



Testimony

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International Trade Administration  
Export Promotion Activities

Statement of  
Allan I. Mendelowitz, Director  
Trade, Energy, and Finance Issues  
National Security and International Affairs Division

Before the  
Subcommittee on Commerce, Consumer, and Monetary  
Affairs  
Committee on Government Operations  
House of Representatives



Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the results of GAO reviews of International Trade Administration (ITA) export promotion activities. Much of our work in this area was prompted by this Subcommittee's active and long-standing interest in the export promotion activities of the U.S. government.

The United States, like all its major trade competitors, has a contingent of commercial officers in foreign countries to promote the export of U.S. goods and services. Prior to 1980, U.S. export promotion programs were developed by the Department of Commerce and carried out by State Department officers stationed in our embassies and consulates abroad. With the encouragement of the Congress, responsibility for overseas implementation was transferred to the Department of Commerce and resulted in the creation of the Foreign Commercial Service (FCS). This Subcommittee played a major role in the transfer, which was intended to revitalize the U.S. trade promotion program to help U.S. firms meet increasing competition in international markets.

In 1982, the FCS was merged with the ITA's domestic district offices to form the U.S. and Foreign Commercial Service (US&FCS). The foreign operation has about 151 commercial officers in 122 foreign posts in 64 countries. The officer corps is augmented by about 500 foreign service nationals (FSNs). Domestically, export

promotion services are delivered by trade specialists in 48 district offices and 19 branch offices. In 1988, US&FCS export promotion expenditures totaled \$80 million, \$40 million for foreign and \$20 million for domestic operations. The remainder was spent on Washington-based export promotion activities and ITA administrative matters.

With its worldwide network of export promotion specialists, the US&FCS is in a unique position to (1) collect and analyze strategic commercial trade and economic data, (2) facilitate specific trade transactions, and (3) carry out trade promotion events. Unfortunately, the aggressive role envisioned by the Congress for the US&FCS has not been realized. Our past work has identified major budget, operational, and management problems which have limited US&FCS effectiveness. However, we are encouraged by the renewed commitment to the US&FCS shown by the current administration.

Let me take a few moments to highlight the results of some of our past work.

#### BUDGET

Between 1984 and 1988, US&FCS funding was basically constant despite a 50-percent drop in the value of the dollar against major currencies, such as the German mark and Japanese yen, which substantially reduced US&FCS overseas purchasing power.

Many of the posts' expenses, such as FSN salaries, rents, travel, and utilities, have to be paid in local currencies. The dollars allocated to pay these expenses lost half of their purchasing power during that period.

Even though the dollar recovered about 25 percent of its purchasing power against major currencies by January of this year, export promotion activities are still constrained. These funding limitations have had the following consequences.

(1) A decline in the number of officers. Despite the increased globalization of markets and the increasing importance attached to export promotion by Congress, as highlighted in the Omnibus Trade and Competitiveness Act of 1988, the US&FCS--the front line for U.S. commercial interests overseas--has fewer officers at overseas posts than the Department of State had in 1980. In fiscal year 1989, the US&FCS had about 151 commercial officers assigned overseas, which is less than the 154 officers the State Department had at the time of the transfer. The officers are spread out among 122 posts in 64 countries, resulting in a number of one-officer posts and in posts staffed only with foreign service nationals.

The Japan External Trade Relations Organization (JETRO), the chief representative of Japan's overseas commercial interests, has about 71 officers in the U.S., who are supported by a staff of 73

American professionals. In contrast, the US&FCS has 10 commercial officers in Japan supported by 27 foreign service nationals.

(2) Loss of District Office Staff The District Offices have lost about 77 people over the last 4 years. The latest available information shows that district office staffing is down from 368 people in 1985 to about 291 people today.

(3) Cutbacks in some activities. Because of the loss of overseas purchasing power and increases in salary costs, funds formerly available for direct program support activities have been virtually eliminated. Posts need these funds to have a proactive export promotion program in which officers are actively making business contacts and developing trade leads. Commercial officers in some posts can't return business-related phone calls, some posts do not have funds to pay printing costs, while other posts can't buy marketing publications. In-country travel to develop trade leads or to make business contact is also restricted at some posts.

(4) Years of delay in fully implementing a comprehensive automated trade information data base. I will discuss this matter in more detail later.

Even in Japan, where trade expansion is a major U.S. policy objective, export promotion activities have been constrained. In

our February 21, 1989, examination<sup>1</sup> of these activities in Japan, we found that funding for direct program support, which includes travel, telephone, postage, and publications, decreased from about \$220,600 to about \$204,300 from 1985 to 1988. Using the 1985 yen/dollar exchange rate as a base, the purchasing power of FCS/Japan's 1988 program support budget was about \$101,000. The funding situation in Japan was so critical that in 1987, during the conclusion of major U.S.-Japan negotiations on market access issues, US&FCS participants on occasion paid for their own travel from Tokyo to Osaka and stayed with friends to avoid expense.

Contrast this with findings from our report comparing Japan's export promotion activities with ours. We spent \$4 million in Japan in fiscal year 1988--Japan spent \$14 million here. We have 37 positions in Japan. JETRO has 144 here.<sup>2</sup>

While it is rather easy to identify program cuts, it is much more difficult to identify the lost opportunities from these limited efforts. In Osaka, Japan, for example, which has an economy larger than South Korea and is the center of developments in superconductivity, ceramics, and aerospace, US&FCS has only two U.S. officers.

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<sup>1</sup>Export Promotion: U.S. Government Promotional Activities in Japan, (GAO/NSIAD-89-77BR), Feb. 21, 1989

<sup>2</sup>About half (73) of the staff are Americans.

A similar situation exists in Taiwan--our fifth largest trading partner. During the past 10 years, the volume of trade between the two sides has quadrupled, from \$9.7 billion in 1979 to over \$38 billion in 1988. The U.S. trade deficit with Taiwan during this period has grown from approximately \$2 billion in 1979 to \$19 billion in 1987 and \$16.7 (excluding purchases of U.S. gold) in 1988. Despite this growth, the staff of two officers remains unchanged from 1979.

According to the Department of Commerce, over the next several years Taiwan has planned over \$30 billion worth of major projects, \$6 billion of it expected to involve foreign equipment purchases. These projects include commercial building construction, pollution control modernization, and airport expansion. Recently, the post reported that it does not have the staff to adequately track these developments and to help U.S. firms pursue the contracts awarded for these major projects.

In the 1988 Omnibus Trade and Competitiveness Act, the Congress mandated that staffing at the American Institute of Taiwan, the U.S. representational office in Taiwan, be commensurate with the number of US&FCS personnel in South Korea. Under current staffing levels, this would require an increase of four commercial officers at the Institute. To date, we are not aware of any firm plans for increasing it.

In sum, it's easy to see how American businessmen can become frustrated when dealing with US&FCS staff who have difficulty traveling to important industrial regions, who can't return long-distance phone calls, and who have difficulties gathering key market intelligence in some of the largest and most important markets in the world.

In response to these difficulties, the Administration has requested a \$6-million increase for the US&FCS in its 1990 budget submission over the approximately \$84 million spent in fiscal year 1989.

#### PROBLEMS IN MANAGING TRADE EVENTS

The next area I would like to discuss is the management of ITA's trade events program. ITA uses a variety of trade promotion activities to market U.S. products overseas, such as trade fairs, trade missions, and trade seminars. As a result of major reorganizations in fiscal years 1980 and 1982, responsibility for trade promotion is divided between three ITA units--US&FCS, International Economic Policy, and Trade Development--that have different trade-related mandates. These reorganizations created a number of new assistant secretary-level positions and resulted in a compartmentalization of trade activities. The compartmentalization has contributed to (1) a lack of coordination on events requiring joint efforts (2) poor event selection,



marketing, and recruitment, and (3) a lack of accountability for either positive results or failures.

In our comprehensive review of Commerce's export promotion activities which was issued in January 1989,<sup>3</sup> we reported that the trade events program appeared to be in disarray. We found that more than 50 percent of scheduled trade promotion events were being cancelled--mainly because no one group in ITA was responsible or accountable for assuring that the necessary preparations were made. At some posts we surveyed, all scheduled events over a 2-year period had been cancelled.

We made a number of recommendations to address the problems we identified, including streamlining ITA to reduce the number of operating units and increase management accountability for program results. The current structure consists of an Under Secretary and Deputy Under Secretary, four Assistant Secretaries, and 23 Deputy Assistant Secretaries across four distinct organizations. In response to our recommendation that ITA be streamlined, agency officials promised to review these matters and make changes as needed.

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<sup>3</sup>Export Promotion: Problems in Commerce's Programs, (GAO/NSIAD-89-44) Jan. 26, 1989.

### PROGRAM EVALUATION NEEDED

There is little or no evaluation of the success of either individual trade events or overall program effectiveness. The US&FCS has the same lineup of trade promotion activities that the State Department had three decades ago. The same is true for resource allocation. While a few posts have been closed and a few new ones have been added, the overall post structure is basically the same as it was under the State Department. In our January 1989 report, we posed the question as to whether FCS should concentrate its limited resources on high potential markets or continue to operate much like a diplomatic agency with representatives in a large number of countries.

The US&FCS has established an internal audit group to monitor post operations; however, it is unclear whether its reviews currently meet the objectives outlined by this Subcommittee in its April 1984 report on US&FCS operations. We are currently reviewing the effectiveness of the US&FCS internal audit group. We are concerned that the reviews completed to date generally do not appear to focus on the "bottom line"--the effectiveness of the posts overall or individual trade programs--but on more narrow, administrative issues, such as posts' compliance with budgeting and fiscal procedures.

PROBLEMS WITH ITA'S COMMERCIAL  
INFORMATION MANAGEMENT SYSTEM

The last matter I would like to discuss is US&FCS' attempt to develop a computerized trade information database. The ITA considers the timely collection and delivery of commercial information essential to its usefulness and made three major attempts since 1978 to develop and implement an automated information data base. The effort to develop a comprehensive data base has not been successful because funding has not been available when needed and because of a questionable management commitment to the project.

The latest effort is known as the Commercial Information Management System (CIMS). Although about 83 of 169 overseas and domestic sites have some limited CIMS operational capacity, the system has been plagued by a host of hardware, software, and telecommunications problems. In addition, some of the information in the system is of limited quality and scope.<sup>4</sup> In the locations where CIMS has been installed, it is not used extensively because of the following problems.

-- Hardware deficiencies, such as insufficient storage capacity and slow operating speeds, particularly for site personal

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<sup>4</sup>See Export Promotion: Problems with Commerce's Worldwide Commercial Information Management System (GAO/NSIAD-89-162), Aug. 31, 1989.

computers and the central data base computer, limit the ability of staff to access CIMS files.

- Software design deficiencies make it difficult and time-consuming to manipulate and update the commercial information in the system; as a result, it is difficult, if not impossible, to provide customers with an immediate response to information requests.
  
- CIMS files are of limited quality and scope. Although program officials told us that the CIMS data base now contains client files--lists of foreign traders--for 37 countries, which represent approximately 80 percent of the U.S. export market, the quality of some of this information is questionable because files have not been consistently or systematically updated. For example, 95 percent of the 7,000 CIMS records in Tokyo have not been updated in 4 years. Although steps have been taken to update the market research data base, a second major component of the CIMS data base, it primarily consists of information on 10 high-technology industries. Some trade specialists we interviewed complained that the information provided is not sufficient to respond to the wide range of client requests; for example, the present market research covers high-technology industrial sectors, such as computer equipment and peripherals. Market research on such commodities as coal, lumber, apparel, and mining machinery is limited or non-existent. Program

officials acknowledged these limitations but said that limited resources require them to channel their efforts toward areas which have the greatest export potential.

In addition, it is questionable whether adequate field staff is in place to implement CIMS as it is currently designed. US&FCS field staff has declined since 1985, when the concept for CIMS, which is heavily dependent on field staff, was formulated. From 1985 to 1989, domestic office field staff levels were reduced from 368 to 291 positions while overseas staff positions fell from 696 to 647 positions.

These field staff reductions have been made as part of an Office of Management and Budget initiative to encouraging state governments to assume a greater role in export promotion and to help offset the increase in foreign post operating costs caused by the depreciation of the dollar, according to Commerce officials.

Currently, CIMS development is on hold pending the outcome of technical and strategic reviews of CIMS which we recommended in our January 26, 1989 report.

In conclusion, American industry has put into effect basic changes to improve efficiency and product quality and there are indeed many commendable examples of U.S. government support of exporters. However, as we have reported, there are significant problems in

Commerce's export promotion programs. The administration has its work cut out for it. However, I am encouraged by the seriousness with which ITA's new management team is attempting to address the problems we highlighted.

Mr. Chairman, this concludes my statement. I will be happy to respond to any questions you may have.