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THE OUTLOOK FOR TRADE WITH CHINA

AN INTERVIEW WITH WILLIAM W. MORISON

MEA

DH&S Reports: Mr. Morison, can you give us some background on the National Council for U.S.-China Trade and your work as a director of that organization?

W.W.M.: We probably ought to start with my involvement with the People's Republic of China, because that antedated my activities with the National Council. In brief, as a matter of policy the San Francisco Chamber of Commerce as early as the mid-1960s advocated increased trade with China. For that specific reason — and for other reasons such as that San Francisco is on the West Coast and we have here the largest Chinese population outside Asia — the leadership of the People's Republic had a very favorable feeling toward San Francisco.



Editor's Note: The resumption of relations between the United States and the People's Republic of China, begun under the Nixon Administration and formalized by President Carter, has raised a whole new series of questions for American business. How much trade can we expect to do with China? What will they want to buy from us? What might we buy

from them? What is it like to trade with the Chinese?

William W. Morison, who prior to his retirement several months ago was chairman of the board of Fortmost-McKesson, Inc., a client of our San Francisco office, made his first trip to China in 1972. Since that time, both as a director of The National Council for U.S.-China Trade and as president of the San Francisco Chamber of Commerce, he has led two trade delegations to the People's Republic of China and participated in trade talks with Chinese delegations visiting the United States.

Although Mr. Morison insists that his views represent one man's opinion, we would at least qualify this to say that it is one man's informed opinion. Following is a slightly edited text of an interview held this spring with Mr. Morison.

President Nixon's visit to China in February 1972 culminated in the Shanghai Communiqué, which set the principles for the way in which the two nations regard each other and remains the basic document behind the recent U.S.-China accord. Following that, the Chinese issued a few invitations to Americans to attend the Canton Trade Fair being held that spring. The San Francisco Chamber of Commerce received an invitation. It was the only such organization to be invited, and I sent the head of its international department.

At the time of the 1972 fall trade fair, the Chinese again sent a special invitation to the Chamber of Commerce and the Chamber decided that it should respond with a business representative. I was a director of the Chamber at the time and the vice president of the international department, and so I went to China on behalf of the business community of San Francisco.

I went first to Hong Kong, then to Canton and then up to Peking and was very well received. We talked about what it would take to enhance trading relations between China and the United States. That trip was followed by an invitation from the China Council for the Promotion of International Trade, or CCPIT, which performed some of the trade-promotion functions for China that our State Department and Commerce Department handled in this country. At that time the Chinese were organized into seven basic trading corporations that did all the buying and all the selling within the product classifications they represented. The CCPIT was the vehicle that promoted contact and relationships between the outside world and the trading corporations.

In 1975 the president of CCPIT invited the Chamber of Commerce to organize a trade delegation of senior business executives. The delegation was to go to China for high-level but informal talks on establishing the needed mechanisms for the promotion of trade between our two countries. At the time China insisted upon a person-to-person approach rather than working through governmental agencies.

We put together a rather impressive delegation, some of the top business people from San Francisco. I chaired the delegation. We had mostly CEOs (chief executive officers), nine of them from the Bay area.

In China we talked informally about all the issues that the Chinese wanted to talk about and that we wanted to talk about. We provided China with input in two important areas — we were helping them to gain a better understanding of the American business

attitude toward some of the problems they outlined, and we were also talking about the things that had to happen if their trade goods were to be accepted here. Such things as labeling, product identification, reliability of contracts and methods of arbitration, design problems, scheduling and shipping problems, insurance, how money would be transferred — all these questions had to be discussed. This was done on a businessman-to-businessman basis, no one was attempting to represent a government or an official position.

The Chinese recognized that they were dealing with a group of high-level, individual businessmen. I feel that the meetings made a substantial contribution toward their understanding of the American attitude and of our requirements for the things that would have to be done to increase trade between our two countries.

That was the first group, we were told, that the Chinese had invited to come to Peking. Since then, many groups have gone, many have discussed specific issues. A delegation representing the American Bar Association, for example, held talks dealing with litigation and arbitration.

Some time after our visit to China we invited the senior people from CCPIT to come here. They accepted the invitation, and we entertained them — the president of CCPIT was a guest at my home — as the windup of their tour of the United States.

In 1978 we received an invitation to organize the same type of

group as in 1975, and I once more led the trip to China. We were well past the earlier types of discussions because by that time the Chinese had considerably expanded their U.S. contacts. We were flattered on this trip to have our hosts recall that not only was this the sixth anniversary of my first visit to China, but that this was the first time any similar group had received a second invitation.

The China Council for the Promotion of International Trade had been formed fairly early. The Chinese felt that they needed a counterpart to CCPIT in the U.S. and that it couldn't be government — it had to function on a people-to-people basis. So, with the encouragement of the U.S. government, business people across the country organized what is now The National Council for U.S.-China Trade. Originally, three directors were from the West Coast. I became a director of the National Council some time after its formation.

This group was formed to meet a need seen by both the U.S. business community and the Chinese — the need for a coordinating agency that could deal as an equal with the China Council for the Promotion of International Trade. A special China committee of the San Francisco Chamber of Commerce that was formed in 1972 for the promotion of trade has worked very closely with the National Council and has served the National Council at times as its representative on the West Coast in dealing with Chinese delegations visiting this country. There's been a good spirit of cooperation.

DH&S Reports: Is the China Council for the Promotion of International Trade a semigovernmental agency? Is there any differentiation in China between business and government?

W.W.M.: Not really. What you have in China is the Central Committee, the head of the party and the head of government and other governmental agencies and bureaus. Then they have what they call nongovernment, a people-directed organization. These are the trading corporations, and by our definition they are strictly government. All their funds come from the government, their people are selected by the government, their programs are supportive of government objectives; it just has to be government. But they want it to look not like private enterprise but "people," like these agencies are representing the people.

The original seven trading corporations have grown to thirteen or fourteen as they have been subdivided and become more specialized. The CCPIT is the one body that anyone in the world can go to for assistance and to be put in contact with the proper trading corporation, for either buying or selling, importing or exporting. There's a light-industry trading corporation, one that has to do with textiles, another for minerals and mining, one for foodstuffs and animal and vegetable matter, and so forth. The corporations have become more specialized as China's needs in certain areas have become more specialized.

DH&S Reports: If an American businessman wanted to investigate the possibility of trade with China, what would be the most efficient approach?

W.W.M.: The most efficient way would be to contact the National Council in Washington, D.C., which would advise him in relation to his specific needs where his best contacts would be in China. If for any reason a person did not want to work through the National Council, he could contact the U.S. Department of Commerce or he could write directly to the CCPIT in China, which would forward the letter to the proper trading corporation or agency for response. The CCPIT might also write directly to the businessman telling him where to direct his inquiry. However, an American businessman can save himself much time and effort by using the resources of the National Council to acquaint himself with the specific details of what he should do, how he should do it, how many copies should be sent, where they should be addressed, and whether translation into Mandarin Chinese is necessary.

DH&S Reports: Does the National Council receive many requests of this kind?

W.W.M.: Yes, a substantial number.

DH&S Reports: The National Council, then, is operating as a not-for-profit organization simply to promote trade between the U.S. and China?

W.W.M.: That is correct.

DH&S Reports: Where is the National Council based?

W.W.M.: In Washington. The address is Suite 350, 1050 17th St., N.W., Washington, D.C. 20036. The Council publishes a monthly

magazine that's an excellent source of information about current developments, such as what's happening in China in the way of trade opportunities and changes in the trade organization and structure within China. Joining the National Council is the only way to go for any small business that is considering the possibility of trade with China.

DH&S Reports: Is it necessary to become a member of the National Council to take advantage of its services?

W.W.M.: I think there is some material the National Council would provide without asking that someone become a member. You can, for example, use the Council's translation service on a fee basis without being a member, and it is the best type of translation service for this kind of business correspondence. But, as I said, if a businessman is really serious about looking into trade opportunities with China, he'd do well to become a member.

DH&S Reports: You mentioned that there have been numerous Chinese trade delegations visiting this country since the early 1970s. Do you think this eventually will be reflected in increased trade with China?

W.W.M.: Yes. There have been a lot of delegations, and they've been coming with increasing frequency since 1972. The National Council has been host to a great many of these groups. In the beginning the National Council was host to most of the trade delegations. In more recent years, as the Chinese have made contact with individual companies here, some delegations have come to

meet with executives of a single company. The second large contract for the purchase of Boeing aircraft by the Chinese, which received much publicity earlier this year, is a good example. That contract was signed after a series of visits by the Chinese to Boeing in this country and reciprocal visits of Boeing people to China.

Trade will increase because of our recognition of China, particularly in two or three areas. Let me step back for a moment. While the U.S. for twenty-three years did not recognize China and didn't trade with it, the rest of the world did; China was not completely isolated. Within the Chinese scheme of things — and you must keep in mind the high degree of central control over all programs relating to their needs — China will continue to allocate its resources on a priority basis related to its needs. The greatest problem facing the Chinese industrial revolution is ensuring an adequate supply of the very resources needed to fuel that industrial revolution. During this period of time China can't afford to have unemployment; everyone must be fed, everyone must be housed, everyone will have to be clothed, the educational system has to continue to function, the public health program must continue to function — and the rest of the world will have to be paid for the supplies, equipment and technology it makes available to China. China has to develop the resources to pay for all this and still keep the country on a going basis. It is really just an emerging nation at this point.

You could say that their standards of living are low, and they are, but they are a long way from what they used to be. The

Chinese today are fed and clothed and housed, and they do have work and there is public health and education. Now, there's been a trade-off; they traded a good many freedoms for this improvement in their standard of living. In my view, their choice was not so much for one political system compared with another as it was between eating or not eating, seeing that their children received medical attention and education or did not. In the future, as more choices become available to the people, as their living standards become higher, there will be pressures for more individual freedoms. I suspect this will be one of the great hurdles that the leadership of China will have to overcome, just as we've seen this happen in other countries.

When I first went to China all the bicycles were black; now there are other colors. So people have a choice — they can buy a red bicycle or a black one. The admittance program to higher education was changed because of unrest and dissatisfaction among the youth. This has changed since 1975. To me this reflects the responsiveness on the part of the leadership to recognize the needs of the people and to make changes to accommodate these needs. It probably also makes pretty good sense from a political point of view.

DH&S Reports: You said you thought there were two or three areas where there might be a strong increase in trade. What are these?

W.W.M.: China's need for cereal grains in some years is very strong. Up to about the mid-1970s, because we didn't recognize China, we did not share equally in the large cereal-grain export market to China that was so profitable for other countries. Now, however, in view of our new relationship, China has already entered into some long-term contracts for cereal grains with us.

In 1977-78, as another example, China was in the market for a major steel plant, a full turnkey job for the design, development, installation of a steel plant. This was a very big project. I was told by high-level Chinese that they recognized we had the best designs, that we probably could do the best job. But they pointed out that we did not recognize the country at that time, and so they thought it in their best interests to give it to West Germany. We were not competing on an equal basis, even though they admitted that our technology and our price were the best. From their point of view, other factors had to be considered when major projects were involved. I think we're now in a position to compete as equals for Chinese business.

In the past they've gotten much of our technology secondhand, that is, through Japanese companies licensed to use and produce American technology — much, I'm sure, to the chagrin of the American companies that licensed the Japanese. The Chinese, of course, recognized that they were getting this secondhand; they would prefer to work with the primary developer, that is, American companies. Until we recognized China, we were pretty much on the fringe in such areas as high technology, oil exploration, oil-well development and servicing and development of other natural re-

sources. Now, however, more and more Chinese delegations are coming to the U.S. to talk to American companies involved in the fields of energy exploration and development.

I think these are the areas that will open up for us first in our growing trade with China. Some of these are pretty big-ticket items, so initially the numbers reflecting our trade with China will jump from the hundreds of millions to perhaps the billions. That doesn't mean, though, that there's going to be a general increase in trade across the board. The numbers will reflect the big-ticket items — that's where their priorities are. They want to develop their resources in order to develop foreign exchange. They aren't going to put everybody in automobiles. Coca-Cola will sell in China, but I'm sure Coca-Cola realizes that in the short term it isn't going to make Coke a drink for the Chinese masses. This will be for the tourist trade. The government simply will not permit the diversion of a substantial portion of its resources for general types of consumer goods. Then, too, the price of Coke will probably put it out of reach of the average Chinese — at least for some time. But China does want to boost its tourist trade, and so it is taking many steps that it believes will encourage a larger number of tourists to visit the country.

DH&S Reports: Will this trade go both ways? Is it likely that the United States will become an important market for any Chinese products?

W.W.M.: Right now we're probably buying as much as we can. I think China will want to upgrade the quality and reliability of its textiles so that it can compete favorably with Taiwan and Hong Kong, and I think China will make strong inroads into that textile market. They are making inroads now. You have to remember that things are changing very fast; what was true in 1975 is not true today. What was true in the fall of '77 was not true in the spring of '78. There was a big turnaround at that time in the Chinese attitude about the degree to which they would let foreigners become involved in such areas as quality control and production scheduling — in the areas that are vital if U.S.-China trade is to prosper.

Then you have the notions and novelties and craft-type items that the country is being flooded with right now. Some of this, I'm sure, will be upgraded. I think the market for these craft products, particularly as they are upgraded, could easily double in the short term.

I know many U.S. businessmen are looking for barter arrangements, because if we can take something from China then China will buy something from us. But people are having a hard time finding barter arrangements. I think it's possible that China will establish some sort of free trade zone in two or three locations that would permit goods to be shipped over, processed with their cheap labor and then shipped back here with no import-export penalties, only the cost of transportation and labor. This would enable them to compete with Taiwan, Hong Kong and Korea. China has that labor capability to export, and I can't think of a better way of get-

ting foreign trade than by exporting their labor in that type of development.

DH&S Reports: What about oil? Will China be an oil-exporting nation?

W.W.M.: Yes. Right now, for example, you find them listed as one of the exporting nations for rice, wheat and oil. At present they don't produce enough for themselves, but some of this is diverted for export in order to show their people that the commitment to a

program that is good for the state and good for the people is working. And so China exports some oil to the Third World countries and others, even though it doesn't produce enough to meet its own needs. But China then qualifies as an oil-exporting nation, and this is intended to lift the morale of its people.

The same is true of rice and wheat. China is importing cereal grains, while at the same time it exports some quantities of grain. They've made some loans and some aid grants to Third World countries to demonstrate that China also is a world power. They really don't have the resources to support this type of program, but, as I see it, it's part of their posture of taking their place in the world community of nations.

DH&S Reports: What's the outlook for American investment in China? Will American companies be building plants in China, for example?

W.W.M.: We've come a long way in this area. In 1972, shortly after Russia called in a large loan it had made to China and almost broke the country, China began trading with U.S. companies and would only do business on a cash basis, it would not take credit. Later, terms of up to two years were considered "cash" — no interest, of course. China's near-disaster with the Russian loan was still fresh in the minds of its trade officials, and you frequently heard them talk about how they would never again put themselves in such a vulnerable position.

Now, however, there is much talk about large loans to China, and this represents a major and important change in their business outlook. At one time you could send a buyer to China twice a year, and he could go to one of the textile mills and talk to the revolutionary committee about his requirements and then leave. Now, for example, Japanese buyers have stationed their own quality-control personnel in some Chinese mills on a full-time basis.

At one time an equity interest was unthinkable, but they've moved around that now, they've moved to the point where it's quite common for them to discuss construction of a major plant in which the supplier would be paid off through the productivity of the plant over a period of years. You would be involved in its management and in technical direction, but you would not have an equity interest as we know it, you would have a payout deal.

China has been moving fast in these areas. For example, consideration is being given to the concept of joint ventures. Where these inquiries will lead, what modifications may be required in what we commonly call joint ventures in this country, I don't know. At this time their legal system does not provide the basis for this type of development.

DH&S Reports: Other countries have been trading with China for a long time. Have we been able to determine whether they've had any problems or difficulties or whether the relationships have been successful?

W.W.M.: When I was in China in 1972 I met a number of Europeans who had been trading with China for a long time. Many of these went out of their way in fact, to give me invaluable advice and suggestions. Sure, they had problems, but they came back year after year to do business with the Chinese.

DH&S Reports: Has the fact that other countries have been trading with the Chinese for a long time put the United States at a competitive disadvantage?

W.W.M.: I don't think there's any question that we've been at a disadvantage until recently, and I think we'll continue to be at a disadvantage for some time because the Chinese philosophy is one of remembering their friends. I think, though, that we'll benefit from the fact that their demand for foreign technology and products is growing and U.S. companies will be sharing in that growing market. But I don't think we'll be treated in a preferential way other than their encouraging our participation in their trade — I don't see them cutting off their other suppliers and trading partners. I think they'll make an effort to show that they want to trade with us, and in some of the big-ticket projects we may be competing on an equal basis, but they'll see that their old friends are looked after.

DH&S Reports: What has been their reaction to recent legislation concerning business ethics in this country, particularly the Foreign Corrupt Practices Act?

W.W.M.: Most anyone in Southeast Asia has a hard time understanding what it's all about. The Chinese are very ethical, and you can get yourself into very serious trouble if you try to influence an individual on a personal basis. I think you'd be sent out of the country immediately, and I think the Chinese individual would be dealt with severely.

DH&S Reports: American companies, then, should not have difficulty doing business with China under existing U.S. regulations?

W.W.M.: I would think that we would be able to trade as an equal in China more easily than we can anywhere else in Southeast Asia. Business practices in China are not conducive to the types of things that become identifiable under the Corrupt Practices Act. I'm not saying there isn't corruption in China, but it's on an individual basis; it's the exception, and the Chinese generally won't tolerate it.

DH&S Reports: Can an American businessman feel confident that the political regime of China will encourage U.S.-Chinese trade in the years ahead? That is, is the long-term outlook good enough to warrant an American businessman's time, effort and expense to establish trade relations with China?

W.W.M.: I've seen nothing in China and heard nothing that would lead me to believe that you could expect any more problems in doing business with China than with any other country. In some

respects, in fact, I think it might be more stable. I do not see China, for example, going the route of nationalization and confiscation in the foreseeable future. I think you can expect China to live up to its contracts. They now have an established mechanism for the resolution of disputes and misunderstandings, and an arbitration procedure is being established.

They recognize that disputes and misunderstandings may occur. They recognize that goods may arrive in damaged condition and claims must be settled and adjustments made. They may not settle them as quickly as we would, but I have no doubt as to their sincerity and good faith in this area.

DH&S Reports: Can a businessman feel that he can function as a U.S. businessman doing business in China in the same way that he can function as an American businessman in other foreign countries?

W.W.M.: No, I don't think so. I think I can best answer that by saying that I do not see the rapid development of a market for consumer goods in China. You're not going to see refrigerators and radios and washing machines in every home in China. I don't believe that China is going to let significant resources be spent on consumer goods — at least for the immediate future — other than what they develop out of their own resources to improve the standard of living of the people. And that process will be gradual and very controlled.

They have high levels of personal savings. You go to a Chinese commune, and everyone has a savings account. The savings bank of China is the mother bank of the Bank of China, the commercial bank. It's not uncommon for people to put away a third of their incomes in savings accounts. They do not receive interest, but they do have the security. This is a great fund of money that China has to work with, and I don't see the government letting all that money be diverted suddenly to consumer goods. This is personal opinion, but I do not see consumerism sweeping the country, and I think anyone who goes to China on that basis could make a serious mistake.

DH&S Reports: But is doing business in China terribly different from doing business in Europe, or Latin America or in any other foreign country?

W.W.M.: Anytime you do business in China you have to deal with an official agency, you do not do business with an individual. It's hard to answer any question concerning an independent businessman doing business in China because the system is so different. If you want to do business there, you have to work with the system, through the trading corporations which themselves function essentially to fulfill the government's overall economic programs or through a committee at a production plant. You just don't go over with a trunk full of samples and go down the street peddling your wares — not in China today. It's a very, very controlled situation. □