

MAINE STATE LEGISLATURE

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STATE OF MAINE
114TH LEGISLATURE
FIRST REGULAR SESSION

STUDY OF THE IMPACT OF
INTERNATIONAL TRADE ON MAINE
AND THE
POTENTIAL OPPORTUNITIES
AVAILABLE TO THE STATE

NOVEMBER 1988

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INTERNATIONAL TRADE OPPORTUNITIES AND LIABILITIES
FOR MAINE AND THE IMPACT OF STATE POLICIES ON
INTERNATIONAL TRADE

Report of a Study by the
Joint Standing Committee on Economic Development
to the 114th Maine Legislature

I. BACKGROUND AND PURPOSE

In 1987, the Joint Standing Committee on Economic Development conducted a study of 14 regional economies in Maine. During the committee study of these economies, the committee became acutely aware of the impact of foreign trade and foreign investment on the regional and state economies. In addition, negotiations between Canada and the United States in regard to a free trade agreement as well as the integration of the European economies into a common market will have a significant impact upon Maine. As a result, it is necessary for Maine to prepare itself to meet all of these global economic forces.

The purpose of the study is to determine the impact of international trade investment, and policies on the Maine economy, and from the findings of the study, to determine whether current state policies are adequate to enable the private sector in Maine to address international economic forces and opportunities. Included in this purpose is the formulation of policies that could better help Maine address international economic forces and policies particularly in light of those policies over which Maine has little control such as monetary policy, fiscal policies, subsidies, currency valuation, tariffs, import quotas, etc.

II. STUDY PROCEDURE

The Joint Standing Committee on Economic Development pursued the following approach to the study:

1. a review of federal international trade policies and programs;
2. a review of international trade policies and programs currently pursued by some other states, known for their efforts in foreign trade and investment;
3. a review of the proposed Free Trade Agreement with Canada;
4. a review of current state policies and programs implemented in Maine;
5. an analysis of the needs of the private sector in Maine with respect to exporting and a determination of how well state policies and programs meet these needs.

Following comprehensive research of federal trade policies and programs, the Committee on Economic Development held 4 public hearings to obtain information about the impact on Maine of the Free Trade Agreement with Canada, the unmet needs of Maine business firms that serve as barriers to exporting, and current international trade programs and assistance offered by the State. A telephone survey of 15 states provided the committee with a comprehensive understanding of the structure, operation, and programs of international trade agencies in those states which are active in the promotion of foreign trade.

III. OVERVIEW OF PRIVATE SECTOR PARTICIPATION IN EXPORTING AND FOREIGN INVESTMENT IN THE U.S. AND MAINE

In this section of the report, the data shows that substantial changes occurring in the global economy have made the United States a major market for foreign goods which, at one time, were produced by U.S. firms and marketed in the U.S. and in foreign markets. U.S. producers prefer to market in the national market and avoid the complexities and risks of marketing in foreign markets. As a result, only a very small percentage of U.S. producers export to foreign markets.

In Maine, international trade in the early 1980's did not play as significant a role in the State's economy as it did in the U.S. economy and the regional economies throughout the nation. Like the U.S., only a very small percentage of firms exported to foreign markets.

In general, Canada, Japan, and Western Europe, which are the major purchasers of U. S. exports and the major suppliers of imports to the U.S., are also the major foreign investors. While there is controversy concerning the impact of foreign investment on the national economy, it has been a source of growth financing. A substantial proportion of foreign investment is not direct investment in plant and equipment, but in portfolio investments where it remains a secondary investor.

Foreign investment in Maine is an important source of growth financing. While the level of foreign investment in Maine is far below the levels of foreign investment in other states, this investment accounts for a much higher level of employment in Maine compared to most other states.

Currently, 10% of the 250,000 manufacturing firms in the United States export their products, and less than 1% of these firms account for approximately 80% of all U.S. manufactured exports. The U.S. Department of Commerce, estimates that roughly 45,000 additional firms, many of them small businesses, have goods with export potential.

Table 1 (page 7) describes the sources of U.S. imports and destinations of U.S. exports for the year 1986. This table shows that Canada, Japan and Western Europe are the markets for roughly 62% of all U.S. imports and purchase 63% of all U.S. exports. With respect to U.S. exports, Canada purchases 24%, Japan purchases 11%, and Western Europe purchases 28% of total U.S. exports. Of the total value of U.S. imports, 17% were from Canada, 21% were from Japan, and 24% came from Western Europe.

During this period, 1960 to 1986, the merchandise trade balance went from a surplus of \$3.8 billion to a deficit of \$152.7 billion. Most of the trade deficit which was incurred in the period from 1966-1986 occurred between 1977 and 1986, when the annual trade deficit dramatically jumped 1,840%.

Agricultural products, machinery, and transportation products have comprised the major portion of U.S. exports over this 20 year period. In terms of value, these products accounted for 61.5% of U.S. exports in 1966 and 56% of U.S. exports in 1986.

With respect to U.S. imports, the composition of the imports, unlike U.S. exports, has changed dramatically in the 20 year period. Whereas petroleum, machinery, and transportation equipment accounted for 27% of the total values of U.S. imports in 1966, these products accounted for 56% of the total value of U.S. imports in 1986.

According to the Office of Technology Assessment, roughly 65% of the \$161 billion U.S. trade deficit in 1987 was held by Japan (36%), Taiwan (11.2%), West Germany (10%), and Canada (10%). Of the total 1987 trade deficit, 85% was incurred in manufacturing trade.

The 1987 U.S. trade deficit has an ominous characteristic. Nearly 3/4 of the manufacturing trade deficit occurred in 3 product areas which have not substantially improved with the decline of the dollar. These three product areas were motor vehicles and parts (\$53 billion); textiles, apparel and shoes (\$38 billion), and electronics (\$22 billion). Many foreign manufacturers cut costs and profit margins to maintain their share of the U.S. market during the decline of the dollar.

The only means by which the U.S. trade balance can be improved, according to the Federal Reserve Bank lies with future declines in the value of the dollar. The dollar may have to decline an additional 30% to push foreign competition out of the U.S. market.

Despite the corresponding increase in value of foreign currencies, a number of foreign firms have budgeted their operations based on increased values of their currencies. A number of Japanese firms, for example, which have survived the increase in value of the yen (from 250 to 140 yen to the dollar), have based their future production on further increases in the value of the yen to as much as 100 yen to the dollar.

Exports to foreign markets from Maine, like United States exports, are attributable to a very small number of firms. Of a total of roughly 65,000 non-farm proprietorships and partnerships and 30,000 corporations, approximately 700 Maine firms or 0.77% of the total number of firms are involved in international trade (as exporters and/or importers). Of these 700 firms, a very small number (possibly 20) account for a substantial proportion (possibly 90%) of Maine exports. Approximately 1/3 of Maine's exports are paper and paper related products. Similar to U.S. exports, most of Maine's exports are marketed in Canada, Western Europe, and Japan.

Table 2 (page 8) compares and contrasts the impact of exports on the national, regional, and New England states' economies. While this 5 year old data is the most current published data available with respect to these geographical areas, it cannot be used to analyze the impact of current exports on these economies. This data shows that in the early 1980's Maine exports played a lesser role in the Maine economy compared to the role of exports in the national economy, 4 regional economies of the nation, and in the 6 New England states.

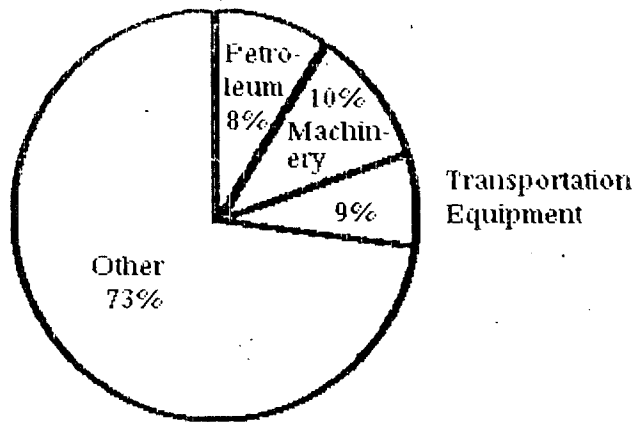
While published export data for regions of the nations and individual states is old and unusable for analysis of current export activities, import data is even less useful than export data. Not only is import data old, it is published on the basis of entry point to the United States. It is impossible to obtain an accurate picture of destinations of U.S. imports. Baltimore, New York, Boston, New Orleans, etc. are credited in published data of the Bureau of the Census as the import centers when, in actuality, these imports are destined for importers located in other areas.

While the impact of international trade on the national economy has recently received considerable attention, the role of foreign investment in the United States is not as well-known. In 1986, the total amount of foreign assets in the U.S. was \$1.3 trillion of which \$209 billion was direct foreign investments and the remainder was portfolio investments. Since 1970, foreign direct investment in the U.S. has increased 1573%. Nearly two-thirds of this increase has occurred since 1980. Foreign direct investment in the United States has increased roughly \$20 billion annually since 1980. Foreign direct investment, however, is only a very small fraction of foreign bank deposits in the United States.

Table 3 (page 9) describes foreign direct investment in the U.S. by industrial sector from 1970 to 1986. This table shows that the profile of foreign direct investments in the U.S. experienced significant change between 1970 and 1986. In 1970, petroleum, manufacturing, and banking and insurance accounted for 85.8% of total foreign investment in the U.S. In 1986, these 3 sectors accounted for 61.4% of total foreign investment (although investments in all sectors grew in absolute terms). Foreign direct investment in real estate and in wholesale/retail trade which accounted for 7.5% of total foreign investment in 1970, increased to 30% of total investment in 1986. This change in the profile of foreign direct investment is evident by 1981.

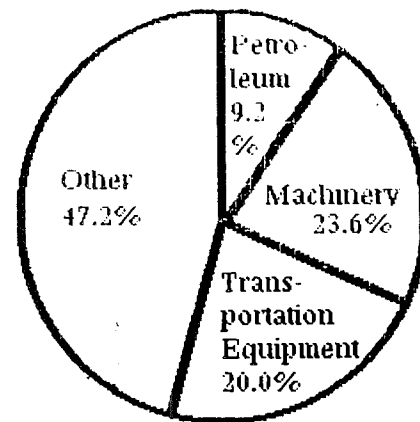
Table 4 (page 10) provides a profile of the sources of foreign direct investments (FDI) between 1984 and 1986. During this time period when FDI increased 27%, there was little change with respect to these sources of investment. In 1984, Western Europe accounted for 63.9%, Latin America accounted for 9.6%, Japan accounted for 9.5%, and Canada accounted for 9.2% of total foreign investments in the United States. In 1986,

COMPOSITION OF U.S. IMPORTS, 1966.



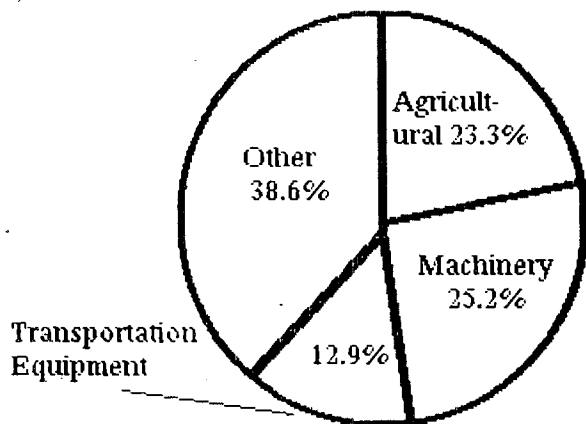
Source: U.S. Bureau of the Census, *Highlights of U.S. Export and Import Trade*, FT 990, monthly.

COMPOSITION OF U.S. IMPORTS, 1986.



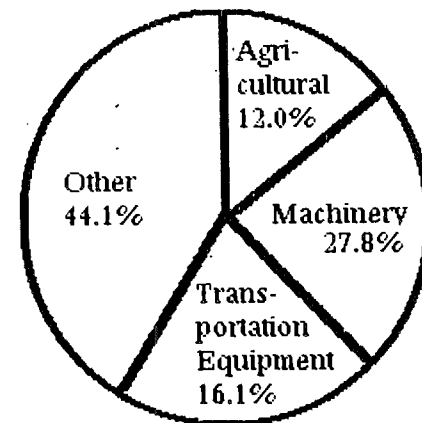
Source: U.S. Bureau of the Census, *Highlights of U.S. Export and Import Trade*, FT 990, monthly.

COMPOSITION OF U.S. EXPORTS, 1966.



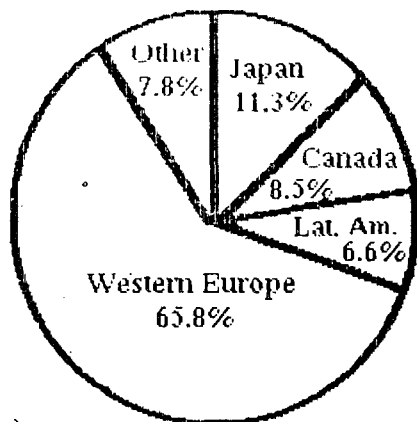
Source: U.S. Bureau of the Census, *Highlights of U.S. Export and Import Trade*, FT 990, monthly.

COMPOSITION OF U.S. EXPORTS, 1986.



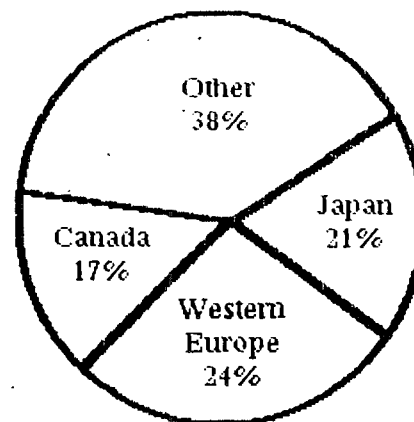
Source: U.S. Bureau of the Census, *Highlights of U.S. Export and Import Trade*, FT 990, monthly.

**SOURCE OF FOREIGN DIRECT INVESTMENT
IN THE U.S., 1986.**



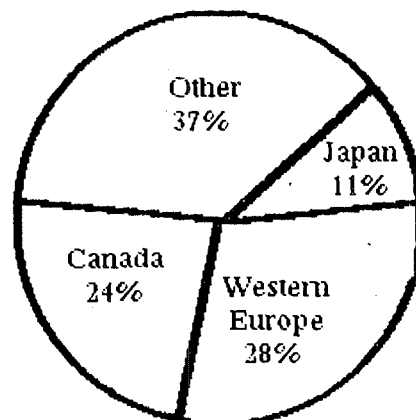
Source: See Table 4.

SOURCE OF U.S. IMPORTS, 1986.



Source: See Table 1.

DESTINATION OF U.S. EXPORTS, 1986.



Source: See Table 1.

Western Europe accounted for 65.6%, Japan accounted for 11.3%, Canada accounted for 8.5%, and Latin America accounted for 6.6% of total foreign investment in the U.S. Only Latin American and Middle Eastern investments in the U.S. declined during this period while all other sources of FDI increased in absolute terms.

It is more difficult to analyze foreign investment in Maine because the data is limited and the latest statistics are for the year 1985. Department of Commerce statistics for 1985 show that Maine ranked in the top five states with respect to the greatest percentage of affiliate employment (employment by foreign owners of firms in state). These figures indicate that 4.1% of Maine's work force was employed in 1985 by firms owned by foreign investors as compared to 2.7% for New England and 2.7% for the U.S. The number of foreign affiliate employees in Maine rose 47% between 1980 and 1985.

Although Maine ranked in the top five states with regard to the percentage of the work force employed by foreign affiliates, Maine ranked 41st with respect to the gross book value of foreign owned firms (\$1.35 billion) and 45th with respect to the number of foreign affiliates (152) with property, plant, and equipment in the State. Thus, a significantly smaller number of foreign owned firms in Maine employed a larger percentage of the population compared to employment in foreign owned firms in most other states. Table 5 (page 11) describes the extent of foreign investment in Maine.

Another indication of the impact of foreign investment in Maine is the extent of foreign ownership of land. In 1985, Maine ranked first in the nation with respect to the number of acres of land owned by foreign affiliates. Foreign affiliates owned 2,481,000 areas of land which represents 12.5% of the total acreage of the state. Foreign affiliates owned 1,897,237 acres of agricultural land in Maine which represents 10% of total privately owned agricultural land in the state. While these figures may have changed by 1988, the role of foreign land owners in Maine remains significant.

Both Maine and the United States will most likely be affected by the integration of the common market economies into a single continental economy. Imports from Western Europe currently comprise roughly 25% of total U.S. imports. Integration of these economies in 1992 could substantially strengthen the Western European economy and its trade position. Unfortunately, very little analysis of the impact of this event on the U.S. economy or individual state economies is currently being conducted in the U.S.

TABLE 1
 EXPORTS FROM AND IMPORTS INTO THE UNITED STATES
 1986 AND 1987
 (Value in Millions of Dollars)

Country or Continent of Destination of Origin of Goods	Value of US Imports 1986	% of Total US Imports	Value of US Exports 1986	% of Total US Exports	Value of US Imports 1987	% of Total US Imports 1987	Value of US Exports 1987	% of Total US Exports 1987	Value of Surplus or Deficit 1986	% of Total US Deficit	Value of Surplus or Deficit 1987	% of Total US Deficit 1987
CANADA	68,662.4	18%	45,332.6	21%	71,510.9	17%	59,814.3	24%	23,329.8	15%	11,696.1	7%
LATIN AMERICA (20 Republics)	41,560.1	11%	27,968.0	13%	46,427.1	11%	31,574.4	12%	13,602.1	8%	14,852.7	9%
WESTERN EUROPE	94,296.6	25%	61,642.0	28%	99,933.9	24%	69,717.7	28%	32,654.6	20%	30,216.2	18%
WEST GERMANY	26,128.1	7%	10,560.5	5%	28,028.3	7%	11,747.7	5%	15,567.6	10%	16,280.6	10%
UNITED KINGDOM	16,032.5	4%	11,418.2	5%	17,997.5	4%	14,113.9	6%	4,614.3	3%	3,883.6	2%
COMMUNIST EUROPE	2,205.6	1%	1,989.2	1%	2,118.2	0.5%	2,199.5	1%	216.4	0.1%	-81.3	--
JAPAN	85,456.7	23%	26,881.6	12%	88,073.8	21%	28,248.6	11%	58,575.1	36%	59,825.2	35%
TAIWAN	21,251.5	6%	5,524.2	3%	26,406.5	6%	7,412.7	3%	15,727.3	10%	18,993.8	11%
HONG KONG	9,473.6	3%	3,030.1	1%	10,490.2	2%	3,983.1	2%	6,443.5	4%	6,507.1	4%
SOUTH KOREA	13,497.0	4%	6,354.9	3%	17,991.0	4%	8,098.7	3%	7,142.1	4%	9,892.2	6%
AFRICA	11,056.8	3%	5,978.2	3%	12,679.7	3%	6,283.4	2%	5,078.6	3%	6,396.3	4%
AUSTRALIA & OCEANIA	4,080.3	1%	6,658.5	3%	4,550.4	1%	6,525.9	3%	- 2,578.2	--	- 1,975.5	--
TOTAL VALUE OF US IMPORTS/EXPORTS	378,081.5	100%	217,304.2	100%	424,082.3	100%	252,865.8	100%	160,777.3	100%	171,216.50	100%

5563-1*

TABLE 2

MAINE AND THE NATION
COMPARISONS AND CONTRASTS RELATING
TO EXPORTS TO FOREIGN NATIONS
1981 AND 1983

Geographic Unit	Export Related Employment, 1981		Export Related Employment, 1983		Total Value of Shipments in Millions of \$ 1981	% of Total Value of Shipments 1981	Total Value of Shipments in Millions of \$ 1983	% of Total Value of Shipments 1983
	Employment Total (in 000's)	% of Total Manufacturing Employment	Employment Total (in 000's)	% of Total Manufacturing Employment				
UNITED STATES	2,603.8	12.8	2,062	11.0	271,073	13.4	237,100	11.5
NORTHEAST	652.5	12.7	509	10.9	54,646	13.2	46,400	11.2
NEW ENGLAND	214.6	13.8	178	12.5	15,688	14.9	15,000	13.5
MAINE	11.4	9.9	9	7.7	925	10.1	900	9.5
NEW HAMPSHIRE	15.8	14.1	12	11.1	994	13.6	800	10.5
VERMONT	5.8	11.6	7	15.5	451	12.3	600	14.8
MASSACHUSETTS	98.4	14.2	81	12.8	7,425	15.4	7,000	13.8
CONNECTICUT	67.8	14.9	57	13.6	4,886	16.2	4,800	15.0
RHODE ISLAND	15.4	12.0	12	10.6	1,018	13.4	900	10.8
MIDWEST	793.5	13.4	599	11.3	84,566	13.3	71,100	11.1
SOUTH	666.9	11.1	549	9.6	83,453	12.7	74,800	11.1
WEST	488.6	15.5	403	13.3	49,000	15.5	44,800	13.7

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TABLE 3

FOREIGN DIRECT INVESTMENT IN THE UNITED STATES BY INDUSTRY: 1970-86
(\$ millions - cumulative)

	Total	Petro.	Manufgt.	Banking, Finance, Insur.	Real Estate	Wholesale & Retail Trade	Other
1970	13,270	2,992	6,140	2,256	*	994	888
1975	27,662	6,213	11,386	3,152	777	4,844	1,290
1980	83,046	12,200	32,993	12,027	6,120	15,210	4,496
1981	108,714	15,246	40,533	14,748	8,964	20,537	8,686
1982	124,677	17,660	44,065	17,933	11,520	23,604	9,895
1983	137,061	18,209	47,665	19,631	14,636	26,513	10,407
1984	164,583	25,400	51,802	24,881	17,761	31,219	13,520
1985	184,615	28,270	59,584	27,429	19,402	35,873	14,057
1986	209,329	29,627	68,057	30,914	21,231	41,680	17,820

Source: U. S. Department of Commerce, Bureau of Economic Analysis. "Foreign Direct Investment Position in the United States" Survey of Current Business, Volume 66, Number 6, p. 33, June 1986, and earlier issues of the Survey of Current Business. U. S. Department of Commerce, Bureau of Economic Analysis. "U.S. Direct Investment Abroad and Foreign Direct Investment in the United States Each Grew 13 Percent in 1986." Unpublished news brief, June 24, 1987.

*For 1970, real estate was included with banking, finance, and insurance totals.

6563-3*

TABLE 4
FOREIGN DIRECT INVESTMENT IN THE UNITED STATES
BY COUNTRY OF ORIGIN
(\$ millions - cumulative)

Countries	1984	% of Total 1984	1985	1986	% of Total 1986
CANADA	15,286	9.0	17,131	18,312	8.5
EUROPEAN COMMUNITIES*	96,555	57.0	107,105	124,311	57.5
OTHER EUROPE**	11,655	6.9	14,308	17,359	8.1
JAPAN	16,044	9.5	19,313	24,433	11.3
AUSTRALIA/NEW ZELAND/ SOUTH AFRICA	2,152	1.3	3,324	4,935	2.3
LATIN AMERICA	16,201	9.6	16,826	14,194	6.6
MIDDLE EAST	5,336	3.1	4,954	4,738	2.2
OPEC***	4,892	2.9	4,607	5,103	2.4
Other	<u>1,353</u>	0.8	<u>1,654</u>	<u>2,048</u>	1.0
	169,474	100	184,615	215,433	100

Source: 1984 figures from the U. S. Department of Commerce, Bureau of Economic Analysis. "Foreign Direct Investment Position in the United States." Survey of Current Business, Volume 66, Number 6, p. 33, Washington, D.C.: U. S. Government Printing Office, June 1986. 1985 and figures from the U. S. Department of Commerce, Bureau of Economic Analysis. "U. S. Direct Investment Abroad and Foreign Direct Investment in the United States Each Grew 13 Percent in 1986." Unpublished news brief, June 24 1987.

*Belgium, Denmark, France, Germany, Greece Ireland, Italy, Luxembourg, Netherlands, United Kingdom.

**Includes: Austria, Finland, Liechtenstein, Norway, Spain, Sweden, Switzerland.

***Organization of Petroleum Exporting Countries: Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, Venezuela, and the United Arab Emirates.

6563-4*

TABLE 5

FOREIGN INVESTMENT IN MAINE AND NEW ENGLAND
(Rank among the 50 States)

	# Foreign Owned Firms 1982	Rank	1985 # Foreign Affiliates With Property Plant and Equipment	Rank	Employment of Foreign Affiliates Per 1,000 Population 1985	Rank	Gross Book Value of Property by Foreign Affiliates 1985	Rank	Acres of Land Owned by Foreign Affiliates 1985	Rank
MAINE	60	43	152	45	18.2	6	1,400,000,000	41	2,481,000	1
NEW HAMPSHIRE	73	39	172	43	16.5	10	600,000,000	45	152,000	27
VERMONT	34	49	128	48	19.3	4	500,000,000	46	91,000	34
MASSACHUSETTS	327	10	540	12	12.2	20	3,100,000,000	26	36,000	43
CONNECTICUT	231	18	412	20	13.6	13	1,900,000,000	36	7,000	49
RHODE ISLAND	64	42	135	46	11.5	22	400,000,000	48	1,000	50

Source: State Policy Data Book, 1988, pp-Tables B-63 to B-71
State Policy Research, Inc., Alexandria, Virginia

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IV. FREE TRADE AGREEMENT WITH CANADA

A. Provisions of the Agreement

On January 2, 1988, the President of the United States and the Prime Minister of Canada signed a Free Trade Agreement which requires approval by the Canadian Parliament and the U.S. Congress. The U.S. Congress ratified the agreement by a vote of 83 to 9 on September 19, 1988. If approved by Canada, the Free Trade Agreement will become effective on January 1, 1989.

The Free Trade Agreement provides for the elimination of all tariffs over a 10 year period. Some tariffs will be eliminated as of January 1, 1989. Roughly 10% of the trade between the two nations is in this category. Some tariffs will be eliminated over a 5 year period at an annual reduction rate of 20% per year. Roughly 40% of the trade is in this category. The remaining tariffs will be eliminated over a 10 year period at an annual reduction rate of 10 percent.

In order to qualify for tariff reductions, the goods must be principally manufactured or produced in Canada and the United States. Products cannot be imported from countries outside Canada and the U.S. and qualify under the Free Trade Agreement for export to the U.S. or Canada.

The Free Trade Agreement contains provisions covering a number of other factors involved in trade between Canada and the United States. Some of these provisions include:

1. Non-tariff barriers. There are a number of non-tariff barriers to exporting including import procedures, standards, health regulations, etc., that will be addressed through supplemental negotiations.
2. Energy. Currently, Maine receives 20% of its electricity from Canada. More than 50% of the electricity consumed in Aroostook County comes from Canada.
 - a) The Free Trade Agreement stipulates that if Canada experiences supply shortages of energy, Canada must proportionately share the shortages with the United States. Canada cannot make the U.S. bear the total shortage.
3. Government Procurement. The Canadian and U.S. federal governments will open federal contracts to bidding by firms in the other country. State governments are not required to do this.

4. Services. Currently, services are not included in the General Agreement on Tariffs and Trade (GATT) that applies to all nations. Currently, Canada has very strict laws relating to services offered by firms in foreign nations which has the impact of preventing the export of services to Canada.
 - a. The Free Trade Agreement applies the GATT provisions governing goods to services that each nation exports. Services cannot be discriminated against by the U.S. or Canada when these services have come across the border, except existing discriminatory practices may continue unless a country changes a policy relating to a particular service. Thus, new services and old services for which a change in policy has occurred, will be governed by the provisions relating to goods.
 - b. Currently, businessmen and professionals from outside Canada are strictly regulated by Canadian law. They are restricted in travel and doing business in Canada.
 - 1) Under the Free Trade Agreement, businessmen and professionals will be able to enter Canada without restrictions or with limited restrictions.
 - 2) The Canadian provinces will work to establish standards for professionals in the U.S. and other Canadian provinces to use their education and work experience toward Canadian professional certification.
5. Investment controls. Small and medium U.S. businesses, heretofore unable to invest in Canada will now be able to invest on the same basis as Canadian companies. Canadian regulation of large scale investment will be continued.
6. Subsidy issue; appeal process. The Free Trade Agreement creates a bi-national appeals board which will consider issues of dumping and subsidies. This board may only interpret whether national law has been correctly applied.
 - a. The Agreement establishes a 5 year negotiating period which may be extended for an additional 2 years to negotiate

reductions in subsidies. If negotiation fails to do this in seven (7) years, the entire Free Trade Agreement becomes null and void.

7. U.S.-Canada Commission. The commission arbitrates trade disputes. This process will significantly simplify the remedial process for trade disagreements. Currently, trade disputes can only be remedied through diplomatic negotiations between Ottawa and Washington. Disputes may now be resolved on the staff level. The commission will meet 1-2 times a year to resolve disputes.

B. Impact of the Agreement

It is difficult to determine the impact of the agreement. In general, both Canadian and U.S. officials perceive opportunities for both countries that outweigh any disadvantages. Canadian assessments of the agreement, for the most part are far more numerous and more detailed than most U.S. assessments. The impact of the agreement has been measured by Canadian federal and provincial officials with respect to the impact on each province, the impact on specific Canadian industries, and the impact on the Canadian economy.

Currently, Canadian tariffs on U.S. imports average 6.1%, while U.S. duties on products from Canada average 4.7%. Products benefiting from high Canadian tariffs include:

- | | |
|--------------------|--------------------------------|
| 1. hosiery - 22.7% | 4. soft drinks - 15.1% |
| 2. shoes - 20% | 5. household furniture - 13.1% |
| 3. tobacco - 16.5% | |

Among the most heavily protected U.S. products are:

- | | |
|----------------------------|--|
| 1. rubber footwear - 22.3% | 4. hosiery - 12.3% |
| 2. tobacco - 20.7% | 5. plastic and synthetic resins - 8.8% |
| 3. sugar - 16.7% | |

1. Impact of Free Trade Agreement on Canada

Canadian economists are concerned about several factors that will affect the ability of Canada's industry to compete with U.S. producers. These factors include appreciation of the Canadian dollar, lower rates of productivity growth among Canadian producers compared to U.S. productivity growth, and wage inflation. Canadian economists foresee free trade as a major impetus to making Canadian businesses more competitive through longer production lines and more specialization. Canadian businesses will need to invest significantly more in production

in order to reduce the rate of inflation which is expected to exceed U.S. inflation by 1% per year for the next 3 years and to increase productivity which fell during the first quarter of 1988.

Canadian estimates of the impact of the agreement on specific industries are described below:

- a. Positive or no adverse impact. Industries in this category include pulp and paper, automobiles, and steel. Generally, there is strong demand in these industries which are more efficient than U.S. counterpart firms. The chemical industry is also very efficient, in general, but is more affected by fluctuations in demand than by exchange rates.
- b. Adverse Impact. The lumber industry and the clothing and textile industry are expected to experience problems. Lumber prices have already fallen as a result of declines in U.S. housing starts. The clothing and textile industry have benefited greatly from the decline in the value of the Canadian dollar, but this industry is operating on very low profit margins. This industry is experiencing serious problems with respect to productivity and the cost of raw materials. Competition in this industry generally comes from countries where cloth and labor are cheaper.
- c. Questionable Impact, Other Variables. The food and beverage industry will be more severely affected by the drought in Canada and the U.S. than by the value of the Canadian dollar. The droughts will cause a cutback in earned stocks. By 1990, exports should have recovered. Machinery and equipment manufacturers will be hurt if the value of the Canadian dollar increases to more than 80 cents in U.S. dollars.

2. Impact of Free Trade Agreement on Maine

The fisheries industry, particularly groundfish fisheries, including fish processing firms, will be affected by the Free Trade Agreement. In 1985, the New England Fisheries industry filed, and later won, a case with the U.S. International Trade Commission to impose a countervailing duty against Canadian groundfish equal to the amount of Canadian subsidies to that industry. In 1986, the New England Fisheries

industry won their case, and a 5.82% duty was imposed on fresh whole groundfish and fillets. This duty will remain in effect under the Free Trade Agreement.

The major sector of the fisheries industry that will be affected by the Agreement, according to the State Economist, will be the sardine industry. The sardine industry which has enjoyed tariffs of 8 to 20% on its products believes that removal of the tariff against Canadian competitors will give the Canadians much greater access to U.S. markets.

Removal of tariffs on high value-added fish products such as prepared fish products will substantially benefit Canadians who are major producers of these products. Maine fish processors will not be significantly affected by the removal of these tariffs because Maine processors concentrate in fresh rather than frozen fish products.

The Maine lumber industry, according to the State Planning Office, will not be affected in any significant way by the Free Trade Agreement. The countervailing ad valorem duty of 15% which the U.S. government, in 1986 found justified to counteract Canadian subsidies to its lumber industry, has been replaced by a Canadian export tax of 15% on all lumber shipped to the U.S. This export tax will remain in effect under the Free Trade Agreement.

The lumber industry's problems with respect to log exports from Maine to Canadian mills will not be affected by the Free Trade Agreement. Log export bans may remain which means that Canadian log export bans will still be in effect. Since most forest land in Canada is federal or provincial land, the ban will be very significant with respect to exports of Canadian logs. Maine cannot ban log exports from private lands which comprise most of Maine's forest lands.

The third general area of impact is agriculture. This is the most complex portion of the analysis of the Agreement. The tariff imposed on Canadian potatoes will be phased out over the next 10 years. If a sudden surge of Canadian potato exports causes a drastic drop in prices, a tariff snapback will occur.

There are other provisions relating to potatoes in the Agreement. For example, grading and inspection standards and rules for pesticides applications will be subject to immediate negotiation following approval of the Agreement. The very controversial issue of agricultural subsidies is not addressed directly in the Agreement. Both countries, however,

commit themselves in the Agreement to eliminate agricultural subsidies and to address this issue through multilateral negotiations. The Free Trade Agreement pledges the two countries to negotiate the subsidy issue over the next 5 to 7 years.

Another concern to Maine potato farmers that is not addressed by the Agreement is the export of Maine potatoes to Canadian markets. Canadian law permits imports of potatoes only when the Canadians are not harvesting their crop. Since Canadian and U.S. potato growers harvest at the same time, the Canadian market is effectively closed to Maine producers.

3. General Predictions about the Impact of the Free Trade Agreement on Maine
 - a. Opening up of Canadian markets and investment opportunities. Canadian markets, many of which have been closed to U.S. businessmen, are significantly opened.
 - b. Opening of investment opportunities. U.S. businesses, particularly small and medium sized businesses, may invest in and acquire Canadian firms on the same basis as Canadian businesses.
 - c. Any Maine company adversely affected by the agreement has 10 years to adjust and to figure out how to respond.
 - d. Dispute settlement process is significantly more expeditious than the current system.
 - e. Non-tariff barriers will be negotiated.
 - f. Canadian productivity in the capital and consumer goods industries is lower than productivity in the U.S. and western Europe.
 - 1) If Maine firms can compete in national markets, they should be able to compete in Canadian markets.
 - g. Energy sales in the U.S. will be at the same price as charged to Canadians.

h. Maine could become a center for New England for trade with Canada

- 1) distribution center
- 2) educational center
- 3) financial center
- 4) bi-national trade negotiation center

4. Possible Negative results

a. Natural resource industries, particularly fishing and potatoes (initially) may be adversely affected.

1) The Atlantic Provinces can embargo exports of fish to Maine and the states;

2) For the most part lumber producers will not go out of business solely as the result of the agreement. Saw log procurement currently occurs under free trade.

b. The Canadians have prepared for more than 1 year for the implementation of the Free Trade Agreement. Maine firms have not prepared. Most Maine firms do not know about the free trade agreement.

5. Neutral Impact-Lobster Fishery

a. The Free Trade Agreement says nothing about lobsters but allows the two nations to establish minimum sizes for conservation purposes. According to the State Planning Office, currently, the minimum size for lobsters is the same for the Atlantic states from Maine to Virginia. Canada's Atlantic provinces also have a similar minimum size. The minimum size of Gulf of St. Lawrence lobsters, however, is less. Canada will be prohibited from marketing lobsters that are smaller than the minimum size set by the Atlantic states except in states which do not have minimum size requirements. "Under-sized" lobsters can only be brought into Atlantic seaboard states for purposes of transportation to other states which allow the sale of these lobsters.

V. SURVEY OF STATES

A. Introduction and Background

The Committee conducted a 15 state telephone survey to obtain information about state government international trade promotion undertaken in these states. The states surveyed include:

- | | | |
|---------------|-----------------|-------------------|
| 1. Alabama | 7. Maryland | 12. Rhode Island |
| 2. Arkansas | 8. Michigan | 13. Washington |
| 3. California | 9. No. Carolina | 14. West Virginia |
| 4. Florida | 10. Ohio | 15. Wyoming |
| 5. Illinois | 11. Oklahoma | |
| 6. Kansas | | |

The states surveyed are ones which have been very active in the promotion of international trade, have adopted some very creative programs, or have been forced to look to foreign markets for a variety of reasons. For example, state governments in Maryland, California, Florida and North Carolina have instituted substantial international trade programs. Wyoming, Oklahoma and Ohio have developed some creative programs or organizational structures by which international trade is promoted and assisted. Michigan, Kansas, Ohio, and Washington have been forced for a variety of reasons to find new markets for in-state firms and to inject greater levels of growth in their economies development purposes. These states have turned to foreign trade, in part, to develop markets and their economies. Alabama is an example of a state that scrapped its international trade programs and operation completely and is in the process of starting all over again.

The degree to which a state provides assistance to in-state exporters is dependent upon several factors. One factor is the degree to which the private sector is willing and able to participate in international trade. A second factor is the degree to which the state perceives the need for securing additional markets and reverse investment in foreign countries. A third factor is the stage of development of state international trade programs. Some states such as North Carolina, Washington, and California have been actively involved in international trade for more than a decade, while other states are only now beginning to become involved in this field.

International trade development and promotion, for the most part, is a relatively new area of involvement of state governments. As a result of substantial cutbacks in federal involvement in international trade promotion and the recent opportunities in foreign trade created by the decline in the value of the dollar, a number of states are

just now beginning to become more involved in the development and promotion of international trade and reverse investment.

B. International Trade Strategies

Most states in the survey have developed international trade strategies or plans with goals and objectives. While the goals and objectives of some state international trade plans were more general than those of other states, nearly all the states base their strategies and plans upon their comparative economic advantage. The comparative economic advantage of each state has usually been determined by a careful evaluation of the state's economy with respect to its strengths, weaknesses, and assets and a survey of businesses within the state.

Washington State, for example, bases its international trade strategy on natural resource processing, computer technology and biotechnology. The state's forests along with aerospace technology have been the basis of the Washington State economy. Using this economic base, the state has developed joint ventures with Swedish natural resource industries by which technology transfer and product development have significantly helped industry in both Washington and Sweden. Washington State also is developing trade with the European market and doing very well at it, especially in the product area of computer technology and biotechnology. The State also has very substantial trade with Japan.

Ohio State bases its strategy, in part, on its agricultural technology. The State has established a foreign office in Lagos, Nigeria and is selling agricultural technology and products throughout Western Africa.

North Carolina's strategy is based, in part, on its forestry and textiles industries. North Carolina studies world markets to determine how its products can penetrate these markets.

Arkansas has no overall, long-term strategy, but it does have goals that are developed annually.

C. Structure of Administration

While the 15 states in the survey have developed international trade programs to meet the unique conditions and needs of each state, there are some similarities among the states with respect to administration of programs or structure of operation. Most states have created a primary international trade agency that is part of the state agency dealing with economic development. In

addition, there are often other state agencies involved in international trade along with state educational institutions, trade centers, trade associations, etc.

Generally, the states in the survey indicate the need for greater cooperation and coordination among all organizations concerned with international trade and communications. While most states attempt to avoid duplication of effort, there is only informal and, often times, sporadic coordination among state agencies, the private sector, trade associations, and other non-profit corporations.

Several of the states in the survey have adopted creative structures by which certain foreign trade programs are administered. With respect to creative administrative structures, Ohio, Oklahoma, Maryland, and Florida stand-out among the states. In Ohio, the State University system houses a number of business incubators which are developing new technologies and products for the Ohio economy. The state has been promoting the export of these new technologies and products through its foreign offices. Ohio has established a foreign office in Lagos, Nigeria from which it promotes and markets agricultural equipment and technology which have been developed or improved by the coordinated efforts of the University system, the private sector, and state government.

Oklahoma has integrated the state's international trade organization and programs with those of the Oklahoma District Office of the International Trade Administration of the U.S. Department of Commerce. The new federal-state organization is entitled Oklahoma International Export Services which has a budget of \$1,400,000 and a staff of 19 which includes both federal and state employees. Oklahoma International Export Services implements its program through 3 offices located in facilities of the state's vocational educational system. If the new organization is successful, more offices will be established statewide in the state's vocational education system.

Florida has established an inter-agency coordinating committee composed of people from different state agencies involved in any way with international trade, investment, education, etc. The inter-agency coordinating committee provides significant coordination and cooperation among the state agencies and between these agencies and other trade organizations.

Maryland, like Florida, has accomplished similar coordination through the Maryland States International Business Commission. The commission includes the

Department of Agriculture, the Maryland Port Authority International Finance Division, the Maryland World Trade Center, and other state agencies.

D. Objectives of State International Trade Programs

Generally, the states have developed international trade administrative structures and programs to meet the following objectives:

1. develop an information network:
 - a. sources of information relating to product and market potential;
 - b. relay of information to firms in the state;
 - c. relay of information to foreign buyers and markets about state products and opportunities within the State.
2. development of a package of incentives to encourage firms to export;
3. development of technology and products for export;
4. inducement of reverse investment (foreign investment within the State).

E. State International Trade Programs and Incentives

The states offer a similar menu of programs and incentives to promote and encourage exporting and reverse investment. These programs and incentives designed to meet the state's international trade objectives are listed below:

1. information network
 - a. establishment of foreign offices;
 - b. cooperation with the U.S. Department of Commerce;
 - c. creation of State Data Banks;
 - d. trade shows;
 - e. interstate and intrastate trade councils.
2. package of incentives and assistance
 - a. one-to-one counseling;
 - b. subsidization of marketing activities;

- c. referrals to export services;
 - d. language banks;
 - e. export financing.
3. development of technology and products for export
- a. university resources;
 - b. joint ventures;
 - c. research parks.

The differences among the states with respect to these incentives and various types of export assistance are differences of degree. Some states such as Maryland, Florida, California, and North Carolina offer not only a wide range of incentives and export assistance but also very substantial programs. For example, 40 states have established foreign trade offices around the world to obtain information about foreign markets and to serve as support organizations and brokers for in-state firms marketing in those areas. California, Florida, Maryland, and North Carolina either staff these foreign offices with state employees (California) or with foreign nationals who work exclusively for these states. Other states contract with foreign consulting firms to represent these states with other clients in specific market areas. Some states will expend \$250,000 to \$300,000 per year for 1 foreign office (Alabama, Utah) while others will expend as little as \$30,000 to \$50,000 per year for a consulting firm to represent the state in a foreign market.

Some states such as Maryland and Florida use highly experienced and "proven" business people to serve as trade specialists while other states (Ohio, Wyoming) use interns such as graduate students. In addition, some states do in-depth market studies for individual firms and industries while others, such as Ohio and Rhode Island do not.

A number of states provide export financing assistance to in-state businesses. Export financing is often very difficult to obtain, especially for owners of small business. U.S. banks, in general, are adverse to financing ventures, including exports of goods, particularly of small businesses and businesses new to exporting. In addition to commercial risks there are political risks, depending upon the foreign county and the stability of its government.

Several states, including Maine, have designated state agencies to serve as representatives of the United States Export Import Bank (Eximbank) and to assist both small business and the U.S. Eximbank in the administration of the program. Some states, but not Maine, also help small business owners by guaranteeing private sector loans or by providing state loans to exporters.

With respect to creative international trade programs, there are several state programs worthy of discussion. The state of Rhode Island, through the University of Rhode Island, operates a computerized program to test the "exportability" of Rhode Island products and the ability of firms to market these products successfully. In addition to providing the State with an assessment of the risk involved in marketing a particular product abroad, this program provides the firm with an assessment of its strengths and weaknesses.

Wyoming has developed a program known as the Quality Award and Export Incentive Program. This program provides awards to Wyoming firms that recognize the quality of the firms' products marketed in foreign markets. This program also provides a firm up to \$2,000 a year to help the firm defray the costs of participating in a trade show.

Both Ohio and North Carolina, through their state universities, have developed and operate a Japanese Center. These centers (Japanese Business Institute at Ohio State and the Japanese Center at the University of North Carolina) serve as cultural, business and trade, and educational organizations. At these centers, students, business persons, and political leaders can derive considerable knowledge about the Japanese culture and the ways of doing business in Japan.

The State of West Virginia, like Ohio and some other states, has established a State Data Center with the cooperation of the U.S. Department of Commerce. The detailed up-to-date computerized data enables these states not only to ascertain the current status of the state's international trade but also to develop and change international trade goals, objectives and programs as necessary.

The States of Utah, Florida, Maryland, and North Carolina have developed "computerized" lists of in-state firms with the products and services produced by each firm along with other pertinent information about each firm. These states use trade "leads" derived from the Department of Commerce, state foreign trade offices, international trade associations, trade shows, etc., and match them with in-state firms. Utah international trade specialists personally take the leads to those firms deemed to be the best able to pursue the leads.

F. Evaluation of State Programs

Evaluation of state international trade programs is weak. According to Blaine Liner of the Urban Institute and Helzi Naponen of the Center for Urban Affairs and Policy Research, state evaluation efforts are doing very little in this area. State agency evaluations revert to the number of jobs and number of dollars for lack of any effective standards to determine the consequences of their trade programs. No state evaluation policies relate cause and effect. As a result, Mr. Liner has been contracted by the NCSL to develop an evaluation process for the states to use. This should be ready by January 1989.

The various states in the survey admitted that the evaluation process in these states could be improved. In nearly each state, evaluation is conducted by the agency which implements the programs. Self-evaluation, however, often lacks objectivity.

In the State of Alabama, the state's international trade program was disbanded. Initially, international trade programs were administered by the Community Development Agency which was involved in reverse investment, both domestic and foreign. The reverse investment program with respect to foreign capital was successful while the state's international trade programs were a disaster. The private sector seldom used the state programs and went directly to the University of Alabama and the University of Southern Alabama for assistance in international trade. The State of Alabama is reorganizing its international trade program and structure. The State is in the process of developing a strategy and coordinating its proposed programs with programs of the state universities.

G. Maine's International Trade Program

Maine, like many other states, has not been active in the promotion and development of international trade in previous years.

The major international trade activities financed by the State have been conducted by the Maine World Trade Association, a private non-profit corporation, the Maine Department of Agriculture, and the Maine Department of Marine Resources. Approximately the equivalent of 3 1/2 full time persons have been financed by the state to promote international trade and foreign investment in Maine. For 2 years, the State has provided roughly \$150,000 annually for international trade promotion and development. This figure represents roughly 3.5% of the 1987-88 budget of the Department of Economic and Community, excluding funding for the Office of Community Development and Waste Recycling.

In contrast to other states, many of which provide similar services as the MWTA, Maine's state appropriation for international trade is limited. According to a 1986 survey conducted by the National Association of State Development Agencies, Maine ranked 35th (of 41 states providing data for the survey) with respect to the level of state funding of international trade promotion. States with a similar population or rural economy to Maine such as Alaska, Colorado, Iowa, Nevada, Rhode Island, Utah, and Wyoming have funded international trade to a greater extent than Maine.

Up until recently, the Maine World Trade Association implemented the major international trade programs and policies of the State. In the 1987-88 supplemental budget for Maine, however, \$600,000 has been appropriated to the Department of Economic and Community Development for international trade promotion and development. The Department is developing plans for the expenditure of these funds. The plans include:

1. Trade leads.

The Department will follow up on trade leads provided by the Department of Commerce and other agencies to get Maine businesses more involved in international trade.

2. Trade shows.

The department will target a few industries and assist smaller businesses to become involved in trade shows.

3. Trade missions.

The department will emphasize attraction of foreign investment to Maine in this program. Carefully targeted key industries will be the subjects of this program.

4. Participation grants.

Participation grants will be used to develop cultural and educational relationships between Maine and foreign nations. For example, Portland has a sister city in Japan. Maine has a sister state in Brazil.

Since Maine is a newcomer to the promotion of international trade, it has not developed an overall strategy with goals and objectives to guide the state's efforts and target its resources to maximize the impact of its efforts.

Similar to many other states, the institutions involved in international trade or which have resources that could be applied to the development of international trade are not coordinated to make maximum use of the State's resources. The University of Maine System, the Vocational Technical Institute System, banks, railroads, the Maine Port Authority, business assistance services and the Maine World Trade Association, are not working together in a coordinated and targeted effort. Coordination and cooperation occurs informally on an ad-hoc basis.

VI. FACTUAL FINDINGS AND HIGHLIGHTS

A. The United States: International Trade and Foreign Investment

1. A very small percentage of firms (roughly 10%) nationally, export to foreign markets.
2. The substantial increase in the U.S. trade deficit is a relatively recent occurrence, most of which has occurred since 1980.
3. Nearly 85% of the 1987 trade deficit was in the manufacturing trade, 75% of which consisted of motor vehicles and parts, textiles, apparel and shoes; and electronics.
4. Of the 1987 U.S. trade manufacturing trade deficit, Japan accounted for 35% followed by Taiwan (11%), West Germany (10%), and Canada (7%).
5. Western Europe, Japan, and Canada are both the major foreign markets for U.S. exports (63%) and the major sources of U.S. imports (62%).

Exports		Imports	
Canada	= 24%	Canada	= 17%
Western Europe	= 28%	Western Europe	= 24%
Japan	= 11%	Japan	= 21%

6. While the composition of U.S. exports has changed very little over the 22 year period from 1966 to 1986, U.S. imports have changed dramatically over this period. Agricultural products, machinery, and transportation products have remained as the major components of U.S. exports. Petroleum, machinery, and transportation equipment are currently the major components of U.S. imports compared to comprising 27% of total U.S. imports 20 years ago.
7. The profile of foreign investments in the United States has changed significantly since 1981 while the profile of major investors has not. U.S. real estate and wholesale and retail trade have grown substantially to become major sectors of foreign investment. The major foreign investors during this period continued to be Western Europe, Japan, and Canada.
8. Export-import data and foreign investment data relating to individual states and regions generated by the Department of Commerce is dated

(the most recent export-import data is for the year 1984) and very incomplete. It is not only difficult to analyze state performance in international trade, it is also very difficult to measure the impact of foreign investment in individual states and to determine the opportunities that may exist in international trade. It is also extremely difficult to perceive the opportunities that may exist in international trade with data that is 5 years old.

B. Major International Economic Events

1. Canada has carefully studied the Free Trade Agreement and has been preparing for approximately 2 years for the implementation of this agreement.
2. Western Europe is preparing for the integration of its economies which is expected to occur in 1992. The U.S. and the individual states, for the most part, are not analyzing the implications of this event or preparing for it.

C. The Several States and International Trade

1. International trade development and promotion is a relatively recent state activity which has come about as a result of the decline in the federal government's role since the early 1980's in this field and which has been given a shot-in-the-arm since 1985 by the decline in the value of the American dollar.
2. While most states have developed strategies or plans with goals and objectives based on the strengths and assets of each state's economy and business base, many of these strategies and plans do not "drive" the agencies or the programs. The strategies or plans, for the most part are flexible and general.
3. Most states in the 15 state survey admit that current evaluation of state programs and efforts in international trade is weak and not very useful. In addition, some promotional activities and assistance programs have not been in effect long enough to test their efficacy and results.
4. Most states in the survey admit that coordination and cooperation among state agencies, the educational sector, and other trade organizations need to be substantially improved. In many states, coordination and cooperation is informal and occurs primarily on an ad-hoc basis.

5. In general, state international trade plans and strategies do not contain provisions to deal with contingencies such as sudden sharp increases in the value of the dollar, to prepare for the Free Trade Agreement with Canada, or to prepare for the proposed integration of the economies of Western Europe into a single large market by 1992.
6. At the present time, the states have not made much progress with respect to the greatest obstacle to exporting which is the preference of U. S. firms to market in the national market and to avoid foreign markets.
 - a. While the states assert that more businesses are exporting than previously, international trade officials in each state admit that the percentage of businesses exporting is extremely small and that they have not solved the problem of reluctance of firms to get involved in foreign markets.
 - b. In many cases, a success with a firm is only a one time or occasional success. Many firms may export once or only occasionally over a very limited amount of time, but not continuously and not over a long time period.
7. There is a controversy among different state officials, trade organization people and academicians with respect to the degree that the states should promote international trade. This controversy needs to be resolved in each state in order for each state to effectively address the exporting issue.
 - a. Some officials argue that many firms cannot compete with foreign businesses in the U. S. market. They ask, how can these in-state firms compete with foreign businesses in their home markets or markets closer to them than to the U. S. business firms? Proponents of this argument would suggest orienting state assistance primarily to making in-state firms more competitive through the adoption of new technology, new processes, etc.

D. Maine: International Trade and Foreign Investment Activities

1. In Maine, 5 year old data indicates that a much smaller percentage of firms participate in international trade compared to the U.S. and New England. In addition, the percentage of total

value derived from exports in Maine was much smaller compared to the U.S. and the New England region.

2. Maine is a newcomer in the field of international trade promotion and development. For the most part, it has lagged far behind most other states in this field and its efforts have been minimal.
3. Maine has no international trade strategy or plan with goals and objectives based on Maine's economic strengths and assets by which the state can:
 - a. determine the potential of Maine's goods and services in world markets;
 - b. take advantage of the opportunities that may be available in world trade;
 - c. prepare for the Free Trade Agreement with Canada;
 - d. prepare for the integration of the European economies in the early to mid 1990's.
4. Data concerning Maine exports and imports is dated and difficult to acquire.
5. The agencies and institutions in the public and private sectors are not coordinated to the extent that make the most effective use of limited resources in the field of international trade.
6. While Maine ranks 41st in the nation with respect to the gross book value (\$1.35 billion) of foreign owned firms and 45th with respect to the number of foreign affiliates (152) with property, plant, and equipment in the State, Maine ranks first in the nation with respect to acres of land owned by foreign affiliates and 6th in the nation with respect to the number of employees (18.2) per 1,000 population employed by foreign affiliates.

VII. STUDY IMPLICATIONS AND COMMITTEE THESIS

A. Study Implications

1. During a period of dramatic change in the global economy, the United States has become the major market for products that U.S. producers once marketed throughout the nation and abroad. An extremely small percentage of U.S. firms market most U.S. goods and services in Canada, Western Europe, and Japan which are also the largest exporters to the U.S. and the major foreign investors in the U.S. While the global economy has been changing rapidly, foreign producers have quickly exploited the newly created opportunities. U.S. exporters have not seized the initiative. As foreign producers changed their exports to meet new demand in the U.S. and elsewhere, the composition of U.S. exports has changed little over the last 30 years.
2. While there has been considerable controversy about the implication of foreign investment it has been an important source of financing growth and development. This has been particularly true with respect to Maine which ranks 6th in the nation with respect to the percentage of the labor force employed by foreign affiliates.
3. As the role of the federal government in U.S. foreign trade has waned significantly since 1980, the role of foreign governments in foreign trade has substantially increased. In addition, Canada and Western Europe, two of the three top sources of U.S. imports, have been preparing for a long time for the Free Trade Agreement and the integration of the European economy. The U.S. is not prepared for these events and neither the federal government nor the states have undertaken the analysis or the steps necessary to meet the challenges and exploit the opportunities posed by these events.
4. The states are not sufficiently prepared for the changes in the global economy. Most are only beginning to get involved in international trade promotion and development. Many of their programs are only in the experimental stage, and very few states have evaluated their programs. It is not possible to determine the most effective international trade policies and programs that the states have been implementing.

5. In order to develop the most effective approach to international trade and to maximize resources, the states need to continuously examine their goals and objectives and develop and alter their international trade strategies as necessary to meet these goals. In addition, the states need to objectively evaluate their programs to determine the degree of effectiveness of these programs.
6. Maine is in an enviable position. It has only begun to promote and develop international trade. It can learn from the mistakes of other states. It is essential that Maine develop goals and objectives based on its economic strengths and weaknesses and formulate an international trade strategy prior to the implementation of any programs.

B. Committee Thesis of the Study Report

Based on the factual findings of the report, including Department of Commerce data and other data sources as well as the committee's survey of states, the Committee on Economic Development formulated a thesis concerning international trade.

Maine and the nation stand at a crossroads in economic growth and development. Dramatic changes in the world and national economies are restricting opportunities for the United States in some economic sectors and creating new opportunities in other sectors. The Free Trade Agreement with Canada, the integration of the common market economies into a major continental economy, and the transformation of Asian economies and economic policies will have a substantial impact on the nation in the very near future.

If the nation and the states do not actively seize the opportunities by developing creative strategies that remove the barriers to exporting and foreign investment and provide the assistance that meets the specific needs of the private sector to participate in the changing world economy, the opportunities will be lost. The national economy and the economies of the several states could contract and become purely reactive; responding to forces over which they have no control.

Since the federal government's role in international trade has contracted substantially in recent years, the roles of the states in this area must be substantially increased. The states, however, have only recently been thrust into the position of promoting international trade in a significant way. The track record of the state's policies and activities in international trade promotion and development is very short.

It is essential, therefore, that Maine and the several states carefully study and monitor the rapid change occurring in the global economy, formulate international trade strategies and policies based on the economic strengths and assets of each state, and make the best use of limited resources within each state and within regions to meet the challenges and opportunities created by the changing global economy. In undertaking this new or greatly expanded role with respect to international trade, the states need ready access to the most current and pertinent international trade information. In addition they need to coordinate and target their resources, design their programs and activities based on their strategies, and continuously monitor and evaluate their policies and activities to determine their effectiveness.

If Maine coordinates the resources, efforts, and activities of the public sector, including the field of education, the private sector, and devises a strategy based on the state's strengths, the State of Maine could be in the vanguard of states that reaps the rewards of seizing opportunities while they exist.

VIII. COMMITTEE FINDINGS AND RECOMMENDATIONS

A. General Findings and Recommendations

1. The time and circumstances are right to seize the opportunities that exist in international trade and to reduce current barriers that hinder the exploitation of these opportunities. The priority given to international trade in the Governor's budget is well founded. Maine must pursue the promotion and development of international trade including imports necessary for the operation of Maine companies as well as foreign investment for the following reasons:
 - a. Maine is located next to, almost surrounded by, Canada, and Maine will most certainly be affected by the Free Trade Agreement between Canada and the United States. Maine is currently affected by Canadian-U.S. trade without the Free Trade Agreement in effect.
 - b. The consolidation of the economies of the Common Market, scheduled for 1992, will certainly have a major impact on the Maine economy.
 - c. The impact of trade of less developed countries, particularly Taiwan, South Korea, and South American nations, on the U.S. economy, including Maine, is substantial.
2. Cooperation between the private sector and the State is essential in the development of international trade. Without the support and involvement of the business community, the State of Maine cannot realize any significant successes in the development of international trade. Therefore, the role of the Maine World Trade Association (MWTA) in the promotion and development of international trade is an important one, and the expertise and resources of this organization should continue to be a part of the State's international trade structure and programs.
 - a. the State of Maine and the Maine World Trade Association should work together to increase the private sector resource base of the Maine World Trade Association and to broaden the MWTA role throughout the Maine business community. The ultimate goal of this cooperative effort should be the achievement of a funding match by

which one dollar of state funds is matched by at least one dollar of private sector funds provided to the MWTA within the next 5-10 years.

3. Trade show participation is extremely important to the development of international trade. Foreign buyers purchase foreign goods and services almost exclusively following personal contact with the producing firm and an examination of the products. The Department of Economic and Community Development should continue its trade show promotion activities, but should not subsidize travel costs of participants who must show a commitment to a state activity that benefits them.
4. Product and technology development are extremely important to the survival of traditional firms and the creation of new enterprise. Many other states are investing substantial resources in product and technology development. This type of investment has helped industry in those states to compete in both domestic and foreign markets. Maine needs to explore the means by which the development of new products and technology can be best achieved and to determine the role, if any, of the State in this process.

It is also essential for the University of Maine System to upgrade its engineering programs and to emphasize new product and technology development in order for the state's private sector to meet the competitive challenge in both domestic and foreign markets. Specifically, opportunities must be created by which faculty members are encouraged to conduct research and experiments with respect to new products and technology. In addition, greater emphasis is needed with respect to student enrollment and research in the field of engineering and in the sciences, in general.

The Maine Science and Technology Commission can play a significant role in the development of new technology and new products and the application of new technology to existing processes which could help Maine compete in international markets. This Commission should coordinate its efforts and policies with those of the University of Maine System, the Maine Vocational Technical Institute System, and the Department of Economic and Community Development. The international trade and economic development activities, policies and resources of all these organizations need to be consistent with each other and with a state

strategy. In addition, these organizations should avoid duplication of effort to the most feasible extent.

5. The Maine economy, to a greater extent than other states, consists mostly of small producers who have the greatest need of assistance in the area of international trade. The state's efforts in this area should be geared to small businesses and the removal or reduction of barriers to small business in international trade. The Small Business Development centers can plan an important role by providing information to small business about international trade opportunities and by referring them to the appropriate sources of assistance in this area.
6. Before any incentive programs are formulated and implemented to promote and develop foreign trade, a state strategy or plan with long and short term goals needs to be developed.

B. Findings and Recommendations Requiring Legislation

1. Finding:

Since resources are finite, international trade promotion and development can be best realized by targeting resources that take advantage of Maine's strengths and its assets in international trade. This approach has been pursued by most other states which have analyzed their strengths and weaknesses and developed plans or strategies by which limited resources can be best invested to produce the maximum results. In addition, the coordination of resources and efforts of different organizations, state, federal, and private, in the area of international trade is an effective means of making the best use of limited resources as demonstrated by a number of states.

Recommendations:

- a. Require the Department of Economic and Community Development (DECD) to specify and quantify the potential of and the opportunities in international trade for Maine. The investigation shall also determine the strengths and assets of the Maine economy in the international economy as well as the barriers to the development of international trade.
 - 1) This requirement to analyze the Maine economy to determine its strengths and assets shall include an inventory of Maine

businesses to the most feasible extent, an employment profile of these businesses, and the markets of these businesses. Before any economic development strategy can be created, the state must know what currently exists with respect to the business community and what these businesses are doing.

- b. Require the Department of Economic and Community Development to develop an International Trade Strategy or Plan with long term and short term goals and objectives based on the state's economic strengths and the opportunities available to the state in international trade.
- c. Require DECD to investigate the coordination or merger of the Maine Office of the International Trade Administration with the international trade section of the Department of Economic and Community Development and the Maine World Trade Association.
 - 1) As part of the task of developing an international trade strategy or plan for the state, the department shall investigate or experiment with, in a pilot project, the creation of a foreign trade office which would be used to obtain product and market information and trade leads for use by Maine firms. In addition, this office would serve as a support office for in-state firms doing business in that part of the world.
 - 2) The department shall also analyze the current role of the Office of Federal State Coordinator. The purpose of this study is to determine whether changes in the functions of this office to assist the state's promotion and development of international trade is feasible and beneficial.

2. Finding:

The development of an efficient information network through which current, accurate international trade data and other information such as trade leads is transmitted between the public and private sectors is essential. Successful international trade promotion and development depends upon timely and pertinent information.

Recommendations:

- a. Require the Department of Economic and Community Development, in conjunction with the Office of Information Systems, to investigate the cost and benefits associated with a Maine international trade data and information system, including electronic hookup with the International Trade Administration for export-import data and trade leads. The department and the Office of Information Systems shall identify types of information and the sources of this information needed to develop an international trade data and information system. The purpose of this system is to provide accurate and current information to the private sector and to institutions and organizations in the public sector involved in international trade promotion or development. The Department of Economic and Community Development will report its findings, including the best system for setting up and operating an international trade data and information system to the Committee on Economic Development by the Second Regular Session of the 114th Legislature.
- b. Require the University of Maine System and encourage Maine's private colleges to develop a centralized information response system by which faculty members and the resources of the several campuses of the University and the state's private colleges can be easily accessed with respect to economic development and international trade.
- c. Require the Department of Economic and Community Development to investigate the practicality of and benefits associated with the creation of a New England Trade Council which could provide specific international trade services to all the New England States or the means by which resources of the New England States could be shared to each state's advantage with respect to international trade. The department will consider as some of the responsibilities of this regional council the following:
 - 1) attraction of foreign business and investment to New England;
 - 2) educational information;
 - 3) referrals of trade leads.

- d. Require the Commissioner of the Department of Economic and Community Development to investigate the means by which a centralized information response system could be developed to include state agencies, private organizations, trade associations, independent state agencies, etc., which are involved in international trade. The Commissioner will report his findings and recommendations to the Joint Standing Committee of the Legislature having jurisdiction over Economic Development matters by January 1, 1990.
- e. Require the Department of Economic and Community Development to investigate the University of Rhode Island's computer program which is designed to test the "exportability" of Maine products.

3. Finding:

One of the most significant barriers in promoting and developing foreign trade is the lack of export financing. Banks, for the most part, consider export financing too risky, particularly with respect to products and nations about which they have little information. In addition, banks are especially discouraged from providing export financing to small businesses with little or no export experience. This includes most of the businesses in Maine.

While the Finance Authority of Maine serves as an Eximbank representative in the State of Maine, small businesses consider the Eximbank loan program to be too bureaucratic and too time-consuming to enable small businesses to get timely financing.

Recommendation

- a. Require the Finance Authority of Maine, with the assistance of the Department of Economic and Community Development and the Maine World Trade Association to investigate the feasibility and the impact of providing low cost state financing, in addition to Eximbank loans, to small and mid-sized firms for export ventures. The results and recommendations of this investigation will be presented to the Second Regular Session of the 114th Legislature.

4. Finding:

One of the major barriers to the export of U.S. goods to foreign markets relates to the quality of U.S. goods. In addition, U.S. exporters often turn to foreign markets only when domestic markets are not attractive and quickly return to domestic markets when these markets improve. Foreign buyers, therefore, consider U.S. producers unreliable and U.S. products inferior in quality. Nearly all states acknowledge this problem which is also recognized officially by the Federal Reserve Bank.

Recommendation

- a. Require the Department of Economic and Community Development to investigate alternatives for a certification of quality program. The purposes of this program is to assure both domestic and foreign purchases of Maine produced goods that these goods are of consistently good quality. The department shall consult with trade associations, the University of Maine System, the Maine Department of Marine Resources, the Maine Department of Agriculture, the Maine Department of Conservation, and any other organizations deemed by the department to be important sources of information or expertise in certification of quality. The department shall also review the efforts undertaken in other states to certify the quality of goods produced in those states. The department will report its findings and recommendations for a quality certification program to the Second Regular Session of the 114th Legislature.

5. Finding:

There is a need, nationally recognized, for comprehensive and objective evaluation of economic development programs including international trade programs. The States need solid objective evidence to determine the degree of effectiveness, or lack of effectiveness of these programs. State agencies could benefit substantially by changing plans, goals, objectives, and implementation activities when evaluation results show the need for remedial action. Evaluation of international trade programs should occur no earlier than 1991 when there will be at least 1 year's record of international trade efforts pursued by Maine state agencies and the private sector.

Recommendation

The University of Maine System, in consultation with the Department of Economic and Community Development shall investigate various sources for the evaluation of international trade programs. These sources include the National Association of State Development Agencies, The National Council of State Legislatures, consulting firms, and other sources which may have developed objective standards for measuring the effectiveness of economic development programs. The University in consultation with the department shall develop evaluation criteria and procedures for the state's economic development programs. The University will report its findings and any proposed contracts for evaluation to the Joint Standing Committee on Economic Development no later than June 1, 1989.

6. Finding

The Maine economy will face many serious challenges in the future from the Free Trade Agreement with Canada and from the European economy in the 1990's which will become an integrated continental economy in the 1990's. In addition, substantial changes in the policies and economies of Asian nations are creating a significant impact upon the U.S. and Maine economies. While these events may pose challenges, they may also create opportunities. Both Canada and Europe have been preparing for these events for several years and evaluating their impact.

Recommendation:

- a. A comprehensive evaluation and monitoring of the impact of both the Free Trade Agreement with Canada and the integration of the European economy with respect to the Maine economy is necessary in order for Maine to meet the challenges and exploit the opportunities presented by these forces. The Department of Economic and Community Development shall contract for the analysis and evaluation of the estimated impact on Maine of the Free Trade Agreement, the integration of the European economy, and the development of the Asian economies. This contract shall also provide for continuous monitoring of these events as they affect Maine and for periodic reports to the Governor and the Legislature concerning the impact of these events and any changes needed in state policies and programs. The department shall strive to use Maine's public and private

higher educational institutions to the greatest possible extent to undertake the analysis required. The department may use any other sources to undertake this contract either independently or in conjunction with the higher educational institutions.

APPENDIX A

STUDY REQUEST AUTHORIZED
BY THE
LEGISLATIVE COUNCIL

HELEN T. GINDER, DIRECTOR
HAVEN WHITESIDE, DEP. DIRECTOR
GILBERT W. BREWER
DAVID C. ELLIOTT
GRO FLATEBO
MARTHA E. FREEMAN, SR. ATTY.
JERI B. GAUTSCHI
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ROBERT W. DUNN, RES. ASST.
HARTLEY PALLESCHI, JR., RES. ASST.
KATHRYN VAN NOTE, RES. ASST.

January 15, 1988

Senator Charles P. Pray, Chair
Legislative Council
State House Station 3
Augusta, ME 04333

Dear Senator Pray:

The Joint Standing Committee on Economic Development requests Legislative Council approval of a study request to commence during the Second Regular Session and to be submitted with any necessary implementing legislation to the First Regular Session of the 114th Legislature. The Committee proposes to study and analyze Maine's participation in international trade and the effect of international trade on Maine's economy.

Maine's economic growth and development is affected by decisions of businesses and nations throughout the world. Maine businesses, however, participate little in international trade, and market primarily in the national market. State efforts in and promotion of international trade are minimal. In addition, the State will be significantly affected by the trade agreement between Canada and the United States.

The Committee on Economic Development proposes that the Committee take a comprehensive look at the potential impact of international trade on the state's economy. This analysis shall include

- a) a review of the Maine World Trade Association and its efforts to promote Maine firms to export to international markets;
- b) a study of the policies and activities of other states with respect to international trade;

- c) a study of Maine's marketing and trade policies which are currently implemented by several state agencies;
- d) an examination of the obstacles that may impede or discourage Maine firms from engaging in the sale of goods and services in international markets;
- e) an examination of the U.S.-Canadian Trade Agreement and the impact of that agreement on Maine firms.

We trust that you will appreciate the need for this close examination of Maine's export trade policies and practices. We look forward to your response.

Sincerely,

Rep. Nathaniel J. Crowley, Sr.
House Chair

Sen. Thomas H. Andrews
Senate Chair

3288*

APPENDIX B

COMMITTEE STUDY LEGISLATION

Sponsor: Joint Standing Committee
on Economic Development
Drafted by: Ted Potter, LA
October 29, 1988
(International Trade Study)

FIRST REGULAR SESSION

ONE HUNDRED AND FOURTEENTH LEGISLATURE

Legislative Document

No.

STATE OF MAINE

IN THE YEAR OF OUR LORD
NINETEEN HUNDRED AND EIGHTY SEVEN

AN ACT to Enable Maine to Seize the Opportunities and
Meet the Challenges in International Trade.

Be it enacted by the People of the State of Maine as follows:

Sec. 1. 5 MRSA §13102, sub-§6 is enacted to read:

6. Propose certification of quality program. Investigate alternatives for a certification of quality program. The purpose of this program is to assure both domestic and foreign purchasers of products produced in Maine that these products are of consistently good quality.

The division shall consult with trade associations, the University of Maine System, the Maine Department of Marine Resources, the Maine Department of Agriculture, the Maine Department of Conservation, and any other organizations deemed by the department to be important sources of information or expertise in certification of quality. The division shall also review the efforts undertaken in other states to certify the quality of goods produced in those states. The division will report its findings and recommendations for a quality certification program to the Second Regular Session of the 114th Legislature.

Sec. 2. 5 MRSA c. 383, subchapter VI is enacted to read:

SUBCHAPTER VII

INTERNATIONAL TRADE

§13116. Purpose

International trade presents many challenges and opportunities that the State of Maine must consider and act upon in order to be able to help shape its own destiny and create opportunities for its citizens in the future. If the State of Maine fails to take an active part in addressing international trade forces and issues, Maine may lose to other states many of the opportunities available in international trade. Maine could be left with an economy that is entirely reactive to forces over which it has no control. The Free Trade Agreement with Canada, the integration of the Common Market economies into a major continental economy by the mid 1990's, the rapid growth occurring in developing countries, and the substantial impact of foreign trade on the Maine economy compel Maine to act soon and seize opportunities before they are lost.

To this end, it is necessary for Maine to develop an international trade strategy which is based on the state's economic strengths and assets and which maximizes the impact of limited resources. By establishing goals and objectives based on its strengths to guide the State's international trade activities and by coordinating international trade efforts throughout the State, Maine can reap the rewards of seizing economic opportunities as they arise and enter the 21st century with a strong and modern economy.

§13112. International trade strategy

The department, in cooperation with the State Economist; the Department of Agriculture, Food, and Rural Resources; the Department of Conservation; the Department of Marine Resources; representatives of the University of Maine System, and representatives of the private sector who are involved and every knowledgeable about international trade shall develop an international trade strategy for the State of Maine.

1. Contents of the strategy. At a minimum, this strategy shall include the following:

A. An analysis of the Maine economy including a delineation of its strengths and assets; projections of future growth and declines in Maine's economic sectors, a delineation of specific opportunities in international trade, the potential impact of international trade on the Maine economy; and any barriers to international trade.

B. The long and short term goals and objectives to guide the State's activities in the promotion and development of international trade:

(1) In developing these goals and objectives, the department shall consider factors important to the development of international trade such as education, infrastructure, communications, finance, and other similar factors.

(2) The long and short term goals and objectives shall be evaluated at least annually and up-dated as necessary.

C. AN evaluation that can best exploit the opportunities in and potential of international trade and the means that can reduce or eliminate the barriers.

D. An evaluation of the feasibility of establishing a foreign trade zone in a strategic overseas marketing location. The purpose of this office would be to obtain produce and market information, obtain trade leads, and to save as a support office for in-state firms exporting to that part of the world.

E. An assessment of expanding the Office of Federal-State Coordinator to include functions relating to international trade promotion and development.

§13117. Coordination of international trade efforts. The department shall seek to coordinate international trade promotion and development activities within the state in order to make the maximum use of the resources available. To achieve this end, the department shall:

1. Investigate coordination or merger of agency trade activities. Investigate the coordination or merger of the Maine Office of the International Trade Administration with the International Trade Section of the Department of Economic and Community Development, the Maine World Trade Association, and the international trade activities of the Department of Agriculture, Food, and Rural Resources, the Department of Conservation, and the Department of Marine Resources.

2. Investigate centralized information response system. Investigate the means by which a centralized information response system could be developed involving all state agencies which are involved in any way with international trade, including independent state agencies.

3. Coordination of agencies' resources in attracting foreign investment. Investigate the means by which the activities and resources of state agencies and independent

state agencies can be coordinated to attract foreign investment to Maine and to assist firms which plan or show an interest to locate in Maine.

4. Analyze the feasibility of a New England Regional Trade Council. Analyze the practicality of and the benefits associated with the creation of a New England Trade Council for the mutual exchange of trade information, the generation of import and export data, mutual cooperation in trade programs, and the attraction of foreign investment to New England. The department shall study other regional councils to determine the following:

- A. the purpose or purposes of these councils;
- B. the activities in which the regional councils are involved;
- C. how the activities are implemented;
- D. the degree of success or failure of these regional council activities;
- E. the extent of which the purposes are being met; and
- F. the projected plans of the various councils.

§13118. International trade data and information system

The department, in conjunction with the Office of Information Services within the Department of Administration, shall identify the types of international trade information necessary for determining state international trade policy and for assisting the private sector in international trade. The department and the Office of Information Services shall identify the location of this information, the means by which it can be secured and the format in which it should be collected. The department and the Office of Information Services shall investigate the cost, benefits and feasibility of developing an international trade data and information system. This system, at a minimum, should include the following:

1. International trade data and information. International trade data and information consist of:

- A. exports of Maine firms by products, by foreign markets, by value of exports;
- B. imports of Maine firms by products, by foreign sources, and by value of the imports;
- C. foreign investment in Maine by name and location of the investor, type of investment, and market value of the investment; and

D. trade leads; and

2. Inventory of Maine firms. To the extent feasible an inventory of Maine firms, to include:

A. the names and locations of firms currently engaged in exporting;

B. the names and locations of firms currently engaged in importing, and

C. the number of employees of firms engaged in international trade.

D. Manufacturing and service firms which are important to the Maine economy and could be potential exporters.

The department shall investigate the cost of electronic communication with the U. S. Department of Commerce for trade information and shall evaluate the quality and timeliness of this information.

§13119. Analysis and evaluation

In addition to the analysis and evaluation of economic data, trends, policies, and programs that the department undertakes, the department shall contract with reliable and objective organizations or firms for the analysis and evaluation of the events described in this section.

1. Free Trade Agreement with Canada. The department shall provide for an analysis of the Free Trade Agreement with Canada and monitoring of the results of the implementation of this Agreement with respect to its impact on Maine.

2. Explore trade opportunities and policies of Asia. The department shall provide for a study of the economic and trade policies of the developing countries of Asia and Japan to determine the trade opportunities that may be available to Maine in these countries. This study shall also focus on current and projected impacts of the Asian economies on the Maine economy. The department shall provide for the monitoring of the operation of these economies and their impact on the Maine economy throughout the decade of the 1990's.

3. Analysis and evaluation of the impact of the integration of the European economy. The department shall provide for an analysis of the integration of the common market nations' economies into a single continental economy and the impact that this may have on Maine. This analysis and evaluation shall contain recommendations and proposals which Maine can use to meet the challenges and opportunities posed by the integration of the European economy. The department shall

provide for the monitoring of the operation of the Western European economy and its impact on the Maine economy through the decade of the 1990's.

4. The department shall report its initial findings and recommendations concerning the events in subsections 1 to 3 in a timely manner to the Joint Standing Committee of the Legislature having jurisdiction over economic development matters. The department shall also provide this legislative committee with periodic reports relating to the findings and recommendations resulting from continued monitoring of these events.

§13120. Analysis of roles and activities of other states

The department shall study the roles and activities of other states to determine their effectiveness and the extent to which they could be applied in Maine.

1. Factors for consideration. In analyzing the roles and activities of other states in the field of international trade, the department, at a minimum shall consider the following:

- A. the activities designed to improve the quality of goods and services for export;
- B. the measures designed to overcome the barriers to private sector participation in foreign trade;
- C. the measures designed to test the ability of exporters and exports to compete in the international market;
- D. the activities designed to provide the most current data and information needed to assist exporters and to promote international trade.

Sec. 3. Report. The Department of Economic and Community Development shall report its findings and recommendations to the Joint Standing Committee of the Legislature having jurisdiction over economic development matters no later than February 1, 1990.

Sec. 4. Appropriation. The following funds are appropriated from the General Fund to carry out the purposes of this Act.

Department of Economic and
Community Development

Division of Development Policy

All Other \$ 50,000 \$ 50,000

The funds appropriated in this section shall be provided for the purpose of increasing private sector involvement in exporting and increasing private sector support of public and private sector international trade efforts.

STATEMENT OF FACT

This bill is one of the recommendations of the Joint Standing Committee on Economic Development from its study of the impact of international trade on the Maine economy. This bill proposes that:

1. The Department of Economic and Community Development (DECD) analyze the Maine economy with respect to international trade and determine the state's strengths, assets, and liabilities in regard to international trade.
2. The DECD formulate an international trade strategy based on the State's strengths and assets. The strategy will contain short and long term goals which will be evaluated and up-dated as necessary.
3. The DECD evaluate all means that can best exploit international trade and the means that can reduce or eliminate barriers to greater development of international trade.
4. The DECD evaluate the feasibility of establishing a foreign trade zone and expanding the role of the Office of Federal-State Coordinator to promote and develop international trade.
5. The DECD coordinate international trade efforts and resources within the State to maximize the use of state resources.
6. The DECD investigate the feasibility of creating a New England Regional Trade Council for purposes of promoting and developing international trade for the region and attracting investment to New England.

7. The DECD, in conjunction with the Office of Information Systems, investigate the feasibility of an international trade data and information system by which comprehensive accurate and up-to-date information is available for the private sector and for the public sector which needs this information for planning and evaluation purposes.
8. The DECD investigate various approaches to a certification of quality program which will encourage domestic and foreign purchases to buy goods and services produced in Maine. The DECD will work with trade associations, state agencies, and other organizations to design a proposal for a quality certification program.
9. The DECD study international trade strategies and activities of other states to determine the effectiveness of these strategies and activities as well as the extent to which they could be applied to Maine.
10. Additional resources be provided to generate more private sector support of international trade efforts in the State.

Sponsor: Joint Standing Committee
on Economic Development
Drafted by: Ted Potter, LA
October 29, 1988
(International Trade Study)

FIRST REGULAR SESSION

ONE HUNDRED AND FOURTEENTH LEGISLATURE

Legislative Document

No.

STATE OF MAINE

IN THE YEAR OF OUR LORD
NINETEEN HUNDRED AND EIGHTY SEVEN

AN ACT to Make More Effective Use of Maine's Public
and Private Higher Educational Institutions
as Sources of Input for Public Policy.

Be it enacted by the People of the State of Maine as follows:

Sec 1. 20-A MRSA chapter 410 is enacted to read:

CHAPTER 410

PUBLIC AND PRIVATE HIGHER EDUCATIONAL INSTITUTIONS
AND ECONOMIC DEVELOPMENT POLICY

§10801. Purpose

Maine stands at a crossroads in economic development.
Dramatic changes in the world and national economies are
restricting opportunities in some economic sectors and creating
opportunities in others.

Maine can be an important factor in the opening of trade
with Canada. It could become a major trade gateway with
Eastern Canada and serve as a financial and distribution center

for goods and sources of both nations marketed in the U. S. and Canada.

The integration of the Common Market economies into a single continental economy will have a substantial impact on both the United States and the Maine economies. This dramatic transformation of the European economy will enable Western Europe to realize efficiencies and cost savings associated with the elimination of trade barriers.

Significant change is also occurring in Asian economies. Protective trade policies are changing throughout Asia. Economic growth in these nations creates demands for goods and services that cannot be met solely by each Asian nation's productive capacity. The developing Asian nations therefore may offer opportunities to Maine as well as other states in the nation.

If Maine is to seize these opportunities and continue to experience growth in the future, it must be aware of and prepared for these opportunities. Maine must also be prepared for any adverse economic impacts that occur as a result of the dramatic changes in the world economy. The State, therefore, needs to make the best use of its resources in the formulation of its economic policies and programs.

Maine's public and private higher educational institutions possess considerable talent, expertise, and other resources which are extremely important to the formulation and implementation of public policy in Maine. While these institutions contribute significantly to the well-being of the citizens of this State, there is no means by which the expertise and valuable resources of these institutions are involved in an organized and consistent fashion in the development and implementation of public policy.

The need for greater involvement of Maine's higher educational institutions in public policy is especially evident in the area of economic development, including international trade. The dramatic changes in the world economies, the Free Trade Agreement with Canada, the integration of the European economies into a continental economy and the impact of foreign trade on the United States and Maine economies require the best use of the available resources in the State to address these issues. By developing the means by which Maine's higher educational institutions can contribute more readily to the formulation and implementation of policy, including analysis of economic data, assistance to the private section, and formulation of proposal for consideration by policy makers, the State will be very well served.

§10802. Central information and response system

Every public and private higher educational institution in Maine shall cooperate in the development of a centralized information and response system with respect to the expertise

and resources of these institutions in the field of economic development which shall include international trade and product and technology development. The central information and response system shall serve as a directory and central clearing house of information by which the expertise and resources of these institutions are made readily known and easily accessible. This system shall also serve to respond to questions concerning sources of information relating to economic development issues, particularly with respect to expertise and types of assistance available among Maine's public and private higher educational institutions.

1. Public information. A directory shall be published with the information required by this section. The directory shall be updated at least every 2 years. The directory shall contain, at a minimum, the following information:

A. Categories of economic development expertise to include the names and locations of faculty members with expertise in these categories.

B. Types and locations of assistance that can be provided to assist the public and private sectors in the field of economic development.

C. Other resources available at each institution or resources or that can be provided to assist the public and private sectors in the field of economic development including experimental facilities and research capacity.

D. Types of on-going research being conducted at each institution in the area of economic development including product and technology development.

2. Administration. The chancellor of the University of Maine System shall be responsible for the development and oversight of the central information and response system. The chancellor may delegate the creation of this system to an organization representing Maine's public and private higher educational institutions.

3. Report to the Legislature. The chancellor shall report to the Legislature the progress that is being made with respect to the development of the central information and response system and the operation of this system in the chancellor;s address to the Legislature pursuant to section 10902-B.

§10803. Analysis of pertinent issues

The Council of Higher Educational Institutions may analyze any issues deemed by the council to be pertinent to economic development and international trade, including activities and policies implemented by Maine or other states and nations. The

council shall report its findings and recommendations as provided in section 10802.

1. Consistency between state needs and analyses. In conducting studies and analyses of pertinent economic development and international trade issues, with respect to the State of Maine, the Council on Higher Educational Institutions shall strive to meet the needs of state agencies involved in these issues and the needs of the Maine Legislature which approves state policies and programs. The Council of Higher Educational Institutions shall consult with the Department of Economic and Community Development, the State Planning Office, and the Legislative Council, as feasible, in designing studies in the area of economic development and international trade for consideration by state officials and lawmakers.

STATEMENT OF FACT

This bill is the product of the study on international trade conducted by the Joint Standing Committee on Economic Development. This bill proposes to bring closer coordination and cooperation between Maine's public and private higher educational institutions and state agencies with respect to economic development and international trade.

To achieve this purpose, the bill places responsibility with the Chancellor of the University of Maine System to develop and oversee a central information and response system. This system will serve as a central clearing house of information with respect to the expertise and resources of Maine's public and private higher educational institutions available in the area of economic development which includes product and technology development and international trade.

The bill also provides that a directory be published to serve as a guide to the expertise and resources of these institutions. In addition, on-going research in the field of economic development will also be included in the directory.

In order to enable public and private higher educational institutions to work more closely with state agencies in the field of economic development which includes international trade, the bill authorizes these institutions to undertake analyses and studies of economic development issues pertinent to the State. Wherever feasible, the Department of Economic and Community Development and the State Planning Office will be involved in providing input in the design of studies of economic development issues of importance to the State.

Sponsor: Joint Standing Committee
on Economic Development
Drafted by: Ted Potter, LA
October 29, 1988
(International Trade Study)

FIRST REGULAR SESSION

ONE HUNDRED AND FOURTEENTH LEGISLATURE

Legislative Document

No.

STATE OF MAINE

IN THE YEAR OF OUR LORD
NINETEEN HUNDRED AND EIGHTY SEVEN

AN ACT to Assess Product and Technology Development in
Maine and to Reduce Barriers to Innovations in
Technology and Production.

Sec. 1. 5 MRSA §13123, as enacted by PL 1987, c. 816, is
amended by adding sub-§13 to read:

13. Analysis of product and technology development. The
commission, in consultation with the University of Maine
System, the Maine Vocational Technical Institute System, and
the Department of Economic and Community Development shall
conduct a study to include but not be limited to the following:

1. The current status of product and technology
development in Maine.

2. The present and potential impact of technology on the
state economy.

3. The barriers to product and technology development.

4. The means by which the barriers can be reduced or
eliminated.

5. The most effective role for public institutions to promote product and technology development in Maine for export to domestic and foreign markets.

Sec. 2. 5 MRSA §13127 is enacted to read:

§13127. Coordination with the public sector

In conducting its work under this chapter, the commission and the executive-director shall strive to coordinate and cooperate with the Department of Economic and Community Development, the public and private higher educational institutions in Maine, and state agencies which become involved in or consider science and technology issues. The commission and the executive director, in implementing their duties and responsibilities shall strive to be consistent with the economic development and international trade strategies pursuant to chapter 383.

Sec. 3. Report. The commission shall present its findings in a report in accordance with the Joint Rules, together with any necessary recommended implementing legislation, to the the Joint Standing Committee of the Legislature having jurisdiction over economic development matters to the Second Regular Session of the 114th Legislature;

STATEMENT OF FACT

This bill is a product of the study conducted by the Joint Standing Committee on Economic Development with respect to the impact of international trade on economic development. The study found that many states have actively promoted and developed systems for product and technology development to enhance state economies. This is particularly important with respect to the amount of research and investment in product and technology development currently occurring in many foreign nations.

This bill proposes that the Maine Science and Technology Commission, in consultation with the University of Maine System and state agencies study the issues of product and technology development in Maine with specific focus on:

1. the current status of product and technology development in Maine;
2. the present and potential impact of technology on the state economy;
3. the barriers to product and technology development;
4. the means of reducing or eliminating the barriers;

5. the most effective role for public institutions to promote product and technology development.

The bill also directs the commission to propose policies and programs that are consistent with the State's economic development and international trade strategies.

Sponsor: Joint Standing Committee
on Economic Development
Drafted by: Ted Potter, LA
October 29, 1988
(International Trade Study)

FIRST REGULAR SESSION

ONE HUNDRED AND FOURTEENTH LEGISLATURE

Legislative Document

No.

STATE OF MAINE

IN THE YEAR OF OUR LORD
NINETEEN HUNDRED AND EIGHTY SEVEN

RESOLVE, to Provide for the Evaluation of State
International Trade Programs with Respect to Effectiveness
and the Ability to Address International Economic Forces.

Preamble. Whereas, the evaluation of state programs and
activities in the area of economic development is extremely
difficult; and

Whereas, most states admit that evaluation of economic
development programs is weak and that pertinent evaluation
criteria need to be developed to provide meaningful
evaluations; and

Whereas, comprehensive, objective and pertinent evaluation
is extremely important to the formulation of effective economic
development programs; and

Whereas, a number of new economic development programs,
particularly in the area of international trade are being
developed; and

Whereas, it may be necessary to experiment with different
approaches to develop the most effective programs; and

Whereas, evaluation of both the programs and the economic forces which the programs are designed to address is essential to the formulation of effective programs; now, therefore, be it

Evaluation criteria and procedure. Resolved: That the Chancellor of the University of Maine System, in consultation with private higher educational institutions in Maine, develop evaluation criteria or programs and the procedures for the application of these criteria to economic development programs and activities implemented or supported by the State or independent state agencies; and be it further

Review evaluation standards and application of other organizations. Resolved: That the formulation of evaluation criteria required by this resolve include an analysis of evaluation standards that the National Association of State Development Agencies, the National Council of State Legislatures and other similar organizations may have developed or contracted with other associations to develop; and be it further

Report. Resolved: That the Chancellor report the findings and recommendations, including any necessary implementing legislation to the First Regular Session of the 115th Legislature.

STATEMENT OF FACT

This bill is the product of a study conducted by the Joint Standing Committee on Economic Development with respect to the impact of international trade on the State of Maine. In its study, the committee surveyed 15 states in regard to the roles of the states in economic development. In its survey, the committee found that evaluation of state programs designed to promote economic development including international trade, is very weak. Nearly all states admit to this problem. It is extremely difficult to develop criteria that provides good data and an accurate measure of effectiveness of state economic development programs.

This bill provides that the Maine's public and private higher educational institutions work together and develop objective evaluation criteria and procedures. The purpose of this bill is to develop an effective evaluation tool for determining the effectiveness of economic development programs. Effective evaluation is necessary if Maine is to make the maximum use of limited resources to produce the maximum impact in economic development including international trade.

Sponsor: Joint Standing Committee
on Economic Development
Drafted by: Ted Potter, LA
October 29, 1988
(International Trade Study)

FIRST REGULAR SESSION

ONE HUNDRED AND FOURTEENTH LEGISLATURE

Legislative Document

No.

STATE OF MAINE

IN THE YEAR OF OUR LORD
NINETEEN HUNDRED AND EIGHTY SEVEN

RESOLVE, to Provide for the Evaluation of
Financing Available to Small Businesses for Exporting.

Preamble. Whereas, the private sector of Maine is
composed principally of small businesses; and

Whereas, small businesses have very limited or no
experience in exporting; and

Whereas, private financial institutions in Maine are
reluctant to finance trade with foreign nations, particularly
with respect to small Maine businesses with little or no
experience in exporting; and

Whereas, small businesses consider financing programs of
the United States Export-Import Bank (Eximbank) to be too
bureaucratic and not conducive to the needs of small
businesses; now, therefore be it

Finance Authority of Maine to undertake analysis.

Resolved: That the Finance Authority of Maine, in
consultation with the Department of Economic and Community
Development and an association representing Maine firms engaged
in international trade, study the availability of financing to

small businesses for exporting, and consider the feasibility of a low interest state loan program to finance exporting activities of small businesses in Maine; and be it further

Report. Resolved: That the Finance Authority of Maine report its findings and recommendations to the Joint Standing Committee of the Legislature having jurisdiction over economic development matters by January 15, 1990.

STATEMENT OF FACT

This bill is the product of a study conducted by the Joint Standing Committee on Economic Development with respect to the impact of international trade on the State of Maine. The committee found that a major barrier to exporting is inadequate export financing. Private lending institutions are very hesitant to provide export financing to businesses because of the risks involved. Banks in Maine are more hesitant to provide export financing to Maine businesses because many of these businesses are small.

The U.S. Export-Import Bank (Eximbank), in the past, has financed exporting primarily for large firms. Eximbank does provide limited export financing to small businesses now, but small businesses have found the process to be extremely bureaucratic. In addition, the financing has not been timely or sufficient.

Many states have come to the same conclusions as Maine about export financing availability. Several states provide low interest state loans for export purposes.

This bill directs the Finance Authority of Maine, in consultation with the Department of Economic and Community Development and an association of exporting firms to study this issue of low cost export financing for small Maine businesses. The Finance Authority will report its findings and recommendations to the Economic Development Committee by January 15, 1990.

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