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Problems and Prospects for U.S. Exports to Western Europe

Results of the World Trade Institute
Survey on Exports to the EEC During 1983

Prepared under the Auspices of
the Institute's Advisory Board

by
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In its brief 14-year existence the World Trade Institute at the World Trade Center has established itself as the world's leading purveyor of seminars, conferences and courses on international business and finance. These practical job-oriented meetings are held at the World Trade Center in New York and in major cities throughout the United States.

The Evening School of World Trade, which specializes in transportation and trade operations subjects, and the World Trade Institute Language School serve the world trade community in

the New York/New Jersey area. The Institute's problem-solving International Training Programs have been attended by executives and government officials from more than 70 different countries. All told, more than 8,000 individuals attended Institute activities during the most recent year.

For information about the Institute and any of its programs, call (212) 466-3161 or write to the Information Office, The World Trade Institute, One World Trade Center, 55th Floor, New York, NY 10048.

An activity of **THE PORT AUTHORITY**



INTRODUCTION

In April 1984 the World Trade Institute, under the guidance of its Advisory Board, prepared a survey on a subject of major concern to the U.S. business community: exporting to the 10-member European Economic Community.*

The survey, entitled *Problems and Prospects for U.S. Exports to Western Europe*, was mailed to a cross-section of U.S. businesses, large and small, asking them to assess their 1982-83 export experiences, forecast prospects for 1984-85, and identify major trade obstacles and/or opportunities. They were also asked to describe what steps had been taken or were being contemplated in response to difficulties encountered in the EEC marketplace.

Of the slightly over 700 responses received, 599 were from a senior executive at a company actively engaged in exporting merchandise to the EEC. The bulk of the other 100 or so responses were from financial and other service organizations, to whom the questions were not specifically addressed, and a number of additional responses which arrived too late for inclusion in the analysis. While many of these 100 offered useful opinions in the subjective part of the questionnaire, it was decided to confine the analysis to the 599 actual exporters.

The respondents make up a good mix of direct exporters from all sections of the country, the majority either "large" or "upper middle" in size. In this case (see Table 1) 43% are considered large companies (total sales of more than \$100 million) and another 31% are put in the upper-middle category (between \$26 and 100 million in total sales). The fact that large companies predominate is hardly surprising, since every survey shows large companies responsible for the bulk of international sales.

Notably, though, the survey did attract a good share (15%) of "small" businesses (sales less than \$10 million) and another grouping (11%) of "medium" firms (sales between \$11 and 25 million). These two classifications provide significant inputs on how small-scale exporters are performing today and how such companies perceive their priorities in mid-decade.

The 599 respondents are also characterized by the broad variety of export performance and commitments and by the important cross-section of the industrial spectrum represented. For example, two-thirds of the respondent companies shipped \$5 million or less to the EEC during

1983, but 6% exported over \$100 million (Table 2). For three out of five respondents, exports to the EEC made up more than 10% of their company's total export activity (Table 3).

Manufactured and processed goods predominated as might be expected (Table 4), with manufacturers of fabricated metal products, electrical equipment, control/measuring equipment, chemicals, food products, and non-electrical machinery returning two-thirds of the 599 questionnaires.

The EEC region remains the largest overseas destination of U.S. exports (Table 5), which gives the survey special significance for the New York/New Jersey area. The New York customs region is regularly responsible for more than one-fourth in dollar value of American products shipped to the EEC (Table 6). Two of every five dollars of export shipments handled by The Port Authority of New York and New Jersey are bound for the EEC (Table 7).

In summary, the responses to the survey, both quantitative analyses and subjective comments, give a clearer picture of the situation U.S. exporters are faced with and new insights into their present plans for dealing with it. The answers were candid, and the opinions offered were nothing if not forthright. They are worthy of our careful attention.

The estimated \$218 billion of merchandise to be shipped abroad from the U.S. in 1984 (22% to the EEC) is too large an amount to be merely left to hazards of a preventable nature. Exporting is too vital for our national and local economies to be left to the vagaries of an unknown and uncertain international environment.

**In order of their standings as destinations for U.S. exports in 1983, these are: United Kingdom, Germany, Netherlands, France, Belgium-Luxembourg, Italy, Ireland, Denmark, and Greece*

CONCLUSIONS FROM THE SURVEY

1. American corporate commitment to the servicing of EEC customers is, on balance, little diminished. In the face of stagnation or decline in export sales reported for 1983 by the large majority (Table 8), there is a prevailing optimism about sales to the Ten in 1984-85. Reflecting a determination to remain competitive, 58% of our respondents project a recovery in sales, with those expecting no change or a drop only 42% (Table 9). A net annual gain of 5% is most probable after three years of decline.

2. What could be called a "cut and run" attitude toward exporting to EEC is much less in evidence than might be expected. Over 68% of our respondents expressed determination to hold onto their EEC markets (Table 10). For the majority of experienced firms—the great majority of our respondents consider themselves so qualified—the decision is *not* to shift, with an intensified dependence upon Western Europe for export profitability. However, some turning away from the EEC marketplace is reported by a minority, with successful shifting of resources to other markets, the new target often being the Far East (Table 11).

3. Respondents report convincingly that their corporations are moving in a systematic manner to implement strategic concepts in international decision-making to overcome an EEC environment that most expect to be more difficult for the exporter in 1984-85 (Table 12). Such a change ideally will permit a firm to be responsive to overcoming the combination of serious obstacles explicitly identified (in 1982-83) and forecast (1984-85) as posing challenges to profitability (Table 13). American enterprises are a long way from depending upon casual exporting in the mid-1980s.

4. Respondents are remarkably united in their opinions that a severely over-valued dollar has been (1982-83) and will be (1984-85) the most serious hurdle to U.S. exporters. Only a small group fails to identify dollar appreciation as the overwhelming impediment to competitive pricing by U.S. exporters (Table 14). This represents a doubly hard blow to exporters when combined with the second problem, the EEC economic slowdown of the 1980s. Without a dollar depreciation of 10-20% from end-of-1983 values—or 20-30% depreciation from September 1984—exporting by many U.S.-based producers will be virtually prohibited (Table 15). In the interim, EEC suppliers and other third parties (including producers in the Far East) are particularly skillful in displacing non-competitively priced U.S. products to fill the gap in European needs (Table 16).

5. Government restraints are not considered insuperable problems. Relatively few blame 1982-83 sales stagnation upon EEC tariff barriers, fears of a breakup of the EEC, EEC favoritism in sourcing, non-availability of official export finance, or U.S. Government export restraints. Aggressiveness and a determination to expand sales to the EEC—whether by exporting or by shifting production to Europe—are most frequently reported. It is apparent that few are sitting back and waiting for better days to merely happen (Table 17).

6. Specific management reactions to this challenging environment suggest significant change, which will allow firms to better anticipate (and react to) such situations in the future. The majority of respondents are moving strongly to make more effective utilization of one or more elements of the international marketing mix to overcome today's debilitating cost disincentive. Among the ways most frequently cited are paying closer attention to price and increased reliance on (lower cost) EEC-based output (Table 18). This latter move has the added advantage of being more responsive to changes in needs of EEC customers. At the same time, our respondents report more reliance upon international marketing research as essential for revamping of the marketing mix. "Marketing" in the broadest definition is seen to be the most important determinant of company success (Table 19), with the onus directly upon corporate management. Clearly, though, management will also be concerned with attempting to influence those external or "uncontrollable" forces that can be changed, however slowly and imperceptibly.

7. Perhaps surprisingly, this forceful determination to retain market share and competitiveness within the EEC is not accompanied by pleas for much *direct* action by Washington for the export community. Few expect Washington to open EEC markets more forcefully (Table 20), for example. No question, though, a large share of our respondents do want a more forthright effort to balance the budget and to get interest rates down (Table 21), two efforts believed to be a precondition to getting the dollar lower. A small group expresses particular bitterness about the lack of support by Washington and contrasts this to EEC actions to increase their exports. Specific efforts which received some mention include: toughening U.S. Trade Representative and Commerce efforts; improving Eximbank; upgrading tax incentives to exporters; and reducing U.S. export restrictions. Notably few championed more assistance to small business or a return to "free trade."

8. Finally, large, upper-middle, medium, and small business respondents provide generally similar responses to our survey, both to the obstacles confronted in 1982-83 and to the urgency for company changes in response to the challenges of 1984-85. Perhaps the most surprising discovery provided by the survey is the remarkable ability of our small business respondents to

find niches within the EEC marketplace and be *less* affected by the dollar appreciation. Many are concerned, however, about their longer-term capacity to undertake the investment and manpower commitments required to service the EEC market. For many small firms, the final choice will involve a major decision in terms of dollars and risk.

“... large companies predominate in exporting to the EEC.”

Table 1

1983 Sales Volume* of Respondents (by number of responses)

Over \$100 million (“large”)	43.2%
\$26-100 million (“upper middle”)	31.0%
\$11-25 million (“medium”)	10.7%
Less than \$10 million (“small”)	15.2%

*Domestic and export sales

N.B. Data in tables may not add up to 100% because of rounding.

“... two-thirds of our respondents (each) shipped \$5 million or less to the EEC in 1983... with 6% exporting over \$100 million.”

Table 2

**Respondent Export Sales to the EEC in 1983
(by size of respondent)**

<u>Firm Size</u>	<u>less than \$1 million in exports</u>	<u>\$1-5 million in exports</u>	<u>\$6-25 mil. in exports</u>	<u>\$26-100 million in exports</u>	<u>over \$100 million in exports</u>
Large	20.9%	28.0%	25.8%	11.6%	13.8%
Upper-middle	37.4%	39.9%	20.9%	1.8%	—
Medium	47.3%	47.3%	5.5%	—	—
Small	81.0%	16.5%	2.5%	—	—
Overall	37.5%	32.1%	18.6%	5.8%	6.0%

(n = 586)

"...three of every five respondents direct more than 10% of company exports to the EEC...with one in seven companies dependent upon EEC customers for more than half of corporate export sales."

Table 3

**Share of EEC Export Shipments in Company Exports
(by size of respondent)**

<u>Firm Size</u>	<u>less than 10%</u>	<u>11-25%</u>	<u>26-50%</u>	<u>more than 50%</u>
Large	40.4%	26.0%	19.3%	14.3%
Upper-middle	38.4%	26.8%	23.2%	11.6%
Medium	32.7%	23.6%	21.8%	21.8%
Small	46.8%	24.1%	15.2%	13.9%
Overall	39.7%	25.3%	21.1%	13.9%

(n = 584)

"...our respondents reflect the heavy proportion of US industrial equipment and industrial materials within the overall package of products directed at EEC buyers."

Table 4

**Survey Respondents by SIC Code
(share of major sectors)**

1. Fabricated metal products (SIC #35)	25.1%
2. Electrical/electronic equipment (SIC #36)	11.2%
3. Measuring/control instrumentation (SIC #38)	9.1%
4. Chemicals and allied products (SIC #28)	7.7%
5. Food and kindred products (SIC #20)	6.5%
6. Machinery (except electrical) (SIC #34)	6.1%
Top 6 responses	65.7%

(n = 570)

“...the EEC remains the largest overseas destination of US merchandise exports.”

Table 5

US Merchandise Exports to Major Regions
(in \$ bil.)

<u>Region</u>	<u>1975</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984*</u>
EEC**	\$22.9 bil	\$53.7	\$52.4	\$47.9	\$44.3	\$47.6
Canada	21.8	35.4	39.6	33.7	38.2	48.0
Latin America	15.7	36.0	39.0	30.1	22.6	25.1
Japan	9.6	20.8	21.8	21.0	21.9	23.2
Asian LDCs***	7.9	24.6	24.5	25.0	25.1	26.1
Rest of World	29.8	50.3	56.4	54.6	48.4	47.4
Global Exports	\$107.7	\$220.8	\$233.7	\$212.3	\$200.5	\$217.4

All data from US Department of Commerce, Bureau of Census

*six months at annual rate

**Greece not included in pre-1981 data

***Korea, Taiwan, Hong Kong, PRC, and ASEAN (Singapore, Philippines, Indonesia, Malaysia, Thailand)

"...the New York customs region is regularly responsible for handling one of every three to four dollars of American product shipped to the European Community."

Table 6

**Share of U.S. Customs Regions in Total Shipments
to the EEC* (percentage by value)**

<u>Customs Regions</u>	<u>1975</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
New York	31.0% (\$7.1 bil.)	31.6% (17.0)	28.3% (14.8)	25.6% (12.3)	26.3% (11.6)
Baltimore	16.6%	14.0%	14.3%	16.1%	13.0%
New Orleans	16.5%	13.8%	14.9%	15.2%	13.6%
Chicago**	10.8%	10.0%	11.1%	11.3%	11.8%
Houston	7.2%	6.9%	7.8%	9.0%	8.3%
Miami	5.3%	6.8%	6.7%	6.8%	7.8%
Los Angeles	5.0%	6.1%	5.7%	5.8%	6.8%
San Francisco	4.8%	6.4%	6.5%	5.0%	6.5%
Boston	2.9%	4.4%	4.8%	5.3%	6.0%
	100%	100%	100%	100%	100%

All data from US Department of Commerce, Bureau of Census

*Greece not included in pre-1981 data

**Chicago data includes grain transshipments primarily through Canada

“...two of every five dollars worth of export value handled by the New York customs region is bound for the EEC.”

Table 7

Dependence of New York Customs Region on US Merchandise Exports to the EEC* (value and share within Port)

<u>Export Destination</u>	<u>1975</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
EEC	\$7.1 bil. 37.9%	\$17.0 43.5%	\$14.8 41.4%	\$12.3 39.3%	\$11.6 40.1%
Latin America	\$2.6 13.7%	4.3 11.0%	3.8 10.7%	3.0 9.7%	1.9 6.7%
Japan	\$1.0 5.2%	2.3 5.8%	2.4 6.8%	2.4 7.6%	2.4 8.1%
Canada	\$0.1 0.8%	1.5 3.8%	1.0 2.7%	0.6 1.9%	1.0 3.4%
Rest of World	\$7.9 42.2%	13.9 35.6%	13.8 38.5%	12.9 41.3%	12.1 41.7%
All Destinations	\$18.7 bil. 100%	\$39.0 100%	\$35.8 100%	\$31.2 100%	\$29.0 100%

All data from US Department of Commerce, Bureau of Census

*Greece not included in pre-1981 data

“...with two of every three companies suffering from no change to catastrophic falls of more than 25%, it is understandable that total US shipments to the EEC fell for the third consecutive year.”

Table 8
Respondent Export Experience to EEC in 1983
(by size of respondent)

<u>Firm Size</u>	<u>No Change</u>	<u>Increase in Exports</u> (share reporting incrs.)	<u>Decrease in Exports</u> (share reporting decrs.)
Large	13.5%	38.7%	47.7%
Upper-middle	20.7%	40.2%	39.0%
Medium	19.6%	33.9%	46.4%
Small	16.3%	42.5%	41.3%
Overall	16.7%	40.1%	43.2%

Extent of the Export Change

Of those reporting an increase: 40.1%	
a modest climb (1-10%)	58.1%
a large climb (11-25%)	24.5%
a spectacular gain (>25%)	17.5%
Of those reporting a decrease: 43.2%	
a modest fall (1-10%)	34.1%
a large fall (11-25%)	31.7%
a catastrophic fall (>25%)	34.1%

(n = 586)

"...1984-85 prospects for US export shipments to the EEC point to a net 5-10% gain... after three years of discouraging falls in total sales."

Table 9

**Respondent Export Expectations about the EEC in 1984-85
(extent of the change expected)**

No change: 21.0%

Of those expecting an increase: 58.1%

a modest climb (1-10%)	59.9%
a large climb (11-25%)	28.4%
a spectacular climb (>25%)	11.7%

Of those expecting a decrease: 21.0%

a modest fall (1-10%)	53.8%
a large fall (11-25%)	21.8%
a catastrophic fall (>25%)	24.4%

(n = 587)

"...US exporters are determined to hold onto EEC markets."

Table 10

**Respondent Attention Given to the EEC Market in 1983
(by size of respondent)**

<u>Firm Size</u>	<u>"More Attention" to EEC Customers</u>	<u>"Less Attention" to EEC Customers</u>
Large	69.2%	30.8%
Upper-middle	70.2%	29.8%
Medium	62.5%	37.5%
Small	65.4%	34.6%
Overall	68.6%	31.4%

(n = 590)

“...For US companies that elect to shift resources away from the EEC, the new target is likely to be the Far East nations.”

Table 11
Of Respondents Devoting “Less Attention” to EEC Customers, What Target Received New Resources?

Canada	yes (57 responses);	no (64 responses)
Latin America	yes (65)	no (66)
Far East	yes (119)	no (39)
Middle East	yes (41)	no (n.a.)
United States	yes (13)	no (n.a.)
Was the Shift Successful?		
yes (76.6%)		
no (23.4%)		

“...many US firms expect the EEC customer to be a more difficult export target in 1984-85.”

Table 12
Respondents Assess the EEC as a 1984-85 Export Target (by size of respondent)

Firm Size	“More Difficult”	“Less Difficult”
Large	52.9%	47.1%
Upper-middle	56.0%	44.0%
Medium	55.4%	44.6%
Small	44.7%	55.3%
Overall	53.4%	46.6%
(n = 582)		

"...challenges to profitability abound amidst a combination of strong dollar, weak economic demand within the Ten, EEC actions on the trade front, and threats by new international suppliers."

Table 13

What Most Adversely Affected Your EEC Exports in 1982-83?

(n)				
586	1. Dollar strength	very adversely	79.5%;	no/little 5.6%
578	2. EEC economies	very adversely	44.1%;	no/little 12.5%
567	3. EEC actions	very adversely	26.4%;	no/little 32.3%
558	4. Lack of US Govt. support	very adversely	18.9%;	no/little 52.8%
559	5. Lack of export finance	very adversely	8.9%;	no/little 68.6%

What Major Problems Are Foreseen in 1984-85?

(n)				
588	1. Dollar strength	very adverse	65.9%	none/little 4.6%
574	2. Third-party competition	very adverse	40.8%	none/little 20.2%
567	3. Lack of US Govt. support	very adverse	23.3%	none/little 40.7%
579	4. EEC economies	very adverse	22.2%	none/little 14.0%
571	5. EEC actions	very adverse	22.1%	none/little 36.0%
531	6. Lack of experience	very adverse	6.4%	none/little 66.5%

"...dollar appreciation is an overwhelming hurdle to fully-competitive pricing by US exporters."

Table 14

**Foreign-Exchange Relationships
Confronted by US Exporters
(currency units per \$)**

	<u>12/31/79</u>	<u>12/31/81</u>	<u>12/31/83</u>	<u>4/30/84</u>	<u>9/28/84</u>
D-mark	1.73	2.25	2.72	2.72	3.06
Fr. franc	4.02	5.75	8.35	8.34	9.40
Lira	804	1200	1660	1681	1897
Bel. franc	28.0	38.5	55.6	55.4	62.00
Neth. fl.	1.91	2.47	3.06	3.04	3.44
sterling*	2.22	1.91	1.45	1.40	1.23
yen	240	220	235	226	246
Can. \$	1.17	1.19	1.24	1.28	1.31

*sterling rate is US\$ per sterling

All data from IMF except 9/28/84 figures from the Wall Street Journal

“...without a 20-30% depreciation of the dollar from September peaks, there is a near prohibition on exporting by many US-based producers.”

Table 15

**Respondent Claims of Dollar Depreciation
Needed (from 12/31/83) to Restore
Competitiveness to Products**

<u>Firm Size</u>	<u>Slight (1-10%)</u>	<u>Moderate (11-20%)</u>	<u>Substantial (>20%)</u>
Large	8.6%	59.5%	32.0%
Upper-middle	12.2%	47.4%	40.4%
Medium	7.8%	54.9%	37.3%
Small	<u>20.0%</u>	<u>48.0%</u>	<u>32.0%</u>
Overall	10.9%	54.7%	34.4%

(n = 569)

“...EEC firms and third-market suppliers are particularly skillful in displacing non-competitively priced US product.”

Table 16

**The Displacement of US Exports in the EEC*
Source of the Displacement in 1983**

Displaced by EEC suppliers	66.8%
Displaced by third-nation	44.4%
of which:	
Far East	59.3%
Other Western Europe	20.0%
Latin America	9.0%
Eastern Europe	8.3%
Displaced by own foreign subsidiary	27.3%
Displaced by other US firms	7.0%

*68.4% of respondents report exports displaced; 31.6% report no displacement.

Note: Many respondents report more than one source of displacement.

(n = 583)

"... aggressiveness and a determination to expand sales to the EEC characterize our respondents. Few companies are sitting back and merely awaiting better days to just happen."

Table 17

**Describe Your Company's Trade Relationship with
the EEC over the Next Five Years**
(answers appearing over 10 times, in order of frequency)

1. "Aggressive"
 2. "Expanding/growing"
 3. "Changing production to an EEC base"
 4. "Determined by the dollar value"
 5. "Positive/optimistic"
 6. "Hanging on"
-

"... more price flexibility and more reliance upon (lower-cost) EEC based output will be decisive actions taken in the mid-1980's."

Table 18

**Actions Being Undertaken in 1984-85 to Stay Aggressive
in the EEC Market**

(n)			
579	Pricing more flexibly	strong action ... 44.9%;	no/little action ... 17.0%
560	Relying on EEC subsidiary	strong action ... 30.1%;	no/little action ... 45.4%
566	Altering products	strong action ... 29.4%;	no/little action ... 32.3%
561	Upgrading market research	strong action ... 20.2%;	no/little action ... 34.6%
567	Increasing promotion	strong action ... 16.0%;	no/little action ... 35.9%

"... if the dollar can be brought down, the most important determinant of company success will be its ability to market in a professional manner."

Table 19

Suggestions to Increase U.S. Exports to the EEC
(responses mentioned 10 or more times listed in order of frequency)

1. "Get the dollar lower/down"
2. "Market in a professional manner"
3. "Get our U.S. house in order"
4. "More forceful USTR*/Commerce"
5. "Better Eximbank/export finance"
6. "Tax incentives for exporters"

**Office of the United States Trade Representative*

"...few expect Washington to open EEC markets more fully to U.S. firms."

Table 20

Will Washington be More Successful in Opening the EEC?

<u>Firm Size</u>	<u>Yes</u>	<u>No</u>
Large	11.9%	88.1%
Upper-middle	11.3%	88.8%
Medium	25.0%	75.0%
Small	16.5%	83.5%
Overall	13.5%	86.5%

(n = 586)

"...get the dollar lower, put the budget in balance, and reduce interest rates. These actions by Washington, rather than programs aimed specifically at exports, will generate the greatest boost to U.S. international sales prospects."

Table 21

Key Actions by Washington to Boost Corporate Export Prospects

(actions listed first by 10 or more respondents)

1. "Devalue/weaken the dollar"	32.6%
2. "Reduce/contain the budget deficit"	22.4%
3. "Lower interest rates"	14.8%
4. "Give financial incentives for exports"	10.9%
5. "Provide competitive export financing"	10.5%
6. "Eliminate/lessen U.S. export restrictions"	8.9%
	<u>100%</u>