District Tops U.S. in Growth of Exports to China

By Cletus C. Coughlin

Everyone knows that imports of merchandise from China have been mushrooming over the past two decades. Little attention has been paid, however, to the increase in shipments going the other way, from the United States to China. Even less talked about is the fact that exports to China from the states in the Eighth Federal Reserve District have been growing faster than exports to China from the U.S. as a whole.

Recent History

Beginning in the late 1970s, China embarked on a series of market-oriented reforms, many of which contributed to it becoming the leading supplier of merchandise imports to the United States. These imports have attracted much attention, often in the form of criticism, zeroing in on such things as the safety of Chinese goods, the size of the U.S. bilateral trade deficit with China and the possibility of an undervalued Chinese currency.

Noteworthy, but less well-known, are developments related to goods produced in the U.S. for export to China. Last year, China was the third-leading market (after Canada and Mexico) for exports of U.S. merchandise, compared with 15th in 1989. The number of U.S. firms exporting to China jumped more than six times between 1992 and 2006, from 4,092 to 25,873, according to the International Trade Administration.[1] Most of these firms are relatively small; 90 percent of them in 2006 employed fewer than 500 workers.

Many exporters to China are located in states in the Eighth Federal Reserve District. (The District encompasses Arkansas and parts of Missouri, Illinois, Indiana, Kentucky, Mississippi and Tennessee.) Given the prospects for increased trade flows, leaders in St. Louis are pushing for the area to become a transportation hub for trade with China. A memorandum of understanding was signed in March by Chinese and Missouri officials to study the feasibility of developing an air freight hub at Lambert Airport in St. Louis.[2]

Reasons for Increased Exports

Two factors have fueled the rapid increase of U.S. exports. Both factors are directly related to the reforms begun by China in the late 1970s. One factor is that China has experienced substantial economic growth, which has increased the demand for goods from suppliers throughout the world. This growth has dwarfed that of many U.S. trading partners. For example, the compound annual growth rate of real GDP between 1980 and 2007 was 9.9 percent in China versus 2.8 percent in Canada, 2.6 percent in Mexico, 2.6 percent in the United Kingdom, 1.9 percent in Germany and 2.3 percent in Japan.

The second factor propelling U.S. exports has been a significant reduction in Chinese import barriers; this change has reduced the cost of buying goods from U.S. suppliers. Throughout the 1970s, the quantities of most Chinese exports and imports were tightly controlled as part of China's planned economy.[3] A small number of foreign trade organizations that were controlled by the Ministry of Foreign Trade executed the plans. Trade reforms during the 1980s and early 1990s involved the replacement of quantitative trade planning by tariffs, quotas and trading rights. But changes producing a significantly more open trading environment did not occur until the early 1990s. The average tariff rate of 43 percent in 1992 declined to roughly 15 percent in late 2001, when China became a member of the World Trade Organization.

Similar changes occurred for goods subject to either quotas or import licenses. During the 1980s, the range of goods subject to either quotas or import licenses increased. (By the late 1980s, roughly half of Chinese imports were so affected.) But in the 1990s, such restrictions declined markedly. The share of affected imports declined to 18 percent by 1992 and declined further to slightly more than 8 percent in 2001.

Finally, the number of firms with trading rights increased substantially throughout the 1980s and 1990s, from an initial level of 12 firms in the late 1970s to 35,000 in 2001.

To gain membership in the World Trade Organization, China committed to sweeping changes that further liberalized its import environment.[4] China committed to lower trade barriers throughout its economy, to treat foreign firms identically to domestic firms and to protect intellectual property rights according to international standards. The average tariff level dropped to less than 10 percent by 2005. Other changes involved reducing the impact of quotas, licenses and state trading; these changes liberalized substantially the importation of agricultural and other commodities. Foreign direct investment opportunities were opened up in a number of service sectors, such as telecommunications, distribution, banking, insurance, asset management and securities.

Exports from Eighth District States

Last year, merchandise exports from three states in the Eighth District exceeded $1 billion—Illinois ($2 billion), Tennessee ($1.1 billion) and Missouri ($1 billion). These sales are merchandise exports; so, only exports of goods that have been grown, produced or manufactured are included. Exports of services are not included.

One of Missouri's top exports to China is scrap metal. At Grossman Iron and Steel in St. Louis, scrap is dumped onto a conveyor belt for processing. Once processed, the metal is loaded onto barges on the Mississippi River and shipped to China and elsewhere.

A variety of goods are exported from District states. Leading export categories include machinery manufactures, chemical manufactures, mining commodities, and agricultural-related production, such as crops and processed foods. A few specifics:

- Frozen chicken cuts were the top export to China from Arkansas in 2006, with much of those coming from Tyson Foods.[5]
- Scrap copper, bronze and aluminum that can be recycled into materials for Chinese manufacturing and construction are a leading export for the District as a whole.[6]
- The leading category of exports from Missouri in 2007 was waste and scrap chemicals, foods and metals.

As shown in the table, states in the Eighth District have been able to take advantage of the rapidly expanding Chinese market. The most dramatic change has been experienced by Missouri, whose annual rate of growth in exports to China has exceeded 31 percent since 1989. China rose from being Missouri's 35th-leading export market in 1989 to its fourth-leading export market last year. Missouri's export growth to China has expanded faster than Missouri's overall income growth by a factor greater than six.

Figures for the other Eighth District states are not as dramatic as those for Missouri, but also show changes that often exceed what has taken place nationally. For example, every state has seen China become an increasingly important export market, jumping between 11 (Tennessee) and 19 (Arkansas) places for the period 1989-2007. China is now the third-leading export market for firms in Tennessee, Mississippi and Arkansas. For firms in Indiana, China is the sixth-leading export market; for firms in both Illinois and Kentucky, China is No. 8.

Export growth to China relative to income growth is not only booming in Missouri but is greater in each of the other Eighth District states than it is in the U.S. as a whole. Export growth exceeded income growth by a factor of five in Arkansas. Even though Mississippi had the lowest value in this measure, its value of 2.8 was still slightly above the U.S. value of 2.7.

Exports to China by Eighth District States

	Rank: Export Markets*		Annualized Growth		Exports ($m)
District State	**1989**	**2007**	**Exports**	**Income**	**2007**
Arkansas	22	3	27.72%	5.53%	307.5
Illinois	20	8	17.91%	4.73%	1,958.8
Indiana	24	6	20.46%	4.76%	758.1
Kentucky	21	8	20.16%	5.12%	578.3
Mississippi	16	3	15.38%	5.49%	349.2
Missouri	35	4	31.83%	4.82%	1,015.0
Tennessee	14	3	18.30%	5.60%	1,135.3
United States	**15**	**3**	**14.38%**	**5.33%**	**65,238.3**

* The countries used in this ranking are the top 50 U.S. export markets in 2005. Therefore, of these 50 countries, China was the 22nd leading export market for Arkansas in 1987 and third in 2007.

SOURCES: WISER/Haver Analytics; International Trade Administration; Bureau of Economic Analysis.

Looking Ahead

Prospects for increased exports to China are bright. Not only is China likely to continue to grow rapidly in the near future, but China appears to be on course to become increasingly integrated into the global economy as part of its accession into the World Trade Organization. As a result, foreign firms should find the Chinese market easier to penetrate.

The integration process, however, is far from complete.[7] Of the many simmering issues, two stand out. First, the ineffective

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ENDNOTES

1. See http://ita.doc.gov/td/industry/otea/sme_2006/SME_index_2006.html.
2. See press release from Missouri's governor on March 26, 2008, at http://governor.mo.gov/press.htm.
3. See Branstetter and Lardy for additional details and insights.
4. See www.brookings.edu/testimony/2001/0509foreignpolicy_lardy.aspx?p=1.
5. See Smith.
6. See Thimangu.
7. See *2007 National Trade Estimate Report on Foreign Trade Barriers.*

REFERENCES

Branstetter, Lee; and Lardy, Nicholas. "China's Embrace of Globalization." National Bureau of Economic Research Working Paper 12373, July 2006.

Smith, David. "China a Growing Market for State; Nation of One Billion Forming a Taste for Arkansas Goods." *Arkansas Democrat-Gazette,* Jan. 21, 2007, p. 7.

Thimangu, Patrick L. "St. Louis Companies Cash In as Missouri's Exports to China Top $1 Billion." *St. Louis Business Journal,* April 21, 2008. See http://stlouis.bizjournals.com/stlouis/stories/2008/04/21story2.html.

U.S. Trade Representative. *2007 National Trade Estimate Report on Foreign Trade Barriers.* See www.ustr.gov/Document_Library/Reports_Publications/2007/2007_NTE_Report/Section_Index.html.

At Grossman Iron and Steel in St. Louis, scrap metal is separated for processing before being shipped to China and elsewhere. Scrap food and chemicals are also among the more than $1 billion in exports to China from Missouri last year.

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enforcement of intellectual property rights continues to be a major problem. The economic performance of many U.S. firms suffers because of unacceptably high levels of counterfeiting and piracy. Second, China continues to inhibit agricultural imports under the guise of safety standards by delaying or stopping shipments of agricultural products.

Despite the problems, the market opportunities in China for U.S. firms are abundant. Firms in Eighth District states appear to be well-positioned to continue to take advantage of the expanding export opportunities. Ω

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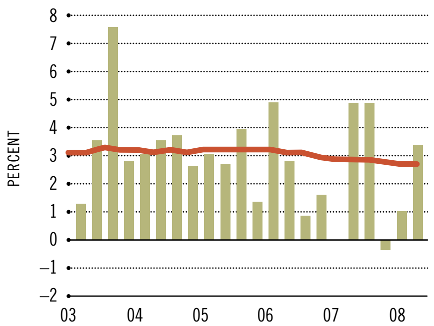
E C O N O M Y A T A G L A N C E

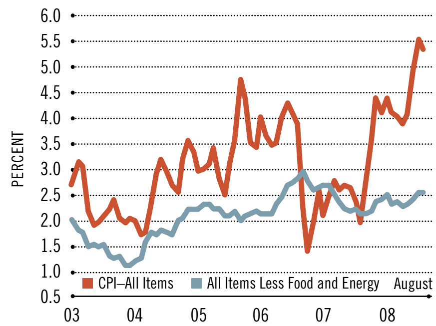
Eleven more charts are available on the web version of this issue. Among the areas they cover are agriculture, commercial banking, housing permits, income and jobs. Much of the data is specific to the Eighth District. To go directly to these charts, use this URL: www.stlouisfed.org/publications/re/2008/d/pdf/10-08-data.pdf.

REAL GDP GROWTH



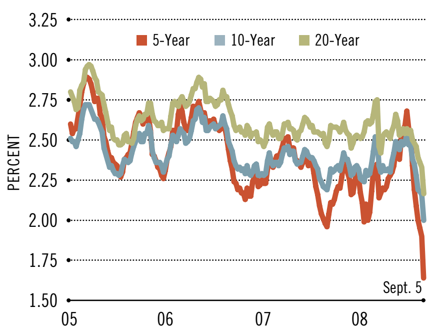
NOTE: Each bar is a one-quarter growth rate (annualized); the red line is the 10-year growth rate.

CONSUMER PRICE INDEX



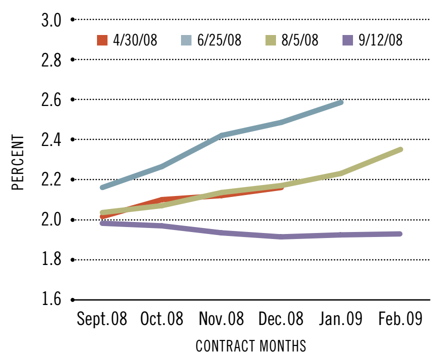
NOTE: Percent change from a year earlier.

INFLATION-INDEXED TREASURY YIELD SPREADS



NOTE: Weekly data.

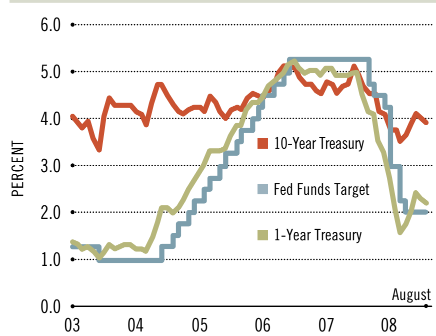
RATES ON FEDERAL FUNDS FUTURES ON SELECTED DATES



CIVILIAN UNEMPLOYMENT RATE

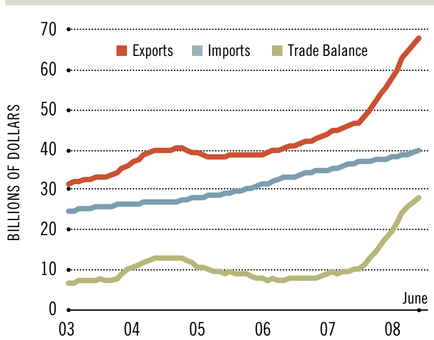
NOTE: Beginning in January 2003, household data reflect revised population controls used in the Current Population Survey.

INTEREST RATES



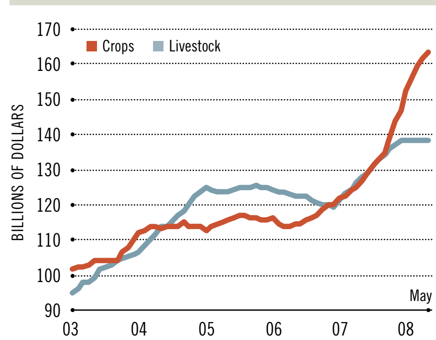
NOTE: Except for the fed funds target, which is end-of-period, data are monthly averages of daily data.

U.S. AGRICULTURAL TRADE



NOTE: Data are aggregated over the past 12 months.

FARMING CASH RECEIPTS



NOTE: Data are aggregated over the past 12 months.