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# State Export Development Initiatives

*James D. McNiven\**

## I. INTRODUCTION<sup>1</sup>

**E**xport development plays a central role in any discussion of industrial policy. The relative position of balances of payments is a proxy for measuring degrees of competitiveness between national economies. Hence, policies that encourage exports also act to improve the perception of national competitiveness.

Export development can be pursued by lowering the sales cost of potential exports. This can be accomplished by tax rebates, by subsidies to exporters based on the products exported, or by lowering the input costs to exporters. Examples of this type of export development policy are special industrial rates for power or transportation given to exporters, and the waiver of national sales or other excise taxes on exported goods. The use of direct subsidies to exports of agricultural goods has produced an international scandal in recent years.

A second type of export development policy is the lowering of the transaction costs of exports. Governments may elect to assist existing and potential exporters in their dealings with importers in foreign countries. There are three main ways in which this assistance is delivered: through export promotion programs, through various forms of export financing, and through foreign trade zones.

Traditionally in the United States, export development has been a federal activity. The U.S. and Foreign Commercial Service ("USFCS") maintains over 127 offices in foreign countries as well as 67 U.S. offices for the purpose of assisting American exporters.<sup>2</sup> The Export-Import Bank exists to help finance and insure foreign sales, and the U.S. government has allowed the establishment of foreign trade zones for many years.

Before the 1980s, the states did very little to encourage exports. A few states maintained foreign offices to encourage foreign investment, and these offices also assisted with trade promotion. It was in the recession of 1981-82 that state governments realized voters expected them to use every available means to increase employment. In reaction they be-

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<sup>1</sup> I would like to thank Joan McNiven and Mitch Kowalski for their help in organizing the research material used in this paper.

<sup>2</sup> Hoffmann, *Overseas Sales Pitch*, NAT'L J., Jan. 16, 1988, at 132.

gan to deploy a wide range of export development programs. According to a report from the National Governors' Association, the state role in export development has expanded and has become increasingly activist.<sup>3</sup> There have been two key factors noted which have made the export development issue a priority for state governments.<sup>4</sup> First, twenty-seven states believed that the 1981-82 recession was a catalyst. States realized that they were not recession-proof. A second factor was the post-recession withdrawal of federal support coupled with political pressure from declining industries. This produced more emphasis on promoting existing businesses rather than investment promotion.

Fluctuations in federal support for export development have forced states to carefully consider plans for economic development. It has been commented that the federal budget cutbacks, resulting from a record deficit, prompted the states to develop their own trade efforts.<sup>5</sup>

The extent of state efforts appears to vary considerably. Each state has some sort of program, although many are very small. These export promotion programs employ from one to forty professionals, depending on the extensiveness of the state's effort.<sup>6</sup> Also, the focus of the programs varies. Some states choose to operate in conjunction with existing federal programs, while others are more independent. In 1984, nineteen states received some type of federal funding for trade promotion. This included those states with no budget of their own for export promotion.<sup>7</sup> Federal funding came from one of two programs: either the International Trade Administration, which extends Small Business Export Expansion Grants, or the Economic Development Administration with its demonstration programs.

The National Association of State Development Agencies ("NASDA") reported that almost 21 million dollars were spent by forty-six states in 1984 for the promotion of international trade and of foreign investment into the United States.<sup>8</sup> By 1987, "11 States [were]. . . spending more than 1 million per year to stimulate exports and the average budget [grew] 66% since 1984 to \$980,275."<sup>9</sup>

According to 1984 NASDA figures, state export development and investment promotion budgets ranged from \$7,000 (New Hampshire) to \$2.5 million (Illinois, New York). Most states had produced a promotion budget of some sort, many states reserving over \$150,000 for it. Twenty-four states had a foreign travel budget, ranging from \$6,400

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<sup>3</sup> COMMITTEE ON ECON. AND TECH. INNOVATION, NAT'L GOVERNORS A., REVITALIZING STATE ECONOMIES 7 (1986).

<sup>4</sup> *Id.*

<sup>5</sup> Pilcher, *State Roles in Foreign Trade*, 11 ST. LEGIS. 18 (1985).

<sup>6</sup> NAT'L A. OF ST. DEV. AGENCIES, NASDA STATE EXPORT PROGRAM DATABASE 1 (1984) [hereinafter DATABASE].

<sup>7</sup> *Id.* at 1-2.

<sup>8</sup> *Id.* at 1.

<sup>9</sup> *States Look Abroad*, FORBES, Apr. 20, 1987, at 13.

(Montana) to \$171,000 (Illinois). Fifteen states had a related advertising budget, with a range of \$2,000 (North Dakota) to \$500,000 (New York). Advertising includes the production of publications.<sup>10</sup>

More than 300 export promotion activities such as trade fairs and shows were sponsored by just four states between 1980 and 1985.<sup>11</sup> In 1987, forty-seven states sponsored or organized trade missions.<sup>12</sup> In 1984, twenty-seven states ran fifty-two overseas trade and investment offices in ten countries.<sup>13</sup> By 1987, the number had grown to over eighty offices in forty countries.<sup>14</sup>

There is little doubt that exports help to create employment. The U.S. Department of Commerce estimates that exports of \$1 billion create 25,000 jobs, most in small- and medium-sized firms.<sup>15</sup> This is equivalent to one job for every \$40,000 in exports. The Department of Commerce has also released other, somewhat conflicting data; for every \$1 million in exports, twenty-three direct and twelve indirect jobs are generated.<sup>16</sup> One billion dollars in exports would thus create 23,000 direct and 12,000 indirect jobs.

Traditionally, the focus of federal efforts, especially in export financing, has been on the few large firms which do most of the exporting. The President's Commission on Industrial Competitiveness reported that 250 firms accounted for nearly 85% of all U.S. exports.<sup>17</sup> This emphasis began to change in 1983 when Congress renewed the mandate of the Export-Import Bank but required it to devote a minimum of 10% of its financing to small- and medium-sized businesses.<sup>18</sup> Such businesses are generally more in need of export financing assistance but are less likely to get it because their exports are perceived to entail more risks and less return. The Department of Commerce believes that at least 20,000 small- and medium-sized firms which could export do not.<sup>19</sup>

State programs have concentrated on assisting those small- and medium-sized manufacturing companies attempting to enter export markets. "Taken as a whole, however, [state] government trade agencies

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<sup>10</sup> DATABASE, *supra* note 6, at 1.

<sup>11</sup> Pilcher, *supra* note 5, at 19.

<sup>12</sup> Hoffmann, *supra* note 2, at 11.

<sup>13</sup> DATABASE, *supra* note 6, at 22-24.

<sup>14</sup> *Id.* at 129.

<sup>15</sup> Pilcher, *supra* note 5, at 18.

<sup>16</sup> LEGIS. AUDIT COUNS., S.C. GEN. ASSEMBLY, REVIEW AND ASSESSMENT OF THE STATE'S ECONOMIC DEVELOPMENT ACTIVITIES 108 (1985).

<sup>17</sup> THE PRESIDENT'S COMMISSION ON INDUSTRIAL COMPETITIVENESS, I GLOBAL COMPETITION: THE NEW REALITY, 1 (1985) [hereinafter PRESIDENT'S COMMISSION]. The Commission used data collected by the General Accounting Office in 1983.

<sup>18</sup> Sylvester, *Exporting Made Easy (Or How States and Cities Are Selling Products Overseas)*, GOVERNING, Jan. 1988, at 38.

<sup>19</sup> Pilcher, *supra* note 5, at 18. The President's Commission estimates the number to be 11,000. PRESIDENT'S COMMISSION, *supra* note 17, at 41.

seem more a jumble of spare parts than a well-oiled machine."<sup>20</sup> These programs encounter difficulties because they are poorly organized. Lack of data is another problem. In 1987, for the first time, foreign trade export figures for individual states were available.<sup>21</sup> Before June of that year, no such figures were available through the federal government and states had no idea how their efforts compared with those of other states. The figures show the top ten exporters to be California, Texas, Michigan, New York, Louisiana, Washington, Florida, Massachusetts, Illinois, and Ohio.

Program innovations by the fifty states began chaotically. Hopefully, over time the variety of these programs will begin to coalesce and further experience should result in less paper work and faster response times.

## II. EXPORT PROMOTION

Export promotion programs are quite diverse, ranging from financing assistance for trade missions and trade fair space to university intern programs. In the end, the aim of all these programs is to lower the psychological and financial costs to the exporter that come with an attempt to understand and penetrate a foreign market. On the whole, the state programs are focused on the small- to medium-sized manufacturers or agricultural producers.

### A. *Programs and Techniques*

#### 1. Seminars, Workshops and Conferences

These activities are either organized by state officials or by business groups. They may be produced in conjunction with the local USFCS office. The Small Business Administration ("SBA") notes that this is often the case.<sup>22</sup>

It has been reported that forty-two states have held seminars or conferences, with up to eight-six per year being held in Florida and fifty per year being held in New York, Ohio and Oklahoma.<sup>23</sup> Most often seminars are co-sponsored by businesses, the state government and USFCS, although many states sponsor a percentage of them on their own. The conferences and seminars focus on the practical aspects of exporting, as well as examining specific issues and functions of particular foreign markets.

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<sup>20</sup> *Exporting Chaos*, Wall Street J., May 20, 1984, at 60.

<sup>21</sup> *State Foreign Trade Figures Finally Becoming Clearer*, Wall Street J., July 7, 1987, at 31.

<sup>22</sup> OFF. OF ADVOC., U.S. SMALL BUS. ADMIN., STATE EXPORT PROMOTION ACTIVITIES 2 (1984).

<sup>23</sup> DATABASE, *supra* note 6, at 3.

## 2. Counseling and Advice

In 1984, thirty-nine of the fifty states claimed they provided an on-site advisory service to businesses at the business location.<sup>24</sup> This is a one-on-one approach, where counseling and marketing advice is provided on an individual business basis. Sometimes this assistance is offered through unsolicited calls to businesses, where the state makes the offer either at random or as a specific service for targeted businesses. Experienced local exporters are often used in the counseling sessions. Although many states reported having this service available, it is infrequently used in a number of those states. This on-site counseling is not clearly distinguished from the in-house counseling of businesses which is offered by thirty-eight states.<sup>25</sup> In-house counseling is provided by state staff in their offices.

## 3. Trade Missions

These missions to foreign markets give American businesspersons a chance to meet potential importers, buyers and sales representatives in their own countries. The missions are typically led by state officials, varying in status up to and including governors.

## 4. Trade Fairs

These fairs are sponsored at sites all around the world. Most focus on one or more industrial sectors. State officials may represent exporters at these fairs, or the businesspersons, with financial support from the state, may attend. As most are held overseas, state financial support is frequently needed.

## 5. Trade Lead Referral Service

This service provides current and potential exporters with information about foreign importers who have expressed interest in certain products. This information is particularly important to small- and medium-sized businesses that are interested in exporting but are new or inexperienced and do not yet have "connections." The state may provide the information in several forms. It may be sent in a newsletter or may be part of a computerized service, such as the NETWORK service provided by the World Trade Centres affiliated around the globe. Many states use the International Trade Administration's Trade Opportunities Program ("TOP") which is a computerized trade deal-matching service. A similar activity which some states undertake is a "matchmaker" program. The potential exporter is matched with the state services which are available. New York is an example of a state which uses this program.<sup>26</sup>

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<sup>24</sup> *Id.* at 4.

<sup>25</sup> *Id.* at 4-5.

<sup>26</sup> *Id.* at 6-7.

## 6. State-University Cooperation

Universities in some states offer assistance to businesses as part of the state's export promotion activities. Schools may do market research, business counseling, or provide language assistance to small- and medium-sized firms looking to export. Some schools actually have started special export development programs designed to introduce and enhance export expertise. In using university resources to help their export programs, 21 states, such as New York and South Carolina, offer intern programs.<sup>27</sup> These intern programs involve assigning university students to businesses to help in preparing market studies.

## 7. Exporter Awards

These are state sponsored achievement-oriented awards. States such as New York, Ohio and Florida provide such awards. They raise the profile of successful exporters and encourage others to imitate the recipients.

## 8. Honorary Attaches

These are unpaid state representatives living abroad. Their job is to assist in the promotion of the state's export efforts. Wisconsin, for example, uses "foreign nationals who have graduated from Wisconsin universities" and appoints them as "honorary commercial attaches." Their job is to find export trade leads for Wisconsin.<sup>28</sup>

## 9. Ambassador Program

This is similar to the above program except that it uses local businesspersons who regularly travel overseas to assist in export promotion. Thirteen states were using this idea in 1984.<sup>29</sup> It is also used in other jurisdictions, such as in New South Wales, Australia.

## 10. Language Banks

A type of volunteer translation service may be offered through local residents. The resident is matched with a foreign speaking visitor who arrives in the state in order to encourage better communication and, hopefully, export sales.

## 11. Publications

As part of their export promotion activities, some states publish newsletters and magazines which are partially or entirely devoted to international trade. The publication frequency of these periodicals varies from state to state. New York publishes a number of informative papers,

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<sup>27</sup> *Id.* at 4-5.

<sup>28</sup> *Id.* at 6-7; Pilcher, *supra* note 5, at 22.

<sup>29</sup> DATABASE, *supra* note 6, at 6-7.

including an export service directory, exporter/importer directory, and a handbook on exporting.<sup>30</sup>

## 12. Catalogue Presentations

Products are depicted by the state in a catalogue, in sales brochures or on videos. These catalogues, brochures, and graphic aids are distributed and shown around the world.

## 13. Export Trading Companies (“ETCs”)

In 1982, Congress passed the Export Trading Company Act and instructed the Department of Commerce to assist states and municipalities setting up ETCs based on the Japanese models. By 1985, nine states were developing ETCs or had passed legislation allowing for their creation. Antitrust laws were amended to allow competitors to band together in trading companies such as Virginia’s VEXTRAC to pursue foreign sales.<sup>31</sup>

### B. State Activities

#### 1. Massachusetts

The Office of International Trade and Investment (“OITI”) was established in 1983 in the Executive Office of Economic Affairs.<sup>32</sup> Its purpose is to develop export programs and encourage reverse investment. The OITI runs a Trade Development Program (“TDP”), which is funded in part by the U.S. Department of Commerce. The idea behind the TDP is to encourage small- and medium-sized companies to export into such international markets as Malaysia, Thailand, Philippines, Singapore, Indonesia, Latin America and Western Africa. TDP provides export counseling, market research and trade lead information.

Other Massachusetts export programs include a series of seminars where new exporters meet with experienced exporters, regional workshops on specialized trade topics, and the organization of at least one overseas trade show annually. Such a trade show may be offered in conjunction with the Massachusetts Small Business Export Program (“SBEP”) which is administered by the Massachusetts Port Authority. At no charge, SBEP provides market research and analysis to determine the potential for the product of a small business. The SBEP also provides training and advice on exporting, pricing, shipping, documentation, financing, international laws and regulation, and business practices. The SBEP grants interest free loans for those firms participating in trade missions. Because SBEP provides a great deal, admission to the program is very selective and is based upon the market potential of the business, the

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<sup>30</sup> *Id.* at 10-11.

<sup>31</sup> Pilcher, *supra* note 5, at 20-21; Sylvester, *supra* note 18, at 41-42.

<sup>32</sup> Taken from Massachusetts promotional materials.

firm's history and other such factors. A typical example of an admissible firm is a business which has existed for twenty years, has fifty to sixty employees, receives approximately \$2 million in sales per year, and exports less than 4% of its output.

## 2. South Carolina

South Carolina's export promotion activity as of 1985 seemed to be undeveloped. Many of that state's programs was focused on promoting tourism, which is normally seen as separate from exports.<sup>33</sup> The international division of the State Development Board does distribute trade leads to manufacturing companies. Some trade mission and show participation is also a part of South Carolina's export program. The Department of Agriculture sponsors workshops and seminars to increase understanding of exporting and its potential. Because of understaffing, one-on-one programs have been rejected. Overseas catalogue presentations are also organized, but the exporting companies are charged a nominal fee to "offset the cost to the agency."

## 3. Minnesota

The Department of Energy and Economic Development export-related activities include the establishment of the Minnesota Trade Office ("MTO") and the construction of a World Trade Centre.<sup>34</sup> State trade offices were opened in Sweden and Norway, though recently the state has elected to close these in favour of offices in London and Tokyo.<sup>35</sup> The MTO produces pamphlets on state export products. For example, a livestock pamphlet introduces the prospective buyer to the available products, where to find contacts, where to get more information (including videotapes of livestock operations) and invites prospective buyers to visit the state. Trade shows, conferences and trade missions are all sponsored or assisted. A directory which lists products and manufacturers or sources is published. Export seminars dealing with international regulations, financing options, and general export procedures are available for the new exporter. Special events such as food expositions, receptions, and world medical expositions are also sponsored.

## 4. Indiana

Indiana's Department of Commerce, International Trade Division, offers technical and information counseling for those businesses with little or no experience in the export market.<sup>36</sup> The state acts as a liaison between exporters and prospective customers. The Division employs a professional staff familiar with foreign languages and international busi-

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<sup>33</sup> LEGIS. AUDIT. COUNS., *supra* note 16, at 106-10.

<sup>34</sup> Taken from Minnesota promotional materials.

<sup>35</sup> Sylvester, *supra* note 18, at 40.

<sup>36</sup> Taken from Indiana promotional materials.

ness affairs. The Division has a library of reference material available to exporters, including an up-to-date database that lists individuals and firms which provide services to exporters.

## 5. California

California claims to be the "8th or 9th largest trading nation in the world" and has a five part, extensive export promotion and financing program.<sup>37</sup> One part provides information and assistance through the California State World Trade Commission ("WTC"). A second part includes trade shows and a computerized client identification program called ATLAS. California buys bulk space at trade shows in order to make space affordable to small- and medium-sized businesses. Its program also includes grants for export financing. An advocacy program to remove federal legislation which hinders or interferes with California exporters is provided along with an education program which is designed to provide people with information about exporting, particularly at the college and university level.

California has labeled as high priority those industries which include a large number of small- to medium-sized firms with products that have good export potential. The WTC wants to "draft these unwilling producers, even if they are kicking and screaming, into the international marketplace and international arena."<sup>38</sup> Low priority is given to large firms. Direct WTC support is given to industries producing goods such as telecommunication and computer equipment, scientific instruments, and specialty agricultural products. General support is given to exports of field crops, energy, lumber, and chemical products.

## 6. New Jersey

The Department of Commerce and Economic Development has a Division of International Trade that promotes exports.<sup>39</sup> Activities include regularly sponsored seminars, programs for expanding and improving exports, individual counseling and a trade fair program. At the trade fairs, space is bought in blocks by the state and firms are charged a small fee for the space. This greatly reduces the cost to the individual firm. Assistance to attend trade fairs is based on fulfilling eligibility requirements, such as product or market potential. The state can represent the company for the exporter if this is preferred. Trade leads are published in a newsletter. A referral service is provided on an individual basis, where the state refers companies to seminars, programs, marketing, shipping and financial services.

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<sup>37</sup> Address by Charles Nevil, Nat'l Governors A. Semi-Annual Meeting (Aug. 24, 1986).

<sup>38</sup> *Id.*

<sup>39</sup> Taken from New Jersey promotional materials.

### III. EXPORT FINANCING

Export financing by State governments is designed as an addition or complement to federal financing, in particular that of the federal Export-Import Bank. Export financing efforts in the states are directed toward either assisting small- and medium-sized businesses in entering the export market or increasing their competitiveness abroad. The most common forms of state export financing are loan guarantees and a type of "insurance" for exporters in case an importer defaults on a transaction. Direct loans are infrequently used. The guarantees are designed to encourage banks to make loans to small- and medium-sized exporters who would otherwise have immense difficulty in acquiring such assistance. In some states, financing for the firm's working capital, inventory, or export development (i.e., money for trade show attendance) may also be provided. States that offer export credit insurance typically provide it in cooperation with the Foreign Credit Insurance Association ("FCIA") which works with the Export-Import Bank. These state financing programs have usually been supported through the sale of bonds.<sup>40</sup>

As of 1984, one state had some form of export financing legislation enacted; five states had proposed but had not officially enacted authorizing legislation and fifteen states reported considering an export financing program. Two states were prohibited from inaugurating export financing by the state's constitution (Alabama, Florida) and ten states had neither proposed nor considered financing programs (e.g., Hawaii, New Hampshire).<sup>41</sup> At present, twenty-three states have adopted such legislation.<sup>42</sup>

#### A. State Programs

##### 1. Minnesota

The Minnesota Export Finance Authority ("MEFA") was created in 1983.<sup>43</sup> The enacting legislation mandated MEFA to "aid and facilitate the financing of exports by small- and medium-sized businesses." The principal reason for MEFA's creation was the reluctance of large banks to get involved with financing small- and medium-sized firms' exports because of small profit margins. Smaller banks were put off by the perceived risk factor, as well as their own lack of expertise in the international export financing market.

Often, smaller companies do not have enough working capital to fill a product order for export, so MEFA helps out by providing working capital loan guarantees for up to 90% of the loan and interest. The Authority guarantees loans from \$25,000 to \$250,000 for a maximum twelve month period. Those eligible for assistance are businesses which have

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<sup>40</sup> OFF. OF ADVOC., *supra* note 22, at 2-3.

<sup>41</sup> DATABASE, *supra* note 6, at 6-7.

<sup>42</sup> Sylvester, *supra* note 18, at 38.

<sup>43</sup> Taken from Minnesota promotional materials.

been refused financing by the banks but which meet the MEFA criteria. The order for the goods must be confirmed by letter and a fee of 1-3% is charged, based on both the company's credit rating and the duration of the guarantee. This aid is provided on a first-come, first-served basis.

MEFA's export credit insurance umbrella-policy is designed to protect exporters from the problem of nonpayment for commercial or political reasons by foreign importers. This type of insurance policy is found in other states as well. Manufacturing, service, and trading firms are eligible, provided they have had sales of \$2 million or less over the past two fiscal years. Also, the firm cannot have been insured by the FCIA in the past two years. The credit terms give 180 days of coverage from the arrival of the goods at the import point. Some products, such as agricultural or consumer durables (products with a life cycle of less than one year) get a 360 day term. Credit insurance can be used as collateral for a loan. There is a minimum premium of \$100 which is nonrefundable.

## 2. California

The World Trade Commission ("WTC") has a finance program which guarantees 85% repayment on loans used to finance working capital related to exports.<sup>44</sup> Also, it will lend banks 90% of the money the bank uses to make an export related loan. Guarantees and loans from California's WTC are limited to \$350,000 per transaction (or per company). As with all export financing programs, California's plan arose from the observation that small- and medium-sized businesses were not exporting because they lacked financial support, and banks were usually uninterested in extending financing to the smaller firms. Since California began its program in 1985, \$20 million in guarantees have helped to finance approximately \$38 million in exports.<sup>45</sup>

## 3. South Carolina

The Jobs-Economic Development Authority ("JEDA") was mandated in 1984 to provide various forms of export financing.<sup>46</sup> JEDA grants low-interest loans, guarantees and insurance for eligible exporters. Priority is given to small- and medium-sized businesses. A 1985 report noted that "JEDA is not yet functionally useful" to the majority of firms for several reasons; the wording of the legislation is vague, the criteria for determination of eligibility is not settled, and the Authority seems to lack exporting expertise. Proposed policies include a tax incentive program for exporters. This program would give a 100% income tax credit for increased export sales.

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<sup>44</sup> *States Launch Efforts to Make Small Firms Better Exporters*, Wall Street J., Feb. 1987, at 25.

<sup>45</sup> Hoffmann, *supra* note 2, at 13.

<sup>46</sup> LEGIS. AUDIT COUNS., *supra* note 14, at 110-13.

## IV. FOREIGN TRADE ZONES

"Free" or foreign trade zones have been used for centuries by countries all over the world. A foreign trade zone ("FTZ") is an enclosed and policed area legally outside of a country's customs territory. Its purpose is to promote and enhance international trade and commerce. American FTZs contain facilities for loading, unloading, handling, storing, manipulating, manufacturing and exhibiting goods as well as for reshipping them by land, water or air.

The Foreign Trade Zone Act was enacted by the Roosevelt administration in 1934.<sup>47</sup> The first FTZ was then opened in New York City.<sup>48</sup> In 1975, only twenty-seven FTZs were active.<sup>49</sup> Today there are 247 FTZs and special purpose subzones scattered across the United States and Puerto Rico.<sup>50</sup> Of these, 118 are active and the rest consist of single plants or complexes that use the FTZ designation to reduce manufacturing costs.<sup>51</sup>

The volume of activity in FTZs has mushroomed along with the number of zones. In 1971, the zones had \$213 million worth of activity which grew to \$975 million in 1976, \$5.5 billion in 1981 and \$39.2 billion in 1986.<sup>52</sup> This growth in activity has spurred new interest in creating zones and some fifty applications are under consideration, with more applications awaiting processing.<sup>53</sup>

Zones are run as public utilities by state and local governments and specially-chartered corporations, but their creation rests with a federal board.<sup>54</sup> The board may approve any zone or subzone which it deems necessary to adequately serve "the convenience of commerce." The District Director of the Customs Service then acts as the representative of the board to ensure that the local FTZ is run in accordance with board regulations and customs laws. The salaries of the officers assigned to the FTZ are reimbursed by the local FTZ administration.

The advantages of a FTZ to an importer are numerous.<sup>55</sup> Buyers can inspect goods before duty is paid; duties can be avoided on rejected goods, and goods in excess of quotas can be held over until the next quota period. Also, merchandise need not be covered by customs bond; it can be exported from the zone free of duty; and may be reworked to U.S. specifications in the zone. There are the additional benefits in that

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<sup>47</sup> ECON. DEV. ADMIN., P.R., FOREIGN TRADE ZONES AND FEDERAL INSULAR BONDED WAREHOUSES 1 (1985).

<sup>48</sup> For a list of active FTZs, see BUSINESS FACILITIES 51-59 (Mar. 1987).

<sup>49</sup> *Foreign Trade Zones and Many Companies But Stir Up Criticism*, Wall Street J., Sept. 30, 1987, at 1 [hereinafter *Criticism*].

<sup>50</sup> *Id.*

<sup>51</sup> BUSINESS FACILITIES, *supra* note 48, at 51-59.

<sup>52</sup> See *Criticism*, *supra* note 49, at 1; ECON. DEV. ADMIN., *supra* note 47, at 14.

<sup>53</sup> *Criticism*, *supra* note 49, at 1, 25.

<sup>54</sup> ECON. DEV. ADMIN., *supra* note 47, at 3-5.

<sup>55</sup> *Id.* at 2-3.

merchandise can be assembled or disassembled in the zone to save on duty rates; merchandise is exempt from local excise taxes; and services available in the zone include inventory control, telecommunications facilities and shipping and forwarding agents.

The U.S. trade deficit has led to a controversy concerning the activities within FTZs.<sup>56</sup> Many manufacturers, especially auto assemblers, are taking advantage of the FTZ structure to import foreign parts for inclusion into assembly line processes. Others produce finished goods from imported parts if the duty on the finished good is less than that on the parts or raw materials. For instance, the duty on pipe made from foreign steel is less than that on the steel itself, making the FTZ a logical place to fabricate imported steel into pipe for the U.S. market. Opponents to the present FTZ arrangements argue that the zones, far from encouraging exports, simply allow imports to come in through a "back door." Proponents argue that it is better to get the additional fabricating and assembly jobs in the FTZ than to have the whole operation undertaken in foreign countries.

An example of an active FTZ is #7 in Mayaguez, Puerto Rico.<sup>57</sup> Operating since 1961, the FTZ occupies forty-four acres and includes thirteen industrial buildings. It is administered by the Puerto Rico Industrial Development Company ("PRIDCO"), a government corporation that develops and administers industrial parks. The Zone has a work force of 800 and received and shipped \$50 million in goods in 1983. Items manufactured in the zone include caviar, pharmaceuticals, textiles, plastics, thread and packing material.

## V. CONCLUSION

For decades, American exports were seen by Americans as desirable, but not critically adjunct, to production for the domestic market. This attitude is exemplified by the fact that the peak export year for the North American operations of General Motors Corporation was 1928.<sup>58</sup> Exports have taken a distant third in priority to domestic production and overseas investment.

The combined effect of the oil shocks of the 1970s and the recession and trade deficits of the 1980s changed this situation. American firms were faced with the penetration of the U.S. market by European and Asian firms and products on a scale that resembled the American domination of the European and Asian markets in the 1940s and 1950s. The ability to export became a proxy for long-term competitiveness.

The Reaganite philosophy of letting the private sector settle its own affairs was an acceptable national policy but state legislatures and administrations found themselves pressured to take action by voters. The al-

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<sup>56</sup> *Criticism, supra* note 49, at 1, 25.

<sup>57</sup> ECON. DEV. ADMIN., *supra* note 47, at 13.

<sup>58</sup> A. SLOAN, JR., *MY LIFE WITH GENERAL MOTORS* 367 (A. Books ed. 1972).

most universal move by states to encourage exports and export-related jobs is one policy reaction to this pressure. The state programs are diverse and pragmatic. They appear to have borrowed or reinvented techniques developed by sub-national jurisdictions in Canada, Australia, West Germany and elsewhere, but their experience is so limited that evaluation of the success of the programs is not possible.

Inevitably, the desire to promote exports has led to a more active stance on the part of governors with respect to the economic side of foreign policy. In turn, this has led to a claim that the United States is developing fifty plus foreign policies.<sup>59</sup> There is no doubt that state activity is complicating American foreign policy, as seen in the pressures the concerning the unitary tax issue and the control of technological exports. California has been especially contentious on both issues. Yet one cannot expect to see the states enter the export development field without expressing opinions on national policy.

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<sup>59</sup> Pilcher, *supra* note 5, at 21; Hoffman, *supra* note 2, at 132-33.