The Export-Import Bank: Why It Still Matters

By Donna Gilding

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The Export-Import Bank was created in February 1934, as part of the New Deal, to finance trade with the newly established Soviet Union. A second bank was created a month later to finance trade with Cuba and shortly thereafter expanded to include all countries with the exception of the Soviet Union. Congress passed legislation to combine the two banks in 1935. They also granted the unified bank more powers along with more capital. While the Bank did extend credit to a few countries, such as Italy and China prior to World War II, its primary efforts were concentrated on Latin America as part of the Good Neighbor Policy.

Congress periodically re-authorizes the Export-Import Bank and normally it is routine. Or at least until last September, when the June 2015 renewal became the basis of a fierce political debate. A small group of politicians began expressing opposition to the bank on an ideological basis. These politicians argued that the U.S. government has no role to play in global finance. They believe there should be no interference in the export sector, especially if some companies gain an advantage as a result. This position ignores a key fact: The government-backed export financing does not pick winners and losers. It is demand driven. Because there is broad-based support for the bank, it was given a nine-month reprieve, which ends in June 30, 2015.

Recent Changes

Government-backed exports support has been 'governed' for many years by the Organization for Economic Cooperation and Development (OECD), the international organization that sets the standards for export lending for its members. Just 15 years ago, nearly 100 percent of export credit was governed by its rules. With the rise of Chinese exports, the share of export governed by the OECD has shrunk to two-thirds. By 2013, the share had dropped to one-third. If this trend continues, there is no doubt that the US will lose out.

Exports are powerful drivers of growth. There is a great deal of competition to finance growth in the emerging world. The McKinsey Global Institute projects that the world will need $60 *trillion* in infrastructure investment by 2030. US foreign competitors are well aware of what this means: There is an enormous opportunity for exports to spur economic growth and employment and, there are countries that are willing to do whatever it takes to win deals. Frequently that means operating outside any rules-based, transparent system like the OECD. According to Fred Hochberg, the head of the Export-Import Bank, when China comes to the table, government financing is part of the package for these projects. In eighty plus years, the US Export-Import Bank has financed approximately $600 billion in U.S. exports. *In contrast, China has financed at least $670 billion worth of exports in the last two years alone.*

What Does It Mean?

The export credit agencies are not meant to be a replacement for the private sector, but with the tremendous push to implement global banking reforms and the rising scale of global infrastructure projects, they represent a vital financing channel. The reluctance of commercial banks to extend long-term credit for large export projects, such as solar installations, power plants and bridges, has created a gap that the Export-Import Bank was designed to fill. According to the Export-Import Bank, 68 percent of last year's financing funded projects in developing countries. The financing provided to smaller companies by the Export-Import Bank in 2014 accounted for 90% of the Bank's transactions in 2014.

New Players, New Rules

There are those who would say that as the US continues to engage in an internal debate over the Export-Import Bank, it is losing sight of the fact that global trade competition is evolving under the influence of new multi-lateral lending institutions back by China. We now have the New Development Bank, which is a joint venture of the BRICS, (Brazil, Russia, India, China and South Africa), and the Asia Infrastructure Investment Bank spearheaded by China. The Asia Infrastructure Investment Bank is expected to be operational by year-end and to play a growing role in financing large-scale projects in developing countries.

There are obviously questions: Will the bidding be fair and open? Can the banks be counted on to implement responsible environmental and labor standards? The UK and the US, along with other trading partners, are working to influence the charters of these banks. At the same time, we should remember that the new banks are as concerned with gathering global influence as they are with financing infrastructure responsibly. If importing countries are forced to make decisions based on financing rather than quality, the consequences may produce negative results. Ethiopia, for example, chose to use two Chinese firms to provide financing to upgrade its cellular service in 2013. The attractive financing package masked the abysmal quality of both the product and the service. Today, Ethiopia's cell service remains totally unreliable, with many having to walk miles to just to pick up a signal!

By committing to transparency, the BRICS would build trust and help to provide assurance that they stand behind the quality of goods and services that they bring to the market. Committing to transparency about loan terms, subsidies and risk structure would also impart a sense of integrity to the new banks and enable developing nations to decide for themselves how their future will be built. That kind of commitment does not come easily. You may recall that in 2012, President Obama and the Chinese Vice President Xi Jingping announced the formation of the International Working Group (IWG) on Export Credits. It was designed to develop a set of responsible guidelines under which the IWG would operate. The IWG, which includes 16 other nations, has made little progress. The assumption is that the lack of any substantial progress can be attributed to the fact that transparent, rules-based financing is a novel concept to much of the world. International agreements take time to negotiate, and a progress will be gradual.

New Players, New Rules

If global competition is to be fair, the US and China will have to work more closely together. While at times this prospect may seem bleak, we need to remember that Beijing's willingness to work with the US on a historic climate agreement in 2014 would have been unthinkable just a few years prior to that. According to one of our managers, China has already signaled that it may sign the Trans-Pacific Partnership at some point in the future.

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With infrastructure needs expected to be $60 trillion in the next fifteen years, the competition for funds will be greater than ever. Someone will be bringing electricity to the 600 million people in sub-Saharan Africa who live without it. Someone will be helping the industrialized world move toward climate resilience. Airports, hospitals, highways, railroads and power plants, among other infrastructure project, will be built to serve the needs of generations to come on all continents.

We also know that is not likely there would be one ideal export credit agency for all countries. For the US, the best version of the US Export-Import Bank is one that, while bound by the world's most stringent financial, transparency and environmental rules, still retains the capacity to fill gaps in the US private sector. That frees US exporters from the shackles of uncertainty forged by antiquated ideological debates. The US would like to see China, and other large trading partners, place the interests of long-term sustainable growth ahead of short-term domestic profits. As global growth brings countries closer together, is it in everyone's best interest to encourage export competition that is as open as possible.

In 2013, the impoverished African nation of Cameroon teamed with General Electric and the Environmental Chemical Corporation (based in Burlingame, California) to begin work on a $668 million drinking water project financed with loan guarantees form the Export-Import Bank of the US. The project is just moving into its second phase and is threatened with the potential termination of the Export-Import bank operations. Congress must be notified 35 days in advance of all projects of $100 million or more that need to be reviewed. If the authorization to renew the Export-Import Bank not approved by June 30, 2015, this and other frozen projects would die along with the bank.

It's true that the bulk of the Export-Import Bank's financing is used to support the sale of things like Boeing jetliners to companies abroad. Conservative groups such as the Koch brothers' Freedom Partners, the Heritage Foundation and Club for Growth have demanded an end to the Export-Import Bank, stating that the "crony capitalism" serves the interest of big exporters like Boeing, General Electric and Caterpillar and does not create any jobs.

Supporters of the Export-Import Bank have a different view. General Electric has said that a $350 million deal to build locomotives for Angola in Erie, Pennsylvania is about to be lost, along with 1,800 jobs. Boeing says it will be forced to cede deals in Asia to its only competitor in the wide-body passenger jet business, Airbus, which is based in France. Those jobs will be lost as that business is lost.

Cutting off access to the Export-Import Bank could compel Cameroon to turn to China, which has already made a bid with financing from Beijing's export credit agency. G.E. is scrambling to develop an alternative plan that would move the work from its water technology facility in Minnesota to Canada or Hungary, where the company has other plants supported by those countries' credit agencies. Commercial banks are simply not willing to take on the risk of these projects without an export credit facility. The opponents of the Export-Import Bank say that companies as large as Boeing and GE do not need a federal backstop to persuade private banks to finance export projects. While that may be true to a certain extent, Heiner Markhoff, president and chief executive of G.E.'s water and process technology unit, states that the conservative opposition was missing the consequences for American companies that lack G.E.'s deep pockets and connections around the world. The Environmental Chemical Corporation, with G.E.'s help and the Export-Import Bank loan guarantees, was able to strike a deal with Cameroon's government, which wanted an American government entity involved in what is a public water project.

The competing Chinese proposal is part of a long-term project to gain strategic influence in Africa. Its $850 million bid

is substantially higher than the cost of the American project, but the financing is not in doubt. G.E. still may be able to put together a bid for the remainder of the project by leveraging its global operations to attract financing in Canada or Hungary. That would undoubtedly mean moving the work to countries where that financing is available. G.E. has 43 different suppliers in the US that were to be part of this project. Moving the work to another country would mean leaving Environmental Chemical Corporation and the 43 other suppliers behind. Mr. Markhoff said: "This is not about 'big corporate welfare.'"

The Bottom Line

It is the consensus of the managers with whom I spoke that Washington and the politicians should give exporters the support they need by ensuring that the Export-Import Bank will enable the US to remain competitive in the global markets.

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