

**Testimony of Ambassador Albert Ferreros Del Rosario
Before the U.S. International Trade Commission
In Support of the Petitions to Add
Certain Watches to GSP Eligibility
September 29, 2005**

Good morning. My name is Albert Ferreros del Rosario, and I am the Republic of the Philippines' Ambassador to the United States. I am joined by Romeo Borillo, the Commercial Counselor at our Embassy. I am here to testify in support of the GSP petitions on seven categories of watches that were filed by the Philippine Government and by Timex, which manufactures watches in the Philippines.

The pending petitions would extend GSP benefits on the subject watches to all beneficiary countries. As a practical matter, however, the Philippines is the only country likely to realize any appreciable benefit. In 2004, the Philippines accounted for 99 percent of total U.S. imports of these watches from all beneficiary countries with the exception of Thailand, which will lose its beneficiary country status upon implementation of the U.S.-Thailand free trade agreement currently under negotiation.

To understand the importance of this petition to my country, it is useful to provide some general information.

First, the decline in Philippine exports of watches to the United States, which I will address later, is not an isolated phenomenon. Philippine exports to the US have shown a steady decline over the last few years. Our exports to the US were at the level of USD 8.7 Billion in 2002, USD 7.2 Billion in 2003 and USD 7.1 Billion in 2004. This represents a decline of about 18 percent over a three year period. This has resulted in a situation where, in 2004, Japan replaced the US in its traditional place as the Philippine's largest export market.

Over the same period, our adjusted trade statistics show that the balance of our bilateral trade with the Philippines has consistently favored the United States to the extent of USD 662 Million in 2002, USD 1.7 Billion in 2003 and USD 1.0 Billion in 2004.

But there is another export trend that is equally troubling. While the Philippines has achieved a small degree of success in export diversification, it is still far too dependent on a few products for the bulk of its export earnings. In 2004, electronic products accounted for USD 2.9 Billion or fully 40 percent of its USD 7.1 Billion of exports to the US. Garments accounted for USD 1.6 Billion, or 22 percent of export earnings. With only two export products contributing 62 percent of export income the Philippines has always been vulnerable to the cyclical global market trends of its two

major exports. Indeed, the narrow base of Philippine exports is one of the major factors cited by our National Economic and Development Authority for concern over the Philippines' fiscal position.

Against this backdrop, we are particularly concerned about the negative performance of the Philippine watch industry. In 1994-99, the seven watch categories covered by these petitions accounted for \$112 million in annual exports to the United States, or 1.2 percent of total Philippine exports to the U.S. But these watch exports have since fallen almost without interruption by \$40 million, or 36 percent, to \$72 million in 2004, when they accounted for only **0.8** percent of total Philippine exports to the U.S.

The declining competitiveness of the Philippine watch industry is also shown by our declining share of U.S. imports for the seven types of watches at issue. During 1994-99, the Philippines accounted for 9.5 percent of total U.S. imports of the subject watches. By last year, our import share had dropped to 6.9 percent and, during the first six months of this year, our share dropped still further to 6.7 percent. I should note that these import share figures equate roughly to overall market share data given the very low levels of U.S. or insular possession shipments.

Given the Philippines' need for greater export diversification, and the large imbalance of its trade with the United States, we cannot afford to let this important sector shrink any further. We believe that the granting of duty-free GSP treatment can play an important role in helping to arrest this decline and to mitigate against a further loss of exports.

In addition to the importance of watch exports to the overall Philippine economy, I also want to address their critical importance to a particular region in our country. The Timex production facility, which was established in 1978, is located in Cebu. It employs approximately 3,000 permanent workers together with another 1,000 part-time workers.

Cebu, where the Timex plant is located serves as the engine of growth for the Philippine's Region VII, known as Central Visayas in the Philippines. There are three other provinces in this region, namely Bohol, the island of Siquihor and Negros Oriental which are all comparatively less developed than Cebu. There are an estimated 2.5 Million people in the labor pool of this Region, but it has an unemployment rate of around 12 % which is higher than the national unemployment rate of around 11 percent. The same is true of underemployment which exceeds the national average of 17 percent. Clearly, the grant of GSP treatment to the products produced by Timex in the **region is needed to help maintain exports** production and ultimately employment in Cebu and in the whole region.

On behalf of the Government of the Philippines, I thank you for the opportunity to testify before you today. I would be happy to try to answer any questions you may have.

Rev 2