

THE RELATIONSHIP BETWEEN U.S.
AID AND U.S. EXPORTS

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The views and interpretations expressed in this report are those of the author and should not be attributed to the Agency for International Development.

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EXECUTIVE SUMMARY

The Relationship Between U.S. Aid and U.S. Exports

A. Introduction

This paper explores the relationship between the U.S. aid program and U.S. exports. It is written to assist AID examine ways in which the operations and content of its programs might further facilitate growth in U.S. exports, without distorting its development programs or introducing inconsistencies with its legislation. The study is written at a time of increasing concern for ensuring that the aid program, while continuing to perform its primary development functions, is operated in a manner that helps promote exports where such opportunities exist. While the subjects of mixed credits and aid tying are covered because of their role in generating U.S. exports, the terms of reference call for this study to focus on program and operational options other than these two aspects.

B. Background

Factors behind the often-cited decline in U.S. export competitiveness in recent years are briefly outlined, and the relatively small role the U.S. aid (and other donor) program plays in exports is stressed. Efficient use of aid to promote rapid growth in the economies of LDCs is noted as being more powerful in its long-run impact on donor exports than the immediate sales entailed by aid financing. Other long-term linkages include technology transfer, private sector relationships, and technical orientation of public and private sector technicians and decision-makers. These relationships, many inherent in the AID program and unintentionally export promoting, are greater than is generally realized.

C. Current Practices

Trade responsibilities of ten U.S. Government agencies are described and the coordinating mechanisms briefly outlined. Besides the activities of the IDCA agencies, the promotional and programmatic activities of Commerce and State are especially noted, including their field networks.

Aid practices of other donors are briefly explored. Their use of concessional aid for mixed credits appears less thorough-going than the impression gained from competition in some specific LDCs and over specific large capital-project deals. The entrance of new donors in this area appears to be largely a defensive response. In the case of two important donors foremost among U.S. competitors (France and Germany), the content of their aid programs (sector allocation, approach to technical assistance, country allocation) appears to reflect several objectives other than short-run commercial interests.

D. Policy Analysis

Aid policy and procedures as they affect U.S. exports are described. Except for ESF cash transfers, the bulk of aid is tied to U.S. goods and services. As a percentage of U.S. export value in LDCs, the aid program is small. In addition, many recipient countries are among the poorest and cannot be expected to become significant markets in the near term.

A variety of program aspects that bear on U.S. exports are described. Private enterprise promotion, conventional and renewable energy, health, agribusiness, and technology transfer all involve a natural congruence between development assistance and U.S. exports. Administrative arrangements in Washington and in the field show some deficiencies that, if corrected, could result in more effective identification and exploitation of these and other congruences.

E. Recommendations

1. The aid-export relationship is greater than is generally realized. It might be useful in further consideration of the role of aid with respect to U.S. trade, to lay out this relationship as described herein and make it more widely known.

2. A body of professional development opinion has thought for some time that the tendency to interpret AID's mandate respecting the use of DA to benefit the poor as a requirement that projects must "see the whites of their eyes" and eschew infrastructure, could lead in some situations to sub-optimal strategies. That is the number of poor benefited and the extent of benefit, might be greatly increased if the resources were aimed at less "direct" activities, and could more freely address physical investments that could have high multiplier effects. This issue warrants reexamination since the development merits of this position (which would be in the same direction as AID's movement in recent years toward broader interpretation of the basic human needs mandate) would also entail some shift in procurement content toward heavier equipment and a more conspicuous export relation. (Such a more conspicuous relationship could also strengthen support for aid in the U.S. export community.) At the same time, it must be recognized that some opinion favors making U.S. aid more rather than less direct in its immediate relationship to the very poor. If the merits of the case are as clear as this author thinks, dialogue with those favoring the "more direct" approach should result in agreement with the recommended shift.

3. There is a need within AID for better communication and program coordination among those working on private sector promotion generally, those managing appropriate technology and energy in particular, and those pursuing the small and medium industry perspective. There is also a need for better coordination with the Department of Commerce, particularly in relation to those offices responsible for promoting exports of specific product groups that are pertinent to areas of AID emphasis. Trade promotion activities now being overlooked (in promotion planning and product group fairs) to which AID could have brought significant perspective and product categories (health and energy are cited) indicate areas where closer coordination would be useful.

To sharpen AID attention on the export dimension, improve coordination with Commerce, and ensure that natural points of congruence between the development program and export promotion are identified and developed by further staffwork, AID should designate a trade focal point. The functions could include a) identification of congruences, b) facilitating coordination with DOC and other trade agencies as appropriate, c) facilitating coordination within AID of different bureau personnel and field activities working on similar subjects with related export potential.

4. Among the many specialized technology transfer activities of AID (and data access systems of other U.S. Government and private sources) there seems to be a missing link, viz. a broad, general access point of entry to U.S. technology. It would seem that a natural congruence between development and export interests could be promoted by a new service that provided LDCs with information on how to locate technology availabilities in the U.S., where they can be found, and how to access them. A proposal for such a facility was developed in 1979, but not adopted. It should be reexamined. (Annex IV contains a summary.)

5. Stronger donor country market positions in many countries rest on the presence of numerous business and technical decision-makers trained in the donor country over many years under technical assistance programs. AID general participant training has declined in recent years, resulting in a "generation gap" under the senior cohorts of engineers, technical and managerial personnel trained in the U.S. Given the present state of underutilization of U.S. higher education facilities, training capacity would not be a constraint on a big expansion in U.S. training of these categories as a long-term contribution both to economic development and to all

aspects of U.S. relations with the countries involved. A program looking toward significant incremental appropriations for training, expanded undergraduate eligibility, emphasis on engineering and technical students, and further relaxation of AID's preference for training for specific institutional and project requirements would be in the same spirit as the draft, new policy determination on participant training, but would carry its flexibility even further. In the long run, such training may well be the most powerful and sustained contribution an aid program can make to all aspects of relations with developing countries, including the commercial.

6. Coordination arrangements, between U.S. agencies in the field with some present or potential role with respect to promotion of U.S. exports, need to be improved. The apparently successful arrangements in Indonesia should be evaluated for possible replication in selected countries with relatively large market opportunities. In addition, joint AID/State/Commerce guidance could be prepared to increase awareness of field staff and encourage improved information exchange.

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A. Introduction

This paper explores the relationship between the U.S. development aid program and U.S. exports. It is written to assist AID examine ways in which the operations and content of its programs might further facilitate growth in U.S. exports, without distorting its development programs or introducing inconsistencies with its legislation. A number of specific suggestions regarding program and operational matters are made. These suggestions for AID consideration need to be seen within the context of what other agencies of the U.S. Government are doing to promote exports, what other governments are doing with their aid programs that is pertinent to their commercial interests, and what export relationships and implications the AID program already entails. These background subjects will be covered briefly before the discussion of some specific additional things AID might undertake. In addition, the context setting material will briefly outline the various direct and indirect ways in which aid programs relate to a donor country's exports to developing countries.

The study has been written at a time of increasing interest in and concern for ensuring that the aid program, while continuing to perform its primary development assistance functions, is operated in a manner that helps facilitate U.S. exports where such opportunities exist. Since the use of concessional aid for export financing in conjunction with standard commercial export financing channels (so-called mixed

credits) has been the subject of extended discussion among the donors and the object of some interest on the Hill and in the Executive Branch, this paper will touch briefly on mixed credits among the subjects that form the context for thinking about the aid-export relationship. However, the terms of reference for this paper focus on the program and operational relationships.

A second issue, also treated as part of the context rather than as a subject for renewed, in depth, analysis is aid tying. Since the exceptions to the tying of aid to procurement in the U.S. reflect selected local currency requirements essential for the viability of the development activities involved, or political considerations with respect to certain ESF assistance (albeit the export connection is addressed, as explained), and do not appear to result in significant lost scope for export financing, the terms of reference for this study do not call for reconsideration of this issue. However, it will be covered briefly in the review of other donor practices.

I. Background

A. Factors Determining Export Levels

The volume and competitiveness of a country's exports are determined by a complex set of factors, some more powerful than

others. It is worth introducing some of these in order to indicate the context in which concessional aid plays a role, and the relative importance of that role.

The proportion of a country's production entering into foreign trade and its annual usage of goods and services derived from imports, are determined in general order of magnitude by fundamental structural features of its economy: its resource endowment, level of industrial development, human capital, and its research and technological maturity. Economic size is also an important determinant of the degree of economic interdependence.

Export volume may vary substantially reflecting current exchange rates, domestic price levels, changing comparative advantage, and other factors. At the level of the industry and the firm, export sales are also strongly affected by the level of attention to product research and development, by the extent of firm export orientation and the resulting attention to long run marketing strategies, sales and service organization, and other country-specific factors. Competition for sales of relatively similar products can also be strongly determined by financing terms, if prices are closely aligned. Institutional factors also play a role, including the effectiveness of supporting services provided to export industries by

government, the legal framework, the provision of export finance, etc.

B. Factors Determining U.S. Export Competitiveness

The most recent major trade legislation was enacted in 1979 to codify the agreements reached in the Tokyo Round. Under the Trade Agreements Act, the Administration was called on to prepare a study of U.S. export competitiveness. The study was prepared by the inter-agency Trade Policy Staff Committee and submitted in July 1980. The study reviewed macroeconomic, industry and firm level determinants of U.S. export performance in detail. It concluded that U.S. competitiveness has eroded, mainly due to changes in world resource supplies, rising technological capabilities abroad, and higher investment levels and research activity in other countries. (The Report's Executive Summary is attached as Annex I.) It identifies the product lines where the decline in competitiveness has been most pronounced (e.g., autos, textile and metalworking machinery, steel, rubber manufacture) and the lines where U.S. competitiveness remains strong (e.g., some chemicals, fertilizers, power generating machinery, aircraft, computers, scientific apparatus, etc.).

As far as developing countries are concerned, the study cites an overall decline in the U.S. market share of LDC

manufacturing imports from developed countries between 1962 and 1979, from 34% to 26%. Except for a slight rise in the German share, the European share dropped, with Japan picking up the difference by doubling from 10% to around 20% at the end of the 1970s. Increased competition also rose from sales of newly industrializing countries to other LDCs.

A study by Mikesell and Farah on U.S. export competitiveness in developing countries (including oil-exporting) found similar patterns of product strengths and weaknesses. Noting that U.S. comparative advantage appears strongly associated with the high technology intensity of a product (and that the market share erosion among more traditional industrial products was not associated with relative price disadvantages), the authors concluded that domestic R&D expenditures may be one of the most important determinants of the U.S. export position in LDC markets. In addition, the Report concluded that evidence of U.S. price disadvantage, and other explanations were lacking and must lie in institutional problems and financial areas. However, these conclusions were not directly tested.

In general, LDC import restrictions do not discriminate against the United States as compared to other industrial exporting nations. The U.S. has been the smallest participant

in the increasingly popular countertrade arrangements of the 1970s. European countries and Japan have responded to a much greater extent than the U.S. to LDC interest in variations of barter trade. Countertrade agreements frequently contain side provisions contrary to non-discrimination provisions of the GATT which are inferior to market solutions and are trade distorting. To the extent such provisions are operating, and to the extent countertrade willingness preempts otherwise competitive situations, the relatively low U.S. participation in this practice entails some loss in U.S. market shares in LDCs where countertrading is important. Inter-LDC preferences allowed under the GATT for countries forming regional trade areas (e.g., Andean Pact, ASEAN) constitute allowable discrimination, but operate equally against all industrial countries.

Strong political, institutional and commercial links continue to operate between some European countries and former colonies, but do not generally constitute formal or legal barriers to entry of U.S. competition.

Interesting insights into these barriers, and the firm-level factors, often powerful as determinants of competitive position, can be found by comparing Department of Commerce (DOC) studies of markets in different developing

countries for the same product lines. These studies show the importance of individual firm marketing strategies, of long term market building, and of varying importance of price and credit among buyers and products. (A brief indication of these insights for a few products is given in Annex VI.)

An account of the framework would be incomplete if it did not touch upon the structural and institutional problems behind the widely cited decline in U.S. export competitiveness in manufactures, the proposals for reorganizing the U.S. Government's trade-related agencies and functions, and the intense scrutiny and debate that has been underway regarding government-business relations. With the rebuilding of the European economies in the early 1950s, the rapid development of Japan's export-oriented industries, and the emergence of the newly industrializing countries as major exporters, it was perhaps inevitable that the U.S. share in world trade in manufactures would decline by the 1970s. The creation of tariff and non-tariff barriers to U.S. exports in important trading areas, and the perception that U.S. laws and policies, and a generally adversary business-government relationship, were hampering the ability of U.S. business to compete, has led to major reorganization of the export promoting functions within the Department of Commerce, and the creation of the Foreign Commercial Service under DOC. The reorganization

transferred responsibility and a large number of overseas commercial posts from State to Commerce, and integrated the foreign and domestic export promotion field offices into one unified organization. Quite recently, legislation was introduced that would go much further by bringing together ExIm, DOC, TDP, OPIC, and many other units into a single new Department of International Trade. In addition, legislation has recently been signed into law establishing a new legal basis for export trading companies designed to encourage this form of trading organization which has proven so successful as a foreign marketing instrument, especially for the Japanese.

These developments and the issues that remain to be resolved go well beyond the aid program and the terms of this paper. They are cited here as a quick reminder of the broad context for this look at a small piece of the action, and to emphasize the key point that institutional and economic factors are massive in their weight as determinants of U.S export competitiveness and performance compared with the aid program. (We will give some numbers on this below.) The point applies equally well to the relative role of other foreign aid donors.

C. The Effects of Aid on Donor Exports

Before examining specific aspects of the aid/trade relationship and the approach of other donors, it will be

helpful to briefly outline the different ways an aid program can affect a donor's export sales.

1. Aid and Growth

The relative importance of any country as a market for U.S. exports depends on the size of its economy and the extent of its orientation to international trade. An efficient growth process that brings about rapid development, with rising effective demand and increasingly modern and technologically sophisticated composition of that demand, is the basic guarantor that a country will emerge as an important buyer of the manufactured products in which the U.S. has a comparative advantage. As a general rule therefore, if an aid program in any country is capable of making a significant contribution to the country's growth (questions of equity aside), the U.S. would be "sub-optimizing" (i.e., advancing a lesser objective at the cost of a more important objective) if its program aimed at maximizing immediate export sales at the expense of the development process. In its worst form, immediate commercial interest (as pointed out below) that has used aid terms to press uneconomic capital projects has produced negative effects on recipient country growth.

The Marshall Plan was in a sense a pure export financing program. The U.S. was about the only source available to meet

European needs for imported raw materials and equipment far beyond European import capacity. All other benefits aside (the Plan was in fact aimed at the other benefits), the reemergence of Western Europe as the major U.S. trading partner area far outweighed in its long run commercial benefits the immediate export sales earned by U.S. firms under Marshall Plan expenditures. The point is so obvious as to need no belaboring.

For a successfully growing country, long run can mean a relatively short period. In a mere nine years (1972 to 1981), the seven most rapidly developing "newly industrializing countries" (Mexico, Taiwan, Korea, Brazil, Spain, Singapore, and Hong Kong) increased their imports from the U.S. almost seven-fold, from \$6.4 billion to \$40.2 billion, thereby raising their share of U.S. exports from 13% to 17%. All seven benefitted from heavy inflows of capital, with concessional aid flows playing an important role in the case of the first four in earlier years.

2. Immediate Exports

The most obvious and immediate relationship lies in the very goods and services financed in any period by current aid expenditures. Much attention has been devoted to the direct use of aid by some donors to finance their exports or to

swing export sales through competition in export credit terms by blending commercial credit with concessional aid. It has often happened (including in the personal experience of this author), especially in countries in the earliest stages of development where government capability to impose discipline and high analytic standards on capital project decision-making is weak, that projects driven by aid "competition" and partly financed by supplier credits, have turned out to be white elephants. These projects are not only a drag on growth, but also fail to generate follow-on exports, either because the project cannot earn cash flow to purchase spares and replacement equipment, or because the supplying firm has lost credibility.

Few (perhaps no) donors view aid only as an instrument of commercial policy. The mix or relative weight of commercial and other interests varies substantially however among donors, as will be illustrated below. Against the spectrum of aid configurations, from donors that stress immediate export sales relationships with ODA to those that stress development objectives or poverty-alleviation strategies with low donor-export intent, the U.S. has tended toward the latter end. The legislation governing Development Assistance appropriations specifies sectoral allocations that aim a large fraction of DA to activities with low direct relationship to

the kinds of exports that have been the subject of terms competition. In recent years the program has stressed technical assistance and technology transfer rather than capital projects, another policy preference that reduces scope for export credit competition for "big ticket" projects. In a number of ESF country programs, the different nature and objectives of the assistance implies a different set of relationships to U.S. exports, but tending toward the same treatment as DA.

3. Technology, Training, and Orientation

There are other perspectives that entail positive impact of an aid program on a donor's exports, more long run and less direct than the immediate export relationship, but potentially as powerful if not more so, than the more overt and aggressive uses of concessional financing. We refer to program content, technology transfer, private sector linkages, long-range effects on the orientation of decision-makers and technicians, and other aspects that will also be discussed below. These relationships, many inherent and unintentional, are probably greater than is realized because AID and other donor programs have not been examined for these potentialities to our knowledge.

II. Current Practices

A. U.S. Government Programs

Nearly 15 departments and agencies in the U.S. Government are concerned with some aspect of trade. Some of these agencies have a particular policy interest or sector perspective (e.g., the Department of Energy). Aside from ExIm Bank financing, export program promotion activities are carried out by Commerce, USDA, State, and the IDCA agencies. The program work includes a full spectrum of services for exporters, and the activities of TDP (that finance feasibility studies and facilitate access of foreign governments to U.S. goods and services on a reimbursable basis) and of OPIC (which promotes U.S. investment in LDCs which normally entails some export of U.S. goods and services). The activities of the 10 principal agencies with responsibilities in non-military trade are described in Annex II.

Coordination among these agencies is carried out in a three-tiered structure chaired by USTR - the Trade Policy Committee, a cabinet-level group; the Trade Policy Review Group at the Assistant Secretary level; and the Trade Policy Staff Committee, at the senior civil servant staff level (see Annex III chart). Separate arrangements for coordination of particular aspects of varying degrees of formality cover food aid, special commission relations with certain countries, and other trade-related matters.

IDCA/AID relates to all these agencies and activities in several ways, aside from the formal status in the coordination structure and the formal relationships with TDP and OPIC. As the implementing agency for PL 480, AID has close policy and coordination relations with USDA. AID regional bureaus and missions have responsibilities for policy dialogue with countries on matters that are the subject of IMF and consortia discussions, involving important points of contact with Treasury. In the field, of course, there is the Country Team in which the AID Mission Director meets regularly with the senior economic and agricultural (and other) members; in some respects as discussed below, the opportunities this structure would appear to create do not emerge as well as they might, principally as concerns the functions of Commerce and State commercial officers and the units in Washington (mainly in Commerce) that support and complement the field work.

The major point of awareness and interest in the role of aid among many observers, including several interviewed in USTR and DOC in the course of this study, was in the immediate sales connection of concessional funds in mixed credit arrangements. If the submission of the Heinz bill (discussed below) is an indication, the interest and focus on this role is intensifying. It might be useful in further consideration of the issues involved, if the existing export/aid relationship

laid out herein, were more widely appreciated.

B. Other Donor Practices

Between a reading of DOC reviews of competitive conditions in specific product markets, and interviews with officials involved in occasions when several donors were competing for large project awards, one can easily gain the impression that donors have a policy of thorough-going use of their concessional aid for hardball export competition.

This concern over the aid-export relationship focuses on financing and terms, perceived as the heavy instrument that often turns the decision for deals involving immediate export sales, but with an understanding that once a project is implemented it entails future follow-on sales of spares, replacement, and possibly other opportunities in related technologies and products where the source country, or more accurately the source firm(s), has established a reputation in the country procuring the initial project equipment and services. It is also assumed that the content of technical assistance programs is bent towards creating commercial advantages.

If one scans the basic features of the aid programs of a sampling of the donors normally viewed as aggressively using

aid for export advantage, one sees programs and policies more complex and contradictory with respect to the export connection than one would expect from the perspective of those concentrating on the products and markets where this competition has appeared most fierce.

The French aid program is normally seen as the leading exemplar of bending an aid strategy to commercial purposes. In fact, brief examination of its country allocation pattern and of the content of its technical assistance, shows that the picture is complex, reflecting a mixture of commercial and non-commercial objectives. The German aid program appears to be moving away from commercial orientation; the FRG has reduced aid tying and has explicitly moved its technical assistance away from direct relationship with German export interests.

In the 1981 annual report of the agency that executes FRG technical assistance (the GTZ), there is a discussion of the relationship between technical aid and a donor's exports, and a judgement that past efforts to use such aid to promote commercial relations were counter-productive. This unusual text is worth reproducing here:

The growing demand for German experts stems not least from one of the basic elements of the GTZ's business policy: The GTZ experts are required to gear their work primarily

to the needs and interests of the partner countries, and are not called upon to fall into line with outside interests in the fields of economic, cultural or foreign policy. This policy is also in the interest of the German economy. In view of the importance of personal trust, which in many countries is the decisive factor in vital economic and political negotiations, the basis of trust built up by Technical Cooperation personnel among their partners probably has a far greater effect on the partner's economic policy decisions - even in areas unrelated to Technical Cooperation - than would be the case if the experts tried to exert an inappropriate direct influence with a view to gaining advantages for German companies in specific cases. There are, moreover, repeated indications that the basis of trust enjoyed by German experts has enabled them to counter the exerting of such influence by other partners and thus prevented damage to German interests in the investment or supply field.

A few other European donors have recently introduced mixed credit facilities into their aid programs, generally as small set-asides described as reluctant responses to the practices of other donors, and to the inability of the repeated negotiations within OECD to bring about agreement to cease the practice altogether (although agreements have been reached on terms and on disclosure procedures that would give donors enough notice of an impending offer to finance a specific project to put in a competitive proposal if so inclined). The UK is an interesting case in point as described in Annex VIII along with additional details on the French, German, and Japanese programs.

III. Policy Analysis

A. AID Policy and Procedures as they Affect U.S. Exports

For all donors concessional aid is seen as serving international self-interest and humanitarian concerns. The perception of what aspects of national interest, and the relative priority given to these different aspects varies considerably among the donors. The reasons behind the relative mixes are readily apparent and are often explained in a straight-forward manner in the regular donor reviews undertaken by the OECD Development Assistance Committee (DAC). In general, small countries tend to put a large fraction of their aid through multilateral organizations, including both economic aid and technical assistance. This automatically implies (among other things) that the promotion of the donor's own commercial interests, including the direct use of aid to further its own export sales, takes low priority, since multilateral organizations use competitive bidding and international recruitment when procuring goods and services for the assistance activities.

As pointed out above, the use of aid by small and large donors alike reflects a mix of interests. The Swedish preference for aiding least developed countries with particular political coloration, and the French ties to extremely poor Sahelian countries, are important examples of non-economic aid objectives dominating over immediate export promotion, since

these recipients hold only minor export potentialities compared with many developing countries outside these categories.

The global extent of U.S. security and political interests puts U.S. aid in a class by itself. With limited concessional resources (lower in relation to U.S. resource availability than is the case of most other donors), the potential claims on U.S. aid for uses promoting regional stability in different areas have dictated a country allocation pattern that differs from what it would be if commercial interests were paramount. In addition, humanitarian and long run development objectives have been written into the legislation governing the uses of Development Assistance in a manner more explicit than is the case with most if not all other donors. The sectoral allocations and the determination in the past decade to ensure that the relatively poor are benefitted by the U.S. programs, have meant a decline in the proportion of aid allocated to large, equipment-intensive projects (e.g., power generation, highway construction) compared with earlier years. Strong links with the areas of greatest export competition today (e.g., communications, transport, electronics) would be exceptional under DA financing.

In fact the focus of discussion on use of concessional aid for export financing has been on Economic Support Funds. As a result, while the more direct use of ESF as an export

instrument would raise issues with those who have pressed for increased programming of ESF along the same development content lines that guide DA, such use also could raise conflict with ESF foreign policy objectives. For example, recent Chamber of Commerce testimony on the ExIm Bank pointed to Mexico as a country where mixed credit competition from the UK had won a big sale for that country. Under the objectives for which ESF is now appropriated, Mexico is not a recipient.

U.S. policy on mixed credits is easily summarized. In September 1982 AID and State issued a policy statement providing for use of ESF in mixed credit arrangements, on a selective basis, as a defensive response where appropriate. The policy generalizes ESF availability, previously confined to AID's Trade Financing Facility in Egypt which was funded as a Commodity Import Program (CIP) at \$75 million. The policy statement precludes use of Development Assistance for mixed credits, but calls for a review in September 1983 of efforts to reduce use of mixed credits among OECD donors, and concludes that "in light of the results of that review, the issue of whether our policy should permit the use of Development Assistance...in addition to ESF or other measures, to support mixed credits will be reevaluated."

Consistent with the long-standing overall U.S. policy on

trade favoring commercial competition free of distortion introduced by government interventions in financing or other matters, the USG has worked over the years to uphold the principles of the Berne convention and to negotiate in OECD and the DAC for agreement on terms, disclosure and procedures that would restrain and bring order into the grey "mixed" area between aid and commercial credit. As recognized in other donor statements on their recent moves toward more use of concessional aid to promote exports, the best solution would involve discontinuation of mixing practices by all donors so that the "defensive" erosion of development aid could be mutually repaired. Additional information on ESF and the ESF/export relationship is contained in Annex VII, including reference to specific procedures and understandings through which AID seeks to ensure the linkage with U.S. exports.

There is one approach that could modestly increase the heavy equipment component of AID assistance without introducing the risk of diverting the program from its basic objectives respecting who benefits, or the risk that short-term commercial objectives would drive concessional aid toward ill-considered projects. We refer to a reexamination of the Agency's interpretation of the legislation and the manner in which it seeks to bring development benefits to the poor. For several years there has been a body of professional opinion within and

without the Agency that views the desire to impact directly on the poor, to see the whites of their eyes before a project passes muster, as a sub-optimal strategy for the poor, in some situations. That is, the activities do bring benefits to the intended disadvantaged, but the numbers and extent of benefit might be greatly increased if the resources were aimed at less direct activities or physical investments, that might have much wider multiplier effects. Extended discussion of strategy would be beyond the terms of this paper. Suffice to note that the issue has been raised in the past on development and poverty alleviation grounds, but that such a shift of emphasis (or easing of emphasis) could also entail a shift in the procurement content of the program in some cases toward heavier equipment and a more conspicuous export relation. At the same time, it must be recognized that some opinion favors making U.S. aid more rather than less direct in its immediate relationship to the very poor. If the merits of the case are as clear as this authority thinks, dialogue with those favoring the "more direct" approach should result in agreement with the recommended shift.

The element of the conspicuous raises a far from trivial question, viz. would more overt connections with U.S. exports help the program generate greater domestic political support? If the British mixed credit allocation does create support that

translates into higher ODA than would otherwise be appropriate, this innovation would appear in a different light even to aid purists. This also is an issue that goes beyond the terms of this report. Presumably the Administration's new commission on foreign aid will examine these issues, including the possibility that additional funds be appropriated for export credits on concessional terms, in a new facility or "window" (an old idea that could be reconsidered under the impetus of the much greater concern for U.S. export performance that exists now, compared with earlier periods).

B. AID: Volume and Procurement

Total AID program disbursements, including PL 480, were \$5.7 billion in FY '82. AID estimates that 70% of the disbursements (\$4.0 billion) were for direct procurement of U.S. goods and services. Because of the different forms of disbursement and differing accounting streams, it is difficult to develop precise data on commodity exports under the various categories of expenditure. Hard data is available only on the procurement of goods processed directly by AID/W. This data shows disbursements of \$560 million on commodity exports in FY 82. The \$560 million figure represents a floor that excludes such categories as: a) goods imported from the U.S. by countries receiving cash transfers or local cost project financing; b) procurement arranged in the U.S. directly by overseas missions; c) equipment purchased by contractors, where

the disbursement is recorded as a payment to the contractor for services rendered. Finally, the figures refer only to goods, while the AID program (especially DA) finances a substantial volume of services. Under 50/50 shipping provisions, there are significant earnings generated for U.S. shipping services, also omitted. The composition of aid-financed merchandise exports under this definition is shown in Annex V.

There are some obvious conclusions that can be drawn from casual examination. First, as a percentage of total U.S. exports to developing countries, the aid program is small. It is not easy to assemble the appropriate and comparable numbers, but the merchandise proportion of bilateral aid is certainly under 1% of the value of U.S. merchandise exports to non-oil LDCs.

Second, an examination of the list of countries receiving ESF indicates that the number where ESF allocations have a potential significance as a trade promotion instrument for capturing major engineering projects is small. Of the 31 ESF programs proposed in the FY 84 Congressional Presentation (other than Israel and Egypt), 3 are special, non-LDC balance of payments support situations, and 11 are minor in size. Of the remaining 17, 12-13 are programs providing balance of

payments support, i.e., raw materials and intermediate goods in situations where the countries would be unable to maintain an acceptable level of economic activity if U.S. (and other donor) aid were not available in the form of maintenance imports. In these situations, diversion of some of this supplementary import capacity to large-scale new capital projects would be a serious error in economic policy. One is left with a handful of cases where it would be difficult to make an argument, looking at current program content, that the current uses of ESF, and the inter-governmental understandings under which these programs are being allocated, leave much scope for revamping in order to get significant additional export potentiality. There is always some room for judgement in these matters, but no matter where one might come out, the resulting impact on overall U.S. export performance would be tiny.

Third, among the larger LDC markets where competition has been most intense, ESF is either not present or insignificant in size, in most cases. In addition, many countries receiving DA assistance are among the poorest in the world; given their small economic size, they are unlikely to become important export markets in relation to total U.S. exports, in the near future.

Fourth, for most products the amount financed under AID

is a small fraction of total exports. For certain products (certain drugs, family planning commodities, etc.), the AID-financed commodities comprise an important portion of the export business.

The 70% estimate is a natural result of the extent to which concessional funds are tied to U.S. source. In the case of DA, all expenditures (except for local cost financing) are tied to procurement in the U.S. or, in the case of loans, in the U.S. and in LDCs on the 941 list of countries. Although precise figures are hard to develop, 941 procurement outside the U.S. has always been relatively small. ESF monies are fully tied to U.S. procurement, whether project or CIP in form, except for cash loans and grants to countries such as Portugal, Turkey and Israel (the latter includes an understanding concerning imports from the U.S.). Other non-U.S. procurement arises from institutional grants and other miscellaneous activities supporting institutions located overseas. The details of the eligibility requirements (e.g., concerning certification of U.S. source origin) are long established in AID practice to ensure compliance.

Procurement practices respecting small business and minority firms may have a long run export effect beyond the actual procurement involved. Many of the firms securing

business with AID under these special provisions are probably introduced to overseas sales through their AID contracts and helped thereby to establish reputations and market positions. Assistance to medium and small firms has been institutionalized in AID for many years. Besides the general assistance such firms can get from Commerce to ease their way into exporting, AID has developed complete guidance materials and a documents kit to help them meet AID's particular procedures and requirements, and learn how to obtain current information on procurement opportunities.

C. Program Content and Aid/Trade Relationships: Beyond Immediate Financing

In all fields where AID is working, the Agency's programs include important elements of technology development, adaptation, testing and demonstration, and dissemination. To the extent that these technologies are embodied in equipment, some of them have an inherent close relationship to U.S. exports. Some of these activities involve established technologies embodied in "big ticket" capital equipment. Others involve nascent technologies, including so-called appropriate technologies normally thought of as low in capital content.

In addition, AID gives high priority to institution-

building and training, activities that are more indirect or incidental to technology transfer but that can have significant if more subtle impact on the future direction of a host country's imports. We consider several of these technology transfer and institutional activities below, starting with the broad objective of private enterprise development.

1. Private Enterprise

In the 1950s and 1960s, the U.S. aid program was active in promoting development of private enterprise. Under the 1973 legislation this activity declined insofar as manufacturing, mining and other sectors were concerned. The essentially private character of agricultural production in most LDCs has meant that strictly speaking the program continued to focus on development of the private sector, indeed the largest component of the non-governmental sectors in these countries. With the revival of AID activity in private enterprise development not strictly limited to individually owned farms, the Agency now has a portfolio, still modest in relation to its DA accounts, that has links with U.S. export potentialities. Although the export dividend is not a deliberate objective of the projects that have emerged under this renewed initiative, the congruence of development and commercial interest is a natural outcome of an effort to harness U.S. private sector capabilities for the development of a private sector abroad.

In fact a reading of some project papers and proposals in the 1984 Congressional Presentation, and discussions with AID staff, reveals a number of activities that have an inherent export relationship, even though not intended as such. For the private enterprise project, the relationship takes the form of capital equipment exports that are part of the creation of new investments and joint enterprises, the follow-on export of parts and equipment for these enterprises, potential movement into new products once established, sales opportunities created by new links established under projects and by information flows, etc. Some examples will illustrate the point.

The private sector project proposed by USAID/Thailand (now in the authorization process) contains three components that would have a natural reflection on U.S. export potential in Thailand. The first involves technical assistance to the Thai Board of Investment that would (inter alia) strengthen the BOI's ability to attract U.S. investment and promote market linkages and access to U.S. technology, train BOI staff in the U.S., and help arrange seminars to bring together potential joint venture partners. The second component would strengthen the analytic capability serving new institutional arrangements that promise to improve the policy dialogue between the Thai Government and the private sector's network of business associations. The dialogue will focus on problems that, among

other things, are viewed by U.S. firms as deterrents to investment and the operation of foreign firms in the Thai market. The third component aims at creating linkages between Thai and U.S. private sector organizations for informal technical cooperation in agroindustries. Such relationships are useful for promoting the flow of new investments, licensing, management contracts, and trade in both directions.

The Indonesian Mission's private enterprise project will assist the GOI foreign investment promotion agency to improve its capacity to identify promising investment opportunities with U.S. business in mind, identify Indonesian entrepreneurs interested in locating U.S. partners, and provide training of Indonesian officials with trade associations in the U.S., investment promotion firms and other agencies. The activities under this project (including assisting U.S. businessmen visiting Indonesia) are designed to be conducted in close liaison with U.S. commercial and other official activities concerning trade and investment. One interesting component will help finance local consultant firms that will work with the U.S. consulates, in effect extending the informational and advisory coverage of the Commercial Service Officers.

The FY 84 Congressional Presentation proposes \$70 million of Special Development Activities funds for supporting private

enterprise activities, much of which has a trade relationship. A small- and medium-scale industry project in the ASEAN region is designed to encourage joint ventures and sub-contracting. Continuing support is proposed for the International Executive Service Corps which provides short-term executive volunteers requested by LDC firms to help solve management and technical problems. Funds are being provided to the Joint Agricultural Consultative Committee to set up joint committees with several countries to facilitate identification of agribusiness opportunities. Feasibility studies are to be financed under several projects.

Several activities under the recent program expansion in the Caribbean region aim to promote the flow of U.S. technology and enterprise to that area. For example, AID funding will assist the Chicago Association of Commerce and Industry launch its Caribbean Private Sector Initiative to promote business contacts with countries in the Basin Initiative category. A regional project covering Latin America and the Caribbean provides funds to the National Technical Information Service of the Chamber of Commerce to finance improved access to the NTIS archive of scientific and technical information by LAC users, of whom over half have been private firms.

When account is taken of these varied efforts AID has made

recently to promote joint venturing and technology transfer by small- and medium-sized firms (plus other efforts discussed below), it is clear that the Agency has already built up a body of experience working with the smaller end of the scale of U.S. firms, that is in some respects unique among USG agencies involved in international commerce. The modest funds allocated for these activities cannot be taken as prima facie evidence of small impact, since the projects are intended mainly to launch processes rather than finance large numbers of individual transactions or ventures. Just as the Agency's sophistication in assisting countries in basic needs areas of development increased as experience and evaluation accumulated over the 1970s, so its effectiveness in these commerce-related activities can be expected to increase, especially if the Agency's skills in evaluation continue to be applied to these efforts also.

2. Energy

For several years AID has been extending technical assistance in renewable energy technologies. AID has worked in four areas: energy planning and policy development; training and institutional development; technology research, testing and demonstration; and increasing energy supply and the efficiency of energy use. Over the period FY 79-82, AID committed over \$200 million in DA in more than 25 countries. To the extent

that countries are assisted in programs involving expanded use of technologies based on equipment that cannot be produced locally (or only at infeasibly high cost), their adoption of U.S. technology will entail importing the equipment from U.S. firms.

This particular export/development congruence is especially interesting because of the experience AID has had with these technologies and the problems of dealing with them and the industry. Through an intermediary specializing in "appropriate technology", AID helped a number of small U.S. firms participate in fairs (in Mexico City and Zimbabwe) promoting "development technologies". The fairs were designed to promote both trade and joint ventures. While the first-round business generated by these initial events has been tiny in terms of export earnings (perhaps \$5-6 million) they are interesting for several reasons. The renewable energy field (only one of the technology areas represented at the fairs) is relatively new, but with the enormous rise in conventional energy costs in the 1970s, it holds out great potential. Firms that gain substantial leads in technology and in business recognition will be in a position to develop major marketing opportunities if the promising technologies turn out to be significant energy systems. For some of the products involved, the export market is already relatively important. More importantly, the major

beneficiaries and potential markets for some of these products will be the developing countries. As with many new technologies, the successful marketing of the individual products can be enhanced and speeded up if production can be raised to levels where economies of scale allow significant cost reductions.

The congruence of interest between adoption of these energy technologies by LDCs for their development efficiency (compared with petroleum-based systems and further depletion of forests), and increased U.S. exports is a striking case where effective coordination between development assistance and U.S. commercial interests can serve different but reinforcing objectives in a positive way. The fact that many of the firms producing wind, solar and other non-conventional power systems are small and not export-oriented suggests that coordinated efforts by several agencies might be needed and helpful at this stage in the industry's development. No framework even for examining this hypothesis exists at present.

Even within AID there appears to be some need for better alignment among those working on private sector promotion generally, those managing appropriate technology and energy in particular, and those pursuing the small and medium industry perspective. For example, the appropriate technology

orientation aims at small and medium firms on both the U.S. and LDC sides, assuming that "small is appropriate". While it is likely that small (hardware) firms deal only in small-scale technologies, and that it takes large firms to deal in capital-intensive technologies, it does not follow that the entire range of useful appropriate technologies is covered by the universe of small firms. Furthermore, promising new products developed by small firms (and the firms themselves) are often bought out by large firms, so that today's small firm with an attractive product could soon be tomorrow's large firm unqualified for AID attention. In the interest of transmitting the technology (let alone promoting the export development), appropriate technology activities ought not be arbitrarily restricted by a firm-size overlay.

It is in the area of conventional energy that AID's technical assistance has the strongest direct connection with export potential. In several countries the Agency is assisting host governments to develop energy source alternates to petroleum. Coal, lignite and gas potentialities are being explored through feasibility studies and through training programs for energy analysts, authorities and corporate personnel. If properly followed up, and assuming appropriate technical and financial packages can be put together, these forms of assistance can lead to substantial ventures and

capital equipment sales.

3. Health

In the health sector, the next decade should see a major program shift in many countries, following the universal adoption of the primary health care (PHC) strategy promulgated by WHO and UNICEF, especially in those countries where fiscal constraints on recurrent costs are less severe.

State-of-the-art diagnostic, surgical and other curative and supportive technologies should get modest resource allocations, while the need for disposables, cold chains, information systems, logistics systems, basic diagnostic equipment, and other components of PHC systems will grow substantially. AID assistance may well finance initial injections of such materials, and AID will certainly be involved in the planning, training, and other technical assistance requirements of LDC health ministries.

At the same time, Commerce has health care on its list of industries "targeted" for DOC initiatives in promoting the expansion of U.S. exports. The analysis, planning and activity promotion (fairs, trade missions, etc.) carried out by DOC to help U.S. manufactures promote their health equipment exports naturally covers a different range of equipment than is pertinent to AID's approach to LDC health problems (and to

primary health care). DOC is targeting the high tech end. In a medical electronics exhibition in Singapore in May 1983 for example, DOC is promoting participation of U.S. firms making advanced patient monitoring equipment, automatic blood pressure computers and clinical analyzers, pulmonary and operating equipment, etc. In both public and private medical facilities, Singapore has become a central location in Southeast Asia for medical treatment. The technological edge of much U.S. equipment of this type puts U.S. manufacturers in a very competitive position in a field where product quality often outweighs price advantages manufacturers in other countries are able to offer.

This appears to be a field and a trade strategy where different AID and DOC perspectives could come together in a mutually reinforcing way that has not yet happened. While the market in Singapore and in teaching hospitals and private facilities in the region, based on the medical standards demanded by the region's middle and upper income classes, is large enough to hold out prospects of profitable sales earnings for the U.S. firms involved, the approach to this fair overlooks the potential major expansion that PHC holds out in very different lines of equipment of more "appropriate" technology. The bringing together of health administrators from the entire region in an equipment display exhibition is

not a frequent happening. With the center of health policy attention in the public sector having shifted to a radically different strategy, these administrators are equally if not more concerned with kinds of equipment relevant to PHC.

The point is worth pursuing with one more detail. Recall that the Zimbabwe fair was designed as a small and medium enterprise show, based on a review of the technical needs of the region. Two of the participating U.S. firms produce equipment that appears well suited to meet two essential technical requirements of PHC systems in regions that are not electrified or served by telephone or other effective communication systems. The two requirements are refrigeration to preserve drugs and immunization cold chains, and communications with central referral, resupply and supervision units. One of the firms produces a photovoltaic powered refrigerator now being tested in a few locations by WHO. The other firm makes a communication system that operates on solar power; the Zimbabwe health ministry has asked this firm to establish a communications system. These concepts did not surface for the first time in Zimbabwe. What is pertinent for this study is that the connection with the Singapore fair has not been made. Although the fair was a major equipment event for health administrators in the whole region, the absence of some standing coordination between AID and DOC has meant that

an opportunity to give these technologies (among others) exposure probably much greater than was possible in Zimbabwe, has been overlooked.

There is a policy point involved here also. While it would be inappropriate ("cultural imperialism") to deliberately refrain from promoting U.S. high tech medical equipment on the grounds that we should not lead LDC administrators into temptation (resources will continue to go into high tech equipment in the private and public facilities anyway, and these administrators should have the benefit of choice among world suppliers), the U.S. Government should also be seen actively supporting the PHC concept (as we do in fact). Thus, inclusion of PHC relevant equipment, even if only through a catalog section of the U.S. exhibit area, would represent that policy while simultaneously taking advantage of the event to inform attendees of the range of U.S. equipment available on this other front of their health planning.

4. Agribusiness

Another product group "targeted" by DOC is food processing and packaging equipment. The overlap here is obvious. Generally, the PRE Bureau and mission private enterprise projects emphasize agribusiness because of its natural relation to AID development programs . Storage, processing, marketing

and other agribusiness functions use a wide range of technologies and equipment of which the U.S. is an important world supplier, e.g., dryers, extruders, cookers, packaging equipment, etc. The congruence of objectives is close in this product group, but DOC promotional plans and activities have been developed with little apparent AID involvement either in Washington or the field.

Another specific example will help illustrate the problem. The Nutrition Division in the S&T Bureau has a centrally-funded project carried out by USDA under which developing countries are helped to formulate and introduce nutritious foods, especially processed weaning foods. One of the activities of this project has been to adapt an American extrusion cooker for use in developing countries. As is always the case with experimental introduction, the number of cookers involved is small but could become important to the firm involved, and other firms, if the technology becomes established as a part of child supplementary feeding programs in countries where such programs are warranted on a large scale. This is another example of a perspective and innovation that would be found only under the aid program and that could be pertinent to export growth in the food processing area. According to the analysis in the DOC/ITA export development plan for the food processing product group, U.S. firms are at a disadvantage in

LDC markets, compared with European and Japanese competitors, because U.S. equipment is geared to the very large volumes of the domestic U.S. market, while foreign manufacturers tend to be smaller enterprises, more export oriented, and more flexible in their ability to adapt to the requirements of markets with smaller volumes for processing in any given time period.

On a larger scale than the kinds of equipment that would be of interest to aid activities aimed at products bought by low-income consumers, would be the processing and packaging equipment that would put LDC enterprises in position to export to the U.S. While the DOC orientation is primarily toward sales of the equipment, the AID orientation toward agribusiness investment in LDCs provides obvious complementarities. In addition AID has intermediary mechanisms for helping small firms in ways not open to DOC. [New DOC policy requiring cost recovery from participating firms will tend to discourage small firms unable or unwilling to spend the amounts required (\$6000 per participant at the Singapore exhibition, for example) for an initial sales effort of uncertain results.] How fruitful these complementarities would prove in practice will remain unclear until an effort is made to explore the potentialities.

5. Other Activities

A thorough review of past and present activities would be

able to identify other AID projects that hold potential dividends for U.S. exports. A few examples:

- Arrangements have been made with India to promote closer coordination and exchange between Indian and U.S. scientists. Under an initiative launched by President Reagan and Prime Minister Gandhi, a joint scientific team will be advising on research cooperation in health, food production, biomass production and conversion, earth sciences and materials. Besides its link with activities of the AID program in India, the work of this panel should encourage increased Indian familiarity with areas of U.S. technology where U.S. institutions and enterprises have leadership among the industrial economies. Similar arrangements are being developed with other advanced developing countries with relatively high levels of scientific capability in fields of joint interest.

- Under the Housing Guaranty Program there was an interesting example in 1972 of a housing project associated with U.S. investment that probably involved the export of U.S. mining equipment to the

Dominican Republic. The mining project was financed in part by an IBRD loan and by U.S. equity and loan participation. The HIG participation was sought after the investment in the mining project was already set, so that HIG availability does not appear to have been instrumental in the decision to undertake the investment, but opportunities of this type might be available in some situations.

-- AID has helped in the development of remote sensing technology capability in several LDCs through provision of equipment and training. In this field of rapidly improving technology, governments utilizing satellite data will continue to need new generation equipment.

-- The relation between technology and exports is clearly very powerful, in some lines completely offsetting effects of prices and credit terms. AID's activities promoting the process of technology transfer (as contrasted with specific technologies) deserves special mention. The Agency funds several projects promoting the transfer of technology from different angles. The centrally funded Market and Technology Access Project is designed to facilitate

firm-to-firm technology transfers, operating in a few developing countries and aiming at small and medium firm sources. The Science and Technology Information Transfer projects assist countries in Latin America and the Caribbean to obtain information on appropriate technology, including assistance to the technology transfer adoption capabilities of the recipient countries. (A number of other activities operated by NGOs aim at development of appropriate technology. These do not appear oriented toward available U.S. technologies as contrasted with development of local highly adapted, rural technologies.)

As useful as these activities are, they are constrained by their focus on particular channels and types of technologies and particular classes of end-users. Given the dimension of general Agency interest in the private sector, and the work already being done to help countries develop efficient information out-reach and absorption systems that do not, or need not confine the subjects or users they serve domestically, there appears to be an important missing link, viz. a broad, general access facilitation. It would seem that a natural congruence between development and export interests would be

served by some type of central facility in the U.S. that could provide LDCs with information on technology availabilities in the U.S., where they can be found, and how to access them through one of the many technology banks maintained in this country publicly and privately. At the time of the UN Conference on S&T in 1979, a proposal for such an access service was developed by the AID Office of Development Information and the Office of the U.S. Coordinator for that conference. The proposal was not adopted at the time. It would be worth reexamining within AID's current policy perspectives. (Annex IV contains a summary.)

6. Participant Training: Scientific, Engineering and Investment Decision-Makers

In recent years AID has done much less general participant training in the U.S. than in earlier years of the program. There were four main reasons for this decline: a) the Agency preferred to concentrate training within specific projects; b) in-country and third country training was cheaper per trainee than training in the U.S.; c) the shift away from capital-intensive activities reduced the need for long-term training at specialized facilities not available in host countries; d) many recipient countries developed university capability reducing the need for overseas training.

One of the results of this change has been to reduce the long-term impact participant training has been having in terms of side-effects, including (besides creation of personal ties, familiarity with American cultural and political values, etc.) benefits for U.S. exports. The export side-effect, which was not a deliberate objective of training in the 1950s and 1960s (and was probably seldom recognized) was probably strongest from the training of engineers, scientists and other technical and managerial personnel who returned home to occupy jobs involving technical choice, production process investment decisions, project design and equipment specifications, selection of consultant and engineering supervision contractors, and other responsibilities affecting their countries' imports. In addition, such training can help overcome language and cultural barriers that are important in some areas.

In some countries (e.g., Brazil, Indonesia) it is commonly observed that there is a whole "generation" of now senior decision-makers in government and the private sector who received their undergraduate and graduate training in the U.S., and that a generation "gap" is emerging because younger cohorts in these same disciplines contain fewer U.S.-trained people. In countries where local education facilities are adequate to local needs, overseas training is needed only for very

specialized subjects. In other countries the local facilities are still insufficient or still need infusions of high quality overseas training. In much of Africa, domestic training facilities are at the same stage of development as many Asian countries were in the 1950s and 1960s, and reliance on overseas training will be heavy yet for many years.

AID is presently reexamining its participant training policies, and developing a formal policy determination. The draft determination moves in the direction of greater flexibility, but the approach suggested here would go further in certain respects. It would take advantage of the present underutilization of U.S. higher education facilities; capacity would not be a constraint on the ability of the U.S. to absorb a large number of additional foreign students. To be significant in its long term impact in relation to the needs, it would stake out the ground for building up an incremental training appropriation. It would broaden eligibility to include engineering training, allow larger numbers of undergraduates from countries where undergraduate technical training remains weak, and would explicitly recognize the limitations of short-term manpower demand forecasting (and the efficiency of labor markets where trained personnel exercise their mobility) by relaxing the preference for training for specific institutional and project requirements. In the long

run, such training may well be the most powerful and sustained contribution an aid program can make to all aspects of relations between the U.S. and the countries involved, including the commercial.

D. Administrative Arrangements

In the more rapidly developing countries, the pace of new investment and interest in acquisition of new technologies make the import trade especially dynamic. The complexity and fluidity of the situation puts a premium on information about government investment plans and private sector commercial intelligence, and on alert and fast responsiveness to opportunities as they emerge in a highly competitive export sales environment.

It is often noted that some donor governments work very closely with private exporting firms in their countries. Their ability to do so may be enhanced by the smaller size of their in-country staffs and the lack of separate missions for implementing their development assistance programs.

In the U.S. case, the extent of coordination and the relations between AID missions and economic, commercial and other elements of the U.S. presence varies from country to country. The sense of separation arising from substantially

different agency objectives that one often finds in the field is apparent also in Washington. One gets a strong impression of inadequate understanding of, even disinterest in, each other's objectives and the reasons behind the different perspectives of AID and Commerce, even when the inquirer is attempting to define the common ground.

At the field end there is one coordination arrangement that is reported to be bridging the trade and development perspectives to the satisfaction of all participants, that is worth brief description. In mid-1980, a Washington review of U.S. operations in Indonesia concluded that significant commercial opportunities for the U.S. were being lost because of poor coordination and attention by the various pertinent USG elements. As is well known, Indonesia has been one of the most rapidly growing LDCs in recent years, offering expanding markets for investment and exports, including numerous large-scale industrial and infrastructure projects. Commercial competition has been especially intense as governments and firms have worked to secure sales and market positions. At least one important donor government on the international aid coordination group for Indonesia (the IGGI) has candidly refused to join parallel coordination arrangements in Jakarta.

In this situation and atmosphere, it was decided to

establish a Commercial Interests Working Group chaired by the Indonesia desk officer in DOC. Besides DOC the group includes State, ExIm, USTR, OPIC, USDA and IDCA representation from AID/Asia, PRE and TDP. The group meets monthly to review development, trade and investment issues and coordinate actions. A parallel group meets regularly in Jakarta, chaired by the DCM. The arrangements have facilitated other agency inputs into the CDSS/ABS process, assisted the USAID develop its private sector project, coordinated actions in the field of science and technology, and has been effective in responding to specific opportunities.

As far as this author could determine, this is the only case of its kind. This is not to say that formalization along the same lines is a necessity for effective working relations. At the Jakarta end, the group includes several people normally meeting as part of the country team. But their meeting under formally designated different hats, in parallel with a working group in Washington where coordination is inherently more cumbersome, appears to make the whole mechanism more active and effective because of the special focus. In selected other countries, where the potential size of investment and trade opportunities is large, the potential congruence between the development and commercial activities of the various USG elements may be similarly strengthened by creating formal

coordination arrangements.*

To ensure that natural points of congruence, as identified in this report and further refined by staffwork, are explicitly identified and deliberately examined, AID could designate a trade focal point. The functions could include: a) identification of congruences; b) facilitating coordination within AID of different bureau personnel and field activities working on similar subjects with related export potential; c) facilitating coordination with DOC and other trade agencies as appropriate.

Commerce already participates in AID CDSS reviews, but without more deliberate supporting attention and contact, this liaison does not appear to have had rich results over the years.

* One cannot but be struck by the inadequacies in DOC for improved coordination with AID. DOC is a large agency, with several units dealing with trade in different respects. The country desks parallel AID's desk structure, but without formal coordination there is infrequent exchange. Separate market research, industrial group and trade "events" units in Commerce cannot easily relate to AID's structure except when there are specific projects that happen to bring different units together for unique occasions. Formal coordination between DOC and AID (and the whole set of multilateral development banks) is the responsibility of a single officer in Commerce, and lacks any focal point in AID. If it is determined that the suggestions herein have merit, or that other opportunities for fruitful coordination with DOC are worth pursuing, both agencies should reexamine their internal arrangements for liaison with each other.

Without explicit guidance in this area, AID staff do not normally see or pursue potential congruences. On the Commerce side there is one programming instrument where regular contact and review with AID staff might be quite helpful to both sides. This instrument is the Export Development Plan used by DOC/ITA as the basic planning document for their activities designed to promote exports in particular product lines. The plans are developed through consultation with industry trade associations. They contain a profile of the industry, an export strategy developed by representatives of the industry, and a plan of action based on elements of the strategy pertinent and acceptable to DOC. The plans are updated periodically and are circulated to the overseas commercial staffs. They list specific events (fairs, etc.) over a two or three year period.

Of the more than twenty product groups for which DOC has export development plans, health, food processing and packaging, and renewable energy are the closest to DA priorities. Printing and graphic equipment may also be an area where AID's work in education and family planning may run parallel to DOC promotional activities. The possibilities for joint interest in other areas seem very limited. Computers and business equipment, sports and recreational equipment, metal working, instrumentation and others are lines that would not

ordinarily figure in DA activities or most ESF project programs. But it would be worth a joint scanning to make sure interesting bets are not being left uncovered. For the areas where joint interest appears likely, there has been very little coordination with AID in the development or implementation of the export plans.

ANNEX I

Executive Summary of U.S. Export Competitiveness, Study of the Inter-Agency Trade Policy Staff Committee, 1980

Developments in the domestic and international economic position of the United States over the past decade have fueled concerns about the international competitiveness of U.S. producers. Many question the ability of the United States to successfully meet competition in world markets and even in the domestic market. The adverse economic developments have included: growing trade deficits beginning in the early part of the last decade and loss by U.S. producers of traditional shares of world export markets. These developments have occurred simultaneously with high domestic inflation rates, inadequate investment in private capital expansion and declining productivity growth. The view has often been expressed that the United States has "lost its competitiveness."

The Trade Agreements Act of 1979, Section 1110 (b), indicated that the President should report to the Congress on the factors bearing on the competitiveness of U.S. producers in world markets and policies that would strengthen the relative competitive position of the United States. (The same Act, Section 1110(a), also calls for a separate study of specific domestic export incentives, disincentives and U.S. export promotion policies.) This report is submitted to the Congress in fulfillment of Section 1110(b) of the Act.

This study reviews the long-term trade performance of the United States through 1979, and assesses the claim that the United States has lost its competitiveness in overseas markets. This analysis is carried out at both an aggregated level and at a highly detailed level.

The study also examines the key factors affecting the competitiveness of U.S. exports in world markets including: changes in capital and skilled labor resources, investment, technological innovation; productivity and unit labor costs, tariff and non-tariff barriers to U.S. exports, foreign investments and technology transfer, tax measures, energy and other factors, including labor-management relations, and the role of engineering and other services in the export of capital goods.

U.S. Export Performance and Competitiveness

Major conclusions of the study are the following:

Many indicators of U.S. trade competitiveness such as export market shares suggest that there has been an erosion of U.S. competitiveness in world markets. The increased international competition facing U.S. producers is mainly the result of changing world resource supplies and technological capabilities. Because of higher rates of growth in investment and expanded research activity in other countries, the United States has experienced a relative decline in its trade performance over the past two decades even though the level of U.S. exports has increased substantially in recent years.

The United States has suffered a decline in the competitive position in certain product areas since the late 1960s as a result of improvement in the competitive position of other countries. The products involved are primarily consumer goods and automobiles. The countries which have tended to displace U.S. exporters' sales (and, also, U.S. producers' sales in the domestic market) have been Japan and certain of the more advanced developing countries.

- The product areas in which the decline in the U.S. export position in world markets has been most pronounced include: automotive equipment, dyes, textile and metalworking machinery, domestic electrical equipment, steel, rubber manufactures, copper, furniture, footwear, and miscellaneous manufactures (consisting of diverse consumer products).

Notwithstanding recent trade deficits (attributable mainly to current U.S. oil import dependency), the United States still retains a substantial degree of competitiveness in important export products in world markets. While the composition of U.S. exports has altered in response to changes in world surpluses in three product categories; capital-equipment goods, high-technology products (many of which are also capital goods), and agricultural products. These categories represent a broad range of U.S. agricultural and industrial production and employment. Furthermore, the general trend in the balance of exports against imports in these three categories has been increasingly positive in recent years. In 1979, the surplus in capital goods trade was a record \$33 billion, and the surplus in U.S. agricultural trade achieved a record \$18 billion.

- The detailed product groups in which the United States shows continued export competitiveness over the last two decades include: some chemical products, fertilizers, textile yarns and fabrics, several non-electrical machinery industries, power generating

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machinery, aircraft, computers, paper, photographic equipment, and scientific, measuring and controlling apparatus.

However, several of the factors that are important for maintaining U.S. competitiveness show trends that are cause for concern. These are:

--Investment. U.S. industrial capital expansion has lagged behind that of our major foreign competitors. Through the 1960s and 1970s, capital resources available per worker in the United States grew by less than 2 percent per year. In contrast, capital available per worker in Japan and Korea increased by more than 10 percent per year. In Europe and many developing countries the growth in capital per worker was more than 4 percent. As a result, the United States dropped from first to sixth place in the ranking of countries according to the amount of capital per worker available. This more rapid growth of capital per worker by other countries has expanded their capabilities to supply and compete in those markets for traditionally strong U.S. exports. Thus, the absolute role of the United States in world trade has declined and it is meeting increased competition for the sale of its traditional export products.

--Technological Development. The absolute size of expenditures on research and development in the United States still constitutes a majority of such expenditures of the developed countries. However other countries, especially Japan and West Germany, have increased their R&D efforts substantially in proportion to their GNP, while U.S. R&D expenditures as a percentage of GNP have declined in recent years. Because U.S. exports of manufactures are dominated by high technology products, a future decline in U.S. R&D foreign competitors would threaten the United States in having a competitive advantage in a number of high-technology products, and competition between the two countries will likely increase in the future.

--Productivity. U.S. productivity growth in manufacturing has lagged behind that of all of our major foreign competitors, except the United Kingdom. Over the last decade, manufacturing productivity in the United States increased by an average of 2.5 percent per year. In Japan, the average increase was 5 percent; in West Germany, 5.5 percent; in France, 4.5 percent; and in Canada, 4 percent. The comparatively high productivity growth rates in Japan and most of Europe have permitted

more rapid increases in real wage rates in these countries than in the United States. These changes in productivity are consistent with more rapid growth of capital and technological capabilities abroad.

--Foreign Trade Barriers. Many U.S. businessmen and labor leaders cite foreign tariff and nontariff barriers to trade (NTB's) as serious impediments to increases in U.S. exports. The recently concluded Tokyo Round of Multilateral Trade Negotiations resulted in agreements to substantially reduce tariff barriers and to liberalize or, in some cases, eliminate major NTBs. Nevertheless, a number of barriers to U.S. exports of agricultural and manufactured products remain. Restrictive foreign government policies concerning public purchases of some types of high technology products have not been completely covered by the Tokyo Round agreements.

Policies to Strengthen Competitiveness

While a number of other factors that have an important influence on the competitive position of the United States are discussed in the report, the policy directions considered most important in strengthening the relative competitive position of the United States pertain to the several factors discussed above. The policy directions considered relate to (1) an expansion of domestic investment; (2) the need to promote domestic labor and capital adjustments to shifts in industry competitiveness; and (3) trade policies to strengthen U.S. competitiveness.

Probably the most important policy direction to strengthen the competitive position of U.S. producers is to expand private investment expenditures on plant and equipment. A substantial expansion in the domestic investment of the economy would reduce domestic inflation, improve productivity growth and accelerate the rate of technical and product innovation, all of which would itself tend to expand U.S. investment and improve competitiveness by further lowering interest rates that are costs to businesses borrowing financial capital and also by slowing the rise in other costs.

Cost effective policies should be further developed to foster the adjustment of productive resources, especially labor, to changed international competitive conditions in various industries. In sustaining a long-term expansion of U.S. exports, imports will also tend to grow as U.S. incomes rise. Pressures to impose restrictive trade actions on imports that

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compete with domestically produced goods will have to be resisted and resorted to only when absolutely necessary. However, to maintain a liberal trade policy in the face of the increasing pressures on import-competing industries, it would be desirable to facilitate further the adjustment of displaced workers.

The Tokyo Round trade agreements will tend to strengthen the competitive position of U.S. exporters in world markets. The final outcome for U.S. export interests will depend on U.S. efforts to see that the agreements are enforced and that trade concessions are implemented by foreign countries. In addition, efforts to expand the country and product coverage of the agreements in the coming years must be vigorously pursued. Because of their growing economic role in the world, special efforts should be continued to bring the more advanced developing countries within the disciplines of the major new trade agreements. A code on safeguard actions should be negotiated which increases international discipline over governmental actions to restrict trade.

Detailed studies of the long-term trends in the competitive position and barriers to trade of individual U.S. industries should not be undertaken. These studies should be designed to identify industries for which additional efforts should be made to achieve further liberalized access for their potential exports. The studies should be followed by new trade negotiation initiatives to seek improved access.

Of course, not all of the factors that affect the competitive position of the United States in world markets are best dealt with by changes in Federal policy alone. One such factor is the cooperation between labor, management and government. The productivity and competitive position of some foreign countries appear to have benefited from a greater degree of such cooperation. More American manufacturers can become internationally competitive to the extent that there is cooperation to improve workplace efficiency and production consistency.

ANNEX II

U.S. Government Trade Responsibilities

The setting and administering of overall U.S. trade policy is the responsibility of the Office of the U.S. Trade Representative. The U.S. Trade Representative (USTR) is also chief U.S. representative at the GATT, and for trade discussions and negotiations in OECD and other fora. The USTR is responsible for policy guidance in the area of export expansion, is Vice Chairman of OPIC and a member of ExIm Bank, and is assisted by staff working on liaison with the private sector, industrial and energy policy, investment, agricultural commodities, and North/South and various regions.

Programs promoting U.S. exports are the responsibility of the International Trade Administration (ITA) within the Department of Commerce (DOC). ITA includes the U.S. and Foreign Commercial Services, geographic units under the International Economic Policy office, administration of trade laws and regulations under the Trade Administration unit, and export promotion activities and services under the Trade Development unit. Among AID program countries, the Foreign Commercial Service had filled posts in the following LDCs as of November 1982: Colombia, Dominican Republic, Egypt, Guatemala, India, Indonesia, Ivory Coast, Kenya, Morocco, Pakistan, Panama, Peru, Philippines, Thailand and Zimbabwe.

Commerce runs several services for U.S. exporters: 1) permanent trade centers used for exhibitions and other marketing support (only one (Beirut) located in an AID country); 2) participation in international trade fairs; 3) trade missions; 4) smaller events - department store promotions, technical seminars, catalog shows; 5) a "new product" information service; 6) a program bringing major capital project opportunities to the attention of U.S. suppliers; 7) Commercial Presence fairs, smaller exhibitions aimed at lesser but potentially important markets; 8) market research; 9) numerous publications and services - trade statistics, global market surveys, overseas business reports, contact lists, etc.; and 10) activities designed to stimulate export interest, including domestic seminars, assisting foreign buyers in the U.S., and working with other organizations to promote export awareness. Finally, through its network of trade offices in the U.S., DOC provides various kinds of stimulus and counselling.

Besides its responsibilities for agricultural aspects of trade negotiations, the Department of Agriculture (USDA) has statutory responsibilities for export market development and on-going trade in agricultural commodities. Export promotion is the responsibility of the Foreign Agriculture Service which maintains the network of overseas agriculture attaches and

trade officers, conducts market and economic research, works with agriculture trade associations in fairs and other activities, and monitors market conditions and trade barriers. USDA's direct trade responsibilities include operation of the Commodity Credit Corporation's Export Credit Sales Program, which provides risk insurance for exporters financing agricultural products, and management of PL 480 jointly with AID but with its own responsibilities for the market development objectives of food aid.

In the Department of Labor, the Bureau of International Labor Affairs is concerned with trade policies as they affect American workers. The Department also administers the Trade Adjustment Assistance program for retraining workers determined to have lost jobs due to imports. While these activities are important for structural aspects of U.S. trade, they do not involve direct export promotion.

As part of its overall responsibilities for U.S. relations with other governments, the Department of State has several responsibilities bearing on U.S. exports. Monitoring, policy formulation and negotiation functions are supported and dealt with by the Bureau of Economic and Business Affairs, including assistance to U.S. businesses overseas, trade policy, foreign investment and other areas. Trade issues dealt with in the UN system are also managed by the Bureau of International Organization Affairs. In addition, promotional activities of the kind carried out by DOC continue to involve State commercial officers in countries where no DOC Commercial Staff are posted. Most small-market developing countries (including many AID countries) fall in this category.

Treasury also plays a role in U.S. exports, but from a monetary viewpoint. This involves such issues as relationships between trade and monetary policy, and the subject of export credit policy and negotiations. Treasury's responsibilities in the areas of tax policy, foreign exchange markets, and the international financing institutions, including IMF, have obvious powerful impact on the economic framework that goes far toward determining export competitiveness.

The International Trade Commission has a number of advisory, research and investigatory functions concerning trade, but these appear to be entirely concerned with the import side. (Military equipment trade is outside the scope of this study, but it should be noted that the Department of Defense also has a significant role in U.S. exports insofar as it is responsible for administering military credit sales and for mutual understandings with other countries respecting off-shore procurement.) Finally, there are the three agencies

with operational financing responsibilities in the trade area, Export-Import Bank, the Overseas Private Investment Corporation (OPIC), and the Trade and Development Program (TDP). With its authorization to have outstanding loans, guaranties and insurance up to a value of \$40 billion, ExIm Bank is the major instrument for direct financing of exports. The direct lending is limited to large transactions. Exporters of smaller sales are assisted by the guaranties and insurance facilities. Since ExIm finances its lending through unsubsidized borrowing from the U.S. Treasury, its terms do not reach as low as some of the export banks of other countries that have facilities for treasury subventions.

TDP was established with the explicit dual objectives of promoting development and U.S. exports, under two authorities. Under Section 661 TDP finances feasibility studies of capital projects. The studies are carried out by U.S. firms and are generally in areas involving technologies in which the U.S. has a competitive edge. If the host government decides to proceed with the project, it may or may not select U.S. contractors and suppliers. But national origin of the organization conducting a feasibility study is often a significant factor in the choice of implementing suppliers. (This is reflected in the interest of numerous donors to grant finance such studies, for example, through contributions to a feasibility study fund of the Asian Development Bank, where the studies can be tied to firms of the donor country, but subsequent project implementation is financed under international bidding as usual.)

Under Section 607 TDP facilitates provision of technical assistance and training for foreign governments on a reimbursable basis. Activities under 607 are undertaken by other USG agencies (USDA, USGS, etc.) and frequently are connected to, or result in export of goods and services from the private sector. The training division of TDP handles a reimbursable training function that grew out of an earlier service operated by AID's Office of International Training. It is currently planned to return the TDP training function to AID. The 607 training program currently has about 400 foreign students in the U.S., a lower figure than earlier years when a large Nigerian Government training program was still operating.

TDP activities for the past three years are attached below. The projects can be seen to span a wider range of development activities than is covered by AID, including oil shale, ethanol, tuna pesticides, tax administration, steel, pulp and paper, auto parts, etc. Since there is no reporting requirement in connection with 661 feasibility studies, TDP does not have a data system that would show export sales

generated by resulting projects. From the project paper, TDP was able to estimate that the 46 studies authorized in FY 82 had an export potential of over \$400 million. The agency, of course, knows of numerous cases where the studies led to substantial sales for U.S. firms. The feasibility study program is certainly cost effective, and will lead to follow-on exports over the years for spares, modernization and other sales opportunities building on the market positions established by the firms involved. In the case of 607 activities, the relationship to U.S. exports is direct since they involve the prior intention of another government to obtain the specific services and/or commodities entailed. A study done in 1981 estimated that the "determinations" (as of October 81) would result in exports of U.S. goods and services of over \$1 billion. This was a minimum estimate since follow-on exports in subsequent years could not be captured in these estimates.

The country composition of the exports expected from 607 activities reflects the points made earlier on the relative commercial importance of large economies. Saudi Arabia alone accounted for about 60%. The next five countries in importance were Korea, Venezuela, Brazil, Spain and the UK. The largest sales projected for LDCs also were for Oman (\$3.5 million) and Bangladesh (\$1.2 million).

The Overseas Private Investment Corporation (OPIC) extends insurance to private U.S. firms investing in developing countries to cover risks of expropriation, inconvertibility of local currency holdings, and damage from war and insurrection. OPIC also offers investment counselling, and shares in the costs of finding and developing projects. The organization also mounts investment missions and has a modest facility for extending investment participation and loan guaranties to small businesses in overseas ventures. Before extending any assistance, OPIC evaluates each project for its effects both on the development of the LDC concerned and on the U.S. economy. It will not assist any "runaway" plant projects deemed likely to have a significant adverse effect on U.S. employment. Of the \$1.1 billion of projects assisted in 1982, OPIC estimated that initial purchases of U.S. equipment and supplies of over \$900 million would be followed by additional net exports of over \$600 million over the next five years.

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TABLE A

TRADE AND DEVELOPMENT PROGRAM SECTION 661 ACTIVITIES
FISCAL YEARS 1980, 1981, 1982

<u>Sector/ Country</u>	<u>Project Description</u>	<u>Fiscal Year</u>	<u>Amount</u>
<u>Energy</u>			
<u>Latin America</u>			
Belize	Electricity	82	\$ 172,000
Brazil	Coal Workshop	80	7,000
Brazil	Solar Energy	80	190,675
Brazil	Coal	80	409,998
Brazil	Natural Gas Pipeline	80	9,950
Brazil	Energy (Southern Cone)	81	494,000
Brazil	Fluidized Bed Combustion	81/82	146,610
Jamaica	Coal Conversion	81/82	465,550
Jamaica	Renewable Energy	81	20,000
Panama	Coal Transshipment	81	100,000
Panama	Coal/Methanol	82	507,163
Uruguay	Ethanol from Biomass	80	225,705
<u>Near East</u>			
Cyprus	Coal Conversion	82	550,000
Greece	Coal Conversion	81	15,000
Lebanon	Oil Refinery	81/82	44,906
Morocco	Energy Tour	81	6,855
Morocco	Oil Shale Workshop	80/81	67,370
Qatar	Energy	81	80,597
Yugoslavia	Nuclear Energy Visit	82	20,506
<u>Africa</u>			
Botswana	Gas/Coal Assessment	81	60,000
Kenya	Renewable Energy	81	173,500
Tanzania	Gas Pipeline	81/82	120,266
Zimbabwe	Coal Gasification	80	8,500
Zimbabwe	Ethanol from Sugar	82	400,000
<u>Asia</u>			
Malaysia	Mini Hydroelectric	81	35,000
Papua New Guinea	Alternative Fuels	80	75,000
Philippines	Coal/Lignite Workshop	80	135,000

Peoples Republic of China	Hydropower	80/81/82	\$ 502,704
Peoples Republic of China	Hydroelectric Dam	82	440,000
Singapore	Coal-Fired Electric Power	81	3,800
Sri Lanka	Alternative Fuels	80	9,580
Thailand	Electricity Transmission	80/81	440,000
Thailand	Lignite Reserves	80	233,500
Thailand	Shale Reserves	80	12,300
Thailand	Shale Workshop	81	120,000
Thailand	Coal Conversion	80/81	194,106
Thailand	Methanol Production	82	50,000

Agriculture

Latin America

Belize	Kenaf for Paper	82	96,860
Columbia	Livestock	80	4,073
Columbia	Agro Industry	80	49,940
Jamaica	Agro Industry	81	28,820
Jamaica	Soybean Production	82	47,810
Jamaica	Rice Production/Milling	82	75,000
Paraguay	Synthetic Fertilizer	81/82	20,540
Venezuela	Food Storage	80	12,947
Venezuela	Agribusiness	80	110,000

Near East

Morocco	Agribusiness	82	38,300
Morocco	Fisheries	81/82	45,695
Portugal	Agribusiness	80/81	33,193
Saudi Arabia	Wheat Production	82	90,100
Tunisia	Agribusiness	82*	45,077
Tunisia	Dairy Industry	82	2,826
Tunisia	Poultry Industry	82	16,718
Turkey	Fisheries	82	3,750
Turkey	Agribusiness	82	35,161

Africa

Gabon	Cattle Farming	80	44,600
Nigeria	Tuna Fisheries	80/81	13,370

*Includes some FY 1979 funding

Nigeria	Agribusiness	81	\$ 93,170
Sudan	Vegetable Oil Refinery	82	58,000
<u>Asia</u>			
ASEAN	Pesticides Plant	81	14,890
Burma	Food Processing	81/82	171,922
Pakistan	Agribusiness	82	162,682
Papaua New Guinea	Fisheries	80*	70,975
Sri Lanka	Irrigation	80	8,000
<u>Human Resources</u>			
<u>Latin America</u>			
Antilles	Manpower Training	81	2,000
Brazil	Immigration Training	80	7,000
Brazil	Tax System Modernization	80	1,607
Equador	Customs Modernization	81	2,200
Mexico	Tourism Development	80	49,940
Trinidad & Togago	Computer/Tax System	80	2,707
Venezuela	Health Planning	80	5,500
Venezuela	Project Planning	80	8,725
Venezuela	Waste Management	80	33,000
<u>Near East</u>			
Bahrain	Education Technology	80	22,078
Kuwait	Vocational Training	81	14,260
Oman	Education Technology	80/81	11,990
Qatar	Statistical Systems	80	7,220
Qatar	Educational Development	81	7,678
United Arab Emirates	Education	81	9,000
<u>Africa</u>			
Nigeria	Immigration Training	80	2,500
Nigeria	Co-op Health	81	3,000
Sudan	Airways Management	81	10,055
<u>Asia</u>			
ASEAN	Science and Technology	80	5,000
Indonesia	Bank Officer Training	82	36,306

*Includes some FY 1979 funding

New			
Caledonia	Computer Needs	81	\$ 700
Singapore	Education Technology	80/81	105,068

Infrastructure

Latin America

Brazil	River Development	82	2,500
Peru	Port Study	80/81	321,372
Peru	Airport (Cusco)	82	340,000
Suriname	Potable Water	80	6,000
Suriname	River Navigation	82	40,000

Near East

Algeria	Earthquake Reconstruction	81	12,500
Greece	Airports Development	80	10,000
Lebanon	Hospital Development	81	25,504
Morocco	Civil Aviation	81	28,738
Portugal	Algueva Dam	81	4,678
Portugal	Civil Aviation	81	5,498
Turkey	Bosphorous Tunnel	80*	252,273
Turkey	Engineering Visit	80	2,900
Turkey	Highway Maintenance	81	18,000

Africa

Gabon	Ports/Roads/Forestry	80	11,000
Gabon	Road Maintenance	81	75,000
Kenya	Port (Mombasa)	81/82	341,619
Nigeria	Environmental Survey	80	5,590
Sudan	River Transport	80	35,000

Asia

Malaysia	Railway Communications	81/82	236,385
Philippines	Airports Priority	80/81/82	286,500
Philippines	Airport (Mactan)	80	200,000
Peoples Republic of China	Engineering	80/82	27,478
Peoples Republic of China	River Diversion	80	15,143
Peoples Republic of China	Remote Sensing	80	4,000

*Includes some FY 1979 funding

Industry and Mining

Latin America

Peru	Steel Modernization	81	\$ 8,415
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Near East

Lebanon	Oil Refinery	81/82	44,906
Morocco	Industrial Development	80	51,908
Morocco	Non-Ferrous Metals	81/82	101,535
Tunisia	Feasibility Studies	80	475,000
Tunisia	Entrepot Assessment	80	15,640
Turkey	Pulp and Paper Mill	80	400,000
Turkey	Copper Mining	80	21,209
Yugoslavia	Steel Mill	82	500,000

Africa

Botswana	Mineral Deposits	80	44,491
ECOWAS	Industrial Development	80	9,500

Asia

Bangladesh	Minerals Assessment	80	18,000
Indonesia	Cement Plant	81	225,000
Indonesia	Auto Parts Industry	79/82	262,427
Indonesia	Electronics Industry	82	40,000
Philippines	Steel Mill	81	300,000
Philippines	Petrochemicals	81	250,000
Peoples Republic of China	Metallurgy	82	20,000
Thailand	Steel Mill	80	150,000
Thailand	Potash Reserves	80	35,000
Thailand	Steel Industry Survey	82	250,000

TABLE B

TRADE AND DEVELOPMENT PROGRAM SECTION 607 ACTIVITIES
FISCAL YEARS 1980, 1981, 1982, AND FIRST QUARTER 1983

<u>Sector/ Country</u>	<u>Project Description</u>	<u>Year</u>	<u>Agency</u>
<u>Energy</u>			
Germany	Energy Resources Identification	82	U.S.G.S.
Kenya	Hydropower Study	81	C.O.E.
Sweden	Radioactive Waste Disposal	82	U.S.G.S.
<u>Agriculture</u>			
Argentina	Agricultural Assistance	82	U.S.D.A.
Bangladesh	Agricultural Assistance	82	U.S.A.A.
India	Irrigation Technical Assistance	80/81	BuRec
Korea	Water Resource Development	80	BuRec
Morocco	Soil Conservation	82	U.S.D.A.
Nigeria	Soil Conservation	80	U.S.D.A.
Pakistan	Soil Conservation	80	BuRec
United Nations	Nile River Irrigation Systems	80	BuRec
<u>Infrastructure, Industry, Mining</u>			
Algeria	Earthquake Reconstruction	81	Defense
Australia	Coast Guard Training	80	U.S.C.G.
Bahamas	Aviation Spare Parts	82	F.A.A.
Bahamas	Aviation Parts Supply	82	F.A.A.
Bangladesh	Irrigation Assistance	82	BuRec
Brazil	Aviation Spare Parts	81	F.A.A.
Brazil	Aviation Spare Parts	80	F.A.A.
Cayman Islands	Aviation Spare Parts	82	F.A.A.
Chile	Navigation Parts Supply	81	F.A.A.
Equador	Coast Guard Training	81	U.S.C.G.
Egypt	Construction Services (Sinai Peace Keeping)	81	Defense
Egypt	Dam Construction	82	BuRec
Gabon	Port Dredging Assistance	80/81	C.O.E.
Gambia	Boat Moving Equipment	81	U.S.G.S.
Indonesia	Dam Site Assessment	82	BuRec
Indonesia	Customs Procedures Development	82	Customs
Ireland	Aviation Spare Parts	81	F.A.A.
Japan	Expressway Extension	81	C.O.E.

Japan	Language Training	82	D.O.D.
Jordan	Flight Safety Program	82	F.A.A.
Kuwait	Mineral Resources Development	82	U.S.G.S.
Malaysia	Aviation Spare Parts	82	F.A.A.
Mexico	Aviation Parts Supply	82	U.S.G.S.
Nigeria	Lagos Lagoon Study	81	E.P.A.
Nigeria	Comprehensive Soil Survey	80	U.S.D.A.
Oman	Technical Assistance/Training	81	Interior
Oman	Aviation Spare Parts	81	F.A.A.
Saudi Arabia	Meteorological Development	82	N.O.A.A.
Saudi Arabia	Municipal Planning	82	Treasury
Spain	Purchase of Rescue Boats	80	U.S.C.G.
Swaziland	Aviation Spare Parts	81	F.A.A.
Tunisia	Aquifer Testing	81	BuRec
United Kingdom	Road Resurfacing	81	F.A.A.
United Kingdom	Aviation Spare Parts	80/81/82	F.A.A.
United Kingdom	Aviation Aids	81	F.A.A.
United Nations	Aviation Spare Parts	81	F.A.A.
United Nations	Aviation Spare Parts	81	F.A.A.
Uruguay	Aviation Spare Parts	82	F.A.A.
Venezuela	Aviation Spare Parts	81/82	F.A.A.
Venezuela	Navigational Studies	80	C.O.E.
Venezuela	Boat Equipment	79/80	Interior
Venezuela	Field Reconnaissance	82	U.S.G.S.
Venezuela	Field Reconnaissance	82	U.S.G.S.
Venezuela	Earth Scientist Assistance	82	U.S.G.S.

Human Resources Development

Bahrain	Manpower Technical Assistance	81	Labor
Bangladesh	Minerals Exploration/Training	81	U.S.G.S.
Botswana	Trust Fund Account	80	U.S.A.I.D.
Brazil	Safety/Health Equipment	80	Labor
Canada	Value Management Workshop	81	C.O.E.
Ecuador	Census Training	81	Commerce
India	River run-off Forecasting	81	BuRec
India	River run-off Forecasting	81	BuRec
Indonesia	Computer Programming Assistance	81	Commerce
Israel	Medical Services	81	V.A.
Japan	Language Training	82	D.O.D.
Japan	Language Training	82	D.O.D.
Kenya	Geological Field Training	81	U.S.G.S.
Korea	Contract Administration Assist.	81	C.O.E.
Korea	Management Training	80	D.O.E.
Korea	Construction Engineering Training	82	C.O.E.
Kuwait	Manpower Development	81	H.H.S.
Malaysia	Data Storage and Retrieval	80	Interior

Mexico	Irrigation Services	80	BuRec
Nigeria	Statistical Advisory Services	81	Commerce
Nigeria	Health Services	81	H.H.S.
Nigeria	Immigration Training	80	I.N.S.
Norway	Search and Rescue Training	80/81	U.S.C.G.
Norway	Seismological Equipment/ Training	80/81	U.S.G.S.
Paraguay	Consumer Price Indexing	80	Labor
Peoples Republic of China	Technical Training	82	U.S.G.S.
Portugal	Census Tabulation	80	Commerce
Saudi Arabia	Traffic Administration Assist.	80/81	Treasury
Saudi Arabia	Coast Guard Training	82	D.O.D./ U.S.C.G.
Saudi Arabia	Sinai Training Services (Peace Keeping Force)	82	D.O.D.
Sweden	Search and Rescue Training	81	U.S.C.G.
Trinidad/ Tobago	Computer Management Assist.	81	I.R.S.
United Arab Emirates	Customs Administration Training	82	Customs
United Nations	Water Resources/Computer Training	82	C.O.E.
Uruguay	Census Training	82	BuCen
Venezuela	Statistical Packaging and Analysis	81	BuCen

ANNEX III

U.S. International Trade Policy
Interagency Coordination

PRESIDENT OF THE UNITED STATES

UNITED STATES TRADE REPRESENTATIVE
CHAIRMAN OF TPC & TNC

TRADE POLICY COMMITTEE
(TPC)

United States Trade Representative (Chairman)	Attorney General
Secretary of Commerce (Vice Chairman)	Director of the Office of Management & Budget
Secretary of Agriculture	Chairman of the Council of Economic Advisors
Secretary of the Treasury	Assistant to the President for National Security Affairs
Secretary of Defense	Director of the U.S. International Development Cooperation Agency
Secretary of Interior	
Secretary of Labor	
Secretary of Transportation	
Secretary of Energy	
Secretary of State	

TRADE NEGOTIATING COMMITTEE
(TNC)

United States Trade Representative (Chairman)	Secretary of the Treasury
Secretary of Commerce	Secretary of Labor
Secretary of State	Secretary of Agriculture

TRADE POLICY REVIEW GROUP
(TPRG)

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ANNEX IV

Summary of 1979 UN Conference on Science and Technology (Science and Technology Information Access Center)

Perhaps the most contentious issue being raised by the Group of 77 (G-77) for consideration at the UN Conference on Science and Technology for Development deals with improved access to technology of the developed countries. The developing countries are pressing for a redefinition of intellectual property rights and for the development of international control mechanisms to monitor and direct the efforts of the private sector, particularly the multi-nationals. The LDC's want to reduce (or have developed countries subsidize) the price of technology acquisition and accommodate the demands of the developing countries for more favorable terms of transfer. The draft program of action, the national papers and the regional papers submitted to the UNCSTD Secretariat by the developing countries, and the language proposed by the G-77 at the PrepComs place heavy emphasis on this issue. This language calls for restructuring of the conditions under which developing countries as are able to select and acquire technology held by the private sector.

Underlying many of the representations made by LDC's, is the suspicion that the developed countries hide technologies which, if made available to the LDC's, would create competition to their producers in the international market place. This suspicion manifests itself in persistent demands for the establishment of technology banks within the hands of an impartial agency. The fact is that the cost of managing such an information system is prohibitive and the UN, or for that matter, any single agency, could not administer effectively and keep current such a technology bank. The U.S. Government has long argued that it would be more effective to establish networks linking existing technology information systems, which would then be available to LDC users.

The U.S. Government has attempted to be responsive to the demands of the LDC's to improve their access to private technology. We must search for ways of doing so without undermining the basic premises within which the private sector operates. The following proposal would find acceptability within the U.S. private sector and, at the same time, go some distance to lower the cost and improve the conditions under which the developing countries select and acquire U.S. technology. It would also head off pressure to expand UN information systems in the misguided hope that such systems would solve the technology access problems of the LDC's.

Description of Proposal: The U.S. Government can offer to create a U.S. Science and Technology Information Access Center

(STIAC) that will simplify the task of tapping into the vast U.S. "supply" of information (the various existing private and public scientific and technical information systems in the U.S.). It can provide a technology information and referral (locator) service to identify the available choices of U.S. technology to meet a particular problem and to locate the source of the needed technology in the U.S. There will be no attempt to replicate or centralize existing U.S. STI services. Rather, the STIAC will attempt to provide simplified and highly efficient access to the wide range of decentralized U.S. STI services. On the "demand" side, the STIAC would arrange for training programs to enhance LDC indigenous capability to acquire, evaluate and utilize the data received by them and to build up the skills requisite for successful technology selection and acquisition. Pricing for the service will range from no charge for the LDCs, to minimal charge on a sliding scale for the "Middle Income" countries, to full charge for countries having the ability to pay (reimbursable technical assistance countries).

The STIAC will be the "U.S. National Information Mode" and will help to integrate and to enhance the effectiveness of existing services provided through A.I.D. by the Volunteers for International Technical Assistance (VITA), the International Executive Service Corps (IESC), the National Technical Information Service (NTIS), of the U.S. Department of Commerce and A.I.D.'s own Development Information Office.

The U.S. Government could offer to establish a facility to which any and all developing country government agencies, or their private sector, might address inquiries concerning the identification of sources of technology to meet a particular problem of the developing country. This unit would then utilize available information systems in the U.S. to identify the alternate choices of technology available to meet the particular problem. Some inquiries could be handled "in house." Others would be farmed out to U.S. consulting engineering firms or professional associations to describe the cost-benefits of the three or four feasible technological choices which would seem to meet the needs of the LDC, and advise the person making the inquiry of the names of the companies that would have the know-how or would own the technology which would address the problem raised in the inquiry.

In recognition that an automated data retrieval system (a formal system) would be insufficient by itself to facilitate the access of LDC users to U.S. technology, a supplemental system would be developed utilizing informal linkages with technologists employed primarily by the private sector who

would be routinely contacted by telephone or conceivably made available for short term consultation. The Engineer's Joint Council, representing engineering societies with memberships numbering in excess of 500,000 U.S. engineers, has expressed an interest in participating in such an effort.

The proposed U.S. program would also help create linkages with U.S. training programs to assist LDC users (both public and private sector) in:

- a) The diagnostic process -- analyzing their scientific and technical problem areas to determine what sort of technological solutions to search for;
- b) The information search process -- the use of existing technology information systems to access them, extract the information available on these systems, and diffuse it in the LDC;
- c) Evaluation of the data -- making comparisons of alternative technologies available to solve the problems (identified in a) above) and in selecting the one most appropriate to the LDC's needs and production factor costs.

This proposal might be implemented in any one of several ways. The cost, assuming that LDC's would find the service beneficial and make use of it, might run to \$5 million per year, depending on the amount of training and consultation involved. A portion of this cost would be met by LDC users in the "Reimbursable Technical Assistance" countries or out of AID country program funds in those countries which desire technical assistance and training to build local indigenous capabilities to evaluate and utilize these information flows.

ANNEX V

A.I.D. FY 1982 Commodity Expenditures
By Major Commodity Group

<u>I. RAW MATERIALS</u>	(Expenditures \$ Millions)	
<u>Animal and Vegetable Products</u>		
Corn	38.9	
Tobacco	7.7	
Animal Feed	3.9	
Animal and Vegetable Fats and Oils	31.2	
Miscellaneous	.6	
		Total -- \$82.3
<u>Wood, Paper and Printed Matter</u>		
Wood and Wood Products	10.5	
Paper and Paper Products	1.2	
Books	2.3	
		Total -- \$14.0
<u>Textiles --Fibers and Products</u>		
		Total -- \$ 7.6
<u>Chemicals and Related Products</u>		
Elements, Compounds and Mixtures	5.0	
Drugs and Related Products	17.4	
Fertilizers	31.8	
Pesticides	7.1	
Synthetic Resins	2.7	
Miscellaneous	1.9	
		Total -- \$65.9
<u>Nonmetallic Minerals and Products</u>		
Coal	24.5	
Ceramic and Glass Products	.6	
Miscellaneous	.3	
		Total - \$25.4
<u>Metals and Metal Products</u>		
Iron and Steel Mill Products	46.9	
Other Metal Fabrications	2.5	
Tools	5.3	
Other Metal Products	14.6	
		Total - \$69.3
	Raw Materials	Total <u>\$264.5</u>

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II. MACHINERY AND MECHANICAL EQUIPMENT

<u>Industrial Machinery and Parts</u>			
Boilers, Engines, and Turbines	17.9		
Pumps and Compressors	4.4		
Heating and Cooling Machinery	6.0		
Agricultural Machinery	4.7		
Paper and Printing Machinery	11.8		
Office Machinery	8.4		
Other Industrial Machinery	30.4		
			Total - \$83.6

Construction and Mining Equipment

<u>Electrical Machinery and Parts</u>			
Transformers, Motors, Generators	20.0		
Communications, Audiovisual Equipment	9.2		
Insulated Electrical Conductors	12.0		
Other Electrical Machinery	14.0		
			Total - \$55.2

Machinery and Mechanical Equipment Total - \$155.1

III. TRANSPORTATION EQUIPMENTTrucks

General Purpose Trucks, Truck Tractors and Truck Trailers	23.6		
Special Purpose Trucks, Including Equipment Mounted on Trucks	10.4		
Parts, Including Bodies and Chassis	7.9		
			Total - \$41.9

Other Vehicles

Buses	1.5		
Passenger Vehicles	.6		
Other Vehicles and Parts	7.6		
			Total - \$ 9.7

Tracklaying Tractors and Parts

Total - \$ 7.6

Agricultural Wheel Tractors and Parts

Total - \$ 7.3

Transportation Equipment Total - \$66.5

IV. MISCELLANEOUS

Miscellaneous Commodities

Scientific, Medical, and

Measuring Equipment

14.9

Furniture

2.4

Other Commodities

5.2

Total - \$22.5

Advance and Progress Payments for
Commodities

Total - \$50.9

Miscellaneous Total - \$73.4

GRAND TOTAL - \$559.5

ANNEX VI

Communications and Electrical Equipment Competition

In communications equipment, the DOC survey for the Ivory Coast notes that French firms had 52% of the market in 1980 based on ties that predate independence, and on the continued presence of French advisors and technicians. In the Thai and Philippine markets for the same equipment, French firms have a mere foothold. In intense competition between U.S., Japanese and German firms (with some UK, Swedish and other suppliers also), the same firms are sometimes dominant in one market and weak in the other with respect to the same products. Market shares can change rapidly as new products, strengthened domestic service and reputation, and price and financing advantages shift the relative positions of the firms. The reputation for equipment reliability and presence of excellent local sales and service organizations give U.S. firms a substantial position in these countries, moderately comparable to some of the non-price advantages the French retain in the Ivory Coast.

But market positions can erode quickly if other firms can offer substantially comparable equipment at significant savings. In electric power systems equipment, the U.S. technical edge in the Thai and Indonesian markets for high voltage generation equipment has been dominant, with product quality able to more than offset price competition. But in the circuit breaker market, where many local and foreign firms are competing and U.S. participation is low, French firms are reported to be resisting Japanese inroads by offering suppliers credits at interest rates less than half of what the Japanese can offer. It is also interesting to note that in the heavy generation equipment, one U.S. firm is dominant in Thailand, another in Indonesia. Both firms have been operating in the region for a long time, but adopted different marketing strategies resulting in different competitive outcomes between the two countries. The extent to which firms respond to the particular needs and nature of individual markets appears to vary by firm as much as by country of origin, and often varies by market for the same firm.

ANNEX VII

ESF and U.S. Exports

The largest single recipients of ESF are Israel and Egypt. In the case of Israel the funds are provided in the form of a cash transfer. There is a formal understanding under which the Government of Israel is committed to make best efforts to ensure that imports from the U.S. remain commensurately high. In fact U.S. (non-military) exports to Israel are of an order of magnitude about twice the size of the annual aid. In the case of Egypt, the ESF is part CIP and part projects, all tied to U.S. procurement. ESF/CIP programs in several other countries are designed to help difficult balance of payments situations where general imports rather than projectized aid is judged most useful. In these cases as well, procurement is tied to the U.S. In general where these countries are suffering balance of payments pressures, perhaps compounded by low creditworthiness that hampers their ability to obtain commercial credit, the CIP programs increase their ability to import beyond what would have been possible otherwise (and seldom merely add to reserves). Thus the CIP not only finances exports directly, but is financing exports that certainly would have been significantly smaller otherwise. In the case of Zimbabwe (according to the FY 84 Congressional Presentation), 80% of the FY 82 CIP funds were allocated to the private sector and appear to have resulted in introducing many importers to U.S. sources of supply for the first time. Some CIP financing is used for heavy equipment imports, e.g., turbines and microwave equipment in Egypt, and power transmission and distribution equipment for Sudan.

On the project side, ESF funds are largely allocated to agriculture and other basic needs activities. Egypt is the only case where significant funds are allocated to heavy capital projects including telecommunications, industrial plant, urban power distribution, large-scale power generation and port development. Infrastructure rehabilitation in Lebanon, port rehabilitation in Somalia and a highway in Sudan are among the rare examples of standard infrastructure projects.

Not surprisingly, Egypt has been the focus of attention on the question of ESF in mixed credit packages to assist U.S. firms secure awards on major infrastructure projects. In response to the well-known case of the loss of a large telecommunications project due to the financing package the European group was able to put together that the U.S. group was unable to match in terms or in the rapid timing within which European business-government mechanisms can more easily put package offers together. The episode is seen by people in the official U.S. export community as an example of the institutional disadvantages the U.S. faces, and the competitive edge European firms have by virtue of the willingness of some governments to allocate concessional aid to financial packages. In

response to this experience, a portion of the Egyptian ESF was set aside for the facility mentioned above.

Two problems have been central to the concern over U.S. ability to compete with mixed credit financing: the volume of funds available for this purpose at competitive terms, and hindrances to response capability of pertinent USG agencies. These problems are reflected in legislation introduced by Senator Heinz as this paper was being written. Under S.869, a bill to amend the ExIm Bank Act of 1945, the bank would be authorized to consider the average cost of money (i.e., of its own inflow) as only one factor in its determination of interest rates, rather than the sole factor as at present. The President would be called upon to "pursue vigorously" negotiations to limit and set firmer rules on mixed credits. The bill would also authorize ExIm to set up a special fund for making mixed financing deals with AID. It would also authorize AID to set up a similar fund using ESF and to work with ExIm and private financing institutions. Safeguard language would require AID to offer such financing only for exports "that can reasonably be expected to contribute to the advancement of the development objectives of the importing country." Finally, the bill would require the President to appoint a mixed financing coordinator to ensure, among other things, that the process is rapid enough to permit an exporter "to respond to the timing demands of the situation." During testimony the bill was supported by the U.S. Chamber of Commerce, but ExIm testimony pointed out that with the exception of Egypt there were hardly any countries where ESF was available in sufficient volume to make much difference. It is hard to avoid the conclusion that for the U.S. to be serious in this game, either ExIm must be provided a subsidy mechanism, or new concessional funds must be appropriated along the lines of the aborted Export Credit Development Fund in the early 1970s.

ANNEX VIII

Other Donor Practices

French aid moves through numerous "spigots" and is administered by several departments and agencies. Lacking any explicit policy formulation (of basic needs or any other character), French aid appears completely unconstrained with respect to sectoral allocation or development objectives. Outside the overseas departments and territories, aid is not only tied but is regularly combined with commercial export credits in mixed financing arrangements. In these same countries, loan programming is handled by commercial counsellors acting for the Ministry of Economy which is tasked to promote French trade, not overseas development

On the other hand, over half of French aid is allocated to its overseas departments and territories and to Francophone Africa. None of these countries or jurisdictions comprise major markets of the Third World, although they are important for specific French firms and banking interests. Over a third of French aid is devoted to education, reflecting both the desires of Francophone countries for this type of assistance and the powerful French dedication to sustaining historical overseas cultural relationships. The program financed no less than 22,000 overseas teachers in 1978. In recent years there have been pressures in France to shift emphasis to Nigeria and Latin America, parallel to French commercial interests. While some movement in this direction appears to have occurred, the preponderance of the allocations to the African region (including several of the smallest economies in the world, with the most problematical prospects) remains entrenched in French aid practice.

The upshot of these various objectives is a level of commitment to mixed credits (in 1979) amounting to 12% of French bilateral Official Development Assistance (ODA). It should also be noted that the terms applying to French ODA associated with mixed credit deals are very concessional, apparently more so than the DAC average for concessional funds so allocated. Furthermore about half of the mixed credits were extended under umbrella agreements with "regular" recipients (e.g. Morocco, Pakistan, Egypt), with only indicative lists of potential projects. The other half is used for specific projects in countries not considered "regular" recipients (e.g. Indonesia). It is this last category in particular, amounting to around 6% of bilateral ODA, that constitutes the hard core of aggressive French commercial use of its foreign aid. The main recipients of mixed credits for major industrial or infrastructure projects in 1979/80 were Brazil, Egypt and Indonesia.

The German aid program has seen more change in policy

direction, more shifting response to domestic concerns, than has the French. A shift in aid allocation to the poorest countries began in the 1970s and continues. German aid has moved from tying to untying (and has been growing at the same time). In addition, German commercial focus has been reflected in its technical assistance on promoting imports from developing countries. On the other hand, FRG aid has been among the most specific in the export objective it does pursue: a portion of economic aid is explicitly set aside for financing exports of the declining German railroad and ship-building industries. Country allocation reflects foreign policy interests that in many cases have no strong commercial aspects. Development criteria play a more important role in the internal review of mixed credit project proposals than is the case in France, and with the avowed exception of the railroad and shipbuilding sectors, it is the judgement of the DAC secretariat that the main objective of German mixed credits has been to induce an increased total flow of German financing to Third World countries rather than outright promotion of German exports.

In 1977, the U.K. established the Aid for Trade Provision (ATP) under which up to 5% of their bilateral aid was to be used "to help British firms secure orders in developing countries to which the U.K. does not normally provide aid or where the planned allocation is already committed." The orders won under ATP were supposed to be "additional" to what the U.K. would have sold anyway, and must be for projects "developmentally sound". Since inception, the ATP has been given the added objectives of protecting traditional markets, facilitating entry into new markets and establishing technological links with developing countries. In the legislative history there is concern expressed by the House of Commons Foreign Affairs Committee that there is a need to avoid allowing the existence of ATP to lend "excessive weight" to commercial considerations as against the development objectives of the basic aid legislation. ATP funds have risen to 9% of bilateral U.K. aid and are extended completely as grants. The British aid authorities have opined that U.K. aid appropriations might well have been lower were it not for the support entailed in the ATP response to pressure from British industry. In sum, the mixed credit allocation is rising, but is still a small fraction of U.K. aid, and is viewed as a defensive reaction.

Japanese practices are less transparent (at least as can be seen from the documentation available for this study, without a bigger effort to ferret out details), but are striking in two respects. First, much of the commercial intensity attached to

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Japanese efforts to secure major capital projects in LDCs stems from the over-riding Japanese interest to establish reliable sources of supply for raw material imports, a similar theme (but less thorough-going) in FRG aid-commerce relationships, rather than a simple search for export sales opportunities for the capital goods industries. Second, the country allocation pattern of Japanese aid which is closely associated with competition for large projects is highly concentrated in the East and Southeast Asia regions, with exceptions conspicuously related to specific political and import interests (an enormous mixed credit package agreement with Iraq starting in 1974 appears to be the largest example, perhaps the largest mixed credit ever made between one donor and one recipient).

Data on mixed credits is not available, as far as we could ascertain, in a form that would give an idea of its relative importance as preemptor of large-scale export opportunities. The volume of ODA involved in these transactions is small in relation to donor merchandise trade with LDCs (even excluding capital-exporting oil countries), and even in relation to the machinery and transport equipment categories that appear to comprise the merchandise groups within which the export competition with mixed credits is concentrated. French ODA extended in mixed credits appears to be running under 5% of French machinery and transport exports to LDCs. The total of French "associated financing" (export financing plus ODA, together) seems to be about 10% of these exports. Canadian mixed credits also appear in the 10% range, with the ODA portion at only 3%. For the U.K. the numbers appear to be 3% and 1%. For the FRG, mixed financing was around 1%, but the funds were untied. If narrowly targeted, these funds can be important for specific firms and product lines. Much closer examination of the resulting average terms in specific transactions would be necessary to determine how powerful these different mixes are, not to mention the different ways in which the donors administer these funds and their differing objectives.

A thorough-going study of the actual effects on trade of mixed credit competition does not appear to have been made by the OECD. In the face of individual lost transactions, mixed credits appear as a predatory practice of some danger to international trade. Taken within the context of total trade and aid, its significance appears more modest.