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ASIAN INVESTMENT PATTERNS IN CENTRAL AMERICA

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REPORT
ASIAN INVESTMENT STUDY
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EXECUTIVE SUMMARY

The following study is a review of Asian investment patterns in Central America. Specifically, investments of the so-called Four Tigers - Hong Kong, Singapore, South Korea and Taiwan - were examined. The fact these countries have recently graduated from General System of Preferences (GSP) status, may present an opportunity to attract selected product manufacturing operations to Central America, which can provide duty-free access to the U.S., helping the Four Tigers offset GSP pricing advantages.

In carrying out the study, it was found that virtually no accessible written materials or compiled and avilable data exist on Asian investment in Central America. Findings, therefore, are predicated on interviews with representatives of U.S. and U.S.-based Asian companies, and key public and private sector officials in Central America.

The analysis revealed that while GSP cancellation is a positive factor in promoting mirgation of investment from the Four Tigers, it does not appear to be the sole determinant. Other variables, of equal weight, include the reliability of suppliers for sourcing, quality of production, condition of physical infrastructure, lack of cumbersome bureaucratic procedures and existence of financial incentives. Politcal stability was also a concern.

The most attractive investment option appears to the Free Trade Zone, which is perceived to require little up front capital investment, is relatively secure and avoids the risks associated with inland investment. Given the present economic and political environment in Central America, this approach seems to hold the greatest opportunity for recruiting Four Tiger operations.

With the exception of Costa Rica, the Central American nations of El Salvador, Honduras and Guatemala do not have any sustained, coordinated outreach efforts to promote Four Tiger investment. This is partly self-fulfilling, in that Costa Rica is the only country in the region which is perceived to meet most of the requisite conditions to attract Four Tiger investment, including the existence of political stability.

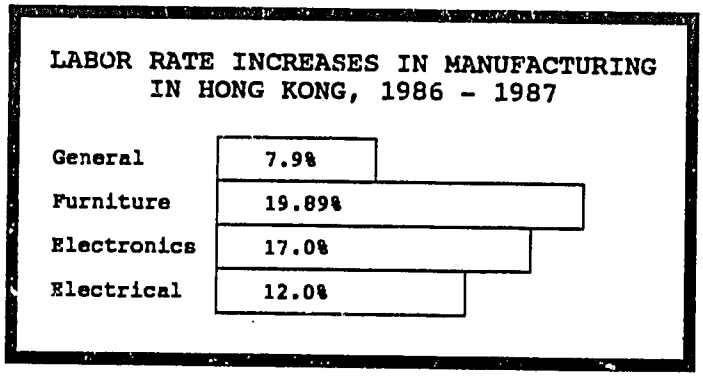
For a more complete understanding of what would be required to encourage successfully Four Tiger trade migration to Central America, it is essential to conduct a similar, but more comprehensive study, in Hong Kong, Singapore, South Korea and Taiwan. However, it is important bear in mind that it is difficult to obtain data from private companies who are often understandably reluctant to share publicly business strategies.

I. INTRODUCTION

A. Scope and Purpose of Study

The objectives of this study are: 1) to examine the impact of Asian investment in Central America, specifically reviewing patterns of investment by Korea, Taiwan, Hong Kong and Singapore (the so-called Four Tigers); and 2) to identify factors influencing foreign investor decisions to establish sourcing and other operations in the Central American region. The purpose is to gauge what impact their graduation from GSP has had on the Four Tigers in seeking to maintain price competitiveness, particularly with respect to potential opportunities represented by establishment of operations in Central America to take advantage of duty free status under the Caribbean Basin Initiative (CBI).

To gather the required information, a literature review was conducted, and structured interviews held with representatives of a sample of U.S. and U.S.-based Asian firms either doing business or having sourcing arrangements in Central America. Interviews of Central American private and public sector officials were also conducted.



It should be pointed out that two unanticipated problems arose during the course of the study, substantially restricting the analysis. First, it was exceedingly difficult to obtain interviews with U.S. and U.S.-based Asian companies. Second, virtually no literature or published data on Asian investment in Central America was found to exist.

B. Background

On January 1, 1989, the U.S. Government cancelled the duty-free status under the General System of Preferences (GSP) accorded selected exports to the U.S. from Hong Kong, Taiwan, South Korea and Singapore (the so-called "Four Tigers"). This change in status potentially opens a door of substantial opportunity for Caribbean Basin Initiative (CBI) countries. The CBI's duty-free access to the U.S. market should encourage manufacturers from the Asian countries to establish export-oriented industries in Costa Rica, El Salvador, Honduras and Guatemala in order to protect their price competitiveness on GSP related products. Given the large volume of export trade to the U.S. from the Four Tigers - $9.7 billion in GSP-eligible products - it is very likely that the affected Asian producers will be seeking ways in which to protect their pricing advantage. Needless to say, not all of this trade is susceptible to industry migration for the purpose of maintaining pricing competitiveness. This report, therefore, focuses on: (1) identification of products or product groupings most susceptible to trade migration; (2) U.S. buyer attitudes toward foreign sourcing as affected by the GSP cancellation; and (3) conditions necessary for GSP export-oriented foreign investment in Costa Rica, El Salvador, Honduras and Guatemala.

GSP-related exports from the Four Tigers considered to be candidates for trade migration include products which are subject to relatively high U.S. tariff rates, are labor intensive and have sufficient trade volume to make alternative sourcing a desirable option. Their estimated total value is $3.1 billion. Despite this fact, however, findings from the research indicated that GSP cancellation is only one of a set of factors determining decisions to relocate Asian industry to the Central American countries.[1]

By contrast, duty-free access afforded the Caribbean Basin Initiative (CBI) countries has attracted and continues to attract a limited number Asian investors to established free trade zones in the area. The great majority of this activity centers around exports to the U.S.

market. However, direct investment by Four Tiger companies in the Central American countries, outside the free zone programs, appears to be negligible.

Since the Central American region as a whole, with the possible exception of Costa Rica, is perceived to be only marginally stable politically, attracting Asian and other foreign investors will probably continue to be best achieved through free trade zone/industrial parks. The low risk and operational flexibility of the investment, combined with attractive incentives, including the CBI status, makes this a preferred alternative for foreign investment.

Another problem, again with the possible exception of Costa Rica, is that the countries in the region tend to lack the adequate legal framework to facilitate foreign investment, are deficient in basic infrastructure for industry, are slow in eliminating government red tape and/or have not developed a set of working incentives for export-oriented business in order to attract Asian investors. Similarly, many of the Isthmusian nations have not created the kind of statistical data base that many prospective investors require, although several steps are being taken to correct this and attendant problems.

Political instability does not fall evenly on all the nations in the region. Not surprisingly, El Salvador and Honduras suffer the most; Guatemala to a lesser extent. Costa Rica, with its more peaceful and democratic traditions, is free of internal violence. But to one degree or another, foreign and Central American private investment initiatives are hindered by the perception of the area as a high-risk environment. External private capital resources are extremely limited, and local investment financing or new equity is practically non-existent. While these are serious impediments to long-term direct investment, they are less important to the free trade zone/industrial park investment with its provisions for the free movement of capital and relatively low risk.

Private sector-government collaboration regarding foreign investment in general, and Asian investment in particular, varies among the four different countries in Central America. In Costa Rica, there is a close working relationship between the government and business which has produced a relatively attractive climate for foreign investment. Efforts to forge similar alliances need to be encouraged in the other Central American countries if they are to stay competitive in securing Asian investment.

The research indicated that of the Four Tigers, Taiwan has exhibited the strongest interest in establishing export industries in Central America. Additional research, however, should be considered to determine from export industrialists in Asia what they would consider to be the most important variables influencing decisions to locate operations in Central America. This should include not only GSP-related products, but also general production which would enjoy CBI duty-free access to the U.S.

II. MAJOR FINDINGS

- There is little actual Asian-country investment in Central America. Bibliographic reviews revealed a complete lack of written materials regarding existing and potential Asian investment in Costa Rica, El Salvador, Honduras and Guatemala. Field Research in Central America also produced little in the way of statistical data, and consultations with informed sources indicated that, in general, there is no significant Asian foreign investor base, with the exception of Costa Rica.

- While the GSP cancellation is a positive factor in the promoting migration of export-oriented foreign investment from the Four Tigers, it does not appear to be a sole significant determinant itself. Other factors such as the condition of infrastructure, legal framework, political stability and incentives are all integral components of the decisions-making process.

- Twenty product groupings, representing approximately US$3.1 billion in 1987 GSP exports to the U.S. from the Four Tigers, have been identified as being susceptible to trade migration. They are generally characterized as: 1) subject to relatively high U.S. tariff rates; 2) labor intensive with little

cital investment required; and 3) having a sufficient volume of trade to warrant consideration for alternative sourcing.

- While elimination of GSP duty-free status is a cause of concern for U.S. importers, consideration of quality, reliability of supply and government red tape seem to override the problem of increased tariff rates. Central America does not figure very prominently as an alternative foreign sourcing.

- Not surprisingly, Central America in general suffers from a negative image which influences business plans regarding investment and foreign sourcing. It is perceived as a high risk area, and little distinction is made among the different countries. Costa Rica is somewhat of an exception in this regard.

- When considering foreign investment in the Central American countries, most investors are utilizing the vehicle provided by free trade zones, or similar mechanisms, to establish export-oriented processing and/or manufacturing operations. As a practical matter, it represents the most viable approach
to attracting foreign capital, particularly given the present economic and political environment in the region and the fact that, outside of the FTZs, relatively low levels of investor interest appear to exist.

- Representatives of both the private and public sectors in Central America expressed concern about the expected longevity of CBI duty-free status. While this affirms the importance accorded the CBI by the Central American nations in attracting foreign investment, it does not seem to be a similar concern of Four Tiger investors.

- In terms of the level of Four Tiger interest in Central America, Taiwan stands out from its competitors. The Taiwan government is actively encouraging its private sector to consider export-oriented foreign investment in the Central American countries. Korean textile interests are also active participants, but on a more selective basis. Little evidence of either Singapore of Hong Kong investment could be found.

- Generally, the areas of foreign in which must be addressed to encourage greater foreign investor interest in Central America, both Asian and non-Asian, include: political risk guarantees; increased availabilities of investment capital; greater government-private sector cooperation on policies and regulatory framework; and easier access to packages of incentives and services.

III. ANALYSIS

A. Literature Review

Surprisingly, a comprehensive literature review revealed no available published analyses on Four Tigers investment in Central America. Major sources reviewed included: bibliographic data available at the Public Affairs Information Service and in The Guide to Current Periodic Literature and The Periodic Guide to Legal Literature. In addition, four university libraries were visited to review academic publications, theses and dissertations, as well as the libraries of the Departments of Treasury, Commerce and State and the Overseas Private Investment Corporation. Interviews were conducted with officials of the International Monetary Fund, the Inter-American Development Bank, World Bank, EXIM Bank, the European Economic Commission's Washington Office, the Organization of American States, the Brookings Institution, the Institute of International Economics, and Caribbean/Central American Action.

None of these sources had any published information or documentation on Asian investment in Central America. There currently appears to be no academic interest in the subject and, if studies have been commissioned by private business firms, they are not available to the general public. The four Central American countries, however, have shown considerable interest in developing the potential for Asian investment. While there have been Central American trade and investment missions to the Asian countries, there apparently has been no

research conducted on Asian investment in Central America.

U.S. government officials and trade association representatives indicated that while there is some investment by the Four Tigers in the Central American nations, there apparently has been no attempt to quantify that investment or analyze its implications for the Central American economic development. Various officials indicated in discussions that there is more South Korean and Taiwanese investment in the region, but have been unable or unwilling to provide detailed information regarding the investments.

At the same time, respondents also indicated that there is a "substantial interest" by the Asian countries to invest in Central America, and that past investment has, and future investment likely will be, concentrated in free trade zones. However, empirical work was found to support such conclusions.

Should further tasks be authorized regarding trade migration from the Four Tigers to the Central American countries, detailed field research should be conducted among government offices, academic institutions, trade associations and business firms in Hong Kong, Korea, Singapore and Taiwan.

B. Asian Company Relocation Perspectives

1. Factors Relating to the GSP Graduation

While GSP graduation may be one important factor in the migration of trade from the Asian countries to Central America, other factors such as wages, inflation and changes in foreign exchange rates are also major variables in determining the extent to which GSP manufacturing leaves the Asian countries.

It is apparent that the economies of the Four Tigers now are overheated, with production for the export market expanding rapidly and labor increasingly unavailable for manufacturing jobs. In Hong Kong, for instance, general labor rates for manufacturing between December 1986 and December 1987 increased by 7.0 percent. In important sectors producing GSP products, labor rates went up even faster. For example, labor wages in furniture manufacturing increased by 19.8 percent between December, 1986 and December, 1987, rising from US$17.75 to US$22.13 per day; while labor rates in electrical appliance and electronics manufacturing increased, respectively, by 12.5 percent and 17 percent during 1987.

Currently, the Hong Kong Federation of Industries estimates that the unemployment rate in Hong Kong is 1.8 percent. At the same time, 100,000 workers are badly needed for textile and apparel manufacturing, construction and the tourist service industry. Several Hong Kong industry groups have petitioned the government to allow the entry of temporary workers from China.

Inasmuch as Hong Kong is expected to have 8 percent GDP growth in 1988, it is reasonable to expect that inflationary pressures will continue to exert a strong influence on manufacturing costs. Given this situation, and a projected overall inflation rate of 7 percent in 1988, it seems likely that the Hong Kong labor force will be used in higher-paying, capital intensive manufacturing, with a consequent migration of lower technology manufacturing of GSP products to those countries with lower labor rates, some of which continue to retain GSP or CBI duty-free tariff rates in 1989.

Taiwan is in a similar position. With an unemployment rate of only 2.0 percent, manufacturing wages, in Taiwan dollars, increased by 9.9 percent between 1986 and 1987, and in 1988 have risen 14 percent. This happened at a time of currency appreciation. Based on the current exchange rate of US$1.00:NT $28.8, U.S. dollar wages in manufacturing in Taiwan averaged US$599.44 for the first five months of 1988, up a staggering 90 percent from 1986.

Another factor negatively affecting the competitive position of the four Asian Newly Industrialized Countries (NICs) will be continuing pressure to appreciate their currencies against the dollar. Given their strong economic performance and expanding exports to the U.S., they are running increasingly large trade surpluses with the U.S. There already has been successful pressure on Taiwan and Korea to revalue

their currencies. Between March, 1985 and December, 1987, the National Taiwan dollar appreciated almost 26 percent against the U.S. dollar, and through 1988 the Korean Won has appreciated 122 percent.

Despite this appreciation, the U.S. Government believes that both the Taiwanese and Korean currencies remain under-valued against the dollar. In the Department of Treasury's October 24, 1988 "Report to the Congress on International and Economic Exchange Rates Policy," the Administration announced that the U.S. Government would enter into negotiations with the two countries to attempt to persuade them to appreciate further their currencies. Given that the two countries have large foreign exchange reserves, little external debt and increasing trade surpluses with the U.S., it appears inevitable that the U.S. will be successful in obtaining the agreement to appreciate, probably in the range of 10-20 percent in 1989-1990.

While Hong Kong and Singapore also are often accused of maintaining under-valued currencies, their trade surpluses and foreign exchange reserves are considerably below those of Taiwan and Korea. As a result, there will be less U.S. Government pressure for them to appreciate their currencies in the short term. Nonetheless, the fact that Hong Kong had a US$5.9 billion trade surplus with the U.S. in 1987, and Singapore a trade surplus of $2.1 billion, has not escaped the notice of the U.S. Treasury Department. It is possible that there will be continuing pressure for those two countries to appreciate their currencies.

While labor rates have escalated relatively rapidly for the four Asian NICs during the past several years, it is also true that, given their full employment economies, general inflation rates are increasing. In 1988, these varied from a low 4.5 percent in Taiwan to a high of 8 percent in Hong Kong.

2. Identification of Products Susceptible to Migration

In 1987, the Asian countries had a total trade with the U.S. of $9.7 billion in GSP duty-free products. Much of this was in capital intensive products of medium to high technology, subject to low U.S. tariff rates. Such products generally are not considered receptive to trade migration in the short term, although through low value-added assembly operations some migration can be expected to occur. Rather than attempt to examine trade migration prospects in these low duty, more capital intensive areas, the analysis focuses on labor intensive trade, particularly that which is subject to higher import duties.

In identifying those products sensitive to shifts in investment or trade as a consequence of GSP graduation by the Asian-countries, all U.S. imports at the five-digit TSUSA level were first examined, in order to isolate each product in which there was more than $1.0 million in trade from one or more of the countries. That list contained 424 products at the five-digit TSUSA level.

A more refined list then was compiled of those products at the five-digit TSUSA level that have a U.S. duty rate of five percent or more, and in which total U.S. imports from any of the four Asian countries exceeded $5.0 million in 1987. The five percent duty was used as representing a minimum duty level which, when imposed on the Asian countries as a consequence of GSP graduation, could impact their competitiveness in the U.S. market. The $5.0 million trade level was selected as one that could justify new investment in plants and equipment. While the 5 percent and $5 million cut-off levels are arbitrary, they do provide a reasonable basis for analysis. However, they should be tested in the future by an examination of the price elasticities of individual products. In this connection, it should be noted that in several instances products with duties lower than 5 percent, or trade values of less than $5 million, were included, but only when there were special circumstances or the products were similar to or complementary (either in manufacturing or in trading) to other products that meet the cut-off levels.

Table 1

Candidate Product Groups for Migration

1. Wood Doors, Picture & Mirror Frames

- Wood Doors With or Without Frame
- Wooden Picture & Mirror Frames
- Picture and Mirror Frames

2. Cooking Ware

- Household Utensils, Other/Wood
- Silver-Plated Household Items
- Cooking Ware of Steel, Other
- Household Articles of Rubber

3. Christmas Decorations

- Wooden Christmas Ornaments
- Electric Christmas Tree Lamps
- Christmas Tree Light Sets

4. Miscellaneous Products

- Artificial Flowers
- Buckles and Slides
- Plastic Artificial Flowers
- Plastic Trees and Fruits
- Other Artificial Flowers
- Combs +$2.50 gross
- Barrettes & Hairslides
- Brooms and Brushes
- Umbrellas
- Cigar & Cigarette Lighters valued not over $5/doz.
- Pocket & Table Lighter Parts

5. Ceramic Household Articles

- Ceramic Household Articles
- Ceramic Articles
- Smoker's Articles
- Ceramic Kitchenware

6. Glass Mirrors

- Glass Mirrors
- Frames and Mirrors

7. Illuminating Articles

- Glass Lamp Globes and Shades
- Glass Lamp Parts
- Other Glass Lamps and Parts
- Portable Table/Floor Lamps
- Brass Lamps
- Other Lamps

8. Metal Fasteners

- Brads, Iron or Steel, other
- Wood Screws of Base Metal
- Cotters, Cotter Pins
- Assembled Bolts, Screw Eyes
- Locks & Padlocks/Base Metal
- Door Closers & Parts
- Harness & Saddle Hardware
- Hinges, Fittings, Mountings
- Butt Hinges of Iron or Steel

9. Taps, Cocks & Valves

- Taps, Cocks, Valves & Similar
- Taps, Cocks, HND-OPER
- Safety and Relief Valves

10. Transformers & Electric Motors

- Transformers -1KVA
- Transformer +1KVA
- Electric Motors - 1/40KVA
- Electric Motors + 1/4KVA
- Motors over 1/10 hp:
- Motors += 1HP
- Parts of Electric Motors

11. Flashlights, Energy Cells & Batteries

- Primary Cells & Batteries
- Storage Batteries & Parts
- Flashlights & Parts

12. Telephone Apparatus

Table 1 - Continued...

Candidate Product Groups for Migration

- Telephone Switching Apparatus
- Telephone Sets & Parts
- Electrical Switches
- Telegraph or Telephonic App.

13. Handtools

- Hedge & Grass Shears
- Pliers, Nippers & Similar Tools
- Pipe Tools; Wrenches
- Circular Saw Blades
- Cutting Tools
- Interchangeable Tools
- Screwdrivers
- Other Hand Tools
- Chains, Iron-Steel + $.40/lb.

14. Electrical Switches and Related Products

- Electrical Switches

15. Luggage, Handbags, Billfolds and Leather Belts

- Luggage and Handbags of Abaca
- Handbags or Pocketbooks
- Billfolds, Lettercases, etc.
- Leather Apparel Belts

16. Furniture and Parts Thereof

- Rattan Furniture
- Furniture of Other Veg. Fiber
- Furniture of Wood, Folding Chairs
- Parts of Chair, of Wood
- Parts of Wooden Furniture
- Furniture and Parts
- Furniture & Parts of Textiles
- Furniture & Parts of Reinf. Plast.
- Furniture, NSPF, of Rubber
- Furniture, NSPF, of Copper
- Furniture, NSPF, Other
- Pillow, Cushions, Mattresses

17. Sporting Goods

- Fishing Reels, +$8
- Sport Fishing Equipment
- Three-speed Hubs
- Table Tennis Equipment
- Wood Tables, esp. for Games
- Badminton Equip. and Parts
- Baseball Gloves
- Baseball Equip. and Parts
- Golf Equipment
- Ski bindings, poles, etc.
- Boxing Gloves
- Inflatable Balls

18. Games, Puzzles, Models

- Games played on boards of special design
- Puzzles, Games, etc.
- Models, Construction Kits
- Vehicles, Scale of 1 to 85
- Models & Constr. Kits, Other
- Models, etc., NSPF

19. Dolls and Toys

- Dolls, Stuffed
- Toys, Figures, Stuffed
- Toys, Figures, Springless + $.10/in.
- Toy Figures of Animate Objects
- Metal Toy Figures of Animate Objects
- Other Metal Toy Figures of Animate Objects
- Toy Figures of Inanimate Objects
- Skins for Toy Figures
- Toy Alphabet Blocks

Table 1 - Continued...

Candidate Product Groups for Migration

- Toy Musical Instruments
- Magic Tricks & Practical Jokes
- Confetti, Paper Spirals, etc.
- Toys, NSPF, w/a Spring Mech.
- Toys w/an Electric Motor
- Toys, NSPF, Other
- Toys, Rubber or Plastic Noninfl.
- Toys, Other

20. Jewelry

- Other Necklaces & Neckwear
- Jewelry of Precious Metals
- Jewelry/Non-Precious Metals
- Jewelry, NSPF; valued - $.20/dozen
- Jewelry/Other

From this more refined list, twenty target groups of similar products were identified (see Table 1). These are believed to be the most susceptible to migration from the Asian-countries to low-wage countries that will maintain GSP or CBI duty-free status in the U.S. market. (See Attachment A for the listing and relevant commentary.)

Analysis of these product groups shows several reasons why they are considered to be likely candidates for migration to Central America. First, most require relatively little capital investment for manufacturing. Second, they are labor intensive, raw materials intensive or both. At a time when labor rates in the Four Tiger countries are continuing to rise, particularly in comparison to Central America, this may become an especially compelling reason for affected companies to consider relocating operations. This is particularly the case where raw materials are also easily available at low prices, such as in the manufacture of doors, frames and other wood products. Fourth, products with low unit rates are especially price sensitive, another potentially significant motive for migrating. Finally, products facing high tariffs may be susceptible to migration.

Once again, it ineeds to be underscored that duty free status provided by the CBI is only one of several factors taken into consideration in making relocation decisions. In order to attract significantly more Asian investment to Central Americas, it will be necessary to recruit foreign investment based on a combination of advantages, such as those highlighted above. Even so, additional concerns of potential Asian investors will have to be addressed by the Central American governments. These are discussed in additional concerns, as will be discussed in the next section.

3. Sourcing Considerations

A sample of U.S. companies and U.S.-based Asian manufacturers was drawn for interviews. Criteria for selection included size, corporate structure, and product line. All firms currently use suppliers located in Singapore, Taiwan, Hong Kong or Korea for sourcing a wide range of products for import into the U.S. market. This merchandise includes consumer products, raw materials, equipment, parts and components.

All figures for the companies' volume of import business from these Asian countries may be seen in Table 2. In some instances, the dollar amounts may include some import business with Asian countries outside the "Four Tigers" group. Recognizing that some statistical inaccuracies may exist, the importance of these numbers is in their indication of the levels of magnitude of involvement with the GSP status issue, rather than in the precision of the data themselves.

Sourcing considerations focus on two principal issues: first, that quality and reliability of supply are as, if not more, important than price; and second, that for large international companies, decisions of sourcing are made at the head office or parent company level. Also, there is a general perception that a change in GSP status, thereby increasing costs, will be offset by alternative sourcing in Asia, as opposed to looking to other parts of the world. This attitude reflects the belief that product quality and efficient delivery are more reliable from the Asian market than elsewhere. Indeed, half the companies interviewed indicated they had no plans to change current sourcing arrangements; and only two of the fourteen respondents indicated they would consider alternates in Latin America (Brazil and Mexico). None mentioned Central America as a possible option. The decline in the U.S. dollar, and consequent increase in importation costs for imported goods, is a significant problem for the smaller traders working with thinner margins. However, even this does not seem to have produced much visible movement toward seeking alternative sourcing arrangements outside of Asia.

It should also be noted that a number of the companies interviewed work with their parent organizations, subsidiaries or captive suppliers as the source of imported goods. Decisions for alternative sourcing for these companies, therefore, are more complex compared to the independent importer.

In general, the impact of the change in GSP status is not perceived as having any material effect on the trading habits of the majority of companies interviewed. Here again, the best source of information lies more with the Asian industrialists than with their customers in the U.S. There is little indication that the GSP cancellation has generated any significant action regarding the migration of suppliers from the "Four Tigers" countries. In any case, Central America does not figure as a likely candidate for foreign sourcing, and, to the contrary, generally is viewed negatively, except as a location for free trade zones.

Finally, it is essential to emphasize the fact that by far the single most important set of factors determining sourcing arrangements is quality and price. Product quality is of greater concern than price. Most company officials interviewed felt that sourcing in Central America would not meet necessary quality standards, would be unreliable and/or would result in too much bureaucratic red tape.

GSP cancellation by itself may not be as important a factor in sourcing as the ability of Four Tiger firms to maintain duty free access to the U.S. through the CBI. This has always been an option available to the Asian companies, although very few have exercised it. Hence the "pull" factors may not be ultimately important as the "push" factors. That is, as wages increase and Four Tiger currencies are revalued upwards against the dollar, impetus may be found to push Four Tiger companies to look elsewhere for sourcing. However, the countries in Central America would have to provide, along with low wages, the necessary infrastructure, legal and regulatory framework, and financial incentives to offset present non-Four Tiger Asian comparative advantages and generally negative perceptions of the region.

Table II Next Page...

COMPANY NIC IMPORTS ANNUAL VOLUME (1987/88)	SOURCING CONSIDERATIONS	GSP IMPACT	ALTERNATE SOURCING	COMMENTS		
1. SAMSUNG AMERICA, Ltd. (Affiliate of Samsung, Korea)	Luxury Consumer Products	US$200 MM	Rely heavily on parent company	Not material	Parent Company decision	Large, sophisticated company capable of worldwide sourcing/manufacturing.
2. SANSUI ELECTRONICS, CORP. (Sales branch of Sansui, Japan)	Sansui brand manufactured products	US$6 MM	Rely totally on parent company	Not material	Parent Company decision	Same as above.
3. DURST INDUSTRIES	Plumbing specialties; gardening accessories	US$.8 MM	Quality and price-import from Hong Kong, Korea and Taiwan	Not material	Italy, Yugoslavia, U.K. and Thailand	Import from Hong Kong, Korea and Taiwan; suspect of Central America re quality issue.
4. SINGER SEWING COMPANY	Sewing machines	US$30 MM	Import from their own factory in Taiwan	Not material	Factory in Brazil	Discontinued sourcing from Central America due to government red tape.
5. GENERAL INSTRUMENTS COMPANY	Electronic and computer components	US$158 MM	Quality and price	N.A.	No plans to change	Import from Hong Kong and Korea; concerned about quality control.
6. MITSUI & COMPANY (Japan)	Diverse merchandise & equipment	US$60 MM	Rely on subsidiaries Hong Kong, Taiwan & Singapore	None	No plans to change	Small amount of imports from Central America--Little growth expected.
7. F.W. WOOLWORTH CO.	Consumer goods	US$95 MM	Price; buying offices in Hong Kong & Taiwan	Yes--see comments	Other Asian countries	Apparent preference for other Asian country sourcing; apparently open to Central American approach but have had little contact.

8.	RICOH OF AMERICA (Japan)	Office equipment of accessories; cameras	US$30 MM	Rely on parent company	None	No plans to change	Not interested in sourcing from Central America.
9.	ARTMARK PRODUCTS CORP.	Metal valves & castings	US$5 MM	Quality and price-import from Korea & Taiwan	Yes--see comments	Brazil & Mexico	Company too small to manufacture abroad; GSP cancellation serious problems. No plans for Central America as alternative source.
10.	B. SHACKMAN & COMPANY	Toys & paper goods	US$2 MM	Quality & price-import from Hong Kong & Taiwan	Not material	No plans to change	Central America viewed as high-priced and quality problem.
11.	O.G. INNES CORP.	Specialty resins	US$1 MM	Quality	None	No plans to change	Poor experience with importing lumber from Honduras.
12.	MITSUBISHI INTL. CORP. (Japan)	Diverse merchandise and equipment	US$172 MM	Traditional supplies in Hong Kong, Korea, Taiwan and Singapore	None	No plans to change	Large, sophisticated international nominal sourcing from Central America--sold out of Guatemalan venture. Parent company makes investment decisions.
13.	FREDERICK ATKINS CO.	Clothing and home furnishings	US$130 MM	Quality & price-import from Hong Kong, Taiwan, Singapore & Korea	Yes--see comments	No plans to change	Imports from Central America are negligible; traditional supplies affected by GSP status change have apparently switched production to other Asian countries.

14.	I.T.T.	Electronic components and castings	N.A.	Quality & price-import from Korea, Taiwan & Singapore	Yes--see comments	Researching Thailand, Indonesia, Brazil & Mexico	Suspect of ability of Central American supplies to meet their quality/price standards.
15.	JAYMF PRODUCTS	General merchandise	US$2-3 MM	Quality & price-import from Kong Kong, Korea, and Taiwan	Yes--see comments	Researching Thailand; has significant imports from China	Central America viewed as unreliable supplier; also, quality and price standards are suspect.

1.It is important to note that this conclusion is an extrapolation of findings from U.S. and U.S.-based firms, as well as private and public sector officials in Central America. The scope of work did not include interviews with Asia investors and manufacturers.

C. Central American Perspectives

The following is a country-by-country summary analysis of Central American attitudes toward recruitment of Four Tigers industry to the Isthmus. Four principal issues were addressed: the degree of awareness of the potential opportunity presented by termination of Four Tigers GSP termination; 2) levels of Asian investment and major factors affecting relocation; 3) available investment incentives; 4) attitudes toward Four Tigers investment and existing promotional activities.

1. Costa Rica

A. Awareness Issues:

Both the public and private sectors in Costa Rica are well aware of the GSP cancellation but do not view this single factor as having a determining influence on export-oriented foreign investment in their country. Contacts with representatives from the Asian countries interested in industrial investment in Costa Rica have not indicated that GSP considerations are a primary motivator. However, the CBI program's duty-free access to the U.S. market for eligible Costa Rican exports is one of the country's most important foreign investment incentives. Any and all foreign investment is considered beneficial, and the GSP cancellation is simply viewed as one of many positive factors contributing to Costa Rica's attractiveness for foreign capital. No promotion efforts exist which specifically target the issue of GSP-related migration of Asian industry. Key public and private sector officials felt, however, that the issue was already implicit in Costa Rica's CBI program status.

The investment promotion activities of the "Coalición Costarricense de Iniciativas de Desarrollo" (CINDE) are impressive. If an initial impression accurately reflects the effectiveness of the organization for promoting foreign investment, CINDE is fulfilling a very important role. The perception is one of a highly professional staff, an excellent information source and a very business-like approach to its activities. A small but indicative example of this effectiveness is CINDE's investment promotion brochure, "Offshore Investment in Costa Rica," which is presented in both English and Chinese. (CINDE maintains a promotion office in Hong Kong which services the Asian markets). CINDE's "one-stop" approach to dealing with foreign investors appears to be an effective strategy.

B. Asian Investment:

There is little existing Four Tigers investment in Costa Rica, although it does appear to be growing. Here again, Asian interest is not directly attributed to GSP considerations per se, but rather CBI program duty-free access to the U.S. market. It was difficult to quantify Asian involvement in Costa Rica, though CINDE did provide a list of twenty-three companies operating in the country: four from Hong Kong, seven from Taiwan and twelve from South Korea. Seven Japanese companies also operate in Costa Rica. Seven of the South Korean companies and all four Hong Kong companies are in textiles, while all seven of the Taiwanese firm are in diverse, non-textile industries.

An important characteristic of the Four Tigers investment is its preference for free trade zone vehicles rather than direct investment in the country along traditional lines. At the risk of over-simplification, this method of attracting foreign investment, which is extremely flexible and low-risk, appears to be the most practical and attractive for Costa Rica vis-a-vis foreign investors in general. The Asian countries seem to find this vehicle particularly attractive as a way of quickly establishing export platforms to access the U.S. and European markets. In this regard, CINDE felt confident that they were close to arranging a major commitment by Taiwanese interests for a large free trade zone project, which would involve some 20-30 companies with individual investment amounts in the range of US$1-1.5 million, and averaging 150 employees each.

C. Government Investment Incentives:

Costa Rica provides a variety of attractive incentives to foreign investors through a number of export-oriented investment vehicles.

These include contract manufacture, temporary admission and free trade zones. To one degree or another, these programs provide for tax holidays, duty-free imports and exports, and the free movement of foreign exchange and export-related tax savings. Also, Costa Rica's legal framework has been in place for a number of years and is perceived to be fair, comprehensive and easily understood. While not properly considered an "incentive" in the formal sense, this positive legal environment in Costa Rica is extremely important to foreign investors. Another attractive feature is the Central Bank's foreign exchange fund which guarantees the right to repatriate capital, profits and dividends, make loan repayments, pay royalties and service contract fees.

D. Private Sector Attitudes:

It appears that the Costa Rican private sector, while not opposing foreign investment, is still somewhat a creature of habit. In the past, it grew very comfortable with protected industries, looking inward to the Central American Common Market. Also, in fairness, the high cost of borrowing locally and the very limited availability of long-term capital, either debt or equity, have affected the private sector's appetite for the expansionist, outward looking drive of the export-oriented industries, which attract foreign investors. Apparently, there are many who are skeptical of the long-term prospects of the CBI. A question repeatedly asked was, "How solid is the CBI?" There is also a concern for "opportunistic" Asian investment, in contrast to investment which is perceived to be more committed, long-term.

There was universal praise from all parties regarding the nature and degree of public-private sector collaboration. It appears that while problems persist concerning "red tape," everyone spoke well of the relationship as a positive, on-going dialogue which effectively addresses the issues of export-related investment.

Costa Ricans view their foreign investment environment as positive, citing the country's strong private enterprise system, political stability, good relations with the U.S., productive workforce, export incentives and government support for attracting foreign capital. The negatives include limited government resources for promotion activities, a lack of long-term capital availability, high freight rates and the general "black cloud" which hangs over any mention of Central America because of the problems in Panama, Nicaragua and El Salvador.

2. El Salvador

A. Awareness Issues:

None of the parties contacted in either the public or private sector attributed foreign investor interest in El Salvador to GSP cancellation considerations. The continuing hostilities and perceived political instability have not significantly changed foreign investment patterns for a number of years. Business interests from Taiwan and Korea, generally in textiles, have made some inquiries, but it is presumed that they were motivated more by opportunistic circumstances than long-term considerations. Nothing concrete has materialized. It is evident that the business climate is substantially affected by the internal conflict in El Salvador, as well as the country's proximity to Nicaragua. It is generally agreed that it is unrealistic to think in terms of any meaningful approach to foreign investment until the violence is ended.

B. Asian Investment:

While there may be some "disguised" Asian investment in El Salvador, the public and private officials contacted were of the opinion that it would be nominal at best. In effect, it would appear that El Salvador has little or no Asian investment. No statistics were available in this regard. The government bureau in charge of the state-owned and operated free trade zone "believed" that one of the operators (textiles) in the zone was of Korean origin. In view of the protracted conflict which El Salvador has experienced for almost ten years, it is not surprising that there has been little foreign investor inquiry. It is instructive to note that should peace and stability come to pass, the country's foreign investment law ("Ley de Fomento y Garantía de la Inversión

Extranjera"), passed in May 1988, provides for a very liberal, highly favorable treatment of foreign capital.

C. Government Investment Incentives:

As mentioned above, the legal framework governing foreign investment is very positive from the viewpoint of the foreign investor. As a practical matter, however, even Salvadoran businesspersons are skeptical of its implementation. In general, it is not surprising that given the situation in El Salvador, the traditional package of tax holidays and duty-free trade incentives has not been fully developed. While the country does enjoy the benefits of the CBI program, the government, with scarce human and capital resources, is not in a position of offer much to attract foreign investment.

D. Private Sector Attitudes:

Businesspersons have the perception that government-private sector relations tend to be poor. The nationalization of banks and the coffee and sugar industries, as well as the implementation of an agrarian reform program, have alienated much of the private sector from the Administration. There is considerable criticism of the government for "politicizing" agencies that deal with the private sector, e.g., the Central Bank. Red tape and petty corruption are said to be pervasive. Whatever the legitimacy of these allegations, there is little government-private sector cooperation in developing export-oriented foreign investment, or on other issues affecting the business environment. The situation is not encouraging, and it would be hard to imagine even modest attempts to attract Asian investment experiencing success. Some Salvadoran companies, with established track records, have considerable trouble with their credibility as reliable suppliers to foreign buyers. In this regard, the work of the "Fundación Salvadoreña para el Desarrollo Económico y Social" (FUSADES), in particular its PRIDEX program ("Promoción de Exportaciones e Inversiones"), is an encouraging sign of private sector involvement in developing policies and strategies to increase productive investment in El Salvador. National elections take place in March, 1989, and it appears that both leading candidates for the presidency view the private sector as having a positive role to play in the economy.

3. Honduras

A. Awareness Issues:

Public and private officials were fully informed of the potential the GSP cancellation holds for Honduran efforts to attract export-oriented industrial investment from foreign sources, and, in particular, from the Asian countries. Although GSP-related immigration of industry is expected to occur, GSP considerations alone are not viewed as a significant determinant in the overall package of positive factors which influence foreign investment.

In July, 1988, a Honduran trade/investment mission visited Taiwan, Hong Kong, Singapore and Japan to promote closer commercial ties. There appears, however, to have been little in the way of follow-up, and informed observers view the effort as having more public relations value than substance. In November 1988, the South Korean Chamber of Commerce visited its counterpart in Honduras (FEDECAMARA), and it appears that there are low expectations for any concrete outcomes from this event.

Both public and private sector for contacts agree on the need and desirability of foreign investment. It appears that what interchange has taken place between Honduran businesspersons and those from the Asian countries has centered around two principal points: (1) Honduras' potential for agricultural development and agro-industrial processing, and (2) the country's CBI status. Unfortunately, the government's foreign investment promotional abilities are limited. Private business groups like FIDE (Fundación para la Investigación y Desarrollo Empresarial), COHEP (Consejo Hondureño de la Empresa Privada) and the Cámara de Comercio in Tegucigalpa appear to be more in tune with what needs to be done in this area. It should be noted that time constraints did not permit a visit to the San Pedro Sula area.

B. Asian Investment:

Although no data were available, it is reasonable to assume that there is little to no Asian investment in Honduras. The country labors under some serious constraints for attracting foreign capital. Its present legal requirement for foreign investment consists of some fifteen separate documents. A single, comprehensive investment law is presently being debated in Congress. National elections take place in November 1989. Therefore, decisive action is not expected until next year. It is generally recognized that the government needs to be more aggressive in creating an appropriate foreign investment environment. Deficient government economic management, excessive red tape and non-productive rhetoric (as opposed to action) have done little to create a positive business climate in Honduras.

C. Government Investment Incentives:

In 1987, the government approved the establishment of Industrial Export Processing Zones (Zonas Industriales de Procesamiento de Exportaciones - ZIP). The ZIP can be privately-owned, located anywhere in the country and enjoy the traditional benefits of free trade zones. While, these are not yet in a functional stage, FIDE is very active in promoting TIPs as vehicles for foreign investors. The government also operates a number of free trade zones. However, Honduras is still behind in developing the package of tax, infrastructure and legal incentives which are found in many of the other CBI countries.

D. Private Sector Attitudes:

Honduran businesspersons recognize that the private sector, along with labor, will have to take the lead in attracting the Four Tigers' interest in establishing export-oriented operations in Honduras. There appears to be much room for improvement in private sector-government dialogue on policies and actions affecting the economy. Private business sees limited coordination, communication and understanding within the public sector on private enterprise issues. Also, there is an apparent lack of government technical personnel and managers to implement the few policies that have been established. The Chamber of Commerce of Tegucigalpa is conducting a comprehensive study on investment issues which will be ready by mid-year. From conversation with the Chamber's General Manager, it appears as if this document could provide the basis for positive actions. As an example of one current disincentive to foreign investment, he indicated that there are two hundred steps to be taken over an eight-month period just to qualify for setting up an export-oriented industry. While Honduras' relatively inexpensive labor costs, climatic conditions conducive to agricultural development and CBI status are all positive elements, it is relatively far behind other CBI countries in providing fundamental needs, such as the rational legal framework, infrastructure and incentives/services which attract foreign investors. In addition, the internal conflicts in Nicaragua and El Salvador, and their proximity to Honduras, have contributed adversely to its image worldwide.

4. Guatemala

A. Awareness Issues:

The GSP cancellation, as a stand-alone issue, is not perceived to be a major determinant in attracting Asian investment to Guatemala. On the other hand, CBI status conveys basically the same message, and is considered to be an attractive incentive for companies wanting access to the U.S. market. Guatemalans believe that a package of positive foreign investment stimulants is required to attract Asian investors. Little interest by these investors has been demonstrated to date. Some inquiries have been made by Taiwan and South Korean business interests. Guatemala has no specific promotional efforts aimed at GSP-related, export-oriented industry migration. Representatives of labor, business and government agreed on the need and desirability of attracting productive foreign investment, in general, and Asian investment in particular. Guatemala's duty-free access to the U.S. market through its CBI status is viewed very positively in this regard.

In hopes to explore this opportunity, the private sector (FUNDESA) is organizing a trade-investment mission to South Korea, Taiwan, Hong Kong and China in March 1989 for the purpose of energizing Asian interest in using Guatemala as an exporting base.

B. Asian Investment

While no statistics were available, informed sources judged Four Tigers investment in Guatemala to be nominal at best. No major investment projects of this nature are readily identifiable, although it appears that Korean and Taiwan interests are involved in the free trade zone (ZOLIC).

The existing legal framework for foreign investment is considered weak. Legislative action is underway to provide for comprehensive, easily understood "rules of the game," which are expected to be ready in 1990. It is recognized that the ambiguities inherent in such an environment represent a major impediment to attracting serious, long-term minded foreign investors.

C. Government Investment Incentives:

Private business organizations like CAEM (Cámara Empresarial de Guatemala) and GEPT (Gremial de Exportadores de Productos no Tradicionales) are actively involved in export-oriented investment promotion, but there is little evidence of complementary incentives/services provided by the government. A drawback scheme has been in place since 1984 and a free trade zone (ZOLIC), with the traditional package of incentives, has been operational for a number of years. In comparison to several other CBI countries, Guatemala needs to improve the breadth and depth of its foreign investment incentives. A coherent legal framework and expanded free trade zone facilities are mentioned as the most urgent needs, and legislative proposals for both of these initiatives are presently under consideration. Improved infrastructure and worker training people are two other needs which are also cited as requiring greater government involvement. OPIC insurance coverage is available for U.S. companies.

D. Private Sector Attitudes:

Private sector-government cooperation on economic policies and issues is not as good as it should be. Businesspersons criticize government red tape, inadequate port facilities and a lack of action on matters related to development of a favorable foreign investment environment. On the other hand, Guatemalan business interests are perceived by government officials as needing to create a new, modern, competitive mentality. It is obvious that a collaborative working relationship which is mutually supportive has yet to become a reality. The private sector, or at least elements therein, do appear open to joint ventures with foreign investors, recognizing the need for capital, know-how and the ability to penetrate new markets. The conflicts in Nicaragua, Panama and El Salvador are seen as adversely affecting the business climate in Guatemala, which itself is still experiencing guerrilla activity. Political stability remains a concern for investors, both local and foreign. It may have been purely coincidental, but the longevity of CBI benefits was questioned by several of the private contacts--more so in Guatemala than in the other countries visited.

IV. CONCLUSIONS AND RECOMMENDATIONS

It appears that graduation from GSP status is not a sufficient condition alone for attracting Four Tiger investment to Central America. Factors such as reliability, quality and minimal bureaucratic procedures are considered to be more important. In addition, improved physical infrastructure and political stability play a significant role in investment decisions. It is clear that the Central American countries need to be more organized and effective in promoting Asian investment. Costa Rica, which is the only nation in the region that has a sustained recruitment effort, has registered some success. But that is also due to the fact that Costa Rica is perceived to be politically stable.

The absence of quantitative data on Four Tiger investment in Central America was an impediment to more conclusive analysis. Yet interviews with Central Americans in particular indicated relatively low levels of investment and investor interest, with the exception of free-trade zones. This is an important finding which requires more in depth examination, as its confirmation could alter present ROCAP sponsored foreign investment promotion strategies.
Direct conversations with business firms in Singapore, Taiwan, Hong Kong and South Korea are needed to close the information circle on the potential for Asian investment in Central America. A third-party approach, outside any official mission and guided by business perspectives on perceived risks and rewards, should provide reliable data as to the real potential for Asian investment in Central America.

Investment promotion strategies should be designed to address directly the "push" factors creating conditions for interest in trade migration. By responding to these factors - high wages, need for cheap and accessible raw materials, diminishing currency exchange advantages - the Central American nations would enhance their prospects of recruiting Four Tiger investment.

Similarly, strategies should target those product groups which would the most susceptible to trade migration based on the "push" factors.

The long-term capital needs for investment financing may be addressed through loan and/or investment guarantees. The idea would be to encourage Central American participation along with foreign investors into export-oriented industrial investment. As it stands today, most of this investment appears to be totally Asian. The possible repercussions of this for CBI duty-free access to the U.S. market are hard to measure at this point in time. However, it would appear prudent to encourage a greater involvement of Central American business interests in the development of free trade zone export industries.

Some form of political risk insurance for investment should be considered to address the issue of political instability in Central America. If a comprehensive program of coverage is not feasible, perhaps partial measures like Costa Rica's foreign exchange guarantee fund are attainable.

Continued A.I.D. support is needed to support the investment promotion activities of such organizations as CINDE, FUSADES and FIDE. In particular, CINDE seems to have developed an effective approach which bears consideration for replication. The utilization of private sector-oriented organizations like CINDE to take the lead, in cooperation with appropriate government efforts, is without doubt the best approach to foreign investors.

One of the primary requirements for attracting foreign investment is the predictable stability in the "rules of the game". Continued and additional technical assistance strategies should be considered to rationalize existing legal frameworks governing foreign investment, as well as making bureaucratic procedures less complex.

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V. ATTACHMENTS

A. GSP Product Categories Susceptible to Migration

B. GSP-Related Asian Sourcing Questionnaire

C. Respondents in Study of GSP-Related Investment in Central America

D. Interview Outline for Study of GSP-Related Investment in Central America

ATTACHMENT A

GSP PRODUCT CATEGORIES SUSCEPTIBLE TO MIGRATION

GROUP 1 - WOOD DOORS, PICTURE & MIRROR FRAMES

TSUSA	Duty Rate	Description	Country	Value ($000)
20630	7.5%	Wood doors with or w/o frame	Singapore	$ 2,244
20630	7.5%	Wood doors with or w/o frame	Taiwan	14,495
20660	7.5%	Wooden Picture & Mirror Frames	Hong Kong	3,711
20660	7.5%	Picture and Mirror Frames	Taiwan	26,966
			TOTAL --	$47,416

Wooden doors and frames offer substantial prospects for migration to Central America. Manufacturing requires relatively little capital, with labor and raw materials being the major production components. Central America has an abundance of hardwood for door and frame manufacturing and both products currently are being exported to the U.S. In 1987, U.S. imports of doors from Costa Rica were almost $2.5 million and from Guatemala were $1.13 million. Total imports of wooden picture and mirror frames from the four Central American countries were less than $40,000 in 1987.

Shipments of doors from Singapore in 1987 had an average unit value of $9.95. Taiwanese door exports to the U.S. had an average unit value of $21.62. Average unit value data for wooden picture and mirror frames is not available.

Taiwan, the largest exporter of wooden doors and frames, has had wage rate inflation of almost 90 percent in furniture manufacturing since 1985 with the average wage increasing from $280 to $531 per month.

GROUP 2 - COOKING WARE

TSUSA	Duty Rate	Description	Country	Value ($000)
20698	5.1%	Houshold Utensils, Other/Wood	Hong Kong	$ 2,310
65380	4.0%	Silver-Plated Household Items	Hong Kong	23,117
65399	5.3%	Cooking Ware of Steel, Other	Taiwan	11,687
77215	3.4%	Household Articles of Rubber	Korea	5,974
77215	3.4%	Household Articles of Rubber	Hong Kong	32,488
			TOTAL --	$75,576

While some of the products contained in this group have lower tariff rates, they have been included because their production is particularly labor intensive with little capital investment required. Accordingly, production of these products in Asia often is done in smaller factories with less desirable working conditions. Given the tight labor situation and escalating wages, these are primary product areas for migration out of the four NIE's.

The four Central American countries all produce an abundance of these products for their domestic market and small amounts for the export market. In 1987, Costa Rica, Honduras and Guatemala had exports of $4330,00 of wooden and rubber household utensils, with Costa Rica's trade exceeding $365,000.

GROUP 3 - CHRISTMAS DECORATIONS

TSUSA	Duty Rate	Description	Country	Value ($000)
20705	5.1%	Wooden Christmas Ornaments	Taiwan	$19,790
68630	5.8%	Elec. Christmas Tree Lamps	Korea	2,452
68810	8.0%	Christmas Tree Light Sets	Korea	23,000
			TOTAL --	$45,243

Neither wooden Christmas tree ornaments nor Christmas tree lamps and light sets are capital intensive, but, rather, are labor and raw material intensive. Wood ornaments, as with doors, frames and furniture, have an excellent resource base in Central America. Wiring probably is available in all four Central American countries and sockets and bulbs either can be imported or manufactured locally. Aside from $3,000 of wooden Christmas ornaments from El Salvador, there were no U.S. imports of any of these products from the four Central American countries in 1987.

GROUP 4 - MISCELLANEOUS PRODUCTS

TSUSA	Duty Rate	Description	Country	Value ($000)
38961	9.0	Artifical Flowers	Korea	$ 6,258
74545	5.7%	Buckles and Slides	Korea	5,905
74545	5.7%	Buckles and Slides	Hong Kong	1,856
74820	8.4%	Plastic Artifical Flowers	Taiwan	6,290
74820	8.4%	Plastic Trees and Fruits	Korea	2,056
74820	8.4%	Plastic Trees and Fruits	Hong Kong	3,457
74821	2.5%	Other Artifical Flowers	Taiwan	1,275
74821	2.5%	Other Artifical Flowers	Korea	8,250
74821	2.5%	Other Artifical Flowers	Hong Kong	1,380
75015	4.6%	Combs +$2.50 gross	Taiwan	8,409
75015	4.6%	Combs +$2.50 gross	Hong Kong	3,352
75020	5.3%	Barrettes & Hairslides	Korea	5,595
75022	5.3%	Barrettes & Hairslides	Hong Kong	10,099
75022	5.3%	Barrettes & Hairslides	Korea	2,815
75022	5.3%	Barrettes & Hairslides	Hong Kong	1,147
75070	5.6%	Brooms and Brushes	Taiwan	17,134
75070	5.6%	Brooms and Brushes	Korea	5,234
75070	5.6%	Brooms and Brushes	Hong Kong	3,982
75105	8.2%	Umbrellas	Taiwan	8,072
75105	8.2%	Umbrellas	Singapore	442
75105	8.2%	Umbrellas	Korea	5,248
75604	10.0%	Cigar & Cigarette Lighters valued not over $5/doz.	Hong Kong	5,323
75604	10.0%	Cigar & Cigarette Lighters valued not over $5/doz.	Korea	4,817
75606	9.0%	Cigar & Cigarette Lighters valued over $5/doz.	Hong Kong	7,927
75606	9.0%	Cigar & Cigarette Lighters valued over $5/doz.	Korea	5,432
75615	10.0%	Pocket & Table Lighter Parts	Hong Kong	2,378
			Hong Kong	1,559
			TOTAL --	$115,592

While this group includes many dissimilar products, they generally are characterized by quite high tariffs and relatively low unit values, indicating that loss of GSP duty-free status could have a negative impact on the competitive position of the four Asian NIE's. These dissimilar products also are characterized generally as being marketed through discount, variety and department stores. Additionally, this group of products is characterized by having a low level of capital intensitivity in manufacturing and being highly labor intensive. Under these circumstances, these products have a high potential for migration to low wage developing countries that continue to maintain duty-free GSP or CBERA benefits. Some of these products currently are being imported from the four Central American countries, but in very small quantities and total exports by the four Central American countries in 1987 were less than $200,000.

GROUP 5 - CERAMIC HOUSEHOLD ARTICLES

TSUSA	Duty Rate	Description	Country	Value ($000)
53431	4.2%	Ceramic Household Articles	Taiwan	$ 4,982
53484	7.0%	Ceramic Articles	Korea	4,185
53487	7.0%	Smoker's Articles + $10/doz.	Korea	6,825
53487	7.0%	Ceramic Articles + $10/doz.	Taiwan	96,665
53494	9.0%	Ceramic Kitchenware	Korea	10,110
53494	9.0%	Ceramic Kitchenware	Hong Kong	7,402
53494	9.0%	Ceramic Kitchenware	Taiwan	78,760
53497	6.9%	Ceramic Articles	Hong Kong	1,417
53497	6.9%	Ceramic Articles	Taiwan	13,970
			TOTAL --	$224,316

The group is characterized by generally having relatively high duties and by being labor intensive in manufacturing and, thus, susceptible to migration to low wage countries who continue to have GSP or CBERA benefits. While the average unit value varies considerably for this product group and is highly dependent upon quality and end use, it does vary from approximately 10¢ per unit for ashtrays and other smaller ceramic pieces to as high as $3 a unit for ceramic kitchenware, but on average is less than $1 per unit. All of the four Central American countries export small volumes of these products but their total trade to the U.S. in all products included in this classiciation in 1987 was less than $200,000.

GROUP 6 - GLASS MIRRORS

TSUSA	Duty Rate	Description	Country	Value ($000)
54451	7.8%	Glass Mirrors	Korea	$ 6,060
54451	7.8%	Glass Mirrors	Hong Kong	20,846
54451	7.8%	Glass Mirrors	Taiwan	11,521
54454	10.0%	Glass Mirrors	Hong Kong	2,976
54454	10.0%	Glass Mirrors	Taiwan	8,906
65270	5.3%	Frames and Mirrors	Korea	14,856
65270	5.3%	Frames and Mirrors	Hong Kong	6,203
65270	5.3%	Frames and Mirrors	Taiwan	8,506
65272	8.2%	Frames and Mirrors	Korea	8,774
65272	8.2%	Frames and Mirrors	Hong Kong	2,714
			TOTAL --	$91,362

While mirror manufacturing is labor intensive and requires only moderate amounts of capital for grinding, plating and polishing, the up-stream manufacture of quality glass is capital intensive. Accordingly, the ability of the four Central American countries to successfully engage in export manufacturing may be more dependent on the availability of local glass than on their competitive advantage due to lower labor rates and duty free status.

Only Honduras and El Salvador had exports of mirrors to the U.S. in 1987 and their combined total was less than $6,000.

GROUP 7 - ILLUMINATING ARTICLES

TSUSA	Duty Rate	Description	Country	Value ($000)
54553	14.0%	Glass Lamp Globes and Shades	Taiwan	$ 12,166
54557	6.5%	Glass Lamp Parts	Taiwan	11,119
54567	6.5%	Other Glass Lamps and Parts	Hong Kong	1,641
54567	6.5%	Other Glass Lamps and Parts	Taiwan	39,051
65335	3.7%	Portable Table/Floor Lamps	Hong Kong	3,201
65335	3.7%	Portable Table/Floor Lamps	Taiwan	25,876
65337	5.7%	Brass Lamps	Korea	12,129
65337	5.7%	Brass Lamps	Hong Kong	7,281
65337	5.7%	Brass Lamps	Taiwan	51,793
65339	7.6%	Other Lamps	Korea	12,732
65339	7.6%	Other Lamps	Hong Kong	12,459
			TOTAL --	$189,448

Most of the lamps and parts in this group have relatively high duty rates and are in manufacturing sectors subject to high labor rate inflation, particularly in Taiwan and Hong Kong. Both brass and ceramic lamp manufacturing in Hong Kong, Korea and Taiwan typically is small scale manufacturing where general inflationary factors and labor migration into jobs that either are higher paying or have better working conditions will have a greater impact on competition. There was no trade from the four Central American countries in this group in 1987.

GROUP 8 - METAL FASTENERS

TSUSA	Duty Rate	Description	Country	Value ($000)
64630	3.2%	Brads, Iron or Steel, other	Korea	$ 4,061
64653	5.5%	Wood Screws of Base Metal	Hong Kong	1,380
64662	5.7%	Cotters, Cotter Pins	Taiwan	6,425
64672	5.7%	Assembled Bolts, Screw Eyes	Korea	3,040
64672	5.7%	Assembled Bolts, Screw Eyes	Taiwan	8,632
64692	5.7%	Locks & Padlocks/Base Metal	Korea	5,251
64917	5.7%	Locks & Padlocks/Base Metal	Hong Kong	8,697
64695	3.9%	Door Closers & Parts	Singapore	579
64695	3.9%	Door Closers & Parts	Korea	3,019
64695	3.9%	Door Closers & Parts	Taiwan	5,642
64694	4.2%	Harness & Saddle Hardware	Korea	3,574
64701	3.1%	Hinges, Fittings, Mountings	Korea	3,832
64701	3.1%	Hinges, Fittings, Mountings	Taiwan	9,755
64703	5.7%	Butt Hinges of Iron or Steel	Singapore	353
64703	5.7%	Butt Hinges of Iron or Steel	Korea	5,705
64703	5.7%	Butt Hinges of Iron or Steel	Hong Kong	2,314
64703	5.7%	Butt Hinges of Iron or Steel	Taiwan	48,483
64705	5.1%	Hinges, Fittings, & Mountings	Hong Kong	1,222
64705	5.1%	Hinges, Fittings, & Mountings	Taiwan	9,351
			TOTAL --	$131,315

This group contains a variety of metal products generally characterized as light industrial manufacturing, generally labor intensive with very low capital requirements. We have included within this group a number of products of relatively low duty rates because their manufacturing and marketing is complementary to those products within the group that have higher duty rates.

As with other groups discussed within this report, manufacturing of these products in the four Asian NIE's is normally done at the small enterprise level where manufacturers will have greater difficulty with high labor rates and with the tendency for labor to move on to higher wage jobs or jobs with better working conditions. This, combined with the loss of duty free GSP status, will affect their ability to compete in the U.S. market. There is very little trade in this product group from the four Central American countries and in 1987 their combined exports to the U.S. market were only about $300,000. Inasmuch as these Central American countries do manufacture these products for their local markets, expansion of production facilities to meet U.S. market demand should be feasible.

GROUP 9 - TAPS, COCKS & VALVES

TSUSA	Duty Rate	Description	Country	Value ($000)
68014	5.6%	Taps, Cocks, Valves & Similar	Korea	$ 2,512
68017	8.0%	Taps, Cocks, HND-OPER	Singapore	4,973
68017	8.0%	Taps, Cocks, HND-OPER	Korea	29,199
68017	8.0%	Taps, Cocks, HND-OPER	Hong Kong	2,349
68017	8.0%	Taps, Cocks, HND-OPER	Taiwan	28,472
68019	4.4%	Taps, Cocks, Valves & Similar	Hong Kong	1,111
68019	4.4%	Taps, Cocks, Valves & Similar	Taiwan	10,208
68027	3.7%	Safety and Relief Valves	Singapore	262
68027	3.7%	Safety and Relief Valves	Korea	7,409
68027	3.7%	Safety and Relief Valves	Taiwan	16,862
			TOTAL --	$103,357

Production of taps, cocks and related equipment has varying degrees of capital and labor intensity depending on the tolerance requirements for end use. Inasmuch as high tolerance products normally are high priced, it is presumed that the exports from the four Asian NIE's are lower tolerance inasmuch as most of their exports have low unit value. Given their low unit value, and the high duty rates for the bulk of these exports, there is a substantial potential for migration to lower wage countries which will retain GSP or CBERA duty free benefits.

In 1987, Costa Rica was the only Central American country which exported products in this group to the U.S. Its trade was less than $4,000.

GROUP 10 - TRANSFORMERS & ELECTRIC MOTORS

TSUSA	Duty Rate	Description	Country	Value ($000)
68205	6.6%	Transformers -1KVA	Singapore	$ 933
68205	6.6%	Transformers -1KVA	Korea	5,792
68205	6.6%	Transformers -1KVA	Hong Kong	7,634
68205	6.6%	Transformers -1KVA	Singapore	540
68207	2.4%	Transformer +1KVA	Singapore	540
68207	2.4%	Transformer +1KVA	Korea	6,812
68207	2.4%	Transformer +1KVA	Hong Kong	2,665
68207	2.4%	Transformer +1KVA	Taiwan	28,665
68225	6.6%	Electric Motors - 1/40 KVA	Singapore	15,891
68225	6.6%	Electric Motors - 1/40 KVA	Korea	3,045
68225	6.6%	Electric Motors - 1/40 KVA	Hong Kong	12,011
68225	6.6%	Electric Motors - 1/40 KVA	Taiwan	14,104
68230	4.2%	Electric Motors + 1/4 KVA	Korea	13,287
68230	4.2%	Electric Motors + 1/4 KVA	Hong Kong	11,383
68235	5.0%	Motors over 1/10 hp:	Singapore	2,378
68235	5.0%	Motors over 1/10 hp:	Korea	4,951
68235	5.0%	Motors over 1/10 hp:	Hong Kong	5,248
68241	3.7%	Motors += 1HP	Singapore	2,510
68241	3.7%	Motors += 1HP	Korea	5,048
68241	3.7%	Motors += 1HP	Taiwan	7,945
68255	10.0%	Parts of Electric Motors	Sinapore	16,499
			TOTAL --	$167,881

As with Group 9, transformers, electrical motors and parts thereof have varying capital and labor intensity depending on end-use tolerance requirements. The transformers and electrical motors shipped from Asia are believed to be of low tolerance inasmuch as their unit value prices are quite low ranging from $.01 to $1.44 per unit. For this reason, there should be a high degree of price sensitivity and, accordingly,

substantial impact of loss of duty free status, making these products susceptible to migration. In 1987, only Costa Rica of the four Central American countries shipped in this group and it shipped only $600,000 of motors of 1 percent or more horse-power.

GROUP 11 - FLASHLIGHTS, ENERGY CELLS & BATTERIES

TSUSA	Duty Rate	Description	Country	Value ($000)
68295	5.3%	Primary Cells & Batteries	Singapore	$ 489
68295	5.3%	Primary Cells & Batteries	Korea	8,346
68295	5.3%	Primary Cells & Batteries	Hong Kong	8,359
68295	5.3%	Primary Cells & Batteries	Taiwan	7,477
68315	5.1%	Storage Batteries & Parts	Singapore	2,995
68315	5.1%	Storage Batteries & Parts	Hong Kong	4,357
68370	25.0%	Flashlights & Parts	Singapore	1,318
68370	25.0%	Flashlights & Parts	Korea	4,766
			TOTAL --	$38,107

While battery and flaghlight manufacturing is not high technology and does not require large amounts of capital, manufacturing and product specifications are quite rigid, requiring experienced, dedicated labor and precise product testing procedures. Despite this greater need for attention to detail, most developing countries have mastered the manufacturing process and the four Central American countries all have plants to supply their local markets. In 1987, the U.S. imported none of these products from the four Central American countries.

GROUP 12 - TELEPHONE APPARATUS

TSUSA	Duty Rate	Description	Country	Value ($000)
68457	8.5%	Telephone Switching Apparatus	Korea	$ 42,491
68457	8.5%	Telephone Switching Apparatus	Hong Kong	1,380
68457	8.5%	Telephone Switching Apparatus	Taiwan	15,161
68458	8.5%	Telephone Sets & Parts	Sinapore	116,769
68458	5.3%	Electrical Switches	Hong Kong	47,486
68459	5.3%	Telephone Apparatus, Other	Singapore	628
68459	5.3%	Telephone Apparatus, Other	Korea	9,951
68465	4.7%	Telegraph or Telephonic App.	Singapore	350
68466	4.7%	Telegraph or Telephonic App.	Singapore	1,868
68466	4.7%	Telegraph or Telephonic App.	Korea	4,288
68466	4.7%	Telegraph or Telephonic App.	Hong Kong	11,315
68466	4.7%	Telegraph or Telephonic App.	Taiwan	37,649
68467	4.7%	Telegraph or Telephonic App.	Singapore	2,955
68467	4.7%	Telegraph or Telephonic App.	Korea	2,874
68467	4.7%	Telegraph or Telephonic App.	Taiwan	8,290
			TOTAL --	$203,455

The manufacturing of telephone equipment and apparatus have highly variable rates of capital intensity, depending on the sophistication of the equipment being manufactured and the extent of component and sub-assembly manufacturing required. Most developed countries begin by assembly of imported parts and then move on first to manufacture telephone housing, panels and other low-tech parts, and gradually moving on to more sophisticated components. Despite the varying levels of capital intensity, telephone manufacturing remains

labor intensive and quality manufacturing is highly dependent on a well-trained labor force. It is probable that all four of the Central American countries manufacture and assemble of telephone equipment and apparatus for their domestic markets. None of the four exported to the U.S. in 1987.

GROUP 13 - HANDTOOLS

TSUSA	Duty Rate	Description	Country	Value ($000)
64873	5.1%	Hedge & Grass Shears	Taiwan	$ 5,122
64885	5.5%	Pliers, Nippers & Similar tools	Korea	7,204
64885	5.5%	Pliers, Nippers & Similar tools	Taiwan	8,186
64897	9.0%	Pipe tools; Wrenches	Korea	3,496
64917	3.1%	Circular Saw Blades	Singapore	144
64917	3.1%	Circular Saw Blades	Korea	2,433
64943	7.2%	Cutting Tools	Sinapore	1,073
64949	3.7%	Interchangeable Tools	Taiwan	8,272
65137	6.2%	Screwdrivers	Korea	3,472
65148	5.3%	Other Hand Tools	Korea	2,230
65148	5.3%	Other Hand Tools	Hong Kong	9,237
65148	5.3%	Other Hand Tools	Taiwan	21,118
65215	4.2%	Chains, Iron-Steel + $.40/lb.	Singapore	244
65215	4.2%	Chains, Iron-Steel + $.40/lb.	Taiwan	$92,395
			TOTAL --	$92,428

This group contains a variety of metal products generally characterized as light industrial manufacturing, generally labor intensive with very low capital requirements. We have included within this group a number of products of relatively low duty rates because their manufacturing and marketing is complementary to those products within the group that have higher duty rates.

As with other groups discussed within this report, manufacturing of these products in the four Asian NIE's is normally done at the small enterprise level where manufacturers will have greater difficulty with high labor rates and with the tendency for labor to move on to higher wage jobs or jobs with better working conditions. This, combined with the loss of duty free GSP status, will affect their ability to compete in the U.S. market. There is very little trade in this product group from the four Central American countries and in 1987 their combined exports to the U.S. market were only about $300,000. Inasmuch as these Central American countries do have domestic manufacturing of these products for their local markets, expansion of production facilities to meet U.S. market demand should be feasible.

GROUP 14 - ELECTRICAL SWITCHES AND RELATED PRODUCTS

TSUSA	Duty Rate	Description	Country	Value ($000)
68590	5.3%	Electrical Switches	Singapore	$ 74,834
68590	5.3%	Electrical Switches	Korea	74,757
68590	5.3%	Electrical Switches	Hong Kong	95,849
			TOTAL --	$245,440

This product category includes electric switches, fuses, lighting apparatus, plugs, receptacles, lamp sockets, and other related electrical equipment. The manufacturing process has varying degress of capital intensity, but inasmuch as U.S. imports from the four Asian NIE's have low unit values ($0.57 from Singapore and Korea and $2.18 from Hong Kong), it is likely they are being produced in a labor intensive rather than a capital intensive environment.

The low unit value should indicate a high level of price sensitivity so payment of the 5.3 duty should negatively impact on the NIE's ability to compete in the U.S. market.

The four Central American countries undoubtedly produce a large variety of the electrical products contained in this product category, Moreover, since all four countries are based in the 110V/60 cycle distribution system adopted by the U.S., their products should be consistent with U.S. standards.

In 1987, Costa Rican trade in this product group was a substabtial $4.4 million, but combined trade of the other three Central American countries was less than $200,000.

GROUP 15 - LUGGAGE, HANDBAGS, BILLFOLDS AND LEATHER BELTS

TSUSA	Duty Rate	Description	Country	Value ($000)
70633	10.0%	Luggage and Handbags of Abaca	Korea	$ 3,191
70645	7.8%	Handbags or Pocketbooks	Hong Kong	2,866
70661	20.0%	Billfolds, Lettercases, etc.	Korea	2,717
79160	5.3%	Leather Apparel Belts	Korea	8,555
79160	5.3%	Leather Apparel Belts	Hong Kong	2,616
79160	5.3%	Leather Apparel Belts	Taiwan	25,692
			TOTAL --	$45,637

Manufacture of soft luggage, handbags and leather products has many similarities to apparel manufacturing and developed in Asia only after there was first developed a substantial apparel market to the U.S. Like apparel manufacturing, production is highly labor intensive, requiring very little capital input. This, when combined with a quite substantial duties for these products, should result in migration to lower wage countries that continue to maintain GSP or CBERA duty free status. Total exports of these products from the four Central American countries in 1987 was only about $105,000, with Guatemala having over $100,000 in leather belt exports to the U.S.

GROUP 16 - FURNITURE AND PARTS THEREOF

TSUSA	Duty Rate	Description	Country	Value ($000)
72711	9.6%	Rattan Furniture	Singapore	$ 786
72711	9.6%	Rattan Furniture	Hong Kong	12,333
72711	9.6%	Rattan Furniture	Taiwan	37,277
72714	9.6%	Furniture of other veg. fiber	Singapore	141
72714	9.6%	Furniture of other veg. fiber	Taiwan	6,422
72725	5.3%	Furn. of wood, folding chairs	Singapore	137
72729	5.3%	Furn. of wood, not folding	Singapore	14,649
72729	5.3%	Furn. of wood, not folding	Korea	10,501
72729	5.3%	Furn. of wood, not folding	Hong Kong	2,246
72735	2.5%	Furn. of wood, not chairs	Singapore	36,363
72735	2.5%	Furn. of wood, not chairs	Korea	41,950
72735	2.5%	Furn. of wood, not chairs	Hong Kong	12,037
72739	2.5%	Parts of Chair, of Wood	Singapore	333
72740	5.3%	Parts of Wooden Furniture	Singapore	1,174
72741	5.3%	Furniture and Parts	Singapore	1,213
72745	7.0%	Fur. and parts of textiles	Taiwan	5,988
72747	6.0%	Furn. & parts of reinf. plast	Taiwan	11,832
72759	2.4%	Furn., NSPF, of Rubber	Taiwan	30,875
72765	4.2%	Furn., NSPF, of Copper	Korea	4,452
72765	4.2%	Furn., NSPF, of Copper	Taiwan	6,353
72770	4.0%	Furniture, NSPF, Other	Singapore	471
72770	4.0%	Furniture, NSPF, Other	Korea	19,812
72770	4.0%	Furniture, NSPF, Other	Hong Kong	4,196
72786	6.0%	Pillow, Cushions, Mattresses	Taiwan	10,991
			TOTAL --	$242,532

Combined within this product group is a considerable variety of individual products with considerable differences in duty rates. The four Central American countries probably

will do best in the higher duty wicker, rattan and hardwood furniture products where they have experience in manufacturing both for their domestic and export markets and where they have an excellent raw material base for this highly labor intensive industry.

A real advantage for the four CBI beneficiary countries is that, while labor rates generally are increasing, in the four Asian NIE's they are escalating even more rapidly in furniture manufacturing. In Hong Kong, furniture manufacturing labor rates jumped 19.8 percent in 1987. In Taiwan labor rates in furniture manufacturing jumped 89 percent between 1985 and mid 1988.

GROUP 17 - SPORTING GOODS

TSUSA	Duty Rate	Description	Country	Value ($000)
73124	4.9%	Fishing Reels, +$8	Korea	$ 6,071
73170	9.0	Sport Fishing Equipment	Korea	6,847
73238	6.0%	Three-speed Hubs	Singapore	1,557
73238	6.0%	Three-speed Hubs	Taiwan	10,038
73434	5.1%	Table Tennis Equipment	Hong Kong	1,549
73440	5.1%	Wood Tables, esp. for Games	Taiwan	5,912
73451	5.6%	Badminton Equip. and Parts	Taiwan	6,253
73454	6.0%	Baseball Gloves	Korea	27,269
73454	6.0%	Baseball Gloves	Taiwan	25,607
73456	3.0%	Baseball Equip. and Parts	Korea	14,913
73456	3.0%	Baseball Equip. and Parts	Taiwan	23,873
73477	4.9%	Golf Equipment	Korea	24,951
73477	4.9%	Golf Equipment	Taiwan	112,484
73506	3.9%	Ski bindings, poles, etc.	Korea	31,296
73506	3.9%	Ski bindings, poles, etc.	Hong Kong	1,727
73506	3.9%	Ski bindings, poles, etc.	Taiwan	36,563
73507	4.9%	Boxing Gloves	Taiwan	6,240
73509	4.8%	Inflatable Balls	Korea	17,869
			TOTAL --	$360,819

There is a considerable variety of products in this group with tariffs ranging from a low of 3.9 percent to a high of 9 percent for sports fishing equipment. Capital intensity varies from low for baseball gloves, boxing gloves and inflatable balls, table tennis and related equipment, to relatively high for ski bindings and poles as well as fishing equipment. With the exception of raw materials for baseball gloves, inflatable

balls and some of the raw materials for table tennis and badminton, the four Central American countries probably would need to import raw materials at the initial stages of manufacturing for assembly and re-export to the U.S. market. This would apply to three-speed hubs and other parts of bicycles. There were no imports into the U.S. of any products in this group from the four Central American countries in 1987.

GROUP 18 - GAMES, PUZZLES, MODELS

TSUSA	Duty Rate	Description	Country	Value ($000)
73415	4.6%	Games played on boards of special design	Hong Kong	$ 15,009
73520	4.6%	Puzzles, Games, Etc.	Korea	39,354
73520	4.6%	Puzzles, Games, Etc.	Hong Kong	21,904
73707	5.1%	Models, Construction Kits	Korea	7,179
73714	7.8%	Vehicles, Scale of 1 to 85	Singapore	6,005
73715	7.8%	Models & Constr. Kits, Other	Singapore	10,994
73715	7.8%	Models & Constr. Kits, Other	Korea	4,899
73715	7.8%	Models & Constr. Kits, Other	Taiwan	5,310
73716	7.8%	Models, etc., NSPF	Sinapore	22,859
73716	7.8%	Models, etc., NSPF	Korea	8,837
73716	7.8%	Models, etc., NSPF	Taiwan	10,484
			TOTAL --	$158,834

This group contains a variety of products. Some are highly engineered and of relatively high unit value while others are mass produced and sold into the U.S. market at a relatively low prices. It is particularly in the lower priced merchandise where the relatively higher duty rates, particularly for models, will affect the competitiveness of the four Asian suppliers in the U.S. market. Given the range of products, capital intensivity understandably varies considerably but the relatively low unit value for the bulk of the models being exported to the U.S. indicates a high level of

labor input. In the games and puzzle product areas, there generally is a low level of capital intensity but, nonetheless, color and design specifications normally are quite precise, requiring a high degree of diligence in the manufacturing process. In balance, we believe that these products, particularly the lower priced products, are conducive to migration from the four Asian NIE's to lower wage countries that will continue to have GSP or CBERA duty free benefits. The four Central American countries in 1987 had only $120,000 in exports to the U.S. and, while there is no import data available for these countries, indications are that they are net importers of games, puzzles and models.

GROUP 19 - DOLLS AND TOYS

TSUSA	Duty Rate	Description	Country	Value ($000)
73723	12.0%	Dolls, Stuffed	Korea	$ 11,157
73723	12.0%	Dolls, Stuffed	Taiwan	32,460
73728	11.2%	Toys, Figures, Stuffed	Korea	9,075
73730	5.5%	Toys, Figures, Springless + $.10/in.	Hong Kong	5,715
73735	4.2%	Toy Figures of Animate Objects	Singapore	157
73735	4.2%	Toy Figures of Animate Objects	Korea	27,301
73735	4.2%	Toy Figures of Animate Objects	Hong Kong	24,123
73735	4.2%	Toy Figures of Animate Objects	Taiwan	14,371
73740	7.0%	Toy Figures of Animate Objects	Korea	16,862
73740	7.0%	Toy Figures of Animate Objects	Hong Kong	11,937
73740	7.0%	Toy Figures of Animate Objects	Taiwan	69,769
73742	5.8%	Metal Toy Figures of Animate Objects	Hong Kong	1,084
73743	8.8%	Other Metal Toy Figures of Animate Objects	Hong Kong	2,177
73747	7.0%	Toy Figures of Inanimate Objects	Korea	3,798
73751	7.0%	Skins for Toy Figures	Korean	20,000
73755	6.0%	Toy Alphabet Blocks	Hong Kong	4,066
73755	6.0%	Toy Alphabet Blocks	Taiwan	18,201
73760	6.4%	Toy Musical Instruments	Singapore	298
73760	6.4%	Toy Musical Instruments	Hong Kong	3,706
73760	6.4%	Toy Musical Instruments	Taiwan	5,568
73765	5.8%	Magic Tricks & Practical Jokes	Hong Kong	3,895
73770	4.0%	Confetti, Paper Spirals, etc.	Hong Kong	1,609
73780	8.8%	Toys, NSPF, w/a Spring Mech.	Singapore	3,691
73780	8.8%	Toys, NSPF, w/a Spring Mech.	Taiwan	5,213
73793	7.0%	Toys w/an Electric motor	Singapore	20,286
73793	7.0%	Toys w/an Electric motor	Korea	10,335
73793	7.0%	Toys w/an Electric motor	Hong Kong	55,285
73795	7.0%	Toys, NSPF, Other	Singapore	4,605
73795	7.0%	Toys, NSPF, Other	Hong Kong	1,326
73796	7.0%	Toys, Rubber or Plastic Noninfl.	Singapore	2,190
73796	7.0%	Toys, Rubber or Plastic Noninfl.	Korea	7,232
73796	7.0%	Toys, Rubber or Plastic Noninfl.	Taiwan	19,884
73798	7.0%	Toys, Other	Singapore	2,056
73798	7.0%	Toys, Other	Korea	25,566
			TOTAL --	$444,998

The four Asian NIE's are principal exporters of toys and dolls, having a substantial share of the total U.S. import market. While this group includes a large variety of different products, U.S. duty rates generally are quite high and, thus, GSP graduation should impact on the competitive position of the four Asian suppliers, particularly in lower priced products such as dolls and toys of rubber or plastic. While the four Central American countries undoubtedly have domestic toy industries, they probably all are net importers of toys and dolls. Nonetheless, given the high duty rates in these products, the migration potential is substantial and these are labor intensive products where the Central American countries would have considerable advantage. Accordingly, this group should represent a substantial opportunity for export expansion for the four Central American countries. The development of the toy export industry in Asia began with a production of stuffed toys as an adjunct to those country's well-developed garment sectors and only later expanded to other products. It is possible that the four Central American CBI countries could take the same approach by first developing an export market in stuffed toys and the branching off into other products. While each of the four Central American countries shipped toys and dolls to the U.S. in 1987, their total trade in this group was less than $1.0 million.

GROUP 20 - JEWELRY

TSUSA	Duty Rate	Description	Country	Value ($000)
74013	6.5%	Other Necklaces & Neckwear	Singapore	$ 442
74014	6.5%	Jewelry of Precious Metals	Singapore	11,990
74014	6.5%	Jewelry of Precious Metals	Korea	8,886
74014	6.5%	Jewelry of Precious Metals	Taiwan	5,520
74015	6.5%	Jewelry/non-precious metals	Singapore	5,270
74030	7.2%	Jewelry, NSPF; valued - $.20/dozen	Hong Kong	4,666
74038	11.0%	Jewelry/Other	Korea	61,876
			TOTAL --	$98,650

Asian jewelry manufacturing generally is quite labor intensive with a very low level of capital investment. Jewelry imported into the U.S. from the four Asian NIE's is characterized by relatively low unit value, indicating the GSP graduation may have a direct impact on their competitive status in the U.S. The four Central American countries all have domestic jewelry industries to satisfy local markets, although in 1987 only Costa Rica and Guatemala shipped any jewelry to the U.S. Costa Rica trade in jewelry of precious metals was $3.6 million, indicating that it can compete in the U.S. market.

ATTACHMENT B

GSP-RELATED ASIAN SOURCING QUESTIONNAIRE

REPORTS INTERVIEWS AND COMPLETED QUESTIONNAIRES

SAMSUNG AMERICA LTD.
Fort Lee, New Jersey

Mr. J. I. Pack

This affiliate of a Korean firm has 100 employees in New Jersey. It imports textiles and toys from its Hong Kong Branch but the bulk of its imports come from its parent company in Korea. Imports from Korea include: textiles, toys, luggage, finished steel products, pianos, cameras, videotape, computor monitors and auto parts. Total imports were in excess of $200MM in 1988, about 80% from Korea.

From the Caribbean and South America they import very little. Operations consist of exporting fabrics to three countries and having the manufacturing done by local companies. Their imports last year from the area indicated above were as follows:

Dominican Republic	$ 5MM	Textiles
St. Lucia	$ 2MM	Textiles
Colombia	$600M	Textiles

They also import from the following countries:

Thailand	=	Steel products and textiles
India	=	Steel pipe
Turkey	=	Knitwear
Israel	=	Knitwear
China	=	Textiles
Canada	=	Chemicals and auto parts
Netherlands	=	Chemicals
Phillipines	=	Steel products

Samsung is interested in sourcing, investing and trading worldwide. They will continue to source from their present suppliers after January 1, 1989 but would like information on the four Central America countries. Information should be sent to

Mr. J. I. Pack
1 Executive Drive
Fort Lee, New Jersey 07024

SANSUI ELECTRONICS CORPORATION
Lyndhurst, New Jersey

Kosuke Tanikawa,
Director

Sansui Electronics represents Sansui, Tokyo and only imports Sansui brands. Their Head Office in Japan decides which countries are sourced and whether merchandise is sent directly from third countries or from Japan.

In Korea they contract with Korean factories who manufacture under the Sansui brand. This process is called O.E.M. Imports from Korea were car stereos for $3MM in 1988 and cassette decks for about $350M for the same year.

Sansui has a small investment in a Taiwan firm which is only a minority interest. The company manufactures for the Sansui name under Sansui design. They imported receivers for a total of $3MM in 1988 and amplifiers totalling $5MM during the same period.

Sansui did not know about the ending of G.S.P. on January 1, 1989. Any sourcing changes would be made by their Head Office. Price and quality are the important factors regarding their products. Sansui had no interest in Central America citing political instability and lack of quality guarantees as reasons.

They have heared that some Japanese firms have investigated the maquiladora industries in Mexico as a source for the future. Sansui has done so as well but has no plans at present to use them.

Sansui is already manufacturing speaker systems and audio cabinets in the U.S. and even exports some of these to Japan. Manufacturing is subcontracted to N.J. firms.

Looking ahead, Sansui feels the removal of duty-free status from the 4 Tigers may affect them in the long-term but as long as their competitors keep on importing from these countries they will do the same.

They have heard that other Japanese firms are moving production to Thailand and other Far East countries.

DURST INDUSTRIES
Mountainside, New Jersey

Jules Rosencraft

This small firm imports plumbing specialties and gardening accessories from Hong Kong, Korea and Taiwan for a total of $750M in 1983. They used to manufacture in Japan but travel for quality control took too much time. It takes at least a year for a factory to iron out bugs and develop the necessary quality.

Depreciation of the U.S. dollar is more important than duty-free status in their line and if import mark-ups continue they will not be able to compete with U.S. producers.

They do not feel that Central America is sufficiently industrialized to produce the quality necessary in their field. Only Brazil seems to be able to.

Durst also imports from the followin countries:

1) Italy - due to its expertise in forging brass goods of high quality. Price is acceptable.

2) Yugoslavia is competitive in price and quality.

3) England has good design and quality products.

4) Thailand is developing as a source.

Durst feels that the Phillipines and Latin America can produce mostly textiles.

SINGER SEWING COMPANY
Edison, New Jersey

Yvonne Frackman

Singer presently imports sewing machines from their own factory in Taiwan. Last year they imported 150 containers (each container consists of 1,500 machines) at a cost of about $200M per container for a total amount of $30MM. In the future, they plan to import pressers and shoe polishers from Hong Kong.

Their only imports from Latin America are from their factory in Brazil. No amounts were given. Singer used to have shipments from Central America but discontinued them due to too many government regulations.

GENERAL INSTRUMENTS COMPANY
Lyndhurst, New Jersey

Robert Blanc
Assistant General Counsel

General Instruments imports electronic and computer parts from Hong kong ($8MM in 1988), video cipher scramblers and integrated circuits from Korea ($10MM in 1988) and has three large factories in Taiwan producing television converters and integrated circuits for a total amount of imports of $140MM in 1988.

Twenty years ago price was the reason to source from abroad today quality is as important as price.

They do not have plans for sourcing changes as most of their products went off G.S.P. years ago.

MITSUI AND COMPANY
200 Park Avenues
New York City, New York

Masaru Shimizu

This large trading company imports from their own trading companies in Hong Kong, Taiwan and Singapore and from small company suppliers in Korea as the latter does not allow Japanese trading companies to operate there. Total imports are about $60MM per annum which also includes Malaysia, Indonesia and Thailand.

Products imported are textiles, electric and electronic appliances and general merchandise from Hong Kong; textiles and fabrics from Korea; textiles, electrical appliances, and canned goods from Taiwan and the same plus machinery and petro chemical products from Singapore.

End of G.S.P. will have no major impact on switching their sourcing. Some portion has already been done by sending U.S. textiles to Haiti for finishing. They are also thinking of Mexican maquiladoras as a source of imports.

They import small amounts of textiles from Central America and do not think it is important or that they will grow much. No amounts given.

F. W. WOOLWORTH COMPANY
New York, New York

Frank Sefried
Director of Imports

Woolworths is a large importer from the 4 Tigers and due to the nature of their business, price is the important factor. They purchase from independent suppliers and maintain large buying offices in those countries. In Hong Kong, Woolworths Overseas has 90 employees; in Korea, Dongwon International sources only for Woolworths, they have 50 employees. Their largest source is Taiwan with 120 employees and their smallest Singapore with 20 people.

Imports from Hong Kong were $16MM for the 9 months of 1988 and included plastic toys, textiles, other plastic goods such as footwear, jewelry, stationery, hair goods, pictures frames, VCR tapes, housewares, hardware and kitchen tools.

In Korea, total imports were $13.5MM for the 9 months of 1988 and were composed of athletic footwear (Kinney shoes and subsidiaries), textiles, clothing, stationery, coffee mugs, toys, Easter baskets, hardware and kitchen gadgets.

From Taiwan, total imports were $62.5MM for the 9 months of 1988 with an extensive list including: footwear, shower curtains, towels, textiles, hair accessories, costume jewelry, stationery (address books) arts and crafts, lawn furniture, luggage (nylon), picture frames, ceramics, housewares, toys, trim-a-tree decorations, lighting sets, dog chews, other pet supplies, laundry accessories, clothing bags, hardware and electric fans.

Woolworths opened a new buying office in Bangkok in March of 1988 and imported some $2MM in the 9 months of this year. The products were footwear, jewelry, pens, artificial flowers and toys.

Removal of duty-free status has already caused them to shift to Thailand and they are looking at Indonesia as well.

They currently import finished textiles from the Dominican Republic, have opened a buying office in Mexico in August of this year to supply men's shirts and shorts as well as lamps, ceramics and housewares. Woolworths does some importing from Haiti as well.

Due to the wide range of inexpensive articles they import, Woolworths would import from Central America if approached by a trading company or an agent.

RICOH OF AMERICA
West Caldwell, New Jersey

Masaru Yanaka
Yutaka Kenjo

The above company imports copying machine accessories and sorting machines from independent suppliers in Korea. Volume is $300M to $500M per month. In Taiwan they have their own Ricoh manufacturing subsidiary and import cameras for a total of $1.5MM to $2MM per month. The above imports are moderate because most of their products come from Japan directly. They also have a manufacturing facility in Los Angeles and plan to start exporting from the U.S. to Latin America on January 1, 1989 through Miami.

They have no plans for sourcing changes and are not interested in sourcing from Central America.

ARTMARK PRODUCTS CORPORATION
New York, New York

Allen Melzer
Import Sales Manager

This small company imports metal valves from Korea ($2.5MM - to $3MM per annum) and metal valves (90%) and some malleable iron castings (10%) from Taiwan. Volume from Taiwan about $1.5MM to $2MM.

Elimination of duty-free status from 4 Tigers will affect sourcing. Their president is looking at other possibilities. The duty on metal valves will increase by 7.7% January 1 which will cause them serious problems.

Among other possible sources they mentioned Brazil and Mexico and do not have any plans for Central America as a source. Quality and price of the products were the determinants. Artmark is too small to manufacture abroad.

B. SHACKMAN AND COMPANY
New York, New York

James Lillemoe

This small company has a retail store on lower Fifth Avenue and imports toys and paper goods for a total of $1.5MM each year from Hong Kong, Korea and Taiwan.

Quality and price are the important considerations. The increase in duty is too small to bother them compared to the depreciation of the dollar which is much more important.

They do not import from Central America feeling prices are too high and consider quality a problem.

O. G. INNES CORPORATION
New York, New York

R. G. Innes

This small company imports small amounts of a specialty resin used in paints and varnishes from Singapore (total is under $1MM per annum). The resins are actually from the nearby islands of Indonesia. Synthetic resins have killed most of their business as profit margins are very narrow.

Duty-free status does not affect them as raw materials are not dutiable. They could purchase resins directly from Indonesia or Thailand but the quality is not controlled. They are interested in importing raw materials such as jute.

They do not import form Central America and tried importing lumber from Honduras which was a failure.

MITSUBICHI INTERNATIONAL CORPORATION
New York, New York

N. Masuyama
Deputy Manager

This huge trading company imports textiles from Hong Kong from independent suppliers who produce for the Mitsubichi brand - total imports were $17.3MM in 1987.

Imports from Korea were food products from independents for a total of $29.3MM in 1987.

Taiwan produced machinery for them totalling $30.1MM, steel products for $19MM and chemicals, general merchandise and food, all from independents for a total of $73.8MM (1987).

Singapore was the smallest supplier with machinery worth $2.3MM in 1987.

Mitsubichi has 26 import and export divisions in New York.

Removal of duty-free status well not affect them as prices are elastic in the lines they import, especially luxury textiles.

They already buy from Thailand and Indonesia and have studied other sources in Mexico and the Caribbean.

At present, they import coffee from Costa Rica, El Salvador and Honduras and shrimp from Guatemala, the latter totalled $6.6MM. No figures given on coffee. They used to have a joint venture in Guatemala but sold out to their local partners.

They have heard Korean firms are planning to invest in Central America and they may do so in the future.

When Japanese companies invest in developing countries Mitsubichi's parent in Tokyo does joint ventures with them.

FREDERICK ATKINS COMPANY
New York, New York

Dennis Cicetti
Senior Vice President

The above imports a total of about $130MM from the 4 Tigers.

Hong Kong is their source of women's ready to wear and home furnishings, Korea only women's clothes, Taiwan and Singapore the same.

Price and quality are both important. Removal of duty-free and G.S.P. status is important but the 4 Tigers are already producing in other countries since the depreciation of the dollar.

Frederick Atkins buys from importers in the U.S. and understands that Mexico is exporting ceramics, Levellor blinds, and Samsonite luggage.

Imports from Central America are negligible.

I T T
New York, New York

Jay Furbay
Head of Corporate

ITT imports electronic components and castings from Hong Kong, electronic components from Korea, and the same from Taiwan and Singapore. No figures given.

Price and quality equally are determinants and removal of duty-free status will result in their importing less and also finding additional sources. They are exploring sourcing from Thailand and Indonesia, from the maquiladora industry in Mexico and castings from Brazil.

They did not feel Central America could produce their items satisfactorily but are willing to hear what products are competitive from Latin America.

JAYME PRODUCTS
New York, New York

Amy G. Brett
President

This small firm imports a total of $2-3MM from Hong Kong, Korea and Taiwan. Products are general merchandise (products to enhance the value or image of large industry products). These include coffee grinders and fancy mugs for General Foods, etc.

Removal of duty-free status important but depreciation of the dollar even more so. This is driving labor intensive business out of Japan, which is moving to Taiwan and Korea.

Jayme is looking at Thailand and imports a significant amount from China.

They are not interested in Central America feeling it cannot produce quality at Far East prices. Also, they consider Central America unstable.

INTERVIEWEES FOR STUDY OF GSP-RELATED INVESTMENT IN CENTRAL AMERICA

INTERVIEW SCHEDULE/CONTACTS IN CENTRAL AMERICA
January 17-27, 1989

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ATTACHMENT D

INTERVIEW OUTLINE FOR STUDY OF GSP-RELATED INVESTMENT IN CENTRAL AMERICA

INTERVIEW ~~OUTLINE~~ GUIDE

GSP RELATED INVESTMENT IN PRODUCTION FACILITIES

COUNTRY: DATE:

PARTY INTERVIEWED:

I. ACTUAL INVESTMENT BY THE FOUR TIGERS:

A. COUNTRY OF ORIGIN AND COMPANY?

B. TYPES OF PRODUCTS/INDUSTRIES?

C. US$ AMOUNT, NUMBER OF EMPLOYEES, EXPORTS, TOTAL SALES?

D. SUBSIDIARY, AFFILIATE, LOCAL PARTNERS?

E. INCENTIVES, IF ANY, PROVIDED?

F. WHY WAS INVESTMENT MADE?

II. AWARENESS ISSUE:

A. GENERAL LEVEL OF AWARENESS AND INTEREST?

B. WHO HAS INQUIRED? COMPANY? COUNTRY?

C. WHAT QUESTIONS WERE ASKED? WHAT WERE THEY LOOKING FOR?

D. TYPES OF PRODUCTS/INDUSTRIES REPRESENTED BY THESE INQUIRIES?

E. EVIDENCE OF TANGIBLE GSP MIGRATION PROMOTION?

F. PERCEIVED IMPACT ON HOST COUNTRY OF THIS INVESTMENT?

III. GOVERNMENT FOREIGN INVESTMENT INCENTIVES:

A. TAX, IMPORT DUTIES, LABOR RATES, FINANCING, RISK COVERAGES, INFRA STRUCTURE FACILITIES, FREE TRADE ZONES, ENERGY SUBSIDIES, E

B. CAPITAL AND PROFIT REPATRIATION?

C. RULES OF THE GAME?

IV. POSTURE OF THE PRIVATE SECTOR:

A. WHAT ARE THEY LOOKING FOR?

B. WHAT ARE THEY PREPARED TO DO?

C. WHAT NEEDS TO BE CHANGED? WHAT CAN BE CHANGED?

D. IS THERE PRIVATE SECTOR/GOVERNMENT COOPERATION?

E. THREE MAJOR IMPEDIMENTS?

F. THREE MAJOR ADVANTAGES?