Insight

Ex-Im Debate Ignores International Context

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The Export-Import Bank (Ex-Im) is imperfect policy and needs reforms. Yet as AAF previously detailed, Ex-Im continues to play a useful and limited role helping American companies (particularly small businesses) compete globally. The increasingly aggressive activities of more than 60 foreign export credit agencies (ECAs) represent a pre-existing market distortion. And Ex-Im, often working with commercial financial institutions, helps to level the playing field for American companies by providing a variety of export finance products. With only weeks before Ex-Im's charter is set to expire, it is worth revisiting the international context in which Ex-Im operates to add some perspective to the debate over its reauthorization. Here are a few facts to remember:

65 percent of ECA activity worldwide falls outside of international agreements.

Ex-Im adheres to the Arrangement on Officially Supported Export Credits (the OECD Arrangement) set forth by the Organization for Economic Cooperation and Development (OECD), of which the United States is a member. The OECD Arrangement includes export credit terms and conditions for ECAs of member nations with agreements ranging from minimum interest rates to guidelines on environmental procedures.

With the OECD Arrangement as the foundation, the U.S. works with international counterparts on an ongoing basis to eliminate ECA support for exports, especially in certain sectors like aircraft manufacturing. Yet foreign competitors are stepping up their game, more frequently using government-backed export financing not subject to these agreements. Shown in Figure 1, 65 percent of global ECA activity in 2014 was unregulated—not subject to existing agreements. This includes both unregulated activities by OECD countries and those countries, like China, that are not OECD members and not subject to the OECD arrangement.

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SOURCE: EXPORT-IMPORT BANK – 2013 & 2014 COMPETITIVENESS REPORTS

More than half of all ECA support comes from just three countries—China, Japan, and Korea.

Of the $280 billion of global ECA support in 2014, China, Japan, and Korea are responsible for $151 billion or 54 percent of it. And support has been increasing; that $151 billion is about 30 percent higher than it was just last year. Many Ex-Im supporters fear that a failure to reauthorize Ex-Im will undermine efforts to negotiate an end to all ECA financing. By that thinking, if the U.S. "unilaterally disarms" its ECA, the Export-Import Bank, it will only encourage countries like China, Japan, and Korea to continue to aggressively use government-backed export financing to wins sales, putting American companies at a competitive disadvantage.

Three Chinese ECAs were responsible for 8 times more export financing than the U.S.'s Export-Import Bank.

As discussed, putting American companies at a disadvantage is a chief concern in light of the aggressive use of export financing products by China's three ECAs (Sinosure, China Exim, and China Development Bank). China's official ECA activity totaled $101 billion in 2014 compared to Ex-Im's $12 billion, as shown in Table 1.

TABLE 1. GLOBAL ECA SUPPORT ($B)

	2011	*2012*	*2013*	*2014*
REGULATED OECD ARRANGEMENT	111	126	98	97
USA	21	31	15	12
OTHERS	90	95	83	85
UNREGULATED OECD ARRA	55	76	63	71
NON-OECD (BRIC) ACTIVITY	99	109	91	112
CHINA	82	96	77	101
TOTAL	265	311	252	280

SOURCE: EXPORT-IMPORT BANK – 2013 & 2014 COMPETITIVENESS REPORTS

ECA activity supports the highest percentage of total exports in countries outside of the OECD arrangement.

Shown in Figure 2, countries outside of the OECD arrangement support a greater percentage of their exports, 1.9 percent of all exported goods and services, with official export credits. Furthermore, recent increases among OECD countries in unregulated activities mean that the Ex-Im Bank supports a smaller percentage of total exports than both other OECD member countries and BRIC countries (Brazil, Russia, India, and China), non-OECD countries.

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SOURCE: EXPORT-IMPORT BANK – 2013 COMPETITIVENESS REPORT, WTO STATISTICS, & AUTHOR CALCULATIONS

Perhaps recognizing that current international agreements have not sufficiently limited global ECA activity, recent legislation introduced in the House and Senate to reauthorize Ex-Im calls on President Obama to pursue negotiations on a multilateral agreement to eliminate export credits among both OECD and non-OECD countries within 10 years. The Obama Administration would have to develop a strategy for those negotiations and report annually to Congress on their progress.

Demand for Ex-Im authorizations to "least developed countries" rose 486 percent since the recession.

While Ex-Im helps American companies compete when their foreign competitors are backed by ECAs, it also helps mitigate risk for companies exporting to new markets or less common international trading partners. During and following the financial crisis, commercial banks and other financial institutions tightened lending and faced new regulatory burdens (i.e. Basel III treatment of trade finance and the Dodd-Frank Act). Large and small companies alike consequently turned to Ex-Im trade financing, resulting in a jump in total authorizations.

Though authorizations uniformly rose, this was particularly true for companies exporting to "least developed countries," the 48 countries defined by the United Nations as exhibiting low levels of socioeconomic development. More than any other geographic or regional group, with the exception of Oceania, Ex-Im authorizations for exports to the world's least developed countries increased 486 percent from their pre-recession annual average to their post-recession average (See Table 2). While volumes to these countries make up a small percentage of Ex-Im authorizations, as the vast majority goes to countries in Asia, it nonetheless shows how businesses turned to Ex-Im as private financial institutions coped with the financial crisis.

TABLE 2. AUTHORIZATIONS BY MARKET ($M)

	PRE-RECESSION AVG	***POST-RECESSION AVG***	***PERCENT CHANGE***
AFRICA	616	1,299	111%
ASIA	3,263	8,731	168%
EUROPE	900	3,300	267%
NORTH AMERICA	2,228	2,794	25%

OCEANIA	189	1,717	807%
SOUTH AMERICA	761	1,923	152%
LEAST DEVELOPED COUNTRIES	111	652	486%
TOTAL	11,811	28,159	138%
SOURCE: EXPORT-IMPORT BANK – ANNUAL REPORTS, FY 2000-2014, AUTHOR CALCULATIONS			

The Ex-Im Bank is not meant to be a dominant player; it operates at the margins, is mandated not to impede private trade financing, and is most useful when foreign competitors are backed by their ECA.

Some opponents of reauthorization have tried to show that Ex-Im support for U.S. trade is negligible, representing a small percentage of all exported goods and services. Yet Ex-Im was never meant to be a more dominant player than it is already. In fact, by law Ex-Im is only supposed to provide companies with export financing when private institutions are unwilling or unable to provide. For large corporations, Ex-Im is generally part of a financing package that includes the private sector and only needed to due to foreign, ECA-backed competition. Furthermore, the U.S. is working on international stage to eliminate the use of export credits, and as shown previously in Figure 2, seems to be leading by example.

In the end, the market for export financing is still in flux and the uncertainty created by failing to reauthorize Ex-Im is likely already impacting U.S. companies. Many companies seek Ex-Im financing when facing fierce competition from foreign export credit agencies and the case for the reauthorization of the Export-Import Bank is based largely on that market reality. Ex-Im reauthorization should include sensible reforms to limit distortionary economic effects, add greater transparency and accountability, and protect taxpayers. But wholesale elimination of Ex-Im would ignore the international context in which Ex-Im operates and disadvantage American companies.

*Note: This paper was updated on June 24, 2015 to reflect data released recently in the Export-Import Bank's 2014 Competitiveness Report.