CALIFORNIA COUNCIL FOR INTERNATIONAL TRADE

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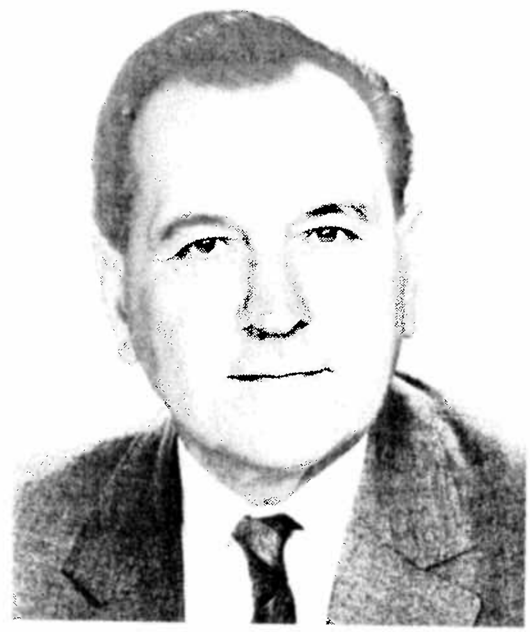
A New Hungary Targets Investments

Investment was at the top of Hungarian Prime Minister Karoly Grosz' shopping list during a whirlwind U.S. visit concluded last month. To win the hearts and minds of American business, Prime Minister Grosz unveiled a new and surprisingly candid party line: open markets and economic incentives.

Already chairman of Hungary's Council of Ministers since 1987, Grosz consolidated his power last May 22 upon taking over as General Secretary of the Hungarian Socialist Workers' Party. He replaced former General Secretary Janos Kadar, reflecting the first major change in party leadership since Kadar took power in 1956 following the Soviet invasion in that year.

In Los Angeles late last month for a reception and dinner with Southern California business leaders - organized by CCIT with support from Data Products Corp., Hemingway Unimpex Corp. and World Business Council, Inc. - Grosz discussed the challenge of pushing ahead with economic reforms toward the goal of a more market-based economy.



Hungarian Prime Minister Karoly Grosz

■ Balancing Act

The new regime has already announced plans to end domestic price subsidies while taking steps to hold wages constant. Grosz has pledged to give managers more autonomy to operate their factories as independent profit centers, making hiring, procurement and sales decisions. At the same time he has suggested that inefficient manufacturing enterprises, mines and farms will be allowed to fail.

Such strategies make for a delicate balancing act, at a time when Hungary's hard currency debt amounts to US $17.5 billion, a record for Eastern Europe. Rising consumer expectations last year produced a healthy 2.5 percent growth in GDP, but austerity measures are likely to reduce

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The Japan Beef Accord: Nine On A Scale of 10

By Hal Shenson

It took some tough negotiation on the U.S. side, but the new beef agreement with Japan holds considerable promise for U.S meat packers and exporters.

Signed on July 5 by Japan's Ambassador to the U.S. Nobuo Matsunaga and U.S. Trade Representative Clayton Yeutter, the pact will end Japanese quotas on imported beef on April 1, 1991, offering U.S. companies complete access to the Japanese market.

Current U.S. beef exports to Japan now fall in the range of $400-500 million annually. Within five years, the total is expected to grow to $1 million a year. Between now and 1991, however, U.S. packers can expect to see significant opportunities for improving both overall sales and market share.

First, Japan's current global quota on beef - 214,000 metric tons - will rise by 60,000 metric tons a year through April, 1991. During the past four years, the quota has only been raised by 25,000 metric tons annually.

By far, the greatest gains will be seen will be seen in the simultaneous buy/sell (SBS) quota, under which exporters and packers are able to sell directly or indirectly to Japanese quota holders — importers, wholesalers, meat processors and retailers. More than 80 percent of imported beef to Japan now enters the country under a tender system where price is the key issue and the U.S. packer is barred from making contact with end-users.

This tender system will be gradually phased out, and the SBS quota will rise corresponding from its 1987 limit of 16,000 metric tons to 200,000 metric tons in 1990 - a tenfold gain of enormous benefit for exporters willing to commit to a long-term program of establishing contact with quota holders and marketing aggressively. Finally, the Japanese government's system of variable levies will be dismantled. While duties will be increased, the net result over time will still be lower import prices.

A critical negotiating point, one which delayed a final agreement for some time, was the U.S. insistence on a

Taiwan 'Ventures' Into Silicon Valley

Taiwan has discovered venture capital as a means of effecting transfer of U.S. technology, with two major funds already moving into Silicon Valley.

San Francisco-based International Venture Capital Investment Corp. (IVCIC) is funded at $13 million and is geared toward capitalization rather than acquisition. IVCIC was set up earlier this year by K.T. Lee, a minister without portfolio charged by Taipei with taking Taiwan's high-tech industries upmarket. It is backed by the government-owned Bank of Communications and the Kuomintang Party's Central Investment Holding Co., along with Taiwan textile and chemical interests. The Hong Kong-based First Pacific Group also has a stake, and the Walden Group, a San Francisco venture capital firm, will manage the fund. To date, IVCIC has invested $3.5 million in Data/Ware Development Inc., a maker of equipment to test IBM mainframe peripherals, and $2 million in Rapro Technology Inc., which manufactures epitaxy semiconductor manufacturing equipment.

IVCIC vice president Lorin Young says the fund's strategy is to support growth companies in Taiwan and the U.S. which design and produce related products, and then to serve as a bridge in joining them through joint venture or acquisition later on. The ultimate objective is to diversify Taiwan's high-tech industries in two ways: to go beyond personal computers into the mini-computer, mainframe and office network systems markets, and to add value by selling distinct Taiwanese brands in the U.S., with access to U.S. marketing and distribution channels through companies here. "It would be easy enough to build up higher volumes," Young says, "but then we'd still always be building monitors for someone else and struggling to keep up with the Japanese." Taiwan, which also has seen its exports become more expensive due to exchange rates, has already been hurt by Japan's shifting of PC production offshore to lower-cost competitors such as Singapore, Thailand and Indonesia.

A similar, but larger scale fund - capitalized at $50 million and looking for acquisitions - has been started by Wang Computer founder An Wang. One-third of the Wang fund is reportedly coming from the Taiwan government, principally the Bank of Communications and Central Investment Holding. Wang is expected to be active in California.

The flow of deals can also be structured in such a way that the jobs created through venture capital investment, plus exports of components and semi-finished products can work to reduce trade frictions with the U.S. ■

Staff Changes

CCIT, in the course of its expansion into new program areas, has named Michele Boyle to coordinate Council programming. Boyle joins CCIT from a background in public relations for trade groups. These include the French-American Chamber of Commerce's San Francisco chapter, where she served as executive director, and the New Zealand Trade Commission, where she was in charge of marketing in the Pacific Northwest. She will be responsible for working with the CCIT Program Committee to develop luncheons, conferences, roundtables and other events; lining up speakers; distributing invitations; working with co-sponsors; handling publicity; and assisting on the day of an event.

Niels Erich, who had previously been in charge of programming as CCIT Legislative/Program Director, has been named CCIT Publications Director and has assumed resposibility for the CCIT newsletter, bulletin and future legislative and membership-related publications. ■

New L.A. Trade Promotion Tool: Direct Financing

A new City of Los Angeles export finance program has boldly gone where no finance program has gone before - into direct lending. The Los Angeles Local Development Corporation Inc. (LALDC), a non-profit community development entity set up under the City Economic Development Office (CEDO), has lent to small businesses domestically for several years. In September 1987 it developed an export finance assistance program in cooperation with the U.S. Export-Import Bank, primarily to package loan applications - arranging Eximbank guarantees and risk insurance through the Foreign Credit Insurance Association (FCIA) - which would be more attractive to banks.

In July the city made the leap to direct lending, thanks to a $15 million revolving credit line provided by Imperial Bank - the winning bidder among 19 banks which had hoped to participate in the program. Under this new, expanded "L.A. Xport Program," LALDC will process exporter applications, package and manage short-term pre-shipment loans for commercial banks, arrange medium-term post-shipment loans through Eximbank, or act as lender to small and medium-sized exporters using the Imperial credit line.

Direct loans require Eximbank or other kinds of guarantees, as well as an FCIA or other risk insurance policy. Eximbank will guarantee 90 percent of the loan value, with LALDC backing the remaining 10 percent from its $300,000 loan fund reserve. An additional $800,000 in new city funds and payment-in-kind services provided by the Harbor and Airport Departments has been earmarked for the program, to pay salaries for two export finance specialists and an international trade analyst, plus a staff of 15. Loans will be short-term, up to 360 days, at an average 1.75 percent above the prime interest rate, based upon Eximbank guarantees. Requests to date range from $75,000 to $2 million, and the program will focus on companies employing up to 500 people, with net worth up to $6 million and annual profits up to $2 million. City officials hope that a combination of fees and the interest spread will eventually make the program self-supporting.

Both the City amd Imperial insist that the program

Procurement Rule Hits Japan Bidders

A little-publicized procurement provision in the Fiscal Year 1988 budget continuing resolution is credited with having forced Japan to open public works construction projects to bidding by U.S. firms. Yet for all the Administration's fanfare late last March announcing $16 billion in potential Japanese contract business for the U.S. construction industry, no contracts appear likely for some time and the retaliatory provision remains in place.

Section 109(a) of the continuing resolution requires either the President or federal agency heads to reject construction contract or procurement bids from firms based in foreign countries which deny U.S. companies access to similar business on projects costing more than $500,000.

■ *Aimed at Japan*

The provision, inserted by Rep. Jack Brooks (D-TX) and Sen. Frank Murkowski (R-AL), is aimed at Japan, the only country named specifically in the section. Japan is also to date the only country on a list maintained by the U.S. Trade Representative's office of countries subject to retaliation. USTR's Office of Federal Procurement Policy closed its review period for updating the list on July 19, without adding any more countries. Section 109(a) has been in effect since January 21.

"We have received no petition from any firm affected by this provision," says OFPP procurement trade policy director Beverly Vaughan, "so at this time there is no anticipation that any other country will be added to the list."

Section 109(a) was intended to pressure the Japanese government into opening some $80 billion in planned public construction projects to bidding by U.S. firms, the most famous one being the proposed Kansai Airport de-

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does not compete with services provided by banks. CEDO export finance specialist Jerry Luftman stresses that LALDC and Eximbank shop loan requests with commercial banks first and see themselves as lenders of last resort. Typically, however, large money-center banks which dominate the trade finance market avoid transactions involving firms with less than $150 million in annual revenues because fees collected from smaller exporters do not adequately contribute to overhead.

"Los Angeles was finding that the needs of this segment of the market were not being satisfied by the private sector," says Perry Ritenour, of Imperial's international banking department. "This program allows us to move down in the market, to offer trade financing with someone else packaging and manging the loans and still be profitable."

The City is working hard to avoid cultivating a competitive image with banks in the area. "We're trying very hard not to have them yelling at us," he says. "One bank recently came to us and said we want you to package the loan, we want you to administer it, but we want to lend the money. We said that was fine, we charged them the fees and they made the loan."

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From the President

The opportunity for CCIT to host our July 22 dinner and reception for Hungarian Prime Minister Karoly Grosz, CCIT's decision to accept that honor and responsibility, and the signing of a memorandum of cooperation between CCIT and the Hungarian Chamber of Commerce, were all highly significant events.

Global diplomacy is well outside CCIT's mandate as an association of internationally-focused California businesses, and was not our intent. The importance of the Los Angeles program was the Prime Minister's focus on California, his interest in expanded trade and investment relationships, and CCIT's ability to assist the reform-minded Hungarian People's Republic in forging those economic links.

In itself, the dinner and reception has already produced gratifying results. I am aware of a half dozen or more business relationships which moved up a notch as a direct result of this visit. The frank interchange on both trade and investment opportunities and potential obstacles contributed to much improved mutual understanding.

One serious problem area involving California that has not been resolved satisfactorily, however, arose during the dinner conversation. Prime Minister Grosz reiterated Hungary's wish to establish an investment and trade office in California. Initially, Hungary had applied to the State Department for permission to open a consular office. That request was ultimately denied. It is not for CCIT to intervene in matters of consular representation, other than to insist that California's right to such offices adequately reflect the population and level of economic activity generated within the state. If, however, Hungary is willing to propose at this time a non-consular, purely commercial trade and investment office in California, then CCIT rightfully ought to lend its support to such an effort.

California's business community should not take second place to East Coast interests which have access to Hungarian commercial offices in New York.

I respectfully urge the Hungarian Chamber of Commerce to push forward with a firm initiative, and I have written to Secretary of State George Schultz and to members of the California congressional delegation on CCIT's behalf to enlist their support. I would also like to express our deep gratitude to three corporate sponsors - Data Products Corp., Hemingway Unimpex Corp. and World Business Council, Inc. - without whose support the Los Angeles program would not have been possible.

\- Jerry Levine

USF Opens Center for Pacific Rim

The University of San Francisco, in a major expansion of its Asian Pacific studies program, inaugurated a new Center for the Pacific Rim on June 29. The Center is intended to promote a greater awareness of Asian cultures, business, law, government and trade. Students from Asia Pacific countries will further learn to work effectively within the U.S. economic system through study programs which outline economic, political and cultural differences and similarities. Center-sponsored symposia, workshops and lectures will be open to business and government leaders and the general public, as well as to students. At a time when San Francisco and Northern California as a region are seeking to promote economic growth through stronger trade and investment ties with the Pacific Rim, the Center is being touted as a policy forum to bring business, government and academia together.

Among the members of the Center's advisory board - for which San Francisco Mayor Art Agnos is honorary chair - are California State World Trade Commission executive director Greg Mignano, Hong Kong Economic Affairs Office director Peter Johnson, LINK Technologies president and CEO David Lam, Deputy Mayor James Ho, Bank of the Orient president Ernest Go and Montgomery Consumer Fund senior partner Gary Shansby. Coinciding with establishment of the Center and its advisory panel, USF has developed an interdisciplinary minor in Asian Pacific studies in its College of Arts and Sciences, eventually to become a major. The program will be open to business majors and nursing students and will include courses in history, Japanese or Mandarin, government, fine arts, economics and religious studies.

USF has also created a required undergraduate Asian studies course, and offers graduate programs in both business and the arts and sciences, plus a certificate in Asian legal systems as part of its juris doctor degree. ■

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velopment.

Principal lobbyists were four national trade associations of international architects, engineers and construction firms under a Washington, D.C.-based umbrella organization, the International Engineering and Construction Industries Council. According to Mark Chalpin, vice president for governmental and international affairs with one of the IECIC's members, the National Constructors' Association, the Council told U.S. Trade Representative Clayton Yeutter in a letter that members were successfully doing business in Korea, Europe and even several highly protectionist Third World countries which opened up bidding where there was the potential for technology transfer. The group asked that Japan be isolated and remain the only country targeted for Section 109(a) treatment. In March, U.S. Secretary of Commerce C. William Verity Jr. announced an agreement with Japan whereby some $16 million in potential architectural, engineering and construction contracts covering 14 major public projects would be opened to foreign bidders.

"What we've been stressing," Chalpin says, "is that arranging to allow U.S. firms to bid on 14 projects is not enough - it's results that count."

■ Past Criticized

Industry is highly critical of the agreement, Chalpin says, because it focuses on market access rather than on the more important matter of market share, and because it fails to address more informal barriers to construction services trade, such as bid rigging and collusion among government agencies and Japanese contractors - a practice known as "dango" - along with cultural biases against foreign firms and unofficial blackballing of subcontractors working with foreign bidders.

"What we've been stressing," Chalpin says, "is that arranging to allow U.S. firms to bid on 14 projects is not enough - it's results that count." Section 109(a) retaliation has already been invoked in a couple of important cases. When Peter Kiewit & Sons teamed up with Japanese engineering firm Kajima Ltd. to bid on construction of the Fort Totten Metro Station, a project of the federal Urban Mass Transit Administration, they offered the lowest bid by more than $1 million. UMTA cancelled all of the bids and gave Kiewit the option to either bid solely or find a new partner.

Similarly, the U.S. Environmental Protection Agency barred a Japanese firm from bidding on a tunneling contract in the construction of sewers and waste management systems in Houston and Chicago. Agency heads and/or the President may grant waivers to the section, but they must publish notification and a justification in the Federal Register within 10 days of doing so.

■ No Procedures

While the Office of Federal Procurement Policy is technically charged with overseeing Section 109(a) enforcement and has issued rough guidelines to agency heads, there is no reporting procedure for tracking either re-

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HUNGARY

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the overall standard of living by nine percent and push inflation past the official target rate of 15 percent.

"We will need at least ten years to rebuild the structure of our economy," the Prime Minister indicated. "With a certain strata of the population this will be difficult, but we have to accept it because this is also a way of regrouping the labor force."

Grosz added that economic austerity measures will not be inflexible, that "prices will not all rise generally speaking, nor will wages all stay the same." Investment will play a critical role in Hungary's economic development, Grosz said. Initially, the government is seeking technology transfer, both to upgrade Hungary's physical infrastructure - power plant generation and machine tool technology - and to develop value-added export industries.

The Prime Minister also noted that tremendous recent growth in the nation's tourist sector has created new demand for more advanced telecommunications required to process airline ticketing and hotel reservations.

Short-term investment objectives are likely to focus on modernizing existing industries rather than starting new ones. "In areas where there are traditional cultures or professions there will, of course, be strong support for modernizing existing facilities," Grosz suggested, "because we wouldn't want to let go of those highly-skilled workers and engineers." But he also emphasized that Hungary will rely more on the advice of plant managers in determining whether new plants are required in appropriate industry sectors.

■ *Incentives*

Tax holidays and other incentives for new foreign investment projects are already in place, and the government is reviewing a proposed 20 percent reduction in the tax rate for foreign joint ventures. Repatriation is seen as a potential problem given Hungary's shortage of foreign exchange and its 1987 growth rate of less than 1 1/2 percent, but Grosz suggests that the problem would take care of itself as investment increases and stimulates growth.

According to a recent U.S. Department of Commerce report, five new U.S.-Hungarian joint ventures are in the development stages in addition to the 12 already in place, and opportunities are present for consultancy contracts "as enterprises strive to emphasize 'know-why' as much as 'know-how'." The Prime Minister acknowledged that U.S. export licensing restrictions remain a stumbling block for Hungary and other Eastern Bloc nations looking to upgrade their industrial technology. "This whole system built around CoCom defies reality," he said. "It's quite obvious that there are certain products which any country will want to protect, but to maintain such a large list is completely unrealistic."

■ *Soviet Support*

Grosz has drawn considerable support in his reform plans from Soviet General Secretary Mikhail Gorbachev, as part of the overall program of perestroika. Soviet officials have gone so far as to acknowledge the possibility of a withdrawal of some 60,000 troops which have occupied Hungarian soil since 1956 - a welcome signal for the international business community.

The new government has also pushed for greater coordination of Comecon economies, so that the various Eastern Bloc countries develop separate specializations and trade more among themselves across transparent borders. To underscore his government's commitment to strengthening trade ties with the U.S., Grosz was accompanied on his visit by Ferenc Bartha, president of the Hungarian National Bank, Hungarian Chamber of Commerce vice chair Ilona Tatai and deputy minister of foreign affairs Laszlo Kovacs, among other officials. CCIT and the Hungarian Chamber concluded an agreement during the reception which provides for mutual cooperation in furthering U.S.-Hungary two-way trade through a series of programs and exchanges (see box). ■

MEMORANDUM OF COOPERATION

In order to improve and increase economic relations and business between the business communities of the State of California and the Hungarian People's Republic, the

California Council for International Trade
San Francisco, California

and the

Hungarian Chamber of Commerce
Budapest, Hungary

agree to jointly sponsor the formation and operation of an Agreement on Cooperation to maintain effective and continuing dialogue on bilateral economic relations, and to provide means for stimulating two-way flows of trade and investment.

OBJECTIVES

1. To acquaint business people in Hungary and California with opportunities for doing business in the other state or nation.
2. To develop acquaintances with friendly relations between the two business communities at the decision-making levels, and to provide them with opportunities to explore avenues of cooperation.
3. To approach the autorities at both ends to participate in the improvement of the climate for economic cooperation, by removing impediments and increasing the inducements for profitable to joint ventures and other business activities.
4. To facilitate the upgrading of Hungarian products and services to international standards by establishing appropriate training and know-how transfer programs.
5. To encourage two-way trade trade and two-way exchange of goods and services, through personal contacts made possible by joint meetings and other activities.
6. To encourage cooperation between companies by identifying fields of interests, as well as viable projects, and by providing proper information and services to visiting business people interested in such cooperation.

Signed in Los Angles, California on July 22, 1988.

Ag Seminar Planned
For September 21

Ambassador Daniel G. Amstutz, chief U.S. negotiator on agricultural issues to the GATT Uruguay Round, will present the keynote address at a scheduled California Agricultural Trade Seminar this fall. The session will take place on Wednesday, September 21, 1988, from 8:30 a.m. to 3:30 p.m., at the Hyatt Regency Hotel, 1209 L Street, in Sacramento.

Sposors include the California Department of Food and Agriculture, the California Farm Bureau Federation, the California State World Trade Commission and the University of California Agricultural Issues Center. CCIT is a co-sponsor, along with the California Chamber of Commerce, the Agricultural Council of California and the Western Growers Association. Formerly Undersecretary of Agriculture for International Affairs and Commodity programs, Amb. Amstutz will discuss "Agriculture and the GATT," followed by a panel discussion offering "Perspectives on the Uruguay Round."

Other panels will cover international health and safety issues, and economic development and technolgoy transfer, as they relate to agricultural trade. Cost for the seminar is $55. For information and reservations, contact: Ray Borton, CDFA,
1220 N Street, #243, Sacramento, CA 95814, telephone (916) 445-6078. ■

CALENDAR

Monday August 22

Janice McEntee, Washington, D.C. representative for the California State World Trade Commission, offers and update on federal trade legislation and policy at a CCIT breakfast meeting. 8 a.m., World Trade Club, San Francisco. $14 per person. Reservations: (415) 788-4127.

Wednesday August 24

Rep. Don Bonker of Washington State will discuss trade issues from a Capitol Hill perspective, at a CCIT luncheon. World Trade Club, San Francisco. 11:30 reception/ noon luncheon. $35 per members/$45 non-members. Information/Reservations: (415) 788-4127.

CCIT gratefully acknowledges the contribution made by

American President Companies

as corporate sponsor of this quarterly newsletter.

JAPAN
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single duty on beef collected at the border when liberalization begins. A 25 percent duty collected by Japanese customs, plus a series of "one-two" variable levies according to the cut of meat have historically driven up prices on imported beef 75-200 percent by the time it reaches the consumer.

Beginning in 1991, variable levies will be abolished and duties will rise to 70 percent, although they will gradually be reduced to 50 percent by 1993. The net result, however, will be positive: retail prices on some cuts of beef are likely to drop 20-25 percent in Japanese supermarkets in the first year of liberalization.

As beef becomes increasingly affordable to Japanese consumers, some retailers are predicting that annual per capita beef consumption could rise from 11 pounds at present to 16 or even 20 pounds by 1995. A continuation of the current yen-dollar relationship, plus greater availability and selection from U.S. suppliers, should also help expand the present 35 percent U.S. market share vis-a-vis Australia, which enjoys a 60 percent share. It is reasonable to expect that the terms of this agreement will be implemented on schedule, and that changes in the Japanese market with respect to the importation, distribution and pricing of beef will be fundamental in nature.

Now the burden falls upon U.S. producers, packers and exporters to take full advantage of a market where demand is considerable, where exchange rates create an especially favorable market, and where U.S. product enjoys a reputation for quality. ■

Hal Shenson is president of H. Shenson International, a San Francisco-based exporter of beef to Japan. He is also executive vice president and a director of CCIT.

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jected bids or waivers. Whether Section 109(a) will be renewed in the Fiscal 1989 budget reconciliation bill this fall, and whether it will contain specific reference to Japan, is open to question. Murkowski has already tried four times to reintroduce the legislation, only to have it killed in conference each time by House Ways and Means Committee chair Rep. Dan Rostenkowski (D-IL).

"Everybody fully expects that next year (the section) will be lifted," says Chuck Clark, a procurement policy analyst with USTR. "It did what it was intended to do, and there was never any expectation that any country other than Japan would be included in the list." But on the industry side, the bidding and procurement battle is far from over. ■

L.A. TRADE PROMOTION
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Some 15 loan applications have been received to date and are in various stages of completion. At least four have received preliminary guarantees of commitments from Eximbank. LALDC is also exploring ways to team up with the California Export Finance Program to support transactions. Imperial, which Ritenour says has greatly improved its visibility through the Los Angeles program, is now talking to Sacramento, San Diego and San Francisco about similar programs. ■