Protecting America’s Competitive Advantage
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Two months from now, the U.S. Congress may shutter a government agency that, in the past six years, has supported more than 1.3 million American jobs and generated more than $2 billion in deficit-reducing profits. The Export-Import Bank of the United States empowers American exporters by equipping those that cannot access private financing with credit insurance and working capital, among other tools.

For more than 80 years, the bank has operated largely without controversy. With overwhelming bipartisan majorities, Congress has reauthorized the bank 16 times. But last September, with its congressional authorization set to expire, the bank found itself the subject of fierce ideological debate. Ignoring the bank’s long record of supporting jobs, safeguarding taxpayer dollars, and maintaining a low default rate, a small minority of conservative Republicans began expressing opposition to the bank on ideological grounds. The U.S. government, they argued, has no role to play in global finance and should not interfere in the export sector in ways that might give some companies an advantage over others. Of course, this argument ignores the fact that government-backed export financing does not pick winners and losers—on the contrary, it is entirely demand-driven. Despite such criticism, and thanks to a broad bipartisan coalition, the bank was granted a nine-month reprieve in September. If some in Congress have their way, this may well be its last stand.

Opponents of the bank hold views of the world economy that do not reflect the reality of global competition. If Congress opts to eliminate
or curtail the bank, the United States will find itself going dangerously against the grain. In the past two decades, the nature of export competition has fundamentally changed: as an increasing number of countries operate with little regard for established international guidelines, export competition has come to resemble the Wild West. To keep up with countries, such as China, that are willing to shell out billions of dollars to help their exporters close a deal, other governments have given their own versions of the Export-Import Bank more flexibility and authority. There are 60 such export credit agencies around the world, but the United States is the only country in which there is a raging political debate being waged by a small but potent minority over whether to actually weaken its bank’s financing capacity. The U.S. stance is reminiscent of the joke about an elderly man who is driving down the highway when he gets a call from his wife. “Honey,” she says, “be careful! I just saw on the news that there’s a car going the wrong way on Route 95!” And the husband says, “Are you kidding? It’s not just one car—there are hundreds of them!” Ideological opposition to the Export-Import Bank is not only shortsighted; it could also have devastating consequences for the thousands of U.S. businesses and workers who rely on the bank’s financing to secure overseas sales. No doubt China, Russia, and other competitors are salivating at the prospect.

NO SHERIFF IN TOWN
For decades, government-backed export support fell under the aegis of the Organization for Economic Cooperation and Development, an international body that sets responsible standards for export lending for its members. As recently as 1999, nearly 100 percent of export credit was governed by its rules. By 2004, with the rise of Chinese exports, the share of export support governed by the OECD had fallen to roughly two-thirds. By 2013, the share had plummeted to one-third. If this trend continues, and countries are allowed to finance export deals without limit, the United States will lose out. During its eight decades of operation, the U.S. Export-Import Bank has financed a total of roughly $590 billion worth of U.S. exports. By contrast, over the past two years alone, China has financed at least $670 billion worth of exports. The actual sum, which is difficult to ascertain given China’s lack of transparency, may well be close to $1 trillion.

As exports have become more powerful drivers of growth, the stakes have increased. The McKinsey Global Institute projects that
the world will need $60 trillion in infrastructure investments by 2030. The United States’ foreign competitors are uniform in their recognition of what this means: in markets such as India, Latin America, the Middle East, and sub-Saharan Africa, there is an enormous opportunity for exports to spur economic growth and employment, available to any nation—not just any company—that is willing to do what it takes to win deals. Frequently, that means operating outside of any rules-based, transparent system.

As chair of the Export-Import Bank, I have seen this race to the bottom firsthand. Last June, I met with officials from Transnet, the South African rail company, to discuss a locomotive manufacturing order that General Electric had split with a Chinese competitor. Since U.S. locomotives are globally recognized as being the highest in quality, I did not want financing to present an obstacle to securing the deal; after all, more locomotives made in the United States means more well-paying jobs in Erie, Pennsylvania, instead of China. Like any good businessman, I wanted to know what terms our competitors were offering. An official from Transnet told me that when Chinese firms come to the table, government financing is virtually always part of the package. In fact, the typical questions are, “Do you want a ten-year, 15-year, or 20-year loan?” “How about a grace period?” More and more, U.S. businesses are competing not against their Chinese counterparts but against China, Inc. In South Africa, it was clear to me that Transnet had judged General Electric not solely on the quality of its locomotives but also on its ability to offer competitive financing.

Of course, export credit agencies are no replacement for the private sector, but with the push to implement major global banking reforms and the rising scale of global infrastructure projects, they are increasingly a vital supplement. As commercial banks oscillate in their willingness to extend credit, as they did most recently in the wake of the global financial crisis, the Export-Import Bank provides a dependable backstop for U.S. exporters. The reluctance of private banks to hold long-term debt for large export projects—such as the solar installations, nuclear power plants, and bridges that soon will be in high demand throughout the developing world—has created a gap that the Export-
Import Bank was designed to fill. As private lenders have shied away
from projects in developing markets, export credit agencies have
stepped in: last year, 68 percent of the Export-Import Bank’s financing
served projects in developing markets.

The Export-Import Bank also supports small businesses whose
razor-thin margins often deter private financers. The bank provides
the backing necessary for smaller firms to tackle global markets until
they grow large enough to become attractive to private lenders. In
2014, nearly 90 percent of the Export-Import Bank’s transactions
directly served small U.S. businesses.

NEW PLAYERS, NEW RULES
As the United States engages in an internal political debate over the
Export-Import Bank, it risks missing the larger picture: global trade
competition is evolving under the influence of new multilateral lending
institutions, backed primarily by China. The New Development Bank,
a joint venture of the BRICS countries (Brazil, Russia, India, China,
and South Africa), and the Asian Infrastructure Investment Bank,
spearheaded by China and set to begin operating by the end of this
year, will play a growing role in financing large-scale projects in
developing countries.

Questions remain about these new institutions: Will bidding for
projects be fair and open? Can the banks be counted on to implement
responsible environmental and labor standards? How these institutions
choose to conduct themselves will dictate the tenor of the next era of
global export finance, one that will shape the lives of millions of people
the world over. The United States, the United Kingdom, and other
trading partners are working to influence the charters of these banks
to make them more transparent and fair to borrowers and bidders alike.
But the new banks are as concerned with garnering global influence as
they are with financing infrastructure responsibly.

It is in the best interests of developing markets, global stability, and
the BRICS countries themselves that new financing institutions embrace
competitive bidding rules and prudent transparency requirements. When
importing countries are forced to make sourcing decisions based on aggres-
sive financing rather than value and quality, the consequences are
negative for everyone. Buyer nations are liable to end up with inferior
products that can hamstring long-term growth, and exporting nations,
relying heavily on the easy wins that come from cut-rate financing, may
discourage quality and innovation in their own private sectors. When Ethiopia sought to expand its cellular service in 2013, for example, it opted for a network built by two Chinese firms that were offering a combined $1.6 billion in financing—more than enough to edge out Western competitors. But an attractive financing package masked bargain-basement quality, and today Ethiopia’s cell service remains notoriously unreliable, with many Ethiopians forced to walk for miles just to pick up a signal.

For the BRICS, committing to transparency would bolster their credibility as they seek to build trust throughout the developing world. Transparency signals to prospective buyers that countries stand behind the quality of the goods and services they bring to market—that the companies that operate on their shores can deliver on the merits. Responsible lending rules of the sort championed by the OECD may not be palatable to every nation, but there is plenty of room between adhering to those standards and adhering to no standards at all. Countries, such as China, that have eschewed transparency in the past have little to lose from disclosing the extent of their government-backed export support, and competitors would finally get the chance to see what they are up against. Releasing details on important lending terms—subsidies, risk structures, and the like—would also impart a sense of integrity to the new banks. The goal of a transparent export landscape is not to ensure that U.S. firms sew up
every infrastructure project that comes along. It is, instead, to empower developing nations to decide for themselves how their futures will be built, free from the disorienting influence of opaque financing.

UNITED WE STAND
If fair global competition is to become more than an ideal, the United States and China will have to work together. Here there is cause for optimism. Beijing’s willingness to partner with Washington on a historic climate agreement in 2014 would have been unthinkable not so long ago. When discussions to expand the proposed Trans-Pacific Partnership were in their infancy a few years back, China was skeptical. Today, China is publicly acknowledging that it may one day sign on to the trade agreement. More and more, China is signaling a desire to grow responsibly into its role as a global economic leader, a trend that should be received as heartening news the world over.

Whether China’s willingness to work with the United States will extend to export finance remains to be seen. In 2012, U.S. President Barack Obama and then Chinese Vice President Xi Jinping announced the International Working Group on Export Credits, an initiative designed to arrive at a set of responsible international guidelines. The IWG, which now includes 16 other nations, has made limited progress. The original goal was to develop comprehensive regulations by the end of 2014, a deadline that has now passed. Some of the slow pace can be attributed to the fact that transparent, rules-based financing is a foreign concept to much of the world. Additionally, many other nations are seeking to do whatever it takes to maximize their export coffers; unlike the United States, their interest in export credit agencies extends beyond merely filling in private-sector gaps. International agreements take time to negotiate, but markets around the world cannot afford to wait for a stable, uniform regulatory regime to take shape—nor, for that matter, can the U.S. exporters that wish to compete with overseas rivals solely on the merits of their goods and services. Until a broader agreement emerges, Washington should do everything in its power to give American exporters the support they need: ensuring the presence of a robust and capable Export-Import Bank and ratifying the Trans-Pacific Partnership, among other steps. In the new global economy, Washington’s failure to forcefully advocate on behalf of U.S. companies will mean ceding well-paying jobs—and the power to write the rules of the road—to other nations.
Competition, unlike war, doesn’t need to be a struggle between enemies. At its best, it is a race among challengers, a shared engagement that spurs everyone to innovate and to act not simply as rivals but also as partners in responsible global growth. The competition ahead will be an export race of unprecedented scope, one that holds the potential to touch more lives than any invention, conflict, or initiative in recent history. Someone will be bringing electricity to the 600 million people in sub-Saharan Africa who today live without it. Someone will be providing the technology that will help the industrialized world move toward climate resilience. Someone will be building the airports, highways, railroads, power plants, cell towers, and hospitals that will serve the needs of generations to come on every continent.

The rules that will govern that race are important; if the field is skewed, the results will be, too. Arriving at the best possible playing field will require an acknowledgment that there is no single ideal export credit agency to which all countries should aspire, that the best possible version of a Chinese agency may look very different from the best possible version of an American one. The United States, for its part, must resolve within its own borders to reckon with the world as it is: a web of competing governments, competing values, and markets that have for a long time been less than fully free.

The best version of the U.S. Export-Import Bank is one that, although bound by the world’s most stringent financial, transparency, and environmental rules, nevertheless maintains the capacity to fill the fluctuating gaps in the United States’ private sector, freeing U.S. exporters from the shackles of uncertainty forged by antiquated ideological debates. China, too, must do its part to move the world away from the Wild West mentality that it has developed over the last 15 years. The best version of China’s export credit agency would be one that places China’s own long-term interests and the interests of global growth ahead of fleeting gains. The United States and China need not be identical to be partners in encouraging above-board competition and sustainable growth. But as the new global age brings countries closer together, deepening their economic interdependence, it is in everyone’s interest to encourage export competition that is as clear and free as possible. For the United States, a reauthorized, robust Export-Import Bank is the best way to ensure that future.