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WAYS TO IMPROVE
U.S. FOREIGN TRADE SITUATION

Department of State
Department of Commerce
Department of Agriculture
Office of Management and Budget

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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COMPTROLLER GENERAL OF THE UNITED STATES
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C To the Speaker of the House of Representatives
and the President pro tempore of the Senate

This is our report on ways to improve U.S. foreign trade strategies.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget, and to the Secretaries of State, Commerce, and Agriculture. 32 . 7 . 72

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Comptroller General
of the United States

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ABBREVIATIONS

GAO	General Accounting Office
OMB	Office of Management and Budget
UNIDO	United Nations Industrial Development Organization

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

WAYS TO IMPROVE U.S. FOREIGN
TRADE STRATEGIES

Department of State
Department of Commerce
Department of Agriculture
Office of Management and
Budget
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D I G E S T

WHY THE REVIEW WAS MADE

Continuing U.S. trade deficits (\$6.4 billion in 1972) point to the need for better coordination of Federal agencies to develop cohesive and effective U.S. trade programs.

This report focuses on the principal agencies involved in planning and carrying out commercial activities abroad--the Departments of State, 32
2,3 Commerce, and Agriculture. 74, 22

Programs of other agencies also important to, and having a role in, expanding U.S. trade, such as the Department of the Treasury, the Export-Import Bank of the United States, and the Office of the Special Trade Representative, were considered only incidentally.

This review is a followup to several earlier GAO reports to the Congress on the

- commercial exhibitions program,
- trade opportunities program,
- foreign market analyses,
- commercial offices abroad, and
- Commerce Department field offices in the United States.

GAO wanted to find out how the various U.S. Government agencies involved in international trade carried out their respective foreign programs.

FINDINGS AND CONCLUSIONS

Responsible agencies have not developed clearly stated objectives for foreign markets which reflect coordinated consideration of U.S. trade objectives and the activities needed to attain them. (See p. 9.)

Result: foreign markets are not analyzed systematically to identify areas of prime commercial importance. Nor are export strategies adapted to the peculiarities and special opportunities of individual markets.

In summary, officials claim:

- State's performance needs to be improved to more systematically define U.S. commercial interests overseas, establish priorities, and develop strategies to advance them.
- Regional differences reported by U.S. Embassies show a need to vary commercial activities and to establish priorities by region and country.

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--Commerce has not aligned its staff resources with export expansion objectives on a country-by-country basis.

--Commercial activities listed in Commerce's country trade programs generally contain boilerplate language and do not adequately consider staff resources and capabilities of Embassies involved.

--Market research, generally irregular and without comprehensive country market plans, does not usually provide the overview needed to prepare effective commercial strategies. (See pp. 9 and 10.)

To ascertain the feasibility and benefits of preparing a country trade strategy, GAO made a pilot survey in Mexico. The survey showed that appropriate information could be obtained to

--identify opportunities for U.S. companies to sell their goods and services and participate in numerous and diverse major development projects and

--reveal specific problems hindering the commercial interests of U.S. companies.

When the entire market is analyzed, opportunities and problems can be ranked by importance (See p. 14 and app. I.)

Information GAO obtained on 28 sectors of the Mexican economy revealed that substantial new investments were planned for many sectors with large imports anticipated for some items. These situations present important export opportunities. For example:

--An estimated \$304 million will be spent to modernize and expand Mexico's sugar industry before 1976.

--Mexico's electricity needs are predicted to almost double between 1970 and 1975 with plans to spend \$320 million in 1972 for construction, networks, substations, lines, and equipment.

--Mexico's forestry industry will require investments of about \$472 million to create 13 integrated forestry complexes.

--Investments in pulp and paper totaling \$180 million will be necessary before 1975. Imports of pulp and paper machinery are expected to increase at an annual rate of 15 percent.

--Imports of metallurgy equipment are expected to increase at about 30 to 40 percent annually over the next 5 years. (See pp. 27 and 28 of app. I.)

In most of these areas, the U.S. Embassy in Mexico had not obtained the type of information on proposed development plans or equipment needs obtained by GAO and had not planned to systematically identify and assist U.S. companies that might take advantage of these opportunities.

The importance of the Embassy's obtaining such information is shown in those instances where specific information was obtained on major development projects; the information and analysis could result in significant business for U.S. firms. (See pp. 14 to 16.)

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Embassy personnel agreed that GAO's Mexican market trade strategy model would enable the Government to better focus Embassy and Washington efforts on important commercial objectives. (See p. 14.)

Because the funds and manpower needed to capitalize on each opportunity area identified by GAO may be limited, resources could be applied selectively to those areas considered most opportune.

There are, however, activities which U.S. agencies and Embassies could undertake that require little or no additional resources. (See pp. 15 to 18.)

Although there probably are many alternative ways to carry out market research and develop foreign market trade strategies, U.S. Embassies are a logical starting point. They can obtain commercial intelligence within the framework of overall U.S. political and economic objectives.

State and Commerce, on the other hand, believe that Washington headquarters should take the lead in framing a global strategy with Embassies recommending from their perspective of the local situation the kinds of individual country market programs most appropriate for achieving U.S. commercial objectives. (See pp. 16 to 18 and 20.)

The point is that strategies be developed and a more systematic and coordinated approach used to

- identify and assess commercial opportunities and problems,
- determine their relative priorities, and

- maximize trade benefits to the United States. (See pp. 17 and 18.)

Trade strategies must be flexible enough to respond to rapid changes in worldwide supply-demand situations and the effect these would have on U.S. trade objectives and priorities. (See p. 20.)

State, having responsibility for overseeing operations in all Embassies, appears to be in the best position to take the lead role in developing country trade strategies. (See pp. 16, 17, and 20.)

State and Commerce recently established an interagency committee to develop guidelines for preparing country, regional, and worldwide trade strategies along the lines GAO suggested. The interagency committee's functions could be expanded. (See pp. 17, 18, and 22.)

RECOMMENDATIONS

After the feasibility of preparing trade strategies has been demonstrated and an effective planning format developed, the Secretary of State should:

- Consider expanding the interagency committee to include representatives of Agriculture, Treasury, the Export-Import Bank, the Office of the Special Trade Representative, the Council on International Economic Policy, and Office of Management and Budget.
- Take the lead role in combining individual agency strategies into overall U.S. country, regional, and worldwide trade strategies so that agencies coordinate their activities and assist each other.

--Direct U.S. Embassies to participate actively in the preparation of the strategies for their respective countries and support these strategies.

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Departments of State, Commerce, and Agriculture, and the Office of Management and Budget agreed with GAO's central premise that better planning for accomplishing U.S. trade objectives is needed.

State stated that corrective actions have been initiated or are planned. (See p. 21 and app. III.)

Commerce differed in its approach to establishing a systematic and integrated plan to develop export strategies and programs on a country-by-country basis. (See p. 21 and app. IV.)

Agriculture stated that it has long recognized the need for improvements in developing comprehensive export expansion strategies but that limited resources hampered development. (See p. 21 and app. V.)

The Office of Management and Budget generally agreed with GAO and stated that the trade strategies should be broadened. (See p. 22 and app. VI.)

MATTERS FOR CONSIDERATION
BY THE CONGRESS

In considering Federal agency legislation and appropriations concerning trade matters, the Congress may wish to be informed regularly of one strategy framework for improving the U.S. balance of trade. Therefore, the country, regional, and worldwide trade strategies might be made a reporting requirement for submission to appropriate congressional committees.

CHAPTER 1

INTRODUCTION

A very important component in the U.S. balance of payments, which has enabled the United States to finance its large international military and economic programs, has been the merchandise trade surplus. However, from a surplus of \$7 billion in 1964, the U.S. trade balance dropped to a deficit of \$6.4 billion in 1972, and the importance of reversing this trend was highlighted in the 1972 Economic Report of the President:

"* * * While the United States is a major creditor nation * * * a large net investment income does not mean that the country can afford an equally large trade deficit. U.S. policies involve other major payments commitments * * *. To the extent that these commitments are desirable, as they clearly are, they also have to be financed. Given the probable size of these flows in the immediate years ahead, it is unlikely that net investment income will be large enough to cover them, to say nothing of a trade deficit as well. Thus a trade surplus will be required if our goal is external balance. Moreover, export growth will permit imports to expand."

The Departments of State, Commerce, and Agriculture are the principal agencies involved in planning and carrying out U.S. commercial activities abroad. Other agencies which are also important to and have a role in U.S. trade interests include the Department of the Treasury, the Export-Import Bank of the United States, the Office of the Special Trade Representative for Trade Negotiations, the Council on International Economic Policy, and the Office of Management and Budget (OMB); but their activities were considered only incidentally in this review.

We previously examined and reported on the effectiveness of several U.S. Government trade promotion programs and activities. These reports included:

"Opportunities for Increasing Effectiveness of Overseas Trade Exhibitions" (B-135239, Nov. 4, 1971)

"Coordinated Consideration Needed of Buy-National Procurement Program Policies" (B-162222, Dec. 9, 1971)

"Ways to Increase U.S. Exports Under the Trade Opportunities Program" (B-135239, Jan. 28, 1972)

"Improved Foreign Market Analyses Can Increase United States Exports" (B-172255, July 6, 1972)

"Commercial Offices Abroad Need Substantial Improvements to Assist U.S. Export Objectives" (B-172255, Oct. 24, 1972)

"Ways to Increase Field Office Contributions to Commerce's Export Expansion Efforts" (B-172255, Nov. 14, 1972)

This examination is a sequel to these previous program reviews, and in it we have sought to find out how the various U.S. Government agencies involved in foreign trade carry out their respective programs overseas in conjunction with one another to maximize their collective contribution to U.S. trade interests.

COMMERCIAL ACTIVITIES IN U.S. EMBASSIES

The importance of commercial activities in U.S. Embassies was emphasized by a State Department study "Diplomacy for the 70's," which stated that:

"During the 1970's, promotion of U.S. trade and assistance to American business must have high priority in the activities of a mission. The mission chief has the responsibility of providing leadership in all U.S. Government efforts to promote trade and assist American business abroad. Support by all Foreign Service personnel and all U.S. Government elements in a mission are essential as we must earn our way as a nation to sustain our basic governmental commitments to foreign affairs. This support of U.S. commercial interests must be active and effective."

Commerce does not have its own overseas commercial service but relies on the Foreign Service personnel of the Department of State and the commercial attaches at the Embassies

to implement its programs. Agriculture assigns agricultural attaches to the Embassies to carry out its programs.

Economic and commercial activities at an Embassy range from formulating and executing foreign economic policies and service functions to assisting individual businessmen. Embassy personnel also:

1. Prepare commercial and economic reports.
2. Support trade exhibitions and trade center activities.
3. Arrange contacts for visiting sales and investment missions.
4. Examine possible investment, licensing, and trade opportunities.
5. Maintain commercial libraries.
6. Answer foreign business inquiries.
7. Respond to mail inquiries.
8. Provide lists of possible agents and distributors.
9. Advise on commercial policies.

COUNTRY TRADE STRATEGIES

For some countries, State develops a general plan for all mission activities: military, political, developmental, educational, and commercial. Commerce and Agriculture also prepare programs to direct commercial and agricultural representatives in U.S. Embassies. These programs, however, are restricted to activities of the sponsoring agency, do not include activities that could be undertaken by other agencies, and are not tailored to individual countries.

SCOPE OF REVIEW

We examined reports and correspondence at and interviewed officials of the Departments of State, Commerce, and Agriculture in Washington, D.C., and the U.S. Embassy in Mexico

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City. We talked with officials of Mexican firms and Government agencies; agents for U.S. and other countries' firms; and representatives of the American Chamber of Commerce, United Nations Development Program, and Inter-American Development Bank in Mexico.

CHAPTER 2

NEED FOR STRATEGIES TO GUIDE

U.S. COMMERCIAL ACTIVITIES IN FOREIGN COUNTRIES

We were unable to find any clearly stated objectives for foreign markets which reflected coordinated consideration by Federal agencies involved in establishing U.S. trade objectives and agreement among the agencies on the activities needed to attain such objectives. No Government mechanism exists to coordinate U.S. trade strategies for individual countries and market areas; therefore, each agency conducts its activities according to its own objectives.

Agencies generally carry on trade promotion activities without systematically analyzing individual markets to identify the specific areas of prime importance to U.S. commercial interests. Thus, there is little assurance that the promotional activities carried on are suited to and concentrated on the opportunities and problems peculiar to individual market areas of the world.

PROBLEMS WITH PRESENT PLANNING EFFORTS

During the fieldwork on this review, we noted that several agencies were aware of the need for better trade activity planning and were trying, on a limited scale, to make their promotion programs more precise. State and Commerce were jointly developing a targeted approach for carrying out their programs to match the interests of U.S. manufacturers with marketing opportunities overseas. Agriculture simultaneously was developing more explicit programs for its overseas activities. These efforts are positive, but they concern only individual agency activities; a more coordinated and comprehensive planning approach which reflects total U.S. trade interest is needed.

Officials of State, Agriculture, and Commerce; a management consulting firm that prepared a study on the need for overall planning for Embassy activities; and the U.S. trade center in Mexico commented on the need for improved planning of U.S. commercial activities abroad. These officials said:

- State's performance is inadequate in systematically defining U.S. commercial interests overseas, establishing priorities among them, and developing strategies to preserve and advance them.
- Regional differences reported by U.S. Embassies show a need to vary commercial activities and to establish priorities by region and country.
- Market research, generally irregular and without comprehensive country market plans, does not usually provide the overview needed to prepare effective commercial strategies.
- Commerce should bring all its resources to bear, as needed, on export expansion objectives, country by country, concentrating on highest leverage activities first and adapting its services to identified needs rather than filling only the needs that fit existing programs.
- Agriculture needs to apply resources available for export promotion in the right amount at the right time on a country-by-country basis.
- Commercial activities listed in Commerce's country trade programs should reflect and support the basic objectives, priorities, and strategies agreed upon for each country and should consider staff resources and capabilities of the Embassies involved. This cannot be done with identical boilerplate language for each activity for all countries.

The results of our review in Mexico were consistent with the above views and showed that, to enhance U.S. trade interests, there is a need to (1) analyze individual foreign markets to identify commercial opportunities and problems, (2) decide which areas warrant attention, and (3) seize the trade opportunities present and solve the most important problems impeding U.S. trade interests.

We commented in previous reports on Government trade activities that State and Commerce had made sporadic attempts to identify U.S. overseas marketing interests and promotional

activities; but none of these endeavors have been adopted on a broad scale.

In addition to these past efforts, the market research officer at the U.S. trade center in Mexico City completed a comprehensive survey of the Mexican market in December 1971 to determine appropriate marketing objectives; provide a basis for selecting the products susceptible to promotion; and recommend practical methods to measure, evaluate, and accomplish these objectives. The survey brought out several important trade opportunities for U.S. companies not previously acted on and specific techniques that the center could use to take advantage of these opportunities.

The market research officer considered that the type of comprehensive market analysis made in Mexico would be of more value for overall planning than the specific-product type of research Commerce usually made. In his opinion, the same concept would be useful in preparing overall country trade programs and in planning all U.S. commercial activities in a foreign country.

Although the survey was considered a success, Commerce had no plans to make similar surveys and preferred to rely on market studies of specific product lines for identifying possible trade center promotional activities.

BETTER INTELLIGENCE NEEDED FOR PLANNING

An understanding of the market in each country is necessary to developing a viable country trade strategy with specific plans to correct or alleviate adverse factors affecting U.S. trade and investment objectives and to take advantage of the opportunities presented.

U.S. Embassies prepare economic and commercial reports as part of the Combined Economic Reporting Program which might provide a practicable base for planning trade activities. This review and previous ones have revealed, however, that program reporting is often sporadic, statistical rather than analytical, and not comprehensive enough to provide an overview of an entire market's potential. Therefore these reports do not provide sound bases for developing plans to allocate limited resources to the most significant opportunities and problems.

CHAPTER 5

FEASIBILITY OF PREPARING COUNTRY TRADE STRATEGIES

The Mexican market was selected for detailed analysis because it was important to U.S. trade and investment interests and because a useful attempt had been made to analyze the market and plan trade center activities. Since Mexico already purchased about 60 percent of its imports from the United States, we felt that, if the United States could improve its exports to Mexico, it probably could do so in other countries as well.

Embassy personnel could undoubtedly improve on the techniques we used to analyze the Mexican market because they already (1) have a general understanding of market conditions and specific commercial activities that are or could be carried on, (2) speak the local language, and (3) have contacts in both the public and private sectors. U.S. agencies probably could also improve on the approach by developing more definitive guidelines for Embassy personnel to use in preparing strategies.

COMMERCIAL PROGRAMS PREPARED FOR MEXICO

State, Commerce, and Agriculture prepared some type of program guidance for carrying out commercial activities in Mexico, but none was construed as a truly effective trade strategy.

State prepared the Country Analysis and Strategy Paper which did not provide any specific plans for commercial activities. The Deputy Chief of Mission agreed that the paper was very general and did not provide any functional guidance on commercial matters.

Commerce's Trade and Investment Program for Mexico had not changed substantially since 1968 and gave no specific guidance on the most important commercial activities that U.S. agencies should conduct.

Agriculture's trade program indicated the promotional strategies and the specific trade-related activities it planned to pursue in Mexico each year, but its scope was

limited. Although the program included market development activities, it lacked ancillary activities, such as negotiations on tariff and nontariff barriers, financing and barter programs, visitors' programs, and market research.

No other U.S. agencies prepared trade programs for Mexico.

GAO PILOT APPROACH TO
TRADE STRATEGY FOR MEXICO

To determine the possibility of preparing a country trade strategy and the benefits to be gained, we

- identified the Mexican economic sectors considered best for U.S. commercial interests;
- synthesized information from reports on the various economic sectors and related industries, commodities, products, and services;
- interviewed officials of the Embassy, Mexican public and private sectors, and international organizations;
- analyzed the information to identify specific opportunities and problems facing U.S. companies; and
- prepared a model country trade strategy, identifying specific objectives and the commercial activities needed to achieve these objectives.

Information on 28 sectors of the Mexican economy showed that substantial new investments were planned. From this and other information, we outlined a country trade strategy predicated largely on:

- Obtaining development plans for preparing detailed lists of specific opportunities for sales of U.S. goods and services.
- Providing technical assistance to public and private sectors to assist in preparing development plans.
- Developing lists of U.S. companies able to provide goods and services to targeted sectors of the market;

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- Conducting trade and technical assistance missions to pursue opportunities identified in the target sectors.
- Conducting trade center seminars and exhibitions tailored to possible U.S. exports in the target sectors.
- Assisting U.S. companies to register to bid on public projects.
- Developing lists of segments of the target sectors susceptible to future restrictive import-substitution policies and encouraging U.S. companies to establish manufacturing facilities to retain their markets.
- Coordinating Embassy activities with international organizations to insure U.S. companies of the opportunity to participate in projects sponsored by these organizations.
- Assisting Mexico to expand its exports as an alternative to enactment of more restrictive import policies.

A comprehensive strategy expanding on these activities was presented to the agencies for comment. Because of the document's length, it is not presented here. A more concise presentation of our strategy is shown in appendix I, pages 25 to 35.

EMBASSY AGREEMENT ON NEED FOR COMMERCIAL STRATEGIES

Embassy personnel agreed the Mexican market should be analyzed and a trade strategy developed setting forth specific objectives and commercial activities needed to accomplish them. They stated this would enable better focusing of Embassy and Washington efforts on important commercial objectives. An Embassy telegram on March 30, 1972, to the Secretary of State suggested that our approach be used in developing commercial programs in other countries.

Embassy personnel also agreed that, in view of the substantial number of agencies and individuals involved, clearly defined strategies would help everyone in the Embassy work

together to attain the most important trade objectives. At least 34 individuals in 12 separate sections of the Embassy performed, or could assist in, activities related to U.S. commercial interests. Numerous other U.S. agencies without representatives attached to the Embassy could provide valuable assistance in promoting U.S. commercial interests. The Atomic Energy Commission, for example, could assist by advising Mexico in developing its nuclear capability, and the Environmental Protection Agency could advise on pollution control equipment needs.

Commercial intelligence available
for planning strategies

Commercial information is available in Mexico from Government officials, Mexican and U.S. businessmen, market researchers, and such international organizations as the American Chamber of Commerce, Inter-American Development Bank, and the United National Development Program. Embassy personnel, other than those responsible for preparing specific reports, also have valuable information. By using these sources, Embassy personnel can quickly expand the information base to show where and how future U.S. commercial activities should be concentrated; but the information must be more aggressively sought than the Embassy has done.

The Embassy agreed additional information was available to pinpoint which specific commercial activities to concentrate on and stated:

"Foreign governments may proceed slowly, with many delays, but their long-range projects should be identifiable. * * * Large-scale expansion in the private enterprise side is also usually known well in advance."

The fact that Embassy personnel are more aggressive and successful in providing commercial assistance when specific objectives are clearly defined indicates the value of pinpointing opportunities. The Embassy, for example, expended considerable effort to involve U.S. companies in constructing and equipping steel mills, nuclear powerplants, and fishing vessels. Reports on these areas were analytical rather than routine and outlined suggested courses of action.

As a result of Embassy involvement, negotiations in each of these areas between U.S. companies and Mexican Government agencies or Mexican companies could lead to increased U.S. business. These negotiations included contracts to (1) equip 50 fishing vessels involving a total cost of about \$30 million, (2) provide the nuclear steam supply system for a \$30 million to \$40 million nuclear powerplant, and (3) provide engineering and management services for a proposed steel complex.

PLANNING FOR TRADE STRATEGIES

Our survey showed that appropriate information can be obtained to (1) identify opportunities for U.S. companies to sell their goods and services and participate in numerous and diverse major development projects and (2) reveal specific problems hindering the commercial interests of U.S. companies. When the entire market is analyzed, it is possible to rank these opportunities and problems by importance.

Several agencies had recognized the need for country trade strategies; but, at the time of our review, none had fully implemented plans for preparing them. U.S. Embassies are the logical starting points for preparing the initial drafts of such strategies, because they are in the best position to provide an integrated, interagency approach to U.S. commercial interests overseas; to obtain the commercial intelligence needed; and to insure that country trade strategies are formulated in consideration of U.S. political and economic objectives.

All Federal agencies that can identify opportunities or carry on commercial activities should participate to make optimum use of agencies' trade promotion resources and to collectively focus on key objectives.

There are many alternative methods to those we used to make the market research and prepare the trade strategy for Mexico. Commerce, for example, is developing an export expansion system for the 1970s, including a program to concentrate export promotion on 15 U.S. industry groups (target industries) having the highest export potential. It is also developing, in conjunction with State, a country commercial program which will use Embassies' knowledge of the market potential in their respective countries. Embassies

will have opportunities to make significant contributions in determining the mix of promotional events to be conducted in each country with one Commerce official being responsible for promotional decisionmaking for the countries in his region.

State and Commerce established an interagency committee to develop guidelines for preparing country, regional, and worldwide trade strategies. The committee proposed that five geographically different country markets be designated initially for testing the feasibility of developing these strategies. The program is expected to result in documents which will set out targets and priorities for commercial activities, as well as specify resource allocations at home and abroad.

State established a focal point for coordinating activities internally and with Commerce. Once an effective planning format has been established, State is hopeful it will be able to encourage other agencies to join in developing integrated strategies.

Our approach and Commerce's are similar in that both seek to focus on country activities which offer the best opportunities for increasing U.S. exports. Under Commerce's approach, target industries in the United States are selected, which Commerce believes will be most responsive to export opportunities. Emphasis on industries is important, but we believe the individual characteristics of markets should first be analyzed and then matched to industries. This method would provide for a better assessment of the market potential and would reveal the demand for products and services, not contemplated in the target industries approach.

Analysis on a country-by-country basis would assist Commerce in planning for commercial activities by (1) identifying the peculiar commercial opportunities and problems that face U.S. companies in each country, (2) indicating the relative need for governmental assistance, (3) providing a basis for selecting the target industries, (4) indicating the type of promotional events and the degree of other agencies' assistance necessary to attain the most important U.S. commercial objectives.

Commerce informed us that its country commercial program, which will be transmitted to the Embassies for review

and concurrence before being adopted as a statement of country objectives, will focus on national objectives and be a carefully designed, individually tailored, program of export expansion activities. Commerce officials believe this approach would fully meet the objectives set forth in our report. Both approaches have merit. The important point is that a more systematic approach, coordinated with all agencies, should be developed to identify the specific U.S. commercial activities to be conducted in foreign countries and to insure that these activities are tailored to the most important opportunities and problems peculiar to each market.

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CHAPTER 4

CONCLUSIONS, AGENCY COMMENTS AND
OUR EVALUATION, AND RECOMMENDATIONS

CONCLUSIONS

Notwithstanding the importance of commercial activities overseas and the numerous agencies involved in these activities, no coordinated country trade strategies have been prepared which identify the significant opportunities and problems facing U.S. commercial interests in each foreign country, and set forth plans to focus activities directly on these opportunities and problems. In general, each agency conducts its activities without systematically analyzing individual foreign markets to identify the specific areas most important to U.S. commercial interests. Thus, the agencies cannot be certain that their commercial activities are suited to and concentrated on the important opportunities and problems peculiar to each market. There also is no assurance that all agencies are working together to attain the most important objectives and are not, in fact, working at cross-purposes.

The agencies concerned generally agreed that a more systematic and coordinated approach was needed to identify the specific U.S. commercial activities that should be conducted in foreign countries. In the past, improved planning methods were developed but never adopted to the extent that they provided a viable basis for carrying out commercial activities.

Our survey in Mexico demonstrated the feasibility and possible benefits from preparing country trade strategies. With a vigorous seeking out, sufficient information can be obtained that (1) identifies opportunities for U.S. companies to sell their goods and services and participate in major development projects and (2) reveals specific problems hindering the commercial interests of U.S. companies.

When the entire market is analyzed, planners can rank these opportunities and problems according to their relative importance. Embassies, properly directed, can assist U.S. companies in taking advantage of the identified opportunities and solving the problems faced.

The Embassies also are a logical starting point for preparing initial drafts of country trade strategies, because they are in the best position to obtain the basic commercial intelligence and formulate strategies which appropriately consider U.S. political and economic objectives. Many Government agencies represented in Embassies can assist each other in identifying specific areas of opportunity and can work collectively to achieve important trade objectives. Each agency's headquarters officials can refine the Embassies' drafted strategies.

There are many alternative research methods for preparing trade strategies other than those we used for Mexico.

The State and Commerce approach presently being tested, for example, considers that Washington headquarters should take the lead in framing a global strategy, with the Embassies' roles confined principally to recommending the programs for achieving commercial objectives. The important point is that strategies be developed in a more systematic and coordinated manner.

The strategies must be flexible enough to respond to rapid changes in the worldwide supply-demand situation and the effect these changes would have on U.S. trade objectives and promotional emphasis. Implicit in the development of such strategies is the need to carefully weigh the advantages of increased exports against possible adverse effects on the domestic economy.

The individual country trade strategies developed need to be refined into specific activities to disclose, evaluate, and compare the opportunities for increasing U.S. exports. Decisions on which activities to undertake should consider the relative payoff against available resources, with each agency responsible for making the final decisions on commercial activities to undertake and for obtaining the necessary appropriations.

Finally, the individual country strategies eventually need to be analyzed and aggregated into regional and worldwide strategies. The State Department, because of its responsibility for overseeing operations in all Embassies, appears to be in the best position to take the lead role in combining individual agency strategies into an overall U.S.

trade approach and insuring that the various agencies coordinate their activities and assist each other. Procedures could be established to insure that agencies participate with State in preparing the overall U.S. strategy.

AGENCY COMMENTS AND OUR EVALUATION

The Departments of State, Commerce, and Agriculture and OMB agreed with our central premise that better planning was needed to accomplish U.S. trade objectives. Each agency, however, expressed some reservations with the manner in which the recommendations could be implemented. The comments are outlined below:

- The Department of State agreed with our recommendations and stated that corrective actions had been initiated or are planned. They stated that our report was not only timely but also, as noted by their comments, struck a responsive chord within the Department. (See app. III.)
- The Department of Commerce agreed with our central observations and conclusions. They stated that better planning of trade strategies on a country-by-country basis would serve to more systematically identify the trade opportunities and problems in each country. Commerce is now establishing a systematic and integrated plan to develop export strategies and programs on a country-by-country basis. Using this approach, Commerce plans to start with national objectives and end up with a carefully tailored program of export expansion activities for each of the 50 to 60 major markets of the world. Commerce believes this approach will fully meet the trade objectives set forth in our report. They emphasized that the focus should be on developing a broad trade strategy and should not be limited to developing an export strategy. (See app. IV.)
- The Department of Agriculture stated that it had long recognized the need for improved planning and the development of comprehensive export expansion strategies. They informed us that, with the limited resources available, a number of steps had been initiated to develop such in-depth strategies to improve

both commodity export promotion and overall agency planning. Agriculture did express concern with recommendations to give State authority to dictate individual agency strategies. They stated that the Council for International Economic Policy would seem a more logical focal point than State for reviewing and coordinating agency strategies for export promotion. (See app. V.)

--OMB generally agreed with our recommendations. They said their comments were consistent with and were intended to strengthen the report's basic point that country strategies should be developed as soon as possible. In addition, OMB stated that the strategies should be broadened to include such matters as tariff policies; nontariff barriers; and import, investment, and foreign exchange policies of foreign countries. However, OMB could see little reason for the President's Special Trade Representative, the Council on International Economic Policy, or themselves being directly involved in the development of guidelines for preparing, implementing, or reviewing the strategies. In their opinion, these functions are best left to the operating agencies that had the programmatic and country knowledge and competence. (See app. VI.)

There is a difference in the approach we used to develop the trade strategy for Mexico and that used by Commerce and State in developing their experimental programs on a country-by-country basis. However, State's and Commerce's corrective actions should help insure that their commercial activities are suited to and concentrated on important opportunities and problems peculiar to individual foreign markets.

We, therefore, are making no recommendation that our approach be adopted. We agree with OMB and Commerce that the proposed strategies should include all facets of trade and investment and not be limited to export strategies.

We believe the State-Commerce working group can be expanded and made more productive after an effective planning format is developed. An expanded interagency working group coordinated by State is needed to develop the best strategies possible and insure that all concerned agencies are working together to attain the most important objectives.

GAO COUNTRY TRADE STRATEGY FOR MEXICO

SUMMARY OF FINDINGS AND

SUGGESTED U.S. COMMERCIAL ACTIVITIES

In the comprehensive strategy that we provided to the agencies, we discussed each major sector of the Mexican economy and showed future sector plans and their trade implications for U.S. Government agencies to insure that U.S. companies participate in the trade and investment opportunities identified. This condensed version contains only the possible commercial activities that could be undertaken.

The following schedule lists the market sectors we reviewed. Because resources available for U.S. trade promotion may be limited, we arranged the sectors into three separate groups indicating which sectors could be affected most by U.S. commercial activities. For example, sales of U.S. goods and services in all the group I market sectors could be increased more by U.S. trade promotion activities than those in the group II sectors. This type of allocation is essential when resources are limited.

That resources be properly allocated among countries is equally important. For example, potential U.S. commercial opportunities in Germany may be greater than in Mexico. Because of limited resources, U.S. commercial activities in Mexico may have to be discontinued or reduced so that the United States can take advantage of the more substantial opportunities in Germany. This type of resource allocation will not be possible, however, until individual strategies for several foreign countries are developed and synthesized into regional and worldwide plans.

Market Sectors Reviewed
by GAO and Ranked According to Possible
Impact of U.S. Commercial Activities

<u>Group I</u>	<u>Group II</u>	<u>Group III</u>
Sugar industry	Livestock industry	Telecommunications equipment production industry
Electric power industry	Food processing and packaging industry	Agriculture industry
Nuclear power industry	Civil aviation	Agricultural equipment industry
Fishing industry	Highway planning and construction industry	Railroad planning and construction industry
Forestry industry	Seaports planning and construction industry	Mining industry
Pulp and paper production industry	Petrochemicals production industry	Pharmaceuticals production industry
Textile industry	Chemicals production industry	Consumer products production industry
Plastics production industry	Medical and clinical instrumentation production industry	Military equipment procurements
Petroleum and natural gas production industry	Tourism industry	
Environmental control equipment and instrumentation production industry		
Metallurgy industry		

BEST OPPORTUNITIES

Some factors we considered in identifying the market sectors that present the greatest opportunity for U.S. agencies and the Embassy to enhance U.S. commercial interests were:

- National interest programs anticipated in the sector. For example, in the environmental control sector, the Mexican Government has just begun to officially recognize pollution as a major problem and has passed legislation to control it. Demand for environmental control equipment is expected to skyrocket. Another example is in the forestry industry, where the Mexican Government is just starting to plan for systematic development of its forests.
- Major development planning and action already underway, such as in the sugar industry, with recent price restructures and modernization of the entire industry; electric power, with cycle conversion of the Federal District planned; and metallurgy, with vast projected investments.
- Low U.S. market share, such as in textiles and the pulp and paper industry (29.9 and 37 percent, respectively).
- Need to counteract increasing competition from other countries, such as in the electric power industry (Switzerland, Japan, and Spain); the environmental control equipment (Japan, West Germany, and France); and the metallurgy industry (West Germany, Japan, France, and the United Kingdom).
- High likelihood of U.S. commercial activities impact on all sectors in group I.

COMMERCIAL POTENTIAL

Substantial new investments have been planned for many sectors of the Mexican economy. For example:

- An estimated \$304 million will be spent to modernize and expand Mexico's sugar industry between 1971 and 1976.
- Mexico's electricity needs are predicted to almost double between 1970 and 1976, and expenditures of

\$320 million in 1972 were planned for plant construction, networks, substations, lines, and equipment.

- A program to develop Mexico's forestry industry will require investments of about \$472 million to create 15 integrated forestry complexes.
- Every major company in the pulp and paper industry plans to expand old facilities or develop completely new operations. The National Bank of Mexico estimates that, to meet the growing domestic demands for paper products and reduce the import of paper goods, an investment of \$180 million will be necessary before 1975. Imports of pulp and paper machinery are expected to increase at an annual rate of 15 percent.
- A Mexican Government study was being made to identify the textile companies that will have Government-approved expansion or renovation plans.
- Mexico's imports of metallurgy equipment are expected to increase at about 30 to 40 percent annually over the next 5 years.
- Development plans have been announced for Mexico's transportation sectors.
- The passage of new pollution laws will substantially increase the demand for pollution-control equipment and instrumentation.

Embassy personnel have obtained specific information on and are actively assisting U.S. companies to take advantage of only a limited number of these opportunities--such as construction of steel mills, nuclear powerplants, and fishing vessels. For most sectors, no concerted effort has been made to get specific information on proposed development plans and related equipment needs and no systematic actions have been planned to identify and assist U.S. companies that possibly could take advantage of these opportunities.

POSSIBLE COMMERCIAL ACTIVITIES

Discussion on the expanded strategy for each market sector included a section called "Possible U.S. commercial

activities." We attempted to describe briefly the activities by which U.S. agencies and Embassy personnel could increase U.S. participation in each market sector. Many of the activities we suggested are covered by programs already underway by U.S. agencies and would not require any massive buildup in capabilities. It would be necessary, however, to better target these programs so they are directly responsive to the specific needs and characteristics of the Mexican market. Activities already programmed include economic analysis and reporting; market research and analysis; commercial exhibits and seminars; trade missions; reverse trade missions and investment promotion; negotiations on tariff and nontariff barriers; export financing and guarantees; examining and reporting on possible investment, licensing, and trade opportunities; and providing information on possible agents and distributors for U.S. companies.

Activities we suggested may be new or may require a substantial change of emphasis in ongoing activities. These include comprehensive research of the Mexican market and identification of target industries that represent the best potential for U.S. companies; active and continuing consultation with Government, trade, and industry sources; initiation of active participation in Mexico's development planning for certain market sectors; detailed followup on trade and investment opportunities and business proposals from U.S. companies; coordination with U.S. agencies not directly involved in export expansion activities, such as the Atomic Energy Commission and the Environmental Protection Agency, which could help advance sales of U.S. products; coordination with international organizations in Mexico that have trade and investment programs; development of specific programs to help Mexico expand its exports; and assistance to U.S. companies registering to bid on development projects.

Ideally a number of different commercial activities should be conducted in each of the 28 market sectors reviewed. To varying degrees, each presents opportunities to enhance U.S. commercial interests in Mexico. From a practical standpoint, however, resources may not be sufficient to cover each area or conduct each activity. Therefore, our ranking of the 28 sectors into 3 groups should be considered when allocating resources to insure that all commercial activities in Mexico are keyed to the most promising industries and problems. As many areas as possible should be covered, but it is important

that resources are not allocated to the group III areas until there is assurance that all the group I and group II areas will be effectively covered.

Market sectors appropriate for each of the commercial activities listed below were provided in our more detailed analysis. For example, obtaining development plans would be appropriate for such industries as sugar, electric power, fishing, forestry, etc. Other activities could be developed from the information provided.

Obtaining development plans

A more concerted effort must be made to establish and maintain contact with Mexican Government and private industry officials responsible for development planning in the target sectors selected as having highest potential for U.S. commercial interests. Information from these sources should be used to prepare detailed lists of specific opportunities for U.S. equipment and services in such areas as the sugar industry, the electric power industry, the fishing industry, the forestry industry, the environmental protection equipment industry, and the petrochemicals, petroleum, and natural gas industries.

Providing technical assistance

Where possible, arrangements should be made for personnel from the Embassy, U.S. agencies and companies to provide technical assistance to Mexican Government and private industry officials planning development in the target sectors. This would help the United States obtain specific information on future development plans and counteract any similar offers made by other foreign countries.

For example, although the U.S. fisheries attache in Mexico City has helped U.S. companies to participate in constructing fishing vessels, his efforts could be broadened to cover other opportunities presented by the planned buildup in Mexico's fishing industry. He has an opportunity to assist such groups as Mexico's Sub-Secretariat of Fisheries, an Inter-American Development Bank Mission, and the United Nations Industrial Development Organization to prepare a comprehensive development plan for the industry.

The attache, with assistance from industry specialists in the U.S. Commerce Department, National Marine Fisheries Service, and the Maritime Administration, could develop a comprehensive list of U.S. companies that construct vessels and fish-processing plants and sell marine and fish-processing equipment. When the development plan is prepared, the attache, cooperating with U.S. companies, would be able to help develop a comprehensive proposal for their participation. Such an integrated proposal could include designing, constructing, and equipping fishing vessels, seaports, fish-meal plants, and fish processing and freezing plants. Even if such a proposal were not accepted, U.S. companies could still be contacted directly as information on individual projects became available.

Contacting U.S. companies

Lists of companies capable of providing equipment and services in each of the target sectors should be developed. Commerce field office personnel should send or hand-carry information on the specific development plans and related equipment and service needs in the sectors to the appropriate U.S. companies. Commerce personnel should follow up on these contacts to determine which companies are interested in these opportunities and how U.S. agencies and the Embassy can assist them. These companies should be continually advised of new developments, their business efforts monitored, and assistance provided in solving any problems they encounter.

Conducting trade and technical assistance missions

In some instances it will be important to conduct trade and technical-assistance missions to pursue the opportunities identified in the target sectors. For example, a U.S. technical-assistance mission should be organized by officials from the Environmental Protection Agency and technicians or consultants from U.S. companies capable of determining pollution equipment and instrumentation needed to meet Mexico's new pollution laws.

This mission is important because Mexico's pollution laws are new, and Mexican companies might need assistance in determining the specific types of equipment required to

APPENDIX I

conform to the laws. It could also pave the way for a followup mission and commercial exhibition at the U.S. trade center in Mexico City by U.S. companies that manufacture the appropriate pollution equipment and instrumentation. This mission should be conducted as soon as possible because France, West Germany, Japan, and the United Kingdom already have plans to exhibit their environmental control equipment in Mexico.

Conducting trade center seminars and exhibitions

BEST DOCUMENT AVAILABLE

Trade center seminars and exhibitions should be concentrated on equipment used in the target sectors. Also, these activities should concentrate on areas where, because of the large number of potential buyers, it is impractical to obtain specific development plans and put U.S. companies in direct contact with major Mexican buyers. For example, in Mexico over 200 companies produce plastic products. Since this is a rapidly expanding industry, a plastics production equipment exhibition should be held at the center.

Assisting U.S. companies to register to bid on public projects

There are 350 Mexican Government agencies concerned with contracts.

U.S. companies have to register with the appropriate agency before they can bid on its contracts. Before a U.S. company can receive payment on a contract with the Mexican Government, the company must register with the Secretaria del Patrimonio Nacional (National Patrimony).

We found that no more than 10 U.S.-based companies had successfully registered with the National Patrimony. Because the registration procedures are complex, Embassy and Commerce Department personnel, for at least the target sectors, should actively encourage and assist U.S. companies to register to bid with the appropriate Mexican Government agencies and the National Patrimony.

Registering with the appropriate Mexican agency does not insure that U.S. companies will automatically receive contract specifications or even invitations to bid on

specific projects as they are approved and announced for public bidding. Therefore, Embassy personnel should monitor all calls to bid on public projects in the target sectors and, if needed, encourage and clear the way for the U.S. companies to bid. If possible, arrangements should be made with the appropriate Mexican Government agencies for notices of and bid specifications for each approved project to be sent automatically to, at least, the U.S. Embassy for forwarding to the appropriate U.S. companies. To improve future performance, the reasons why a U.S. company does not receive a contract should be documented and proposals should be developed to avoid similar problems in the future.

Encouraging U.S. Manufacture in Mexico

Mexico's industries and consumer markets are protected by tariffs and import controls. About 67 percent of Mexico's total imports, by value, are subject to import licensing. These licenses usually are not granted if the product is already produced or manufactured in Mexico or if locally produced goods can readily be substituted. As a result, U.S. companies that have been exporting products to Mexico can suddenly find that the market is closed to them. For example, Mexico has encouraged the manufacture of chemical- and petrochemical-processing equipment. These industries have been growing at an average annual rate of about 16 percent, and import of production equipment has been decreasing at the rate of about 17 percent a year.

U.S. agencies and the Embassy have been unsuccessful in persuading the Mexican Government to eliminate its import-substitution policy. While these attempts continue, Embassy personnel should develop lists for each target sector showing equipment which Mexico now imports but which probably will be manufactured in Mexico in the future. When the lists are prepared, Commerce should actively seek out the U.S. companies exporting or planning to export the equipment to Mexico to determine whether they would be interested in manufacturing, assembling, and/or licensing the equipment in Mexico. Interested companies should be assisted in conducting feasibility studies and arranging contacts with appropriate Mexican Government officials and businessmen.

Coordination with international organizations

Embassy personnel should coordinate their activities with international organizations in Mexico that conduct projects bearing directly on U.S. commercial interests. The most important projects we identified were conducted by the United Nations Industrial Development Organization (UNIDO), the American Chamber of Commerce, and the Inter-American Development Bank.

For example, the Mexican Government is initiating a program to encourage the manufacture of 658 articles in Mexico that are now being imported. UNIDO is participating with the Mexican Government to contact companies in foreign countries which may be interested in manufacturing in Mexico. A UNIDO representative told us he had been receiving enthusiastic cooperation from such countries as the United Kingdom and Germany. If foreign companies do start manufacturing operations in Mexico, the market would probably be closed to U.S. companies currently exporting these articles. Therefore, Embassy personnel should work closely with UNIDO to insure that U.S. companies have the opportunity to participate in this program.

Assist Mexico to expand its exports

Mexico is still experiencing substantial trade deficits. In 1971 Mexico's imports exceeded its exports by \$967.5 million. To solve this problem, the Mexican Government is taking steps to increase its exports; if this program is not successful, it may turn to more restrictive import policies. Mexico is the fifth largest market for U.S. exports so it may be important that U.S. agency and Embassy personnel develop specific proposals to assist Mexico to expand its exports and present these proposals to the appropriate Mexican Government officials to forestall a more restrictive trade posture. Implicit in these actions is appropriate consideration of other U.S. economic interests in Mexico and the need for establishing country priorities for channeling U.S. trade efforts.

The United States could possibly be of assistance in improving Mexico's fishing, tourism, livestock, and forestry industries. In 1971 Mexico began shipping much greater quantities of shrimp to Japan and Canada, rather than

continuing to sell almost exclusively to the U.S. market. Because of record shrimp prices in foreign markets, shrimp exports gained the number two position in Mexico's total exports for the first time. The U.S. fisheries attache, while providing technical assistance on overall development planning in Mexico's fishing industry, could suggest ways to further expand exports of Mexico's fish products. Also, the National Marine Fisheries Service could develop ways to promote Mexico's fisheries in the exhibitions it sponsors in Western Europe to promote complementary U.S. fish products.

COMMENTS ON NEED FOR
COUNTRY TRADE STRATEGIES

Comments made during 1971 and 1972 by individuals in the Department of State, Agriculture, and Commerce; a management consulting firm; U.S. Embassies; and the U.S. trade center in Mexico are presented below.

STATE DEPARTMENT

State officials in a task force study of December 1970 entitled "Diplomacy for the 70's" stated that:

" * * * Although the unified foreign Service thus is committed to export promotion, the Department of State has lacked an organizational means of focusing on programs and policy for commercial activities * * * we have had no office specifically charged with responsibility for devising, in cooperation with the Department of Commerce, the most effective overall trade promotion and general commercial strategy. The Department in effect essentially has declined responsibility for effective implementation of trade promotion. When the Office of Business Relations is established, there will be a focal point to insure coordination of export promotion with overall trade policy and country-related policies * * * to be effective, it must be a source of new ideas and hard-headed evaluation of the relative returns from existing programs. Its function would not be restricted to clearing programs devised elsewhere, nor simply providing liaison with others engaged in trade promotion."

Another task force noted that the State Department's performance was inadequate in systematically and rationally defining U.S. commercial interests overseas, establishing priorities among them, and developing strategies to preserve and advance them.

AGRICULTURE DEPARTMENT

Officials at the time of our review described the problem as one of taring the total resources available to Agriculture and applying them in the right amount at the right time on a country-by-country basis in a manner calculated to maximize commercial exports of U.S. agricultural commodities. Promotion activities did not appear to be closely coordinated. To achieve the objective of creating, maintaining, and expanding commercial export markets for agricultural commodities, coordination must be effected on the basis of cooperation within Agriculture, cooperation within the U.S. Government, and support from Commerce. Each country is unique, with its own special problems vis-a-vis the task of expanding U.S. agricultural exports. Hence, special attention must be given on how the total promotion resources are used.

To help solve this problem, representatives are considering (1) evaluating agricultural imports, quantities, values, sources, and prices in each country, (2) evaluating import trends, (3) determining why the United States is not supplying the market or why its share is inadequate, (4) identifying products we could sell if a concerted export drive were initiated, (5) estimating the costs and benefits of the effort, and (6) recommending certain actions. From these considerations, a master plan with goals and objectives would be designed for each country. It would be coordinated on a worldwide basis and would guide agricultural attaches and make Agriculture's objectives known to all other interested organizations.

MANAGEMENT CONSULTING FIRM

In September 1971, a firm commissioned by Commerce to study its export expansion programs pointed out the need to target activities to the specific characteristics of foreign markets. It stated that Commerce should concentrate its resources, as needed, on export expansion objectives country by country; concentrate on highest leverage activities first; and adapt services to identified needs rather than filling only the needs that fit existing programs. The report concluded that:

"Overseas, country program plans would amount to multitechnique plans for accomplishing specific objectives in both promotion and policy areas on a country-to-country basis. Unlike present efforts, the country program plans should be the basis for resource allocation decisions down-the-line. Each would present a pattern of Commerce activity in support of export expansion with a specific trading partner. They should be aggregated to form regional and overall overseas plans for Commerce."

"Thus, we recommend that Commerce turn from its present, functional programs to geographically oriented programs. Further, its activities should become flexible enough to be tailored to support these programs. For example, if a trade mission is the appropriate technique to expand exports in a given area, then it should become part of that country program. If not, the most useful, existing technique to accomplish the same objective should be used, or a new one developed if necessary. Rather than restrict overseas activities to a set of traditional activities, none of which might be effective in a given country, we recommend development of specific programs--and the necessary tools that best support them--for individual countries, based on their peculiar import environments and the targets established by Commerce."

COMMERCE DEPARTMENT

As a consequence of the above study and of studies prepared by GAO and others, Commerce substantially revised its approach to developing country program plans. At the time of our review, an experimental program was being developed which is more country oriented and targeted and more operationally meaningful than those already prepared.

Commerce still plans, however, to attach to each program a list of all routine activities currently conducted without relating these activities to specific objectives in each country. In commenting on the decision to attach such a list, a Commerce official who is responsible for developing the new program format stated:

"The use of canned universal language to describe these so-called routine functions negates the very concept of program targeting and tailoring that is so fundamental to a truly effective country commercial operation. It also denies the Posts the kind of meaningful guidance and direction--in effect, a blueprint and mandate for action--that they should be getting from us if they are to plan, organize and carry out these 'routine functions' in a way which reflects and supports the objectives and priorities we have set for them * * *.

"These 'routine functions' are not, after all, something the Posts do in their spare time. This is their daily existence. This is what they do 99% of the time day in and day out. * * * It seems to me, therefore, that if we want their in-baskets--their day-to-day workload--to conform to our notions of what they should be doing first, second, third, or not at all, and how they should be doing it, we cannot just give them a canned activities list that reads the same for every program country, irrespective of the vastly different commercial potentials from country to country, and the vastly different commercial staff and resource capabilities from post to post."

U.S. EMBASSIES

A summary of combined views of several U.S. Embassies, in a response to a 1972 request for innovative ideas to expand exports, indicated that:

"A corollary to the need for establishing program priorities, is the need to differentiate among regions * * * the effectiveness of trade promotion techniques and programs is not uniform--as indicated, for example, by the greater need for ad hoc services in developing countries; by the need to substitute for inapplicable World Trade Directory Reports and trade opportunity programs in Eastern Europe; and by the usefulness of combination export managers to small firms interested in the European or Latin American

markets, while importers in other regions are reluctant to deal through such middlemen. Regional differences reported by the posts show the need to vary the mix of techniques and to establish priorities by region and country."

The Embassy in Singapore pointed out that the United States must be careful lest, in an effort to create more aggressive commercial promotion, it merely cause proliferation of programs designed for global use that might not be relevant to individual markets and that might rapidly become mere routine. The United States must allocate its resources to activities, products, and firms in which sales are likely to be the greatest. The product mix, thrust of effort, and payoff vary in each market. This means that the promotion programs developed must be flexible and must center on each post's initiative requirements and that these initiatives must be complemented by quick, flexible, and imaginative support from Washington and from field offices. The Embassy stated that existing programs too often use a shotgun approach at undefined targets, becoming routine and burdensome. World Trade Directory Reports, announcement of business visitor program, trade missions, and trade opportunity handling should all be given serious review in terms of their cost-benefit ratio. The Embassy stated that increased resources would best be spent gathering more and better market data.

U.S. TRADE CENTER

The market research officer at the U.S. trade center in Mexico City completed a comprehensive market survey in December 1971 to determine marketing objectives and recommend practical methods to measure, evaluate, and accomplish these objectives. He concluded that:

"Office of International Trade Promotion and U.S. exhibition export promotion activities are always preceded by in-country market research initiated in the U.S. to determine whether the promotion expense appears feasible in terms of cost-to-benefit criteria. This market research is generally limited to the specific industrial subcategory under consideration, and its objectives are mainly limited to promotion success in terms of expected immediate and relatively short-term sales resulting from the promotion.

"Market research of this type is necessary, and will certainly continue to be necessary for planning specific, successful U.S. export trade promotion activities, particularly in highly industrialized countries.

"However, such individual product sub-category market research, generally done irregularly and without a comprehensive country market plan, does not usually provide an overview of the market situation, the U.S. marketing disadvantages or trends, nor an indication of the marketing objectives which would permit a planned comprehensive marketing program designed to reduce the U.S. marketing disadvantages, and increase U.S. exports and market share in the relatively long-term time period."

The research officer also concluded that market research for a product subcategory was nearly as expensive and time consuming as for an entire industry. Further, the results of the more comprehensive research would normally provide market information equal to several of the limited research studies and would permit more effective planning for U.S. export promotion activities. The study could also indicate any long-term or developing U.S. marketing disadvantages and suggest activities for solving them.



DEPARTMENT OF STATE

WASHINGTON, D.C. 20520

JAN 29 1975

Mr. Oye V. Stovall
Director
International Division
U.S. General Accounting Office
Washington, D. C. 20548

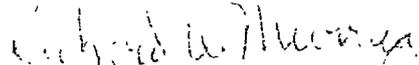
Dear Mr. Stovall:

Thank you for giving us the opportunity to review your recent draft report, "Better Planning of U.S. Trade Strategies Needed for Foreign Countries". We have studied the report, and attached you will find our comments.

For more than a year, the trade promotion activities of the U.S. Government have been scrutinized by a number of agencies, including the GAO, the State and Commerce Departments and the CMB. As a result of these studies -- and the concrete recommendations contained in them -- there has been considerable progress in improving services to American business overseas.

An important current priority in both the State and Commerce Departments is to develop better planning tools for setting U.S. commercial objectives world-wide and for managing our trade promotion resources. Your latest draft report is not only timely, but, as you will note from our remarks, it strikes a responsive chord in the State Department.

Sincerely,


Richard W. Murray
Deputy Assistant Secretary
for Budget and Finance

Attachment:
As stated.

STATE DEPARTMENT COMMENTS ON DRAFT GAO STUDY,
"BETTER PLANNING OF U.S. TRADE STRATEGIES
NEEDED FOR FOREIGN COUNTRIES

General Observations

This draft report follows logically from previous GAO studies, which examined various aspects of U.S. Government trade promotion activities -- trade centers, trade opportunities, market analysis and overseas commercial offices. It suggests a framework for evaluating the diverse services performed on the basis of specific export objectives.

In our own recent reviews of trade promotion functions, the State Department has arrived at the same basic conclusion as GAO: we need more systematic planning on a country-by-country, regional and world-wide basis. We must be more specific in defining trade goals; we must tailor programs and allocate resources to best achieve those objectives.

Implicit in better planning of trade strategies is the need for informed analysis of market conditions overseas. Thus, the workload of our commercial offices overseas will have to be restructured to give greater emphasis to market research and proportionately less emphasis to the routine, receive-type activities which have traditionally demanded most of the staff time. It may also require less emphasis on direct trade promotion type activities such as trade center shows and trade exhibitions, the effectiveness of which has been questioned by earlier GAO studies. These studies, as well as surveys by other government agencies, have recognized the requirement to reorder work priorities in our overseas commercial offices. Domestically, it will require assurances that market analyses and trade information developed by Foreign Service posts receive prompt, adequate dissemination to the American business end-user.

Comments on Recommendations for Secretary of State

1. Establish interagency working group to develop guidelines for country, regional and worldwide trade strategies: We concur that such trade strategies need to be developed on an urgent basis. As GAO noted, the State and Commerce Departments have formed a joint working group to develop a format for Country Commercial Programs (CCP). The Commerce Department's proposed format is

under active consideration. It was recently a principal subject of discussion at a regional Commercial Officers' Conference in Frankfurt, sponsored by State and Commerce. There was at the meeting general agreement that meaningful country programs are a much needed tool for directing commercial activities abroad. However, the officers present voiced differences of opinion on the amount of detail that should be required in plans, on the methods of evaluating progress, and on defining acceptable goals for trade promotion programs.

The CCP will eventually become an extension of the State Department's basic country policy document -- "Policy Analysis and Resource Allocation" (PARA). The PARA paper represents a coordinated inter-agency and embassy statement of U.S. policy and objectives, on a country-by-country basis. Proceeding from the broad policy guidance contained in the PARA, the CCP will set targets and priorities for commercial activities, as well as specify resource allocation at commercial offices abroad.

In the near future, we will designate several posts as part of a pilot program, to participate in developing a FY 74 country commercial program using guidelines decided upon by the working group. We agree with GAO that eventually these trade strategies could be used as an important part of the justification for commercial budget submissions.

Before expanding the working group to include other agencies (Agriculture, Eximbank and SFR) as suggested by GAO, we think Commerce and State should continue their joint efforts to develop an effective planning format. After we have completed that first important step, the State Department can seek to coordinate the inputs of other agencies.

(11)

2. Embassies prepare initial draft of country strategy: We agree with GAO's underlying idea that embassies should play an essential role in developing country strategies, whether they actually prepare the initial draft or contribute to a draft. The CCP that will emerge from the joint State/Commerce working group must reflect the sensitivity to local market conditions that embassies can best provide. Embassies can also be a source of fresh approaches to trade promotion, uniquely suited to particular markets. In general, we conceive of a CCP in which embassies and Washington agencies share in the drafting. Washington should take the lead in framing global commercial strategy -- setting down overall objectives, competitive assessments, priority product sectors, and priority geographic regions -- and projecting resource allocations world-wide for the various commercial programs. Embassies will also have an input to this broad commercial policy-making process, but their principal contribution will be in recommending programs for achieving U.S. commercial objectives in individual country markets.

3. [See GAO note 2.]

4. [See GAO note 2.]

GAO notes:

1. This recommendation was modified to say Embassies should participate in preparing strategies and provide active support to implement approved strategies.
2. The deleted comments pertain to matters omitted from the final report.

APPENDIX IV



THE ASSISTANT SECRETARY OF COMMERCE
Washington, D.C. 20230

March 16, 1973

Mr. Oye V. Stovall
Director,
International Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Stovall:

This is in reply to your letter of December 19, 1972 requesting comments on a draft report entitled "Better Planning of U. S. Trade Strategies Needed for Foreign Countries."

We have reviewed the comments of the Domestic and International Business Administration and believe that they are appropriately responsive to the matter discussed in the report.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Henry B. Turner".

Henry B. Turner
Acting Assistant Secretary
for Administration

Attachment

DOMESTIC AND INTERNATIONAL BUSINESS ADMINISTRATION

Comments on GAO Draft Report

"Better Planning of U.S. Trade
Strategies Needed for Foreign Countries"

APPENDIX IV

The Department of Commerce appreciates the opportunity to review the General Accounting Office Draft Report entitled "Better Planning of U.S. Trade Strategies Needed for Foreign Countries."

The basic conclusion of the study is that "a more systematic and coordinated approach is needed to (1) analyze individual foreign markets to identify the commercial opportunities and problems peculiar to each market, (2) decide which of these areas warrant attention by U.S. agencies and departments, and (3) prepare U.S. country trade strategies setting forth the commercial activities needed to seize the opportunities and solve the problems considered most important." The report goes on to point out that GAO recognizes that there probably are many alternative methods to those used in the Mexican pilot case.

The Department of Commerce agrees with these central observations and conclusions. Better planning of trade strategy on a country-by-country basis would serve to identify in a more systematic manner the trade opportunities and problems in other countries. The shortcoming in U.S. export marketing strategy identified by the report has also concerned the Department of Commerce in the formulation of our plans and programs in the export expansion field. We have, as the report notes, commissioned a major study to develop new concepts and ideas for improving our export promotion activities and to achieve a more cohesive, integrated and structured systems approach to export expansion. As a consequence, we are now putting into place a systematic and integrated plan to develop export strategy and programs on a country-by-country basis. However, given the resources available for these activities and their place in the overall system of Executive Branch priorities, we must do so on a more selective and targeted basis than the total-country approach proposed in the GAO Report. The latter, while more comprehensive, would imply a commitment of resources both in Washington and at overseas posts beyond those presently available. Moreover, the proposed approach would result in the development of a broad range of information on export possibilities which might be of only peripheral value to U.S. exporters--even if a suitable delivery system and follow-up mechanism could be created and financed--as well as a catalog of trade problems which would not be readily susceptible to external influence. From these observations, we would conclude that a broad gauge

and comprehensive country approach, while perhaps desirable, would be very costly in terms of the direct benefit it would yield for U.S. export and balance of payments objectives.

We believe that the alternative developed by this Department better fits our resources and objectives and, in fact, is more realistic in terms of achieving the desired trade results.

Based on long experience in this field and on extensive discussions with knowledgeable business leaders and trade experts, it is our firm belief that the problem of export expansion begins at home and that our basic objective in the area of trade promotion should be to get more U.S. firms into the export business and to get present exporters into new markets. To initiate this process, we must first identify those U.S. industries which are most competitive in international markets. Then we must identify within those industries (1) the product categories with the maximum export potential in the individual importing countries and (2) the U.S. companies which manufacture products in those categories. To round out the picture, the next step is to provide these companies with all the market information and assistance our resources permit to facilitate their penetration of the target markets.

It is in the development of the information needed under (1) above, that we need careful market research.

Were we to start with a comprehensive analysis of all products in all overseas markets (assuming the resources were available) we would come up with a list of scattered products for each country for which we would have to find U.S. manufacturers who, hopefully, would be competitive in each product in each market. We believe that such an approach would result in a dissipation of our limited resources and would yield sub-optimal results as compared with the concentrated, clearly identified, and sharply focused approach we have developed.

Having identified our target industries, we concentrate our resources on them. But we do not ignore the "targets of opportunity" presented by particular situations in particular countries. Our plans makes specific provision for these opportunities and allocate a portion of our resources to them.

APPENDIX IV

Our approach is summed up in our Country Commercial Programs (CCP) which are now in the final stages of design. For each major trading partner of the U.S. we will be preparing an annual CCP. These programs will be specifically designed for each country. They will use as their starting point the State Department "Policy Analysis and Resource Allocation" paper which states the U.S. economic and commercial policy vis-a-vis the country in the context of the totality of our objectives in that country. From this statement of policy, the CCP draws the commercial objectives to be achieved in the country, the strategy and tactics to be pursued and the detailed work program to be carried out to realize these objectives. The CCP document is also intended to serve as a management tool for measuring progress against specified goals and for identifying resource allocations and deficiencies.

The Country Commercial Program will be prepared jointly in Washington by the Department of Commerce and the Department of State. The jointly prepared draft will then be transmitted to the U.S. Embassy for review, concurrence or modification. At this stage the Embassy will have the opportunity to enter into the Program any problems and opportunities which might have been overlooked by the Washington drafters. The Embassy will also be able to reflect, in its proposed revisions, the results of the totality of its knowledge of the local markets. Only after all three parties have agreed on the draft, the details of the export expansion and other programs to be pursued, and the priorities to be attached to each of them, will the document become an agreed blueprint for action.

Using this approach we start with national objectives and end up with a carefully designed, individually tailored, program of export expansion activities for each of the fifty to sixty major markets of the world.

We believe this approach will fully meet the trade objectives set forth in the GAO Report. Moreover, it encompasses the particular expertise and knowledge of Commerce, State and the Embassies as outlined in the Report and obviates the need for a proposed new interagency group to develop country trade strategies. This Commerce approach is consistent with the assignment of export expansion responsibilities within the Executive Branch.

In addition to the above observations, we would offer the following brief comments. The draft is not clear in terms of

whether its focus is broad trade strategy or more limited export strategy. Although reference is made to the former, most of the discussion (including the lengthy review of the Mexican case) is directed to the latter.

In this connection, the report should make clear that the Mexican case is probably atypical in view of that nation's geographic proximity to the United States and the long history of trade and commercial relations between Mexico and the United States.

Office of the Director
Bureau of International Commerce
January 29, 1973

APPENDIX V



UNITED STATES DEPARTMENT OF AGRICULTURE
FOREIGN AGRICULTURAL SERVICE
WASHINGTON, D.C. 20250

MAR 30 1973

Mr. Oye V. Stovall
Director, International Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Stovall:

We have reviewed the draft report entitled "Better Planning of U.S. Trade Strategies Needed for Foreign Countries" with a great deal of interest, and would like to express appreciation for the real service GAO has provided the various government agencies involved in export expansion.

This Department has long recognized the need for improved planning and the development of comprehensive export expansion strategies. We have made some progress in improving our total approach to different markets, but know much more could be done. In discussions with GAO personnel who prepared the report we pointed out several things that we feel would result in improvement. However, we have never had the personnel and money to actually do the worldwide analysis necessary. With the limited resources available we have taken a number of steps to develop such in-depth strategies--to improve both commodity export promotion and overall agency planning. These include:

1. Testing the development of overall export expansion strategy with selected attaches this year. A program of setting trade policy, commodity intelligence, and export promotion priorities has been developed for six posts, broadly representative of all, with inputs from the field and FAS/Washington. This procedure will be expanded to other posts following the testing period.
2. Setting country strategies in the field by trade association personnel and agricultural attaches under the joint government/industry promotion program. Following this, annual marketing plans are submitted to the United States, where home offices of the trade associations and FAS analysts review and establish priorities on a worldwide basis for the use of available resources.

Mr. Oye V. Stovall

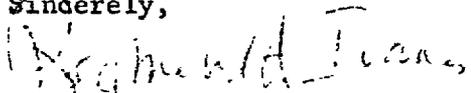
3. Preparation of country project statements for about 25 countries in which FAS initiated promotional activities for consumer products not covered under formal FAS/commodity cooperator programs. Trade policy and other considerations are taken into account in developing these country plans.
4. Frequent interagency contact at all levels in Washington on trade policy matters, promotional approaches, exports under government programs, and general trade strategies. Although no formalized broad strategy statements are issued, considerable coordination is inherent in the system.
5. A requirement that agricultural attaches be continually alert for export opportunities and suggest programs to capitalize on them. These are formalized in the country project statements, if sizable.

It should be pointed out that many agricultural/trade opportunities are ad hoc in nature--that for agricultural sales to have an impact they must, with a few exceptions, be of a continuing nature, and that an important share of agricultural exports is handled by trading firms rather than producers. Thus, a great deal of the work in promoting sales of agricultural products must consist of working with trade interests, both in the United States and abroad, just to maintain existing markets. FAS can do a more professional job of meeting the planning needs related to the above factors as more resources are made available.

This Department is concerned with the recommendation to give the State Department power to dictate individual agency strategies. The Council for International Economic Policy would seem a more logical focal point for reviewing and coordinating individual agency strategies for export promotion.

Again, we thank you for the time and effort that went into this report. The new GAO approach of providing management guidance is a most noteworthy procedural improvement.

Sincerely,



Raymond A. Icanes
Administrator

APPENDIX VI

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JAN 26 1973

Mr. Oye V. Stovall
Director, International Division
General Accounting Office
Washington, D.C. 20548

Dear Mr. Stovall:

The draft report "Better Planning of U.S. Trade Strategies Needed for Foreign Countries" emphasizes the need for concentrated analyses of commercial opportunities at the country level and the development of country, regional, and world-wide trade strategies. The report illustrates a possible approach to developing such strategies by utilizing Mexico as an example. Based on experience gained by OMB staff during a study this past year of commercial and economic representation abroad, we are in general agreement with that kind of approach. It should assist the Departments of State, Commerce, and Agriculture in developing more effective business assistance and trade promotion activities. The comments that follow are consistent with and are intended to strengthen the report's basic point that country strategies should be developed as soon as possible.

The report describes and illustrates the proposed country trade strategies almost entirely in terms of the identification of trade and investment opportunities (p. 4). This alone, in our view, would result in rather limited strategies. It would leave out such matters as tariff policies, non-tariff barriers, and import, investment, and foreign exchange policies of foreign countries. The report would be strengthened by indicating the importance of addressing these matters in a strategy paper. Mexican examples would be helpful.

12-3

We agree that the logical starting point for development of a strategy is the embassy. This requires analyses and efforts somewhat different from the traditional commercial work of embassies and consulates. Considerable assistance from Washington will be needed, especially for market research. Consequently, it would be preferable to begin in a few pilot countries, rather than requiring

The report calls for regional and world-wide strategies (p. 6, 13) but does not illustrate what is meant by those terms. We tend to believe that trade strategies are most meaningful at the country level and emphasis should be placed there. [3, 10]

The report calls for widespread interagency participation in developing the country strategies (pp. 6, 7, 20, 23, 45). We believe it most important that State, Commerce and Agriculture cooperate in developing country strategies and that initial efforts should be limited to these three agencies. Although credit terms are often an important consideration in individual trade transactions, we doubt that credit can or should be planned as part of an overall trade strategy. Embassies should be aware of credit facilities - local, American private and U.S. Governmental. However, utilizing the Export-Import Bank in developing country strategies (pp. 6, 45) may tend to direct embassy and Washington efforts initially to that institution rather than relying on private banks. [3, 4, 14, 17, 21 to 23, 21 to 22]

We see little reason for the President's Special Trade Representative, Council of International Economic Policy, or the Office of Management and Budget to be directly involved in the development of guidelines for preparing or implementing or reviewing the strategies (pp. 7, 46). In our opinion those functions are best left to the operating agencies that have the programmatic and country knowledge and competence. This Office need not review the country strategies, as part of its budgetary responsibilities, prior to their approval by the operating agencies. [3, 21 to 22]

We agree that if a country trade strategy is to be developed in the broader sense indicated in the second paragraph of this letter, the Department of State should actively seek the cooperation of the Commerce and Agriculture Departments. Both Commerce and Agriculture in Washington have significant trade competence for particular countries in their particular fields. State should make an effort with the other two agencies to pull together a reasonably consistent overall strategy without duplicating the competence those agencies have.

The report indicates current embassy activities could be better targeted, redirected or increased to implement country strategies (pp. 4, 30, 43). The report could be strengthened by indicating those current commercial activities that might be reduced or terminated in order to free up time for the developing and implementing of country strategies. OMB staff have found World Trade [2, 3, 16, 19]

BEST DOCUMENT AVAILABLE

APPENDIX VI

Directory Reports, Agent Distributor Lists, much industrial commodity and trade opportunity reporting, as well as some trade mission and exhibit activities, of peripheral value in various countries. Perhaps, the GAO Mexican experience produced similar conclusions.

We do not find the emphasis placed by the Bureau of International Commerce on identifying American industries with high export potential to be contradictory to the country-strategy approach of identifying American export opportunities as pages 40-41 do. We agree some American products may be competitive in some countries but not in others, but the information developed in either approach is apt to be complementary and helpful in the development of a country strategy.

[16-17]

We believe it more accurate to state that the merchandise trade surplus has been a very important component, rather than "the key component in the U.S. balance-of-payment equation, which has enabled the United States to finance its large international military and economic programs" (p. 8).

(5)

We doubt that whether the United States can improve its commercial performance in Mexico is necessarily as widely indicative as the statement on page 21 states. One could just as well oversimplify by stating that nearness, long-standing commercial relations, and large American company investments mean that if we cannot improve in Mexico, we can improve nowhere.

[12]

The comments above are made in appreciation of the effort and ideas your staff have advanced.


James M. Frey
Chief

International Programs Division

GAO note: Numbers in brackets refer to pages in final report.

PRINCIPAL OFFICIALS OF
DEPARTMENTS OF STATE, COMMERCE, AND AGRICULTURE
RESPONSIBLE FOR ADMINISTERING ACTIVITIES
DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
<u>DEPARTMENT OF STATE</u>		
SECRETARY OF STATE:		
Henry A. Kissinger	Sept. 1973	Present
William P. Rogers	Jan. 1969	Sept. 1973
Dean Rusk	Jan. 1961	Jan. 1969
UNDER SECRETARY FOR ECONOMIC AFFAIRS:		
William J. Casey	Feb. 1973	Present
Vacant	May 1972	Feb. 1973
Nathaniel Samuels	Apr. 1969	May 1972
<u>DEPARTMENT OF COMMERCE</u>		
SECRETARY OF COMMERCE:		
Frederick B. Dent	Feb. 1973	Present
Peter G. Peterson	Feb. 1972	Jan. 1973
Maurice H. Stans	Jan. 1969	Feb. 1972
ASSISTANT SECRETARY FOR DOMESTIC AND INTERNATIONAL BUSINESS:		
Tilton H. Dobbin	June 1973	Present
Lawrence A. Fox (acting)	Jan. 1973	June 1973
Andrew E. Gibson	July 1972	Dec. 1972
Lawrence A. Fox (acting)	June 1972	July 1972
Harold B. Scott	Oct. 1971	June 1972
William R. McLellan	Sept. 1970	Aug. 1971
Kenneth N. Davis, Jr.	Mar. 1969	July 1970
DEPUTY ASSISTANT SECRETARY AND DI- RECTOR, BUREAU OF INTERNATIONAL COMMERCE:		
Marinus van Gessel	Apr. 1972	Present
Robert P. Beshar	Oct. 1971	Apr. 1972
Harold B. Scott	May 1969	Oct. 1971

APPENDIX VII

Tenure of office

From To

DEPARTMENT OF AGRICULTURE

SECRETARY OF AGRICULTURE:

Earl L. Butz	Dec. 1971	Present
Clifford M. Hardin	Jan. 1969	Nov. 1971

ADMINISTRATOR OF THE FOREIGN
AGRICULTURAL SERVICE:

David L. Hume	Sept. 1973	Present
Raymond A. Ioanes	Apr. 1962	Aug. 1973

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