

# GENERALIZED SYSTEM OF PREFERENCES

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON INTERNATIONAL TRADE  
OF THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE  
NINETY-NINTH CONGRESS  
SECOND SESSION  
ON  
S. 1867 and Title VI of S. 1860

—————  
JUNE 17, 1986  
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Printed for the use of the Committee on Finance



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# **GENERALIZED SYSTEM OF PREFERENCES**

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**TUESDAY, JUNE 17, 1986**

**U.S. SENATE,  
SUBCOMMITTEE ON INTERNATIONAL TRADE,  
COMMITTEE ON FINANCE,  
*Washington, DC.***

The committee met, pursuant to notice, at 9:30 a.m. in room SD-215, Dirksen Senate Office Building, the Honorable John C. Danforth (chairman) presiding.

Present: Senators Danforth, Grassley, Long, Bentsen, and Baucus.

[The press release announcing the hearing on opening statement of Senator Dole and a description of S. 1867 by the committee staff follows:]



OPENING STATEMENT

SENATOR BOB DOLE

HEARING ON S. 1867, GSP (GENERALIZED SYSTEM OF PREFERENCES) GRADUATION

JUNE 17, 1986

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THE GSP PROGRAM WAS ESTABLISHED IN 1974 IN ORDER TO HELP LESS-DEVELOPED COUNTRIES GROW ECONOMICALLY -- TO ENABLE THEM TO GENERATE INTERNATIONALLY COMPETITIVE INDUSTRIES. WHAT'S HAPPENED IN THE YEARS SINCE THEN? WHAT'S HAPPENED IS THAT MANY OF THESE SUPPOSEDLY LESS-DEVELOPED COUNTRIES HAVE BECOME SUPER INTERNATIONAL COMPETITORS. YET THEY'RE STILL ON THE LIST OF COUNTRIES RECEIVING PREFERENTIAL DUTY-FREE TREATMENT FOR MANY OF THEIR PRODUCTS.

S. 1867 DIRECTS THE PRESIDENT TO SEND US LEGISLATION THAT WOULD GRADUATE THE MORE ADVANCED OF THESE "NEWLY INDUSTRIALIZING COUNTRIES" FROM THE GSP PROGRAM. THE BILL MENTIONS BY NAME TAIWAN, KOREA, AND HONG KONG.

I VISITED THOSE THREE AREAS LAST SUMMER. I SAW, FIRSTHAND, EVIDENCE OF STRONG ECONOMIC GROWTH, OF SOPHISTICATED EXPORT-ORIENTED PLANNING, AND OF TECHNOLOGY THAT PUTS THESE COUNTRIES ON THE CUTTING EDGE OF COMPETITIVENESS IN MANY INDUSTRIES.

THE STATISTICS BEAR OUT THE OBSERVATIONS I MADE IN PERSON. LAST YEAR, KOREA, TAIWAN, AND HONG KONG RAN A LARGE TRADE SURPLUS

WITH THE U.S. OUR DEFICIT WITH TAIWAN WAS \$13.1 BILLION, WITH HONG KONG, \$6.2 BILLION, AND WITH KOREA, \$4.8 BILLION. IN EACH CASE, THEIR EXPORTS TO US VASTLY EXCEEDED IMPORTS FROM US -- BY MORE THAN THREE TIMES, IN THE CASE OF TAIWAN.

YET THEY NOT ONLY CONTINUE TO RECEIVE GSP BENEFITS, BUT AMONG THEM THEY GET ALMOST HALF OF ALL THE GSP BENEFITS THE U.S. MAKES AVAILABLE. ALMOST ONE-FIFTH (\$3.2 BILLION) OF ALL THE IMPORTS FROM TAIWAN LAST YEAR ENTERED THE U.S. DUTY-FREE UNDER GSP. THAT \$3.2 BILLION IS ONE QUARTER OF ALL THE IMPORTS UNDER THE ENTIRE PROGRAM LAST YEAR.

THE SUPER COMPETITORS

140 COUNTRIES ARE ON THE LIST AS ELIGIBLE GSP BENEFICIARIES.  
BUT ALMOST HALF THE BENEFITS ARE GOING TO THREE SUPER COMPETITORS:  
TAIWAN, HONG KONG, AND KOREA.

IN 1980, THE PRESIDENT SENT US A REPORT POINTING OUT THAT  
ONLY 10 COUNTRIES WERE SUPPLYING 80 PERCENT OF THE GSP IMPORTS.  
HE ANNOUNCED SEVERAL "IMPROVEMENTS" IN THE MECHANISMS TO GRADUATE  
INDIVIDUAL PRODUCTS FROM THE PROGRAM, IN ORDER TO PROMOTE THE  
CONTINUED GRADUATION OF MORE ADVANCED DEVELOPING COUNTRIES.  
WHAT'S HAPPENED? TODAY, ONLY 10 COUNTRIES STILL SUPPLY 80

PERCENT OF ALL GSP IMPORTS, AND THE LIST OF COUNTRIES IS ABOUT THE SAME AS IT WAS SIX YEARS AGO.

1984 "IMPROVEMENTS" NOT SUFFICIENT

THIS SAYS TO ME THAT ALL OF THE "IMPROVEMENTS" IN PRODUCT-SPECIFIC GRADUATION, INCLUDING THOSE MADE IN THE 1984 ACT, JUST WON'T ACHIEVE THE OBJECTIVE OF PROMOTING DEVELOPMENT IN THOSE TRULY LESSER-DEVELOPED COUNTRIES THAT NEED OUR HELP MOST. INSTEAD, AS SOON AS THESE PRODUCTS ARE GRADUATED, THE HIGHLY COMPETITIVE COUNTRIES JUST SHIFT OVER TO PRODUCTS THAT HAVEN'T BEEN GRADUATED YET. PRODUCT-SPECIFIC GRADUATION SHOULD BE

REPLACED BY COMPLETE GRADUATION OF THOSE RELATIVELY ADVANCED COUNTRIES THAT DON'T NEED OUR HELP IN BECOMING INTERNATIONALLY COMPETITIVE.

A FINAL POINT: SOME INTERESTS (INCLUDING SEVERAL OF THE WITNESSES TESTIFYING TODAY) ARGUE THAT WE SHOULDN'T GRADUATE ADVANCED DEVELOPING COUNTRIES BECAUSE THE THREAT OF GSP WITHDRAWAL PROVIDES GOOD LEVERAGE IN PRESSURING BENEFICIARY COUNTRIES TO OPEN THEIR MARKETS TO U.S. PRODUCTS. I DON'T HAVE ANY QUARREL WITH THAT GOAL - IN FACT, I'VE CO-SPONSORED LEGISLATION IN OTHER PORTIONS OF S. 1860 TO STRENGTHEN THE PRESIDENT'S HAND IN BREAKING DOWN UNFAIR FOREIGN TRADE BARRIERS.

IT JUST SEEMS TO ME THAT THE GSP PROGRAM IS THE WRONG PLACE TO TRY TO CREATE LEVERAGE. WE SHOULDN'T HAVE TO BRIBE OUR TRADING PARTNERS WITH SPECIAL BENEFITS TO GET THEM TO STOP UNFAIR TRADE PRACTICES. WE SHOULD, INSTEAD, PUT THOSE BENEFITS TO WORK FOR THOSE COUNTRIES THAT REALLY NEED THEM.

CONCLUSION

AGAIN, I APPRECIATE THOSE WHO HAVE AGREED TO TESTIFY BEFORE US TODAY AND LOOK FORWARD TO WORKING WITH THEM ON THIS AND THE OTHER MYRIAD OF ISSUES IN THE TRADE AREA.

of the large trade surplus that each has run with the United States.

4. Although the threat of withdrawal of GSP benefits may provide some useful leverage against unfair practices by beneficiary countries, the U.S. should not have to offer special benefits to our trading partners to obtain removal of unfair trade practices.

B. Con.

The Administration and other opponents of S. 1867 are likely to present a varied set of arguments:

1. The several product-specific graduation mechanisms already in place provide ample protection against extension of GSP benefits to imports that either damage U.S. industry or in which the exporter is highly competitive.
2. The forthcoming General Review in particular provides a comprehensive opportunity to cut back on GSP eligibility of competitive countries. To the extent that countries remain eligible after the Review, it is likely to be in product areas in which they could not be considered highly advanced or competitive.



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## United States Senate

COMMITTEE ON FINANCE  
 WASHINGTON, DC 20510

WILLIAM DEPENDENTER CHIEF OF STAFF  
 WILLIAM J. WILKES SENIORITY CHIEF COUNSEL

June 13, 1986

### MEMO

TO: FINANCE COMMITTEE MEMBERS  
 FROM: FINANCE COMMITTEE TRADE STAFF (JOSHUA BOLTEN, 4-5472)  
 SUBJECT: INTERNATIONAL TRADE SUBCOMMITTEE HEARING ON GSP

On Tuesday, June 17, 1986 the International Trade Subcommittee will hold a hearing on the Generalized System of Preferences (GSP). The hearing will begin at 9:30 a.m. in Room SD-215 and will be chaired by Senator Danforth. The hearing will focus on S. 1867 (incorporated in S. 1860 as Title VI), which was introduced by Senator Dole.

The GSP program provides preferential, duty-free treatment to certain products from designated less-developed countries. S. 1867 would require the President to submit legislation withdrawing those benefits from certain relatively advanced developing countries, including Taiwan, Hong Kong, and Korea.

#### I. THE CURRENT GSP PROGRAM

The GSP program provides preferential duty-free entry to approximately 3,000 products from 140 designated beneficiary countries. Most other industrialized countries maintain similar systems. Originally initiated in 1976, the U.S. program was

extended by the 1984 Trade and Tariff Act through mid-1993.

Last year, \$13.3 billion in goods from less-developed countries, which would otherwise have been dutiable, entered the U.S. duty-free under GSP. These GSP entries accounted for slightly less than 4% of total U.S. imports.

The following briefly describes those features of the program most directly relevant to the issue raised by S. 1867: which countries should be eligible for GSP benefits and on what basis?

#### A. Eligible Countries

The President has discretionary authority to grant beneficiary status to a less-developed country, based on consideration of a variety of factors, including, among others:

1. the country's level of economic development, including per capita GNP and the living standard of its inhabitants;
2. whether other developed countries extend similar preferences to that country; and
3. the extent to which that country has assured the U.S. reasonable access to its markets, provides

adequate intellectual property protection, and has acted to reduce distorting investment policies and eliminate barriers to trade in services.

In addition to the above factors for consideration in the designation decision, the statute expressly prohibits designation of:

1. most Communist countries;
2. most OPEC countries;
3. countries that give preferential trade treatment to developed countries other than the U.S.;
4. countries that nationalize U.S. property without compensation;
5. countries not cooperating in preventing illegal drugs from entering the U.S.;
6. countries failing to recognize or enforce arbitral awards in favor of U.S. persons;
7. countries aiding or granting sanctuary to international terrorists;
8. countries not taking steps to afford internationally recognized worker rights.

The President may waive most of these if he certifies to the Congress that doing so would be in the national economic interest.

Finally, and perhaps most important as an absolute prohibition on country eligibility for GSP, the 1984 Act requires "graduation" of any country two years after its per capita GNP exceeds \$8500 (indexed to one-half the growth in U.S. GNP since 1984).

#### B. Eligible Products

In practice, the above country eligibility criteria have not resulted in the complete exclusion of many countries from the program. However, product eligibility criteria have resulted in a large number of product-specific exclusions.

The President has general authority to designate products as GSP eligible, except those he determines to be import-sensitive. The statute lists several products which are expressly excluded from eligibility, including textiles and apparel, footwear, and watches.

In addition to general presidential discretion to remove import-sensitive products from the list, the statute sets out a graduation mechanism called "competitive need" limits. The competitive need limits require the termination of a particular country's GSP

eligibility on a particular product if U.S. imports from that country:

1. account for 50 percent or more of the value of total imports of that product; or
2. exceed a certain dollar value. The dollar value is a GNP-indexed level that USTR set at \$69.6 million for 1985.

The competitive need limits on a product may be waived on a variety of bases, including that the product is not made in the U.S. or imports of the product are de minimis.

C. Annual and General Reviews

Each year, USTR conducts a review and receives public comment on eligible products. The review culminates in Administration determinations on graduation of certain products from specific countries -- either because the competitive need limits for a product have been exceeded; or as a result of discretionary graduation of individual products (which, as noted above, is based on factors such as a country's level of development, its competitiveness in a specific product, and U.S. economic interests).

At the review just completed March 31, 1986, \$839 million in GSP imports will lose eligibility because

competitive need limits have been exceeded. In addition, of approximately \$2.6 billion in imports that could have been redesignated eligible because competitive need limits were not exceeded last year, only \$167 million will regain GSP treatment; the remainder will be graduated. The countries with the largest volume of trade graduated in this way were Taiwan (\$972 million), Hong Kong (\$515 million), and Korea (\$316 million).

The 1984 Act also requires that a special, General Review be completed by January 1987. That Review, which is now underway, is designed to identify countries that are sufficiently competitive with respect to specific eligible articles. Specific products from countries so identified will then be subject to lower competitive need limits: 25 percent of total imports (instead of the normal 50 percent); and \$25 million in imports of that product from that country (instead of the current \$69.6 million). The statute also directs that the President's review expressly take into account the factors listed above as bearing on the eligibility of a country for beneficiary status. USTR indicates that it is using the Review to pressure beneficiary countries to comport with these standards, such as adequate protection of intellectual property rights.

## II. S. 1867

S. 1867 begins with the premise that neither GATT rules nor U.S. law provide adequate procedures for withdrawal of GSP from countries that have become more advanced, so that opportunities for economic growth may be directed toward less developed countries. It therefore directs the President to send Congress a draft bill that, within 2 years, would withdraw GSP benefits from countries to whom continuation of the benefits can no longer be justified as promoting economic growth and development in the developing world. The bill is to take into account per capita income and other indications of economic development and ability to compete internationally in the absence of GSP benefits.

S. 1867 also directs that the bill "shall apply to foreign countries such as Taiwan, Hong Kong, Korea, and any other countries" that meet the above criteria. The bill is to exempt any country with which the U.S. has a free trade agreement (i.e., Israel). When submitted the bill is to be entitled to fast-track consideration.

## III. COUNTRY DATA

S. 1867 singles out Taiwan, Hong Kong and Korea because, by some measures, they are relatively advanced

and highly competitive. These three have in past years also captured the largest share of GSP benefits.

In 1985, the U.S. had a large trade deficit with each of the three: Taiwan, \$11.2 billion; Hong Kong, \$5.2 billion; and Korea, \$4.3 billion. In each case, imports entering the U.S. duty-free under GSP contributed significantly, although not overwhelmingly to the deficit. About 15 percent of U.S. imports from Hong Kong, about 17 percent of imports from Korea, and about 20 percent of imports from Taiwan, received duty-free GSP treatment.

Appendixes A and B list data for the top 15 GSP beneficiaries in 1984 and 1985. The tables show that while Hong Kong's per capita GNP (\$6,300) was relatively high, those of Korea (\$2,090) and Taiwan (\$3,046) were not.

The tables also show that in both years, the top five beneficiary countries sent about 64 percent of all GSP imports to the U.S. The top ten sent about 80 percent of all GSP imports. In both years, Taiwan and Korea ranked one and two in total GSP imports; in 1985, Hong Kong slipped from third to fifth, behind Brazil and Mexico.



## IV. ARGUMENTS

A. Pro

Arguments in favor of S. 1867 are fairly direct.

They include:

1. The original purpose of GSP was to provide preferential treatment to less-developed countries that would enable them to develop internationally competitive industries. Countries such as Taiwan, Korea, and Hong Kong have all already reached that stage of international competitiveness.
2. In fact, giving GSP benefits to such advanced developing countries (or "newly industrialized countries") operates to the detriment of truly lesser developed countries more in need of preferential treatment. When highly competitive countries like Taiwan, Korea, and Hong Kong receive the same benefit, they tend to freeze out the lesser developed countries in GSP-eligible products -- as reflected in the very high percentage of total GSP imports that come from the relatively advanced countries.
3. Maintaining GSP benefits for Taiwan, Korea, and Hong Kong is particularly unjustifiable in light

3. The graduation provisions, and particularly the General Review, give the U.S. exceptionally useful leverage in prodding beneficiary countries to end unfair trading practices and open markets to U.S. goods. Tangible results have been obtained, notably in the protection of U.S. intellectual property rights.
4. If beneficiary status is withdrawn from Taiwan, Korea, and Hong Kong, any shift in source of imports is more likely to be toward countries like Japan and Canada than toward less-developed countries.
5. Many U.S. companies depend on duty-free GSP imports for finished products and components. Consumers benefit through lower prices.
6. Finally, S. 1967 itself reflects the difficulty of crafting rational country-specific (as opposed to the current product-specific) graduation criteria. By the one objective measure, encompassed in current law -- per capita GNP -- Hong Kong is already near graduation but Korea and Taiwan are far from it.

## V. HOUSE BILL

H.R. 4800, the House omnibus trade bill, contains no provision comparable to S. 867. However, it does contain a provision designed to "reallocate" GSP benefits to Latin American debtor nations. Section 172 of the bill would require the President to waive competitive need limits on eligible products from certain Latin debtor nations. The requirement would apply only on products that are eligible for discretionary waiver by the President under current law and would be subject to an overall dollar cap. The provision is intended to assist those countries in reducing their debt burden through expanded exports.

Section 173 of H.R. 4800 would also transfer from the President to the U.S. Trade Representative authority to make determinations and other functions under the GSP program. Section 862 of the bill would remove watches from the list of GSP-eligible products to the extent the USTR determines that so doing would not injure domestic producers. S. 853, introduced by Senator Pryor, would remove watches from the ineligible list entirely (but the President would still have to designate them as eligible).

(TED-0329)

## Appendix A

GSP 1984 Top 15 BENEFICIARIES LIST

<u>Beneficiary Rank</u>	<u>Country</u>	<u>1984 GSP imports (Million)</u>	<u>% of total (\$13 billion)</u>	<u>GNP per capita (1982\$)</u>
1	Taiwan	3,225	24.8	2,000
2	Korea	1,504	11.5	1,910
3	Hong Kong	1,326	10.2	5,340
4	Brazil	1,196	9.2	2,240
5	Mexico	<u>1,092</u>	<u>8.4</u>	2,270
Subtotal (1-5) =		8,343	64.1	
6	Israel	660	5.1	5,090
7	Singapore	627	4.8	5,910
8	Philippines	283	2.2	820
9	India	257	2.0	260
10	Yugoslavia	<u>238</u>	<u>1.8</u>	2,800
Subtotal (6-10) =		2,065	15.9	
11	Argentina	233	1.8	2,520
12	Peru	218	1.7	1,310
13	Thailand	192	1.5	790
14	Malaysia	178	1.4	1,860
15	Portugal	<u>149</u>	<u>1.1</u>	2,450
Subtotal (11-15) =		970	7.5	
Total (1-15) =		11,378	87.5	

## Appendix B

GSP 1985 TOP 16 BENEFICIARIES LIST

<u>Beneficiary Rank</u>	<u>Country</u>	<u>1985 GSP imports (\$million)</u>	<u>% of total (\$13.3 billion)</u>	<u>GNP per capita (1984 \$)</u>
1	Taiwan	3,221	24.2	3,046
2	Korea	1,855	12.4	2,090
3	Brazil	1,278	9.6	1,710
4	Mexico	1,239	9.3	2,060
5	Hong Kong	1,202	9.1	6,300
Subtotal (1-5) -		8,597	64.6	
6	Israel	748	5.6	5,100
7	Singapore	674	5.1	7,260
8	India	288	2.1	260
9	Yugoslavia	273	2.1	2,120
10	Thailand	235	1.8	850
Subtotal (6-10) -		2,218	16.6	
11	Argentina	228	1.7	2,230
12	Philippines	219	1.6	660
13	Malaysia	190	1.4	1,990
14	Portugal	185	1.4	1,970
15	Peru	168	1.2	980
Subtotal (11-15) -		986	7.4	
Total (1-15) -		11,799	88.6	

Senator DANFORTH. This is a hearing on S. 1867, which has also been incorporated as a title of S. 1860 relating to the graduation from GSP status of certainly newly industrialized countries, specifically, Korea, Taiwan, and Hong Kong. We are pleased that the first witness today is Senator McConnell.

**STATEMENT OF HON. MITCH McCONNELL, A U.S. SENATOR FROM THE STATE OF KENTUCKY**

Senator McCONNELL. Thank you very much, Mr. Chairman. I will be very brief. I appreciate the opportunity to be here this morning. Obviously, there are those in the back who do as well. [Laughter.]

Senator DANFORTH. We always greet witnesses this way.

Senator McCONNELL. This is such a happy committee; everybody is so jovial.

This series of hearings is important as the Senate will be turning its attention more fully to the trade debate in the coming months. This specific hearing is timely because of the periodic GSP review now taking place. As S. 1867 illustrates, the GSP issue affects more than one country and encompasses more than just market access concerns.

I might say, Mr. Chairman, I took a slightly different approach with S. Res. 369—which I introduced in March—which focused on one particularly important part of the GSP debate; market access in Korea. I understand that conceptually S. 1967 essentially takes

the view that some countries have now reached the point where they have—as you put it—graduated from GSP preference.

I decided to take as I put it, a country-specific approach; S. Res. 369 pointed out that Korea was not providing access to its markets for a variety of our products and, therefore, under existing law, should be denied GSP benefits.

One particular market access problem warrants discussion in this context. Treatment of American cigarettes, is the principal reason for my introduction of this particular resolution. As you may be aware, Korea practices a rather egregious brand of protectionism with regard to American tobacco products. They simply make the possession of foreign cigarettes illegal.

If a Korean is so unfortunate as to have foreign cigarettes on his person, he can be arrested. There were about 4,000 such arrests in 1984, so they are serious about it.

With regard to my own resolution, after its introduction in March, I was visited by a variety of different officials from the Korean Government. I went to Korea at the end of May and wanted to report to the subcommittee my experience there. I met with a variety of different high-ranking Korean officials including a 45-minute private meeting with President Chun Du Hwan, at which point he made the following commitments.

No. 1, at the special session of the National Assembly, which is currently in session, he said he would propose—and the cabinet in Korea has since proposed to the National Assembly on June 5—that Korea move its tobacco and gensing monopoly from the public to the private sector. That is a fairly gutsy step for them.

They have 30,000 employees in the tobacco and gensing monopoly—bigger than the Kentucky State government, to put that in context. As you can imagine, a number of those government employees are somewhat apprehensive about this shift. I believe that that bill will be passed at the extraordinary session of the National Assembly currently in session. That extraordinary session is due to end June 24, so we should see.

The second commitment President Chun made was that, at the regular session of the National Assembly, to be convened in September, the possession of foreign cigarettes would be decriminalized. That is a second step that I think is reasonably important to those of us who would like to sell a little tobacco abroad.

Should both of those steps take place, as he committed they would, the market liberalization process would begin January 1, 1987. These are small steps, but they are important ones, particularly to a State like mine.

I think that your broad review of the GSP program and the appropriateness of continuing those preferences for a variety of different countries is certainly commendable. I just bring-up my own experience to say that you can, I think, have some results under existing law; and I believe that I have had some results under existing law by singling out a country which has particularly egregious practices with regard to American products and saying in effect it would be the sense of the Senate, if this resolution passed, that the GSP benefits to a country be discontinued under existing law simply because they are not providing market access.

As to the larger question of whether these countries have, as the chairman put it, graduated and are no longer entitled to GSP benefits, I would hold judgment; but I do think that under existing law Korea has forfeited its right to continued GSP preferences under the 1974 act simply by denying access to our products—not just tobacco, but beef and citrus and a variety of other commodities—important to a number of us.

Mr. Chairman, I have a full statement which I would like included in the record.

Senator DANFORTH. Fine. Thank you very much.

Senator McCONNELL. Thank you for the chance to be here.

Senator DANFORTH. It will be included. Thank you, Senator McConnell. It seems from your testimony that merely mentioning the possibility of terminating GSP status has remarkable consequences. People have taken the position that GSP status should be maintained in order to provide leverage for opening up other markets. Do you hold to that theory.

Senator McCONNELL. Mr. Chairman, I can only speak with regard to Korea, and I must say, on the assumption that the Koreans do what they say they are going to do—and they made quite a lot about following through on their word—I would say I have gotten remarkable results by simply introducing one sense of the Senate resolution which singled out a country and said that they should lose their GSP benefits if they don't open their markets to certain specific products.

That might be an argument for continuing GSP, but it seems to me that you have to be willing to terminate for it to mean anything. And I know a number of you have been frustrated by this administration and its lack of aggressiveness with regard to these issues. I suppose you could make an argument for continued GSP preference, based on my own experience.

Senator DANFORTH. Senator Bentsen.

Senator BENTSEN. I have no questions, Mr. Chairman.

Senator DANFORTH. Senator Long.

Senator LONG. No questions, Mr. Chairman.

Senator DANFORTH. Senator Baucus.

Senator BAUCUS. No questions, Mr. Chairman.

Senator McCONNELL. Thank you, Mr. Chairman.

Senator DANFORTH. Thank you, Senator McConnell.

The next witness is Michael Smith, Deputy United States Trade Representative.

[The prepared written statement of Senator McConnell follows:]

Statement By  
SENATOR MITCH McCONNELL  
June 17, 1986

Before The  
Senate Committee on Finance  
Subcommittee on International Trade

GENERALIZED SYSTEM OF PREFERENCES

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Mr. Chairman, the Senate has been focused on tax reform during the past few days, but it will not be long before the trade debate moves to the forefront of the legislative arena. This hearing on the Generalized System of Preferences, along with those already conducted or scheduled by this subcommittee, is vital to providing the background information the Senate will need to adequately address the challenges in trade facing our nation. This hearing is particularly timely in light of the current review of the Generalized System of Preferences now being conducted by the United States.

On March 19th, Mr. Chairman, I introduced Senate Resolution 369, which if approved, would express the sense of the Senate that the Republic of Korea should not be extended benefits under the Generalized System of Preferences (GSP) until the unreasonable and unjustifiable trade related acts, policies, and practices described in the legislation are eliminated. Presently, 13 of my Senate colleagues have cosponsored this Resolution.



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I recognize that this initiative is narrow in its focus. As illustrated by S. 1867, the GSP issue certainly affects more than one country and goes beyond market access concerns alone.

By introducing S. Res. 369, however, I have chosen to isolate what I believe is a particularly important part of the GSP debate. Korea is not alone in erecting trade barriers, but it has maintained in some areas especially egregious policies of import protection.

Title V of the Trade Act of 1974 as amended provides the authority to extend preferences and sets forth criteria for country and product eligibility, and for limitations of preferential treatment under GSP. In all GSP determinations, the President is required to take into account several discretionary criteria relating to country practices. Specifically, he is required, among other things, to examine "the extent to which such country has assured the United States it will provide equitable and reasonable access to the markets and basic commodity resources of such country and the extent to which such country has assured the United States that it will refrain from engaging in unreasonable export practices..."

Furthermore, the President must consider "the extent to which such country is providing adequate and effective means under its laws for foreign nations to secure, to exercise, and to enforce exclusive rights in intellectual property, including

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patent, trademarks, and copyrights...." And he must also consider "the extent to which such country has taken action to reduce distorting investment practices and policies (including export performance requirements); and reduce or eliminate barriers to trade in services...."

It was after examining these criteria as applied to the Republic of Korea that I decided to introduce Senate Resolution 369. While I will not attempt to list this morning the entire catalogue of trade problems cited in the legislation, I am convinced that the market access barriers maintained by the Republic of Korea to protect their markets requires us to seriously consider eliminating duty-free access for Korean products and commodities to our markets.

As I travel throughout my state I find that few things frustrate Kentucky's farmers, manufacturers, and businessmen more than facing a wall of protectionism. In my mind, it is inconsistent to allow a country like Korea to enjoy the rewards of a free market without also accepting the responsibilities associated with free trade.

In this regard, there is one particular market access problem that warrants discussion in the context of this hearing-- the exportation of American cigarettes to Korea. I raise this issue not only because of the exceptional unfairness of current policies--it is presently illegal in Korea to possess foreign

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cigarettes--but because I am impressed with the movement made by the Republic of Korea in the direction of resolving this problem. While we are quick to criticize our trading allies, we too seldom discuss the positive steps many of them are making to correct trade inequities.

Over the Memorial Day recess, Mr. Chairman, I had the opportunity to visit Korea and discuss a range of bilateral trade problems with Korean President Chun as well as a number of members of his Cabinet. Our discussions were frank and to the point. I returned to the United States with a clearer understanding of the Korean political challenges represented by market liberalization, and I trust they were left with a better understanding of the political realities which result from an unfavorable U.S./Korea trade imbalance that is nearing \$5 billion annually.

I am pleased to report that with regard to cigarettes, President Chun committed to support legislation during the extraordinary session of the Korean National Assembly now taking place which will change the state-run tobacco monopoly to a public tobacco monopoly. Indeed, on June 5th, President Chun's Cabinet approved such legislation and I am optimistic that the bill will be approved by the National Assembly before the extraordinary session ends on June 24th.

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Furthermore, President Chun has promised to support legislation during the regular Fall session of the National Assembly which will decriminalize the possession of foreign cigarettes. Passage of these initiatives, although small in scope, virtually assure that Korea's tobacco markets will begin to open by January 1, 1987.

For the Kentucky tobacco farmer, open access to the Korean cigarette market means potential new business worth over \$500 million. It would also mean a renewed commitment between our two nations to a more equitable trade relationship.

Mr. Chairman, I realize that our trade alliance with Korea is more complicated than just one issue. Good faith negotiations on one issue, however, can be the beginning of restoring a sense of fairness to our trading system. The Republic of Korea should be commended for the actions taken so far to rectify trade inconsistencies. It is this sense of equity which must be foremost in our minds as we evaluate the appropriateness of extending GSP benefits to our trading allies.

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**STATEMENT OF HON. MICHAEL B. SMITH, DEPUTY U.S. TRADE REPRESENTATIVE, WASHINGTON, DC, ACCOMPANIED BY DAVID SHARK, DIRECTOR OF THE U.S. TRADE REPRESENTATIVE OFFICE FOR THE GENERALIZED SYSTEM OF PREFERENCES PROGRAM**

Ambassador Smith. Thank you, Mr. Chairman and members of the subcommittee. I am joined this morning by Mr. David Shark, USTR's Director of the Generalized System of Preferences Program. I welcome this chance to appear before you regarding proposed changes in the Generalized System of Preferences, so-called GSP, as contained in S. 1867, as well as in title 6 of S. 1860.

The administration strongly opposes this legislation. The proposed legislation would require that we remove, or in other words, graduate certain more advanced developing countries from the GSP program within 2 years. I would say at the outset that we have no quarrel with the concept of graduation. Indeed, it has been U.S. Government policy throughout the years that GSP benefits are temporary preferences which should be phased out as development occurs in individual beneficiary countries.

However, we do have serious concerns about the specific approach to graduation suggested in the bills that we are discussing today. We believe that such legislation is unwarranted because graduation was fully and appropriately addressed in the Trade and Tariff Act of 1984.

Further, the proposed legislation would seriously undermine ongoing efforts to secure important improvements in the practices of our trading partners, such as the Senator from Kentucky referred to, and would impose an unnecessary burden on U.S. firms that depend on GSP imports without providing any significant offsetting economic benefits to the United States. As I indicated, Mr. Chairman, the practice of graduation has been an integral part of the GSP program since 1981 when the administration initiated a policy of discretionary graduation.

Under this policy, we have been substantially reducing the level of GSP benefits available to the more advanced developing countries in those areas where they are competitive. The value of trade affected by discretionary graduation has grown substantially over the years from about \$360 million in 1981 to something around \$2.4 billion in 1986.

Looking at the three beneficiaries mentioned in the proposed legislation, this year our graduation policy will exclude from GSP benefits trade valued at almost \$1 billion from Taiwan and about \$.5 billion from Hong Kong and about \$300 million for Korea. In addition, imports of competitive products have been limited since the beginning of the GSP program in 1976 by the program's competitive need limits.

When a country's export of a product exceed those competitive need limits, the country automatically loses duty-free treatment for the product in the following year.

Currently, trade valued at almost \$13 billion is excluded from the GSP program because of this provision. Korea, Hong Kong and Taiwan account for almost \$8 billion of this total \$13 billion. As a result of the combined effects of discretionary graduation and com-

petitive need limits, potential GSP benefits available to these three beneficiaries have been reduced, by our calculations, by about 62 percent.

When the GSP program was renewed in 1984, Congress amended the Trade Act of 1974 to make graduation a more explicit statutory element of the program. The administration strongly supported this amendment as it continued in a refined and improved form—the approach to graduation known as “product graduation.”

Under such an approach, as countries become sufficiently competitive in a product, they lose GSP eligibility for that product. We believe that this is the correct approach because it recognizes that different sectors of the economies of developing countries develop at different rates. The alternative approach—removing countries from the program entirely—was also considered but was wisely rejected.

In renewing the GSP program, Congress provided a strong incentive for developing countries, particularly the more advanced ones, to improve their practices relating to trade, intellectual property rights, investment, and workers' rights.

Passage of the proposed legislation would remove this incentive and seriously undermine our efforts to solve problems in these areas to the detriment of U.S. firms, farmers, and consumers. The central element of graduation under the revised program is a general review of program eligibility. Under the general review, which Mr. Shark heads, we are required to examine the competitiveness of each beneficiary country, vis-a-vis each GSP eligible product.

Where we find a country to be “sufficiently competitive” with respect to a product, we must reduce the applicable limits on GSP eligibility, known as competitive need limits, by half. In determining whether a country is “sufficiently competitive” in a product, we are required to consider: one, the impact of GSP eligible imports on U.S. firms; two, the competitiveness of the country in the particular product; three, the country's level of development; and four, its practices.

In regard to these practices, we are required to look at: one, market access to goods and services; two, export practices; three, protection of intellectual property rights; four, investment practices; and five, workers' rights. The general review must be completed by January 4, 1987. Work is obviously well under way. We have held public hearings on country practices and competitiveness. We have received thousands of pages of advice from the U.S. ITC, and we have consulted extensively with beneficiary countries.

Although the process of bilateral consultation is still in progress, several countries have already begun to respond to our concerns, most notably in the area of intellectual property rights. We are hopeful that, by the end of the general review, many important problems for U.S. firms will have been remedied. Ironically, however, this progress is in jeopardy because of proposed legislation which singles out for removal from GSP eligibility those beneficiaries that have been most responsive to our concerns and where there is much yet to be accomplished.

I should add at this point, Mr. Chairman, that it is not clear how many beneficiary countries might be affected by the proposed legislation in addition to the beneficiaries specifically mentioned, that is

to say, Korea, Hong Kong and Taiwan. The legislation would direct the administration to develop criteria to remove countries' GSP eligibility on the basis of per capita income, other unspecified indications of economic development, and indications that the country can compete in the absence of GSP.

Looking strictly at per capita GNP, Korea's level in 1984 was only slightly above \$2,000, compared to almost \$15,500 for the United States. There are many GSP beneficiaries whose per capita GNP generally hovers close to or exceeds that of Korea. These countries include Mexico, Argentina, Cypress, Israel, Malta, Brazil, Chile, Uruguay, Singapore, and Yugoslavia. The law would provide us with some flexibility to develop specific graduation criteria. However, it would be unlikely that we could develop graduation criteria that would affect the three beneficiaries mentioned in the legislation without also affecting most of these other countries.

It is essential in reviewing the proposed legislation that we have no illusions about its potential impact on the U.S. economy. First and foremost, it should be recognized that removing countries from the GSP Program is not likely to have a significant impact on the current deficit in our balance of trade. Over the years, we have refrained from adding import-sensitive products to the program and have removed products in the relatively rare instances where they have been found to cause harm to U.S. industries.

By the end of the general review, we will have graduated beneficiaries on those products where we have found them so competitive that they are having an adverse effect on U.S. industry or are squeezing out less advanced foreign suppliers.

Therefore, removal of countries is not likely to affect the level of U.S. imports. It will simply lead to higher prices for goods that will be imported in any event and to shifting of export sources from one advanced developing country to another or to developed countries.

Ironically, if we would remove Korea, Hong Kong, and Taiwan from the GSP Program, the principal beneficiary most likely would be Japan. It should also be borne in mind that the proposed legislation would act as an unnecessary and unwelcome new burden for U.S. firms that rely on GSP imports. Many U.S. firms depend on GSP imports of parts and materials to remain competitive against imports of finished goods and in export markets. Other U.S. industries import goods under GSP to complement product lines produced in the United States. These points have been underscored by U.S. firms time and again during congressional hearings on the renewal of the GSP Program and during our hearings on the general review.

In 1984, Congress carefully considered the issues of graduation and came up with what we believe to be a wise and effective approach. The enthusiastic participation of the private sector in the general review, especially their strong interest in our ongoing consultations with the advanced beneficiaries, demonstrates their support for following through with the graduation mechanism of the general review.

This new mechanism for graduation is now in place, and it is working. Under those circumstances, Mr. Chairman, I think we should be guided by an old axiom, "If it ain't broke, don't fix it." Thank you, Mr. Chairman.

Senator DANFORTH. Mr. Ambassador, thank you very much. I am not sure that "it ain't broke." It seems to me that the point of GSP is to provide a way of improving the economies of lesser developed countries. And when the benefits are largely soaked up by countries that could not reasonably be called lesser developed, I am wondering if this "ain't broke" after all.

Can you think of any way to skew GSP—if we were to do anything with it—can you figure any way that we can skew it so that the benefits would redound more toward truly lesser developed countries than to these three? It is disconcerting to hear you say—and others have said as well—that if these three countries were graduated, the benefits would largely go to Japan, or Japan and Canada. That truly would be a backfiring of any intention with respect to graduation. Can you think of any way to maybe change the system so that the real basket case countries get the benefits and not the newly industrialized countries?

Ambassador SMITH. Mr. Chairman, that is perhaps the most difficult question that we have had to grapple with in the GSP Program. Ever since I have been in USTR, we have tried to look at this question from an intellectual point of view as to how you get what we call a "better trickle down." And in my 13 years with the USTR, we haven't been able to find a way to do that. It is, I suppose, a truism to say that the countries that trade are the ones which are going to benefit by this; and countries which don't trade are not going to benefit by this. And there are many developing countries that deserve, if you will, preferences or need preferences to get into the trading game; but because they are not geared up to trade, they don't get the benefits.

So, we have grappled with this——

Senator DANFORTH. It seems to me, then, that the system is malfunctioning. I mean, if the intention of the generalized system of preferences is to aid lesser developed countries by developing trade with lesser developed countries, then we say, well, the lesser developed countries don't trade; so, let's maintain this program with countries that are no longer lesser developed and that have huge trade surpluses with the United States, in any event. It seems to me that something is clearly wrong with the GSP.

Ambassador SMITH. I don't think that is so, Mr. Chairman, because there are a large number of countries which do use the GSP Program, perhaps, obviously to a lesser degree than the big users. But the point is that it has worked gradually with an increasing number of countries. To be sure, a country like Korea, which had a plan for export development, has been able to take advantage of it; but it still does work in countries like Mexico, Brazil, Argentina, and Uruguay.

And you had asked the question whether there was some way that you could skew the benefits more in their favor. We have not been able to find a way that would skew it more in their favor.

Senator DANFORTH. Let me just tell you what really is of concern to me and somewhat annoying. The United States imports 58 percent of all the goods that are exported by the LDC's.

Ambassador SMITH. All the manufactured goods?

Senator DANFORTH. The manufactured goods. Japan imports 8 percent. So, Japan, despite the fact that it has something like a



GSP Program, imports a tiny amount of what is being produced by the really poor countries; and we take on much more than half. We do that despite the fact that we are running almost \$150 billion trade deficit with the rest of the world, and Japan is running a \$50 billion trade surplus with the rest of the world.

So, we have this very generous approach. You know, sometimes we say to ourselves: Well, the Japanese market is closed. What we mean by that is that it is closed to what we produce in the United States; and in point of fact, it is closed to everybody. I was in Korea in January, and I asked the chairman of Hyundai: Do you intend to try to sell cars in Japan? Answer: No. Why not? No hope of selling them.

Their market—this booming economy—their market is closed to everybody else. Therefore, all the goods that are produced in Korea, Taiwan, and Hong Kong and anyone else who wants to export—those goods are diverted into the United States market because there is no access for them in the Japanese market.

Then, we are supposed to maintain not only open trade with Hong Kong and Taiwan and Korea, but in addition to that, provide special trade benefits—preferential trade benefits—at a time when we have a \$150 billion trade deficit with the rest of the world; and in fact, we have a trade deficit of \$13 billion with Taiwan and \$6 billion with Hong Kong and almost \$5 billion with Korea.

It doesn't seem to me as though this is functioning appropriately when we are taking upon ourselves the responsibility of being the market for the rest of the world, and the Japanese market is closed to the rest of the world.

And then, when we are told: Heads, the Japanese win; tails, we lose, because if we were to graduate these countries, lo and behold, who would be the beneficiary? The Japanese would be the beneficiary. So, what I am saying to you, I guess, is I don't mind a GSP system that works for the truly poor countries and benefits the truly poor countries. But isn't there some way to improve this situation where the benefits are being soaked up by the newly industrialized countries and the Japanese market is always the winner and that is closed, thereby diverting trade from Korea and elsewhere into the United States?

A long, windy, speech-like question; but I guess the short question is: Tell me something good we can do. [Laughter.]

Ambassador SMITH. The problem of access to the Japanese market is a problem which you here on the Hill and I and others down off the Hill have been grappling with for a long time. But the question in my view, is whether it is germane to the question of GSP.

Japan has a GSP Program which is comparable in size to that of the United States. The European Community has one which is either comparable or larger in size than the United States. I share the frustration of you, Senator, in terms of the intake by Japan of manufactured goods. You know this has been a campaign we have been waging with the Japanese now for some years, but that is not an issue in my view in terms of the GSP question.

The question is how can we make the program work better? We try through a series of seminars, meetings, travel to the countries to tell the poorer countries how they can better use the GSP bene-

fits. It is surprising—I have been on them myself—how ignorant sometimes the public officials are of the law itself and how they can take advantage of it. And we are trying to, if you will, educate the public officials; and we meet with the private traders and the firms in those countries to encourage them to take advantage of the program, set up a system, work it with the agencies of the government.

But it still does not deny the fact that some countries, who would otherwise beneficially use GSP, don't use it because they are not fully developed traders yet; but presumably, that was one of the reason for the program. It was to get countries that were not in the international trading scene into the trading scene. And I think if you will look at the growth in trade by a number of the lesser developing countries—the lesser developed of the developing countries—you will see that the amount of trade under GSP from those countries to the United States, to the Community, to Japan, to Canada, to all the developed countries who extend GSP is increasing. And by the way, GSP is a program extended by all developed countries. We will be glad to provide those figures for the record.

[The prepared written statement and the prepared figures of Ambassador Smith follow:]

## TESTIMONY ON S. 1867 AND TITLE VI OF S. 1860

Ambassador Michael B. Smith  
Deputy United States Trade Representative

Before the Subcommittee on Trade

Committee on Finance

United States Senate

June 17, 1988

Mr. Chairman and members of the Subcommittee, I welcome this opportunity to appear before you regarding proposed changes in the Generalized System of Preferences (GSP) contained in S. 1867, as well as Title VI of S. 1860. The Administration strongly opposes this legislation.

The proposed legislation would require that we remove, or in other words graduate, certain more advanced developing countries from the GSP program within two years. We have no quarrel with the concept of graduation. Indeed, U.S. government policy consistently has been that GSP benefits are temporary preferences that should be phased out as development occurs in individual beneficiary countries. However, we have serious concerns about the specific approach to graduation suggested in the bills we are discussing today. We believe that such legislation is unwarranted because graduation was fully and appropriately addressed in the Trade and Tariff Act of 1984. Further, the proposed legislation would seriously undermine ongoing efforts to secure important improvements in the practices of our trading

partners and would impose an unnecessary burden on U.S. firms that depend on GSP imports, without providing any significant offsetting economic benefits to the United States.

The practice of graduation has been an integral element of the GSP program since 1981 when the Administration initiated a policy of discretionary graduation. Under this policy, we have been substantially reducing the level of GSP benefits available to the more advanced developing countries in those areas where they are competitive. The value of trade affected by discretionary graduation has grown substantially over the years from \$355 million in 1981 to \$2.4 billion this year. Looking at the three beneficiaries mentioned in the proposed legislation, this year our graduation policy will exclude from GSP benefits trade valued at almost \$1 billion for Taiwan, over \$500 million for Hong Kong, and over \$300 million for Korea.

In addition, imports of competitive products have been limited since the beginning of the GSP program in 1976, by the program's "competitive need limits." When a country's exports of a product exceed these competitive need limits, the country automatically loses duty-free treatment for the product in the following year. Currently, trade valued at almost \$13 billion is excluded from the GSP program because of this provision. Korea, Hong Kong and Taiwan account for almost \$8 billion of this total. As a result of the combined effects of discretionary graduation and competitive

need limits, the potential GSP benefits available to these three beneficiaries has been reduced by about 62%.

When the GSP program was renewed in 1984, Congress amended the Trade Act of 1974 to make graduation a more explicit statutory element of the program. The Administration strongly supported this amendment as it continued, in a refined and improved form, the approach to graduation known as "product graduation". Under such an approach, as countries become sufficiently competitive in a product, they lose GSP eligibility for that product. We believe that this is the correct approach because it recognizes that different sectors of the economies of developing countries develop at different rates. The alternative approach -- removing countries from the program entirely -- was also considered but wisely was rejected.

In renewing the GSP program Congress provided a strong incentive for developing countries -- particularly the more advanced ones -- to improve their practices relating to trade, intellectual property rights, investment, and workers' rights. Passage of the proposed legislation would remove this incentive and seriously undermine our efforts to solve problems in these areas, to the detriment of U.S. firms, farmers and consumers.

The central element of graduation, under the revised program, is a general review of program eligibility. Under the General

Review, we are required to examine the competitiveness of each beneficiary country vis-a-vis each GSP-eligible product. Where we find a country to be "sufficiently competitive" with respect to a product, we must reduce the applicable limits on GSP eligibility, known as competitive need limits, by half. In determining whether a country is "sufficiently competitive" in a product, we are required to consider the impact of GSP eligible imports on U.S. firms, the competitiveness of the country in the particular product, the country's level of development, and its practices. In regard to country practices, we are required to look at market access for goods and services, export practices, protection of intellectual property rights, investment practices, and workers' rights.

The General Review must be completed by January 4, 1987 and work is well underway. We have held public hearings on country practices and competitiveness, received thousands of pages of advice from the USITC, and consulted extensively with beneficiary countries. Although the process of bilateral consultations is still in progress, several countries have already begun to respond to our concerns, most notably in the area of intellectual property rights. We are hopeful that by the end of the General Review many important problems for U.S. firms will have been remedied. Ironically, however, this progress is in jeopardy because the proposed legislation singles out for removal from GSP eligibility

those beneficiaries that have been the most responsive to our concerns and where there is much yet to be accomplished.

I should add at this point that it is not clear how many beneficiaries countries might be affected by the proposed legislation in addition to the beneficiaries specifically mentioned -- Korea, Hong Kong and Taiwan. The legislation would direct the Administration to develop criteria to remove countries' GSP eligibility on the basis of per capita income, other unspecified indications of economic development and indications that the country can compete in the absence of GSP. Looking strictly at per capita GNP, Korea's level in 1984 was only slightly above \$2,000, compared to almost \$15,500 for the United States. There are many GSP beneficiaries whose per capita GNP generally hovers close to or exceeds that of Korea. These countries include Mexico, Argentina, Cyprus, Israel, Malta, Brazil, Chile, Uruguay, Singapore and Yugoslavia. The law would provide us with some flexibility to develop specific graduation criteria. However, it would be unlikely that we could develop graduation criteria that would affect the three beneficiaries mentioned in the legislation without also affecting most of these other countries.

It is essential in reviewing the proposed legislation that we have no illusions about its potential impact on the U.S. economy. First and foremost, it should be recognized that removing countries from the GSP program is not likely to have a significant

impact on the current deficit in our balance of trade. Over the years, we have refrained from adding import sensitive products to the program and have removed products in the relatively rare instances where they have been found to cause harm to U.S. industries. By the end of the General Review, we will have graduated beneficiaries on those products where we have found them so competitive that they are having an adverse effect on U.S. industry or are squeezing out less advanced foreign suppliers. Therefore, removal of countries is not likely to affect the level of U.S. imports. It will simply lead to higher prices for goods that will be imported in any event and to shifting of export sources from one advanced developing country to another or to developed countries. Ironically, if we were to remove Korea, Hong Kong, and Taiwan from the GSP program, the principal beneficiary most likely would be Japan.

It should also be borne in mind that the proposed legislation would act as an unnecessary, and unwelcome, new burden on U.S. firms that rely on GSP imports. Many U.S. firms depend on GSP imports of parts and materials to remain competitive against imports of finished goods and in export markets. Other U.S. industries import goods under GSP to complement product lines produced in the United States. These points have been underscored by U.S. firms time and again during Congressional hearings on the renewal of the GSP program and during our hearings on the General Review.



In 1984, Congress carefully considered the issue of graduation and came up with what we believe to be a wise and effective approach. The enthusiastic participation of the private sector in the General Review, especially their strong interest in our ongoing consultations with the advanced beneficiaries, demonstrates their support for following through with the graduation mechanism of the General Review. This new mechanism for graduation is now in place and is working. Under these circumstances, I think that we should be guided by the old axiom, "If it ain't broke, don't fix it."

**GSP Duty Free Trade From Beneficiary Countries  
Other Than Korea, Taiwan and Hong Kong**

YEAR	Trade from all beneficiary countries other than Korea, Taiwan and Hong Kong
1985	7,238,808,599
1984	7,120,344,821
1983	5,157,302,879
1982	4,208,099,669
1981	4,488,069,012
1980	3,913,031,757
1979	3,179,871,336
1978	2,588,768,116

YEAR	Trade from least developed beneficiaries
1985	73,688,258
1984	90,744,326
1983	70,283,953
1982	50,273,763
1981	77,926,132
1980	44,789,072
1979	43,306,062
1978	27,329,372
1977	17,909,945

Senator DANFORTH. I am way over my time, but if I may, I would like to ask just one "yes" or "no" question. Do the Japanese and the Canadians extend GSP treatment to Korea, Hong Kong, and Taiwan?

Ambassador SMITH. Yes, sir.

Senator DANFORTH. The list that I have been given says that Senator Baucus came here second. I apologize to you, Senator Baucus. I had you out of order before. Oh, I thought it was Senator Bentsen, Senator Long, and then Senator Baucus; so I will revert to the original order. Senator Bentsen?

Senator BENTSEN. Thank you very much, Mr. Chairman. Mr. Chairman, looking at this bill, I think we have already plowed this particular bit of turf. In the 1984 Trade Act, we lowered the competitive need limits for advanced LDC's that refused to pull down their trade barriers to us; and we removed the benefits entirely if they exceed the per capita GNP of \$8,500, as I recall.

I was and I am still strongly in favor of the 1984 provisions. GSP should be withdrawn from countries, such as Korea and Taiwan, until they agree to protect United States intellectual property rights and remove Japanese-style import barriers. I think that is good trade policy. I think this is different. This removes GSP, period.

It eliminates Korea because it is industrialized, and yet Korea has the same per capita income as does Mexico. Even though Taiwan has financed its development through equity—and that is what we have been trying to get these other countries to do, instead of borrowing—this bill would remove them.

Kicking off Hong Kong makes the least sense of all. Here is a country that doesn't have any kind of trade barriers, and we punish them for good behavior.

So, I don't think this bill is the right approach frankly. I don't think it will cause Koreans to reduce their import protection. I think this is just plain old protectionism. I am against it.

I believe that the 1984 bill properly administered will do the job; but you brought up a point, Mr. Chairman, that deeply concerns me, too. And that is the role of other developed countries.

When you talk about our importing 58 percent of the manufactured products from lesser developed countries and the Japanese just importing 8 percent. Today you see the Japanese per capita income and the European Community per capita income almost the same as ours. Now, if they would increase their imports from the lesser developed countries to the same extent we have on a per capita basis, that would increase the exports of manufactured products from the lesser developed countries by \$250 billion a year.

And that would take some of the burden off of us in this country to help these lesser developed countries. Mr. Ambassador, my question is: What are you doing about it?

What are you doing to try to get these other countries, Japan and the European Community, to take more manufactured products from the lesser developed countries? What positive things? Now, you talked about GSP and what you are doing; but it sounds to me like you are talking about how to help sell it to this country.

How about to Europe? What kind of pressure have you been able to bring on Europe to buy more of the manufactured products of these lesser developed countries, and Japan?

Ambassador SMITH. Senator, I believe the question is perhaps more accurately put in terms of Japan because I think the European Community, through its Lome Convention, has in essence a vast preference system with some 53 or 58 countries.

Senator BENTSEN. But as I recall, ours were 58 and the Japanese were 8. The European Community is just slightly over 20.

Ambassador SMITH. It is about 23.

Senator BENTSEN. Yes. I wasn't far off.

Ambassador SMITH. But they have a program, sir—the so-called Lome Convention—which—

Senator BENTSEN. I am talking about results, Mr. Ambassador. I am tired of listening about these programs that don't get results. I want to look at the bottom line.

Ambassador SMITH. My point, sir, is that the Europeans are probably taking in a very considerable amount of manufactured and nonmanufactured exports from countries under the Lome Convention as well as their GSP Program. They have two. We have a GSP Program; they have a GSP Program as well, but also this Lome Convention. Japan is where the problem is.

It is the fact that—actually, our figures, Mr. Chairman, I think—

Senator BENTSEN. Mr. Ambassador, it is both places. It is just a greater problem in Japan, but go ahead.

Ambassador SMITH. All right. But the real problem is Japan. I think the actual figure, Mr. Chairman, is that we are taking in 62 percent of the manufactured imports; at least, that is the last figure I saw. We have been leaning on the Japanese, as you know, very hard, pointing out to them that they have a problem not just with the United States, but they have a global problem in terms of the share of imports that they take in, whether or not it is from the developing world, but particularly from the developing world.

I was in Korea, too, recently, and the Koreans said as much as the chairman of Hyundai did to you, sir, that they have almost given up on the Japanese market. We have been leaning very hard on the Japanese to try and get them to take in more and more manufactured imports from the developing world. We have tried to cast it in the following way: That we don't care where you take the imports in; just take them in.

And that has, as you say, Senator Bentsen, the effect of spreading, if you will, the burden around among the countries which can afford to take in these imports. We have not had a great deal of success; that is for sure. But I think the Europeans and the Americans and the Canadians have all been trying to impress upon the Japanese that they must do more in terms of importing manufactured goods from the developing world.

You ask me what can I point to for success. I can't point to any great success in that. The figures show that they only import something like 8.3 percent of manufactured goods from the developing world.

Senator BENTSEN. I see my time has expired.

Senator DANFORTH. Senator Long.

Senator LONG. We have seen workers in Korea and Hong Kong and even Red China performing industrial tasks that are really not much different than that which American workers perform. Can you tell me how the average Korean industrial wage compares with the average American industrial wage?

Ambassador SMITH. I don't have the precise figures, sir. It is obviously lower and probably considerably lower. We will provide that for you—

Senator LONG. You ought to be able to give an educated guess. I mean, any idiot—anybody in this room—knows that Korea has a lower wage. Can't you come a little closer than that?

Ambassador SMITH. You asked for the average industrial wage in the United States—

Senator LONG. Compared to the Korean average wage.

Ambassador SMITH. I would say that if the average wage in the United States were a factor of 10, then the average wage in Korea would be a factor of \$1.50 or \$2.

Senator LONG. You think about 15 percent?

Ambassador SMITH. 15 or 20 percent.

Senator LONG. And in Taiwan, would that be about the same, or would it be substantially different?

Ambassador SMITH. I believe Taiwan would be lower.

Senator LONG. Hong Kong?

Ambassador SMITH. Higher.

Senator LONG. Higher?

Ambassador SMITH. Higher than Korea and Taiwan.

Senator LONG. And about where would you put that? I would like to have for the record just an educated guess.

Ambassador SMITH. I would say again that if the United States wage were \$10, then the Hong Kong wage would be between \$2 and \$3.

Senator LONG. Right. Now, those industrialized zones that they are developing in Red China, how would that compare?

Ambassador SMITH. They would be lower.

Senator LONG. About where would you put that?

Ambassador SMITH. I would imagine, sir, around—between \$1 and \$2.

Senator LONG. I have just gained the impression that for a job that would bring maybe \$1.65 on an assembly line in Korea, it looked to me like in Red China it would be about \$.50. So, that would be about one-third of what it is in Korea—the same type of work—somewhere between one-half and one-third. Does that look about right to you?

Ambassador SMITH. Right.

Senator LONG. So, the thought that occurs to me is that if their wages are that much lower, on anything that has a substantial labor input, where does that leave us as far as competing with them in making just the ordinary profit in shipping those things in our direction?

Can you tell me what are Japan's total imports from those three Asian countries—Korea, Taiwan, and Hong Kong—compared to the total United States imports from those countries?

Ambassador SMITH. I cannot tell you offhand, sir.

Senator LONG. Can you give me a guess?

Ambassador SMITH. I have no idea, sir.

Senator LONG. Is Japan importing as much on a per capita basis from those countries as we are?

Ambassador SMITH. No, sir.

Senator LONG. Nothing like it?

Ambassador SMITH. Well, you threw in the foreign enterprise zones in the Peoples Republic of China.

Senator LONG. Thank you very much.

Senator DANFORTH. Senator Baucus.

Senator BAUCUS. Mr. Ambassador, you suggested that these bills should not pass, for one reason, because it is important for the USTR to have leverage to negotiate with other countries, leverage they could use in Korea to lift trade barriers. Could you give us some examples of cases where you have attempted to use the GSP threat—GSP graduation as leverage on certain products?

And second, could you give us an indication of where that has been successful and where it has been unsuccessful?

Ambassador SMITH. I think the best case—probably the freshest case—is Singapore on the question of intellectual property where they have under, shall we say, a great deal of pressure from us, introduced a copyright law and other intellectual property protection measures, with the full knowledge that if they didn't, they were running the risk—and a real risk—that the United States would act on GSP.

Senator McConnell has already talked to you this morning about tobacco in Korea. We have had a similar thing on wine, alcohol, and tobacco products in Taiwan. We have been working on insurance and other service-type cases with Taiwan.

Senator BAUCUS. Could you give me a number? Could you give us a ballpark number of instances where you have used the GSP graduation threat as leverage or a tool?

Estimated Hourly Compensation Costs  
for Production Workers in Manufacturing  
in 1985<sup>1</sup>

Hong Kong	\$1.78
South Korea	\$1.41
Taiwan	\$1.48
PRC	-NA <sup>2</sup>

<sup>1</sup>Source: Bureau of Labor Statistics

<sup>2</sup>Data is not available from the Bureau of Labor Statistics on the Peoples Republic of China. Based on the Statistical Yearbook of China for 1983 it is estimated that in 1982, the average annual total compensation for industrial workers in "state owned economic enterprises", based on official exchange rates, was \$1.986.

Ambassador SMITH. In how many cases we have done this?

Senator BAUCUS. Yes, roughly. How often? How many times?

Ambassador SMITH. We do it with all the beneficiaries of GSP with whom these problems have been identified to us by U.S. private sector. And so, we are talking 40 or 50 countries with whom we have raised these issues specifically.

Senator BAUCUS. How many times, would you say, without qualification, that that has been the major determinant in getting some concession with one of these countries? How many times?

Ambassador SMITH. I would ask Mr. Shark to respond because he was doing this every day, sir.

Mr. SHARK. If I might.

Senator BAUCUS. You have a good name for this job.

Mr. SHARK. Thank you. The first thing that has to be recognized is that the way this was structured by the Congress, the full value of the leverage ripens over a 2-year period.

Senator BAUCUS. How many times, though have you used the graduation threat?

Mr. SHARK. We have been using it overall in our trade relations with these countries for 2 years.

Senator BAUCUS. How many times—just a good guess—how many times successful and how many times unsuccessful?—

Mr. SHARK. Successful, I would guess at least 10 times.

Senator BAUCUS. How many times unsuccessful?

Mr. SHARK. I wouldn't use unsuccessful because the jury is still out. The general review doesn't end until the end of this year. And a lot of countries are waiting—as we would—to see how well they can do in the general review, and we are working with them.

Senator BAUCUS. What is your best guess as to how many times at the end of the review period you will be successful?

Ambassador SMITH. I think we will be very successful, sir. In our view, we have no choice. They either make the necessary reforms or their GSP will be accordingly reduced.

Senator BAUCUS. What value do you place on the argument among developing countries that it is unfair for the United States to graduate them because other developed countries will also graduate them, and that will hurt those developing countries?

Ambassador SMITH. Personally, sir, I don't put a great deal of stock on it because we have made it very clear from the beginning of the GSP Program that this was a unilateral action by the United States. It was not, if you will, a God-given right. Now, not only do other developing countries not agree with that position, but a lot of developed countries do not agree with that position of the United States.

Senator BAUCUS. Referring to the point that Senator Long and Senator Bentsen were making, don't you think it is appropriate to somehow leverage graduation to a GSP country where it is appropriate to try to get some trade concessions from Japan; that is, go to Japan and say we are thinking about graduating certain countries, which may have a beneficial effect on you, Japan, but in return for that we think you ought to open up your markets more to those countries' products or take other actions to generally open up the Japanese markets?

To what degree do you think it is appropriate to try to leverage?



Ambassador SMITH. I don't.

Senator BAUCUS. Yes, but why not?

Ambassador SMITH. I just don't think that would work. I think that the Japanese would not respond to that—well, let me put it more precisely. I think if you went to the Japanese and said, look, we are going to graduate country X or country Y or products X or Y and you are going to benefit; and therefore, you should pay us for that, I don't think the Japanese will pay you for it.

Senator BAUCUS. What are you doing to effectively open up Japan?

Ambassador SMITH. Banging away.

Senator BAUCUS. I am sorry?

Ambassador SMITH. Banging away, sir.

Senator BAUCUS. But how often are you raising the point that Senators Long and Bentsen raised, namely that Japan opens up less—

Ambassador SMITH. Every time I go to Japan, every time I meet with the Japanese, I keep hammering away at this theme. They must take in more from the developing world.

Senator BAUCUS. And what success have you seen?

Ambassador SMITH. I can't point to any great successes, sir.

Senator BAUCUS. I am sorry?

Ambassador SMITH. I can't point to any great successes. Their figures on imports of manufactured goods, and the developing world has remained remarkably constant.

Senator BAUCUS. Thank you; and thank you, Mr. Chairman.

Senator DANFORTH. I think we all bang away at Japan, and it is like banging away at a steel door with a pillow. It is impossible. Mr. Smith, let me ask you if it makes sense to try to have a GSP system that maybe is a little more helpful to the truly needy countries? I wonder if in the next few weeks you might be willing to meet with interested Senators or staff people and interested Senators to see if there isn't some improvement that could be made in the system so that it could be more carefully targetted to those that we intend to help? What is it—about two-thirds of the benefits go to these three countries?

Ambassador SMITH. Something like that.

Senator DANFORTH. Something like that, I think—60 some odd percent, I think, of the GSP benefits go to three countries that have large surpluses with the United States anyhow and that are not exactly lesser developed countries.

Ambassador SMITH. It is about 45 percent, sir.

Senator DANFORTH. Only 45 percent? Well, it is still a large portion of the total program.

Ambassador SMITH. Yes.

Senator DANFORTH. I wonder if you would be open to exploring ways of trying to more carefully target it?

Ambassador SMITH. We certainly would. I would welcome that because I must admit we have for years wrestled with the problem, as I think all developed countries have. How do you increase the trickle down and still keep the program in a workable way? The only way that we have thus far been able to figure this out is to do it on a product basis. Some other countries use quotas, have a limit by quota; we have not chosen to do that because of the administra-

tive problem involved. But it is something which is a very valid point with the GSP Program.

Senator DANFORTH. I think that would be worth pursuing. I think that would be what Congress had in mind. How long have you been banging away at the Japanese on this?

Ambassador SMITH. I just finished my 59th trip to Tokyo, sir.

Senator DANFORTH. The 59th?

Ambassador SMITH. Yes, sir.

Senator DANFORTH. It is just unbelievable. It really is. And I imagine in those 59 trips, you have probably been told at least 59 times: Oh, we understand, and we are going to take care of it.

Ambassador SMITH. I just came back, as I told you before the hearing this morning, from a week on the Chesapeake Bay and I do believe in that bumper sticker that "I'd rather be sailing." [Laughter.]

Senator DANFORTH. Senator Bentsen.

Senator BENTSEN. Not bad. Mr. Chairman, I know this hearing is on the generalized system of preferences, but something happened yesterday that I would like to comment on for just 3 or 4 minutes; and that is the appointment by the President of Susan Liebler to be Chairman of the U.S. International Trade Commission.

And I suggest that this Trade Subcommittee invite her up here as a witness as soon as we can and let her testify before us and answer some questions about her attitude toward trade ideology and the law. A witness before the House Trade Subcommittee in April raised questions about the ability of Commissioner Liebler to impartially administer this Nation's trade laws.

Now, you have had critics of the new Chairman that include both fellow commissioners and representatives of U.S. industries. The primary criticism is that she bases her decisions on her own trade ideology, rather than what the law is. The House has approved legislation requiring the Senate to confirm the Chairman of the Trade Commission.

That is not the current law; that is what they have proposed; and I am inclined to support that kind of a provision. If there was such a law in effect now, I think it would be a very open question whether Commissioner Liebler would be confirmed as Chairman. I recall when she was first proposed, she was objected to by Republicans and Democrats alike; and the Senate did not at first confirm her nomination.

She was later renominated and then confirmed. I suggest that we issue such an invitation to her to answer some questions I have and I believe some other members of this subcommittee have about her attitude toward this Nation's trade laws. I believe the least this panel can do is to seek assurances that she will adhere to the law and not to any particular ideology.

Senator DANFORTH. I think that is a very good suggestion, Senator Bentsen. We will see what we can work out. I share your concerns.

Ambassador Smith, thank you very much.

Ambassador SMITH. Thank you, Mr. Chairman.

Senator DANFORTH. Next, we have a panel: Carlton E. Nichols, president of Nichols & Stone; & Murray J. Belman of Thompson

& Mitchell, who is counsel to the Cold Finished Steel Bar Institute.  
Mr. Nichols.

**STATEMENT OF CARLTON E. NICHOLS, JR., PRESIDENT, NICHOLS AND STONE CO., GARDNER, MA; AND PRESIDENT, AMERICAN FURNITURE MANUFACTURERS ASSOCIATION**

Mr. NICHOLS. Mr. Chairman and members of the subcommittee, my name is Carlton E. Nichols, Jr., I am president of Nichols and Stone Co. of Gardner, MA, and this year I am also serving as president of the American Furniture Manufacturers Association.

I am pleased to present AFMA's statement on an issue of critical importance to the furniture industry—the flood of duty-free furniture imports entering our country from so-called less developed countries under the generalized system of preferences program. Mr. Chairman, I am a businessman. As such, I try my best to deal with reality in running my company. I expect nothing less from my Government.

My testimony contains some impressive statistics regarding furniture import penetration in the U.S. market. It may be that I do not understand these numbers. Our No. 1 competitor, by any one measure you choose to use, Taiwan, is considered to be a less developed country by my Government.

Imports from Yugoslavia have increased over 300 percent in the last 6 years, but my Government tells me Yugoslavia is a less developed country. The same is true for Korea, Romania, Brazil, and practically all of our major competitors for the domestic furniture market. It is almost inconceivable to me that two people looking at this information can arrive at two so obviously different conclusions. What really upsets me is having to go through a complex, expensive, year and a half process to bring my Government to a conclusion I and many other industry members regard as self-evident: that imports from so-called less developed countries are devastating portions of my industry.

More specifically, in January of 1986, I had to close a factory as a result of GSP imports. The last thing we ought to be doing is allowing these countries GSP benefits. Further, we understand there will be a period of "consultation" with potentially affected countries to produce changes in foreign country practices, using GSP as a bargaining chip.

We could make every argument required by law to prove our case, and yet be traded away in negotiations to satisfy someone else's trade problems. AFMA believes every U.S. industry is entitled to market access; however, market access benefits should neither be gained at the expense of the GSP program nor to the detriment of a particular industry.

Certainly, Congress never intended continuing duty-free treatment for those countries that have demonstrated themselves to be fully competitive in the world market even for negotiating purposes. I apologize for sounding a bit self righteous, but permit me some indignation. I absolutely cannot believe the hurdles we must overcome to convince our Government of the GSP furniture import problems our industry clearly faces. I can appreciate the legitimate goals of the GSP program, and I am also aware of the history of

trade negotiations in the United States. Nobody in the 1950's or 1960's ever thought we would be facing the kind of competition that greets me every day at my office.

We were lulled into a false sense of security, and now we are paying the price. We need to adapt our trade policies to the realities of the 1980's, and I cannot think of a better place to start than the GSP program.

Mr. Chairman, I know it is one of the matters over which you and other subcommittee members are wrestling, and we are most appreciative of your efforts. Just give us—give me—a chance to compete fairly with my major competition, and let me take care of the rest. We support S. 1867 with the modifications suggested in my complete statement. Stated differently, we strongly support the immediate graduation of countries sufficiently competitive so as to no longer require the benefit of the GSP program. Thank you.

Senator DANFORTH. Thank you, Mr. Nichols. Mr. Belman.

[The prepared written statement of Mr. Nichols follows:]

STATEMENT OF CARLTON E. NICHOLS, JR.

PRESIDENT

AMERICAN FURNITURE MANUFACTURERS ASSOCIATION

ON

THE GENERALIZED SYSTEM OF PREFERENCES

SUBMITTED TO THE

SENATE FINANCE SUBCOMMITTEE  
ON INTERNATIONAL TRADE

JUNE 17, 1986

Mr. Chairman, Members of the Subcommittee, my name is Carlton E. Nichols, Jr. I am President of Nichols and Stone Company of Gardner, Massachusetts, and this year I am also serving as President of the American Furniture Manufacturers Association (AFMA). I am pleased to present AFMA's statement on a provision affecting an issue of critical importance to the furniture industry--the flood of duty-free furniture imports entering our country from so-called "less-developed countries" under the Generalized System of Preferences (GSP) program.

The AMFA is the largest furniture manufacturing trade association in the United States. AFMA member companies produce the vast majority of U.S. residential furniture. Also, AFMA members have home offices or facilities in almost the entire fifty states and provide employment to several hundred thousand persons.

The furniture industry, in recent years, has become more international in scope. Reflected both by inroads made by imported furniture into markets traditionally dominated by the U.S. furniture industry and by U.S. companies expanding their horizons overseas in search of new markets, the impact of trade-related policies cannot be understated.

The behavior of the U.S. Government in the area of furniture trade has been outstanding: the U.S. has consistently lowered its effective tariffs on furniture over the past two decades through outright reductions, through the extension of very favorable tariff treatment to certain countries, and through its provision of duty-free status to certain developing countries--even where those countries have become major international competitors in furniture (and other) trade.

However well-meaning these efforts are, they carry with them one fatal flaw. As practiced over the past two decades, with respect to the American furniture industry, the "free trade" and "lowered tariff" thrust of our government's trade policy has been too one-sided. U.S. backed agreements and Congressionally approved programs have hampered the ability of the U.S. furniture industry to compete in its own marketplace. They have also led to a partial restructuring of this industry not based upon the free flow of trade in international commerce.

The American furniture manufacturing industry has experienced an alarming rise in import competition in recent years, much of it under the GSP program. From 1979 to 1985, according to the most recent U.S. Department of Commerce figures available, wood and upholstered furniture imports increased 470%, from \$312 million to \$1.78 billion. Overall furniture imports in 1985 reached a record level of \$2.6 billion. Some segments of our industry have been

devastated, and my own company, which has been in furniture manufacturing for over 150 years, has been adversely affected.

We believe that our response to the rise in imports has been exemplary. AFMA has not called for quotas on furniture imports, nor have we asked for high tariff barriers to be erected to keep out foreign goods. What we have asked for, though, is equity.

It is an unfortunate fact of life that many of these imports originate in countries which enjoy the benefits of duty-free access to the U.S. furniture market under the GSP program--countries which AFMA feels are highly advanced international competitors in furniture trade and no longer require the added subsidy of GSP eligibility. AFMA strongly believes that countries such as Taiwan, Yugoslavia, Singapore, South Korea, Mexico, Brazil and Romania, all once considered less-developed, now ought to compete in our markets under the same rules faced by other major furniture producing countries.

To place GSP furniture trade in perspective, approximately \$624 million of the record \$2.6 billion worth of furniture imports entered the U.S. duty-free in 1985. An additional \$1.19 billion came from GSP-eligible countries, but fell into tariff categories that had previously been recognized as being fully competitive, had lost duty-free eligibility, and were subject to applicable rates of duty. The important point, however, is that GSP-blessed, duty-free furniture entering this country has had a considerable negative effect on the U.S. furniture producer, and the amount of such furniture represents a rather sizeable portion of the \$13 billion in 1985 GSP imports. In fact, GSP furniture imports represent a much higher percentage of all GSP imports than one would expect given the relative proportion of furniture trade as a percentage of all U.S. trade.

I want to highlight the effect imports of this magnitude have had on the furniture industry. According to the U.S. Department of Commerce, approximately two-thirds of all furniture companies are small businesses. Our industry is highly fragmented, with no one company representing more than approximately 4% of the market. No single furniture company even approaches the \$624 million dollar mark in sales. Certain specific product categories have encountered stiff foreign competition, while others remain relatively untouched--to date. The furniture industry is far from monolithic and examining only gross import figures might lead one to significantly underestimate the degree of import penetration in certain furniture tariff categories. Let me cite just two examples:

- o At one time, the U.S. producers dominated the domestic directors chair market. In the past five years imports of directors chairs have doubled, due largely to the application of the GSP program to Taiwan (until 1982) and Thailand (nearly 86 percent of directors chair imports in the first quarter of 1986). Imports now account for an estimated 40% of this market, with devastating results. There are only a handful of directors chair manufacturers remaining in the U.S. today.
- o The top four sellers of dining room tables at the lower price ranges were importers. More specifically, wood dining room table imports from Taiwan more than doubled from 1984 to 1985, and, if present rates continue, 1986 imports will show a 328% increase in volume over 1984 levels. This, despite being denied GSP status since 1980! Similarly, if GSP-eligible imports from Singapore and Yugoslavia continue at their present 1986 rate, they will post increases of 132% and 347%, respectively, over 1984 levels, and account for nearly 71% of GSP imports of wood dining tables. The top four sellers of dining room furniture at the lower price ranges were importers.

Additional examples of severe import penetration of specific furniture product categories abound in our industry--due in many cases to the application of GSP benefits to already fully competitive countries. Among the hardest hit of these product categories are non-folding wooden chairs, desks, bedroom furniture, wall systems, furniture parts, and metal furniture. It is for this reason that AFMA strongly supports the intent of S. 1867. We would suggest, however, that the provision be modified so as to include other highly competitive countries by name. In addition, AFMA questions the roundabout method used in S. 1867 of requiring the President to submit a proposal to Congress withdrawing GSP benefits from competitive countries. This session of Congress is rapidly winding down, and such a submission could quite easily not be considered during the usual year-end crush of activity. AFMA respectfully suggests that Congress "knock out the middleman" and simply pass legislation withdrawing GSP benefits immediately for certain countries.

The economies of the aforementioned GSP-eligible furniture exporting countries exhibit a high level of general economic growth. Moreover, the furniture producing industries in each of these countries are highly competitive in the world market and--in particular--the U.S. market. They rival furniture producing industries in developed nations such as the Canada, United States, Denmark, or other European countries. Taiwan, for example, is the single largest GSP or non-GSP importer of furniture into the U.S.



market. The picture of GSP benefits flowing to competitive industries and countries is not confined to furniture trade. Indeed, only a glance at the list of countries and product petitions filed with the United States Trade Representative (USTR) demonstrates that furniture trade is not atypical.

The original purpose of the GSP program was to promote economic growth in developing countries, which often need temporary, preferential treatment to compete effectively with industrialized nations. The goal of the GSP program is not served when preferential treatment is accorded relatively well-developed countries, and undermines the competitive position of U.S. industry. Continuation of such benefits is, in effect, a foreign aid grant. AFMA strongly believes that "foreign aid" should not be hidden under the aegis of trade policy programs.

S. 1867 recognizes that, as countries reach a sufficient degree of economic development, they should be graduated from the GSP program in order to maintain opportunities for economic growth in truly less-developed countries.

Currently, the withdrawal of GSP benefits is done on a piecemeal, issue-by-issue, product-by-product basis. A procedure has been constructed that is cumbersome, risky and expensive for any domestic industry wishing to seek a modification or removal of GSP benefits. Practically speaking, the result has been a continuation of GSP benefits to a host of countries having a large number of fully competitive industries.

Last year, AFMA petitioned USTR for a lowering of competitive need limits on furniture imports from Taiwan, Korea, Yugoslavia, Romania, Brazil and Mexico. At the same time, AFMA opposed requests that no limits on duty-free imports should apply ("waivers of competitive need limits") on certain furniture products by Taiwan, Thailand, and Singapore. More recently, in the 1986 annual review, AFMA requested the removal of GSP benefits with respect to importation of certain wood and metal household furniture products from Taiwan, Yugoslavia, Singapore and Thailand. In each of these cases, the domestic industry (represented by AFMA) is charged with the responsibility to demonstrate, on a product-by-product basis, whether economically developed countries should remain eligible for GSP privileges on selected products. The outcome of these petitions is in doubt, and will not be announced until late this year or next year.

You may ask at this point, after our having taken these steps, why AFMA supports the spirit of S. 1867. We have three main concerns:

(1) That a law as complex as GSP, involving consideration of so many disparate criteria, by so many different individuals, leaves itself open to misinterpretation of Congressional intent based on subjective evaluations;

(2) That any gains achieved through the administrative process might be lost through non-GATT negotiations as agencies seek to use GSP benefits as a lever to effect changes in foreign country practices; and

(3) That the administrative procedure places an undue burden squarely on the shoulders of domestic industry to prove competitiveness on a case-by-case, product-by-product basis when, for some countries, the determination should be self-evident.

To illustrate the flaws inherent in the process, let me relate just a few of the hurdles we have encountered to date.

AFMA petitioned USTR in the spirit of Title V of the 1984 Amendments to the Trade Act of 1974, which renewed GSP authority. Title V contained explicit reference (found in the House and Senate Committee Reports, H. Rpt. 98-1090 and S. Rpt. 98-485) to Congressional intent of redistributing GSP benefits from the handful of advanced developing countries now receiving them, to other, truly needy, less-developed countries, a sentiment echoed in S. 1867. In the course of our effort to oppose the waiver requests, we encountered a presumption in favor of petitions for waivers of competitive need limits, unless the domestic industry could show injury from such an action. In fact, the legislative history clearly prescribes a much less stringent standard of "adversely affected" should be used, and directs the President to "vigorously ... withdraw, suspend or limit GSP benefits..." to competitive countries. Clearly, a presumption in favor of waivers contradicted Congressional intent.

Beyond the procedural problems imposed by the administrative process, the concept of GSP eligibility as a valuable negotiating tool also threatens to overwhelm substantive considerations. It is our understanding that there will be a period of "consultation" with potentially affected foreign countries to effect changes in market access, intellectual property protection, and other long-standing trade issues. The fact that these non-GATT talks will be held at all is a de facto recognition of the success of the GSP program and of the status of certain beneficiary countries as unquestionably significant international competitors.

Further, anybody who, in an era of burgeoning trade

deficits, asserts that we need GSP as a lever either has a direct financial stake in seeing the program continue or is intent upon using it for foreign policy reasons.

One scenario that has been of constant concern to our Association is that we make our case regarding both competitive need limits and waiver requests, and yet lose our case because of the use of a presumption against us that is certainly contrary to Congressional intent. Or, having cleared that hurdle, lose our case because our concerns are traded away to satisfy someone else's market access or intellectual property protection problems. Any granted waiver requests must be found to be in the "U.S. national economic interest," a determination which requires evaluating the impact of such actions on producers of like or competitive products, the extent of the beneficiary country's competitiveness, and their level of economic development. In short, our concern is that the government will fail to take into account all of the statutory language pertaining to the definition of "national economic interest."

In a letter to Ambassador Yeutter we made our concerns known and his response removed the possibility of a misperception of Congressional intent. While we feel that our concerns have been addressed, this incident serves to point up the drawbacks of a procedure so complex that some of the various agency personnel charged with administering the law are not fully cognizant of the intent of Congress with regard to these provisions. Also, our industry, unlike some that have been significantly affected by GSP imports, happened to have an Industry Sector Advisory Committee representative which facilitated the communication with USTR.

The general review and annual reviews, while laudable in concept, provide only a piecemeal approach to the removal of GSP eligibility for more advanced developing countries and impose a heavy burden of proof on domestic industries to demonstrate that limitations on GSP eligibility are warranted. Notwithstanding the result of the reviews, they provide only a partial solution to the continued eligibility of economically advanced countries for GSP privileges.

AFMA supports S. 1867 as a step in the right direction towards a more comprehensive examination of newly industrialized countries, among them Taiwan, Yugoslavia, South Korea, and Singapore. The degree of economic growth and development of these countries has been well-documented elsewhere, before this Committee and in AFMA's submission to USTR.

I would like to highlight the highly competitive nature of GSP-eligible foreign furniture industries--industries

which continue to have preferential access to the U.S. market. If the Subcommittee desires the more complete information contained in AFMA's petitions to USTR, I would be pleased to submit copies for the record.

**Taiwan.** Taiwanese furniture manufacturers employ state-of-the-art furniture producing and finishing technology, including numerically controlled routers, automatic spraying machines, high-frequency machines, and profile wrapping machines. Taiwan producers even hire managers and technicians directly from major U.S. wood finishing companies to work on-site in their plants. With Taiwan's expertise in copying U.S. furniture styles the Taiwanese product is equally attractive to the U.S. furniture consumer as a domestically produced product.

Moreover, Taiwan has maximized the efficiencies of ocean transportation by shipping knock-down (or K-D) furniture to strategically located assembly plants in the United States where it is assembled and sold to the U.S. consumer as a finished product. The principal importer of furniture from Taiwan has thus become the ninth largest furniture company in the United States.

**Yugoslavia.** The competitiveness of the Yugoslavian furniture industry is a function of its near complete vertical integration. In Yugoslavia, the state owns the furniture manufacturers, the lumber industry, and several U.S. distributors. Through its shipment of K-D furniture three of the largest Yugoslav importers have five or more strategically located assembly and distributing centers in the United States. Krivaja-Beechbrook and Sidex, both U.S. arms of Yugoslavian corporations, currently produce the second, third and fourth largest volumes of dining room furniture sets in the lower price range of the U.S. market. Between them, these two companies shipped to the U.S. \$31.3 million dollars in 1985 for these lines of dining room furniture alone. And, dining room furniture is also not an atypical example of Yugoslavian penetration of the U.S. market.

**Singapore.** Singapore is the ninth largest exporter of wood furniture products (other than chairs and parts) to the U. S. market. Imports from Singapore have had a significant impact on occasional, dining tables, and other non-folding chairs. Singapore furniture producers have achieved maximum production efficiency. One Singapore producer has achieved the ability to run one of the largest production schedules in the furniture industry.

**South Korea.** The South Korean furniture industry is

also exhibiting a strong growth rate. The major Korean furniture exporter to the U.S., Hyundai, is a stiff competitor with U.S. manufacturers, particularly in solid wood products. Hyundai's estimated \$200 million in shipments (\$700 million in retail value) by 1986 is the minimum goal established by the Chairman of the company. Most of the plans for expansion aim directly at the U.S. market.

Of course, as cited earlier, the U.S. furniture industry also experiences substantial import competition with developed furniture industries in Romania, Mexico, and Brazil -- all of whom are currently enjoying the exceptional privileges of the Generalized System of Preferences.

Conclusion. AFMA appreciates the intent of the GSP program to assist developing countries in promoting economic development and international trade. However, we also appreciate that the subsidy conferred on GSP beneficiary countries is meant to terminate when those countries no longer require duty-free status to be fully competitive. The Congress, as noted previously, has made clear its intent to apply GSP benefits only to those less-developed countries unable to compete in the U.S. market without such a subsidy. Over the years, however, our government has clearly had difficulty balancing a number of sensitive and possibly conflicting goals, and has regarded GSP benefits as simply a means to some other end, in some cases as a simple extension of the U.S. foreign aid program.

AFMA believes that the time has come for the U.S. to start playing hardball with respect to trade policy. In the past, our negotiators were lulled into a belief that the decades of the '50's and '60's would last forever, and that the U.S. would never face significant import stress. Other industries now face the same precarious position the furniture industry faces. We need to stop talking about using duty-free access as a lure to achieve changes in foreign country practices and start using access to the U.S. market as a lever.

In advocating a measure of rationality for the distribution of GSP program benefits, we are by no means ignoring the effect of literally dozens of other variables on international trade flows. The impact of the fluctuating dollar, of low wage rates paid by foreign competitors, the high cost of environmental, health and safety compliance all play a part in the furniture industry's current competitive position.

Keep in mind that the influx of imports is occurring at a time predicted to be "The Golden Age of Furniture Manufacturing" based on "baby boom" demographics. What has

happened instead is that the demand-side growth has largely been absorbed by imported furniture, with alarming results for the domestic industry.

All we seek is an opportunity to compete fairly with major competitors. From an equity standpoint, all countries competitive in furniture trade should play by the same rules with respect to entry into the U.S. market.

The most appropriate term for this process of rationalization, and one which the Congress has used previously, is "graduation." AFMA supports S. 1867 and urges the suggested modifications to improve its effectiveness.

**STATEMENT OF MURRAY J. BELMAN, THOMPSON & MITCHELL,  
WASHINGTON, DC; COUNSEL TO THE COLD FINISHED STEEL  
BAR INSTITUTE**

Mr. BELMAN. Thank you, Mr. Chairman. My name is Murray Belman, I am a member of Thompson & Mitchell, and we are counsel to the Cold Finished Steel Bar Institute. I am also appearing on behalf of the Metalworking Fair Trade Coalition, whose members operate 30,000 plants with 2 million workers and \$96 billion in annual sales

Mr. Chairman, the statement that we have prepared and submitted for the record addresses a question you asked earlier: How can you skew the GSP treatment towards those countries that ought to get the benefits of that treatment?

A good part of the answer rests in the criterion in S. 1867, a criterion that already exists in law: the test of competitiveness. The criterion of per capita income can lead to some anomalous results; but if you look at the question of competitiveness, you might get to where you are trying to go.

From the point of view of American steel producers there is ample evidence that Taiwan and Korea meet the competitiveness test. Based on the competitiveness standard, it is not unreasonable and hardly even controversial to graduate Taiwan and Korea. First of all, both countries have world class steel industries. Korea is the fourth largest supplier of steel mill products to the United States. It is the second largest supplier of other steel products. Taiwan is the fourth largest supplier of other steel products.

Moreover, the kinds of products that both countries supply in the steel and steel-containing products areas are very sophisticated. They are both key suppliers of ball bearings. They are both key suppliers of data processing equipment. They are both key suppliers of electronic equipment. As we know, Korea has entered the automotive market. Those are not unsophisticated products.

Both countries are sophisticated and aggressive markets of those products. The customer base of the cold finished bar industry is composed of a very large number of relatively small manufacturers of component products, "widgets," that go into all other kinds of equipment. These people have been confronted with very aggres-

sive efforts by Korean and especially Taiwanese manufacturers, urging them to take their production offshore. The sales pitch is that the Koreans or Taiwanese are better able to make the products and sell them through the American manufacturers than the American manufacturer can make them here with American labor.

Another indication of the competitiveness of these producers is what has happened when Korea and Taiwan do not benefit from preference status. Of all the countries that have been graduated on individual products, Taiwan leads with—by my count—56 different cases. Korea is in second place with 25. After they lost the preference, their exports have expanded, substantially in many cases.

In cases such as ball bearings where they never had the preference, Taiwan has become the sixth largest supplier, going from ninth to sixth in a matter of the last 3 years; and Korea went from nowhere to third in the same space of time.

In closing, Mr. Chairman, I would like to just point out one other aspect of this preference problem. The existence of preferences for these countries is yet another artificial incentive to what we have called "downstream diversion." We have seen that high dumping duties or countervailing duties may lead producers to go "downstream" to avoid the impact.

Preference status is another case of this downstream diversion because, where you have no preference status on a raw material but preference status for the downstream products, there is another artificial incentive for downstream production. For that reason as well, we believe that the preferences should be withdrawn from these obviously competitive countries. Thank you, Mr. Chairman.

Senator DANFORTH. Thank you, Mr. Belman.

[The prepared written statement of Mr. Belman follows:]

STATEMENT BY MURRAY J. BELMAN  
THOMPSON & MITCHELL  
COUNSEL FOR COLD FINISHED STEEL BAR INSTITUTE

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE  
SENATE COMMITTEE ON FINANCE

JUNE 17, 1986

Thank you Mr. Chairman for this opportunity to appear before the Subcommittee today to discuss S. 1867. That bill, which also forms Title VI of S. 1860, would require the President to develop and submit legislation withdrawing trade benefits now provided under the Generalized System of Preferences ("GSP") from certain developing countries based upon their per capita income, economic development and ability to compete internationally without preferences. The legislation submitted by the President would specifically be required to cover Hong Kong, Taiwan and the Republic of Korea.

My testimony today, submitted on behalf of the Cold Finished Steel Bar Institute, is in support of S. 1867. I also appear on behalf of the Metalworking Fair Trade Coalition, whose members operate 30,000 plants with two million employees and \$96 billion of annual sales.

Certainly, the general objectives of S. 1867 cannot be considered controversial. Under the present law (19 U.S.C. 2462(c)(2)), the President is already required to consider --

the level of economic development of such country including its per capita gross national product, the living standards of its inhabitants, and any other economic factors which he deems appropriate

in determining whether a country should benefit from GSP. The factors enumerated in S. 1867 plainly fall within the purview of existing law.

S. 1867 goes beyond current law by targeting specific countries for graduation from GSP. To American cold finished bar producers, that element of S. 1867 is well justified in the case of Taiwan and Korea. That conclusion is principally grounded on the manifest ability of both countries to compete in the American market without preference benefits, especially in sophisticated industrial markets like steel and steel-containing products. Under these circumstances, granting GSP treatment to Taiwan and Korea needlessly disadvantages their American competitors. In particular, giving preferences to these countries aggravates the "downstream diversion"



problem that is rapidly growing and is harming a broad spectrum of American manufacturers.

#### Background

Cold finished steel parts are made by processing hot rolled flat or wide flange, usually by drawing it through a die or die. The process takes a very long time and is done with exceptionally accurate tolerances. The drawing process also improves "machinability" characteristics, which permit the part to be further worked by cutting or grinding to produce a vast variety of component parts.

One of the principal uses for cold finished flat is as a feedstock in the screw machine products industry. Screw machine products include pins, nuts, axles, and a host of other "widgets" that become components of virtually every product with moving parts. As a result, cold finished flat can be found in all types of machinery and equipment and in cars, trucks, rotors and machine tools. They are essential in numerous items of defense ordnance.

Under the present law, "import-sensitive steel articles," including cold finished flat, are exempt from GSP. However, virtually every "downstream" steel-containing article is eligible for GSP treatment. Consequently, products competing with those made by the domestic steel industry's customers are entering the United States without duty. In the case of Korea and Taiwan, this duty-free treatment is unjustified.

#### GSP for Korean and Taiwanese Metal Products is Not Justified.

Viewed from the perspective of the metal products they produce, Korea and Taiwan can no longer legitimately be considered to be less developed countries within the objectives of the GSP statute. The record is clear that Taiwan and Korea are sophisticated producers of metal products, machinery and equipment who can effectively compete without preferences:

1. Under current law, a country must be removed from GSP eligibility on particular products when it either supplies more than 50% of the value of total U.S. imports of that product or its imports of the product exceed (for the year 1985) \$69.5 million. Pursuant to that provision, Taiwan has become ineligible for GSP treatment on 56 different items of metal parts, machinery and equipment. In second place is Korea, which has become ineligible for GSP on 25 of the same kinds of items.

The graduation from GSP status in these products has not hurt either country. For example, the value of Korea's exports to the U.S. of various kinds of wire rope grew by between 20% and 50% after GSP status was withdrawn; for data processing equipment, the increase was 65%; and for microwave ovens, it was 138%. Taiwan's exports of pipe and tube fittings doubled under the same circumstances, its sales of data processors rose by 82%, and shipments of calculating machines increased 550%.

These figures show that both countries are now competitive on a very wide range of products without the benefit of preferences.

2. Other analyses confirm that Korea and Taiwan are now among the most competitive foreign suppliers of sophisticated metal products. For example, the competitive assessment of the U.S. forging industry prepared by the International Trade Commission in April 1986 (USITC Pub. 1833) lists Korea as one of the main foreign competitors in forged steel undercarriage components (p. II-11), steel valve forgings (p. V-13) and forged steel transmission parts (p. VI-12). Taiwan is named as a major supplier of steel valve forgings (p. IV-13) and forged steel fittings and castings (p. V-3).

In the ITC's study in January 1986 of the U.S. ball and roller bearing industry (USITC pub. 1797), Taiwan was listed, along with Canada and Italy, as one of the most important new competitors in the American market. Korea was named as a key supplier of mounted ball bearings (pp. 61-62). In 1980, Taiwan was the ninth largest supplier of imported ball and roller bearings (sold separately); by 1984, it had become the sixth largest supplier. In the interim, its dollar sales of those products in the United States increased by more than 1100%. In the same period, Korea grew from a nonsupplier of mounted bearings to the third largest supplier, ahead of West Germany, Canada and Sweden.

The ability of these countries to compete in our market for these highly sophisticated products is very strong evidence of their coming of age and moving out of LDC status.

3. Korea and, especially, Taiwan are fierce competitors in the screw machine and cold heading products markets in the United States. Because most of these products enter as "parts" of various types of machinery and equipment, they are not separately catalogued in our customs statistics. The National Screw Machine Products Association has estimated, however, that imports have approximately doubled since 1979, going from an estimated 8% to something over 15% of the domestic market. At the same time, the prices offered by

Foreign producers range between 15% and 35% below the domestic equivalents. Taiwan and Korea are thought to be key suppliers in the present market.

Physically, certainly, there is a good deal of capital evidence of a growing campaign by producers in Taiwan and Korea to expand their manufacturing facilities. Let me describe an example from the latter effort:

Let us take the difference in labor cost between your plant and, we believe, if you to industrialize in the manufacturing of some of the items which require relatively more of your labor and, if done by your labor, are not as profitable as they have been competition from U.S. manufacturers or from the importers.

In other words, "close your plant and let us make your product for you."

There are not sales efforts mounted by inexperienced, less developed country manufacturers offering simple products. They are a sophisticated campaign to sell sophisticated products. They are not the efforts of the type of country for which CSI was developed.

4. Korea and Taiwan have modern, first-class steel industries. In 1981, Korea shipped 1.9 million tons of steel to the United States, making it the fourth largest foreign supplier in our market behind Japan, Canada and West Germany. Korea and Taiwan were the second and fourth largest suppliers of other steel products.

At least in part to rid itself of several anti-dumping and countervailing duty cases, the Koreans agreed last year to participate in the President's steel program by entering into a Voluntary Restraint Agreement. That undertaking calls for a reduction of Korea's exports of steel mill products by about 10%. Thus, there is every economic incentive for Korean steel producers to process their products further and send them to the United States. As described below, this downstream diversion problem is far from unique to Korea; nevertheless, it will spur the Koreans to make even greater efforts to sell the downstream steel products, machinery and equipment that they are manifestly capable of selling in the United States market.

Taiwan has refused to enter into a Voluntary Restraint Agreement. It is common knowledge, however, that that country is rapidly expanding its steel-making capacity and will be prepared rapidly to increase its present level of

exports to the United States. Again, given the high visibility of the steel trade issue, there are substantial incentives for the Taiwanese to move their new capacity into downstream products now eligible for preference treatment and sell them to the United States.

5. A final point relates to the provision in current law that requires the President, in determining whether to give any country the benefits of GSP, to take into account the extent to which that country has given assurances that it will provide "reasonable access" to its own markets (19 U.S.C. 2462(c)(4)). A look at the ITC's examination of the forging industry sheds some light on this issue as it affects Taiwan and Korea. For example, the report states that "[i]mports into Korea and Taiwan require an import license issued by one of the country's foreign exchange banks" (p.63). Korean and Taiwanese duties on forged steel fittings, hooks, valves, etc. run between 20% and 40%. By contrast, the U.S. duties on these products were not higher than 8% and more frequently were about half that amount. Given these findings, it must be doubted that reasonable access is being given to American producers.

Another issue the President must consider in GSP eligibility determinations is the extent to which a country has given assurances that it will refrain from unreasonable export practices. Based on Commerce Department data, there are now nine antidumping and countervailing duty orders outstanding against Korea and seven against Taiwan. These cases are hardly strong evidence of the restraint required by our law.

In summary, there is every likelihood that Taiwan and Korea will build on their already proven capability to send substantial amounts of steel products, machinery and equipment into the American market. Their production capability, as evidenced by their strong competitiveness in the American market, is simply not at the level of a less developed country. A tariff preference is not justified for those countries, which have repeatedly shown their ability to compete with the most advanced industries in our market.

#### GSP and Downstream Diversion

Giving duty-free treatment to countries that have moved beyond LDC status creates unjustified handicaps for American industries that must meet the foreign competition. In addition, there is a less obvious, but no less injurious result -- encouragement towards downstream diversion. That phenomenon occurs when foreign producers have an artificial economic incentive to process their products further before sending them to this market.

One cause of this diversion is the existence of large dumping or countervailing duties on the "upstream" product. Another can be a duty preference on the downstream, but not the upstream, product.

The overall problem of diversion to downstream products has caused a shrinking of the markets available to American producers, especially in the steel sector. Recent studies indicate that indirect steel trade is largely responsible for lower shipments by domestic steel producers. For example, according to Dr. Milton Lower, the steel contained in imports of products such as automobiles and machinery increased by 136% between 1977 and 1985. Over the same years, the steel content of American exports declined by 17%. As a result, the U.S. went from having a positive trade balance of 3.1 million tons of indirect trade in steel-containing products in 1977 to an indirect steel trade deficit of 6.3 million tons in 1985. In other words, we had an unfavorable shift of 9.4 million tons of steel during those years.

While America's total usage of steel in 1985 was about the same as in 1977 (103.3 million tons vs. 105.3 million tons), apparent domestic consumption of steel products (which is the available market for domestic producers) declined from 108.5 million tons to 97 million tons, a drop of 11%. These changes were in large part due to increases in downstream products imports, from 5.8 million tons in 1977 to 13.7 million tons in 1985. A recent study by the Commerce Department supports Dr. Lower's conclusions.

As noted, the downstream products phenomenon is due to a number of causes. Many foreign steel producers moved downstream when they found their exports to the United States were being curbed by very large dumping or countervailing duties. For that reason, the Cold Finished Steel Bar Institute and other associations of steel and steel product producers have supported legislation to make diversionary dumping actionable under United States law. In addition, the small businesses that compose most of the metalworking industries in the United States strongly support legislation that would create a monitoring program to give early warning against the use of downstream products as vehicles for diversion.

The House recently enacted those provisions as sections 136 and 137 of H.R. 4800. We believe that the antidiversion provision should be among the most noncontroversial in that bill. In 1984, both houses passed bills that would make diversionary dumping actionable; the alternative trade legislation introduced this year by the House Republican leadership also included that provision. In short, there is a long-standing consensus for these provisions.

There can be no doubt that the availability of GSP is another incentive for downgrading investment into steel-containing products, machinery and equipment. Indeed, this is an extremely proper incentive under ordinary circumstances. However, with the erstwhile less developed country having become a strong and recent competitor, the incentive for diversion is no longer justified. Since the evidence is clear that diversion is a serious problem and that the incentives for its expansion are growing in steel and many other commodities, there is even less reason for the continuance of special treatment for Korea and Taiwan.

In conclusion, the evidence bears out the rationale of Section 301, at least with regard to Taiwan and Korea. Both countries have become strong competitors in a wide range of product markets. Both have shown that their trade can prosper without the benefits of preference. In 1967, we had a negative trade balance of \$1.7 billion with Taiwan and \$5 billion with Korea. Under these circumstances, preference status for these countries is no longer justified.

**Senator DANFORTH.** Mr. Nichols, have you discussed your problems with the administration?

**Mr. NICHOLS.** Senator, yes. Of course, we have also filed petitions with the USTR seeking removal of certain countries and products from GSP eligibility.

**Senator DANFORTH.** Removal of the countries or the products?

**Mr. NICHOLS.** The products and the countries. Yes.

**Senator DANFORTH.** What sort of response did you get?

**Mr. NICHOLS.** The interesting thing is that it is a particularly laborious process and an expensive one. There has been one action, and that is that Taiwan would lose eligibility on some certain categories of furniture. So, in that respect, there has been some relief; but it doesn't stop there. We have significant problems with Yugoslavia; and further, that decision of lost GSP eligibility for Taiwan is not permanent, by any stretch of the imagination. It could be reversed at some point in time.

So, maybe we feel a slight sense of relief, but we have got significant problems with many other nations and we need more permanent relief, in our view.

**Senator DANFORTH.** All right. Mr. Belman, how would your problems be solved? You are here to support the bill; is that right?

**Mr. BELMAN.** Yes, Mr. Chairman.

**Senator DANFORTH.** And short of graduation of the whole country, can you be helped at all?

**Mr. BELMAN.** The problem with the graduation situation now is that I think there are 500 different tariff classifications just in the downstream metal-containing products. And Taiwan has been graduated on 56 products and Korea on 25. We have that test built into the law. At some point, a country become competitive enough so that you no longer can justify giving that country preference status on any product because, after all, preferences were aimed to begin with to make LDC's more competitive. Korea and Taiwan have shown that they are as competitive as anyone else in the world.

This is not a case, Mr. Chairman, where if you remove the preference, the benefits would go to Japan or Canada or anybody else—these countries without the preference, are already more competitive than most countries.

Senator DANFORTH. Senator Baucus.

Senator BAUCUS. Gentlemen, what do you say in response to using this as a leveraging tool?

Mr. NICHOLS. Senator Baucus, I don't agree at all with it. In my statement, I stated that the intent and purpose of GSP was not to be used as a lever in trade negotiations. I think that clearly the congressional intent is not there; market access is an issue that should be discussed, but GSP benefits should not be used as a lever, in our view.

Senator BAUCUS. Mr. Belman.

Mr. BELMAN. I would agree with that. Whatever the objectives of the preferences are, they do have a benefit. Any time you accord somebody a benefit, that gives you leverage. I am not sure how effective that leverage has been, but in any case, it is circular logic to give people benefits they don't deserve simply to have leverage over them to make them play by the rules.

Senator BAUCUS. So, you think it ought to be graduated on its own merits and not be used as a kind of leverage?

Mr. BELMAN. Absolutely.

Senator BAUCUS. Do either of you have any studies showing what the cost differential would be in your industries if products from competitive countries are graduated? What is going to happen to you? How is that going to affect you? We know the theory, but what is the bottom line?

Mr. BELMAN. In preparation for this hearing, I did take a look at the tariffs that are now in effect, and they run between a high end of 13 percent—and this is just in the metal area—13 down to two or two and a half—something like that. So, graduation would give that benefit. You would also get the benefit of whatever elimination of incentives preferences give to the downstream diversion that we talked about.

And you would get recognition by everybody concerned that competitive status has been reached by these countries; and maybe this is the most important.

Senator BAUCUS. What I am trying to get at is whether it is a major difference with your industry or your firm, or a minor difference. What is the net effect it would have? Articulate it the best you can for me.

Mr. NICHOLS. Senator, we have been both general and specific. There has been a significant impact on my industry. We have seen a restructuring of our industry, a significant loss of jobs, and bankruptcies at an unprecedented rate. While duties may range in the 5 or 6 percent range, that is enough. There is so much price pressure in our industry.

We have watched a number of industries—a number of industry members—unable to compete in the marketplace because of that differential.

Senator BAUCUS. Is this because of the institution of GSP?

Mr. NICHOLS. We believe so. That has been a significant factor. Those countries, for example, Yugoslavia has made a significant

difference in the amount of product our domestic producers are able to produce. And in fact, the result is that we have lost significant jobs and find ourselves exporting our jobs and importing their furniture.

Senator BAUCUS. Can you state unequivocally that the loss of jobs in your industry has a direct correlation to the institution of GSP?

Mr. NICHOLS. I would absolutely say that is a significant factor—without question. Yes.

Senator BAUCUS. No more questions.

Senator DANFORTH. Gentlemen, thank you very much.

Next, we have a panel of Susan Kraus, on behalf of the GSP Coalition of U.S. Businesses; Stanley Gortikov, on behalf of the International Intellectual Property Alliance; Italo Ablondi, Counsel of the Board of Foreign Trade of the Republic of China on Taiwan; and Curts Cooke, executive vice president and chief financial officer of Russ Berrie and Co. Ms. Kraus, please proceed.

**STATEMENT OF SUSAN J. KRAUS, ASSISTANT LEGAL COUNSEL,  
KENNER PARKER TOYS, INC., CINCINNATI, OH; ON BEHALF OF  
THE GSP COALITION OF U.S. BUSINESSES**

Ms. KRAUS. I am Susan Kraus, assistant legal counsel for Kenner Parker Toys, and I am here to address the subcommittee on behalf of the GSP Coalition of U.S. Businesses whose members include, in addition to Kenner, Baxter Travenol, Combustion Engineering, Philip Morris, and Westinghouse. The coalition members are major U.S. manufacturers employing 275,000 American workers. We accounted for a combined \$32 billion in total sales last year with exports of \$2.6 billion.

The coalition opposes Senate bill 1867 which would require the wholesale graduation of selected beneficiary countries. The coalition wishes to note that the Toy Manufacturers Association and the American Association of Exporters and Importers have also submitted statements expressing their strong opposition to Senate bill 1867.

I want to make it clear that we do not oppose the concept of graduation per se. The coalition believes that the product-specific graduation mechanism provided for under the current law is a far better approach than mandatory country graduation and responds best to the product-specific concerns that we have just heard. The coalition believes that Senate bill 1867 would damage U.S. business interests in several ways.

First, it would undermine the leverage built into the ongoing general review of the GSP program. Second, it would increase costs to U.S. manufacturers who rely on GSP-free imports to maintain their international competitiveness. Finally, it would jeopardize U.S. manufacturers' efforts to secure major export contracts. I would like to briefly outline why we believe that Senate bill 1867 would produce these results.

In renewing the GSP program in 1984, Congress directed the President to do a complete reassessment of each country's GSP benefits based on the consideration of a number of factors including two of direct interest to the coalition: market access consider-



ations and intellectual property rights protection. In our view, the bilateral consultations that have been taking place under the context of the general review constitute an important opportunity for achieving significant improvements in these areas and should not be preempted.

The ability of U.S. manufacturers such as Kenner products and Baxter Travenol to import components and other products GSP-free has been critical to our efforts to compete in end product markets. I want to stress that the decisions made by these companies to source outside the United States were not made at the expense of U.S. workers. The cost differential is so great that even if GSP treatment was removed, neither company could rationalize moving the product manufacturing back to the United States. Additionally, the termination of GSP status for the most advanced beneficiary countries would not cause either firm to shift to suppliers in lesser developed countries due to problems with quality, delays, and lack of skilled work force.

In the event that Senate bill 1867 becomes law, Kenner would be likely to continue to source from the advanced beneficiary countries, but this would result in an unnecessary increase in consumer cost. Baxter Travenol would be forced to examine the cost effectiveness of its Singapore operations, but its alternative sources would be limited to Japanese and European suppliers. These examples are consistent with the ITC study which concluded that countries benefitting most from the graduation of advanced beneficiary countries are other advanced beneficiaries and developed countries.

Despite intense competition from suppliers in other industrialized companies, U.S. firms have been successful in securing a number of major industrial or infrastructurally related project contracts in GSP beneficiary countries. However, mandatory graduation of particular countries would undoubtedly adversely affect the willingness of the affected countries to award such contracts to U.S. firms.

For example, the Korea Electric Power Corp. is evaluating bids for major components of two new nuclear power plants. Several U.S. firms, including Combustion Engineering and Westinghouse, have bids on this project, and they are competing against French and Canadian firms. Korea faces no danger of discontinued GSP status under the European Community and Canadian GSP schemes. Thus, Senate bill 1867 clearly would worsen the competitive climate for the U.S. firms bidding on this particular project.

The entire GSP program is currently in the midst of a major restructuring and review, to be completed by January of next year. The coalition believes that shortcircuiting this process through mandatory graduation of individual countries required under Senate bill 1867 would be a great disservice to the U.S. business community and to the economy as a whole. Thank you.

Senator DANFORTH. Thank you. Mr. Gortikov?

[The prepared written statement of Ms. Kraus follows:]

**Testimony of the GSP Coalition of U.S. Businesses  
Before the International Trade Subcommittee  
of the Senate Finance Committee  
June 17, 1986**

I am Susan Kraus, Assistant Legal Counsel for Kenner Parker Toys, and I am here to address the Subcommittee on behalf of the GSP Coalition of U.S. Businesses. The Coalition opposes S. 1867, which would result in the wholesale graduation of selected beneficiary countries. It is our strong belief that this action would be detrimental to major segments of the U.S. business community.

In addition to Kenner, the GSP Coalition of U.S. Businesses includes Baxter Travenol, Combustion Engineering, Philip Morris, and Westinghouse. We are all major U.S. manufacturers, employing 275,000 American workers. We accounted for a combined \$12.0 billion in total sales last year, with exports of \$2.6 billion.

Before discussing the reasons for the Coalition's position on S. 1867, I would like to emphasize that we do not oppose the concept of graduation per se. We believe that the product-specific graduation provided for under the program's original authorization, which was further strengthened by the Congress in 1984, is a critical component of the GSP program. The current product-specific approach not only represents a measured response to the pattern of economic development in beneficiary countries, it also complements and enhances the economic interests of the U.S. business community.

S. 1867 appears to be based on the belief that certain of the more advanced beneficiary countries no longer need preferential treatment in order to compete in the U.S. market. The Coalition believes that this viewpoint overlooks the very important stake of U.S. business in the GSP, and in particular the maintenance of GSP status for the more advanced beneficiary countries.

The wholesale graduation of Taiwan, Korea, Hong Kong and other countries that might fall within the scope of S. 1867 would damage U.S. business interests in several ways. First, it would undermine the leverage built into the ongoing General Review of the GSP program and thereby nullify a significant opportunity for obtaining major improvements in beneficiary country trade practices. Second, it would increase costs to U.S. manufacturers which rely on GSP-free imports in certain product lines to maintain their international competitiveness. Finally, it would needlessly disrupt the general business climate in key beneficiary countries and endanger U.S. manufacturers' efforts to secure major export contracts.

**S. 1867 Would Undermine the Negotiating Leverage Provided  
In the Ongoing General Review**

The Congress mandated a bold reorientation of the GSP program in its 1984 renewal of the GSP's statutory authority. Title V of the Trade and Tariff Act of 1984 directs the President to complete a "General Review" of the program by January 3, 1987 involving a complete reassessment of the benefits granted to each beneficiary country (19 U.S.C. 2464(c)(2), as amended by Pub.L. 98-573, Title V, Section 505, Oct. 30, 1984, 98 Stat. 3020). In this reassessment, the President is required to take into consideration a number of factors including not only traditional GSP criteria such as the impact of GSP treatment on relevant U.S. industries and a country's competitiveness in individual products, but also the following factors relating to the trade practices in beneficiary countries:

*the extent to which the beneficiary developing country has assured the United States that such country will provide equitable and reasonable access to the markets and basic commodity resources of such country and the extent to which such country has assured the United States it will refrain from engaging in unreasonable export practices;*

*the extent to which such country is providing adequate and effective means under its laws for foreign nationals to secure, to exercise, and to enforce exclusive rights in intellectual property, including patents, trademarks, and copyrights;*

*the extent to which such country has taken action to (a) reduce trade distorting investment practices and policies (including export performance requirements) and (b) reduce or eliminate barriers to trade in services; and*

*whether or not such country has taken or is taking steps to afford to workers in that country (including any designated zone in that country) internationally recognized workers rights. (19 U.S.C. 2462(c)(4-7))*

Of these criteria, two are of particular importance to members of the Coalition and, we believe, the U.S. business community as a whole -- market access and intellectual property rights. In our view, the bilateral consultations that have been taking place under the context of the General Review constitute an important opportunity for achieving significant improvements in these areas.

In the area of market access, the United States presented in late April and early May its requests under the General Review

for specific measures to improve access to the markets of those beneficiaries that could be affected by S. 1867. It is our understanding that the requests embodied reductions in both tariff and non-tariff barriers and were based primarily on submissions made by U.S. businesses in response to a solicitation by the interagency Trade Policy Staff Committee last summer.

Not surprisingly, the submissions made by the U.S. business community focused primarily on the more advanced beneficiary countries. These countries provide the greatest growth potential for U.S. exports not only among developing countries, but on a global basis as well. It is also important to note that for some of the liberalizations sought by U.S. businesses (e.g., reductions in GATT-bound tariffs), the ongoing GSP consultations represent the only formal channel currently available for seeking the desired changes.

Since U.S. requests on market access issues were tabled only recently, it will not be possible to gauge the effectiveness of the GSP's leverage in this area until bilateral consultations are completed later this summer. Given the importance of these issues to the U.S. business community, the Coalition feels the Congress should avoid any preemptive action in the meantime.

Regarding the protection of U.S. intellectual property, the other major area of importance to the Coalition, we believe that positive indications of the effectiveness of the GSP's new leverage already exist. At the outset we should note that, for many countries, the consultations are still continuing and the results reached to date are incomplete. Nonetheless, we are optimistic that the beneficiary countries of concern will continue to see the actions requested of them as being in their self interest and feel that the immediacy of the ongoing General Review provides a strong incentive to redress U.S. grievances quickly.

As is the case in market access issues, the importance of the GSP's leverage in intellectual property is most critical with respect to some of the countries that could be affected by S. 1867. The recent positive developments in these countries include:

-- Taiwan's passage of an improved copyright law in July 1985. Taiwan has also agreed to make two other modifications long advocated by the United States: to amend its patent law to provide compound per se protection for chemicals and pharmaceuticals and to enact anticounterfeiting legislation. Bills on both these subjects have been introduced and are expected to be enacted this year.

-- Korea's interest in seeking an early resolution of the copyright, patent and trademark issues covered under the ongoing

section 301 investigation so as to have its actions taken into account in the GSP General Review.

-- Singapore's introduction in March of a new bill that will significantly strengthen its protection of copyrights.

In summary, the GSP's new leverage as employed in the ongoing General Review has given the United States a vital new mechanism for influencing beneficiary country policies and has already been instrumental in the intellectual property area. We are also encouraged by the reported willingness of government officials in the beneficiary countries of concern to discuss seriously those intellectual and market access issues that remain outstanding.

S. 1867 Would Impair the International Competitiveness of U.S. Manufacturers

The GSP has made an important contribution to many sectors of the U.S. business community that are struggling to keep abreast of intense competition from Japan and other industrialized countries. The ability of many U.S. manufacturers to import components and other products GSP-free has been critical to their efforts to remain competitive in end-product markets. Here, as is the case with the GSP's leveraging mechanism, the countries of primary concern are those threatened by S. 1867.

Kenner Parker Toys and Baxter Travenol, members of the Coalition, illustrate the role of the GSP in enhancing the competitiveness of U.S. companies. Kenner, like the U.S. toy industry generally, sources from abroad virtually all toys that are produced through labor-intensive processes but retains extensive domestic operations in areas such as product design, finishing operations, packaging and marketing.

Because of the high quality demanded of the product and the need to find reliable foreign suppliers capable of responding to frequent design and style changes, Kenner relies almost exclusively on the more advanced GSP beneficiaries. Denial of GSP treatment for Hong Kong, Taiwan and Korea would impair Kenner's ability to compete not only in the United States, but also in important export markets. As such, S. 1867 poses a direct threat to Kenner's U.S. operations and employment.

Baxter Travenol relies on GSP-free imports to complement one of its domestically-manufactured product lines. It has been producing intravenous and blood administration sets in Singapore since 1978 through a wholly-owned subsidiary and has been importing the majority of these sets GSP-free into the United States. These sets have enabled Baxter Travenol to offer a full line of administration sets at the lowest possible price to the

U.S. consumer. Without GSP-free treatment for these imports, Baxter Travenol's ability to do this, as well as its ability to make optimal use of its investment in Singapore, would be impaired.

It is important to note some of the economic factors underlying both of these case studies. First, the decisions to source from GSP beneficiaries were not made at the expense of U.S. production and workers. The cost differential for these products is such that, even if GSP treatment were to be revoked, neither Kenner nor Baxter Travenol could rationalize moving the products' manufacture to U.S. facilities.

Second, the termination of GSP status for the countries at issue would not cause either firm to shift to suppliers in lesser developed beneficiary countries. Kenner, for example, has occasionally experimented with suppliers in such countries, which often have substantially lower labor costs. However, Kenner consistently has encountered major problems with such countries' ability to supply a quality product with limited lead-time and has always returned to Hong Kong, Taiwan, Korea and, to a lesser extent, Mexico. In fact, Kenner will continue to source from these countries regardless of the outcome of S. 1867. However, passage of S. 1867 would needlessly increase product costs to Kenner and the rest of the U.S. toy industry and thereby jeopardize the industry's competitiveness vis-a-vis foreign suppliers.

For Baxter Travenol, the situation is different in that the loss of duty-free GSP treatment for Singapore could precipitate a reexamination of suppliers despite the substantial investment the company has made in its Singapore operation. However, like Kenner, the options would not include sourcing either domestically or from lesser developed beneficiaries. Because the manufacture of intravenous administration sets requires access to a skilled workforce and a highly-developed transportation network, the only alternatives would be Japanese or possibly European suppliers.

These examples are supported by the most recent government study on the impact of graduation on trade flows. In its 1983 report, the U.S. International Trade Commission examined 275 instances in which advanced beneficiary countries were removed from GSP eligibility for particular products (Changes in Import Trends Resulting from Excluding Selected Imports from Certain Countries from the GSP, May 1983, USITC Publication 1384). The USITC concluded that the countries benefitting most from the exclusions were developed countries and other advanced beneficiary countries -- not lesser developed countries.

S. 1867 Would Disrupt the Business Climate in Key Export Markets

The continued economic development of beneficiary countries threatened by S. 1867 depends on the successful completion of major industrial or infrastructure-related projects of critical interest to U.S. exporters. Despite intense competition from suppliers in other industrialized countries, U.S. firms have been successful in securing several such contracts. However, the wholesale graduation of these countries from the U.S. GSP program would almost certainly negatively affect the ability and willingness of beneficiary countries to award future contracts to U.S. firms.

For example, Korea has initiated several major energy development projects in the past ten years, and U.S. firms have won contracts for a substantial amount of work on these projects. Currently, the Korea Electric Power Corporation (KEPCO) is evaluating bids for the nuclear steam supply system, fuel and technology transfer necessary to build Korean Nuclear Units 11 and 12. Several U.S. firms including two members of the Coalition, Combustion Engineering and Westinghouse, have bid on this project.

Also bidding on this project are a number of firms from other industrialized countries, including France and Canada. Domestic firms are vulnerable to any actions by the U.S. government that Korea would perceive as discriminatory. Given that Korea faces no danger of discontinued beneficiary status under the EC and Canadian GSP programs, S. 1867 clearly threatens the competitiveness of the U.S. companies bidding on the KEPCO project.

The Coalition believes that it would be impossible to implement S. 1867 in a manner that avoids major disruptions in bilateral trade relations between the United States and affected countries. First, the advanced beneficiaries repeatedly have made clear the enormous importance they attach to beneficiary status under the U.S. GSP program. Second, any "objective" criteria established for country graduation will inevitably be perceived as discriminatory. For example, while the beneficiaries cited in S. 1867 were the top three beneficiaries in terms of GSP import volume at the time the bill was drafted, Hong Kong has now dropped to fifth position behind Brazil and Mexico. Yet, any effort to graduate the latter two countries will be complicated by policy considerations such as the implications for foreign debt. Additional problems are presented by approaching graduation on the basis of per capita GNP (a factor listed in S. 1867) given that Korea has a relatively low ranking on that basis, falling below countries such as Argentina, Mexico, Venezuela and Yugoslavia.

### Conclusion

The entire GSP program is currently in the midst of a reevaluation and restructuring through the General Review mandated by Congress in 1984. Over 130 U.S. businesses and business groups have been actively participating in this review and have a significant stake in its outcome.

It is anticipated that the General Review will result in tangible benefits for U.S. exporters and businesses concerned about the protection of intellectual property. It is also anticipated that this process will lead to further product-specific graduation of advanced beneficiary countries in a manner that complements the interests of U.S. manufacturers.

Shortcircuiting this process through the legislated graduation of individual countries would be a great disservice to the U.S. business community and would not benefit the U.S. economy as a whole. The GSP Coalition of U.S. Businesses urges that Congress allow the President to complete the General Review of the GSP program as originally envisaged.

### **STATEMENT OF STANLEY GORTIKOV, PRESIDENT, RECORDING INDUSTRY ASSOCIATION OF AMERICA, NEW YORK, NY; ON BEHALF OF THE INTERNATIONAL INTELLECTUAL PROPERTY ALLIANCE**

Mr. GORTIKOV. Thank you, Mr. Chairman. I am Stanley Gortikov, president of the Recording Industry Association of America. I speak on behalf of the International Intellectual Property Alliance, which is an umbrella organization representing seven trade associations from America's copyright community. We support the generalized system of preferences program. The GSP Renewal Act amended the program to tie to GSP benefits to adequate and effective protection for intellectual property.

That legislation has provided our copyright industries the opportunity to effect needed changes in the intellectual property laws and policies of developing nations. The alliance has fully utilized the tools provided by the GSP Renewal Act. Here is what we have done.

We filed a major study with USTR on the piracy of U.S. copyrighted works in 10 selected countries. We actively participated in the first annual product review under the GSP Program. We have consulted regularly with the USTR staff concerning intellectual property discussions with foreign countries, particularly with respect to Korea, Singapore, and Indonesia. Because Indonesia has failed to take any actions to protect American copyrighted works, we recently filed a petition with USTR seeking Indonesia's dedesignation as an eligible beneficiary developing country. As that petition points out, Indonesia is a major source of pirate products, provides absolutely no copyright protection for foreign nationals. Just last month in New York, a principal of an Indonesian company was convicted of six felony counts of copyright infringement in violation of the U.S. Customs laws for importing pirate tape recordings.



The defendant indicated that his company had the capacity to produce over 2 million infringing tapes per month. Testimony and audio tapes introduced at the trial showed that an Indonesian diplomat stationed in New York played a central role in the illegal activity, and that diplomatic privileges were abused. I am proud to say that my own organization's antipiracy operation, posing as businessmen, were instrumental in uncovering the operation.

The prominence of intellectual property in the GSP Renewal Act, plus the actions of the administration, and the activities of the private sector appear to be having the desired effect. Perhaps the best example of this is the case history of Singapore. This country is now considering legislation that will radically overhaul and modernize its domestic copyright law, largely in response to the encouragement of the U.S. Government.

As indicated in my written testimony, although we were very pleased that the legislative process had begun in Singapore, we were very concerned that the Singapore Government would not make a public commitment that U.S. works would be available for protection under Singapore's new law. After all, the enactment of a new copyright regime in Singapore would not be of much use to U.S. creators and copyright owners if they could not qualify for its benefits.

I am pleased to report that this problem has been resolved. Just last week, the Ambassador to the United States from Singapore communicated to the U.S. Government the commitment of the Government of Singapore to enter into a bilateral treaty with the United States granting eligibility to U.S. works by no later than January 1987 as an interim measure pending Singapore's adherence to the Universal Copyright Convention. We are delighted that this major obstacle to copyright relations between the United States and Singapore has now been eliminated, and we commend the Government of Singapore for the spirit of cooperation that has led to this resolution.

While there are still some open issues between us regarding the content of the new Singapore law, we are confident that these points can be resolved in the same amicable fashion that marked Singapore's efforts in recent months to bring its domestic laws into accord with internationally accepted standards for protection of intellectual property.

Our experience with Singapore and other developing countries, that have at long last been attentive and responsive to U.S. concerns about intellectual property protection, exemplify why we support the continuation of the GSP Program and oppose the graduation of advanced developing countries.

It is possible that the carrots and sticks of the GSP Program will not actually result in adequate and effective protection for intellectual property in a particular beneficiary country. If and when that occurs, we will be the first to petition for dedesignation. By the same token, however, if a country does enact adequate and effective laws and enforces those laws, we believe that such a country should not be graduated from the program. Thank you.

Senator DANFORTH. Thank you, sir. Mr. Ablondi?

[The prepared written statement of Mr. Gortikov follows:]

TESTIMONY OF STANLEY M. GORTIKOV  
PRESIDENT, RECORDING INDUSTRY ASSOCIATION OF AMERICA  
ON BEHALF OF  
THE INTERNATIONAL INTELLECTUAL PROPERTY ALLIANCE  
BEFORE THE  
SUBCOMMITTEE ON INTERNATIONAL TRADE  
SENATE FINANCE COMMITTEE

JUNE 17, 1986

My name is Stanley M. Gortikov. I am President of the Recording Industry Association of America (RIAA), a trade association whose member companies create and market approximately 85 percent of the prerecorded discs and tapes that are sold in the United States.

I am testifying today on behalf of the International Intellectual Property Alliance, an umbrella organization representing seven trade associations, each of which in turn represents a significant segment of the copyright community. The Alliance consists of:

- ADAPSO: The Computer Software and Services Industry Association
- The American Film Marketing Association (AFMA)
- The Association of American Publishers (AAP)
- The Computer and Business Equipment Manufacturers Association (CBEMA)
- The Motion Picture Association of America (MPAA)
- The National Music Publishers' Association (NMPA)
- The Recording Industry Association of America (RIAA)

Because the viability of each of our industries depends on adequate and effective worldwide copyright protection for the products we produce -- books, movies, sound recordings, and computer software -- these associations joined together in the fall of 1984, while Congress was considering the reauthorization of the Generalized System of Preferences law and other trade matters. We worked with you, Mr. Chairman, your colleagues on the Committee and in the Congress, and numerous agencies in the Executive Branch to ensure that adequate and effective protection for intellectual property was recognized as a necessary component of a healthy trading environment and included among the criteria for certification under the GSP Renewal Act, and we worked for passage of the Act.

#### The Alliance Position

We are here today to support the GSP program. The International Intellectual Property Alliance is interested in GSP because it has provided America's copyright industries with the opportunity to effect needed changes in the intellectual property laws and policies of developing nations. As we describe below, we have fully utilized the tools provided by the GSP Renewal Act, and we intend to continue to do so. Our most recent action was to file a petition with USTR

seeking the de-designation of the Republic of Indonesia as a beneficiary of the GSP program.

The prominence of intellectual property in the GSP Renewal Act appears to be having the desired effect. Many developing countries have at long last become attentive and responsive to America's concerns about intellectual property protection. For that reason, we support continuation of the GSP program and oppose the graduation of advanced developing countries. Where the "carrots" and "sticks" of the GSP program do not actually result in adequate and effective protection for intellectual property in a particular beneficiary country, we will be the first to petition for de-designation. By the same token, however, if a country does enact adequate and effective laws and it enforces those laws, we believe that that country should not be graduated from the program.

#### The GSP Program

As you know, the GSP program was first enacted by Congress under the Trade Act of 1974 and authorizes duty-free entry into the U.S. to approximately 3,000 categories of products originating in 140 developing countries. The purpose of the program is to encourage broad-based sustained economic growth in developing countries, which in turn will benefit the United States

through increased export trading opportunities. Pursuant to a waiver to the General Agreement on Tariffs and Trade (GATT), preferential treatment for developing countries was expressly permitted as an exception to the "most favored nation" principle upon which that Agreement is based. As measured by the increase in bilateral trade between the United States and the GSP beneficiary countries, the program seems to be working.

Duty-free import preferences are important to developing countries and particularly to those advanced developing countries which are also major sources of counterfeit and pirate goods. In other words, the very countries to which we are extending substantial and significant preferential trade benefits are simultaneously denying to American creators and copyright owners the legal rights and enforcement necessary to protect their intellectual property. For example, 1985 imports under GSP from Taiwan were more than \$3.2 billion. Of the total \$13 billion in GSP imports from all countries in 1985, 70% benefited six countries -- Taiwan, Korea, Hong Kong, Mexico, Brazil and Singapore, four of which are significant sources of pirated goods.

### The GSP Renewal Act

In general, the 1984 amendments to the GSP program contained in the GSP Renewal Act tie duty-free import privileges to whether a particular country gives "adequate and effective protection" to intellectual property. Where a particular country does not have an adequate patent, copyright or trademark law, or where enforcement is ineffective, the President may, under certain circumstances, either remove that country from the list of beneficiaries of the GSP program or reduce the benefits extended to it.

The GSP program contains both "carrots" and "sticks" designed to encourage improvements in intellectual property protection. Specifically, the GSP program helps to ensure intellectual property protection in several ways:

First, in order to be designated as a beneficiary country, a country must meet certain mandatory criteria. The Renewal Act amended these criteria to make specific reference to intellectual property so that any country which expropriates or seizes control of property protected by patents, copyrights of trademarks, or takes steps the effect of which are to do so, shall not be designated or shall be de-designated. Moreover, even where the mandatory criteria have been satisfied, under a new discretionary criterion enacted as part of the

Renewal Act, the President may refuse to designate or may terminate or suspend the designation of a country after taking into account the extent to which such country provides adequate and effective protection for intellectual property.

Second, the President has authority to limit GSP benefits to countries on a product-by-product basis, and must review product eligibility annually. The President may now limit GSP benefits on any product where a country's intellectual property protection is inadequate, and after January 4, 1987, he will be able to waive mandatory reduction of GSP benefits on a product (for exceeding competitive need limits) where, among other factors, a country has succeeded in protecting intellectual property.

Third, the Renewal Act provides for halving of the current competitive need limits in cases where the President determines that a country is sufficiently competitive relative to other beneficiaries. The President must take into account adequacy of intellectual property protection in deciding whether to reduce these limits. The President can waive the reduction of the limits where, in addition to other factors, a country has shown improvements in intellectual property protection.



Utilization of the GSP Renewal Act to  
Improve Intellectual Property Protection

The International Intellectual Property Alliance has not hesitated to take full advantage of the tools provided by the GSP Renewal Act. The Alliance, its member trade associations, and their member companies, have participated fully and actively in the proceedings and actions undertaken by the U.S. Trade Representative concerning the GSP program.

Let me cite a few examples. First, to assist USTR in preparing its October 1985 Annual Report on National Trade Estimates, which identified and analyzed acts, policies and practices of foreign governments which distort exports of U.S. goods and services,<sup>1</sup> the Alliance prepared and submitted to USTR a major study on Piracy of U.S. Copyrighted Works in Ten Selected Countries. The Alliance analyzed the laws, enforcement policies and piratical practices of Singapore, Taiwan, Indonesia, Korea, the Philippines, Malaysia, Thailand, Brazil, Egypt and Nigeria. It found that the ten countries addressed in the report accounted for over \$1.3 billion in trade losses to the United States annually as a result of failure to provide adequate and effective protection to U.S. copyrighted works.

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<sup>1</sup> That USTR report was required by section 303 of the Trade and Tariff Act of 1984.

Estimated losses to the recording and music industry were over \$600 million annually, to book publishing, over \$400 million, to the movie industry, over \$130 million, and to the computer software industry, over \$125 million.

Second, the Alliance also actively participated in the first annual product review. Townsend W. Hoopes, then President of AAP, Jack Valenti, President of MPAA, and Robert Summer, then President of RCA Records and Chairman of RIAA, all testified before USTR regarding country practices in June 1985. Jack Valenti, and Jerry Dreier, President of ADAPSO, also testified last fall on the issue of competitive need waivers.

Third, the Alliance submitted comments to USTR in July 1985 on USTR's proposed GSP regulations. As a result, USTR modified its proposed regulations to allow intellectual property owners to initiate reviews of country eligibility and have their views formally considered during product reviews.

Fourth, earlier this month we filed a petition with USTR requesting de-designation of the Republic of Indonesia as an eligible beneficiary developing country. As that petition points out, Indonesia is a major source of pirate products, and provides absolutely no copyright protection for foreign nationals. Just last month in New York, a principal of an Indonesian company was

convicted of six felony counts of copyright infringement and violation of U.S. Customs laws, for importing pirate tape recordings. The defendant indicated that his company had the capacity to produce over two million infringing tapes per month. Believe it or not, those pirate tapes entered the United States duty free under the GSP program. Testimony and audio tapes introduced at trial showed that an Indonesian diplomat stationed in New York -- an unindicted co-conspirator -- played a central role in the illegal activity, and that diplomatic privileges were abused. I am proud to say that RIAA Anti-Piracy undercover operatives posing as businessmen were instrumental in uncovering the operation. I am submitting for the record a copy of the petition, which includes a few interesting documents which detail the nature and scope of that operation.

Fifth, the Alliance has regularly consulted with USTR staff concerning intellectual property discussions with foreign countries. We have consulted with USTR staff both before and after discussions to ensure that our voice is heard. We have provided information and counsel on the negotiations with Korea, which have proceeded largely in the context of a Section 301 proceeding but which have obvious implications for Korea's GSP benefits. And our activities, we believe,

have led to progress in countries such as Malaysia, which is now considering a new draft copyright law.

We have been particularly interested in events in Singapore, which has at long last begun to process legislation to improve its copyright law. We have been told that Singapore could enact a law by this October. We have provided comments and analysis on that law to USTR, the Department of Commerce, the Copyright Office and the State Department, and we have also provided input directly to the Singapore Government. We have previously traveled to Singapore to express our convictions, and we intend to testify before the Singapore legislature when it considers the bill. The present draft law is not perfect by any means, but there has been significant progress, and we have been pressing for -- and are expecting -- additional improvements. In particular, we have been very disappointed that a public commitment has not been forthcoming from the Singapore Government that U.S. works will be eligible for protection under its new law. Obviously, the enactment of a new copyright regime in Singapore will not be of much use to U.S. creators and copyright owners if they cannot qualify for its benefits. We hope that we will not need to recommend that GSP benefits be denied to Singapore because of its refusal to take this important step toward establishing copyright relations between our

countries. It is essential that the Government of Singapore commit itself clearly and unequivocally to affording full eligibility to existing and new U.S. works under its proposed new copyright law.

The Office of the United States Trade Representative has recognized the importance of intellectual property to the U.S. economy and has demonstrated a conviction that GSP benefits should be tied closely to intellectual property protection. The true test, of course, will be whether USTR follows through and exercises the tools granted to it by Congress. At the moment at least, the jury is still out, but we believe the Administration has been moving in the right direction. We are closely monitoring developments in Singapore, South Korea, Taiwan and Malaysia to see what effect negotiations will have. We certainly expect USTR to act against Indonesia, as authorized by law, as well as against other countries if progress is not forthcoming.

#### Graduation of Advanced Developing Countries

We understand that some in Congress would like to see the benefits of the GSP program removed from several of the advanced developing countries, such as Taiwan, Hong Kong and Korea, as reflected in pending bills such as S. 1867 and Title VI of S. 1860. But for the very

same reasons that the International Intellectual Property Alliance lobbied against tightening graduation limits in 1984, we must still oppose it today. As noted above, the world's advanced developing countries are among the major sources of counterfeited and pirated goods, and are also the major beneficiaries of GSP. The GSP program, as amended in 1984, provides the intellectual property community the visibility, opportunity and leverage that we have needed for so long to effect change in the laws of the developing nations of the world. Thus we urge the Congress not to graduate the advanced developing nations from the program.

This is not to say, however, that we will maintain this position if the apparent leverage of the GSP program does not result in adequate and effective protection for U.S. intellectual property. To the contrary, we will be the first to urge that those countries which have failed to make progress on intellectual property protection -- like Indonesia -- should be denied the benefits of the program. By the same token, however, we believe that if the "carrot," as well as the "stick," is to have continued beneficial effect, then those countries which have responded to U.S. entreaties and enacted, and enforced, "adequate and effective" intellectual property laws, should be permitted to continue as beneficiaries under the

program. To graduate such countries from the program would amount to a breach of faith by the United States.

We are grateful for the opportunity to present our views on the GSP program, and we would be delighted to continue working with the Congress to see that the program works in a beneficial manner.

**STATEMENT OF ITALO ABLONDI, PARTNER, ABLONDI & FOSTER, WASHINGTON, DC, COUNSEL TO THE BOARD OF FOREIGN TRADE OF THE REPUBLIC OF CHINA ON TAIWAN**

Mr. ABLONDI. Thank you, Mr. Chairman. In order to save the committee time, I will digress from my statement and perhaps address an anticipated question from the committee regarding leverage. Taiwan, prior to the 1984 act, had a working dialog with the USTR concerning worker rights, protection of intellectual property rights, market access, and reduced tariffs. Since passage of the Trade Act of 1984, we believe that this dialog between the USTR and Taiwan has increased.

We believe that there is a considerable increase in intellectual property protection in Taiwan. Taiwan has passed worker rights legislation. It has increased market access to U.S. products, in cigarettes, wine, and beer. It has entered into discussion for continued purchase of U.S. agricultural products. We believe in this regard that the GSP Program has worked. It has enabled Taiwan to become the second largest purchaser of U.S. barley in the world, the third largest purchaser of U.S. corn in the world, the fourth largest purchaser of U.S. soybean in the world, the sixth largest purchaser of U.S. sorghum in the world.

Taiwan purchased 114 million bushels of wheat. It purchases other U.S. agricultural products, such as wheat, cattle hides, orange juice, grapes—I could go on. Taiwan has been spurred in this regard. It almost has a buy-American program. The surplus which Taiwan has benefited from in the last few years has enabled it to increase its purchases of U.S. products.

We believe that Taiwan has proceeded in good faith under the 1984 act, and we would regret any abrupt cancellation of the mutual benefits which we have worked for under the 1984 act. I thank you, Mr. Chairman.

Senator DANFORTH. Thank you, Mr. Ablondi. Mr. Cooke.  
[The prepared written statement of Mr. Ablondi follows:]

STATEMENT OF THE BOARD OF FOREIGN TRADE  
REPUBLIC OF CHINA ON TAIWAN  
ON S.1860/S.1867, PROPOSED AMENDMENTS TO  
THE UNITED STATES GENERALIZED SYSTEM OF PREFERENCES

I. INTRODUCTION

This statement is submitted on behalf of the Board of Foreign Trade ("BOFT") of the Republic of China on Taiwan ("ROC") in response to the May 28, 1986 press release issued by the Committee on Finance, (Press Release No. 86-047). The BOFT believes that the Generalized System of Preferences ("GSP") Program, as amended by the Trade and Tariff Act of 1984 (hereinafter "the Act") (Pub. L.No. 98-573, October 30, 1984), has worked to benefit both the United States and participating countries, while at the same time eliminating preferences in instances where graduation is warranted.

The United States is currently in the midst of implementing GSP procedures recently established in the Act which serve important U.S. interests such as improved market access abroad. Amendment of the GSP Program in the fashion sought by S.1860/S.1867 would negate much of the progress made to date and jeopardize important United States interests without any offsetting benefits. For these and additional reasons set forth in greater detail below, the BOFT urges that the GSP law not be amended, as proposed in S.1860/S.1867.

II. BACKGROUND

The GSP was authorized by Title V of the Trade Act of 1974 and implemented in January 1976. It was re-authorized in the Fall of 1984 with several important amendments by Congress in Title V of the Act for a period of eight and a half years, or until July 4, 1993. The GSP program is a system of tariff preferences by the United States for the mutual benefit of developed and developing countries. The program currently offers duty-free treatment for approximately 3,000 products from 140 developing countries and territories.

In the roughly ten years since the program has been in existence, GSP imports have played a relatively insignificant role in the United States economy. GSP imports have accounted for only about five percent of total U.S. nonpetroleum imports and only one-half of one percent of total U.S. consumption. These imports clearly have not had an injurious impact on the U.S. economy as a whole. While relatively insignificant to the United States, GSP has been very important to the developing countries. GSP benefits have enabled developing countries to export products to the United States in which they otherwise would not have been competitive, thereby strengthening economic



development, generating hard currency utilized to purchase U.S. products, and bringing these countries more fully into the international trading system. The GSP program thus has served important U.S. interests at a quite minimal cost.

**III. AMENDMENT OF GSP LAW NOW WOULD NEGATE THE SUBSTANTIAL EFFORT MADE PURSUANT TO THE TRADE AND TARIFF ACT OF 1984 AND JEOPARDIZE PROGRESS MADE BY THE UNITED STATES IN OBTAINING IMPROVED MARKET ACCESS IN GSP COUNTRIES**

**A. The 1984 Amendments**

In 1984 the Congress amended the GSP law and extended it until 1993. Several important changes were made to the GSP law after extensive hearings, deliberations and study by both Houses of Congress. The 1984 amendments added several additional criteria which must be met for a country to be eligible for GSP. These new criteria included provisions on: 1) protection of intellectual property rights; 2) reduction of trade distorting investment practices and elimination of barriers to services trade; 3) protection of worker's rights; and 4) elimination of unreasonable export practices. Pub. L. 98-773, Title V, §503.

The amended law also added additional products which were statutorily excluded from the program, including such items as footwear, handbags, luggage, flat goods, work gloves and leather wearing apparel. Id. §504. These were in addition to the many articles already statutorily excluded such as textiles and apparel, watches, electronic articles and certain steel articles. Thus, most of the most import sensitive U.S. industries are already protected from competition from GSP imports.

Important changes were made to the competitive need limit provisions of the GSP law. The President was given the discretion to cut competitive need limits in half for products determined to be sufficiently competitive, thereby eliminating GSP eligibility for vast amounts of currently eligible trade. Id. §505. However, recognizing that benefits provided under the GSP program gave the United States leverage over beneficiary countries, Congress also allowed the President some discretion to "waive" these lower competitive need limits under certain conditions. Id. These conditions effectively allow the United States to negotiate with beneficiary countries to obtain important benefits in return for use of waiver authority. In deciding on waiver, the President must consider, among other things, assurances on equitable and reasonable market access and protection of intellectual property rights. Id.

The new law also contained a provision which called for mandatory graduation after a two-year period for any country whose per capita GNP exceeded an indexed amount which was fixed at \$8,500 in 1984. §504(f)(1). Thus the Law already has a provi-

sion which would graduate beneficiaries which reach a level of development determined by Congress to be high enough to no longer warrant preferential treatment. Most importantly, this provision, unlike S.1860/S.1867, would be applied in a non-discriminatory fashion and would allow a period of gradual phase-in.

**B. USTR IS Currently In The Midst Of Implementing The 1984 Amendments And The Renewed GSP Program And Amendment Of The GSP Program Now Would Negate The Substantial Progress Made Toward Realizing Important U.S. Trade Objectives**

At a significant cost in terms of time, effort and resources, the USTR has been pressing ahead with implementation of the renewed GSP program based on the framework established under the Act. USTR has held hearings and received statements on protection of intellectual property rights and on various country practices including worker's rights, investment, and trade in services. It has undertaken the general product review called for under the Act, soliciting comments and holding hearings on all GSP eligible products and considering requests for exercise of waiver authority. The USTR has also begun consultations with several beneficiary countries on the issues of application of reduced competitive need limits and use of waiver authority. In the context of these consultations, it is reasonable to expect that the USTR has been and will be reviewing the criteria established in the law and determining what steps beneficiary countries have taken and should take that would warrant use of the waiver authority.

S.1860/S.1867 would nullify all the work done by the USTR in examining intellectual property rights protection, country practices, workers rights, market access, and numerous other practices of affected beneficiary countries. It would certainly mean the end of any further consultations aimed at obtaining improved market access or other policy goals in connection with exercise of the waiver authority. It would eliminate entirely the very real leverage which was the heart of the 1984 amendments. What is probably most troublesome about this entire proposal is that the United States will have given up all these very real benefits and end up with very little, if anything, in return. At best, under S.1860/S.1867, the United States perhaps will collect a few dollars more in tariffs and obtain a reduction in certain GSP imports from the affected beneficiary countries (would undoubtedly be simply be displaced by increased imports from Japan). Against these minimal gains, however, must be weighed the loss of very real opportunities and actual accomplishments that the current program has produced to open foreign markets, enhance protection of U.S. intellectual property rights and worker's rights and increase investment as well as trade in services.

Regardless of how these alternatives are weighed, it is difficult to conclude that U.S. interests will be better served by S.1860/S.1867. These amendments may very well serve as plainly visible punishment, but they certainly serve no constructive U.S. interest. Indeed, it is not even particularly effective protectionism.

#### IV. GSP PROVIDES SUBSTANTIAL ECONOMIC BENEFITS TO THE UNITED STATES

##### A. GSP Has Spurred U.S. Exports To The Developing Countries And To The ROC In Particular

GSP has offered the ROC and other beneficiary countries improved access to the U.S. market which has helped them to generate greater hard currency export earnings. These increased export earnings have in turn enabled the ROC to expand the volume and value of imports from the United States. By 1980, total U.S. trade with developing countries was larger than U.S. trade with Europe and Japan combined. The LDC share of U.S. manufactured exports increased from 29 percent in 1970, prior to GSP, to nearly 40 percent in 1980. The same is true in the critical area of high technology U.S. exports: by 1980, LDC's accounted for approximately 40 percent of such U.S. exports. These trends, moreover, are likely to continue as long as LDC's are able to generate, through GSP trade, the necessary hard currencies.

U.S. annual exports to the ROC alone increased from \$1.6 billion in 1976, the first year of the GSP program, to over \$5 billion in 1984, a 213 percent increase, making it one of the fastest growing markets for U.S. exports. The U.S. gain, measured in terms of increased U.S. sales to the ROC made possible by GSP trade, far outweighs the minimal amount lost through uncollected duties. This export growth was assisted by the U.S. Department of Commerce's American Trade Center in Taipei, which is provided with free office space and other assistance for U.S. product exhibitions. It was also aided by administrative orders adopted by the ROC limiting certain imports to U.S. or European origin.

A significant amount of the increased export sales by the United States to the ROC is tied directly to ROC production of GSP-eligible articles. U.S. producers supply a variety of raw materials, equipment, machinery, and constituent products that are used by ROC producers in the manufacture of their GSP products. As these products are developed, many are sold around the world, not just in the United States, so that in many cases these imports of raw materials and parts from the United States increase proportionately more than do their associated GSP exports back to the United States.

B. The ROC Has Been One Of The Largest Customers Of U.S. Agricultural Products In Large Measure Due To The GSP Program

One of the areas in which the benefits of the GSP program to the United States have been most visible is agricultural export sales to the ROC. The ROC signed a five year grain purchasing agreement with the United States in 1981. Under the agreement, the ROC made commitments to purchase 17 million tons of U.S. grain; a fairly significant amount of trade.

According to ROC import statistics, from July 1981 to April 15, 1986, the ROC imported 514 million bushels of corn, 47 million bushels of barley, 114 million bushels of wheat and 243 million bushels of soybeans. Altogether, the total purchases of these four agricultural commodities reached 918 million bushels or 23.8 million tons. In addition to the contract purchases, the ROC has also imported some 43 million bushels of sorghum during the same period of time. The United States is by far the ROC's primary grain supplier providing more than 88.4 percent of its total grain imports. The ROC was the third largest purchaser in the world of U.S. corn and the sixth for sorghum; the fourth for soybean; and the second for barley. On a per capita basis, the ROC may well be the world's number one consumer of U.S. grain.

For many other American agriculture items, such as apples, cattle hides, animal feeds, orange juice, grapes and almonds, etc., the ROC is also among the leading importers worldwide. All in all, the United States enjoys a trade surplus with the ROC in the trade of agricultural products which amounted to some \$1.2 billion in 1985.

The Grain Purchase Agreement is up for renegotiation this year and a sharp decrease in the ROC's earnings derived from GSP exports could seriously jeopardize the ROC's ability to continue purchasing substantial quantities of U.S. agricultural goods.

C. GSP Has Provided U.S. Consumers With Substantial Savings

GSP imports have also provided U.S. consumers with substantial savings over the course of the program. The value of the GSP program to U.S. retail consumers is much greater than simply the duty rate avoided, since a duty increase is magnified many times over by the time an imported article reaches the end-user. U.S. importers and retailers have found, in the course of numerous GSP product review cases, that loss of duty-free treatment results in retail price increases of three to five times the duty amount imposed. It would be reasonable to expect, therefore, that reduction of competitive need levels or complete elimination of eligibility from even a single country will lead directly to substantial retail price increases for U.S. consumers.

Further, many GSP imports are cottage industry products which are not produced or are produced in very limited quantities in the United States. Other GSP exports have often developed new market sectors in the United States which have not been developed by domestic producers. Others moderate escalating prices or provide consumers with less costly alternatives. This is particularly important for industrial consumers, i.e., U.S. firms which require low-cost inputs for their U.S. production. GSP imports of the inputs or components often provide U.S. producers with the margin needed to successfully compete against developed country imports, and hence promote U.S. production and employment. The BOFT has estimated that at least 16 percent of ROC GSP exports consist of such intermediate products which require further value added in the United States.

V. THE ROC HAS UNDERTAKEN NUMEROUS STEPS TO IMPROVE TRADE RELATIONS RELYING IN GOOD FAITH ON THE FRAMEWORK ESTABLISHED UNDER THE TRADE AND TARIFF ACT OF 1984 AND AMENDMENT NOW WOULD UNFAIRLY PENALIZE IT

Reasonably expecting that the United States would proceed with implementation of the renewed GSP program as set forth in the Act, the ROC has taken steps and begun consultations in good faith with the United States to comply with the law. Some of the steps taken by the ROC in reliance on the 1984 amendments and in pursuit of improved trade relations generally include the following specific items.

A. Enhanced Protection Of Intellectual Property Rights

As a general matter, the ROC has moved beyond a mere good faith effort to ensure the protection of intellectual property rights. As a recent Congressional report concluded, "significant progress has been made in Taiwan . . ." Unfair Foreign Trade Practices, Report by the Subcommittee on Oversight and Investigations of the Committee on Energy and Commerce, Committee print 99-H, 99th Cong., 1st Sess., p. 8 (April 1985). In comparison with most countries at roughly the same level of economic development, and indeed with many developed countries, the actions taken and laws implemented by the ROC provide U.S. businessmen with steadily growing protection and an environment which encourages increased trade and investment.

In February, 1983, an amended national trademark law was promulgated which provides for more effective sanctions, enforcement mechanisms and protection for trademark holders. The ROC's trademark law provides a comprehensive system for the registration, maintenance, and protection of both foreign and domestic trademarks. Provisions of the amended law include:

- i. a requirement that a person sentenced to prison must actually serve such terms, i.e., no commutation of sentence or substitution of fines for imprisonment;
- ii. an increase in the potential jail term for such violations to five (5) years;
- iii. an increase in the fines imposed for unauthorized copying of a protectable mark;
- iv. a provision requiring confiscation and impoundment of counterfeit goods;
- v. availability of relief for private persons; and
- vi. extension, on a reciprocal basis, of national trademark rights to foreign trademark holders who have not registered their marks in the ROC. U.S. trademark holders are permitted to invoke the provisions of the new law to obtain protection for their U.S. registered marks.

Patent protection in the ROC extends for a period of 15 years. As elsewhere, a patent right in the ROC is viewed as an exclusive right of the patentee to manufacture, sell or otherwise utilize his patent, including, if the invention is a process, any product manufactured by direct use of that process. The Ministry of Economic Affairs ("MOEA") is currently evaluating proposed amendments to the existing patent law. Increasing the criminal penalties for patent infringement and extending patent protection for chemical products are but two of several modifications being considered.

An amended Copyright Law has recently been enacted. Implementation regulations were the subject of discussion of a U.S.-ROC meeting last October. At that time, U.S. officials were provided the opportunity to express their views on the drafting of these regulations. Recently enacted amendments to the Copyright Law are aimed at expanding the scope and extending the term of copyright protection. Computer software, for example, is eligible for copyright protection under the new law. The protection provided to software is identical to that provided by the United States Copyright Law.

The amendments also specify that foreign nationals may obtain copyright protection in the ROC through registration of their copyrights. Additionally, U.S. copyright owners will be treated the same as ROC nationals by virtue of the provisions of the U.S.-ROC FCN Treaty. Further, the new law has increased the criminal penalties for infringement so that repeat offenders will be subject to a mandatory minimum incarceration of six months and

a maximum incarceration of five years in combination with a fine of NT\$150,000. Additionally, the copyright holder will be permitted, at a minimum, to be compensated for his damages in an amount equal to five hundred times the set price of the copyrighted work.

The MOEA is also working on provisions for what is referred to as the "Fair Trade Practices Act." This law is aimed at providing protection in areas of unfair trade practices. The Fair Trade Practices Act covers such areas as monopoly, mergers, concerted action, unfair competition, pyramid sales, the organization and authority of the Fair Trade Practices Committee, civil liability, and penalties for violation of the Act.

Other measures adopted by the ROC include:

- i. improved access for U.S. persons and companies to ROC courts to enforce their rights;
- ii. enhanced export regulations to prevent the exportation of unauthorized products;
- iii. increased judicial, administrative and police resources to prevent and punish violations of the laws; and
- iv. increased educational activities aimed at increasing understanding of the importance of intellectual property rights.

#### B. Tariff Reductions

The ROC has adopted a strong view toward the elimination of tariff and non-tariff barriers and has participated diligently with the United States in several bilateral tariff negotiations. The first round of ROC-U.S. tariff negotiations occurred on December 29, 1979, in Washington, D.C. As a result of those discussions, the ROC agreed to concessions on 339 items, 299 of which were implemented all at one time in 1980 and the remaining 40 items were reduced in five stages over the period from January 1980 through January 1, 1984.

The second round of tariff negotiations between the United States and the ROC occurred on December 31, 1981, in Taipei. As a result of these talks, the ROC made tariff concessions on 31 items which consisted of 14 agricultural products and 17 industrial articles. Twelve of the ROC's 31 concessionary items were implemented in one stage in 1980. The tariff concessions on the remaining 19 items were implemented in six stages beginning in 1982.

The ROC and United States conducted a third round of tariff negotiations on August 1-3, 1984, in Washington, D.C. The ROC agreed to reduce the duty rates on 113 products upon

which the United States was the principal supplier. The concessions on the 113 articles were implemented in January 1985. Additionally, the ROC agreed to advance the implementation dates on the concessions of six items from prior negotiations to January 1, 1985.

Beyond the ROC's bilateral attempts to reduce tariffs, the ROC unilaterally reviews all rates of duty annually. As a result of unilateral reviews from 1974 to 1985 and on its own initiative, the ROC has made 117 items eligible for duty-free treatment. Further tariff rates have been greatly reduced on an additional 4,910 items. In 1985, the ROC reduced its tariff rates for 1,058 of its most import sensitive items that were dutiable at rates between 75 and 100 percent.

In 1984, the ROC for the first time unilaterally reduced tariffs on 28 consumer items, including raisins, from the United States for a four month period from November 5 through February 28. This "window" in the application of the tariffs was used as an incentive to ROC retailers to purchase more consumer products from the United States.

Most recently, the ROC has also agreed to reduce its tariffs in staged reductions on 112 products upon which the United States requested tariff reductions. Unilaterally, the ROC is contemplating tariff reductions on an additional 80 items for which the United States accounts for 25 percent or more of ROC importers.

#### C. Improved Market Access

In order to stimulate the United States access to the ROC market, the ROC has sponsored 11 procurement missions to the United States within the last seven years. The total purchased by the ROC during these 11 procurement missions is approximately \$8 billion. Major ROC purchases include soybeans, raw cotton, wheat, barley, corn, buses, and other industrial and electronic equipment. Twenty-two states served as suppliers of these products for the Tenth Procurement Mission in April and May 1985. The Twelfth Procurement Mission is scheduled for September of this year.

As a result of consultations between the United States, the ROC has agreed to open its markets for U.S. exports of beer, wine and cigarettes. American beer, wine and cigarettes will be permitted to be sold in all retail outlets in which ROC cigarettes are sold. There are approximately 70,000 retail outlets in the ROC which will be eligible to sell these products. The domestic market for cigarette sales alone in the ROC totaled nearly \$840 million in 1984. Beyond merely providing market access, these measures will permit increased opportunities for U.S. exports.



#### D. Worker's Rights

The ROC has made great strides in the area of worker rights. The passage of the Basic Labor Standards Law on July 30, 1984, assured that workers in the ROC would be provided with certain internationally recognized worker rights. The purpose of the law is to establish basic standards of working conditions, to protect the rights and privileges of workers, to strengthen the relationship between employees and employers, and to promote socio-economic development. This legislation took nearly ten years to enact and is considered a landmark achievement for the protection of workers in the ROC.

The Basic Labor Standards Law in the ROC applies to all workers in manufacturing, construction, communications, transportation, mining and quarrying, water, electric and gas utilities, agriculture, forestry, fishing, livestock farming, and mass media. The law will likely be extended to cover employees in commerce, finance, real estate, insurance and business services at some time in the near future. Unlike the United States which permits state regulation of workers in certain areas, the ROC's Basic Labor Standards Law applies to every ROC worker regardless of their geographic location in Taiwan. Some measures are unprecedented even in an industrialized country such as the United States. For example, the ROC law requires the protection of women workers during non-work hours, provides for liberal maternity leave, and even regulates the amount of time which must be given a nursing mother during the work day to feed her baby.

It is important to understand in reviewing all these measures taken by the ROC in the past several years, that while they all may not have been done with the GSP program in mind, it is accurate to say that they were undertaken in an atmosphere and based on an expectation that there were and would be mutual incentives and a balancing of burdens in the trade relationship with the United States. The radical revision of the GSP program contemplated now destroys that balance of interests, the underlying bargain, if you will; it substantially reduces any incentive to press ahead with measures which largely stand to benefit only the United States.

#### VI. GSP HAS PLAYED AN IMPORTANT ROLE IN THE ECONOMIC DEVELOPMENT OF THE ROC

Since its inception in 1976, the U.S. GSP program has become an integral part of the economic development plans of the ROC. The share of the ROC's total exports to the United States represented by GSP-eligible products has grown from 35 percent in 1976 to over 52 percent in 1984. In 1984, 22 percent of the ROC's exports to the United States actually received duty-free treatment. Perhaps the importance of GSP to the ROC can be best understood when viewed in light of the fact that the value of the ROC's GSP-eligible exports represents fully 14 percent of its GNP.

Taking actions which affect the GSP status of this ROC trade is comparable, in relative terms, to taking action against total U.S. exports, which represent about this same share of the U.S. GNP.

The ROC's GSP exports to the United States have grown much more rapidly since the program's inception than its non-GSP exports indicating that the treatment provided by GSP does have a clear impact on the competitiveness of ROC products in the U.S. market. In the alternative, the loss of GSP benefits can reasonably be expected to retard severely the ROC's ability to compete in the U.S. market and to lead to a loss of export trade.

The importance of GSP to beneficiary country competitiveness in the U.S. market was demonstrated in the International Trade Commission's ("ITC") report on the GSP program. Changes in Import Trends Resulting from Excluding Selected Imports from Certain Countries from the Generalized System of Preferences, Report on Inv. No. 332-147, USITC Pub. 1384 (May 1983). On the basis of substantial statistical analysis, the ITC found that "Overall, the establishment of the exclusion [loss of duty-free treatment through competitive need limits] coincided with the end of the rapid rise in imports and with the lowering of import share in subsequent years." *Id.* at iii, pp. 8-10. This empirical analysis strongly contradicts the assertion many beneficiary countries do not need to compete in the U.S. market.

Yet the benefits to the ROC from the GSP program should not be expressed only in terms of macroeconomic indicia, for the availability of preferential treatment has come to play as large, if not larger, a role in the lives of literally millions of individual ROC businessmen and employees. Many ROC businesses have made significant financial and resource commitments based on the availability of GSP treatment, as was intended by the United States when it implemented its program.

#### VII. THE ROC REMAINS A DEVELOPING COUNTRY

In any analysis of the ROC's efforts to adhere to what is referred to as the disciplines of the international trading system, certain basic indicators of development must be kept in mind. Basic socio-economic indicators demonstrate that the ROC ranks approximately sixth among GSP beneficiaries in terms of development and well below the development levels of industrialized nations.

The following table provides a useful comparison of basic indicators of development for certain GSP beneficiaries and several industrialized countries:

<u>COUNTRY</u>	<u>POPULATION MILLIONS</u>	<u>AREA THOUS. SQ. KM.</u>	<u>GNP PER CAP. U.S. \$</u>	<u>LIFE EXP.</u>
United States	234.5	9,363	14,110	75
Canada	24.9	9,976	12,310	76
Japan	119.3	372	10,120	77
Netherlands	14.4	41	9,890	76
Italy	56.8	301	6,400	76
*Trinidad and Tobago	1.1	5	6,850	68
*Singapore	2.5	1	6,620	73
*Hong Kong	5.3	1	6,000	76
*Israel	4.1	21	5,370	74
*Venezuela	17.3	912	3,840	68
*Taiwan	18.7	36	2,744	72

\* GSI Beneficiary Developing Country

Source: World Bank's World Development Report 1985 and ROC Ministry of Economic Affairs. All data provided is for 1983.

It is apparent from these statistics that a significant differential exists between Taiwan and industrialized countries as well as between Taiwan and other more advanced GSP beneficiaries. Taiwan's per capita GNP was less than one-fifth the GNP in the United States and less than half the level of Singapore, Hong Kong, or Trinidad and Tobago. Though there are no factors which when taken in isolation will accurately reflect any country's level of development, for purposes of the GSP review, such basic socio-economic data are revealing. In this respect it is important to keep in mind that in the Act, Congress grappled with the question of when a country should be graduated from GSP based on a general level of economic development and included a provision which would eliminate countries from GSP eligibility when their per capita GNP reaches \$8,500. As indicated above, the ROC's per capita GNP is well below this level. Thus, even judged against Congress' own standard, it is impossible to determine that the ROC has entered the ranks of the developed countries.

VIII. IF COUNTRIES ARE GRADUATED FROM THE  
GSP PROGRAM IT SHOULD BE DONE ON A  
NON-DISCRIMINATORY AND GRADUAL BASIS

The BOFT is quite concerned about the standards and procedures, or lack thereof, for country graduation in S.1860/-S.1867. The proposed amendment cites certain extremely general factors such as per capita income, "economic development" and "ability of such country to compete internationally in the ab-

sence of such preferences." The level of generality of these factors is so great that they effectively establish no discernible standards for graduation. The bill then goes on to proclaim that Taiwan, Hong Kong and Korea, all meet these standards. Absolutely no indication is provided as to why these particular countries were expressly included, why others were not, and how the vague criteria contained in the law apply to these countries.

The inescapable impression this approach leaves is one of discrimination. There is simply no provision in the law to ensure that all beneficiary countries are treated equally and fairly. Why, for instance, Mexico with a per capita GNP (\$2,240 in 1983) roughly comparable to that of the ROC and with quite competitive products, or Venezuela, with a GNP nearly three times that of the ROC, or Brazil, with GSP imports larger than Hong Kong, were not also designated for graduation is not clear. The dangers posed by S.1860/S.1867 for arbitrary or discriminatory treatment are real and significant. Discriminatory treatment such as would inevitably result would be contrary to fundamental principles of international trade law and basic notions of fairness.

The proposed law would also be particularly unfair for the ROC because it would suddenly impose enormous changes in the terms of trade for the ROC. The current amendment contains no provision which would allow the graduation to be phased-in over a period of years. If such a change was imposed at once, it would have a devastating effect throughout the entire ROC economy. Again, fairness would strongly counsel against imposition of such a burden on the ROC at once. While the ROC opposes any change in the law, if one is made, it should allow some period to reduce benefits gradually and allow the ROC economy time to adjust to this significant change in the terms of trade.

IX. GSP LAW IN ITS CURRENT FORM PROVIDES PROMPT AND EFFECTIVE PROTECTION FOR U.S. INDUSTRIES AND ELIMINATES GSP TREATMENT FOR PRODUCTS FROM COUNTRIES WHICH HAVE DEMONSTRATED COMPETITIVENESS IN THE PRODUCTS

A. Statutory Exclusions Eliminate A Substantial Amount of Trade From GSP Eligibility Ab Initio

While the minimal share of imports and absence of competition make it unlikely that the GSP imports have injured or threaten U.S. jobs or industries in a general sense, there are also ample protections built into the existing GSP law to protect U.S. firms, workers, and even industries from injury due to specific product imports. Protection is provided under GSP in three principal ways: 1) many import sensitive products -- textiles, apparel, shoes, certain steel and glass products and electronics -- are statutorily excluded from eligibility under GSP; 2) competitive need limits work automatically to eliminate

duty-free treatment for articles which exceed either the percentage or indexed limits; and, 3) discretionary graduation authority gives the President broad discretion to make any other alternation under the program which he deems warranted under the circumstances. In addition to these mechanisms, the Act called for a general review of all GSP products which is likely to lead to additional exclusions of eligible products.

These aspects of the GSP program also insure that a country does not receive GSP treatment on a product in which it has become internationally competitive. The severity of these automatic and discretionary exclusions has made the U.S. GSP program one of the most restrictive of preferential schemes among developed countries. Because of the statutory exclusions and limited product coverage, GSP-eligible trade averaged only 35 percent of total trade from beneficiary countries in 1981. In 1985, only \$13.3 billion or 41 percent of a total of \$32.7 billion GSP-eligible trade actually received duty-free treatment. This U.S. percentage is significantly lower than is the case for most other countries providing preferential programs. See, e.g., Operation and Effects of the Generalized System of Preferences, UNCTAD Fifth Review (1980), U.S. Pub. E.81.II.D6, p. 33. For European Community members, for example, the average share of duty-free imports to GSP eligible imports has ranged from 55 to 60 percent. See, Commission of the European Communities, The Generalized System of Preferences of the European Community, pp. 6-7, (pamphlet, February 1981).

#### B. Competitive Need Exclusions

The value of total competitive need graduations has grown from \$1.9 billion in 1976, at the program's inception, to \$13.8 billion in 1985 or by 626 percent. Competitive need exclusions rose not only absolutely but also relative to total GSP duty-free and total GSP-eligible imports under the program. Between 1976 and 1985, the amount of trade excluded from GSP benefits by competitive need limits grew at a much faster rate than did total GSP-eligible imports. Competitive need exclusions have thus taken a larger and larger bite out of GSP imports throughout the program's history.

The vast bulk of these competitive need exclusions, moreover, have come from the program's major beneficiaries which have suffered competitive need losses commensurate with, or greater than, their use of the program. In 1985, the top five beneficiaries suffered 92 percent by value of total competitive need losses. While the ROC's GSP duty-free imports have grown at an average annual rate of 27 percent over the course of the program, its competitive need losses have risen at an annual rate of over 60 percent. Indeed, by 1984 the value of competitive need exclusions exceeded the ROC's duty-free imports by some \$1.1 billion or 20 percent of its duty-free imports. In 1985, competitive need exclusions exceeded duty-free imports by \$1.8 billion. While the ROC's level of duty-free im-

ports remained relatively constant between 1984 and 1985, its competitive need losses grew from \$3.1 billion to \$4.6 billion, or by nearly 50 percent. These statistics on competitive need exclusions clearly reveal that, while major beneficiaries such as the ROC account for a large portion of duty-free trade under the program, they suffer an equal, if not greater, share of competitive need exclusions. And more importantly, the trend is clearly toward reducing benefits available for the ROC under the program.

### C. Discretionary Graduation

Since 1980, discretionary graduation, under which the United States may remove GSP treatment from a particular product for a particular country even if those imports do not exceed competitive need limits, has provided even greater protection to U.S. industries. Discretionary graduation has been exercised in four principal ways: 1) through review of petitions submitted by parties seeking graduation of specified products; 2) through failure to redesignate an item that becomes eligible for duty-free treatment; 3) through denial of GSP eligibility for a country when new products are added to the GSP-eligible list; and 4) failure to allow waiver of the 50 percent limit for de minimis trade items.

Numerous U.S. industries and small businesses have availed themselves of the annual review procedures to seek removal of GSP treatment from specific products for particular countries. Since discretionary graduation was implemented, numerous petitions from affected U.S. industries seeking either complete or country-specific elimination of an item from GSP eligibility have been filed and accepted. This year alone, USTR has received petitions for modification of GSP treatment covering over 190 products.

Discretionary graduation authority has been exercised most harshly with respect to GSP items eligible for redesignation. Practically all of the ROC items eligible for redesignation have been graduated. In terms of trade value affected, three-fourths of total trade eligible for redesignation was graduated rather than redesignated. The statistics reveal that use of discretionary graduation has become almost automatic in the case of the major beneficiaries.

### X. INCREASED GRADUATION AND RESTRICTIONS ON MAJOR BENEFICIARIES HAVE NOT RESULTED AND WILL NOT RESULT IN INCREASED GSP BENEFITS FOR OTHER BENEFICIARIES

Contrary to arguments that have often been made in support of increased graduation, actual experience under the program has revealed that when GSP duty-free treatment has been denied to one or all of the major beneficiaries in a particular item, denial has most often not led to meaningful increases in

imports in the affected products from less developed beneficiaries. This is the conclusion reached in the President's Report to Congress on the First Five Years' Operation of the Generalized System of Preferences. Committee on Ways and Means, 96th Cong., 2nd Sess., WMCP 96-58 (April 1980), pp. 30, 68. The ITC GSP Report also corroborated this conclusion after having analyzed a substantial amount of import data over the program's history. It concluded that "[t]he countries benefitting most from the exclusions are advanced developing countries and developed countries--not less developed countries." Id. at iii.

If any effect occurs, most often it is that increased restrictions and graduation merely shift trade either to one or the other major beneficiaires (when only some of the majors are restricted, which serves only to discriminate against the restricted country in favor of its competitors) or to developed countries such as Japan which were never the intended beneficiaries of the program, or merely reduces exports to the United States in that product, thereby reducing the overall benefit of GSP. This experience is easily enough explained: a precondition for increased use of the program by countries other than the majors is not increased graduation of the majors, but rather the development of a basic economic infrastructure and the industrial base required to enter into production of the variety of goods receiving GSP treatment in sufficient quantity and quality to serve the U.S. market. The economies of most beneficiary countries are still predominantly devoted to the production and export of primary agricultural goods and labor-intensive products, such as textiles, apparel, footwear, and leather goods, which are statutorily excluded from the program.

Increased graduation of the majors may serve as effective and discriminatory protection or as a penalty, but it is mistaken to contend that it will substantially assist in a meaningful way, the increase of the use of the program by other developing countries.

## XI. CONCLUSION

For the reasons set forth above, the interests of the United States and all developing countries have been and will be served by the GSP program as amended in 1984; that program should not be cut short by new amendments. It serves important U.S. goals such as improving market access, increasing U.S. exports

and reducing use of the GSP program, while at the same time continuing to foster economic development in all beneficiary countries.

Dated: June 16, 1986

Respectfully submitted,

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**STATEMENT OF CURTS COOKE, EXECUTIVE VICE PRESIDENT  
AND CHIEF FINANCIAL OFFICER, RUSS BERRIE & CO., INC.,  
OAKLAND, NJ**

Mr. COOKE. Thank you, Mr. Chairman. I am Curts Cooke, executive vice president and chief financial officer of Russ Berrie & Co. With me this morning is Mr. Joel Simon, our outside counsel. I appreciate the opportunity to address you today on Senate bill 1867.

Let me first start with a brief history of the Russ Berrie Co. We are a company that designs and markets impulse gifts throughout the United States. Impulse gifts are stuffed animals, ceramic mugs, greeting cards, Christmas ornaments, and many more items. The company was started in 1964 by one individual, Mr. Russell Berrie, and in 1985, we reached a sales level of \$204 million.

We are a public company listed on the New York Stock Exchange, having gone public in 1984. We employ today over 1,500 employees in the United States and over 1,800 worldwide. We sell to approximately 80,000 customers in the United States at, typically, what we define as Mom and Pop stores. They are retail stores, normally with a single owner, such as gift shops, card shops, florists, pharmacies, et cetera.

Our products for the most part are produced in Hong Kong, Korea, and Taiwan; they are distributed throughout the United States through our distribution channels which are 10 local distribution centers strategically placed, supported by two central warehouses. We presently have over 800,000 square feet of warehouse space, much of which was constructed new in the last 3 years, obviously helping the employment of the construction industry.



I would like to add also that we export our products from Korea, Taiwan, and Hong Kong to Canada, to England, and to Europe and are in the process of starting to export our products from those countries to Japan. The company will continue to grow, and the number of employees in the United States will continue to increase, dependent though upon a quality product at an affordable price to the U.S. consumer.

We will continue to purchase our products overseas for the most part, as the majority of our products are not manufactured in the United States or are manufactured at a price which would not permit it to be competitive in the marketplace or acceptable by the consumer. However, on each new category we introduce, we look for products and look for manufacturers in the United States.

In testimony submitted to you, we have offered strong opposition to Senate bill 1867 as, in our opinion, legislation is in place to provide adequate provisions for withdrawal of GSP benefits when manufacturers of a country attain worldwide competitiveness. And I think the best way to show that is by an example.

In 1976, we started to produce plush animals in Korea. At that time, the country was in its beginning in the plush industry and was able to produce little articles of plush, 2 to 3 inches. Because of their labor costs being low—and those products are labor-intensive—quality was not that important; they were able to produce products that we could sell in the United States.

Over the last few years, that industry has matured to a level through technology and productivity, to reach a level where they had high quality at a competitive price. As a result, their volume exported increased to a level where they were no longer permitted under GSP to receive the benefits. In April 1984, the plush industry was removed from Korea. Now, what is happening is that their labor costs are increasing to a level where their small items are not competitive. The product is now starting to be produced mainly in China, again because of low labor.

I am sure, over the next few years, that industry in China will mature to a level where it will compete with Korea. And then, from there, probably another less developed country will begin producing plush. The point of this is that there is a procedure for removing GSP when a country becomes competitive and can produce a quality product, and there is no need for further legislation. Thank you.

[The prepared written testimony of Mr. Cooke follows:]

**TESTIMONY OF MR. CURTS COOKE, EXECUTIVE VICE PRESIDENT AND  
CHIEF FINANCIAL OFFICER, RUSS BERRIE & CO., INC.**

The Russ Berrie Company presents this testimony to register its strong opposition to any change in the administration of the Generalized System of Preferences (GSP) program, as set forth in the Generalized System of Preferences Renewal Act of 1984, Pub L. 98-573.

Russ Berrie and Co., Inc. is a public company whose shares are traded on the New York Stock Exchange. The company is an importer and distributor of stuffed animals, stuffed dolls, ceramic articles, stationery, school supplies and giftware. Its products are sold to over 80,000 different outlets in every state of the United States. Most of its products are manufactured in Taiwan, Hong Kong and the Republic of Korea, and are, or have been at one time, entered into U.S. commerce duty-free under the Generalized System of Preferences.

Russ Berrie & Co., Inc. has sales in excess of \$200,000,000 annually and employs over 1,500 people at numerous facilities throughout the United States. The company has had an enviable growth record in this decade. In 1980, it employed 436 people and by 1990 an employment roll of 3,000 is projected. Russ Berrie offices in Taiwan, Korea and Hong Kong employ 93 people who play an important role in making sure that products meet the company's high production and quality control standards. In these three countries purchases are made from approximately 90 factories.

S. 1867 would require the President to submit legislation which will result in withdrawing GSP benefits from Taiwan, Hong Kong and Korea, the three main countries from which Russ Berrie imports its products. It would withdraw all GSP benefits from these countries, on the faulty notion that, "neither the General Agreement on Tariffs and Trade nor United States laws accord[ing] preferential treatment to developing countries provide adequate rules and procedures for gradual withdrawal of such treatment as such countries become more advanced with a view to promoting the opportunities for economic growth of lesser developed countries." Sec 601(3) of S1860..

This "finding" of the Congress, if adopted, would be a repudiation of the provisions of Title V of the Trade Act of 1974 which established the Generalized System of Preferences, and the Generalized System of Preferences Renewal Act of 1984,

Pub L. 98-573. Those provisions provide detailed procedures and criteria for designating beneficiary developing countries and withdrawing that status, designating eligible articles, and withdrawing, suspending and limiting duty free treatment.

Every year the President, through the U.S. Trade Representative, conducts a review of the GSP program and issues a proclamation which announces the changes in the duty free treatment of merchandise imported subject to GSP. On April 1 of this year, President Reagan issued this year's findings of products which will be removed from or added to the duty free list. Products worth \$839 million, previously entered free of duty, have been removed from the list of GSP eligible articles. Furthermore, \$2.4 billion in imports will not be reinstated for GSP benefits, even though imports of these products have decreased. In effect, these products have been "graduated" from the program.

This orderly approach provides Russ Berrie and its suppliers with development incentives and then withdraws them when they are no longer necessary. This has obviously benefited all concerned. It has also benefited the U.S. consumer, as Russ Berrie is able to import high quality products and sell them at prices affordable to all consumers.

As a result of this program and the efforts of the Office of the United States Trade Representative, there has been very little change over the past several years in the total GSP exports of Taiwan, Hong Kong and Korea to the United States, as demonstrated by the statistics compiled by the Commerce Department, below:

	<u>1983</u>	<u>1984</u>	<u>1985</u>
Taiwan	\$ 3 billion	\$3.2 billion	\$3.2 billion
Hong Kong	1.1 billion	1.3 billion	1.2 billion
Korea	1.5 billion	1.5 billion	1.6 billion

In our view, this lack of growth is in great measure due to the effective implementation of the GSP program. It provides adequate guidelines to the President and a mechanism to offer incentives to developing countries while providing a method by which such incentives may be surgically removed when assistance is no longer needed. Moreover, as illustrated by President Reagan's actions this year, although an article which has been

removed from GSP eligibility may be reinstated if imports of the article falls substantially below the competitive need limitation of a subsequent year, this authority has been used most judiciously.

Consequently, this legislation appears to be premature. The Trade and Tariff Act of 1984 directed the President to review each GSP eligible product from each beneficiary country to determine which products had attained a sufficient degree of competitiveness. This would allow a reduction of the competitive need limits resulting in subsequent removal of GSP benefits for specific products. The review is to be completed by January 4, 1987, and will, under the law, become effective July 1, 1987. We believe any action in this area should await the President's report.

We also believe that regardless of the President's report, the existing GSP program has operated to the benefit of the developing countries and U.S. companies taking advantage of the program. The growth of Russ Berrie & Company Inc., is a perfect example. The company started out in a garage in 1964. Today the company has annual sales of over \$200,000,000.00 and a staff of over 1500. Since 1975 the Russ Berrie Company has benefited from the GSP program, yet during that time numerous commodities have been removed from duty-free eligibility because of the application of the guidelines contained in the law.

General Headnote 3 (e)(v)(D) of the Tariff Schedules of the United States, Annotated, lists those item numbers and countries which have been removed from the program. At present 250 articles are ineligible for GSP benefits from numerous countries because they have exceeded the "competitive need" limits. Of that number, 110 items are ineligible from Taiwan with a Customs value of \$3,740,285,766 in 1985; 50 items are ineligible from Hong Kong with a Customs value of \$1,397,692,152 and 47 items are ineligible from Korea with a Customs value of \$937,809,425. Enclosed are the value statistics which were obtained from the Department of Commerce (IM 146). They reflect those articles which are no longer eligible for duty-free treatment.

The prominence of Taiwan, Hong Kong and Korea on this list, especially with respect to certain manufactured goods, reinforces our contention that there are adequate mechanisms within the GSP program to protect the exporter, the importer, and the economies of both countries.

The import statistics (see addendum) show that through the use of GSP benefits industries in the beneficiary countries were established and allowed to prosper to the point that they became self-sufficient and competitive in world markets.

Clearly, the total elimination of GSP from Taiwan, Hong Kong and Korea would have a major impact on these countries, the business of Russ Berrie, and the U.S. consumer. Each has benefitted under the present GSP program. The removal from the GSP list of eligible countries and articles in a slow, exacting fashion has worked well. This is a case where the old adage, "If it isn't broken, don't fix it" applies.

A drastic change as contemplated by S1867 will only serve to damage our friends in Taiwan, Hong Kong and the Republic of Korea. We do not believe it will be of any benefit to the U.S. or other beneficiary countries.

Thank you.

ADDENDUMDEPARTMENT OF COMMERCE (IM-146)1985 IMPORT VALUES FOR ITEMS  
WITHDRAWN FROM GSP TREATMENT

<u>TSUS Item #</u>	<u>Taiwan</u>	<u>Hong Kong</u>	<u>Korea</u>
204.40	\$21,012,625		
206.98	67,457,219		
207.00	6,433,143		
222.10		\$2,218,781	
222.50	1,283,764		
256.60			\$32,881,265
337.40		750,983	3,547,885
355.81	16,998,515		
389.61	47,229,268	32,305,251	
413.24			1,345,741
445.42	13,051,934		
532.22			2,757,380
534.84	21,250,387		
534.91	6,834,770		
534.94	76,458,852		
545.87	10,278,210		
610.65			429,833
610.70	337,039		
610.74	7,345,752		4,869,322
610.82			4,739,796
610.88	7,441,690		
613.18	4,429,062		
642.14			4,544,519
642.16			18,005,768
642.17			75,426
646.32			1,852,952
646.92	601,045		
648.97	14,039,682		
649.37	300,730		
650.89	814,676	206,342	
651.21	7,786,330		
651.33		3,458,140	
651.37	12,380,507		

<u>TSUS Item</u>	<u>Taiwan</u>	<u>Hong Kong</u>	<u>Korea</u>
651.46	\$3,156,724		\$533,993
651.49	3,748,295		
652.03			1,168,088
652.60	1,862,005		
652.70			10,235,740
653.00			7,457,012
653.38	127,058		
653.39	226,420		
653.48	7,950,063		
653.85	6,307,101		
653.93	3,876,924		
653.94			31,429,630
654.08	805,253		
654.30	1,346,656		7,700,173
654.40	1,550,494		
654.60		\$2,388,125	
657.24	9,872,788		
657.25	79,406,271		
657.95	51,624,456		
661.06	92,314,079	4,125,193	
661.94	813,608	1,136,561	
664.10	64,700,900		
672.16	32,656		
674.31	22,207,321		
674.35	59,991,854		
676.15	134,370,891		
676.20	69,416,891		
676.30	10,933,165		2,093,703
676.52	1,449,139		141,074
678.50	26,476	1,100	
680.14	22,313,319		
682.60	9,074,968	9,563,293	
683.01	3,886,388		2,988,800
683.70	796,114	3,940,253	
683.80		11,004,154	
684.48		130,333,348	
684.53	1,664,169		
684.58	124,767,002	66,587,765	
684.59	882,851	1,858,925	
684.70	122,178		
685.14	24,700,997	96,006,050	18,577,572
685.16	412,798	328,153	251,148

<u>TSUS</u> <u>Item #</u>	<u>Taiwan</u>	<u>Hong Kong</u>	<u>Korea</u>
685.18	\$496,215		\$5,620,434
685.25	71,807,976	\$40,744,679	15,756,200
685.40	11,650,980		117,061,860
685.90	135,265,526	54,265,306	
686.30	17,239,142		
688.10	120,134,606		
688.12	70,881,042		
688.41	488,961	1,702,819	
688.42	79,983,489	141,022,455	
692.32	117,148,658		
692.60	30,501,200		
696.10	105,967,383		
696.35	1,783,439		
696.40	5,062,927		
706.61		7,900,394	
708.45	93,881,604		
708.47		21,223,257	
709.40		3,905,434	
722.08	8,326,135	6,742,502	1,047,571
722.11	21,746,978	5,922,350	1,885,812
725.01			14,267,888
725.03			18,414,598
725.32	4,688,916		
725.50	38,655,269		
726.25	5,324,556		
727.23	2,763,164		
727.29	54,707,799		
727.35	253,124,588		
727.70	198,763,840		
728.22	20,182,309		
730.94			3,417,140
732.60	47,653,175		
734.15	18,314,799		
734.25		1,448,032	
734.70			7,343,992
734.86	20,436,960		
734.87	18,532,135		
734.90	17,079,820		
735.07		9,424,519	
735.09	21,430,043		
735.12	2,464,558		
735.20	172,768,040		



<u>TSUS Item #</u>	<u>Taiwan</u>	<u>Hong Kong</u>	<u>Korea</u>
737.15		\$30,025,638	
737.21		16,950,259	
737.23		97,185,177	
737.23	\$77,745,403		
737.28			\$2,161,646
737.28	5,598,680		
737.30			227,056,493
737.30	114,219,804		
737.40		49,799,874	
737.42			16,708,457
737.47			2,789,563
737.49	9,064,511	10,492,483	12,456,464
737.51			32,006,997
737.60		1,777,806	
737.80		12,413,827	
737.95		257,831,356	
737.95	127,735,060		
740.11		4,914	
740.12		96,912	
740.13		2,859,872	
740.14		69,242,442	
740.15		79,164,802	
740.38	113,367,142	44,346,159	
741.25		1,192,290	
745.70	1,201,540		
748.20	6,912,306		
748.21	5,371,963		
750.20	9,733,381		
750.40		6,229,689	
750.45			4,797,409
751.05	60,754,553		
755.25		17,161,019	
771.41	18,601,209		
771.43	71,684,581		
771.45	4,235,175		
772.35	126,233,709		
772.51			113,906,865
772.60			14,484,365
773.05	2,992,226		
774.45		9,133,635	
774.55	121,499,610		
790.03	3,319,792		
790.10	\$4,874,210		
790.39	76,614,430		
790.70			\$36,670,206
791.15		\$82,571,776	131,290,725
792.60		4,840,757	
<b>TOTAL</b>	<b>\$3,740,285,766</b>	<b>\$1,397,692,152</b>	<b>\$937,809,425</b>

Senator DANFORTH. Do you think that there is any problem in taking the position that other countries violate the law and counterfeit goods and, therefore, we had better give them preferential trade treatment or else they will really violate the law? Is there a problem in that?

If this were the principle of international affairs, would we call it appeasement?

Mr. ABLONDI. Mr. Chairman, as I indicated in my testimony, discussions on intellectual property laws had been in progress prior to the Trade Act of 1984, insofar as Taiwan was concerned. As I said, there were discussions and there were proceedings for the protection of intellectual property laws prior to 1984.

But the 1984 act spurred the various discussions that had been ongoing in Taiwan for the passage of protection of intellectual property.

Senator DANFORTH. I mean, your whole reason for wanting to retain the GSP for these three countries is to give us a handle on what should be a basic right, I would think, or a basic obligation.

Mr. ABLONDI. I think in that regard it is the market access which is very important. We believe from the United States' point of view to open up the markets for tobacco, and for other products in which the United States does not have market access, and perhaps—

Senator DANFORTH. In other words, we have to grant preferential trade treatment in order to get access to another country's markets? We also have to grant preferential trade treatment in order to provide some way of keeping down the counterfeiting? Is there any problem in almost-morality in that, in your view?

Is this the way the United States should operate: Oh, please, don't steal our products or shut us out of your market? We will impose new duties or whatever.

Mr. ABLONDI. I believe that is a very difficult question to answer, as phrased, Senator; but I am speaking of market access in regard to the Trade Act of 1984. It does afford considerable leverage to the USTR for increasing market access to these foreign controlled departments for wine, alcohol, and cigarets, which is what the Senator from Kentucky had been discussing during his testimony.

In the case of Taiwan, this market was opened up for U.S. products, which we believe was spurred under the leverage of the 1984 Act.

Senator DANFORTH. What is your view, Mr. Gortikov? Is there any problem in principle here? Is this the way the United States should act?

Mr. GORTIKOV. I think the GSP Program provides an incentive and potential penalty if they don't comply. As an example I just cited, Singapore is the perfect model in that the GSP has provided incentive for them to change their attitude on intellectual property protection. If we don't give, we don't have anything to take away.

Senator DANFORTH. But this is preferential treatment. This is not saying, well, we will treat you as everybody else. It is saying that we will treat you better than we treat others if you adhere to the law. In other words, we are asking them to do what should be a duty; and in order to extract compliance with what should be their

duty, we are offering preferential treatment. Isn't there a moral principle here?

Mr. GORTIKOV. Very definitely there is a moral principle, but if their concept of duty is at odds with our own in many of these countries and we have to show them the light, I think the GSP vehicle has been a way of doing that. It seems to be operating effectively. One advantage of the GSP program is that it can be selective in terms of product as to what you give and what you take away. So, it is not a total bandaid—it is a selective one. It gives the Government flexibility in its dealing with these nations.

Senator DANFORTH. Now, Ms. Kraus, my opinion as I understand it is that GSP benefits really should go to the newly industrialized countries because the really lesser developed countries—the ones that are in most need—aren't qualified to use it?

Ms. KRAUS. That is not exactly correct. I think that GSP benefits should go to both. If I may use an example of my own company, Kenner Products, began manufacturing toys in the Orient in Hong Kong, Taiwan, and Korea. A few years ago, we started two new facilities, one in Mexico and one in Haiti. The Mexican facility is doing very well and is producing products. After about 2½ years, we closed the Haiti facility. We ran into a lot of problems—lack of vendor base, lack of infrastructure. We tried to do what we could but ultimately gave up.

We are in favor of the GSP Program because it does encourage companies to source from a wide variety of developing countries; but there is only so much the program can do.

Senator DANFORTH. Mr. Cooke, these little plush items—they are little animals; is that what they are?

Mr. COOKE. Yes.

Senator DANFORTH. What would happen if GSP were removed from Taiwan, Korea, and Hong Kong? What would happen to your company?

Mr. COOKE. GSP has been removed from Korea and Taiwan, so the products are dutyable, and they have reached the industry in both those countries. They have reached a level of competitiveness where they are competitive with other countries, such as Japan and Germany. Initially, back in 1976, a lot of plush products came from Japan. The GSP gave the Korean industry an opportunity to bring itself up to a competitive level. When it reached that competitive level based on volume, GSP was removed. Now, the product is moving to another country because Korean wages are much higher, as previously given, than China. The little product, the 2-inch product, is starting to be produced in China, because at the end of the day it has to be price-affordable or at a price point acceptable to the U.S. consumer.

Senator DANFORTH. Senator Baucus.

Senator BAUCUS. I would like to ask any of the panelists who would like to answer this. The question that comes to mind is whether it is fair for some American industries to bear the burden of what are not their problems? Is it fair for GSP to be continued in order to get leverage on such issues as intellectual property rights and infringements and other unfair trade practices of other countries, when they didn't cause those problems?

Mr. GORTIKOV. One advantage of the current act is that it permits, as I understand it, selectivity so that a benefit in respect to furniture can be given or withdrawn without encumbering any of the other products or thrusts of the act.

Senator BAUCUS. The general rule, as I understand it, and this is one of the points of the provision, is that it gives leverage. It just seems to me that, as a policy, that that is an unfair burden on innocent American industries—

Mr. GORTIKOV. We can be hurt by the use of that leverage but I think, in deference to the public policy objectives, that the current selectivity provision of the law is the one that should transcend.

Senator BAUCUS. It seems to me that one of the bigger problems is the wage issue, and that is why some companies are going offshore. Senator Danforth gave an example in Hong Kong, and he talked to us about how most toy manufacturers move offshore because of wage rates. In the United States, the average wage rate was approximately \$9.10 an hour; in Hong Kong, the wages for roughly that same procedure were approximately \$1.25 or \$1.50, and in Beijing it was \$0.50 an hour.

It seems to me that that is the main reason why all the toy manufacturers are going offshore, and that is lost jobs. That is lost American jobs. The degree to which low wage rates are a part of the problem, that should be addressed directly. We shouldn't use leverage extensively, because I personally don't think leverage works that well, especially leverage in countries where the products just should be graduated.

I frankly have a problem with using per capita income, too. That assumes that a certain country has the same income distribution as we like to think we have or that ostensibly some democratic countries have. It seems to me that to some degree per capita income is irrelevant in all this, when the country does not have the same income distribution as we like to think we have.

Although that country may have a certain per capita income on average, it is exploiting its people to some degree in order to sell more of its products overseas. I don't have a lot of sympathy for countries like Korea, Taiwan, and Hong Kong. It is my impression after visiting those countries that the need for GSP need is much less than it was in 1976 or 1984.

Senator DANFORTH. Thank you very much for your testimony. That concludes the hearing.

[Whereupon, at 11:19 a.m., the hearing was adjourned.]

[By direction of the chairman the following communications were made a part of the hearing record:]

**BEFORE THE UNITED STATES SENATE  
COMMITTEE ON FINANCE**

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**DENIAL OF GSP ELIGIBILITY FOR  
THE REPUBLIC OF KOREA AND TAIWAN**

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**Statement of J. Edward Beck, Jr.  
President, Bitrek Corporation,  
Waynesboro, Pennsylvania  
on behalf of the  
American Couplings Coalition**

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**July 1, 1986**

## **I. INTRODUCTION**

The Generalized System of Preferences ("GSP") was created by the General Agreement on Tariffs and Trade ("GATT") as a means of assisting the economic development efforts of the world's less developed countries ("LDCs"). Under the United States' GSP program, eligibility for duty-free benefits depends on a country's designation as a "beneficiary developing country" ("BDC"). The question before the Committee as applied to the Republic of Korea ("Korea") and Taiwan is whether these nations have outgrown the status of beneficiary developing countries within the meaning of the GSP provisions. We believe that they have outgrown BDC status and, for that reason, should not continue to receive the privileges created by the GSP.

Korea and Taiwan are remarkable countries filled with remarkable people. Both are orphans of war and have been forced to maintain a high state of military readiness for more than three decades. They are without substantial natural resources and must rely instead on the efficiency of their people. They are densely populated with relatively little arable land. Their currencies are necessarily heavily restricted in the shadow of powerful military foes. Currently, the political, military and economic fortunes of both are closely linked to the United States.

Despite these similarities, Korea and Taiwan have chosen very different approaches to developing their economies. Korea has chosen to encourage and assist giant companies, reaching toward world class dominance in such key industries as construction, steel, machine tools, shipbuilding and, more recently, automobiles. Taiwan, on the other hand, while encouraging economic development, has not overtly directed private enterprise and, as a result, has spawned thousands of successful companies in hundreds of industries and has attracted outside capital to an exceptional degree.

Korea and Taiwan do share economic miracles. Korea started with virtually nothing in the mid-1950's and Taiwan with very little in the late 1940's, and both have become industrial powerhouses today. These are nations that have earned our admiration. Not only have Korea and Taiwan become fully industrialized countries, they have systematically established comparative advantage in key industries. For that very reason, they no longer require our special support reserved by the GSP for economically disadvantaged nations. Under section 502(b) of the Trade Act of 1974 (19 U.S.C. §2542(b)), countries ineligible for designation as "beneficiary developing countries" include two distinct types of countries -- those that are regarded as industrialized countries and those that have interests inimical to the United States. Korea and Taiwan have earned the status of the former group, and should therefore be declared ineligible for GSP benefits.

These newly industrialized countries have achieved significant advantages over the OECD countries (including the United States) and it is past time to recognize that vital portions of our industrial infrastructure have been permanently impaired as a result. The piecemeal approach to exempting products from the GSP is slow, cumbersome and, in many cases requires severe damage before action is forthcoming. In the case of dynamic countries such as Korea and Taiwan, this approach is too little, too late. This is not a petition for relief, but merely a request to level the playing field, to treat these good and fortunate friends as we treat our other good and successful friends in Europe and Japan.

This statement is submitted on behalf of the American Couplings Coalition ("ACC"), an ad hoc association of U.S. producers of steel couplings. 1/ The ACC believes

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1/ Other members of the ACC include Picoma Industries, Houston, Texas and L.B. Foster Co., Pittsburgh, Pennsylvania.

that neither Korea nor Taiwan should be eligible for GSP benefits, but that even if these countries remain generally eligible for GSP benefits, couplings imports from Korea and Taiwan should be denied GSP treatment. In the course of presenting our views, we will explain in general terms how our products are manufactured, including the key role of steel pipe as a raw material, and the impact of the rapid industrialization of Korea and Taiwan on our industry. We state our narrower industry views for frame of reference but will address our recommendations to the central question before the Committee -- that is, the continued appropriateness of granting Korea and Taiwan GSP benefits.

## II. THE U.S. COUPLINGS INDUSTRY

### A. The Product

A coupling is a short pipe threaded on the inside. The purpose of a coupling is to join pipe and tube in such a way as to permit their use for the conveyance of gases, liquids and electrical wiring. There are primarily three categories of couplings: standard, used most frequently for plumbing applications; casing or OCTG (oil country tubular goods) couplings, which are produced to the standards of the American Petroleum Institute ("API") and used with casing, tubing and drill pipe in drilling oil and gas wells and transporting the oil and gas to the surface; and conduit couplings, used as conduits for electrical wiring.

Four separate items of the Tariff Schedules of the United States Annotated ("TSUSA") apply to "loose" couplings: 610.8636, which covers both standard and nonalloy casing couplings; 610.8642, which covers alloy casing couplings; 688.3210, which covers threaded rigid and intermediate weight conduit couplings; and 688.3220, which covers electrical metallic couplings.

The raw material used to manufacture steel pipe couplings is steel pipe. There are various categories of steel pipe used in the coupling manufacturing process which can be categorized by chemical composition and method of manufacture. The coupling manufacturer cuts, faces and threads the pipe in order to produce the final product. The process will vary, of course, depending on the nature of the pipe and the intended purpose of the coupling. The internal threading (tapping) of the coupling is the most difficult step of the process.

Typically, the cost of the raw material will be 45 to 50 percent of the price of the coupling. Attempts to cut raw material costs below this level often lead to manufacturing difficulties and an inferior coupling thread. When raw material costs rise substantially above this level, coupling manufacturing becomes unprofitable. For this reason and because couplings are often used with pipe, there is a positive correlation between the pricing of pipe and the pricing of couplings. If the prices of these products do not move in tandem, the consequences can be dire for the coupling manufacturer. For example, stable raw material costs and lower coupling prices squeeze the manufacturer's profitability and lower demand for pipe as reflected by lower prices reduces the manufacturer's sales.

In turn, the most expensive portion of the steel pipe manufacturing process is the raw material cost, typically reaching 70 percent of total cost. In order to build and maintain a steel pipe coupling industry, the two most important ingredients are a stable market for the product and a reliable and reasonably priced source of raw material.

### B. Market and Market Conditions

There is a separate market and set of market conditions for each type of coupling. In 1970, there were four primary manufacturers of couplings. All four manufactured the three types of couplings. In addition, manufacturers of steel pipe also manufactured steel pipe couplings for all or part of their needs. For purposes of looking

at this market, the steel pipe manufacturers shall not be counted for three reasons. First, they manufactured for their own consumption only -- that is, for screwing on to their own pipe. Secondly, all but one have ceased to manufacture today. Finally, the Tariff Schedules of the United States distinguish between pipe threaded and coupled (i.e., with coupling attached) and "loose" couplings. The former is considered part of the pipe to which it is attached.

Coupling manufacturing in 1970 was oligopolistic. The cost of manufacturing acceptable quality couplings was substantial. Machinery for finishing some coupling products was not available and had to be built internally by the coupling manufacturers. Evolution in production technology was slow or nonexistent. Profit margins were high and so were wages. Consumption was not growing.

High margins and improved technology first attracted one new company in 1971 which specialized in standard couplings. Prices were not affected and market share was lost slowly and imperceptibly by the "big four" in the beginning. Then in 1973, OPEC changed the world, followed closely by the Japanese machine tool industry. High oil prices created exponential growth for the casing coupling -- exponential because the deep well drilling which developed utilized not only casing and tubing in proportion to the footage drilled, but layers of pipe inside pipe as the wells reached unprecedented depths. The new CNC lathes developed by the Japanese made it possible for small manufacturers to enter the field. By 1981, the number of casing coupling manufacturers had grown from 4 to 70. Imports, mostly from Japan, skyrocketed. The original four all built large, modern and highly productive manufacturing plants in the Sunbelt. Still, through the end of 1981, demand continued to outdistance supply. Prices rose throughout the period despite capacity growth.

In 1982, the bubble burst. OPEC-imposed oil prices began to slide slightly. The perception of unlimited oil price increases changed and with that change deep gas well drilling ceased and offshore oil drilling slowed. (See Appendix I.) Demand for OCTG couplings fell. The economics of standard and conduit couplings had also changed. By 1981, key portions of both markets had tipped against the "big four." Substantial import penetration had overtaken the conduit market. The new competitors had obtained substantial market share through OEM accounts rather than through the traditional wholesale distribution system, creating, in effect, dozens of new competitors. As U.S. steel pipe manufacturers began to lose substantial market share, coupling demand also declined since much non-OCTG pipe entered the U.S. threaded and coupled. Despite the high levels of modernization, the industry was in trouble. New competition from Korea and Taiwan began to grow rapidly from 1980 onward as modern pipe mills flooded the market with pipe and pipe couplings.

More recently, the steel product voluntary restraint agreements ("VRA's"), which took effect in 1985, lowered world pipe and tube prices by diverting pipe capacity meant for U.S. production to other markets. At the same time, the VRA's permitted U.S. pipe and tube prices to rise. Thus, our foreign competitors received lower raw material costs at the same time raw material costs rose for U.S. coupling manufacturers. The impact was devastating. The early 1986 collapse in oil prices and U.S. drilling activity was the latest blow to OCTG coupling manufacturers.

Of the original "big four," only two still manufacture couplings. Of the 70 casing coupling manufacturers that emerged in the 1970's, perhaps a dozen are left. At one time, 19 of the coupling manufacturers employed an estimated 3,200 people. As of this writing, about 2,000 have permanently lost their jobs and another 800 are currently idle. Meanwhile, imported couplings -- increasingly from Korea and Taiwan, which do not, of course, pay duty at the average of 7 percent that other competitors must pay -- have surged.



Unlike portions of the steel and steel pipe industries, U.S. coupling producers generally have far more productive operations than their foreign counterparts. Because of superior productivity, the far lower hourly labor costs of Taiwan and Korea are not an important factor in price differentials. The key factor is raw material cost (recall that raw material cost is 45 to 50 percent of the selling price). An additional factor is duty-free entry under the GSP, which reduces the U.S. selling cost by 7 percent of what it otherwise would be. This compares to the 2 - 5 percent direct labor costs incurred by a typical manufacturer.

Appendix II compares the raw material costs of one manufacturer in the United States with a recent price quotation from a Taiwanese coupling vendor. In comparing the raw material cost of the U.S. company in the left-hand column with the quoted prices of the Taiwanese company on the right, you will note, for example, that the U.S. raw material cost for 1/8" couplings is \$4.72 per hundred versus a Taiwanese sales price of \$8.75 per hundred. If you add about 7 percent for freight and insurance, the Taiwanese couplings are \$9.36. In the more common 1/2" size, the U.S. raw material cost is \$9.24 per hundred versus the Taiwanese sale price of \$11.18 (or \$11.96 including freight and insurance). In the also common 2" size, the U.S. raw material cost is \$47.04 per hundred versus the Taiwanese price of \$59.21 plus freight and insurance or \$63.35. The largest 6" size shows the U.S. raw material cost to be \$637.46 per hundred versus the aggregate Taiwanese price of \$665.23. Charting this example yields the following comparison of selling prices:

	<u>U.S. price per 100</u> (2 x raw mat'l cost)	<u>Taiwan price per 100</u>	<u>Difference</u>	<u>Margin of Underselling</u>
1/8"	\$ 9.44	\$ 9.36	\$ .80	8.5%
1/2"	18.48	11.96	6.52	35.3%
2"	94.08	63.35	30.73	32.7%
6"	1,274.92	665.23	609.69	47.6%

The U.S. quality in this case is superior but the price differential is enough to sway a buyer's decision in many cases. The full tariff would help a great deal.

For those proponents of "comparative advantage" who would argue that the Taiwanese manufacturer should be permitted to eliminate the U.S. manufacturer; it should be noted that experience during the '70's demonstrated that when demand outstripped supply, foreign prices -- in that case, Japanese -- were 10 percent higher than U.S. prices. When demand fell, so did the Japanese prices to a level of 10 to 15 percent under U.S. prices. Unfortunately, the U.S. manufacturer under sustained price pressure will likely be forced to abandon the marketplace permanently. At that point, the foreign producer may begin to recover its profit.

### C. Import Trends

Appendices III-VI contain import data for the relevant coupling TSUSA numbers for 1982-85. Several items should be noted about these data -- the Korean and Taiwanese market shares of imports of each item individually, their respective ranking in each category, and their respective market shares and rankings for the aggregate of the four categories. From 1982, the overall coupling market fell 25 percent, reflecting the fall in demand for OCTG. However, Korea increased its U.S. exports during that period by 137 percent and rose from three percent to 10 percent of total imports. Taiwan's exports in these categories rose 377 percent and rose from one percent to eight percent of the total import market. Data for 1986 should reveal an even greater increase for both countries.

Our purpose in the above example is to demonstrate the competitiveness of the imports of these countries. Picoma Industries, a member of the ACC, has already filed a petition before the U.S. Trade Representative's Office to withdraw GSP with respect to couplings because of the import sensitivity of these products.

#### D. The VRA's

In December 1984, the U.S. Trade Representative's Office entered into a series of "voluntary restraint agreements" designed to freeze imports of pipe and tube at certain percentages of the U.S. market. Couplings are not presently covered in the VRA's in loose form. Korea was included in the VRA's, Taiwan was not. As discussed above, shortly after the VRA's began to take effect, most of the U.S. pipe manufacturers raised their prices (including the prices of coupling stock) by five to 10 percent. At about the same time, the oversupply of pipe diverted away from the U.S. market placed downward pressure on pipe prices in most of the world including in Taiwan, which was not a party to the VRA's. The resulting drop in foreign raw material costs further pushed coupling prices in the U.S. lower.

There are at least 13 TSUSA codes covered in the VRA's which include couplings. Why would a country limited by a VRA place a coupling on pipe and increase the weight (not to mention its duty costs, given that coupled pipe is not eligible for GSP)? Apparently, in many cases foreign exporters were getting it both ways by adding couplings after issuing invoices for the pipe. The original invoice was the one used for the VRA's, so that the pipe came into the United States threaded and coupled as ordered without limiting U.S. imports. The U.S. Customs Service has moved to stop this fraudulent practice by spot-checking shipments of pipe and tube for weight.

### III. KOREA

#### A. The Economy

The Korean economy has experienced very rapid and steady growth over the past three decades. Between 1962 and 1979, the gross national product ("GNP") grew at an annual rate of 9.5 percent. In 1980, during a period of political instability, GNP contracted by 5.2 percent, but in 1981, the economy regained its momentum and has averaged over eight percent since 1980. The per capita GNP was \$87 in 1962, \$965 in 1977, \$1,279 in 1978, and over \$2,000 in 1985.

Significantly, Korea was able to achieve this growth with few natural resources. When Korea was divided, most of the mineral deposits, the arable land and the factories were left to the North. The natural resources Korea does have are coal (although a net importer), tungsten and graphite. Only 22 percent of the land is arable. Korea's one substantial resource besides its highly industrious people is its abundance of excellent harbors.

The government plays a dominant role in the Korean economy. No substantial investment -- domestic or foreign, import or export -- or substantial loan can be accomplished without prior government approval. In addition, the government owns either all or a controlling interest in 30 companies in key industries, including Korea's huge crude steel producer, Pohang Iron and Steel Co. ("POSCO"). The banking system is under total government control. In addition to the central bank -- the Bank of Korea, a government agency -- the government owns a controlling interest in all five national commercial banks.

The Korean government develops detailed five year plans and uses its intricate controls over the economy to implement them. It thus can divert funds into industries it deems to be of strategic importance, such as shipbuilding (which it did successfully) or machine tools (which it did unsuccessfully), and away from industries it regards less highly, such as textiles (which nonetheless remains the most reliable export

industry). The government also seeks to discourage "ruinous" domestic competition in the industries it has targeted. Recently, for example, the government turned down Hyundai's bid to build a greenfield steel mill, leaving POSCO as Korea's sole steel producer.

Korea has a relatively high foreign debt -- fifth highest in the world at \$50 billion -- but is generally regarded as an excellent credit risk. It has not once defaulted nor rescheduled any portion of its debt. Its borrowed funds have been spent principally on its rapid industrialization, and most of these investments have done very well.

Korea's merchandise trade reached a worldwide surplus for the first time in years during 1985 and continued to improve in 1986. Its surplus with the United States reached \$4.8 billion in 1985. The continued decline of the dollar, to which the Korean won is tied, improves Korea's trade prospects against such rivals as Japan and the EEC. Low interest rates and commodity prices -- principally oil -- should also contribute to Korea's international competitiveness.

#### **B. Industrialization**

Korea has become a world leader in such industries as shipbuilding, construction, steel, and textiles. It is also a fierce international competitor in such industries as shipping, consumer electronics, cement and, most recently, automobiles.

Korea moved into the number two position in the world in shipbuilding in 1983 with 20.5 percent of the world market, up from only two percent a decade ago. Korea's shipyards are among the most modern in the world. Although the maritime industry internationally is depressed, the Korean industry currently has orders well into 1987. See Appendix VII. Since Japan is Korea's most important competitor, the recent rise of the yen should further boost Korea's position despite the world slump.

Korea has gained more international attention in the construction industry than in any other. In this fiercely competitive field, Korea has emerged as an exceptionally tough competitor. Overseas construction peaked in 1981 at over \$13 billion and 175,000 workers overseas, then fell to \$4.7 billion and 100,000 workers in 1985 as major projects in the Middle East wound down. The Overseas Construction Association believes a sustainable level of \$4 billion will be reached this year.

Hyundai has proven that the Korean automobile industry can compete in the world marketplace. It has taken Canada by storm with the Pony and had an early success in the United States. By the end of 1986, Hyundai expects to have annual capacity of 550,000 cars, and by the end of 1987 it expects capacity to reach 700,000. Total Korean capacity is expected to reach 903,000 by the end of 1985 as Daewoo's new plant comes onstream.

The electronics industry is expected to be an important export contributor for the future. Total Korean electronics exports reached \$2.9 billion in 1983. Emphasis is being placed on ever-increasing levels of technical sophistication, so growth is likely.

As the International Trade Commission and the U.S. Trade Representative's Office are well aware, the Korean textile industry is perhaps the most competitive in the world. Korea was second to Italy in textile exports at \$6.6 billion in 1984.

#### **C. Steel**

Korea has become a highly competitive supplier of steel products to the world. With the completion of the government-owned Pohang Iron and Steel Works in 1974, Korea became one of the most efficient crude steel producing countries in the world. That plant now produces over nine million tons of steel annually, making it the tenth largest in the free world. Including POSCO's electric furnace facilities, Korea's

annual steel capacity stood in excess of 14 million tons in 1986. POSCO is building a second greenfield mill at Kwangyang which is scheduled to open in 1987. Its initial capacity is 2.7 million tons and is planned to be an even more efficient facility than the Pohang works.

In 1984, Korea exported 6.5 million tons of its steel production. It has been dubiously recognized by the U.S. Trade Representative as a tough international competitor by its inclusion in the VRA program in December 1984. Its total steel pipe capacity at the end of 1984 was nearly three million tons and total production of steel pipe in that year was approximately 1.9 million tons.

By 1984, the United States was Korea's biggest customer for steel and its only significant growing market. According to information gathered at the U.S. Embassy in Seoul from the Korea Steel Association, the following represents Korea's steel exports by destination (in thousands of dollars):

	1982	1983	1984
East and South-Asia	1,072,783	968,092	1,011,369
Japan	495,689	459,621	441,459
Taiwan	50,558	13,349	14,304
Indonesia	85,334	62,401	41,608
Others	441,202	432,721	513,998
Middle East	438,614	504,667	409,440
Saudi Arabia	364,794	446,285	343,385
Kuwait	24,486	19,810	22,522
Others	49,334	38,572	43,533
Europe	71,669	36,183	21,221
European Community	60,648	25,987	16,637
Others	21,021	10,196	4,584
North America	473,109	724,425	963,743
U.S.A.	448,906	699,749	920,506
Canada	24,202	24,676	43,237
Latin America	56,236	24,285	37,052
Africa	36,679	28,692	55,362
Oceania	64,082	46,084	55,563
Australia	55,644	41,253	49,444
Others	8,438	4,831	6,119
Other Areas	122,617	105,017	61,465
<b>TOTAL</b>	<b>2,345,780</b>	<b>2,437,444</b>	<b>2,615,215</b>

Significantly, in 1982, Japan was Korea's largest customer for steel, accounting for \$495 million of Korea's exports, compared to \$449 million for the United States. Between 1982 and 1984, however, Korea's steel exports to Japan fell by 11 percent while exports to the United States more than doubled. Indeed, Korea's exports to all countries other than the United States fell by 11 percent over this period, with the result that the share of Korean steel exports destined for the U.S. market increased from 19 percent of the total in 1982 to 35 percent in 1984. Exports of couplings were a significant contributor to this increase.

#### IV. TAIWAN

##### A. The Economy

Like Korea, Taiwan has experienced rapid and steady growth over the past three decades. Its average real GNP growth rate since 1952 exceeds nine percent. The

past two years, it has averaged 10.5 percent. The GNP in 1985 reached \$59.8 billion, and per capita income rose 10.4 percent to \$3,400.

Also like Korea, Taiwan was born in war and without adequate natural resources. The resources that are available are low in quantity and nearly inaccessible. For instance, Taiwan is the least efficient coal producer in the world. Taiwan has slightly more arable land than Korea (30 percent) but much of that is located on terraced mountain slopes. What it does have in abundance is a large, efficient workforce.

Taiwan has had a huge surplus in its balance of trade the past five years and a positive balance 13 out of the last 15 years. The 1985 surplus with the United States reached \$13.1 billion, over 20 percent of its GNP. Its only chronic trade deficit is with Japan. Its huge trade surplus, import barriers and reputation as the world's largest exporter of pirated goods have created trade friction with the United States.

The trade surplus has also created perhaps the most remarkable fact about Taiwan: it has \$26 billion in foreign exchange holdings, the fifth largest in the world. That compares with \$28 billion held by Japan and \$35 billion by the United States. Taiwan will undoubtedly pass Japan this year and could pass the United States soon. At the present rate, Taiwan has the reserves to finance 16 months of imports, and its reserves exceed all of Taiwan's banks' lending combined. The country has virtually no foreign debt. Last year, savings reached 33 percent of GNP.

#### B. Industrialization

The organization of Taiwan's industry differs mightily from Korea. Taiwan is heavily industrialized and obviously export oriented. However, manufacturing is principally the work of the entrepreneur. Fully 85 percent of all factories employ 50 or fewer people; 87 percent have sales of less than \$1.25 million and 89 percent have fixed assets of \$250,000 or less.

Furthermore, Taiwan has actively encouraged foreign investment. U.S. investment in Taiwan stood at \$1.38 billion at the end of the 1984. A host of U.S. companies have flocked there. Many people are convinced that it is the U.S. multinationals' manufacture of products and components exclusively for export to the United States that has created an intractable trade imbalance between the United States and Taiwan.

The leading export industries are electronics, textiles, footwear and machine tools. The government does play a central role in the economy by its control of commercial banks and key industries. For example, China Steel, which produces nearly 1.8 million tons of crude steel annually, is owned by the Taiwanese government. The government also encourages investment and export through low interest loans and tax incentives.

#### C. Steel

Taiwan is not a major exporter of either steel or pipe and tube. New production planned for China Steel is apparently targeted for automobile content. Pipe and tube production peaked in 1983 at over 500,000 tons. While these numbers do not reflect a threat to the U.S. pipe and tube industry, they evidence an industry capable of supplying the needs of Taiwanese steel pipe coupling producers.

### V. KOREA, TAIWAN AND THE GENERALIZED SYSTEM OF PREFERENCES

#### A. Korea

Korea is obviously a very important trading nation. It has established world leadership capabilities in key industries such as shipbuilding and textiles. It has achieved

superior capabilities in steel and electronics, and promises more in both industries. It has developed international competitive capabilities in automobile production.

Korea has grown from a war-torn dependent nation with a per capita income of \$87 in 1962 to well over \$2,000 annually today. Its GNP passed \$80 billion in 1984 and is rising at a rate in excess of eight percent annually. It has built a modern infrastructure for transportation, communications and energy. Its literacy rate exceeds 90 percent. Its unemployment rate is an enviable four percent.

Korea has the capability of competing as an equal in a wide spectrum of industries with all OECD nations. The time has come to treat Korea as the industrial equal that it is with the responsibilities that ensue and end its status as a beneficiary developing country.

#### B. Taiwan

Taiwan has not reached for dominance in any strategic industry. It has, however, capitalized mightily on the unharnessed cultural proclivities of its Chinese culture. Small family firms dominate its economy and generate a versatile industrial climate ready to adjust to any and all changes that might occur in the world economy.

Taiwan per capita income has grown at a rate of over nine percent annually since 1952 and should begin to pass some of the EEC members by 1987 (Greece was at \$3,920 with a four percent growth rate and Spain at \$4,780 with a three percent growth rate at the end of 1983, according to the World Bank's World Development Report 1985). It has also assembled one of the most formidable foreign exchange reserves in the world.

Taiwan is adding wealth at an accelerating rate. It, like Korea, is certainly a competitive equal to any country in the world. It is time to treat Taiwan as the industrialized nation it has become.

#### C. The New Developmental States

Korea and Taiwan have succeeded in pursuing the development policy that the United States has encouraged through the GSP. Government planning, a world marketplace (or rather a U.S. marketplace), the implementation of these plans through, inter alia, a governmental banking system, import barriers and aggressive governmental export promotion, and the incentives of capitalism have all been woven into a winning formula. The problem is that such winning combinations create losers that do not have these advantages. The loser is the United States. It has been argued that the U.S. trade deficit will reach \$50 billion with four countries -- Korea, Taiwan, Hong Kong and Singapore -- that have aggregate populations of about half of Japan and less than 30 percent of the United States.

Zysman and Cohen stated the problem very well in 1982 in the The Mercantilist Challenge to the Liberal International Trade Order prepared for the Joint Economic Committee of Congress:

Such late developers have a series of advantages which include the ability to apply the best available technology, which in established industries is not difficult to obtain or to use. The developmental state, then, pursues clearly defined goals of industrial expansion rather than attempting simply to umpire the economic rules while leaving the economic outcomes to be settled in market competition. The developmental state is to be distinguished by its purposes of systematically promoting growth from the liberal or regulatory state of American economic political theory. The capacity of a government to

act as a player in the market in pursuit of developmental goals rests on specific financial and administrative arrangements that in fact virtually demand government intervention in the workings of the market,

Id. at 9.

Thus, in Taiwan and Korea, government and industry coordinate their plans and activities to create advantage. It is not that we see anything sinister in the motives or implementation of these plans. Indeed, Korea and Taiwan are to be admired for their success. Rather, we see the problem as the disorderly way in which the U.S. government has responded. Alternating between import incentives such as the GSP and regulated markets such as the VRA's, the government has created chaos. It waited until the steel industry was in deep trouble to respond at all and then responded in a way that has exacerbated the industry's problems.

We are not asking for a radical change in policy here. We simply ask that Korea and Taiwan be invited into the fold of recognized industrial nations and be treated as equals with respect to tariff policy.

#### **VI. CONCLUSION**

The benefits of the Generalized System of Preferences should be removed where beneficiary countries have achieved demonstrated capabilities to develop without special assistance from recognized industrialized countries. Korea and Taiwan are there.

The GSP as applied to couplings has assisted manufacturers in Korea and Taiwan in gaining a larger share of the U.S. market at a time when the market itself has been plunged into a deep slide by the deterioration of oil exploration in the United States.

The VRA's imposed by the U.S. government on pipes and tubes, including attached couplings, has further added to the advantages of foreign coupling manufacturers in general and of Taiwanese and Korean manufacturers in particular because of the availability of cheaper raw material, the rise of the Japanese yen and the GSP.

While efforts to withdraw GSP treatment for couplings will be pursued in the U.S. Trade Representative's Office, this piecemeal approach is not the right kind of solution for the American economy as a whole. The time has come to recognize the nature of the new relationships we enjoy with our trading partners. Simply protecting or sacrificing damaged industries is not an appropriate response and waiting several years in the hope that a more equitable relationship will emerge from a proposed new GATT round will be too late for many U.S. industries.

We urge you to take one small step to steady the trade balance: Revoke Korea's and Taiwan's status as beneficiary developing countries under the Generalized System of Preferences, and require them to compete in the U.S. market as the competitive equals they have become.

## APPENDIX I

## Reported U.S. drilling 1959-1984

YEAR(S)	OIL		GAS		DRY		SERVICE AND SUSPENDED		TOTAL	
	Wells	Footage	Wells	Footage	Wells	Footage	Wells	Footage	Wells	Footage
1959-1970	7,486	N.A.	...	...	3,173	N.A.	...	...	10,661	N.A.
1971-1980	20,943	N.A.	...	...	3,618	N.A.	...	...	24,561	N.A.
1981-1990	33,621	N.A.	317	N.A.	5,011	N.A.	...	...	39,749	N.A.
1991-1990	78,857	N.A.	157	N.A.	19,405	N.A.	...	...	98,419	N.A.
1901-1910	136,846	N.A.	5,524	N.A.	34,480	N.A.	...	...	176,850	N.A.
1911-1921	165,928	N.A.	20,937	N.A.	44,512	N.A.	...	...	231,377	N.A.
1922-1925	80,423	N.A.	10,855	N.A.	28,865	N.A.	...	...	120,143	N.A.
1926-1930	73,404	N.A.	13,828	N.A.	36,468	N.A.	6,684	N.A.	132,384	N.A.
1931-1935	54,054	N.A.	7,634	N.A.	20,652	N.A.	5,681	N.A.	89,021	N.A.
1936-1940	98,502	N.A.	11,545	N.A.	32,872	N.A.	9,544	N.A.	152,463	458,386,862
1941	19,580	N.A.	3,279	N.A.	7,290	N.A.	2,361	N.A.	32,510	89,347,714
1942	10,977	N.A.	2,790	N.A.	5,962	N.A.	2,281	N.A.	21,990	67,903,053
1943	8,887	31,403,856	2,390	6,722,529	6,384	21,196,372	1,708	2,689,100	20,349	81,991,857
1944	13,502	47,013,685	3,078	8,908,641	7,153	25,293,694	2,053	3,262,397	25,786	84,378,453
1945	13,944	51,326,513	3,192	10,567,612	7,348	27,633,205	2,187	3,424,783	26,649	92,962,117
1946	16,087	56,622,477	3,562	12,235,594	8,496	29,021,562	2,085	3,245,180	30,230	101,124,813
1947	17,613	62,587,838	3,720	13,248,958	9,751	33,898,843	2,063	3,100,584	33,147	112,816,124
1948	22,197	78,461,094	3,312	12,500,367	11,939	42,521,976	2,029	3,225,716	39,477	136,708,153
1949	21,415	79,462,544	3,499	12,880,524	12,898	44,408,405	1,150	1,895,468	38,962	138,616,941
1950	23,775	92,445,871	3,480	14,002,468	14,918	51,362,163	1,134	1,951,230	43,307	159,761,732
1951	23,532	95,474,565	3,542	14,508,384	17,497	64,299,301	1,425	2,474,717	45,996	176,757,221
1952	23,371	98,263,400	3,683	18,070,080	19,211	71,943,349	1,234	2,116,240	46,509	188,322,685
1953	25,251	102,055,496	4,232	19,473,259	18,759	74,850,087	1,230	2,107,782	49,480	199,431,003
1954	26,083	113,392,112	4,219	19,886,630	19,137	76,595,700	778	1,421,716	52,197	211,206,158
1955	30,474	122,087,959	4,169	19,588,823	20,564	85,576,146	672	1,278,680	55,879	227,529,688
1956	30,641	120,429,185	4,495	22,582,694	22,254	90,440,348	1,028	1,924,214	58,418	235,366,441
1957	27,519	110,548,436	4,322	24,225,753	20,250	83,383,826	1,392	2,705,561	53,783	220,853,578
1958	24,311	93,548,648	5,029	25,385,401	18,421	74,983,087	1,340	2,580,182	49,101	188,507,188
1959	25,532	97,188,133	4,870	26,538,041	18,669	79,744,186	1,108	2,728,825	50,179	206,198,165
1960	22,258	86,568,368	5,148	28,246,189	18,212	77,360,794	1,212	2,467,968	46,831	194,643,317
1961	21,437	85,625,677	5,486	29,291,780	17,331	74,715,968	1,390	2,817,675	45,644	182,451,100
1962	21,727	88,431,757	5,353	28,949,750	17,078	77,252,612	1,838	3,584,557	45,997	188,218,576
1963	20,135	81,809,432	4,570	24,532,800	16,762	76,306,764	1,659	3,314,748	43,126	185,963,334
1964	19,905	80,463,338	4,694	25,587,346	17,694	81,359,311	1,856	3,547,250	44,149	190,867,245
1965	18,065	73,322,134	4,482	24,930,859	15,226	75,629,088	1,601	3,370,819	40,374	178,252,878
1966	16,216	67,430,165	4,321	25,635,979	15,193	72,353,461	1,793	2,673,531	36,883	168,083,136
1967	15,073	59,800,120	3,602	21,481,984	12,958	63,440,482	840	2,257,531	32,473	146,980,117
1968	13,982	59,330,239	3,329	20,151,701	12,954	68,239,219	674	2,291,260	30,939	150,012,418
1969	13,213	59,980,115	3,658	21,828,810	13,076	70,097,967	870	2,391,478	30,815	154,296,370
1970	12,398	56,182,839	3,225	19,829,895	11,161	59,938,096	624	1,685,643	27,408	137,636,273
1971	11,516	50,427,048	3,399	20,046,470	10,448	56,618,461	720	1,968,455	26,077	129,053,434
1972	11,139	50,451,543	4,777	26,593,032	11,171	60,720,398	777	2,283,616	27,964	140,048,589
1973	9,555	44,950,656	5,894	32,982,674	10,017	54,306,877	615	1,964,583	26,081	134,204,790
1974	13,719	56,493,978	7,032	39,442,215	11,867	63,970,825	852	2,169,618	33,470	162,076,638
1975	16,626	69,465,284	7,437	42,010,115	13,203	68,410,294	1,121	2,854,081	38,387	182,739,774
1976	16,389	65,457,641	8,003	43,318,608	13,396	67,260,225	2,741	12,121,400	40,529	188,155,874
1977	17,876	73,009,716	9,836	53,944,420	14,198	74,899,559	4,196	20,324,560	46,106	222,178,255
1978	17,755	72,949,808	11,169	61,710,823	15,437	82,066,551	9,570	25,830,685	49,931	243,416,158
1979	18,051	77,089,450	13,070	70,958,735	14,947	79,541,973	4,264	20,298,265	50,332	247,888,423
1980	27,908	114,879,695	14,116	78,629,207	17,136	87,339,698	5,687	24,578,852	64,847	305,627,452
1981	37,641	152,835,436	15,188	86,072,618	22,689	114,915,740	4,946	19,702,458	80,642	373,526,250
1982	37,569	155,480,730	16,202	95,301,050	24,182	123,235,547	8,980	34,192,052	86,933	408,208,379
1983	37,931	135,794,038	13,134	73,358,059	22,308	104,238,858	7,171	30,696,532	80,544	344,087,487
1984	40,198	152,350,952	12,625	68,239,125	23,585	108,396,307	5,533	21,924,746	81,941	350,911,130

Total records not available prior to 1943.

Source: Petroleum Information Corp., World Oil, Bureau of Mines, "Petroleum in the United States and Possessions," by Arnold and Komarick, and other authoritative sources.

WORLD OIL, FEBRUARY 16, 1985



## APPENDIX II

STANDARD MERCHANT COUPLING	U.S. MFG. RAW MATERIAL COST PER 100 PC	TAIWAN SUPPLIER PRICE PER 100
1/8"	4.72	8.75
1/4"	7.29	8.75
3/8"	9.14	9.21
1/2"	9.24	11.18
3/4"	13.04	15.18
1"	19.82	25.66
1-1/4"	23.83	30.92
1-1/2"	31.53	38.16
2"	47.04	59.21
2-1/2"	112.35	134.87
3"	164.32	177.63
3-1/2"	267.12	246.71
4"	286.34	286.18
5"	486.59	499.99
6"	637.46	621.71

DATE OF TAIWAN QUOTE MAY 1986, US COST RUN MARCH 1986.

APPENDIX III

TABLE I

U.S. IMPORTS OF STANDARD ALLOW IRON OR  
STEEL COUPLERS, TUBES No. 630.8642,  
1982 - 1983, AND JUNE 1984 - FEBRUARY 1985 & 1986.  
(Quantity in pounds, Value in \$1,000's)

COUNTRY	1982			1983			1984			1985	
	Quantity	Value	AVG	Quantity	Value	AVG	Quantity	Value	AVG	Quantity	Value
Canada 1/	194,772	596	3.06	23,586	93	3.94	91,648	131	1.43	323,284	216
France	725,383	779	1.07	159,508	117	0.73	164,965	187	1.13	44,444	85
West Germany	158,142	533	3.37	88,737	425	4.79	1,434,919	1,894	1.86	575,426	925
Italy	111,811	195	1.76	129,236	140	1.08	276,324	115	0.42	88,948	111
Israel 2/	281,756	261	1.29	142,681	482	3.38	114,148	421	3.69	113,871	513
Korea 2/	44,855	51	1.16	8	8	8.00	19,448	10	0.51	281,372	194
Yaman	1,263	25	19.79	76	2	26.32	41,835	128	2.87	92,337	45
Taiwan 2/	136,911	174	1.27	572,944	511	0.89	435,737	699	1.60	938,427	1,526
Japan	1,951,838	5,581	3.06	624,449	1,249	2.00	856,968	1,237	1.44	1,282,226	2,447
Other	733,764	873	1.19	51,433	129	2.51	222,932	424	1.90	742,989	433
TOTAL	4,259,815	9,468	2.22	1,792,858	3,148	1.76	3,258,898	4,438	1.36	3,836,758	6,572

1/ Data do not include items imported under Tariff Provision 806.30.

2/ Items imported under the Generalized System of Preferences Provision.

Source: U.S. Department of Commerce

APPENDIX IV

TABLE 2

U.S. IMPORTS OF IRON OR STEEL WRENCHED FITTINGS  
FOR ELECTRICAL CIRCUITS, TDSA NO. 480.3230,  
1982 - 1985, AND JANUARY - FEBRUARY 1985 & 1986  
(Quantity in pounds, Value in \$1,000's)

COUNTRY	1982			1983			1984 1/			1985		
	Quantity	Value	AVP	Quantity	Value	AVP	Quantity	Value	AVP	Quantity	Value	AVP
Canada	2,852	11	3.86	2,750	14	5.09	10,701	32	2.99	0	0	0.00
France	0	0	0.00	1,574,139	1,050	0.67	1,290,099	883	0.69	170,185	88	0.73
Korea	34,386	30	0.87	0	0	0.00	0	0	0.00	17,527	16	0.91
Korea GSP 2/	581,383	459	0.79	1,151,057	927	0.80	1,012,092	1,064	1.03	2,062,292	1,700	0.87
Hong Kong	2,000	0	4.00	1,500	2	1.33	13,000	0	0.62	211,200	101	0.67
Japan	46,652	59	1.26	46,652	59	1.26	0	0	0.00	2,906	7	2.41
Other	44,740	106	2.37	205,522	159	0.77	72,751	67	0.92	103,766	113	1.07
TOTAL	711,941	673	0.95	2,982,420	2,219	0.74	3,189,443	2,054	0.69	2,517,076	2,153	0.86

1/ Data for Hong Kong for this year do not include items imported under the Generalized System of Preferences.

2/ Items imported under the Generalized System of Preferences Provision.

Source: U.S. Department of Commerce

APPENDIX V

TABLE 3

U.S. IMPORTS OF IRON OR STEEL FITTINGS, NEW<sup>1/</sup>,  
FOR ELECTRICAL CONDUITS, TUBES-NO. 608.3220,  
1982 - 1985, AND JAPAN - FEBRUARY 1985 & 1986.  
(Quantity in pounds, Value in \$1,000's)

COUNTRY	1982 2/			1983			1984			1985		
	Quantity	Value	AVP	Quantity	Value	AVP	Quantity	Value	AVP	Quantity	Value	AVP
France	372	2	5.38	907,334	717	0.72	2,570,385	2,187	0.85	3,012,839	2,145	0.71
West Germany	428,742	438	1.02	1,879,412	900	0.91	265,565	277	1.04	249,401	740	0.96
Switzerland	0	0	0.00	117,507	91	0.77	239,226	196	0.82	499,898	367	0.73
Israel GSP 3/	147,240	226	1.53	176,846	276	1.56	93,687	150	1.60	0	0	0.00
China	0	0	0.00	103,657	51	0.49	370,031	147	0.40	270,893	100	0.37
Korea GSP 3/	5,512	4	0.73	44,234	32	0.72	16,544	9	0.54	69,723	47	0.67
Taiwan	0	0	0.00	0	0	0.00	0	0	0	22,011	18	0.82
Taiwan GSP 3/	350	3	0.57	111,370	129	1.16	73,899	90	1.33	50,367	69	1.37
Japan	117,073	135	1.15	105,838	100	1.71	89,657	132	1.67	57,296	100	1.91
Other	69,742	132	1.91	65,010	93	1.41	175,117	551	3.15	472,731	1,211	2.57
TOTAL	768,539	940	1.22	2,791,216	2,544	0.91	3,894,211	3,747	0.96	4,699,439	4,383	0.92

1/ Not Specifically Provided For, i.e., other than threaded fittings.

2/ Data for France for this year do not include negligible quantities imported into a Foreign Trade Zone under Non-Privileged status.

3/ Generalized System of Preferences Provision.

0 negligible.

Source: U.S. Department of Commerce.

APPENDIX VI

TABLE 4

U.S. IMPORTS OF STANDARD IRON OR STEEL  
(OTHER THAN ALLOY) COILS, TUBES OR SHEETS,  
1982 - 1985, AND JANUARY - FEBRUARY 1986 & 1986  
(Quantity in pounds, Value in \$1,000's)

COUNTRY	1982			1983			1984			1985	
	Quantity	Value	AVG	Quantity	Value	AVG	Quantity	Value	AVG	Quantity	Value
Canada	2,981,686	3,716	1.25	229,538	434	1.89	2,822,148	1,913	0.75	3,291,249	3,185
U.K.	126,968	371	2.92	183,248	133	1.29	293,397	189	0.64	576,933	258
France	1,486,142	1,124	0.76	425,936	268	0.63	688,983	379	0.58	573,547	494
West Germany	125,818	393	3.14	247,966	386	1.23	2,381,145	1,288	0.54	768,836	736
Israel 1/ 2/	33,298	47	1.41	48,643	46	1.13	115,611	135	1.17	14,869	43
Korea 1/ 2/	664,364	836	1.26	1,748,599	1,373	0.79	2,178,868	1,435	0.67	1,828,516	1,235
Taiwan	458	2	4.44	31,482	43	1.37	8	8	0.88	11,843	18
Taiwan 2/	387,781	387	0.79	581,326	492	0.85	437,217	393	0.98	619,989	715
Japan	19,314,696	22,598	1.17	7,514,188	4,648	0.62	12,836,285	9,234	0.72	9,844,176	6,234
Australia	586,953	358	0.61	78,428	29	0.41	791,288	384	0.49	2,844,119	832
Other	2,314,326	2,218	0.95	148,782	189	1.34	778,999	1,176	1.51	689,438	679
TOTAL	28,821,596	31,962	1.14	11,134,888	7,961	0.72	27,435,926	16,588	0.70	19,477,835	14,311

1/ Data do not include items imported without GSP provision.

2/ Items imported under the Generalized System of Preferences Provision.

Source: U.S. Department of Commerce

## APPENDIX VII

# SINKING ORDERS

(in gross tons)  
Total order book (end-year)

	1975	1976	1977	1985
Japan	31.36	25.00	23.00	9.73
S. Korea	1.63	1.25	1.00	4.67
Finland	1.26	1.00	0.75	0.72
France	1.00	0.75	0.50	0.10
UK	1.00	0.75	0.50	0.10
Belgium	0.62	0.50	0.37	0.10
Denmark	2.00	1.50	1.00	0.48
Italy	2.30	1.75	1.25	0.41
Netherlands	0.94	0.75	0.50	0.17
Greece	0.38	0.25	0.17	0.08
Spain	1.26	0.75	0.50	0.50
S. Africa	6.52	5.00	3.75	0.12
Sweden	1.20	0.75	0.50	0.49
Norway	1.48	1.00	0.75	0.08
World Total	82.35	65.00	50.00	25.86

FINANCIAL TIMES, TUESDAY, JUNE 17, 1986

Statement of the  
Cast Metals Association  
on S. 1867  
to the  
Subcommittee on International Trade  
Senate Finance Committee  
July 2, 1966

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This statement is presented — for the record — in support of S. 1867, a bill proposing the withdrawal of trade benefits now provided under the Generalized System of Preferences (GSP) to Taiwan, Korea and Hong Kong. This graduation from GSP advantages would be based upon the per capita income, economic development and the ability to compete internationally (without preferences) of these countries.

The Cast Metals Association (CMA) represents those foundries responsible for 90 percent of the tonnage produced in the United States today. CMA is supported by the Iron Castings Society, the Steel Founders Society of America, the Non-Ferrous Founders Society and the Investment Castings Institute. Member companies of these organizations are located throughout the country.

The foundry industry is a basic industry composed today of some 3000 surviving companies which produce a large and diverse array of ferrous and nonferrous cast metal products (castings) used in 90 percent of all manufactured items, and in all machinery used in manufacturing. While 80 percent of the U.S. foundries employ less than 100 persons each, total employment in the industry is 240,000.

Price-advantaged castings from Korea, Taiwan and other foreign countries have whipsawed U.S. foundries with a long, deep recession which has seen the demise of 700 metalcasting companies since 1980. The U.S. market is flooded with low-cost foreign castings.

Foreign castings enter the United States under many different tariff classifications, such as components or integral parts of other machines, vehicles, and other products, only a few of which can be readily identified as castings. Accordingly, many observers believe that available trade data for products classified as castings do not accurately reflect the true extent of foreign competition.

Documenting the domestic foundry industry's alarm about overwhelming imports was a "Competitive Assessment of the U.S. Foundry Industry" done in 1984 as Investigation 332-176 by the International Trade Commission (ITC). This assessment, by ITC, reported that:

"Competition is growing more intense from developing countries attempting to industrialize. Those developing countries are building modern casting plants operated by low-cost labor and are exporting at least part of their production to obtain hard currency to promote further industrialization. The development of large capacity in some of the newly industrialized countries may cause radical changes in the global production of foundry products.

"Major foreign competitors of the U.S. foundry industry are Japan, Republic of Korea (Korea), India, Taiwan and Mexico."

ITC further reported that: "The Government of Taiwan has placed the castings industry on its list of strategic industries to receive priority



- 3 -

guidance and assistance in the following forms: (1) loan guarantees and a special pool of concessionary credit will be made available to strategic industries through the State Bank of Communications for the technological upgrading of existing plant and processing facilities, training of high-grade manpower, and product planning, (2) technology management and market-expansion assistance, (3) programs to encourage stepped up investments in research and development, (4) reduced import duties on machinery and (5) tax holidays for new investments and expansions of old facilities."

With such strong assistance from its own government is it really necessary for additional advantages to be offered Taiwanese foundries by the U.S. government?

The Wall Street Journal in a June 18, 1986 article about so-called newly industrialized countries reported that: ". . . some of the most eager and aggressive makers of steel, automobiles, machine tools and electronic products aren't in either Japan or Europe. They are in places like South Korea and Taiwan, whose currencies are more or less tied to the U.S. dollar. With their combination of cheaper labor and currencies that haven't strengthened against the dollar, manufacturers in those countries are enjoying an unprecedented demand for their products among American consumers. That's starting to worry the American companies that must compete against them."

In conclusion we urge the subcommittee and the committee to favorably consider S. 1867. Taiwan, Korea and Hong Kong are well past the developing stage. In their aggressive sales campaigns, foundries in these countries boast of their modern equipment and abilities. (See attached copies of solicitation letters from KHC in Korea, Noresco in Hong Kong and Taiwan

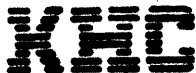
Kingbird Enterprises.)

Preferential treatment and status by the United States is no longer needed for these strong competitors. Their own governments do an excellent job of providing it.

On December 2, 1985 the Cast Metals Association filed with the International Trade Commission a Section 201 import relief petition (Investigation TA-201-58). On May 9, 1986 the ITC rejected the case. Legal fees totalled \$300,000.

This industry cannot afford the estimated \$50,000 - \$100,000 to petition formally now for GSP removals, neither can it afford at this time to pursue countervailing duty or antidumping cases.

We must simply take advantage of every opportunity such as this one to express concern about the reasons for this industry's declining competitiveness.



KOREA HARDWARE COMPANY(CASTING & FORGING EXPORTER)  
 YEONG DONG P O BOX 578 SEOUL(135)KOREA/TEL (02)548-3181/3  
 TELEX K28714 KOREA MS/ADD RM 503 HAK LIM BLDG 115-1  
 NONHYUN-DONG KANGNAM KU SEOUL (135) KOREA

Messrs,

Apr 1, 1985.

NEENAH FOUNDRY COMPANY  
 P.O. BOX 729  
 NEENAH, WI 54956  
 U. S. A.

Attention ; Purchasing Manager

Dear sir,

Are you looking for reliable Korean Exporter in Casting and Forging Hardware? Please contact with us for above, since Korea is one of new comer of Hardware export for U.S.A .

We, as a manufacturer and exporter, have been engaged in exporting full range of Hardware with the good benefit of low labour cost, compared with those of developed country like U.S.A and Canada. The goods available for us to export are Grey cast iron, Ductile Iron, Steel(Alloy) Casting and Non-ferrous. For your reference. we would like to explain present business procedure briefly ;

- 1) Receipt of drawing concerned from buyer.
- 2) Offer our price for unit price/tooling charge.
- 3) Receipt of tooling charge from buyer.
- 4) Sample preparation for buyer's approval.
- 5) Receipt of comment for sample quality.
- 6) If quality approved by 5), Main production started.

If you are interested in importing high quality at reasonable price, please feel free to write to us at any time.

Yours faithfully,

  
 -----  
 Min Sik, Kim  
 Manager,  
 Korea Hardware Company.

**NORESKO (H. K.) LTD.**

The President  
Clearflow Valves  
631 Camelia At Second  
Berkeley, CAL 94710

Aug. 27, 1982

King's Commercial Building  
2-4, Chatham Court,  
Tsim Sha Tsui, Kowloon,  
Hong Kong  
Tel : 3-7226470  
Cable: NORESKO  
Telex : 41457 NORES HX

RECEIVED

SEP 15 1982

Your Ref.:

Our Ref.:

Dear Sir:

Re: CASTING FOR VALVE BODY & PIPE FITTING

NORESKO (H.K.) LTD. is a division of an industrial group in Hong Kong, specialized in the manufacturing and marketing of casting products made in the People's Republic of China.

We are capable of manufacturing gray cast iron, ductile and malleable cast iron and cast steel products to ASTM standard.

We have a joint venture with a series of foundries and plants that have been manufacturing valves and valve castings for more than 50 years. They are equipped with modern machineries and are managed by experienced supervisors and skillful workers. Continuous melting through cupola process is refined and completely controlled. In-plant technical lab conducts constant physical tests on tensile and traverse strength, Brinell hardness and chemical analysis.

Our engineers and expediting staffs are stationed in China to inspect the quality and guarantee prompt delivery. A government inspection certificate will be accompanied with each shipment. Any parts which fail to meet your requirement will be replaced.

The recent shift in China's external policy has made China Trade one of the most profitable business in this decade and we would like to share this opportunity with you.

For your reference, the following are costs of parts in US Dollar per lb of weight, CIF U.S. main port:

Gray cast iron valve body	0.28-0.32	C.I. Pulley	0.25
Mechanical joint & Elbow	0.24-0.26	Pulley machined	0.38

Due to the nature of the casting industry - intensive manual labor and pollution restriction - we believe there is an ever increasing demand for our products. Besides, our customers will profit more by ordering from us than what they did before.

We wish to establish a long term business relationship beneficial to both our companies and will appreciate if you could send us your enquiries. If you have any questions, please do not hesitate to contact us. We look forward to the pleasure to hearing from you soon.

Truly yours,

  
Daan Hu  
Executive Vice President

DH/tt

PHONE: (047) 322120  
322160  
322169  
CABLE:  
"KINGBIRD" CHANGHUA



## TAIWAN KINGBIRD ENTERPRISES INC.

MAILING ADDRESS: P. O. BOX 187 CHANGHUA, TAIWAN R. O. C.  
No. 29 Alley 2 Lane 616 Sec. 3 Tai Ho Road, CHANGHUA, TAIWAN  
TELEX: 51200 KINGBIRD

NEENAH FOUNDRY CO.  
2121-T BROOKS AVE.  
NEENAH, WI  
U.S.A.

*Kip*

NOV 23, 1984.

### RE: CAST IRON PRODUCTS

Dear Sir:

As you may know that we are a major manufacturer of cast iron products in Taiwan. Our products are being shipped to U.S. with very large quantity and good reputation.

Enclosed please find a copy to show most of our saleable items for your possible interest. C&F U.S. sea port prices are listed there too. More competitive prices are available for large and regular orders.

All of our products are guaranteed against any manufacturing defects and no import duty would be required in U.S. because all of them are in GSP list.

We have full modern facilities of cast iron to offer the complete service from tooling, machining to assembled products without mold cost required for large or regular orders. So we would appreciate you to send us your drawing of special design or samples which are out of our current line for our tooling and pricing for your special market requirement.

If any further information is required, please feel free to contact us, we will do the best to meet your satisfaction.

Very truly yours,  
TAIWAN KINGBIRD ENTERPRISES INC.

*Kip*  
Kenneth Lin  
General Manager

KL/gh  
Encl. CI-01, NP-19

UNITES STATES SENATE  
 COMMITTEE ON FINANCE  
 SUBCOMMITTEE ON INTERNATIONAL TRADE  
 June 17, 1986

STATEMENT BY GUY F. ERB, PRESIDENT, GFE, LTD.  
 ON BEHALF OF  
 DESC COMERCIO EXTERIOR, S.A. de C.V.

PROPOSED TRADE LEGISLATION ON  
 GENERALIZED SYSTEM OF PREFERENCES  
 S. 1867

GFE, Ltd. respectfully submits this written statement in connection with hearings on the Generalized System of Preferences (G.S.P.) held on June 17, 1986, by the International Trade Subcommittee of the Senate Committee on Finance. The proposed legislation (S. 1867) would require the President to submit legislation withdrawing G.S.P. benefits from certain developing countries.

This statement is submitted on behalf of Desc Comercio Exterior, S.A. de C.V., a foreign trade corporation established by Desc Sociedad de Fomento Industrial, S.A. de C.V. (Desc), one of Mexico's largest industrial groups. The main purpose of Desc Comercio Exterior is the promotion in international markets of the products manufactured by associated companies in the Desc group or by third parties.

The provisions in S. 1867 would harm U.S. firms and industry, consumers, and exporters. The legislation would exclude Mexico and a number of other countries as beneficiary countries under the Generalized System of Preferences. The GSP was designed to promote trade between the United States and developing countries capable of exporting manufactured products. Thus, the proposed change would run counter to the purposes of the program. In addition, the impact of such a change in U.S. trade policy would be higher prices of imported inputs for U.S. manufacturers, higher prices for American consumers, lower foreign demand for U.S. exports of goods and services, and reduced debt service capacity.

It is claimed that the proposed legislation, would lead to an improvement in the U.S. trade balance and more trade for the least developed countries. In fact, such results would be minimal and more than offset by U.S. economic losses and the discouragement of efforts to bring developing countries into more reciprocal and responsible trading relations with the United States.

Moreover, the legislation is unnecessary because of the

GFE, Ltd., 1701 K St., N.W., Washington, D.C. 20006 is transmitting this document on behalf of its client, DESC Comercio Exterior S.A. de C.V., Bosque de Ciruelos 304, 11700 Mexico D.F. Since DESC Comercio Exterior S.A. de C.V. is a foreign organization, GFE, Ltd. is registered with the Department of Justice under 23 U.S.C. 811, et seq., as an agent of such foreign principal. Copies of this document are being filed with the Department of Justice and a copy of GFE, Ltd.'s registration statement are available for public inspection at the Department of Justice. Registration does not indicate approval by the United States government.

existing procedure for the withdrawal of G.S.P. benefits from countries whose exports of specific products have reached a sufficient level of competitiveness.

### 1. Effects on Mexico

The enactment of S. 1867 would result in the withdrawal of G.S.P. benefits from Mexico, an unintended target of the proposed legislation. The criteria of S. 1867 for removal of G.S.P. eligibility are per capita income, level of economic development, and ability to compete without G.S.P. In testimony before this Committee, Deputy U.S. Trade Representative Michael Smith stated that because of per capita income similarities between the countries mentioned in the bill and many other countries, the U.S.T.R. could not graduate Korea, Hong Kong, and Taiwan from G.S.P. without also graduating other countries such as Mexico, Israel, Brazil, Argentina, Uruguay, and Yugoslavia.

The following World Bank estimates of 1984 per capita income show that Mexico would fall within the income criterion of S. 1867.

Mexico	\$2060
Korea	2090
Taiwan	2868
Israel	5100
Hong Kong	6300

Mexico's level of development is far below that of the United States, its principal market. Desq companies and other Mexican exporters must overcome the problems caused by Mexico's relatively underdeveloped transportation infrastructure and inefficient distribution systems. Exporting companies have difficulty in obtaining regular supplies of high quality inputs, and employ labor whose productivity does not meet the levels achieved in the industrialized nations. Because of the consequences of the economic crisis that has beset Mexico since 1982, it is likely that Mexico's industrial, transportation, and communications infrastructure will actually deteriorate over this decade. Now is not the time to add to the obstacles to two-way trade with Mexico.

The Mexican economy is currently experiencing one of the worst crises in its history. Mexico's \$97 billion foreign debt, high unemployment, and negative growth rates have caused concern in the United States about Mexico's ability to service its debt. Mexico's emergence from the economic downturn and debt service problems will depend in large part on its ability to export to the United States. At this time more than any other, it is crucial to keep U.S. markets open to Mexican exporters.

Mexico is the fourth largest user of the G.S.P. program, and exported over \$1.2 billion worth of G.S.P. products in 1985.

The hard currency earned by these exports enables Mexican companies to import products made by American labor that Mexico needs for further economic growth. Mexico has a very high propensity to purchase products from U.S. companies. In particular, Desc Comercio Exterior and its affiliated companies have extensive two-way commercial ties with many American firms.

## 2. High cost, minimal benefits

The USTR is currently conducting a general review of the G.S.P. system to determine, on a product-by-product basis, whether a country's competitive need limits should be reduced. When complete, the review will deny eligibility to products from beneficiary countries that are adversely affecting U.S. industry. Such products would have little benefit for U.S. industry. The proposed legislation would not add tangible benefits for U.S. industries. Indeed, by penalizing countries not originally singled out in the proposal, the legislation would detract from the two-way commercial flows that benefited American business and agriculture.

In addition to the costs that S. 1867 would impose on agriculture, business, and consumers, its enactment would undermine the general review of G.S.P. by taking away an incentive to beneficiary countries to reform their trade and investment regimes. For example, the G.S.P. has been the basis of discussions with a number of beneficiary countries on U.S. commercial objectives and the reduction of foreign barriers to trade.

Mexico is participating in trade negotiations and discussions with the United States in three areas: Mexican accession to the General Agreement on Tariffs and Trade, the establishment of a bilateral commercial agreement, and the G.S.P. Mexico has also liberalized its trade regime significantly, steps which require continued efforts to widen the constituency in Mexico that supports the opening of the Mexican economy. Any arbitrary action on the part of the United States would damage this process and weaken those in Mexico that support efforts to create a more internationally competitive Mexican economy.

According to a report from the International Trade Commission, the withdrawal of G.S.P. benefits would not benefit the least developed of the LDCs, as has been argued. Moreover, U.S. companies have indicated that they would continue producing in and importing from the countries targeted by this legislation, albeit at higher cost and lower competitiveness. Another principal unintended effect of this bill would be the benefits, to producers in Japan, not the United States, that would result from a decline in the competitiveness of exports from developing countries.



Conclusion

Desc Comercio Exterior respectfully submits its opposition to the provisions contained in S. 1867: The proposed legislation is unnecessary and is in conflict with the original intent of the Generalized System of Preferences. The provisions would increase costs to U.S. manufacturers and consumers and harm U.S. exporters. Enactment of the bill would deny G.S.P. benefits to Mexico, harming that country's efforts to sustain two-way trade with the United States and to liberalize of its own economy.



American Association of  
**Exporters and  
Importers**

11 West 42nd Street, New York, NY 10036 (212) 944-2230  
Cable: AAEXIM

June 27, 1986

United States Senate  
Committee on Finance  
Subcommittee on International Trade  
Dirksen Senate Office Building  
Washington, DC 20510

Attention: Betty Scott-Boom, Room SD 219

Gentlemen:

**Statement Regarding S.1867 (Incorporated in S.1860 as Title VI) --  
The U.S. Generalized System of Preferences (GSP)**

The American Association of Exporters and Importers (AAEI) is a nationwide non-profit association, established in 1921, comprising more than 1,000 American firms and service organizations engaged in various and diverse exporting and importing operations. The Association is a recognized voice of the American international trade community, and welcomes the opportunity to express its views in opposition to the proposed legislation referred to above. AAEI believes that S.1867 should be rejected for the following reasons:

19 USC 2464 (c) (1) provides for the withdrawal of GSP benefits for particular items from individual countries when the exports from that country of the particular product exceed \$25,000,000 plus an adjustment equal to the percentage rise in the gross national product (GNP) for the year 1974. Benefits will also be withdrawn from a particular country when more than 50% of the total U.S. imports of the particular article come from that country, provided total U.S. imports exceed \$5,000,000 plus an adjustment for growth in the GNP since 1979.

This mechanism which has been in place since the beginning of the GSP program has proved to be extremely effective in eliminating GSP benefits for products which the developing country is able to produce in a competitive manner and in substantial quantities. At present 250 articles are ineligible for GSP benefits from numerous countries because they have exceeded the "competitive need" limits. Of that amount, 110 items are ineligible from Taiwan with a Customs value of \$3,740,285,766 in 1985; 50 items are ineligible from Hong Kong with a Customs value of \$1,397,692,152; and 47 items are ineligible from Korea with a Customs value of \$937,809,425.

These figures are extremely significant in their own right and more so when compared to the dollar value of GSP imports from Hong Kong and Korea.

Statistically, GSP imports are a very small percentage of the total U.S. imports. However, the figures show that through the use of GSP benefits industries were established and allowed to prosper to the point that they became self-sufficient and competitive in world markets.

Taiwan, Korea and Hong Kong have benefitted from GSP by expanding industrial bases in light industries such as toys, ceramics, wooden articles, and plastic articles. The GSP program has not injured American industries in these areas, but in many cases has allowed a U.S. industry to grow because of offshore suppliers at reasonable prices. The toy industry is a perfect example.

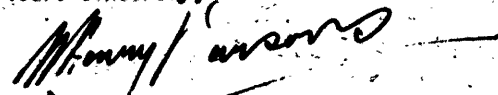
Employment in the toy industry in the U.S. has increased greatly in the past 10 years, yet imports have risen sharply. This clearly shows that there can be increased imports simultaneously with increased domestic employment. While most toys from Taiwan, Hong Kong and Korea are now ineligible for GSP, they were so eligible for GSP prior to their "graduation."

As those countries became competitive on world markets and were able to compete with the developed countries, GSP benefits were removed. Since the benefits were not all removed at one time from all countries for all products, there was an orderly transition in those countries from a duty-free status to a mostly dutiable status.

The law has worked as it was intended to work. It provides an opportunity for an industry to nurture and grow in developing countries to the point when they no longer need GSP assistance.

The change contemplated by S.1867 will damage this proven system by suddenly removing all GSP benefits without any proven gain for the U.S. economy and with a guaranteed loss of jobs and friends in Taiwan, Korea, and Hong Kong.

Yours sincerely,



W. Henry Parsons  
Chairman  
Generalized System of Preferences Committee

WHP/cc

STATEMENT BY HALLMARK CARDS, INC.  
SUBMITTED TO THE INTERNATIONAL TRADE SUBCOMMITTEE  
OF THE SENATE FINANCE COMMITTEE

Regarding the Subcommittee's Hearings on S. 1867  
June 17, 1986

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Executive Summary

The U.S. Generalized System of Preferences (GSP) has, since its implementation, been a program of great importance to Hallmark Cards, Inc. GSP-free imports have played a key role in enabling Hallmark to offer a diversified line of consistently high-quality products at the lowest possible prices to the consumer. None of these products can be efficiently sourced from U.S. suppliers; hence, our only viable sources are overseas vendors.

The key GSP beneficiary suppliers for Hallmark are Hong Kong, Taiwan and Korea -- the three countries specifically targeted by S. 1867. Consequently, this initiative poses a serious threat to our ability to continue marketing our products at the quality and prices consumers have come to expect of Hallmark. In addition, it threatens the many American workers whose jobs are tied to GSP imports. In Hallmark's case alone, over 1,000 U.S. workers are employed in such positions.

Because of the GSP's importance to our operations, Hallmark actively supported Congress' renewal of the program in 1984. We have been participating fully in the program's General Review since its initiation last year.

S. 1867 is based on the concept that certain GSP beneficiary countries have reached a level of development high enough to warrant their complete graduation from the program. While we appreciate the concerns underlying S. 1867, we believe its broad-brush approach will result in unintended negative consequences. Hallmark believes that a product-specific approach to graduation is the best way to deal with questions of development, international competitiveness, and the effect of GSP imports on U.S. interests.

We believe that the issues raised by S. 1867 are being addressed in the ongoing General Review, under which a country's competitiveness in each product category is being assessed. Countries found to be "sufficiently competitive" in the manufacture of a particular product will be graduated from the GSP on that item

or will have their competitive need limits significantly reduced. Obviously, for the more advanced GSP beneficiaries, benefits have been and should continue to be curtailed in many cases. However, the product-specific approach to graduation ensures that these countries will maintain their GSP benefits on those items for which GSP treatment serves U.S. interests.

While we share some of the concerns expressed about the competitive levels of GSP beneficiary countries, we urge Congress to preserve product-specific graduation and the General Review. The GSP's strengthened graduation procedures as enacted in the 1984 trade legislation will more carefully focus GSP benefits and will also enable U.S. manufacturers to continue sourcing from overseas those products which cannot be efficiently made in the United States.

In accordance with the ongoing General Review, Hallmark is supporting waivers of the GSP's competitive need limits on 16 items of particular importance to us. We source all of these articles from the three countries targeted by S. 1867. Thus, this bill would render futile the considerable efforts we have made in the General Review. For Congress to change the rules under which the General Review is being conducted at this stage of the process would be unfair to companies like Hallmark that have been abiding by these rules for the past two years and that have spent considerable time and financial resources to be participants.

Hallmark would like to see the GSP process continue as mandated by the Trade and Tariff Act of 1984. We believe that, if the General Review is allowed to be completed, it will produce many of the improvements in the program that Congress is seeking.

### Introduction

Hallmark Cards, Inc., is the United States' largest producer of greeting cards and other social expression products. A privately-held firm headquartered in Kansas City, Missouri, Hallmark employs about 22,000 full-time and 5,800 part-time workers. In 1985, Hallmark's sales exceeded \$1.5 billion.

From its founding in 1910 until about 1960, Hallmark specialized in making greeting cards and other stationery products. Today, although greeting cards continue to be the mainstay of our operations, we market a broad line of gift products including stuffed toys, picture frames, and fashion jewelry. We market these articles in over 35,000 retail shops, department stores, and drug stores.

To fill our expanded product lines, Hallmark first turned to domestic suppliers. However, we found that many of the items we were looking for simply were not available domestically. For these products, we therefore turned to foreign suppliers.

Thus, imports have played a vital role in Hallmark's objective to offer a complete line of gift products at the lowest possible cost to the American consumer. As noted below, the GSP has been an important factor in Hallmark's success in meeting this objective.

#### The Importance of GSP Imports to Hallmark

In 1985, Hallmark and its subsidiaries<sup>1/</sup> imported about \$24 million worth of products from GSP beneficiary countries. The \$2.1 million of estimated duty savings from GSP treatment on these items were shared with American consumers.

The countries which would be eliminated from the GSP program under S. 1867 (Hong Kong, Taiwan, and Korea) are by far the three most important sources of Hallmark products. This is because they have proven to be the most reliable suppliers of the products we must buy overseas.

Most of the products we purchase from Hong Kong, Taiwan, and Korea are designed first in Kansas City by our in-house artists. Our purchasing personnel then must find a supplier capable of producing the item at the level of quality and quantity we need and on the delivery schedule we have established.

In our search for quality products at competitive prices, we have explored sources of supply all over the world. We always look first at the possibility of sourcing an item in the United States. In those instances where this is not feasible, we turn to overseas suppliers.

Consistently, we have found that, for the vast majority of items we import under the GSP, our most reliable suppliers are in Hong Kong, Taiwan, and Korea. The graduation of these countries from the GSP program would leave us with two options: to continue sourcing from these countries and to adopt measures responsive to the increased costs, or to eliminate the product offering altogether. It is unlikely that Hallmark would be able to source these products in the United States, and it would take many years to develop the skill level and expertise necessary to source them in any market.

Neither of the two options is an attractive prospect from Hallmark's perspective. The first, dealing with the increased costs resulting from duties on these products, would result in higher prices and lead to either higher costs for the American consumer or

<sup>1/</sup> Hallmark's subsidiaries include Binney & Smith, Charles D. Burnes Company, Graphics International, Trifari, Hallmark Properties, and Heartline.

a loss in sales, since purchases of these products are discretionary, and beyond certain price points, consumers will simply elect not to buy these items. The second option, no longer offering a particular product, would restrict our ability to respond to consumer demands. Another necessary result for us is a reduction in our workforce.

In order to conduct our business both in the United States and overseas as effectively as possible, we have made a considerable investment of resources in the Far East. To handle our international trade operations, we established Graphics International in 1973. Graphics maintains several overseas offices, the largest of which is in Hong Kong -- indicative of the importance of the Far East to our operations. In addition to directing regional operations for Southeast Asia, the Hong Kong office contains a product inspection center and certain productive facilities.<sup>2/</sup> Additional offices are located in Taiwan, Korea, Japan, and, most recently, the PRC. The loss of GSP eligibility for Hong Kong, Taiwan, and Korea would impair Hallmark's ability to make optimal use of its investments in these overseas facilities.

Hallmark's Participation in the GSP's Renewal and the Ongoing General Review

Because of the importance of the GSP to our operations, Hallmark strongly supported the renewal of the GSP program in 1984. We actively opposed an amendment to the House bill that would have graduated the same countries targeted by S. 1867.

Hallmark has also participated extensively in the General Review of the GSP initiated by the Trade and Tariff Act of 1984. Of the many GSP-eligible products imported by Hallmark, we reviewed those that might exceed the competitive need limits within the next several years and selected the ten of greatest importance. On May 31, 1985, we submitted a petition to the Office of the U.S. Trade Representative requesting waivers of the GSP's competitive need limits on the following items: wooden picture frames from Taiwan, ceramic picture frames from Taiwan, metal picture frames from Korea, plastic picture frames from Taiwan, wall banners from Taiwan, ceramic articles from Taiwan, stuffed dolls from Taiwan, stuffed animals from Korea and Taiwan, non-stuffed animals from Hong Kong, and Christmas tree ornaments from Hong Kong. Our petition included detailed analyses demonstrating the benefits that would flow from the waivers.

<sup>2/</sup> The productive facilities are engaged primarily in the manufacture of steel injection molds, which are subsequently shipped to low-wage areas for the production of decorative plastic products.



In October, 1985, we presented detailed statements and testified before both the U.S. International Trade Commission (USITC) and the Interagency Trade Policy Staff Committee (TPSC) on our waiver requests. At that time, we also indicated our support for the petitions of other parties on an additional six products of importance to Hallmark: non-bone chinaware from Taiwan, miscellaneous copper articles from Taiwan, stuffed animals from Hong Kong, non-stuffed animals from Korea and Taiwan, miscellaneous toys from Hong Kong and Taiwan, and miscellaneous jewelry from Hong Kong.

Since then, we have followed developments in the General Review closely and have held meetings with U.S. and with beneficiary developing country officials. In the case of the latter, we have encouraged the beneficiaries to address U.S. concerns raised during the course of the General Review.

While the economic facts of each of the 16 cases of principal interest differ somewhat, they do have several points in common. In virtually all cases, the products are made through labor-intensive processes that make them impossible to manufacture efficiently in the United States. For this reason, U.S. production of the specific types of articles sourced by Hallmark is either nonexistent or extremely limited. In fact, imports account for virtually all U.S. consumption of the particular types or styles of products of interest to Hallmark.

The unconditional graduation of Hong Kong, Taiwan, and Korea from the GSP program would increase the costs to Hallmark of sourcing these items, with the concomitant negative consequences outlined earlier. The loss of GSP treatment would also disadvantage the many U.S. workers employed in import-related activities. All the products which Hallmark imports under the 16 categories of primary interest to us are designed by our artists employed in Kansas City, Missouri, and are produced overseas solely for Hallmark. More than 150 Hallmark employees design products that Hallmark produces abroad. Hundreds of other Hallmark employees are engaged in other activities related to Hallmark importing operations. All together, we maintain over 1,000 U.S. jobs related to our overseas sourcing. In addition, Hallmark has used several sheltered workshops for the packaging and finishing of certain GSP imports.

Two of the products on which we petitioned for competitive need waivers, Christmas tree ornaments and stuffed animals, illustrate these points. The Christmas tree ornaments we import from Hong Kong are made of plastic and feature elaborate finishings and decorations. The finishing work is done by hand through a time-consuming process. To our knowledge, comparable ornaments are not produced in the United States.

The close ties between our importing and domestic operations are apparent in the sourcing process of the Christmas tree ornaments. The Christmas ornament is designed and planned by Hallmark artists and editorial staff. Following that, teams of quality

control personnel, marketing experts, and product planners in Kansas City work the ornament's design into Hallmark's entire Christmas line. The Kansas City-based purchasing staff then make manufacturing arrangements in Hong Kong and work with the eventual manufacturer to secure the design, quality, and integrity for which Hallmark has become famous. Once completed, the ornament is shipped to the United States where it is placed in a domestically-designed and produced retail package, then integrated into the original theme and marketed worldwide.

The stuffed toys we import from Korea, Taiwan, and Hong Kong -- such as our Snuggables collection, stuffed animals that we market through our Heartline subsidiary -- are generally small (less than 12 inches in height). Their manufacture is very labor-intensive and does not rely on a significant amount of technical equipment. Workers sew together the animal skins, stuff them with filler material, and then sew closed the filler hole. The stuffed animals Hallmark imports also generally require a good deal of finishing, such as the application of facial features and other decorations to the animals. These finishing operations are performed by hand.

Because of the high labor content of this product, the U.S. toy industry has rationalized virtually all its production of stuffed animals to overseas locations over the past ten years. Imports, especially those from the countries targeted by S. 1867, supply virtually all U.S. consumption of small stuffed animals. U.S. toy companies are the principal importers of stuffed animals and are therefore beneficiaries of the GSP status of supplying countries. The U.S. industry maintains extensive U.S. operations, such as designing, packaging, and marketing related to imports of these products.

The limited U.S. production of stuffed animals concentrates on the manufacture of large stuffed figures, on carnival or other special items, or on the stuffing and sewing of imported skins (these are frequently shipped to the United States for filling in order to save on transportation costs). Each of these operations is clearly complementary to the extensive importing operations conducted by U.S. toy companies.

### Conclusion

Throughout the ongoing General Review, Hallmark has actively pursued its interests in accordance with the rules established by Congress for seeking changes in the GSP program. Because of the GSP's considerable importance to Hallmark, we have devoted extensive resources to participating in the General Review over the course of the last year and a half.

S. 1867 would render useless all of Hallmark's efforts. The wholesale graduation of Hong Kong, Taiwan, and Korea would eliminate GSP treatment for all of the products on which Hallmark

petitioned under the General Review -- a process which the Congress initiated less than two years ago.

For Congress to change the rules of the game at this stage in a process that the Congress itself created less than two years ago would be extremely unfair. Not only Hallmark but the many other U.S. businesses that have been participating in the General Review would be needlessly penalized by this action.

In addition, the graduation of Hong Kong, Taiwan, and Korea from the GSP program would disadvantage U.S. consumers and the many U.S. workers whose jobs are tied to GSP imports.

While we support the Congress' intentions to review and improve the GSP program, we feel that this particular initiative would work to the detriment of U.S. manufacturers, workers, and consumers. We therefore would urge the Congress, rather than revise the GSP through S. 1867, to allow the General Review to be completed under its original mandate, so that the objectives established for the program in the Trade and Tariff Act of 1984 can be advanced.

**KOREAN POSITION ON PROPOSED GSP MODIFICATIONS**  
**SUBMITTED TO THE FINANCE COMMITTEE**  
**OF THE U.S. SENATE**

**JULY 10, 1986**

**EMBASSY OF THE REPUBLIC OF KOREA**  
**WASHINGTON, D.C.**

**INTRODUCTION:** Korea appreciates the system in the United States under which all points of view are solicited before new legislation is enacted, or new regulations implemented. The Republic of Korea Government (ROKG) is pleased to submit this written statement to the Finance Committee of the U.S. Senate in conjunction with the June 17th hearing on proposals to modify the U.S. GSP program.

The ROKG is seriously concerned with the GSP proposals in two U.S. Senate bills (S. 1867 and Title VI of S. 1860). The proposals instruct the U.S. Administration to establish criteria for the mandatory graduation from GSP eligibility of Korea, the Republic of China (Taiwan), Hong Kong and possibly other advanced developing countries. The enactment of such proposals would not help achieve U.S. trade policy objectives. Unilateral graduation would reduce support in Korea for trade liberalization, reduce the competitiveness of U.S. producers relying on GSP imports from Korea and increase costs to U.S. consumers. It would have few offsetting benefits since import sensitive products from Korea injuring U.S. producers are already not eligible for GSP. Also current legislation already allows for the denial of GSP benefits in cases where this would assist lesser developed countries to penetrate the U.S. market.

**KOREA AND THE GENERAL GSP REVIEW:** U.S. officials have briefed Korean officials on the current administration of the GSP program including the ongoing general review mandated by The Trade and Tariff Act of 1984. They have focused on the requirements for trade liberalization. Korea has accepted the U.S. invitation to participate in the review and is currently engaged in full-fledged consultations with USTR and other agencies in the interagency trade policy group concerning its current trade practices.

In the general review, Korean officials have been told that the U.S. President will evaluate each country's trade practices in light of the criteria for market openness and other forms of responsible trade behavior. These criteria revolve around considerations involving market access for goods and services, export practices, protection of intellectual property rights, investment practices and protection of workers' rights. The interagency review is examining the trade policies of beneficiary countries to determine how closely they adhere to the liberal trade policies which the Trade and Tariff Act encourages. This adherence would be taken into account in determining the country's competitiveness in specific products and whether the GSP competitive need limit would be waived, maintained or reduced for specified products.

The review is not designed to achieve product by product reciprocity since such requests would be in violation of U.S. GATT obligations to administer GSP as a non-reciprocal program. This requirement was contained in the GATT waiver providing a derogation from the Most Favored Nation (MFN) clause in order to allow the establishment of a trade preference system for developing countries. GSP was made non-reciprocal to reflect the development objectives of the program and to prevent powerful but less scrupulous developed countries from forcing under the table side-deals upon beneficiary countries which would hurt the beneficiary as well as third countries.

However, despite the absence of requirements for specific reciprocity, the GSP program still serves as an impetus for the type of market opening measure supported by the U.S. Administration and Congress. The review examines the trade regimes of each beneficiary country to determine how closely the regime adheres to the criteria in the Trade Act. The indirect link between GSP benefits for specific products and trade practices encourages the broadening of trade liberalization in Korea. By being able to point to the willingness of the United States to continue GSP treatment as part of its overall trade posture, the ROKG can more easily advocate liberal trade policies. Any diminution of this commitment through unilateral graduation would give a strong argument to those opposing liberalization in Korea.

CURRENT KOREAN TRADE LIBERALIZING EFFORTS: Since the beginning of the 1980's Korea has been implementing a program of sweeping liberalization in all sectors of the economy. As a nation whose strength rests in its ability to compete in the world market, Korea appreciates the dangers it could face in a protectionist world. Korea is also willing to assume the obligations of a country whose economy, though still developing, is strengthening.

Korea's liberalizing efforts are indeed impressive. The ratio of items that can be imported without government approval has been boosted from 68 percent in 1980 to over 91 percent today, and will further increase to over 95 percent by 1988. This compares with an average of 92 percent in developed countries and a much lower percentage throughout the developing world. Foreign investment restrictions have been largely removed and Korea now allows 100 percent foreign equity in most areas of the economy. The ROKG is currently revising regulations to allow foreign firms much easier access to its services market and to strengthen the protection of intellectual property rights.

Equally impressive are Korea's efforts to narrow the imbalance in its bilateral trade with the U.S. which is its largest and most important trading partner. Since the balance

of U.S.-Korea trade changed to Korea's favor for the first time in 1982, Korea has not only accelerated its import liberalization, but also embarked on a series of programs to further increase its purchases from the U.S.

The following is a detailed discussion of some of these efforts.

(1) Efforts for More Balanced Trade with the U.S.:

Korea has made many efforts since 1983 to achieve more balanced U.S.-Korean trade and liberalized or reduced import restrictions on 104 items during 1984-85 at the request of the U.S. Korea liberalized the import of an additional 301 items as of July 1, 1986. Of the newly liberalized items, 89 items, such as soda ash, machine tools, transport vehicles, weighing machinery, nylon carpeting and batteries, were included at the request of the U.S.

Besides import liberalization, Korea is endeavoring to diversify its import sources in order to promote more balanced trade with its economic partners. Under this policy, Korea encourages the shift of imports from those countries like Japan with which Korea runs trade deficits to those countries like the U.S. with which Korea runs trade surpluses. Considering the close economic relationship between Korea and the U.S., the major beneficiary of this policy would be the U.S.

Moreover, the ROKG has dispatched five trade missions to the U.S. since 1973 as an expression of Korea's determination to achieve more balanced trade and to help build an even closer economic partnership between the two countries. One of the missions' principal goals was to transfer import sources of synthetic fiber, electronics and machinery from Japan to the U.S. Through those trade missions, Korea has already purchased or negotiated about \$7 billion worth of U.S. products. The ROKG is planning to dispatch buying missions more frequently and on an ongoing basis, i.e. two or three times a year, under government sponsorship to increase Korea's purchases from the U.S.

(2) Import Liberalization Policy:

Despite its chronic trade deficit, Korea continuously carries out liberal economic reform and supports a free and fair world trade system. This commitment is made out of a conviction that only by opening markets can Korea continue to grow and stay competitive in the international arena. In addition, Korea is concerned about rising protectionism in the world economy and is convinced that in order to reverse the protectionist trend every nation must begin by making efforts to liberalize at home.

It is true that the current degree of import

liberalization is lower in Korea than in most developed industrial nations and some developing countries. However, in any discussion of import liberalization, the critical question is not only "Where have you arrived at?" but also "How fast and in what direction are you going?" In this respect, Korea's liberalization effort should be acknowledged since Korea has traveled far along the road to free and fair trade at a time when most other trading nations have intensified protectionist measures.

Since 1980 Korea has vigorously pursued an open door policy, liberalizing imports, reducing tariff rates, and opening its market to foreign investors. The ROKG announced in advance in October 1985 the "1987-88 Import Liberalization Plan" which specifies those items to be liberalized each year. This liberalization plan was announced to confirm, externally, Korea's firm commitment to import liberalization and, internally, to give local manufacturers proper time to adjust to the new competitive environment. The plan fixes the import liberalization ratio for 1987 at 93.5 percent, and for 1988 at 95.4 percent, a level commensurate with most industrialized countries.

In order to accelerate genuine market-opening, Korea is reducing tariff rates as well. The average tariff rates have already been reduced from 23.7 percent in 1983 to 19.9 percent currently and will be further reduced substantially in the coming years.

### (3) Liberalization of Service Trade:

There are few international rules covering trade in services especially when compared with the comprehensive regime covering trade in goods. This deficiency is one reason why the United States has been placing such an emphasis on including service trade in the proposed MTN. The ROKG has been supporting the U.S. in this endeavor.

It is noteworthy that Korea's unilateral import liberalization policy embraces not only product trade but service trade as well. Korea's record in this area is superior to that of most developing countries. Korea is taking steps to liberalize its service trade despite the infant stage of service industry and small internal market, which is not large enough to support unlimited competition from abroad. Many of Korea's existing restrictions are similar to those imposed by individual states in the United States against companies domiciled in other states and/or in foreign countries.

Korea has been lifting restrictions on foreign banks in the financial market. As a first step toward according full national treatment for foreign banks, as of March 1985 foreign banks were permitted to make use of the rediscount facilities at the Bank of Korea for export financing, and by the end of



1986 they will be entitled to have access to the central bank rediscount facilities for other operations, including the rediscount of commercial paper. As of July 1986, the ROKG has allowed eleven foreign bank branches to engage in the trust business and is ready to permit other foreign banks as soon as they apply. Since August 1985, foreign banks have been allowed to enjoy membership in the Clearing House.

In coming years, Korea will open its bond and equity markets to the direct participation by foreign investors. In July 1986, the government also removed the import quota of motion pictures linked to the production of domestic movies. All registered importers can now import foreign movies. It is possible for foreign lawyers and CPAs to open businesses on a reciprocal basis, after obtaining permission of the relevant government agencies. Short-term financing, merchant banking, leasing and venture capital companies can freely invest in Korea.

#### (4) Protection of Intellectual Property:

The ROKG recognizes that there is an urgent need to provide adequate protection for various forms of intellectual property in Korea, and shares the U.S. commitment to strengthen the protection of intellectual property rights. As the result of bilateral negotiations initiated last fall pursuant to Section 301 of the U.S. Trade Act of 1974, final agreement on strengthening copyright, patent and trademark protection in Korea is imminent.

The ROKG is currently drafting a new copyright law which will be submitted to the National Assembly before the end of September 1986 and will do its best to enforce this new copyright law by July 1987. When the law goes into effect, it will become illegal to make copies without permission, and all rights will be adequately protected.

In another major step to improve intellectual property protection in Korea, the ROKG will revise the nation's patent laws to cover product patents. Since the patent system is part of Korea's legal code, any changes to it must be approved by the National Assembly. The ROKG will thus submit its draft of the strengthened patent law to the Assembly in September 1986. The protection of product patents has been the subject of much debate in Korea, and many business and academic figures have argued that the nation still lacks the level of technology needed for such a system. Product patents will indeed be costly to Korean firms. Nevertheless, the protection of product patents will give concrete evidence of Korea's belief in fair trade.

Concerning trademarks, Korea has completely repealed export requirements on goods covered by trademark licenses and has lifted restrictions on royalty terms in licenses, under

the new Ministry of Finance guidelines that were established in September 1985. No other restrictions, such as restrictions on duration or amount of royalties, are now imposed on trademark licenses. For the purpose of preventing counterfeiting related to industrial property, including well-known foreign trademarks, the National Anti-Counterfeiting Council (NACC) was established within the Office of Patent Administration in January 1984. The NACC has been actively engaged in preventing counterfeiting since its establishment and will further strengthen its regulatory activities in the near future.

By both enacting new domestic legislation and joining international conventions, i.e. Universal Copyright Convention, Korea's system of intellectual property protection will become one of the strongest in the world.

(5) Support for a New Round of MTN:

Korea is committed to free and fair trade and thus welcomes the launching of a new round of multilateral trade negotiations within the framework of the GATT. In order to resolve many of the problems currently confronting the world trade system, the New Round should aim to reverse protectionist trends in world trade and promote trade liberalization. In this regard, Korea is ready and willing to participate actively in all international meetings designed to prepare for and launch the New Round and all subsequent negotiations.

In line with this commitment, and in order to promote the early launching of the New Round, Korea recently hosted the Seoul Trade Ministers' Meeting. Many countries agreed at the Seoul Meeting that all nations participating in the New Round should be committed to a standstill agreement on protectionist measures inconsistent with or not based on GATT, including those applied through bilateral negotiations. Korea strongly shares this belief.

Korea hopes the U.S. will recognize Korea's active role in launching the multilateral trade negotiations and its support for the U.S. position in the New Round, despite both internal and external constraints.

PASSAGE OF THE AMENDMENTS WOULD DISCOURAGE FUTURE KOREAN TRADE LIBERALIZATION: Enactment of the amendments to GSP would send a signal to discourage these positive movements. Requiring the U.S. Administration to remove countries from eligibility without regard to a country's liberalizing efforts would be interpreted in Korea as the withdrawal of American support for Korean liberalization. It would undo the positive impetus for continued liberalization which is emanating from the current U.S. GSP posture and would punish countries like

Korea which have been adhering to the liberalizing criteria of The 1984 Trade and Tariff Act. It would be difficult to justify to the Korean public opening its economy while the United States, its most important trading partner, is not moving in the same direction.

Korea characterizes these proposals for GSP amendments as representing a protectionist initiative and a reversal of U.S. policy supporting trade liberalization in its trading partners. Their passage would not assist in the attainment of U.S. objectives. All one would accomplish through unilateral graduation is removing a positive impetus for Korea to continue to liberalize while denying the benefits of GSP to U.S. consumers and industries relying on GSP inputs. The principal beneficiary would be developed countries since these countries account for the bulk of the trade in those categories where Korean exports are eligible for GSP. Japan would probably benefit the most from the graduation of Korea. This would be particularly ironic in view of the large trade surplus Japan maintains both with Korea and with the United States.

A MAJOR IMPACT OF GSP TERMINATION ON KOREAN ECONOMY: Automobiles, steel products, color T.V. sets, tires and textile goods produced and exported to the U.S. by large Korean corporations are either ineligible for GSP treatment or face quantitative and other restrictions. In 1984 miscellaneous manufactures, such as toys, leather goods, household articles, wooden furniture and costume jewellery, accounted for nearly one-half of U.S. GSP imports from Korea. Most of the manufacturers of such miscellaneous items are small or medium-sized firms.

The industrialized sector represented by such firms is the least developed of Korea's industries and is characterized by low levels of investment, low labor productivity and high labor intensity. Their access to modern technology is still limited, management techniques often outdated, and employees mostly unskilled. While the employment of such small and medium-sized firms accounts for 55 percent of the total manufacturing labor force, their share of total manufacturing output is only 35 percent.

The loss of one million U.S. dollars worth of exports for such small and medium-sized firms would result in the loss of 150 low-skilled jobs. Withdrawals of GSP benefits from Korea would thus cause a disproportionate increase in unemployment among the least advantaged workers, the adverse consequences of which would be particularly severe in human as well as economic and social terms.

**AMENDMENTS ARE NOT NECESSARY:** Termination of GSP for Korea would not help U.S. industries. According to the 1984 USITC report on the operation of GSP, U.S. industry is not adversely impacted by the GSP program. Import sensitive products are not designated for or are removed from GSP eligibility during the annual GSP review. Specific countries become ineligible for GSP benefits with specific products which disrupt the U.S. industry.

The interests of lesser developed countries are not harmed by the continued eligibility of Korea for GSP. Many products for which Korea is judged competitive are ineligible under the competitive need criteria in the current law. In fact, in 1985 the value of Korean trade ineligible under competitive need far exceeded the value of Korean products eligible for GSP. The trade value of Korea's competitive need exclusion amounted to more than \$2 billion. The trade value of Korean imports eligible for GSP was only \$1.65 billion.

**KOREA DOES NOT MERIT DISCRIMINATORY TREATMENT:** Korea values its relationship with the United States which it believes to be mutually beneficial. The United States and Korea are strong allies. Their combined efforts, by effectively deterring Communist North Korean aggression, have greatly contributed to the maintenance of peace in Northeast Asia and the Pacific region. Korea and the United States have also closely cooperated in various international forums.

In the economic area, the ROKG has embarked on a liberal policy similar to that advocated by the United States. Korea agrees with the U.S. that only by adopting principles of competition based on market economy can a country hope to grow and prosper. The ROKG also agrees with the U.S. position that only by keeping markets open to imports of its trading partners can a country expect others to keep markets open to its exports.

Korea does not merit the blatant discriminatory treatment provided in these proposals in view of its willingness to assist the United States in resolving some of its own trade problems. For example, in steel, although not an unfair trader, Korea agreed to reduce and voluntarily limit its steel exports to the United States. In this case, Korea has not sought trade compensation from the United States.

It would not be appropriate for Korea to comment on the trade practices of other countries, but the ROKG believes that in any comparison of country practices Korea would stack up well against a great majority of the other beneficiaries. Therefore, there is little understanding in Korea for the passage of legislation which singles out Korea for graduation along with only two other beneficiaries.

**INAPPROPRIATENESS OF UNILATERAL GRADUATION CRITERIA:** The ROKG also questions whether it is appropriate for the United States to unilaterally impose graduation criteria. Given the multilateral aspects of GSP, particularly requirements for equal burden sharing among the donor countries, it may be more appropriate to deal with this issue in the MTN. Another provision of S. 1860 recognizes the multilateral nature of graduation. This provision requires U.S. officials to negotiate on establishing graduation criteria in the upcoming MTN.

Korea is still not a developed country. The level of per capita GNP is only one-fifth to one-seventh that of most developed nations, including the United States. There are many GSP beneficiaries whose per capita GNP generally hovers close to or exceeds that of Korea. These countries include Mexico, Argentina, Cyprus, Israel, Malta, Brazil, Chile, Uruguay, Singapore and Yugoslavia. Similar results are obtained if one compares Korea to developed countries in terms of average wage rates and per capita consumption of such products as automobiles, telephones, and medical services. The Korean economy is much more dependent on labor-intensive light industry than are more developed countries.

In addition, the Korean debt position is much more characteristic of a developing than of a developed economy. Korea's foreign borrowing exceeds \$46 billion, its debt service-to-export earnings ratio is around 20 percent and its debt service-to-GNP ratio is over 7 percent.

Furthermore, Korea, confronting a belligerent threat from North Korea, bears a heavy burden of defense expenditure -- over one-third of its annual budget and six percent of GNP. No other major ally of the United States is forced by the threat of communist regime to spend as much on defense. A strong Korean economy is essential to the maintenance of peace and security in East Asia and the Pacific region. As its economy grows stronger, Korea will be able to help lighten the U.S. expenditures in the region by sharing the defense burden.

(The Embassy will provide any additional information upon the request of the Committee.)

**TMA****TOY MANUFACTURERS OF AMERICA**

WRITTEN STATEMENT OF  
TOY MANUFACTURERS OF AMERICA, INC.

SUBMITTED TO  
THE SUBCOMMITTEE ON INTERNATIONAL TRADE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE

REGARDING  
PROPOSED AMENDMENTS TO THE GENERALIZED  
SYSTEM OF PREFERENCES (S. 1860 and S. 1867)

JUNE 17, 1986

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**STATEMENT OF THE  
TOY MANUFACTURERS OF AMERICA, INC.  
IN OPPOSITION TO PROPOSED AMENDMENTS  
TO THE GENERALIZED SYSTEM OF PREFERENCES**

This statement is submitted by the Toy Manufacturers of America, Inc. (TMA) in opposition to S. 1867 (and the corresponding Title VI of S. 1860), legislation providing for the withdrawal of trade benefits provided under the Generalized System of Preferences (GSP) from certain developing countries. TMA is a trade organization representing 250 American toy manufacturers and importers. TMA members account for an estimated 90 percent of the \$12 billion in annual toy, game and doll sales in the United States today. Because many of the products sold by TMA members are imported from GSP beneficiary countries or contain imported components, TMA has a very important stake in the continuance of GSP benefits for all beneficiary countries.

S. 1867, and the corresponding provisions of S. 1860, would require the President to submit draft legislation providing for the withdrawal, within two years, of GSP benefits from any foreign country for which it is determined that such benefits can no longer be justified as promoting economic growth and development. This determination is to be based upon (1) the country's per capita income, and (2) other indications of the country's economic development and ability to compete internationally in the absence of GSP benefits. Both bills specifically name three major

beneficiaries -- Taiwan, Hong Kong, and the Republic of Korea -- as the countries to which the legislation shall apply.

TMA believes that the proposed legislation is unwarranted and unwise for the reasons set forth below.

1. THE PRESENT GSP LAW PROVIDES SUFFICIENT SAFEGUARDS TO PREVENT ANY ADVERSE IMPACT FROM GSP IMPORTS ON U.S. INDUSTRIES.

The present GSP law has evolved into a balanced and effective program to encourage economic development in developing countries while insuring that U.S. industries are not adversely affected by GSP imports. The present system of product-specific "graduation," under which a particular product from a particular country will automatically be removed from GSP eligibility if found to be import sensitive or if certain competitive need limits are surpassed, provides more than adequate safeguard against any potential adverse impact from GSP imports. This is especially true for the more competitive developing countries, since the 1984 amendments to the GSP law establish much more stringent competitive need limits for these countries.

Current law already provides that when a developing country reaches a certain level of economic development, that country will cease to be a GSP beneficiary. Specifically, once a beneficiary's per capita gross national product (GNP) exceeds approximately \$8,500 (an amount which will be adjusted to reflect the growth in the U.S. GNP), its competitive need limit will be reduced during the next two years from 50 percent of imports to 25 percent of imports. At the end



of this two year period, the country will lose GSP eligibility for all products. In addition, the President has the authority under current law to waive the statutory competitive need limits or remove articles from GSP eligibility where particular circumstances warrant or when it is in the national economic interest to do so.

2. THE PRESENT GSP PROGRAM RESULTS IN INCREASED DOMESTIC EMPLOYMENT AND LOWER PRICES TO AMERICAN CONSUMERS.

The U.S. toy industry has developed into an integrated industry utilizing both imports and domestic production to maximize sales. Because many toys, games and dolls are labor-intensive, and because the great variety of patterns & styles necessary to produce a full product line makes automated production processes impractical, the U.S. toy industry has turned to foreign sourcing for many of the less-expensive toys and toy components.

By sourcing these toys and components abroad, the toy industry has been able to rationalize production on the basis of labor and transportation costs, such that GSP imports actually complement American production and lead to increased U.S. employment in research, design, finishing, packaging, advertising and marketing operations. Rather than competing with American-made goods, imports from developing countries actually round out the toy, doll and game lines which are offered in the U.S. market. Accordingly, many U.S. jobs have resulted from and are now dependant on complementary foreign production. In addition, the rationalization of the production

process has allowed our American based member companies to compete with firms located abroad.

Toy imports under GSP have also resulted in substantial savings to U.S. consumers. The GSP program has allowed TMA member companies to lower their costs, in large part due to the disparity between the wages of American workers and the wages of citizens of the world's developing countries. The labor-intensive work required to produce many of the relatively low-priced toys and toy components is no longer feasibly performed in the United States. The GSP program has allowed TMA members to keep the selling prices of their varied products at reasonable levels, to the great advantage of the American consumer.

3. WITHDRAWAL OF GSP BENEFITS FROM ADVANCED DEVELOPING COUNTRIES WOULD NOT RESULT IN THE "RETURN" OF PRODUCTION TO THE UNITED STATES.

By allowing U.S. toy companies to reduce costs, the GSP program has contributed to the ability of these companies to increase sales, profitability, and domestic employment. However, the amount of duty saved because of GSP does not equal the difference between the costs of producing in the United States and abroad, and the elimination of duty-free treatment for products of the more advanced beneficiary countries will not result in the "return" of production to the United States.

This is especially true in the case of the U.S. toy industry. Because toys and games are discretionary purchases, sales will

decrease when prices are increased to cover costs. This extreme price sensitivity in the demand for toys means that consumers will simply spend their discretionary dollars on other products as toy prices rise.

Because so many of the toys and toy components which TMA members source from overseas require labor-intensive operations in the production process, these toys would not be continuously available on the U.S. market at prices which most U.S. consumers could afford if foreign sources of supply were not available. TMA is unaware of any company which currently produces high-volume toy products in commercially significant quantities in the United States. Thus, rather than "returning" production to the U.S., S.1867 would, if enacted, simply result in the removal of many toy products from the U.S. market.

4. WITHDRAWAL OF GSP BENEFITS FROM ADVANCED DEVELOPING COUNTRIES WOULD NOT NECESSARILY RESULT IN THE "SHIFTING" OF PRODUCTION TO OTHER DEVELOPING COUNTRIES:

It is simplistic to suppose that, by withdrawing GSP benefits from certain of the more advanced developing countries, the Congress can engineer the shift of U.S. investment to other beneficiary developing countries. The investment decisions involved in sourcing from developing countries would not abruptly change with the cut-off of GSP eligibility. These decisions often hinge on many factors unrelated to GSP benefits; for example, many developing countries lack the infrastructure which would allow a U.S. company to quickly

shift production. Shifts in production should be gradual, as is currently being accomplished under the existing GSP law. The wholesale withdrawal of benefits from the several more advanced developing countries, even over a two year period, would not allow for such a gradual shift to other beneficiary countries.

5. CONGRESS SHOULD NOT AMEND THE GSP LAW BEFORE ITS LAST AMENDMENTS HAVE BEEN GIVEN A CHANCE TO WORK.

Pursuant to the Trade and Tariff Act of 1984, a major review of eligible and ineligible articles from the various beneficiary developing countries is currently being conducted by the United States Trade Representative (USTR). Under this general review, which is expected to be completed by January 4, 1987, as required by law, the USTR will take into account, in determining whether a particular country should receive GSP benefits, "the level of economic development of such country, including its per capita gross national product, the living standards of its inhabitants, and any other economic factors which he deems appropriate." It would be completely inappropriate for Congress to continue to tinker with the GSP program before the USTR has had an opportunity to complete his review, or before the changes made by the 1984 revisions have even taken effect.

It is especially important to the success of trade benefit programs like the GSP and Caribbean Basin Initiative (CBI) that there be continuity of application. U.S. businessmen making long term decisions with regard to overseas sourcing require such

consistency. When the U.S. enacts a trade preference program such as the GSP, U.S. businesses are enticed into making significant investments in developing countries, and Congress should not make frequent changes in the rules of the game. Accordingly, we believe it is unwise to amend the law so soon after the most recent amendments.

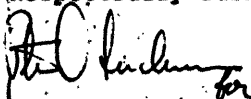
6. S. 1867 IS A PARTICULARLY INFLEXIBLE, MISGUIDED, AND HARMFUL APPROACH TO GSP REFORM.

The provisions of S. 1867 (and S. 1860) represent a particularly inappropriate and simplistic approach to reform of the GSP program. Successful beneficiary developing countries should not be penalized for their limited success in developing their economies. It is also important to note that certain industrial sectors in Taiwan, Hong Kong and South Korea are still undeveloped and very weak. In addition, certain sectors offer little or no competition to U.S. industries.

Accordingly, the proposed wholesale graduation of these three countries from GSP eligibility is especially unwise. The complete lack of flexibility in such a policy would adversely affect U.S. interests, since imports of many GSP products, including toys, are to the distinct advantage of the U.S. economy. As explained above, toy imports under GSP actually complement U.S. production, increase domestic employment, and insure a full range of products to the American consumer at otherwise unattainable prices. Thus, to deny GSP to the countries which have begun to develop their economies would be counterproductive.

For these reasons, we believe that the enactment of S. 1867 or S. 1860 would be particularly harmful to the interests of all concerned, and therefore urge that these bills be rejected.

Respectfully submitted,

  
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COMMITTEE ON FINANCE  
SUBCOMMITTEE ON INTERNATIONAL TRADE  
U.S. SENATE

COMMENTS ON S. 1867

FILED ON BEHALF OF  
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July 8, 1986



**I. INTRODUCTION**

Universal Furniture Industries, Inc. (Universal Furniture), Whittier, California, a manufacturer and importer of wood furniture and furniture parts from Taiwan and Singapore, submits these comments in opposition to S. 1867, a bill which requires the President to submit legislation withdrawing trade benefits provided under the Generalized System of Preferences (GSP) from certain developing countries. For the reasons set forth hereinbelow, the enactment of this bill into law could negatively affect the supply and sale of furniture in the United States. Further, because imported furniture is comprised of raw materials obtained from suppliers in the United States, any measures affecting the importation of wood furniture in the United States would result in lost jobs for American raw materials suppliers. Finally, Universal Furniture submits that the current GSP law provides a sufficient and objective mechanism for graduating countries for certain products who should no longer qualify for GSP benefits. Accordingly, Universal Furniture respectfully requests that this Committee decline to send S. 1867 to the full Senate for a vote.



II. S. 1867

S. 1867 is described as a bill "to require the President to submit legislation withdrawing trade benefits provided under Generalized System of Preferences from certain developing countries." Section 1 of this bill is entitled "Findings" and states in part:

neither the General Agreement on Tariffs and Trade nor United States laws according preferential treatment to developing countries provide adequate rules and procedures for gradual withdrawal of such treatment as such countries become more advanced with a view to promoting the opportunities for economic growth of lesser developed countries.

On the basis of the foregoing premise, S. 1867 sets forth a procedure whereby the President shall submit to Congress a draft bill to provide for the withdrawal of GSP benefits from any foreign country. Section 2 of S. 1867 provides that the President's draft bill is to be based on certain criteria, including the per capita income of the subject country, and "indications" of the "economic development" of the country and "the ability of the country to compete internationally in the absence of such preferences." Section 2(c) of the bill specifically lists Taiwan, Hong Kong, and the Republic of Korea as countries to which the President's draft bill shall apply.

### III. INTEREST OF UNIVERSAL FURNITURE

Universal Furniture is a manufacturer and importer of wood furniture and furniture parts with manufacturing facilities located in Singapore and Taiwan. The products imported by Universal Furniture are currently designated eligible articles under the GSP program. To the best of Universal Furniture's knowledge, it is one of the largest importers in the United States of wood furniture and furniture parts from Singapore and Taiwan. As a manufacturer and importer of merchandise potentially subject to withdrawal of GSP benefits under S. 1867, Universal Furniture has a direct interest in this legislation. At this time, Universal Furniture is most concerned about the effect of S. 1867 on its imports from Taiwan, a country expressly named as a target of this legislation.

As demonstrated hereinbelow, Taiwanese furniture accounts for a relatively small percentage of the wood furniture sold in the United States. Moreover, because of the nature of the wood furniture industry, domestic producers have historically dominated the U.S. market. Available data indicates the continuation of this pattern. Thus, the U.S. wood furniture industry is not suffering from competition from imports. Finally, Taiwanese furniture producers utilize raw materials

imported from U.S. suppliers. The passage of S. 1867 would therefore have the effect of decreasing business and jobs for these U.S. suppliers.

#### IV. WOOD FURNITURE INDUSTRY

##### A. Taiwanese Furniture Producers

There are at least 50 to 60 manufacturers of wood furniture and parts in Taiwan, with the top five companies accounting for 80 to 90 percent of furniture production as well as for most exports to the United States. Furniture manufacturing plants are scattered throughout Taiwan. Several of the large companies operate multiple plants, as do the large companies in the United States. Because of the more moderate climate, many firms do not have traditional four-wall-type factories, but only shed-like structures to protect the workers and equipment from the rain. The humid weather in Taiwan is also an important factor since humidity ranges are different from those in the United States. Thus, different drying techniques are required for wood furniture to be exported. The quality also varies greatly from manufacturer to manufacturer, but it is generally recognized that the largest producers have a quality level acceptable to consumers in the United States.

Although Taiwan has virtually none of the raw materials necessary for furniture production, it has become a center for world furniture production. The direct consequence of this is that most of the wood furniture imported from Taiwan incorporates particle or compressed board as a base material, the bulk of which materials are imported by Taiwanese manufacturers from the United States. Also, because of their appeal to the American consumer, popular U.S. hard-wood woods are used as veneers, with practically all of these woods also imported from the United States. Finally, Taiwanese furniture manufacturers, particularly the larger exporters, use finishing materials including stains and lacquers imported from the United States. In fact, many U.S. technicians, as well as U.S.-trained local workers, are running the finishing operations and training native employees to perform these tasks, which are among the most crucial stages in furniture production. In a recent study of the furniture industry conducted by the U.S. International Trade Commission, entitled Competitive Assessment of U.S. Wood and Upholstered Household Furniture Industry, it was conservatively estimated that at least 60 percent of the cost of furniture production by these companies in Taiwan comes from materials and services supplied by the United States. This fact unequivocally establishes the dependence of the Taiwanese wood furniture industry on imports from the United States, and significantly ties the health of these two economies together.

Thus, any legislation, such as S. 1867, which would limit or affect Taiwanese imports of wood furniture in the United States would likewise affect the U.S. vendors and technicians involved in the manufacture of wood furniture in Taiwan.

B. The Nature of Universal Furniture's Business

Universal Furniture is engaged in the design, manufacture, and sale of medium-priced wood furniture, i.e., dining room, bedroom and occasional furniture. Universal Furniture, which has been in business for 25 years, manufactures a wide selection of dining tables, chairs, dinette sets, buffets, hutches, bedroom dressers, mirrors, chests, beds, and occasional tables. The company manufactures all of its furniture in eight plants located in Singapore, Malaysia, Taiwan, Hong Kong, and the United States.

The main raw materials used by Universal Furniture in wood furniture production are lumber, veneers, particle board, hardwood, coating materials, glass, and upholstery materials. Universal Furniture's facility in Taiwan imports many of these components from U.S. suppliers. Accordingly, Universal Furniture's final product is comprised mainly of U.S. materials and therefore produces direct and measurable benefits to the U.S. economy.

The manufacturing process at Universal Furniture begins with the purchase of sawed timber which is converted, by a series of processes, into furniture components. These components are finished prior to shipment for final assembly. Most finished components are transported to Universal Furniture's regional assembly plants located in the United States where final assembly occurs prior to shipment to customers. Components are also shipped directly to manufacturers and wholesalers worldwide. So again, the nature of Universal Furniture's business results in significant manufacturing and assembly in the United States with direct and measurable benefits to the U.S. economy.

In sum, continued GSP eligibility for wood furniture and parts promotes the businesses of U.S. wood furniture suppliers and the U.S. wood furniture assembly industries, both of which industries are substantial.

C. The U.S. Wood Furniture Industry

According to the study of the furniture industry conducted by the U.S. International Trade Commission, there were approximately 2,100 manufacturers of wood household furniture in the United States in 1983, with 828 companies, or 39 percent, having 20 or more employees, and 12 having 1,000 or

more employees. Although virtually every geographic area of the United States has some producers of wood household furniture, the bulk of the companies are located in the Southeast, especially North Carolina, Virginia, Tennessee, and Florida. No company supplies more than 4 percent of the wood household furniture market.

A review of current industry data demonstrates that U.S. wood furniture manufacturers are in the midst of a growth period. Commerce Department figures show that while product shipments of household furniture in the United States, which includes upholstered furniture, increased only 2.5 percent in 1985, U.S. wood furniture industry shipments increased 5.1 percent in 1985. (See Excerpt from 1986 U.S. Industrial Outlook at 45-3, U.S. Department of Commerce (1986), attached hereto as Exhibit 1). This growth rate is impressive considering that in 1985 retail sales of furniture stores increased only 4% in the first half of 1985; housing completions and new home sales, two key indicators for the success of the wood furniture industry, were sluggish in 1985; and there was a build-up in consumer installment debt by virtue of the fact that over 60% of all furniture sales are financed on credit. Id. at 45-1--45-2.

As can be seen from above, the health of the U.S. furniture market is dependent on a number of factors unrelated to the level of furniture imports. For example, the Commerce Department reports that the moderating growth of the domestic furniture industry is attributable in part to changing lifestyles. Because an increasing number of households are comprised of young couples and of persons living alone in apartments, townhouses, or condominiums, there is reduced floor space available for furniture. Further, spending on other household goods, particularly electronic products, accounts for an increasing share of consumer expenditures. Id. at 45-4. The net result of this consumer behavior is fewer dollars spent on furniture.

Notwithstanding the dynamics of the market, the outlook for the U.S. wood furniture industry is positive. The Commerce Department predicts that overall demand for furniture should increase 5-7% in 1986. Id. at 45-4. Long-term predictions of increased real disposable income and the growth in households over the next five years also bodes well for the industry. Id.

In sum, a careful review of all available industry data and U.S. government statistics confirms that the U.S. wood furniture industry is healthy and growing. Thus, the continued GSP eligibility of wood furniture and parts from Taiwan will not adversely affect the U.S. wood furniture industry.



V. CURRENT GSP LEGISLATION PROVIDES A SUFFICIENT  
AND OBJECTIVE BASIS FOR GRADUATING COUNTRIES

The practice of graduation has been an integral element of the GSP program since 1981 when the President initiated a policy of discretionary graduation. Under this policy, GSP benefits available to the more advanced developing countries are reduced in those areas in which these countries are competitive. The United States Trade Representative (USTR) has estimated that in 1986, this graduation policy will exclude from GSP benefits trade valued at almost \$1 billion from Taiwan alone.

The eligibility of products under the GSP program is further limited under the current law by "competitive need limits." When a country's exports to the United States of a product exceed the competitive need limits, that country automatically loses duty-free treatment for the product in the following year. Many products from Taiwan have lost GSP eligibility because competitive need limits were exceeded, among them many of the wood furniture products.

The GSP program was renewed in the Trade and Tariff Act of 1984. In administering the amended law, the President has continued the practice of product graduation, i.e., as

countries become sufficiently competitive in a product, they lose GSP eligibility for that product. Universal Furniture endorses this practice because it takes into account the fact that different sectors of an economy may develop at different rates. For example, although Universal Furniture's facilities in Taiwan are increasingly modern and efficient, furniture production remains a relatively primitive operation in Taiwan. As discussed previously, climatic conditions are harsh and practically all essential components, including lumber, must be imported. Under the current law, these factors will be considered in deciding the continued GSP eligibility of Taiwanese wood furniture and parts. Under S. 1867, such considerations will not be relevant because all products from Taiwan will lose their GSP status.

Another important aspect of the renewed GSP program is the provision encouraging developing countries to improve their country practices relating to trade and other matters. Taiwan has undertaken several steps in this direction and has implemented measures which enhance the protection of intellectual property rights, reduce, and eventually eliminate, tariff and non-tariff barriers, improve market access, and improve workers' rights. Needless to say, the passage of S. 1867 would eliminate all incentive for Taiwan to continue these measures.

Finally, the key aspect of the current GSP program is the annual review conducted by the USTR. During the annual review, domestic and foreign persons having any interest in the eligibility of products under the GSP may petition the President for appropriate changes or modifications in the program. With respect to wood furniture, the American Furniture Manufacturers Association (AFMA) filed a petition with the USTR on June 2, 1986, requesting the withdrawal of GSP benefits on wood furniture and parts from several countries, including Taiwan. During past annual reviews, other petitions were unsuccessfully filed to remove GSP eligibility for various wood furniture tariff provisions from Taiwan. Further, during the 1985 annual review, the AFMA opposed Universal Furniture's request for waiver of competitive need limits with respect to certain wood furniture and parts from Taiwan and Singapore. We therefore submit that procedures exist in which full and complete studies are conducted to assess the effects of GSP eligibility of wood furniture products, and that these mechanisms are the proper way to address the concerns of the AFMA.

Universal Furniture submits that the furniture industry provides a good example of the necessity of the current procedure. As mentioned previously, wood furniture from Taiwan relies to a great extent on U.S. materials and labor for its

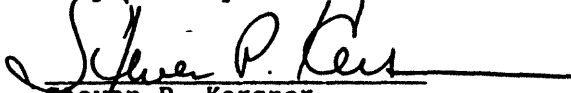
manufacture and assembly. The withdrawal of GSP benefits for this product will have a negative effect on certain U.S. businesses. Under the current procedure, Universal Furniture can indicate this fact to the President as he considers the AFMA's comments. Under S. 1867, possible adverse effects on the U.S. economy will be ignored in favor of what is essentially a knee-jerk reaction to the current trade deficit with Taiwan and other developing countries. Ironically, as pointed out by the USTR, the passage of S. 1867 is more likely to be a boon for Japanese imports in the United States rather than a benefit for U.S. products and producers.

VI. CONCLUSION

For the reasons discussed hereinabove, Universal Furniture opposes S. 1867 and requests that the Committee not favorably report this bill to the full Senate.

On behalf of our client, we appreciate the opportunity to present the views expressed herein.

Respectfully submitted,



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