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EXPORT PROMOTION

Rationales for and Against Government Programs and Expenditures

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EXPORT PROMOTION: RATIONALES FOR AND AGAINST GOVERNMENT PROGRAMS AND EXPENDITURES

SUMMARY OF STATEMENT BY ALLAN I. MENDELOWITZ, MANAGING DIRECTOR
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In the current tight budget environment, Congress is carefully assessing the need for continued funding of federal export promotion programs, among others. Today's testimony attempts to answer two questions: (1) What are the analytically grounded justifications for export promotion programs? (2) Are there opportunities for budgetary savings to make the programs more cost-effective?

There is no definitive empirical work that demonstrates unequivocally the net impact on the nation--positive or negative--of government funding for export promotion programs. Supporters and opponents of government export promotion programs have mainly relied on qualitative arguments to make their cases. Concerning macroeconomic considerations, supporters of the programs have cited job creation and trade deficit reduction as reasons for government funding. As GAO has reported in the past, export promotion programs cannot produce a substantial change in the U.S. trade balance--nor in the level of employment. The levels of these variables are largely determined by the macroeconomic policies of the United States and its trading partners. Concerning microeconomic considerations, supporters of export promotion programs believe that such programs are needed because of real world deviations from the conditions necessary to make markets work efficiently. Opponents believe that the government cannot do better than the market and that government intervention can make even a bad situation worse.

Other reasons given to support government funding of export promotion programs relate to using trade promotion programs to achieve broader trade policy objectives. For example, export price subsidies, such as those offered by the U.S. Department of Agriculture (USDA) through its Export Enhancement Program and those offered by the U.S. Export-Import Bank through its "war chest," were designed to help level the playing field for U.S. exporters facing subsidized foreign competitors. However, they were also intended to pressure subsidizing competitors to come to the negotiating table and agree to reduce their subsidies. While it is difficult to empirically link these programs to the outcome of negotiations, the United States has had some success in negotiating reductions in agricultural export subsidies and officially supported export credit subsidies.

Regarding the cost-effectiveness of government export promotion programs, GAO has emphasized the need for integrating the efforts of the large number of federal agencies that have trade programs in order to reduce overlap, improve program effectiveness, and reduce waste. GAO has also identified opportunities for cost savings, mainly in certain USDA export programs. For example, GAO has determined that Public Law 480 title I food aid has only minimally contributed to meeting its program objectives. Public Law 480 title I was appropriated $291 million in fiscal year 1995.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to testify before this Subcommittee on the rationales for and against the operation of government export promotion programs. The U.S. government currently has a number of trade promotion programs that provide business counseling, training, market research information, trade missions and fairs, export subsidies, and export finance assistance. These programs are designed to increase export awareness; provide technical assistance, market information, representational assistance, and competitive export financing; or make specific products price competitive.

In today's tight budget environment, Congress is looking carefully at the need and justification for all government programs and expenditures. In particular, federal government export promotion programs are receiving close scrutiny because they involve, at a minimum, government intervention in markets, and, in the most expansive form, the provision of subsidies to private sector business. Therefore, three different types of questions are relevant with respect to these programs.

-- What are the analytically grounded justifications for such programs?

-- Are there opportunities for budgetary savings to make the programs more cost-effective?

-- Are such programs, irrespective of whether they are cost-effective and grounded in an analytically defensible rationale, worthy of the expenditure of taxpayer funds, given the extent of proposed reductions in government expenditures across a whole range of program areas?

Clearly the answer to the last question is unambiguously Congress' prerogative. In my statement today, I will provide information on the first two questions.

BACKGROUND

International trade can enable the country to achieve a higher standard of living through making and exporting goods and services that are produced here relatively efficiently, and importing goods and services that are produced here relatively inefficiently. Supporters of export promotion programs view increased exports as a way to enhance the benefits gained from international trade and, thereby, further improve the economic well-being of the U.S. public. Opponents of such programs view them as an unnecessary interference in the workings of the market.

SCOPE AND METHODOLOGY

The first part of my testimony, which discusses the arguments for and against government export promotion programs, relies heavily on economic analysis. With respect to the conceptual justifications for government intervention in the economy, economics has a highly developed theoretical literature. However, the economics literature includes relatively little empirical analysis of export promotion programs in particular. One reason for this is that it is very difficult methodologically to demonstrate a definite link between government export promotion programs and their consequences. This is true both in terms of supporters' claims of any actual increase in exports and of opponents' claims of an alleged deterioration in economic welfare as a result of export promotion efforts. Owing to these empirical difficulties, debates over government assistance to exporting rely heavily on qualitative arguments.

The second part of my testimony highlights opportunities for achieving efficiencies and savings in export promotion programs. To do so, we have referred to our past audit work that relied on more traditional audit and evaluation methodologies.

RATIONALES FOR GOVERNMENT EXPORT PROMOTION ASSISTANCE

Concerning the conceptual bases for and against export promotion programs, arguments have relied on the following:

-- macroeconomic considerations (i.e., the impact on jobs and the trade deficit);

-- microeconomic considerations (i.e., the extent to which government enhances or detracts from the efficiency of markets); and

-- trade policy objectives.

Macroeconomic Considerations

Some supporters of export promotion programs point to jobs created by exports as an important reason for such government backing. Similarly, others have supported export promotion programs as a way to reduce the U.S. trade deficit. However, as we have testified before, these programs cannot produce a substantial change in the U.S. trade balance[1]--nor can they produce a substantial change in employment levels. The levels of these variables are largely determined by the underlying competitiveness of the U.S. economy

[1]See our March 1993 testimony, Export Promotion: Governmentwide Strategy Needed for Federal Programs (GAO/T-GGD-93-7, Mar. 15, 1993).

and by the macroeconomic policies of the United States and its trading partners.

Microeconomic Considerations

Economists, as a general proposition, oppose government intervention in private markets because markets typically produce more efficient outcomes. Government intervention tends to distort resource allocation and create inefficiencies. However, for markets to be able to achieve the anticipated level of economic efficiency, key conditions need to be met. For example, all costs and benefits are to be "internalized" to firms and consumers, market participants are to have perfect information with respect to all market variables and the future, and no market participants may hold monopoly power. When such key conditions are not satisfied, the outcome that the market generates may not be the most efficient. It is in such circumstances, referred to as "market failures," that the economics literature discusses how government intervention can improve economic efficiency.

Arguments both for and against export promotion programs can be tied to the concept of market failure. Supporters of government assistance for exporters hold that real world deviations from the conditions necessary to make markets work efficiently provide a strong justification for such programs. Corrections of these market failures can improve economic efficiency and overall economic well-being. On the other hand, opponents of government assistance hold that the government cannot do better than the market and that government intervention can make even a bad situation worse.

Technological spillovers is an example of a market failure that could be used to argue for government assistance to increase exports. Proponents argue that such government intervention would help the nation maximize the benefits from technological innovation, such as increasing the number of high-wage jobs and increasing the financial returns to innovation. Opponents argue that this type of assistance involves the government's picking winners--something it does not do well. Furthermore, in today's integrated world market, it is not possible for one country to secure all the gains from a technological innovation.

Trade Policy Objectives

Other reasons offered in support of export promotion programs relate to the use of trade promotion to achieve broader trade policy objectives. Trade policy objectives include helping U.S. firms overcome foreign trade barriers that make it difficult for U.S. products to penetrate foreign markets, leveling the playing field for U.S. companies competing against foreign companies that receive government support, and countering foreign subsidies as a trade policy strategy to induce foreign governments to negotiate to reduce and eliminate such subsidies.

ECONOMIC RATIONALES, TRADE POLICY OBJECTIVES, AND THEIR RELATIONSHIP TO DIFFERENT TYPES OF EXPORT PROMOTION

Several different rationales may provide the justification for any specific government support for exporting. By way of example, I will discuss the following four types of export promotion activities: export price subsidies, providing foreign market information, government advocacy for U.S. businesses, and export finance assistance.

Export Subsidies

Several government programs provide subsidies for specific U.S. exports. They include the Export Enhancement Program (EEP) at the U.S. Department of Agriculture (USDA) and the "war chest" at the U.S. Export-Import Bank (Eximbank). These programs were structured in part to offset foreign government export subsidies, i.e., to level the playing field for U.S. exporters facing subsidized foreign competition. In the case of EEP, the target has been the subsidized agricultural exports of the European Union (EU).[2] In the case of the war chest, the target has been the "tied aid"[3] exports of countries like France in industrial sectors such as telecommunications, satellites, and air traffic control systems.[4] These mechanisms have served the interests of particular U.S. companies that have faced foreign subsidized competition. However, from an economic efficiency perspective, it is difficult to make the case that such mechanisms, unless they achieve broader objectives than just leveling the playing field, enhance national economic well-being.

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[2]The EU, formerly the European Community, is a political and economic union of 15 European countries. The EU's member states are Austria, Belgium, Denmark, Germany, Finland, France, Greece, Italy, Ireland, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

[3]Tied aid refers to foreign assistance that is linked to the purchase of exports from the country extending the assistance. In February 1994, the Tied Aid Capital Projects Fund replaced the War Chest fund, which had been in existence since 1986.

[4]For more on tied aid, see Competitors' Tied Aid Practices Affect U.S. Exports (GAO/GGD-94-81, May 25, 1994), and our testimony International Trade: U.S. Efforts to Counter Competitors' Tied Aid Practices (GAO/T-GGD-95-128, Mar. 28, 1995).

In fact, these subsidy programs were not justified simply on the basis of leveling the playing field. In the case of EEP and the war chest, the subsidies were specifically tied to achieving certain trade policy goals. The subsidies were employed as a way to pressure subsidizing competitors to come to the negotiating table and agree to reduce or negotiate away the subsidies.[5] The United States has made progress in negotiating reductions in officially supported export credit subsidies at the Organization for Economic Cooperation and Development (OECD)[6] and reductions in agricultural export subsidies in the recently completed Uruguay Round of negotiations of the General Agreement on Tariffs and Trade (GATT).[7]

Foreign Market Information

Some U.S. producers of competitive products may not export because they lack information about export markets. The Department of Commerce, through its Commercial Service, has programs to provide commercially valuable information that the private sector may not otherwise be able to acquire. For instance, U.S. embassy personnel may obtain significant data in foreign countries where the government plays a large role in the economy or in matters relating to foreign government procurement. Commerce's programs attempt to make this information available to the U.S. business community, and, thereby, enhance the export opportunities for competitive U.S. products. In other cases, small- and medium-sized firms that have

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[5]See International Trade: Impact of the Uruguay Round Agreement on the Export Enhancement Program (GAO/GGD-94-180BR, Aug. 5, 1994), U.S. Department of Agriculture: Foreign-Owned Exporters' Participation in the Export Enhancement Program (GAO/GGD-95-127, May 11, 1995), and GAO/GGD-94-81.

[6]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. A 1992 OECD agreement, sometimes referred to as the "Helsinki package," strengthened previously established guidelines intended to minimize trade distortions that can result from the use of tied aid.

[7]Under the Final Act of the Uruguay Round GATT agreement, trade in agricultural goods is more completely covered by GATT disciplines than previously, and tariff and nontariff barriers are being reduced. The Agreement on Agriculture requires member countries to make specific reductions in market access restrictions, export subsidies, and internal support over a 6-year period, beginning in 1995. For our analysis of the agreement, see The General Agreement on Tariffs and Trade: Uruguay Round Final Act Should Produce Overall U.S. Economic Gains (GAO/GGD-94-83a and 83b, July 29, 1994).

competitive products may lack the economies of scale to justify expenditures for information about foreign markets. If the government has this information and it can be provided in a cost-effective manner to potential users, there may be some efficiency gains. For example, Commerce makes a significant amount of information available to exporters in the National Trade Data Bank (NTDB). The NTDB is available on CD-ROM, via electronic media, and in Commerce's district offices.

Government Advocacy for U.S. Businesses

U.S. government representation on behalf of a U.S. firm competing for a potential export sale may influence foreign procurement decisions. Typically, such representation might take place in one of two different circumstances. In the first instance, in cases where the foreign government has significant influence over business opportunities in the private sector, U.S. government representatives may help establish a U.S. firm's credibility to the host government. In the second instance, U.S. representatives may exert political/foreign policy leverage to advocate for U.S. businesses in order to counter foreign competitors' use of high-level government advocacy.

The U.S. government has, until recently, been reluctant to publicly support specific U.S. producers competing for large foreign contracts. However, in late 1993, the Trade Promotion Coordinating Committee (TPCC) created an advocacy center to identify circumstances when high-level advocacy may be appropriate and to initiate such advocacy. A recent example of high-level advocacy is the efforts made to convince Saudi Arabia to purchase a large number of U.S. civil aircraft to modernize its national airline's fleet.

To the extent that U.S. officials can counter the advocacy of foreign government officials, U.S. firms with competitive products can be made better off by such efforts. Ultimately the more efficient solution--but one that is more difficult to achieve--would be to reduce the noneconomic factors that are brought to bear in such procurement decisions rather than expand them.

Export Finance Assistance

The U.S. government provides export finance through the Eximbank, the Small Business Administration (SBA), USDA, and other agencies. Regarding the Eximbank, over the years the private sector, Congress, and the executive branch have debated the Eximbank's role in a free market economy, where the private sector handles the majority of export financing. According to its supporters, the Eximbank historically has filled gaps created when the private sector has been reluctant to finance certain exports. For example, several surveys suggest that small- and medium-sized U.S. firms have a very difficult time securing export finance in the private market. The Eximbank and SBA have loan guarantee programs for export-related working capital to respond to this need. In addition, emerging areas, such as privately undertaken infrastructure projects in developing countries, present substantial opportunities for U.S. exporters. However, the perceived risks associated with the long time-horizons involved in financing such projects may be greater than private capital markets are willing to bear. Therefore, it is argued that government assistance may be needed to enable exporters to participate in these markets, even if no subsidy costs are expected to be incurred. The opponents of government intervention say that there is no credible empirical evidence that private capital markets do not function efficiently.

In addition to the Eximbank, the federal government provides large amounts of export credit guarantees for U.S. agricultural exports under USDA programs. USDA supports such programs on the basis that markets can be developed in countries whose long-term prospects are good--but currently have difficulty securing financing to purchase imports. As we have testified in the past, these programs are very costly.[8] Furthermore, the extent to which these programs finance exports that would not have occurred without the financing is difficult to demonstrate.

EVALUATING THE OPERATION OF EXPORT PROMOTION PROGRAMS

Over the years, we have done a large body of work on federal export promotion activities. We have identified opportunities for more effective governmentwide allocation of export promotion resources, improvements in program management and operations, and cost savings.

A Unified Strategy for Export Promotion

During 1991-92, our work described a federal export promotion effort that was fragmented among 10 agencies and lacked any governmentwide strategy or priorities.[9] We found that federal efforts in this area suffered from inefficiency, overlap, duplication, and apparent funding anomalies that increased costs and undermined export promotion activities. For example, the federal government at the time maintained a fragmented and inefficient service delivery network that likely confused and discouraged U.S. firms that were seeking export assistance.

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[8]See Loan Guarantees: Export Credit Guarantee Programs' Costs Are High (GAO/GGD-93-45, Dec. 22, 1992).

[9]See, for example, Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness (GAO/NSIAD-92-49, Jan. 10, 1992), and our August testimony, Export Promotion: Federal Approach Is Fragmented (GAO/GGD-92-68, Aug. 10, 1992).

In October 1992, Congress passed legislation to address these problems. Title II of the Export Enhancement Act of 1992 (P.L.102-429) created an interagency mechanism through which the administration, working closely with Congress, might rationalize and strengthen federal export promotion efforts. This legislation codified the interagency TPCC and tasked it to issue a report by September 30, 1993, (and annually thereafter) containing "a governmentwide strategic plan for federal trade promotion efforts" and describing its implementation. This strategy was to be based on a set of governmentwide priorities and to include a unified budget proposal that reflected those priorities.

Before the completion of the first plan, we testified on criteria Congress could use to assess it.[10] We concluded that the ultimate test of the value of the strategic plan would be whether it leads to significant change and improvement in the cost-effectiveness of federal export promotion efforts.

We reviewed TPCC's initial National Export Strategy. The September 1993 strategy contained 65 recommendations for improving federal export promotion efforts. These included several recommendations for major improvements, as well as many others that called for incremental innovations that, if taken together, would add to meaningful change. However, as we previously testified,[11] this initial plan was only a start; it did not establish governmentwide export promotion priorities, nor did it include a governmentwide unified trade promotion budget. We characterized this plan as a "work in progress" and noted that we looked forward to the development of a more comprehensive export strategy. We are continuing to monitor TPCC efforts to fulfill its statutory responsibilities.

Congress' current scrutiny of the funding for export promotion programs provides another opportunity to look at where government funds are being expended on export promotion and at what the most cost-effective way may be to allocate any funds that Congress may make available.

Opportunities for Cost Savings

In 1991, we conducted the first review of how federal resources to

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[10]See our July 1993 testimony, Export Promotion Strategic Plan: Will it Be a Vehicle for Change? (GAO/T-GGD-93-43, July 26, 1993).

[11]See our September 1993 testimony, Export Promotion: Initial Assessment of Governmentwide Strategic Plan (GAO/T-GGD-93-48, Sept. 29, 1993), and our October 1993 testimony, Export Promotion: Governmentwide Plan Contributes to Improvements (GAO/T-GGD-94-35, Oct. 26, 1993).

support exports were being spent across the government.[12] That study found that agricultural exports accounted for about 10 percent of U.S. exports. However, agricultural exports received about 75 percent of the federal outlays in support of exporting and about 50 percent of the export credit made available by federal government programs in fiscal year 1991. Agricultural exports still receive the largest share of federal government assistance for exporting, and, based on our recent studies,[13] include some opportunities for budgetary savings.

Public Law 480 Title I Food Aid: The Public Law 480 title I food aid program has both economic development and market development objectives. Our testimony in 1994 reported that Public Law 480 title I was only minimally contributing to economic development in beneficiary countries and that its contribution to long-term market development for U.S. agricultural commodities had not been demonstrated.[14] If this program were eliminated, a budget savings of $291.3 million could be realized based on the fiscal year 1995 appropriation.

Cargo Preference Requirements for Food Aid: Current statutes require that at least 75 percent of food aid cargoes be transported on U.S. flag ships. The average cost of using these ships is significantly higher--as much as $200 million a year higher--than those of lower-cost foreign flag vessels. In a 1994 study,[15] we reported that the application of the cargo preference requirement to food aid contributed minimally to realizing the objectives of the Merchant Marine Act of 1936, as amended. Consequently, should Congress choose to eliminate the cargo preference requirement for food aid shipments, as much as $200 million a year could be saved without adversely affecting realization of the objectives of the Merchant Marine Act.

Market Promotion Program: This USDA program provides funding to not-for-profit industry associations for the promotion of U.S. products in foreign markets. The funds are either used by the industry associations or passed along to for-profit private companies to advertise their brand-name products in

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[12]See footnote 9.

[13]See Addressing the Deficit: Budgetary Implications of Selected GAO Work for Fiscal Year 1996 (GAO/OCG-95-2, Mar. 15, 1995).

[14]See Public Law 480 Title I: Economic and Market Development Objectives Not Met (GAO/T-GGD-94-191, Aug. 3, 1994).

[15]See Cargo Preference Requirements: Objectives Not Significantly Advanced When Used in U.S. Food Aid Programs (GAO/GGD-94-215, Sept. 29, 1994).

foreign markets. As we have reported,[16] some of the funding is going to large corporations (like Gallo Wine and M&M Mars) that appear to have no need for taxpayer funds to promote their products. Furthermore, some industry associations that receive funding may at the same time raise money from their members to promote their commodities in the U.S. market. If industry associations are able to raise funds from members to promote their commodities in the U.S. market, it seems to indicate that, rather than using taxpayer funds, they might also be able to raise funds from members who would benefit financially from a growing export market. This program is currently budgeted at $85.5 million for fiscal year 1995.

Export Enhancement Program: EEP was created in 1985 to counter European Community (now the EU) agricultural export subsidies, regain market share for U.S. agricultural exporters, and pressure the European Community to negotiate a reduction in or elimination of agricultural export subsidies. The recently implemented GATT Uruguay Round Agreement includes a binding reduction in agricultural subsidies and a commitment to negotiate further with the goal of achieving additional reductions in subsidized agricultural exports. The results of the Uruguay Round offer the opportunity to reduce or eliminate financing for EEP, which is funded in fiscal year 1995 at $800 million.

General Sales Manager (GSM) Export Credit Guarantee Programs: USDA is legislatively required to make available not less than $5.5 billion a year in export credit guarantees (under the GSM-102 and -103 programs)[17] for the export of U.S. agricultural commodities. As we reported in 1992,[18] the borrowers of these funds are generally developing countries, which are fairly high credit risks. Because of the riskiness of the borrowers, these programs have a very high cost. Savings can be realized in this program by reducing the credit guarantees made available to the most risky borrowers.

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[16]See International Trade: Changes Needed to Improve Effectiveness of the Market Promotion Program (GAO/GGD-93-125, July 7, 1993).

[17]The GSM-102 Export Credit Guarantee Program allows foreign buyers to purchase U.S. agricultural commodities from private U.S. exporters, with U.S. banks providing financing with terms up to 3 years. GSM-103, the Intermediate Export Credit Guarantee Program, is similar to the GSM-102 program, except that the terms of the credit generally have a repayment period exceeding 3 years, but not more than 10 years.

[18]See Loan Guarantees: Export Credit Guarantee Program Costs Are High (GAO/GGD-93-45, Dec. 22, 1992).

CONCLUSIONS

Diverse reasons underpin U.S. government export promotion programs. While such expenditures of taxpayer dollars can be supported or criticized with any number of primarily qualitative arguments, there is no definitive empirical work that demonstrates unequivocally the net impact on the nation--positive or negative. Nevertheless, if Congress determines that export promotion remains a program area on which to expend pubic funds, significant opportunities for cost savings and organizational changes exist that may improve the cost-effectiveness of the government's programs.

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Mr. Chairman, this concludes my prepared statement. I will be pleased to try to answer any questions you or the Subcommittee may have.

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