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# EXPORT PROMOTION

# Federal Approach Is Fragmented

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# EXPORT PROMOTION: FEDERAL APPROACH IS FRAGMENTED

## SUMMARY OF STATEMENT BY ALLAN I. MENDELOWITZ DIRECTOR, INTERNATIONAL TRADE AND FINANCE ISSUES GENERAL GOVERNMENT DIVISION

Most industrialized nations have programs to help companies export. These programs, referred to as "export promotion," include offering business counseling and training, as well as providing market research information, trade fair opportunities, and export financing assistance. These programs can play a useful role in increasing exports in industry sectors in which U.S. goods are competitive.

In fiscal year 1991, the U.S. government spent about $2.7 billion on export promotion programs and approved about $21.4 billion in export loans and guarantees and export credit insurance. In that same year 10 federal agencies offered export promotion programs. However, these programs are not funded on the basis of any explicit governmentwide strategy or set of national priorities. As a result, the current system is characterized by funding imbalances and program inefficiencies. In January 1992 we suggested that Congress consider requiring that export promotion programs be integrated into a governmentwide strategic plan and funded in a manner consistent with that plan. We also recommended that the Secretary of Commerce, as chair of the Trade Promotion Coordinating Committee, work with other member agencies 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.

A number of proposals have been advanced in Congress to reform the system. These suggestions range from creating a Department of International Trade to improving coordination between individual agencies or making existing export promotion programs better. The Export Administration Development Act of 1992, H.R. 5361, would create an interagency committee, the Export Development Administration (EDA), to coordinate and manage export promotion programs, as well as provide some export promotion assistance directly to the public.

We support H.R. 5361's idea of requiring the administration to formulate a governmentwide strategic plan for export promotion. However, we believe the concept of an EDA needs to be more fully developed in legislation to be effective. We are concerned that EDA would be another layer of bureaucracy in Washington, and we are uncertain what the field offices it would be required to establish would add to the existing network of export promotion field offices. We also are concerned that giving EDA operational responsibilities would hinder its ability to carry out its coordination mission.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to testify before this Subcommittee on our recent work on U.S. government export promotion programs, on ways in which the existing federal export promotion system could be improved, and on how our recent work in this area relates to House Resolution 5361. My testimony is based on past work we have done for a number of congressional committees.

FEDERAL EXPORT PROMOTION EFFORTS

Exports play a vital role in the U.S. economy by creating jobs and generating economic growth. As the U.S. economy has become internationalized in recent years, more and more U.S. firms have found that they must produce world-class products in order to compete both at home and abroad. Thus, we believe that helping U.S. firms increase their ability to export is essential to improving U.S. competitiveness.

The United States, as do many other industrialized nations, has programs to help companies sell products abroad. These programs, collectively referred to as "export promotion," include offering business counseling and training and giving representational assistance, as well as providing market research information, trade fair opportunities, and export financing assistance. Alone, export promotion programs cannot produce a substantial change in the U.S. trade balance because the trade balance largely is determined by the underlying competitiveness of U.S. industry and 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.

Ten federal agencies currently offer programs to help businesses begin exporting or expand their exports. In fiscal year 1991, the government spent about $2.7 billion on export promotion programs and approved about $21.4 billion in export loans and guarantees and export credit insurance (see appendix). Three of these agencies, the Commerce and the Agriculture Departments and the U.S. Export-Import Bank (Eximbank), accounted for about $2.5 billion of the spending and about $16.9 billion of the export financing assistance. However, as we reported in January 1992,[1] the U.S. government's export promotion programs are not funded on the basis of any explicit govermentwide strategy or set of national priorities. This situation contrasts with export promotion systems in several of the U.S.' major competitors.[2]

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

[2]See Export Promotion: A Comparison of Programs in Five Industrialized Nations (GAO/GGD-92-97, June 22, 1992).

In May 1990 the President created an interagency Trade Promotion Coordinating Committee (TPCC) to "unify and streamline" the government's decentralized approach to trade promotion. TPCC is chaired by the Secretary of Commerce and includes senior-level representatives from 18 other federal agencies.

## FRAGMENTED EXPORT PROMOTION SYSTEM IS INEFFICIENT

Because the government lacks an overall strategy, its current approach to export promotion is fragmented and is characterized by funding imbalances and program inefficiencies. We believe TPCC does not have the authority to provide policy direction. Consequently, taxpayers have no assurances that in today's tight budget times they are getting the best return on their investment in export promotion.

One funding imbalance has occurred because most of the money available for export promotion has gone to a single agency--the Department of Agriculture. This agency accounts for most of the spending and nearly one-half of the export financing assistance even though agricultural products only constitute about 10 percent of U.S. exports. In fiscal year 1991, Agriculture spent about $2 billion on export promotion--about 74 percent of outlays--and approved about $5.7 billion in loans and loan guarantees--approximately 45 percent of total export loans and loan guarantees.

One Agriculture program alone, the Market Promotion Program (MPP), spent more money in fiscal year 1991--$200 million--than the entire Commerce Department did on export promotion. As we have previously reported,[3] since 1986 over $1 billion has been authorized for this program and its predecessor, the Targeted Export Assistance program. Over a third of the money spent under MPP is used to directly support the overseas marketing programs of profitable, established U.S. firms. In some cases these firms are large multinational companies with broad experience doing business in other countries.

The lack of a governmentwide strategy for export promotion helps perpetuate such funding imbalances. In the absence of a strategy that sets criteria for comparing the relative merits of export promotion programs in different agencies, these comparisons are not made. Instead, within an agency export promotion programs compete for funds with nonexport promotion programs, not with other agencies' export promotion programs. Thus, for example, the

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[3]Agricultural Trade: Improvements Needed in Management of Targeted Export Assistance Program (GAO/NSIAD-90-225, June 27, 1990), and U.S. Department of Agriculture: Management Issues Remain Unresolved in the Market Promotion Program (GAO/T-GGD-92-25, Mar. 25, 1992).

Agriculture Department's agricultural export promotion programs vie for funds not with other agencies' programs to promote non-agricultural exports, but with other Agriculture programs, such as rural electrification and plant and animal inspection programs.

In addition to experiencing funding imbalances, the existing federal export promotion system suffers from program inefficiencies on the operational level. For example, both the Commerce Department's U.S. and Foreign Commercial Service (US&FCS) and the Small Business Administration (SBA) maintain networks of field offices in the United States that specialize in providing export promotion assistance. US&FCS operates 47 district offices and SBA partially funds 21 international trade subcenters as part of its Small Business Development Center program. In some cases it appears that the two kinds of offices are attempting to serve the same client base.

Also, agencies' ability to provide exporters with access to federal export financing programs is limited. The Eximbank provides most of the federal government's support for export credit and insurance. Yet Eximbank has a limited ability to deliver its services because it has no field offices, except for a one-person office in Los Angeles.[4] US&FCS offices have no loan officers or other staff with authority to approve Eximbank or other federal agencies' export financing. SBA has several export financing programs, but its principal program, the Export Revolving Line of Credit program, has been little utilized.[5]

Overseas, the need for agencies to coordinate their export promotion efforts has assumed increased importance. With the end of the cold war, international program agencies are looking for new roles to play. Both the State Department and the Agency for International Development (AID) have begun to give export promotion a higher priority. Yet the US&FCS already maintains a network of 134 export promotion offices in 68 countries. In some important overseas markets, friction has developed over who is in charge of providing export promotion services to U.S. businesses, and it is not clear to what extent State and AID are coordinating their efforts with US&FCS.

In its efforts to improve coordination among agencies' export promotion programs, TPCC to date has achieved modest results. It has created a trade information center with a toll-free phone

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[4]For more on Eximbank programs, see The U.S. Export-Import Bank: The Bank Plays an Important Role in Promoting Exports (GAO/T-GGD-92-36, May 6, 1992).

[5]For more on the SBA's export promotion programs, see Export Promotion: Status of SBA Programs (GAO/T-NSIAD-92-3, Nov. 14, 1991).

number and an interagency calendar of upcoming federal government trade promotion events. However, TPCC has not yet addressed the central issue of how to unify and streamline the government's fragmented export promotion programs. Moreover, TPCC lacks clout: As we noted in our January 1992 report, it does not have permanent status and cannot establish priorities or reallocate resources among the numerous government agencies involved in export promotion.

In sum, before additional funding for export promotion is considered, we believe that much more might be accomplished if an effort were made governmentwide to allocate existing funds to where programs would yield the greatest return. In our January 1992 report, we suggested that Congress consider requiring that export promotion programs be integrated into a governmentwide strategic plan and funded in a manner consistent with that plan. We also recommended that the Secretary of Commerce, as chair of TPCC, work with other member agencies, including 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.

## CONGRESSIONAL PROPOSALS TO REFORM THE SYSTEM

A number of proposals have been advanced to reform the fragmented federal export promotion system. Some involve major reorganizations. For example, one idea is to create a Department of International Trade, comprised of most or all existing export promotion programs and organizations. Another proposal, S. 1721, would move the Eximbank into the Commerce Department and create a Bureau of Trade Development and Finance within Commerce comprised of the Eximbank and elements of Commerce's International Trade Administration. Other proposals are more modest, seeking to improve coordination between certain agencies or to improve individual programs. There is no simple formula for determining which of the new approaches would provide the largest increase in U.S. exports for the least cost.

We note, however, that two pending bills address the recommendations we made in our January 1992 report. One bill, S. 2864, would establish in law the TPCC, and require TPCC to (1) "develop and implement a governmentwide strategic plan for federal trade promotion efforts" and (2) report to Congress annually on progress made in implementing that plan. The senate bill S. 1721 would replace TPCC with a similar interagency committee.

The Export Development Administration Act of 1992, H.R. 5361, also requires the administration to devise a governmentwide plan for promoting exports and report annually to Congress on how well the plan is being implemented. In addition it creates an interagency committee to coordinate agencies' export promotion efforts. Also, H.R. 5361 proposes an innovative coordinating mechanism. The bill would create an interagency committee composed of representatives from the agencies currently represented on TPCC, minus the Labor and Interior Departments and the Environmental Protection Agency, plus six representatives from the private sector. This committee, the Export Development Administration (EDA), would have responsibility for both coordinating federal export promotion programs and for providing some export assistance directly to the public.

We support H.R. 5361's efforts to address some of the key issues in the debate over how to reform the fragmented government export promotion effort. We commend H.R. 5361 for, like S. 2864, requiring the administration to formulate a governmentwide strategic plan for its export promotion programs. We do have a minor point to make with respect to the difficulties of assessing the expected impact of export promotion expenditures on U.S. exports. We have found that quantifying the impact of export promotion programs is very difficult. Thus, it may be more appropriate for H.R. 5361 to require the administration to quantify program impact to the extent possible and evaluate ways better to measure impact.

In addition, we have some concerns over whether the proposed EDA could effectively carry out its mission. First, although the bill attempts to streamline the coordination and delivery of export promotion programs, we believe it may further complicate the situation by creating another layer of bureaucracy. The bill does not make clear whether the EDA's coordination and management oversight functions would replace or merely duplicate those of TPCC.

Moreover, it is not clear what the new network of field offices that H.R. 5361 would create would add to federal export promotion efforts. The bill would require EDA to establish an extensive field office network consisting of information clearinghouses both in the United States and abroad, as well as offices in all U.S. embassies. We question the need for additional export promotion field offices whose primary purposes are to refer people to other government offices. In our view, any new "one-stop-shop" field offices for export promotion should be able to provide companies with intensive counseling, detailed market information, and export financing assistance.

Second, we are concerned that giving EDA operational responsibilities would hinder its ability to carry out its coordination mission. Maintaining a farflung network of domestic and overseas offices that provide export assistance to the public requires considerable money and management attention. These resources could not be devoted simultaneously to unifying and streamlining government programs, or to setting priorities or budget requests.

Our third concern is that the EDA is not fully developed in H.R. 5361. H.R. 5361 does not lay out the full range of EDA's responsibilities and functions, and also does not enumerate the duties and responsibilities of its chair. More fundamentally, it is not clear to us how a committee composed of individuals from both the government and the private sector and chaired by a private citizen, can effectively provide management oversight to the fragmented federal export promotion apparatus. We believe that the Secretary of Commerce is a more appropriate choice as chair of an export promotion coordinating committee because the Commerce Department is the lead agency for export promotion and maintains by far the largest network of export promotion field offices.

Finally, it is not clear where EDA would get the funds it needs to operate. The amounts required could be quite large were EDA to establish and operate a substantial field office network. Even were EDA to focus solely on coordinating, it would require funds: The TPCC's annual budget is about $360,000.

In conclusion, we believe that the federal export promotion effort is organizationally fragmented and not guided by any overall strategy. Consequently, the existing system has funding imbalances and program inefficiencies. We believe a governmentwide strategy for export promotion is needed to maximize the return to the taxpayer on limited export promotion funds. We support H.R. 5361's efforts to require that such a strategy be formulated. However, it is not clear whether creating an Export Development Administration with both coordination and operational responsibilities is the best solution.

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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 |

Legend

*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, $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 (OPIC) 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 and $0.4 million for pre-investment programs, less $3.3 million in recoveries made on its insurance and guarantee 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. Borrowers are not required 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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