Interhemispheric Resource Center and Institute for Policy Studies

Foreign Policy In Focus

Volume 2, Number 34
May 1997

Export Promotion Programs

Janice C. Shields, Coordinator, Corporate Wealthfare Project & TaxWatch

Washington's increasing focus on promoting international investment and trade is evident in the smorgasbord of assistance offered to U.S. exporters. Major categories include: (1) grants, subsidies, and tax breaks for exporters, (2) government programs and activities to persuade importers to purchase U.S. products, (3) information and technical assistance for exporters, and (4) other governmental actions not directed at export creation but which may help increase sales abroad.

Key Points

- The U.S. government assists U.S. exporters by providing grants, subsidies, tax breaks, and information about importing countries.
- The U.S. government offers assistance programs and loan guarantees to encourage importers to buy U.S. goods and services.
- Some recipients have collected more than $1 million in a single year from the export enhancement program.

A major actor in fostering U.S. exports is the Trade Promotion Coordinating Committee (TPCC). Created in 1993 to develop and coordinate U.S. export-promotion programs, the TPCC includes representatives from 19 federal agencies and has an annual budget in excess of $2 billion. The TPCC's Advocacy Center works one-on-one with U.S. exporters requesting government assistance in bidding competitions. TPCC tracks projects worldwide, provides counseling, and coordinates advocacy ranging from trade missions to visits, telephone calls, and letters from U.S. officials.

As one might imagine, direct monetary support is popular with U.S. exporters. Examples of grants and subsidies for exporters include the Market Access Program (MAP) and the Export Enhancement Program (EEP) of the U.S. Department of Agriculture. The MAP, established in 1990, has an annual budget of $100 million and provides partial defrayment of the costs of market-building and product promotion overseas. Some recipients, including Sunkist Growers, Sunsweet, Dole Foods, and Gallo Wines, have collected more than $1 million in a single year. The EEP, which was established in 1985 and is budgeted to receive $500 million in 1998, pays cash bonuses to exporters of certain U.S. agricultural commodities. Just three companies—Cargill, Continental Grain, and French-owned Louis Dreyfus—have received almost half of the bonuses since 1985.

Tax abatements also play well in the U.S. corporate world. A key tax break designed for exporters requires companies to set up Foreign Sales Corporations (FSCs) in other countries or U.S. possessions. When the U.S. firm sells exports through its FSC, a portion of the income is exempt from U.S. taxes. Exporters save $1.5 billion annually by using this tax break. Companies may also benefit from the Internal Revenue Code's sourcing rules for sales of U.S. inventory. These rules allow some income from exports to be considered earned in the importing country, thereby reducing U.S. taxable income. If the importing country classifies these export profits as U.S. taxable income, then the earnings would not be taxed anywhere. The U.S. Treasury loses $3.7 billion annually because of this loophole.

In addition, the U.S. Export-Import Bank plays a role in Washington's support of U.S. transnational corporations (TNCs) by providing direct loans and loan guarantees for up to 85% of the export value of U.S. goods and services (see *In Focus: Eximbank*). This financing goes to foreign buyers of U.S. exports and is intended to help U.S. companies win sales. The U.S. Trade and Development Agency signs agreements with host country agencies to provide U.S. government funding for feasibility studies of major development projects in sectors such as telecommunications and energy. Because U.S. firms conduct these studies, which include procurement plans, U.S. companies are positioned to get the follow-up contracts when the projects are implemented.

In all, more than 20 federal agencies collect information about foreign markets. The one-stop source for much of the data is the National Trade Data Bank (NTDB), which is updated monthly. The Commerce Department has established U.S. Commercial Centers in China, Indonesia, and Brazil to provide one-on-one business counseling and export assistance to U.S. companies. The Commerce Department also offers a fee-based research service that provides firms with specific information on marketing their individual products in selected countries.

Federal activities not aimed at trade promotion also may increase exports. For example, federal subsidies for corporate research and development reduce companies' expenses. These lower costs may be passed on as lower prices, which make U.S. exports more attractive.

Trade promotion programs violate the intent, if not the letter, of multilateral free trade agreements. The Uruguay Round of the General Agreement on Tariffs and Trade (GATT), approved in 1994 by more than 100 countries, prohibits subsidies that are contingent upon export performance or the use of domestic rather than imported goods.

The agreement does designate some subsidies as non-actionable (or GATT-legal)—including subsidies that are not specific assistance—for certain research activities, aid to disadvantaged regions of a GATT country, and grants to adapt facilities to new environmental laws. Specific subsidies are defined as those expressly limited to certain enterprises. Based on these criteria, the MAP is deemed GATT-legal. With respect to programs that give bonuses to exporters to allow them to undercut foreign competitors, all GATT countries pledged to reduce their Export Enhancement Program-type outlays by 36% by the year 2000. Yet President Clinton's proposed 1998 budget would swell EEP funding to $500 million, from $100 million in 1997.

Trade promotion and the resulting growth in U.S. exports can adversely impact U.S. trading partners, particularly many developing nations that depend on export earnings for as much as 80% of their foreign exchange resources. Poorer countries suffer when they can't compete against subsidized exports in world markets and imports into their own countries, so they respond to protect themselves. For example, to support development of a domestic computer industry, Brazil closed its markets to computer imports for a number of years.

Proponents of government export-promotion argue that the programs are necessary to level the playing field in response to subsidies offered by other exporters' governments. U.S. trade rivals use a varying mix of high-level visits, financing, trade missions, lobbying, trade shows, and local advocacy. Japan, for example, tends to offer some form of financing to promote its exports. Germany solicits trade through German chambers of commerce and trade associations. Developing countries offer similar programs. For example, Indonesian and Turkish exporters benefit from a number of government insurance and credit programs.

Yet these programs may tilt, not level, the playing field. Australia, for instance, doesn't offer an EEP-type program and has protested that its exporters cannot compete against EEP-assisted U.S. products.

Like protectionist practices that limit imports, export-promotion programs can be used to retaliate against other countries and thereby harm foreign relations. U.S. Secretary of Agriculture Dan Glickman recently used threats to offer EEP bonuses to U.S. flour exporters as a signal to the European Union that he was concerned about European flour subsidies. Secretary Glickman told a congressional panel that "a measure of the administration's readiness to use the [EEP] as 'a market access tool' is its recent budget request to Congress for $500 million for the program . . . ."

The societal value of some products promoted by federal programs is questionable. Key beneficiaries of MAP advertising subsidies have been exporters of wine and whiskey, pet food, and mink. Additionally, the federal government provided $7.6 billion in subsidies for arms exports in 1995, an increase of 8.5 percent over 1994, and employs 6,500 full-time personnel to promote and service foreign arms sales by U.S. companies (see *In Focus: Warfare vs. Welfare*).

Export promotion by a government can corrupt its relationships with domestic and foreign-owned industries when companies seek to maintain or increase special treatment. Trade organizations and private firms develop and submit proposals to the Agriculture Department, recommending countries and products for which exporters should obtain MAP funds. Traditional MAP recipients, including the Sunkist Growers and Diamond Walnut Growers cooperatives, were among the top political action committee (PAC) spenders during the 1995-1996 election cycle.

Critics charged that the U.S. government was up for sale when the news broke of former Commerce Secretary Ron Brown's trade missions. Methods used by the Commerce Department for selection of CEOs for the trips were shrouded in mystery. One report cited a CEO who was included on a trip after a Clinton classmate wrote Commerce officials, noting that the CEO was a "very generous donor" to the Democratic Party. CEOs from Allen & Associates, Cellular Communications International, and Wertheim Schroder all participated in trade missions with Secretary Brown. All had ties to the Democratic Party.

Subsidies that benefit wealthy exporters waste taxpayer dollars, add to the federal deficit, and make a mockery of recent cuts in programs for poor people. For example, if the U.S. and European countries all provide subsidies for flour exports, the overall impact is to lower global flour prices without benefiting any one country's exporters. The winners are the buyers, who pay less. The losers are the domestic programs that could have been funded with the money spent in the futile effort to achieve an export advantage. Proponents of the $100 million per year MAP claim that these subsidies create $16 in revenue for every $1 in taxpayer costs. Yet General Accounting Office studies have not documented any increases in exports due to MAP expenditures.

Key Problems

- Export promotion programs may violate the intent if not the letter of regional and international trade agreements. The programs may harm foreign relations when the programs tilt the playing field or are used to retaliate against other countries.
- Export promotion programs may target the wrong products and trigger unhealthy efforts by beneficiary companies to influence U.S. government policies.
- Export promotion programs that benefit wealthy exporters waste taxpayer dollars, add to the federal deficit, and make a mockery of cuts in programs for poor people.

In today's contradictory world, mercantilistic trade promotion activities coexist with efforts to reach multinational agreements that would curtail those practices. The following recommendations for U.S. foreign policy reflect these conflicting realities, while striving to enhance global relations.

• Governments should reduce trade-promotion activities bilaterally and multilaterally, while retaining their sovereignty. Resources are wasted when money is spent to offset a rival country's trade-promotion activities. Such trade wars leave companies in the same relative positions they would have held without any government expenditures. Banning trade-promotion activities would free taxpayer money for needed social investments. Still, trade agreements should not require national governments to relinquish their rights to protect their citizens by, for example, passing strong environmental and worker protection laws.

Key Recommendations

- Governments should strive to reduce export promotion activities and help developing countries compete in world markets.
- Governments should establish codes of conduct for their export promotion programs, and should regularly evaluate the programs.
- Only businesses that can show that they are good global citizens should benefit from export promotion activities.

• Special rules should enhance the ability of developing countries to compete in world markets. These countries' domestic industries and exports should not be hurt by the trade-promotion activities of developed countries. The Uruguay Round of GATT recognized the special status of developing countries by allowing them more time to phase out their export subsidies.

• The U.S. government should unilaterally reduce its trade-promotion activities. Trade promotion programs introduced to allegedly level the playing field of global commerce may in reality tilt that field. The EEP and MAP should be eliminated entirely, because most of these programs' expenditures benefit a few large corporations that already dominate the world economy and are capable of generating their own exports.

• The U.S. government should avoid retaliatory trade-promotion activities and threats. Efforts to improve global relations are thwarted by policies that incite trade wars.

• Products and countries targeted for government trade-promotion activities should be selected according to criteria designed to enhance global well-being. Private companies and trade associations that may benefit from such programs should not provide recommendations intended to influence the selection process.

• The U.S. government should establish codes of conduct for all export promotion programs. After much criticism of past practices, the Commerce Department recently issued new guidelines and standards for its trade missions. These include requirements for specific, written criteria for the selection of private sector participants, automatic public availability of documents, and the express prohibition of rewards for political activities.

• The U.S. government should consolidate and regularly report information describing its trade promotion activities, itemizing the costs and benefits to the taxpayers, and identifying specific corporate beneficiaries. The TPCC's annual report to Congress does not provide this level of detail. Public hearings should be held before new promotion programs are introduced, and periodic cost/benefit analyses should be conducted to determine whether existing programs should continue.

• Corporations that benefit from government export promotion activities should be good corporate citizens by adopting and adhering to recognized codes of conduct. Principles for Global Corporate Responsibility have been established by the Ecumenical Committee for Corporate Responsibility in Great Britain, the Taskforce on the Churches and Corporate Responsibility in Canada, and the Interfaith Center for Corporate Responsibility in the United States. These principles require companies to set standards for corporate governance and advertising and to protect the environment, workers, and children.

• The foreign-sourcing tax loophole should be closed. President Clinton attempted to eliminate this tax break as a way to offset tariff revenue lost as a result of the Uruguay Round of GATT. But he succumbed to pressure from exporting companies who lobbied to keep their tax benefits, even though they would also benefit from the new GATT provisions to reduce trade barriers.

• The federal government should continue to assist exporters by collecting and disseminating general information about the regulations and market demographics of other countries. Often this information is needed for other government functions, and requiring each company to separately collect that same information wastes resources. If the government prepares industry-, company-, or product-specific reports, it should charge private beneficiaries for this service.

Foreign Policy in Focus is a joint project of the Interhemispheric Resource Center (IRC) and the Institute for Policy Studies (IPS). It is supported by subscriptions, by financial support from the John D. and Catherine T. MacArthur Foundation, and by various church organizations. *In Focus* internships are available.

Editors
Martha Honey (IPS)
Tom Barry (IRC)

Production
Grant Moser

Communications Director
Erik Leaver (IRC)

Orders and subscription information:
Mail: PO Box 4506
Albuquerque, New Mexico 87196-4506
Phone: (505) 842-8288
Fax: (505) 246-1601
Email: resourcectr@igc.apc.org

Editorial inquiries and information:

IRC Editor
Phone: (505) 388-0208
Fax: (505) 388-0619
Email: resourcectr@igc.apc.org

IPS Editor
Phone: (202) 234-9382/3 ext. 232
Fax: (202)387-7915
Email: ipsps@igc.apc.org

Website: http://www.zianet.com/infocus

Sources for More Information

Organizations

Cato Institute
1000 Massachusetts Ave. NW
Washington, DC 20001
Voice: (202) 842-0200
Fax: (202) 842-3490
Email: cato@cato.org
Contact: Steve Moore

Citizens Against Government Waste
1301 Connecticut Ave. NW, Suite 400
Washington, DC 20036
Voice: (202) 467-5300
Fax: (202) 467-4253
Website: http://www.govt-waste.org
Contact: Leslie Paige

Citizens for Tax Justice
1311 L St. NW
Washington, DC 20005
Voice: (202) 626-3780
Fax: (202) 638-3486
Website: http://www.ctj.org
Contact: Robert McIntyre

Competitive Enterprise Institute
1001 Connecticut Ave. NW, Suite 1250
Washington, DC 20036
Voice: (202) 331-1010
Fax: (202) 331-0640
Email: foinfo@cei.org
Contact: Jim Sheehan

Institute for Business Research
PO Box 19793
Washington, DC 20036
Voice/Fax: 202-387-5190
Email: jshields@igc.apc.org
Contact: Janice Shields

Trade Information Center
U.S. Department of Commerce
14th and Constitution Ave. NW, Room 7424
Washington, DC 20230
Voice: (800) USA-TRADE
Fax: (202) 482-4473
Website: http://www.ita.doc.gov/tic

Publications

Export Programs: A Business Guide to Federal Export Assistance Programs (Washington, DC: Trade Information Center, 1996).

Susan B. Garland, et. al., "Ron Brown's Hot Tickets," *Business Week* (June 5, 1995).

William D.Hartung, *Welfare for Weapons Dealers: The Hidden Costs of the Arms Trade* (New York: World Policy Institute, 1996).

Stephanie Nall, "US Would Use Export Subsidies As Retaliation," *Journal of Commerce* (March 19, 1997).

National Export Strategy Annual Report to Congress (Washington, DC: Trade Promotion Coordinating Committee, October 1996).

Janice Shields, *Corporate Welfare for Profitable U.S. and Foreign-Owned Companies* (Washington, DC: Essential Information, February 1995).

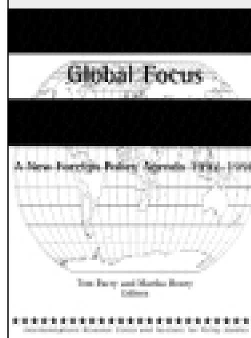
Statement of Policy Governing Department of Commerce Overseas Trade Missions (Washington, DC: U.S. Department of Commerce, March 3, 1997).

"Thoroughly Modern Mercantilists," *The Economist* (February 1, 1997).

Now Available

Global Focus: A New Foreign Policy Agenda 1997-1998

Fifty sections examine the spectrum of U.S. foreign policy, "succeeding where others fail in honestly dealing with our policy shortcomings."
-Rep. John Conners, (D-MI)



Edited by Tom Barry (IRC) and Martha Honey (IPS)

$15.95
(plus #3.00 shipping and handling)

To order *Global Focus*, contact the IRC.

Back Issues of *Foreign Policy In Focus*

($2.50 each, postpaid)

Afghanistan
Africa Overview
Africa Peace and Security
Albania
Arms Trade
Asia/Pacific Overview
Asia/Pacific Peace and Security
Burundi
CIA, Drugs, and Crack
Central America Peace and Security
Chemical/Biological Weapons
China
Controlling the TNCs
Defense Conversion and Military Bases
Economic Policy Toward Africa
Export Import Bank
Export Promotion Programs
Foreign Agricultural Policy
Foreign Economic Aid
Former Yugoslavia
Free Trade Area of Americas
Haiti
Human Rights
Immigration Debate
Indochina
Indonesia
Intelligence Apparatus
International Cooperation
International Financial Institutions
International Trade
Investment and Competitiveness
Iraq
Islamic Movements
Israel
Japan
Mexico
Middle East Oil
Military Modernization and Budget
Military Strategy
Multilateral Debt
NAFTA
NATO Expansion: Monetary Costs
Nigeria
North Korea
Nuclear Nonproliferation and Disarmament
Overseas Drug Control
Overseas Private Investment Corporation
Overseas Rural Development Policy
Panama
Peacekeeping and the UN
Russia
Somalia
South Africa
Strategic Reach in the Middle East
Trade and Environment
Trade and Labor
Transitional States: Economic Restructuring
U.S.-U.N. Relations
Warfare vs Welfare
World Trade Organization

To subscribe to *Foreign Policy In Focus*, or to order back issues, contact the IRC at:

PO Box 4506 ◆ Albuquerque, NM ◆ 87196-4506
Phone: (505) 842-8288 ◆ Fax: (505) 246-1601 ◆ Email: resourcectr@igc.apc.org ◆ Website: http://www.zianet.com/infocus

Printed on Recycled Paper