148255

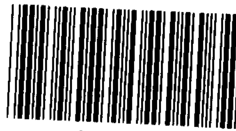
United States General Accounting Office

GAO

Transition Series

December 1992

International Trade Issues



148255

GAO/OCG-93-11TR

United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

December 1992

The Speaker of the House of Representatives
The Majority Leader of the Senate

In response to your request, this transition series report discusses major policy, management, and program issues facing the Congress and the new administration in the area of international trade. The issues include (1) enhancing U.S. competitiveness in an interdependent world, (2) promoting U.S. exports, (3) managing the U.S. Department of Agriculture's export programs, (4) negotiating and administering trade agreements, and (5) analyzing national security-related foreign investments.

The GAO products upon which this report is based are listed at the end of this report.

We are also sending copies of this report to the President-elect, the Republican leadership of the Congress, the appropriate congressional committees, and the designated heads of the appropriate agencies.

Charles A. Bowsher

Contents

International Trade Issues 4

Enhancing U.S. Competitiveness in an Interdependent World 6

Promoting U.S. Exports 9

Managing the U.S. Department of Agriculture's Export Programs 12

Negotiating and Enforcing Trade Agreements 15

Analyzing National Security-Related Foreign Investments 18

Related GAO Products 22

Transition Series 25

International Trade Issues

International trade has become an increasingly critical part of the U.S. economy. The share of national income generated by exports has more than doubled over the past 30 years. Exports now account for about 10 percent of the U.S. gross domestic product and are an important source of job creation. Nevertheless, many believe that despite its rising exports the United States is losing ground in the new global competition.

As we reported 4 years ago, the U.S. economy has become increasingly intertwined with those of other nations in a new international marketplace; many of those nations have gained considerable economic power since World War II. As a result, the United States needed to better balance its domestic economic goals and policies with the constraints imposed by the realities of the interdependent global economy. A major priority then was the need to address the macroeconomic imbalances resulting from the very large federal budget deficits. The United States was consuming more than it produced and importing the difference, which led to large U.S. trade deficits. These trade deficits, and borrowing to finance the U.S. budget deficit, led to the United States' becoming the world's largest

debtor nation. Unfortunately, these problems remain.

Some progress has been made at the program level in areas we reported on in 1988, but work remains to be done. While the Departments of Commerce and Agriculture have addressed some of the organizational and management problems in their export promotion programs, there is now a need to develop and implement a comprehensive, governmentwide strategy for such programs, which are spread among several agencies. Multilateral trade negotiations, thought to be at midpoint in 1988, remain uncertain despite recent progress, and effective enforcement remains a key to making trade agreements work. New bilateral initiatives offer the promise of expanded trade, but knotty issues still need to be addressed. And as international competition sharpens and foreign firms show interest in acquiring high-technology and other national security-related firms, continued attention needs to be paid to the impact of foreign investments in U.S. industries on this nation's defense capabilities and competitive position.

Enhancing U.S. Competitiveness in an Interdependent World

In our 1988 transition series report on international trade, we highlighted the increasing interdependence of the U.S. economy and other nations' economies. The United States had set in place macroeconomic policies that differed from other countries'. These policies had helped transform the United States into the world's largest debtor nation, dependent on capital from abroad to finance substantial portions of its large, persistent federal budget deficit. We urged the administration to address the imbalance between savings and the deficit, specifically by reducing the deficit without endangering long-term economic growth.

Unfortunately, since our last report, the budget deficit has grown, and the national savings rate has been insufficient to meet the needs of both private sector investments and government borrowing. Furthermore, a long period of slow economic growth and of relentlessly increasing competition from other nations has prompted the growing realization that the United States needs to focus on long-term investment as a way to enhance its competitiveness in the global marketplace. Formulating economic policies will require a difficult balancing of domestic goals with international economic objectives and constraints.

Moreover, with the end of the Cold War, the traditional national security and foreign policy concerns—formerly centered on military confrontations—have receded in importance; new ones focused on economic competition with other major industrialized countries have become more prominent. Some of these countries have relationships between their governments and their business communities that differ significantly from those in the United States. The perception that the United States is losing ground in the transnational marketplace to these countries has forced leaders in business and government to question current economic and social policies, including the role of government in rebuilding the economy and developing a national strategy for enhancing the United States' competitive position.

The new economic environment will require a careful examination of how government programs and policies affect the competitive position of the U.S. economy. For example, at the macroeconomic level, the new administration will need to adopt policies that support private sector investment by keeping the cost of capital at reasonable levels. At the government program level, it must develop efforts that support rising

productivity in the private sector, such as an improved infrastructure and a better educated and trained labor force. Finally, it must encourage private sector firms to improve their own goals, policies, and management systems as their critical contribution to enhancing U.S. competitiveness. Such a comprehensive effort is needed to help ensure that the United States will be able to sell its goods and services on world markets and that its citizens can enjoy a rising standard of living.

Promoting U.S. Exports

The U.S. government spends significant amounts on export promotion programs—about $2.7 billion in fiscal year 1991—in addition to about $21.4 billion in export loans, credit guarantees, and insurance. Both the Commerce and Agriculture Departments have major responsibilities for export promotion. However, as we said in our 1988 transition series report, Commerce's activities in that area faced significant difficulties. Since then, attention has been focused on the fact that there is no explicit governmentwide strategy or set of priorities to apportion export promotion funds. This situation has been addressed recently in legislation, but carrying out the new legislative mandate poses challenges. As our economic advancement becomes more dependent on success in trading with others, the way we spend federal money to help market U.S. products and services abroad will be of great importance.

Our 1988 transition series report said that the effectiveness of the Department of Commerce's export promotion activities was weakened by significant organizational and management problems. Commerce has since addressed a number of these problems. However, compared with total government

support for exporting, Commerce has relatively few budgetary resources with which to carry out its programs. Consequently, because of these resource constraints, improvements in the management of this department's programs can have only a limited effect on government efforts to assist exporters.

Export promotion programs are spread over 10 different agencies, and funds are not allocated on the basis of any specific governmentwide strategy. As a result, for example, agricultural exports receive about 75 percent of the total outlays for export promotion, yet they represent only about 10 percent of U.S. exports. Consequently, the federal government does not have any reasonable assurance that its export promotion funds are being channeled into areas with the greatest potential returns.

While various reorganization proposals were advanced during the 1980s, none were adopted. However, the Export Enhancement Act of 1992 (P.L. 102-429) incorporated our recommendations for devising a governmentwide strategic plan to promote exports and for creating a unified federal budget for export promotion that would be consistent with priorities established in the

plan. The law also gave the Trade Promotion Coordinating Committee (TPCC), an interagency committee chaired by the Secretary of Commerce, responsibility for coordinating export promotion programs.

The new legislative mandate and the TPCC's organizational responsibility for developing a cohesive federal export promotion program have been established. But successfully implementing this new authority will be the key to defining a stronger, more effective federal role in assisting U.S. exporters. Therefore, the administration needs to develop a sound strategy and policies for carrying out this role.

Managing the U.S. Department of Agriculture's Export Programs

Agricultural trade has continued as a major issue in recent years. World surpluses of agricultural commodities have increased, subsidized agricultural export competition has intensified, and the number and costs of U.S. agricultural export programs have risen. Moreover, disputes over agricultural subsidies have been the major impasse in the current round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT).

Our November 1988 transition series reports on agriculture issues and on international trade issues urged greater management control over the U.S. Department of Agriculture's export programs—including preparing better funding criteria, providing written guidelines, and developing an evaluation methodology—to improve U.S. agricultural export performance. Improved internal controls were needed to enhance the management and operations of export programs. While some improvements have been made in the management of Agriculture's export programs since then, a number of management changes are still necessary.

The Department's Foreign Agricultural Service (FAS) now manages over $10 billion a

year in agricultural export programs and export credit assistance. These programs are designed to increase U.S. agricultural exports, and develop and maintain foreign agricultural markets for U.S. products. They include the Export Enhancement Program, the Export Credit Guarantee Programs (GSM-102/103), the Market Promotion and Cooperator Foreign Market Development Programs, the Food for Peace Program (P.L. 480, title I), the Trade Show Program, and a wide variety of overseas agricultural trade-related activities. Congressional support for enhanced agricultural export promotion and foreign market development was underscored in the export title of the Food, Agriculture, Conservation, and Trade Act of 1990.

However, FAS lacks a coherent and comprehensive strategy to promote agricultural trade. Internal controls in programs remain inadequate, program evaluation is limited and generally ineffective, and program accountability is insufficient. Problems in the management and operation of agricultural trade offices overseas and trade shows abroad also need to be addressed. Our work on Iraq and the former Soviet Union raised concerns over compromising the export credit guarantee

programs for foreign policy and national security considerations. Questions persist about the creditworthiness of these countries and the financial impact on U.S. taxpayers.

To address the above concerns, FAS needs to, among other things, expedite development and implementation of a long-term agricultural trade strategy consistent with legislative requirements under the export title of the 1990 act; establish enhanced planning, decision-making, and program evaluation processes; and improve internal controls and documentation to ensure greater accountability and more efficient and effective program management. FAS should also develop clear, consistent, and appropriate export program criteria to ensure that taxpayers' funds are correctly used. FAS is in the process of implementing some program management reforms. These changes must be monitored and their effectiveness assessed.

Other matters related to agricultural trade appear in our transition series report Food and Agriculture Issues (GAO/OCG-93-15TR, Dec. 1992).

Negotiating and Enforcing Trade Agreements

The aim of U.S. trade negotiations is to remove foreign barriers to imports and unfair governmental incentives to exports, thus encouraging the free flow of international trade. The principal multinational trade regime has been the GATT. In 1988, the parties to GATT were at what they believed was the midpoint in negotiations on the so-called Uruguay Round. At this writing, the round has still not been concluded. However, initiatives to reach bilateral agreements with other countries have advanced. Some of these initiatives, nevertheless, need the attention of the new administration.

The United States has historically been a leader in GATT negotiations. Therefore, the new administration must quickly determine its position on the current GATT round. The expiration date for the current fast-track authority gives the new administration very little time to act without congressional extension of the authority. Vigorous and effective systems for monitoring and enforcing agreements are essential to avoid violations, delaying tactics, and drawn-out dispute settlements. The administration should show resolve in using the powers granted in the Omnibus Trade and Competitiveness Act of 1988, which provided

authority for a unilateral response to unfair trade practices when established processes prove ineffective or untimely.

Despite the difficulties in reaching a GATT agreement, the United States has been able to advance trade liberalization through bilateral and regional initiatives. The U.S.-Canada Free Trade Agreement, effective in 1989, put in place a process to gradually remove all tariffs and most other barriers by 1999. By closely monitoring implementation and seeking issues in which U.S. and Canadian interests coincided, the two countries were able to accelerate tariff phase-out, with industry support, on many items.

Furthermore, the U.S.-Japan Structural Impediments Initiative attempted to deal with the two countries' basic economic (and social) structures that caused the growth of trade imbalances. This attempt underscored the close interrelationships between the two economies. Facing structural questions—such as the technology policies, the financial market structures, and the business/government relationships of other nations—will be of even greater significance in the more closely integrated global marketplace.

More recently, the United States, Mexico, and Canada concluded negotiations and signed the North American Free Trade Agreement (NAFTA), scheduled to become effective in 1994. The most significant aspect of NAFTA is that it binds Mexico's recent market-oriented economic reforms to international obligations, thereby making these reforms more permanent. Though NAFTA will likely have only a modest net effect on the U.S. economy, much controversy remains as to the scope and extent of social and economic adjustments that will be caused by its implementation, such as effects on employment, immigration, and the environment.

The new U.S. leadership must quickly assess the consonance of NAFTA with its own priorities and determine what actions it needs to take. If the administration is not satisfied with the agreement in its current form, it could try to (1) use implementing legislation to overcome concerns about the social and economic adjustments or (2) reopen negotiations with Mexico and Canada to modify the agreement or to obtain clarifying side agreements.

Analyzing National Security-Related Foreign Investments

Sharp increases in foreign direct investment in the United States in the late 1980s generated concerns about the consequences of foreign ownership of U.S. assets. Our 1988 transition series report noted that experts feared that foreign acquisitions of national security-related or high-technology U.S. firms could affect this nation's defense capabilities. We noted the potential competitive effects of transferring U.S. technology secrets to other countries through foreign purchases of and joint ventures with U.S. firms. These investments also raised a number of other potential issues, such as increased foreign political influence and effects on domestic employment. And at that time a perception existed that the information available to analyze foreign investment was inadequate.

In response to these concerns, the Congress enacted the Exon-Florio Amendment to the Defense Production Act in 1988, authorizing the President to investigate and block or suspend new foreign acquisitions or mergers that threaten U.S. national security. It also passed the Foreign Direct Investment and International Financial Data Improvements Act of 1990 to expand government statistical information on foreign investment.

Under the Exon-Florio Amendment, the interagency Committee on Foreign Investment in the United States has reviewed over 700 foreign investments of possible national security concern. In practice, the amendment's review criteria have been applied to a very narrow range of circumstances, with the President deciding to block only one investment. Although the Congress intended that national security be defined very broadly, it has proved especially difficult to assess the national security impact of acquisitions of U.S. firms by those of our allied nations, such as Japan or France. Moreover, at the point when the acquisition is reviewed, the President may be faced with limited choices—either to approve the proposed investment that may be a welcome capital infusion, helping to maintain the firm's U.S. production and employment, or to oppose the acquisition and perhaps see the U.S. firm suffer continued business difficulties.

Furthermore, the case-by-case reviews under the Exon-Florio provision are not required to address broader issues of U.S. competitiveness in industry sectors essential to maintaining leadership in advanced technologies. In addition, the review process is not designed to cover other international

business relationships, such as research and production agreements, that raise technology transfer issues similar to those surfaced by foreign direct investments.

In mid-1992, the proposed sale of a U.S. defense contractor to a company partially owned by the French government raised the level of concern about the Exon-Florio process. Revisions to the statute were made as part of the fiscal year 1993 Defense Authorization Act. These revisions include certain prohibitions on foreign government ownership of U.S. defense contractors and a requirement that foreign government-controlled entities acquiring U.S. firms producing defense-related technologies undergo the full Exon-Florio investigation process. The new statute also broadened the analytical criteria to be used in the investment review process to include the impact of the acquisition on the (1) United States' international technology leadership in areas affecting national security; (2) proliferation of nuclear, chemical, and biological weapons; and (3) capabilities of countries that support terrorism.

Further, the government's official statistical base on foreign investment has been

improved under the 1990 act. Although data are still about 2 years old when they are published, there is now greater detail available, for example, in the industry categories and the separation of firm operations such as wholesaling and retailing.

Nevertheless, the new administration will need to establish guidelines and precedents for interpreting these statutory changes at a time when the streamlining of U.S. defense industries may bring continued foreign acquisitions of national security-related U.S. firms. In addition, the administration will have to consider supplementing the current case-by-case analysis of foreign acquisitions with efforts to anticipate and deal proactively with the broader competitive and defense concerns raised by foreign acquisitions and investments.

Related GAO Products

Enhancing U.S. Competitiveness in an Interdependent World

High-Technology Competitiveness: Trends in U.S. and Foreign Performance (GAO/NSIAD-92-236, Sept. 16, 1992).

Automotive Industry: The Competitive Challenge to U.S. Companies (GAO/T-NSIAD-92-7, Jan. 27, 1992).

International Trade: U.S. Business Access to Certain Foreign State-of-the-Art Technology (GAO/NSIAD-91-278, Sept. 12, 1991).

Management Practices: U.S. Companies Improve Performance Through Quality Efforts (GAO/NSIAD-91-190, May 2, 1991).

Promoting U.S. Exports

Export Promotion: Problems in the Small Business Administration's Programs (GAO/GGD-92-77, Sept. 2, 1992).

Export Promotion: Overall U.S. Strategy Needed (GAO/T-92-40, May 20, 1992).

Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness (GAO/NSIAD-92-49, Jan. 10, 1992).

*U.S.G.P.O.:1993-336-740

Managing the U.S. Department of Agriculture's Export Programs

U.S. Department of Agriculture: Improved Management Could Increase the Effectiveness of Export Promotion Activities (GAO/T-GGD-92-30, Apr. 7, 1992).

U.S. Department of Agriculture: Management Issues Remain Unresolved in the Market Promotion Program (GAO/T-GGD-92-25, Mar. 25, 1992).

Iraq's Participation in the Commodity Credit Corporation's GSM-102/103 Export Credit Guarantee Programs (GAO/-T-NSIAD-91-13, Mar. 14, 1991).

Negotiating and Enforcing Trade Agreements

Mexican Oil: Issues Affecting Potential U.S. Trade and Investment (GAO/NSIAD-92-169, Mar. 18, 1992).

U.S.-Mexico Trade: Survey of U.S. Border Infrastructure Needs (GAO/NSIAD-92-56, Nov. 27, 1991).

Agricultural Trade Negotiations: Stalemate in the Uruguay Round (GAO/NSIAD-91-129, Feb. 1, 1991).

Analyzing National Security-Related Foreign Investments

Foreign Investment: Analyzing National Security-Related Investments Under the Exon-Florio Provision (GAO/T-GGD-92-49, June 4, 1992).

Foreign Direct Investment: Assessment of Commerce's Annual Report and Data Improvement Efforts (GAO/NSIAD-92-107, Mar. 18, 1992).

Foreign Investment: Concerns in the Banking, Petroleum, Chemical, and Biotechnology Sectors (GAO/NSIAD-90-129, May 30, 1990).

General

International Trade Issues (GAO/OCG-89-5TR, Nov. 1988).

Transition Series

Economics

Budget Issues (GAO/OCG-93-1TR).

Investment (GAO/OCG-93-2TR).

Management

Government Management Issues (GAO/OCG-93-3TR).

Financial Management Issues (GAO/OCG-93-4TR).

Information Management and Technology Issues (GAO/OCG-93-5TR).

Program Evaluation Issues (GAO/OCG-93-6TR).

The Public Service (GAO/OCG-93-7TR).

Program Areas

Health Care Reform (GAO/OCG-93-8TR).

National Security Issues (GAO/OCG-93-9TR).

Financial Services Industry Issues (GAO/OCG-93-10TR).

International Trade Issues (GAO/OCG-93-11TR).

Commerce Issues (GAO/OCG-93-12TR).

Energy Issues (GAO/OCG-93-13TR).

Transportation Issues (GAO/OCG-93-14TR).

Food and Agriculture Issues (GAO/OCG-93-15TR).

Environmental Protection Issues (GAO/OCG-93-16TR).

Natural Resources Management Issues (GAO/OCG-93-17TR).

Education Issues (GAO/OCG-93-18TR).

Labor Issues (GAO/OCG-93-19TR).

Health and Human Services Issues (GAO/OCG-93-20TR).

Veterans Affairs Issues (GAO/OCG-93-21TR).

Housing and Community Development Issues (GAO/OCG-93-22TR).

Justice Issues (GAO/OCG-93-23TR).

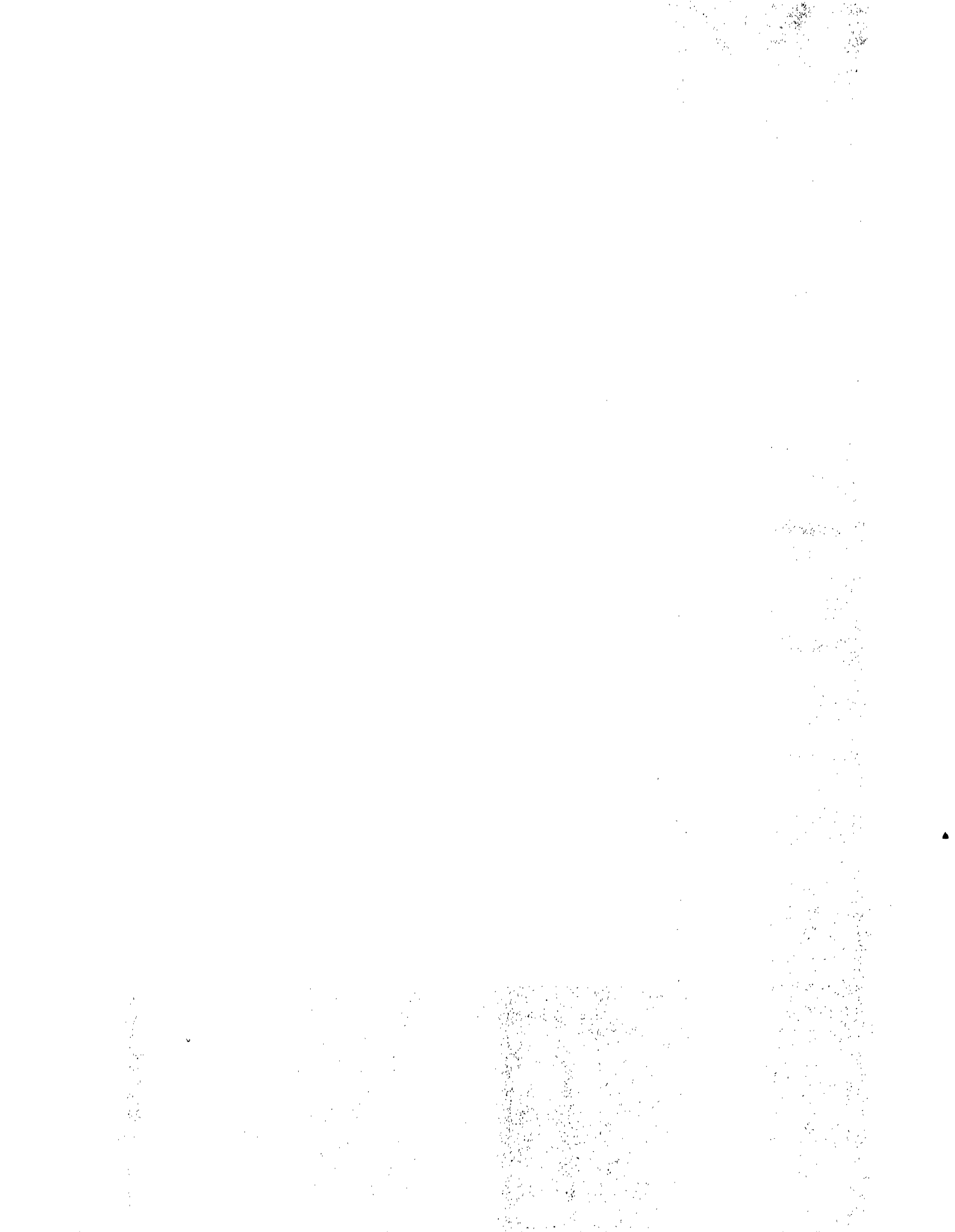
Internal Revenue Service Issues (GAO/OCG-93-24TR).

Foreign Economic Assistance Issues (GAO/OCG-93-25TR).

Foreign Affairs Issues (GAO/OCG-93-26TR).

NASA Issues (GAO/OCG-93-27TR).

General Services Issues (GAO/OCG-93-28TR).



Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20877

or visit:

Room 1000
700 4th St., NW (Corner of 4th & G Sts., NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000 or by using FAX number (301) 258-4066.

United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use $300

First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100