STUDY UNIT THREE
INTERNATIONAL BUSINESS ENVIRONMENT

The international business environment as covered on Part 1 of the exam is both macro (e.g., principles of international supply and demand, foreign currency, etc.) and, to a lesser extent, micro (e.g., the effects of trade restrictions on individual companies). [The relative weight assigned to this major topic in Part 1 is 20%. Thus, you should expect 22 questions.]

Below is a reprint of the IMA's Learning Outcome Statements that are applicable to Study Unit 3. After studying the outlines and answering the multiple-choice questions, you will have the skills necessary to address the topics covered in the following statements:

Part 1 – Section B.1. Global trade

The candidate should be able to:

- define and demonstrate an understanding of the terms of trade (or exchange ratio)
- interpret the production possibilities curves and determine the cost ratio for the two products on the graph
- determine the gains from trade and the resulting trading possibilities curve
- define and demonstrate an understanding of the principle of comparative advantage
- identify the advantages and disadvantages of free trade
- define protectionism and identify the barriers to free trade
- define and analyze effects of tariffs, import quotas, nontariff barriers, voluntary export restrictions, trigger pricing and antidumping rules
- analyze domestic policies to promote exports, including export subsidies
- identify the function of the Export-Import Bank
- infer the economic effects of tariffs and quotas
- critique the arguments used to support protectionism
- identify the economic and social costs of protectionism
- graphically analyze the supply and demand of exports and imports
- differentiate among a customs union, a common market, and an economic union
- identify the key international agreements on trade including the European Union, GATT, NAFTA, and the WTO

Part 1 – Section B.2. Foreign exchange

The candidate should be able to:

- demonstrate an understanding of a nation's balance of payments
- define and identify the components of the current account, the capital account, and the official reserves account
- define trade deficits, identify their causes, and explain their implications
- calculate the balance of payment deficit or surplus

- compare and contrast a flexible or floating exchange-rate system and a fixed exchange-rate system
- graphically determine the exchange rate under a flexible exchange-rate system
- calculate whether a currency has depreciated or appreciated against another currency over a period of time
- calculate the effective interest rate on a foreign currency loan
- recognize the determinants of exchange rates under a flexible exchange-rate system
- list the advantages and disadvantages of a flexible exchange-rate system
- explain the methods used to maintain a fixed exchange rate system, including the use of reserves, trade policies, exchange controls, exchange rationing, and domestic macroeconomic adjustments
- define the gold standard form of a fixed exchange rate system and explain why it failed
- describe managed floating exchange rates

Part 1 – Section B.3. Other global topics

The candidate should be able to:

- summarize the functions of the World Bank and the International Monetary Fund
- define direct foreign investment and explain its benefits
- define American depository receipt
- identify and explain the benefits of international diversification
- calculate the rate of return and the risk profile of an international project resulting in an increase in corporate diversification
- recognize the risks of direct foreign investment, including political risk and exchange rate risk
- demonstrate an understanding of the issues inherent in multinational capital budgeting and financing
- identify and explain methods of payment for international trade, including prepayment, letters of credit, sight drafts, time drafts, consignment, and open account
- identify and explain common trade financing methods, including cross-border factoring, letters of credit, banker's acceptances, forfaiting, and countertrade
- demonstrate an understanding of how transfer pricing is used by multinational firms to manage their effective worldwide tax rate
- identify legal and ethical issues in conducting business worldwide

3.1 ADVANTAGES OF TRADE

1. Countries vary greatly in their efficiency in producing certain goods because of the immobility of resources. This variation can be largely attributed to differences from country to country in the following five factors:
   a. Climatic and geographical conditions
   b. Human capacities
   c. Supply and type of capital accumulation
   d. Proportions of resources
   e. Political and social climates
2. Given the above differences, it is clear that countries can mutually benefit from trade. The greatest advantage from trade is obtained when each nation specializes in producing what it can produce most efficiently. If nations specialize and then exchange with others, more is produced and consumed than if each nation tries to be self-sufficient. We know that specialization of labor is beneficial for individuals; the same principle applies to nations.

3. This principle of **comparative advantage** is based on opportunity costs and can be explained with the help of the following chart:

Comparative Costs of Production

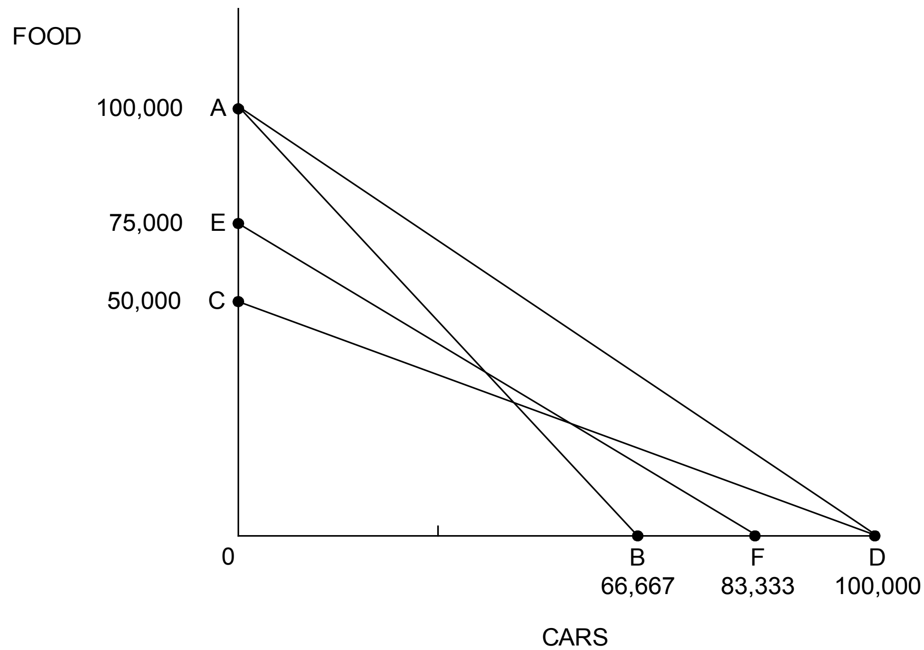
	U.S.	Japan
Food (1 bushel)	1	2
Cars (1 car)	1.5	1

If the countries consume only the above two goods, is there an advantage to specializing? Yes, there will be an increase in total output if the U.S. uses its resources to grow food and Japan uses its resources to produce cars (given a fixed amount of inputs).

a. Total output will be maximized when each nation specializes in the products in which it has the lower opportunity cost, that is, a comparative advantage.

b. EXAMPLE: Assume that the costs in the chart above are solely for labor and that labor is the only input required for the production of food and cars. The U.S. has an opportunity cost for 1 bushel of food of 2/3 of a car (1 ÷ 1.5). The Japanese opportunity cost for 1 bushel is 2 cars (2 ÷ 1). Moreover, the U.S. opportunity cost for production of 1 car is 1.5 bushels of food (1.5 ÷ 1). The Japanese opportunity cost for production of 1 car is .5 of a bushel of food (1 ÷ 2). Accordingly, the U.S. has the lower opportunity cost for food production (2/3 car to 2 cars). The Japanese have the lower opportunity cost for car production (.5 bushel to 1.5 bushels). For 100,000 units of labor input, the U.S. economy can produce either 100,000 bushels of food or 66,667 cars. If the labor input is divided equally, however, the U.S. economy can produce 50,000 bushels of food and 33,333 cars. At the same time, if the Japanese economy divides its efforts equally, input of 100,000 units of labor can produce 25,000 bushels of food and 50,000 cars. In the absence of world trade, the two economies together can produce 75,000 bushels of food (50,000 + 25,000) and 83,333 cars (33,333 + 50,000). But if each country concentrates on the product in which it has a comparative advantage, the total production will be 100,000 bushels of food (all produced in the U.S.) and 100,000 cars (all produced in Japan).

1) A **production possibilities curve** is a graphic representation of the tradeoffs between two alternative goods that can be produced from the same amount of resources. Based on the example above, the diagram below shows the individual production-possibilities frontier for the U.S. as line A-B. The production-possibilities frontier for Japan is line C-D. If the two countries specialize and engage in trade, the new production-possibilities line is A-D, which is superior to either of the individual-country frontiers. Thus, specialization and trade enhance the output without changing the total inputs. The line E-F represents total production if both countries devote half of their resources to each product, but there is no international trade.



c. Comparative advantage is different from absolute advantage. In the above example, the U.S. has an **absolute** advantage with respect to food production because the price of food is lower in the U.S. than in Japan. Japan has an absolute advantage in car production. Along with its absolute advantage, the U.S. has a **comparative** advantage in food production because its opportunity cost for food production (cars forgone) is lower than Japan's. Similarly, Japan's opportunity cost for car production (food forgone) is lower. Hence, Japan has a comparative advantage in car production.

1) **Comparative advantage** compares costs within a single country. No matter what the costs may be elsewhere, the U.S. will always have a comparative advantage in the production of food rather than cars. Similarly, Japan has a comparative advantage in the production of cars as opposed to food.

2) **Absolute advantage** compares the costs of inputs between countries. Thus, a given country might have an absolute advantage with respect to every product compared with a specific other country.

3) In the previous example, Japan would continue to have a comparative advantage with respect to cars even if its costs were 1.6. In that case, the U.S. would have an absolute advantage (1.5 is less than 1.6). Nevertheless, trade is still beneficial. Only if both countries have identical opportunity costs would trade not be beneficial.

d. A nation will export goods in which it has a comparative advantage and import goods in which it has a comparative disadvantage.

1) Developing countries exporting primarily raw materials are dependent on vibrant economies in developed (importing) countries.

2) Even when one country is technologically superior in all industries, one of the industries will go out of business when free trade takes place. Therefore, technological superiority is no guarantee of continuing operation in a case of free trade. A country must have a comparative advantage in the production of a good, not necessarily an absolute advantage, to guarantee continuing production when free trade exists. Thus, the superior technology in developed countries is no indication that developing countries cannot compete in international trade.

3) A high-wage country with a comparative advantage for a product will see that product survive even though the laborers in the developing country have lower wages. Thus, a knowledge of wage rates is not sufficient information to determine which country's industry would decline under free trade. In other words, a domestic industry may not decline simply because foreign firms pay their workers lower wages.

e. If a country has only two factors of production (labor and capital) and a relative abundance of capital, it will tend to export capital-intensive goods and import labor-intensive goods. Thus, factors of production and the varying efficiency in producing goods determine which products a country will export and import.

1) Capital-intensive goods are those requiring a high level of investment, e.g., oil refining.

2) Labor-intensive goods are those requiring a high level of labor, e.g., manufacture of fashion clothes.

f. For nations to receive the full advantages of international specialization and exchange, free trade must be allowed among all countries.

g. The phrase **terms of trade** refers to the economic factors affecting a nation's foreign trade, such as dependency on foreign sourcing and relative competitiveness in production.

h. The law of supply and demand affects imports and exports in the same way that it affects domestic goods. For example, a cutback in petroleum production in a single Middle Eastern country can raise the world price of oil.

3.2 TRADE BARRIERS

1. Even though individuals (as a whole) are best off under free trade, governments often establish policies designed to block or restrict the importation of certain products, to encourage exports, or even to restrict exports. **Protectionism** is defined as the opposite of free trade. Protectionists argue that reducing foreign imports protects American jobs and benefits the entire economy. Studies, however, indicate that protectionism does more harm than good. Justifications for government intervention include the essential-industry argument and the infant-industry concept.

   a. The **essential industry argument** states that a government should protect essential domestic industries during peacetime so that a country is not dependent on foreign sources of supply during times of war.

b. The **infant-industry concept** holds that a government should shield an emerging industry from foreign competition by guaranteeing it a large share of the domestic market until it is able to compete on its own.

c. **Tariffs** are consumption taxes designed to restrict imports, e.g., a tax on German beer. Governments raise taxes to lower consumption.

   1) **Antidumping rules** prevent foreign producers from "dumping" excess goods on the U.S. market at less than cost to squeeze out competitors and gain control of the market.
   2) The agreements reached during the Uruguay Round specified the rules for levying antidumping tariffs. Most cases hinge on the definition of "cost."
   3) The Secretary of the Treasury must first determine that a class of foreign merchandise is being sold in the U.S. at less than its fair value.
   4) A **trigger price mechanism** automatically imposes a tariff barrier against unfairly cheap imports by levying a duty (tariff) on all imports below a particular reference price (the price that "triggers" the tariff).

d. **Import quotas** set fixed limits on different products, e.g., French wine.

   1) In the short run, import quotas will help a country's balance of payments position by increasing domestic employment, but the prices of the products produced will also increase.
   2) An **embargo** is a total ban on some kinds of imports. It is an extreme form of the import quota.

e. **Domestic content rules** require that at least a portion of any imported product be constructed from parts manufactured in the importing nation.

   1) This rule is sometimes used by capital-intensive nations. Parts can be produced using idle capacity and then sent to a labor-intensive country for final assembly.

f. **Exchange controls** limit foreign currency transactions and set exchange rates. The purpose is to limit the ability of a firm selling in a country to repatriate its earnings.

g. **Export subsidies** are payments by the government to producers in certain industries in an attempt to increase exports.

   1) A government may impose "countervailing duties" on imported goods if those goods were produced in a foreign country with the aid of a governmental subsidy.

h. **Special tax benefits to exporters** are an indirect form of export subsidy. The best U.S. examples are Foreign Sales Corporations (FSCs). They are entities located in U.S. possessions or in countries with tax information exchange agreements with the U.S. FSCs receive an exemption of about 15% of qualified export income.

i. The Export Trading Company Act of 1982 permits competitors to form export trading companies without regard to U.S. antitrust legislation.

j. Certain exports may require **licenses**. For example, sales of technology with military applications are limited by western nations that are members of the Coordinating Committee for Multilateral Export Controls. The related U.S. legislation is the Export Administration Act of 1979.

2. The economic effect of tariffs and quotas on free trade is to shift workers from relatively efficient export industries into less efficient protected industries. Real wage rates will decline as a result, as will total world output.

3. A major reason for trade restrictions is that the costs of competition are direct and concentrated (people lose jobs and firms go out of business), but benefits of unrestricted trade are less noticeable and occur in the future (lower prices, higher wages, more jobs in export industries).

a. Special-interest groups are strong and well organized, and they lobby effectively, getting legislation passed that is harmful to free trade.

b. **Economic integration** is the joining of the markets from two or more nations into a free-trade zone. Examples of economic blocs of trading nations are the European Union and the North American Free Trade Agreement (NAFTA). Generally, the trading bloc provides trading incentives to member nations and discriminates against nonmember nations.

1) The European Union (EU) is an economic and political association of European countries. It was founded by the Treaty of Rome in 1957 as a common market or customs union for six nations. It was known as the European Community until January 1, 1994. Currently, the EU consists of 25 member states. It provides a single market for goods and services without any economic barriers. Most nations in the EU have adopted a common currency (the euro) with one monetary authority.

a) In a **customs union**, the nations charge the same customs duties on goods entering the union from non-member nations. However, no duties are imposed on transfers among the members. In a **free trade union**, all members do not charge the same duties on imports from non-member nations.

3.3 FOREIGN CURRENCY RATES AND MARKETS

1. For international trade to occur, the two currencies involved must be easily converted at some prevailing exchange rate. The **exchange rate** is the price of one country's currency in terms of another country's currency.

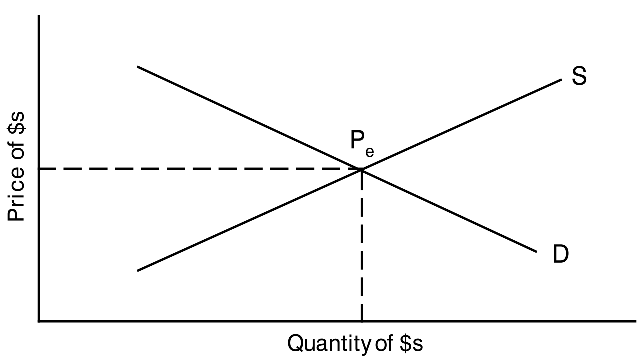
   a. Currency appreciates when it can buy more units of another currency.

   b. Currency depreciates when it can purchase fewer units of another currency.

   c. In other words, depreciation in country A's currency is an appreciation of the currency of country B.

2. **Exchange Rate Determination**

   a. Equilibrium exchange rates in floating markets are determined by the supply of and demand for the currencies.



The equilibrium rate of P_e will prevail in the market. No surplus (or deficit) occurs at P_e.

1) Demand for currencies comes from international trade in goods and services, investor global trading (e.g., an American buys a French stock or bond), and international corporate activity.

2) Supply of currencies comes from reversing these transactions.

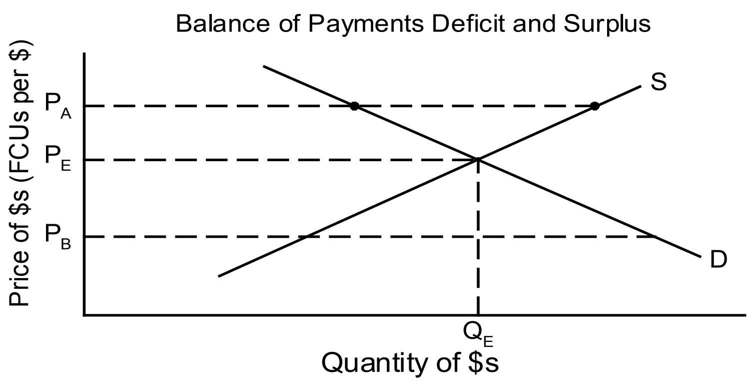
b. **Fixed exchange rates** are set by some outside force (e.g., the government). One traditional method of establishing rates is to require that currencies be convertible to specified amounts of gold.

1) An exchange rate set too high (in foreign currency units per dollar) tends to create a deficit U.S. balance of payments. This deficit must be financed by drawing down foreign reserves or by borrowing from the central banks of the foreign countries. This effect is short-term because at some time the country will deplete its foreign reserves.

a) A major reason for a country's devaluation is to improve its balance of payments.

b) As an alternative to drawing down its reserves, a country might change its trade policies or implement exchange controls or exchange rationing. Many developing countries use currency exchange rationing to avoid a deficit balance of payments.

2) An exchange rate set too low (in foreign currency units per dollar) tends to create a surplus U.S. balance of payments. In this case, surplus reserves build up. At some time, the country will not want any greater reserve balances and will have to raise the value of its currency.



3) At exchange rate A (P_A foreign currency units per dollar), a greater quantity of dollars is supplied by U.S. interests than demanded by foreign interests (i.e., U.S. imports exceed exports). The result is a trade deficit. At exchange rate B, a smaller quantity of dollars is supplied by U.S. interests than demanded by foreign interests (i.e., U.S. exports exceed imports). The result is a trade surplus.

c. A **managed float** is the current method of exchange rate determination.

1) Supply and demand forces primarily guide exchange rates.

2) During periods of extreme fluctuation in the value of a nation's currency, intervention by governments or central banks may occur to maintain fairly stable exchange rates.

3) Floating rates permit adjustments to eliminate balance of payments deficits or surpluses. For example, if the U.S. has a deficit in its trade with country X, the U.S. dollar will depreciate relative to country X's currency. This adjustment should decrease imports from, and increase exports to, country X.

3. Floating exchange rates may fluctuate differently in the long, medium, and short term.
   a. Long-term exchange rates are dictated by **the purchasing-power parity theorem**.
      1) In the long run, real prices should be the same worldwide (net of government taxes or trade barriers and transportation costs) for a given good. Exchange rates will adjust until purchasing-power parity is achieved. In other words, relative price levels determine exchange rates. In the real world, exchange rates do not perfectly reflect purchasing-power parity, but relative price levels are clearly important determinants of those rates.
   b. Medium-term exchange rates are dictated by the economic activity in a country.
      1) When the U.S. is in a recession, spending on imports (as well as domestic goods) will decrease. This reduced spending on imports shifts the supply curve for dollars to the left, causing the equilibrium value of the dollar to increase (assuming the demand for dollars is constant); that is, at any given exchange rate, the supply to foreigners is less.
      2) If more goods are exported because of an increased preference for U.S. goods, the demand curve for dollars shifts to the right, causing upward pressure on the value of the dollar.
      3) An increase in imports or a decrease in exports will have effects opposite to those described above.
   c. Short-term exchange rates are dictated by interest rates. Big corporations and banks invest their large reserves of cash where the real interest rate is highest. A rise in the real interest rate in a country will lead to an appreciation of the currency because it will be demanded for investment at the higher real interest rate, thereby shifting the demand curve to the right (outward).
      1) The reverse holds true for a decline in real interest rates because that currency will be sold as investors move their money out of the country.
      2) However, the interplay of interest rates and inflation must also be considered. Inflation of a currency relative to a second currency causes the first currency to depreciate relative to the second. Moreover, nominal interest rates increase when inflation rates are expected to increase. The effect on exchange rates of inflation reflected in nominal interest rates is expressed by the **interest-rate parity theorem**. The ratio of the current forward and spot exchange rates (expressed in units of foreign currency per dollar) equals the ratio of one plus the current nominal foreign rate to one plus the current nominal domestic rate.

$$\frac{\text{Forward exchange rate}}{\text{Spot exchange rate}} = \frac{1 + \text{Foreign interest rate}}{1 + \text{Domestic interest rate}}$$

         For example, if the current nominal foreign interest rate increases, the forward rate in terms of units of the foreign currency per dollar will increase. Hence, that currency will trade at a discount in the forward market.

4. **Interaction in Foreign Currency Markets**
   a. The **spot rate** is the exchange rate paid for immediate delivery of a currency.
   b. The **forward exchange rate** is the future price of the currency.
      1) If the forward rate in foreign currency units per dollar is greater than the spot rate, the dollar is selling at a premium in the forward market.
      2) If the spot rate in foreign currency units per dollar is greater than the forward rate, the dollar is selling at a discount in the forward market.
      3) The annual effect in the forward market equals

$$\frac{\textit{Forward market rate (FC)} - \textit{Spot rate (FC)}}{\textit{Spot rate (FC)}} \times \begin{array}{l}\textit{Number of forward}\\ \textit{periods in a year}\end{array}$$

         a) FC means that the amount is denominated in foreign currency.
         b) For example, if there is a 1% premium in a 30-day forward market, the annual premium is 12%.
   c. The discount or premium is related to the difference between the nominal interest rates paid by foreign and domestic banks (differences in interest rates are largely related to differences in expected inflation).
      1) When the foreign nominal interest rate is lower than the domestic nominal rate, the forward foreign currency sells at a premium. If this were not true, investors would borrow at the lower interest rate, invest at the higher rate, and buy a forward contract for the principal and interest.
      2) If the foreign nominal rate exceeds the domestic nominal rate, the forward foreign currency sells at a discount.
   d. A foreign currency will depreciate or appreciate relative to the dollar at a rate equivalent to the amount by which its inflation rate exceeds or is less than the dollar's inflation rate (everything else constant).
      1) EXAMPLE: If the inflation rate in UK is 12% and the inflation rate in the U.S. is 10%, the dollar should appreciate by 2%.
   e. Borrowing in a country with the lowest nominal rate is not always best because of the potential for an exchange rate loss if the borrower's currency depreciates relative to the lender's.
      1) The foreign currency exchange rates equalize inflation rates.
5. **Avoidance of Exchange Rate Risk in Foreign Currency Markets**
   a. The firm may **hedge** its risk by purchasing or selling forward exchange contracts.
      1) A firm may buy or sell forward contracts to cover liabilities or receivables, respectively, denominated in a foreign currency.
      2) Any gain or loss on the foreign payables or receivables because of changes in exchange rates is offset by the loss or gain on the forward contract.
   b. The firm may choose to minimize receivables and liabilities denominated in foreign currencies.
   c. Maintaining a monetary balance between receivables and payables denominated in a particular foreign currency avoids a net receivable or net liability position in that currency. Monetary items are those with fixed cash flows.
      1) A firm may attempt to achieve a net monetary debtor (creditor) position in countries with currencies expected to depreciate (appreciate).

2) Large multinational corporations have established multinational netting centers as special departments to attempt to achieve balance between foreign receivables and payables.

a) They also enter into foreign currency futures contracts when necessary to achieve balance.

d. Another means of managing exchange rate risk is by the use of **trigger pricing**. Under trigger pricing, foreign funds are supplied at an indexed price but with an option to convert to a futures-based fixed price when a specified basis differential exists between the two prices.

e. A firm may seek to minimize its exchange-rate risk by diversification. If it has transactions in both strong and weak currencies, the effects of changes in rates may be offsetting.

f. A **speculative forward contract** does not hedge any exposure to foreign currency fluctuations; it creates the exposure.

6. **Analysis of Foreign Investments**

a. A company planning a foreign investment can either purchase the stock of a foreign corporation or make a **direct foreign investment**. A direct foreign investment involves buying equipment and buildings for a new company. The advantages of a direct foreign investment include

1) Lower taxes in the foreign nation
2) Annual depreciation allowances for the amount invested
3) Access to foreign capital sources

b. Relevant cash flows are the dividends and possible future sales price of the investment paid to the investor. To this extent, traditional capital budgeting techniques can be used.

c. Cost of capital for foreign projects is higher because of the increased

1) Exchange-rate risk
2) Sovereignty (or political) risk arising from possible expropriation (or other restrictions), with net losses to the parent company
3) There may be various laws requiring financing from certain sources, such as a requirement that foreign subsidiaries must be at least 51% owned by locals.

d. Foreign operations are more difficult to manage than domestic operations.

e. Ownership rights in foreign corporations are sometimes evidenced by **American depository receipts (ADRs)**. The foreign stocks are deposited with a large U.S. bank, which in turn issues ADRs representing ownership in the foreign shares. The ADR shares then trade on a U.S. stock exchange, whereas the company's original shares trade in foreign stock markets. ADRs allow foreign companies to develop a U.S. shareholder base.

7. Foreign investments are funded by

a. Parent company resources
b. Common stock sales in the foreign country
c. Bond sales in the foreign country
d. Borrowing in world financial markets

3.4 BALANCE OF PAYMENTS

1. The balance of payments includes all international payments made by one nation to another, including those for imports, exports, investments, unilateral transfers, and capital movements. The principal accounts are the **current account** and the **capital account**.
   a. The current account records
      1) Exports (credits) and imports (debits) of goods
         a) The **balance of trade** is the difference between total exports and total imports of goods.
         b) A **trade deficit** occurs when a country imports more goods than it exports.
      2) Exports (credits) and imports (debits) of services
         a) The **balance on goods and services** is the difference between total exports and total imports of goods and services.
      3) Interest and dividends received on investments abroad (credits) and interest and dividends paid on foreign investments in the U.S. (debits)
      4) Net unilateral transfers, e.g., foreign aid, pension payments, and remittance to relatives (credits or debits depending on whether the flow is into or out of the U.S., respectively)
      5) The balance on the current account
   b. The capital account records capital flows resulting from the purchase and sale of fixed or financial assets.
      1) Inflows of foreign capital (credits) are effectively exports of stocks and bonds and therefore result in inflows of foreign exchange.
      2) Outflows of capital (debits) use up supplies of foreign exchange.
      3) A capital account surplus therefore indicates that inflows exceeded outflows.
   c. The balance of payments deficit or surplus is the net of the current and capital account balances.
   d. A third account is the **official reserves account**, which keeps track of transactions involving the central bank and its official reserve assets, such as gold and foreign currency.
      1) Also included among a central bank's reserves are **special drawing rights**, or SDRs, which are accounting entries established by the International Monetary Fund.
   e. The references to debits and credits treat the balance of payments account as if it were a revenue or expense account. In other words, a debit is similar to an expense in that it is unfavorable for the country's balance of payments position.
      1) EXAMPLE: A debit (such as an import) is undesirable because it contributes to an unfavorable balance of payments. The U.S. has an unfavorable balance of payments when payments by the U.S. to foreign countries exceed the payments made from foreign countries to the U.S. It is also unfavorable because foreign currency reserves held by the U.S. must be given up to correct the imbalance.
      2) A credit in the balance of payments account is desirable (exports, for instance) because foreigners will be paying more to the U.S. than the U.S. is paying out. Thus, the foreign currency reserves available to the U.S. increase.

f. In addition to decreasing the reserves of foreign currencies held by the U.S., an unfavorable balance of payments can also affect the domestic economy.

1) EXAMPLE: An excess of imports can cause an unfavorable balance of payments. At the same time, consumers may not be buying domestic products, which may result in domestic layoffs and production cutbacks. These in turn will mean less investment opportunity domestically, and investors will begin sending their investment dollars overseas. The flow of capital overseas compounds the balance of payments problem because investing in a foreign country is essentially the same as importing a product (i.e., the investor is importing foreign stocks and bonds).

2) Steps to correct an unfavorable balance of payments

a) Establish import quotas.

i) One country's unfavorable balance of payments may be caused by another nation's import quotas. For example, if the U.S. has a continuing unfavorable balance of payments with Japan, it might be possible to encourage Japan to remove the trade barriers set up to keep U.S. electronics products out. The removal of Japan's trade restrictions would help the U.S. balance of payments (but might result in an unfavorable balance of payments for Japan).

b) Provide export incentives.

i) EXAMPLE: The tax law provisions for Domestic International Sales Corporations (DISCs) and Foreign Sales Corporations (FSCs) permitted exporters to postpone or avoid income taxes on export-related income as long as that income is reinvested in export-related assets. Provisions for FSCs were enacted in 1985 to replace DISCs because the latter were criticized as illegal export subsidiaries. Nevertheless, small business DISCs are still permitted. FSCs were ruled illegal by the WTO, and the FSC rules were repealed as of September 30, 2000.

c) Develop substitutes for products currently being imported.

i) EXAMPLE: The U.S. has tried to develop substitutes or local sources for imported oil.

3) An automatic correction results when a debtor nation's monetary unit declines relative to that of a creditor nation. For example, the huge U.S. trade deficit with China has been attributed in part to an artificially low valuation of the Chinese currency.

g. A balance of payments deficit (imbalance) must be equalized by shipments of goods or reductions in reserves.

1) Gifts and grants are also used.

h. In the 1980s, the U.S. became the nation with the largest foreign debt. The reasons include the following:

1) Federal budget deficits financed by foreigners
2) Growth in the economy that attracted foreign investors
3) High real interest rates
4) A strengthened dollar in the early 1980s that encouraged imports
5) The shift from a manufacturing to a service economy
6) A decrease in exports of agricultural goods

i. The following are the actual or potential effects of the U.S.'s debt:

1) An increase in the percentage of the GDP used for debt service
2) Reduced reserves leading to a devalued dollar, inflation, and increased exports
3) A decline in net imports and improvement in the trade balance
4) Increased savings as a result of economic uncertainty
5) Increased pressure for trade protectionism
6) Potentially high interest rates to curtail inflation and tighten the money supply, with the consequent incentive for foreign investment

3.5 INTERNATIONAL INSTITUTIONS AND AGREEMENTS

1. **International Monetary System**

a. Subsequent to World War II, international monetary crises have periodically been in the news. Economic conditions have changed rapidly. Following is a brief description of events that have helped shape today's monetary situation.

1) Prior to 1944, the world was on a gold standard under which the basic unit of currency was equal to and exchangeable for a specified amount of gold. The monetary system that prevailed in the post-World War II period was devised in 1944. It was a system of fixed exchange rates based on a modified gold standard. International reserves in this system included foreign currencies and the right to borrow in specified situations. The **International Monetary Fund (IMF)** was created and is still active today.

a) Resources of the IMF consist of a pool of currency from which participating countries can draw during short-term balance of payments difficulties.

b) The **World Bank** was created at the same time as the IMF.

i) Its purpose is to provide credit for development purposes to underdeveloped countries.

2) In the post-war years, the U.S. dollar became the world's key currency used for transactions and reserves.

3) By the mid-1950s, fixed exchange rates and changing economic conditions turned the dollar shortage into a dollar glut. Holders tried to convert dollars to other currencies, causing the dollar to decline in value.

4) In the early 1970s, convertibility of gold into dollars was abolished by the U.S., breaking down the entire fixed-rate international system. Most countries agreed to allow the currencies to float to determine the new rates, but these countries would frequently intervene in support of their currencies. One of the reasons for the collapse of the gold standard was that the production of gold did not keep up with the growth of the worldwide economy; thus, gold became too uncommon to be a standard of measure. Gold prices were subsequently allowed to fluctuate and the range of fluctuation has been tremendous.

5) In 1976 the leading noncommunist nations developed a system called the Jamaica Agreement. This agreement moved the world to a system of managed floating exchanges. Each country had greater autonomy in managing its exchange rate.

b. **Eurodollars** are U.S. dollars held at banks outside of the U.S., either foreign banks or branches of U.S. banks. The growth in the use of Eurodollars has been spectacular because they facilitate the exchange of goods between other nations (often the exchanges use dollars even if the U.S. is not involved in the transaction).

   1) Because it is outside the direct control of the U.S. monetary authorities, the Eurodollar market has lower costs. For example, U.S. reserve requirements and FDIC premium payments do not apply in this market. A lower cost market can offer depositors higher interest rates.
   2) Eurobonds are sold in one country but denominated in the currency of another country. Their advantage is that they are usually less stringently regulated than most other bonds. Thus, transaction costs are lower. They are not always denominated in Eurodollars.

c. The euro is the new common currency adopted by most members of the European Union. Its phase-in period began in 1999. In 2002, national notes and coins were withdrawn from use and replaced with euro notes and coins.

d. Methods of payment for international trade include letters of credit, sight drafts, time drafts, consignment, and open account.

   1) Under a **letter of credit**, an issuer (usually a bank) undertakes with the account party (an importer-buyer that obtains the letter of credit) to verify that the beneficiary (seller-exporter) has performed under the contract, e.g., by shipping goods. Thus, the issuer pays the beneficiary when it presents documents (such as bills of lading) that provide evidence of performance. The issuer then is reimbursed by the account party. Accordingly, the following is the process:

      a) The importer applies to its home country bank (issuer) for a letter of credit. The issuer sends the letter to a correspondent bank in the exporter's country.
      b) The correspondent bank transfers the letter to the exporter, who is thereby assured of payment.
      c) The exporter ships the goods and delivers the shipping documents to the correspondent bank, which pays the exporter if they are in order.
      d) The correspondent bank sends the shipping documents to the issuer, which reimburses the correspondent bank and charges the importer's account.
      e) The importer (or its broker) receives the shipping documents and presents them to the carrier to obtain the goods.

   2) **Commercial drafts** are commonly used in international business transactions. Such drafts are three-party instruments: the seller-exporter is the drawer and payee and the buyer-importer is the drawee. A draft contains an order by the drawer to the drawee to pay a fixed amount of money to the payee. A **sight draft**, also known as a demand draft, is a draft ordering payment on sight, i.e., when presented for payment. It is sent to the importer's bank with the shipping documents. After the draft is signed by the importer, the bank charges the importer's account and remits the money to the exporter. If the draft is a **time draft** (also called a **trade acceptance**), it will be payable at a specific future time. The time draft is returned to the exporter who may present the draft for payment when due or use it as collateral for a loan.
   3) In a **consignment**, the seller-exporter delivers (consigns) goods to the importer-consignee for sale to third parties. The consignee pays the consignor only when goods are sold.

4) A sale on **open-account** is risky because the exporter merely ships the goods to the importer, who signs an invoice acknowledging receipt. Thus, the exporter is not assured of payment if the importer defaults. Such an arrangement is most likely if the parties have previously transacted business.

e. Methods of financing international trade include cross-border factoring, banker's acceptances, forfaiting, and countertrade.

1) A factor purchases receivables and assumes the risk of collection. **Cross-border factoring** is a method of consummating a transaction by a network of factors across borders. The exporter's factor contacts correspondent factors in other countries to assist in the collection of accounts receivable.

2) **Forfaiting** is a form of factoring that involves the sale by exporters of large, medium to long-term receivables to buyers (forfaiters) who are willing and able to bear the costs and risks of credit and collections.

3) **Banker's acceptances** are time drafts drawn on deposits in a bank. They are short-term credit investments created by a nonfinancial firm and guaranteed (accepted) by a bank as to payment. Acceptances are traded at discounts in secondary markets. These instruments have been a popular investment for money market funds. They are commonly used in international transactions.

4) **Countertrade** at its simplest is barter--the exchange of goods or services for other goods or services rather than merely for cash.

2. **Multinational Corporations**

a. The home country benefits from multinational operations because of improved earnings and exports of products to foreign subsidiaries. A multinational company may also be better able to obtain scarce resources than a domestic corporation. The existence of multinationals tends to benefit everyone to the extent they foster more international trade, freer trading policies, a better international monetary system, and improved international understanding.

1) The home country, however, may suffer adverse balance of payments effects as a result of investment in foreign nations. Jobs may be lost to foreign subsidiaries, unions weakened, and tax revenues diminished. The multinational may also have a competitive advantage over domestic rivals. Furthermore, multinationals incur greater risk of expropriation and reduced flexibility of operation in a foreign political system.

b. The host country for a multinational operation reaps the advantages of the investment of capital, technology, and management abilities. Output and efficiency often improve along with exports and the balance of payments. The presence of a multinational may stimulate competition, increase tax revenues, and produce a higher standard of living.

1) But payment of royalties, dividends, and profits can result in a net capital outflow. Multinationals sometimes establish economically unreasonable transfer prices among subsidiaries so that profits will be earned where taxes are lowest or restrictions on the export of profits are least stringent. Moreover, multinationals may engage in anticompetitive activities, such as formation of cartels.

3. International trade agreements provide regulatory authority for businesses in international trade. Until recently, the broadest and most important of these agreements was the General Agreement on Tariffs and Trade (GATT). Under GATT, the signatory countries agreed to equal treatment of all member nations, multilateral negotiations to reduce tariffs, and the abolition of import quotas.
   a. However, GATT has now been replaced by the **World Trade Organization (WTO)**. The WTO, which was established on January 1, 1995, is the product of the Uruguay Round of international trade negotiations. It is a permanent body with a secretariat based in Geneva, Switzerland.
      1) The WTO Agreement is a permanent set of commitments by more than 120 nations designed to prohibit trade discrimination among member nations and between imported and domestic products. Most of the rules of GATT are still applicable with respect to trade in goods.
      2) The WTO Agreement applies to trade in services and intellectual property as well as goods. In addition to market access, the WTO's mandate also extends to antidumping rules, subsidies and countervailing measures, import licensing, rules of origin, technical barriers to trade, sanitary measures, emergency protection from imports ("safeguards"), and preshipment inspection.
      3) The WTO provides for a multilateral dispute settlement apparatus. If bilateral consultations and mediation efforts fail, a panel is established to examine the case and make recommendations. If a violation is found, trade retaliation by the complainant against an offending country may be approved if that country does not comply with the recommendations.
4. **North American Free Trade Agreement (NAFTA)**
   a. NAFTA was passed by the U.S. Congress in late 1993. The agreement basically provides for free trade among the U.S., Canada, and Mexico. The pact creates the world's largest free trade zone, stretching from the Yukon to the Yucatan. Three nations and 360 million people are linked into one economic unit.
   b. The consensus is that Mexico will benefit the most by the agreement because many U.S. firms are likely to transfer assembly operations to Mexican subsidiaries with lower labor costs.
      1) NAFTA will help correct the disparities between the open markets of the U.S. and the relatively closed markets of Mexico. U.S. companies should be able to sell more goods to Mexico because Mexicans will have greater disposable income as new industries transfer there.
      2) The biggest fear in the U.S. is that NAFTA will cause the loss of jobs to Mexico due to the lower labor costs and the more lax environmental standards. Supporters of NAFTA claim that the pact will create more jobs in the U.S. than it eliminates because of the increase in exports.
      3) The financial services industry, such as mutual funds, banks, and brokers, should benefit by NAFTA because the agreement allows U.S. financial firms, for the first time, to have easy access to Mexican investors. Also, with the opening of Mexico's financial markets, more opportunities for U.S. investors will emerge.
      4) American industries, such as shoe makers, apparel manufacturers, and farmers, may be hurt by increased competition from cheaper Mexican products.
      5) High-tech firms in the U.S. may benefit because there will be few Mexican products to compete against and exports will expand.

c. With respect to transition rules, tariffs ended on about half of the more than 9,000 products covered by the agreement. Tariffs on another 15% of the goods will end in 5 years, and the rest of the products are to be duty-free at the end of 15 years.

1) One of the biggest controversies during negotiations was determining the products to be protected with the longest tariff phaseouts. The U.S. won long phaseouts for such items as sneakers, household glassware, asparagus, broccoli, peanuts, and orange juice concentrate.

2) Negotiation of import and export restrictions was an important aspect of setting the transition rules for NAFTA. For example, the "infant-industry argument" contends that protective tariffs are needed to allow new domestic industries to become established.

3) An extension of the infant-industry argument is the "strategic trade policy argument," which contends that a government should use trade barriers strategically to reduce the risk of product development borne by domestic firms, particularly for products involving advanced technology.

d. The theory behind free trade zones is that they benefit consumers by lowering prices and that manufacturers and workers gain from expanded markets for the items each country produces most efficiently.

5. **International Tax Considerations**

a. Multinational corporations frequently derive income from several countries. The government of each country in which a corporation does business may enact statutes imposing one or more types of tax on the corporation.

b. **Treaties**. To avoid double taxation, two or more countries may adopt treaties to coordinate or synchronize the effects of their taxing statutes.

1) Treaties are also used to integrate other governmental goals, e.g., providing incentive for desired investment.

2) If a U.S. statute and a treaty to which the U.S. is a party conflict, the one enacted or adopted last controls.

3) A treaty might modify the rules in a country's statutes that designate to which country income is sourced or of which country a firm is a resident.

c. **Multinational corporations**

1) Most countries tax only the income sourced to that country.

2) The U.S. taxes worldwide income (from whatever source derived) of a domestic corporation. Double taxation is avoided by allowing a credit for income tax paid to foreign countries or by treaty provisions.

3) In the case of foreign corporations, the U.S. taxes only income sourced to the U.S. Ordinarily, such income is effectively connected with engaging in a trade or business of the U.S. Certain U.S. source income, e.g., gain on the sale of most stock, is not taxed by the U.S.

4) **Transfer pricing** is an important aspect of the tax calculation for multinational corporations that transfer inventories between branches in different countries. The U.S. tax laws have limits on the amount of profit that can be transferred from a U.S. parent to a foreign subsidiary or branch. Although there are exceptions, the basic transfer pricing rules under the *Internal Revenue Code* limit the amount of taxable income that can be claimed by the foreign subsidiary to no more than 50% of the total taxable income. Thus, transfer prices charged to foreign subsidiaries may differ substantially from those charged to domestic subsidiaries.

5) There are also non-tax aspects of transfer pricing. For example, limitations on taking profits out of a foreign country, or currency restrictions, can be avoided by charging the foreign subsidiary a higher transfer price than that charged to domestic subsidiaries. This is because firms in developing countries are allowed to pay their accounts payable to foreign vendors but are not allowed to distribute profits to foreign owners.

6) The existence of tariffs in the foreign country may necessitate a lower transfer price to reduce a tariff based on the inventory value.

6. **Foreign Corrupt Practices Act of 1977**

a. The Foreign Corrupt Practices Act, a federal law passed in 1977, makes it a requirement for firms to have adequate internal control systems. The origins of the Act stem from the Watergate investigations. In 1973, the Special Prosecutor accused corporations and executives of making illegal domestic political contributions. In 1974, the SEC Director of Enforcement became aware of illegal contributions disclosed during the Watergate grand jury hearings, and he pondered the SEC's role in this area. Such musings led to the initiation of the SEC's investigation of illegal political contributions.

b. In January of 1977, the SEC proposed certain rule changes which were to become part of the issue concerning the legislation on foreign payments. These changes require the maintenance of books and records accurately reflecting transactions and an adequate system of internal accounting controls. Further, the rules prohibit the falsification of accounting records and the making of false, misleading, or incomplete statements to the company's independent accountants.

c. The Foreign Corrupt Practices Act was signed by the President on December 19, 1977, and became effective on that date. The law amends the Securities Exchange Act of 1934 to make certain payments to foreign officials and other foreign persons unlawful, and to require maintenance of accurate records. It also makes the offer, payment, or authorization of any gift of value to foreign officials and other persons for corrupt purposes unlawful by any domestic concern.

d. The accounting standards require firms to keep books, records, and accounts that, in reasonable detail, accurately and fairly reflect the disposition of assets. Further, reporting firms are required to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurance that

1) Transactions are executed in accordance with management's specific authorization;

2) Transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles or other applicable criteria and to maintain accountability for its assets;

3) Access to assets is permitted only in accordance with management authorization; and

4) The recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

e. With regard to foreign corrupt practices, three classes of recipients of payments are specified as unlawful:

1) An official of a foreign government or instrumentality of a foreign government;

2) A foreign political party or official thereof, or any candidate for a foreign political office; or

3) Any other person where the company knows, or has reason to know, that all or a portion of such money or thing of value will be offered, given, or promised, directly or indirectly to any person in the above named groups.

f. Payments are unlawful if made for the purpose of influencing an act or decision of a foreign official, a foreign political party, or a candidate for foreign political office (including a decision not to act), or inducing such a person or party to use his or its influence to affect any government act or any person. A "foreign official is defined as any officer or employee of a foreign government or any department, agency or instrumentality thereof, or any person acting in an official capacity for or on behalf of such government." The term does not include employees whose duties are essentially ministerial or clerical.

g. The penalties for an individual for each criminal violation of the corrupt practices provisions are a fine of up to $10,000 or imprisonment for up to 5 years, or both. A corporation may be assessed a fine of up to $1,000,000 for violation of the same section. Fines imposed upon individuals may not be paid directly or indirectly by an employer.

h. The provisions and penalties concerning foreign corrupt practices also are made applicable to all domestic business concerns which are not subject to the reporting requirements of the Securities Exchange Act. This extension further applies to any officer, director, or agent or any natural person in control of such domestic concern. The Justice Department, through the Federal Trade Commission, will administer and enforce the provisions where applicable to domestic concerns. Jurisdiction for large firms belongs to the Securities and Exchange Commission.

i. The implications of the Foreign Corrupt Practices Act of 1977 extend well beyond its anti-bribery provisions. All American businesses and business people are involved. Management is particularly affected. The responsibility for internal control is not new, but the potential for civil and criminal liabilities represents an added burden. The impact of the law and the threat its ambiguities pose may alter business operations. Management might decide to abandon direct selling operations in foreign countries in favor of the use of foreign agents in hopes that this might lessen their "reason to know."

j. A written code of ethics and conduct is a necessity. This code should be communicated and monitored by internal auditors for compliance. The code might include an explanation of the Foreign Corrupt Practices Act and its penalties. A firm may require written representations from employees that they have read and understood the provisions of the code. Written representations regarding compliance might also be requested at future times. Foreign agents should be made aware of the prohibitions of indirect payments.

k. Two requirements must be met for a penalty to be assessed on an individual: a finding that his/her firm has violated the provisions and proof of willful violation. The feeling was expressed in the House committee report that these requirements would prevent an employee from becoming the scapegoat. Therefore, proof of actions in the past may prove helpful in showing that there was no willful violation on the part of individuals. Documentation of compliance efforts should be maintained. No requirement of willful violation is needed in assessing the penalty at the corporate level.

7. In 1987, the International Organization for Standardization introduced **ISO 9000**, a series of standards designed to provide quality assurance. The ISO rules specify that its standards be periodically revised every 5 years in light of technological and market developments. The revised quality management system standards (ISO 9000:2000 series) were launched in December of the year 2000. For specific and up-to-date information, see the ISO web site (www.iso.ch). Although compliance with the standards is voluntary, many firms throughout the world have adopted them either for competitive reasons or out of fear that adoption will soon become a requirement to sell in international markets. Quality is considered to be synonymous with ISO 9000 registration.

a. ISO 9000 is a set of generic standards for establishing and maintaining a quality system within a company.

b. Standards say nothing about the quality of the end product. The marketplace makes this determination. The objective is to ensure consistent quality (even though that quality may be poor). The important thing is consistency.

c. The ISO 9000 series, as revised in 2000, is actually a set of three standards.

   1) ISO 9000:2000, *Quality Management Systems - Fundamentals and Vocabulary*, describes the definitions used in the ISO 9000 standards.
   2) ISO 9001:2000, *Quality Management Systems - Requirements*, is the requirement standard that provides a model for quality assurance programs. The old standards, ISO 9001, 9002 and 9003, have been integrated into this new standard.
   3) ISO 9004:2000, *Quality Management Systems - Guidelines for Performance Improvements*, provides guidance for continual improvement of a quality management system.

d. Some companies are obtaining ISO 9000 certification because of fear that the EU will require compliance with the standards in an attempt to restrict imports.

   1) The standards are not yet mandatory except among regulated products (for which health and safety are concerns) such as medical devices, telecommunications equipment, and gas appliances.
   2) Some customers demand that suppliers register.
   3) Many American companies see registration as a key to remaining competitive. ISO registration makes customers more comfortable with suppliers' products and services.
   4) Although market pressure is the main driving force, many companies implementing the standards uncover internal process and quality improvements as a result. ISO 9000 forces companies to share information and understand who internal customers and users are.

e. The major milestone is organizing a quality management system (QMS).

   1) Typical items included in the QMS are

      a) The company quality policy
      b) The company quality manual, which documents how the company's quality system complies with the requirements of the standards
      c) The organization structure
      d) Common company-wide procedures
      e) Each department's mission and responsibilities
      f) Each department's quality plans, operating controls, and training plan

   2) One success factor is how well employees have been educated as to the firm's quality standards.
   3) The first clause under the standards relates to management commitment, which is demonstrated by the amount of resources dedicated to quality.

f. Another important requirement is an ISO 9000 internal audit system. Internal audits assure that the company is complying with the documented QMS procedures and ISO 9000 standards.

g. A registrar, or external auditor, must be selected. Registrars are usually specialists within certain Standard Industrial Classification (SIC) codes.

   1) Following an on-site visit, the registrar, if convinced that a quality system conforms to the selected standard, issues a certificate describing the scope of the registration. Registration is usually granted for a 3-year period.
   2) Some companies have preliminary audits by official registrars.
   3) All employees are subject to being audited. They must have the ability to "say what they do" and to demonstrate that they "do what they say."

8. The International Organization for Standardization has also promulgated a set of environmental standards known as ISO 14000. These standards are comparable in purpose to ISO 9000 but concern environmental quality systems. Although they have not been as widely adopted as the ISO 9000 standards, they may someday become a necessity for conducting business in international markets.
   a. ISO 14000 establishes internationally recognized standards that will diminish barriers to trade and make it easier to do business across borders, both for importers and for exporters.
   b. Some companies feel that adherence to ISO 14000 standards will reduce monitoring and inspection by regulatory agencies.
   c. A survey of managers found that failure to obtain ISO 14000 certification could constitute a potential nontariff trade barrier because customers around the world will require such certification.
   d. At present, the main benefit of instituting ISO 14000 standards is internal; companies learn how well their environmental management system operates relative to those of other companies.
   e. Some companies have decided to try for ISO 14000 certification because they found that ISO 9000 was such a beneficial program.
   f. Some European countries already have environmental systems standards in place, and there is still some question as to how these single-country standards will mesh with ISO 14000. However, these single-country standards are typically more strict than the ISO 14000 standards.
   g. There is some concern that regulators might try to use voluntary ISO audits or self-audits as a basis for punitive action. To allay these fears in the U.S., the Environmental Protection Agency has issued new audit guidelines that are intended to avoid such self-incrimination.
9. **The Export-Import Bank**, or Ex-Im, a creation of Franklin Roosevelt's New Deal, is the federal government's official export credit agency. While initially designed to support the credit needs of exporters and to promote exports, the organization has also at various times served as a policy tool of the White House.
   a. Initially, the Ex-IM Bank was to embrace the routine standards of the financial marketplace with respect to risk analysis, loan structuring, and collections. The customers of the bank were foreign purchasers of American exports. While encouraging exports, profit was initially the motive; the Ex-Im was not intended as an aid-giving institution. By the 1960s, the Bank began partnering with commercial banks to guarantee loans and with foreign credit insurers to limit its exposure to liability. By the 1990s, the guaranteeing of loans made by other financial institutions had become the primary activity of the Ex-Im.
   b. The high interest rates of the 1970s hurt the Ex-Im's profitability because it often had to lend money at less than its cost of capital. The result was that by 1980, the long profitable Bank suspended its dividend payments to the U.S. Treasury. This practice opened the agency to criticisms that it had become a distributor of subsidies to foreigners to the extent that the interest rates charged were less than the capital costs.
   c. Because manufacturers of capital goods, such as jet aircraft and nuclear power plants, were the primary beneficiaries of the subsidies, this criticism became a contentious issue. These manufacturers were mostly well known firms, e.g., General Electric, Boeing, and Westinghouse. As a result, Congress questioned the Ex-Im's expenditures on behalf of a handful of powerful and profitable companies.