

## MOST-FAVORED-NATION TREATMENT FOR CAMBODIA

JUNE 27, 1995.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. ARCHER, from the Committee on Ways and Means,  
submitted the following

### REPORT

[To accompany H.R. 1642]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 1642) to extend nondiscriminatory treatment (most-favored-nation treatment) to the products of Cambodia, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

#### I. INTRODUCTION

##### A. PURPOSE AND SUMMARY

H.R. 1642 provides for the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of Cambodia upon the effective date of a notice published in the Federal Register that a trade agreement obligating reciprocal most-favored-nation treatment between Cambodia and the United States has entered into force. The bill also requires the President to submit a report to Congress, no later than 18 months after the date of enactment of the Act, on trade relations between the United States and Cambodia pursuant to the bilateral trade agreement.

##### B. BACKGROUND AND NEED FOR LEGISLATION

Prior to 1951, the United States extended nondiscriminatory, or most-favored-nation (MFN), treatment to all of its trading partners, in accord with obligations undertaken when the United States joined the General Agreement on Tariffs and Trade (GATT) in 1948. However, Section 5 of the Trade Agreements Extension Act of 1951 directed the President to withdraw or suspend the MFN

status of the Soviet Union and all countries under the domination of international communism. As implemented, the directive was applied to all then-existing communist countries, except Yugoslavia, as well as “any part of Cambodia, Laos, or Vietnam which may be under Communist domination or control.”

Section 231 of the Trade Expansion Act of 1962 broadened the 1951 suspension without fundamentally changing the nature of that authority by applying the suspension to “any country or area dominated by Communism.” Subsequently, Section 602(d) of the Trade Act of 1974 repealed Section 231 of the Trade Expansion Act of 1962. Title IV of the Trade Act of 1974, which governs the MFN status of nonmarket economies not receiving MFN tariff treatment as of January 5, 1975, does not apply to Cambodia because portions of the country not under communist control were still receiving MFN tariff treatment by the date stipulated in the statute. MFN status was withdrawn from Cambodia once the country fell to communism after March of 1975. At the time of the enactment of the Harmonized Tariff Schedule (HTS) in the Omnibus Trade and Competitiveness Act of 1988, “Kampuchea” was included in General note 3(b) on the list of countries whose products are denied MFN tariff treatment.

After 20 years of undemocratic regimes and civil war, Cambodia held democratic elections in May of 1993 that were sponsored by the United Nations. Upon the formation of the freely elected Royal Cambodian Government on September 24, 1993, the United States and Cambodia immediately established full diplomatic relations. Subsequently, the United States concluded a bilateral agreement with Cambodia in the Spring of 1994 on bilateral trade relations and intellectual property rights protection that calls for a reciprocal extension of MFN status.

Since taking office, the Cambodian government has taken steps, and planned additional action, to convert the Cambodian economy from one based on central planning to one based on market-oriented principles. The Committee believes that the extension of MFN tariff treatment to the products of Cambodia would assist in this transformation by making Cambodian exports to the United States more competitive in the global marketplace. In addition, establishing normal commercial relations with Cambodia on a reciprocal basis will promote U.S. exports to the rapidly growing Southeast Asian region and expand opportunities for U.S. businesses and investment in the Cambodian economy. The Committee also believes that expanding U.S. bilateral trade relations with Cambodia to include a commercial agreement will promote further progress by Cambodia on human rights and toward the adoption of regional and world trading rules and principles.

#### C. LEGISLATIVE HISTORY

##### *Committee bill*

H.R. 1642 was introduced on May 16, 1995, by Mr. Crane of Illinois and Mr. Rangel of New York and referred to the Committee on Ways and Means. The bill as introduced contained two provisions: (1) amending General note 3(b) of the HTS by striking “Kampuchea” upon the effective date of a notice published in the

Federal Register by the United States Trade Representative that a trade agreement obligating reciprocal MFN treatment between Cambodia and the United States has entered into force; and (2) requiring the President to submit a report to Congress, no later than 18 months after the date of enactment of the Act, on trade relations between the United States and Cambodia pursuant to the bilateral trade agreement.

The Subcommittee on Trade of the Committee on Ways and Means marked up the bill on May 18, 1995, and ordered the bill to be favorably reported without amendment by a voice vote.

The Committee on Ways and Means marked up the bill on June 20, 1995, and ordered the bill to be favorably reported without amendment by a voice vote.

*Legislative hearing*

The Subcommittee on Trade of the Committee on Ways and Means issued a request for written public comment on the extension of permanent and unconditional MFN to the products of Cambodia on February 23, 1995. The deadline for submission of comment was April 28, 1995. The Subcommittee received comments in favor of the proposed extension and no comments in opposition to it.

## II. EXPLANATION OF THE BILL

### A. CONGRESSIONAL FINDINGS (SEC. 1 OF THE BILL)

*Present law*

“Kampuchea” is listed in General note 3(b) of the HTS among the countries whose products are denied MFN tariff treatment.

*Explanation of provision*

The provision contains the findings of the Congress that: (1) Cambodia is now under democratic rule after 20 years of undemocratic regimes and civil war, and is striving to rebuild its market economy; (2) extension of unconditional MFN treatment would assist Cambodia in developing its economy based on free market principles and becoming competitive in the global marketplace; (3) establishing normal commercial relations on a reciprocal basis with Cambodia will promote U.S. exports to the rapidly growing Southeast Asian region and expand opportunities for U.S. business and investment in the Cambodian economy; and (4) expanding bilateral trade relations with Cambodia to include a commercial agreement will promote further progress by Cambodia on human rights and toward adoption of regional and world trading rules and principles.

*Reasons for change*

The provision makes reference to the domestic political and economic developments in Cambodia and notes that the normalization of trade relations between the United States and Cambodia will benefit both nations and encourage further progress by Cambodia on human rights and toward the adoption of multilateral trading principles.

*Effective date*

The provision is effective upon enactment.

B. EXTENSION OF NONDISCRIMINATORY TREATMENT TO THE PRODUCTS OF CAMBODIA (SEC. 2)

*Present law*

“Kampuchea” is listed in General note 3(b) of the HTS among the countries whose products are denied MFN tariff treatment.

*Explanation of provision*

The provision amends General note 3(b) of the HTS by striking “Kampuchea.”

*Reasons for change*

Amending the HTS by striking “Kampuchea” from the relevant portion of General note 3(b) will enable the products of Cambodia to receive permanent MFN tariff treatment. Since the HTS was enacted in 1988, the domestic political and economic situation in Cambodia has changed considerably. In 1993, Cambodia held democratic elections sponsored by the United Nations which led to the establishment of full diplomatic relations between Cambodia and the United States. The Committee believes that the extension of MFN tariff treatment to the products of Cambodia would assist that country in its effort to develop its free market economy by making Cambodian exports to the United States more competitive in the global marketplace. In addition, establishing normal commercial relations with Cambodia on a reciprocal basis will promote U.S. exports to the rapidly growing Southeast Asian region and expand opportunities for U.S. businesses and investment in the Cambodian economy. The Committee also believes that expanding U.S. bilateral trade relations with Cambodia to include a commercial agreement will promote further progress by Cambodia on human rights and toward the adoption of regional and world trading rules and principles.

*Effective date*

The provision is effective upon the publication of a notice in the Federal Register by the U.S. Trade Representative that a trade agreement obligating reciprocal MFN treatment between Cambodia and the United States has entered into force.

C. REPORT TO CONGRESS (SEC. 3)

*Present law*

No provision.

*Explanation of provision*

The provision requires the President to submit a report to the Congress, no later than 18 months after the date of enactment of the Act, on trade relations between the United States and Cambodia pursuant to the bilateral trade agreement.

*Reasons for change*

The provision requires the President to submit a report as described to assist Congress in its oversight of bilateral trade relations between the United States and Cambodia.

*Effective date*

The provision is effective upon enactment.

## III. VOTES OF THE COMMITTEE

In compliance with clause 2(l)(2)(B) of the Rules of the House of Representatives, the following statements are made concerning the votes of the Committee in its consideration of the bill, H.R. 1642.

*Motion to report the bill*

The bill, H.R. 1642, was ordered favorably reported, without amendment, by voice vote on June 20, 1995, with a quorum present.

## IV. BUDGET EFFECTS

## A. COMMITTEE ESTIMATE OF BUDGETARY EFFECTS

In compliance with clause 7(a) of rule XIII of the Rules of the House of Representatives, the following statement is made concerning the effects on the budget of this bill, H.R. 1642, as reported:

The Committee agrees with the estimate prepared by CBO, which is included below.

## B. STATEMENT REGARDING NEW BUDGET AUTHORITY AND TAX EXPENDITURES

In compliance with subdivision (B) of clause 2(l)(3) of rule XI of the Rules of the House of Representatives, the Committee states that the provisions of H.R. 1642 do not involve any new big authority, or any increase or decrease in revenues or tax expenditures.

## C. COST ESTIMATE PREPARED BY THE CONGRESSIONAL BUDGET OFFICE

In compliance with subdivision (C) of clause 2(l)(3) of rule XI of the Rules of House of Representatives, requiring a cost estimate prepared by the Congressional Budget Office, the following report prepared by CBO is provided.

U.S. CONGRESS,  
CONGRESSIONAL BUDGET OFFICE,  
*Washington, DC, June 22, 1995.*

Hon. BILL ARCHER,  
*Chairman, Committee on Ways and Means,  
House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed H.R. 1642, a bill to extend nondiscriminatory treatment (most-favored-nation treatment) to the products of Cambodia, as ordered reported on June 20, 1995, by the Committee on Ways and Means. CBO estimates that extending most-favored-nation (MFN) status to the products of Cambodia would not significantly affect

federal government receipts. Because H.R. 1642 could affect receipts, pay-as-you-go procedures would apply to the bill.

Under current law, general note 3(b) of the Harmonized Tariff Schedule of the United States (HTSUS) excludes the products of Cambodia from receiving nondiscriminatory treatment. H.R. 1642 would amend general note 3(b) of the HTSUS by deleting "Kampuchea." Removing Kampuchea from the list would allow the United States Trade Representative (USTR) to negotiate a trade agreement obligating reciprocal MFN treatment between Cambodia and the United States.

Granting MFN status would lower tariff rates on imports from Cambodia. CBO estimates that lowering tariff rates would reduce customs duty revenues below the level projected under current import levels and tariff rates. However, we expect that imports would rise in response to the lower domestic price resulting from the lower tariffs. The negative effect on revenues from the lower rates would virtually be offset by the positive effect on revenues from the greater volume of Cambodian imports. CBO estimates that granting MFN status to the products of Cambodia would not significantly affect federal government receipts.

This estimate is based on 1994 Census data on imports from Cambodia. The increase in imports of goods from Cambodia resulting from the reduced prices of the imported products in the U.S.—reflecting the lower MFN tariff rates—has been calculated using estimates of the substitution between U.S. products and imports of the same goods. Also, the calculation assumes that the economy of Cambodia will function in the next year in a manner similar to that of the recent past. Obviously, political and economic changes could affect its ability to produce and export goods, its need to import goods from the U.S. and other countries, and the exchange rate between its currency and that of the U.S. However, we believe that the assumption of relatively constant economic performance is appropriate.

If you wish further details, please feel free to contact me or your staff may wish to contact Melissa Sampson.

Sincerely,

JAMES L. BLUM,  
For June E. O'Neill, Director.

## V. OTHER MATTERS TO BE DISCUSSED UNDER THE RULES OF THE HOUSE

### A. COMMITTEE OVERSIGHT FINDINGS AND RECOMMENDATIONS

With respect to subdivision (A) of clause 2(l)(3) of rule XI of the Rules of the House of Representatives (relating to oversight findings), the Committee advises that it was as a result of the Committee's oversight activities concerning bilateral trade relations between the United States and Cambodia that the Committee concluded that it is appropriate to enact the provisions contained in the bill.

B. SUMMARY OF FINDINGS AND RECOMMENDATIONS OF THE COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

With respect to subdivision (D) of clause 2(l)(3) of rule XI of the Rules of the House of Representatives (relating to oversight findings), the Committee advises that no oversight findings or recommendations have been submitted to this Committee by the Committee on Government Reform and Oversight with respect to the provisions contained in this bill.

C. INFLATIONARY IMPACT STATEMENT

In compliance with clause 2(l)(4) of rule XI of the Rules of the House of Representatives, the Committee states that the provisions of the bill are not expected to have an overall inflationary impact on prices and costs in the operation of the national economy. As is indicated above (in Part IV of this report), the bill is projected to be deficit neutral over fiscal years 1995–2000.

VI. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, existing law in which no change is proposed is shown in roman):

**HARMONIZED TARIFF SCHEDULE OF THE UNITED STATES**

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GENERAL NOTES

3. *Rates of Duty.* The rates of duty in the “Rates of Duty” columns designated 1 (“General” and “Special”) and 2 of the tariff schedule apply to goods imported into the customs territory of the United States as hereinafter provided in this note:

(a) \* \* \*

(b) *Rate of Duty Column 2.* Notwithstanding any of the foregoing provisions of this note, the rates of duty shown in column 2 shall apply to products, whether imported directly or indirectly, of the following countries and areas pursuant to section 401 of the Tariff Classification Act of 1962, to section 231 or 257(e)(2) of the Trade Expansion Act of 1962, to section 404(a) of the Trade Act of 1974 or to any other applicable section of law, or to action taken by the President thereunder: Afghanistan, Azerbaijan, Cuba, [Kampuchea], Laos, North Korea, Vietnam.

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