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July 15, 1985

THE AMBASSADOR OF KOREA
WASHINGTON, D.C.

The Honorable Gaston J. Sigur, Jr.
Special Assistant to the President
and Senior Director
Room 302
Old Executive Office Building
17th St., & Penn. Ave., N.W.
Washington, D.C. 20500

Dear Mr. Sigur:

As a major trading partner of the United States, it is with reluctance that the Korean government must express its deep concern with the recent ITC recommendation of quotas on non-rubber footwear imports.

While Korea is a major source of U.S. footwear imports, the facts demonstrate that Korea is not the cause of the difficulties now being experienced by the U.S. footwear industry. Not only have Korean footwear imports decreased in 1984 and 1985, but the majority of Korean footwear exported to the United States consists of athletic footwear. As ITC recognized in 1984, most U.S. athletic footwear manufacturers are also customers of Korean footwear producers. Hence, Korean exports are complementary rather than competitive with your domestic industry.

I hope that the enclosed information will be of assistance to you in fully understanding the unique situation of the Korean footwear industry and its impact on the U.S. market. Please feel free to contact me in the event you have any questions or concerns regarding this matter.

With my best regards,

Sincerely,

B H Lew

Byong Hion Lew

FOOTWEAR QUOTAS : ARE THEY JUSTIFIED?

Korea's Position

On

the Recent ITC Recommendation

for the U.S. Footwear Industry

July, 1985

Ministry of Trade and Industry

Republic of Korea

Introduction

The U.S. International Trade Commission has recently recommended that global quotas be imposed on footwear imports, limiting them to 1983 levels. This recommendation, which will be submitted to President Reagan at the end of June and which he must act upon within two months, is of great concern to the Republic of Korea. Such quotas would unfairly penalize Korean footwear manufacturers, who have consistently followed fair trading practices in their exports to the United States and whose sales in the U.S. are not the cause of the problems now affecting the U.S. footwear industry. Furthermore, such quotas would inflict unnecessary burdens on the U.S. consumer and would jeopardize the free trade system worldwide.

Korean Footwear Imports Do Not Injure U.S. Manufacturers

Footwear production is among the most important industries in Korea, employing approximately 115,000 persons and producing about $2.1 billion worth of footwear each year. About three quarters of Korea's total production is exported, making footwear the nation's second largest consumer goods exports. Korea's export footwear production is quite specialized, with over 80 percent concentrated in leather athletic footwear, nylon leather joggers, nylon leather court shoes and leather basketball shoes. Korean firms have developed a niche in high-quality, moderately priced athletic footwear, using specialized production

facilities which are efficient and geared for volume production.

Korean footwear manufacturers are fair traders. The industry receives no government subsidies and no direct or indirect government support. It operates on the basis of efficiency and fair competition, both at home and abroad, and it has always been careful not to cause sudden import surges in the U.S. market.

In fact, U.S. imports of Korea-made footwear decreased slightly from 1983 to 1984, as Table 1 shows. For the first quarter of 1985, such imports fell almost 20 percent from their levels one year earlier. These imports are likely to increase somewhat during the rest of the year, but they will almost certainly remain below their 1983-84 levels. In contrast, imports from Taiwan rose 26 percent from 1983 to 1984, while those from Brazil increased over 70 percent, as shown in Table 1.

As far as Korea is concerned, the figures in Table 1 clearly support the 1983 ITC findings, in which the commission determined unanimously that footwear imports did not injure the U.S. industry. Even considering the changed criteria for injury in the 1984 Trade and Tariff Act, the commission's inclusion of Korea in the quota recommendation is hard to explain. Since Korean footwear manufacturers are not responsible for any increase in U.S. footwear imports,

Korean manufacturers should not be penalized for the domestic injury resulting from an import rise in 1984.

Table 1. Growth of U.S. Footwear Imports from Korea, Taiwan and Brazil

(Million Pairs)

	1984	Percent Change	1985 (1st Qtr.)	Percent Change
Korea	118.3	-0.5	25.7	-19.9
Taiwan	307.0	26.2	97.8	20.4
Brazil	109.7	70.4	33.2	24.3

Korean and U.S. Footwear: A Complementary Relationship

Furthermore, Korean footwear does not compete directly with U.S. products. As noted earlier, Korean firms specialize in leather athletic shoes, but this area accounts for only 2.2 percent of non-rubber footwear production in the United States. Even this U.S. production is largely limited to low-priced, injection-molded plastic footwear, which is not made in significant quantities in Korea, and to top-of-the-line, high-tech nylon leather joggers and court shoes. The 1984 ITC decision therefore stated that U.S. and Korean athletic footwear production is basically complementary, rather than competitive.

Because of this complementary relationship, 80 to 90 percent of the U.S. athletic footwear market has tradition-

ally been supplied by imports. This import level has remained essentially stable in recent years, whether or not import restrictions were in place. It is therefore unlikely that the imposition of a quota will lead U.S. manufacturers to shift their production toward mid-priced athletic shoes. Due to differences in comparative advantage, U.S. producers will probably continue to concentrate on high-value, top-of-the-line products, while importing their mid-range footwear from such overseas sources as Korea and Taiwan.

The mutually beneficial relationship between U.S. and overseas footwear makers is clearly visible in ITC data. According to these figures, more than 50 percent of athletic footwear imports from all sources are imported by U.S. athletic footwear manufacturers, including Nike, New Balance, Hyde, Converse and Wolverine Worldwide (Brooks). All of these manufacturers depend to a significant extent on foreign sources of athletic footwear to complement their domestic production. The imposition of restraints on athletic footwear would hurt these and other American manufacturers by limiting their ability to fill out their product lines.

Quotas Will Not Make the U.S. Industry More Competitive

Moreover, restricting imports of footwear will not accomplish its stated goal of helping U.S. manufacturers become more competitive. The U.S. footwear industry,

plagued by inefficient factories and low investment, insists that it require five years of severe quota protection to carry out its modernization plans. As Vice Chairperson Liebeler of the ITC has noted, however, these plans are based on a series of dubious assumptions, among them five percent annual increases in productivity, a fifteen percent price differential between domestic and imported shoes, and the same increase in capital investment to make lower-priced footwear as for higher-value lines.

The U.S. footwear industry received four years of protection from foreign imports between 1977 and 1981. In retrospect, this protection stimulated little significant change in the structure of the domestic industry or in its ability to compete internationally. If another five-year period of protection is provided for this industry, domestic producers will be given nine years of protection in the thirteen years between 1977 and 1990. Such an extended shelter from imports would clearly be inconsistent with the GATT, which allows only "temporary" relief.

An alternative and more effective way to solve the problems of the U.S. footwear industry is trade adjustment assistance, as recommended by Vice Chairperson Liebeler. Such assistance would deal with the root of the problem by providing assistance to displaced workers and financial support to specific firms which are capable of improving their productivity and efficiency enough to compete in the long run. Unlike the

blanket protection of a quota system, which simply delays the collapse of hopelessly inefficient firms, the focused relief of trade adjustment would increase the overall strength of the U.S. footwear industry without distorting the American market.

Quotas Will Impose Substantial Costs

In addition to being unwarranted and unproductive, the imposition of import restraints on footwear will inflict much higher costs on the U.S. consumer, on the U.S. economy and on the international trading system.

The ITC's Office of Economics has estimated that the proposed quota would increase domestic footwear prices by 11 percent and imported footwear prices by 19 percent, costing the U.S. consumer approximately $1.3 billion per year. The quota system would temporarily create jobs in the U.S. footwear industry, but each such job would cost the nation's consumers $49,800 per year of the quota, over three times the salaries of the affected workers.

Furthermore, the ITC cost analysis does not take into account the compensation which the U.S. could be required to pay to its trading partners under Article XIX of the GATT. Among the major footwear suppliers eligible for such payments would be Korea, Brazil, and the EC. The EC has recently filed for $150 million in such compensation from Canada, based on a footwear quota system very similar to the

one now being proposed by the ITC. Since the Canadian market is only one-tenth the size of the that in America, the amount of compensation for the ITC quotas would probably be substantial.

Any major restriction on Korean footwear exports to the United States would also have a direct and adverse effect on U.S. farmers by reducing American exports of leather hide. Because Korea has virtually no indigenous supply of leather, it imports almost all of its hide and leather requirements, and the U.S. has been a major source of these materials. In 1984, for example, Korea imported almost $256 million of leather hides from the United States, making up about 90 percent of total Korean hide imports. Approximately one-third of these imports are used in the production of footwear. Import quotas on shoes thus threaten a significant source of income for America's troubled farmers.

Quotas Will Set Back Korea's Liberalization Efforts

The most far-reaching effect of the ITC recommendation, however, would be on the international trade system. As part of an increasing level of protectionist measures in recent years, it would apply most severely to developing countries, which are the major producers of footwear. These countries need fair market access for their exports in order to service their debt burdens. Korea, for example, now pays over $3 billion annually in debt service payments, primarily

to U.S. banks. Although the nation is fully able to make these payments, protectionist controls on Korea's exports could reduce its ability to continue doing so. Import quotas could also make it more difficult for Korea to maintain its defense commitments, which now consume six percent of the nation's GNP.

In addition, import quotas on footwear would make it difficult for Korea to continue liberalizing its markets. Over the past five years, Korea has been removing barriers to imports and to foreign investments in its economy. As a result, the ratio of products which can be imported without facing non-tariff barriers has risen from 69 percent in 1979 to 85 percent presently. As of July 1, this ratio will rise to nearly 88 percent, and it will exceed 95 percent in three years. Korea has made this commitment to fair trade despite its chronic trade deficits and its heavy foreign debt, in order to bring its level of protection in line with those of most developed countries. In the financial sector, controls on interest rates and on the activities of foreign banks are being dismantled. Moreover, the government is planning measures to protect various forms of intellectual property, the first of which will be announced soon.

Domestically, however, there has been much resistance to these liberal reforms, and this resistance is strengthened by each new protectionist barrier overseas. Businessmen, politicians, and ordinary citizens from all walks of

life have reacted by asking, "Why bother opening our economy when everyone else is closing theirs?" Especially given the recent slowdown in world trade, barriers against a Korean industry as important as footwear could make it politically and economically impossible for Korea to continue liberalizing its policies on imports, the financial sector and intellectual property rights.

Quotas Could Reduce U.S. Exports to Korea

A slowdown or postponement of Korea's import liberalization would be a serious blow to the United States, because the U.S. stands to be a major beneficiary of liberal trade policies in Korea. Our countries have for years enjoyed a close trading relationship; in fact, Korea is now America's seventh largest trading partner. Over the past two decades, trade between our two countries has generally been in balance, as shown in Table 2. Indeed, when the invisible trade account and other payments are taken into account, Korea had nearly constant current account deficits with the United States until 1983. In any case, Korea's surpluses over the past two years have resulted more from the strength of the U.S. economy and the high value of the dollar than from any structural reason, and they pale in comparison with the surpluses accumulated by Japan and Taiwan over the same period.

Table 2. U.S. Trade and Current Account Balance with Korea, 1978-84

(In U.S. $ Million)

	Commodity Exports	Commodity Imports	Commodity Trade Balance	Current Account Balance
1978	3,021	4,058	-857	-1,099
79	4,491	4,058	335	354
80	4,823	4,429	394	1,358
81	5,694	5,438	256	1,850
82	6,026	6,065	-39	1,283
83	6,169	7,855	-1,686	-958
84	6,447	9,974	-3,527	-2,574

Korea has provided an important and growing market for U.S. commodities, particularly in such areas as generators, machinery and airplanes and other transportation equipment, where total sales to Korea exceeded $2.6 billion in 1984. The U.S. agricultural industry has also benefited substantially from access to the Korean market. Korea has been the world's fourth largest buyer of American farm products since 1980, and last year Korea purchased over $2.8 billion in U.S. agricultural commodities. These purchases included 86 percent of Korea's corn imports, 79 percent of its raw cotton imports, 100 percent of its soybean purchases and 74 percent of its imported wheat.

Because of the historical and economic relations between our countries, Korea takes seriously its responsibilities to maintain the balance of U.S.-Korea trade, and it has sent numerous buying missions to the United States.

The most recent of these missions, in March of last year, generated $3.3 billion in orders to U.S. firms. By escalating trade tensions between us, continued protectionism in the U.S. could endanger this remarkable economic relationship.

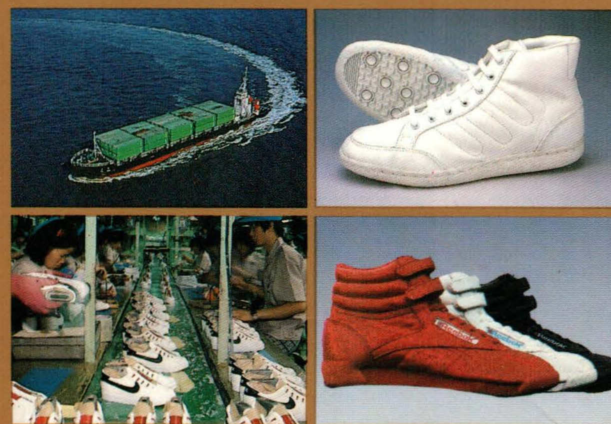
Conclusion

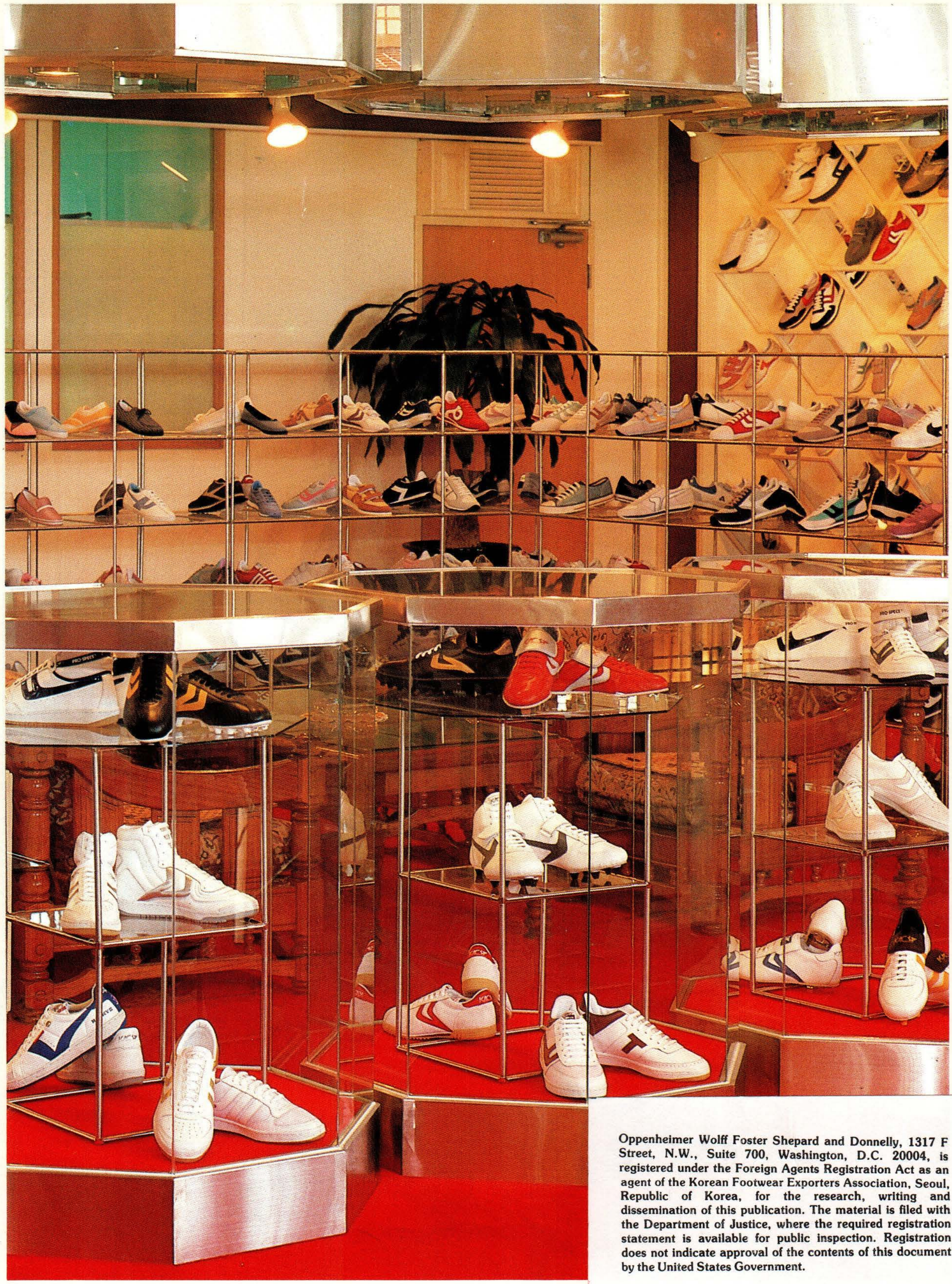
Korea's footwear industry, a mainstay of the nation's economy, has grown because of its efficiency in turning out high-quality products at reasonable prices. It has not received government support, and it has been a fair trader in international markets. Furthermore, Korean footwear exports do not compete with U.S. domestic production; instead, they allow manufacturers in the U.S. an efficient means of expanding their product lines.

The imposition of quotas on Korean footwear would thus generate no tangible benefit for American producers and would injure the U.S. consumers. Indeed, such quotas could impose severe strains on the trade relations between our countries. For these reasons, we urge the United States not to accept the recommendation of the USITC.

U.S. Imports of Korean-Made Footwear

The Case Against Restraint





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I. OVERVIEW

The U.S. International Trade Commission has recently recommended that global quotas imposed on United States footwear imports for five years, initially freezing footwear imports at 1983 levels. This action was taken despite a unanimous decision a year ago that footwear imports were not injuring U.S. manufacturers.

The ITC's Office of Economics has estimated that the proposed quota, if adopted by the President, would increase domestic footwear prices by 11 percent and imported footwear prices by 19 percent, costing the U.S. consumer approximately $1.3 billion per year. Other sources estimate the cost at up to $3 billion annually. Every job temporarily created under the quota system would cost the U.S. consumer $49,000, or over three times the salaries of the affected workers. Furthermore, the ITC's cost analysis does not take into account the possible compensation the U.S. would be required to pay to its major trading partners under applicable provisions of the General Agreement on Tariffs and Trade.

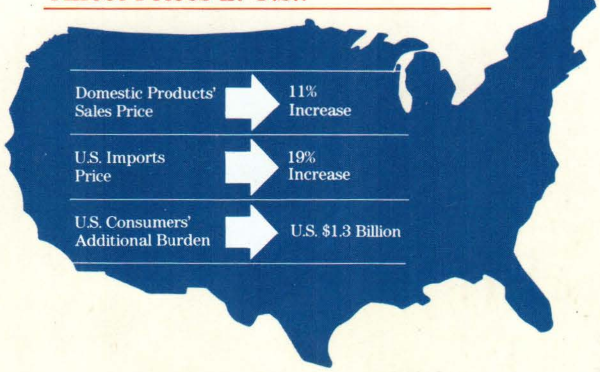
Korean footwear manufacturers oppose restraints on footwear trade as a matter of principle as well as on empirical grounds. The proposed quota is another example of growing protectionist pressure in the United States which has already led to severe restrictions on U.S. imports of Korean-made textiles, steel and other products.

The ITC's quota recommendations on footwear, particularly as they affect U.S. imports from Korea, are misguided. Korea has not increased its footwear exports to the United States over 1983 levels. Moreover, the vast majority of Korean exports—approximately 80 percent—are athletic footwear, which complements rather than competes with U.S. footwear production.

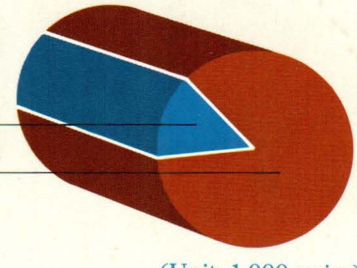
The case is also of particular significance to the Korean footwear industry because Korea was one of two countries singled out for quotas from 1977 to 1981, despite the fact that then as now the vast majority of its products did not compete significantly with U.S.-made footwear. The footwear OMA, cutting the restraint level to only 63 percent of Korea's export volume in 1976, caused a loss of 5,500 jobs in the Korean footwear industry as well as a drop in capacity utilization from 95 percent to 87 percent.

Nevertheless, Koreans are confident that once the President and the American public understand Korea's situation as explained below, they will agree that the imposition of restraints on U.S. of footwear from Korea would be unfair and unnecessary.

How Will the Global Quota Affect Prices in U.S.?



Share of Athletic Shoes out of Korea's Non-Rubber Footwear Exports in 1984



(Unit: 1,000 pairs)

1984	Export (pair)	Ratio
Total Non-Rubber Footwear	133,205	100%
Athletic Shoes	114,149	85.7%

II. KOREA'S COMPLEMENTARY ROLE

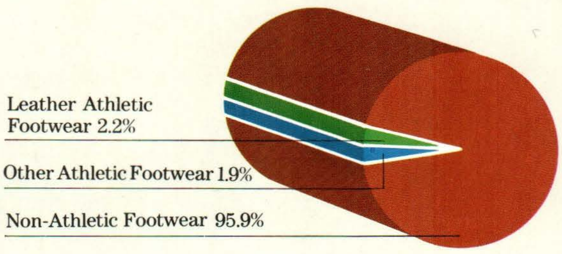
Korea employs 115,000 in the footwear industry. Of the total annual production of US$2.1 billion, exports account for 72%. Footwear, after textiles, is the second largest export consumer item. Footwear accounts for 2% of national production, 5% of exports and 3.3% of employment in the manufacturing sector. Footwear manufacturers receive no government subsidies and no direct or indirect government support. The industry operates fairly and freely, in Korea as well as outside.

Korea produces high-quality, moderately-priced athletic shoes using specialized designs and mass production facilities. About 80% of the total production comprises of leather athletic shoes, nylon leather joggers, nylon leather court shoes and leather basketball shoes.

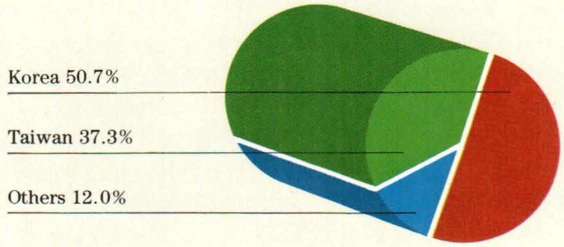
Leather athletic production in the U.S., by contrast, accounts for a miniscule 2.2% of non-rubber footwear, largely limited to low-priced, injection molded plastic athletic shoes not made in significant quantities in Korea. Similarly, Korea does not make top-of-the-line high-tech nylon leather joggers nor court shoes in significant quantities. The bottom line, as the USITC indicated in 1984, is that Korea and the U.S. are not competitors in the U.S. footwear market.

Because of this non-competitive relationship, imports have traditionally accounted for 80-90% of U.S. footwear consumption. These ratios have not changed even when imports were restrained as in the 1977-81 period. With or without quotas, the U.S. industry is likely to concentrate on value-added, high-tech, top-of-the-line footwear production, with countries like Korea and Taiwan meeting the middle and lower-end of the market untouched by the U.S. manufacturers.

U.S. Production of Non-Rubber Footwear in 1984



U.S. Imports of Leather Athletic Footwear

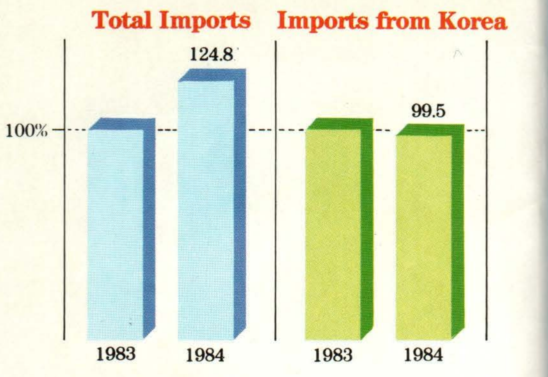


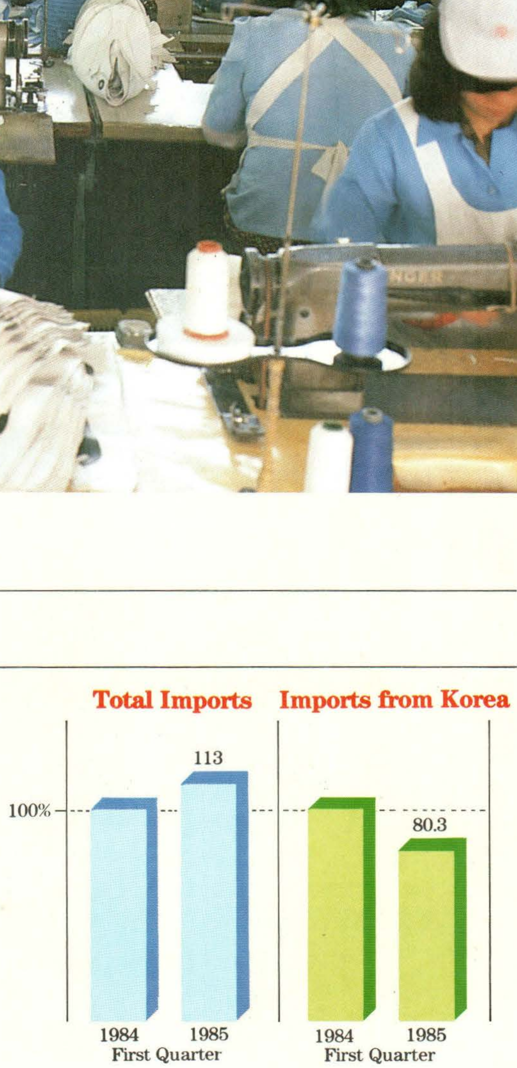
III. KOREA INFLICTS NO INJURY TO THE U.S. MANUFACTURERS

All facts and the USITC remedy recommendations confirm that Korean footwear does not injure U.S. manufacturers. The USITC majority remedy recommended a global quota of 474 million pairs for the first two years and a modest increase in the next three years. As Commissioner Lodwick noted at the time of the USITC vote, the quota level is equal to the total 1983 imports of all non-rubber footwear valued at US$2.50 or higher per pair. In other words, the USITC would in effect "freeze" U.S. imports at the 1983 levels.

The USITC's choice of 1983 as the base year for quota imposition is clear. In 1984, based on 1983 data, the commission unanimously found no injury being inflicted. One year later, however, the same USITC found unanimously that injury was in fact being inflicted. Logically, the injury was inflicted by increased footwear imports in 1984 over 1983. This should be the basis for rolling the quota level back to 1983.

Trends of U.S. Non-Rubber Footwear Imports





The decision is tantamount to asking the Koreans to pay the penalty for an uncommitted crime. Korea cannot be held accountable for the 1984 increase in imports. In fact, the U.S. imports of Korean footwear declined in 1984 by 1% from 1983. In the first quarter of 1985, the decline jumped sharply to 20% over the same period a year earlier. While exports could pick up in the latter half of this year, the total 1985 imports would not match the levels of 1983-84 due to a slackening demand for athletic shoes. In fact, declining demand forced 35 Korean manufacturers with 18,000 employees to go under in the past three years. Thus for any injury caused by a 1984 increase in imports, Korea should not be held responsible.

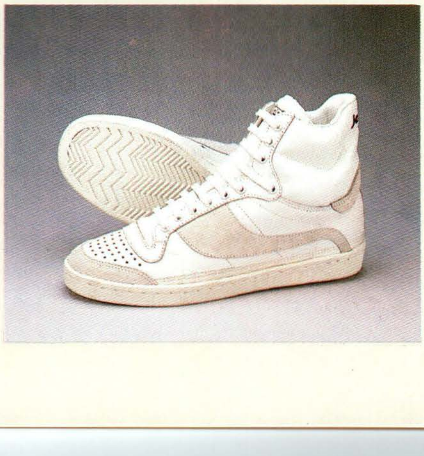
Furthermore, two USITC Commissioners recommended that athletic footwear should be treated separately. Chairwoman Stern and Commissioner Rohr are in favor of holding the quotas at the 1983 levels. The decline, albeit miniscule, in U.S. imports from Korea in 1984 amply proved that Korea did not inflict any injury on U.S. industry.

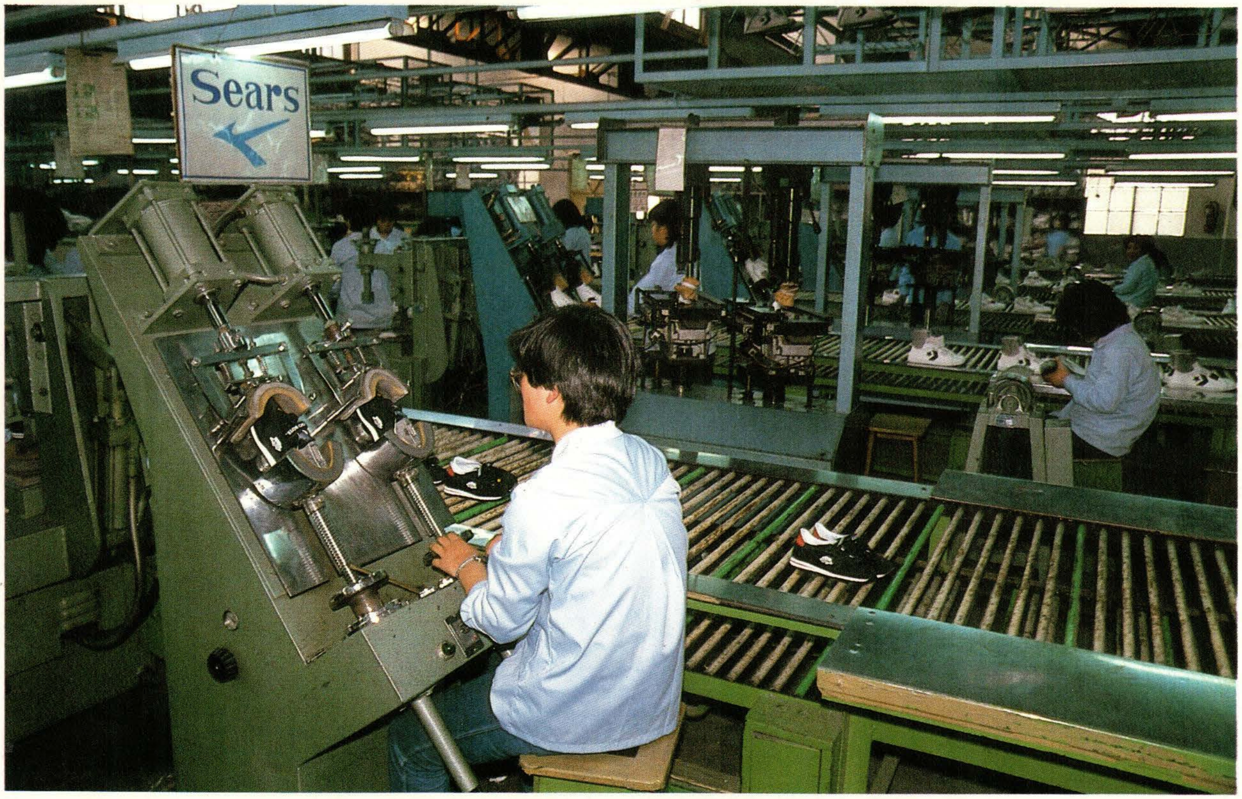
IV. TEMPORARY HELP NO HELP TO U.S. FOOTWEAR PRODUCERS

The non-competitive nature of the relationship between the U.S. manufacturers and foreign producers in the U.S. market clearly indicates that any restraint imposed on footwear imports would hurt rather than assist even the U.S. athletic footwear industry. According to USITC, U.S. athletic footwear manufacturers account for 50% of all footwear imports in the U.S. Manufacturer-cum-importers like Nike, New Balance, Hyde, Converse and Wolverine Worldwide (Brooks) depend significantly on foreign sources to complement their production lines as well as products in the U.S.

Quotas, on athletic footwear or otherwise, are basically what they are—a temporary cure. The quotas do not provide a long-term solution to the problems of U.S. industry. The "temporary" relief provided under Section 201 of the Trade Act of 1974 is simply insufficient to make many U.S. footwear manufacturers fully competitive. As Vice Chairman Liebeler noted, the U.S. industry's optimistic modernization plans, which call for 5 years of quota protection to be implemented, are based on dubious assumptions of a 5% annual increase in productivity, a 15% price differential between domestic and imported shoes, and the same return on capital investment in the lower-priced footwear as that in higher-priced items.

Thus, for the majority of U.S. manufacturers, only permanent quotas, not temporary, would provide significant relief.





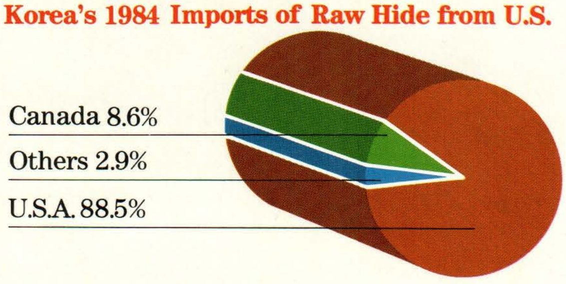
V. COST OF RESTRAINT IS SUBSTANTIAL

The USITC's staff estimates put the cost of quotas to consumers in the range of US$1.3 billion. The U.S.' trading partners who are members of GATT—the EC countries, Korea and Brazil, among major producers—could seek compensation if the U.S. imposes global quotas. Under Article XIX of GATT, the U.S.' trading partners are entitled to seek such compensation. Although it is premature to predict any such action now, it is worth mentioning that the European Community have recently sought US$150 million in compensation from the Canadian government which imposed a quota system similar to the one being proposed by the ITC. The Canadian market is one-tenth the size of the U.S. market.

The imposition of quotas, as proposed by the USITC, means a significantly negative impact on the retail industry, which is estimated to employ 150,000 people. Moreover, the global quotas would definitely retard competition by protecting the position of existing retailers and preventing new competitors from becoming established.

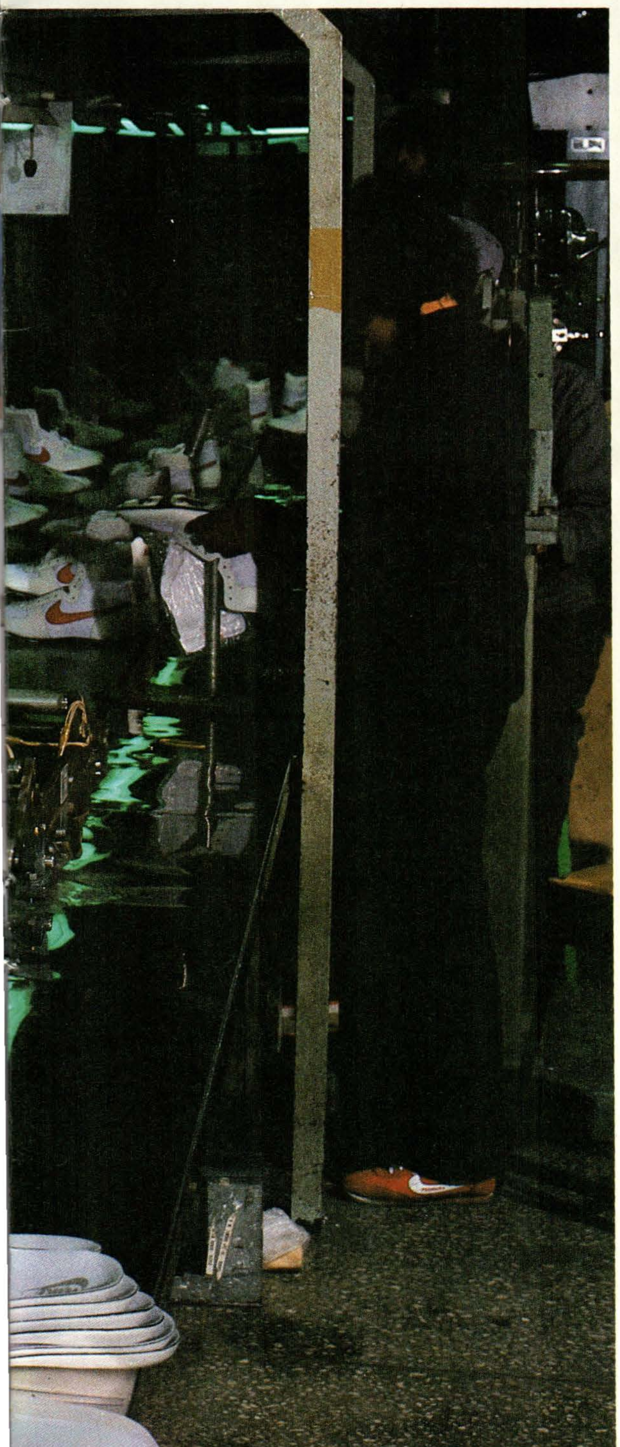
The import restraint on Korean footwear products would also adversely affect another major U.S. industry. Lacking indigenous sources of supply, Korea imports all its leather and hide requirements for footwear and other products specifically from the United States up to 90% of its hides needs. In 1984, hide imports from the U.S. amounted to US$256 million. Nearly one-third of these or US$85 million, is used in footwear. Any major reduction in Korea's footwear exports would have a direct and adverse impact on U.S. livestock farmers.

Korea's 1984 Imports of Raw Hide from U.S.



Total	US$288,565,000
U.S.A.	US$255,508,000
Canada	US$24,717,000
Australia	US$4,287,000

VI. TRADE ADJUSTMENT ASSISTANCE IS APPROPRIATE REMEDY



Rather than in quotas, the U.S. should seek remedy in "trade adjustment assistance," a logical and cost-effective mechanism which allows relief to be provided to the workers of specific firms, and financial assistance as well as, can demonstrate that, with additional capitalization, they can improve their productivity and efficiency to the point where they will be able to compete on a long-term basis with footwear from other sources.

The trade adjustment assistance avoids the severe inefficiencies of a quota system that gives protection, not only to those firms that could actually benefit from the quota system, but also to those large and/or modernized firms that do not need protection—and to those hopelessly inefficient firms, that, with the help of quota protection, would simply stand to make unwarranted profits during the five-year quota period. Under these circumstances, there will be little new investment in the footwear industry by firms based solely on a five-year period of return. On the other hand, significant new investments will be made by those firms in a position to compete over the long-term. A quota system will not materially affect the availability of capital for those firms.

VII. FOOTWEAR QUOTAS ARE INAPPROPRIATE AND UNFAIR TO KOREA

Korea and Korean footwear manufacturers understand the substantial political pressures upon the U.S. administration but are not convinced that restraints should be imposed on imports from Korea, nor see any justification for it. As noted above, Korea inflicted no injury on U.S. industry and therefore cannot be made accountable for its problems. To impose any import restriction on imports from Korea is unfair and unnecessary.

Considering the nature of the Korean economy, import restraints on such major Korean products as footwear could effectively choke the economy. Unlike a small 9.1% contribution of exports to the U.S. gross national product (GNP), exports account for 36% of Korea's GNP. The post-Korean War recovery was due to Korea's ability to produce quality goods for export efficiently and cost effectively.

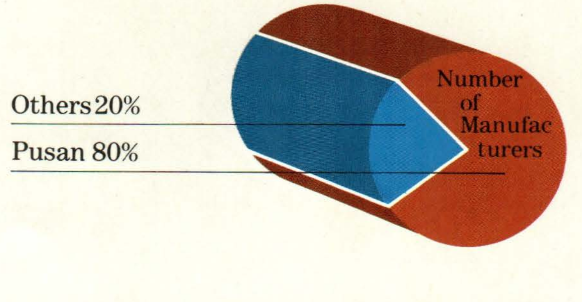
The U.S.-Korea relationship has changed significantly since 1977, when Korea, along with Taiwan, was singled out for imposition of quotas on non-rubber footwear. In 1984, Korea is the U.S.' seventh largest trading partner, with Korea importing US$7 billion worth of agricultural products, hides and leather, and capital equipment including machinery and high-tech products. Korea and the U.S. have had a relatively balanced trade picture over the last two decades and U.S.-Korea trade is a two-way street.

In response to requests from major trading partners like the U.S., Korea is pursuing two basic trade goals: to maintain its export performance and to open the domestic market for foreign goods to enhance the competitiveness of Korean producers. Korea has to maintain its strategic defense commitments to guard against North Korea and other possible threats to the security of its territory and the region. It is thus forced to spend 6% of its GNP on defense, and at the same time improve the living standard of working population.

Korea is categorized by some as a Newly Industrialized Country (NIC). The Korean manufacturing sector is in transition, with some parts becoming highly efficient and competitive on a worldwide basis, while others are undercapitalized, inefficient and uncompetitive. Korea has a strong industrial base, yet its per capita income is barely US$2,000, less than one-sixth of that of the U.S. and less than one-fifth that of Japan. Although Korea is considered a good credit-risk, its foreign debt of US$43 billion is one of the highest in the world. Its debt-service payments, equalling 16.5% of exports, are a concern, especially since Korea has never recorded a trade surplus.

Like automobiles in Detroit and steel in Pittsburgh, footwear lights up Pusan, the second largest city, where 80% of all manufacturers are

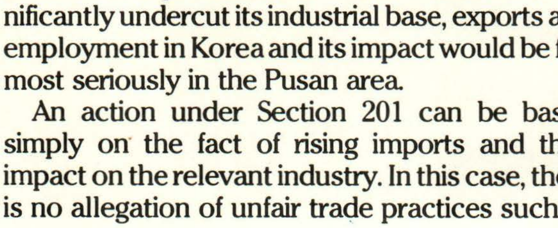
Concentration of Footwear Industry in Pusan



located. One out of five persons or 23% of the workers in the manufacturing sector are employed in the footwear industry. Although the Korean economy remains dynamic, its structure makes it particularly vulnerable to protectionist

One out of five workers in Pusan are employed in the footwear industry.

Footwear



trends. Such protectionist trends would then significantly undercut its industrial base, exports and employment in Korea and its impact would be felt most seriously in the Pusan area.

An action under Section 201 can be based simply on the fact of rising imports and their impact on the relevant industry. In this case, there is no allegation of unfair trade practices such as government subsidies or sales at less than fair value, or dumping.

Trends of Korea's Tariff Rates for Foreign Footwear

Protectionism for the U.S. footwear industry is being contemplated despite the Korean government's recent initiative to open the domestic footwear market to foreign competition. Tariffs, for example, on all footwear products have been reduced by law from 50% to 35% *ad valorem*. This rate would further be reduced to 20% *ad valorem* in 5% annual stages over the next three years. Then tariffs on foreign footwear in Korea would be similar to those imported into advanced countries. The U.S., for example, levied tariffs at or in excess of 37.5% *ad valorem* on its imports of over 100 million pairs of footwears. Today, Korea doesn't have any non-tariff barriers on foreign footwear imports.

These difficult decisions have been taken on the assumption that the U.S. government would act in good faith to keep its domestic market open to Korean footwear.

VIII. CONCLUSION

Korea's footwear industry, a mainstay of the nation's economy, has grown because of its efficiency in turning out high-quality products at reasonable prices. It has not received government support, and it has been a fair trader in international markets. Furthermore, Korean footwear exports do not compete with U.S. domestic production: instead, they allow manufacturers here an efficient means of expanding their product lines.

The imposition of quotas on Korean footwear would thus generate no tangible benefit for American producers and consumers. On the contrary, such quotas could force Korea to seek compensation under the GATT and could impose severe strains on the trade relations between our countries. For these reasons, we urge the United States not to accept the recommendation of the USITC.

Published by the Korean Footwear Exporters Association

WITHDRAWAL SHEET

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Freedom of Information Act - [5 U.S.C. 552(b)]

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Subj.

MEMORANDUM

5733

NATIONAL SECURITY COUNCIL

ACTION

July 29, 1985

MEMORANDUM FOR ROBERT C. McFARLANE

FROM: GASTON J. SIGUR

SUBJECT: Response to Letter from Korean Ambassador Re Import Quotas on Footwear

The Korean Ambassador Byong Hion Lew has written to you outlining his government's concern with the ITC recommendation of quotas on non-rubber footwear imports. He also sent to you information from the Korean Ministry of Trade and Industry. I asked State to prepare a response for you in accord with our declared position at this time. The State draft is acceptable (Tab II) and has been retyped for your signature at Tab I.

RECOMMENDATION

That you sign the reply to Korean Ambassador Lew at Tab I.

Approve____ Disapprove____

Attachments:

Tab I Reply to Korean Ambassador Lew
Tab II Incoming

[redacted]

THE WHITE HOUSE

WASHINGTON

Dear Mr. Ambassador:

I am replying to your letter of July 15 concerning the recent ITC recommendation for quotas on the import of non-rubber footwear.

By law, the President has 60 days in which to reject, modify, or accept the ITC recommendation. During this period, United States Government agencies will study the ITC's findings and other relevant information in the course of preparing recommendations to the President. The information you provided from the Ministry of Trade and Industry will be carefully reviewed in this process.

Sincerely,

[redacted]

His Excellency
Byong Hion Lew
Ambassador of Korea

S/S 8521356

United States Department of State

5733

Washington, D.C. 20520

July 26, 1985

UNCLASSIFIED

MEMORANDUM FOR MR. ROBERT C. MCFARLANE
THE WHITE HOUSE

SUBJECT: Draft Reply to Korean Ambassador Lew's Letter

Attached for your signature is a draft reply to Ambassador Lew's letter to you of July 15 regarding the recent ITC recommendation for quotas on the import of non-rubber footwear.

Nicholas Platt

Nicholas Platt
Executive Secretary

Attachments:

1. Draft reply.
2. Incoming correspondence.

UNCLASSIFIED

DRAFT REPLY

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Sincerely,

Robert C. McFarlane
Assistant to the President for
National Security Affairs

His Excellency
Byong Hion Lew,
Ambassador of Korea.

NATIONAL SECURITY COUNCIL 8521356 ID 8505733

REFERRAL DATE: 19 JUL 85

MEMORANDUM FOR: NICHOLAS PLATT

STATE SECRETARIAT

DOCUMENT DESCRIPTION: TO: PRESIDENT

SOURCE: LEW, BYONG HION

DATE: 15 JUL 85

KEYWORDS: KOREA IMPORT CONTROLS

INTL TRADE

SUBJ:

REQUIRED ACTION: DRAFT REPLY FOR PRES SIG

DUEDATE:

COMMENTS.

Cindy Tindell

FOR ROBERT M. KIMMITT

EXECUTIVE SECRETARY

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7/19/85 2245

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JUL 1985

July 15, 1985

THE AMBASSADOR OF KOREA
WASHINGTON, D.C.

The Hon. Robert C. McFarlane
Assistant to the President for
National Security Affairs
The White House Room G/WW
1600 Pennsylvania Ave., N.W.
Washington, D.C. 20500

Dear Mr. McFarlane,

As a major trading partner of the United States, it is with reluctance that the Korean government must express its deep concern with the recent ITC recommendation of quotas on non-rubber footwear imports.

While Korea is a major source of U.S. footwear imports, the facts demonstrate that Korea is not the cause of the difficulties now being experienced by the U.S. footwear industry. Not only have Korean footwear imports decreased in 1984 and 1985, but the majority of Korean footwear exported to the United States consists of athletic footwear. As ITC recognized in 1984, most U.S. athletic footwear manufacturers are also customers of Korean footwear producers. Hence, Korean exports are complementary rather than competitive with your domestic industry.

I hope that the enclosed information will be of assistance to you in fully understanding the unique situation of the Korean footwear industry and its impact on the U.S. market. Please feel free to contact me in the event you have any questions or concerns regarding this matter.

With my best regards,

Sincerely,

Byong Hion Lew

FOOTWEAR QUOTAS : ARE THEY JUSTIFIED?

Korea's Position

On

the Recent ITC Recommendation

for the U.S. Footwear Industry

July, 1985

Ministry of Trade and Industry

Republic of Korea

Introduction

The U.S. International Trade Commission has recently recommended that global quotas be imposed on footwear imports, limiting them to 1983 levels. This recommendation, which will be submitted to President Reagan at the end of June and which he must act upon within two months, is of great concern to the Republic of Korea. Such quotas would unfairly penalize Korean footwear manufacturers, who have consistently followed fair trading practices in their exports to the United States and whose sales in the U.S. are not the cause of the problems now affecting the U.S. footwear industry. Furthermore, such quotas would inflict unnecessary burdens on the U.S. consumer and would jeopardize the free trade system worldwide.

Korean Footwear Imports Do Not Injure U.S. Manufacturers

Footwear production is among the most important industries in Korea, employing approximately 115,000 persons and producing about $2.1 billion worth of footwear each year. About three quarters of Korea's total production is exported, making footwear the nation's second largest consumer goods exports. Korea's export footwear production is quite specialized, with over 80 percent concentrated in leather athletic footwear, nylon leather joggers, nylon leather court shoes and leather basketball shoes. Korean firms have developed a niche in high-quality, moderately priced athletic footwear, using specialized production

facilities which are efficient and geared for volume production.

Korean footwear manufacturers are fair traders. The industry receives no government subsidies and no direct or indirect government support. It operates on the basis of efficiency and fair competition, both at home and abroad, and it has always been careful not to cause sudden import surges in the U.S. market.

In fact, U.S. imports of Korea-made footwear decreased slightly from 1983 to 1984, as Table 1 shows. For the first quarter of 1985, such imports fell almost 20 percent from their levels one year earlier. These imports are likely to increase somewhat during the rest of the year, but they will almost certainly remain below their 1983-84 levels. In contrast, imports from Taiwan rose 26 percent from 1983 to 1984, while those from Brazil increased over 70 percent, as shown in Table 1.

As far as Korea is concerned, the figures in Table 1 clearly support the 1983 ITC findings, in which the commission determined unanimously that footwear imports did not injure the U.S. industry. Even considering the changed criteria for injury in the 1984 Trade and Tariff Act, the commission's inclusion of Korea in the quota recommendation is hard to explain. Since Korean footwear manufacturers are not responsible for any increase in U.S. footwear imports,

Korean manufacturers should not be penalized for the domestic injury resulting from an import rise in 1984.

Table 1. Growth of U.S. Footwear Imports from Korea, Taiwan and Brazil

(Million Pairs)

	1984	Percent Change	1985 (1st Qtr.)	Percent Change
Korea	118.3	-0.5	25.7	-19.9
Taiwan	307.0	26.2	97.8	20.4
Brazil	109.7	70.4	33.2	24.3

Korean and U.S. Footwear: A Complementary Relationship

Furthermore, Korean footwear does not compete directly with U.S. products. As noted earlier, Korean firms specialize in leather athletic shoes, but this area accounts for only 2.2 percent of non-rubber footwear production in the United States. Even this U.S. production is largely limited to low-priced, injection-molded plastic footwear, which is not made in significant quantities in Korea, and to top-of-the-line, high-tech nylon leather joggers and court shoes. The 1984 ITC decision therefore stated that U.S. and Korean athletic footwear production is basically complementary, rather than competitive.

Because of this complementary relationship, 80 to 90 percent of the U.S. athletic footwear market has tradition-

ally been supplied by imports. This import level has remained essentially stable in recent years, whether or not import restrictions were in place. It is therefore unlikely that the imposition of a quota will lead U.S. manufacturers to shift their production toward mid-priced athletic shoes. Due to differences in comparative advantage, U.S. producers will probably continue to concentrate on high-value, top-of-the-line products, while importing their mid-range footwear from such overseas sources as Korea and Taiwan.

The mutually beneficial relationship between U.S. and overseas footwear makers is clearly visible in ITC data. According to these figures, more than 50 percent of athletic footwear imports from all sources are imported by U.S. athletic footwear manufacturers, including Nike, New Balance, Hyde, Converse and Wolverine Worldwide (Brooks). All of these manufacturers depend to a significant extent on foreign sources of athletic footwear to complement their domestic production. The imposition of restraints on athletic footwear would hurt these and other American manufacturers by limiting their ability to fill out their product lines.

Quotas Will Not Make the U.S. Industry More Competitive

Moreover, restricting imports of footwear will not accomplish its stated goal of helping U.S. manufacturers become more competitive. The U.S. footwear industry,

plagued by inefficient factories and low investment, insists that it require five years of severe quota protection to carry out its modernization plans. As Vice Chairperson Liebeler of the ITC has noted, however, these plans are based on a series of dubious assumptions, among them five percent annual increases in productivity, a fifteen percent price differential between domestic and imported shoes, and the same increase in capital investment to make lower-priced footwear as for higher-value lines.

The U.S. footwear industry received four years of protection from foreign imports between 1977 and 1981. In retrospect, this protection stimulated little significant change in the structure of the domestic industry or in its ability to compete internationally. If another five-year period of protection is provided for this industry, domestic producers will be given nine years of protection in the thirteen years between 1977 and 1990. Such an extended shelter from imports would clearly be inconsistent with the GATT, which allows only "temporary" relief.

An alternative and more effective way to solve the problems of the U.S. footwear industry is trade adjustment assistance, as recommended by Vice Chairperson Liebeler. Such assistance would deal with the root of the problem by providing assistance to displaced workers and financial support to specific firms which are capable of improving their productivity and efficiency enough to compete in the long run. Unlike the

blanket protection of a quota system, which simply delays the collapse of hopelessly inefficient firms, the focused relief of trade adjustment would increase the overall strength of the U.S. footwear industry without distorting the American market.

Quotas Will Impose Substantial Costs

In addition to being unwarranted and unproductive, the imposition of import restraints on footwear will inflict much higher costs on the U.S. consumer, on the U.S. economy and on the international trading system.

The ITC's Office of Economics has estimated that the proposed quota would increase domestic footwear prices by 11 percent and imported footwear prices by 19 percent, costing the U.S. consumer approximately $1.3 billion per year. The quota system would temporarily create jobs in the U.S. footwear industry, but each such job would cost the nation's consumers $49,800 per year of the quota, over three times the salaries of the affected workers.

Furthermore, the ITC cost analysis does not take into account the compensation which the U.S. could be required to pay to its trading partners under Article XIX of the GATT. Among the major footwear suppliers eligible for such payments would be Korea, Brazil, and the EC. The EC has recently filed for $150 million in such compensation from Canada, based on a footwear quota system very similar to the

one now being proposed by the ITC. Since the Canadian market is only one-tenth the size of the that in America, the amount of compensation for the ITC quotas would probably be substantial.

Any major restriction on Korean footwear exports to the United States would also have a direct and adverse effect on U.S. farmers by reducing American exports of leather hide. Because Korea has virtually no indigenous supply of leather, it imports almost all of its hide and leather requirements, and the U.S. has been a major source of these materials. In 1984, for example, Korea imported almost $256 million of leather hides from the United States, making up about 90 percent of total Korean hide imports. Approximately one-third of these imports are used in the production of footwear. Import quotas on shoes thus threaten a significant source of income for America's troubled farmers.

Quotas Will Set Back Korea's Liberalization Efforts

The most far-reaching effect of the ITC recommendation, however, would be on the international trade system. As part of an increasing level of protectionist measures in recent years, it would apply most severely to developing countries, which are the major producers of footwear. These countries need fair market access for their exports in order to service their debt burdens. Korea, for example, now pays over $3 billion annually in debt service payments, primarily

to U.S. banks. Although the nation is fully able to make these payments, protectionist controls on Korea's exports could reduce its ability to continue doing so. Import quotas could also make it more difficult for Korea to maintain its defense commitments, which now consume six percent of the nation's GNP.

In addition, import quotas on footwear would make it difficult for Korea to continue liberalizing its markets. Over the past five years, Korea has been removing barriers to imports and to foreign investments in its economy. As a result, the ratio of products which can be imported without facing non-tariff barriers has risen from 69 percent in 1979 to 85 percent presently. As of July 1, this ratio will rise to nearly 88 percent, and it will exceed 95 percent in three years. Korea has made this commitment to fair trade despite its chronic trade deficits and its heavy foreign debt, in order to bring its level of protection in line with those of most developed countries. In the financial sector, controls on interest rates and on the activities of foreign banks are being dismantled. Moreover, the government is planning measures to protect various forms of intellectual property, the first of which will be announced soon.

Domestically, however, there has been much resistance to these liberal reforms, and this resistance is strengthened by each new protectionist barrier overseas. Businessmen, politicians, and ordinary citizens from all walks of

life have reacted by asking, "Why bother opening our economy when everyone else is closing theirs?" Especially given the recent slowdown in world trade, barriers against a Korean industry as important as footwear could make it politically and economically impossible for Korea to continue liberalizing its policies on imports, the financial sector and intellectual property rights.

Quotas Could Reduce U.S. Exports to Korea

A slowdown or postponement of Korea's import liberalization would be a serious blow to the United States, because the U.S. stands to be a major beneficiary of liberal trade policies in Korea. Our countries have for years enjoyed a close trading relationship; in fact, Korea is now America's seventh largest trading partner. Over the past two decades, trade between our two countries has generally been in balance, as shown in Table 2. Indeed, when the invisible trade account and other payments are taken into account, Korea had nearly constant current account deficits with the United States until 1983. In any case, Korea's surpluses over the past two years have resulted more from the strength of the U.S. economy and the high value of the dollar than from any structural reason, and they pale in comparison with the surpluses accumulated by Japan and Taiwan over the same period.

Table 2. U.S. Trade and Current Account Balance with Korea, 1978-84

(In U.S. $ Million)

	Commodity Exports	Commodity Imports	Commodity Trade Balance	Current Account Balance
1978	3,021	4,058	-857	-1,099
79	4,491	4,058	335	354
80	4,823	4,429	394	1,358
81	5,694	5,438	256	1,850
82	6,026	6,065	-39	1,283
83	6,169	7,855	-1,686	-958
84	6,447	9,974	-3,527	-2,574

Korea has provided an important and growing market for U.S. commodities, particularly in such areas as generators, machinery and airplanes and other transportation equipment, where total sales to Korea exceeded $2.6 billion in 1984. The U.S. agricultural industry has also benefited substantially from access to the Korean market. Korea has been the world's fourth largest buyer of American farm products since 1980, and last year Korea purchased over $2.8 billion in U.S. agricultural commodities. These purchases included 86 percent of Korea's corn imports, 79 percent of its raw cotton imports, 100 percent of its soybean purchases and 74 percent of its imported wheat.

Because of the historical and economic relations between our countries, Korea takes seriously its responsibilities to maintain the balance of U.S.-Korea trade, and it has sent numerous buying missions to the United States.

The most recent of these missions, in March of last year, generated $3.3 billion in orders to U.S. firms. By escalating trade tensions between us, continued protectionism in the U.S. could endanger this remarkable economic relationship.

Conclusion

Korea's footwear industry, a mainstay of the nation's economy, has grown because of its efficiency in turning out high-quality products at reasonable prices. It has not received government support, and it has been a fair trader in international markets. Furthermore, Korean footwear exports do not compete with U.S. domestic production; instead, they allow manufacturers in the U.S. an efficient means of expanding their product lines.

The imposition of quotas on Korean footwear would thus generate no tangible benefit for American producers and would injure the U.S. consumers. Indeed, such quotas could impose severe strains on the trade relations between our countries. For these reasons, we urge the United States not to accept the recommendation of the USITC.

NATIONAL SECURITY COUNCIL — ID 8505733

REFERRAL — DATE: 19 JUL 85

MEMORANDUM FOR: NICHOLAS PLATT

STATE SECRETARIAT

DOCUMENT DESCRIPTION: TO: PRESIDENT

SOURCE: LEW, BYONG HION

DATE: 15 JUL 85

KEYWORDS: KOREA IMPORT CONTROLS

INTL TRADE

SUBJ:

REQUIRED ACTION: DRAFT REPLY FOR PRES SIG

DUEDATE:

COMMENTS.

Cindy Tindell

FOR ROBERT M. KIMMITT

EXECUTIVE SECRETARY

5733

JUL 19 1985

July 15, 1985

THE AMBASSADOR OF KOREA
WASHINGTON, D.C.

The Hon. Robert C. McFarlane
Assistant to the President for
National Security Affairs
The White House Room G/WW
1600 Pennsylvania Ave., N.W.
Washington, D.C. 20500

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With my best regards,

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Furthermore, Korean footwear does not compete directly with U.S. products. As noted earlier, Korean firms specialize in leather athletic shoes, but this area accounts for only 2.2 percent of non-rubber footwear production in the United States. Even this U.S. production is largely limited to low-priced, injection-molded plastic footwear, which is not made in significant quantities in Korea, and to top-of-the-line, high-tech nylon leather joggers and court shoes. The 1984 ITC decision therefore stated that U.S. and Korean athletic footwear production is basically complementary, rather than competitive.

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The U.S. footwear industry received four years of protection from foreign imports between 1977 and 1981. In retrospect, this protection stimulated little significant change in the structure of the domestic industry or in its ability to compete internationally. If another five-year period of protection is provided for this industry, domestic producers will be given nine years of protection in the thirteen years between 1977 and 1990. Such an extended shelter from imports would clearly be inconsistent with the GATT, which allows only "temporary" relief.

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Quotas Will Impose Substantial Costs

In addition to being unwarranted and unproductive, the imposition of import restraints on footwear will inflict much higher costs on the U.S. consumer, on the U.S. economy and on the international trading system.

The ITC's Office of Economics has estimated that the proposed quota would increase domestic footwear prices by 11 percent and imported footwear prices by 19 percent, costing the U.S. consumer approximately $1.3 billion per year. The quota system would temporarily create jobs in the U.S. footwear industry, but each such job would cost the nation's consumers $49,800 per year of the quota, over three times the salaries of the affected workers.

Furthermore, the ITC cost analysis does not take into account the compensation which the U.S. could be required to pay to its trading partners under Article XIX of the GATT. Among the major footwear suppliers eligible for such payments would be Korea, Brazil, and the EC. The EC has recently filed for $150 million in such compensation from Canada, based on a footwear quota system very similar to the

one now being proposed by the ITC. Since the Canadian market is only one-tenth the size of the that in America, the amount of compensation for the ITC quotas would probably be substantial.

Any major restriction on Korean footwear exports to the United States would also have a direct and adverse effect on U.S. farmers by reducing American exports of leather hide. Because Korea has virtually no indigenous supply of leather, it imports almost all of its hide and leather requirements, and the U.S. has been a major source of these materials. In 1984, for example, Korea imported almost $256 million of leather hides from the United States, making up about 90 percent of total Korean hide imports. Approximately one-third of these imports are used in the production of footwear. Import quotas on shoes thus threaten a significant source of income for America's troubled farmers.

Quotas Will Set Back Korea's Liberalization Efforts

The most far-reaching effect of the ITC recommendation, however, would be on the international trade system. As part of an increasing level of protectionist measures in recent years, it would apply most severely to developing countries, which are the major producers of footwear. These countries need fair market access for their exports in order to service their debt burdens. Korea, for example, now pays over $3 billion annually in debt service payments, primarily

to U.S. banks. Although the nation is fully able to make these payments, protectionist controls on Korea's exports could reduce its ability to continue doing so. Import quotas could also make it more difficult for Korea to maintain its defense commitments, which now consume six percent of the nation's GNP.

In addition, import quotas on footwear would make it difficult for Korea to continue liberalizing its markets. Over the past five years, Korea has been removing barriers to imports and to foreign investments in its economy. As a result, the ratio of products which can be imported without facing non-tariff barriers has risen from 69 percent in 1979 to 85 percent presently. As of July 1, this ratio will rise to nearly 88 percent, and it will exceed 95 percent in three years. Korea has made this commitment to fair trade despite its chronic trade deficits and its heavy foreign debt, in order to bring its level of protection in line with those of most developed countries. In the financial sector, controls on interest rates and on the activities of foreign banks are being dismantled. Moreover, the government is planning measures to protect various forms of intellectual property, the first of which will be announced soon.

Domestically, however, there has been much resistance to these liberal reforms, and this resistance is strengthened by each new protectionist barrier overseas. Businessmen, politicians, and ordinary citizens from all walks of

life have reacted by asking, "Why bother opening our economy when everyone else is closing theirs?" Especially given the recent slowdown in world trade, barriers against a Korean industry as important as footwear could make it politically and economically impossible for Korea to continue liberalizing its policies on imports, the financial sector and intellectual property rights.

Quotas Could Reduce U.S. Exports to Korea

A slowdown or postponement of Korea's import liberalization would be a serious blow to the United States, because the U.S. stands to be a major beneficiary of liberal trade policies in Korea. Our countries have for years enjoyed a close trading relationship; in fact, Korea is now America's seventh largest trading partner. Over the past two decades, trade between our two countries has generally been in balance, as shown in Table 2. Indeed, when the invisible trade account and other payments are taken into account, Korea had nearly constant current account deficits with the United States until 1983. In any case, Korea's surpluses over the past two years have resulted more from the strength of the U.S. economy and the high value of the dollar than from any structural reason, and they pale in comparison with the surpluses accumulated by Japan and Taiwan over the same period.

Table 2. U.S. Trade and Current Account Balance with Korea, 1978-84

(In U.S. $ Million)

	Commodity Exports	Commodity Imports	Commodity Trade Balance	Current Account Balance
1978	3,021	4,058	-857	-1,099
79	4,491	4,058	335	354
80	4,823	4,429	394	1,358
81	5,694	5,438	256	1,850
82	6,026	6,065	-39	1,283
83	6,169	7,855	-1,686	-958
84	6,447	9,974	-3,527	-2,574

Korea has provided an important and growing market for U.S. commodities, particularly in such areas as generators, machinery and airplanes and other transportation equipment, where total sales to Korea exceeded $2.6 billion in 1984. The U.S. agricultural industry has also benefited substantially from access to the Korean market. Korea has been the world's fourth largest buyer of American farm products since 1980, and last year Korea purchased over $2.8 billion in U.S. agricultural commodities. These purchases included 86 percent of Korea's corn imports, 79 percent of its raw cotton imports, 100 percent of its soybean purchases and 74 percent of its imported wheat.

Because of the historical and economic relations between our countries, Korea takes seriously its responsibilities to maintain the balance of U.S.-Korea trade, and it has sent numerous buying missions to the United States.

The most recent of these missions, in March of last year, generated $3.3 billion in orders to U.S. firms. By escalating trade tensions between us, continued protectionism in the U.S. could endanger this remarkable economic relationship.

Conclusion

Korea's footwear industry, a mainstay of the nation's economy, has grown because of its efficiency in turning out high-quality products at reasonable prices. It has not received government support, and it has been a fair trader in international markets. Furthermore, Korean footwear exports do not compete with U.S. domestic production; instead, they allow manufacturers in the U.S. an efficient means of expanding their product lines.

The imposition of quotas on Korean footwear would thus generate no tangible benefit for American producers and would injure the U.S. consumers. Indeed, such quotas could impose severe strains on the trade relations between our countries. For these reasons, we urge the United States not to accept the recommendation of the USITC.

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JUL 19 1985

July 15, 1985

THE AMBASSADOR OF KOREA
WASHINGTON, D.C.

The Hon. Robert C. McFarlane
Assistant to the President for
National Security Affairs
The White House Room G/WW
1600 Pennsylvania Ave., N.W.
Washington, D.C. 20500

Dear Mr. McFarlane,

As a major trading partner of the United States, it is with reluctance that the Korean government must express its deep concern with the recent ITC recommendation of quotas on non-rubber footwear imports.

While Korea is a major source of U.S. footwear imports, the facts demonstrate that Korea is not the cause of the difficulties now being experienced by the U.S. footwear industry. Not only have Korean footwear imports decreased in 1984 and 1985, but the majority of Korean footwear exported to the United States consists of athletic footwear. As ITC recognized in 1984, most U.S. athletic footwear manufacturers are also customers of Korean footwear producers. Hence, Korean exports are complementary rather than competitive with your domestic industry.

I hope that the enclosed information will be of assistance to you in fully understanding the unique situation of the Korean footwear industry and its impact on the U.S. market. Please feel free to contact me in the event you have any questions or concerns regarding this matter.

With my best regards,

Sincerely,

Byong Hion Lew

U.S. Imports of Korean-Made Footwear

The Case Against Restraint