

TRADE ISSUES IN TELECOMMUNICATIONS AND INFORMATION:

The Role of the United States Government in the Financing of Exports of Major Telecommunications and Information Products

Volume IV

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PREFACE

This paper is one in a series of four on selected topics on trade in the goods and services of the telecommunications and information industries. Other papers in the series include:

- Volume I "United States Trade in the Merchandise of Information Industries" by Kenneth Leeson
- Volume II "The Employment Effects of Trade in High-Technology Telecommunications and Information Products" by C. Randall Jacobson
- Volume III "Promoting U.S. Trade In Telecommunications and Information Products with Developing Countries" by Kathleen M. White C. Randall Jacobson.

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The Role of the United States Government in the Financing of Exports of Major Telecommunications and Information Products

Executive Summary

Exports of telecommunications and information merchandise are becoming an increasingly important item on the U. S. trade balance sheet, accounting for over 10 per cent of this country's total export sales during fiscal year 1979. If the United States is to retain its position as the major world supplier of telecommunications and information products, U. S. exporters must have access to export financing which is competitive with that offered by our trading partners in Western Europe and Japan. Export financing has become an important factor because other industrialized countries, in targeting their own telecommunications and information sectors, frequently offer substantial assistance to their exporters in the form of concessionary financing. Commercial banks in the United States often cannot match the terms of such concessionary financing, and thus the potential role of the U. S. government becomes relevant.

This paper examines the role which the United States government plays in the financing of exports of major telecommunications and information products. This role is principally performed by three government agencies: the Export-Import Bank (Eximbank), the Agency for International Development (AID), and the Trade and Development Program (TDP). A quantitative review of the present and past activities of these three agencies in the telecommunications and information sector is provided, followed by an examination of the institutional and funding constraints which serve to limit these activities. Finally, the potential future role of each of these agencies in this important industrial sector is discussed.

Major conclusions of this paper are as follows:

- The Export-Import Bank, as the independent federal agency charged with facilitating and financing U. S. export trade, plays an important role in the financing of export sales in the telecommunications and information sector, supporting the sale of over \$4.8 billion worth of exports in this sector since 1973.

- Over the past decade, export sales of major telecommunications and information products have received an increasingly smaller amount of financing support from the Export-Import Bank, both in absolute terms and as a percentage of total Eximbank activities.

- Constraints and limitations within the Export-Import Bank, including funding difficulties and a limited capability to match foreign mixed credits, may have an adverse effect on the ability of Eximbank to provide competitive export financing in the telecommunications and information sector.

- The Agency for International Development, while including some telecommunications components in bilateral assistance programs, is limited in such activities because of the "basic human needs" mandate set forth in the 1973 amendments to the Foreign Assistance Act.

- The recently created Trade and Development Program, while not yet having extended planning assistance in the telecommunications sector, does have the mandate to offer such assistance, and may play a significant role in the future.

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INTRODUCTION

This paper will examine the role which the United States government plays in the financing of exports of major telecommunications and information products. This role has been subject to greater scrutiny as export financing increases in importance as a factor in the successful sale of U. S. telecommunications and information products overseas. Export financing has become an especially crucial factor because other industrialized nations, who have targeted their own telecommunications and information sectors for promotion, frequently offer substantial assistance to their exporters in the form of concessionary financing. In many cases, U. S. exporters in this sector have had difficulty matching the attractive terms offered by their foreign counterparts. Some observers contend that the U. S. government has often been unable to provide its exporters with export credits whose terms are sufficient to meet the competition. Thus the role of the U. S. government in the face of this increasingly stiff competition merits attention.

The U. S. government role in the financing of exports serves as a supplement to the part played by commercial banks and other private sector financiers. Commercial banks provide much of the financing required for U. S. exports and it is to these institutions that U. S. firms usually initially turn. However, limitations

The views and conclusions contained in this paper reflect those of the authors, and should not be interpreted as necessarily representing the official policies or recommendations of the National Telecommunications and Information Administration, the U.S. Department of Commerce, or the U.S. Government.

It should be noted that the positions of the Administration on export financing are being developed at the time of this writing. This paper is intended to provide information about the issues involved in the export financing of major telecommunications and information products and does not advocate a particular position or positions on these issues.

on commercial banks may prevent them from extending financing in certain situations. For one, commercial banks may be reluctant to assume the political and commercial risks inherent in the financing of sales to developing countries unable to internally finance capital projects. Also, certain kinds of product sales or projects may require financing at fixed interest rates with long repayment periods which commercial banks and other private sector lenders appear unable or unwilling to provide given current worldwide inflation. Both of these factors are among the reasons why U. S. exporters of telecommunications and information products may turn to the Export-Import Bank for export financing assistance.

Three government agencies play the principal operational roles in export financing by the U. S. Government. The first is the Export-Import Bank of the United States (Eximbank), established in 1934 as the independent government agency whose central purpose is to facilitate and finance U. S. export trade. Eximbank is the only government institution that undertakes direct lending and other export assistance programs in industrialized as well as in less-developed countries. In contrast to Eximbank, which emphasizes export assistance through its direct credit, guarantee and insurance programs, the Agency for International Development (AID) administers the U. S. government's bilateral foreign assistance programs. AID provides economic assistance in the form of loans, grants and technical advice to developing countries. AID does not directly finance the sale of U. S. exports, but it does indirectly facilitate their sale by providing opportunities for U. S. industry to sell their goods and services to recipients of AID assistance. The third government agency involved is the Trade and Development Program (TDP), a small and relatively new office under the umbrella of the International Development Cooperation Agency (IDCA). TDP's mandate is the provision of project planning assistance on a grant basis to middle-income developing countries intended to lead to the purchase of goods and services from U. S. exporters.

Before examining the role played by these three government agencies, this paper will first present an overview of the nature of export financing of major telecommunications and information products, with emphasis on the particular financing requirements of the telecommunications and information industry. A discussion will follow on how Eximbank, AID, and TDP are responding to the export financing needs of this important U. S. industry sector.

Method of Analysis

This paper is an assimilation of a wide range of information on U. S. government export financing of major telecommunications and information products. Much of this information was gathered through personal interviews with spokesmen from private companies and with officials from U. S. government agencies (e.g., Eximbank, AID, the Department of Treasury, the Department of Commerce, Congressional Committees). Also, statistics and quantitative studies from Eximbank and AID provided a good overview of U. S. government activity in the telecommunications and information sector. Finally, the significant amount of written material available on the subject of export financing proved useful.

Our study has been confined to the export financing of major telecommunications and information products. Necessarily, this has ignored a large number of products, since goods and services in the telecommunications and information sector range from multimillion dollar earth satellite stations and microwave networks to small electronic calculators and color TVs.¹ We have concentrated our study solely on the export financing of the so-called "big-ticket" items, such as telecommunications networks and computer systems (generally valued at over \$1 million), for three reasons: these products represent a significant

¹For a more comprehensive list of the products included in the telecommunications and information sector see Leeson, "United States Trade in the Merchandise of Information Industries," in Trade Issues in Telecommunications and Information. Vol. I., NTIA Report 81-72, April 1981.

portion (by dollar value) of total U. S. exports of telecommunications and information goods and services; they are easily identified and studied; and, they seem most affected by U. S. export financing policy.

EXPORT FINANCING OF MAJOR TELECOMMUNICATIONS & INFORMATION PRODUCTS

In examining the role that financing plays in the export performance of a particular product, there may be a tendency to overlook other important issues. Obviously, factors such as price and quality of the product, U. S. export regulations, political influence, and historic relations among states, for example, affect that decision-making process which leads to an export sale. Despite the realization that these factors may influence the export and sale of telecommunications and information products, however, this study will concentrate on the role of export financing. This is because there exist certain conditions which appear to make export financing in the telecommunications and information sector more critical to successful export performance than in other sectors. These conditions are listed below.

Special Financing Requirements in the Telecommunications and Information Sector

High costs. Major telecommunications projects may have price tags of over \$1 billion. Such enormous costs necessitate the use of high-level financing between exporters and foreign purchasers.

Targeting by Other Industrialized Nations of their Telecommunications and Information Sectors. Certain industrialized nations, notably France, Germany, and Japan, have targeted their own telecommunications and information sectors for both domestic growth and expansion of export sales. This has involved government

subsidies for research and development as well as the provision of "low-cost" financing for high technology exports. In particular, these countries share the perception, as do many in the U. S., that developing countries are potential major markets for their telecommunications and information products. These developing nations, however, with the possible exception of the oil-rich OPEC states, often lack adequate foreign exchange and may require concessionary financing terms. As noted in the April 1980 edition of Telecommunications:

The U. S. government apparently has not yet realized that when it comes to selling telecommunications equipment to the emerging nations of the world . . . the ability to finance a project is often much more important than providing the very latest, or even superior technology.²

Thus, if U. S. exporters are to remain competitive in the world market, especially in developing countries, the attractiveness of export financing terms may become an even more critical factor in successful marketing abroad.

Loss of Market Dominance. In the early post-World War II period, when U. S. firms enjoyed a dominant position in the manufacture of telecommunications and information equipment, export financing was not a central factor in the sale of products abroad. Foreign buyers, for the most part, had to accept whatever financing terms were available. Over the past two decades, however, as our trading partners in Europe and Japan have acquired the ability to provide comparable, and in some cases superior, products to foreign buyers, competitive financing in the expanding world market has become a critical factor in the successful sale of American telecommunications and information goods and services abroad.

²"The Latin American Challenge," Telecommunications, April, 1980.

Limitations of Commercial Bank and Other Private Financing

Although export financing would thus appear to be an important element in the export of major telecommunications and information products, the availability of that financing can be a problem. This is particularly true of commercial bank export financing where a number of factors act to limit or discourage such activity in this sector.

One such factor mentioned earlier is the large size of some telecommunications and information projects. This may necessitate export financing in amounts which commercial institutions are unable or unwilling to offer. This is especially true of sales to developing countries -- sales which private lending institutions may see as involving excessive or prohibitive risks.

Another factor limiting commercial bank export financing in this sector is the inability of these banks to always offer prospective buyers of American telecommunications and information products sufficiently liberal terms of credit. Such credit terms, generally involving longer than normal maturity schedules and low interest rates, are required due, in part, to the somewhat unusual nature of many telecommunications and information projects. While varying with the type of system involved, many major telecommunications projects require ten to twenty years to be fully integrated into a nation's existing communications network and to begin generating income. Because of such delays, foreign purchasers (in most cases, foreign governments) seek and are often granted highly concessionary financing terms from official export credit agencies in other countries. U. S. commercial banks and other financial entities, necessarily restrained by current

market conditions and interest rates, are often unable to match such terms. As a spokesman from a major U. S. exporter of microwave telecommunications systems noted, private banks in the United States are, for the most part, simply "not able to offer attractive, competitive financing" for major telecommunications projects.³

Foreign Official Export Credit Competition

The competitiveness of export financing available in the United States vis-a-vis export financing available to exporters in other countries is a central element in the successful sale of American products abroad. Governments in Japan and Western Europe consistently provide greater financing support to their exporters than does the U. S. government. In 1979, while approximately 5 per cent of total U. S. exports received official export financing support (direct credits, guarantees, or insurance), France, the United Kingdom, and Japan supported between 30 and 45 percent of their exports by official financing.⁴ There is considerable concern in this country, and especially within the business community, that such official export credit support, often involving highly concessionary terms for buyers, represents a form of subsidization and provides foreign exporters with an unfair advantage in the international market place.

Since 1974, the United States has been involved in negotiations with selected major industrialized nations seeking to reach an international arrangement on export credits. The two main U. S. objectives in these negotiations have been to

³Phone interview with a spokesman from a large U. S. exporter of microwave telecommunications systems; August 12, 1980

⁴Export-Import Bank 1979 Annual Report, p. 6.

try to avoid an "export credit war" with our trading partners and to attempt to neutralize export credit as a factor in international competition. These two objectives reflect a general, though not totally accepted belief in this country "that it is better to remove distortions to the market than it is to adopt countermeasures."⁵

Significant progress has been achieved to date in these negotiations. In September of 1974, a preliminary "gentleman's agreement" was signed by the United States, Japan, France, Germany, Italy, the United Kingdom, and Canada, establishing minimum interest rates (7.75%) and maximum maturity terms (ten years). In April, 1978 the United States and 21 other nations came to a more formal understanding and agreed to voluntary guidelines, the "International Arrangement on Guidelines for Officially Supported Export Credits." These guidelines include among other things, minimum interest rates, minimum cash payments, and maximum repayment periods.⁶

Despite these apparent accomplishments, however, numerous critics claim that some of our trading partners have "violated the spirit" of these guidelines through the continued use of various forms of semi-official export subsidies, which

⁵H.L. Weisburg and Charles Rauch, "Occasional Papers: A Comparative Study of Export Incentives in the United States, France, The United Kingdom, Germany and Japan," 1979, p. 2.

⁶Key provisions of the Arrangement include the following: (1) Cash payment must equal at least 15% of the export value. (2) Repayment terms cannot exceed 10 years for exports to relatively poor countries or 8.5 years for exports to other countries. (3) Minimum interest rates are established based on the wealth of the buyer country and the term of the loan and range from 7.5% to 8.75%. (4) Export credits can be mixed with foreign assistance funds to yield "mixed credits." If the aid funds comprise less than 25% of the total credit, other participants must be notified. If the grant element is more than 25%, the credit is considered "official development assistance."

fall outside the official export finance area covered by the Guidelines. A particularly conspicuous problem concerns "mixed credits." Mixed credits involve the combination of official export credits with foreign aid funds to yield a financing package of highly concessionary terms. The arrangement does not prohibit the usage of mixed credits and many countries, England, Japan, and France, in particular, employ them to support capital goods sales to developing countries. The U. S., however, is unable to provide mixed credits to finance exports. This is because Eximbank has no access to the foreign assistance funds administered by AID, which could be mixed with Eximbank's own loan funds to come up with a mixed credit package. Instead, Eximbank must rely on its own capital and reserves to match foreign-offered mixed credits.

Since 1978, the U. S. government has been involved in negotiations to amend the arrangement. The U. S. has consistently put on the agenda for discussion the matters of further restrictions on the use of mixed credits and an increase in minimum interest rates. In December, 1980 the ongoing multilateral negotiations broke down and have not been resumed as of this writing. Bilateral discussions with interested parties may be arranged to discuss interim credit arrangements.

Foreign Official Export Credit Support in the Telecommunications and Information Sector

It is difficult to determine precisely in what manner and to what extent foreign official export credit agencies support exports of telecommunications and information products. Generally speaking, other nations do not make such information publicly available, especially information concerning the use of mixed credits, which countries are often capable of concealing as foreign assistance loans

and grants. What information can be gathered comes through a piecemeal observation of the financing terms arranged for individual contracts on a case-by-case basis.

Foreign official export credit agencies consistently provide the most attractive financing terms allowed under international agreement for their exports of major telecommunications and information products. This practice indicates a willingness by other countries to assign a high priority to exports of these products. In addition, a number of countries (most notably, France, Japan, and U.K.) appear to use mixed credits to support exports of major telecommunications projects and equipment.⁷ Several large telecommunications and information contracts have been won in recent years by non-American exporters where mixed credits and other forms of concessionary financing were involved and possibly played a major role.

Perhaps the most well known of these cases involved a \$1.8 billion Egyptian telecommunications project won in 1979 by a French-German-Austrian consortium, in large part because of the concessionary financing offered. Reportedly, the Egyptian government was offered financing at an interest rate of 5.5 per cent and on a repayment schedule of 15 years, significantly "softer" than the financing terms that the competing U. S. consortium of telecommunications firms was initially prepared to offer. Another case, also in 1979, involved the use by the French of mixed credit financing to help win an \$80 million telecommunications contract in Jordan. This particular financing arrangement combined a \$51.3 million official export credit (ten years at 7.5 per cent interest) with a concessionary government

⁷Mixed credits are also used to support other kinds of exports, particularly in other capital intensive sectors such as power and mass transit.

loan of \$68.2 million at 3.5 per cent interest and a repayment schedule of 25 years.⁸

The practice of foreign governments offering "low-cost" financing for exports of major telecommunications and information products seems to represent, in some cases, a form of "predatory financing." Predatory financing involves the use of extremely attractive export financing terms (often at a net loss to the exporter or export credit agency) until a market has been successfully "secured," at which time the price of follow-up products and services is raised. The Japanese, in particular, allegedly employ predatory financing to support a portion of their exports of telecommunications and information products.⁹ The Japanese export credit agency provides extremely low-interest financing for exports of telecommunications and information products to certain developing countries (particularly in Latin America), with the intention of gaining a foothold in the markets of these countries markets. Once established, Japanese exporters then attempt to recoup lost profits through the employment of high cost servicing, expansion, etc.¹⁰

⁸Export-Import Bank statistics on mixed credit competition.

⁹Phone interviews with spokesman in International Finance Division of a large telecommunications product supplier, August 14, 1980.

¹⁰This subject raises the interesting question of whether the telecommunications and information sector is particularly susceptible to one firm entering a market and successfully monopolizing it, to the exclusion of others. While this was probably true in the past, i. e., once a supplier was chosen, the customer was locked into that producer, today's rapidly changing technology and new international design standards make it much easier for new systems to be interfaced into existing communication and computer networks. Nevertheless, industry officials we interviewed were quick to point out that there still exists a tendency among customers to "stick with the same supplier" once a system was in place.

One further note should be made concerning foreign official export credit competition in this sector. It would be a mistake to view in isolation the apparent significant export financing support provided by other governments in their exports of major telecommunications and information products. A number of countries, in particular France and Japan, have identified their telecommunications and information industries as ones requiring wide-ranging government assistance. While federally-subsidized and highly concessionary export financing is certainly an important element of such assistance, it is merely one of a number of possible government policies, including home market protectionist measures, and federal support of research and development.

THE ROLE OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

The Export-Import Bank (Eximbank) is an independent corporate agency of the United States government whose primary purpose is to assist in financing the sale of U. S. goods and services to purchasers overseas. Through its various operations, Eximbank offers direct loans to overseas buyers for large projects and equipment sales; cooperates with commercial banks in the United States and abroad in providing a number of financial arrangements to help U. S. exporters offer credit to their overseas buyers; provides export credit guarantees to commercial banks that finance export sales; and, through the Foreign Credit Insurance Association (FCIA), provides insurance to American exporters that enables them to extend credit terms to their overseas buyers.

General Structure and Operations

The Export-Import Bank was established by an Executive Order in 1934 and incorporated by Congress in 1945. The primary legislation governing its operations consists of the Export-Import Bank Act of 1945, as amended through November 10, 1978, which directs Eximbank to set interest rates on its loans after considering both the cost of its funds and the rates offered by other governments; to supplement and encourage, but not compete with, private capital; and to report semiannually to the Congress on the competitiveness of its export financing programs.¹¹

Eximbank has traditionally operated as a self-sustaining institution; it does not receive direct appropriations. The money it lends comes from borrowings from the Federal Financing Bank (FFB)¹² and revenues from repayments. Eximbank also

¹¹The policy underlying Bank operations is set forth in the Export-Import Bank Act of 1945:

(b)(1)(A) It is the policy of the United States to foster expansion of exports of manufactured goods, agricultural products, and other goods and services, thereby contributing to the promotion and maintenance of high levels of employment and real income and to the increased development of the productive resources of the United States. To meet this objective, the Export-Import Bank is directed in the exercise of its functions, to provide guarantees, insurance, and extensions of credit at rates and on terms and other conditions which are competitive with the Government-supported rates and terms and other conditions available for the financing of exports from the principal countries whose exporters compete with United States exporters. The Bank shall, in cooperation with the export financing instrumentalities of other governments, seek to minimize competition in government-supported export financing and shall, in cooperation with other appropriate United States Government agencies, seek to reach international agreements to reduce government subsidized export financing. The Bank shall, on a semiannual basis, report to the appropriate committees of Congress its actions in complying with these directives. 12 U. S. C. A. Sec.635(b)(1)(A).

¹²The FFB lends to Federal agencies and federally guaranteed borrowers. Borrowing is centralized in the FFB to minimize the impact of Federal borrowings in private financial markets.

has about \$2 billion in retained earnings and \$1 billion in capital stock issued to the Department of the Treasury. Eximbank revenues consist of interest and fees charged to users of its programs, from which it pays its own expenses, including interest on borrowings from the FFB.

The Export-Import Bank Act of 1945, as amended, sets forth the Bank's mandate "to support United States exports at rates and on terms and conditions which are competitive with exports of other countries."¹³ (emphasis added) As export financing becomes an increasingly important element in the successful sale of U. S. goods and services abroad, considerable controversy has emerged over the "competitiveness" of Eximbank export financing. A recent Government Accounting Office Study (April 30, 1980) concluded that:

. . . Eximbank has not consistently matched either the normal or mixed credit rates of its competitors because it (1) operates on a self-sustaining basis, (2) has annual budget ceilings which prevent it from more fully supporting exports with direct loans, and (3) does not have access to foreign assistance funds to compete with other countries' mixed credits.¹⁴

In this section, we will examine the role of the Export-Import Bank in the financing of exports in the telecommunications and information sector. This examination will include a review of present Eximbank activities in this sector and a discussion of the limitations to competitive export financing of major telecommunications and information products.

¹³In 1978 this mandate to be competitive was reaffirmed by the "Heinz Amendment" to the Eximbank Act which states - "the Export-Import Bank of the United States is authorized to provide guarantees, insurance and extensions of credit at rates and terms and other conditions which are, in the opinion of the Board of Directors of the Bank, competitive with those provided by the government-supported export credit instrumentalities of other nations." (P. L. 95-630, 12 U.S.C.A. Sec. 635a-1(b))

¹⁴"Financial and Other Constraints Prevent Eximbank from Consistently Offering Competitive Financing for U. S. Exports." GAO Report to the Congress, April 30, 1980, p. 6.

U. S. Export Sales Supported by Eximbank

Since its formation in 1934, Eximbank has assisted in the sale of more than \$100 billion in U. S. exports. During fiscal year 1979, Eximbank "authorizations" of approximately \$9.5 billion were used by the Bank to support over \$13.6 billion in U. S. export sales. This latter figure represents 5.7 per cent of total U. S. exports and 16 per cent of total U. S. non-agricultural exports during this time period.¹⁵

Eximbank financial services support a broad cross-section of products and projects — from industrial raw materials and farm products, computers and farm machinery, to cement plants, power generating plants, and commercial jet aircraft. U. S. export sales supported by Eximbank may be classified into seven different "economic sectors." These sectors (as listed by the 1979 Export-Import Bank Annual Report) are: agriculture, communications¹⁶, construction, electric power, manufacturing, mining and refining, and transportation. (A miscellaneous category is also included.)

Table 1 on page 17 shows the distribution of Eximbank authorization amounts by economic sector during fiscal year 1979. Over this time period, exports in the transportation sector received the most Eximbank support or 27.4 per cent of total Eximbank authorizations. This high level of support is explained in part because the transportation sector includes exports of commercial aircraft which have

¹⁵Export Bank 1979 Annual Report, p. 7.

¹⁶The "communications sector" as used by Eximbank corresponds closely to our own "telecommunications and information sector," and may be considered the same. Products listed under Eximbank's communications sector include: electronic computers, earth satellite ground stations, electronic components, office machinery and equipment, radio and TV broadcasting equipment, telephone and telegraph installations, etc.

received a large amount of support from the Export Import Bank.¹⁷ Other economic sectors receiving a large percentage of Eximbank support in 1979 were construction (14.5 per cent) and electric power (13.0 per cent). The economic sector receiving the smallest percentage of Eximbank authorizations, at 3.4 per cent, was communications.

It should be noted that the sectoral distribution of Eximbank authorizations does not indicate a preference per se by the Bank for one sector over another. The Export-Import Bank must wait for U.S. exporters or potential overseas buyers to request financing assistance, and thus is placed in what one Eximbank official termed a "reactive position."¹⁸

Eximbank Activities in the Communications Sector

Table 2 on page 18 provides a detailed picture of total Eximbank "activities" within the communications sector since 1973. Rows (1), (3), and (5) of this table list aggregate levels of Eximbank activities in the communications sector, subdivided into number of authorizations (row 1); amount authorized by Eximbank to support these exports (row 3); and real value of communications exports (row 5). Rows (2), (4) and (6) show Eximbank communications activities as a percentage of Eximbank activities in all economic sectors.

¹⁷In recent years, criticism has been brought against the Export-Import Bank for what some have seen as its "favoritism" in financing aircraft sales. (See "A Tilt Toward Eximbank Loans to the Aircraft Industry," National Journal, July 19, 1980, p. 1185). Eximbank officials respond that the high amount of aircraft exports supported by the Bank reflects the competitiveness of the U. S. aircraft industry and not a policy of favoring one sector over another.

¹⁸For a more detailed explanation of Eximbank lending procedures see page 22.

Table 1

EXPORT-IMPORT BANK AUTHORIZATION
DISTRIBUTION BY ECONOMIC SECTOR : FY 1979
(in thousands of dollars)

<u>Economic Sector</u>	<u>Amount Authorized</u>	<u>Per Cent</u>
Agriculture	\$626,102	6.6%
Communications	\$318,200	3.4%
Construction	\$1,379,598	14.5%
Electric Power	\$1,236,053	13.0%
Manufacturing	\$559,458	5.9%
Mining & Refining	\$890,878	9.4%
Transportation	\$2,598,269	27.4%
Miscellaneous	\$1,882,648	19.8%
Total	\$9,491,207	100.0%

Source: Export-Import Bank Authorizations Report, Fiscal Year 1979

Table 2

EXPORT-IMPORT BANK ACTIVITIES^a IN THE COMMUNICATIONS SECTOR: 1973-1980

(in thousands of dollars)

	FY1973	1974	1975	1976	Transition Quarter	1977	1978	1979	10/1/79 - 6/31/80
1. Number of Authorizations in the Communications Sector	738	640	530	445	(107)	294	257	361	(290)
2. As a Percentage of Total Eximbank Authorizations	9.2%	8.0%	8.6%	8.3%	(9.0%)	8.6%	7.8%	8.1%	(8.6%)
3. Amount Authorized in the Communications Sector	\$733,200	\$464,519	\$496,418	\$434,518	(\$81,456)	\$214,153	\$223,517	\$318,200	(\$530,000)
4. As a Percentage of Total Amount Authorized by Eximbank	8.6%	5.1%	6.0%	5.0%	(5.6%)	3.8%	3.0%	3.4%	(6.2%)
5. Value of Exports in the Communications Sector Supported by Eximbank	\$845,763	\$712,611	\$772,379	\$731,184	(\$108,808)	\$276,266	\$316,068	\$417,952	(\$650,000)
6. As a Percentage of Value of all Exports Supported by Eximbank	7.5%	5.3%	5.8%	5.7%	(5.1%)	3.1%	2.9%	3.0%	(5.2%)

Source: 1973,1974,1975,1976,1977,1978,1979 Export-Import Bank Authorizations Reports
1980 data from Eximbank Office of Policy Analysis

^a Eximbank Activities Include: Direct Credit Loans, Financial Guarantees, CFF and Relending Loans, Commercial Bank Guarantees, Medium-term Insurance Policies, Short-term Insurance, Discount Loans

The data in Table 2 show that from 1973 until 1979, communications exports have, with little variation, received an increasingly smaller amount of support from the Export-Import Bank, both in absolute terms and as a percentage of total Eximbank activities. Looking at the figures in row (3), for example, we see that the amount of authorizations extended by Eximbank to support sales in the communications sector has markedly declined over the past eight years, dropping from \$733 million in 1973 to just over \$318 million in 1979. Notably, this decline has been paralleled by a similar decline in the percentage of total Eximbank authorizations directed towards this sector and thus is not simply a reflection of decreased overall Eximbank activities. The figures in row 4 show that Eximbank authorization amounts in the communications sector, as a percentage of total Eximbank authorizations, have fallen from 8.6 per cent in 1973 to 3.4 per cent in 1979.

The data presented in Table 2 indicate the total amount of activities conducted by the Export-Import Bank in the communications sector. These activities, including direct credit loans, commercial bank guarantees, and short term insurance, support the sale of a wide range of communications exports, running from multi-million dollar telecommunications systems to inexpensive electronic components. The data in Table 3, on page 20, provide a closer examination of sales of major telecommunications and information products supported by Eximbank. This table lists data on the direct credit loans that the Export-Import Bank has employed since 1973 to support sales in the communications sector. Direct credit lending is used by Eximbank to finance the export of "big-ticket" items such as jet aircraft, power plants, and a wide range of industrial plants and projects.¹⁹ Direct loans to foreign purchasers of U.S.

¹⁹For a more detailed explanation of procedures followed by Eximbank in extending direct credit loans, see page 22.

Table 3

EXPORT-IMPORT BANK DIRECT CREDIT LENDING IN THE COMMUNICATIONS SECTOR: 1973-1980

(in thousands of dollars)

	FY	1973	1974	1975	1976	Transition Quarter	1977	1978	1979	10/1/79 - 6/31/80
1. Number of Direct Credits Authorizations in the Communications Sector		16	16	16	8	(1)	3	3	9	(10)
2. As a Percentage of Total Number of Eximbank Direct Credit Authorizations		NA	4.5%	6.6%	5.3%	(5.9%)	5.8%	4.6%	9.1%	(9.4%)
3. Amount of Direct Credits Authorized in the Communications Sector		\$31,596	\$29,514	\$103,588	\$52,695	(\$16,000)	\$12,042	\$40,857	\$42,481	(\$310,000)
4. As a Percentage of Total Amount of Eximbank Direct Credits		NA	0.8%	4.1%	2.5%	(6.0%)	1.7%	1.4%	1.1%	(8.6%)
5. Value of Exports in the Communications Sector Supported by Eximbank Direct Credits		\$72,514	\$68,464	\$286,100	\$133,399	(\$40,000)	\$28,300	\$75,905	\$72,639	(\$400,000)
6. As a Percentage of Value of all Exports Supported by Eximbank Direct Credits		NA	0.9%	4.3%	2.7%	(6.7%)	2.0%	1.7%	1.2%	(6.8%)

Source: 1973,1974,1975,1976,1977,1978,1979 Export-Import Bank Authorizations Reports.
1980 Data from Eximbank Office of Policy Analysis

NA Not available

equipment vary in size from \$2 to \$3 million to \$100 million or more and typically run 5 to 10 years. In the communications sector, items qualifying for direct credit assistance would include satellite earth stations, telephone exchange networks, and major computer systems.

The trend apparent in table 1 of a declining level of Eximbank activity in the communications sector is again reflected in table 3. Looking at row 4, we see that from 1975 to 1979, the percentage of total Eximbank direct credits supporting sales in the communications sector (as measured by amount authorized) has shown an almost steady decline, and in the past three years has fallen below 2 per cent. A similar decline may be noted in the export value of communications products receiving support from Eximbank direct credit lending (row 6).

Interestingly, however, the data for the fiscal year 1980 show a major increase in Eximbank activity supporting sales of communications products. Looking back at Table 2, we see that during this time period the Export-Import Bank authorized \$756 million in support of export sales in the communications sector. This amount is a significant increase over the 1979 authorization amount (\$318 million) and, for the twelve month period, represents six per cent of total Eximbank authorizations.

Looking at the individual authorizations involved, it appears that a major portion of this increase was the result of two unusually large direct credit loans extended by the Export-Import Bank early in 1980. The first, a \$97.5 million direct credit loan to an Indonesian-owned telecommunications corporation, supported the sale of two communication satellites and related services (valued at \$150 million), from Hughes Communications International, Inc., of Los Angeles, California. The second, a \$130 million direct credit loan to the Korean government, supported the

sale of a \$200 million telephone expansion project, the principal supplier being Western Electric.

Whether these two major U. S. sales indicate a new trend is uncertain. Discussing the latter sale, a spokesman for the Export-Import Bank noted that it is highly "unusual" for a U. S. firm to be able to win such a large telecommunications project with so little opposition. He attributed the success less to the actual terms of financing offered by Eximbank than to the fact that foreign official export credit agencies simply did not offer the financing terms they normally do, perhaps due to the perceived "undesirable nature" of the Korean market. In his opinion, such circumstances would not be expected to arise elsewhere with much frequency.

Eximbank Direct Credit Lending Procedures

While table 3 shows the amount of Eximbank direct credit lending used to support the successful sale of major telecommunications and information products abroad, it fails to indicate the number of cases where exporters of major telecommunications and information products received support from the Export-Import Bank, yet were nevertheless still "beaten out" by competing exporters from other countries. In order to understand the reasons why these particular cases were lost to foreign competition, it is useful to first examine the procedures followed by Eximbank in extending direct credit loans.²⁰

²⁰ Direct credit loans are only one of two long-term financing mechanisms employed by the Export-Import Bank, the other being financial guarantees. However, as financial guarantees have played a relatively minor role over the last ten years in the export of major telecommunications and information products (\$2.8 million authorized in 1979), we have concentrated our study solely on direct credit lending.

Any U. S. exporter (or potential overseas purchaser) seeking direct credit lending support from the Export-Import Bank for a particular transaction generally must, as a first step, request what is referred to as a Preliminary Commitment (PC) from Eximbank. Preliminary Commitments, issued without charge, outline the amount, terms, and conditions of financial assistance which Eximbank is prepared to offer to purchasers of United States goods and services. Information required by Eximbank to process an application for a PC may vary from case to case, but normally includes, among other things, the name and address of the borrower, items to be purchased with the proposed financing information about foreign competition.

The exact terms and conditions of credit (i.e., interest rates, length of maturity, percentage of Eximbank coverage) offered in a Preliminary Commitment are the result of a number of factors, including the size, nature, and location of the individual transaction, the financial strength of the borrower, and present conditions in the U. S. private sector money market. In addition, the Export-Import Bank, while subject to numerous limitations²¹, attempts to "match" financing terms which may be offered by foreign official export credit agencies.

Should the prospective borrower decide to accept the financing terms offered in an Eximbank Preliminary Commitment (a decision highly influenced by the financing terms which may be offered by other foreign export credit agencies), that borrower must then submit a final loan application to the Bank. This application is reviewed by a team of specialists (usually composed of a loan officer, a country economist, an engineer, and an attorney) that prepares a memorandum

²¹See "Constraints to Eximbank Activities," p. 27.

for the Export-Import Bank Board of Directors. Following review of the memorandum, action is taken by the Board depending upon the amount of Eximbank's potential liability, the nature of the goods, the commercial and political adverse or positive impact on the domestic economy, and other factors.²² If the case receives final Eximbank approval, the Preliminary Commitment offer is then converted into a direct credit loan.

Export Performance of the Communications Sector

The percentage of Eximbank Preliminary Commitments (measured either in number of cases or export value) which are converted into direct credits is referred to as the "win ratio." The higher the win ratio of a particular economic sector, the more successful are that sector's products in winning contracts abroad. In recent years, between 40 and 55 per cent (by value) of all Eximbank PCs have actually been converted.

Among the seven different economic sectors listed by Eximbank (agriculture, communications, construction, electric power, manufacturing, mining and refining, and transportation) there is a significant diversity in win ratios. By far the most successful sector has been transportation, due to the dominance of aircraft cases. During fiscal year 1979, almost 90 per cent of aircraft PCs represented "wins." The manufacturing sector has also been highly successful, with 79 per cent of all manufacturing PC's representing wins during this same time period. By contrast,

²²The review process may also include submitting the transaction to an interagency body, the National Advisory Council on International Monetary and Financial Policies (NAC), for comments. The NAC is made up of representatives from the Departments of State, Treasury, and Commerce, the Federal Reserve Board, and Eximbank. For very large transactions, those having an Eximbank liability of more than \$100 million and all those involving financing of nuclear products, the review process includes submitting the request to Congress. Following Congressional and NAC review, the Eximbank Board takes final action.

the communications sector appears to be the least successful sector in converting into direct credits. According to Export-Import Bank figures for the 12-month period ending March 31, 1980, only 33 per cent (or 4 out of 12) of Preliminary Commitments in the communications sector represented wins.²³

Different Viewpoints on the Export Performance of the Communications Sector:

Private Industry and Government

A considerable difference of opinion exists between private industry spokesmen and U. S. government officials as to why U. S. exports of major telecommunications and information products are apparently so unsuccessful in winning contracts abroad.

In general, most industry spokesmen interviewed²⁴ voiced the opinion that, 1) export financing plays a central role in the export performance of major telecommunications and information products, and 2) the Export-Import Bank in many cases does not (and often cannot) offer terms of financing which are competitive with those offered by other countries.²⁵ While generally applauding recent moves by Eximbank under its new president, John L. Moore, to aggressively

²³ Caution should be employed when using preliminary commitment data. As Eximbank officials note, these data have been collected for only two years and are often in too limited a quantity to be considered significant. However, they do provide the best means at present for estimating Eximbank financing performance in the different economic sectors.

²⁴ It is always difficult to generalize about the "opinions" of any particular group. Due to time constraints, we were able to interview only approximately ten industry spokesmen from five companies. We feel that a more in-depth study, perhaps involving industry questionnaires, should be conducted at a later date.

²⁵ This is not to suggest that those in the private sector do not see a number of non-financing reasons for their export losses abroad. A wide range of issues, including antitrust and anti-bribery legislation, U. S. taxation of overseas earnings, and government R&D policies, evoke criticism from the private sector.

match financing terms offered by other foreign official export credit agencies, these spokesmen were quick to point out that their firms are still at a serious competitive disadvantage in the face of highly subsidized financing packages offered abroad.

Suggestions raised by these individuals on how the Export-Import Bank might better support U. S. exports of major telecommunications and information products tended to rest on the broader issue of the need for significant increases in Eximbank funding.²⁶ All industry officials we interviewed were aware of the present budgetary constraints faced by the Export-Import Bank (a spokesman from a large electronics firm termed Eximbank as "woefully underfunded"), and many were quite critical of the Carter Administration — one they felt simply "does not realize the importance of international trade" and "is not yet willing to pay the necessary price" for supporting U. S. products abroad. A number of officials advocated the use of large government subsidies to increase the effectiveness of the Export-Import Bank. Finally, on the subject of the present International Arrangement of Official Export Credits and the 1976 gentleman's agreement, most industry officials seemed to share the opinion of Stephen Sohn, project financing manager at United Technologies Corporation, that the United States "remains the only 'gentleman' in the agreement"²⁷ and that the Arrangement has not seriously hampered our competitors from offering subsidized financing.

²⁶In a September 25, 1979 letter sent to the Senate Foreign Operations Subcommittee, Peter F. McClosky, president of the Electronic Industries Association wrote: "The Administration's request for \$4.1 billion (in Eximbank funding) is barely more than 1979's \$3.7 billion. The \$6 billion level recommended by certain members of the Banking and Finance Committee would be better but, considering export expansion and inflation and existing Eximbank commitments and international competition in export financing, the Electronic Industries Association recommends \$8 billion."

²⁷Statement of Stephen Sohn before the International Finance Subcommittee, Senate Banking Committee, May 22, 1980.

Spokesmen from the U. S. government did not always share the views of their industry counterparts. Officials at the Export-Import Bank with whom we talked generally seemed to feel that export financing and, more specifically, any inability of Eximbank to match financing terms offered by other export credit agencies, are infrequently the reasons for the loss of overseas contracts by U. S. exporters of major telecommunications and information products. As one official at the Export-Import Bank noted, financing is merely "the last in a long list of considerations" which foreign purchasers take into account when selecting a contractor, the others being price and quality of the product, follow-up service, delivery schedules, and the like. In this person's opinion, private industries are often disinclined to blame their own pricing or marketing policies for the loss of a contract or sale, preferring rather to point to other external factors, particularly financing, for that loss.

It would be incorrect, however, to suggest that officials at the Export-Import Bank see only factors within U. S. industry as the sole cause behind the low win ratio within the communications sector. Generally, officials tended to agree that certain "special" problems do exist in this sector, hindering U. S. exporters from successfully marketing their major telecommunications and information products abroad. Among these problems are the prevalence of government-to-government deals between foreign supplier nations and recipient states, and the occasional use of mixed credits by certain countries to provide financing at terms Eximbank cannot match.

Constraints to Eximbank Activities in the Communications Sector

The critical elements of export financing (i. e., the terms at which it is offered) for the successful sale of U. S. major telecommunications and information products abroad remains a hotly contested issue. It must be noted, however, that

a number of constraints exist which significantly lessen the amount and competitiveness of export financing support that the Export-Import Bank is able to provide to U. S. exporters. These constraints — Eximbank budgetary limitations, a limited capability to match mixed credits, and an inability to lend for broad infrastructure projects — are discussed in detail below.

1. Eximbank Budgetary Limitations

A major constraint faced by the Export-Import Bank in carrying out its operations is the annual Congressional appropriations process. Although Eximbank is a self-sustaining institution, and as such does not receive direct appropriations from the Congress, in annual appropriations legislation the Congress does place a ceiling on the amount Eximbank can authorize during the fiscal year. This past year, in particular (1980), Eximbank's budget was subject to an especially difficult passage through the Congress — resulting in a lack of funds for many traditional Eximbank activities. Although the effects of 1980's "budget crunch" will hurt all Eximbank-financed export sales, it can be argued that due to its unusual financing requirements, the communications sector may be more adversely affected than other economic sectors. This contention will be more evident after a brief review of this year's budgetary problems.

There are two major reasons why, as of this writing, the Export-Import Bank has not received new funding for the 1981 fiscal year. One is a technical reason. In the early 70's, Eximbank was placed "on budget" and put in "category 150," a category which includes the International Financial Institutions (e.g. the World Bank, the Inter-American Development Bank) and the U. S. contribution to the United Nations. As part of this "foreign aid package," the Export-Import Bank must face the same annual budgetary trials as do the foreign assistance organizations.

In past years, Eximbank has been counted on as the one non-controversial component which helps to pull the entire package through the Congress. The votes each year have always been close, but the foreign aid package, including Eximbank, has always emerged with new, albeit less than requested, funding. In 1980 for the first time, the foreign aid bill was not passed and the assistance agencies affected are continuing to operate on supplemental appropriations. Thus, the Export-Import Bank has not received new funding, in part, because of its budget category — a factor over which it has no control.²⁸

The second reason for Eximbank's lack of funding was the result of Congressional disagreement over the level and packaging of the Eximbank funding authority. This disagreement reflects problems that began early in fiscal year 1980 when the Congress, unable to pass the entire foreign aid package by the close of the 1979 fiscal year, enacted a continuing appropriations which allowed the Export-Import Bank to continue operating with the same level of funds as in the previous year.

In the spring of 1980 it became apparent that the Export-Import Bank would need more funds to meet its commitments through the end of FY 1980. To solve this budget shortfall, Congress agreed in August 1980 to a package put together by the Office of Management and Budget (OMB), the Department of Treasury, and Eximbank, which granted the Bank \$1.1 billion in supplemental authority without raising the \$4.1 billion ceiling in the administration's fiscal year 1980 budget. This supplemental funding differed from normal funding in that it was off-budget — i.e., it gave Eximbank the authority to increase its guarantee limit by \$1.1 billion but forced the Bank to fulfill outstanding loan-commitments by borrowing in the private money market rather than from less-costly government sources. The

²⁸There has been talk of taking Eximbank out of budget category 150. A decision memo (August 1980) before the President (December, 1980), would direct Treasury and OMB to consider options for taking Exim out of the Foreign Aid Package.

intention was to allow Eximbank to finance its loan commitments before the 1980 fiscal year ends without having to reflect the outlay on the current budget.

In the fall of 1980, the Export-Import Bank again went before the Congress, seeking appropriations for the next fiscal year (FY 1981). In general, Eximbank is popular on the Hill and, as in previous years, there was strong support for its renewal of funding. The differences that emerged were primarily between those (particularly on the House side) who supported the level of funding recommended by the Administration and those who sought a higher level of funding. To resolve their differences before the close of the fiscal year, it would have been necessary for the House and Senate to go into conference. Unable to do so, the Congress instead passed a continuing appropriations resolution for the Eximbank funding level through December 15, 1980 equivalent to an annual rate of \$5 billion. It should be noted that precautions have been taken to try to prevent a repeat of those events — Eximbank running out of funds before the end of the fiscal year. In 1980 Congress set the continuing appropriations resolution level at \$5.5 billion rather than previous year's \$4.2 level in the hope that the added funds would prove sufficient to carry Eximbank through the fiscal year should it be forced to operate under a series of continuing appropriations resolutions.

In December, 1980, Congress enacted a second continuing appropriations resolution allowing the various foreign assistance programs and the Eximbank to continue operations until June 5, 1981. This funding grants Eximbank an authorization ceiling of an annual rate of \$5.9 billion for direct & discount loans. The Reagan Administration has proposed a 12% cut in Eximbank's authorization for FY '81 from \$5.9 to \$5.1 million for direct and discount loans. This budget proposal was sent to Congress in mid-winter 1981 and is expected that action will be taken on it before the second continuing appropriations resolution runs out in early June. Current plans also include an Administration proposal to decrease

Eximbank's level of authorization to 4.4 billion for direct and discount loans for FY '82.

The effects of the present budget crunch have already been felt. In the latter part of 1980, the Bank issued Preliminary Commitments which allocate resources they hope to get in the future. Eximbank also deferred many loan approvals until 1981. Foreseeing a lean budget ahead, officials at the Export-Import Bank announced a new policy in April 1980 which increased interest rates for its loans from an average of 8.3 per cent to 8.75 per cent (9.25 per cent for aircraft). This policy decision also reduced Eximbank's loan "coverage" — the amount of a sale it finances — from a maximum of 85 per cent to 65 per cent.²⁹ In general, the higher interest rate and decreased coverage percentage will make it only that much harder for Eximbank to fulfill its mandate to offer financing that is competitive with that extended by foreign governments.

Another short-term effect of the present "tight money" situation at Eximbank concerns the Bank's policy of restricting its direct credit lending and financial guarantee programs to only those export sales with a value of \$5 million or more. While Eximbank has often overlooked this minimum level in the past, budgetary constraints have caused the Export-Import Bank to be more strict in adhering to this limit in extending its long-term direct credit loans and financial guarantees. The result is that many export sales in the \$1 million to \$5 million range (including a large number of telecommunications projects) are no longer eligible for this cheaper Eximbank fixed rate financing support.

The long-term effects of 1980's budget crisis may be significant. In tightening its belt, the Export-Import Bank may be more conservative in providing

²⁹ This decrease is to be softened somewhat by allowing Eximbank to "match" a U.S. supplier who is able to provide up to 10% of the financing at the same interest rate as Eximbank, thus, in effect, providing an 85% maximum coverage. One industry source did not respond favorably to this supposed "softening" — arguing that it is asking private enterprise to allocate their own tight resources to assist the U. S. government (Eximbank) in competing against foreign government financing.

financing -- allocating its fewer resources to known winners with proven and high export value. In the previously cited (p. 16) July, 1980 National Journal article it was noted that "some Eximbank officials say the bank's policy of standing behind the exporters' strong suit (i.e., aircraft exports) and not diverting financing to less competitive sectors makes good sense." To stay competitive, Eximbank might tend to concentrate its funds on exports requiring less expensive support at a lesser percentage of financing. In addition to the problems of distributing its resources, the Eximbank budget will have to play "catch-up" for several years so that prior commitments can be honored before new ones are extended to known winners with proven and high export value.

The effects of last year's budget shortfall may have a especially hard impact on the ability of the Export-Import Bank to finance the export of products in the communications sector. Eximbank's new 65 per cent maximum coverage policy threatens to place U. S. exporters of major telecommunications and information products at a serious competitive disadvantage in the world market. As already noted, foreign governments appear to be supporting these export sales to the fullest extent possible, both with low interest rate financing and maximum percentage coverage. Concern has been voiced within the U. S. telecommunications and information industry over Eximbank's inability to provide a higher percentage of the financing required for successful export sales. In his testimony before the House Subcommittee on International Finance (April 13, 1978), John J. Douglas, Vice Chairman of General Telephone & Electronics Corporation stated:

In responding to recent bid invitations for telecommunications equipment we in GTE have found ourselves faced by foreign competitors who offer 85 per cent government - supported financing at low fixed rates . . . We believe Eximbank must help U. S. industry stay competitive. And until such time as commercial interest rates drop significantly, Eximbank must support up to 85 per cent of U. S. export values by direct loans at competitive fixed rates when circumstances require.

It is difficult to quantify the exact impact of Eximbank's reduction in its maximum loan coverage on U.S. exporters of major telecommunications and information products. However, through interviews, some suggestive data arise. The manager of international sales at Harris Corporation stated that his firm in the first six months of 1980 lost two major telecommunications deals as a direct result of inadequate financing coverage provided by the Export-Import Bank. The first, an \$8 million satellite earth station project in Costa Rica, was won by a Japanese firm that was able to offer a financing package involving 85 per cent coverage by the Japanese Export-Import Bank at an 8 per cent interest rate for ten years. Under the terms of the Preliminary Commitment issued to Harris, Eximbank covered only 65 per cent of the necessary financing at 8.75 per cent interest rate for nine years. The second case, an \$8 million telecommunications project in Jordan, was also won by a Japanese firm offering the same financing terms offered in Costa Rica. Eximbank's PC covered only 50 per cent of the necessary financing at 8.5 per cent interest for 9 years. Whether other factors (e. g., differences in price or quality) played a significant role in these two sales or whether a higher percentage of Eximbank financing would have been offered in earlier years cannot be easily determined.

2. Limited Capability to Match Mixed Credits

Another serious constraint said to affect the competitiveness of Eximbank financing support is the lack of access of the Bank to foreign assistance funds to compete with other countries' mixed credits. Countries such as France, Germany, and the United Kingdom have increased their usage of mixed credits — a practice which is not at present regulated or restricted under international export credit agreements.

Since late 1978, the Export-Import Bank, through its own capital and reserves, has begun to match a limited number of mixed credits offered by other nations.³⁰ These efforts, however, have admittedly been "token" in nature, restricted by Eximbank funding and by the Bank's necessary reliance on its own resources to match mixed credits. One way the United States could offer mixed credits would be to use the Agency for International Development (AID)³¹, which administers the U.S. foreign assistance programs, for soft-terms loans and Eximbank for normal export financing. At present, however, the authority and mechanism for such a coordinated effort do not exist. Also, while in prior years the two agencies may have supported the same foreign projects, AID now emphasizes agriculture, nutrition, and population projects oriented to basic human needs, while Eximbank emphasizes capital intensive projects and commercial equipment sales. Finally, a number of officials from the Export-Import Bank and the Treasury Department with whom we spoke felt that AID was simply not the "appropriate agency" for export promotion -- a role which would require a restructuring of AID's basic human needs orientation and greater funding support from the U.S. Congress. These officials tended to prefer that any matching of foreign mixed credits be done solely through Eximbank resources.

3. Inability to Finance Infrastructure Projects

A third area where the Export-Import Bank faces constraints in providing competitive financing is in support of infrastructure projects in developing

³⁰Cases where Eximbank matched mixed credit financing offered by competitors include: a 1978 \$3.9 million direct credit loan (6 per cent interest, payable in 8 years) to the government of Cyprus supporting the purchase of a \$4.5 million earth satellite station; and a 1979 \$100 million multi-project direct credit loan (5.5 per cent interest, payable in 18 years) to the government of Tunisia.

³¹A more comprehensive discussion of the Agency for International Development immediately follows this section.

countries. Some U. S. exporters of major telecommunications and information products complain that the Export-Import Bank does not provide adequate financing designed to support the sale of communications infrastructure projects to these nations. In testifying before the Senate Subcommittee on International Financing on March 20, 1978, Peter F. McCloskey, president of the Electronic Industries Association stated:

It is not possible for a country to build a strong industrial base without the necessary infrastructure, yet (Eximbank) severely restricts the number of its loans for infrastructure projects, including particularly internal transportation and communications projects. Those selling countries which provide the infrastructure needs, helping the buying country to develop and building a rapport and good reputation with the buyer, will be the countries whose products are highly valued by the buying nation when industrial development takes place.³²

A spokesman from the Export-Import Bank agreed that Eximbank is rarely involved in infrastructure project financing and that AID's redirection in 1973 towards "basic human needs" assistance has left a sizeable gap in this area.³³ As he explained, Eximbank was never set up to provide infrastructure loans -- loans which often require 30-odd-year repayment terms and very low interest rates. In addition, he noted, countries requiring major communications infrastructure projects are quite frequently not credit-worthy borrowers, which excludes them from Eximbank lending under the Bank's "reasonable assurance of repayment" guidelines.

Conclusion: The Future of Telecommunications Activities at Eximbank

Over the past decade, telecommunications and information exports have received an increasingly smaller amount of financing support from the Export-

³²Hearings before the Subcommittee on International Finance of the Committee on Banking, Housing, and Urban Affairs, Part 4, March 21, 1978, p. 253.

³³Personal Interview, Export-Import Bank, July 29, 1980.

Import Bank, both in absolute terms and as a percentage of total Eximbank activities. Aside from two recent unusually large direct credits in this sector, there is no reason to assume that this downward trend is about to be reversed. It should not be assumed, however, that this low level of support for exports of telecommunications and information products necessarily indicates a "low priority" within Eximbank; serious constraints exist which hamper Eximbank from offering competitive financing in this sector.

It is within the larger framework of these limitations and constraints that the future of telecommunications activities at Eximbank must be examined. This paper has described some of these limitations and constraints: the bank's self-sustaining status, which means it must recover the cost of its own borrowings to retain that status; the annual authorization ceilings set by Congress; the budget crunch of recent years which has resulted in a decrease in the maximum coverage percentage and an increase in the interest rate offered; the inability of Eximbank to finance infrastructure projects; Eximbank's limited capability to match the mixed credits offered by foreign competitors and the uncertain outcome of the ongoing negotiations on the International Arrangement on Guidelines for Officially Supported Export Credits. All of these factors affect Eximbank activities across the board. But, as this paper has pointed out, the financing of exports within Eximbank's communications sector seems particularly vulnerable to their impact.

To counter this vulnerability Eximbank could give greater attention to the special financing needs of exports of telecommunications and information products. The goal of this attention would be to reverse the downward trend in the growth of communications sector: specifically, to increase the win ratio and provide greater over-all support for products in this sector, and in general, to help these telecommunications and information exports become more competitive in the world market.

The reason why Eximbank may want to give greater attention to its communications activities is clear. The telecommunications and information sector in the United States is rapidly becoming one of the most important sectors in the U. S. economy. A larger and larger share of the output of our economy is involved in the goods and services of the telecommunications and information industries. The sector composing these industries is one in which the U. S. has traditionally enjoyed a competitive advantage. This advantage can be lost. To retain it, these industries must rely on ever expanding and healthy export markets. Exports require financing and here is where the Export-Import Bank can choose to expand its financially supportive role.

If it were decided to seek a sharper focus on the special financing requirements of telecommunications and information exports, the next question would be how to accomplish this goal. A first step would be to study the opportunities and problems presented by this sector within an Eximbank framework. This would allow decisionmakers to determine precisely how to boost the competitiveness of export financing of major telecommunications and information products. Options might include legislation, internal policy directives or better coordination with other groups involved in export financing. Whatever the strategies chosen, they should be evaluated within the larger framework of the constraints and limitations on Eximbank operations and they should be directed towards the goal of assuring greater and more competitive financial assistance for the exports of this valuable sector of the U. S. economy.

THE ROLE OF THE AGENCY FOR INTERNATIONAL DEVELOPMENT (AID)

The role played by the U. S. Government in the financing of telecommunications and information exports includes the part performed by AID. Unlike Eximbank, AID is not an export credit institution nor does it directly

finance the sale of U. S. goods or services. Rather, it is the U. S. agency charged with administering most of the bilateral assistance programs of the United States Government. It does this by extending loans, grants and technical assistance for specific programs to the governments of developing nations. Through its program activities AID indirectly participates in the financing of telecommunications exports by creating opportunities for U. S. industry to sell their goods and services to AID recipient countries.

A. I. D. Programs

The Foreign Assistance Act of 1961, as amended, authorizes AID to administer two kinds of foreign economic assistance - Development Assistance and the Economic Support Fund (formerly called "Security Supporting Assistance")³⁴ Although there are small telecommunications components within many of the development assistance programs, the majority of the large-scale telecommunications activities in AID are carried out within the framework of the Economic Support Fund. The reason for this division of activities is found in the different mandate for each program.

The Development Assistance Program: Telecommunications Projects.

Within the category of development assistance, AID programs must be guided by the "basic human needs" mandate set forth in the 1973 amendments to the

³⁴ Each kind of assistance can take one of 3 forms; a loan on concessional terms, development grants or technical assistance. During FY '79, loans accounted for 39% (\$1,154 million) and grants for 61% (\$1,805 million) of AID's total economic assistance. Interest terms for AID loans do not vary; they are set for 2% for the initial 10 years, and 3% during the repayment period. Repayment periods may vary from 20, 25 to 40 years depending upon per capita GNP levels in the country.

Foreign Assistance Act. This mandate shifted an earlier AID emphasis on the promotion of larger scale infrastructure projects (road systems, dams) to a focus on efforts directed at helping the least developed countries meet their "basic human needs". These needs are perceived to be food, nutrition, rural development, population planning, health, education, and resource development. Every project within the development assistance program must be designed to meet one or more of these development goals.

Priorities for the countries that AID has targeted for aid in the development assistance category may or may not include advanced telephone systems or sophisticated computer equipment. However, it is not the function of development assistance projects to provide these countries with the funds to purchase this equipment. Rather, numerous AID programs assist recipient governments in employing present or planned communications networks to help provide basic information to rural populations in health, education, agriculture, nutrition and family planning. This may be carried out in several ways.

For one, it is quite common for a small component of a larger project to include the utilization of telecommunications facilities to meet project goals. (Example: a maternal, child health and family planning program in Haiti will use broadcasts and audio-visual services as an educational tool -- initiated in FY 1978 with \$50,000; FY 1979 -\$75,000). Other projects are based on the more traditional capabilities of existing telecommunications systems to achieve desired results. (Example: a project begun in FY 1977 is assisting the Paraguayan Ministry of Education to provide education via radio in rural areas -- \$135,000 obligated in FY 1977, \$130,000 in FY 1978 and \$300,000 in FY 1979). In still other projects, the entire focus is on the development of a new telecommunications system designed

to meet "basic human needs." (Example: in FY 1978, \$35,000 was obligated for a planning study in Guatemala to establish a new telecommunications network which would tie together regional hospitals with 167 health posts in outlying rural areas. The network will provide paramedics at the posts with diagnostic and administrative support from hospital physicians.)

In addition to the kinds of projects described above, there is one large ongoing project within the development assistance program authority which combines a specific kind of telecommunications applications with development goals. This is the AID Rural Satellite Program which seeks to assist developing countries in exploring the potential of satellite communications for rural development. Over a period of six years, AID will support a series of demonstrations and pilot projects using satellite communications technology to show how this technology can be applied to meet an individual country's "basic human needs." Participating countries will use existing commercial satellites along with small earth stations appropriate for rural conditions. Recent applications of satellite communications for rural development include rural health workers talking to urban physicians via satellite, the linking of remote extension centers of the University of the South Pacific by satellite, and the broadcasting by satellite of new agricultural techniques to farm workers. Funding for this rural satellite program has been authorized at \$24,000,000 over the six- year life of the program; of this amount, \$12,000,000 is to be spent on pilot projects.

The Economic Support Fund (ESF): Telecommunications Projects

The second category of foreign economic assistance administered by AID, the Economic Support Fund (ESF), has a more political orientation than development

assistance. The ESF is designed to promote economic or political stability in areas where the U. S. has special foreign policy interests and has determined that economic assistance can be immediately useful in securing peace or averting economic or political crisis. In 1981, over 75 per cent of ESF resources, or \$1,605.5 million, will be directed towards the Middle East, with the largest amounts going to Israel (\$785 million) and Egypt (\$750 million). Current and past recipient countries include Egypt, Israel, Jordan, Syria, Zaire, Oman, Turkey, Botswana, Zambia, and Mozambique.

Unlike development assistance, which is restricted to only those programs which meet the "basic human needs" criteria, ESF assistance can be channelled into program activities such as major capital projects - e.g., the building of roads, dams, power plants, and telecommunications systems. There have been several sizeable telecommunications projects within the ESF category in the past decade. Among these was a \$10,401,000 project begun in FY 1971 and completed in FY 1978 for the provision of technical assistance, grant aid, commodities, equipment and training to improve Liberia's telecommunications systems. Project achievements include the creation of a telecommunications authority, the establishment of procedures for maintenance of the authority and the development of plans for the better utilization of existing telecommunications facilities. A smaller project in Madagascar, begun in FY 1973, consisted of a \$3,102,000 loan to finance the foreign exchange costs of materials and procurement services required for the expansion and modernization of Malagasy telecommunications facilities. Essentially completed in FY 1977, this project provided new telephone lines and new circuits to improve urban facilities and link provincial areas to urban capitals.

While the FY 1981 budget for ESF contains no allocations for telecommunications projects of any nature in any country, significant portions of FY 1978, 1979, and 1980 ESF funds have been designated for telecommunications

activities in Egypt. In fact, not only is the Egyptian telecommunications project one of the larger ESF projects, it is also the only major telecommunications project within ESF now ongoing or planned for the near future. Thus, it is worthwhile to discuss in some detail the Egyptian telecommunications project as an example of a major telecommunications project now supported by AID funds.

The Egyptian Telecommunications Project within ESF.

The Egyptian Telecommunications project was initiated in 1975 when government officials of that country first requested U. S. aid to improve their nation's telecommunications system. In FY 1977, \$18 million was authorized by AID in the form of a grant to conduct a number of feasibility studies for the Egyptian government; one of the studies concerned telecommunications. This feasibility study (designated the Telecommunications Sector Study) resulted in the proposal of a 20 year telecommunications plan (1979-1999) to be divided into two stages. In the first "short-term" 5 year stage the goal would be improvement of the present system — its operations, management and equipment. The second fifteen year stage would be a long-term effort directed towards expansion of the national telecommunications system. Only a portion of the twenty year plan, the size of which is still to be determined, will be financed by AID; the remainder will presumably be financed by the World Bank, Eximbank, sources within the U. S. private sector, and by foreign countries.

Another output of the Telecommunications Sector Study is the System Improvement Plan. The objective of the SIP is to improve and upgrade the existing telecommunications equipment primarily in Cairo and Alexandria so that new equipment provided under the 5 year plan can be effectively integrated into the telephone network.

The first stage of this 20 year plan is now underway. It was initiated during fiscal year 1978 when AID provided a \$40 million loan to the "Arab Republic of Egypt National Telecommunications Organization" (ARENTO) to finance a U. S. consultant, advisors, equipment and facilities improvement.³⁵ Project work is now ongoing with Arthur D. Little acting as consultant in assisting ARENTO to improve its planning, management, operating and training functions, and with Continental Telephone serving as subcontractor for the training portion of the work. AID has reported project output to date to include the establishment of a planning unit within ARENTO, the development of internal training capability, and the implementation of an annual procurement plan. In addition, some obsolete equipment has been replaced and a 20,000 line operating telephone exchange is to be installed with the added function of acting as a demonstration exchange.

Also included within the 5-year plan are the AID authorizations for FY 1979 and FY 1980. Unlike the funds allocated in the FY 1978 budget, the later distributions were in the form of grants. In FY 1979, a grant of \$80 million was provided to ARENTO to upgrade the Egyptian telecommunications network, with particular emphasis on the Cairo phone system. In this phase of the work, technical advisory assistance was provided to oversee personnel training and the installation of new equipment. In FY 1980, another \$80 million grant was given to ARENTO to continue the work of the previous fiscal year with particular emphasis on the Alexandria phone system.

Procurement for the work of the five-year project being done under these FY 1979 and 1980 grants was initiated in late 1980. Procurement will be restricted to U. S. suppliers; AT&T, GTE, and ITT being among those expected to submit bids.

³⁵The loan carried a 40 year term at 2% with no amortization for the initial 10 years and 3% during the 30 year repayment period. The government of Egypt in turn reloans the \$40 million to ARENTO for a 15 year period at 7.5 per cent interest rate.

Current activity in the Egyptian telecommunications project is limited to this procurement phase as no budget outlays for FY 1981 for the project have been made. According to an AID spokesman, the reason for the lack of FY 1981 funding is that there have been no expenditures yet from the grant and loan funds distributed in the previous years.³⁶

Opportunities for U. S. Industry in AID Telecommunications Projects

While AID is a major participant in the twenty year Egyptian telecommunications project, it is impossible to predict what percentage of the entire project will be financed by AID funding. It is clear, however, that the greater the percentage of AID funding, the more available will be opportunities for U. S. industry participation. This is true because while each AID-recipient country has discretion as to how its funds are to be utilized, it is generally understood that all grant funds are to be returned to the U. S. in the form of contracts with private industry or government agencies. Loan funds are not tied as strictly to U. S. purchases because they will eventually be repaid, but certain conditions do exist which limit the purchasing freedom of the recipient country borrower — e.g., geographic codes specifying eligible countries from which the borrower can purchase goods and services; an obligation to advertise in and accept bids from U. S. firms and agencies. The result is that AID expects that approximately 90 per cent of its loan funds will be spent on goods and services originating from the United States. Thus, the number and value of opportunities available for U. S. industry participants in the Egyptian and other future communications projects will depend on both the percentage of the total project that is funded by AID and on the form — loan or grant — in which the funds will be extended.

³⁶Interview with AID spokesman, July 30, 1980.

Conclusion: The Future of Telecommunications Activities in AID

It is difficult to gauge what the future will be for telecommunications activities at AID. If AID's mandate, program divisions, and operational structure stay the same, then the future will likely look much like the present. We will continue to see small-scale telecommunications components within many of the projects guided by the "basic human needs" mandate of the development assistance program. Larger-scale efforts to utilize telecommunications technology, such as the rural satellite program, will continue as well. If "basic human needs" endures as the direction for development assistance, then major telecommunications infrastructure projects will have to be carried out within the confines of the Economic Support Fund. It is possible that there will be more major projects, similar to the Egyptian one, although none are planned for the near future. That none are now planned may be due to the fact that such projects, like every other project considered by AID, are subject to the vagaries of congressional appropriations, domestic politics, and U. S. foreign relations. Thus, although events and opinions may change the shape of AID projects to come, it can safely be said that right now telecommunications is not a "big ticket" item within AID.

AID is not the primary source of financing for U. S. exports of goods and services of any kind nor has that ever been its intended mission. Whether or not AID could or should be directed more towards this function can certainly be debated. Given the historic perception of the U. S. as a country that helps others less fortunate than itself, it is probable that there will always be a place within the U. S. government for an agency such as AID whose primary commitment is to bilateral foreign assistance. However, leaving AID's main mission intact, it is still

useful to consider whether or not the part now played by AID in the larger U. S. role in the financing of exports could be reshaped to provide greater support for U. S. exports in general, and for telecommunications and information goods and services, in particular.

If a discussion of this issue were to take place, questions for consideration might include the following:

(1) Should there be a closer working relationship between the Export-Import Bank and AID and how could this be accomplished?

- Such a relationship would better coordinate the extension of loan and grant funds and improve the procurement opportunities open to U. S. exporters. This would go far to avoid duplication of efforts by both agencies and strengthen the competitiveness, in general, of U. S. exporting firms.

- Some contend that such a relationship would be impractical and difficult to achieve given the very different mandates and interests of the two organizations

(2) Should AID be involved if the U. S. government decides in the future to offer "mixed credits" to match those offered by the countries whose firms are considered to be to be our closest competitors?

- this too, may involve Eximbank and AID working in closer conjunction and again, there are those who contend that this would be very difficult to achieve and may have mixed success.

- two scenarios have been suggested whereby the two agencies need not work together in order to offer mixed credits - e. g., funds could be earmarked for "mixed credits" within Eximbank's annual authorization ceiling or a portion of AID's appropriations could be designated for "mixed credit" use.

(3) How could AID be directed to focus more of its attention and resources on the telecommunications sector?

- Legislation may be required to call upon AID to place greater emphasis on telecommunications projects

- If AID had a single office devoted to telecommunications activities, it would be easier to develop across the board telecommunications activities. (Right now, AID is organized along regional and policy lines. One suggestion would be to reorganize so that AID would have regional, policy and functional program offices - similar to the structure of the World Bank)

In sum, the status quo allows AID to play a significant but limited part in the financing of exports of telecommunications goods and services. Should it be desirable for AID's role to be broadened, then careful consideration should be given to its past history, present capabilities and future policy needs.

THE ROLE OF THE TRADE AND DEVELOPMENT PROGRAM

The Trade and Development Program (TDP) is the recently-created U. S. program designed to assist in the economic development of middle and upper-income developing countries while at the same time boosting U. S. exports of technology goods and services. TDP had a prior incarnation as AID's Reimbursable Development Program, but in June 1980, Congress granted TDP independent status as well as its own budgetary authority (\$3.8 million in FY 1980, \$4 million in FY 1980). The TDP does not directly finance the exports of U. S. goods and services but it promotes these exports by acting as a "broker," bringing together U. S. suppliers of goods and technical services with prospective buyers from developing countries. Along with AID and the Overseas Private Investment Corporation (OPIC), TDP operates under the umbrella of the International Development Cooperation Agency (IDCA), the agency established in 1979 to coordinate and oversee U. S. assistance programs.

TDP Programs

The programs offered by TDP are aimed at those countries which can afford to finance their own development and with whom the U. S. wishes to maintain a cooperative development relationship. While nurturing this relationship, the U. S.

hopes that TDP will help private companies in the U. S break into third world markets in such high-technology sectors as energy development, food production, mineral extraction, and infrastructure development, including telecommunications. At present, TDP activities are being conducted in some forty countries, with the participants ranging from "AID clients" such as Thailand to upper-income developing countries such as Venezuela.

Through TDP activities, U. S. agencies and private corporations participate in the early stages of planning certain projects which are likely to involve major use of U. S. goods and services. This planning assistance is provided on a grant basis and is intended to lead to the purchase of goods and services by the client government from U. S. industry exporters or government agencies. The client country is expected to pay for these goods and services on a commercial basis with the funds coming from their own resources, including monies provided by Eximbank, the World Bank or any of the regional development banks. The only restriction is that the client country cannot use AID concessionary funds to pay for goods and services purchased.

TDP offers several forms of planning assistance. These include sponsoring workshops or demonstrations in client countries to show what is new and available among goods and services in a given industry sector, sector studies, project definitional missions, pre-feasibility studies, and feasibility studies. These programs are provided by U. S. government agencies, often acting in conjunction with U. S. private firms serving as "subcontractors" in their provision of technical services.

The programs described originate and are designed to follow one another in a logical sequence. They are planned in response to requests that may come from one of three sources. The first source is the commercial representative

of the U. S. Embassy who may relay a request from the client government to the TDP expressing interest in a program activity. The second is a member of TDP's staff serving in a given region who maintains close contact with local government officials. The third source of requests may come from a representative of U. S. industry who may call upon the TDP for assistance in promoting the exports of his or her industry's goods and services to a certain country or region.

In one of these ways, the TDP is alerted to the needs of the client country and will provide one or more activities should the request meet TDP's program criteria. For example, should a country be interested in developing a natural gas pipeline system, TDP might first do a project definitional mission or a pre-feasibility study to determine the scope of the work that would be involved. A full-scale, more costly feasibility study involving an engineer's design, market analysis and a cash flow might come next. Upon completion of the feasibility study, the client country would be in a position to purchase the U. S. goods and services necessary to implement the project from the U. S. industry representatives or government agencies it had become acquainted with during the early planning assistance stages of the project.

In addition to the planning assistance options already discussed, TDP serves as a "broker" in two other ways. One is through making funds available, on a selective basis, to pay for visits to the U. S. of foreign government officials in order to familiarize the officials with the U. S. government and industry resources and the procedures for utilizing them under the TDP. The second "broker" service may be sought once the client country has received or is about to receive planning assistance - at this stage, TDP will assist client governments in their access to U. S. government financing sources, such as the Export-Import Bank and the Overseas Private Investment Corporation. This facilitates the arrangement of financial packages of project planning assistance, guarantees and export credits.

Planning Assistance of Telecommunications Projects

No planning assistance has yet been extended by TDP in the telecommunications sector nor is any on the near-term drawing board. However, TDP does have the mandate to offer such assistance for large-scale infrastructure projects, such as telecommunications because it is not limited by the "basic human needs" criteria of AID's development assistance programs. Given TDP's capabilities, it is not clear why telecommunications has not been a more active area. According to a TDP official, the planning assistance programs carried out are selected on a case-by-case basis with no sectoral preferences. Therefore, it is quite possible that in the future TDP will provide programs to client countries in the telecommunications sector. In fact, the TDP only recently responded to a U. S. Embassy request to sponsor a telecommunications program in Indonesia, but after learning that a private industry trade association was planning a similar offering, TDP may decide not to continue with its mission. It is instructive for our purposes to relate how this request was considered because opportunities of the same nature are likely to arise in the future.

According to a TDP specialist in the Asia region, the U. S. Embassy in Jakarta recently learned from the Indonesian government that it planned major investments in their telecommunications and information sector in the next five years.³⁷ The Embassy then relayed a request from the Indonesian telecommunications industry to the TDP asking that it sponsor a symposium demonstrating the most recent advances in and the utilization of digital switching equipment, optic fibers and data transmission. In responding to this request, it was discovered that not only Indonesia, but all five of the ASEAN countries (Indonesia,

³⁷ Phone interview with TDP spokesman, September 4, 1980.

Thailand, Singapore, Malaysia and the Philippines) had targeted telecommunications as a growth sector in their five year development plans. TDP planned a five day symposium to present to all the ASEAN countries the newest technologies available in telecommunications products. Then, it was learned that the Electronics Industry Association would be hosting its second U. S. telecommunications conference and exhibit in Southeast Asia to be held in December 1980 in Singapore. A TDP spokesman said that, given this fact, it appeared certain that TDP would reconsider its plans and cancel its proposed symposium. However, this did not preclude the TDP or other U. S. government agencies from offering programs in the ASEAN area at a later stage in the growth of the telecommunications sectors in these countries. In fact, it is possible that once EIA acquaints South East Asian buyers with the products available, TDP will be asked to provide planning assistance for telecommunications projects .

Opportunities for U. S. Industry in TDP Activities

The outlook for U. S. industry opportunities in TDP-sponsored programs is favorable. Should TDP activities proceed as planned, U. S. industry will have numerous opportunities to participate in the planning assistance phase of project development that is TDP's specialty. Prior to receiving this planning assistance, the client governments will have reached an informal understanding with the TDP that upon conclusion of the planning phase the governments will purchase U. S. goods and technical services during the succeeding phase of project implementation. A TDP spokesman emphasized that the Program's goal is to get involved in a country's development plans at the earliest possible stage in order to

pave the way for future exports of U. S. products. Should this pattern of early acquaintance with the goods and services that U. S. exporters have to offer be frequently repeated, it could lead to greater U. S. export sales as well as to domestic growth in developing countries with which we now have less-than-firm trade ties in certain sectors.

Conclusion: How the Future of the TDP Program May Affect the Financing of Major Telecommunications Goods and Services

In a contemplation of the future of TDP and its relationship to the financing of telecommunications products, it must first be noted that it is a very new program and its program activities are just getting off the ground. However, even at this early stage, several pluses and minuses in its approach can be identified. On the plus side, the concept of the program as a whole is a good one as it should help U. S. exporters get involved at an early stage in developing countries who have targeted the telecommunications and information sector. The program itself should be able to achieve significantly more than did its predecessor because its removal from AID's jurisdiction means it will no longer be funded under the foreign aid bill. This frees TDP from the annual wranglings over foreign assistance appropriations and should encourage a more flexible as well as increased budget in the years to come. In addition to the budget aspect of TDP's new independent status, this status will place the necessary focus on the link that exists between our commitment to "third world" development and the financing of trade opportunities for U. S. exporters.

On the minus side, TDP efforts will necessarily be limited by the fact that it is a small program — both in staff size (approximately 30) and budget (\$4 million

in FY 1981) — especially when compared with similar programs, in other developed countries, e. g., the Japanese program with an annual budget of \$60 million. In addition, the TDP is organized, as is AID, along regional rather than functional lines. This may mean that TDP will be unsuited, as is AID, to any mode of granting special attention to any given sector of U. S. industry (i.e., telecommunications).

Whatever its problems are, and despite its serious funding limitations in contrast to comparable foreign programs, TDP may be a move in the right direction. If the program is successful and grows in size, budget, and scope, it could serve a valuable function in the expansion of U. S. trade opportunities abroad. Thomas Ehrlich, the Director of IDCA, expressed his hopes for the program as follows:

The trade and development program will enhance both development in Third World countries and the competitive position of the United States vis-a-vis our European and Japanese allies who use similar vehicles to gain a greater share of contracts for overseas projects.³⁸

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