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# Exports: How to develop foreign markets

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# EXPORTS

## How To Develop Foreign Markets

by FREDRIC L. BLANK/Partner, Atlanta

In 1784 an American ship, the Empress of China, sailed out of New York harbor bound for Canton with a cargo of tar, turpentine, ginseng, brandy, and wine. She traded these for tea and silk, and returned home 15 months later flush with the discovery of a rich new market for American exports. Lured by high profits and undeterred by the long, arduous voyage, other ships soon followed, and within four years American trading vessels represented a third of all foreign traffic in Canton.

The China trade of the early 1800s carried only a small share of U.S. exports, yet it exemplifies the crucial place that foreign trade once held in American commerce and the excitement it was capable of kindling. Today, with the 1978 trade deficit weighing in at a record \$28.5 billion, we would do well to revive some of our forefathers' hardheaded enthusiasm. Speaking at an annual meeting of the National Chamber of Commerce this spring, Commerce Secretary Juanita Kreps warned, "The United States can no longer consider its economic future as independent of the rest of the world.... We are now more dependent than ever on export markets as a source of growth for our industry, and on foreign sources of supply for needed raw materials." She also declared that international trade will be central to U.S. economic survival in the 1980s.

Strengthening our export position means reversing a trend that has been building for the past twenty years. Since 1960, U.S. exports have grown only about half as fast as total world trade. From 18.2 percent of world

trade in 1960, U.S. exports declined to 10.7 percent in 1977. True, the picture has been somewhat distorted by spiraling oil prices in the 1970s; however, U.S. trade share had already slipped to 15.4 percent in 1970, before oil prices started to climb. What's more, other non-oil exporters have fared well, despite the oil price rise. Japan, Western Europe, and such advanced developing countries as Brazil and Korea have preserved or increased their export share in the face of higher energy costs, and also managed to achieve export growth close to or exceeding the growth of world trade.

Various reasons for the U.S.'s declining export position have been bandied about: cheaper labor abroad, export subsidies paid by foreign governments, lower standards of quality that make foreign products less expensive to produce, and the historically overvalued dollar. At one time these reasons may have been valid. Today, however, I believe there is a subtler and more pervasive reason that we have fallen behind. It goes beyond even our chronic dependence on imported oil and comes down to our basic attitudes about exporting.

The U.S. does not think of itself as an exporting nation. For us, exporting is an afterthought. Surrounded by the biggest and richest home market in the world, U.S. companies do not feel they need foreign sales in order to expand and grow. Nor has the United States, fortified by a wealth of natural resources, had to depend on exports for its economic survival, as many countries do. Thus foreign trade has ranked

low on the list of national priorities, with government policies offering little aid, and many obstacles, to would-be exporters.

Industry and government must share the responsibility for turning this situation around and so, to a lesser degree, must the professional people (accountants, lawyers, bankers and others) who advise business leaders. In a variety of ways, the private, public, and professional sectors must begin now to stimulate export growth.

### Industry: a Four-Part Strategy

The first step for industry is to start looking at the positive side of exporting. Admittedly, selling in export markets involves complications that selling in the U.S. does not. However, it sometimes seems that U.S. businessmen concentrate so much on potential problems that they forget the opportunities. Out of an estimated 300,000 manufacturing firms in this country, only 25,000 are exporters. Just 250 companies, most of them large corporations, produce 80 percent of U.S. exports.

Fear of excessive paperwork, cumbersome financing and shipping arrangements, and all the unknowns of doing business in a foreign land too often outweigh the profit motive and prevent any realistic assessment of a company's chance of success as an exporter. Thus, many companies that could do well in foreign markets never try to sell their products abroad and so, in a sense, cheat themselves of potential profits and growth.

Our "export inertia" shows up in the



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response of U.S. manufacturers to Japan's efforts last year to correct its staggering trade imbalance with the United States. This imbalance grew to \$11.6 billion in 1978, over one-third of our trade deficit. To stimulate U.S. exports, Japan liberalized quotas and tariffs on many products, and even located trade centers in six U.S. cities. Results were disappointing. Exports to Japan did increase 22 percent last year, but that rate is only slightly greater than overall export growth and represents only \$2.3 billion in sales. By contrast, sales of Japanese goods in the United States were \$5.9 billion higher; and U.S. exports to Western Europe, where no special measures were taken, increased \$5.3 billion.

Companies that can sell their products at home can probably sell them abroad. Entering foreign markets is no different from entering a new market in the U.S.A. It requires the same market research, product planning, pricing decisions, and promotion. Most of the information a company needs to get started, from market surveys to lists of overseas agents and distributors, is available through the Commerce Department's 43 district offices, where exporters can pick up advice and assistance from trade specialists. Foreign assistance is also available, and U.S. businessmen should avail themselves of it in devising export strategies.

There are profits to be made in exporting, and surely many companies other than the 250 major exporters could find lucrative sales opportunities abroad. One North Carolina lamp manufacturer, for example, parlayed a Japanese interest in wooden lamps (wood in Japan is scarce) into sales that reached \$50,000 a month. A Philadelphia instrument company that went out three years ago looking for Latin American distributors sold a quarter million dollars in exports last year. Other companies, large and small,

would no doubt profit from following their example.

In addition to developing a positive outlook toward exporting, industry needs to rethink four practices which I believe are limiting U.S. sales abroad.

*Destination of exports.* Our balance of payments currently relies heavily on

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exports to Western Europe and, to a lesser degree, Japan and Canada; together these nations accounted for over half of U.S. exports last year. However, export opportunities in Japan and Western Europe are becoming increasingly limited. Tariffs and other trade barriers make selling there uneconomical, and these countries can accelerate production to fill their own domestic needs—except perhaps for agricultural products. U.S. companies can still find profitable markets in Western Europe and Japan, especially for high-technology products or consumer goods with unique appeal. However, the main thrust of our export growth will have to come elsewhere.

One likely area is the advanced developing countries—Brazil, Korea, Taiwan, Singapore, Mexico, Venezuela and others on the brink of industrialization. These countries must import much of the heavy equipment and machinery they use; and the U.S., which produces such equipment in abundance, is a logical supplier. Commerce Department market reports show, for example, that Brazil plans to double its electrical generating capac-

ity by 1982, importing \$350-400 million of equipment. Taiwan is also shopping for generating equipment, while Mexico will import \$180 million of machine tools annually by 1982. Singapore, Taiwan, and other Southeast Asian countries will import about \$180 million in industrial control equipment, including pollution controls, this year. Imports of construction and mining equipment in Venezuela will reach \$1 billion in 1980.

Some of the advanced developing countries are also producing enough per capita income to suggest a potential market for consumer goods. Trade with these countries represented only about 25 percent of U.S. exports last year, and a third of that was with Brazil, Mexico, and Venezuela. The U.S., for example, supplied only one-fifth of Korea's \$15 billion import shopping list last year. However, there is also evidence that the trade potential of developing countries is beginning to be recognized by some U.S. businessmen. Exports through Miami to Latin America, for example, increased 34 percent over the last five years.

Communist East Europe appears to be another emerging market for U.S. exports, now that these countries are relaxing some of their political restrictions against foreign trade. The Commerce Department estimates an import market in Eastern Europe of \$60 billion, of which the U.S. currently has only about 2 percent.

*Developing export strengths.* A perennial bright spot in the U.S. export picture is heavy machinery, which last year accounted for 20 percent of overseas sales and virtually tied with agricultural products as the top export category. But although opportunities will continue in this area, U.S. companies must be prepared for increasing competition. Many developing nations are nearly ready to begin exporting their own moderate-technology

products, including basic machine tools and smaller construction equipment, while other industrialized countries produce high-technology products that rival our own. Indeed, while heavy machinery exports increased sharply last year by volume, the category moved very slightly lower as a percent of total U.S. exports (compared to 1977).

We need to develop new areas of export strength. For instance, high technology products—such as medical, professional, and laboratory equipment and industrial testing and control instruments, where U.S. companies often set the standard for quality and innovation—would seem to be one area where a bigger push could be made. Together, the two categories accounted for two-and-a-half percent of U.S. exports last year, or \$3.6 billion. Potential buyers for these products abound in both industrialized and developing countries. For example, the

Department of Commerce reports that ambitious health care programs in Korea, the Philippines, and Venezuela will involve heavy spending for medical and hospital equipment over the next two to three years, while France will increase purchases of U.S. process control instruments for its expanding antipollution and nuclear programs.

Consumer goods is another neglected area, amounting to less than 10 percent of last year's total exports—and this is one of the most feverishly inventive consumer nations in the world. Considering our efficient mass production techniques and merchandising know-how, and the enormous variety of consumer products we turn out, U.S. companies would seem well prepared to move into foreign markets. Developing countries and Communist East Europe are potential buyers. Commerce Department reports also show pockets of interest in Western Europe, including markets for

sporting goods in Norway and Finland and housewares in France.

Trading opportunities change continuously, and businessmen must keep abreast. Today it may be offshore drilling equipment for Singapore, tomorrow jogging shoes in Helsinki. U.S. companies must be alert to what the world is buying and quick to step in and offer their products for sale.

*Adapting products to export.* Japan's success in flooding the world market with inexpensive electrical products after World War II stands as a lesson to exporters everywhere. The Japanese recognized the desire of people in that postwar period to own products, albeit not durable or well made. Then as personal needs changed and economic conditions improved, so did their products.

U.S. businessmen have been remarkably less aggressive in adapting to the needs of foreign nations than have their counterparts in other countries. In fact, I believe the principal stumbling block for U.S. exports today, particularly in developing countries, stems from the faulty assumption that a company can sell the same products abroad that it sells in the United States.

Until we recognize the kind of products that developing countries need, we will have little success in increasing our share of that market. Obviously, you cannot sell washing machines where electricity is scarce, or luxury goods to subsistence-level workers; but you might be able to sell home furnishings in a country that recently tripled its housing stock, if you adapted your product to reflect its life-styles and tastes. Neither can you sell any electrical appliance, even one consumers are anxious to buy, unless, like the Japanese, you adapt it to the country's voltage and cycle standards and furnish it with a plug that fits their outlets. How many U.S. manufacturers are doing this?



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Likewise, U.S. automakers have produced almost exclusively for the U.S. market, where until recently consumers wanted only large, comfortable cars. But big cars are difficult to sell in countries where streets are very narrow, gasoline costs \$3 or more a gallon, and parking is problematical. Thus to some extent we have a built-in disadvantage in exporting automobiles that the Japanese and West Germans do not have. On the other hand, foreign automakers in the U.S. could not have gained their current market share without making some concessions to the luxury and horsepower U.S. consumers demand. Perhaps we should make a similar effort to retool our assembly lines for export.

Instead, to resolve the disparity between U.S. and foreign car buyers' needs, U.S. automakers have approached each market separately. Rather than modifying U.S. vehicles for export, they have invested in foreign car companies, building overseas plants to manufacture the cars they sell abroad. Such overseas investment enables a company to enter foreign markets and earn a profit, but it does not create jobs for U.S. workers or even out the trade deficit, which exporting does.

Our system of weights and measures is another obstacle to foreign purchasers of U.S. products. The U.S.A. is the only major country in the world that has neither adopted nor made definitive plans to adopt the metric system. Although many of our larger, and some smaller, industrial companies have "gone metric" in order to compete abroad, most have not. Obviously the value of our products abroad is greatly diminished when the user must re-engineer in order to use our goods, or when size differentials make spare parts impossible to obtain. When Canada and the U.K. adopt the metric system, as they plan to do soon,

the markets for non-metric U.S. goods will shrink still more.

*Marketing exports.* Prices of U.S. exports have become more attractive as the value of the dollar declines, particularly in comparison to Japanese and West German currencies. The new GATT international trade agreement, when it is approved, will also give a competitive boost to U.S. products by reducing or eliminating some tariffs and export subsidies in the countries that sign it. All U.S. products are not equally price competitive, however. For example, cheaper labor costs in Taiwan, Brazil, and Korea give their textiles, shoes, and softgoods a price advantage U.S. manufacturers cannot match. For the most part, though, the U.S. has a true edge in pricing that should be exploited by exporters.

If we are trailing in the export race it is not because our competitors are naturally gifted athletes, stronger and faster than we, but because they are running—and selling—harder. In a country that has raised marketing to the status of art, it seems ironic that the

Commerce Department must report: "U.S. suppliers currently have a small share of [Hong Kong's \$85 million market for imported printing equipment, inks, and paper] *mainly because of insufficient promotion...*" (*Business America*, April 9, 1979, italics added.) How many companies promote foreign sales with even a portion of the time, energy, and money spent on domestic campaigns? How different might our export picture, and the companies' sales reports, look if they did?

### **Government: More Incentives**

For the past few years, especially after foreign trade deficits began to occur in 1971—and then reoccurred in 1972, 1974, and 1976-78—the federal government has recognized, and even gone so far as to "discuss," the relatively new "export problem." (Although the U.S.A. had a \$10 billion general balance of trade surplus in 1978, the \$38 billion deficit in oil and other fuels caused the overall deficit.)

A President's Export Council, estab-

lished five years ago to offer ideas towards developing exports, has accomplished little. The Department of Commerce has called attention to the problem and has gone so far as to offer a proposal for export stimulation, although only limited heed has been taken. The President announced in September, 1978, a national export policy which was broad in scope, but left the specifics for later action.

The plain fact remains that we are still the only major country in the world without a working, centrally directed export program. The little that has been accomplished so far excludes what I believe to be the three most essential ingredients:

- tax incentives;
- a mechanism for low-interest export financing, available to companies of all sizes; and
- readily available technical assistance to handle export paperwork.

The Commerce Department proposal does address some of these needs. In particular, it calls for tax incentives, additional financing (only the SBA and the Export-Import Bank now offer low-interest loans for export financing by "small" companies), and a relaxation of government interference in the areas of antitrust, environmental protection, and health and safety rules.

These proposals are a good start—at least Commerce has recognized the severity of the problem—but I believe they could go further. A number of other, much-needed export stimulation measures can only be undertaken at the federal level. Therefore, I would expand the Commerce Department's list to include the following:

1. Form a public (or private) company to handle export procedures and paperwork. This could be done either by purchasing goods directly for resale abroad, or by arranging for the transfer of goods abroad so that companies

can sell FOB foreign ports of entry. Several other governments offer this invaluable service.

2. Establish trading companies to work with major industries and handle exports of their products.

3. Pass legislation permitting export cooperatives, with corresponding tax benefits.

4. Develop a massive program of public seminars, publications, and specialized people to assist industry in initiating export programs. Some steps along these lines have been instituted by the Department of Commerce and by local state agencies. Information should be furnished on shipping, market potential, currency data, profit repatriation, payment procedures, tariffs, freight charges, warehousing and storage, insurance, packing requirements, language translation, availability of representatives abroad, advertising, and foreign industry costs, including wage scales and benefits. Assistance might also include market analysis, actual calculation of export costs, and help in complying with reg-

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### **In September, 1978, the President finally gave export growth a definite priority on the national agenda.**

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ulatory authorities and coping with the related paperwork.

5. Increase commercial attache activities in embassies and consulates abroad, including an aggressive program aimed at identifying foreign purchasers for U.S. products.

6. Develop market catalyst programs to bring exporters and importers together.

7. Rescind restrictions on multina-

tionals. Provide more favorable taxation of U.S. residents living abroad who are involved in exporting activities. Defer proposed restrictions on DISCs or provide an appropriate substitute stimulus.

8. Encourage or sponsor additional permanent and periodic trade fairs. There are currently 15 such fairs operated by the Department of Commerce in the U.S., but many more are needed.

9. Establish an R&D bank, or provide direct subsidies for R&D expenditures that stimulate exports. R&D expenditures as a percentage of GNP in the U.S. have been declining in relation to those of Japan and West Germany.

10. Reduce the cost of political risk insurance and improve FCIA (Foreign Credit Insurance Association) service. FCIA rates are too high, and turn-around time is far too long.

11. Redefine the "political" needs for imposing restraints on U.S. exports, in order to eliminate automatic restrictions in situations where other western countries fill the slack.

12. Establish a national maritime policy to eliminate our dependence on foreign shipping lines which are owned and subsidized by foreign governments.

Although it has begun to talk about the problem, government has not yet taken the aggressive posture necessary to remedy our export dilemma. It was only in the September, 1978, address that a President finally gave export growth a definite priority on the national agenda.

The Common Market countries have, for the most part, defined export policies. Consequently, while the U.S.A. exports 7 percent of its GNP, they export 20-40 percent of their GNP. Per capita exports in the U.S.A. are running at \$527, while the comparative figures for West Germany, France, and Japan are \$1645, \$1097, and \$604,



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respectively. In the past, we have not had to export to live as these countries have. However, times are changing, and, while the incentive to export rests with industry, it is a function of government to encourage and aid in the process.

### Professionals: a Support Role

The largest companies already have the know-how and monetary resources to identify opportunities and begin exporting. Most smaller companies do not. For them, exporting looms as an aggravating, troublesome, and time-consuming chore that may or may not return enough profit to make it worth the effort. Professional people who advise these companies can do a great deal to help them over their initial doubts.

This support function is not solely a responsibility of the professions. Chambers of Commerce, trade associations, and industry groups should also lead the way with programs to stimulate and simplify a company's first steps abroad. Universities and even secondary schools should look for ways to give future businessmen a better understanding of international economics and trade opportunities. However, because of their direct and continuing relationships with smaller companies, professional people—especially accountants, bankers and lawyers—are in the best position to supply the technical knowledge and, perhaps, the nudge their clients need.

Lawyers, for example, can offer invaluable advice on foreign sales agreements, the tax implications of exporting, allocation of trademarks and names, and the legal implications of shipping arrangements in the U.S. and destination countries. Bankers can explain and recommend various methods of financing exports and receiving payment for goods shipped abroad. Accountants can begin by ex-

amining export potential when they analyze a company's financial statements, helping management to determine how exporting would affect company operations, resources, and profits. Exporting involves an enormous amount of documentation and paperwork, with different forms required by different countries. Accountants can collect information about what different countries require and make it available to their clients. Inquiring through their firm's international offices or through associates in other countries, accountants may be able to help their clients locate reputable foreign firms to act as agents or distributors. Similarly, they can assist clients in verifying the integrity and financial standing of potential foreign representatives. They can also advise on tax considerations and advantageous ways to structure sales agreements.

Information about exporting is available through the Commerce Department. However, professional organizations should also be encouraged to develop programs to instruct members in specific technical areas. All companies are not potential exporters, but those that have the potential should get the fullest possible support from professional advisors.

### Summary

Positive action must be taken to prevent further decline of the U.S. position in world trade. Such action is required of both industry and government. Industry must take more measures to export. Manufacturers must consider product utility and design, along with price, and modify for export when necessary. Special export departments should be established to identify such modifications and to seek export opportunities in general. The main effort should be concentrated on products which are price com-

petitive; such products as labor-intensive consumer goods should not be stressed. More attention must be given to exports for nondeveloped countries.

The government, for its part, must formulate a detailed national export program to offer both monetary assistance (tax incentives, financing) and know-how. It should identify export opportunities, match up exporters with importers, and form agencies or companies to physically handle paperwork. Stated another way, government should do whatever is needed to help businessmen overcome the fear, the lack of knowledge, and the cost of working in a new area. Most importantly, the program should stimulate an awareness of the need to export (particularly in certain industries) and offer measures to treat our case of national export inertia. Furthermore, legislation converting the U.S. to the metric system should be passed as quickly as possible.

As trusted advisors to many smaller companies, professional people also have an impact on exporting which they must learn to use. They must develop the technical expertise to smooth their clients' entry into foreign markets and, where appropriate, must take the initiative in encouraging companies with export potential to sell their products abroad.

The GATT international trade agreement, once it has been ratified, will improve the competitive position of U.S. products in export markets. However, that alone will not lead automatically to export growth. We must alter the habits that created this situation in the first place, and we must do so quickly. For unless we increase our exports greatly, the costly burdens of importing oil and maintaining defense forces abroad will continue to weaken our economy, until we place our high standard of living in jeopardy. ▲