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EXPORT PROMOTION

Issues for Assessing the Governmentwide Strategy

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Mr. Chairman and Members of the Task Force:

We are pleased to be here today to discuss issues related to the U.S. government's role in promoting exports. In enacting legislation in 1992 calling for a coordinated national strategy for promoting and financing U.S. exports, the Congress was aware of the vital and ever-increasing role that exports play in creating the new jobs driving the economic growth of the United States. The legislation established in statute the Trade Promotion Coordinating Committee (TPCC), comprised of more than a dozen federal departments and agencies, to bring coherence and direction to the federal government's efforts to help U.S. companies export more goods and services. Export promotion efforts include diverse programs, such as providing U.S. businesses with market research and trade leads, business counseling, high-level government advocacy through the use of trade missions, and export finance.

Our comments today will address two points: (1) the evolution of the government strategy designed to reshape federal export promotion activities and (2) the results and issues related to our past work on U.S. government efforts to improve U.S. export promotion programs. Our remarks are based largely on past GAO reports and testimonies, a list of which is attached.

Summary

The Congress, in enacting the Export Enhancement Act of 1992, required the TPCC to take steps to improve the delivery of export assistance to U.S. firms. The TPCC efforts have focused on three broad areas: (1) devising a governmentwide strategy and a unified budget that would set priorities, (2) developing partnerships with all levels of government and the private sector, and (3) dealing with obstacles that U.S. businesses encounter as they compete against businesses supported by their foreign governments.

The TPCC has taken a number of steps in each of these areas, but some of their goals remain elusive. With respect to the strategy, the cooperating agencies have established priority foreign markets and increased the visibility of the components and distribution of the aggregate federal expenditures on export promotion activities. Partnerships have been developed through a number of initiatives, including a network of export assistance centers to help unify the delivery of export promotion services, and making the U.S. Export-Import Bank's (Eximbank) and the Small Business Administration's (SBA) working capital program procedures more

consistent to enable exporters to receive financing more easily. The TPCC has also worked to keep U.S. financing programs fully competitive.

Our work also suggests that outstanding issues remain regarding the effectiveness of the cooperative efforts of the agencies under the TPCC to achieve the congressional objectives of the 1992 legislation. For example, while the expenditures of federal export promotion agencies are now clearly presented in one place, major challenges remain for achieving the unified budget that would align resources with national priorities and program performance. While the Department of Commerce and the SBA have colocated in 19 cities, with some closer ties with Eximbank officials, no evaluation has been completed on how effectively these centers are operating to achieve the intended objective of streamlining the delivery and quality of services to small- and medium-sized businesses. The elapsing of 5 years since the passage of the Export Enhancement Act[1] provides a good opportunity for the Congress to assess the achievements and remaining challenges of the effort to strategize, streamline, and coordinate the wide array of federal export promotion efforts through the institutional mechanism of the TPCC.

Evolution of Government Strategy for Addressing Export Needs of U.S. Businesses

When the Congress passed title II of the Export Enhancement Act of 1992, it was concerned that the existing federal export promotion programs lacked coordination and an overall strategy.[2] Before 1992, a business desiring to export goods or services faced a bureaucratic labyrinth of federal and state agencies to get information on markets, financing, insurance, methods, and restrictions on exporting. In addition, a business might have noted that there were over a dozen federal agencies with more than 100 export promotion programs. To improve export services, the Congress mandated, in the 1992 act, that the TPCC develop a governmentwide strategic plan that establishes priorities for federal activities supporting U.S. exports, and propose an annual unified federal trade promotion budget that supports the plan.[3] The Congress also directed the Commerce Department to set up centralized export

[1]Public Law 102-429 (Oct. 21, 1992).

[2]We have previously reported that the absence of a governmentwide strategy had resulted in an ad hoc approach to export promotion. This approach lacked clear priorities and overlooked opportunities for improved delivery of services to exporters. See Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness (GAO/NSIAD-92-49, Jan. 10, 1992).

[3]The TPCC was originally established by the President in May 1990. The 1992 act provided a statutory basis for the TPCC to give it more permanence and a stronger role in bringing coherence and direction to federal export promotion efforts.

assistance centers. In addition, the act specified that the TPCC,[4] chaired by the Secretary of Commerce, would report annually to the Congress on the national export strategy and its implementation.

The first TPCC strategy, issued in 1993, identified impediments to effective delivery of export promotion services and made 65 recommendations to improve export promotion programs.

Specifically, the TPCC expected that

- development of a government strategy would be helped by devising performance measures as a means to reallocate resources and attain a unified budget;
- establishment of partnerships with the public and private sectors would be assisted by such actions as simplifying federal services, setting up "one-stop shops" for exporters, and streamlining the export working capital programs of the Eximbank and the SBA; and
- provision of export services for U.S. exporters similar to those received by foreign competitors would help U.S. companies compete on a "level playing field" abroad.

The TPCC has subsequently issued four further National Export Strategy reports. In these reports, the TPCC continued to highlight its pursuit of the major themes that emphasized achieving efficient delivery of export services. The later strategies also focused on specific initiatives such as improving trade data, establishing an advocacy network, and eliminating barriers to fair competition such as bribery and corruption.

Results of Our Past Work on Government Efforts to Improve U.S. Export Promotion Programs

Our past work has focused on several elements of the governmentwide strategy to improve the delivery of export promotion programs. We will highlight the results of our work concerning the three broad and continuing themes of the TPCC strategy and then outline some issues that may be raised in the context of the overall governmentwide strategy.

[4]The TPCC membership includes representatives from the Departments of Agriculture, Commerce, State, Defense, Energy, the Interior, Labor, Transportation, and the Treasury; the Agency for International Development; the Environmental Protection Agency; the U.S. Trade and Development Agency; the U.S. Information Agency; the SBA; the Eximbank; and the Overseas Private Investment Corporation (OPIC).

Efforts to Develop a Governmentwide Strategy and a Unified Budget

In 1996, we examined the TPCC's progress toward establishing a governmentwide strategy for promoting exports and toward devising an annual unified federal budget to promote exports that reflects these priorities.[5] At that time, we reported that governmentwide export promotion priorities were being identified in terms of foreign markets, export programs, and export policies and that agencies were exercising flexibility in focusing their efforts. The centerpiece of the strategy was the identification of the "big emerging markets" as priority markets for U.S. goods and services.[6] We also examined whether the TPCC had proposed to the President an annual unified budget, as required by the Export Enhancement Act, that would support the strategic plan and eliminate funding for any areas of overlap and duplication. As we have testified in the past, one of the indicators of whether the unified budget is working would be whether the budget changed the distribution of resources to the various priorities, programs, and agencies.[7]

We found that the TPCC had prepared and included in the National Export Strategy budget presentations that displayed each member agency's historical and prospective export expenditures on export promotion, using tables showing spending from different perspectives. For example, the 1997 National Export Strategy displayed the distribution of federal spending by budget authority and across various trade promotion categories, such as providing information counseling and export services, combating foreign export subsidies, and providing government advocacy. We observed that this step had helped foster a better understanding of federal expenditures for export promotion. However, we emphasized that performance measures would be needed to provide a basis for the allocation of export promotion resources. According to TPCC officials, they recently reviewed TPCC agency strategic plans as a step toward ensuring that the budget priorities are fully aligned with the TPCC's commercial policy goals.

[5]National Export Strategy (GAO/NSIAD-96-132R, Mar. 26, 1996).

[6]These markets include the Chinese economic area (including Taiwan and Hong Kong); South Korea; India; the Association of South East Asian Nations (Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam); South Africa; Brazil; Argentina; Mexico; Poland; and Turkey.

[7]See Export Promotion: Initial Assessment of Governmentwide Strategic Plan (GAO/T-GGD-93-48, Sept. 29, 1993).

Steps Taken to Help U.S. Businesses Through Public and Private Sector Partnerships

Another major thrust of the TPCC's efforts was to improve the delivery of federal export promotion services by developing greater cooperation among federal, public, and private entities. One significant effort was the creation of a nationwide network of 19 "one-stop-shops," called U.S. Export Assistance Centers. The TPCC sought to present exporters with a "seamless" delivery of services rather than a confusing network of federal programs with multiple domestic offices.

Another initiative was to help small- and medium-sized businesses by increasing the availability of export working capital and making the Eximbank's and the SBA's export working capital programs and procedures more streamlined, consistent, and simple. This "harmonization" initiative was to address exporter and lender concerns about overlap and confusion over federal program parameters and procedures.

Export Assistance Centers

In creating the nationwide network of one-stop shops, representatives of the Department of Commerce and the SBA—two federal agencies with extensive export promotion field networks—were combined and, in some cases, the Eximbank representatives were included as well. These export assistance centers were designed to (1) provide exporters with information on all U.S. government export promotion and export finance services, (2) assist exporters in identifying which federal programs may be of greatest assistance, and (3) help exporters make contact with those federal programs.

We reviewed the implementation of the first four export assistance centers and reported to the Congress in July 1996 on both the benefits realized as well as the opportunities for improving their operations.[8] In general, we found that staff and customers of the four centers we visited believed that colocating agency staff helped U.S. firms gain access to and become more knowledgeable about a broader range of federal export services. We also identified specific initiatives at the centers that demonstrated the potential benefits that can be derived through working more closely with federal and nonfederal partner organizations.

In addition, we identified steps that were needed to improve the delivery of services. For example, we found that the export assistance centers' Directors did not have (1) the ability to affect interagency cooperation and teamwork and (2) adequate authority over center expenditures and an

[8]The first four centers were established in Baltimore, Chicago, Long Beach, and Miami. See U.S. Export Assistance Centers: Customer Service Enhanced, but Potential to Improve Operations Exists (GAO/T-NSIAD-96-213, July 25, 1996).

export assistance centerwide accounting system that would enable them to accurately identify and allocate costs and better manage expenditures. Moreover, we found that the assistance centers did not have an integrated client tracking system.

Harmonization

According to the TPCC, one of the greatest obstacles to increased U.S. exports faced by small- and medium-sized businesses is the lack of sufficient working capital—capital that is used to finance the manufacture or purchase of goods and services. Since the Eximbank and the SBA have programs designed to increase the availability of export working capital for businesses, the TPCC recommended that the Eximbank and the SBA harmonize their programs and procedures to make them more streamlined, consistent, and simple.

In February 1997, we reported[9] that the Eximbank and the SBA had made progress in harmonizing certain aspects of their respective programs, including the loan guarantee coverage, the application form, and initial loan application fee. We also noted that each agency had taken other steps to improve program delivery, such as providing staff with export financing training, conducting seminars that were attended by lenders, and developing partnerships with both the private and public sectors. These partnerships include programs in which (1) exporters can have working capital guarantees processed and approved by a network of private sector lenders located in various states and (2) federal resources are leveraged through coguarantee agreements with state agencies. In addition, we had identified eight states that provided export working capital guarantees for small businesses during fiscal year 1996.[10]

Although the Eximbank and SBA programs were still not fully standardized at the time our report was issued, the steps toward harmonization and other program initiatives had helped to simplify the lending process, increase the number and value of loans guaranteed, and expand the number of exporters and lenders who participate in the programs.

[9]See Export Finance: Federal Efforts to Support Working Capital Needs of Small Business (GAO/NSIAD-97-20, Feb. 13, 1997).

[10]California had the largest program of the eight states. The seven other states with export working capital programs were Florida, Georgia, Kansas, Maryland, Massachusetts, Minnesota, and South Carolina.

Potential for Greater Sharing of Investment Risk

Our past work has also highlighted another potential opportunity to develop partnerships with public and private sector entities by sharing investment risk. In 1993, the TPCC recommended raising OPIC's project limits for loans, guarantees, or insurance to better meet the rising demand by U.S. firms to finance major capital projects overseas. The increase in OPIC insurance cover from $100 million to $200 million (as well as its project financing limits) and the private sector's willingness to have greater involvement in some emerging markets had created opportunities for OPIC to further reduce the risk in its insurance program by sharing the risk with other private or public partners. In recent work,[11] we identified three potential options for sharing project risks. For example, OPIC could, on a case-by-case basis, share the risk of losses by reinsuring or coinsuring projects with the private insurers and sharing project risk with investors. Under the reinsurance scenario, OPIC could insure part of its high- and medium-risk portfolio with private sector insurance companies at mutually acceptable rates. OPIC could also coinsure projects with private or other public insurers. A third option could involve sharing project risk with investors by offering less then the 20-year standard insurance cover, as is the practice with other public insurers. In commenting on our report, OPIC officials told us that while reinsurance, coinsurance, and greater risk-sharing may be good risk mitigation strategies, they cautioned that they should maintain flexibility about when to use them so that OPIC can continue meeting U.S. foreign policy objectives and the needs of the customers.

Efforts to Ensure Foreign Competition Does Not Disadvantage U.S. Businesses

According to the TPCC, the competition for major procurements by foreign countries is fierce. Major foreign competitor nations, which have subsidized export programs, have become increasingly aggressive in helping their firms expand exports. In particular, the TPCC noted that the availability and competitiveness of export financing often played a decisive role in the export success of U.S. companies. In general, the U.S. approach has been to help neutralize foreign competitor nation support of its exporters by providing similar financing for U.S. exporters. This requires accurate information on the nature and extent of the foreign competitor programs. The U.S. approach has also involved working through the Organization for Economic Cooperation and Development

[11]See Overseas Investment: Issues Related to the Overseas Private Investment Corporation's Reauthorization (GAO/NSIAD-97-230, Sept. 8, 1997).

(OECD)[12] to seek international agreements to standardize practices, with the ultimate goal of reducing and eliminating export subsidies.

Past GAO work has addressed the nature and extent of U.S. foreign competitors' export finance programs, a key U.S. effort to combat foreign competitor practices, and opportunities for reducing the cost of the Eximbank's programs while remaining competitive with programs of competitor export credit agencies.

Other Countries' Programs

Over 70 countries have export credit agencies designed to help businesses export.[13] Various methods can be used to measure the level of support provided by export credit agencies. One way is to look at support in terms of the share of financing commitments extended. About half of all export credit support extended in 1995 (the latest year for which comparable data are available) was provided by the seven largest industrial nations. Of this amount, Japan (56 percent), France (20 percent), and Germany (9 percent) accounted for the largest shares. The United States (the Eximbank) ranked fourth with Canada (each with 5 percent), followed by the United Kingdom (3 percent) and Italy (2 percent).

Another way is to look at the percentage of national exports financed by the seven export credit agencies. Using this approach, the Eximbank is tied for last with 2 percent of total exports. In contrast, Japan supported 32 percent of its country's exports, with France second at 18 percent. The support provided by Canada, Germany, the United Kingdom, and Italy ranged from 7 to 2 percent. Although these measurements do not show the Eximbank near the top of the highest Group of Seven countries providers, other measures present a different picture. For example, the Eximbank data show that it remains preeminent with respect to the number of markets for which unrestricted medium- and long-term cover is provided—more than twice as many markets as Canada, its nearest competitor.

Although comparing the export credit agency programs is difficult, we studied the five largest exporting countries of the European Union and

[12]The OECD, created in 1960, is a forum for monitoring economic trends and coordinating economic policy among 29 countries, including the United States. It serves as the forum for negotiating limitations on government export credit subsidies and developing guidelines for export-financing assistance programs.

[13]Euromoney publishes an annual survey of world export credit agencies.

found that there is no single export finance model.[14] One fundamental difference between the Eximbank and these export credit agencies is the concept of risk sharing. The Eximbank provides 100-percent, unconditional political and commercial risk protection on most of the medium- and long-term coverage it issues. The European agencies (with the exception of the United Kingdom) generally require exporters and banks to assume a portion of the risks (usually 5 to 10 percent) associated with such support.

On the multilateral front, the United States has participated in negotiations with the OECD to implement agreements or initiate efforts to limit government subsidies and provide common guidelines for national export-financing assistance programs. The OECD's Arrangement on Guidelines for Officially Supported Export Credits set terms and conditions for government-supported export loans. The agreement has been progressively strengthened since it was first established in 1978.

U.S. Efforts to Combat Tied Aid Practices

Competitor's tied aid[15] practices are also of concern to the United States—in particular when contract awards for overseas projects are based on the availability of such concessional financing rather than on the basis of price and quality of the goods or services exported. Such practices can distort recipient countries' development decisions and place U.S. exporters at a competitive disadvantage. Since the early 1980s, the United States has negotiated a series of increasingly stronger agreements within the OECD to restrict the use of distorting tied aid. In addition, in 1986 the Congress authorized the Eximbank to create a "war chest" fund to counter other countries' use of tied aid offers.

To meet foreign competitors' use of tied aid, the TPCC recommended the development and implementation of strategies to further reduce the use of tied aid worldwide. In 1994, the Eximbank announced a new policy for responding to competitors' tied aid offers. Rather than using the fund to enforce the OECD agreement, Eximbank was to become more actively involved in trying to deter tied aid at an earlier stage in a project's development. The Eximbank's policy was to issue tied aid "willingness to

[14]Our review covered the programs of France, Germany, Italy, the Netherlands, and the United Kingdom. See Export Finance: Comparative Analysis of U.S. and European Union Export Credit Agencies (GAO/GGD-96-1, Oct. 24, 1995).

[15]"Tied aid" refers to foreign assistance that is linked to the purchase of exports from the country extending the assistance. Tied aid can consist of (1) foreign aid grants alone, (2) grants mixed with commercial financing or official export credits ("mixed credits"), or (3) concessional (low-interest-rate) loans.

match" indications and "letters of interest," which are contingent commitments to match foreign tied aid should it be offered. In 1995, we testified that although it was too early to determine the effect of the U.S. strategy, there were initial indications of progress.[16]

Reducing Eximbank Costs

Our past work has also highlighted two broad options—raising fees for services and reducing program risks—that would allow the Eximbank to reduce subsidies while remaining competitive with foreign export credit agencies.[17] These options would not require a change in the Eximbank's present authority. However, we acknowledged that these options would need to be considered within the full context of their trade and foreign policy implications.

One option for reducing subsidy costs at the Eximbank would be to increase the fees charged for its financing programs while still satisfying the congressional mandate for setting fees at levels that are fully competitive with competitor nation programs. To illustrate, we estimated that the Eximbank could have saved about $84 million in fiscal year 1995 if it had raised its fees to a level where they were at the mid-range (as low as or lower than 45 percent to 50 percent rather than at about 75 percent) of the fees charged by competitor nation programs in the same importing country.

The U.S. government continues to use international forums such as the OECD to work toward reducing and eventually eliminating subsidized export finance programs. Since our report was issued, the OECD countries have made progress in establishing minimum fees across all major export credit agencies. In 1997, the OECD set a minimum fee for services, effective in April 1999. Given concerns about keeping the Eximbank's programs competitive with its competitor nations' programs, this agreement should provide the Eximbank with a greater opportunity to further reduce the costs of its operations by raising fees.

Another option for reducing subsidy costs involves reducing program risks. As stated earlier, the Eximbank provides 100-percent, unconditional political and commercial risk protection on virtually all of the medium- and long-term cover that it issues. Some of the Eximbank's major

[16]See International Trade: U.S. Efforts to Counter Competitors' Tied Aid Practices (GAO/T-GGD-95-128, Mar. 28, 1995.

[17]See Export-Import Bank: Options for Achieving Possible Budget Reductions (GAO/NSIAD-97-7, Dec. 20, 1996).

competitors, such as the European export credit agencies, on the other hand, generally require exporters and banks to assume a portion of the risks associated with such support and do not absorb 100 percent of the risks themselves. Instead, they require that exporters or banks assume a minimum percentage (usually 5 percent to 10 percent) of the risks.

Conclusions

Five years have passed since the Congress mandated that the TPCC develop a governmentwide strategy for federal export promotion activities. A key question is whether federal export programs and resources are strategically focused to help U.S. businesses effectively compete in foreign markets.

The federal strategy targets markets, centralizes export services, and addresses unfair barriers to exports. However, a driving force behind the passage of the Export Enhancement Act was to identify areas of overlap and duplication among the various federal export promotion activities and propose means of eliminating them. A key requisite to allocating export promotion resources is performance measures. The TPCC agencies have developed measures that indicate outputs such as volume of loans or number of clients and outcome measures such as numbers of exports generated by individual programs. However, these measures are not sufficient to address a core objective of whether these programs meet the TPCC's strategic goals and efficiently and effectively serve their customers.

Another key element of the act was to identify ways to develop closer partnerships with federal and nonfederal entities that provide similar export promotion services. While a number of initiatives have been taken, our past review of the export assistance centers raised several issues related to the integration of the delivery of services. The TPCC agencies have not since evaluated how effectively these centers are operating to achieve the intended objective of streamlining the delivery and quality of services to small- and medium-sized business. The TPCC plans to review the effectiveness of the centers in 1998. Until such a review occurs, we cannot know if these colocated agencies have integrated their services to effectively serve U.S. exporters.

Mr. Chairman, this concludes our prepared remarks. We would be happy to respond to any questions you or other Task Force members may have.

Related GAO Products

Government Export Strategy

National Export Strategy (GAO/NSIAD-96-132R, Mar. 26, 1996).

Export Promotion: Rationales for and Against Government Programs and Expenditures (GAO/T-GGD-95-169, May 23, 1995).

Export Promotion: Governmentwide Plan Contributes to Improvements (GAO/T-GGD-94-35, Oct. 26, 1993).

Export Promotion: Initial Assessment of Governmentwide Strategic Plan (GAO/T-GGD-93-48, Sept. 29, 1993).

Export Promotion Strategic Plan: Will it Be a Vehicle for Change? (GAO/GGD-93-43, July 26, 1993).

Export Promotion: Governmentwide Strategy Needed for Federal Programs (GAO/T-GGD-93-7, Mar. 15, 1993).

Export Promotion: Federal Approach Is Fragmented (GAO/T-GGD-92-68, Aug. 10, 1992).

Export Promotion: Overall U.S. Strategy Needed (GAO/T-GGD-92-40, May 20, 1992).

Export Promotion: U.S. Programs Lack Coherence (GAO/T-GGD-92-19, Mar. 4, 1992).

Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness (GAO/NSIAD-92-49, Jan. 10, 1992).

Export Finance and Investment

Overseas Investment: Issues Related to the Overseas Private Investment Corporation's Reauthorization (GAO/NSIAD-97-230, Sept. 8, 1997).

Export Finance: Federal Efforts to Support Working Capital Needs of Small Business (GAO/NSIAD-97-20, Feb. 13, 1997).

Export Import Bank: Options for Achieving Possible Budget Reductions (GAO/NSIAD-97-7, Dec. 20, 1996).

Export Finance: Comparative Analysis of U.S. and European Union Export Credit Agencies (GAO/GGD-96-1, Oct. 24, 1995).

Export Promotion: Improving Small Businesses' Access to Federal Programs GAO/T-GGD-93-22, Apr. 28, 1993).

Federal Export Assistance

U.S. Export Assistance Centers: Customer Service Enhanced, but Potential to Improve Operations Exists (GAO/T-NSIAD-96-213, July 25, 1996).

One-Stop Shops (GAO/GGD-93-IR, Oct. 6, 1992).

Foreign Competition

U.S. Agricultural Exports: Strong Growth Likely, but U.S. Export Assistance Programs' Contribution Uncertain (GAO/NSIAD-97-260, Sept. 30, 1997).

Export-Import Bank: Key Factors in Considering Eximbank Reauthorization (GAO/T-NSIAD-97-215, July 17, 1997).

Export-Import Bank: Reauthorization Issues (GAO/T-NSIAD-97-147, Apr. 29, 1997).

International Trade: U.S. Efforts to Counter Competitors' Tied Aid Practices (GAO/T-GGD-95-128, Mar. 28, 1995).

International Trade: Combating U.S. Competitors' Tied Aid Practices (GAO/T-GGD-94-156, May 25, 1994).

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