The U.S. Generalized System of Preferences Program:

An Integral Part of the U.S. Economy

Prepared for

The Coalition for GSP

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Executive Summary

- The U.S. Generalized System of Preferences (GSP) program is a more than 20-year old effort of the United States and 19 other industrialized countries to promote development abroad through trade, rather than aid. GSP benefits — zero duties applied to certain imports into the United States — are provided to a specific list of developing countries, provided they protect the rights of their workers, protect intellectual property rights, and give U.S. exporters access to their markets. The U.S. program includes numerous provisions to "graduate" individual developing country exports — and whole countries, as well — from the program as they show evidence of competitiveness and development.

- However, the GSP program expires on May 31, 1997, and numerous U.S. companies as well as their developing country partners await its renewal by Congress and the President. GSP renewal is broadly supported by Republicans and Democrats alike, by U.S. companies and labor unions, by Members of Congress and the Clinton administration.

- The GSP program has become an integral part of the U.S. economy, saving consumers of a broad range of products, from VCRs to raw cane sugar, millions of dollars annually. GSP has also functioned as a tool to promote U.S. exports to developing countries. It supports U.S. jobs in a wide variety of industries.

- Numerous small businesses owe their continued competitiveness to the GSP program. The duty savings afforded by GSP for these companies may seem small in comparison to their much larger competitors, but in many cases they make the difference between profitability and survival in tough markets.

I. Introduction: A Brief History

The idea of a special program to help developing countries accelerate economic growth through trade, was first proposed in 1964 at the United Nations Conference on Trade and Development (UNCTAD). UNCTAD members suggested that developed countries extend tariff preferences to developing countries to stimulate trade and reduce the latter's dependence on foreign aid. However, the United States did not join with other industrialized countries in supporting the concept until 1968, and then took another seven years before the details of the U.S. program were finalized. Today, 19 other industrialized countries have GSP programs of their own in effect.

The GSP program is more than 20 years old.

The U.S. GSP program was authorized for a 10-year period, beginning January 3, 1975, by Title V of the Trade Act of 1974 (it was not actually implemented until January 1, 1976). The Trade Act set out the criteria for determining country and product eligibility, and limitations on the extension of GSP treatment. The program was slightly modified by the Trade Agreements Act of 1979, and substantially modified by Title V (the GSP Renewal Act) of the Trade and Tariff Act of 1984, which also extended the program for 8.5 years, through July 4, 1993. GSP then expired for just over one month, until the Fiscal Year 1994 budget reconciliation bill renewed GSP retroactively to July for 15 months, through September 30, 1994. It made no substantive changes to the program. But GSP expired again in 1994, this time for just over two months, while U.S. importers and developing country exporters awaited renewal by the Uruguay Round Agreements Act (URAA). The URAA extended the GSP program, again without change, for another 10 months (retroactive to October 1), through July 31, 1995. The U.S. GSP program once again expired -- this time for 15 months.

Eventually, the "GSP Renewal Act of 1996" was attached to the "Small Business Job Protection Act of 1996," which passed Congress in August, 1996 and was signed by President Clinton on August 20. The Act renewed GSP from August 1, 1995 through May 31, 1997. The 1996 legislation made some significant changes to the GSP program that focus its benefits more directly on less-developed developing countries.

II. Summary of the U.S. GSP Program

GSP duty-free benefits are available for more than 4,000 products (out of a total of more than 9,000 in the tariff schedule) imported from 147 developing countries or territories. In addition to the obvious benefits to developing countries, the program also promotes U.S. trade policy objectives, including U.S. access to the markets of developing countries, the protection of intellectual property rights, and the protection of worker rights in developing countries.

A. Purposes of the U.S. GSP Program

The goals of the U.S. GSP program include promoting the development of developing countries through trade rather than aid, helping developing countries earn the foreign exchange necessary to import U.S. products and to finance debt obligations, and encouraging developing countries to eliminate or reduce barriers to trade in goods, services and investment. In addition, GSP benefits provide an incentive for developing countries to protect intellectual property rights and to afford their workers internationally-recognized worker rights.

GSP promotes a variety of U.S. trade policy objectives.

B. Eligible Countries

The U.S. program provides duty-free treatment for certain products imported from eligible developing countries, called “beneficiary developing countries” (BDCs). In weighing eligibility, U.S. law requires the President to take into account the likelihood that the program will further the economic development of a country by increasing its exports, the anticipated impacts on U.S. producers of competitive products, and the extent of the BDC’s competitiveness with respect to eligible products. In addition, the President evaluates a developing country’s request for GSP beneficiary status on the basis of the following factors:

- the desire of the country to receive duty-free trade preferences from the United States;

- the level of development of the country, including its per capita gross domestic product (GDP), the living standards of its inhabitants, and any other factors the President deems appropriate;

- the amount of GSP preferential treatment received by that country from other developed countries;

- the extent to which the country has assured the United States it will provide equitable and reasonable access to its markets and basic commodity resources and the extent to which the country has assured the United States that it will refrain from unreasonable export practices;

- the extent to which the country provides adequate and effective protection of intellectual property rights;

- the extent to which the country has reduced trade-distorting investment practices and policies (including export performance requirements) and reduced or eliminated barriers to trade in services; and,

China does not qualify for GSP benefits.

- whether or not the country has taken or is taking steps to afford workers internationally recognized worker rights.

Eight categories of developing countries are specifically excluded from eligibility for GSP benefits extended by the United States:[1]

- Communist countries, unless they receive most-favored-nation (MFN) treatment from the United States, are members of the International Monetary Fund and the World Trade Organization, and are not "dominated or controlled by international communism" (this exclusion affects Laos, North Korea, Afghanistan, Democratic Yemen, Cuba, Mongolia, Vietnam, and China[2]);

- Countries that are members of organizations that withhold supplies of vital commodity resources or cause international market disruption by their resource pricing policies;[3]

- Countries granting reverse preferences that have a significant adverse impact on U.S. commerce;

- Countries nationalizing or expropriating U.S. property, including patents, trademarks, and copyrights, without compensation or without entering into negotiation or arbitration;

- Countries that fail to recognize or enforce arbitral awards in favor of U.S. citizens, corporations, partnerships or associations;

- Countries that aid or abet terrorism by granting sanctuary from prosecution to anyone who has committed an act of terrorism; and

- Countries that have not taken, or are not taking, steps to afford internationally-recognized worker rights[4] to workers in their countries. [Most recently, effective July 1, 1996, the United States suspended some of Pakistan's GSP benefits because of insufficient protection of worker rights (specifically child labor).]

Table 1
Leading Sources of GSP Imports, 1995
(Millions)

Beneficiary Developing Country (BDC)	Duty-Free U.S. Imports from BDC under GSP	Total U.S. Imports: GSP-Eligible Products	Total U.S. Imports: All Products	Share of U.S. Imports Using GSP: GSP-Eligible Products	Share of U.S. Imports Using GSP: All Products
Malaysia*	$4,931	$7,272	$17,401	67.8%	28.3%
Thailand	2,394	4,119	11,337	58.1	21.1
Brazil	2,221	3,347	8,989	66.3	24.7
Indonesia	1,463	2,099	7,339	69.7	19.9
Philippines	1,271	1,684	6,990	75.4	18.2
India	952	1,295	5,702	73.5	16.7
Russia	584	677	4,020	86.4	14.5
Venezuela	538	560	9,214	96.1	5.8
Argentina	516	723	1,761	71.3	29.3
Turkey	366	443	1,718	82.7	21.3
South Africa	357	415	2,210	85.9	16.2
Chile	351	571	1,875	61.4	18.7
Hungary	286	314	547	91.1	52.3
Poland	280	313	662	89.6	42.3
Czech Republic	171	202	361	84.7	47.4
Slovenia	143	193	289	73.9	49.5
Peru	114	338	965	33.7	11.8
Sri Lanka	93	99	1,257	93.9	7.4
Pakistan	91	100	1,192	91.1	7.6
Dominican Republic	87	1,140	3,385	15.4	2.6
Total, Top 20 BDCs	17,210	25,904	87,213	66.4	19.7
Total, All BDCs	18,307	28,744	113,317	63.7	16.2

* As of January 1, 1997, Malaysia no longer qualified for GSP benefits.

Source: The Trade Partnership from U.S. Census data.

As of 1997, the U.S. program designates 121 countries plus 26 territories for BDC status (see Appendix A for a list). Mexico lost its eligibility for GSP when the North American Free Trade Agreement (NAFTA) went into effect and the zero duties applied to those products exported to the United States under GSP became permanently zero under NAFTA. Israel also no longer needs to be regarded as a BDC, its free trade agreement with the United States having fully phased in zero duties on its exports to the United States. Effective January 1, 1997, the Administration "graduated" Malaysia from the program upon a determination by the President that the country was sufficiently competitive in U.S. markets as to no longer require the advantages of GSP.

GSP remains important to many developing countries. For example, 96 percent of U.S. imports from Venezuela of products eligible for GSP benefits used GSP.[5] Every one of

Table 2
Leading Product Groups Imported Duty-Free Under GSP, 1995
(Millions and Percent)

Products	Value	Share of Total GSP Imports	Value of Duties Saved
Electrical equipment and parts	$6,178.5	33.8%	$259.5
Machinery (including computers), parts	2,016.8	11.0	67.8
Furniture and parts	744.9	4.1	22.1
Transportation equipment parts	655.7	3.6	20.1
Wood and wood products	571.8	3.1	27.6
Organic chemicals	483.1	2.6	37.1
Iron and steel raw materials	466.5	2.5	18.1
Plastics and plastic products	465.0	2.5	19.9
Jewelry and parts	427.2	2.3	29.2
Rubber products	420.3	2.3	13.3
Aluminum products	415.5	1.9	14.8
Sugar	356.4	1.9	9.3
Leather	302.2	1.7	11.1
Total, Leading Products	13,739.9	75.1*	549.9
Total, All GSP Products	18,306.6	100.0	650.0

* Column does not add to total due to rounding.

Source: The Trade Partnership from U.S. Census data provided by the Office of the U.S. Trade Representative the major users of the program, shown in Table 1, rely on GSP for large shares of their GSP-eligible trade. GSP remains important to individual countries even from the perspective of total exports (GSP-eligible items and non-eligible items together). In many cases, GSP imports' shares of these imports exceed 40 percent.[6]

C. Eligible Products

GSP saved importers approximately $650 million in 1995.

In 1995, GSP preferences were granted to about 4,400 tariff items (out of more than 9,000), valued at about $18 billion in that year (only 3.9 percent of total U.S. imports were even eligible for importation under GSP in 1995). Nevertheless, GSP saved importers approximately $650 million in duties in 1995, a strong indication that the savings provided by the program have a significant positive impact on U.S. purchasers and users. On the surface, GSP imports may not appear to account for a large share of total U.S. imports; however, the program does provide significant savings to U.S. companies and consumers in a wide variety of sectors.

GSP-eligible products are mostly manufactures and semi-manufactures — most notably, consumer electronics and machinery and parts — but also include selected agricultural, fishery, and primary industrial products. The GSP statute specifically excludes several import-sensitive articles: textile and apparel products subject to textile agreements; certain watches[7]; import-sensitive electronic products; import-sensitive steel products; footwear, handbags, luggage, and other leather products and flat goods; import-sensitive semi-manufactured and manufactured glass products; any agricultural product that is subject to a tariff-rate quota if entered in excess of that quota; any products subject to any escape clause or national security action; any other articles determined to be import sensitive during annual reviews (see Section D below).

Import-sensitive products do not qualify for GSP benefits.

The President designates new articles for duty-free treatment — or deletes products from eligibility for GSP treatment — after considering advice received through public hearings, from the International Trade Commission, and from Executive branch agencies (see Section D below).

Eligible articles receive duty-free treatment only if they are imported directly into the United States from the BDC; or are wholly grown, produced, or manufactured in the BDC, or the sum of the cost or value of the materials produced in the

BDC plus the direct cost of processing in the BDC is not less than 35 percent of the appraised value of the product when it enters the United States. Materials and processing costs in two or more countries which are members of the same association of countries which is a customs union or a free trade area may be treated as one BDC and cumulated to meet the 35 percent minimum local content. Materials imported into a BDC may be counted toward the 35 percent minimum value-added requirement only if they are substantially transformed into new and different products in the BDC.

D. Operation of the U.S. GSP Program

USTR administers the GSP program.

The U.S. Trade Representative (USTR), through the inter-agency Trade Policy Staff Committee (TPSC), is responsible for administering the U.S. GSP program. The GSP Subcommittee of the TPSC conducts an annual review of the list of articles and countries eligible for duty-free treatment. The review examines each BDC's degree of competitiveness (relative to other BDCs) for any particular eligible product. The regulations governing GSP administration[8] provide that any interested party[9] may petition to have articles added to or removed from the GSP list, or countries added to or removed from beneficiary-designated status. Petitions must be submitted to the GSP Subcommittee no later than June 1 to be considered in that year's annual review. Each petition must provide a detailed economic analysis to support its request. A list of all changes under consideration by the Subcommittee (other than those involving the automatic "competitive need" limits) is published in the Federal Register each year in mid-July. The GSP Subcommittee conducts the initial review of all petitions, and holds public hearings. Following interagency reviews of this information, the TPSC makes a recommendation to the President. Any changes that result from the review take effect on July 1 of the following calendar year. If a petition is considered and ultimately denied, another request for GSP benefits for that product may not be reconsidered by the TPSC for three years.

E. Limits on Preferential Treatment: Competitive Need

The U.S. program reserves GSP benefits for less competitive producers by limiting preferential treatment given to the more competitive BDCs through the so-called "competitive need" provisions.[10] Specifically, a BDC loses duty-free treatment (is "graduated") for a particular product if shipments to the United States of that product in any calendar year account for 50 percent or more of the value of total U.S. imports of the product, or a dollar threshold ($75.0 million in 1996) which is increased annually by $5 million.

When the competitive need limit is reached, imports from that BDC are assessed MFN tariff rates the following year. During the next or later years, if imports from the BDC fall below the competitive need limits, that BDC can qualify once more for GSP treatment on the subject products.[11] In 1995, USTR denied duty-free treatment to 20 percent of the value of otherwise GSP-eligible products from BDCs because they exceeded competitive need limits.

Table 3
Per-Capita Income Levels of Leading GSP Beneficiaries, 1994

Malaysia*	$3,520
Thailand	2,210
Brazil	3,370
Indonesia	880
Philippines	960
India	310
Russia	2,650
Venezuela	2,760
Argentina	8,060
Turkey	2,450
South Africa	3,010
Chile	3,560
Hungary	3,840
Poland	2,470
Czech Republic	3,210
Slovenia	7,140
Peru	1,890
Sri Lanka	640
Pakistan	440
Dominican Republic	1,320
1996 Graduation Threshold (1994 GDP Per Capita)	8,956
1994 U.S. Per Capita Income	25,860

Countries are ranked by order of use of the U.S. program, as shown in Table 1.

* As of January 1, 1997, Malaysia no longer qualifies for the GSP program.

Sources: The World Bank, Office of the U.S. Trade Representative, and Council of Economic Advisers, Economic Report of the President (Washington, DC: U.S. Government Printing Office, 1996).

The program targets duty-free benefits to those products exported from countries most in need of it.

The President may waive the application of the competitive need provisions for specific products from specific countries in four instances: (1) if the product was not produced in the United States on January 1, 1995, it is exempt from the 50 percent, but not the dollar value, limit; (2) if total imports of the product are “de minimis” ($13.0 million for calendar year 1996), the product is exempt from the 50 percent, but not the dollar value, limit; (3) if the product is imported from a least developed BDC, and the President informs the Congress of the country’s status as a least developed BDC, neither competitive need limit applies; and, (4) if the BDC has a historical preferential trade relationship with the United States, there is a treaty or trade agreement in force between the United States and the BDC, and the country does not discriminate against or impose unjustifiable or unreasonable barriers to U.S. commerce.[12]

The President may also waive competitive need limits on any product if the International Trade Commission provides advice on whether any U.S. industry is likely to be affected adversely by the waiver, and he determines the waiver is in the national economic interest.[13]

In addition to the competitive need limitations, the U.S. program requires mandatory graduation of a beneficiary developing country from the GSP program two years after the President determines that it has become a "high income" country as defined by the World Bank. In its 1996 atlas, the Bank defined a "high income country" as one with a per capita income of $8,956 or more in 1994. The United States used this definition to graduate six countries from the GSP program, effective January 1, 1998: Aruba, Cayman Islands, Cyprus, Greenland, Macau, and the Netherlands Antilles.

Countries and products are regularly "graduated" from the program.

However, since the GSP is a unilateral program, graduation decisions are subject to wide discretion on the part of the President. In this regard, in January 1988, the President announced that four newly industrializing beneficiaries (Taiwan, Korea, Hong Kong and Singapore) would be “graduated” from the GSP program altogether, even though technically they had not met the official graduation triggers.[14] Their GSP eligibility terminated on January 1, 1989. The graduation provisions of GSP law cited above were not referred to in this termination, but rather the countries were removed “because of their remarkable advancements in economic development and their recent improvements in trade competitiveness." Malaysia was similarly graduated from the GSP program, effective January 1, 1997, even through Malaysia has yet to reach the current per-capita-income threshold. The Administration concluded that Malaysia no longer needs GSP benefits to be a competitive supplier to the U.S. market.[15]

F. Special Provisions for Least-Developed BDCs

Least-developed countries get special GSP treatment.

Least-developed BDCs qualify for special treatment so as to concentrate more of the benefits of the program on them. Those countries that are designated "least developed beneficiary countries:"

- may receive duty-free benefits for a special list of products otherwise exempt from the program. (However, the products may not include textiles, apparel, watches and parts, footwear, handbags, luggage, flatgoods, gloves or leather wearing apparel, agricultural products entered in excess of a tariff-rate quota, or products subject to an escape clause or national security action.) The U.S. International Trade Commission and the Office of the U.S. Trade Representative are currently evaluating a proposed list of 1,800 such products.

- are exempt from the competitive need limits.

Table 4
Least Developed Beneficiary Developing Countries

Angola	The Gambia	Rwanda
Bangladesh	Guinea	Sao Tome and Principe
Benin	Guinea-Bissau	Sierra Leone
Bhutan	Haiti	Somalia
Burkina Faso	Kiribati	Tanzania
Burundi	Lesotho	Togo
Cape Verde	Madagascar	Tuvalu
Central African Republic	Malawi	Uganda
Chad	Mali	Vanuatu
Comoros	Mozambique	Yemen
Djibouti	Nepal	Zaire
Equatorial Guinea	Niger	Zambia
Ethiopia		

G. General Reviews

Periodically, the USTR conducts a general review of eligible products to determine which BDCs have demonstrated a sufficient degree of competitiveness relative to other BDCs for particular GSP products, and therefore should be subjected to lower competitive need limitations. Each BDC is reviewed using the country eligibility criteria described above (see Section B).

III. Current Status of the Program

GSP renewal enjoys broad bipartisan support.

As noted at the outset, the U.S. GSP program is scheduled to expire May 31, 1997. The program typically enjoys bipartisan support from the President, Congress, and the business and labor communities to renew the program.

IV. Assessments of the Contributions of GSP to U.S. Industry and Consumers

Wholly apart from the stated purposes of the GSP program — to promote development in developing countries through trade — the program has in practice become an integral part of the U.S. economy. Indeed, in many sectors a whole cadre of small businesses have sprung up to take advantage of the opportunities GSP gave them to gain a foothold in new U.S. markets — opportunities many claim they would not otherwise have had.

GSP supports manufacturing jobs and exports at the same time it lower costs to consumers.

The program has also turned around to benefit exports of U.S.-made products. Some U.S. manufacturers using the GSP program export U.S. raw materials to be used in the production of the GSP import. More broadly, 86 percent of the dollars earned by GSP BDCs, as a group, return to the United States in the form of purchases of U.S. exports.[16]

This study analyzes the impact of GSP on the U.S. industries that accounted for 75 percent of U.S. imports under GSP in 1995 (see Table 2 in Section IIC above).[17] These industries represent a wide range of products, from basic raw materials to highly popular consumer goods. They indicate that fully half of the products imported under GSP are used to manufacture other products in the United States, and half are imported as finished goods sold directly to consumers without further processing.

The analysis illustrates the extent to which GSP lowers costs for consumers, not only of finished products sold by retailers directly to consumers but also of raw materials used by U.S. manufacturers to produce goods in the United States. The analysis also indicates that many U.S. jobs are owed to GSP, particularly in small businesses across the United States, and in a host of industries related to those businesses and industries.

A. Electrical Equipment and Parts

Electrical equipment and parts accounted for one-third of all imports that entered the United States duty-free under GSP in 1995. The trade-weighted average tariff saved by GSP for electrical equipment and parts imports was 4.2 percent; however, the tariff savings for some electronics imports can be much higher (e.g., certain telephone switching devices and parts, 8.5 percent, and flashlights, 20.0 percent). The total value of duties saved by U.S. companies importing electrical equipment and parts is estimated to be $260 million in 1995.

The main suppliers of electrical equipment and parts to the United States under GSP are Malaysia (57 percent of GSP imports), Thailand (13 percent), Philippines(11 percent), and Indonesia (10 percent). [Note that Malaysia will not be eligible for GSP benefits after December 31, 1996.] It should also be noted that the duty-savings provided by GSP enable some importers to view GSP beneficiaries as competitive alternatives to sourcing from China, which may offer attractive prices even with the addition of most-favored-nation duties. Indeed, Tandy Corporation (the Fort Worth-based parent company of RadioShack and the Incredible Universe retail chains) has noted that GSP provides Tandy with important alternatives to China for sources of electronics products.[18]

GSP gives developing countries a cost advantage over China in supplying consumer electronics to the U.S. market.

The Trade Partnership estimates that $5.1 billion, or 83 percent of the total value of this sector's imports under GSP in 1995, were finished electronics products. Of these, consumer electronics are the most important category of electronic products imported under GSP. Just under 11 percent of all consumer electronics and parts imported into the United States enter duty-free under GSP. Important consumer electronics products include: radios/tape players ($841 million in 1995), VCRs ($825 million), telephones ($715 million), lighting equipment ($298 million), television/VCR combinations ($204 million), fax machines ($154 million), microwave ovens ($146 million), and telephone answering machines ($49 million).

GSP benefits U.S. consumers of products — like VCRs — that are no longer be produced competitively in the United States. Every one of these products is highly price-competitive. Referring to the problems a major consumer electronics retailer has had establishing a successful outlet, a retail analyst noted, "'In order to be successful in this business, price is sort of the cost of entry. If you can't be competitive with everyone else, then you have no reason for being in the business...'"[19] Competition in the consumer electronics markets for most of these products is so strong that producers and retailers must pass on every cost savings they can to win sales. An average cost reduction of 4 percent (the foregone duty) can be significant.

Because of the strong competition in this industry, the duty-savings on consumer electronics imported under GSP benefit consumers directly. The Trade Partnership estimates that duty-free benefits afforded consumer electronics imported under GSP save consumers $194.1 million a year. Overall, GSP benefits provided to U.S. imports of consumer electronics contribute $16.5 million a year to national income.

U.S. Imports of Electrical Equipment and Parts Under GSP, 1995
(Millions)

Products*	Value	Top GSP Sources
Consumer electronics and parts	$4,854.8	Malaysia, Indonesia, Thailand, Philippines
Other electronics and parts	1,323.8	Malaysia, Thailand, Philippines, Brazil
TOTAL	6,178.5	Malaysia, Thailand Indonesia, Philippines

* Consumer electronics and parts: Harmonized Tariff System (HTS) Nos. 8511, 8513, 8514, 8515, 8516, 8517, 8518, 8519, 8520, 8521, 8522, 8523, 8524, 8525, 8526, 8527, 8528, 8529, 9006, 9007, 9008, 9405; other electronics and parts: HTS Nos. 8501, 8502, 8503, 8504, 8505, 8506, 8508, 8509, 8510, 8530, 8531, 8532, 8533, 8534, 8535, 8536, 8537, 8538, 8539, 8540, 8541, 8542, 8543, 8544, 8545, 8546, 8547, 8548.

Source: The Trade Partnership from official statistics of the U.S. Department of Commerce.

The GSP program also lowers the cost of inputs to consumer electronics production, enabling production of some consumer electronics and other electrical equipment products — and related jobs — to remain in the United States. Parts imported under GSP include semiconductors ($34 million); parts for television, radio and radar equipment ($34 million); printed circuits ($77 million); and insulated wire and cable ($238 million). The Trade Partnership estimates that $1.1 billion, or 17 percent of the total value of imports under GSP in 1995, were parts used in U.S. production facilities. For example, telecommunications producers such as Inter-Tel, Lucent Technologies, Motorola, and GM Hughes are active users of the GSP program, importing duty-free switching and other telephone equipment parts for their U.S.

manufacturing operations. Parts for microphones, speakers and amplifiers, large GSP import items, are used by U.S. audio and video equipment producers, a substantial majority of which are small businesses (with fewer than 20 employees).[20]

Selected Consumer Electronics Manufacturers that Use GSP to Produce Consumer Electronics in the United States

Telecommunications Equipment	Audio/Video Equipment
AT&T (now Lucent Technologies)	International Jensen
Inter-Tel, Inc.	Matsushita Electric Corp. of America (Panasonic)
GM Hughes	Sony Electronics Inc.
Motorola	Pioneer
Rockwell International	U.S. JVC Corporation
Scientific Atlanta	
Thomson Consumer Electronics	

B. Machinery and Parts

Machinery and parts accounted for 11.4 percent of total U.S. GSP imports in 1995. Significant products imported were pumps, and heating and cooling equipment ($749.9 million); and computers and other office equipment, such as calculators and typewriter parts ($563.7 million). The average tariff saved by GSP for this group of imports was 3.4 percent; however, the tariff savings for some individual machinery imports is much higher (e.g., certain steam turbine imports and their parts would be assessed import duties of 7.3 percent but for GSP). The Trade Partnership estimates that $1.1 billion, or 53 percent of the total value of imports under GSP in 1995, were finished machines, and $0.9 billion, or 47 percent of total imports under GSP, were machinery parts. The total value of tariffs saved by GSP in 1995 for these products was $68 million.

Purchasers of office equipment and parts benefit from the GSP program.

The main suppliers of machinery and parts to the United States under GSP are Brazil (33 percent), Thailand (19 percent), Malaysia (19 percent), Indonesia (5 percent), and Poland (4 percent).

U.S. original-equipment and other major producers of

U.S. Imports of Machinery Under GSP, 1995
(Millions)

Products*	Value	Top GSP Sources
Pumps, heating and cooling equipment and parts	$749.9	Brazil, Thailand, Malaysia, Indonesia
Computer and other office equipment, and parts	563.7	Malaysia, Thailand, Indonesia, the Philippines
Machine tools and parts	172.9	Brazil, Thailand, Czech Republic, Poland
Textile and footwear machinery and parts	55.7	Brazil, Czech Republic, Poland, Thailand
Other various machines and parts	220.5	Brazil, Poland, S. Africa, India
Other various parts for machines	254.1	Brazil, India, Argentina, Czech Republic
TOTAL	2,016.8	Brazil, Thailand, Malaysia, Indonesia

* This table covers Harmonized Tariff System (HTS) Chapter 84, except HTS Nos. 8407, 8408, 8409, plus HTS No. 9009.

Source: The Trade Partnership from official statistics of the U.S. Department of Commerce.

air-conditioning and refrigeration equipment are some of the primary importers of the machinery products and their parts.[21] Nearly all major U.S. producers of air-conditioning equipment, compressors, and blowers and fans buy a substantial share of high-quality, low-cost foreign components for inclusion in their products or product lines.[22] "The increased purchase of foreign components by U.S. producers has enabled the industry to increase its profitability and to better compete with foreign producers,"[23] primarily those in Japan. Low-technology, labor-intensive components typically are imported to complement existing U.S. production. Some U.S. manufacturers also have overseas production facilities meant to help them stay competitive in a price sensitive U.S. market. Duty-free tariff treatment under GSP contributes to that competitiveness.

Another major category of products imported under GSP is computer equipment, parts and peripherals, including disk drives and power supplies. Nearly 1,000 computer hardware manufacturers operate in the United States; the 10 largest firms account for over half of the U.S. market.[24] U.S. production of these products is an increasingly global affair. Intense price competition and declining profit margins have forced manufacturers to trim overhead and materials costs by streamlining the personal computer production process. As a result, many U.S. firms have moved some of their production overseas and now purchase components from foreign suppliers, which they import duty-free under GSP and use in their U.S. production facilities.[25] Some firms partly assemble computer products abroad, and do final assembly in the United States, again using GSP to lower costs. The GSP program helps U.S. producers stay competitive, and to retain jobs in the United States.

GSP saves U.S. purchasers of machinery and parts $103 million a year.

The Trade Partnership estimates that duty savings afforded by GSP to machinery and parts imports increase the U.S. national income by $3.3 million annually. GSP saves consumers — in this case, U.S. manufacturers of machinery and U.S. manufacturers of other products that use machinery imported under GSP or produced with components imported under GSP — $102.9 million a year.

Selected Manufacturers that Use GSP to Produce Machinery in the United States

Air Conditioning Equipment	Computers and Other Office Equipment
American Standard (Trane)	Apple Computers
Matsushita Electric Corp. of America	AT&T (now Lucent Technologies)
Tecumseh Products Company	Brother International Corp.
United Technologies Corp. (Carrier)	Casio, Inc.
	Hewlett Packard
	IBM
	Matsushita Electric Corp. of America (Panasonic)
	Texas Instruments
	Xerox Corporation

C. Furniture and Parts

Furniture and parts accounted for 4.9 percent of total U.S. GSP imports in 1995. The primary products imported were general furniture and parts ($563.8 million) — primarily dining tables ($309.2 million) and parts of furniture ($57.2 million). Also significant were seats and parts ($325.0 million): unupholstered wooden chairs ($160.7 million), seats for motor vehicles ($2.0 million) and parts of such seats ($7.5 million), and other seat parts ($28.1 million). The average tariff saved by GSP for this group of imports was 3.0 percent. Total Customs duties saved by GSP in 1995

U.S. Imports of Furniture and Parts Under GSP, 1995
(Millions)

Products*	Value	Top GSP Sources
Furniture and seats	$796.0	Malaysia, Indonesia
Furniture and seat parts	92.8	Malaysia, Thailand, Indonesia, Brazil
Mattress supports, other bedding articles	1.5	S. Africa, Slovenia, Indonesia
Other	1.4	Brazil, Indonesia, Malaysia
TOTAL	891.7	Malaysia, Indonesia, the Philippines

* This table covers Harmonized Tariff System (HTS) Chapter 94, except HTS No. 9405

Source: The Trade Partnership from official statistics of the U.S. Department of Commerce.

totaled just over $22 million.

The largest suppliers in 1995 of furniture and parts to the United States under GSP were Malaysia (33 percent), Indonesia (21 percent), and the Philippines (13 percent). Malaysia is expected to lose its eligibility for GSP in 1997 (see Section IIE above). Many GSP BDCs have access to unusual woods not available from other sources. As in consumer electronics, GSP offers importers an alternative to sourcing furniture from benefit from GSP. These companies use parts and other raw materials (wood, plastics, springs, upholstery coverings, hardware, etc.) imported duty-free under GSP in their U.S. manufacturing operations. GSP saves these companies tariff costs, contributing importantly to their competitiveness in an industry where raw material costs account for up to half of the final value of shipments.[26]

GSP saves U.S. purchasers of furniture $33 million a year.

GSP BDCs are themselves markets for U.S.-made furniture. In 1995, GSP BDCs imported $241 million in U.S.-made furniture, 14 percent of total furniture exports that year. Key markets included Brazil (8.4 percent of total U.S. furniture exports to GSP BDCs), Russia (5.7 percent), Argentina (5.5 percent), Columbia (5.4 percent) and Venezuela (4.0 percent).

Raw Materials Costs' Share of Final Value of Furniture Shipments, 1992

Wood household furniture	40.4%
Upholstered household furniture	50.1
Metal household furniture	44.6
Mattresses and bedsprings	48.3
Wood television and radio cabinets	44.6
Household furniture, n.e.c.	53.5

Source: The Trade Partnership from Census data.

D. Transportation Vehicle Parts

Transportation vehicle parts accounted for 3.6 percent of total U.S. GSP imports in 1995. The most significant product imported was parts for tractors, buses, cars and special-use motor vehicles ($651.2 million); other parts were imported for motorcycles, bicycles, and wheelchairs ($4.4 million). The average duty savings on imports of these products was 3.1 percent in 1995. The savings is much higher on imports of bicycle spokes and brakes (10 percent). Customs duties saved in 1995 are estimated to total $20 million.

The main suppliers of transportation vehicle parts to the United States under GSP are Brazil (50 percent), Venezuela (15 percent), Hungary (11 percent) and India (6 percent).

Because raw material costs account for such a significant share of the final value of shipped motor vehicles — 69 percent of the value of shipments in 1992[27] — the "Big

Three" as well as numerous Japanese manufacturers with U.S. motor vehicle facilities make extensive use of duty reduction programs, including GSP, to stay competitive. The trade association for Chrysler Corporation, Ford Motor Company and General Motors Corporation noted that it and its members "strongly support renewing the Generalized System of Preferences program" because the benefits of duty-free status for auto parts ultimately accrue to American consumers.[28] In addition, they argue, GSP helps to provide "new export markets and new customers for American cars, trucks, and parts by strengthening the economies of participating countries."[29]

U.S. Imports of Transportation Vehicle Parts Under GSP, 1995
(Millions)

Products*	Value	Top GSP Sources
Parts for motor vehicles	$740.5	Brazil, Venezuela, Hungary, India
Parts for other transportation vehicles	4.4	Indonesia
TOTAL	744.9	Brazil, Venezuela, Hungary, India

* This table covers Harmonized Tariff System (HTS) Nos. 8407, 8408, 8409, 8507, 8512, 8707, 8708, and 8714

Source: The Trade Partnership from official statistics of the U.S. Department of Commerce.

GSP is particularly helpful to companies selling motor vehicle equipment parts into the aftermarket.

About half of U.S. imports of motor vehicle parts enter the United States duty-free using several other options, including GSP, U.S. foreign trade zones, the North American Free Trade Agreement (NAFTA), the Andean Trade Preferences Act (ATPA), the U.S.-Israel Free Trade Agreement (IFTA), and the Caribbean Basin Initiative. However, because GSP BDCs do not qualify for duty-free treatment under NAFTA and only a few qualify for CBI, IFTA and ATPA benefits, their best options for exporting motor vehicle parts competitively to the United States are foreign trade zones and GSP. GSP becomes the program of choice for those BDCs exporting to vehicle producers that do not manufacture in U.S. foreign trade zones, or to those selling to the

Companies That Use GSP to Produce Transportation Vehicles in U.S. Production Facilities

Chrysler Corporation
Ford Motor Company
Mitsubishi International Corp.
Nissan Motor Corporation USA
Toyota America
Yamaha Motor Corporation, USA

parts aftermarket. Clearly, for example, GSP matters importantly to Brazil's exports of motor vehicle parts, many of which are sold in the aftermarket.

Nevertheless, the lower costs afforded by GSP to U.S. vehicle manufacturers are not insignificant. The Trade Partnership estimates that GSP duty-free benefits provided to transportation vehicle parts add $900,000 to the national income and lower costs to U.S. vehicle manufactures by $24.3 million a year.

Small Business Profile:

S&S Limited
Akron, Ohio

S&S Limited's five employees supply original equipment automotive parts used by Ford Motor Company and Chrysler Corporation to manufacture cars in the United States. S&S imports these parts from Japan and Taiwan, which are not eligible for GSP benefits, and from Malaysia, which is eligible for GSP until 1997, presuming GSP is renewed. As much as one-third of the company's total sales are sourced from Malaysia under GSP. The parts imported from Taiwan, which of course include the addition of a U.S. tariff, are too expensive for U.S. motor vehicle manufacturers and are therefore sold to producers of other vehicles.

S&S notes that supplying parts to the "Big Three" producers is a highly competitive business. In today's market, these producers will not accept price increases from any supplier. Indeed, the company will not be able to continue to supply Malaysian-sourced parts to these companies after Malaysia loses its duty-free status -- the motor vehicle producers will not accept an increase in price from S&S. The company is therefore exploring alternatives, which include lower-cost parts sourced from China. Until, then, GSP is an important tool for keeping the company competitive.

E. Wood and Wood Products (Except Furniture)

Wood and wood articles (excluding furniture) accounted for 3.1 percent of total U.S. GSP imports in 1995. The primary wood articles imported duty-free under GSP were fiberboard, plywood and veneer sheets ($180 million), and wood consumer products, including tableware/kitchenware ($42.5 million) and boxes and chests ($56.9 million). The average tariff saved by GSP for this group of imports was 4.8 percent; however, the tariff savings for some individual wood product imports is much higher (e.g., certain veneered plywood panels with duty rates ranging up to 15.2 percent). Customs duties saved by GSP totaled just under $28 million in 1995.

The main suppliers of wood and wood articles to the United States under GSP are Malaysia (22 percent), Thailand (19 percent), Indonesia (14 percent), and Brazil (14 percent). GSP gives beneficiary countries the edge they need to offer U.S. importers an alternative to sourcing wood consumer products from China.

U.S. Imports of Wood and Wood Products (Except Furniture) Under GSP, 1995
(Millions)

Products*	Value	Top GSP Sources
Continuously-shaped wood	$45.0	Chile, Brazil
Particle board, fiber-board, plywood, veneer	180.2	Malaysia, Russia, Brazil, Indonesia
Other construction materials	92.6	Malaysia, Brazil, Indonesia, Chile
Consumer products	171.5	Thailand, Indonesia, Philippines
Other products	81.6	Indonesia, Brazil, Malaysia, Ecuador
TOTAL	571.8	Malaysia, Thailand, Indonesia, Brazil

* This table covers Harmonized Tariff System (HTS) Chapter 44.

Source: The Trade Partnership from official statistics of the U.S. Department of Commerce.

Significant shares of total U.S. imports use GSP. Ten to 16 percent of all imports of wood used as construction materials entered the United States duty-free under GSP. The National Association of Home Builders estimates that at least 7 percent of the sales price of a new single-family home represents wood products. Imported wood products are typically used as parts of kitchen cabinets and underlayment for vinyl flooring, while U.S.-sourced wood is used for framing and other structural uses. The Trade Partnership estimates that GSP saves purchasers of construction-related wood products $41.2 million a year, and adds $1.1 million a year to the national income.

In addition, more than one third of all U.S. imports of wood consumer products benefit from GSP.[30]

Small Business Profile:

Liberty Woods International
Carlsbad, California

Liberty Woods International Inc. is a privately-held company with 25 employees located in Carlsbad, California. The company imports hardwood plywood from Malaysia, Indonesia, and Brazil for sale to customers all over the United States, Canada and Mexico. The plywood that is imported from Malaysia enjoys duty-free status under GSP. The most-favored-nation duty rate for this product is 8 percent.

GSP saves Liberty Woods in excess of $2 million annually in foregone duties. The competitive edge GSP gives to some foreign suppliers of wood products (e.g., Malaysia) but not others (e.g., China, Japan and Taiwan) provides an incentive for non-GSP eligible suppliers to keep their prices competitive in this extremely price-sensitive sector. Without GSP, the prices of all imported wood products would increase dramatically, and Liberty Wood's sales would suffer as a result.

F. Organic Chemicals

Organic chemicals accounted for 2.6 percent of total U.S. GSP imports in 1995.[31] The primary chemicals imported were ethers, ether-alcohols, and alcohol peroxides ($161 million), and acrylic alcohols and halogenated, sulfonated and other derivatives ($123 million). The average tariff saved by GSP for this group of imports was 7.7 percent; however, the tariff savings for some individual chemical imports is much higher (e.g., methanol imports would be assessed import duties of 15.5 percent but for GSP; Customs duties saved by GSP exceeded $37 million in 1995.

U.S. Imports of Organic Chemicals Under GSP, 1995
(Millions)

Products*	Value	Top GSP Sources
Hydrocarbons	$24.9	Brazil, Russia, Argentina, Bulgaria
Alcohol-based chemicals	287.1	Venezuela, Trinidad, Malaysia, Brazil
Acids	64.1	Brazil, Malaysia, Argentina, Romania
Various compounds	93.5	Brazil, Hungary, Slovenia, Russia
Other organic chemicals	13.5	S. Africa, Brazil, Russia
TOTAL	483.1	Venezuela, Brazil, Malaysia, Trinidad

* This table covers Harmonized Tariff System (HTS) Chapter 29.

Source: The Trade Partnership from official statistics of the U.S. Department of Commerce.

Small Business Profile:

Amsurco, Inc.
Mendham, New Jersey

Amsurco Incorporated imports rosin derivatives that are used to make specialty inks and coatings in the United States. Amsurco imports between $15 million and $18 million from Argentina, and GSP saves the company $1 million to $2.5 million in duties.

The ripple effects of GSP extend beyond Amsurco's seven employees and its customers. They also include U.S. chemical producers. Amsurco exports U.S. specialty phenols and chemicals to an Argentine partner which uses them with the chemicals extracted from the sap of local pine trees to produce the rosin derivatives Amsurco imports. About 30 to 40 percent of the raw material used by the Argentine producer is U.S. product. In addition, GSP indirectly benefits the U.S. flag carriers that bring the rosin derivatives to the United States, Amsurco's freight forwarder in Virginia, and the inland shipping lines that distribute the product to its warehouses and customers.

Amsurco would not exist but for GSP. The program gave the company the edge it needed to enter a highly competitive market. It continues to keep the company going in a market where 7- to 14-percent duties cannot be passed on to its customers, or absorbed by its suppliers.

The main suppliers of organic chemical products to the United States under GSP are Venezuela (39 percent), Brazil (14 percent), Malaysia (8 percent), and Trinidad (6 percent).

The United States is a highly competitive producer and exporter of organic chemicals. Nevertheless, a number of U.S. chemical manufacturers import primary and intermediate chemicals that are then processed into other chemical products.[32] In many cases these chemical imports are large-volume chemicals, such as methane, and GSP imports supplement supply.[33] In other cases, such as many of the aromatic intermediate chemicals, the chemical products are either no longer produced in the United States, or are produced by large chemical companies for their own use.[34] GSP and other imports may be the only source of supply for smaller chemical companies wishing to buy these products.[35]

U.S. chemical manufacturers are themselves importers of chemicals, and use GSP to lower costs.

The Trade Partnership estimates that GSP provided to imports of organic chemicals increases the U.S. national income by $2.7 million a year, and saves users of those chemicals $60.1 million a year.

Small Business Profile:

PBI-Gordon
Kansas City, Missouri

The experience of PBI-Gordon Corporation shows the benefits of the GSP program to a U.S. producer of specialty crop protection and related products. PBI-Gordon, a small employee-owned business of approximately 140 individuals in Kansas and Missouri, manufactures products used in specialty fertilizer and other crop protection products used by farmers and other consumers nationwide. PBI-Gordon must import various active ingredients, some of which are not produced in the United States. The source of a key ingredient in a major portion of the company's sales is Argentina, one of the countries that benefits from GSP. Without GSP, imports of this product would be taxed at a rate of 12.8 percent, which would have a severe impact on the company's ability to compete with large companies in the industry.

Unlike many products imported under GSP, this key ingredient requires continued registration with the U.S. Environmental Protection Agency. Millions of dollars have been spent on research data over the years for reregistration. The ability to save a 12-percent duty through GSP, which could not otherwise be absorbed by the company given these other high overhead expenses or passed on to its customers, allows the company to remain competitive in a market that is price sensitive.

G. Iron and Steel Raw Materials

Seventy-eight percent of all U.S. imports of ferrochromium, used to manufacture stainless steel, entered the United States duty-free under GSP.

Iron and steel raw materials and products accounted for just 2.6 percent of total U.S. GSP imports in 1995. While import-sensitive steel products cannot enter the United States duty-free under GSP, U.S. iron and steel producers import duty-free under the GSP program a considerable amount of raw materials that are essential additives in the production of iron and steel products. Seventy-eight percent of all U.S. imports of ferrochromium entered the United States duty-free under GSP in 1995. Thirty-seven percent of all U.S. imports of ferrosilicon took advantage of the GSP program. The program saves U.S. companies importing these products under GSP an average trade-weighted duty of 3.9 percent; the duty savings for some individual products (e.g., ferrosilicon chromium, 10 percent) can be much higher. GSP saved U.S. iron and steel producers $18 million in Customs duties in 1995.

The main foreign suppliers of raw materials to the iron and steel industry in the United States under GSP are South

U.S. Imports of Iron and Steel Raw Materials and Products Under GSP, 1995
(Millions)

Products*	Value	Top GSP Sources
Ferrochromium	$334.2	Russia, Turkey, S. Africa
Ferrosilicon	119.5	S. Africa, India, Romania
Ferromanganese	12.3	S. Africa, Brazil, Venezuela
Other iron and steel inputs	0.5	Latvia, Russia
TOTAL	466.5	S. Africa, Russia, Turkey, India

* This table covers Harmonized Tariff System (HTS) No. 7201, 7202, 7203, 7204, 7205, 7206, 7207, 7208, and 7209.

Source: The Trade Partnership from official statistics of the U.S. Department of Commerce.

Africa (30 percent), Russia (18 percent), Turkey (15 percent), and India (6 percent).

The United States produces some ferrosilicon, but has only minimal chromium and manganese resources to produce ferrochromium and ferromanganese alloys. These products are additives in the steel and iron manufacturing process that are used to harden, deoxidize, and produce specific qualities in iron and steel products. For example, ferrochromium, the largest iron and steel product imported under GSP, is essential in the production of stainless steel. Industry analysts believe that increases in the price of ferrochromium, which makes up just under 20 percent of the cost of the finished steel product, can drive up the price of steel products.[36] In general, raw materials represent almost half of the value of the shipments of blast furnaces and steel mills.[37] Thus, zero-duties available under the GSP program contribute importantly to keeping the price of steel produced in the United States competitive.[38]

GSP beneficiaries in turn import significant quantities of finished U.S. steel products.

GSP BDCs are themselves significant importers of the steel products made in the United States from these raw materials. In 1995, for example, GSP BDCs imported $1.5 billion of U.S. manufactured steel products (including flat-rolled steel, bars, wire, pipe and tube) — 15 percent of total U.S. exports of these products. Key markets included Thailand (14 percent of total U.S. exports to GSP BDCs), Colombia (12 percent), Venezuela (8 percent), and Brazil (5 percent).

H. Plastics and Plastic Products

Plastics and plastic products accounted for 2.5 percent of total U.S. GSP imports in 1995. Plastic products imported under GSP include a variety of consumer plastic products (e.g., tableware/kitchenware and household/toilet articles), packaging materials (e.g., sacks and bags), raw plastics (e.g., polyvinyl chloride) used to produce plastic products, and a variety of plastic construction products (e.g., pipe, sheet and flooring). The trade-weighted average tariff saved by GSP for this group of imports was 4.3 percent; however, the tariff savings for some individual plastic product imports is much higher (e.g., polyethylene and polypropylene imports would be assessed import duties of 11.3 percent but for GSP; imports of polyvinyl chloride would face a 9.4 percent duty but for GSP). GSP saved importers of these products just under $20 million in duties in 1995.

U.S. Imports of Plastics and Plastic Articles Under GSP, 1995
(Millions)

Products*	Value	Top GSP Sources
Primary plastics	$75.3	Brazil, Argentina
Sheets, tubes, pipes	121.2	Brazil, India, Thailand
Other construction materials	9.7	Thailand, Indonesia
Consumer products	86.1	Thailand, Malaysia, the Philippines
Packing materials	82.2	Thailand, Malaysia, Indonesia
Other products	90.5	Thailand, Malaysia, the Philippines
TOTAL	465.0	Thailand, Malaysia, Brazil, Philippines, India

* This table covers Harmonized Tariff System (HTS) Chapter 39.

Source: The Trade Partnership from official statistics of the U.S. Department of Commerce.

The main suppliers of plastics and plastic products to the United States under GSP are Thailand (22 percent), Brazil (19 percent), Malaysia (11 percent), the Philippines (9 percent), and India (9 percent). For many importers, GSP provides an alternative to sourcing these goods from China, a significant supplier of the products in its own right. No doubt a much greater volume of imports of plastic tableware and kitchenware, for example, would come from China but for the competitive advantage GSP gives other developing country suppliers of the products who otherwise could not compete with Chinese prices.

Raw plastics are imported by U.S. plastic product manufacturers. There were over 7,600 such companies in the United States in 1992, the bulk of which employed fewer than 100 workers per establishment.[39] Raw material costs account for as much as 60 percent of the total value of shipments of the various plastic products made from raw plastics (see table below). An increase in the cost of these materials of as much as 11 percent to U.S. producers using GSP would have a negative impact on their final sales.

Raw Materials Costs' Share of Final Value of Plastics Products Shipments, 1992

Unsupported plastics film and sheet	45.5%
Unsupported plastics profile shapes	42.8
Laminated plastics plate, sheet, and profile shapes	45.5
Plastics pipe	60.1
Plastics foam products	50.4
Plastics bottles	46.7
Custom compounding of purchased plastics resins	55.2
Plastics plumbing fixtures	38.1
Plastics products, n.e.c.	40.4

Source: The Trade Partnership, from U.S. Census data.

Small Business Profile:

International Trading Corporation
Berwyn, Pennsylvania

The International Trading Corporation imports $35 million, primarily of polyvinyl chloride resins, from Brazil duty-free under GSP. ITC sells the PVC to pipe and film manufacturers in the Northeast United States, whom it can supply quicker than the major U.S. producers in the Southwest.[40] Without GSP, the duty on these imports would be about 9 percent, and the products would not be competitive in the U.S. market.[41]

The GSP program enables ITC to employ 28 workers directly in Pennsylvania. While GSP saves ITC approximately $1.1 million a year in duties, the domestic production and employment activities of ITC generate approximately $1.3 million in Federal income and employment taxes, and $300,000 in state and local taxes. The company purchases approximately $10 million a year in local goods and services, which also generates jobs and another $800,000 of Federal income tax revenues. For example, ITC moves 2,500 to 3,000 containers a year through the Ports in New Jersey, Pennsylvania and Maryland, with an obvious impact on jobs in those states.

In addition, ITC exports back to Brazil compounds made with PVC by local producers in New Jersey, compounds made with PVC resins imported by ITC under GSP, as well as polyethylene. ITC exports up to $7 million a year to companies in Brazil with which it has relationships under GSP. Without GSP, the company predicts that these exports would not occur.

GSP also provides consumers with significant savings on their purchases of various plastic consumer products imported under GSP. These include tableware and kitchenware, and household toilet articles. These products are imported not only by U.S. hard goods retailers, but also are imported or used by U.S. restaurant establishments, particularly carry-out and cafeteria-style eating establishments.

The Trade Partnership estimates that GSP saves consumers of both plastic consumer products and other plastics and products $28.6 million a year, and adds $1.2 million to the national income each year.

GSP BDCs are also a significant market for U.S.-made plastic products. In 1995, for example, they accounted for 16 percent — $208 million — of total U.S. exports of plastic packaging materials.

I. Jewelry and Parts

Jewelry and parts accounted for 2.3 percent of total U.S. GSP imports in 1995. The average trade-weighted tariff saved by GSP for this group of imports was 6.8 percent; once again, the tariff savings for some individual prod-

U.S. Imports of Jewelry and Other Parts Under GSP, 1995
(Millions)

Products*	Value	Top GSP Sources
Precious metal jewelry and parts	$355.4	India, Turkey, Thailand, Peru
Pearl, semiprecious stone jewelry	12.9	India, Brazil
Imitation jewelry	52.1	Thailand, India
Articles of precious metals	6.9	Argentina, India
TOTAL	427.2	India, Thailand, Turkey, Malaysia

* This table covers Harmonized Tariff System (HTS) Nos. 7113, 7114, 7115, 7116, and 7117.

Source: The Trade Partnership from official statistics of the U.S. Department of Commerce.

uct imports is much higher (e.g., certain silver jewelry, 21.9 percent; and certain articles of semiprecious stones, 16.8 percent). GSP saved importers of jewelry and parts just over $29 million in duties in 1995. At least 10 percent of all U.S. jewelry imports take advantage of the GSP program.

Raw stones and metals are also imported duty-free under GSP, reducing raw materials prices paid by U.S. jewelry manufacturers. In 1995, $55.1 million in jewelry raw materials and parts were imported into the United States duty-free under GSP.

The largest sources of finished jewelry imports to the United States under GSP are India (22 percent), Thailand (17 percent), Turkey (12 percent), and Malaysia (8 percent).

Over half the U.S. gold chains imported under GSP originated from U.S.-owned or -contracted plants in GSP BDCs.

U.S. jewelry producers maintain a competitive edge over imports in styling, overall availability of product, shorter delivery time, and historical supplier relationships[42] and thus are not significantly disadvantaged by finished jewelry imported under GSP. In fact, many U.S. manufacturers are active importers themselves, not just of raw materials but of finished jewelry as well. For example, a number of jewelry manufacturers use the GSP program to globalize production by investing in plants in developing countries to produce labor-intensive components of jewelry. Jewelry parts are sent to Peru and the Dominican Republic, for example, for manual assembly into gold rope necklaces and chains; automated assembly of necklaces with simpler construction remains in the United States. The International Trade Commission estimates that over one-half of 1992 U.S. imports of gold chains under the GSP program originated from U.S.-owned/contracted assembly plants in Peru and the Dominican Republic.[43] These imports reduce production costs and make U.S. jewelry manufacturers more competitive.

The Trade Partnership estimates that GSP saves U.S. consumers of jewelry and parts $28.8 million a year, and adds $3.2 million annually to the national income.

In addition, analysts at the Department of Commerce contend that competition from finished jewelry imports under the GSP program has forced U.S. jewelry manufacturers to become more cost competitive, and hence have helped them become more competitive in world markets. While it may be less expensive to produce labor-intensive jewelry components, such as cast gold products, in developing countries, the United States remains one of the leading producers of jewelry and jewelry parts that are stamped out by machines. In fact, the Department of Commerce is sending a trade mission to Thailand in 1996, the largest source of jewelry products imported under GSP, to promote U.S. exports of jewelry parts. These potential exports are made all the more attractive by the prospect that the finished jewelry may be re-exported to the United States duty-free under GSP.

As a group, GSP BDCs are major importers of finished jewelry from the United States. In 1995, they accounted for 17 percent — $165 million — of total U.S. exports of manufactured jewelry and parts. Key markets were Thailand (25 percent of total U.S. jewelry exports to GSP BDCs), India (21 percent), and Russia (10 percent).

Small Business Profile:

Roman Company
St. Louis, Missouri

Roman Company imports costume jewelry from Thailand (the source of 80 percent of the company's jewelry purchases). In 1995, Roman's sales of costume jewelry totaled over $30 million. The company employs 100 workers year-round, and an additional 150 during its busy Fall seasons. GSP enables it to save duties ranging from 6.5 to 11 percent, or at least $1 million a year -- a cost it could not pass on to its customers. Roman sells this jewelry directly to retailers, who include J.C. Penney Company, May Department Stores Co., Federated Department Stores, and Dillard's.

Roman's business, much of it closely linked to GSP, feeds back to other sectors of the U.S. economy. For example, Roman purchases packaging and displays (totaling about $250,000 a year) made in Providence, Rhode Island, by Gem Case, A & H Manufacturing, and Accent Display. It spends up to $50,000 annually in shipping and other transportation expenses. Most directly benefited by GSP, however, are Roman's employees: the ability of the company to save at least $1 million in duties frees up working capital for raises and bonuses, and further investment in the competitiveness of the company and future employment opportunities there.

J. Rubber Products

Rubber products accounted for 2.3 percent of total U.S. GSP imports in 1995. These products include tires ($156.1 million), surgical and medical gloves ($123.5 million), other rubber gloves ($81.3 million); gaskets, washers and seals ($16.1 million), and rubber tubes, pipes, hosing, conveyor or transmission belts ($9 million). Twenty-eight percent of total U.S. imports of rubber apparel and accessories use GSP. GSP enables importers to save duties averaging 3.2 percent, although tariff rates from some products are much higher (e.g., conveyor or transmission belts, 8.0 percent; toys for pets, 7.7 percent). GSP saved importers of rubber products just over $13 million in Customs duties.

U.S. manufacturers of rubber products use GSP to reduce costs and stay competitive.

Key suppliers of these products to the United States under GSP include Thailand (24 percent), India (20 percent), Malaysia (18 percent), and Indonesia (11 percent).

The U.S. tire industry has become increasingly globalized in recent years. Over half of domestic tire production capacity is now owned by foreign-based tire manufacturers with global production facilities, and the remaining half, dominated by Goodyear Corporation, also produces tires worldwide. U.S. tire manufacturers are the leading purchasers of imported tires sourced from their own production facilities overseas.[44] These facilities, some of which are located in such GSP BDCs as India and Indonesia, supplement U.S. production of particular types of tires, allowing U.S. importing companies to supply customers consistently and quickly.[45] Thus, several U.S. tire manufacturers (in

U.S. Imports of Rubber Products Under GSP, 1995
(Millions)

Products*	Value	Top GSP Sources
Tires	$156.1	India, Indonesia, S. Africa
Apparel and accessories	204.8	Thailand, Malaysia, Indonesia
Other rubber products	59.4	Malaysia, Thailand, Sri Lanka
TOTAL	420.3	Thailand, India, Malaysia, Indonesia

* This table covers Harmonized Tariff System (HTS) Nos. 4005, 4006, 4007, 4008, 4009, 4010, 4011, 4012, 4013, 4014, 4015, 4016, and 4017.

Source: The Trade Partnership from official statistics of the U.S. Department of Commerce.

addition to their customers) benefit from duty savings under the GSP program.

A key apparel product imported duty-free under GSP is rubber gloves. These gloves, particularly surgical and medical gloves, are made almost entirely of natural rubber. However, no natural rubber is produced in the United States. To save costs in this very price-competitive industry, several large U.S. rubber glove manufacturers, including Johnson & Johnson and Baxter Travenol, have built production facilities in GSP beneficiaries who have abundant sources of natural rubber.[46] They import the finished gloves duty-free into the United States using GSP.

The Trade Partnership estimates that GSP saves consumers of rubber products $19.4 million a year, and adds $400,000 to the national income.

K. Aluminum Mill Products

Aluminum mill products accounted for 2.3 percent of total U.S. GSP imports in 1995. These products, largely plates, sheet and strip, are imported into the United States for further processing. Just under one-third of total U.S.

Small Business Profile:

Boyd Medical and Safety
Minneapolis, MN

Boyd Medical and Safety imports latex gloves from Malaysia, Thailand, Indonesia and India under GSP, which it sells to food service customers, hospitals, nursing homes, and medical distributors. Current sales total $6 million annually and the company employs four people at its offices in Minneapolis.

GSP saves Boyd Medical and Safety — and its customers — over $200,000 a year. Without GSP, the company would face a 3.7 percent duty, which it would have to pass on to its customers. The savings afforded by GSP enable the company to thrive, generating $364,000 annually in business to transportation companies, payroll and other services totaling $256,000. The company has been growing by 50 percent a year since it was formed in 1988 — a classic example of a small business generating both direct and indirect jobs, owed in good measure to the competitive edge provided by GSP.

imports of aluminum bars, rods, and profiles were imported duty-free under GSP. Twenty-three percent of total U.S. imports of plates, sheets and strip were imported under GSP. GSP enables importers to save tariffs averaging 3.6 percent, although tariff rates from some products range up to 6.5 percent. GSP saved importers of aluminum products $15 million in Customs duties in 1995.

The main foreign suppliers of aluminum mill products to the United States under GSP are Russia (62 percent share of GSP imports), Venezuela (19 percent share of GSP imports), Malaysia (5 percent), Slovenia (3 percent) and Brazil (3 percent).

U.S. aluminum manufacturers are also users of the GSP program.

U.S. aluminum product manufacturers are themselves importers of these products. Aluminum production relies on both an abundant supply of natural resources, namely bauxite, and an inexpensive form of electricity. Because of high U.S. electricity costs, a number of U.S.

U.S. Imports of Aluminum Mill Products Under GSP, 1995
(Millions)

Products*	Value	Top GSP Sources
Powders and flakes	$0.3	Russia, Slovenia, Brazil
Bars, rods and profiles	94.0	Russia, Slovenia
Wire	2.4	Venezuela, Argentina, Brazil
Plates, sheets & strip	300.5	Russia, Venezuela, Malaysia
Foil	17.6	Brazil, Turkey, S. Africa
Pipes, tubes & fittings	0.7	India, Thailand, Russia
TOTAL	415.5	Russia, Venezuela, Malaysia, Slovenia, Brazil

* This table covers Harmonized Tariff System (HTS) Nos. 7601, 7602, 7603, 7604, 7605, 7606, 7607, 7608, and 7609.

Source: The Trade Partnership from official statistics of the U.S. Department of Commerce.

aluminum producers have invested in plants overseas to produce both primary aluminum and basic aluminum mill products such as aluminum sheets, plates, foils, rods and bars.[47] These products are then imported into the United States and processed into products used by the electrical and construction industry, aerospace industry, automobile manufacturers, container manufacturers and beverage distributors, and heavy equipment manufacturers. The majority of U.S. aluminum imports from Venezuela, the second largest source of GSP imports, are shipped to the Venezuelan producer's subsidiary in the United States.[48]

The Trade Partnership estimates that GSP saves consumers of aluminum products $22.1 million a year, and adds $1.1 million to the national income each year.

L. Sugar

Significant shares of total U.S. sugar imports use GSP.

Sugar accounted for 2.0 percent of total U.S. GSP imports in 1995. Although certain U.S. sugar imports are restricted by tariff-rate quotas, BDCs may qualify for duty-free tariff treatment on sugar exports to the United States of these products only to the extent that their exports do not exceed their specific quotas; any imports in excess of these quantities are assessed the regular most-favored-nation tariff rates. Sugar quotas almost exclusively affect imports from BDCs of raw cane sugar (GSP duty-free imports of the relevant product totaled $259.9 million in 1995), which would have been assessed an ad valorem equivalent tariff rate of 3.5 percent up to the limit of their quotas, and are assessed an ad valorem tariff equivalent of 6.4 percent on imports in excess of the quota levels. In 1995, 41.3 percent of total U.S. raw cane and beet sugar imports entered the United States under GSP; almost 15 percent of total refined cane and been sugar imports came in duty-free under GSP. Thirty-seven percent of total U.S. molasses imports enter the United States duty-free under GSP. Overall, 28 percent of total U.S. sugar imports used the GSP program.

In general, duty-free benefits afforded under GSP accrue directly to the BDC exporter of the sugar. This is because the U.S. sugar program is designed, through a system of loans and tariff-rate quotas, to keep U.S. sugar prices at a specified level, which happens to be much higher than the world price for sugar. U.S. sugar users pay this price for sugar, regardless of whether it was grown domestically or imported. Absent duty-free tariff treatment under GSP, they would still pay just this price for imported raw sugar.

U.S. Imports of Sugar Under GSP, 1995
(Millions)

Products*	Value	Top GSP Sources
Raw cane and beet sugar	$279.8	Philippines, Argentina, Dom. Rep., Mozambique
Refined cane and beet sugar	0.7	Mauritius, Colombia, Paraguay
Other sugars and syrups	2.1	Dominican Republic, Argentina, Croatia
Molasses	25.4	Guatemala, Venezuela, Colombia
Non-cocoa sugar confections	48.3	Brazil, Argentina, Chile
TOTAL	356.4	Philippines, Argentina, Dominican Republic

* This table covers Harmonized Tariff System (HTS) Chapter 17.
Source: The Trade Partnership from official statistics of the U.S. Department of Commerce.

Broadly, for all non-cocoa sugar products in general, GSP lowers the cost of foreign sugar by an average of 2.6 percent (the trade-weighted ad valorem equivalent tariff rate for all U.S imports of sugar and sugar confectioneries), although tariff rates from some products range up to an ad valorem equivalent of 8.9 percent (for certain syrups).

The primary foreign suppliers of sugar under GSP in 1995 were the Philippines (19 percent), Argentina (15 percent), and the Dominican Republic (8 percent). GSP BDCs are also large importers of U.S. refined sugar and confectionery products. In 1995, they imported $220 million in U.S. refined sugar and confectionery products — 25 percent of total U.S. exports of these products. Key markets were Haiti (14 percent of total U.S. exports to GSP BDCs), Jamaica (11 percent), Turkey (9 percent), Peru (8 percent), and Jordan (7 percent).

M. Leather

Leather imported under GSP keeps U.S. producers of furniture, motor vehicles, and apparel accessories competitive.

Leather accounted for just under 2.0 percent of total U.S. GSP imports in 1995. One third of total U.S. leather skins imports entered the United States duty-free under GSP. These products are imported into the United States for use largely in the production of furniture and motor vehicles. GSP enables importers to save an average duty rate of 3.7 percent. GSP saved U.S. manufacturers of leather products $11 million in Customs duties in 1995.

The largest foreign suppliers of leather under GSP are Argentina (46 percent), Brazil (15 percent), and Uruguay (14 percent). In general, China is the dominant supplier of these products to the United States,[49] accounting for more than 40 percent of total U.S. imports. But GSP provides developing countries with a cost advantage that allows them to compete with China for U.S. sales. For their part, GSP BDCs imported $145 million of U.S.-made leather products, including luggage, handbags and footwear — 16 percent of total U.S. exports of leather products. Key foreign markets were Colombia (15 percent of the total value of U.S. exports to GSP BDCs), Brazil (14 percent), and the Dominican Republic (12 percent).

The fastest-growing and potentially largest markets for leather in the United States are automotive and furniture upholstery manufacturers. More than 20 percent of all upholstered furniture is done in leather, and leather is available as an option in most medium-priced automobiles and is a standard interior in high-priced motor vehicles.[50] Leather

U.S. Imports of Leather Under GSP, 1995
(Millions)

Products*	Value	Top GSP Sources
Leather skins	$302.0	Argentina, Brazil, Uruguay
Other leather	0.2	S. Africa, India, Uruguay
TOTAL	302.2	Argentina, Brazil, Uruguay

* This table covers Harmonized Tariff System (HTS) Nos. 4104, 4105, 4106, 4107, 4108, and 4109.

Source: The Trade Partnership from official statistics of the U.S. Department of Commerce.

is also used to manufacture footwear, gloves and handbags and purses.

The duty savings afforded by GSP are passed through directly to leather consumers — U.S. producers of leather products, including footwear, furniture, motor vehicles, and apparel accessories. The Trade Partnership estimates that GSP saves companies that use leather to manufacture other products in the United States $15.1

Small Business Profile:

Friitala of America, Inc.
Hickory, North Carolina

Friitala of America, Inc., is just one of a number of U.S. companies that import leather from South American countries duty-free under GSP for sale to U.S. furniture manufacturers and the automobile aftermarket. Sales in 1995 totaled $16 million. Located in western North Carolina (in Hickory), Friitala employs 28 people. It imports whole hide and finished upholstery leather from Argentina, Brazil and Uruguay duty-free under GSP, saving the company tariffs of 3.6 percent, or as much as $600,000 in foregone duties annually.

GSP enables Friitala to supply the U.S. furniture industry with low-cost raw materials, helping to offset somewhat the high cost of labor this industry faces in the United States and helping to keep production here. Friitala estimates that without GSP, the imposition of a 3.6 percent duty would force the company to raise prices, and ultimately increase the cost to consumers of finished leather furniture made with Friitala's leather by 2 to 3 percent.

million a year, and adds $700,000 to the national income.

V. Conclusion

In the 20 years that it has been in effect, the Generalized System of Preferences Program has evolved into much more than a small trade program targeted to developing countries. Today, it represents an important part of the operations of a host of U.S. industries, and a direct benefit to American families in search of low-cost consumer goods.

The many benefits of the program are demonstrated by those who support it:

- Developing countries who seek to export goods to the United States in competition with giants not eligible for GSP: China, Japan, NAFTA members, and numerous others;

- U.S. labor unions who see it as an effective tool to advance the protection of worker rights in developing countries;

- U.S. companies, both large and small, who need GSP to respond to pressures to remain competitive in the U.S. market;

- U.S. exporters, who know that future sales in developing countries depend crucially on the ability of those countries to earn dollars through exports of their own.

- U.S. workers, not just in importing but also in manufacturing, transportation, wholesaling and retailing, and a myriad of other sectors, who understand that we live in an international market, with jobs linked to other jobs through trade.

Appendix A

List of Beneficiary Developing Countries

Beneficiary Developing Countries
Independent Countries

Albania
Angola
Antigua and Barbuda
Argentina
Armenia
Bahrain
Bangladesh
Barbados
Belarus
Belize
Benin
Bhutan
Bolivia
Bosnia and Hercegovina
Brazil
Bulgaria
Burkina Faso
Burundi
Cameroon
Cape Verde
Central African Republic
Chad
Chile
Colombia
Comoros
Congo
Costa Rica
Cote d'Ivoire
Croatia
Cyprus
Czech Republic
Djibouti
Dominica
Dominican Republic
Ecuador
Egypt
El Salvador
Equatorial Guinea
Estonia
Ethiopia
Fiji
Gambia, The
Ghana
Grenada
Guatemala
Guinea
Guinea-Bissau
Guyana
Haiti
Honduras
Hungary
India
Indonesia
Jamaica
Jordan
Kazakhstan
Kenya
Kiribati
Kyrgyzstan
Latvia
Lebanon
Lesotho
Lithuania
Macedonia, Former Yugoslav Republic of
Madagascar
Malawi
Mali
Malta
Mauritius
Moldova
Morocco
Mozambique
Namibia
Nepal
Niger
Oman
Pakistan
Panama
Papua New Guinea
Paraguay
Peru
Philippines
Poland
Romania
Russia
Rwanda
St. Kitts and Nevis
Saint Lucia
St. Vincent and the Grenadines
Sao Tome and Principe
Senegal
Seychelles
Sierra Leone
Slovakia
Slovenia
Solomon Islands
Somalia
South Africa
Sri Lanka
Suriname
Swaziland
Tanzania
Thailand
Togo
Tonga
Trinidad Tobago
Tunisia
Turkey
Tuvalu
Uganda
Ukraine
Uruguay
Uzbekistan
Vanuatu
Venezuela
Western Samoa
Republic of Yemen
Zaire
Zambia
Zimbabwe

Non-Independent Countries and Territories

Anguilla	Falkland Islands (Islas Malvinas)	Niue
Aruba	French Polynesia	Norfolk Island
British Indian Ocean Territory	Gibraltar	Pitcairn Island
Cayman Island	Greenland	Saint Helena
Christmas Island (Australia)	Heard Island and McDonald Islands	Tokelau
Cocos (Keeling) Islands	Macau	Turks and Caicos Islands
Cook Islands	Montserrat	Virgin Islands, British
	Netherlands Antilles	Wallis and Futuna
	New Caledonia	West Bank and Gaza Strip
		Western Sahara

Associations of Countries (treated as one country)

Member Countries of the Cartagena Agreement (Andean Group)

Consisting of:

Bolivia
Colombia
Ecuador
Peru
Venezuela

Member Countries of the Association of South East Asian Nations (ASEAN) Eligible for GSP Except Brunei Darussalam, Malaysia And Singapore

Currently Qualifying:

Indonesia
Philippines
Thailand

Member Countries of the Caribbean Common except the Bahamas

Consisting of:

Antigua and Barbuda
Indonesia
Barbados
Belize
Thailand
Dominica
Grenada
Guyana
Jamaica
Montserrat
St. Kitts and Nevis
Saint Lucia
Saint Vincent and the Grenadines
Trinidad and Tobago

Appendix B

Description of Methodology for Calculating the Benefits of

GSP to U.S. Industries and Other Consumers Description of Methodology for Calculating the Benefits of GSP to U.S. Industries and Other Consumers

The Trade Partnership used the "Commercial Policy Analysis System" (COMPAS) developed by Joseph Francois and Keith Hall at the U.S. International Trade Commission[51] to measure the effects on various U.S. industries and consumers of duty-free benefits under the U.S. Generalized System of Preferences (GSP). The authors developed COMPAS to analyze the economic effects of a variety of trade policy measures. One of those measures includes the effects of GSP on specific domestic industries and the overall U.S. economy, including downstream consumer/producer effects and national income effects.

The underlying model is a general imperfect substitutes model, also known as an Armington model.[52] It posits that imported and domestically-produced goods are imperfect substitutes for each other. According to Francois and Hall, such models are relatively standard in applied trade policy analysis and are used extensively for the analysis of trade policy changes both in partial and general equilibrium. The model takes account of product similarity, industry demand and supply conditions, and market shares. It is a log-linear model incorporating constant own- and cross-price elasticities of demand.[53]

The model may be used to measure the impact of GSP on selected U.S. industries (but not the U.S. economy as a whole, as meaningful data are not available to input into the model for this purpose). The model treats prevailing tariff rates on non-GSP imports as fixed, and calculates the impacts of raising tariffs applied to GSP imports from zero to the prevailing MFN tariff rate. It allows for consideration of substitution between GSP and non-GSP imports. The estimates provided for individual industries should not be aggregated to calculate a total for the U.S. economy as a whole, however, because such aggregation would ignore interindustry effects and thus over-estimate the total effect. Each industry is modeled holding all other sectors constant, and the individual industry results therefore should be viewed independently of each other.

The various elasticities required by the model were collected by The Trade Partnership from a variety of sources (see below), and in most instances are specific to the industry analyzed. Substitution elasticities used frequently had to be estimated with a view to ensuring that the substitution elasticity exceeded the composite demand elasticity. The Trade Partnership estimated the effects of GSP on each industry using a variety of parameters, each of which was appropriate to the dynamics of the given industry. The results reported in this study are those that most closely reflect the likely impacts of GSP on that industry, given the competitive conditions applicable to that industry.

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Endnotes

1 In some cases, the President may designate as eligible a country which would otherwise be ineligible under one or more of the limitations cited below if he determines that designation will be in the national interest and so reports to Congress.

2 The People's Republic of China is however a beneficiary of the GSP programs of Austria, Australia, Canada, the EC, Finland, New Zealand, Japan, Norway, Sweden and Switzerland.

3 The Trade Agreements Act of 1979 amended this exclusion to allow GSP benefits to go to those OPEC members which entered into bilateral trade agreements with the United States before January 3, 1980. Effective March 30, 1980, Ecuador, Indonesia, and Venezuela became eligible for the GSP program.

4 "Worker rights" are defined to include the right of association, the right to organize and bargain collectively, a prohibition on forced or compulsory labor, a minimum age for child employment, and acceptable conditions of work with respect to wages, hours, and occupational safety and health.

5 GSP-eligible products represent barely half of the total number of products listed in the Harmonized Tariff System.

6 While Table 1 may seem to indicate that a relatively small share — 16.2 percent — of total U.S. imports from beneficiary countries actually benefit from GSP, it is misleading to conclude that GSP is therefore unimportant. This statistic must be interpreted with great care. At best only half of all U.S. tariff line items are even eligible for duty-free treatment under GSP (see Section IIC below). In addition, the uncertainty surrounding renewal of the U.S. GSP program in recent years (see Introduction, above, for a history) may also contribute to a temporary decline in imports seeking GSP benefits and reflected in the 1995 data. U.S. businesses relying on duty-free consumer goods or inputs to manufacture consumer or industrial goods in the United States need predictability when setting prices. To the extent that they cannot count on GSP being an active and long-term program, they are forced to divert sourcing to foreign suppliers eligible for other duty-free programs, including the North American Free Trade Agreement, the U.S.-Israel Free Trade Agreement, the Caribbean Basin Initiative, and the Andean Trade Preferences Act, even though some of these programs may have more difficult rule-of-origin requirements to meet. Developing countries that are not eligible for any of these programs are at a decided disadvantage.

7 The Omnibus Trade and Competitiveness Act of 1988 provided for GSP treatment for those watches entering the United States after June 30, 1989 which are determined not to cause material injury to watch band, strap or bracelet manufacturing and assembly operations in the United States.

8 USTR regulations establishing procedures for receiving and acting upon requests to modify the list of eligible products and for reviews of the GSP status of eligible BDCs specify the required content of submissions and timetables, which are:

Deadline for acceptance of review petitions	June 1
Announcement of petitions accepted for review	July 15
Public hearings and submission of written briefs	Sept./Oct.
Public comment on ITC reports	Dec./Jan.
Announcement of results	April 1
Effective date of changes	July 1

The address of USTR's GSP Information Center is: GSP Information Center, Office of the U.S. Trade Representative, 600 Seventeenth Street, NW, Washington, DC 20506. The telephone number is (202) 395-6971.

9 An "interested party" is a party which has a significant economic interest in the product or would be

materially affected by a GSP-related request.

10 These provisions arose out of the President's 1980 Report to the Congress on the first five years' operation of the GSP, which noted that 10 countries had supplied 80 percent of the GSP imports in 1979, that generally these countries were the more advanced of the developing countries, and that the least developed developing countries had benefited little from the U.S. program. U.S. House of Representatives, Committee on Ways and Means, Report to the Congress on the First Five Years' Operation of the U.S. Generalized System of Preferences (GSP), Transmitted by the President of the United States on April 12, 1980 (Washington, DC: Government Printing Office, April 21, 1980), WMCP:96-58.

11 However, the BDC is not guaranteed redesignation on a specific product. The President may choose not to reinstate the GSP-eligible status of the BDC (for example, those that are more industrialized) for a specific product, even though the country is eligible for redesignation.

12 This fourth waiver authority was designed for the possible exemption of the Philippines, but has not been utilized.

13 The total value of imports in any calendar year from all BDCs benefiting from the waiver cannot exceed 30 percent of the total value of all products which entered duty-free under GSP during the preceding calendar year. In addition, no more than half of this (i.e., 15 percent) can consist of imports from BDCs with a per capita GNP of $5,000 or more or which account for 10 percent or more of the total value of all GSP imports.

14 In 1987, the U.S. GSP per capita income threshold was $9,304. Hong Kong's per capita income in that year was $8,190; Singapore weighed in at $7,260, Taiwan at $5,298, and Korea at $2,950.

15 Office of the U.S. Trade Representative, "Kantor Recommends Malaysia's Graduation from GSP," press release, August 15, 1995.

16 In 1995, total U.S. exports to GSP BDCs (see Appendix A) equaled $95,923.7 million, representing 86 percent of total U.S. imports of $112,086.1 million from those countries.

17 It was not possible to quantify the impact of GSP on the U.S. economy as a whole, because appropriate data were not available.

18 Ronald L. Parrish, Vice President of Corporate Development, Tandy Corporation, Written Testimony before the U.S. Senate, Committee on Finance, Subcommittee on International Trade, August 1, 1995, p. 1.

19 Jack Seibald, Blackford Securities Corp. (New York), in Margaret Webb Pressler, "Weak Sales Plaguing Tandy's Huge Incredible Universe Stores," The Washington Post, March 20, 1996.

20 The U.S. audio and video equipment industry includes approximately 120-140 U.S.-owned and several foreign-owned firms that manufacture in the United States. Most (more than 90 percent) of these firms produce specialty audio components (loudspeakers, amplifiers, microphones) for both consumer and commercial markets. Only a few firms produce consumer phonographs and turntables, audio tape recorders, videotape recorders or TV/VCR combinations, or CD players. U.S. International Trade Commission, Industry & Trade Summary: Audio and Video Recording and Reproducing Equipment, USITC Pub. No. 2822, October 1994, p. 3.

21 U.S. International Trade Commission, Industry & Trade Summary: Air-Conditioning Equipment and Parts, USITC Pub. No. 2756, March 1994, p. 13.

22 Ibid., p. 2.

23 Ibid.

24 U.S. International Trade Commission, Industry & Trade Summary: Computers, Peripherals, and

Computer Components, USITC Pub. No. 2821, October 1994, p. 3.

25 Ibid., p. 27.

26 The Trade Partnership could not estimate the value of the savings provided by GSP to U.S. furniture manufacturers because sufficient data were not available. However, we know that the impact is at least the value of the foregone duties — almost $3 million in 1995.

27 U.S. Department of Commerce, Bureau of the Census, 1992 Census of Manufacturers — Industry Series : Motor Vehicles and Parts, Table 3a.

28 Jeffrey Bobeck, American Automobile Manufacturers Association, letter to Senator Bob Packwood, (then) Chairman of the Senate Committee on Finance, August 18, 1995.

29 Ibid.

30 It was not possible to estimate the benefits of GSP to purchasers of wood consumer products due to a lack of U.S. shipments data specific to these products. However, we know that the value of the tariff savings exceeded $8 million in 1995.

31 Organic chemicals,' limited here to those included in Chapter 29 of the Harmonized Tariff System, are derived from petroleum and natural gas, and to a lesser degree from agricultural products and coal. Primary organic chemicals are frequently components of fuels or as basic materials from which other chemicals are made. Petrochemicals account for 75-80 percent, by volume (and 50 percent by value), of organic chemicals; the rest are various chemical intermediates including those for finished pharmaceuticals or drug products included in Chapter 30 of the HTS.

32 The Chemical Manufacturers Association, supports renewal of the GSP program. Chemical Manufacturers Association, “Position on the Generalized System of Preferences,” June 24, 1994, p. 1.

33 Ed Metusik, U.S. International Trade Commission, Chemicals Division, telephone conversation on February 21, 1996.

34 Ibid.

35 Ibid.

36 Charles Yost, Industry Analyst, U.S. International Trade Commission, telephone conversation on February 23, 1996.

37 Derived from U.S. Department of Commerce, 1992 Census of Manufactures — Industry Series: Blast Furnaces, Table 3a.

38 It was not possible to quantify the benefits to the iron and steel industry of GSP benefits granted to imports of iron and steel raw materials because U.S. production data were not available.

39 U.S. Department of Commerce, Census of Manufactures — Industry Series: Miscellaneous Plastics Products, N.E.C., Table 3a.

40 Imports of PVC resins round out supply that is dominated by U.S. producers. U.S. PVC production has increased steadily since 1989, even during the recession, and U.S. producers have been operating at capacity rates that average 94 percent. U.S. International Trade Commission, Industry & Trade Summary: Polyvinyl Chloride Resins in Primary Forms, USITC Pub. No. 2845, March 1995, p. 10.

41 The market for PVC is very price sensitive. Two-thirds of PVC is used in construction applications (e.g., flooring, pipe and conduit, siding, windows and doors), followed by consumer and institutional uses (8.6

percent); packaging (7.2 percent), and electrical and electronic products (5.9 percent). When prices of PVC rise, end users (primarily, construction companies) shift to products made from competing materials — polyethylene, cast iron, steel, aluminum, or wood, to the disadvantage of the 3,000 companies that manufacture final products from PVC in the United States. Ibid., p. 7.

[42] U.S. International Trade Commission, President's List of Articles Which May be Designated or Modified as Eligible Articles for Purposes of the U.S. Generalized System of Preferences, Report to the President on Inv. Nos. TA-131-20, 503(a)-25, and 332-346, USITC Pub. 2725, Feb. 1994, p. 86.

[43] Ibid.

[44] James Raftery, industry analyst, U.S. International Trade Commission, telephone conversation on April 22, 1996.

[45] Ibid.

[46] Jackie Jones, industry analyst, U.S. International Trade Commission, telephone conversation on April 23, 1996.

[47] David Cammarota, Office of Materials, Machinery and Chemicals, U.S. Department of Commerce, telephone conversation on February 21, 1996.

[48] U.S. International Trade Commission, Industry & Trade Summary: Aluminum, USITC Pub. No. 2706, April 1994, p. 36.

[49] China is not eligible for GSP benefits.

[50] U.S. Department of Commerce, U.S. Industrial Outlook 1994, p. 34-2.

[51] Joseph Francois and Keith Hall, "COMPAS: Commercial Policy Analysis System," version 1.4, May 1993.

[52] P. Armington, "A Theory of Demand for Products Distinguished by Place of Origin," IMF Staff Papers, Vol. 16, 1969, pp. 159-178.

[53] For the specific equations used, see Joseph F. Francois and Keith H. Hall, "Partial Equilibrium Modeling," in Joseph F. Francois and Kenneth A. Reinert, editors, Applied Methods for Trade Policy Modelling (Cambridge University Press, 1995), Chapter 5.