The Export-Import Bank (Ex-Im Bank) of the United States, which provides essential financing for many US exports, faces an existential crisis. Powerful opponents in Congress want to abolish the Ex-Im Bank to reduce government intervention in private markets. Its supporters are frustrated by its declining ability to help US companies compete with the heavily subsidized export of other countries, most notably China. The Ex-Im Bank's charter expires September 30, and the temporary extension that seems likely to emerge from Congress soon would only postpone the fundamental decisions that must be made about its future.

Fortunately, a tried-and-true approach to the problem can satisfy both sides of the debate. In the mid-1970s, the Nixon and Ford administrations virtually eliminated the Ex-Im Bank, even as its European and Japanese counterparts were running rings around it. Then the Carter administration adopted a two-track strategy: Quadruple the lending of the Ex-Im Bank to make clear that the United States meant business, while simultaneously negotiating effective restraints on the export credit subsidies of all countries, especially below-market interest rates and excessively long maturities.

The strategy worked. A multilateral accord was reached, with all major countries consenting to notify each other if they intended to deviate from the agreed-upon limits so that the United States could match them—a powerful deterrent on misbehavior. This new compact ended the export credit subsidy race of the day. US exports boomed, and the Ex-Im Bank was able to limit its lending—just as its critics wanted.

It is time to repeat that counterintuitive strategy. Rather than cutting, Congress should agree to (at least) double the Ex-Im Bank's lending ceiling. In turn, the Obama administration should agree to launch a major effort to negotiate an updated cease-fire, with new transparency commitments, with all other large exporters. Once again, such a strategy can simultaneously satisfy conservatives' desire to reduce the market intervention of governments while defending US economic interests. The alternative—unilateral disarmament—would produce worse outcomes on both counts.

The world of trade finance has changed dramatically in recent decades. As part of their deleveraging in the wake of the global financial crisis, commercial banks cut back sharply on all long-term lending, especially beyond their own borders. Private export credits have dried up, and small and medium size firms are essentially shut out. Governmental export credit agencies have had to fill the breech, and the Ex-Im Bank must do more, not less, to support US exports and counter increased competition from abroad. But many of the foreign agencies are using this new justification to escalate their subsidies beyond what is necessary to fill the vacuum, and it has also become urgent to negotiate new restraints on unfair competition.

Moreover, our traditional competitors have invented new devices over the past decade or so to circumvent the agreed-upon rules. Even more important, new players that do not adhere to those rules—mainly China—now account...
for almost half of all official export finance. As a result, two-thirds of these credits take place outside the traditional regime. An International Working Group is discussing this problem but at a glacial pace that has yielded negligible results to date.

Meanwhile, our competitors have been mightily encouraged by the failure of the United States to keep pace. The Ex-Im Bank now supports less than half as many exports as most other countries. It has a smaller program than Korea, whose economy is less than one-tenth the size of ours. The paradoxical outcome of partial US withdrawal has been increased overall market intervention by governments.

Partly as a result of this, President Obama’s goal of doubling US exports by this year has not been met, and our large trade deficit continues to significantly reduce US output and jobs. Our lagging government support for exports also prompts US companies to sell to global markets from their foreign subsidiaries, where they can take advantage of much more generous credit facilities—which may be one more factor in the recent rush to re-incorporate abroad.

The United States is now engaged in the most ambitious trade agenda in its history, negotiating megaregional trade agreements across both the Pacific and Atlantic Oceans, along with multilateral efforts to reduce barriers to trade in services, environmental goods, information technology, and government procurement. But domestic political support for these initiatives is shaky, due importantly to the weakening of US competitiveness and the correct perception that foreign subsidies are a significant cause of that. That’s why it’s so important that we adopt more effective strategies to counter government intervention in global markets, including by fighting fire with fire and negotiating new accords to end the latest export credit race. That’s the best route to a level playing field that enables US firms and workers to take full advantage of the new trade opportunities that could soon be available to them.