products that are made in China to ensure compliance with government regulations and assess quality and performance. These products are then shipped to the United States, Europe and other locations around the world.

Permanent normal trade relations status with China will ensure that tariffs remain low on the range of products that American consumers purchase from China: low-cost apparel, footwear, radios, toys, sporting goods equipment, and consumer electronics. "Failure to extend permanent normal trade relations (PNTR) with China would have a strong negative impact on ACTS' business, our clients, and the entire consumer product industry. ACTS would definitely lose business to competition based in Europe and Asia. PNTR also guarantees that U.S. consumers can continue to enjoy a variety of low-cost, quality goods," says William Maggio, Jr., Director of Business Development for ACTS.

ACTS Testing Labs, Inc.
Buffalo, New York

Baltimore Aircoil Company
Baltimore, Maryland

Bear Paw Lumber Corp.
Fryeburg, Maine

Copes-Vulcan, Inc.
Lake City, Pennsylvania

Curtis Instruments, Inc.
Mt. Kisco, New York

Ellicott International
Baltimore, Maryland

GEO Trading Partners, Ltd.
Lagrangeville, New York

Haemonetics Corporation
Braintree, Massachusetts

Keystone Veneers, Inc.
Williamsport, Pennsylvania

Kingsbury, Inc.
Philadelphia, Pennsylvania

The Magnetizer Group, Inc.
Fountainville, Pennsylvania

Marson Corporation
Stoughton, Massachusetts

National Forge Company
Irvine, Pennsylvania

Olson Technologies, Inc.
Allentown, Pennsylvania

Oxygen Generating Systems, Inc.
Niagara Falls, New York

U.S.-China Industrial Exchange, Inc.
Bethesda, Maryland

Wayne Electronics, Inc.
Jamaica, New York

Major Exports—East Region

Industrial Machinery and Computers

Chemical Products

Transportation Equipment

Food Products

Electric and Electronic Equipment

"This Administration has worked hard to break down barriers to trade with China for U.S. companies of all sizes, and the workers they employ. The impact of China's entry into the WTO and permanent normal trade relations status on smaller companies is not often understood. This U.S. Chamber report puts a human face on the small business story."

– William Daley, U.S. Secretary of Commerce

The East



"Congress must understand that small businesses like ours are both pro-business and pro-labor! A vote for PNTR is a vote for small business and labor."
—Dennis E. Keaten, President & CEO, Bear Paw Lumber Corp.

Baltimore Aircoil Company

Baltimore, Maryland
Matt McKenna, President
http://www.BaltimoreAircoil.com

Industry: Air conditioning, refrigeration and industrial process cooling
Number of U.S. Employees: 1,200 in Maryland, Delaware, California, and Illinois
Major Products Sold to China: Cooling towers, ice thermal storage, evaporative condensers
Years of Involvement in China: 5
Export Sales to China as a Percentage of Total Gross Sales: Approximately 3%

Baltimore Aircoil Company sells air conditioning and refrigeration products for use in commercial buildings and refrigeration plants. The company entered the China market about 5 years ago, and invested time and energy into building a successful business. Today, Baltimore Aircoil has a direct office in Beijing, representative offices in Shanghai, Beijing and Hong Kong, and a joint venture factory in Dalian. The company successfully lobbied China's national Electric Power Bureau, as well as local bureaus in Beijing, Shanghai, and Hangzhou, and convinced the government to offer incentives to users of Baltimore Aircoil's energy-saving products.

Baltimore Aircoil's biggest challenge in China comes from local competitors that produce inferior products that can be sold at a lower price. The company's products are sometimes twice as expensive as local substitutes, making it essential for this mid-size Maryland company to stress the high quality, better efficiency and reliability of its goods.

John Lau, China Market Manager, emphasizes the importance to Baltimore Aircoil of Congressional passage of permanent normal trade relations (PNTR) with China. "We would be hurt a great deal without PNTR. Our company is a net exporter. We do not import goods from China. This PNTR vote means millions of dollars in sales to Baltimore Aircoil and continued job opportunities for its employees."



Bear Paw Lumber Corp.

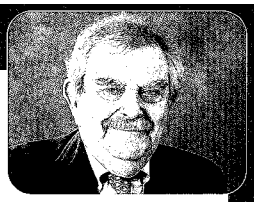
Fryeburg, Maine
Dennis E. Keaten, President & CEO
http://www.bearpawlumber.com

Industry: Forest Products
Number of U.S. Employees: 45
Major Product Sold to China: Kiln-dried hardwood lumber
Years of Involvement in China: Over 13 years

Winner of the Maine State Small Business Administration Exporter of the Year Award for 2000, **Bear Paw Lumber Corp.** is a manufacturer and exporter of northern and Appalachian hardwoods. Headquartered in southwestern Maine, the company owns or controls operations in five states and Quebec, Canada.

Bear Paw Lumber began exporting to China in 1988. While trade with China represents a small portion of the company's total business, it is noteworthy that a small independent lumber mill has successfully conducted regular trade with China.

Bear Paw Lumber cites persistence and sustained activity in the global marketplace as its key to success. Though it often faces competition from companies in Canada—where the government subsidizes its domestic timber industry—Bear Paw Lumber supports free and fair trade. Passage of China PNTR is a fundamental step to expanding the company's market share. When Chinese trade barriers against American hardwood lumber are removed, the company anticipates "significant" growth in its business. This award-winning exporter looks to the U.S. Congress to provide leadership and vision in support of the interests of small and medium-sized American companies.



Copes-Vulcan, Inc.

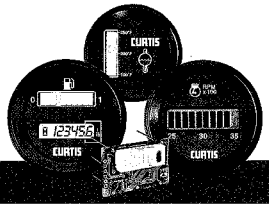
Lake City, Pennsylvania
Roderic B. Karpen, Chairman and CEO
http://www.copes.com

Industry: Manufacturing
Number of U.S. Employees: 195
Major Product Sold to China: Control valves for power, process application
Years of Involvement in China: 14

Copes-Vulcan, Inc., a Pennsylvania-based producer of control valves for power plants, supplies the control valves for Power Plant No. 1 in Beijing. Robert J. Darragh, Vice President for International Marketing and Sales, explains, "This plant supplies electricity and steam to our embassy in China. My wife and I spent time with the Director of this plant while visiting there and I found the hospitality and sincerity of the Chinese people remarkable."



Copes-Vulcan has done business in China since 1986. The company's sales in China depend on stability in the U.S.-China relationship. "The 'China bashing' that takes place in Congress during the trade status reviews is too political and detracts from our efforts to build business and trust," states Darragh. If PNTR is extended to China, Darragh estimates that Copes-Vulcan's business will continue to grow in that very important market.



Curtis Instruments, Inc.

Mt. Kisco, New York
Edward M. Marwell, President & CEO
http://www.curtisinst.com

Industry: Electronic manufacturing
Number of U.S. Employees: Over 650, employees based in Mount Kisco, New York; Dublin, California; and Carolina, Puerto Rico.
Major Products Produced in China: Components for Electric Vehicles and Instrumentation Products
Years of Involvement in China: Over 5 years

President Edward M. Marwell reflects upon his company's success in China. "**Curtis Instruments, Inc.** found its niche manufacturing products applicable for similar uses across many markets. Our operations in China make it possible for us to take advantage of economies of scale, and enable us to sell directly into the Chinese market."

In its 40th year, Curtis Instruments is the world's largest manufacturer of components for electric vehicles. The company's products include instruments, motor speed controllers, and battery chargers, which are used in motorized wheelchairs, forklift equipment, aerial lifts, and other industrial vehicles. Curtis Instruments produced the gauges that monitored the state-of-charge (or "fuel" level) on the Lunar Roving Vehicles used by NASA moon missions in 1971-72.

Curtis Instruments believes that permanent normal trade relations is essential for the growth and prosperity of its China business. In 1995, the company started a wholly owned subsidiary, Curtis Instruments (China) Limited. At its plant in Suzhou, not far from Shanghai, proprietary, U.S.-made silicon chips are converted into basic modules and subassemblies for electrical propulsion vehicles and instrumentation products. The components are then returned to the U.S. and U.K. for final assembly, creating jobs at home.

7

The East



"If the U.S. would like to influence China, then we must interact with individuals there. Trade gives us an opportunity to create situations where we have things in common."
—Ron Spadafora, Vice President, GEO Trading Partners, Ltd.

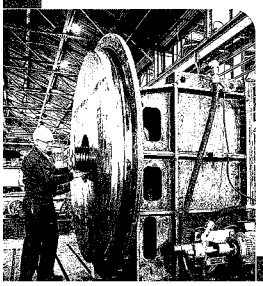
Ellicott International

Baltimore, Maryland
Peter Bowe, President
http://www.dredge.com

Industry: Manufacturing
Number of U.S. Employees: 100 in Baltimore, Maryland, 1 in St. Louis, Missouri
Major Products Sold to China: Dredging equipment and machinery
Years of Involvement in China: 21
Exports to China as a Percentage of Gross Sales: Less than 10%

Ellicott International has designed and manufactured over 1,200 dredges, more than any other manufacturer, and has served customers in over 70 countries. The company has done business in China for over two decades, and won a $3 million contract in China as far back as 1979. In November 1999, Ellicott International won a $900,000 contract with the China Communications Import & Export Corporation to deliver a dredge equipment package to the Changjiang Waterway Bureau.

With his company's longstanding ties and positive experiences in China, Ellicott President Peter Bowe believes it is time for the United States to end the process of debating China's trade status on an annual basis, and extend normal trade relations on a permanent basis. "Politicizing trade is harmful when our competitors, all NATO allies, are aggressively developing trade relations with China. Developing market share does yield long-term benefits. Our European competitors who got in earlier than we did are doing well. They have more resources and more support from their governments. It's a high wall to climb."



GEO Trading Partners, Ltd.

Lagrangeville, New York
Paul Spadafora, President
http://www.geoltd.com

Industry: Medical services and equipment
Number of U.S. Employees: 8
Major Service in China: Ophthalmology centers
Years of Involvement in China: 6
Exports to China as a Percentage of Gross Sales: Over 90%

On **GEO Trading Partners, Ltd.'s** success in China, Vice President Ron Spadafora says, "We have focused on improving personal relationships and trust with our Chinese business partners." The company owns and manages ophthalmology centers in China, and purchases ophthalmology equipment in the United States for placement in Chinese hospitals.

Although active in China since 1994, it was in 1997 that GEO Trading Partners signed agreements with various hospitals in China. The company owns and supplies ophthalmology equipment, and the Chinese hospitals supply the doctors and the space for the ophthalmology centers. Almost all of the equipment used in the centers is manufactured in the United States.

While GEO Trading Partners has found success in China, it has also faced challenges in that market. Spadafora estimates that high tariffs on equipment have amounted to the cost of a fifth eye center for every four that have opened.

Spadafora notes that when traveling outside major cities in China, he encounters many Europeans, Australians and Japanese involved in local business, but not many Americans. "This tells me that our competitors from other parts of the world are having more influence over the citizens of China and are capturing markets at the grassroots level," he observes. "If tariffs for these countries are reduced but Chinese tariffs and non-tariff barriers against U.S. products remain high, then in the future, we will see fewer and fewer American products in China."

Haemonetics Corporation

Braintree, Massachusetts
James L. Peterson, President and CEO
http://www.haemonetics.com

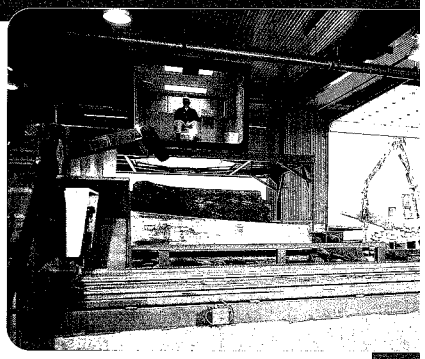
Industry: Medical devices
Number of U.S. Employees: More than 800 employees, based in Braintree, MA; Union, SC; and Leetsdale, PA
Major Products Sold to China: Surgical and blood collection devices
Years of Involvement in China: 10
China Exports as a Percentage of Gross Sales: 2%

"Many Chinese will require a blood transfusion at some point in their lives. Our equipment ensures the safety, quality and availability of life-saving blood," reports Lisa Lopez, Senior Vice President and Corporate Counsel for **Haemonetics Corporation**. This automated blood processing systems company started prospecting in the China market ten years ago and shipped its first devices there in 1996.

The company faces definite challenges in its China business. Despite Chinese laws purporting to protect intellectual property, there are "copycats" of Haemonetics products on the market. The company had to take an unusual accounting charge against its China investment because of lack of contract adherence by its Chinese distributors. PNTR and China's entry into the WTO will foster more business certainty.

"We want to see China join the World Trade Organization and abide by internationally accepted business practices. Our company stands to benefit a great deal when tariffs come down and when we have ways to address unauthorized competition, intellectual property issues, and inconsistent local regulations," explains Lopez. "PNTR passage will give Haemonetics an opportunity to continue to build our business in China and create more revenue and jobs at home."





Keystone Veneers, Inc.

Williamsport, Pennsylvania
Dan Pinsonneault, President
http://www.keystoneveneers.com

Industry: Manufacturing
Number of U.S. Employees: 265
Major Product Sold to China: Hardwood veneers
Years of Involvement in China: 6
China Exports as a Percentage of Gross Sales: Approximately 7%

"Developing relationships and understanding the market in China are two of the great challenges of doing business there," comments Dean Ripley, International Sales Manager for **Keystone Veneers, Inc.** The company started exploring opportunities in China in 1994 after successful ventures in several other countries, including Spain, Germany, Canada, and Malaysia. China now represents nearly 7% of the company's gross export sales.

Keystone Veneers attributes its success in China to a Made-in-U.S.A. product that is of high quality and well priced. Future growth depends on maintaining current customers as well as gaining new ones. "The significant reductions in non-tariff barriers to trade by a favorable vote on PNTR will give us a more competitive edge in China. Keystone Veneers has developed loyal customers, but if we can't compete in price with our European counterparts, good business will replace loyalty," states Ripley.

The East

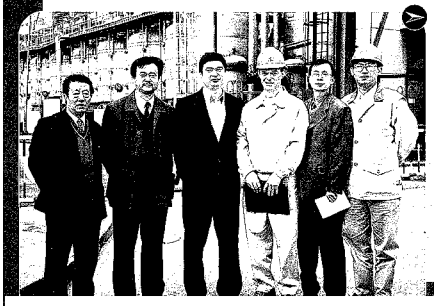
Kingsbury, Inc.

Philadelphia, Pennsylvania
Woods R. Brown, President and CEO
www.kingsbury.com

Industry: Manufacturing
Number of U.S. Employees: 250 based in Philadelphia, PA and Oshkosh, WI
Major Products Sold to China: Thrust and journal bearings
Years of Involvement in China: 17
Annual Sales in China: $300,000

"**Kingsbury** is a wonderful example of how China PNTR is important for small and medium companies, not just the big guys," remarked U.S. Trade Representative Charlene Barshefsky, addressing workers at Kingsbury's Northeast Philadelphia plant. With 220 employees making specialized industrial bearings, Kingsbury is a small player with a huge future in U.S.-China trade.

Kingsbury followed one of its biggest customers into China 17 years ago, and the company has been pleased by the progress that they have made in developing the market. Woods R. Brown, Chief Executive Officer, says that, "...if PNTR is approved by Congress, Kingsbury would be able to take advantage of a huge reduction in tariffs, which would further our growth in the Chinese marketplace." The 88-year-old company earns millions selling bearings to large companies in other parts of the world. While China represents 5% of Kingsbury's current business, Brown emphasizes that "it is the ripple effect that is important to Kingsbury."



The Magnetizer Group, Inc.

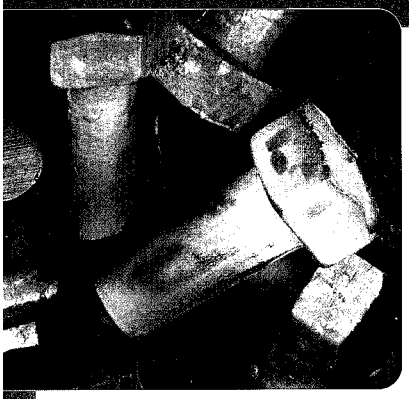
Fountainville, Pennsylvania
Arthur L. Pease, President
http://www.magnetizer.com

Industry: Manufacturing
Number of U.S. Employees: 250 (including distributors)
Major Products Sold to China: Water and fuel conditioning devices
Years of Involvement in China: 9
Sales in China since Beginning Operations: $350,000

The Magnetizer Group has experienced ongoing success in the China market by using its patented magnetic technology to address environmental concerns and fuel conservation issues. The company has developed products that address consumer and industrial needs, as well as the growing demand for environmentally friendly products.

In China, trains draw drinking water for passengers from wells located along the route. As there are no procedures in place to test the water, all water is boiled on the trains. As the water boils, the boilers develop scale, which restricts the flow of water and increases the time needed for the water to boil. By applying the Magnetizers to the boilers, the flow of water is increased, it boils faster, and fuel is conserved. The Magnetizers are also applied to the train's engines, which increases the overall fuel economy and reduces the emission of smoke.

Magnetizer products are being used by several of the railway bureaus across China, as well as in a growing number of commercial boilers and emission control systems in Chinese vehicles. Says Magnetizer's Senior Director Don Rogers, "Our business is growing in China, but we do face certain challenges. Principal among them is our concern about protecting the patent and trademark for our products. With China's pending entry into the World Trade Organization and the increased leverage we will have in addressing intellectual property protection issues in that forum, we think permanent normal trade relations with China is definitely in the best interest of our company and its employees."



Marson Corporation

Stoughton, Massachusetts
Alan Ritchie, Chairman
http://www.marsoncorp.com

Industry: Manufacturing
Number of U.S. Employees: Approximately 140
Major Product Imported from China: Rivets (fasteners)
Years of Involvement in China: 5
Percentage of Gross Sales due to Imports from China: 6%

"Healthy U.S.-China trade relations, which would be advanced by China PNTR, can only help **Marson Corporation,**" states Chairman Alan Ritchie. Marson, a supplier of metal fasteners to U.S. companies, specializes in rivets, rivet nuts, and rivet guns. The company has imported products from China since 1995. Seeking a low-cost supplier to help maintain competitiveness, Ritchie employs U.S. workers in the value-added process of finishing and packaging for domestic and export markets.

Familiarity with the China market and the comparatively low cost of product have enabled Marson to maintain and increase employment opportunities in the United States. Ritchie observes, "Opening China's markets will help American companies to prosper locally and keep skilled workers employed."

National Forge Company

Irvine, Pennsylvania
Roger Clark, President and CEO
www.nationalforge.com

Industry: Manufacturing
Number of U.S. Employees: 625
Major Products Sold to China: Engineered forging products, tooling products and pipe molds
Years of Involvement in China: 10
Annual Sales to China: $1 million

"Our China business peaked in 1997 and reached 15% of our company's total sales, but dropped in 1998—and continues to drop—due to a very high tariff increase," comments Joe Bizjak, World Product Line Marketing Manager for **National Forge Company.** The company spent seven years developing its business in China before shipping one product. While estimated sales to China of National Forge Company's pipe mold spinning equipment and other products are projected to decrease, the company remains competitive in over 30 foreign markets.

According to Bizjak, National Forge Company cannot be competitive in China if the U.S. Congress does not pass PNTR because European and other competitors will be able to sell at much lower prices. "We can't build market share if we cannot take advantage of lower tariff and non-tariff barriers. If we want to keep our jobs in the United States, it is imperative that Congress pass PNTR."



The East

Olson Technologies, Inc.

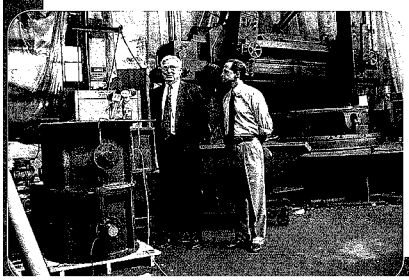
Allentown, Pennsylvania
James Edward Olson, CEO

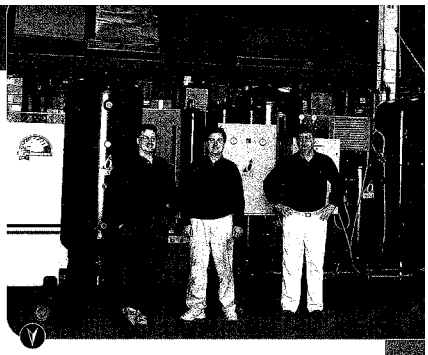
Industry: Manufacturing
Number of U.S. Employees: 47
Major Product Sold to China: Valves for water treatment plants

Olson Technologies, Inc. sells large valves to water treatment plants in China and Taiwan. The company believes the reason for its success in these markets is because Chinese and Taiwanese engineers depend on the expertise and quality standards of American companies in building large valves. Olson Technologies started selling valves in these markets "piggybacking" on the efforts of a much larger New York Stock Exchange-listed company, a common method for smaller companies entering an overseas market.

Ten percent of Olson Technologies' gross sales are due to exports. If China removes its trade barriers against American products, James Olson, Chief Executive Officer, estimates that the company will grow by over thirty percent. He believes that as developing nations like China strive to improve their standards of living, they will depend on Olson Technologies to supply valves to build better roads, airports, power plants, water treatment plants and sewage plants.

"We sell our products all over the world. In the past we did more business with other countries, but the future for China is very big if PNTR is extended to that market," notes Olson.





Oxygen Generating Systems, Inc.

Niagara Falls, New York
Joseph McMahon, President
http://www.ogsi.com

Industry: Manufacturing
Number of U.S. Employees: 15
Major Product Sold to China: Oxygen generators
Years of Involvement in China: 4
Exports to China as a Percentage of Gross Sales: Over 20% in 1999

"Extending China PNTR will significantly reduce tariffs on our high quality oxygen generators," comments Robert Schlehr, Vice President for Sales and Marketing for **Oxygen Generating Systems, Inc.** (OGSI), located in Niagara Falls, New York. The company manufactures oxygen generators for industrial, medical, aquaculture (fish farming), and water treatment applications. OGSI exports to 40 countries, and with over 20% of its export sales going to China, it is the company's largest market.

OGSI entered the China market in 1996 with the assistance of a former business associate. Schlehr attributes OGSI's successful marketing in China to its reputation for high quality. The company discovered that many foreign customers preferred higher quality U.S.-made products. Nowhere was this fact more evident than in the case of OGSI's sales to the China market.

"We fully support permanent normal trade relations legislation. Our China sales could increase as much as 30% if we can take advantage of the lower barriers," contends Schlehr.



U.S.-China Industrial Exchange, Inc.

Bethesda, Maryland
Roberta Lipson, President and CEO
http://www.chindex.com

Industry: Healthcare
Number of U.S. Employees: 14
Major Products Sold to China: Healthcare products and services
Years of Involvement in China: 19
China (including Hong Kong) Exports as a Percentage of Gross Export Sales: 89% (1999)

"American companies like ours need PNTR to stay competitive in the Chinese marketplace. PNTR is vital not only to all of our employees, but also to the employees of the companies whose products we sell in China," comments Roberta Lipson, President and CEO of **U.S.-China Industrial Exchange, Inc.**, or Chindex. The Maryland-based company is the largest independent American distributor of healthcare products in China.

Founded in June 1981, Chindex opened initial offices in Beijing and New York to provide representative services to Western manufacturers of electronic instrumentation and industrial machinery. Now an industry leader in China, Chindex is a significant exporter of U.S. healthcare equipment and provides healthcare services through its private hospital corporation in China. The company also is considered a leader in the Chinese ultrasound market.

"We already face fierce competition from European and Japanese manufacturers. Not to reap the benefits of China's accession to the World Trade Organization would mean that the U.S. medical equipment we export to China would become completely non-competitive against similar equipment from competitor nations," explains Robert C. Goodwin, Jr., Executive Vice President of the company.

For Chindex, PNTR means tariff reductions on medical equipment (from 8-11% to approximately 4-5%). Market opening to Western health insurance will broaden access to the hospital corporation for many more Chinese, who will benefit from premium health insurance plans. And with full distribution rights, Chindex will be able to compete on a level playing field with local companies, while preserving the quality of its American management approach.

Wayne Electronics, Inc.

Jamaica, New York
Grace Su, President

Industry: Electronic Security
Number of U.S. Employees: 4
Major Products Sold to China: Security products
Years of Involvement in China: 8
Annual Sales in China: $350,000+

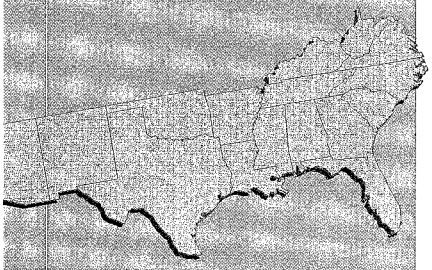
Based in New York City, **Wayne Electronics, Inc.** specializes in the export of security products to Asia, with a special emphasis on China. President Grace Su attributes the company's success in China to strong connections with government and business leaders.

Working with Chinese counterparts for many years, Su has learned that reading between the lines is a necessity. While most Chinese business people are very courteous, they will not speak directly about the obstacles of closing a business deal.

Grace Su is counting on Members of Congress to speak in a clear voice about opening the door to China trade. Export sales to China from Wayne Electronics are expected to double or even triple with the removal of trade barriers. "PNTR with China will increase existing business and open new opportunities in China for small U.S. companies like ours and our New York suppliers."



The Southeast/Southwest



Alltech, Inc.
Nicholasville, Kentucky
Dr. T. Pearse Lyons, President
http://www.alltech-bio.com

Industry: Biotechnology
Number of U.S. Employees: 180
Major Product Sold to China: Animal feed additives
Years of Involvement in China: 5
Exports to China as a Percentage of Gross Sales: More than 5%

"China must find new ways to feed its enormous population. We understand the serious challenges that China faces in animal agriculture," comments T. Pearse Lyons, President of **Alltech, Inc.** Since 1995, Alltech has worked in China to help the Chinese to develop, manufacture, and support products and systems to improve animal health, while limiting the impact of biotechnology on the environment. Chinese demand for specialty agriculture products and Alltech's direct access to reliable local personnel have been keys to the company's success in China.

After entering the China market in May 1995 with the opening of its Asia-Pacific Bioscience Center in Beijing, Alltech experienced explosive growth in the sales of its products. A subsidiary corporation, "Beijing Alltech Biological Products Co. Ltd." was established in 1997 for the manufacture of three products for other Asia branches and local distribution of products.

Lyons cites political and economic stability in China as paramount concerns for the company in deciding on further investment in equipment and assets. Congressional passage of PNTR with China would contribute to a stable U.S.-China trade relationship and help Alltech continue to build on its success.



Alltech, Inc.
Nicholasville, Kentucky

Amalliy International
Dallas, Texas

Blaine Construction Corporation
Knoxville, Tennessee

Centrifugal Casting Machine Co., Inc.
Tulsa, Oklahoma

eFruit International Inc.
Orlando, Florida

Hudson Pecan Company, Inc.
Ocilla, Georgia

ICS Logistics
Jacksonville, Florida

International Innovations, Inc.
Austin, Texas

Kanawha Scales & Systems, Inc.
Poca, West Virginia

Lantech, Inc.
Louisville, Kentucky

Leapfrog Smart Products, Inc.
Maitland, Florida

Play By Play Toys and Novelties, Inc.
San Antonio, Texas

Post Glover Resistors, Inc.
Erlanger, Kentucky

Sally Corporation
Jacksonville, Florida

Style USA Group Corp.
Dallas, Texas

Summit Environmental Corporation, Inc.
Longview, Texas

T-Tech Inc
Atlanta, Georgia

Tang Energy Group, Ltd.
Dallas, Texas

Major Exports—Southeast/Southwest

- Chemical Products
- Industrial Machinery and Computers
- Electric and Electronic Equipment
- Agricultural Products
- Food Products



Amallis International

Dallas,Texas
Dejan Rajcic, President
http://www.amallis.com/

Industry: Automotive
Number of U.S. Employees: 3
Major Products Sold to China: Glass products for the automotive market and plastic tools for automotive applications.
Years of Involvement in China: 8

Amallis International is a true competitor in the global arena, with 90% of the company's sales coming from international trade. The company's primary business is the export of numerous high-quality, patented, "Made-in-USA" automotive products, with a specific focus on automotive tools.

In addition to China, Amallis International also exports its automotive products throughout Western Europe, and to Japan, Australia, and some Latin American and Middle Eastern countries. It is not surprising, then, that company Vice President Ghassan Massi is a strong proponent of the benefits of trade. "We believe in free trade with nations. And in international trade there is something called 'comparative advantages.' If we can offer and manufacture products with good quality at competitive prices, we have the advantage. When products have a patent, they are usually protected in the countries that have signed intellectual property agreements. This also can work with China."

U.S. companies in the automotive sector will be some of the biggest winners if the Congress extends permanent normal trade relations status to China. Auto tariffs will drop from current levels of 80-100% down to 25%, and quotas will be phased out. Non-bank financial institutions will be permitted to provide auto financing without any limitations, and auto companies will have full rights to distribute their goods throughout the Chinese market. Says Massi, "Our business can grow by 10-15% as the Chinese automotive market grows and is more open to U.S. products."

Blaine Construction Corporation

Knoxville, Tennessee
W. Colby Reeves, Jr., Executive Vice President
http://www.blaineconstruction.com

Industry: Construction
Number of U.S. Employees: 50 in Tennessee and 350 field employees across the U.S.
Major Product Sold to China: Building materials
Years of Involvement in China: 4
Exports to China as a Percentage of Gross Sales: Nearly 2%

Blaine Construction Corporation designs, fabricates and ships to construction job sites in China specific building materials for the construction of industrial facilities. The company also has provided technical personnel as advisors to the local on-site contractors for installation of its materials.

Blaine Construction's experience in China began in 1996. The company credits its success in China to partnering with other U.S. firms already established in China, and paying attention to the details required for the export of materials to China. While Blaine Construction has done business in Chile and Venezuela, its volume of business with China is substantially greater than with other countries at this time.

Blaine Construction has found the Chinese to be good trading partners. Executive Vice President W. Colby Reeves says that he looks forward to continued strong growth in the China market, and understands the importance of PNTR to removing tariff and non-tariff barriers to American products to the benefit of his company and others like it.



The Southeast/Southwest

"The significant increase in exports of goods and services to China, as a result of the U.S.-proposed trade agreement, will bring a great deal of economic opportunity to our country that will be increasingly enjoyed by companies of all sizes. We need to work together — and I appreciate the U.S. Chamber of Commerce's commitment in this regard — to create opportunities for small and medium-sized businesses, like subcontractors and suppliers, to benefit from increased trade with China."

—Rep. Jim Davis (D-FL-11)

Centrifugal Casting Machine Co., Inc.

Tulsa, Oklahoma
W. Thomas McKee, President
http://www.ccmcotulsa.com

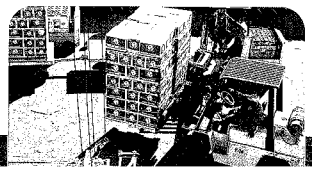
Industry: Manufacturing
Number of U.S. Employees: 83
Major Product Sold to China: Equipment for production of pipe
Years of Involvement in China: 18
Total Sales in China: Over $10 million



Centrifugal Casting Machine Co., Inc. (CCMCO) manufactures foundry equipment used in the production of various parts for industries such as automotive, petrochemical and infrastructure development. Utilizing its unique technology, the company has supplied equipment for production of water pipe, soil pipe, cylinder liners and alloy steel tubes in China. Since 1982, CCMCO has completed 8 projects in China.

Company employees have made over 80 trips to China to establish and develop the relationships that led to CCMCO's valuable share of China trade. "It would be a shame to lose these valuable relationships should Congress fail to pass PNTR with China," remarks President W. Thomas McKee. CCMCO plans to continue building its business relationships in China by participating in a major trade show in Beijing in May.

"Our business in China always happens in cycles," notes McKee. "Congressional passage of PNTR with China will help American companies like mine be viewed as more reliable business partners."



eFruit International Inc.

Orlando, Florida
Gordon E. Hunt, Executive Vice President
http://www.efruitinternational.com

Industry: Agricultural products broker
Number of U.S. Employees: 20
Major Products Sold to China: Fresh fruit and fruit juices
Years of Involvement in China: Approximately one year
Projected Percentage of Gross Sales to/from China: 12%

Established in 1999, **eFruit International, Inc.** operates a global online trading service for agricultural products, primarily fresh fruit and fruit juice. With its international headquarters in Orlando, Florida, eFruit's member network offers 24-hour global trading to pre-qualified buyers and sellers, thereby lowering administrative costs and offering savings on shipping, storage and handling. The eFruit electronic commerce network enables member companies to transact their regular business on an international scale in a faster, cheaper and more efficient manner.

From the beginning, eFruit tapped the China market by enrolling Chinese apple juice processors in its electronic buyer-seller network. Although e-Fruit plans to expand into Asia in the coming year and eventually hopes to earn 10-15% of gross revenues from the China trade, the company finds that Chinese barriers to the importation of agricultural products from the U.S. greatly limit market penetration. "Normalizing trade relations between the U.S. and China would be good for our company. China is becoming a major user of the internet," says Gordon E. Hunt, Executive Vice President. "Any easing of trade frictions will increase the use of the internet for business-to-business (B2B) applications."

Hudson Pecan Company, Inc.

Ocilla, Georgia

Dr. Randy Hudson, Owner and CEO

Industry: Agriculture
Number of U.S. Employees: 50
Major Product Sold to China: Pecans
Years of Involvement in China: 1
Annual Sales in China: $50,000

"The Georgia pecan industry needs a positive vote on China PNTR. It is of utmost importance to our industry that we export. We are now looking at two years of excess production and domestic prices will fall. The opportunity to move pecans away from the domestic market will support and help farmers and business owners, like myself, stay in business," states Dr. Randy Hudson, Owner and CEO of **Hudson Pecan Company, Inc.**

Hudson attributes his relatively quick sale of 50,000 pounds of Georgia pecans to China to the fact that his first shipment was accurate and the Chinese felt they were getting a fair price for good quality products. According to Hudson, China has nearly 1.3 billion people to feed and pecans are a main part of the traditional diet. Hudson adds that "we need to pass China PNTR in order to guarantee that we can be competitive and that we can have a new market for our Georgia pecans."



ICS Logistics

Jacksonville, Florida

Henry J. Kohlmann Jr., Chief Operating Officer

http://www.icslogistics.com

Industry: Transportation logistics
Number of U.S. Employees: 200 employees in Florida and Georgia
Major Services to China: Ocean container transportation for the poultry industry
Years of Involvement in China: 2 years
Exports to China as a Percentage of Gross Sales: 20%

"The far-reaching benefits of China PNTR will affect the whole maritime community, including longshoremen, truckers, and clerks. Congressional passage of PNTR will expand the market for food products, allowing us to continue to provide jobs in Jacksonville."

—Henry J. Kohlmann, Chief Operating Officer, ICS Logistics

ICS Logistics helps the poultry industry in the southern United States export to China by providing timely, accurate, and economical services. The company's cold storage cargo terminals and intermodal transportation network enable ICS Logistics to provide transportation of containers to East Coast seaports, export inspection for the U.S. Department of Agriculture, and loading of frozen poultry into ocean containers.

ICS Logistics began shipments to China in 1998 and has profited from increased frozen poultry sales to China. Today, nearly one-third of its total export shipments are to China. With PNTR, substantial reductions in tariff and non-tariff barriers on poultry products will greatly benefit American producers, leading to even more exports.

The employees of ICS Logistics stand prepared to manage the expected significant increase in shipments of frozen food and agricultural products to China by adding to its dedicated staff of workers in the southeastern U.S.

The Southeast/Southwest

International Innovations, Inc.

Austin, Texas
Ralph Edwards, President
http://www.woodhangers.com

Industry: Manufacturing
Number of U.S. Employees: 6 in Austin, TX and 60 in Gallatin, TN
Major Products Sold to China: Raw lumber (export); garment hangers (import)
Years of Involvement in China: 7
Exports to China as a Percentage of Gross Sales: 8%

International Innovations, Inc. manufactures and distributes wooden garment hangers for garment manufacturers, department stores, specialty stores, hotels, and mail order firms. To keep customer costs as low as possible, International Innovations has exclusive manufacturing agreements with factories in China. And to ensure quality, all of the production from China is shipped to its manufacturing and distribution facility in Gallatin, Tennessee, for quality control, imprinting, and distribution.

The company started importing hangers from China in 1993, and exporting raw lumber to China in 1998. President Ralph Edwards speaks highly of his Chinese business partners. "We have found the companies we are working with in China to be very cooperative in developing new products." Edwards believes passing permanent normal trade relations with China will mean even more sales and income for American companies, and will encourage other small companies like his to find success in the China market.



Kanawha Scales & Systems, Inc.

Poca, West Virginia
William J. McHale, Vice President
http://www.kanawhascales.com

Industry: Manufacturing
Number of U.S. Employees: 185 in Poca, Parkersburg, and Fairmont, WV; Pikeville, KY; Cincinnati, Dayton, and Columbus, OH; Dearborn and Flint, MI
Major Product Sold to China: High-speed train loading systems
Years of Involvement in China: Over 14
Exports to China as a Percentage of Gross Sales: 12-18%

"If PNTR is not passed, the opportunities that we now enjoy will be put at risk, with our competitors in other countries the likely beneficiaries," says William J. McHale, Vice President of **Kanawha Scales & Systems, Inc.** Specializing in the design and construction of weighing, control and material handling systems, the company is developing high-speed train loading systems for use in the Chinese coal industry. The scope of work includes the complete electrical, structural, and mechanical design of the train loading towers.

Kanawha Scales & Systems first explored the Chinese market in late 1985 and signed its first order in August of 1991. Since then, the company has signed contracts in China totaling over $13 million dollars, including a recent order of approximately $3.1 million.

Much of the company's success in China comes from meticulous efforts to establish working relationships and build trust with contacts in the Chinese coal industry. As part of its long-term commitment to the China market, Kanawha Scales and Systems has engaged other West Virginia companies in China through trade delegations and trade shows. In addition, the company has been active in hosting Chinese delegations and dignitaries visiting the United States.

McHale urges Congress to establish permanent normal trade relations with China to demonstrate support for the efforts of American companies over their competitors in the China market.



Lantech, Inc.

Louisville, Kentucky
James Lancaster, President and CEO
http://www.lantech.com

Industry: Manufacturing
Number of U.S. Employees: 320
Major Product Sold to China: Packaging machinery
Years of Involvement in China: 2

"China is one of the most challenging countries to do business with in Asia, in part because of its high trade barriers. Once tariffs are reduced, China could become an extremely lucrative market," notes Shawn Anderson, International Sales Manager of Lantech, Inc., a manufacturer of packaging machinery. Since 1998, the company has been selling its equipment through a distributor with five different offices throughout China. The distributor expressed an interest in Lantech's equipment because it complimented machinery that the former was already selling.

Anderson attributes the company's success to a strong emphasis on research and development to assure that they are always finding innovative solutions for their customers. Lantech's international sales have grown as they customized machines to meet the needs of specific requirements for overseas markets.

Anderson estimates that Lantech sales in China would grow between 30-50% if permanent normal trade relations status is extended to China. "If Congress approves PNTR, our company's sales would increase, as it would reduce the effective price of our machines."

Leapfrog Smart Products, Inc.

Maitland, Florida
Dale Grogan, President
http://www.leapfrog-smart.com

Industry: Computer software
Number of U.S. Employees: 50
Major Product Sold to China: Software applications for smart cards
Years of Involvement in China: 2
Exports to China as a Percentage of Total Exports: 40%

From the vantage point of a small, U.S. software company, "The swift march of China's estimated 1.2 billion people from an agrarian nation, through an industrialized era and into the information age is a breathtaking business opportunity," comments Dale Grogan, President of **Leapfrog Smart Products, Inc.**

The firm develops software for smart cards, which are mini-computers embedded in plastic the size and shape of a credit card. In testimony before the House Committee on Ways and Means, Grogan stated that his company plans to issue smart cards to every Chinese adult over the next four years. Leapfrog Smart Products believes that China's greatest resource is its collective buying power, and China recognizes this and rightfully protects that resource. However, business cannot be done effectively in China without a strong in-country partner.

The company's joint venture in China establishes a new business model. According to Grogan, "The parameters of our joint venture are that the Chinese partners not only contribute a factory and a skilled labor force, but also serve as bona fide investors in the deal with capital of their own at risk. Without a partner who is motivated by profits, you're dead."

For Leapfrog Smart Products, passage of PNTR will improve access to the China market and allow expansion of its operations in the United States. Grogan remarks that the positive fallout from doing business in China is simple: jobs. "High-tech engineering jobs, service jobs, support jobs, production jobs. The point is that for every solution sold in China, bunches of jobs are created here in the United States. These jobs fuel our economy."

The Southeast/Southwest

Play By Play Toys and Novelties, Inc.

San Antonio, Texas
Raymond Braun, President
http://www.pbyp.com

Industry: Toy manufacturing and distribution
Number of U.S. Employees: 400
Major Products Imported from China: Plush toys and novelties
Years of Involvement in China: 13

"America has the ability to do much more export business with China, but that country needs to enforce trade laws, patent protections, and other WTO requirements," asserts Raymond Braun, President of **Play By Play Toys and Novelties, Inc.**, which develops, designs, manufactures and distributes toys.

The company has been involved in the China market for over a decade. Material manufacture and sewing are done in China, and toy stuffing is generally done in the United States. At this point, Play By Play Toys and Novelties only imports goods from China. Braun notes that PNTR will permit sales to China through better enforcement of the company's toy licenses. "Without the enforcement of licenses and contracts, Chinese manufacturers will simply copy our products and sell them in China without the cost of research and development or royalties, making it impossible for us to be price competitive."

Braun notes that positive trade relations with China have already had a huge impact on the welfare of a tremendous number of Chinese. "Living conditions have significantly improved due to the presence of U.S. companies in China. I have visited many manufacturing plants and I see improvements in the quality of life for a greater percentage of the population every year."

"The bottom line is we need China to join the WTO and Congress to approve PNTR. It's important to us as Americans and as businesspeople. This agreement is about giving us greater access to world markets and improving our standard of living through better access to human resources, product improvements and lower costs," explains Braun.

Post Glover Resistors, Inc.

Erlanger, Kentucky
Neil Gambow, President
http://www.postglover.com

Industry: Manufacturing
Number of U.S. Employees: 120
Major Product Sold in China: Electrical resistors
Years of Involvement in China: 5
Growth Since Beginning Operations: 150%

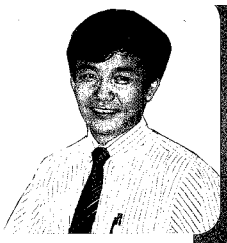
Founded in 1892 and dedicated to supplying the electrical industry with quality products and services, **Post Glover Resistors, Inc.** has seen its market share grow due to its commitment to customer service. The company is the number one worldwide producer of heavy-duty resistors.

In the summer of 1995, Post Glover Resistors ran an editorial in the Asian Electrical Journal explaining the benefits of grounding power systems with the use of its neutral grounding resistors to ensure quality and reliable power. Soon, the firm was contacted by the Shenzhen Farad Complete Equipment Company in China. Several weeks later, Post Glover Resistors decided it was the right time to make a visit to Shenzhen.

That first trip actually resulted in a small order for use by the Shenzhen power supply bureau, but more importantly, Post Glover Resistors laid the groundwork for a long-term business relationship and friendship. It built a strong trust, which is the key to growing business in China.

Sales continue to grow, and Post Glover Resistors is now selling to some of the larger transformer and generator manufacturers in China. The company continues to be very active in support of China's admission to the World Trade Organization and in support of permanent normal trade relations status.





Sally Corporation

Jacksonville, Florida
Howard Kelley, President and Director
http://www.sallycorp.com

Industry: Robotics
Number of U.S. Employees: 60
Major Product Sold in China: Animatronic robots
Years of Involvement in China: 8
China Exports as a Percentage of Total Business: Up to 40% in many years



Sally Corporation was founded in 1977 to merge technologies and art to create memorable entertainment and educational experiences. Artists, designers, technicians, and managers create ideas for animated robotic characters, and then fabricate the characters through every step of the manufacturing process. Through the years, the company has created thousands of characters, theatrical productions, shows and special effects for theme parks, museums, motion pictures, and corporate clients throughout the world.

Sally Corporation sells to amusement parks and attractions in four locations across China. "Like other small businesses, we entered the China market with a great deal of trepidation," recalls Howard Kelley, President and Director of Sally Corporation. "Eight years ago, we were asked to conduct all negotiations in China, using Chinese contracts, and with letters of credit that were geared toward China's needs. Gradually, we've seen a westernization of Chinese business practices, such that our last transaction with China was no different than it would have been with a European business partner."

Kelley believes that China's entry into the World Trade Organization and Congressional support for permanent normal trade relations will bring China still further into a rules-based system, which will encourage other small businesses to take advantage of the enormous opportunities in the China market.

Style USA Group Corp.

Dallas, Texas
Charles Li, CEO

Industry: General Trading
Number of U.S. Employees: Approximately 30
Major Products Imported from China: Furniture, lamps, arts and crafts
Years of Involvement in China: 11
Percentage of Gross Sales Due to Imports from China: 90%

"When I came to the United States in 1988, I realized I could make a good living by doing business with China. I am originally from China and still have many contacts there," recounts Charles Li, CEO of **Style USA Group Corp.**

After eleven years in business, Li owns and operates six enterprises in the Dallas area. Among the companies are Rosewood Fine Furniture, International Travel Center, and China Group USA, Inc.

International trade has been key to the growth of Style USA Group, and most of Li's companies are directly engaged in trade with China. Rosewood Fine Furniture imports from its factory in China furniture for wholesale and retail sales across the United States. As the volume of furniture and other imports has increased, so too has Style USA Group's workforce, doubling in the past five years. With the passage of China PNTR, Li estimates 20-30% growth in his business, and expects to add more employees to his payroll.

"PNTR is good for my business today, and for people who are interested in doing business in China in the future," notes Li.

The Southeast/Southwest

Summit Environmental Corporation, Inc.

Longview, Texas
Keith Parker, Chairman and CEO
http://www.seci-us.com

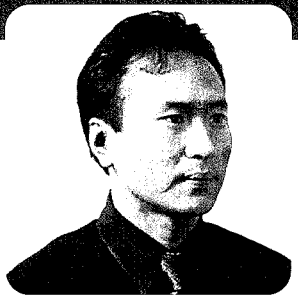
Industry: Environmental services
Number of U.S. Employees: 8
Years of Involvement in China: Presently negotiating to enter the China market

Summit Environmental Corporation, Inc. has found great success in foreign markets, with over 50% of its gross sales derived from exports. The company develops, manufactures and distributes non-toxic, biodegradable products for environmental cleanup, and more efficient, environmentally friendly methods to deal with current toxic exposures. Products for export are marketed through strategic alliance partners around the world.

China is a market that holds much promise for Summit Environmental Corporation's products as the country focuses greater attention on environmental protection. The company is currently negotiating with two groups for rights to sell its products in China. Despite some past challenges involving a decision not to release information on its proprietary formulas, Chairman and CEO Keith Parker remains optimistic. "As a U.S. company with a unique product line and long-term vision, we want to operate in China with professional business standards and ethics. Congressional passage of PNTR would be good for our small business in that it would give us better avenues to ensure protection of our patented goods."

Intellectual property rights (IPR) protection in China is vital for companies of all sizes, but there is a special need for IPR protection for small companies in unique technologies or processes. Once China enters the World Trade Organization, U.S. companies like Summit Environmental Corporation will benefit from the organization's strong dispute resolution mechanism to address IPR or other trade violations in a timely, decisive way.





T-Tech, Inc.

Atlanta, Georgia
Jay Kim, President and CFO
http://www.t-tech.com

Industry: Manufacturing
Number of U.S. Employees: 30
Major Product Sold in China: Quick circuit prototyping milling machines
Years of Involvement in China: 5
Annual Sales in China: $60,000

"Passage of China PNTR is essential to the expansion of our sales in China. Our competitors in Japan and Germany will be able to take advantage of lower tariffs and we will be on the outside looking in," says **T-Tech, Inc.'s** President and CFO, Jay Kim.

For five years, T-Tech has been building relationships with universities and corporations in China to sell their prototyping milling machine. This machine offers a cost-saving alternative for design engineers to test circuit board designs before proceeding to production. It has applications in telecommunications, radio, microwave and space research.

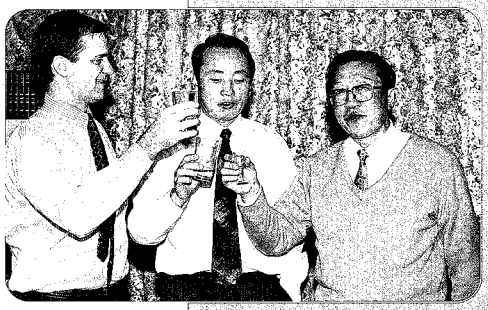
T-Tech made the decision to develop China as a marketplace due to its prior successes in Japan and other Asian countries. "Of course, China is a much more difficult market to penetrate because of high tariffs and controls, but with PNTR, we see huge potential for our systems and the potential for ten times the business in five years. This means more and better jobs here in Georgia," comments Kim.

Tang Energy Group, Ltd.

Dallas, Texas
E. Patrick Jenevein III, President
mail@tangenergy.com

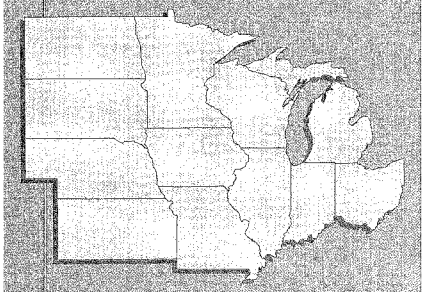
Industry: Energy
Number of U.S. Employees: 6
Major Product Sold to China: Clean energy products
Years of Involvement in China: 5

Tang Energy Group, Ltd., develops integrated energy projects that provide clean energy to Chinese consumers. These projects include natural gas and wind-driven electricity production, natural gas compression and processing, and natural gas pipelines. The company began work in China in 1995 to address the Chinese National Petroleum Corporation's (CNPC) need for small, reliable and remotely located natural gas processing facilities.



One hundred percent of Tang Energy Group's revenues come from selling energy and equipment to China. E. Patrick Jenevein III, President, predicts that Tang Energy Group would grow immediately if China removes its trade barriers because the company would have better access to insurance products that ameliorate risk associated with any energy project. Shedding risk would allow project owners to reduce costs and increase access to capital markets. Jenevein believes that permanent normal trade relations with China means more stability in that country, "which will make our world more prosperous for future generations."

The Midwest



Aqua-Aerobic Systems, Inc.
Rockford, Illinois
Robert Wimmer, President
http://www.aqua-aerobic.com

Industry: Environmental services
Number of U.S. Employees: 135
Major Products Sold to China: Wastewater treatment equipment
Years of Involvement in China: More than 4
Exports to China as a Percentage of Gross Sales: 5%



Aqua-Aerobic Systems, Inc. manufactures and sells wastewater treatment equipment to municipal and industrial customers. The Chinese government's commitment to its country's infrastructure and the need for high quality environmental technologies make China one of the company's largest potential markets.

The modernization of cities throughout China requires construction of sewage treatment plants. In addition, local Chinese officials are looking to bring investments into their communities. "While opening a local office is not feasible for a company of Aqua-Aerobic Systems' size, we are positioning ourselves to take advantage of the many new opportunities resulting from economic growth in China," says Sharon DeDoncker, Vice President, International.

With U.S.-China relations on a more sound footing after passage of PNTR, DeDoncker expects that Aqua-Aerobic System's sales would increase an additional 10% over the current rate of growth. "The potential of the China market is obvious to all companies in our industry. Our strongest competitors are in Europe and Asia. Without passage of China PNTR, we will be at a disadvantage when quoting against these companies," cautions DeDoncker.

Aqua-Aerobic Systems, Inc.
Rockford, Illinois
Behlen Mfg. Co.
Columbus, Nebraska
Brostuen International, Inc.
St. Paul, Minnesota
DH Pacific, Ltd.
Gahanna, Ohio
Digital Storage, Inc.
Lewis Center, Ohio
DTI Peer
Benton Harbor, Michigan
Holophane
Newark, Ohio
Lynnhurst, Inc.
Birmingham, Michigan
Malichi International, Ltd.
Indianapolis, Indiana
Prestige Enterprise International
Cincinnati, Ohio
Processed Plastic Company
Montgomery, Illinois
Roto-Rooter Corporation
West Des Moines, Iowa
Snider Mold Company, Inc.
Mequon, Wisconsin
TradeCom International, Inc.
Solon, Ohio
Tramco, Inc.
Wichita, Kansas

Major Exports—Midwest Region

Electric and Electronic Equipment
Chemical Products
Food Products
Agricultural Products
Industrial Machinery and Computers

"The U.S. Chamber of Commerce understands that international trade is more than raw statistics. The Chamber has compiled these real-life stories of the positive impact of China trade on small business exporters. Few people know that 82 percent of all direct U.S. exporters to China are small and medium-sized companies, and that they generate 35 percent of the dollar volume of all U.S. exports to China. This is not even counting all the small business suppliers to larger firms that export to China. This study prepared by the U.S. Chamber puts real faces behind these statistics."

—Rep. Donald A. Manzullo (R-IL-16), Chairman, House Small Business Subcommittee on Tax, Finance, and Exports

"Improved trade with China would allow U.S. farmers to export more grain to China and, in turn, create a greater demand for storage of this commodity. PNTR with China will give us a more competitive position to take advantage of this win-win situation."

—Richard F. Casey, Senior Vice President, Behlen Mfg. Co.

Behlen Mfg. Co.

Columbus, Nebraska
Anthony F. "Tony" Raimondo, President and CEO
http://www.behlenmfg.com

Industry: Manufacturing
Number of U.S. Employees: 1,560 at plants in Columbus, NE; Goshen and Connersville, IN; Huntingdon, TN; Dublin, GA; Baker City, OR; and Cullman, AL
Major Products Sold to China: Metal building, and grain storage and drying systems
Years of Involvement in China: Over 15
Exports to China as a Percentage of Annual Sales: Approximately 10%

With domestic agricultural markets in the doldrums in the 1980's, **Behlen Mfg. Co.** sought to diversify its product lines and markets by exploring international markets. Export sales by this diversified agricultural manufacturer now account for 15-20% of gross sales and over 125 jobs. China is the company's primary foreign market, mostly for metal buildings, grain storage and drying systems. Behlen has established a marketing office in Shanghai to support its business in the China market.

According to Senior Vice President Dick Casey, Chinese customers have indicated a preference for Behlen Mfg. Co.'s products due in large measure to its excellent reputation, quality products, and high level of after-market service.

A Congressional vote in favor of PNTR would phase out numerous barriers to trade that Behlen currently faces. Anticipating an annual sales increase of 10-15% after passage, Casey notes "PNTR with China will ensure a more level playing field in a very competitive market and will allow us to continue to grow and employ more people."

Brustuen International, Inc.

St. Paul, Minnesota
Eldon Brustuen, President

Industry: International consulting and trade management
Number of U.S. Employees and Consultants: 12
Major Services in China: Joint ventures
Years of Involvement in China: 12
Exports to China as a Percentage of Gross Sales: 35%

Brustuen International, Inc. is a trade brokerage firm that specializes in matching buyers and sellers. The company was founded in 1986 by Eldon Brustuen, former Director of International Trade for the Minnesota Trade Office.

Originally profiled in the 1998 edition of this report, the company is involved in business ventures throughout Asia and in South Africa. Currently, its most significant market is in China, where the company established a publishing joint venture with China's leading publisher of economic information.

Vice President David Melander cites understanding of the target market and furthering the knowledge of his clients about those markets as paramount to Brustuen International's success. For example, understanding the purposes behind Chinese regulations makes them more transparent and easier with which to comply.

Melander predicts many U.S. competitors will enter the China market once there is more openness in the publishing field. "We see PNTR as vital to integrating China into the world economy for now, and to moving it towards more democratic government structures into the future. There is a direct connection."



The Midwest

DH Pacific, Ltd.

Gahanna, Ohio
E.H. Tripp Decker, President



Industry: Consulting
Number of U.S. Employees: 2 staffers representing the employees of 3 client companies
Major Services to China: Consulting services for drug, biotechnology, medical and laboratory companies
Years of Involvement in China: 4

Says **DH Pacific, Ltd.** President Tripp Decker, "We help young biotechnology companies use the China market to gain the experience of being a full commercial company so they can later bring those skills back to the United States to develop business at home." DH Pacific, Ltd. helps smaller companies accelerate their growth via pathways other than the oft-used, low-revenue option of out-licensing of technology to large pharmaceutical and device companies.

"We assist our biotechnology clients to arrange agreements whereby large companies get the rights to develop a drug, but where the China market is excluded from the package. The small companies continue to develop the products in China, generally funded by joint venture partners, and learn to build a commercial business."

Decker says that his clients' sales stand to grow considerably when China implements the terms of the U.S.-China WTO agreement. "The agreement minimizes the risk of doing business in China and reduces the uncertainties of working together with joint venture partners. Finding cures for diseases should be considered a 'mankind' issue and U.S.-China cooperation in this area should be encouraged."

Digital Storage, Inc.

Lewis Center, Ohio
George Babyak, President
http://www.digitalstorage.com

Industry: Computer services
Number of U.S. Employees: 85
Major Products Sold to China: Optical disks and data cartridges
Years of Involvement in China: 4
Exports to China as a Percentage of Total Export Sales: 5% (1999), 14% (YTD 2000)

Founded in 1986, **Digital Storage, Inc.** is a specialty distributor of new technology computer supplies. Its products include optical disks and drives, CD-ROMs, diskettes, printer accessories, power supply products, and other accessories. Digital Storage is a young, dynamic company that emphasizes the sale of high-quality, internationally known, name-brand product lines.

"China, with its sheer market size, is obviously a major target for our company," said Hilary Conard, Director of Worldwide Operations. "Our business is growing quickly, and by hiring a sales representative from China, we've been more successful in building relationships there." Digital Storage does encounter certain barriers to doing business in the China market. Says Conard, "If a prospective Chinese partner company is not large enough to have its own distribution network, we can't do business with them. And high tariffs on our products limit our competitiveness."

Winning significant tariff reductions and the right to distribute its products throughout the China marketplace are major reasons Digital Storage believes the U.S.-China WTO agreement is critical to its future success in China. Unless Congress approves permanent normal trade relations with China, however, only Digital Storage's overseas competitors will be able to take advantage of these benefits.



DTI Peer

Benton Harbor, Michigan
Arthur L. Anderson, Division President
http://www.dtipeer.com

Industry: Manufacturing
Number of U.S. Employees: 117
Major Products Sold to China: Welding machines
Years of Involvement in China: 1
Exports to China as a Percent of Gross Sales: 5%

"Our business can grow in China with passage of PNTR. We are successful now because we produce highly reliable equipment, and because we are a U.S. company, we have credibility," comments Arthur L. Anderson, Division President of **DTI Peer.** The company produces single station, custom welding machines used to manufacture other products.

DTI Peer entered the China market by selling equipment to U.S. companies with factories located in China. These manufacturing facilities produce compressor components for heating, ventilation and air conditioning (HVAC) systems for use in China. DTI Peer machines also manufacture components for the domestic Chinese appliance industry, and automotive seating and storage shelving.

Anderson notes that the rapid development of the Chinese market and the supporting infrastructure will lead to increasing demand for manufactured products. However, duties imposed by China on U.S. products make it difficult to sell competitively to Chinese companies. "We need PNTR to lower the barriers. China is a developing market that needs to be served by someone, somewhere in the world. Why not us?" asks Anderson.



Holophane

Newark, Ohio
John Morgan, President
http://www.holophane.com

Industry: Lighting
Number of U.S. Employees: Approximately 900 in Newark, Utica, Pataskala, and Springfield, OH; and Austin, TX
Major Products Sold to China: Industrial and roadway lighting equipment
Years of Involvement in China: 5

This mid-sized company won one of the contracts to light the beltway around Guangzhou, the southern Chinese city just across the border from Hong Kong. "The massive project is the equivalent of lighting the I-270, I-71, and I-70 interchanges around Columbus, Ohio," exclaims Thomas Salpietra, **Holophane's** Director of Worldwide International Sales. "Our participation in this project has allowed us to boost production and employment at home."

The company's first foray into the China market was on a trade mission five years ago. Thanks to that trip, and with the help of the Ohio Department of Development, the company made a number of valuable business contacts. In 1998, Holophane opened an official Representative Office in Shanghai, and shortly thereafter, won the roadway lighting contract. China now represents the company's single largest roadway lighting systems market outside the United States.

How will China's entry into the World Trade Organization (WTO) affect Holophane's bottom line? Salpietra explains, "We will be much more competitive when tariffs on our products come down by 15%. And there are now only 16 government-approved trading companies that can import goods. If China enters the WTO and Congress passes permanent normal trade relations, we will be able to reach our ultimate customers directly."

The Midwest

Lyonhurst, Inc.

Birmingham, Michigan
Donald L. Bush, President

Industry: Computer Services
Number of U.S. Employees: 23
Major Products Sold: Computer Aided Design Software

Although not doing business directly with China, **Lyonhurst, Inc.** provides computer services to the commercial division of the primary U.S. aircraft manufacturer. The Boeing Corporation provides high accuracy engineering documents and Lyonhurst converts them into intelligent computer files.

Lyonhurst would expect a 20-30% increase in employment resulting from the broad expansion of business in the China market that Boeing expects after passage of PNTR. Thus, the fortunes of this high technology company are very closely tied to the market prospects of its largest customer.

Founder and President Donald L. Bush believes that failure to pass permanent normal trade relations will "drive China into the arms of Airbus (Industries), thereby abdicating to the Europeans the fastest growing market for our largest U.S. exporter."

"PNTR will benefit small businesses in a number of ways, but I would like to stress two important areas. First, PNTR means more exports to China by American businesses — of all sizes. While many businesses will see expanded opportunities to export directly to China, others will benefit from the goods and services they supply to larger companies that do business with China. Second, small businesses will gain from the application of WTO rules to China. Family companies, with limited resources, often cannot meet the current challenges of China's complex import regulations. The greater transparency and compliance China has agreed to through PNTR will make it easier for small American companies to enter the Chinese market."

—Rep. Tim J. Roemer (D-IN-3)





Malichi International, Ltd.

Indianapolis, Indiana
Toby Malichi, Founder and President

Industry: International business development
Number of U.S. Employees: 3, Representing client companies in Washington, DC; Miami, FL; Chicago, IL; Indianapolis, IN; and New York, NY
Major Services Sold to China: Coal Technology
Years of Involvement in China: 4
Services to China as a Percentage of Total Business: 15-17%

Founded in 1982, **Malichi International, Ltd.** is an international business development, outsourcing, and trade representation firm that helps to secure sales and project contracts for its clients and partners. The recipient of numerous small business and procurement awards, Founder and President Toby Malichi manages long-term business relationships, and sees the China market as holding much promise for American companies, particularly the small and mid-size firms that are his primary focus.

"I have found the Chinese to be quite receptive to working with small and medium-sized enterprises. They seem determined to help us arrive at a mutually beneficial business relationship," he notes. Malichi became involved in the China market in 1996, working on behalf of a client whose technology is used to make brisquettes of coal that emit very low smoke. The concept was very well-received by the partner Malichi identified in North China, an area that depends heavily on burning coal for fuel and which must cope with the associated pollution.

Malichi did encounter challenges related to requests to transfer his client's technology, but secured an arrangement that served his U.S. client's best interests. Financing issues are still being finalized, but the ventures, which will be worth $40-60 million in earnings annually per project, will benefit both the U.S. firm and China's environmental protection efforts. Malichi emphasizes that securing permanent normal trade relations with China is an overriding concern for him and investors in his projects. "These types of mutually beneficial partnerships won't be possible if we don't put the U.S.-China commercial relationship on a sound footing."

Prestige Enterprise International

Cincinnati, Ohio
Charles Gabbour, President
http://www.prestigefloor.com

Industry: Building
Number of U.S. Employees: 14, plus 25 overseas employees selling goods produced in Arkansas, Tennessee, Michigan, Ohio and Wisconsin.
Major Product Sold to China: Hardwood floors
Years of Involvement in China: 13
Exports to China as a Percentage of Total Production: 2%



Jeffrey Gabbour, Vice President of **Prestige Enterprise International,** emphasizes the importance of taking a long-term approach to doing business in China, and of being conscious of the unique features of China's different regional markets. "Someone who tells you they can sell your goods in Shanghai probably isn't the one who can do the best job for you in Beijing or Xian."

Prestige Enterprise International's hardwood floor products were selected by Shanghai officials to be used in the China National Games in 1997. Gabbour stresses the importance of relationships in China, and the need to meet face-to-face with potential business partners. To win the National Games contract, company representatives had multiple meetings with Shanghai officials, and sent someone to China at the time of the supply and installation of goods.

Prestige Enterprise International does not yet engage in daily distribution in China. If China joins the World Trade Organization and Congress passes permanent normal trade relations (PNTR), it will be possible for U.S. companies to distribute Made-in-USA goods, and to take advantage of the range of services related to distribution, such as warehousing and after-sales service. Gabbour adds that passage of China PNTR will also mean American companies will be viewed as long-term, reliable partners.

Processed Plastic Company

Montgomery, Illinois
David R. Bergman, President
http://www.processedplastic.com

Industry: Manufacturing
Number of U.S. Employees: Approximately 350
Major Products Purchased from China: Toy parts and assemblies; manufacturing tools
Years of Involvement in China: Over 16
Percentage of Gross Sales from China Imports: 15%

Processed Plastic Company is a U.S.-based toy manufacturer that is benefiting from the growing U.S. import trade with China. The company purchases complete toy parts and assemblies from China, in addition to tools used to manufacture toys. Once the parts arrive in the U.S., they are incorporated as value-added components that comprise 90% of the manufacturing process. Completed toys are then exported to the Mexican and Canadian markets.

Company President David R. Bergman notes that generally, the quality of products purchased in China is good and improving over time. He has visited China regularly and remarks on the vast changes in the quality of life of typical Chinese workers. "I did not see anything but good clean living conditions, and can say that standards have improved in the last 20 years."





Bergman cites the inexpensive costs of products available to U.S. manufacturers as the primary attraction of the China market. While customs and bonding has been a continual source of concern, the lower costs of importing toy parts and assemblies enables Processed Plastic Company to maintain jobs at its U.S. factory. Over the past five years, 50 U.S.-based jobs were created as a direct result of trade with China. Processed Plastic Company expects continued growth after passage of PNTR with China.



Roto-Rooter Corporation

West Des Moines, Iowa
Gary Burger, President
http://www.rotorooter.com

Industry: Plumbing
Number of U.S. Employees: 45
Years of Involvement in China: Less than one year
Expected Product Sales to China: Sewer and drain cleaning equipment

Roto-Rooter Corporation is the world franchising headquarters of Roto-Rooter Inc. This subsidiary of the world's leading plumbing service company manufactures sewer and drain cleaning equipment for export to international franchise licensees in several international markets.

In 1999, the company signed a master franchise agreement for Roto-Rooter (China) Limited, a Hong Kong-based company. While operations are presently in the start-up phase, Roto-Rooter Corporation forecasts that the China market could become its largest international franchise, without exception. Annual gross export sales of 20-25% of total export sales are expected over the next five years.

Roto-Rooter Corporation believes that China offers more potential than any other market in the world. This assessment is based on the rising standard of living in China and a growing appreciation for service that is developing among Chinese consumers. In a culture that values the relationship established between business and consumer, Roto-Rooter Corporation has invested much time in building a relationship with its master franchise partner, based in Hong Kong. While negotiating the 1999 master franchise agreement, Roto-Rooter (China) Limited representatives stressed that their ability to expand the Roto-Rooter business in China would certainly be enhanced if the U.S. had a productive relationship with China.

Director of International Development Paul Barkman sums up the importance of stable trade relations with China to Roto-Rooter Corp's prospects in the China market. "Passage of PNTR with China will only enhance our master franchise's relationship with prospective Roto-Rooter sub-franchisees throughout China."

The Midwest

Snider Mold Company, Inc.

Mequon, Wisconsin
Tim Mieritz, President
http://www.snidermold.com

Industry: Manufacturing
Number of U.S. Employees: 50
Major Products Sold to China: Large molds for molding plastic components for the automotive, seating, and material handling industries.
Years of Involvement in China: 20
Exports to China as a Percentage of Gross Sales: Approximately 10%

Snider Mold Company, Inc. started its China business about twenty years ago by partnering with other companies to put together a turn-key package for molds, including product design, tooling, molding press, and training. The company has also exported its products to Latin American and European countries, and typically supplies multinational corporations, including General Motors, Nissan, and Volkswagen. Snider Mold Company is just one example of how large companies create numerous opportunities for small and medium-sized firms.

While the China market has been a good source of business for the company, it also presents challenges. The duty on metal molds is presently 12% or 37%, depending on the type of product produced. A lack of clear and consistent guidelines on how to do business in China has also been a frustration. Director of International Marketing James Meinert comments, "We could easily double our business with some consistent rules to work with, even if they are not perfect!" Meinert looks forward to the tariff reductions and increased clarity in China's rules and regulations associated with the country's pending entry into the World Trade Organization, and hopes that the Congress extends permanent normal trade relations to China so that Snider Mold Company can take advantage of those benefits.



TradeCom International, Inc.

Solon, Ohio
Edward S. Benhoff, Chairman
http://www.imex.com/wdiyc/members/tradecom.html

Industry: Export marketing
Number of U.S. Employees: 4
Major Products Sold to China: Paint tools
Years of Involvement in China: 5
Exports to China as a Percentage of Gross Sales: 2%

"This country gives up absolutely nothing and gains everything. By opening the market, China becomes a greater part of the world," comments Edward S. Benhoff, Chairman of TradeCom International, Inc. While he has engaged in trade with China through Hong Kong for nearly 15 years, the restrictive costs of tariff and non-tariff barriers to the China market result in lost business for his current enterprise. TradeCom International earns 99% of its revenue from exports, but just 2% of that total comes from sales to China.

Benhoff attributes the importance of knowing the customer and providing service according to customer's needs as the reasons for his success in export markets around the globe. TradeCom International's current Chinese client was contacted through a business reference. After six months of relationship building and country visits by both parties, he is exporting container loads of painting tools to China. Previous deals included shipments of glues and adhesives.

When Congress votes for passage of permanent normal trade relations, Benhoff anticipates a doubling of his company's business in China within the first year after opening China's markets. "We can more easily influence the Chinese through open markets, rather than leaving them isolated."

"The U.S.-China relationship is at a crossroads. The United States has everything to gain and nothing to lose by approving PNTR, and you need to look no further than my home state of Kansas to see that. In 1998, Kansas farmers exported $57.9 million worth of agriculture goods to China. This new agreement increases market access for corn, beans and wheat, and USDA estimates that China could account for 37 percent of future growth in agriculture exports. Clearly the stakes are high."

—Sen. Pat Roberts (R-KS)

Tramco, Inc.

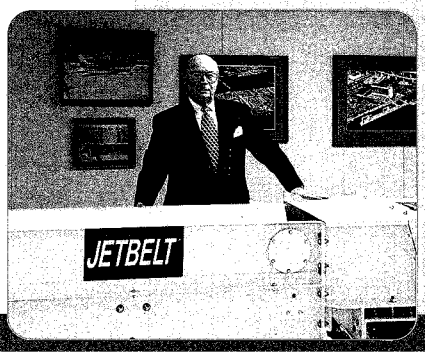
Wichita, Kansas
Leon Trammell, Founder and Chairman
http://www.tramcoinc.com

Industry: Manufacturing
Number of U.S. Employees: 160
Major Product(s) Sold in China: Conveying equipment
Years of Involvement in China: 15

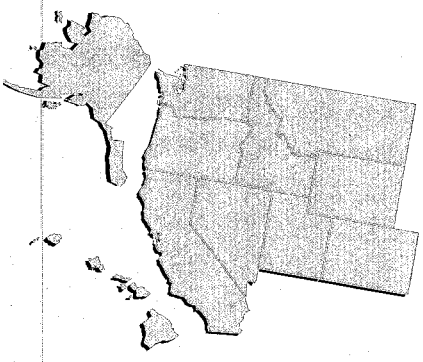
Tramco, Inc. manufactures and sells high-production conveyer product lines. When Tramco first went to China, the grain industry's idea of transporting grain was "one farmer or gardener, one sack of grain and one bicycle." Five years ago saw the beginning of the construction of a system of what the company called country elevators.

They were primarily employed in ship cargo areas. Tramco would like to believe that China is leaving a period of "labor intensity" and entering a period of "brain intensity." Obviously, this shows great promise for a manufacturer of high-quality, labor-saving equipment. Today, Tramco's involvement in China is as a supplier of engineering and manufacturing expertise to provide conveying equipment to a ship unloading facility in Yingkou. This project is one of many financed by the World Bank. With these funds, China is finishing up the greatest grain system expansion the world has ever known. It should be noted that in part due to Congress' annual NTR renewal process, no U.S. design and engineering firms have been involved in these projects. Most of the work goes to Canada, England, Australia and the Netherlands. The current NTR activities take away two qualities that Tramco expects in a long-run client relationship: continuity and consistency.

Withholding permanent NTR status from China restricts Tramco's ability to compete and does not punish China, because the world's largest potential marketplace will buy from some other country. The people being punished are American manufacturers and engineering experts.



The West



Action Instruments, Inc.
San Diego, California

Directions, Inc.
Honolulu, Hawaii

Faber Enterprises, Inc.
Canoga Park, California

Hach Company
Loveland, Colorado

Hamilton Manufacturing Inc.
Twin Falls, Idaho

Jesse Engineering Company
Tacoma, Washington

The KIC Group
Vancouver, Washington

M. Brashem, Inc.
Tacoma, Washington

MailCat.com
North Hills, California

MCM Group Holdings, Ltd.
Honolulu, Hawaii

New Light Industries, Ltd.
Spokane, Washington

Octaxias Company, L.L.C.
Portland, Oregon

PowerQuest Corporation
Orem, Utah

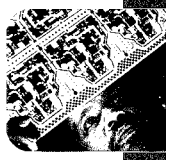
Sports Tutor, Inc.
North Hollywood, California

Major Exports—West Region
Transportation Equipment
Industrial Machinery and Computers
Electric and Electronic Equipment
Scientific and Measuring Equipment
Paper Products

Action Instruments, Inc.

San Diego, California
Frank Williams, President
http://www.actionio.com

Industry: Industrial instrumentation
Number of U.S. Employees: 175
Major Products Sold to China: Control instruments and industrial I/O (input/output) systems
Years of Involvement in China: 15
Exports to China as a Percentage of Total Export Sales: 6%



Action Instruments, Inc. is a world leader in the design, manufacture and distribution of electronic signal conditioning and process control instrumentation. Its primary lines of business are factory automation and the process control industry, which the company views as growth industries for China. In just the past two years, Action Instruments has increased its staff by 10%.

While the Asia Pacific Rim Region is an important part of Action Instrument's business, the company considers China to be its most significant market outside of the U.S. The company has developed long-standing relationships during more than 15 years of doing business with China, establishing and investing in three joint-venture companies located in Hong Kong, Shanghai and Dalian.

Under the U.S.-China World Trade Organization agreement, China would cut tariffs on American electronics by 56% to an average of about 7%. Action Instruments anticipates that its export sales to China would double if Congress votes in favor of PNTR.

"Many difficulties with business issues, people and trade have been overcome. We have learned the most productive ways to deal with our Chinese customers. And we have been rewarded with some measure of success. However we feel that the future can be much more productive if the U.S. Congress passes PNTR with China."

—Thomas Au, Asia Pacific Sales Director, Action Instruments Inc.

"By going directly to small and medium businesses and getting their input on the benefits of China trade, the U.S. Chamber of Commerce has gotten the straight story. In my home state of California, which has the highest number of firms exporting to China, over 84% of those businesses are small and medium enterprises. Expanding the access of America's small businesses to China's huge market will help us maintain our prosperity, while increasing China's exposure to American values."

—Rep. David Dreier (R-CA-28), Chairman, House Rules Committee

Directions, Inc.

Honolulu, Hawaii
James A. Hawkins, President and CEO
http://www.directions-inc.com

Industry: Education
Number of U.S. Employees: 3, also work with 9-90 subcontractors as needed
Major Service Sold to China: Training programs in various fields
Years of Involvement in China: 2

"Passing PNTR places two of the world's greatest economies, and powers, on common ground. It is far better to be partners in business than adversaries in war," states Jim Hawkins, President and CEO of **Directions, Inc.** The company provides distance training programs in the fields of aviation maintenance, executive management, and international business, among others. Directions began doing business in China in 1998 as part of a contract to support American aircraft manufacturing companies. Business has rapidly expanded as the Chinese government addresses training needs throughout its emerging economy.

Last year, the company's percentage of gross sales due to total exports was approximately fifty percent. Speaking conservatively, Jim Hawkins believes that his business would triple if PNTR is extended to China. In his experience of doing business in China, he has found that patience, willingness to see the other side's perspective, and quiet reserve are the most powerful business tools. "China reveres its traditions, its customs, and its philosophy, and we can learn a lot from each other," notes Hawkins.



Faber Enterprises, Inc.

Canoga Park, California
Ron Spencer, President

Industry: Industrial manufacturing
Number of U.S. Employees: 145
Major Product Sold to China: Aerospace tubing
Years of Involvement in China: 10

"We have been a supplier to Boeing for forty-five years, and as their business with China has grown, so has ours," comments Ron Spencer, President of **Faber Enterprises, Inc.** This manufacturer has embraced the Lean Manufacturing principles to create superior value-added tubing products for aerospace companies. Faber also exports to Germany and France, but views China as the market with the most potential.

Behind many major multinational company trade success stories are hundreds of smaller companies like Faber. Spencer comments, "We want to maintain our long-term growth relationship with both Boeing and China. Thus, PNTR is the only correct choice. It is better to trade with China and keep them close. This will further peace and security in the world." Spencer believes that removing Chinese trade barriers to Faber's products could add 5% to its bottom line.

The West

Hach Company

Loveland, Colorado
Elmar Illek, President
http://www.hach.com

Industry: Environmental controls and testing
Number of U.S. Employees: Over 800 in Loveland, CO and Ames, IA
Major Products Sold to China: Scientific instrumentation and testing equipment
Years of Involvement in China: Over 25
Exports to China as a Percentage of Gross Annual Sales: Over 10%

Hach Company develops, manufactures and distributes chemicals and analytical instruments that measure the quality of drinking and wastewater. The Asia region is the company's largest market, with China fast becoming the largest export destination after 15 years of steadily growing sales.

A large percentage of Hach's products are sold to government and industry labs, primarily for wastewater treatment applications. According to Paul Goltz, Manager, International Sales and Marketing, "Stabilization and betterment of the environment in China is becoming a higher priority among government and business, with new regulations taking effect and increasing enforcement."

Despite a 17% tariff on instruments and chemicals and an additional 11-15% value-added tax, the Chinese prefer to buy Hach Company products, which are regarded as well-designed and accurate. Goltz predicts sustained growth for the company, with sales to China increasing at a double-digit rate (20-30% per annum), unless an obstacle is placed in front of the company.

"PNTR would encourage multinational companies to make investments in China, leading to increasing development and added business for Hach Company," remarks Goltz. "Alternatively, if Congress does not pass PNTR, our competitors from Europe and Asia are poised to take advantage of the momentum of demand, which is already building for environmental products."

Hamilton Manufacturing Inc.

Twin Falls, Idaho
Herb Harney and
Tamara Hamilton-Harney, Owners
http://www.hmi-mfg.com

Industry: Manufacturing
Number of U.S. Employees: 11, based in Idaho and California
Major Products Sold to China: Hydro seed mulch and insulation
Years of Involvement in China: 1
Exports to China as a Percentage of Gross Sales: 1999 = 5%; 2000 estimate = 15-20%

"It's about the friendship. The Chinese are interested in a strong and trusting relationship before they are interested in a price or product. It took us four trips to China and a great deal of time, effort and planning to create our vision of our business there," comment Herb Harney and Tamara Hamilton-Harney, owners of **Hamilton Manufacturing Inc.**

Based in Idaho's Magic Valley, the company manufactures hydro seed mulch and cellulose insulation converted from recycled newspaper, and supplies equipment to apply those products. Primary applications are residential and commercial insulation, landscaping mulch for residential and commercial revegetation, as well as erosion control and revegetation of reclaimed land.

Hamilton Manufacturing envisions a cooperative and mutually beneficial relationship for the future in working with their Chinese partners. While other countries show growth potential for the company's full line of products and equipment, China clearly represents the largest market for the company over the long term.



Herb Harney and Tamara Hamilton-Harney anticipate that passage of PNTR with China and China's accession to the WTO will fuel their company's growth. Staffing is expected to increase by 30% in the coming year to better manage new business opportunities in China.



Jesse Engineering Company

Tacoma, Washington
Jeff Gellert, President
http://www.jesse-wallace.com

Industry: Manufacturing
Number of U.S. Employees: 150
Major Product) Sold to China: Pipe fabrication machinery for shipbuilders
Years of Involvement in China: 8
Exports to China as a Percentage of Gross Sales: Approximately 12%

Jesse Engineering Company's products are used in many industries, but the principal ones are ship-building and boiler manufacturing, where the company provides the pipe and tube cutting, welding and bending machinery. Its products go to many countries around the globe, and 1992 saw the first sale of Jesse Engineering equipment to China. Now the company's most significant export destination, China represents more than 50% of the company's exports.

Jesse Engineering attributes its success in China to treating customers fairly and respectfully before and after the sale. In accepting the 1997 Globe Award from the World Trade Center in Tacoma, Washington, Vice President and Founder Darrell W. Jesse told his employees, "cultural differences probably present more difficulty than the basic language barrier, which can be solved by translators... All phases from design and manufacturing through testing and installation must be handled in the best possible manner, despite any cultural communication problems." Jesse looks forward to putting U.S.-China relations on a stable and secure footing with the passage of PNTR, and sees the associated increase in bilateral trade as benefiting his company and others like it.

The KIC Group

Vancouver, Washington
Gregory R. Hatton, Co-Owner
http://www.kic-group.com

Industry: Distribution
Number of U.S. Employees: 12 in Vancouver, WA; 3 in Laredo, TX
Major Product Sold to China: Components for truck-trailer manufacturers
Years of Involvement in China: 14
Exports to China as a Percentage of Gross Sales: Approximately 10%

The **KIC Group** sells Made-in-USA trailer components to a KIC-owned company in China, which then provides additional value-added components for ultimate distribution both in China and Southeast Asia. In its first business transaction with China in 1986, KIC sold a technical package of engineering and manufacturing equipment to a trailer manufacturing company that is now KIC's largest customer in China.

KIC attempted to enter Chinese markets to export fully assembled trailer axles to Chinese customers. Observes Co-Owner Gregory R. Hatton, "Due to import duties of over 27%, we were not competitive with locally-manufactured products, even though Chinese customers preferred U.S. technology. We determined that to best access the market, it was necessary to provide some local content. After implementing this program in 1997, KIC sales in China have doubled each year."

Hatton fully expects that when China reduces its tariff and non-tariff barriers, KIC sales will grow geometrically, as the company will be able to leverage sales to all of Asia. Offering some advice to other small businesses contemplating entering the China market, Hatton counsels, "Do not expect fast success in either sales or profits. Getting to know your trading partners is as important as people tell you. Long-term investment in time and effort will pay off in the long run."

The West

"Securing China PNTR is a key component to continuing our nation's longest economic expansion — an economic expansion that has raised the standard of living for working Americans across the country. The technology sector has been a driving force behind this period of unprecedented economic growth, and the China WTO accession agreements will give U.S. telecommunications, software and internet companies access to China's 1.2 billion people. This U.S. Chamber report illustrates that China's largely untapped market will help to generate the fuel for continued economic growth and opportunity for American workers and their families."

—Rep. Calvin Dooley (D-CA 20)

M. Brashem, Inc.

Tacoma, Washington
Martin Brashem, President

Industry: Import and distribution
Number of U.S. Employees: 7
Major Products Imported from China: Graphite, carbon and steel products
Years of Involvement in China: 12

M. Brashem, Inc. imports and distributes graphite and carbon items that are used in steel and aluminum production. The company first began doing business in China in 1988. Although the company works with manufacturers in other countries, China represents the largest share of its business. Marvin Brashem, Vice President, reports that the success of his company is in part due to having a full-time employee in Beijing, which creates an everyday presence in the marketplace. He also spends a great deal of time working with manufacturers in an effort to meet each customer's specific requirements.

If China is extended PNTR, Brashem believes that his company will be able to increase two-way trade with China, including selling some finished products and raw materials for the products that they buy from China. "As the most populous nation in the world, it is essential that the United States extend PNTR to China. We can already see the vast changes that China has made politically and socially from the influence of the western world," notes Brashem.



MallCat.com

North Hills, California
Scott Spooner, Principal
http://www.mallcat.com

Industry: E-Commerce
Number of U.S. Employees: 5
Major Products Imported from China: Merchandising and gifts for resale
Years of Involvement in China: 2

MallCat.com is a "new economy" enterprise that owns and operates an e-commerce site. Although its operations commenced in January 2000, founder Scott Spooner has been involved in previous ventures with Chinese companies. Mallcat.com offers products from manufacturers for direct sale to the general public. Among the featured manufacturers are some that represent products from Chinese companies. While Mallcat.com seeks out great deals from around the globe for its users, trade with Chinese companies is currently the most significant of any country represented.

MallCat.com has found that products coming from Chinese companies have lower wholesale prices than those same products coming from other countries. "We offer products at retail price points," says Spooner. "Our ability to offer lower retail prices — because of the lower wholesale prices — allows us to offer greater value for our customers and thus create a greater volume of sales for our company."



MCM Group Holdings, Ltd.

Honolulu, Hawaii
Manuel C. Menendez, Chairman

Industry: International trade and business development
Number of U.S. Employees: 50
Primary Business in China: Consulting, trade and investment
Years of Involvement in China: Over 20
Business with China as a Percentage of Gross Sales: 40%

"In all of our ventures, we are communicating and doing business at a world standard, moving China towards the rule of law, so that the business agreements are meaningful and enforceable," notes Manny Menendez, Chairman of **MCM Group Holdings, Ltd.**

Since the late 1970's, Menendez has negotiated business deals in the China market, including development of joint venture partnerships, technology transfers to help with infrastructure and financial development, and export deals for placement of U.S. products in China, some directly benefiting the local Hawaiian economy. MCM Group Holdings counts among its successes over 20 joint ventures and other cooperative agreements with the People's Republic of China.

Menendez attributes his company's success to a number of factors, including understanding the needs of the market, choosing the right local partner, maintaining flexibility in thought and approach, and due diligence conducted on potential business partners in China.

Menendez cites world peace through world trade as his business philosophy. An advisor to Fortune 500 corporations, he is unequivocal in his support for Congressional passage of PNTR and the benefits for American business. "Currently, there are many categories under which the duties are onerous and act as barriers to trade. PNTR with China will create a level playing field where duties are uniform among WTO members, providing equal access for American companies to markets and specific industries in China."

New Light Industries, Ltd.

Spokane, Washington
Steve McGrew, President
http://www.iea.com/~nli

Industry: Information and technology
Number of U.S. Employees: 7
Major Products Sold to China: Anti-counterfeit labels and laminates
Years of Involvement in China: 11
Exports to China as a Percentage of Gross Sales: 15%

"To a small high technology business, China is the land of opportunity," declares Steve McGrew, President of **New Light Industries, Ltd.**

Founded in 1988, New Light Industries is engaged in the growing domain of protecting intellectual property rights and the trademarks of products made and sold in China. The Spokane-based company first entered the China market in 1989, installing hologram production systems for the manufacturing of anti-counterfeit labels and laminates. While New Light Industries licenses technology internationally, its most important export market is China, where it has established a leading reputation by providing top quality service, technology, and products to its clients.

McGrew anticipates increasing demand for New Light Industries' products. "China needs our anti-counterfeit technology to protect the trademarked names of many diverse products, ranging from wine, to bicycles, to jewelry." The passage of PNTR and the removal of trade barriers will find more American companies exporting their products to China. New Light Industries looks forward to providing both American and Chinese manufacturers with the technology to preserve intellectual property rights and prevent counterfeiting of brand-name products.



The West

Octaxias Company, L.L.C.

Portland, Oregon
Jin Lan, President
http://www.chinaselections.com

Industry: Publishing
Number of U.S. Employees: 4
Major Service Provided in China: Copyright and Translation Rights
Years of Involvement in China: Over 3 years
Exports to China as a Percentage of Gross Sales: 50%

Founder and President Jin Lan worked for seven years on U.S. book export and copyright protection issues in the U.S. book industry. He opened **Octaxias Company, L.L.C.** to capitalize on the opportunities afforded by the U.S.-China Agreement on Intellectual Property Rights (IPR). Octaxias purchases U.S. copyrights for translation and co-publication in China and defends its clients' standing against infringement. Since 1997, the company has signed nearly one dozen copyright agreements with American publishers to have their works printed in Chinese.

Copyright purchases by Chinese publishers generate a profit for American companies. Lan believes this creates awareness and respect for intellectual property protection, which is critical for American companies conducting business in China. "Dealing with intellectual property rights is the perfect business to promote relationships between Chinese and American people," says Lan. "It increases understanding between peoples."



As published matter from the U.S. becomes more widely available in China, Lan sees unlimited opportunities for his business in the coming years. While Octaxias has dealt with piracy of clients' licenses, it also reports progress in enforcement by the Chinese government. "The U.S.-China IPR Agreement shows that China is making strides toward greater respect for intellectual property rights. Congressional passage of permanent normal trade relations with China will further strengthen U.S. companies' rights," comments Lan.



PowerQuest Corporation

Orem, Utah
Eric J. Ruff, CEO
http://www.powerquest.com

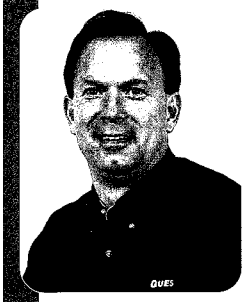
Industry: Computer software development
Number of U.S. Employees: 330 U.S.-based employees in Alabama, California, Connecticut, Idaho, Illinois, Massachusetts, Michigan, Minnesota, Nebraska, New Jersey, Ohio, Texas, Utah and Washington
Major Products Sold to China: Drive image special edition, PartitionMagic
Years of Involvement in China: 2 years
Percentage of Gross Sales Due to Exports: 51%
Gross Sales to China as a Percentage of Total Export Sales: Less than 2%

Recently returned from a business trip to China, **PowerQuest Corporation** CEO Eric J. Ruff discovered that the company's partners in China are very eager to work with their American counterparts. "They are anxious to make whatever cultural and governmental changes are necessary to ensure a successful business relationship."

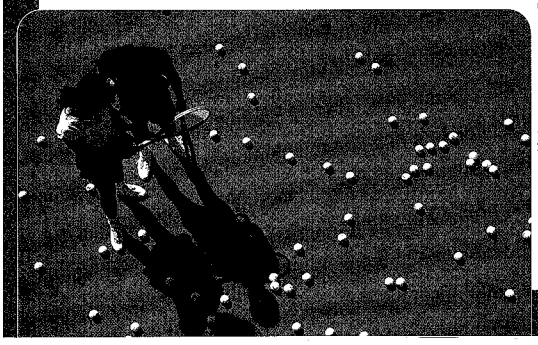
Establishing long-lasting business relationships are a top priority for this high technology success story.

PowerQuest develops and markets software solutions that help information systems professionals install, protect and manage data storage devices.

Already successful in other international markets, the company was introduced to the China market in May 1998 as a participant in a U.S. Department of Commerce industry trade mission to five cities throughout China. By December 1998, PowerQuest had established an office in Beijing to market the company's products. Working with business leaders in Changzhou, PowerQuest identified manufacturing and distribution partners, and established a training and support facility in this eastern Chinese district.



While exports to China account for less than 1% of gross sales, Ruff is optimistic about his company's future in China. "China is an emerging marketplace with huge potential and an insatiable appetite for technology. When current trade barriers are removed, we will be able to accelerate the achievement of our business objectives."



Sports Tutor, Inc.

North Hollywood, California
Bill Rombeau, President
http://www.sportstutor.com

Industry: Manufacturing
Number of U.S. Employees: 20
Major Product Sold to China: Tennis ball machines
Years of Involvement in China: 11
China Exports as a Percentage of Gross Sales: 1%

Sports Tutor, Inc. manufactures and sells tennis ball, baseball, and soccer and volleyball throwing machines. The company started prospecting for business in China over a decade ago by attending trade shows, direct mailing to trade show attendees, and advertising in sports publications distributed around the world. Although its business in China is limited at present, Sports Tutor views China as a major market of the future. Says President Bill Rombeau, "We view the China market as having great potential, although in China the tennis market is currently very underdeveloped and our product is expensive."

Exports account for a quarter of the company's sales, which are shipped to customers around the globe. A strong believer in international trade, Rombeau adds, "International trade develops friendships for life, and contributes to world peace." He believes congressional extension of permanent normal trade relations for China will help Sports Tutor increase sales and continue to expand employment.

Sports Tutor expects to grow its China business by applying the same formula it has used in other markets: people, products, and persistence. Says Rombeau, "Most successful companies start with a core group of committed people, followed by quality products backed by excellent service, combined with the persistence to achieve success."

Resources
for U.S. Small Businesses

U.S. Chamber of Commerce
With a particular focus on greater outreach to small businesses, the International Division of the U.S. Chamber of Commerce plays an integral role in improving the ability of U.S. business to compete in the global marketplace. By keeping members informed of the latest changes occurring around the world, the International Division gives companies the tools they need to succeed. Call the International Division at 202/463-5460 to learn about our many international trade publications or to speak to a Chamber regional specialist. Visit the U.S. Chamber's website at **http://www.uschamber.com.**

Export-Import Bank
The Export-Import Bank of the United States (Ex-Im Bank) is an independent U.S. Government-held corporation that helps finance the overseas sales of U.S. goods and services. Ex-Im bank provides a level playing field for U.S. exporters by providing working capital guarantees and export credit insurance to creditworthy small and medium-sized companies, and guarantees of commercial and direct loans to foreign buyers of U.S. goods and services. **For more information, call 800/565-EXIM.** To obtain information on Ex-Im Bank's short and medium-term programs in Asia, call their 24-hour **Asia Hotline at (800) 565-3946, ext. 3905.** To acquire a seminar brochure and scheduling information regarding Ex-Im Bank's **briefing programs for the small business community, call 202/562-3912.** Visit the Ex-Im Bank homepage at **http://www.exim.gov** (see New and Small Business Center link).

Overseas Private Investment Corporation
The Overseas Private Investment Corporation (OPIC) helps U.S. small businesses by providing risk insurance for overseas investments to protect against the risks of inconvertibility, expropriation, and political violence. OPIC also provides direct loans to small and medium-sized businesses. OPIC's Corporate Finance Direct Loan provides support for overseas investments including permanent working capital, fixed assets, and expansion of facilities sponsored by U.S. small businesses. For more information, call the **OPIC Info-Line at 202/336-8799** or visit the OPIC homepage at **http://www.opic.gov.** To receive information directly by fax, call the **OPIC Facts-Line at 202/336-8700.**

Small Business Administration
The U.S. Small Business Administration provides financial, technical and management assistance to help Americans start, run, and grow their businesses. As the nation's largest single financial backer of small businesses with 70 District Offices, the SBA offered financing, training, and advocacy services for more than one million small business owners last year. The SBA's Office of International Trade (OIT) works in coordination with other federal agencies and public and private sector organizations to encourage and assist small businesses to expand their export activities. For more information, call the OIT at **202/205-6720** or visit the OIT website at **http://www.sbaonline.sba.gov/oit.**

The SBA administers the Small Business Development Center Program (SBDC) to provide management and technical assistance, counseling and training to current and prospective small business owners. Located throughout the United States, the SBDCs offer services to new-to-export, start-up and existing small businesses. For further information, call **202/205-7303** or visit the SBDC website at **http://www.sba.gov/SBDC.**

U.S. Agency for International Development
The U.S. Agency for International Development's (USAID) Global Technology Network (GTN) is designed to assist small and medium-sized U.S. companies gain access to developing markets. GTN facilitates the transfer of technology and services from the U.S. to countries worldwide through the dissemination of trade leads. For more information about GTN, call **800/872-4348** or visit its website at **http://www.usgtn.org.** Visit the USAID homepage at **http://www.info.usaid.gov.**

U.S. Department of Agriculture
The U.S. Department of Agriculture's Foreign Agricultural Service (FAS) provides a number of programs for the U.S. agricultural industry by both expanding export opportunities for U.S. agricultural, fish and forest products, and promoting world food security. FAS's Market Access Program (MAP) uses USDA's funds to help U.S. producers, exporters, private companies, and other trade organizations finance promotional activities for U.S. agricultural products. To find out more, visit the FAS website at **http://www.fas.usda.gov/faspro-grams.html** or call **202/720-4327.**

U.S. Department of Commerce
The U.S. Department of Commerce, the U.S. Small Business Administration and the Ex-Im Bank have formed a unique partnership to establish U.S. Export Assistance Centers (EAC). EACs located at major metropolitan areas throughout the United States, are one-stop shops that provide small and medium-sized businesses with hands-on export marketing and trade finance support. To find the EAC nearest you, visit **http://www.ita.doc.gov** (see Export Assistance Centers or Trade Information Center), or call **800/872-8723** for more information.

The Department of Commerce's Trade Information Center (TIC) is a valuable resource for information about all U.S. export assistance programs. TIC provides general export counseling, country and regional market information and advice on export licenses and controls. For more information or to speak to a trade specialist, call **800/USA-TRADE,** or visit the TIC online at **http://www.its.doc.gov/tic.**

U.S. Trade and Development Agency
The U.S. Trade and Development Agency (TDA) assists in the creation of jobs for Americans by helping U.S. companies pursue overseas business opportunities. Through the funding of feasibility studies, orientation visits, specialized training grants, business workshops, and various forms of technical assistance, TDA helps American businesses to compete for infrastructure and industrial projects in middle-income and developing countries. For more detailed information, visit the TDA website at **http://www.tda.gov.**

Conclusion

A Vote for China PNTR is a Vote for American Small Business

When one thinks about the U.S.-China trade relationship, images of multinational companies doing business in China often come to mind. This report speaks to another side of the growing U.S.-China trade relationship that should not go unnoticed. It focuses on small and medium-sized companies from around the nation that in increasing numbers are doing business in the China market. While this report highlights only a small number of companies, it does illustrate that American companies of all sizes see opportunities in China's rapidly growing economy. There are many more companies just like these that are beginning to find success in China's huge and growing market.

But one should not ignore the fact that China has been a challenging place to do business for both small and large U.S. companies. China's inconsistency in applying rules and regulations and problems with enforcing contracts make doing business with China particularly frustrating for small and medium-sized businesses. Lack of transparency, import-licensing requirements, and high tariffs are also problematic. These current challenges are why passage of permanent normal trade relations (PNTR) and China's entry into the World Trade Organization (WTO) are so critical.

Many of the obstacles American companies face in China will be addressed by China's entry into the WTO. With commitments from China to remove tariff and non-tariff barriers that currently restrict U.S. agricultural exports, insurance and other financial services, automobiles, distribution rights, and high technology, there will be tremendous new opportunities for U.S. companies. China's commitments are fully enforceable under WTO law. There is no question that, in joining the WTO, China will move in the right direction and become a more open and transparent economy. American companies know that making China play by WTO rules is the best way to advance American interests in this enormous market.

In its bid to join the WTO, China, not the United States, is making all the concessions. The U.S. market is already open—it is China's market that is not open to U.S. goods and services. Upon entry into the WTO, China will make concessions that will lead to greater opportunities for American companies and the workers that they employ. Make no mistake: China will join the WTO with or without U.S. support.

All the U.S. Congress has to do is pass PNTR, the same tariff treatment the United States has extended to China for the last twenty years. Absent passage of PNTR, however, U.S. companies and workers will be placed at a competitive disadvantage vis-á-vis our foreign competitors in Japan, the European Union, and elsewhere. It would be a great irony if our competitors took home the benefits of the market-opening concessions that U.S. negotiators fought so hard to obtain. American business—small and large companies alike—would be set back for many years to come.

GAO
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United States General Accounting Office
Washington, DC 20548

National Security and
International Affairs Division

B-284939

March 31, 2000

The Honorable Philip M. Crane
Chairman, Subcommittee on Trade
Committee on Ways and Means
House of Representatives

Subject: International Trade: Small- and Medium-sized U.S. Business Export Statistics

Dear Mr. Chairman:

While the December 1999 ministerial meeting of the World Trade Organization in Seattle did not initiate a new round of multilateral trade negotiations, the United States supports further trade liberalization and is still seeking to start a round of trade talks. Trade liberalization increases access to foreign markets for U.S. exporters. To help you assess the importance of further trade liberalization, you asked us to provide information on small- (fewer than 100 employees) and medium-sized (100-499 employees) U.S. companies that export. Specifically, we are providing you with information on (1) the number of small- and medium-sized companies that export goods, (2) the value of these companies' exports, (3) the types of firms that export, and (4) the types of products they export. We also provide general information on the availability of these and related U.S. government statistics collected by the Census Department from 1987 to 1997 in enclosure I.

RESULTS IN BRIEF

In 1997, about 202,000 small- and medium-sized companies exported goods. These companies accounted for 97 percent of U.S. exporters.[1] The number of U.S. small- and medium-sized exporters almost doubled from 1992 through 1997. Exports by these small- and medium-sized companies were valued at $172 billion in 1997, which is the most recent year for which data is available, and accounted for 31 percent of exported U.S. goods. Wholesalers, manufacturers, and other companies such as freight forwarders each accounted for roughly one third of the total number of small- and medium-sized exporters. The largest four product groups that they exported were industrial machinery and computers, electric and electronic equipment,

[1]These statistics only include data for which company size can be determined, as we discuss later.

transportation equipment, and chemical products. These four groups accounted for over half of all exports by small- and medium-sized companies.

BACKGROUND

U.S. companies' participation in export markets increased during the last decade as the world economy became more integrated. By value, U.S. goods exports, which include manufactured products and primary products such as agricultural commodities, rose from $251 billion in 1987 to $689 billion in 1997. U.S. goods exports increased from 5 percent of gross domestic product in 1987 to 8 percent in 1997. Similarly, U.S. services exports, which include economic activities such as banking and telecommunications, rose from $99 billion in 1987 to $258 billion in 1997. During this time, the United States and its trading partners reduced tariffs and lowered other barriers to trade through negotiated agreements. For example, the North American Free Trade Agreement (1994) and the Uruguay Round agreements that established the World Trade Organization (1994) liberalized trade and created export opportunities for U.S. businesses. Small- and medium-sized U.S. firms have participated in this trade expansion.

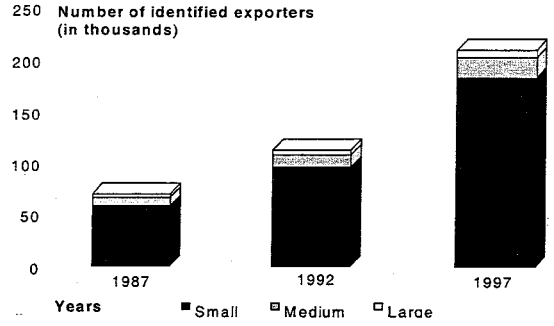
NUMBER OF SMALL- AND MEDIUM-SIZED U.S. GOODS EXPORTERS HAS ALMOST DOUBLED SINCE 1992

The number of companies that export goods, including small- and medium-sized companies, has increased as U.S. exports have grown. The number of identified small- and medium-sized exporters almost doubled from 108,026 in 1992 to 202,185 in 1997.[2] (See fig. 1.) However, the proportion of small- and medium-sized exporters among all identified goods exporters has held relatively steady. Small- and medium-sized companies constituted 95 percent of all identified exporters in 1987 and 97 percent in 1997.[3] (Data on the number of identified exporters by company size are in enc. II.)

[2]Data reflect the number of exporters that could be identified from documents filed with the U.S. Customs Service for export of goods. Some of the growth in the number of reported small- and medium-sized exporting companies reflects improvements in matching the company name or identifier on export documents to the Census Bureau's Business Register, which contains company characteristic information, including employment size and industrial description. The matching rate for 1987 was significantly smaller than in 1992 and 1997.

[3]Large exporting companies, that is, those with 500 or more employees, numbered 7,270 in 1997.

Figure 1: Number of Small-, Medium-, and Large-sized Goods Exporters, 1987, 1992, and 1997



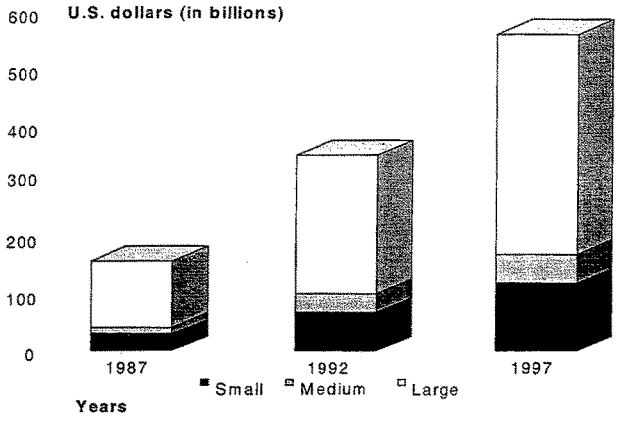
Source: GAO analysis of data from U.S. Department of Commerce, Bureau of the Census.

VALUE OF GOODS EXPORTED BY SMALL- AND MEDIUM-SIZED COMPANIES HAS INCREASED

In recent years, exports by small- and medium-sized firms have accounted for almost one third of the total value of exported U.S. goods. In 1997, these firms exported goods valued at $172 billion and accounted for about 31 percent of total U.S. goods exports for which exporter size could be determined.[4] (See fig. 2.) This is an increase from 1987, when small- and medium-sized companies exported $42 billion of goods, or about 26 percent of identified U.S. goods exports for that year. (Data on the value of exports by company size are in enc. III.)

[4]Large companies account for most of the total value of U.S. exports and in 1997 accounted for 69 percent of total U.S. goods exports.

Figure 2: Value of Small-, Medium-, and Large-sized U.S. Company Exports, 1987, 1992, and 1997



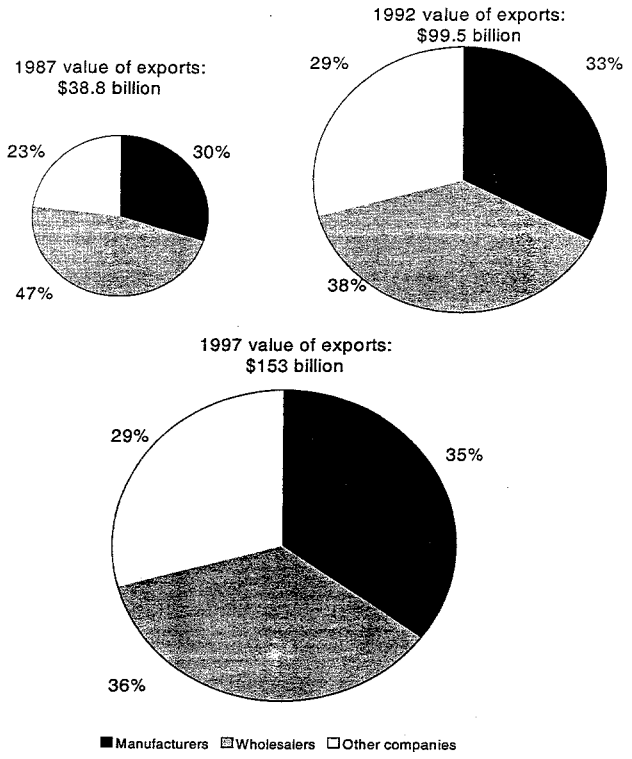
Source: GAO analysis of data from U.S. Department of Commerce, Bureau of the Census.

SMALL- AND MEDIUM-SIZED GOODS EXPORTERS ARE PRIMARILY NONMANUFACTURERS

Small- and medium-sized U.S. goods exporters can be divided into three broad sector groups: manufacturers; wholesalers; and "other" companies, which include freight forwarders and other transportation firms, service sector firms, and mining and mineral companies. The exports of wholesalers and other companies include manufactured products and other commodities. For example, a wholesaler may export a computer or a freight forwarder may arrange the shipment of a load of agricultural commodities. Each group roughly accounted for one-third of the total number of small- and medium-sized exporting companies.

Small- and medium-sized company goods exports were primarily made by firms that did not produce the good. In terms of the value of exported goods by small- and medium-sized firms, wholesalers exported more goods than did manufacturers or other companies in 1987, 1992, and 1997. Exports by small- and medium-sized manufacturers were, however, a close second in 1997. (See fig. 3.) The relative ranking among these three groups held steady throughout the years we reviewed. However, manufactures and other companies increased their share of small- and medium-sized exports, while the wholesalers' share has decreased.

Figure 3: Nonmanufacturers' and Manufacturers' Shares of U.S. Small- and Medium-sized Company Goods Exports, 1987, 1992, and 1997



Note: These graphs exclude a category of companies reported as "unclassified" companies. These data are presented in enclosure III. Including these data would lead to a less obvious trend of increasing manufacturers' shares over time in this figure. The corresponding manufacturers' shares would be: 27.6% for 1987, 31.5% for 1992, and 31.0% for 1997. The "unclassified" companies accounted for 11.1% of total exports by small and medium companies in 1997; the corresponding shares were smaller for 1992 (3.2 %) and 1987(8.1%).

Source: GAO analysis of data from U.S. Department of Commerce, Bureau of the Census.

When small- and medium-sized companies are compared to companies of all sizes, the types of companies exporting are very different. The relative shares of each type of exporter change when all sizes of firms are included. For example, overall, manufacturing firms accounted for 72 percent of the value of total U.S. goods exports in 1997, and wholesalers accounted for 13 percent, whereas these firms accounted for 35 and 36 percent, respectively, for small- and medium-sized companies.[5] This difference is due to the fact that small- and medium-sized companies account for only 13 to 14 percent of U.S. goods exports by all manufacturing firms (whose size was identified) since 1992. Similarly, U.S. exports by small- and medium-sized companies had a much higher share, about 75 percent, of all wholesalers' exports (whose size was identified) since 1992. Small- and medium- sized companies also accounted for more than 50 percent of exports made from the third category ("other companies") of exporting companies that includes freight forwarders, service sector firms, and mining and mineral companies (see enc. III).

OVER HALF OF SMALL- AND
MEDIUM-SIZED COMPANY EXPORTS
ARE FROM FOUR PRODUCT CATEGORIES

For small- and medium-sized companies, exports of products in certain categories were more important than in other categories. For example, in 1997, small- and medium-sized company exports of goods were greatest in industrial machinery and computers ($34 billion), electric and electronic equipment ($23 billion), transportation equipment ($17 billion), and chemical products ($14 billion). Exports by small- and medium-sized companies in these four categories accounted for over 50 percent of total exports by such companies in all categories of goods, and about 16 percent of total U.S. exports by all sizes of companies in 1997. These four product groups also had the largest dollar value of small- and medium-sized company exports in 1992. (See encs. IV and VI for the distribution of export value by company size and by major product group for 1992 and 1997.)

The importance of exports by small- and medium-sized companies was greater within certain product categories. In three product categories, the value of exports by small- and medium-sized companies accounted for more than 50 percent of the total value of U.S. exports in that category in 1997. Specifically, small- and medium-sized companies' exports accounted for the highest shares of total exports in miscellaneous manufactures (66 percent), lumber and wood products (64 percent), and apparel (51 percent). The data for 1992 had similar patterns. (See encs. V and VII for the distribution of export value, as a percentage share of total exports, by company size and by major product group for 1992 and 1997.)

[5] These numbers may differ from the statistics reported by other agencies, since we excluded exports from the "unclassified" group of companies in these calculations.

B-284939

AGENCY COMMENTS

Officials from the Commerce Department, including the Chief of the Foreign Trade Division of the Census Bureau, reviewed a draft of this report and provided us comments. Commerce officials generally agreed with our findings and characterized the report as accurate and insightful. Commerce officials made several technical comments, which we incorporated as appropriate.

SCOPE AND METHODOLOGY

We identified three existing U.S. government data sets with relevant information about small- and medium-sized companies' exports. These data sets, generated by the Department of Commerce's Bureau of the Census[5] are: an exporter profile database compiled by linking Customs export data to Census business data; the Bureau's economic census, which is conducted every 5 years; and a survey of the characteristics of business owners. We found exporter profile data on direct exporters of goods were the most useful for analyzing the number, value, type, and products of small- and medium-sized U.S. exporting companies. These exporter profile data and analyses were derived from Customs documents filed by U.S. exporters (for 1987,[7] 1992, and 1997[8]). We relied on this exporter profile data for our report. We discuss its availability and limitations, as well as those of the other related data sets, in enclosure I. At our request, Commerce officials generated some additional information for us from the documents filed by U.S. exporters on goods exports.

You also asked us to report on the output of small-and medium-sized companies that is incorporated into the production of larger exporting firms. We were unable to report on these indirect exports because relevant data were not available from government sources. Similarly, we were unable to find relevant government data on the reliance of small- and medium-sized companies on imported raw material and components in the production of their exported goods.

We also reviewed related studies on exporter characteristics by the Small Business Administration and Commerce's International Trade Administration, and relevant economic literature, to better understand the existing data. Their conclusions also confirmed our findings.

We conducted our work from October 1999 through March 2000 in accordance with generally accepted government auditing standards.

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[5]These data sets are created in cooperation with the Department of Commerce's International Trade Administration and the U.S. Small Business Administration, who use this data and provide some funding.

[7]Due to changes in the methodology used by the Census Bureau between 1987 and 1992 to report on exporter profiles, we do not emphasize the 1987 results when discussing trends.

[8]We excluded 1996 data from our presentation in this report because they are similar to the 1997 data.

B-284939

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies of this report to interested congressional Committees; the Honorable William Daley, the Secretary of Commerce; and the Honorable Aida Alvarez, Administrator, U.S. Small Business Administration. We will also make copies available to others upon request.

Please contact me at 512-3655 if you have any questions concerning this report. Key contributors to this assignment were Emil Friberg, Adam Cowles, Jane-Yu Li, and Timothy Wedding.

Sincerely yours,

Harold J. Johnson

for Susan S. Westin
Associate Director, International
Relations and Trade Issues

Enclosures

U.S. GOVERNMENT DATA SOURCES OF SMALL- AND MEDIUM-SIZED COMPANY EXPORTS ARE LIMITED

The U.S. government's collection and reporting of data on exports by company size are limited in the companies covered and the years for which they are available. Most data are only available for selected years within the period of 1987–1997. We found that data on small- and medium-sized exports are available from three data sets generated by the Census Bureau: an exporter profile database; the Bureau's economic census, which is conducted every 5 years; and a related survey of the characteristics of business owners.

CENSUS DATA SET ON PROFILE OF U.S. EXPORTING COMPANIES

U.S. government data on exporters of goods are available for 1987, 1992, 1996, and 1997.[1] This data series describes U.S. exporters based on shipping documents filed for export clearances with the U.S. Customs Service. Individual company identifiers or the company name reported on the export document was used by the Census Bureau to link the export value data to the Bureau's centralized company database, which contains company characteristic information, including company size in terms of number of employees.

The resulting "exporter profile data" allows exporters to be grouped as manufacturers, wholesalers, and "other" firms. These other firms include freight forwarders and other transportation service firms, business services, engineering and management services, gas and oil extraction companies, coal mining companies, communication services, etc. An example of an export by a company in this "other" firm category would be a shipment of agricultural commodities handled by a transportation company or a piece of telecommunications equipment provided in conjunction with a communications service outside of the United States. Additionally, the exporter profile data contains information on exports by product categories for small- and medium-sized exporters.

However, the exporter profile data are incomplete because not all goods exports can be matched with company data.[2] In 1997, this matching was successfully done for the number of firms that accounted for about 82 percent of the total value of U.S. goods exports, as shown in table 1. This data set slightly understates the number of small- and medium-sized exporting companies and, to a greater degree, understates the value of their exports. The available exporter profile data are unable to match

[1]These data are contained in "A Profile of U.S. Exporting Companies, 1992," which also contains data for 1987 (Washington, D.C.: U.S. Department of Commerce News, Economics and Statistics Administration, CB—97-135, Aug. 22,1997) and "A Profile of U.S. Exporting Companies, 1996-1997" (Washington, D.C.: U.S. Department of Commerce, Bureau of the Census, Foreign Trade Division, undated).

[2]Exports that are unmatched include low-value exports (that is, below $2501), exports by the U.S. and foreign governments, data changes in export value due to data revisions, and export records with either a blank or invalid company identifier or name.

company size to almost 20 percent of U.S. exports by value. Comparisons between years may overstate the growth of small- and medium-sized exporter numbers and value of exports because the matching rate increased between 1987 and 1997.

Table 1: Differences between Identified Exporters in Census Profile Data for 1987, 1992, and 1997

	1987	1992	1997
Total number of exporters	69,354	112,854	209,455
Percentage of total export value with identified exporters	63.7	77.9	81.7

Source: GAO, from U.S. Department of Commerce, Bureau of the Census data.

Also, the exporter profile data set omits U.S. services exports because there are limited company size data on service exporters. Only those service sector companies that also export some goods are included in the data. Thus, the reported number of small- and medium- sized exporters and their export value are further understated because any service sector company that exports only services is excluded, as is the value of all exported services.

In addition, this data set is limited in scope. It includes only direct exporters of goods (manufactured products and primary products such as agricultural commodities). Many exporting companies are not producers – that is, they are not manufacturing companies or farms. These companies export goods that they themselves do not produce. The size of the actual producer of the good being exported is not captured in the data set. As a result, this information cannot be used to determine the importance of exporting to small- and medium-sized producers.

The Department of Commerce plans to continue collecting and reporting these data, according to agency officials.

ECONOMIC CENSUS-BASED EXPORT DATA

Information on export shipments by size of actual producer is available from the Census of Manufactures for 1987 and 1992.[3] These data are based on an establishment (individual plant or production facility) basis and not collected on a company basis. On the one hand, using the establishment-based data may lead to an overstatement of the number of small- and medium-sized exporters since, for example, a small manufacturing plant with export shipments may be a subsidiary of a large company. On the other hand, this data source may also lead to an

[3]These data are contained in "Selected Characteristics of Manufacturing and Wholesale Establishments That Export: 1992" (U.S. Department of Commerce, Bureau of the Census, Analytical Report Series AR92-2, June 1996) and in "Selected Characteristics of Manufacturing Establishments That Export: 1987" (U.S. Department of Commerce, Bureau of the Census, Analytical Report Series AR87-2, Aug. 1992).

understatement of exported production by small- and medium-sized establishments, since many respondents do not know the final destination of products produced in their plants.

According to Census Bureau officials, the Bureau has discontinued reporting the exporting details for manufacturers and wholesalers establishments due to budgetary constraints. Thus, the 1992 information will not be updated with the results from the 1997 Economic Census.

1992 CENSUS BUREAU SURVEY ON CHARACTERISTICS OF BUSINESS OWNERS

The Census Department has reported some other information on exports according to company size for 1992.[4] Size is reported both in terms of number of employees and total company receipts. Exports are reported in terms of percent of total sales. These data are based on information in part from a mail sample of 78,134 firms (out of a universe of 17.3 million firms). This data set excludes many large corporations because the sample selection criteria only capture companies with a certain tax status.[5]

This information includes companies representing a relatively wide variety of industries. Beside manufacturing, wholesalers, and retail trade sectors, this sample also covered firms from construction, communications, utilities, financial, insurance, real estates, and transportation services. These data do not include agricultural producers, though they do include agricultural services, such as crop dusting. However, due to its small sample size and excluded data, the data provide very limited information on the export behavior of small firms. The survey data are only available for this single year, so no trend analysis is possible. Census officials told us that since the survey was not funded for 1997, these data are no longer collected and will not be available for future analyses.

---

[4]"1992 Economic Census—Characteristics of Business Owners," CBO92-1 (Washington, D.C.: U.S. Department of Commerce, Bureau of the Census, Sept. 1997).

[5]Specifically, the data do not cover non-subchapter S(C) corporations (which are businesses filing any type of 1120 tax forms, other than 1120S).

ENCLOSURE II ENCLOSURE II

U.S. GOODS EXPORTERS BY SIZE AND SECTOR
FOR 1987, 1992, AND 1997

Identified exporters	1987	1992	1997
Total number	**69,354**	**112,854**	**209,455**
Small exporters	57,699	95,726	182,795
Medium-sized exporters	8,172	12,300	19,390
Small-and medium-sized exporters	65,871	108,026	202,185
Percentage that are small and medium sized	95%	96%	97%
Manufacturers			
Total	29,127	42,763	65,594
Small	20,383	31,021	50,586
Medium-sized	6,063	8,593	11,317
Small and medium sized manufacturers	26,446	39,614	61,903
Percentage that are small and medium sized	91%	93%	94%
Wholesalers			
Total	23,114	39,713	67,901
Small	21,685	37,654	64,511
Medium-sized	1,174	1,744	2,910
Small- and medium-sized	22,859	39,398	67,421
Percentage that are small and medium sized	99%	99%	99%
Other exporters			
Total	15,907	26,910	68,025
Small	14,478	23,708	61,245
Medium-sized	892	1,857	3,996
Small- and medium-sized	15,370	25,565	65,241
Percentage that are small and medium sized	97%	95%	96%
Unclassified Exporters			
Total	1,206	3,468	7,935

Note 1: These profile data were compiled by using company identifier (or name) on the export document to link to the Census Bureau's company information database. Not all export values are linked to identified companies. For example, some low- value exports were not identified with companies, since these are below the reporting threshold. Hence, exports by small exporters can be understated. Also, some export documents did not have companies identified.

Note 2: The "other" category includes freight forwarders and other transportation services firms that act as agents for exporters, business services, engineering and management services, gas and oil extraction companies, coal mining companies, and communication services.

Source: GAO analysis of data from U.S. Department of Commerce, Bureau of the Census.

ENCLOSURE III ENCLOSURE III

VALUE OF U.S. GOODS EXPORTS BY COMPANY SIZE AND SECTOR FOR 1987, 1992, AND 1997

Dollars in Billions

By identified exporters	1987	1992	1997
Total U.S. exports	**$250,845**	**$448,156**	**$689,182**
Percent share of total U.S. exports identified	64	78	82
Total identified exports	**$159,913**	**$348,960**	**$562,764**
Small exporters	30,497	69,420	121,023
Medium-sized exporters	11,716	33,426	50,914
Small- and medium-sized exporters	42,213	102,846	171,937
Percentage that are small and medium sized	26	30	31
Manufacturers' exports			
Total	$115,740	$241,522	$385,665
Small	5,129	13,619	24,969
Medium-sized	6,506	18,799	28,385
Small- and medium-sized manufacturers	11,635	32,418	53,354
Percentage that are small and medium sized	10	13	14
Wholesalers' exports			
Total	$25,471	$50,989	$71,152
Small	14,688	31,159	43,545
Medium-sized	3,585	6,762	11,055
Small- and medium-sized	18,273	37,921	54,600
Percentage that are small and medium sized	72	74	77
Others' exports			
Total	$15,267	$53,158	$81,275
Small	7,294	21,693	36,675
Medium-sized	1,590	7,545	8,298
Small- and medium-sized	8,884	29,238	44,973
Percentage that are small and medium sized	58	55	55
Unclassified exports			
Total	$3,436	$3,291	$24,672

Note 1: These profile data were compiled by using company identifier (or name) on the export document to link to the Census Bureau's company information database. Not all export values are linked to identified companies. For example, some low- value exports were not identified with companies, since these are below the reporting threshold. Hence, exports by small exporters can be understated. Also, some export documents did not have companies identified.

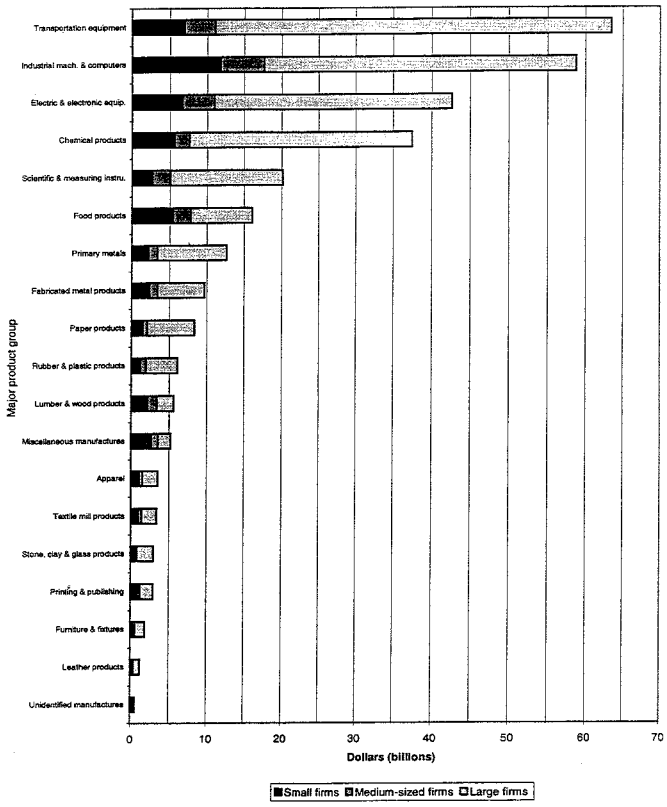
Note 2: The "other" category includes freight forwarders and other transportation services firms that act as agents for exporters, business services, engineering and management services, gas and oil extraction companies, coal mining companies, and communication services

Source: GAO analysis of data from U.S. Department of Commerce, Bureau of the Census.

ENCLOSURE IV

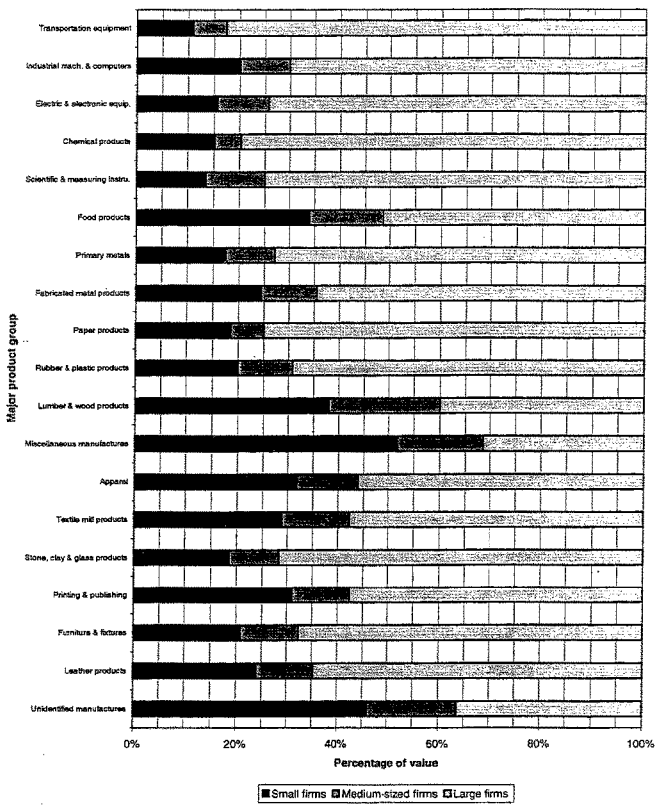
ENCLOSURE IV

VALUE OF U.S. EXPORTS BY COMPANY SIZE AND MAJOR PRODUCT GROUP, 1992



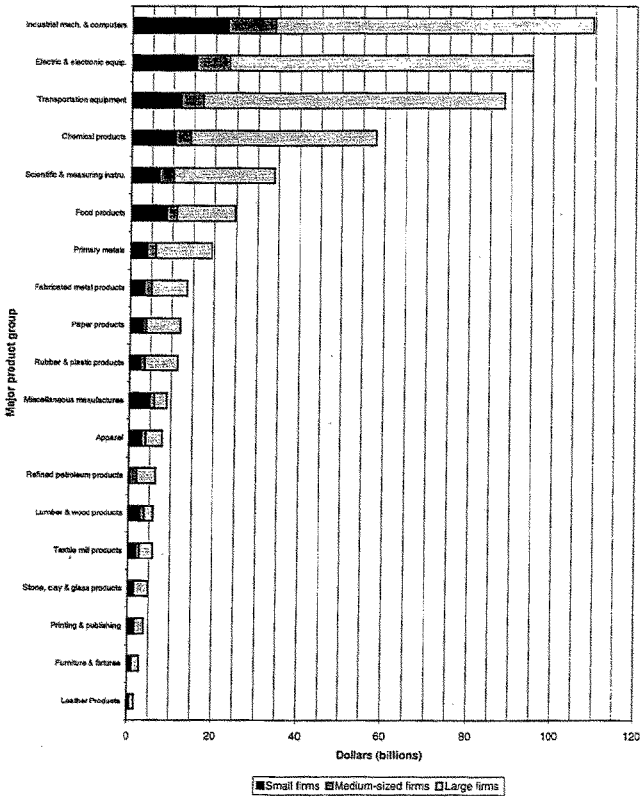
ENCLOSURE V ENCLOSURE V

SHARE OF U.S. EXPORTS BY COMPANY SIZE AND MAJOR PRODUCT GROUP, 1992



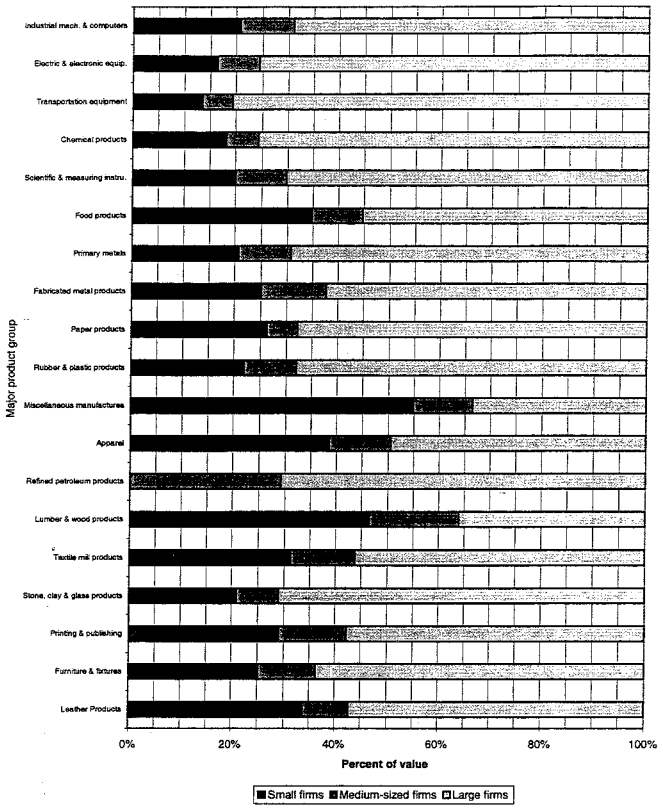
ENCLOSURE VI ENCLOSURE VI

VALUE OF U.S. EXPORTS BY COMPANY SIZE AND MAJOR PRODUCT GROUP, 1997



ENCLOSUE VII ENCLOSURE VII

SHARE OF U.S. EXPORTS BY COMPANY SIZE AND MAJOR PRODUCT GROUP, 1997



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CRS Report for Congress
Received through the CRS Web

Most-Favored-Nation Status of the People's Republic of China

Updated May 1, 2000

Vladimir N. Pregelj
Specialist in International Trade and Finance
Foreign Affairs, Defense, and Trade Division

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Most-Favored-Nation Status of the People's Republic of China

Summary

The Tiananmen Square incident of June 4, 1989, and the repressive policies and violations of human rights by the Chinese government that followed it, led to the imposition by the United States of some economic and other sanctions against China and to consideration of additional sanctions, among them the withdrawal of China's nondiscriminatory, or most-favored-nation (MFN; normal-trade-relations) tariff status in trade with the United States. After having been suspended in 1951, MFN tariff status was restored to China in 1980 conditionally under Title IV of the Trade Act of 1974, including compliance with the Jackson-Vanik freedom-of-emigration amendment, which must be renewed annually. The lapse or withdrawal of the MFN tariff status would result principally in the imposition of substantially higher U.S. customs duties on, and in higher, often prohibitive, costs of, over 95% of U.S. imports from China ($81,522 million total in 1999) and a likely cutback in such imports as well as possible retaliatory reduction by China of its imports from the United States. A significant economic disadvantage might result for Hong Kong (U.S. imports in 1999 were $10,360 million) and (somewhat less) Macau (U.S. imports in 1999 were $1,123 million), which, despite their political reunification with China, remain separate economic entities with permanent U.S. MFN status.

Sundry legislation introduced in earlier Congresses to withdraw altogether or severely restrict China's MFN status failed to be enacted, in two instances for failure to override the President's veto. In mid-1993, the President set additional human rights conditions for the renewal of China's MFN status in mid-1994, but this policy was reversed in 1994, by delinking the MFN status renewal from human rights and other conditions except the statutory freedom-of-emigration requirement, triggering new legislative measures to restrict China's MFN tariff status, none of which was enacted.

In the 105th Congress, legislation was introduced, but not passed, to grant permanent MFN status to China outright, or upon its accession to the World Trade Organization. Some of the latter-type bills would have placed additional conditions on the grant of the MFN status; denied MFN treatment to products or exports of the Chinese Army or a Chinese military enterprise; or raised the amount of U.S. tariffs on imports from China to the level of China's tariffs on U.S. exports to China.

On January 30, 1998, the President extended the trade agreement with China for 3 years, and on June 3, 1999, renewed China's Jackson-Vanik waiver and MFN status; legislation to disapprove that waiver renewal was defeated in the House on July 27, 1999.

In the 106th Congress, legislation has also been introduced to grant outright permanent nondiscriminatory status to China or link its retention or permanent restoration to China's membership in the World Trade Organization.

Most-Favored-Nation Status of the People's Republic of China

China's Most-Favored-Nation Status

In the context of the annual controversy surrounding the renewal of China's most-favored-nation (MFN) status,[1] it should be pointed out that historically the specific MFN issue involved is that of tariffs rather than of the general MFN treatment as envisaged by the General Agreement on Tariffs and Trade or the bilateral commercial compacts to which the United States is a party. Thus, the MFN status in controversy and, consequently, discussed in this report is limited to nondiscriminatory tariff treatment of China; that is, the application to imports from China of the same concessional customs duty rates, agreed to by the United States in reciprocal negotiations with other trading partners.

The United States has applied such MFN tariff treatment as a matter of statutory policy, enacted in 1934, generally to all of its trading partners. This policy was modified with the enactment of section 5 of the Trade Agreements Extension Act of 1951 (P.L. 82-50), which required the President to suspend MFN tariff treatment of the Soviet Union and all countries of the then Sino-Soviet bloc. Under this statutory mandate, President Truman suspended China's most-favored-nation tariff status as of September 1, 1951. After China's occupation of Tibet, that country's MFN status also was suspended as of July 14, 1952. Whereas earlier the MFN status could, under certain conditions, be restored to a suspended country by presidential action, such restoration could take place, since October 1962, only by specific law, until the Trade Act of 1974, in Title IV, provided special authority and set out the conditions and the procedure for its restoration to "nonmarket economy" (NME) countries and subsequent continuation in effect.

Under Title IV, the key elements of the **procedure for restoring MFN status** to an NME country are (1) conclusion of a bilateral trade agreement containing a reciprocal grant of the MFN status and additional provisions required by law, and approved by the enactment of a joint resolution; and (2) compliance with the freedom-of-emigration requirements ("Jackson-Vanik amendment;" Section 402; 19 U.S.C. 2432). These requirements can be fulfilled either by a presidential

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[1] Because the term "most favored nation" status or treatment, if taken literally, is misleading, it has been replaced in 1998, by law, in existing U.S. statutes with that of "normal trade relations (NTR)" or another appropriate term (which also are to be used in any future enactments). The term is still used in this report for reasons of historical continuity and because of its continued universal use in international trade relations and agreements as well as in existing U.S. bilateral trade compacts, including the July 1979 and November 1999 trade agreement with China.

determination that the country in question places no obstacles to free emigration of its citizens, or, under specified conditions, by a presidential waiver of such full compliance.

In accordance with this procedure, the President, on October 23, 1979, transmitted to Congress the *trade agreement with China*, signed on July 7, 1979, its proclamation (Pres. Proc. 4697; 44 F.R. 61161), and the executive order (E.O. 12167; 44 F.R. 61167) granting to China the *Jackson-Vanik waiver* (H.Doc. 96-209). The agreement was *approved by Congress* on January 24, 1980 (H.Con.Res. 204, 96th Congress) and *entered into force* on February 1, 1980 (together with the reciprocal grant of the MFN status, which it contains in addition to all other provisions required by section 405(b) of the Trade Act of 1974; 19 U.S.C. 2435(b)).

The **continuation in force** of an NME country's (e.g., China's) MFN status is contingent on (1) triennial extensions of the underlying trade agreement and (2) continued compliance with the Jackson-Vanik amendment, the latter in the case of some NME countries, including China, by means of annual renewals of the waiver authority and existing waivers.

The agreement, concluded for a 3-year initial term, itself provides for *automatic 3-year extensions*, but is subject to termination by either party upon notice at least 30 days before the expiration of any 3-year term. The continuation in force of the agreement is also subject to the requirement in Section 405(b)(1)(B) of the Trade Act of 1974 (19 U.S.C. 2435(b)(1)(B)), which applies to any trade agreement concluded under Title IV with an NME. Under that provision, the agreement is renewed triennially if a satisfactory balance of concessions has been maintained during the life of the agreement and the *President determines* "that actual and foreseeable reductions in United States tariff and nontariff barriers ... resulting from multilateral negotiations [which benefit China unilaterally because of its MFN status] are satisfactorily reciprocated by [China]." The agreement has thus far been renewed six times, most recently by Presidential Determination No. 98-14 of January 30, 1998 (63 F.R. 5857) through January 31, 2001.

To remain in force, the Jackson-Vanik overall waiver authority as well as the specific China waiver (and China's most-favored-nation tariff status, which is contingent on it) at present must be renewed annually. The renewal procedure entails (1) a President's recommendation, which must be made by June 3 of every year, that the existing waiver authority and individual waivers be extended for another 12-month period (through July 2 of the following year). Such extension is (2) automatic upon the President's recommendation unless it is disapproved by the enactment of a joint resolution (before 1990, approval of a simple resolution).

The language of the resolution is prescribed by law, and a specific fast-track procedure is provided for its consideration. In its basic legislative steps, the resolution must be reported within 30 calendar days (or else the committee considering it may be discharged), may be amended only with respect to the country (or countries) to which it applies, and the debate on it is limited in either chamber to 20 hours, divided equally between those favoring it and those opposing it. The resolution must be approved by August 31. A presidential veto of the resolution must be overridden by the August 31 deadline or within 15 days of session after the

Congress has received the veto message, whichever is later.[2] If the resolution is enacted, the waiver and the MFN status cease to be effective on the 61st day after its enactment.

Particularly in recent years, congressional opposition has increased to the continuation in force of China's MFN status on various grounds, mostly unrelated to the freedom-of-emigration considerations. Despite this opposition, legislative action to disapprove its annual extensions has consistently been unsuccessful and China's waiver and MFN status have remained in force. Moreover, the controversy in Congress has recently shifted its focus from the issue of whether to continue in force China's MFN status under the provisions of Title IV to the opposite one of granting such status to China unconditionally and permanently.

In a related side issue, the opposition to the application of MFN treatment to imports from China among the public at large has been in some part caused by an obvious misunderstanding of the term "most-favored-nation treatment" itself, taking it in its literal meaning. Congress, primarily in the context of this misunderstanding with respect to China, consequently, enacted legislation (Section 5003 of the Internal Revenue Restructuring and Reform Act of 1998 (P.L. 105-206)) replacing the misleading term in all seven instances of the then existing and in any future statutes with the term "normal trade relations" (NTR) or another appropriate term.[3]

Withdrawing or Restricting China's MFN Status

MFN status can be withdrawn from China, either permanently or temporarily, in several ways: (1) by direct legislation enacted through regular legislative process; (2) by using the specific means provided in the Trade Act of 1974 for denying MFN tariff status to a NME country that had it restored under that law, i.e., by the specific fast-track enactment of a joint resolution disapproving the mid-year annual renewal of the Jackson-Vanik waiver authority with respect to China, if such renewal is recommended by the President; (3) by the President's failure to recommend such renewal with respect to China in the first place, for noncompliance with the Jackson-Vanik requirements; or (4) by direct action by the President suspending or withdrawing China's MFN status. China also can lose its MFN status if the agreement is terminated, upon notice, at the end of a term, or, presumably, if the 3-year extension of the U.S.-China trade agreement does not take place because the President declines to make the required determination. (See p. 2.)

As an alternative to a withdrawal, a suspension or restrictions of various severity or scope can be applied to China's MFN status by specific legislation enacted under the regular procedure.

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[2] For a detailed description of the legislative procedure for enacting a joint resolution of disapproval, see CRS Report 96-490, *Legislative Procedure for Disapproving the Renewal of China's Most-Favored-Nation Status.*

[3] Additional information on this subject is contained in CRS Issue Brief IB93107, *Most-Favored-Nation (Normal-Trade-Relations) Policy of the United States.*

In past years, Congress has repeatedly and consistently attempted to terminate or restrict China's MFN status by means of resolutions disapproving the annual extension of China's waiver or by specific legislation, or subject its continuation in force to additional statutory conditions, primarily in the area of human rights. None of these measures has become law, although two of them (one in either session of the 102nd Congress), setting additional conditions for the annual extensions of MFN status, came close to being enacted: passed by both houses, they were vetoed by the President and the veto was upheld by the Senate.

A special situation arose in mid-1993, when the President extended China's waiver for another year, but at the same time in Executive Order 12850 also set specific additional conditions for the mid-1994 extension of China's waiver and MFN tariff status. These conditions closely reflected those set in the several versions of the United States-China Act of 1993 (103rd Congress) and, in addition to compliance with the Jackson-Vanik amendment, required mandatory compliance with the 1992 U.S.-China prison labor agreement, and significant progress with respect to China's adherence to the Universal Declaration of Human Rights, releasing and accounting for Chinese citizens imprisoned or detained for the nonviolent expression of political and religious beliefs, ensuring humane treatment of prisoners by allowing access to prisons by international humanitarian and human rights organizations, protecting Tibet's religious and cultural heritage, and permitting international radio and TV broadcasts into China. The E.O. also charged U.S. officials to pursue resolutely actions to ensure that China keeps its commitments to follow fair, nondiscriminatory trade practices in dealing with U.S. businesses, and adheres to the Nuclear Non-Proliferation Treaty, the Missile Technology Control Regime guidelines, and other nonproliferation commitments.

Although China denounced the action taken by the President, the principal sponsors in both houses of the legislation to subject the 1994 extension of China's MFN status to additional conditions (Representative Pelosi and Senator Mitchell) expressed their satisfaction with the President's action as representing a sufficient step and stated that further congressional action on their respective bills would be unnecessary. The linking of China's MFN status to overall human rights, however, was abandoned in mid-1994 when President Clinton renewed the China waiver taking into account only its statutory condition, namely, compliance with the freedom-of-emigration requirement of the Jackson-Vanik amendment. Subsequent legislative measures to disapprove the renewal or subject it again to broader human rights conditions failed.

In both sessions of the 104th Congress, the joint resolutions disapproving the presidential extensions of China's MFN status through the renewals of the Jackson-Vanik waiver failed of passage. Likewise, no action was taken on several other bills, such as one nullifying China's waiver and subjecting its restoration to enactment by regular procedure; or another, conditioning the continuation of China's waiver on Taiwan's speedy admission to the World Trade Organization (WTO); or one assessing additional tariffs on imports from China until the President determines that China is fully implementing the agreement on the protection of American intellectual property rights in China.

In the 105th Congress, joint resolutions disapproving the mid-year renewals of the waiver authority were introduced in both sessions but also failed to be enacted, allowing the extension of the waiver and China's MFN status to remain in force through July 2, 1999. No specific legislation was introduced to withdraw altogether China's MFN status; such action, however, was proposed with respect to goods produced or exported by the People's Liberation Army or a Chinese military company, but not further considered. China's MFN status also would have been impaired by a bill which required quarterly adjustments of U.S. tariffs on imports from China based on the amount by which China's tariffs on exports from the United States exceed U.S. tariffs on imports from China.

China's MFN status with the United States could have been adversely affected by legislation—introduced but not passed— requiring prior congressional approval of U.S. support of China's admission to the WTO and the withdrawal of the United States from the WTO if China were to be admitted without U.S. support.

Bills were also introduced in the 105th Congress to enhance China's MFN status. Some would have granted to China permanent MFN status either unconditionally or upon its accession to the WTO, some of the latter-type measures providing also, under specified circumstances, for snapback of duties on imports from China to pre-Uruguay Round MFN rates (i.e., those in effect on December 31, 1994), if China did not accord adequate trade benefits to the United States or take adequate steps to join the WTO.

In January 1998, the President also made the determination renewing the 1979 trade agreement with China for three years through January 31, 2001.

Reasons for and Effects of Withdrawing China's MFN Status

In the context of the Jackson-Vanik amendment and Title IV procedure, the sole statutory criterion for continuing in force or withdrawing China's MFN status is China's compliance with the freedom-of-emigration requirements—a criterion that in present circumstances no longer represents a practical obstacle to MFN treatment of China by the United States. The advocates of denying MFN status to China, however, have gone beyond the narrow scope of the freedom-of-emigration issue and have based their opposition to continued MFN status on China's violation of human rights in general, its unfair trade practices and obstacles to market access, lack of legal and regulatory transparency, the large and growing U.S. trade deficit with China, China's uncooperative attitude in weapons and nuclear nonproliferation, and, more recently, the alleged illegal Chinese donations to the Democratic National Committee, or nuclear espionage.

Supporters of MFN treatment of China, among them the Administration, have taken the position that the resolution of these issues ought to be pursued through consultations and negotiations in other fora, or other appropriate means. Particularly the structural trade and economic issues involved, they have suggested, would best be resolved in the then still ongoing negotiations for China's accession to the World

Trade Organization. In the view of the supporters of China's continued MFN status, its withdrawal would be counterproductive since it would increase friction and be less conducive to resolution of any problems through dialogue. It would, they assert, particularly in the human rights area, possibly exacerbate the situation, in addition to the adverse economic consequences it would engender.

Economic consequences would be considerable. Withdrawal of China's MFN status would result, in the first instance, in significant duty increases on about 95% of U.S. imports from China, totaling $81,522 million in 1999. The cost effect of the increases would vary among the various product groups, but would on the whole be substantial.

Table 1 illustrates how the withdrawal of the MFN tariff status would change the duty rates assessable in 2000 on 15 major products or product groups imported from China.

Table 1. Illustrative MFN and Full Duty Rates Applicable in 2000 to Major Imports from China

	MFN Rate	Full Rate
Toys (all kinds)	Free	70%
Plastic or rubber footwear	6%	35%
Women's low footwear (rubber sole/leather uppers)	10%	20%
Men's high footwear (rubber sole/leather uppers)	8.5%	20%
ADP machine parts	Free	35%
Leather apparel	6%	35%
ADP printed circuit assemblies	Free	35%
Men's high leather shoes	8.5%	20%
Cordless telephones	Free	35%
ADP disk drive units	Free	35%
Sweaters, other than cotton, wool, or manmade material	6%	60%
Artificial flowers	9%	71.5%
Sundry plastic articles	5.3%	60%
Women's silk blouses	7.1%	65%
Christmas tree light sets	8%	50%

In view of the overall substantial differences between the concessional (MFN) and full rates of duty, it is clear that the termination of China's MFN status would result in substantial increases in the cost of imports from China. The average MFN trade-weighted duty rate on all 1999 imports from China, dutiable as well as nondutiable, was 4.2% (on dutiable alone, 7.3%). Without MFN treatment, and assuming no change in the volume of imports, this rate would have been at about the 45% level. An even larger gap between the MFN and full-duty treatment would occur in the top categories of U.S. imports from China, primarily because a

substantial share of them are duty free under MFN treatment but would be subject to high duty rates without it.

Based on our recent survey of imports under the individual tariff items whose imports in 1999 exceeded $100 million each (167 in all) (see Appendix) and which together accounted for $51.2 billion (62.7%) of all U.S. imports from China in that year, the termination of China's MFN status would increase the average duty rate on the same imports in 2000 more than twelvefold: from 3.5% to 42.9%. The importers' overall cost of those products would increase by over one-third, mostly in the range between 25% and 65%.

Compared to similar data for earlier years, these figures indicate a larger concentration of China's exports to the United States in duty-free products or those dutiable at low rates (up to 10% ad valorem). Imports free of duty under the NTR tariff treatment account for 70 out of 167 listed tariff items, at a total value of $28.0 billion (34.4% of total U.S. imports from China), and imports dutied at rates of up to 10% ad valorem account for 80 tariff items, totaling $19.5 billion (23.9% of total imports) (see **Table 2**). The data also suggest an increasing, quite probably by design, intensification of China's exports to the United States in the product lines subject to zero or low-rate duty rates.

As a consequence of the changes brought about by the termination of China's NTR status, the trade pattern of articles now imported from China would be likely to change substantially. Much of their sourcing would be likely to shift to suppliers in other countries or to domestic suppliers. This restructuring also would result in higher costs to the importers of the articles involved, in part because those imports from China that would still take place would generally be subject to higher, non-NTR duties, and in part because the costs of articles from alternative sources, assessed NTR duties, would most likely be higher, although lower than they would be for non-NTR imports from China.

Although some of the increases would likely be in part absorbed in the subsequent chain of distribution, relative cost increases at the retail level would be high, particularly on low-margin, moderately priced consumer goods (certain clothing, footwear, household electrical and electronic products, toys, etc.). China is now a substantial supplier of such goods, and some of them may, at least temporarily, even become priced out of the U.S. market. Because of the type of the articles involved, the resulting increased costs and reduced availability would affect disproportionately lower-income U.S. consumers.

On the Chinese side, such changes would obviously have an adverse effect by reducing significantly the U.S. demand for such imports from China. The size of this reduction and the impact of its adverse effect on China's economy would depend on a number of factors, but, in the opinion of several China trade experts, would be substantial. It would be, it is claimed, particularly damaging to the economy of China's southern provinces (Fujian and Guangdong), which are most dependent on exports and where much of China's exports originate. Indirectly, it would also adversely affect Hong Kong and the economic benefits it derives from being the port of transit for close to 60% of China's exports to the United States, and whose businesses also have substantial manufacturing interests in the neighboring southern

China: hence, Hong Kong's general opposition to the withdrawal of China's MFN status. Hong Kong's recent reversion to China's sovereignty as a Special Administrative Region has not changed Hong Kong's status as a separate trade and customs entity nor the role it has played in the past in China's foreign trade and other economic relations. A withdrawal of China's MFN status would also have adverse consequences for other major investors in South China: Taiwan, Japan, and the United States.

Table 2. Incidence of Changes in Duty Rates Due to China's Loss of MFN Status

(167 tariff items valued $100 million and over; by 10% duty-rate brackets; values in millions of dollars)

Change From → To ↓	Free	Over 0% to 10%	Over 10% to 20%	Over 20% to 30%	Over 30% to 40%	Total
Free	(no change) $278.02					$278.02
Over 0% to 10%	$119.51					$119.51
Over 10% to 20%	$1,167.63	$2,811.74				$3,979.37
Over 20% to 30%	$941.05	$1,245.58	$445.52			$2,632.015
Over 30% to 40%	$16,684.546	$10,851.449	$734.02			$28,269.897
Over 40% to 50%	$1,179.43	$1,866.19	$836.64			$3,882.016
Over 50% to 60%		$953.43				$953.43
Over 60% to 70%	$7,374.49	$335.42	$345.62		$329.31	$8,384.714
Over 70% to 80%		$1,418.65				$1,418.65
Over 80% to 90%	$288.71		$427.43	$108.51	$260.61	$1,085.36
Over 90% to 100%						
Over 100% to 110%			$151.11			$151.11
Total	**$28,033.070**	**$19,482.280**	**$2,940.214**	**$108.51**	**$589.92**	**$51,153.8167**

Depending on whether and, if so, in what way and to what extent China would retaliate against imports from the United States (by increasing its tariffs to non-MFN levels, or taking other import-restrictive measures), the annual loss of U.S. exports to China could be significant, most likely affecting U.S. exports of grain, power generating machinery, aircraft, and fertilizer products. Also likely to be adversely affected would be overall U.S. economic relations with China, particularly U.S. investment and establishment of American businesses.

International Contractual Implications

Denial of China's MFN status would have to be implemented also with having regard of two relevant provisions of the 1979 U.S.-China trade agreement, still in force, addressing specifically the discontinuance of the agreement or of any of its provisions. In its automatic 3-year extension provision (Article X.2), the agreement allows for its termination if either party to it "notifies the other of its intent to terminate this Agreement at least thirty (30) days before the end of a term." The agreement also provides (in Article X.3) that "if either Contracting Party does not have domestic legal authority to carry out its obligations under this Agreement, either Contracting Party may suspend application of this Agreement, or, with the agreement of the other Contracting Party, any part of this Agreement." This provision appears to be applicable with respect to MFN treatment in the event that the waiver authority is withdrawn under the Jackson-Vanik amendment or the treatment itself is terminated by a specific newly enacted statute.

A more generally applicable provision (Article IX), which asserts "the right of either Contracting Party to take any action for the protection of its security interests," might conceivably, if circumstances warranted, be used to suspend the MFN treatment.

An additional element to be considered in the context of U.S. MFN policy toward China is China's present candidacy for eventual *membership in the World Trade Organization*[4] and the obligation of WTO members (which include the United States) to accord to each other unconditional MFN treatment in its all-encompassing meaning (i.e., not only with regard to tariffs). This obligation is contained in Article I of the General Agreement on Tariffs and Trade 1994 (GATT 1994), one of the many compacts resulting from the Uruguay Round of multilateral trade negotiations that constitute the Agreement Establishing the World Trade Organization.

China's accession to the WTO, the procedure for which was initiated in 1986, is a goal that China as well as many other WTO members, including the United States, are earnestly pursuing. China's 6-year-old negotiations of a bilateral trade agreement

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[4] For detailed specific aspects of this issue, see CRS Report 97-348, *China's Application to the World Trade Organization: Implications for U.S.-Chinese Relations*; CRS Report RL30175, *China's Accession to the World Trade Organization: Legal Issues;* and CRS memorandum *Questions Regarding Accession of the People's Republic of China to the World Trade Organization*, by Jeanne J. Grimmett, dated March 23, 2000 (released with client consent, and available from the American Law Division, CRS).

with the United States, a key player in the procedure for China's admission to the WTO, intensified in the several months prior to the early April 1999 visit to the United States by China's premier, Zhu Rongji, and resulted in a partial agreement on market access for agricultural and industrial products and various services. The negotiations to resolve several other differences between the two countries, which the United States considered of essence for China's participation in the WTO, however, were temporarily suspended by China in the wake of the accidental bombing by NATO aircraft of China's embassy in Belgrade. The negotiations were resumed and were successfully concluded with the signing of a voluminous and comprehensive bilateral agreement on November 15, 1999.

China's accession has also become an issue of direct interest to Congress through the introduction of several measures requiring statutory approval of the U.S. support of such accession.

If China accedes to the WTO, the continuation of the present U.S. policy (which conditions China's MFN treatment by the United States on compliance with the requirements of Title IV) or, more drastically, an imposition of additional restrictions on, or withdrawal of, MFN status from China would constitute a violation of the U.S. obligations under the GATT 1994 Article I, calling for "general most-favored-nation treatment" of all GATT signatories/WTO members. In such a case, China would—after its accession—have cause to submit the issue for resolution to the WTO Dispute Settlement Body.

One way for the United States to avoid such violation would be by taking recourse to WTO Article XIII. This article provides for nonapplication of all WTO multilateral agreements between any current and the newly acceding member if, before the accession agreement of the new member is approved by the WTO Ministerial Council, either country does not consent to such application.[5] If the United States and China then wished to apply reciprocally any other provisions of the WTO package of agreements (except the permanent MFN treatment), they could technically do so by amending the existing bilateral agreement or renegotiating it by including provisions for such application.

Such course of action, however, does not appear likely in practice under present circumstances, particularly in view of the fact that a comprehensive agreement, the benefits of which weigh heavily to the benefit of the United States, has already been reached between the United States and China as part of China's accession to the WTO. Recourse to WTO Article XIII would also put this agreement on hold until

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[5] Such action was taken by the United States at the time when, in similar circumstances, Hungary, Romania, and Mongolia were joining the GATT or WTO and, recently, in anticipation of Georgia's and Kyrgyzstan's becoming WTO members. The invocation of Article XIII with respect to the first three countries was rescinded upon their being extended permanent MFN status by the United States. Although the invocation of Article XIII by the United States would result in reciprocal nonapplication of the WTO agreements (including the U.S.-China 1999 bilateral agreement), the lack of China's permanent U.S. MFN status, technically, would not prevent, in the context of WTO rules, the United States from voting in favor of China's admission to the WTO. Now, on the other hand, lack of U.S. support by itself would prevent China's admission to the WTO.

the United States were able to apply to China the WTO agreement in its entirety, essentially by extending to it unconditional and permanent MFN status, a *quid pro quo* on which China would undoubtedly insist.[6]

Granting Permanent MFN Status to China [7]

China's rapid progress, in recent months, in its quest for accession to the WTO has shifted the focus of the China MFN debate from the issue of annual renewals of China's status under a Jackson-Vanik waiver to one of granting China permanent MFN/NTR status. In the likely event that China becomes a WTO member, such membership will require both countries to apply to each other permanent most-favored-nation treatment. Denial of such treatment on the part of the United States by continuing the practice of its annual renewals would make impossible the reciprocal application of the WTO Agreement as well as of the comprehensive U.S.-China bilateral agreement, which was signed on November 15, 1999, as part of the process of China's accession to the WTO.

Draft legislation authorizing the President to terminate the application of Title IV of the Trade Act of 1974 (including, principally, the Jackson-Vanik amendment) and by proclamation extend nondiscriminatory treatment to China was transmitted by the White House to Congress in a Presidential message[8] to Congress on March 8, 2000. It was introduced jointly by Senators Roth and Moynihan on March 23 as S. 2277 and referred to the Committee on Finance. In contrast to comparable legislation enacted earlier to grant permanent nondiscriminatory status to several other countries in similar situations, S. 2277 also requires the President to transmit to Congress, before making the determination terminating the application of Title IV to China, a report certifying "that the terms and conditions for China's accession to the WTO are at least equivalent to those agreed" in the U.S.-China bilateral agreement. The bill also sets as the effective date of the legislation a date "no earlier than the effective date of China's accession to the WTO," thereby equating the extension of permanent MFN status to China under domestic law with the United States' identical international obligation under the WTO.[9]

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[6] As long as the 1979 trade agreement with China remains in force, however, the United States could benefit from a limited number of concessions granted by China to other countries in bilateral agreements or included in the accession protocol as part of China's accession to the WTO, for which the 1979 agreement specifically requires reciprocal MFN application.

[7] This action does not apply to China's Special Administrative Regions of Hong Kong and Macau, to which MFN treatment by the United States is due individually since they already were members of the WTO as separate customs territories before their respective reversions to China.

[8] U.S. President (Clinton, 1993-). *Permanent Normal Trade Relations for China*; Message from the President of the United States ... Washington, U.S. Govt. Print. Off., 2000 3 p. (106th Congress, 2d session. H.Doc. 106-207). Message dated March 8, 2000.

[9] Companion legislation has not yet been introduced in the House. In view of the fact that legislation dealing with tariffs (e.g., extending permanent nondiscriminatory treatment to

(continued...)

Supporters of the legislation include most prominently and steadfastly the Administration and, generally, U.S. business and agricultural organizations. They have been pointing out that, by defeating the legislation, the United States would indirectly forfeit the benefits potentially due to it from China under the November 1999 bilateral agreement as well as under the WTO Agreement, an important benefit of the latter being access to the WTO dispute settlement mechanism. They also predict adverse consequences for the United States' stature as a leader in world trade relations and, possibly, for the cohesiveness of the WTO itself.

Opponents generally include the Democratic side of Congress and organized labor. In addition to the earlier arguments in opposition to annual extensions of China's MFN status on the basis of Jackson-Vanik amendment waivers, opposition to permanent granting of the MFN status has been strengthened by China's recent "saber rattling" in connection with the presidential election in Taiwan and by the stepped-up repression in several areas of Chinese public life. A distinct reluctance to approve China's permanent MFN status has also been expressed by a significant number of Members of Congress who, in the past, favored the annual renewals of China's MFN status under the Jackson-Vanik regime but are now unwilling to have Congress abandon its involvement in the matter by excluding it from annual review through the grant of the permanent status.

To assuage the concerns of congressional opponents, the Administration has reportedly been working with House Democrats on possible parallel legislation that would address those concerns, thus far without any tangible results in the form of a legislative proposal. One such measure would set up a special commission charged with monitoring China's compliance with human rights standards and with its trade commitments.

The enactment of granting permanent MFN status to China, the congressional action for which is now tentatively set to take place by the end of May 2000, would in any event need to be completed before June 3, 2000, the deadline for the President's extension of the Jackson-Vanik waiver for China. If the enactment has not taken place by then or if the measure is defeated before then, the President would have to resort again to the Jackson-Vanik amendment procedure if he decided to keep in force China's annually renewable MFN status.

General hearings on U.S.-China trade relations, focusing on the grant of permanent NTR treatment, were held on March 30, 2000, by the House Ways and Means Committee (including also China's accession to the WTO); on April 6 by the Senate Foreign Relations Subcommittee on International Economic Policy and on April 11 by the full Foreign Relations Committee as well as by the Commerce Committee (including also China's WTO accession).

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[9] (...continued)
China) is considered revenue legislation and, hence, must originate in the House, failure to introduce a companion House bill would by itself prevent the measure from being enacted.

Other Developments During the 106th Congress

Several other legislative measures have been introduced earlier in the 106th Congress, addressing China's MFN status in the context of its accession to the World Trade Organization.

China's MFN status would be directly affected by the "snap-back" provision of H.R. 577 (China Market Access and Export Opportunities Act of 1999). Introduced by Representative Bereuter on February 4, 1999, and referred to the Committee on Ways and Means, the measure requires the President to determine, after consulting with appropriate committees, and report to Congress by January 1, 2001, whether China is (1) according adequate trade benefits to the United States and (2) taking adequate steps or making significant progress toward becoming a WTO member. If either determination is negative, he is to increase by proclamation, within 180 days, duty rates on one or more imports from China to not more than the pre-Uruguay Round HTSUS column 1 (i.e., concessional MFN) levels in effect on December 31, 1994. Upon notification to Congress, he also may subsequently modify a rate within this ceiling, but not terminate it. The "snap-back," however, can be terminated when China becomes a WTO member, or when the President proclaims that China is according adequate trade benefits to the United States and taking adequate steps or making significant progress toward becoming a WTO member, whichever is earlier. Upon admission to the WTO, China would no longer be subject to provisions of Title IV of the Trade Act of 1974 and would regain permanent MFN status.

In addition, four measures, only indirectly affecting China's MFN status, would require congressional approval by joint resolution of U.S. support of China's admission to the WTO. As mentioned earlier, lack of such support could not block China's admission to the WTO.

H.R. 884 and S. 743 prohibit U.S. support of China's admission to the WTO without such approval, enacted under a modified fast-track procedure; they require the President to notify the Congress if China becomes a WTO member without U.S. support, and to submit to the WTO a written notice of the United States' withdrawal from the WTO, effective 6 months after the notification.

H.R. 884 was introduced by Representative Gephardt on March 1, 1999, and referred to Committee on Ways and Means and, for a period to be determined by the Speaker, to Committee on Rules, for consideration of provisions falling within the jurisdiction of either committee. S. 743 was introduced by Sen. Hollings on March 25, 1999, and referred to Committee on Finance.

A narrower provision, Amendment No. 89 to S. 544, which omits the requirement of presidential notification to Congress and withdrawal of the United States from the WTO, was introduced from the floor by Sen. Hutchinson on March 18, 1999, but on the same date laid on the table by a yea-nay vote of 69 to 30, with one abstention.

A somewhat similar measure, S. 742, introduced by Sen. Grassley on March 24, 1999, and referred to Committee on Finance, requires the U.S. Trade Representative

to consult with the House Committee on Ways and Means and the Senate Committee on Finance at least 60 days before any vote is taken by WTO Ministerial Conference or General Council on the admission of a new member; and prohibits the United States to support China's admission to the WTO unless Congress by enacting a law allows such support.

Following the President's recommendation of June 3, 1999, to renew China's Jackson-Vanik waiver (and MFN status) for a year (Presidential Determination 99-28[10]), joint resolutions to disapprove the renewal were introduced in both houses on June 7, 1999: H.J.Res. 57 by Representative Rohrabacher (referred to House Ways and Means Committee), and S.J.Res. 27 by Sen. Bob Smith (referred to Senate Finance Committee).

Motion to discharge the Senate Finance Committee from further consideration of S.J.Res. 27 was rejected (12 - 87) on July 20, 1999. H.J.Res. 57 was reported adversely on July 26, 1999 (H.Rept. 106-262) and defeated on July 27, 1999 (170 - 260).

Related to this action was a hearing on U.S. trade relations with China and China's admission to the WTO, held on June 8, 1999, by the Trade Subcommittee of the House Ways and Means Committee.

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[10] U.S. President (Clinton, 1993-). *A Report to the Congress Concerning the Extension of Waiver Authority or the People's Republic of China*; Communication from the President of the United States... Washington, U.S. Govt. Print. Off., 1999. 3 p. (106th Congress, 1st session. H.Doc. 106-77). Communication dated June 3, 1999.

II

106TH CONGRESS
2D SESSION

S. 2277

To terminate the application of title IV of the Trade Act of 1974 with respect to the People's Republic of China.

IN THE SENATE OF THE UNITED STATES

MARCH 23, 2000

Mr. ROTH (for himself and Mr. MOYNIHAN) introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To terminate the application of title IV of the Trade Act of 1974 with respect to the People's Republic of China.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. TERMINATION OF APPLICATION OF TITLE IV OF THE TRADE ACT OF 1974 TO THE PEOPLE'S REPUBLIC OF CHINA (CHINA).

(a) PRESIDENTIAL DETERMINATIONS AND EXTENSION OF NONDISCRIMINATORY TREATMENT.—Notwithstanding any provision of title IV of the Trade Act of 1974 (19 U.S.C. 2431 et seq.), the President may—

(1) determine that such title should no longer apply to China; and

(2) after making a determination under paragraph (1) with respect to China, proclaim the extension of nondiscriminatory treatment (normal trade relations treatment) to the products of that country.

(b) CHINA'S ACCESSION TO THE WORLD TRADE ORGANIZATION ("WTO").—Prior to making the determination provided for in subsection (a)(1) and pursuant to the provisions of section 122 of the Uruguay Round Agreements Act (19 U.S.C. 3532), the President shall transmit a report to Congress certifying that the terms and conditions for China's accession to the WTO are at least equivalent to those agreed between the United States and China on November 15, 1999.

SEC. 2. EFFECTIVE DATES.

(a) The extension of nondiscriminatory treatment pursuant to section 1(a)(1) shall be effective no earlier than the effective date of China's accession to the WTO.

(b) On and after the effective date under subsection (a) of the extension of nondiscriminatory treatment to the products of China, title IV of the Trade Act of 1974 shall cease to apply to that country.

○

THE WHITE HOUSE
Office of the Press Secretary

For Immediate Release March 8, 2000

TO THE CONGRESS OF THE UNITED STATES:

Last November, after years of negotiation, we completed a bilateral agreement on accession to the World Trade Organization (WTO) with the People's Republic of China (Agreement). The Agreement will dramatically cut import barriers currently imposed on American products and services. It is enforceable and will lock in and expand access to virtually all sectors of China's economy. The Agreement meets the high standards we set in all areas, from creating export opportunities for our businesses, farmers, and working people, to strengthening our guarantees of fair trade. It is clearly in our economic interest. China is concluding agreements with other countries to accede to the WTO. The issue is whether Americans get the full benefit of the strong agreement we negotiated. To do that, we need to enact permanent Normal Trade Relations (NTR) for China.

We give up nothing with this Agreement. As China enters the WTO, the United States makes no changes in our current market access policies. We preserve our right to withdraw market access for China in the event of a national security emergency. We make no changes in laws controlling the export of sensitive technology. We amend none of our trade laws. In fact, our protections against unfair trade practices and potential import surges are stronger with the Agreement than without it.

Our choice is clear. We must enact permanent NTR for China or risk losing the full benefits of the Agreement we negotiated, including broad market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement. All WTO members, including the United States, pledge to grant one another permanent NTR to enjoy the full benefits in one another's markets. If the Congress were to fail to pass permanent NTR for China, our Asian, Latin American, Canadian, and European competitors would reap these benefits, but American farmers and other workers and our businesses might well be left behind.

We are firmly committed to vigorous monitoring and enforcement of China's commitments, and will work closely with the Congress on this. We will maximize use of the WTO's review mechanisms, strengthen U.S. monitoring and enforcement capabilities, ensure regular reporting to the Congress on China's compliance, and enforce the strong China-specific import surge protections we negotiated. I have requested significant new funding for China trade compliance.

We must also continue our efforts to make the WTO itself more open, transparent, and participatory, and to elevate consideration of labor and the environment in trade. We must recognize the value that the WTO serves today in fostering a global, rules-based system of international trade -- one that has fostered global growth and prosperity over the past half century. Bringing China into that rules-based system advances the right kind of reform in China.

The Agreement is in the fundamental interest of American security and reform in China. By integrating China more fully into the Pacific and global economies, it will strengthen China's stake in peace and stability. Within China, it will help to develop the rule of law; strengthen the role of market forces; and increase the contacts China's citizens have with each other and the outside world. While we will continue to have strong disagreements with China over issues ranging from human rights to religious tolerance to foreign policy, we believe that bringing China into the WTO pushes China in the right direction in all of these areas.

I, therefore, with this letter transmit to the Congress legislation authorizing the President to terminate application of Title IV of the Trade Act of 1974 to the People's Republic of China and extend permanent Normal Trade Relations treatment to products from China. The legislation specifies that the President's determination becomes effective only when China becomes a member of the WTO, and only after a certification that the terms and conditions of China's accession to the WTO are at least equivalent to those agreed to between the United States and China in our November 15, 1999, Agreement. I urge that the Congress consider this legislation as soon as possible.

WILLIAM J. CLINTON
THE WHITE HOUSE,
March 8, 2000

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release March 8, 2000

NORMAL TRADE RELATIONS TREATMENT FOR
THE PEOPLE'S REPUBLIC OF CHINA

Section 1: Termination of application of Title IV of the Trade Act of 1974 to The People's Republic of China (China).

(a) PRESIDENTIAL DETERMINATIONS AND EXTENSION OF NON-DISCRIMINATORY TREATMENT

Notwithstanding any provision of title IV of the Trade Act of 1974 (19 U.S.C. 2431 et seq.), the President may, --

(1) Determine that such title should no longer apply to China, and

(2) After making a determination under paragraph (1) with respect to China, proclaim the extension of nondiscriminatory treatment (normal trade relations treatment) to the products of that country.

(b) CHINA'S ACCESSION TO THE WORLD TRADE ORGANIZATION ("WTO")

Prior to making the determination provided for in subsection (a)(1) and pursuant to the provisions of section 122 of the Uruguay Round Agreements Act (19 U.S.C. 3532), the President shall transmit a report to Congress certifying that the terms and conditions for China's accession to the WTO are at least equivalent to those agreed between the United States and China on November 15, 1999.

Section 2. Effective Dates B

(a) The extension of nondiscriminatory treatment pursuant to section 1 (a) (1) shall be effective no earlier than the effective date of China's accession to the WTO.

(b) On and after the effective date under subsection (a) of the extension of non-discriminatory treatment to the products of China, title IV of the Trade Act of 1974 shall cease to apply to that country.

SUMMARY OF U.S.-CHINA BILATERAL WTO AGREEMENT

February 2, 2000

AGRICULTURE

The Agreement would eliminate barriers and increase access for U.S. exports across a broad range of commodities. Commitments include:

- Significant cuts in tariffs that will be completed by January 2004. Overall average for agricultural products will be 17.5 percent and for U.S. priority products 14 percent (down from 31 percent).
- Establishment of a tariff-rate quota system for imports of bulk commodities, e.g., wheat, corn, cotton, barley, and rice, that provides a share of the TRQ for private traders. Specific rules on how the TRQ will operate and increased transparency in the process will help ensure that imports occur. Significant and growing quota quantities subject to tariffs that average between 1-3 percent.
- Immediate elimination of the tariff-rate quota system for barley, peanut oil, sunflower-seed oil, cottonseed oil, and a phase-out for soybean oil.
- The right to import and distribute products without going through a state-trading enterprise or middleman.
- Elimination of export subsidies on agricultural products.

China has also agreed to the elimination of SPS barriers that are not based on scientific evidence.

INDUSTRIAL PRODUCTS

China would lower tariffs and eliminate broad systemic barriers to U.S. exports, such as limits on who can import goods and distribute them in China, as well as barriers such as quotas and licenses on U.S. products.

TARIFFS

- Tariffs cut from an average of 24.6 percent to an average of 9.4 percent overall and 7.1 percent on U.S. priority products.
- China will participate in the Information Technology Agreement (ITA) and eliminate all tariffs on products such as computers, telecommunications equipment, semiconductors, computer equipment, and other high-technology products.
- In the auto sector, China will cut tariffs from the current 80-100% level to 25% by mid-2006, with the largest cuts in the first years after accession.
- Auto parts tariffs will be cut to an average of 10% by mid-2006.
- In the wood and paper sectors, tariffs will drop from present levels of 12-18% on wood and 15-25% on paper down to levels generally between 5% and 7.5%.
- China will also be implementing the vast majority of the chemical harmonization initiative. Under that initiative, tariffs will be at 0, 5.5 and 6.5 percent for products in each category.

ELIMINATION OF QUOTAS AND LICENSES

WTO rules bar quotas and other quantitative restrictions. China has agreed to eliminate these restrictions with phase-ins limited to five years.

- Quotas: China will eliminate existing quotas upon accession for the top U.S. priorities (e.g. optic fiber cable). It will phase out remaining quotas, generally by 2002, but no later than 2005.

- Quotas will grow from current trade levels at a 15% annual rate in order to ensure that market access increases progressively.

- Auto quotas will be phased out by 2005. In the interim, the base-level quota will be $6 billion (the level prior to China's auto industrial policy), and this will grow by 15% annually until elimination.

RIGHT TO IMPORT AND DISTRIBUTE

Trading rights and distribution are among the top concerns for U.S. manufacturers and agricultural exporters. At present, China severely restricts trading rights (the right to import and export) and the ability to own and operate distribution networks. Under the Agreement, trading rights and distribution services will be progressively phased in over three years. China will also open up sectors related to distribution services, such as repair and maintenance, warehousing, trucking and air courier services.

SERVICES

China has made commitments to phase out most restrictions in a broad range of services sectors, including distribution, banking, insurance, telecommunications, professional services such as accountancy and legal consulting, business and computer related services, motion pictures and video and sound recording services. China will also participate in the Basic Telecommunications and Financial Services Agreements.

GRANDFATHERING

China will grandfather the existing level of market access already in effect at the time of China's accession for U.S. services companies currently operating in China. This will protect existing American businesses operating under contractual or shareholder agreements or a license from new restrictions as China phases in their commitments.

DISTRIBUTION AND RELATED SERVICES

China generally prohibits foreign firms from distributing products other than those they make in China, or from controlling their own distribution networks. Under the Agreement, China has agreed to liberalize wholesaling and retailing services for most products, including imported

goods, throughout China in three years. In addition, China has agreed to open up the logistical chain of related services such as maintenance and repair, storage and warehousing , packaging, advertising, trucking and air express services, marketing, and customer support in three to four years.

TELECOMMUNICATIONS

China now prohibits foreign investment in telecommunications services. For the first time, China has agreed to permit direct investment in telecommunications businesses. China will also participate in the Basic Telecommunications Agreement. Specific commitments include:

- Regulatory Principles -- China has agreed to implement the pro-competitive regulatory principles embodied in the Basic Telecommunications Agreement (including interconnection rights and independent regulatory authority) and will allow foreign suppliers to use any technology they choose to provide telecommunications services.

- China will gradually phase out all geographic restrictions for paging and value-added services in two years, mobile voice and data services in five years, and domestic and international services in six years.

- China will permit 50 percent foreign equity share for value-added and paging services two years after accession, 49 percent foreign equity share for mobile voice and data services five years after accession, and for domestic and international services six years after accession.

INSURANCE

Currently, only two U.S. insurers have access to China's market. Under the agreement:

- China agreed to award licenses solely on the basis of prudential criteria, with no economic-needs test or quantitative limits on the number of licenses issued.

- China will progressively eliminate all geographic limitations within 3 years. Internal branching will be permitted consistent with the elimination of these restrictions.

- China will expand the scope of activities for foreign insurers to include group, health and pension lines of insurance, phased in over 5 years. Foreign property and casualty firms will be able to insure large-scale commercial risks nationwide immediately upon accession.

- China agreed to allow 50 percent ownership for life insurance. Life insurers may also choose their own joint venture partners. For non-life, China will allow branching or 51 percent ownership on accession and wholly owned subsidiaries in 2 years. Reinsurance is completely open upon accession (100 percent, no restrictions).

BANKING

Currently foreign banks are not permitted to do local currency business with Chinese clients (a few can engage in local currency business with their foreign clients). China imposes severe geographic restrictions on the establishment of foreign banks.

- China has committed to full market access in five years for U.S. banks.
- Foreign banks will be able to conduct local currency business with Chinese enterprises starting 2 years after accession.
- Foreign banks will be able to conduct local currency business with Chinese individuals from 5 years after accession.
- Foreign banks will have the same rights (national treatment) as Chinese banks within designated geographic areas.
- Both geographic and customer restrictions will be removed in five years.
- Non-bank financial companies can offer auto financing upon accession.

SECURITIES

China will permit minority foreign-owned joint ventures to engage in fund management on the same terms as Chinese firms. By three years after accession, foreign ownership of these joint ventures will be allowed to rise to 49 percent. As the scope of business expands for Chinese firms, foreign joint venture securities companies will enjoy the same expansion in scope of business. In addition, 33 percent foreign-owned joint ventures will be allowed to underwrite domestic equity issues and underwrite and trade in international equity and all corporate and government debt issues.

PROFESSIONAL SERVICES

China has made strong commitments regarding professional services, including the areas of law, accounting, management consulting, tax consulting, architecture, engineering, urban planning, medical and dental services, and computer and related services. China's commitments will lead to greater market access opportunities and increased certainty for American companies doing business in China.

MOTION PICTURES, VIDEOS, SOUND RECORDINGS

China will allow the 20 films to be imported on a revenue-sharing basis in each of the 3 years after accession. U.S. firms can form joint ventures to distribute videos, software entertainment, and sound recordings and to own and operate cinemas.

PROTOCOL PROVISIONS

Commitments in China's WTO Protocol and Working Party Report establish rights and obligations enforceable through WTO dispute settlement procedures. We have agreed on key provisions relating to antidumping and subsidies, protection against import surges, technology

transfer requirements, and offsets, as well as practices of state-owned and state-invested enterprises. These rules are of special importance to U.S. workers and business.

China has agreed to implement the TRIMs Agreement upon accession, eliminate and cease enforcing trade and foreign exchange balancing requirements, as well as local content requirements, refuse to enforce contracts imposing these requirements, and only impose or enforce laws or other provisions relating to the transfer of technology or other know-how, if they are in accordance with the WTO agreements on protection of intellectual property rights and trade-related investment measures.

These provisions will also help protect American firms against forced technology transfers. China has agreed that, upon accession, it will not condition investment approvals, import licenses, or any other import approval process on performance requirements of any kind, including: local content requirements, offsets, transfer of technology, or requirements to conduct research and development in China.

ANTIDUMPING AND SUBSIDIES METHODOLOGY

The agreed protocol provisions ensure that American firms and workers will have strong protection against unfair trade practices including dumping and subsidies. The U.S. and China have agreed that we will be able to maintain our current antidumping methodology (treating China as a non-market economy) in future anti-dumping cases. This provision will remain in force for 15 years after China's accession to the WTO. Moreover, when we apply our countervailing duty law to China we will be able to take the special characteristics of China's economy into account when we identify and measure any subsidy benefit that may exist.

PRODUCT-SPECIFIC SAFEGUARD

The agreed provisions for the protocol package also ensure that American domestic firms and workers will have strong protection against rapid increases of imports.

To do this, the Product-Specific Safeguard provision sets up a special mechanism to address increased imports that cause or threaten to cause market disruption to a U.S. industry. This mechanism, which is in addition to other WTO Safeguards provisions, differs from traditional safeguard measures. It permits United States to address imports solely from China, rather than from the whole world, that are a significant cause of material injury through measures such as import restrictions. Moreover, the United States will be able to apply restraints unilaterally based on legal standards that differ from those in the WTO Safeguards Agreement. This could permit action in more cases. The Product-Specific Safeguard will remain in force for 12 years after China accedes to the WTO.

STATE-OWNED AND STATE-INVESTED ENTERPRISES

The Protocol addresses important issues related to the Chinese government's involvement in the economy. China has agreed that it will ensure that state-owned and state-invested enterprises will make purchases and sales based solely on commercial considerations, such as price, quality,

availability and marketability, and that it will provide U.S. firms with the opportunity to compete for sales and purchases on non-discriminatory terms and conditions.

China has also agreed that it will not influence these commercial decisions (either directly or indirectly) except in a WTO consistent manner. With respect to applying WTO rules to state-owned and state-invested enterprises, we have clarified in several ways that these firms are subject to WTO disciplines:

- Purchases of goods or services by these state-owned and state-invested enterprises do not constitute "government procurement" and thus are subject to WTO rules.

- We have clarified the status of state-owned and state-invested enterprises under the WTO Agreement on Subsidies and Countervailing Measures. This will help ensure that we can effectively apply our trade law to these enterprises when it is appropriate to do so.

TEXTILES

China's protocol package will include a provision drawn from our 1997 bilateral textiles agreement, which permits U.S. companies and workers to respond to increased imports of textile and apparel products. This textile safeguard will remain in the effect until December 31, 2008, which is four years after the WTO agreement on Textile and Clothing expires.

THE U.S. – CHINA WTO ACCESSION DEAL: BENEFITS FOR SMALL- AND MEDIUM-SIZED COMPANIES

APRIL 7, 2000

PNTR Means More U.S. Exports to China: China's entry into the WTO will dramatically reduce market access barriers currently imposed on U.S. exports of goods and services, including those exported by small- and medium-sized enterprises (SMEs – companies with 500 or fewer employees) and provides a means to ensure China's compliance with its commitments. But U.S. companies, farmers and workers will be denied the full market access and enforcement benefits of China's commitments unless Congress enacts permanent Normal Trade Relations (PNTR) for China.

The Chinese Market Is Increasingly Important to U.S. Small Businesses. A dominant and growing share of U.S. exporters to China are SMEs.

- Eighty-two percent of all U.S. exporters to China in 1997 were SMEs. SMEs generated over 35% of total U.S. merchandise exports to China in 1997.
- The number of small firms exporting to China has risen at a rapid rate. From 1992 to 1997 the number of SMEs exporting to China surged by 141 percent -- compared to an 81 percent rise in the number of large-company exporters.
- The value of SME exports to China more than doubled (107 percent) between 1992 and 1997, increasing by nearly $2 billion. This made China the third largest growth market for SMEs globally over this period.

Small Businesses Will Benefit In Many Ways From China's Implementation Of Its WTO Commitments.

- The significant reduction of tariffs will help U.S. SMEs exporting to China compete on a more level playing field with companies located there.
- Paperwork costs for SMEs will be reduced significantly as customs and licensing procedures will be simplified and made uniform throughout China.
- Under the trading rights provisions, U.S. exporters will no longer be required to use Chinese Government-approved "middlemen" to sell their products in China. They will be able to sell U.S.-made products directly to customers in China -- which will mean a significant decrease in export costs.
- Easier access to and more control over distribution systems in China will allow U.S. companies to oversee commission agents' services, franchising services, transportation, wholesaling, repairs, and retailing of their products. One-third of all U.S. SME exporters to China could benefit from this provision as these companies are involved in wholesaling.
- U.S. exports will receive uniform treatment with regard to tariffs and the same treatment as Chinese firms for taxes.
- This streamlining of China's requirements for trading in China is particularly valuable to SMEs, which typically have fewer resources than larger businesses to deal with often complex and costly regulations.
- China will be required to conform its standards and inspection procedures to WTO norms, eliminating excessive testing requirements and other barriers that are especially disadvantageous for SMEs.
- Stronger enforcement of intellectual property rights through the WTO will benefit U.S. companies making "cutting-edge" products that involve unique technologies or processes.

Small Businesses Also Will Benefit From Application Of WTO Rules To China. Membership in the WTO will support the further development of the rule of law in China. This will aid American SMEs in several ways:

- Greater transparency, impartial dispute settlement, and other features of China's WTO membership will benefit SMEs in particular -- in view of their limited resources and the particular challenges they face in dealing with China's often complex legal and regulatory policies.
- Through WTO dispute settlement, we would gain a stronger means for ensuring Chinese compliance with its obligations. China has agreed to subject its decisions to impartial review, and ultimately imposition of sanctions if necessary -- and China will not be able to block panel decisions. If China loses a dispute, it will have to change the offending practice, provide compensation, or be subject to denial of access to our market in an amount proportional to the harm it causes. The U.S. has been the most frequent user of the WTO dispute settlement mechanism, obtaining favorable results so far on 23 of the 25 complaints that we have initiated and that have been acted upon.
- In addition, the President's new enforcement/compliance budget initiative includes provisions focused on the special needs of SMEs. For example, it will provide new resources to help smaller businesses assess their

options for using U.S. trade laws to respond to WTO-inconsistent trade practices. The additional resources for monitoring China's compliance with its obligations will also help SMEs address any potential market access barriers.

Overall Gains In Exports To China Will Benefit Small Businesses Supplying U.S. Companies. PNTR means more exports to China. Many small businesses supply products and services to larger companies that then export to China. For example, a majority of Boeing's suppliers are small businesses. Boeing purchased over $30 billion worth of materials in 1999 from more than 28,000 U.S. suppliers located in every state. These suppliers employ about 200,000 workers. Boeing's cumulative sales to China have totaled $19 billion and the company forecasts a market worth $120 billion over the next 20 years. A more open Chinese market thus will help support jobs for thousands of workers at SMEs and other companies across the United States -- including many that do not export directly to China.

This Is A One-Way Deal In Which China Has Agreed To Open Its Market While The United States Simply Maintains The Market Access Policies We Already Have. If Congress enacts PNTR, there will be more exports to China of products made in the United States by American workers, farmers, SMEs and other businesses. If Congress does not grant PNTR, our competitors will enjoy the full market access and enforcement rights in China that we will be denied.

04/13/00 13:01 SOCMA->Donald A. Manzullo 001

Apr-13-00 02:47pm From-SOCMA +2022968548 T-374 P.01 F-974

SOCMA Creating Value For You

News Release

SYNTHETIC ORGANIC CHEMICAL MANUFACTURERS ASSOCIATION

FOR IMMEDIATE RELEASE
April 12, 2000

Contact: Richard Dutchman
(202) 721-4125

Trade with China is Good for Small Business

Washington, D.C. – The Synthetic Organic Chemical Manufacturers Association (SOCMA) is urging Congress to help small chemical manufacturers by supporting S. 2277, a bill that would provide permanent normal trade relations (PNTR) for China. At a congressional briefing, SOCMA Board member Tony Stonis, president of Cardolite Corporation (Newark, NJ) said that the bill would help small chemical manufacturers by opening a major growth market key to the advancement of U.S. business and the creation of new jobs.

Stonis explained that PNTR and China's accession to the World Trade Organization (WTO) are important to the 2000 specialty and custom chemical manufacturers in the U.S., who typically have annual sales of less than $40 million and employ fewer than 75 people. While many markets for their products are reaching maturity in the United States, Chinese markets are growing rapidly fueling demand for U.S. products and innovation.

Many U.S. chemical manufacturers are already trading with China, providing ingredients for pharmaceuticals, agricultural products, consumer and household products, cosmetics and toiletries, plastics, foods, paints and coatings, and industrial and construction goods. To remain competitive, they must have access to the benefits of Chinese participation in the WTO, including distribution rights and reduction of duties from 35 percent to 5.5 percent.

"These are benefits that other countries will receive regardless of U.S. involvement," said Stonis. "Somebody will provide China with these needed products. PNTR will allow U.S. companies to be competitive with China's other trading partners in North America, Europe, and Asia."

SOCMA is the leading trade association representing the custom and specialty chemical industry. Its more than 330 member companies make the products and refine the raw materials that make today's standard of living possible. From pharmaceuticals to cosmetics, soaps to plastics, and all kinds of industrial and construction products, SOCMA members and their more than 100,000 employees make materials that save lives, ensure our food supply is safe and abundant, and enable the manufacture of literally thousands of other products.

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NAM National Association of Manufacturers

OVER 80 PERCENT OF U.S. EXPORTERS TO CHINA ARE SMALL AND MEDIUM-SIZED FIRMS

- An overlooked aspect in the debate over Permanent Normal Trade Relations (PNTR) with China is the importance of the Chinese market to small and medium-sized U.S. firms. Contrary to widely-held assumptions, the overwhelming proportion of companies that will benefit from improved access to China are small and medium-sized firms – not large firms.
- In fact, 82 percent of U.S. companies exporting to China are small and medium-sized firms, according to a new Commerce Department Exporter Database[1].
- Small and medium-sized firms account for 35 percent of the value of all U.S. exports to China. This is higher than the small and medium-sized exporter share of U.S. exports to the rest of the world.
- The number of small and medium-sized U.S. firms exporting to China has doubled in five years, from 3,100 to 7,600. China led all global markets in terms of the fastest growth in the number of U.S. small and medium-sized exporters. And the exports to China of these small and medium-sized firms are growing twice as fast as those of their larger counterparts.
- The 7,600 small and medium-sized companies across America that sell directly to China, though, are only part of the picture.
- Additional thousands of small firms are "indirect" exporters to China as suppliers of components to "direct" exporters to China. Their sales and employment depend upon the ability of their customers to sell more to China.

Small Firms Need PNTR with China

- The data show small U.S. firms are well suited to export to China's developing market, and can be major beneficiaries as China cuts trade barriers, opens its markets, and adopts enforceable international trade rules as the price of entering the World Trade Organization (WTO). These gains are certain to result in even faster growth in small and medium-sized U.S. exporters' sales to the Chinese market . . . .

  . . . But only if the United States has Permanent Normal Trade Relations with China, just as all other 135 WTO members will have. Without PNTR, small and medium-sized U.S. firms will not get the same market-opening benefits as their European, Japanese and other foreign competitors. They will be at a serious commercial disadvantage and will lose sales and jobs to firms in other WTO member countries.

10,000 of the NAM's 14,000 Members are Small and Medium-Sized Manufacturers

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1 The Exporter Database is operated by the Office of Trade and Economic Analysis, International Trade Administration, U.S. Department of Commerce. It utilizes a combination of Census Bureau links between Export Declarations and Export Data to produce a reliable way to profile U.S. exporters.

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Why American Manufacturers Support China's Entry Into the World Trade Organization

In May, 1998, the National Association of Manufacturers (NAM) issued a report that set forth key commitments that China should make in order for American manufacturers to support China's entry into the World Trade Organization (WTO). The scorecard below indicates just how much was achieved. The agreement provides genuine market access to all sectors. It includes not only the right to export goods, services and agricultural products to China, but the right to market, sell and distribute them as well.

U.S.-China Bilateral WTO Agreement	
What We Asked For in May 1998...	*... and What We Got in November 1999*
Tariffs: Reduce tariffs across the board.	1. China's tariffs on U.S.-made goods will fall from an overall average of 24.6% in 1997 to 9.4% by 2005. 2. Tariffs on computers, semiconductors and all internet-related equipment will fall from an average of 13.3% to zero by 2005. 3. Significant cuts will be made in the auto, auto parts, chemicals, wood and paper sectors.
Trading Rights and Distribution: Grant full trading rights to U.S. companies; grant full distribution rights - including transportation, warehousing, wholesaling and retailing, and the right to supply after-sales service (including maintenance and repair) for all products, whether manufactured in China or not.	1. For the first time, China will permit the right to import and export without middle-men - so-called trading rights - that will be implemented over three years. 2. The agreement establishes full rights of distribution including wholesale and retail and aftersale service, repair, maintenance and transport, whether the goods are produced in China or imported.
Non-Tariff Measures: Eliminate all quotas, quantitative restrictions, licensing, tendering, pricing and other import-restrictive, redundant or discriminatory measures.	1. Most quotas will be eliminated immediately, and the remaining quotas generally by 2002, but no later that 2005. 2. Auto quotas will be phased out by 2005
Investment: Eliminate export performance, trade balancing and local content requirements; eliminate technology transfer requirements tied to the provision of special tax benefits and government approvals; and remove equity caps for investment projects.	1. China has agreed to eliminate and cease enforcing trade balancing and local content requirements. 2. China will not condition investment approvals or import licenses on performance requirements, such as technology transfer or requirements to conduct R&D in China. 3. 49% foreign ownership in all telecommunications services is allowed, 50% for value-added paging services in 2 years, 49% for mobile services in 5 years and 49% for international and domestic services in 6 years; 50% for life insurance, 51% for non-life, and 100% for re-insurance; 49% in joint ventures engaged in the distribution of audiovisual products; and 100% for foreign-owned hotels in 3 years.
State Trading: Require all state enterprises to base their trade decisions on commercial factors only; afford foreign enterprises adequate opportunity to compete for sales to state-owned enterprises.	1. State-owned enterprises must make purchases and sales based on commercial considerations, such as price, quality, availability and marketability. 2. China must provide U.S. firms with the opportunity to compete for sales and purchases on non-discriminatory terms and conditions.

Services: Substantial liberalization, including full national treatment, of China's services sector, with highest priority for financial services, insurance, telecommunications, information technology distribution, maintenance and repair; all service offers should be nationwide in scope; existing U.S. services investments must be grandfathered.	1. China has made commitments in all major services categories, including banking (full market access in 5 years), insurance (expansion of scope of activities phase din over 5 years), telecoms (signed up to the Basic Telecommunications Agreement and the pro-competitive regulatory principles). 2. Insurance geographic limitations eliminated in 3 years; banking geographic limitations eliminated in 5 years; 2-6 years in telecoms, depending on the type of service 3. China will grandfather all existing market access in all services sectors.
Intellectual Property: Full implementation of the TRIPS Agreement; continued adherence to all prior bilateral commitments.	1. China has agreed to full implementation of the TRIPs Agreement. 2. China will adhere to all prior bilateral commitments.
Safeguards: Include safeguard(s), either product specific or general, to protect the U.S. market in the event that China abrogates parts of the protocol and causes market surges.	1. China has agreed to a special safeguard mechanism that will remain in place for 12 years following accession that can be used to address import surges that cause or threaten market disruption. 2. A product-specific safeguard to address imports from China, rather than the whole world, is also available.
Antidumping: Confirm the continued use of the current non-market economy methodology in antidumping investigations in those instances where market forces are not at play.; where a market-based mechanism can be used, the U.S. should continue its current practice in this regard.	1. The U.S. can continue to apply its non-market methodology in anti-dumping cases involving imports from China for 15 years. China can request a review as to whether its economy as a whole is market-oriented. 2. Where a market-based mechanism can be used, the U.S. can continue its practice in this regard.

In considering whether to support PNTR with China, it is important to keep the following facts in perspective:

- **China makes the concessions. The U.S. gets the benefits.** China must take on the challenge of opening its market. The U.S. makes no concessions. Our market is already open to Chinese imports. This agreement levels the playing field.

- **China's market access commitments are enforceable.** The strong multilateral dispute settlement mechanism of the WTO will help ensure that China adheres to its commitments. Violations would subject China to authorized trade sanctions under these same WTO dispute settlement procedures.

- **The agreement will promote rule of law in China.** The market-oriented reforms required in China will accelerate the movement towards a more open and democratic society, based on the rule of law. In the words of Martin Lee, Chairman of the Democratic Party of Hong Kong, "The participation of China in the WTO would not only have economic and political benefits, but would also serve to bolster those in China who understand that the country must embrace the rule of law."

SUPPORT PERMANENT NORMAL TRADE RELATIONS WITH CHINA.

America's manufacturers understand the importance of a rules-based global trading system, which is why we support China's accession to the WTO. For more information on the NAM and China visit our Website at www.nam.org, or call the Economic Policy Department at (202) 637-3146.