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EXPORT PROMOTION

Overall U.S. Strategy Needed

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EXPORT PROMOTION
OVERALL U.S. STRATEGY NEEDED

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Most industrialized nations have programs to help companies sell products abroad. These programs, collectively referred to as "export promotion," include business counseling, training, market research information, trade missions and fairs, and export financing assistance. Export promotion programs can play a useful role in increasing the exports of a country's goods and services in sectors of the economy in which it is competitive.

Export promotion services in the United States are currently fragmented among 10 government agencies, including the Department of Agriculture, Department of Commerce, and the Export-Import Bank of the United States. This fragmented approach has led to program inefficiencies and confusion in the U.S. business community.

Although some steps have been taken to unify this fragmented delivery system, the government's fundamental approach to and delivery of these programs has not changed. The Congress should consider requiring that the current array of government export promotion programs be unified under a national strategic plan and be funded in a manner consistent with the emphasis given them under the plan.

These steps will help ensure that in today's highly competitive economic environment U.S. export promotion programs are being carried out in a manner that maximizes their potential for contributing to U.S. economic performance.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss ways in which federal export promotion programs can be improved. My testimony is based on our ongoing work on a number of export promotion programs and our recently released report, Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness.[1]

BACKGROUND

Exports play an increasingly vital role in the U.S. economy by creating jobs and generating economic growth. In 1991, the U.S. exported $422 billion in goods and services, an increase of 7.2 percent over 1990. The growth in U.S. exports is one manifestation of the internationalization of the U.S. economy. As a result of this internationalization, imports have also won growing market shares in a wide range of products.

As the U.S. economy became internationalized the rules of the game for U.S. businesses underwent a fundamental change. In previous decades international trade and competition were not major concerns of most U.S. companies. The U.S. market was so large that most companies gave little thought to selling in international markets. A relatively small number of large multinational companies accounted for most U.S. international trade and investment. However, circumstances have changed. It is now clear that whether U.S. firms choose to sell in either Paris or only Peoria, their products must be competitive by world-class standards in order to thrive.

U.S. competitiveness is an issue that should concern all Americans. The effects of competitiveness reach beyond the successes of individual businesses to the most fundamental of concerns--the economic well-being of a country's citizens. With the growing focus on competitiveness and exports, it is a good time to examine U.S. efforts to promote its exports.

The United States, as do many industrialized nations, has programs to help companies sell products abroad. These programs, collectively referred to as "export promotion," include business counseling, training, and representational assistance, as well as providing market research information, trade fair opportunities, and export financing assistance.

Ten federal government agencies currently offer programs to help businesses begin exporting or expand their exports. Among the agencies with more significant programs are the Departments of Agriculture and Commerce, and the U.S. Export-Import Bank

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[1](GAO/NSIAD-92-49, Jan. 10, 1992).

(Eximbank). In fiscal year 1991, the government spent about $2.7 billion on its export promotion programs and approved about $21.4 billion in export loans and guarantees and export credit insurance (see app. 1).

Alone, these programs cannot produce a substantial change in the U.S. trade balance, because the trade balance is largely determined by the underlying competitiveness of U.S. industry and by the macroeconomic policies of the United States and its trading partners. However, these programs can play a useful role in stimulating exports of U.S. products in economic sectors in which U.S. goods are competitive.

Government export promotion programs can be particularly helpful in the following situations:

-- when U. S. firms lack export awareness because markets have failed to give the right information to producers who otherwise would export;

-- when U.S. businesses are aware of export opportunities but need additional technical assistance to consummate export sales;

-- when U.S. firms need representational assistance from the U.S. government in opening doors overseas; and

-- when U.S. businesses need competitive financing, loan guarantees, or insurance to close an export sale.

FEDERAL PROGRAMS LACK COHERENT FUNDING

One of our major concerns with federal export promotion programs is the way in which they are funded. Although the federal government devotes considerable resources to export promotion programs, the programs are not funded on the basis of any coherent governmentwide strategy or set of national priorities. Consequently, taxpayers do not have reasonable assurances in today's highly competitive economic environment that government resources are being used in the most effective manner to emphasize programs and sectors with the highest potential return.

One consequence of the lack of a governmentwide strategy has been that most of the money available for export promotion spending has gone to one agency--the Department of Agriculture. This agency accounts for most of the spending even though agricultural products only constitute about 10 percent of total U.S. exports. In fiscal year 1991, Agriculture spent about $2 billion on export promotion, about 74 percent of total outlays, and issued about $5.7 billion in loans and loan guarantees, approximately 45 percent of total export loans and loan guarantees.

I would like to take a little time to discuss one Agriculture program that has recently received a fairly high level of attention in the press--the Market Promotion Program. This program (formerly called the Targeted Export Assistance Program), received more funds in fiscal year 1991--$200 million--than was spent by the Commerce Department on all its export promotion programs put together.

Since 1986, over $1.1 billion has been authorized for this program and its predecessor--the Targeted Export Assistance program. Over a third of the money spent under Agriculture's Market Promotion Program is used to directly support the overseas marketing programs of profitable, established U.S. firms.[2] In some cases these firms are large multinational firms with broad experience doing business in other countries.

For example, from 1989 to 1991 the following companies were among the largest brand name recipients of taxpayer funds under the Market Promotion Program to promote overseas sales of their products:

-- Blue Diamond received $22.7 million to promote the sale of walnuts and almonds.

-- Sunsweet Growers received $10.5 million to promote the sale of prunes.

-- Sun-Maid received $9.4 million to promote the sale of raisins.

-- Gallo received $8.1 million to promote the sale of wine.

-- M&M Mars received $2.8 million to promote the sale of its products.

-- Uncle Ben's brand rice received $2.4 million to promote the sale of rice.

-- McDonalds received $1.2 million to promote the sale of poultry and eggs.

The need for some of these program expenditures appears questionable. For example, between 1986 and 1991, the California Raisin Advisory Board received over $55 million in program funding. Sun-Maid was the recipient of a large share of this money. Almost a quarter of these funds was used for raisin promotion in Japan, a market in which U.S. raisins already had

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[2]See Agricultural Trade: Improvements Needed in Management of Targeted Export Assistance Program (GAO/NSIAD-90-225, June 27, 1990).

more than an 80 percent market share. Another program recipient, M&M Mars, is a multibillion dollar company that has been active in foreign markets for many years. Another beneficiary, McDonalds Corporation, reportedly is spending about $750 million a year on advertising. We question whether the additional $1.2 million in government funds was crucial to the success of McDonalds' overseas market development strategy. And, we have seen no evidence demonstrating that this was an effective use of government funds.

This policy of aggressively helping brand name food and agricultural businesses also contradicts broader U.S. economic policies that are applied to virtually all other sectors. While the federal government stands ready to intervene and give financial assistance to the overseas marketing efforts of private firms in the agricultural sector, the government generally avoids the appearance of showing favoritism to individual firms in the manufacturing sector.

The amount spent by the Department of Commerce to support U.S. businesses through its network of export promotion offices pales in comparison to Agriculture spending. Commerce spent about $91 million in fiscal year 1991 to support exports of non-agricultural products through its U.S. and Foreign Commercial Service (US&FCS). The US&FCS maintains a wide network of 134 posts in 68 countries and 47 domestic offices.

As a consequence of its resources being spread so thin, the US&FCS was only able to devote about $4 million in fiscal year 1991 to support the work of its overseas commercial staff in Japan, one of the United States' most important trading partners.

In contrast, the Department of Agriculture budgeted about $64 million in fiscal year 1991 just for Market Promotion Program activities in Japan. This means that this program alone had more than 15 times as much money to spend in Japan promoting U.S. agricultural products as Commerce had available to meet the needs of U.S. exporters in all other industries.

One obvious implication of the governmentwide funding issue is that much more might be achieved with existing resources if they were allocated according to national priorities and the programs were administered in a more coherent manner. This is not now being achieved because the export promotion effort is spread among a number of separate programs with separate budgets in separate agencies that are not integrated under any unifying strategy or rationale.

Any effort by the Congress to try to redesign the federal approach to export promotion will be difficult as it will require the cooperative efforts of a large number of authorizing and appropriations committees. For example, five different appropriations subcommittees in each house of the Congress independently appropriate funds for export promotion.

FEDERAL PROGRAMS HAVE A FRAGMENTED DELIVERY SYSTEM

Another major concern we have with federal export promotion programs is the inefficiency of the fragmented delivery system. Under the current approach, a large number of programs are delivered to the U.S. business community through numerous federal agencies in an inefficient and sometimes confusing manner.

Some agencies compete for the same domestic clients. For example, the Small Business Administration and the Department of Commerce both maintain networks of domestic offices which provide export assistance. Commerce maintains 47 district offices and SBA currently funds 21 international trade centers as part of its Small Business Development Center network.

Commerce, on the basis of a recently completed strategic review of its programs, has refocused its programs to reach the "infrequent exporter." An "infrequent exporter" is a company that has some export experience but still needs assistance to increase the size of its export market or to expand into new ones. Commerce programs that do not help this type of client are being de-emphasized. In many instances, SBA export counseling programs are attempting to serve the same client base.

Another example of fragmentation is the breakdown of SBA and Commerce's joint support for the Department of Commerce's Matchmaker trade delegation program. The Matchmaker delegations are trade missions that are designed to introduce new-to-export or new-to-market businesses to prospective agents and distributors overseas. Previously, SBA provided up to $750 in assistance to the first 10 qualified small businesses participating in selected trade missions. The total cost of this assistance was about $70,000 in fiscal year 1991. In March of this year SBA withdrew its support from the Matchmaker trade delegation program because of "budget constraints." SBA's abrupt withdrawal of support left 39 companies, who had been told they would receive SBA funding, without the promised support. Although the amount of financial support was small, these funds represented the only federal government subsidies available to small businesses participating in this program.

About a month after SBA announced it was withdrawing its support for the Matchmaker program it announced it would be sponsoring a new initiative called "Women Going International" involving a nationwide series of trade conferences. SBA is sponsoring this new trade conference initiative even though a U.S. government interagency effort which involved SBA recently completed a series of 30 nationwide trade conferences aimed at raising export awareness and helping businesses considering entering export markets.

With the end of the cold war international program agencies are looking for new roles to play. As a result more federal agencies have recently decided to get into export promotion. In some cases their activities duplicate existing export promotion activities or are not integrated into existing programs.

The State Department has begun to give exporting a higher priority as exemplified by the Deputy Secretary's November 1989 pledge that the State Department would assume a greater role in promoting economic and commercial interests overseas. The Deputy Secretary of State said that the economic health and ability of the United States to trade competitively on world markets might be the single most important component of U.S. national security into the next century. In December 1991, the Deputy Secretary reiterated in a cable sent to all posts the importance of supporting U.S. businesses.

The Agency for International Development (AID) has a substantial presence in Thailand, Indonesia, and the Philippines and is becoming increasingly involved in managing a broad range of trade and investment promotion programs in these countries. Commerce's U.S. & Foreign Commercial Service has staff in each of these countries, and some friction has developed over who is in charge of delivering these services to the U.S. business community. In addition, AID has proposed establishing a business outreach center with a toll-free telephone number even though the proposal appears to duplicate the existing trade information center established by the interagency Trade Promotion Coordinating Committee and housed within the Department of Commerce.

The U.S. Trade and Development Program (TDP), a small independent federal agency, funds feasibility studies and other technical assistance abroad in industry sectors that it decides are important to the U.S. economy as export markets. The agency funds feasibility studies for everything from sugar refineries and fisheries in Africa to satellite telecommunications projects in Asia. Yet these TDP expenditures are not part of a coordinated, governmentwide strategy in which specific industries or geographic regions are emphasized because of their future export potential.

Finally, the Export-Import Bank delivers about 52 percent of the government's export loans and guarantees and export credit insurance. Export finance is a crucial component of export promotion yet it is not integrated into a governmentwide export promotion strategy.

Furthermore, while the Eximbank has substantial export finance resources, it has a limited capability for delivering its services. Therefore, the Eximbank works with other agencies to coordinate and integrate its program and policies. However, some of these efforts have not produced results. One such effort is a joint program that the Eximbank and the Small Business Administration established in 1984 to make export financing assistance more accessible to small businesses. Under the program, Eximbank staff are to train SBA field staff about Eximbank programs. SBA staff are then supposed to promote the Eximbank programs to local exporters. However, the program has met with limited success to date--only nine transactions have taken place as a result of the program through the end of fiscal year 1991.

Also, some overlap and gaps exist between Eximbank's and other agencies' programs. For example, the Eximbank provides financing for agriculture products as required by its legislation, even though the Department of Agriculture also provides financing for such products. In fiscal year 1991, the Eximbank assisted the export of about $175 million in agricultural commodities, livestock, foodstuffs and related products, and about $273 million in agricultural equipment, chemicals, supplies, and services.

Furthermore, there has been no systematic governmentwide or Eximbank assessment of areas in which the United States has competitive products that are not being exported because of a lack of export financing. Because the Eximbank does not systematically identify where demand for additional financing exists, it is difficult to measure how well Eximbank is accomplishing its mission of filling financing gaps.

GOVERNMENTWIDE STRATEGY NEEDED

I would like to recognize some recent steps the executive branch has taken to better focus and coordinate export promotion programs. To further the goal of improving the government's export promotion efforts, in May 1990 the President established an interagency Trade Promotion Coordinating Committee (TPCC) to streamline the government's decentralized approach to export promotion. The TPCC is chaired by the Secretary of Commerce and includes representatives from 18 other federal agencies. The TPCC has created a trade information center with a toll-free phone number and an interagency calendar of upcoming federal government trade promotion events. The committee has also sponsored a nationwide series of 30 trade conferences and has organized a number of working groups to look at specific export promotion issues.

However, these represent only modest successes. The committee has not addressed the central issue of how to unify and streamline the government's fragmented export promotion programs. Moreover, the committee lacks permanent status and cannot establish priorities or reallocate resources among the numerous government agencies involved in these programs.

The current fragmented approach to export promotion needs Congressional attention. The government cannot devise a coherent export promotion strategy one agency at a time. In our January 1992 report, we suggest that Congress consider requiring that programs be integrated into a governmentwide strategic plan and funded in a manner consistent with the emphasis given them under the plan.

We also recommended that the Secretary of Commerce, as chair of the Trade Promotion Coordinating Committee, work with other member agencies and the director of the Office of Management and Budget to (1) develop a governmentwide strategic plan for carrying out federal export promotion programs and (2) ensure that the budget requests for these programs are consistent with their relative strategic importance.

In conclusion, while it is not within the power of the U.S. government to turn individual companies into world-class competitors--only the managers and workers of the firms themselves have that capability--the government can help. We believe that the federal government can do a better job in helping companies that are competitive enter world markets by more effectively using the funds that are now available for export promotion programs.

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Mr. Chairman, this concludes my prepared statement. I will be happy to respond to any questions that you or other Members of the Subcommittee may have.

LEVELS OF U.S. EXPORT PROMOTION ACTIVITIES, FISCAL YEAR 1991
(Dollars in millions)

Agency	Outlays[a]	Loans and loan guarantees	Insurance
Agency for International Development	$106[b]	$0	$160
Agriculture Department	1,972[c]	5,700	0
Commerce Department	195[d]	0	0
Energy Department	3	0	0
Export-Import Bank	326[e]	6,638	4,554
Interior Department	*	0	0
National Aeronautics and Space Administration	*	0	0
Overseas Private Investment Corporation[f]	11	290	3,900
Small Business Administration[g]	4	123	0
U.S. Trade and Development Program	37	0	0
Totals[h]	$2,655	$12,751	$8,614

*Represents $100,000 or less.

[a]Includes salaries of U.S. government personnel who are devoted full-time to export promotion, but excludes those who devote only part of their time to export promotion. Part-time export facilitation personnel are found in several government agencies, including the Departments of State and Transportation. These figures also include

net claims paid out under agencies' export loan, credit guarantee, and insurance programs. The figures in several cases include obligations or budget authority because some agencies were unable to provide outlays. The figures also include grants made to exporters for the purpose of enhancing their export capability, and grants to organizations to study export promotion issues.

[b]Consists of $103.4 million spent by the Commodity Import Program, $1 million spent by the Private Investment and Trade Opportunities program, $0.5 million spent by the Trade and Investment Services program, $0.5 million spent by the Market Technology Access Program, $0.3 million spent by the Private Sector Energy Development Study Fund, and $0.3 million spent by the Trade and Investment Monitoring System.

[c]Consists of $890.1 million devoted to the Export Enhancement Program, $761 million paid out in claims on finance programs, $200 million spent by the Market Promotion Program, $105.5 million spent by the Foreign Agricultural Service, $7.8 million spent by the Office of the General Sales Manager to manage the GSM-102 and GSM-103 loan guarantee programs, and $7.3 million spent by the Agricultural Research Service.

[d]Consists of $169.8 million spent by the International Trade Administration (ITA), $15.9 million spent by the U.S. Travel and Tourism Administration, $7.6 million spent by the Economic Development Agency, $1.2 million spent by the National Institute of Standards and Technology, $0.6 million spent by the Economics and Statistics Administration on the National Trade Data Bank, and $0.1 million spent by the National Oceanic and Atmospheric Administration.

[e]Consists of $158.4 million in net claims paid out under the agency's export loan, credit guarantee, and insurance programs; $145.4 million of War Chest grants; and a $21.7 million budget.

[f]The Overseas Private Investment Corporation is a self-sustaining U.S. government entity whose purpose is to promote economic growth in developing countries by encouraging U.S. private investment in those nations. OPIC activity stimulates U.S. exports as well. The finance and insurance figures for OPIC are overall agency figures, whereas the outlays are for export promotion. The outlays consist of $14.3 million budgeted for salaries and administrative support activities, $3.3 million in recoveries made on its insurance and guarantee programs, and $0.4 million for pre-investment programs.

[g]The export related loans and loan guarantees shown for SBA are overstated. The amount SBA classifies as export-related loans and guarantees represents all SBA loans and guarantees extended to small businesses that report that they are exporters. There is nothing about most of this credit assistance that requires companies that borrow to use the money for export purposes.

[h]Totals do not add due to rounding and do not include amounts spent by the Departments of State and Defense on export promotion and export facilitation duties. Although Department of State officials told us that commercial duties are an important function of the Department's overseas foreign service staff, especially in the more than 82 posts where the Department of Commerce has no presence, they also told us that the State Department does not have systems in place to measure the amount of staff time spent on this function. Department of Defense officials told us they could not quantify the time spent by the Department's security assistance staff in providing export facilitation assistance to U.S. exporters.

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