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U.S. DISINCENTIVES TO INTERNATIONAL BUSINESS ACTIVITY AND TRADE

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TABLE OF CONTENTS

Executive Summary

As growth in trade among developed countries has slowed, trade between industrialized and developing countries has accounted for much of the increment of growth that has taken place in world trade in recent years. For the United States, trade in general is increasingly becoming a critical part of our economy. Trade with the developing world accounts for as much as 40 percent of our trading activity.

With the United States becoming so economically interdependent with the world and with developing countries, industry activity and government leadership in trade ought to be more assertive. This paper surveys the more important disincentives in this country to more assertive behavior by firms and government. But any serious consideration of United States discouragements to exports must also take into account the effect of the international economic environment on trade opportunities and on the competitiveness of American firms. Four factors are of particular importance: the general, world wide softening of demand; the overvalued dollar; the aggressive promotion of exports by foreign governments; and underlying problems in competitiveness and structural adjustment.

Disincentives to exporting by American firms fall into two major categories: policy obstacles and statutory and administrative frustrations. Individually and in the aggregate, these legal obstacles to exporters reduce competitive opportunity for American firms and create uncertainties which discourage commercial involvement.

I. Policy Obstacles

Policy obstacles result from a number of factors. In attitude and mind set, business still lacks an export consciousness. Thus, too few American firms do not seek out trading opportunities. This is largely the result of government's <u>poor leadership in developing domestic policies based on the high level of our economic integration in the international system and in the economies of the developing world. Such policies would facilitate greater awareness of the importance of the international market place</u>. Government's failed leadership is also a function of our <u>overly broad national security perspectives which are intolerant of developing countries which stray too far from our democratic and market based model</u>.

Policy's narrow perspective is another cause of obstructions to greater trade activity by American firms. United States trade and economic policies tend to be haphazard and without a vision. They are event driven and politically responsive. They rarely seek to address the longer term or to

advance the domestic adjustment process. This policy flaw causes American firms to be ill-equipped to meet emerging competitive realities and commercial opportunities. In turn, firms are discouraged from voluntarily entering the international marketplace.

The nature as well as the process of making policy is also troublesome. Policies which keep government from more active involvement in the commercial arena on behalf of American firms put our firms at a serious disadvantage, especially in the developing world. Other governments are more supportive of their commercial sector at home and in foreign transactions through direct intervention. The continuously changing view we have of our security interests makes United States foreign economic policy subject to fluctuation and erratic application. This causes considerable uncertainty for American firms and results in their being viewed as unreliable traders. The increasing activism of Congress in international political and economic matters furthers the uncertainty.

Recommendations

--- When foreign governments intervene in commercial transactions on behalf of their firms, the United States Government should take countermeasures. Action in these cases is necessary to keep American firms in a competitive position and to discourage escalation of this kind of government intervention. Actions could range from simple protest to measures equal to or exceeding the foreign government action. But inaction by the United States government is not useful to our commercial interests.

--- Government should more closely monitor foreign targeting and industrial policies to assess their actual impact on particular domestic sectors. Policy responses should be narrowly fashioned, avoiding broad reprisals. In remedying the effects of these practices, preference should be given to adjustments by domestic firms. Such a response reduces international contention and, more important, advances the competitive position of American firms.

--- There should be an overall strategy for our development programs in the Third World. Trade, financial, and economic support programs should be coordinated to have common geographic and substantive focus. The American private sector's close involvement with developing countries' private and public sectors should be the mechanism for implementing this strategy. Project focus should be tailored on a country basis and should be designed to be self-sustaining.

--- Consultation with Congress on policy making and legislative initiatives must be substantially improved. Getting Congress involved early in matters need not limit flexibility nor pre-judge outcomes. Nor does it compromise leadership. It can help reduce the ambiguity caused by increased Congressional activism.

--- Political or ideological standards for country eligibility in American government programs supporting trade in developing countries should be relaxed. A longer term view should be taken. Close economic ties, particularly through the private sector and avoidance of heavy handed geo-political motivations, constitute a better means of moving governments closer to us.

II. Statutory and Administrative Frustrations

Federal laws and regulations promote a wide range of important and legitimate social, political, and economic goals. But many times, pursuing these goals burdens export activity. This can occur in a number of ways: Statutory and administrative provisions designed to facilitate exports can have serious limitations or otherwise frustrate their intended purpose. Some government measures raise the cost of producing for export. Some raise the sales price. Other measures critically extend the negotiating period and introduce uncertainties. Overall, several United States laws impose significant burdens to exporters and frighten others away.

Some efforts have already been made to reduce the discouraging affects of laws and administrative measures. In 1978, President Carter tried and failed to have administrative agencies take into account the export consequences of their actions.

Nevertheless, many trade frustrating provisions have been improved and are being improved. Occupational Safety and Health Act requirements, Consumer Product Safety Commission standards, and Environmental Protection Act conditions, which imposed standards higher than those required by the host governments, are no longer considered by business as significant deterrents or disadvantages.

Human rights-related restrictions, of marginal effectiveness anyway, are not the problem they used to be. Even the various antiboycott regulations under the Export Administration Act, Department of Commerce regulations, and the Tax Reform Act of 1976, though still major administrative nuisances, are reportedly not as troublesome to business as in the latter 1970's.

Several government measures, however, continue to have important discouraging or disadvantageous affects on American firms interested or involved in exporting. The Federal Corrupt Practices Act (FCPA) is one frequently referred to by business. The FCPA causes two basic problems: It imposes on American firms a higher standard of behavior than the host country's and that in the market place. Second, its extensive ambiguities coupled with stringent criminal sanctions cause many companies to be frightened away from legitimate business activity and opportunities.

In general, the FCPA is seen by domestic firms and foreign governments as an inappropriate intrusion by the United States government into an area quite outside its authority. But legislation currently before Congress and supported by the Administration would address many of the problems troublesome to exporters.

The antitrust laws have also been frequently complained about by American traders. But much of the deterrent effect has been in the perception of them by business. The Export Trading Company Act (ETC), which became law in October of last year, has relaxed some of the more restrictive features of these measures.

But the ETC change did not affect the extraterritorial application of United States antitrust laws. Extraterritoriality discourages American firms from entering trade by making them less competitive and by having them appear to be unreliable. Foreign governments consider the foreign application of these and other laws as unacceptable infringements on their national sovereignty. They are exploring ways to reduce the impact of these laws by seeking to reduce the presence of American firms in their markets. The commercial opportunity costs of extraterritoriality is also significant.

A further disincentive of the antitrust laws is in their domestic application. Many firms feel that antitrust enforcement is directed at large enterprises without regard to their efficiency or competitiveness. As well, enforcement seems not to take into account that some American sectors are heavily affected by worldwide commercial factors. This enforcement philosophy discourages important exporting sectors from re-structuring in ways most effective for global terms of competition.

Contrary to the other provisions, the Export Administration Act intends to impose export restrictions. The most significant administrative obstacles are the licensing rules. But the authority for foreign policy and national security controls results in the greatest deterrent to trade. They cause significant confusion and frustration among American exporters. The extraterritoriality of the Act's application is as troublesome as it is with the antitrust laws. Trading opportunities lost by export controls are not only one time sales losses. They extend, as well, to opportunities beyond the transaction in question.

Many of these problems in the export control area are addressed in the various bills on the subject before Congress. The major problems this law poses to American firms can be corrected if the Administration and Congress can find common ground on issues of importance to them.

Regulations and policies on official credits constitute another major discouragement to American traders. Firms argue that attractive financing is critical in exporting, especially to developing countries. Commercial banks tend not to offer longer term, fixed-rate financing.

The importance of financing to export competitiveness has led many exporting countries to offer subsidized export credit and mixed credits. The growing involvement of foreign governments in various financing strategies leaves American firms at a serious competitive disadvantage. It causes lost opportunity to some and decisions not to enter competition by others.

Recommendations

--- Government financial support of export trade should be required to meet the competitive terms of foreign governments with much greater frequency. The new Eximbank legislation will clarify existing ambiguity, but stronger direction from the Executive will assure that Eximbank will actually undertake a "competitive need" priority.

--- The weight of the President should be used to develop an ad hoc consortium of banks committed to greater lending for larger and longer term export projects. Eximbank credits and guarantees could be used to leverage further private financing from such a consortium. If successful, more Eximbank resources could be used to support medium and small transactions.

--- Domestic antitrust policy determinations should look more to the international marketplace. In some sectors the global perspective may not be relevant, but in most sectors domestic concentration and competition are greatly affected by foreign competition. The Federal Trade Commission and the Justice Department must become more sensitive to the international competitive pressures on the domestic market.

--- A policy limiting extraterritoriality must be developed. While the policy can be tailored to fit different legal and regulatory provisions in different ways, a clear assurance of self-restraint, and the formulation of objective criteria, must be made in order for our trading partners to feel more confident about our traders. This would also provide geater predictability for American exporters.

III. General Recommendations

The single most important step in improving export performance by American firms is for government and the private sector to develop a basic and ongoing international consciousness. Government decision makers must view international trade and domestic economic issues as inseparable in domestic economic problem solving.

Private enterprise must increasingly consider international commercial activity as a fundamental part of its strategic thinking. Sales and marketing, product development, and production considerations must all be approached with serious and automatic thinking about the international market place.

To facilitate this process, government must make further institutional efforts to integrate the domestic and international economic policy and decision making process. As well, the increasing momentum to reduce export disincentives must be shepherded in select and well conceived ways.

We need to assure that in policy formulation and the use of administrative authority, domestic and international economic matters are coordinated and that they are given long term as well as short term consideration. This task is best achieved by a small group, without burdensome institutional structure, in close proximity to the President.

One approach to this objective is to rearrange some assignments in the Office of the President, giving this responsibility with adequate authority to two or three individuals. It could be accomplished, for example, by designating a position on the National Security Council (NSC) staff or on the policy development staff as having particular responsibility for international economic policy coordination. Such a position could integrate a number of tasks including: membership in the Senior Interagency Group-International Economic Policy (SIG-IEP), secretary of the Cabinet Council on Commerce and Trade and the Cabinet Council on Economic Affairs, and participation on the NSC.

Even with such a narrowly focused reorganization, effective coordination of policy fundamentally depends on the ability of those managing policy and their access to the President. Sound and broad-based policy formulation requires substantial experience of the policy makers, which in turn results from centralization and continuity of policy decision making. In general, the performance of neither task will be significantly improved simply by rearranging boxes on an organization chart.

I. Overview

International trade, especially with developing countries, should be increasingly important in the management of the economy and in formulating strategies for improving it. In recent years, growth in trade among the industrialized West has slowed and, with the exception of United States-Japanese trade, will probably continue to do so in the near term. In contrast, most of the increment in growth of world trade has been in trade between industrialized and developing countries and in trade among developing countries.

Of the total foreign demand for United States goods and services, about 12 percent of aggregate demand, over 40 percent is accounted for by the developing world. More significantly, the share of foreign demand for United States goods and services has been rapidly increasing lately and offers an important potential for much needed future domestic economic expansion. Except for the current period of debt problems, the developing country portion of the growth in the foreign share of aggregate demand has been substantial and should grow further.

Thus, a serious effort by the United States to cultivate and further expand its already important trade and economic relations with the developing world is overdue. Current worldwide economic conditions offer opportunities for this that should not be missed. Current domestic economic conditions intensify its importance.

Nevertheless, the United States private sector's involvement in international commercial activity remains startlingly unaggressive and without significant or sustained enthusiasm. Meaningful government leadership is substantially absent.

Several things account for this circumstance which is so plainly against national economic interests. This paper will survey those factors which comprise the more important disincentives in the United States to greater participation by American firms in international commerce. Particular attention will be given to those disincentives affecting export trade with the developing world.

A. The International Economic Environment

Consideration of these discouragements, individually and cumulatively, is important and worthy of careful attention. But United States disincentives to trade must not be seen as having a disproportionately important role in explaining why we are not doing better in overall trading or in exporting to the third world. Several critical factors in the current international economic environment both exacerbate and overshadow the disincentives which are to be discussed here. Some of these factors are fundamental problems facing the trading system in general and others affect United States trading interests in particular. All of them compel earnest attention before any effort to address the disincentive problem can be successful. Because of their considerable overall importance and their close interrelationship with the disincentives to be discussed, four factors warrant mention.

1. <u>A general, world wide softening of demand</u> -- The general decline in world wide economic activity over the past two and a half years is well documented and is dramatic. From 1963 to 1973, world production grew at an average rate of 6 percent, from 1973 to 1981 about 3 percent, and since then has reached a stage of virtual stagnation. This slowdown in production was paralleled by a steady decline in the rate of growth of world exports from 11 percent growth in the best most recent year, 1976, to decline in 1982. This reduction in economic activity caused a loss in export opportunity for United States firms. Its impact was felt most strongly in the developing world in the form of lower commodity prices and generally lower levels of export. It precipitated problems in liquidity and, in some cases, solvency.

Sensible and effective ways must be found to stimulate the world economy and to manage more appropriately the underlying problems associated with third world debt. If solutions are not found, opportunities for trade in the developing world will, in aggregate, contract over the long term and the United States will continue to experience a very large trade deficit. For example, 40 percent of last year's decline in exports was accounted for by contraction in Latin American trade.

2. An overvalued dollar -- A consensus among many experts is that the United States dollar is overvalued by at least 20 percent relative to other hard currencies, particularly those of our most important developed country trading partners. With international trade competition intensifying because of diminishing markets and government intervention, a structural price disadvantage for United States firms in the 15 to 20 percent range is devastating. Such a difference is often fatal when competing in cash-short developing countries. Many experts believe that no other single factor, or even group of factors, has as much affect on United States export performance. Much of this over-valuation results from foreign investor attraction to comparatively high United States interest rates. Moderation of rates is, therefore, imperative if trade performance is to make the necessary contribution to economic growth.

3. Aggressive promotion of exports by foreign governments -- The world-wide recession and resulting domestic pressures are causing greater numbers of developed and

developing country governments more actively to promote and facilitate their export sectors. This is causing an increase in unfair pricing by developing country firms. Among developed country governments, it is causing a noticeable rise in the use of tied aid, mixed credits, and similar devices. Overall, managed trade and variations on traditional developed government efforts to subsidize or otherwise support export activity is spreading across the trading community. Because of this growing interventionism and the seeming international tolerance of it, United States firms suffer further erosion in their competitive position and in commercial opportunity.

4. Underlying problems in competitiveness and structural adjustment -- In addition to these environmental and, hopefully, transitory factors, the world economy is also in the process of a reordering of global manufacturing efficiences. This structural change is having a dramatic impact on trading patterns and on economic structures in most countries. The United States, for the first time, is facing significant legitimate commercial competition challenging its traditional supremacy in a number of sectors. Consequently, some United States sectors are contracting or significantly restructuring, others are beginning to prosper, and new ones will be emerging. The economic, social, and political dislocation that results from this process can be considerable.

During this period, policy responses will be difficult to fashion because it is not always clear which sector is undergoing what process. Trade performance must be expected to be erratic in aggregate and in its component elements. Nevertheless, an essential requirement of policy is to develop ways in which we can better accommodate ourselves to the changing structure of world trade and to the domestic changes it is causing. To achieve this, decision making will have to become more sensitive to the elusive nature of this change whether policy is to facilitate change, to be indifferent to it, or merely to diffuse its adverse economic, political, and social consequences.

II. Disincentives to Export

There has been considerable rhetoric over the past few years attempting to promote greater involvement of American firms in export activities. Numerous agency and Congressional studies have called for it. Several good promotional activities of the Department of Commerce and the Small Business Administration attempt to attract more enterprises into exporting. Yet only about 80 percent of United States exports continue to be accounted for by about 20 percent of firms considered to be capable of export involvement. If agricultural exports are eliminated, the portion of American firms which are significant exporters falls considerably.

Many things account for this low participation of American firms in international trading. Much of the cause is related to the external factors discussed above. But a large part of the problem is related to factors in the United States which discourage greater involvement in trading. From concerns about sudden changes in United States international policies to restrictions on exports under the export control laws, American companies face important disincentives to becoming more active exporters. These disincentives will be discussed in this paper in two categories: Policy obstacles and statutory and administrative frustration.

A. Policy Obstacles

Government international economic policy is very important to commercial activity and planning because the international marketplace is much more heavily managed by governments than the domestic market. It is also considerably more subject to uncertainty caused by unexpected, highly dramatic political and economic events. Consequently, American firms expect government to act as an overseeer of their commecial interests at the government-to-government and multinational institutional level. How the government acts or does not act can, therefore, greatly affect a firm's decisionmaking on international marketing and investment.

Problems in both the policy making process and in the substance of policy decisions have made an important contribution to discouraging American firms from export trade: Underlying attitudes and mindset of both government and the private sector have limited the commercial opportunity of may firms. Policies which are narrowly conceived and premised on short term considerations leave firms poorly positioned to be competitive. Failure of government to act and the fluctuation in policy when government does act create business uncertainities among both United States and foreign firms. The growing activism of Congress exacerbates all of these policy-related disincentives. The formulation and execution of United States trade policy and domestic economic policy need to be better coordinated so that these factors do not discourage trade inadvertently.

1. Attitudinal Impediments

The continuing ambivalence of marginal or non-exporting firms to become active in exportation reflects a general failure in the American business community to consider international trade opportunities as an important feature of business planning. When international trade attracts the attention of domestic firms, it is more often because import competition is causing competitive problems requiring some commercial or legal response. Exportation is not an automatic business consideration largely because it, and most things foreign, are very far afield of the ordinary business and personal experiences of business people. Futhermore, most American firms find the United States market sufficient for their current needs.

This provincial mindset of corporate managers in the face of mounting evidence of our growing dependence on trade reflects an even more profound failure in policy making. Government policy ought to inspire an awakening to the integration of our economy into the world economy that the private sector remains slow in developing on its own. But at the highest levels of government, decision making has not provided such leadership. Decision makers have failed adequately to appreciate and respond to trade becoming a fundamental factor in domestic economic matters and exportation becoming an increasingly important element within it.

Issues in international trade require more of government than simply managing import-related problems which occupies much of the attention of trade policy makers. International trade management is important because the level of economic growth and stability to which we wish to return cannot, today, be achieved solely on the basis of domestic oriented strategies. In fashioning national economic policy, decision makers must integrate better our international and domestic economic interests. The result will be policies which facilitate

<u>adjustment to world competition and provide incentives to American firms to enter it.</u>

Attitudes of policy makers and of the private sector towards the developing world also prevent more aggressive commercial involvement by American firms in developing countries. The continuing failure to link United States and developing country economic interests is an important cause of this attitude. But recent patterns in our relationship with developing countries have also contributed by making it difficult for us to see useful commercial opportunities there.

Since the 1960's, United States relations with the developing world have been largely paternal in nature. They have been characterized by our sense of obligation to provide compensatory economic assistance and their great need to receive it. Significant resources and policy attention, therefore, has been given to concessionary foreign assistance and humanitarian relief. Outside the agricultural sector, neither government nor most of the business community saw significant commercial opportunities.

Furthermore, the developing world has been an arena in which we perceived strategic interests to be at risk. Thus, creativity in the formulation of policies in the developing world have been increasingly directed at merging compensatory assistance and national security interests. Commercial opportunity grew somewhat, but largely in sectors related to defense, security, and agriculture.

Since the mid-1970's, our rapid increase in non-Middle East export trade evolved virtually unnoticed by government and the larger trading community. The main view of the developing world is as a source of increasingly aggravating import problems. Thus, the commercial content of our developing country relations has become dominated by management of the domestic political consequences of the economic impact of rising levels of imports.

Very recently, however, policymakers have begun more vigorously to seek greater access to developing country markets. This thrust will yield some improved commercial opportunity and awareness. But, it is only an adjunct policy. It is only one of several options with which to address the still predominant concern, domestic political effects of import competition. Market access has not yet emerged, on its own merits, as a separate and important objective of United States trade policy. Thus, policy fails to expose domestic firms to better opportunities in the developing world and domestic firms are left facing unnecessary barriers to trade.

2. Narrow Policy Perspectives

Characteristically, economic and trade policy making tends to be based on responses to developments at hand or to present or imminent political pressures. Thus, policy tends to be event driven and discernable largely through retrospection. Medium-to long-term thinking and planning in trade policy is uneven. Strategic thinking is rarely done. When this kind of thinking is done, it does not usually have a profound affect on decisions or is not generally the starting point for policy development. Moreover, it is rare that policy attempts to foster adjustment in the private sector. The result is policy which seeks to solve the narrow issues at hand without attempting to address longer term, more fundamental questions. Firms are, again, left in a difficult and discouraging competitive position: limited government direction, little awareness of emerging trends, and less incentive to adjust to them.

For example, Houdaille Industries recently brought a claim to suspend investment tax credits for purchases of Japanese goods. Houdaille claimed the Japanese government was using various techniques to support its machine cool industry which caused dislocation to the domestic industry and restricted access of United States products to the Japanese market. Until well into the case, the level and nature of comparable United States government support of our machine tool industry was not known. The simple fact of such support was not known. Nor, for that matter, was the overall condition of the industry or what factors were affecting its welfare known.

The President's decision not to give relief was good policy, but was made without substantial investigation of these matters or of longer term considerations about the industry. Even now, little is being done to determine what kinds of direct or indirect policy adjustments could be made to assist the industry in what is basically a challenge of structural change. Little is being done to facilitate the industry's return to its former strength as a major exporter.

Another example is the emerging response to growing domestic demand that government act against the use of industrial policies by foreign governments. The use of industrial policies and targeting by other governments is considered to adversely affect American commercial interests. Many political leaders and trade policy makers are seeking policies which would have United States law punish those practices, imitate them, or both. Until very recently, however, little was known about the nature, scope, or impact of similar existing United States government support and protection of domestic firms.

Although concern about these practices is well founded, little thinking had been done about the repurcussions on our interests of some of the responses popularly discussed. There remains to be little evidence that very many policy makers have associated the rise of industrial policies with the underlying structural change taking place in world trade. Thus, emerging policy responses could well miss the mark entirely. Overall, attention to the precise ways in which targeting and industrial policies impacts our economic interests has remained secondary to finding solutions to its political consequences.

However, one of the most telling examples of the narrow and near term perspectives in American policy making is the effort to get authorization for an enlarged International Monetary Fund (IMF) contribution. Initially, many decision makers felt strongly that United States support of multilateral institutions was not the best use of those resources reserved for international economic support. That view has now almost completely reversed itself.

The IMF contribution increase is currently supported because the liquidity and solvency of the developing world is a humanitarian concern for developed countries and the enlargement is needed to rescue Western banks and the world financial system. But even with this change in view, it has been only lately, and only moderately, that the significance of the economic and trade interdependence between this country and developing countries seem to have impressed decision makers enough to link it with the IMF matter.

More important, a complete analysis of our interests in this matter has been imprecise and is frustrating a sound policy response. Some decision makers avidly support enlargement of IMF resources to help promote IMF conditionality. Conditionality imposes restraints on domestic consumption and spending levels and encourages export expansion. These requirements are considered by their supporters as necessary to enable high debt countries to reduce more quickly their debt levels and move the global financial system out of jeopardy.

Others who support enlargement are concerned that conditionality will extend for too long the current softeness of imports by developing countries, which is already causing major trouble to our own trade account. They prefer IMF, World Bank, and developed country policies that will give developing countries financial stability, but also a faster return to two-way trade. A return to the former levels of importation means a return of export opportunity for American firms. So far, the former view is prevailing despite the validity and hard self-interest of the latter. Little serious effort seems to be in progress to reconcile these conflicting objectives or to develop a policy more sensitive to the full range of our economic interests.

3. Policies of Inaction

Policies which compel the United States government not to act under some circumstances have been a major discouragement to domestic firms and have lost opportunities for them. For example, European governments have actively represented the interests of their commercial sectors on a transnational basis in government-to-government dialogue. More frequently today, governments of most industrialized countries arrange trading terms and, more important, use various tools of international relations to open or expand specific commercial opportunities for their businesses. This development is becoming even more pronounced with developing countries in the form of tied aid and mixed credits.

The policy of the United States government, however, has been to leave transaction-by-transaction competition to the private sector and to focus its efforts on macro and systemic objectives. United States policy seeks to make opportunity available to more firms and better opportunity for those already involved in trade by making the system more open and by improving the international environment within which American business operates. As a result, the world trading environment is improving incrementally over time and trade access is slowly expanding.

By contrast, the French nuclear industry, for instance, has won a number of contracts against American competitors in great measure because of the direct intervention of the French government. Much the same is true in Boeing's non-United States competition with the Airbus and in the United States telecommunication industry's competition with several foreign companies for sales to developing countries of communications systems.

This pattern in international competition and our government's lack of adequate response to it has not only caused many undocumented cases of lost business for American firms which, on a purely commercial basis, ought not to have been lost. It has also discouraged American firms from entering competition for foreign sales where the interest of a competitor's government could be expected. It has encouraged the further intervention of foreign governments precisely because they know their influence will be unopposed. More generally, it helps feed a view in the private sector that while government ought to serve the business sector's foreign commercial interests, government rarely comes to its assistance and more often makes things more difficult.

This failure occurs most acutely in developing country trade. Because of their urgency for development and the limitations on their financial resources, the developing world is more susceptible to government-to-government importuning. Having learned well the utility of playing governments off against each other, developing countries consciously encourage government intervention. Thus, the focus of the United States government on systemic improvement fails to meet transactional realities and puts American firms at a competitive disadvantage.

4. Problems in Strong Policy Action

Where the U.S. government has failed to act is a problem. Even more troublesome is where the government takes strong policy positions. A primary source of this difficulty results from the responsibilities of the United States for world leadership.

America's leadership role requires our policy makers to consider a broader range of factors than other governments. It causes frequent policy fluctuations, and it is increasingly attracting Congressional involvement in policy making. The most important result is that they cause uncertainty in government policy. Uncertainty in policy makes American firms reluctant to get involved in foreign trade and it makes foreigners see American business as unreliable. The net effect is reduced interest in and opportunities to make foreign sales.

a. Broad Security Interests

Most governments which have policies and programs directly supporting their international commercial interests exclude such support for projects involving hostile countries. Some governments may even exclude commercial relations with them altogether. But, in most cases, national economies are well integrated into the trading system and the scope of national security interests are rather limited. This leaves trade support programs of most trading nations, with few exceptions, based on political considerations.

The leadership role of the United States which is required of us and which we require of ourselves has resulted in a geographical and political definition of national security interests which is much broader than in other countries. As well, even though our integration into the world economic system is a fact and is growing, we still perceive ourselves as less dependent on it than we actually are.

Thus, government programs and policies affecting exports such as interest rate and loan guarantee support from the Export-Import Bank (Eximbank), underwriting from the Overseas Private Investment Corporation (OPIC), funding from the Agency for International Development (AID), and controls under the Export Administration Act have various restrictions based on broad security objectives and a missplaced sense of economic independence.

The impact of these restrictions on developing country trade has been important. Because of colonial and neo-colonial sensitivities and because of strong nationalistic sentiment, many developing countries are vocally hostile to us and our policies. Because of their fervor for rapid modernization, they have made associations and pursued economic policies troublesome to our security objectives.

To protect our interests and to discourage attitudes from becoming more widespread, the United States withholds various forms of economic support from countries not supporting the United States. Since our security interests are viewed so broadly, many developing countries are in varying degrees of favor under trade support programs. Therefore, government programs, without which American export trade to the developing world is very difficult, are unavailable to American firms wishing to trade in certain countries.

b. Policy Fluctuation

Of equal discouragement to exporters, government programs and attitudes are, from time to time, reversed because of unpredictable political and national security considerations. In fact, the problem caused by very broad perceptions of national security interests is exacerbated by the fact that relevant government policy is so highly susceptible to unexpected change in substance, in interpretation, or in application. The tendency for American international policies and actions to fluctuate causes a great amount of uncertainty among business people, much beyond that already inherent in international business. It is a predominant source of discouragement among those on the margins of trade as well as those active in international commerce and capable of further involvement. Moreover,the volatility of government policy in the international arena and the vulnerability of American business to it make American firms appear to be unreliable traders and make business opportunities more difficult to acquire.

The embargo of soya exports in the mid-1970's is an early example of policy shifts which have deterred business enthusiasm for foreign trade and harmed commercial opportunity for United States firms. The abrupt and unprecedented intervention of the government in commercial transactions, terminating contracts, and restricting future arrangements made all commercial relations with American firms immediately suspect. It startled many domestic companies into a greater appreciation of the extent of their susceptibility to government policy shifts.

Since then, the United States has suspended wheat sales to the Soviet Union. This caused commercial reactions similar to those caused by the soya embargo. Recently, wheat sales were re-established, but the new wheat agreement contains an unprecedented unilateral abdication of all discretionary authority to abrogate it in the future. This was required by the Soviets out of their strong concern about American reliability. The cost of unreliability is not always commercial.

A further example of disruption and harm to our trading interests by policy volatility occurred last year. To restrict shipments of American made or designed gas and oil equipment for use in the Soviet/European gas pipeline project, the United States seriously disrupted commercial and political relations with Europe. The embargo applied both to domestic parent firms, their foreign subsidiaries, and foreign firms using American technology licenses. The policy objective was to demonstrate our disapproval of the Soviet Union's role in Poland.

The policy impact was felt on both American firms and our relations with our allies. Our trading partners continued their involvement in the project. The Soviets did not alter their position in Poland. Some American firms suffered serious financial losses. Some have not regained their participation in the project and have lost business unrelated to the pipeline. Many firms are evaluating ways to remain in international trade without being so vulnerable to United States policy decisions.

Furthermore, our conduct in the pipeline episode has caused sharp concern among European governments and in the European business community about the reliability of business arrangements with American companies. Governments and firms are reviewing their commercial relations with American parent companies and their foreign subsidiaries. European governments and firms are considering how business should be conducted to preserve their control over their own national economic and political interests. Less commercial contact and fewer commercial opportunities for American firms are the likely outcomes.

The behavior of the United States government in the pipeline matter alone is a very serious blow to United States commercial opportunity in the project. Its effect on the interest of American firms in broader international trade is significant. When the pipeline episode is grouped with other similar events, such as the most recent precipitous cessation of AID disbursements to ongoing projects in Syria, the cumulative impact is a major disincentive of lingering consequence.

c. Congressional Involvement

As a final factor, increasing Congressional activism in foreign affairs and economic issues introduces further variability into a subject already sufficiently erratic. Because of the number and diversity of the players and the spectrum of their political philosophies and vulnerabilities, the Congressional process is inherently unpredictable.

Further Congressional involvement in foreign economic issues means much more uncertainty about where control of policy actually resides, what policy will result, and how long it will survive. It increases the likelihood that when policy changes, change will be based more on political considerations, sometimes unrelated to the issue at hand, than on substance. The Congressional role in policy making continues the growing discomfort among other countries that the American government and business are unreliable partners in a host of undertakings.

In issues of economic relations with developing countries, these general features of the Congressional process are even more pronounced. Under current economic, unemployment, and budget pressures, Congressional support for enhanced economic ties with the developing world is mercurial. In some quarters in Congress, any activity causing a budget increase is unacceptable. Some Members are offended by third world rhetoric and have no interest in assisting it. Others are opposed to government support of private sector activity in principle, especially when domestic social programs are being reduced. Some, however, see greater promotion and facilitation of private sector involvement in the third world as essential to the national interest. Many are simply uninterested.

The Caribbean Basin Initiative (CBI) demonstrates the problem. In general, Congressional attitudes came to support the concept of promoting development in the Caribbean by giving incentives for investment to American domestic companies. There was some initial reluctance because the idea was sprung on the Congress without sufficient preparation. But this general support was achieved on the argument that development was more economically effective, better served our long-term geo-political interests, and was cheaper through a program promoting private sector investment than through bilateral concessional aid or increased payments to multilateral institutions.

What started as a widely accepted concept, however, ran into classic Congressional problems. Tax incentives were found by some to be unacceptable budget costs, particularly in the face of cuts in social support programs. Labor interests feared "factory flight" and resulting lost jobs. Ideological concerns arose over eligibility. Domestic producers of various products from sugar to leather and from rum to watches mounted resistance.

Thus, the final measure was stripped of its useful features and, now, only marginally serves its original objectives. All the tax benefits were eliminated from the legislation. To most Caribbean leaders, these tax incentives were the most valuable feature of the CBI since they gave good incentives for American firms to create employment and export capabilities.

Many agricultural and light industrial sectors of special interest to Caribbean countries were eliminated from the special duty provisions or saddled with burdensome restrictions. Some countries have been made ineligible. The eligibility process is sufficiently involved as to make eligibility an area of ongoing uncertainty. The duration of the CBI is considered by some domestic companies as too short. Overall, given Congressional protectionist tendencies, the CBI's reliability is too tenuous for making commercially viable long-term investment.

B. Statutory and Administrative Frustrations

Federal laws and regulations promote a wide range of important and legitimate social, political, and economic goals. But many times, pursuing these goals burdens export activity. This can occur in a number of ways. Statutory and administrative provisions designed to facilitate exports can have serious limitations or otherwise frustrate their intended purpose. Some government measures raise the cost of producing for export. Some raise the sales price. Other measures critically extend the negotiating period for a foreign sale and introduce uncertainties in the transaction. Overall, several United States laws impose significant burdens to some exporters and frighten others away.

1. Past Frustrations Reduced

During the past 10 years of the growing importance of exports to United States economic interests, attention has been paid to the discouraging influence of laws and regulations on export performance. For example, in 1978 President Carter directed all executive departments and agencies, including independent agencies, "to take into account and weigh as a factor, the possible adverse effects on our trade balance of their major administrative and regulatory actions that have significant export consequences." Adherence to this directive has not been good. Most agencies have few trade related responsibilities. Thus, they have little incentive on an ongoing basis to give significant attention to trade and investment impact which may arise from their actions.

Over time, however, by law and by Executive action, many trade-frustrating provisions have been improved and many are being improved. Occupational Safety and Health Act requirements, Consumer Products Safety Commission standards, and Environmental Protection Act conditions which imposed standards higher than those required by the host government are no longer considered by business as significant deterrents or disadvantages. Human rights-related restrictions, of marginal effectiveness anyway, are not the problem they used to be.

Even the various antiboycott regulations under the Export Administration Act, Department of Commerce regulations, and the Tax Reform Act of 1976, though still a major administrative nuisance, are reportedly not as troublesome to business as before. Manufacturers and exporters of heavy electrical equipment, for example, reported to the U.S. General Accounting Office that they did not believe these restrictions placed them at a major disadvantage in competing with foreign companies. A general adjustment to the provisions, relaxation in enforcement standards, and a peaking of trade in the Middle East account for some of the change. Of major importance, the Commerce Department revised its reporting requirements which reduced some of the more burdensome and unnecessary aspects of the various provisions.

2. Continuing Frustrations

Several government measures, however, continue to have important discouraging or disadvantageous effects on American firms involved or interested in exports. The Foreign Corrupt Practices Act (FCPA), sometimes referred to as the Antibribery Act, is one frequently referred to by business. Other provisions include the antitrust laws, export control laws, and procedures affecting official credits.

a. <u>Foreign Corrupt Practices Act</u>

Two basic problems are caused by this provision: First, it imposes on American firms a standard of behavior often much higher than the host country's and nearly always much higher than established practice in the market place. Second, the extensive ambiguities coupled with stringent criminal sanctions cause many companies to be frightened away from legitimate business activity and opportunities.

In general, the FCPA is viewed by many as an inappropriate intrusion by the United States government into the affairs of foreign governments and the practices of domestic companies operating in an environment much different than ours. More specifically, some of the major interpretive and other problems which frighten off firms include the following:

--- joint enforcement jurisdiction of the Justice Department and the Securities and Exchange Commission causing conflicting enforcement objectives and interpretations;

--- the great extent to which a parent corporation will be held accountable for the actions of its overseas subsidiary, even though the subsidiary is not subject to the Act;

--- the extent companies will be held accountable for acts of overseas agents and the standards that will apply in distinguishing between the status of employment and that of agency;

--- the rather loose "reason to know" standard used to establish criminal liability for violation of the statute by related individuals;

--- ambiguity in differentiating a permissible "facilitation" payment from a criminally punishable bribe;

--- ambiguity in determining when receiving a gift is more than a social gesture;

--- harsh liability even when a company or officer has shown no criminal intent;

--- the tax deductibility standard for overseas payments remains a section of the Federal Revenue Code rather than controlled by the FCPA which controls what acts are appropriate;

--- the fact that no other major trading country imposes such standards on their firms involved in international competition.

b. Antitrust Laws

The U.S. antitrust laws are also often considered a burden to international business. Much of the deterrent effect of these measures lies in the perception of them by business.

The Export Trading Company Act, which became law in October of last year, relaxed some of the restrictions of these measures for foreign ventures. Under this Act, American firms can get a certification from the Justice Department that the activity in question is not likely to have anticompetitive effects. As long as subsequent action remains within the certified business plan, government is barred from suit. Private suits may be brought, but treble damages cannot be awarded and, as disincentive to frivolous suits, the loser must pay court costs and legal fees. The Department of Commerce has recently issued regulations implementing these changes. The first certifications have already been issued.

As this procedure gains more notoriety, much of the historic discouragement associated with the antitrust laws in international commercial activity ought to diminish. But firms are already complaining that the protection has limitations. Protection is contingent on filing a detailed business plan of the activity in question and its business context. Concern is that through the Freedom of Information Act and through routine Department of Commerce publication, business plans or summaries will be available to competitors. For some projects, this kind of advance public exposure would be especially defeating.

But a considerable problem with the antitrust laws was left unaddressed by the Export Trading Company Act. American firms, foreign firms, and other governments are becoming seriously irritated with the extensive extraterritorial application of the provisions. Business is nearly unanimous in believing that the policy decision to apply these and other business practice statutes to corporate behavior abroad seriously weakens their competitive position in international markets.

Morever, the way in which government has attempted to reach American business overseas has introduced ambiguities about which practices are subject to the law and which are not. A question has arisen, for instance, whether foreign vertical distribution arrangements are subject to the law in the same way as are licenses of technology to foreign licensees. Another question is whether foreign joint ventures in which the American parent has de facto control, but not ownership, is considered part of the parent enterprise.

Foreign governments have considered the extraterritoriality of United States antitrust and other laws as unacceptable infringements on their national sovereignty. They are developing various countermeasures to this policy including sanctions against locally domiciled companies which comply with foreign law. But most significant, many European countries will find increasingly effective ways to reduce the business presence of American firms in their markets. The commercial opportunity cost to United States trading interests of the extraterritorial application of the antitrust laws is significant.

A further disincentive caused by our antitrust laws is the impression of many firms that antitrust enforcement is especially directed at large enterprises whether or not they are efficient and competitive. The sentiment extends, as well, to joint ventures among competitors, without regard to the economic benefits. Such an antitrust policy badly serves domestic economic interests.

Increasingly, competition in international trade is among highly efficient world-scale producers. Foreign traders benefit from various advantages of size and home market position. In such export sectors as aircraft, airlines, computers, and heavy electrical equipment United States competitiveness can be helped by domestic concentration. Thus, even domestic application of antitrust policy must recognize the importance of growing international economic integration and structural changes in efficiencies.

c. Export Administration Act

While the FCPA and the antitrust laws have the unintended result of creating disincentives to trade, the Export Administration Act intends export restrictions for non-economic reasons. Although the Act has currently expired, export controls are widely believed to be necessary to protect national security interests. A new law is likely to emerge. But the proliferation of controls has resulted in significant confusion and frustration among American exporters. Commercial and political relations with our European trading partners have been aggravated seriously, with the aggressive extraterritorial application of export controls in the European-Soviet pipeline matter.

Trading opportunities lost by export controls are not simply one-time sales losses. In the pipeline case, for example, a gas turbine manufacturer lost sales even though its investment in production had already started. This single manufacturer estimated additional lost sales of over $500 million over 15 years because the Soviets have taken steps to establish alternative import sources not subject to United States government interference. There is good evidence that this manufacturer will lose other unrelated overseas business because many buyers are questioning American reliability.

For developing country trade, the most important aspect of export control authority is that based on foreign policy controls. This authority permits the use of export restraints to influence the policies of other nations. As with export controls for national security reasons, use of controls have also cause substantial uncertainty for exporters, reluctance to enter certain markets, and a hesitance by foreign trading partners to enter into arrangements. Besides, foreign policy controls have generally been ineffective in influencing foreign country policies and counterproductive to the United States policy being served.

d. Official Credits

Yet another area of administrative procedure causing export problems is official credits. American firms consistently emphasize that attractive financing is critical in exporting, especially to developing countries. The larger and more expensive the exports the more important is the financing package. In major American export sectors such as aircrafts, machinery, and power facilities, exports are either left up to the buyer to finance or to the exporter to obtain Eximbank financing for the buyer. Commercial banks tend not to offer long term, fixed-rate financing needed to support such large sales. Although some importing countries finance purchases with their own resources, official credit and guarantees are simply essential in selling such products.

The importance of financing to export competitiveness has led many exporting countries to offer subsidized export credit and mixed credits. The growing involvement of foreign governments in various financing strategies leaves American firms at a serious competitive disadvantage. Greater support from Eximbank and joint efforts of Eximbank and AID in offering mixed credits on a basis of competitive need would greatly offset the competitive advantage enjoyed by many foreign competitors.

But such activity by Eximbank and AID is rare. Only twice in recent times, for example, has it happened in the major export sector of heavy electrical equipment. Both times, mixed

Eximbank and AID credits were offered for exports to Egypt, a highly favored country in United States foreign policy, for a combined amount of $51 million. These mixed credits were justified as necessary to match foreign mixed credit offers. But this standard of competitive need could be met many times over and is not applied frequently enough.

In addition to mixed credit disadvantages, American firms have felt that the Eximbank has not offered competitive interest rates. In 1981, Eximbank provided long-term financing (over 5 years) at an average 9.82 percent effective annual interest rate. This was higher than that of France, West Germany, Japan, and Great Britain. Japan had the lowest rate, 7.94 percent for yen financing. Germany had the closest rate at 9.55 percent.

Eximbank rates were closer to other country's rates in 1979 and 1980 than in 1981. But Eximbank agrees that prior to January of 1983 its rates were consistently higher for some borrowers than the minimum prevailing interest rate. Since then, Eximbank has decided to reduce rates in order to make them equal in all cases to the minimum rates foreign governments offer.

This development would be well supported upon passage of the Eximbank restructuring and reauthorization legislation. Afrer years of debate on the subject, this legislation clarifies a major obstacle to greater Eximbank support by giving clear priority in the Bank's charter to competitive financing. Currently, the Eximbank charter gives the conflicting mandate to be both competitive and self-sustaining. The legislation would also mandate competitive mixed credit offering as a joint activity of Eximbank and AID.

e. Miscellaneous Provisions

A smaller, but important area of law and regulation which frustrates exports is export insurance. OPIC, for the most part, gives useful and supportive service to American firms investing abroad. The Foreign Credit Insurance Association (FCIA) provides insurance protection to United States exporters. FCIA is an association of commercial insurance companies formed by Eximbank. Policies issued by FCIA insure repayment of export financing in the event of default by foreign buyers. Policies may also be used as collateral for bank loans to exporters. The one major shortcoming of the program is that it does not cover long-term transactions which are usually used in capital equipment sales and other large transactions. A large proportion of United States exports fall into this category and are ineligible for government export insurance.

As a final matter, American tax laws have had an important impact on exports. The single most important area of concern has been the taxation of Americans living overseas. In theory, managers of foreign operations tend to place orders for goods and services with companies of their nationality. Thus, in aggregate it is in our economic interest to keep American managers in foreign operations.

American tax laws, however, have made Americans much more expensive to a firm's foreign operation than foreigners. Firms tend to adjust compensation to cover the extraordinary expense to employees of living abroad. This compensation includes offsetting the employees increased tax liability. With passage of the Foreign Earned Income Act of 1978, Congress loosened the taxation of Americans living abroad. It allowed up to $20,000 of foreign income to be excluded and provided an additional $5,000 hardship deduction. Companies still complain that the new provisions did not have sufficient coverage of expenses and were unnecessarily complex.

In 1981, amendments were made which addressed these concerns, offsetting some of the tax disadvantages of using American nationals in foreign operations. The main change was raising the income exclusion for Americans working abroad, by phases, to reach $95,000 in 1985.

Many in the business community feel that this change would reasonably approach comparability with costs associated with foreign nationals of developed countries. Unfortunately, the Chairman of the House Ways and Means Committee, as part of a budget reduction effort, is seeking a freeze of the phasing scheduling at current levels. While the legislation may not pass in this session, it will be attempted in the next.

III. General Recommendations

The single most important step to improved export performance by American firms is for government and the private sector to develop a basic and ongoing international consciousness. Government decision makers must view international trade and economic issues not as discreet matters in domestic economic problem-solving. Sound economic policy cannot be viewed as segmented between domestic and international compartments. United States economic interests are not one dimensional. They are simultaneously affected by domestic and international events.

Private enterprise must, likewise, include international commerce as a fundamental part of its strategic thinking. Sales and marketing, product development, and production considerations must all be approached with serious and automatic thinking about their international aspects.

The problem, of course, is that developing a mind set cannot be achieved by administrative order or by corporate fiat. President Carter's attempt to mandate government-wide export impact considerations demonstrates that. Only time and experience can assure that the American consciousness about the level of our integration into the international economic system is sufficiently raised to have a permanent impact on our thinking and behavior. To facilitate that process, government must make further institutional efforts to integrate the domestic and international economic policy and decision making processes. As well, the increasing momentum to reduce disincentives must be shepherded in select and well conceived ways.

A critical step upon which the effectiveness of all others is dependent is for the President to make a clear commitment to this process. The commitment must not be simply symbolic and only to the concept. It should dramatize the importance of international economic matters, formalizing consideration of them at the highest levels of policymaking.

This notion is the essence of the various mechanisms currently being proposed to reorganize the trade bureaucracy. Several problems are associated with these proposals: Many merely centralize existing bureaucracies instead of reinvigorating them. Most concentrate more decision making in one agency or function, thereby, focusing special interest activism and inviting more powerful constituencies. Some mix policy making with law enforcement or law enforcement with fact finding, assuring neither will be done well.

What basically needs to be achieved is to assure that in policy formulation and the use of administrative authority, domestic and international economic matters are coordinated and that they are given near and long term consideration. This task is best achieved by a small group, without a burdensome institutional structure, in close proximity to the President.

One approach to this objective is to rearrange some assignments in the Office of the President, giving this responsibility and adequate authority to two or three individuals. It could be accomplished, for example, by designating a position on the National Security Council (NSC) staff as having or on the policy development staff particular responsibility for international economic policy coordination. Such a position could integrate a number of tasks including: membership in the Senior Interagency Group-International Economic Policy (SIG-IEP), secretary of the Cabinet Council on Commerce and Trade and the Cabinet Council on Economic Affairs, and participation on the NSC.

Even with such a narrowly focused reorganization, effective coordination of policy fundamentally depends on the ability of those managing policy and their access to the President. Sound and broad based policy formulation results from the experience of the policy makers. In general, the performance of neither task will be significantly improved simply by rearranging boxes on an organization chart.

Other than efforts to mobilize decision making to adopt more of a strategic character in economic policy decisions, several more narrow efforts could help address the problems raised in this discussion:

--- <u>Political or ideological standards for country eligibility in American government programs supporting trade in developing countries should be relaxed.</u> A longer term view should be taken. Close economic ties, particularly through the private sector, avoiding heavy-handed geo-political motivations, is a better means to move other governments closer to us.

--- <u>Government financial support of export trade should be required to meet the competitive terms of foreign governments with much greater frequency.</u> While the Eximbank legislation will clarify existing ambiguity, stronger direction from the Executive will assure that Eximbank will actually undertake a "competitive need" priority.

--- When foreign governments intervene in commercial transactions on behalf of their firms, the United States Government should take countermeasures. Action in these cases is necessary to keep American firms in a competitive position and to discourage escalation of this kind of intervention. Actions could range from simple protest to measures equal to or exceeding the foreign government action. But inaction by the United States government in not useful to commercial interests.

--- The weight of the President should be used to develop an ad hoc consortium of banks committed to greater lending for larger and longer term export projects. Eximbank credits and guarantees could be used to leverage further private financing from such a consortium. If successful, more Eximbank resources could be used to support medium and small transactions.

--- Government should more closely monitor foreign targeting and industrial policies to assess their actual impact on particular domestic sectors. Policy responses should be narrowly fashioned, avoiding broad and indiscriminate reprisals. In remedying the effects of these practices, preference should be given to adjustments by domestic firms. Such a response reduces international contention and, more important, advances the competitive interests of American firms.

--- There should be an overall strategy for our development programs in the Third World. Trade, financial, and economic support programs should be coordinated to have a common geographic and substantive focus. The American private sector's close involvement with development countries' private and public sectors should be the mechanism for implementing this strategy. Project focus should be tailored on a country basis and should be designed to be self-sustaining.

--- A policy limiting extraterritoriality must be developed. While the policy can be tailored to fit different legal and regulatory provisions in different ways, a clear assurance of self-restraint, and the formulation of objective criteria, must be made in order for our trading partners to feel more confident about our traders. This would also provide greater predictability for American exporters.

--- Consultation with Congress on policy making and legislative initiatives must be substantially improved. Getting Congress involved early in matters need not limit flexibility nor pre-judge outcomes. Nor does it not compromise leadership. It can help reduce the ambiguity caused by increasing Congressional activism.

--- Domestic antitrust policy determinations should look more to the international marketplace. In some sectors the global perspective may not be relevant, but in most sectors domestic concentration and competition are greatly affected by foreign competition. The Federal Trade Commission and the Justice Department must become more sensitive to the international competitive pressures on the domestic market.