United States General Accounting Office

GAO

Report to the Chairman, Subcommittee on Economic Policy, Trade and Environment, Committee on Foreign Affairs, House of Representatives

May 1994

INTERNATIONAL TRADE

Competitors' Tied Aid Practices Affect U.S. Exports

GAO/GGD-94-81

15/397

GAO

United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-256439

May 25, 1994

The Honorable Sam Gejdenson
Chairman, Subcommittee on Economic Policy,
Trade and Environment
Committee on Foreign Affairs
House of Representatives

Dear Mr. Gejdenson:

As you requested, we reviewed the tied aid practices of the United States and its major competitors. "Tied aid" refers to foreign assistance that is linked to the purchase of exports from the country extending the assistance. Specifically, we examined (1) the amounts of tied aid provided by the United States and six of its competitors, given the most recent data;[1] (2) the types of tied aid programs of each country; (3) the potential impact on U.S. exports of U.S. competitors' tied aid practices; (4) the Organization for Economic Cooperation and Development's (OECD)[2] 1992 agreement on tied aid; and (5) the Trade Promotion Coordinating Committee's (TPCC)[3] new Tied Aid Capital Projects Fund.

Background

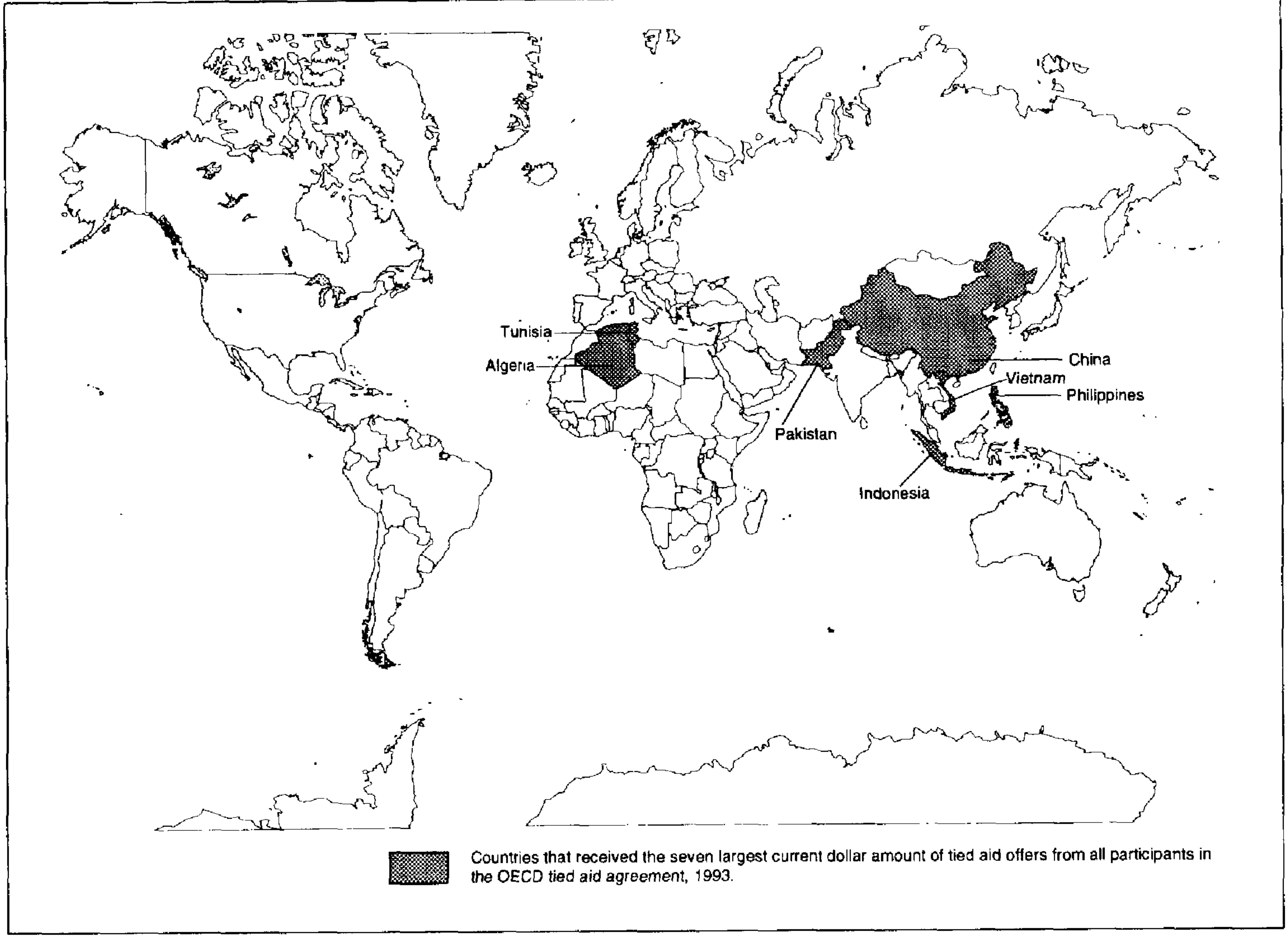
Our competitors' tied aid practices are of concern to U.S. policymakers because U.S. exporters can be put at a competitive disadvantage in bidding on overseas projects when competitor countries make tied aid available. Tied aid can consist of (1) foreign aid grants alone, (2) grants mixed with commercial financing or official export credits ("mixed credits"), or (3) concessional (low interest rate) loans. (See fig. I for the countries that received the largest nominal dollar amount of tied aid offers in 1993.)

[1]The six are Canada, France, Germany, Italy, Japan, and the United Kingdom. We reviewed data on tied aid commitments from 1987-90. The first year that tied aid commitment data were reported in the current format was 1987, and 1990 is the most recent year for which total commitment data were available.

[2]OECD is a forum for monitoring economic trends and coordinating economic policy among its 24 member countries, which include the economically developed, free-market democracies of North America, Western Europe, and the Pacific.

[3]The Trade Promotion Coordinating Committee is an interagency committee created by the President in 1990 to address the government's decentralized approach to export promotion.

Figure 1: Countries That Received the Seven Largest Current Dollar Amounts of Tied Aid Offers From All Participants in the OECD's 1992 Tied Aid Agreement, 1993



Source: U.S. Export-Import Bank.

U.S. policy has generally been to discourage—primarily through international negotiations within OECD—the use of trade-distorting tied aid by the United States or its competitors. When tied aid is offered, trade distortions may occur when contract awards are based on the availability of such subsidies, instead of on the price and quality of the goods or

151397

services being exported. A 1992 OECD agreement[4] strengthens previously established guidelines intended to minimize the trade distortions that can result from the use of tied aid. The agreement directs such aid toward projects that are not inherently "commercially viable" (i.e., able to support financing on market-related terms). Under the terms of the OECD's tied aid agreement, a participating member country planning to use tied aid must first notify OECD and other agreement participants. Other member countries may challenge the notifying country's tied aid offer if they believe it does not meet OECD guidelines.

The agreement also requires that participating members notify OECD of "untied" and "partially untied" aid offers, which member countries may also challenge if they believe such offers are actually tied. Untied aid consists of loans or grants that are freely and fully available to finance procurement from substantially all developing countries and from OECD countries. Partially untied aid consists of loans or grants that are, in effect, tied to procurement of goods and services from the donor country and from a restricted number of other countries, including substantially all developing countries.

Before 1973, a large proportion of U.S. bilateral[5] aid was aimed at capital (such as transportation, communications, and energy) projects. In 1973 however, the Foreign Assistance Act of 1961 (P.L. 87-194) was revised, and became the Foreign Assistance Act of 1973 (P.L. 93-189), reflecting a new U.S. policy on foreign assistance. The 1973 act directed that bilateral development aid should focus on the critical problems affecting the majority of the people in the developing countries: food production; rural development and nutrition; population planning and health; and education, public administration, and human resource development. One of the reasons for this policy change was that, unlike the U.S.' successful experience with the European-oriented Marshall Plan, 1948-51, capital projects in developing countries were observed to be wasteful unless skilled human resources existed to operate and maintain them.

The U.S. economic and political environment in which the foreign assistance policy of 1973 was made differed significantly from current conditions. For example, in the early 1970s, the United States did not face

[4]The 1992 OECD tied aid agreement is sometimes referred to as "the Helsinki package" and builds on previously established guidelines contained in the 1987 and 1990 versions of the "Arrangement on Guidelines for Officially Supported Export Credits."

[5]Foreign aid is generally categorized as either "bilateral" or "multilateral." Bilateral aid is provided directly from donors to recipient countries. Multilateral aid is funneled to recipient countries through international institutions such as the United Nations and the World Bank.

the trade deficits that now exist. Also, the end of the Cold War has raised questions for U.S. foreign aid policy in terms of its importance as an element of U.S. national security policy.

Results in Brief

The total tied aid commitments[6] of the seven countries we reviewed generally increased between 1987 and 1990, according to the most recently available data. However, tied aid averaged 45 percent of the seven countries' bilateral aid in both 1987 and 1990. As a percentage of bilateral aid averaged over 4 years (1987-90), Italy provided the highest share of tied aid (approximately 86 percent), Japan provided the lowest (approximately 15 percent), and the United States provided the second lowest (approximately 36 percent).

The U.S. Export-Import Bank (Eximbank) reports that the amounts of notifications[7] to OECD of tied aid have decreased in 1993, while the amounts of notifications of untied aid have increased significantly. In 1993, France provided the highest amount of tied aid offers ($1.2 billion), Italy provided the lowest ($42 million), and the United States provided the third highest ($900 million). Despite these trends, there is still a concern because some sources indicate that some so-called untied aid may be implicitly or actually tied.

A major difference between U.S. tied aid programs and those of the six other countries we reviewed is program focus. While most U.S. tied aid is devoted to programs geared toward "basic human needs" (education, health, and food aid), other countries' tied aid programs focus on capital projects. There are generally thought to be greater economic benefits to the donor country from tying aid to capital projects than to basic human needs programs because capital projects usually involve importation of large amounts of high-value-added goods. These projects may also form the basis for follow-on sales in later years. On average, for 1988-91, the U.S. competitors in our review provided between 45 percent and 91 percent of their tied aid for capital projects, while the United States provided approximately 17 percent of its tied aid for capital projects. Compared with many of its competitors, the United States does not have

[6]"Commitments" represent actual tied aid funds committed by a donor country to a particular project in a recipient country.

[7]"Notifications" represent tied aid offers reported to OECD, some of which never become commitments. Although notifications of offers are less precise than commitment data because they are reported in ranges, U.S. officials monitor notifications of offers primarily to determine if any offers constitute potential trade distortions. Notification data are available through 1993, but actual commitment data are available only through 1990.

the type of interagency integration or business-government cooperation that facilitates identifying capital projects for U.S. firms to bid on in the early stages of such projects.

To assess potential U.S. export losses due to competitors' tied aid practices, the Eximbank used a market share analysis that showed potential annual export losses to be about $500 million to $1.5 billion, based on 1984-87 data. Updating the Eximbank's market share analysis by using more current data, we estimated that potential U.S. export losses could be as high as $1.8 billion a year, assuming the projects in question would be undertaken without tied aid. However, some studies agree that the most important losses to the United States are in difficult-to-measure missed opportunities—that is, the failure of U.S. businesses to establish themselves in high-growth developing country markets.

The U.S.' policy has been to use the Eximbank's "war chest" (a fund for responding to other countries' tied aid practices) primarily to police the 1992 OECD tied aid agreement. The agreement does not attempt to eliminate tied aid, but to minimize the trade distortions that can arise from the use of tied aid. However, some business and U.S. government representatives have pointed out that there are limitations in the OECD's tied aid agreement, such as the presence of an "escape clause" that allows countries to proceed with a tied aid offer, despite objections by other participants, if that country claims that the project is in its national interest. In addition, there are no explicit enforcement mechanisms in the agreement, and data are not verified or confirmed. Further, even if a competitor's tied aid offer conforms to the agreement, the offer may still hurt U.S. economic interests. Future commitment data will be necessary to determine whether the Eximbank's use of the war chest and the 1992 OECD agreement have resulted in lower levels of tied aid.

Based on our review of U.S. and competitors' tied aid practices, we believe a credible U.S. policy to combat competitors' trade-distorting tied aid should include (1) sufficient funds to counter competitors' tied aid offers and (2) an active policy to assure U.S. firms that the U.S. government is willing to counter competitors' tied aid offers. The administration has made efforts toward meeting these criteria. In conjunction with the release of TPCC's September 1993 plan to guide federal export promotion programs, the administration proposed funding a new $150-million Tied Aid Capital Projects Fund to finance major capital projects overseas. Further, in February 1994, the Eximbank introduced a set of draft policies and procedures for using the new fund, signaling a more proactive approach toward countering competitors' tied aid offers.

Scope and Methodology

To determine the amounts of tied aid provided by the United States and six of its competitors, we reviewed OECD-published statistics on tied aid commitments (as well as data on partially untied and untied aid commitments) from 1987 to 1990. The most recent year for which OECD had complete tied aid commitment data was 1990. In addition, we reviewed OECD data on notifications of tied, partially untied, and untied aid offers for 1989-93, which we obtained from the Eximbank. Eximbank officials believed that we should focus more on notification data. Although notification data are more current, they are less precise because notification data are reported in ranges (instead of according to the specific value of the projects, as with commitment data). They also only represent tied aid offers and may never develop into actual commitments. We also reviewed studies and talked to U.S. agency officials about untied aid and informal aid-tying practices.

In reviewing the data, we looked specifically at trends over time, differences between countries, and the mix of tied versus untied aid. We conferred with OECD and Eximbank officials to ensure that we interpreted commitment and notification data correctly. Although problems exist with the consistency, timeliness, and accuracy of OECD data, they are the only available data on tied aid and are widely used for comparisons among countries and for looking at trends.

To understand the tied aid programs of the seven countries we looked at, we reviewed numerous studies and reports on the subject. In addition, we interviewed OECD officials, pertinent officials of foreign governments, officials of a large association representing U.S. exporters, and officials at the U.S. Department of Commerce and the three U.S. agencies involved with tied aid programs or policy—the Agency for International Development (AID), the Eximbank, and the U.S. Treasury Department.

To estimate the potential benefits of reduced tied aid activity by donor countries, we updated a market share analysis that the Eximbank performed for its 1989 report to Congress on tied aid.[8] The Eximbank study was based on 1984-87 data. For our estimate, we used OECD tied aid commitment data

[8] Report to the U.S. Congress on Tied Aid Credit Practices, the Export-Import Bank of the United States (Washington, D.C.: Apr. 1989).

for 1989-91[9] and United Nations (U.N.) trade data for regional/market shares. We replicated the Eximbank's methodology, based on interviews with Eximbank officials involved in the study (see app. I).

We reviewed the OECD tied aid agreement to determine its strengths and weaknesses. Further, we spoke to Eximbank and Treasury officials about the agreement and the U.S. response to the agreement. We also reviewed reports and journal articles on the agreement and spoke to U.S. exporters and representatives of U.S. trade groups to learn of their views on the agreement and the U.S. response to the agreement. In addition, we examined the Eximbank's use of the war chest.

To learn about the administration's plans for a new approach to tied aid, we reviewed TPCC and agency reports, including an Eximbank discussion draft on implementing the new Tied Aid Capital Projects Fund. We also discussed the new procedures for using the new fund with Eximbank officials.

We did not attempt to verify the conclusions contained in the reports and studies we examined. We discussed a draft of this report in an exit meeting with the Eximbank's Special Assistant to the Senior Vice President on February 24, 1994, and had follow-up discussions on March 2, and March 4, 1994. We also discussed the relevant contents of this report with program officials from the Eximbank and Treasury and made some technical changes based upon their review of a draft of this report.

We did our work between February 1993 and February 1994 in accordance with generally accepted government auditing standards.

The Amounts of Tied Aid Provided by the United States and Its Major Competitors

The aggregate tied aid commitments of the seven countries we reviewed increased approximately 71 percent between 1987 and 1990. The aggregate amount of tied aid provided by the countries we reviewed grew from $8.9 billion to $15.5 billion between 1987 and 1988, but remained fairly level in 1989 ($15.2 billion) and 1990 ($15.2 billion).

Table 1 shows the seven countries' reported tied, partially untied, and untied bilateral aid as a percent of their total bilateral aid for the years 1987 through 1990. Although the OECD data contain some inaccuracies, they are useful for making comparisons among countries and over time.

[9]Although OECD had not yet published commitment data for 1991, we were able to obtain from OECD 1991 commitment data for specific countries and sectors.

Table 1: The Tying Status of Seven Countries' Bilateral Aid, 1987-90

Countries	Tying status (percent of total bilateral aid) Tied[a]	Partially untied[b]	Untied[c]	Total bilateral aid[d] ($ in millions)
1987				
Canada	NA	NA	NA	NA
France	45%	4%	51%	$5,311
Germany	42	0	58	3,701
Italy	81	0	19	1,855
Japan	15	24	61	7,129
United Kingdom	76	0	24	1,078
United States	21	46	33	7,413
Average[e]	**34**	**20**	**46**	•
1988				
Canada	56	6	38	1,768
France	45	4	51	6,177
Germany	45	0	55	4,775
Italy	88	0	12	2,959
Japan	13	14	73	12,057
United Kingdom	83	0	17	1,610
United States	54	20	26	7,423
Average[e]	**42**	**10**	**48**	•
1989				
Canada	54	4	41	1,691
France	48	4	48	6,968
Germany	66	0	34	4,469
Italy	91	0	9	2,222
Japan	18	4	78	7,602
United Kingdom	76	0	24	1,659
United States	45	20	35	7,310
Average[e]	**47**	**7**	**46**	•
1990				
Canada	43	18	39	$1,628
France[f]	49	4	47	8,061
Germany	66	0	34	4,469
Italy	83	0	17	1,976
Japan[f]	15	3	82	10,024
United Kingdom[f]	NA	NA	NA	NA
United States[f]	23	8	69	19,872
Average[e]	**33**	**5**	**61**	•

(Table notes on next page)

Legend

NA = Not available
0 = Nil or negligible

Note: Bilateral aid commitments exclude administrative costs.

[a]Tied aid is defined as loans or grants that are either in effect tied to procurement of goods and services from the donor country or that are subject to procurement modalities implying limited geographic procurement eligibility

[b]Partially untied aid is defined as loans or grants that are in effect tied to procurement of goods and services from the donor country or from a restricted number of countries that must include substantially all developing countries.

[c]Untied aid is defined as loans or grants that are freely and fully available to finance procurement from substantially all developing countries and OECD countries. Funds provided to finance the recipient's local costs are also defined as untied.

[d]All the total amounts are reported by OECD in current U.S. dollars. However, OECD converted the statistics for other nations to U.S. dollars using only 1990 exchange rates. This conversion makes exact cross-country and cross-year comparisons problematic.

[e]Average is weighted by countries' shares of total bilateral aid.

[f]For 1990, untied aid data include forgiveness of nonaid debt.

Source: OECD.

Total Tied Aid Commitments Provided by the United States and Its Competitors Increased, 1987-90

Total commitments of bilateral tied aid funding from the seven countries we reviewed increased from approximately $8.9 billion in 1987 to approximately $15.2 billion in 1990.[10] Tied aid as an average percentage of the seven countries' bilateral aid ranged from 33 percent to 47 percent over the 4-year period. On average over the 4-year period, Italy provided the highest share of tied aid as a percentage of its bilateral aid—approximately 86 percent—and Japan provided the smallest share of tied aid as a percentage of its bilateral aid—approximately 15 percent. The United States tied about 32 percent of its bilateral aid on average for the period, the second lowest of the seven countries we reviewed.[11]

Total Tied Aid Offers Provided by the United States and Its Competitors Decreased in 1993

According to the Eximbank, 1993 notifications to OECD of tied aid offers decreased significantly, signaling a potential reduction in tied aid activity. In 1993, France provided the highest amount of tied aid offers ($1.2 billion), and Italy provided the lowest amount of tied aid offers

[10]Although there are some instances of multilateral tied aid, most tied aid is bilateral. Therefore, we deal only with bilateral tied aid in this report.

[11]Averages are weighted by countries' shares of total bilateral aid.

($42 million) of the seven countries we reviewed. The United States provided the third highest amount of such offers ($900 million). However, the overall decline in tied aid offers was accompanied by an increase in untied aid offers in 1993, and a number of sources are concerned that some so-called untied aid may be implicitly or actually tied.

Partially Untied Aid Given by Few Countries

For the period 1987 to 1990, the average percentage of partially untied aid for the seven countries we reviewed was relatively small (11 percent or less). Canada, France, Japan, and the United States were the only countries in our review that provided any partially untied aid. (See table 1.) Although the United States reports partially untied aid separately, as required by OECD, U.S. trade officials generally consider partially untied aid to be implicitly tied in most cases because developing countries cannot compete with large OECD countries in winning contracts.

Untied Aid Has Increased

Total untied bilateral aid commitments from the seven countries we reviewed increased sharply, from $12.3 billion in 1987 to $28.3 billion in 1990. For 1990, however, the majority of the untied aid reported by the United States, and some of the untied aid reported by other countries, was debt forgiveness.

A number of U.S. trade officials, exporters, and experts in the field have expressed concern that some of the untied aid being reported, particularly by the Japanese, could be implicitly or actually tied. These concerns are important because the decline in notifications of tied aid offers is accompanied by a substantial increase in notifications of untied aid offers, based on the Eximbank's review of notifications for 1993. OECD is currently studying how member countries report untied aid.

Studies indicate that there are ways that donor countries can implicitly tie their aid and still meet OECD criteria for untied aid. One way is through funding feasibility studies, which determine the technical, economic, and financial viability of a project. For example, the United States might fund a feasibility study on the premise that if a U.S. firm performs the feasibility study, other U.S. firms will be in a more competitive position to win design/engineering, and procurement and/or construction contracts, and thus generate U.S. exports.

However, while the United States performs feasibility studies through the Trade and Development Agency (TDA), the TDA's budget is limited to

$40 million, compared with the Japanese budget of $200 million for feasibility studies.[12] Various reports allege that the close relationship between Japanese consulting and construction firms, and the Japanese consulting firms' natural familiarity with Japanese standards and products, lead the consulting firms performing feasibility studies to favor the selection of Japanese products and construction firms. One such study indicates that bidding for feasibility studies funded by Japanese bilateral aid is virtually "closed" to non-Japanese firms.[13] According to the study, only one non-Japanese firm, a U.S. consulting firm, was allowed to subcontract with a Japanese consulting firm in 1991 to prepare a feasibility study. The study suggests that even though Japan may report its aid as untied because the construction part of the project is untied, the feasibility study, or design phase, is often tied. Thus, the entire project may be implicitly tied.

Another way that aid can be implicitly tied—and of greater concern to some U.S. officials than feasibility studies—is through joint ventures between contractors from a developing country and a donor country. For example, while a donor country may report a project as officially untied because a developing country's contractor was awarded the contract, the developing country's contractor could have a joint venture with a contractor in the donor country. Often the contractor from the donor country is the controlling partner of the joint venture and will subsequently benefit through increased exports.

Some studies point out that geographical proximity or historical ties between a donor country and a recipient country may also lead to informal tying. Japan provides most of its aid to Asian countries, while some European donors direct much of their aid to their former colonies in Africa.[14] For example, approximately half of Japan's untied aid in 1993 was offered to four Asian countries: China, India,Indonesia, and Vietnam. In turn, the recipient countries may be more likely to choose contractors from donor countries with which they have some type of historical or geographical relationship.

It is difficult to determine the degree to which implicit tying occurs and to measure the actual extent of its effects. Some studies examining Japan's tied aid practices suggest a high degree of implicitly tied aid. However, a

[12]Although the amounts spent on feasibility studies are relatively small, such studies can lead to contracts for follow-on work, such as architectural and engineering design, project management during the construction phase, or work on unrelated projects.

[13]Margee Ensign, Doing Good or Doing Well?, (New York: Columbia University Press, 1992).

[14]There is relatively little trade-distorting European aid for capital projects in subsaharan Africa.

recent U.S. State Department study of Japanese foreign aid concluded that evidence of Japan implicitly tying its aid is "incomplete and often purely anecdotal."[15] We have not attempted to verify the results of any of the studies we reviewed. U.S. officials told us that several U.S. firms have made significant progress in obtaining early information on projects funded by the government of Japan and that these same firms have lobbied U.S. officials to "press the aid-recipient governments to award procurement to U.S. firms."

Tied Aid Programs Differ Among Donor Countries

There are some major differences among the tied aid programs of the countries we reviewed, including differences in program focus and structure—the degree of trade and aid financing integration and the amount of cooperation between business and government. Often, these differences in countries' tied aid programs stem from philosophical differences in their approaches to development assistance.

Compared with many of its competitors, the United States does not have very strong integration of agency functions or business-government cooperation. Such integration and cooperation help many competitor countries identify opportunities for its businesses to bid on capital projects in the early stages. Our October 1993 report on TDA stated that most of the U.S.' competitors use a more integrated organizational approach to enhance the commercial benefits derived from their projects.[16]

Program Focus: Capital Projects Versus Basic Human Needs

Many of the U.S.' major competitors focus their tied aid programs on capital-intensive infrastructure projects, particularly in such sectors as transportation, communications, and energy. In fact, the U.S.' competitors in our review provided between 45 percent and 91 percent of their tied aid for capital projects, on average, for 1988-91, whereas the United States provided about 17 percent of its tied aid for capital projects (see table 2). Studies suggest that there are greater economic benefits to the donor country from tying aid to capital projects than to "basic human needs programs" because capital projects typically require importation of large amounts of high-value-added goods such as energy generation and telecommunications equipment. Further, these projects can result in

[15] Japan's Foreign Aid: Program Trends and U.S. Business Opportunities, U.S. Department of State (Washington, D.C.: 1993).

[16] See U.S. Trade and Development Agency: Limitations Exist in its Ability to Help Generate U.S. Exports (GAO/GGD-94-9, Oct. 20, 1993).

additional sales of maintenance and replacement parts, and market entry opportunities, in the recipient country. Some countries view a focus on capital projects as a legitimate form of development assistance.

Table 2: Seven Countries' Percentages of Tied Aid Commitments for Capital Project Sectors, 1988-91

Donor country	Tied aid commitments (4-year average)
Canada	45%
France	73
Germany	91
Italy	60
Japan	76
United Kingdom	78
United States	17

Note: Unspecified tied aid commitments for commodities and capital goods are included in this percentage.

Source: OECD.

U.S. tied aid is primarily focused on non-project-oriented programs geared toward "basic human needs" such as education, health, and food aid. This type of tied aid is funded primarily by AID. From 1961 to the early 1970s, AID devoted a significant portion of its resources to capital projects. In the early 1970s, however, AID's focus was shifted from "capital-goods-intensive infrastructure" projects to basic human needs programs. The 1973 revision of the 1961 Foreign Assistance Act required AID to focus its resources on smaller-scale projects such as agriculture production and improved health/education programs. However, the U.S.' major competitors continued to fund telecommunications, energy, and transportation projects in the developing world, a practice that many foreign governments consider a reasonable method by which to support economic development.

Increasingly, AID is also funding various technical assistance programs (consulting services), with the funds "tied" to U.S. services. U.S. officials pointed out that while capital project aid would support a broad base of U.S. manufacturing industries, basic human needs aid and technical assistance aid primarily support private voluntary organizations and consultants.

Program Structure: Integration of Aid and Export Financing

Most U.S. competitors integrate their aid and export financing programs to a greater extent than does the United States. For example, France—widely recognized as the originator of mixed credits—lacks a clear demarcation between the domains of aid and export finance. Of the seven countries we reviewed, only Japan and the United States did not greatly involve the export financing arms of their governments with the tied aid provided by their respective development ministries or agencies.

Some U.S. Competitors Have Stronger Business-Government Cooperation in Initiating Capital Projects

In some of the countries we reviewed, stronger business-government cooperation exists than in the United States, particularly when it comes to setting up capital projects for economic development. Japan's administrative practices relating to launching capital projects serve as an example. All Japanese aid in the form of capital projects must be requested by the recipient country. Japan has a relatively limited field presence in developing countries. However, it has had a steadily growing budget for development assistance. This circumstance encourages the Japanese government to rely on the Japanese private sector to identify potential capital aid projects. The private sector knows what type of projects will be acceptable to the aid bureaucracy in Japan and may influence a recipient's request for Japanese development assistance. Japanese consulting companies have strong ties and networks in the developing countries, and studies suggest they are often dependent on aid-related projects for much of their business. For example, one of Japan's largest consulting companies depends on Japanese government aid for about 30 percent of its business, according to one study on Japan's aid practices.[17] Similarly, French capital projects are mainly identified by private French firms that go into a country, target a potential project, and then lobby the recipient's government to formally request funding from the French government.

In contrast, the U.S. government maintains a large field presence (primarily AID staff) to manage various basic human needs and technical assistance projects. However, according to U.S. officials, the function of the staff does not include the initiation of development projects involving the commercial participation of U.S. capital goods exporters.

[17] Doing Good or Doing Well?

Impact on U.S. Exports of Competitors' Tied Aid Practices Hard to Isolate

It is difficult to isolate the effect of other countries' tied aid practices on U.S. exports, partially because of the difficulty of determining whether exports associated with tied aid would have occurred even without the presence of tied aid. Nonetheless, there have been attempts to estimate the impact of other countries' tied aid practices on U.S. exports.

The most frequently cited estimate of the effects of competitors' tied aid practices on U.S. exports comes from a 1989 Eximbank report to Congress on tied aid.[18] The Eximbank report (based on 1984-87 data) stated that "the U.S. may be experiencing perhaps $400 million to $800 million a year in lost sales because of tied aid credits." The estimate was calculated on the basis of an Eximbank survey of exporters in five industry sectors.[19] However, in the same study, the Eximbank also performed a market share analysis, using historical market share ratios to calculate what the level of U.S. exports might have been in the absence of competitors' tied aid practices. The Eximbank then compared that figure with the actual level of U.S. exports supported by U.S. tied aid. Based on its market share analysis, the Eximbank reported that "potentially lost U.S. exports" are between $500 million and $1.5 billion a year (based on averages of 1984 to 1987 data on total tied aid activity, U.S. tied aid, and regional/market share information).

We updated the Eximbank market share analysis, using the Eximbank's methodology and 1989-91 OECD data on tied aid activity and current market share ratios. We made two major assumptions in conducting this analysis. First, we assumed that recipient nations would have bought the same amount of capital goods with or without tied aid. This assumption means that some other source of financing would have replaced the tied aid; such sources could include untied aid or commercial financing. We also assumed that U.S. companies would have maintained their traditional market share in supplying capital goods to these nations. (See app. I for more information on the market share analysis.) We found that "potentially lost U.S. exports" could be as high as $1.8 billion per year.

However, some studies have pointed out that the greatest impact on the United States of competitors' tied aid practices involves losses in potential long-term opportunities that result from inaccessibility of U.S. businesses to certain overseas markets. Tied aid capital projects tend to be in technology-intensive, competitive industries. By not participating in these

[18] Report to the U.S. Congress on Tied Aid Credit Practices, the Export-Import Bank of the United States (Washington, D.C.: Apr. 1989).

[19] These sectors were telecommunications, computers, electric power generating, rail transportation, and earthmoving equipment.

capital projects (especially telecommunications and energy projects), the United States may be missing opportunities to establish itself in high-growth, developing country markets where it would not only gain experience in doing business in these environments but also would introduce U.S.-drawn engineering specifications and U.S. technology standards to the recipient countries. Also, there are potential losses in related exports such as maintenance equipment and replacement parts required for upkeep after the project has been completed.

The OECD Agreement and the U.S. Response

U.S. trade policy has generally been opposed to trade-distorting tied aid. Through international negotiations, the United States has sought to dissuade its competitors from using such aid. The 1992 tied aid agreement among 22 of the 24 members of the OECD[20] strengthened previous guidelines that established minimum concessionality levels (the percentage of financing that is a grant or grant equivalent) of 50 percent for least-developed countries and 35 percent for other countries eligible for tied aid. The new OECD tied aid rules generally

- prohibit the use of tied aid for projects in countries whose per capita income would make them ineligible for 17- or 20-year loans from the World Bank;[21]
- restrict the use of tied aid for commercially viable projects—such aid may only be extended to projects that are either unable to generate cash flow sufficient to cover the project's operating and capital costs or cannot be financed by the private market or official export credits; and
- do not apply the above limitations for projects in least-developed countries.[22]

The agreement does not attempt to eliminate tied aid, but to minimize the trade distortions that can arise from the use of tied aid. The rules apply to all tied aid with a concessionality level below 80 percent and a value of special drawing rights (SDR)[23] of 2 million or larger.

The new OECD tied aid rules are also meant to increase transparency about tied aid use by strengthening notification and consultation procedures.

[20]Although members of OECD, Iceland and Turkey have not signed the OECD's tied aid agreement.

[21]Examples of countries in this category are Argentina and Kuwait.

[22]Examples of least-developed countries are Afghanistan and Bangladesh.

[23]An SDR is an official international monetary reserve asset created by the International Monetary Fund. One SDR currently is equal to about $1.39.

Under the agreement, a participating member country planning to use tied aid must notify OECD and other agreement participants. Other member countries may challenge the notifying country's tied aid offer if they believe it does not meet the new OECD guidelines.[24] Once challenged, the initiating country must justify to the member countries opposing the offer the use of tied aid on developmental grounds and show how the project does not meet the "commercial viability" test. A project is considered commercially viable if it is able to generate cash flow sufficient to cover the project's operating and capital costs or if it can be financed by the private market or official export credits. If other member countries are not satisfied with the justification, the offer may fail to win the substantial support of the member countries opposing the offer, in which case the donor country may withdraw the offer. The donor country can, however, still decide to go forward with its offer, if it provides a "derogation letter" to the OECD Secretary-General, citing non-trade-related national interest reasons for opting not to follow the OECD tied aid rules.[25] At any point in the consultation process, other countries may make a matching tied aid offer.

In 1992, there were 824 notifications to OECD of tied aid credit offers, totaling approximately $15.4 billion, although most were either "excludable"[26] or exempt from the consultation process because of grandfathering.[27] The United States or other countries requested formal consultations on 41 of the 137 offers that were subject to the consultation process, primarily on the grounds of "commercial viability." Of 16 cases deemed commercially viable, the donor governments decided not to go forward with 9, and there were 7 derogations (i.e., the donor governments have proceeded with their offers). During 1993, there were two additional derogations.

[24]All participants in the OECD's tied aid agreement have access to the notification data. Treasury and Eximbank officials monitor tied aid notifications to determine whether other OECD members are abiding by the agreement.

[25]"Derogations" are cases in which the countries making the tied aid offers have proceeded with their offers, despite a decision by OECD agreement participants that the offers do not conform to the rules of the agreement. Derogations are permissible under the OECD tied aid rules, but a derogating country must first submit to OECD a letter indicating a non-trade-related national interest reason for the derogation.

[26]Offers are excludable if they have a concessionality level of 80 percent or more or are under SDR 2 million, constitute matches of other tied aid offers, are directed toward least developed countries, or are for ships.

[27]"Grandfathering" refers to a provision included in a new rule that exempts from the rule a person or business already engaged in the activity coming under regulation.

According to Eximbank officials, the United States has successfully challenged tied aid offers for equipment for manufacturing plants, electric power generation, urban and interurban telecommunications systems, freight rail systems, and air traffic control systems. On the other hand, the United States has not been successful in challenging tied aid offers for projects involving urban subway systems, interurban passenger rail systems, and telecommunications equipment for low-density areas.

Although previous OECD agreements did little to reduce the use of tied aid, some U.S. officials believe that the new agreement has been more effective. As evidence, the Eximbank cites the fact that notifications to OECD of tied aid offers decreased significantly in 1993. Total tied aid notifications for 1993 were $7 billion, compared with $15.4 billion in 1992. According to the Eximbank, the decrease in tied aid offers is due to (1) the impact of the 1992 OECD tied aid rules, (2) the presence of budgetary constraints in the donor countries, and (3) the shift from tied to untied aid.[28] Notifications to OECD of untied aid offers have increased dramatically since the new tied aid rules went into effect, and there are concerns that one or two countries are simply reporting tied aid as untied aid to circumvent the rules. U.S. officials said they are closely monitoring untied aid notifications, and OECD is reviewing how member countries report their untied aid.

In 1986, Congress authorized the Eximbank to create a "war chest" fund to counter the use of tied aid by other countries. (See table 3 for appropriated and actual Eximbank war chest expenditures, fiscal years 1987-93, and table 4 for information on individual war chest transactions, fiscal years 1987-93.) Since the new tied aid rules went into effect in February 1992, Eximbank policy has been to use its war chest only to police the agreement by reacting selectively against other countries' offers in cases where tied aid should not be used—particularly where consultations have not resulted in the withdrawal of a tied aid offer that has been considered inconsistent with the OECD agreement.

Since the implementation of the new tied aid rules in February 1992, there have been nine derogations from the tied aid rules. Of the nine derogations, the Eximbank made only one matching offer because it was the only one where a U.S. firm was bidding on the project. According to one U.S. official, the reason there were no U.S. firms competing for the other eight contracts was that most of the projects were developed by donor

[28]See the Eximbank's Report to the Congress Under Section 15(g) of the Export-Import Bank Act of 1945, as Amended (Washington, D.C.: Dec. 9, 1993).

governments' aid agencies working with the recipient government, so there usually was no international bidding for the projects. Eximbank officials said that most of the projects for which there were derogations were projects that the recipient country would not have undertaken if the donor country had not provided concessionary financing.

Table 3: The Eximbank's War Chest Appropriated and Actual Expenditures, Fiscal Years 1987-93

Dollars in millions

Eximbank	Fiscal year						
War chest funding	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**
Appropriated	$100.0	$110.0	$110.0	$110.0	$150.0	$197.0	$200.0[a]
Committed	78.1	7.6	0.0	53.4	145.5	5.1	26.7

[a]A Congressional Continuing Resolution reduced initial appropriation of $200 million by 1.5 percent.

Source: Eximbank.

Table 4: The Eximbank's War Chest Transactions, Fiscal Years 1987-93

Dollars in millions

Country	Project	Export value	War chest grant amount
Fiscal year 1987			
Gabon	Earth satellite station	$21.2	$5.3
Gabon	Cellular phone system	8.5	2.1
Brazil	Hospital equipment	35.0	8.7
Brazil	Airport navigation equipment	52.6	13.2
India	Gas turbines	27.0	8.8
Thailand	Capital equipment	100.0	40.0
Subtotal fiscal year 1987		**$244.3**	**$78.1**
Fiscal year 1988			
Jordan	Power equipment	$18.3	$5.5
Algeria	Telecommunications	16.0	2.1
Subtotal fiscal year 1988		**$34.3**	**$7.6**
Fiscal year 1989			
	No transactions authorized	NA	NA
Fiscal year 1990			
China	Shanghai Metro project	$23.3	$10.4
Uruguay	Power project	55.2	19.3

(continued)

Dollars in millions

Country	Project	Export value	War chest grant amount
Morocco	Air traffic control	24.7	9.9
Philippines	Tied aid line	125.0	13.8[a]
Subtotal fiscal year 1990		**$228.2**	**$53.4**
Fiscal year 1991			
Indonesia	Tied aid line	$127.7	$56.2
Thailand	Tied aid line	127.7	43.7
Pakistan	Tied aid line	135.0	[b]
Papua New Guinea	Satellite earth station	3.1	1.1
Papua New Guinea	Satellite system	13.5	4.7
Indonesia	Telecommunications equipment	60.0	17.0[c]
Mauritius	Construction equipment	5.0	1.8
Pakistan	Digital switches	45.0	15.8
Pakistan	Satellite system	15.0	5.2
Subtotal fiscal year 1991		**$532.0**	**$145.5**
Fiscal year 1992			
Tunisia	Air traffic control	$12.3	$5.1
Fiscal year 1993			
India	Air traffic control	$60.6	$26.7
Total		**$1,111.7**	**$316.4**

Legend

NA = Not Available

Note: A "tied aid line" is a line of credit extended to a country to be used for several related projects.

[a] AID is providing $30 million in grants.

[b] AID is providing $46 million in grants.

[c] AID is providing $12 million in grants.

Source: Eximbank.

Limitations in the OECD Agreement

U.S. exporters, Members of Congress, and others have expressed doubts about the effectiveness of the U.S. policy of using the war chest only to "police" the OECD agreement. They note that the OECD tied aid agreement has some built-in limitations. These limitations include (1) the difficulty of defining "commercially viable"; and (2) the presence of an "escape clause" that allows countries to proceed with a tied aid offer, despite objections by other participants, if that country claims that the project is in its national interest. (As previously stated, there have been nine derogations since the agreement went into effect.) Also, as with many international agreements, the OECD's tied aid agreement contains no explicit enforcement mechanism. Enforcement depends on the willingness of individual governments to counter violating tied aid offers. In addition, the effectiveness of the agreement depends on the accuracy and openness of tied aid offers reported to OECD, and OECD does not confirm or verify the data provided by member countries. However, offers may be reviewed during the consultation process by those countries that have participated in the agreement.

As we noted in our testimony on November 3, 1993,[29] even if a competitor's tied aid offer conforms to the rules of the agreement, the offer may still limit opportunities for U.S. exporters. For example, the agreement allows very long-term financing for a wide variety of capital goods, such as for large, capital-intensive projects (railways or subway systems) with long-lived capital justifying longer-than-OECD arrangement terms.[30] Depending on the ruling of the member countries opposing the offer, the agreement may also allow tied aid for parts of larger projects (such as power transformers or telephone switching equipment) for which capital costs are easy to calculate but revenue allocation is often difficult to estimate. U.S. officials told us that the U.S. government challenges all power and telecommunications projects.

Another weakness in the agreement is that aid programs administered by the European Union (formerly referred to as the Economic Community) are not subject to the agreement's tied aid rules. Although individual members of the European Union are required to report bilateral tied aid to OECD and are subject to its tied aid rules, the agreement specifically excludes "aid programs of multilateral or regional institutions." Thus, tied aid offered by the European Union itself is considered by the European Union to be—and reported to OECD as—multilateral aid and cannot officially be challenged within the consultation process. Some U.S. officials have suggested that European Union members might be using

[29]See Export Finance: Challenges Facing the U.S. Export-Import Bank (GAO/T-GGD-94-46, Nov. 3, 1993).

[30]The OECD agreement includes guidelines for maximum repayment terms based on the category ("relatively rich," "intermediate," or "relatively poor") of the recipient country.

their multilateral European Union tied aid instead of bilateral tied aid to circumvent the rules of the agreement. The Eximbank has recently provided tied aid funds to match a European Union tied aid offer that is permissible under the rules of the agreement. Further, OECD members are considering whether European Union tied aid should be subject to tied aid rules.

The New Tied Aid Capital Projects Fund

Generally, the Eximbank has not been very active in using its war chest. According to one official, the mechanism for war chest use has been "demand driven"—the Eximbank generally only responded to requests from U.S. exporters and has not routinely sought out U.S. exporters with whom to match tied aid offers from other countries that did not comply with the agreement. However, under a newly proposed Tied Aid Capital Projects Fund, the Eximbank is planning to take a much more proactive stance in providing tied aid funds. Further, Eximbank officials stated that they are more actively tracking U.S. exporters' requests for the use of tied aid funds and checking exporters' reports of suspected tied aid use by competitors.

In the Export Enhancement Act of 1992 (P.L.102-429), Congress charged the interagency TPCC with developing a governmentwide strategy to guide federal export promotion programs that were fragmented among at least 10 agencies. The act intended to set into motion a process, including an annual reporting requirement, through which the administration, working with Congress, can establish priorities for guiding export promotion efforts, reshape its programs to reflect those priorities, and marshal federal resources to fund them. In September 1993, TPCC issued its first annual plan, "Toward a National Export Strategy." The Eximbank and its Chairman were actively involved in developing the TPCC plan.

In response to concerns about competitors' tied aid use, and in conjunction with the TPCC plan, in September 1993, the administration proposed funding a new $150-million Tied Aid Capital Projects Fund (available in fiscal year 1995) to finance capital projects overseas. The $150 million represents the subsidy component of the fund, which is estimated to potentially support (under credit reform)[31] $600 million in U.S. exports. The stated purpose of the Tied Aid Capital Projects Fund is to combat other countries' use of tied aid. The Eximbank has been given the task of administering the fund, $50 million of which will come from the Eximbank's war chest, with the remaining $100 million coming from "proportional contributions" from the export promotion budgets of other

[31]Under the Federal Credit Reform Act of 1990, the estimated total future costs of the Eximbank's annual transactions must be accounted for when the transactions are made, and these costs are limited by the total amount appropriated for that activity.

agencies that are members of TPCC. In addition, the Eximbank has $121 million in "carryover" from prior years' war chest budgets that can be used in any year.

The new fund constitutes a significant increase over funds available for tied aid in previous years. However, the total amount is still relatively small compared with funds devoted to counter foreign countries' agricultural export subsidies ($532 million proposed for fiscal year 1995). As we pointed out in previous reports, including a December 1992 report on export finance,[32] in fiscal year 1991, the Department of Agriculture issued approximately 45 percent of total government export loans and loan guarantees, even though agricultural products only constituted about 10 percent of total U.S. exports. Further, the amount of the new fund ($150 million, which is estimated to potentially support $600 million in U.S. exports) is not sufficient to counter our estimate of up to $1.8 billion in potential U.S. export losses per year, resulting from competitors' tied aid practices. In order to counter other countries' tied aid of $1.8 billion, the United States would have to provide a subsidy equaling $450 million.

On February 4, 1994, the Eximbank began distributing a "discussion draft" of policies and procedures for the new Tied Aid Capital Projects Fund. The draft contains the four principles—or criteria—governing use of the new fund, procedures for making conditional offers (using a "letter of interest"),[33] and information on loan structure and pricing. The draft resulted from interagency consultation among members of TPCC and will be distributed to U.S. exporters to obtain their comments.

The draft signals the beginning of a change in U.S. policy on the use of tied aid—assuring U.S. firms that the U.S. government is willing to take a much more proactive approach to combat tied aid use by competitors. Generally, the procedures that the Eximbank is planning to implement would permit the new fund to be used to counter competitors' tied aid offers that are permissible under the OECD agreement, instead of only matching tied aid offers that are violations of the agreement. Further, the new fund could also be used to counter competitors' offers that are not reported as part of the OECD's notification process, as long as certain criteria are met.

[32] See Export Finance: The Role of the U.S. Export-Import Bank (GAO/GGD-93-39, Dec. 23, 1992).

[33] The Eximbank's tied aid letter of interest would indicate that the availability and timing of the Eximbank's preliminary commitment is conditioned on the foreign tied aid credit's formal notification to OECD and its clearance through the OECD's challenge and consultations process.

According to the draft, each Eximbank use of the Tied Aid Capital Projects Fund should satisfy the following criteria:[34]

(1) It should counter a foreign aid donor's use of trade-distorting tied aid credits, when such financing is confronted by a U.S. exporter;

(2) It should uphold OECD rules on trade-related aid and contribute to a climate supportive of reducing trade-distorting tied aid;

(3) It should support sales that combine substantial follow-on market penetration with strong international competitive advantages; and

(4) It should refrain from supporting projects that are developmentally or environmentally unsound.

In addition, the Eximbank's new letter of interest will permit a U.S. exporter to compete for projects as soon as a competitor is strongly suspected of offering trade-distorting tied aid. The letter of interest should provide U.S. exporters with greater assurance that the Eximbank is willing to aggressively match competitors' use of trade-distorting tied aid. Previously, exporters had to wait until the notification and consultation processes had been completed and a derogation occurred, which was often too late for a U.S. firm to bid on a project.

The Eximbank plans to charge a fee for accessing the fund that would range from 5.25 percent to 11.81 percent of the loan value, depending on the market. According to the Eximbank, the fee will serve to "self-regulate" applications to the fund. Eximbank officials believe that by charging fees, they are encouraging exporters, whose export sales promise substantial follow-on market penetration and offer international competitive advantages, to apply to the fund.

Conclusions

The U.S.' tied aid strategy has had some success—U.S. officials have negotiated to establish successively stronger international agreements to restrict trade-distorting tied aid. However, it remains difficult to identify tied aid capital projects early enough for U.S. firms to bid on them. In addition, the Eximbank's past policy of using the war chest primarily to police the most recent OECD agreement meant that many U.S. firms could not access tied aid funds to combat competitors' use of tied aid.

[34]The Eximbank will not require that all criteria be met in matching derogations from the OECD's agreement.

Based on the results of our review, we believe that a credible U.S. policy to combat competitors' trade-distorting tied aid practices should include (1) assurances by U.S. government agencies that the U.S. government has an active policy to counter competitors' tied aid offers and (2) sufficient funds to counter competitors' tied aid offers. Once these two factors are in place, U.S. firms may be more likely to compete for capital projects early on.

We recognize that TPCC has made progress toward making the U.S. tied aid policy more credible. The TPCC's new policy suggests that U.S. exporters will be able to access tied aid funds for matching competitors' tied aid offers much more readily, and for a broader range of situations than before. Also, with the introduction of the new Tied Aid Capital Projects Fund, TPCC has increased the amount of tied aid funds available to support U.S. exporters. However, it is still not sufficient to counter the amount of potential U.S. export losses (as high as $1.8 billion) that we estimated in the market share analysis. The amount earmarked for the new fund is also relatively small compared with the amount of funds provided to combat foreign agricultural export subsidies.

Further, some U.S. government officials and U.S. exporters are concerned about whether export promotion agencies are identifying capital projects early enough for U.S. exporters to have an opportunity to bid successfully on them, particularly since AID (unlike many competitors' aid agencies) has little involvement in capital projects. Also, compared with most of its competitors, the United States does not have very strong integration of agency functions or business-government cooperation. Such integration and cooperation help many competitor countries identify opportunities for their businesses to bid on capital projects in the early stages.

Recommendation

In order to provide greater assurance to U.S. exporters that the U.S. government is serious about combating foreign competitors' tied aid practices, we recommend that the Secretary of Commerce, as Chair of TPCC, work with other member agencies to ensure that the budget for the Tied Aid Capital Projects Fund is sufficient to counter competitors' trade-distorting tied aid offers when U.S. economic interests are adversely affected.

Agency Comments

On February 24, 1994, and on March 2 and 4, 1994, we discussed the contents of this report with the Eximbank's Special Assistant to the Senior

Vice President. Although he believed that the report should focus more on the Eximbank's plans for implementing the new Tied Aid Capital Projects Fund, he agreed with the report's recommendation. The Eximbank and the Treasury made some technical comments that we incorporated into the report where appropriate.

We are sending copies of this report to the Chairman of the Subcommittee on International Economic Policy, Trade, Oceans and Environment, Senate Committee on Foreign Relations; the Chairman of the Subcommittee on International Development, Finance, Trade and Monetary Policy, House Committee on Banking, Finance and Urban Affairs; and the Chairman of the Subcommittee on International Finance and Monetary Policy, Senate Committee on Banking, Housing, and Urban Affairs. We will also make copies available to other interested parties upon request.

Please contact me on (202) 512-4812 if you have any questions concerning this report. The major contributors to this report are listed in appendix II.

Sincerely yours,

Allan I. Mendelowitz

Allan I. Mendelowitz, Managing Director
International Trade, Finance,
and Competitiveness

Contents

Abbreviations

AID	Agency for International Development
Eximbank	The U.S. Export-Import Bank
OECD	Organization for Economic Cooperation and Development
SDR	special drawing rights
TDA	Trade and Development Agency
TPCC	Trade Promotion Coordinating Committee
U.N.	United Nations

Estimating U.S. Exports Lost to Foreign Competitors' Tied Aid Practices

This appendix provides an estimate of the potential loss of U.S. exports because of the tied aid practices of U.S. competitors in the Organization for Economic Cooperation and Development (OECD). In 1989, the U.S. Export-Import Bank (Eximbank) conducted a market share analysis using historical market share ratios based on 1984-87 data to estimate potentially lost exports. We updated this study using 1989-91 data. This appendix contains the assumptions we made, a description of the approach including the data sources, and the results of the estimation with the accompanying qualifications.

Assumptions

We made two major assumptions in conducting this analysis. First, we assumed that recipient nations would have bought the same amount of capital goods with or without tied aid. This assumption means that some other source of financing would have replaced the tied aid; such sources could include untied aid or commercial financing. We also assumed that U.S. companies would have maintained their traditional market share in supplying capital goods to these nations.

Approach

To estimate the potential loss of U.S. exports, we conducted a market share analysis in four steps. We first determined how the amount of tied aid was divided among four different regions of the world. We then calculated the U.S.' share (in both percent and dollars) of capital goods exports to each of these regions. Next, we multiplied the level of tied aid to each region by the U.S.' share of all capital goods exported to the region. Summed over all the regions, this number represents the share of tied exports that reflects the relative competitive strength of the U.S.' capital goods industries. Finally, we subtracted the amount of U.S. capital goods exports supported by U.S. tied aid to obtain our estimate. Our detailed estimation is presented in table I.1.

According to the most recent data on OECD tied aid commitments, the tied aid market size for capital goods averaged $8.9 billion per year in the period 1989-91. We calculated the tied aid market share by region, using OECD notification data, which contain information on tied aid recipients. We estimated the U.S.' regional market share by calculating U.S. exports of capital goods into a region as a percent of all countries' exports of capital goods to that region. For this calculation, we used United Nations (U.N.) trade data, as well as U.N. definitions of capital goods and regions.[1] Finally,

[1]This calculation yields a conservative estimate of U.S. regional market share because the data include all reported interregional exports, as well as exports from outside the region.

the level of U.S. capital goods exports supported by U.S. tied aid averaged $467 million per year for 1989-91, according to OECD tied aid commitment data.

Table I.1: Estimation of Annual U.S. Capital Goods Exports Potentially Lost to Tied Aid Practices of Foreign Competitors, 1989-91

Dollars in millions per year

Regions	Regional level of tied aid: Dollars	Historical U.S. market share: Percent[a]	Historical U.S. market share: Dollars[b]
Asia	$4,454	23%	$1,024
Africa/Middle East	2,405	16	385
Latin America	1,514	51	772
Other[c]	535	15	80
Total	**$8,908**	n.a.[d]	**$2,261**

Potential impact of tied aid on U.S. capital goods exports	
Share of tied aid exports which reflects the competitive position of U.S. capital goods industries	$2,261
Annual level of U.S. exports supported by tied aid	(467)
Potential annual U.S. exports lost due to foreign tied aid	**$1,794**

Note 1: Shaded area represents hypothetical amount of U.S. capital goods exports supported by tied aid

[a]Actual U.S. market share of capital goods exports from 1989 to 1991.

[b]Represents U.S. exporters' share of tied aid supported exports if they captured the same market share as that for all capital goods exported to the regions.

[c]"Other" includes tied aid recipients in Eastern Europe, as well as island nations in the Pacific.

[d]n.a. means not applicable

Sources: OECD commitment data, OECD notification data, and U.N. trade data.

Results

Under the stated assumptions, the estimate of U.S. capital goods exports potentially lost to the tied aid practices of OECD competitors could be as high as $1.8 billion per year in 1989-91. There are two factors working in opposite directions on the size of the estimate whose impact we could not quantify. The factor that could lead to an overestimate is the likelihood that some capital projects throughout the world would not have been undertaken in the absence of tied aid. We were not able to estimate the extent of this possible overestimate. On the other hand, a factor tending to lead to an underestimate of the level of potential lost exports is the fact that the U.S. market in each region is lower than would otherwise be the case because it includes the effect of other countries' tied aid exports.

Major Contributors to This Report

General Government Division, Washington, D.C.

Virginia C. Hughes, Assistant Director
Susanne E. Wood, Evaluator-in-Charge
L. Kyle Lindland, Evaluator
Ken Miyamoto, Evaluator
Susan S. Westin, Senior Economist
Martin de Alteriis, Social Science Analyst
Rona Mendelsohn, Reports Analyst

Related GAO Products

Export Finance: Challenges Facing the U.S. Export-Import Bank (GAO/T-GGD-94-46, Nov. 3, 1993).

U.S. Trade and Development Agency: Limitations Exist in Its Ability to Help Generate U.S. Exports (GAO/GGD-94-9, Oct. 20, 1993).

Export Finance: The Role of the U.S. Export-Import Bank (GAO/GGD-93-39, Dec. 23, 1992).

The U.S. Export-Import Bank: Reauthorization Issues (GAO/T-NSIAD-91-17, Apr. 11, 1991).

Economic Assistance: Integration of Japanese Aid and Trade Policies (GAO/NSIAD-90-149, May 24, 1990).

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1000
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066.

United States
General Accounting Office
Washington, D.C. 20548-0001

Bulk Mail
Postage & Fees Paid
GAO
Permit No. G100

Official Business
Penalty for Private Use $300

Address Correction Requested

[redacted]