# How Does Growing U.S.-China Trade Affect Rural America?

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*China's trade with the United States has boomed since the 1980s. China exports a number of products such as apparel, furniture, and plastics that compete with products manufactured in rural America. However, many of China's most important exports, like footwear and toys, are not widely produced in rural America. China's exports of products like footwear and toys benefit rural U.S. consumers by keeping prices low. China's growing economy is creating market opportunities for rural U.S. producers of oilseeds, grain, meat, machinery, and equipment.*

As trade barriers fall around the world, businesses and communities in rural America cannot afford to ignore new developments beyond U.S. borders. The growth of trade with China is one such trend that could have important implications for U.S. farms and rural businesses. Many businesses fear China's plentiful, cheap labor resources that make the country a potential low-cost competitor. At the same time, businesses in the United States and Europe also view China's vast population as a potentially huge market for consumer products.

What are rural Americans to make of China's expanded role in world trade? This article provides some facts about China that will help rural Americans understand this new competitor and customer and what its expanded role in world trade means for the U.S. rural economy.

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## China's Booming Trade

China's membership in the World Trade Organization, effective in December 2001, is the culmination of a series of liberalizations China has undertaken since the 1980s. China's trade with the United States has mushroomed since it emerged from a three-decade experiment with central planning, self-sufficiency, and isolation in the 1980s. U.S. imports and exports to China were each about \$3.8 billion in 1985. By 2001, U.S. exports to China had risen to \$19.2 billion and U.S. imports from China had reached \$102.3 billion (fig. 1).

China-U.S. trade has become important to both countries. China is an important source of inexpensive manufactured goods for the United States. Receipts from those goods have been an important source of income and foreign exchange for China. In 2001, China was the United States' fourth largest source of imports (following Canada, Mexico, and Japan). The United States is China's largest export market, accounting for about a fifth of its exports. While exports in the other direction—from the United States to China—are much smaller, China is also among the top ten export markets for the United States.

## Rural America's Competitor

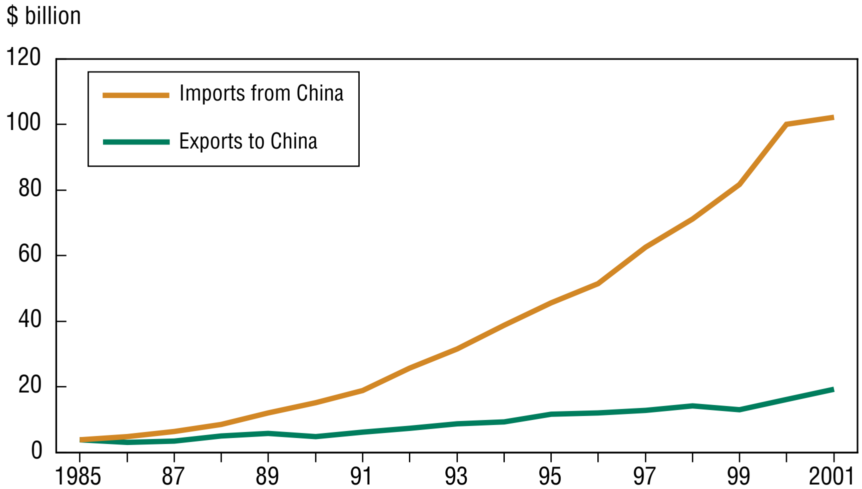
The pattern of trade between the United States and China reflects the complementarity between the two countries and their differing stages of development. The United States is a highly developed, consumption-oriented nation with high labor costs and abundant natural resources. It imports low-cost, mass-produced items for consumption. China is at an earlier stage of development with abundant, inexpensive labor, and scarce natural resources. China demands specialized machinery and intermediate products for its rapidly expanding and modernizing manufacturing sector.

Some of China's most competitive products are also manufactured in the rural United States. For example, apparel, furniture, house-

Figure 1

**U.S. trade with China, 1985-2001**

*Imports from China have grown dramatically*




Source: U.S. Bureau of the Census.

hold appliances, and plastics are among China's leading exports to the United States and are also large nonmetro employers (table 1). These are mainly labor-intensive products that are produced in large batches of identical products, a type of manufacturing that has traditionally been a mainstay of the U.S. rural economy.

China has a significant advantage over the rural United States in the manufacture of labor-intensive items. Rural China has a vast underemployed labor force willing to work at wages below $5 per day. In 2000, the average salary in Chinese manufacturing was a little more than $1,000 per year. Fringe benefits for workers in many of China's export-oriented manufacturing plants are minimal. Chinese manufacturers also tend to face more lax environmental regulation and enforcement than do U.S. firms, giving Chinese exporters another competitive edge in lower cleanup and environmental compliance costs. A U.S. Bureau of the Census survey of pollution abatement capital expenditures for 1992-94 showed that U.S. manufacturers spent roughly $8 billion per year (about 7 percent of their capital expenditures) to control pollution costs.

Many of China's leading exports to the United States are no longer produced in significant quantities in rural America. For example, in 1997 the nonmetro United States had only one establishment in the toy manufacturing industry, six establishments in sporting goods manufacturing, and eight establishments in footwear manufacturing. Some of the industries (e.g., footwear and apparel) that are now growing in China migrated from northern U.S. cities to lower-cost rural U.S. locations during the mid-20th century to gain access to abundant labor and land. Production of footwear, apparel, toys, and sporting goods (included in "miscellaneous manufacturing") shifted to Taiwan and Hong Kong in

### A U.S.-China Statistical Comparison

China has a population 4.5 times that of the United States, but its economy is a little more than one-tenth the size of the U.S. economy. Salaries and productivity per person are much lower in China. China has a large rural population, but it has less farmland than the United States. U.S. exports are about three times the value of China's.

**China and the United States—a statistical comparison, 2000**

| Item | Unit | China | United States |
|---|---|---|---|
| Population | Million | 1,266 | 282 |
| Rural share of population | Percent | 68 | 23 |
| Population density | Persons per km$^2$ | 134 | 30 |
| Gross domestic product | Billion dollars | 1,081 | 9,873 |
| GDP per capita | Dollars | 854 | 35,010 |
| Average annual manufacturing earnings | Dollars | 1,181 | 42,862 |
| Gross value of crop and livestock output | Billion dollars | 257 | 194 |
| Cropland area | Million acres | 321 | 430 |
| Cropland per agricultural worker | Acres | 1 | 140 |
| Exports | Billion dollars | 249 | 780 |
| Imports | Billion dollars | 225 | 1,217 |

Source: China Statistical Abstract 2001, and 2001 Statistical Abstract of the United States.

Table 1

**Industries with largest China imports and exports in 2001, U.S. nonmetro establishments and employment**

*Some industries affected by trade with China have a strong rural presence*

| Sector | NAICS[1] | Export/import value, 2001 | U.S. nonmetro establishments in industry | U.S. nonmetro employment in industry[2] |
|---|---|---|---|---|
| | | *$ Million* | *Number* | *Number* |
| **Imports from China:** | | | | |
| Miscellaneous manufactures[3] | 3399 | 16,489 | 7[4] | 5,000[4] |
| Footwear | 3162 | 9,633 | 8 | 5,500 |
| Computer equipment | 3341 | 8,173 | 9 | 21,250 |
| Apparel | 3152 | 7,219 | 472 | 93,000 |
| Audio and video equipment | 3343 | 6,305 | 1 | 750 |
| Semiconductors and electronic components | 3344 | 5,383 | 39 | 20,500 |
| Household furniture and cabinets | 3371 | 4,037 | 562 | 49,000 |
| Household appliances | 3352 | 3,764 | 26 | 37,500 |
| Communications equipment | 3342 | 3,128 | 21 | 7,250 |
| Electric lighting equipment | 3351 | 2,964 | 17 | 11,000 |
| Other leather products | 3169 | 2,322 | 0 | 0 |
| Plastics | 3261 | 2,187 | 642 | 83,900 |
| Other fabricated metal products | 3329 | 2,037 | 108 | 40,000 |
| Commercial and service industry machinery | 3333 | 1,915 | 7 | 4,300 |
| Electrical equipment and components | 3359 | 1,528 | 46 | 21,000 |
| **Exports to China:** | | | | |
| Aerospace products and parts | 3364 | 2,609 | 23 | 9,750 |
| Semiconductors and electronic components | 3344 | 1,682 | 39 | 20,500 |
| Computer equipment | 3341 | 1,574 | 9 | 21,250 |
| Waste and scrap | 9100 | 1,103 | NA | NA |
| Oilseeds and grains | 1111 | 1,037 | 460,000 | NA |
| Navigational, measuring, and control instruments | 3345 | 996 | 20 | 7,750 |
| Communications equipment | 3342 | 809 | 21 | 7,250 |
| General purpose machinery | 3339 | 789 | 120 | 33,400 |
| Resin, synthetic rubber, artificial fibers | 3252 | 771 | 32 | 24,240 |
| Basic chemicals | 3251 | 598 | 42 | 19,250 |
| Meat products | 3116 | 526 | 362 | 196,000 |
| Pesticides, fertilizers, agricultural chemicals | 3253 | 463 | 10 | 5,500 |
| Pulp, paper, and paperboard | 3221 | 429 | 97 | 80,000 |
| Industrial machinery | 3332 | 348 | 38 | 5,400 |

Table shows exports, imports, number of nonmetro establishments and estimated nonmetro employment for the top 15 4-digit NAICS industries.
NA = not available.
[1]North American Industrial Classification System code.
[2]Estimated from 1997 Census of Manufactures data.
[3]Primarily dolls, toys, games, sporting/athletic goods, and manufactured products not elsewhere specified.
[4]Includes only dolls, toys, games, and sporting/athletic goods.
Source: U.S. Bureau of the Census.

earlier decades, and these products are now among mainland China's leading exports (table 1). The growth of mass-produced imports from China might be seen as a continuation of this "filtering down" process as industries seek lower-cost locations to satisfy consumer demand for low-cost goods.

U.S. business leaders may react to growing U.S.-China trade by calling for import quotas and other trade barriers to stave off Chinese competition. The spectre of employment losses is often raised to justify such protection. Between 1992 and 2000, U.S. textile and apparel employment fell 32 percent (over 500,000 jobs). However, Chinese manufacturers are also experiencing just as much, if not more, overseas competition. For example, apparel makers in China are under great pressure to modernize and cut costs as they compete with even lower cost producers in South Asia and Latin America. In 2000 and 2001, the Chinese textile sector underwent a massive consolidation to reduce excess capacity and retire outdated equipment. Between 1995 and 1999, employment in China's textile sector was cut by nearly 50 percent (over 3 million jobs), and there were riots at several shuttered textile mills (Dai).

Chinese manufacturers also have problems with low labor productivity stemming from high worker turnover and low skill levels. U.S. employers often complain about high worker turnover, but Chinese export-oriented factories may have even higher turnover. Many Chinese factory workers are migrants from rural areas where few people reach high school. They often stay on the job for a year or less before returning home or jumping to another job, accumulating few job-specific skills. They are often required to work long shifts and endure poor living conditions. Thus, while labor in China costs much less than in the United States, productivity and product quality are much lower as well (Gale and Dai).

## Benefits for Consumers

Rural America's 56 million consumers benefit substantially from the availability of low-priced imported products. China's growing production and exports of many consumer items—including footwear, garments, electronics, and household appliances—has cut prices of many items. China accounts for over half of U.S. footwear imports, 25 percent of home electronics imports, and 15 percent of apparel imports. Some observers identify China's growing manufacturing capacity as a factor leading to global deflation (Leggett and Wonacott). Rural households and other consumers benefit from lower prices for consumer products. Rural households tend to have lower incomes than their urban counterparts, so rural consumers may be especially receptive to low-priced imports from China. The rapid growth in rural communities of discount stores stocked with a wide variety of products sourced in China is consistent with this notion.

Consider the potential savings on footwear purchases as an example. China's exports likely keep U.S. footwear prices down by increasing the supply of low-priced footwear. In 2000, U.S. footwear production was valued at $3.8 billion, while footwear imports were $10.5 billion. These figures suggest that about 70 percent of U.S. footwear was imported. Census Bureau foreign trade figures show that 56 percent of U.S. footwear imports came from China. Thus, these figures suggest that Chinese imports account for about 40 percent of the U.S. market. It is likely that the large presence of Chinese imports reduces shoe prices paid by U.S. consumers. The savings to rural consumers could be substantial since calculations based on Bureau of Labor Statistics data on consumer expenditures suggest that rural spending on footwear totaled $3.6 billion in 2000. If the availability of Chinese imports reduces prices by just 1 percent, savings to rural consumers would be $36 million. Savings to rural consumers could also be substantial for other industries where competition from Chinese imports has likely kept prices from rising: apparel (rural expenditures of $18.5 billion), household electronics (rural expenditures of $8.1 billion) and small household appliances (rural expenditures of $800 million).

## China's Agricultural Imports Should Grow

China's imports from the United States are primarily aircraft, electronic components, industrial equipment, intermediate products, and some farm products that cannot be efficiently grown in China. Its manufactured imports tend to be high-tech, specialized products manufactured in shorter production runs for industrial customers. Aircraft, electronics, and instruments production in the United States tends to be concentrated in urban areas, although with a significant nonmetro presence (table 1).

Agriculture remains a strong suit of rural America. China is also a leading agricultural producer, accounting for nearly half of world pork production, over 40 percent of the world's vegetables and eggs, a third of tobacco and rice, and about a fifth of the world's corn, cotton, wheat, and poultry production. However, China has slightly less cropland than the United States to feed a population that is 4.5 times larger (see box, "A China-U.S. Statistical Comparison"). It also has severe problems with depletion of water resources in major production areas, desertification, overgrazing, and water pollution from chemical runoff. Thus, it seems logical that China will need to import agricultural products to feed its large, increasingly wealthy population. Indeed, agriculture is the one major sector where the United States has a trade surplus with China.

In 2001, China's imports of soybeans exceeded $1 billion. China imports soybeans to make cooking oil and high-protein animal feed, two products for which Chinese demand is growing rapidly. Soybean production is not very profitable for Chinese farmers, so rising demand has been met by imports. China also imports wheat from the United States in most years (wheat imports were unusually low in 2001), and corn imports are likely to rise in future years to feed growing livestock herds. Meat products are another leading Chinese import, with purchases from the United States exceeding $500 million in 2001. China's agricultural imports have wide impacts on the U.S. rural economy. The United States has 460,000 farms growing primarily oilseeds and grains, and meat products manufacturing employs about 200,000 people in nonmetro areas.

With food consumption growing and limited potential for increased Chinese production, it seems likely that China will eventually import even more corn, oilseeds, cotton, and meat products, bringing significant benefits to rural America (Lohmar and others). However, import growth may be slow until China's rural economy is stabilized. Concerns about low farm incomes and stability in China's own rural economy have kept its leaders from fully opening its markets to imports. China's leadership also prefers to maintain a degree of self-sufficiency in food production for strategic reasons. China's leadership is now trying to liberalize agricultural markets and comply with WTO commitments to open its market to imports and cease export subsidies while trying to keep low rural incomes from slipping further (Gale, April 2002).

## What About the China Market?

China's vast population has long tantalized business leaders with visions of a huge consumer market. Does that market hold promise for rural businesses?

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China's imports of consumer goods are minimal. While China has the world's largest population of 1.3 billion, the income and consumption levels of most are still quite low. About 70 percent of the population is rural, with average annual living expenditures in 2001 of just $336, according to China's National Bureau of Statistics. There is, however, a growing segment of households in major cities such as Beijing and Shanghai (average expenditures of $1,300) with significant disposable income. Urban China may be on the cusp of a consumption boom similar to that seen in the United States in the 1950s. Private ownership of homes and automobiles is growing dramatically, as is patronage of supermarkets and restaurants, advertising, and spending on education, leisure, and travel.

Most of this new consumption is being sourced locally in China, including products sold by U.S. and other multinational chains. However, the growth in consumption is likely to provide opportunities for exporters in rural America. Imported American apples, oranges, nuts, and some processed foods can be found on many supermarket shelves in China. The growing presence of U.S. retail and food-service chains may improve access to marketing channels and help nurture tastes for products from rural America. Cities and individuals are planting grass and flowers in parks, on road sides, and in median strips, creating demand for seeds and technical know-how.

Specialized equipment, machinery, and instruments will probably continue to be one of China's strongest markets for manufactured products from rural America. Processing plants and factories are rapidly upgrading their facilities to meet international standards, which often means investing in foreign machinery and equipment. Increased attention to food safety, sanitary, and other standards is raising demand for laboratory and testing equipment. Agricultural machinery and equipment are also in demand.

### Carving New Niches

In a world of falling trade barriers, lightning-fast communication, and shrinking transportation costs, the emergence of countries like China means adjustments are in store for rural America. Competition with China and other low-cost competitors is moving the U.S. rural economy away from its role as a source of cheap labor and mass-produced goods. Creative leaders in business and government will have to carve out new niches for rural America to fill, taking advantage of the skill, flexibility, and locational advantages of their communities. RA


**For Further Reading . . .**

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