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ELECTRONIC INDUSTRIES ASSOCIATION D.4657

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EXPORT TRADE AND GOVERNMENT POLICY

It is a great pleasure for me to be here today to deliver the keynote address. The electronic industries are a key element of U.S. export trade and it is important that the Government's policies and programs serve to assist the industry in its efforts to continue and to expand the trade advantage we have in this field.

As you well know, the United States has had a deficit balance of foreign payments in six of the last eight years. In 1978, our merchandise trade balance was in deficit by $34 billion. The importance of increasing our export trade to help counteract this trend is simply illustrated by the fact that each $1 billion dollars of trade creates 40 thousand jobs, an additional $2 billion in the gross national product and $400 million in federal tax revenues.

The President recognized the need for the Federal Government to place a higher priority on exports in his September 1978 statement on national export policy. He announced a series of measures to improve United States export performance by:

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--providing increased direct assistance to U.S. exporters,

--reducing domestic barriers to exporting, and

--reducing foreign barriers to our exports and securing a fairer international trading system for all exporters.

Many steps have been taken recently which emphasize the importance being placed on improving the U.S. trade and payments position:

--Congress has passed energy legislation, increased the lending authority for the Export-Import Bank and the Commodity Credit Corporation, and afforded tax privileges to Americans working overseas.

--The Federal Reserve has raised the discount rate, slowed the money supply growth rate, and imposed a supplementary reserve requirement on some time deposits.

--The administration has increased gold sales, announced voluntary wage-price guidelines, proposed a smaller 1980 budget deficit, introduced agreements from the Tokyo Round of the multilateral trade negotiations to Congress, presented an export promotion program, and forcefully entered the foreign exchange markets to bolster the dollar.

Some of these measures have already had an effect--the dollar has begun to appreciate slightly. But these measures may be inadequate to substantially correct the basic trade and payments problems for the long-run.

We in the General Accounting Office believe that trade considerations should be given greater weight in the Government's decisions, and many of our reports have taken this position. At a minimum, the Government must fully recognize the impact of its regulations, policies, and legislation on the trade situation and not unnecessarily restrict trade or fail to assist it where possible.

Let us look at some of the issues.

Trade Policy

Many observers believe the United States has no coherent trade policy or at least that the policy is not well understood by the business community. This perception stems from the feeling that there is neither a clear, definitive approach to attaining U.S. objectives nor a real consensus on how other policies, such as those on foreign military sales, anti-trust, human rights, environment, corrupt practices, export controls, aid, import restriction, and foreign investment fit into plans to achieve these objectives.

Business is in the difficult position of being encouraged to engage in international trade without a clear understanding of how far it can legitimately proceed without running afoul of one of these competing policies. Without an integrated approach to international trade policy, we doubt this situation will improve. On the contrary, the situation could worsen, with each agency articulating policies that conflict with others and little, if any, administrative guidance for business to use in interpreting these policies.

Since the Council on International Economic Policy was abolished in 1977, it has been unclear as to whether there exists in Government a true international economic policy-making mechanism. The Government's traditional role in export trade has been to create an environment in which trade can take place, while leaving the private sector to take advantage of whatever opportunities are afforded. This basic role has been modified in more recent years with the realization that export trade is vital to a sound U.S. balance-of-payments position. At the same time, however, the Government has maintained old obstacles to U.S. exports and instituted new ones. Thus, the U.S. international trade environment has been shaped, not systematically, but by domestic and international political considerations and needs.

The President's September 1978 statement announced a new "National Export Policy", however, the announcement is more a statement of concern than a comprehensive trade policy with specific strategies to increase exports. Close examination of its contents reveals that most of the specific measures are not new, but have been proposed previously. Furthermore, implementation of the specific measures raises questions as to the degree of action generated from this concern. For example, we understand that the Justice Department is reluctant to provide more definitive guidance to exporters concerning its enforcement policies for antitrust and antibribery legislation.

The lack of a comprehensive trade policy is only one part of the larger problem of U.S. international economic policy; also lacking is a specific discipline about the acceptable parameters of trade surpluses and deficits and balance-of-payments surpluses and deficits. Certain actions, such as the declaration of a National Export Policy and the Federal Reserve Board's intervention in the money market, are evidence of a greater awareness by the administration of the importance of trade and international payments but, as examples of U.S. policies, they are reactive rather than comprehensive and forward-looking.

Government Organization

Many in business and Government are also concerned with the adequacy of the present Government organization for integrating the many and diverse components of an international trade program into an effective response to U.S. trade and payments problems. Legislation was introduced in the second session of the 95th Congress to consolidate Federal efforts into a separate Department of International Trade and Investment but was not passed. Similar bills introduced by Senators Roth and Ribicoff, and Senator Byrd are being strongly considered by the 96th Congress. Support by the Administration is mixed in consideration of the number of proposals to create other cabinet level Departments. The approval of such a Department or the effective consolidation of the "international trade" functions in the Commerce Department would go a long way toward establishing a more appropriate organizational entity to deal with the priority need to increase exports.

A spokesman for the Asia-Pacific Council of American Chambers of Commerce on May 1, 1978, before the Senate Governmental Affairs Committee put it in perspective. He said that persons in international trade have defined the major defects in U.S. Government organization as

> "First, different from our trading partners, we lack in the U.S. a coordinating mechanism to focus the entire resources of our government on international

trade problems. Uncoordinated, independent initiatives from a multitude of agencies, each with some interest in international commerce, result in confused programs with limited effectiveness. Vested and conflicts of interests preclude consistent policy and aggressive leadership toward committed national trade and investment goals.

"Second, there is no policy formulating mechanism with authority in the government to establish international economic objectives and to evaluate the impact of existing and proposed legislation on these objectives."

Organizationally speaking, nobody seems to be in charge of the trade area. Many agencies are involved, each with its own view as to what is best for its programs and constituencies. Moreover, no effective means exists for integrating individual objectives within a framework of a generally acceptable definition of national export policy. Interagency coordinating committees established to provide forums for coordinated decisionmaking often appear unable to work effectively.

Export Controls

An example of Government organizational problems was cited in our March 1979 report on "Export Controls; Need To Clarify Policy and Simplify Administration." We found that Government administration of export licensing is potentially damaging to the export business because management is spread among too many agencies. Because the resulting lack of accountability and the delay and uncertainty in the decision-making process can cause exporters to lose sales, we recommended that the Congress direct that export application license management responsibilities be centralized.

We also found that export control policy is made on a case by case application review basis and without adequate consideration of the long term impact of controls on U.S. exporting; that no one is specifically in charge of systematically evaluating foreign availability; and that there is uncertainty about what ought to be controlled. As most of you know, we recommended that a multiagency export policy advisory committee be established to address these problem areas.

Export Financing

Although the United States provides assistance for export financing through the Export-Import Bank and the Commodity Credit Corporation, it does not place as much emphasis on financing exports as do other countries. Japan, for example, in 1977 supported 42 percent of its exports, the United Kingdom 34 percent, and France 30 percent, while the United States supported only 7 percent. The amount of funds available for support has recently been increased but Government restrictions limit its use. Let us look at the Eximbank as an example.

Eximbank operates under conflicting mandates. It is directed to meet the competition so that U.S. exporters are not disadvantaged by foreign firms which receive more preferential credit support in making export sales. However, it is also expected to be self-sustaining. Thus, Eximbank rates are not always competitive with the low interest rates offered by others and the United States loses export sales.

In April 1978, the United States and 19 other members of the Organization for Economic Cooperation and Development (OECD) signed an agreement concerning government-supported export credits. The "Arrangement" as it is commonly called, covers such items as minimum cash payments, maximum repayment terms, and local cost financing; a common set of financing standards, and makes the credit terms of member nations visible. If a country offers terms and conditions outside those prescribed under the Arrangement, it must notify other signatories 10 days prior to signing the contract.

Eximbank officials say the Arrangement needs improvement because it does not:

--Apply to financing for nuclear reactors, agricultural commodities, and aircraft which comprise about 40 percent of Eximbank's business.

--Prohibit mixed credits or certain insurance programs.

--Prohibit financing terms more favorable than those in the Arrangement.

--Address financing offered by commercial sources.

--Apply to non-OECD countries, such as Brazil, South Korea, and Mexico.

--Have a policing mechanism.

Eximbank and Treasury officials have recently participated in negotiations with officials from a number of OECD countries to address these concerns. But these efforts met with little successs, and negotiations were continued.

Congress has generally supported Eximbank while at the same time it has emphasized the need for it to participate only in transactions where necessary to make a sale. Export financing and insurance programs offered by foreign governments but not by Eximbank include inflation insurance, exchange rate insurance, mixed credit programs, and bid and performance bond insurance. As an example, France and, to a lesser extent, Japan operate mixed credit schemes in which from 15 to 50 percent of the credit is extended on "soft terms"--15 to 30 year repayment periods at 3 to 6 percent interest.

Other constraints also prevent Eximbank from fully supporting U.S. exports, such as human rights consideration;

limitation on financing in most Communist countries; requirements to cover its average cost of funds; and requirements to submit all transactions over $100 million for Congressional consideration and to consider the effects of its financing on the domestic economy. These constraints, together with the current high interest rates, restrict Eximbank efforts in competing with foreign export financing agencies.

Export Promotion

Export promotion is carried on principally by the Departments of Commerce and Agriculture. Agriculture basically relies on private marketing groups called cooperators and Commerce works to create a trade environment which relies on the private sector to take advantage of the opportunities. Department of State commercial officers at U.S. Embassies overseas assist both programs.

In his September 1978 National Export Policy statement, the President directed the Office of Management and Budget to allocate an additional $20 million for Commerce and State export development programs to assist firms, particularly small and medium-sized firms, in marketing abroad.

It is difficult to gauge the success of these programs. Agency budget justifications carefully detail successes in establishing products in particular countries, number of business contacts made, trade leads disseminated, and projects won by U.S. companies, etc. While there can be little doubt that promoting U.S. products is of some help, some of these relationships are dubious and no one knows the real value and extent to which promotion contributes to the growth of exports. One thing is quite clear, however, the potential for expanding our exports is large--nearly 90 percent of U.S. manufacturing firms do not export their products.

The real potential for increasing U.S. exports lies, not in the mere expenditure of promotional funds, but in the basic Government-industry relationship for effecting changes in export levels. In that sense, it is worthwhile to contrast U.S. methodology with those employed by other industrialized countries.

The United States does not identify specific target industries or companies that it is in the national interest to help, nor work with representatives to attain those objectives in a major market area. In contrast, European countries and Japan consciously decide which industries and companies the government will help and how. In many cases, this close working relationship is motivated by a desire to retain vital industries and to stabilize domestic employment levels; in other cases, it is to prevent developing an undue dependency on imports.

Foreign government involvement in these matters should not be presumed to lead to unfair competition for U.S. firms, but, it must be recognized that such participation does increase the potential for the use of national interest as an enterprise goal. To the extent these relationships are established and fostered by foreign interests, the United States risks having its markets seriously undercut. It may be that the United States, not only to protect its markets but also because changes in export levels can be fundamentally altered by close government-business cooperation, needs to consider how this issue should be addressed.

Impact of Government Regulations

Government regulations affect both the levels and types of U.S. exports and imports. At times, foreign trade impacts are the direct and intended result of regulations. More often, though, regulations intended to achieve domestic goals have unintended secondary effects on the U.S. trade and payments position. Among these is the effect of antitrust which is a subject of much concern to you.

U.S. antitrust policy is one of the most extensive and rigorous in the world. In administering the antitrust laws, the Justice Department regards any activity that reduces domestic competition, regardless of geographic location, as an antitrust violation. Although joint ventures and other forms of cooperative arrangements can be formed for export purposes without violating antitrust laws, business remains very leery of the possibility of violations. Whether business' perceptions are real or imaginary, these perceptions limit getting more businesses to export.

Not only do these perceptions have a trade limiting effect, but present indications are they will continue to do so. The President spoke to this problem in his National Export Policy statement when he instructed the Justice Department, in conjunction with the Commerce Department, "to clarify and explain the scope of the antitrust laws." The Department's only response to this direction has been to agree to the reprinting of its Antitrust Guide For International Operations, originally issued in January 1977. Its reprinting raises a question as to what changes, if any, can be expected in resolving this problem.

The Webb-Pomerene Act of 1918 provides qualified exemptions from antitrust laws to export trade associations. The Act was intended to provide a means of placing U.S. exporters on an equal competitive footing with foreign business combines and to allow small U.S. enterprises to share in foreign markets. However, in our August 1973 report on, "Clarifying Webb-Pomerence Act Needed To Help Increase U.S. Exports", we concluded that the potential of the Act has not been, and will not be, fully realized until the antitrust implications are clarified and the goods, wares, and merchandise provision is expanded to specifically include the export of services.

Business believes that the failure to amend the Act to include the export of services has fostered a costly, competitive disadvantage for U.S. exporters as the export of services has become a larger part of the international market. Even if services were included in the Act, they believe that the use of associations will not be maximized due to the inhibitions U.S. exporters have concerning Justice's application of the antitrust laws in international trade.

For its part, Justice does not think that the Webb-Pomerene exemption is needed. Under current antitrust law, an export association can be formed as long as it does not interfere with domestic competition. Justice's analysis shows that the act has not been a means of getting the small business sector to export. In addition, Justice views the Act as being counterproductive to its efforts to negotiate an international antitrust agreement, since the United States is the only country with such legislation.

The dominance of antitrust laws and the continuing decline in the use of Webb-Pomerene associations demonstrates the larger problem. Agencies have conflicting charters and no means is present to ameliorate the conflicts within the context of U.S. trade policy and organizational arrangement. Trade promotion and market development agencies have not been able to persuade regulatory agencies of the national preeminence of trade, and perhaps rightly so. But neither have they been persuasive enough to achieve a desirable level of coordination in objectives. The new National Export Policy does little to resolve this problem and under these circumstances export programs will continue to achieve less than full results.

<u>Foreign Trade Barriers</u>

Under authority of the Trade Act of 1974, the Special Trade Representative has been carrying on multilateral trade negotiations aimed, in part, at eliminating foreign trade barriers. However, in view of the extensiveness of such obstacles and what will be a massive compliance requirement, the negotiations are not perceived as mitigating the need for continuing U.S. attention.

Many matters are likely to not be handled in the negotiations. The President's January message to the Congress announced his intention to enter into several international agreements dealing mainly with non-tariff barriers. The message included major items not yet subject to negotiation, but which may be pursued, including items such as "Buy America" preferences, construction and operating differential subsidies for U.S. ships, and tax deferrals on export income of domestic international sales corporations. These and other issues suggest U.S. trade interests will not be safeguarded completely by whatever agreements are finally consummated.

The Task Force Report on United States-Japan Trade by the Subcommittee on Trade, House Committee on Ways and Means, in January 1979 addressed this question with respect to Japan saying:

> "The problem of our $12 billion trade deficit with Japan is immediate. It cannot wait on the time it will take the U.S. Congress to consider approval of the MTN, nor the months and years which will be involved in implementing the MTN's various codes and tariff reductions. Further, many of our trade problems with Japan seem uniquely 'bilateral' or 'Japanese,' and may not be addressed by the MTN codes, although the MTN codes, if effectively implemented, will be a big help. The urgency of this situation justifies this approach."

An example of our special problem with Japan concerns Nippon Telephone and Telegraph, the Japanese public corporation which regulates access to Japan's telecommunications market. Under the Government procurement code of the MTN, the various governments are to open their purchases to international bidding. Admittedly, telecommunications are a difficult area for implementing this code, but the United States has been unsuccessful in reaching an agreement with Japan concerning NTT. Unless this situation changes, the large deficit (more than $30 million) we have with Japan for telecommunications products will probably continue.

Productivity and Technology Transfer

Increased productivity, although absolutely necessary, cannot by itself ensure increased U.S. competitiveness in international trade. However, the fact that U.S. productivity gains in 1978 were roughly half of what they averaged during the previous 20-year period and that in recent years the United States had the lowest rate of annual increase in productivity among industrial countries can seriously affect our trade position. Japan rated highest at 8.5 percent with France and West Germany at 6 percent compared to our 1.6 percent.

We are very concerned about this and in our report, "Manufacturing Technology--A Changing Challenge to Improved Productivity," we concluded that the United States needs to make manufacturing productivity a national priority to remain internationally competitive and to maintain strong industries. New technology can help by increasing the productivity of industries that produce goods in small lots. Also, we can learn from foreign industrial nations about the way they diffuse technological advances throughout their manufacturing bases.

In another report on "The Federal Role in Improving Productivity--Is the National Center for Productivity and Quality of Working Life the Proper Mechanism?", we noted that the center was falling short as a means to accomplish productivity goals and that the Federal Government needed a stronger continuing program in this area. We recommended that the center's function be assigned to existing agencies and that these agencies be given adequate funding and support.

What has happened, competitively speaking, to the United States? It seems that, while we were resting on past successes, other nations were selecting the best U.S. technologies, imitating past U.S. successes with government, industry, university and labor partnerships, developing their own strengthened version of these relationships, and focusing their energies on applying those technologies to domestic and international markets. Competitor countries have been able to concentrate on nondefense, commercial applications of the best available technologies. Moreover, they have developed a formidable array of planning mechanisms, incentives, and disincentives to support rapid industrial growth. These arrangements continue and are difficult for U.S. industry to cope with, competitively speaking.

Complicating the situation has been a poorly defined operating arrangement between the U.S. Government and industry. The uncertainty has caused domestic industrialists to perceive the marketplace as a far more risky place today. Consequently, industrialists are reluctant to make financial commitments to technological innovations whose profitability will not be known for 8 to 10 years. They view the confluence of governmental control actions as signs of their inability to influence their own market destinies and, equally important, as precedents both for further Government market involvement and mandated expenditures of their profits.

During the past decade the U.S. technological lead has been reduced due to increased foreign research expenditures and the transfer of U.S. technology abroad through direct foreign investment, licensing, and other channels. These developments have important ramifications for the United States because they affect the composition of future world trade, domestic employment levels and skills, and the continuation of innovative economic growth. Much of the concern about U.S. non-strategic technology concerns its transfer to foreign competitors while U.S. productivity and competitiveness languish.

The United States could not exist in a sophisticated, technologically oriented world with policies which either unduly protect its technolgies or inhibit the relatively free flow of other countries' technologies to its markets. Nevertheless, a balanced approach suggests there should be a consciousness about the benefits and costs of the policy actions associated with specific industrial technologies. It could be advantageous, for example, for the United States to insure that a specific technology be applied to an industry ineffectively competing in world markets rather than being sold abroad to later compete in U.S. markets.

The United States knows very little about international transfers of its technology and their net effect on the domestic economy. Because of the varying definitions of technology and technology transfer and the broad array of mechanisms through which technology can be transferred, there is no single set of records or statistics documenting the complete flow of technology to or from the United States. The only national technology transfer data comes from receipts and payments for licensing fees, which tell very little about the nature of the technology transferred.

It is not clear, therefore, whether the transfer of U.S. technology overseas has, historically, resulted in a net loss of U.S. jobs. Some people fear that outflows and inflows of technology which substantially substitute for U.S. exports can lead to a relative gain in other countries' technological exports. Others feel that this is not necessarily detrimental but, in fact, has important economic benefits, such as new export markets or location of foreign production facilities in the United States to market their technologies. Steps could be taken to assess the impact on the U.S. economy by considering the employment and business consequences of such transfers. Unfortunately, the U.S. lacks a sectoral analysis capability to intelligently make the tradeoff decision.

The Government must address the question of what to do about technology transfers, but perhaps more importantly it must also address the issue of how to keep advancing its technology. An intelligent policy approach would be to carefully assess the net costs to the U.S. economy from the possible transfer of specific technologies. Continued U. S. technological innovation must be encouraged through increased private funding for research and development stimulated by Government incentives and expenditures if the United States is to remain in the forefront in world trade competitiveness.

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I have covered a number of export trade issues among the many which are of much concern to you. You will be discussing some of these in more depth in your panels and I'm sure that it will be a worthwhile experience for both the Government and industry participants.

We are faced with problems that affect all of us and our economy. Often there are not easy and readily available answers, but it is important that people in Government and industry work in close unity to provide an environment that properly recognizes the need for us as a nation to expand our foreign trade.

Thank you,