



Export-Import Bank

By Janice C. Shields

The Export-Import Bank (Eximbank) is an independent U.S. government agency established in 1934 to create jobs through exports. According to Eximbank, its programs annually sustain an estimated 200,000 U.S. jobs directly among exporters and suppliers and another one million jobs indirectly among sub-suppliers. To carry out President Clinton's strategy for export growth, Eximbank is focusing on "emphasizing exports to developing countries, aggressively countering trade subsidies of other governments, stimulating small business transactions, promoting the export of environmentally beneficial goods and services, and expanding project finance capabilities." In October 1997, Congress reauthorized Eximbank's operations until the year 2001.

Eximbank offers a number of insurance and financing programs that are supposed to increase U.S. exports, such as: (1) working capital guarantees that cover 90% of the principal and interest on commercial loans to creditworthy small and medium-sized companies needing funds to buy or produce U.S. goods or services for

export; (2) export credit insurance policies that protect against both the political (e.g., nonpayment as a result of war, expropriation, cancellation of an export or import license) and commercial (nonpayment due to unanticipated competition or deterioration of markets) risks of a foreign buyer defaulting on payment; (3) guarantees of commercial loans (including both principal and interest) to foreign buyers of U.S. goods or services; and (4) direct loans that provide foreign buyers

with fixed-rate financing for their purchases from the United States. To qualify for Eximbank support, a product or service must have at least 50% U.S. content and not affect the U.S. economy adversely. Eximbank has also cofinanced projects with the U.S. Agency for International Development (AID), the World Bank, and regional development banks.

In 1998, Eximbank authorized loans totaling \$103 million, guarantees of \$6.2 billion, and insurance of \$4.3 billion for total authorizations of \$10.6 billion. This financing and insurance subsidized \$13 billion in exports by 2,060 U.S. exporters in 1998. Eximbank claims to have supported nearly 11,000 transactions with \$65.5 billion in authorized financing from 1994 through 1998, directly benefiting more than 2,000 communities in the U.S.

Eximbank generated a net loss on its operations of \$1.7 billion in 1998, compared to income of \$390 million in 1997. A large portion of that loss came from an increase in the provision for credit losses, especially due to off-balance sheet risks for financial instruments (guarantees and insurance) not included in Eximbank's statement of financial position. The loss provision reflects the fact that the collection of some loans is doubtful and that Eximbank will most likely need to pay insurance claims and redeem defaulted loans it had guaranteed. Most of the commitments at risk are in China, Mexico, Indonesia, and Brazil, especially in the air transportation sector. Eximbank authorized more loans, guarantees, and insurance for exports to China and Mexico—over \$1 billion to each—than to any other countries in 1998. Runners-up included Russia, Uzbekistan, Turkey, Chile, and India.

More than 40% of Eximbank's 1998 financing and insurance authorizations supported four industries: (1) "key linkage industries," including mining, petroleum, and steel companies, which produce inputs for durable goods; (2) manufacturers of high-value-added products; (3) exporters of new capital goods, such as computers, telecommunications equipment, aircraft, and automotive equipment; and (4) companies that employ highly-skilled workers, including the chemical, engine, and railway industries. By far the major beneficiary of Eximbank's programs is Boeing, prompting some activists to refer to the agency as "Boeing's Bank." In 1998, \$2.6 billion of Eximbank's authorizations assisted Boeing's exports. All of Eximbank's more than \$1 billion in authorizations for exports to China involved Boeing. Some of the other large transnationals whose exports received Eximbank subsidies in 1998 include Northrop Grumman, General Electric, Lucent Technologies, Westinghouse, and General Motors.

Key Points

- Eximbank was established to create U.S. jobs by increasing U.S. exports.
- Eximbank provides loans, loan guarantees, and insurance to assist the production and export of goods and services with at least 50% U.S. content.
- * Eximbank estimates that it (and ultimately U.S. taxpayers) has billions of dollars in exposure to losses on defaulted loans and insurance claims.

Eximbank's original goals were to increase U.S. exports and create U.S. jobs. Yet, it's questionable whether those goals can be met effectively by Eximbank. According to a Congressional Research Service study, "most economists doubt...that a nation can improve its welfare over the long run by subsidizing exports. Internal economic policies ultimately determine the overall level of a nation's exports" A Congressional Budget Office (CBO) study concluded that "little evidence exists that [Eximbank] credits create jobs."

Eximbank operations may even lead to job exports. When U.S. companies export new capital equipment and production know-how, they create potential competitors. For example, in 1997, Beloit Corporation exported pulp and paper making equipment to Indonesia; the sales were supported with Eximbank-guaranteed loans of \$135 million. More and more, importing countries are demanding that exporters shift part of their production to the purchasing nation in order to win the sale. Boeing has been forced to relocate production facilities to China and purchase products from Chinese factories to conclude the company's Eximbank-subsidized sales to China.

Eximbank's methods of implementing President Clinton's export strategy are also suspect. The emphasis on exports to developing countries combined with the focus on sales of new capital goods may introduce inappropriate technologies into nations with high unskilled labor pools. Exports of mining, petroleum, and infrastructure equipment may help multinational corporations and developed countries access cheaper raw materials, with few benefits for the residents of developing countries. These big-ticket imports drain the treasuries and currency reserves of developing countries and create heavy debt burdens.

Eximbank's financing and insurance allegedly counter similar programs offered by other countries to their exporters. Yet, a General Accounting Office (GAO) study found that U.S. subsidies don't just level the playing field, they tilt it in favor of U.S. exporters. Eximbank provides 100% unconditional political and commercial risk protection on most of the medium- and long-term coverage it issues. Similar European agencies generally require exporters and banks to assume a portion of the risks (usually 5% to 10%) associated with such support.

Increasing exports by small businesses and of environmentally beneficial goods and services also are supposed to be the focus of Eximbank's activities. Eximbank, in fact, brags that 85% of its transactions involve small

businesses. More telling, though, only 21% of the total dollar amount of its authorizations involve small businesses. According to Eximbank, only \$284 million (less than 3%) of its authorizations for loans, guarantees, and insurance supported environmentally beneficial U.S. exports. Additionally, only a minority of pending projects seeking Eximbank support require an Environmental Assessment (EA), which is forwarded to the agency by the applicant exporter. As of January 20, 1999, Eximbank listed only three pending projects for which an EA was required. For others, including pending petroleum production in Venezuela, a power plant in China, and a uranium enrichment facility in South Korea, Eximbank simply said that interested parties could provide information on potential environmental issues raised by the projects.

While billed as promoting democracy, in some cases Eximbank may be exporting the means of repression. Eximbank's support for "dual use" exports—those with both military and civilian applications—has been increasing. According to a GAO study of Eximbank dual use export loans and guarantees between 1995-97, all nine loans given to Indonesia, Venezuela, and Brazil were to be used to purchase equipment for their militaries, including aircraft, trucks, and radio systems.

Washington claims to promote free trade in former communist countries, but it subsidizes U.S. companies through innumerable federal programs, including financing and insurance provided by Eximbank. The United States claims to oppose "tied aid"—foreign assistance linked to the purchase of exports from the country extending the assistance. Yet, Eximbank receives appropriations that allow the agency to provide tied-aid assistance (grants or interest subsidies) to U.S. exporters. Washington has cut programs for poor U.S. families and children at home, while increasing Eximbank assistance benefiting wealthy transnational corporations. According to the CBO, Eximbank's credit programs are among the most expensive run by the federal government.

Key Problems

- Economists question whether subsidizing exports helps the domestic economy in the long run.
 - Eximbank operations may lead to job exports from the U.S. and harm developing countries' economies and citizens, while tilting, not leveling, the playing field in favor of U.S. multinational corporations.
 - Eximbank operations contradict U.S. policies by facilitating the export of products used for repression and providing corporate subsidies, while the U.S. promotes democracy and free markets.
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Eximbank should be privatized. If U.S. taxpayers support continued Eximbank operations, Eximbank and its beneficiaries should be subject to certain restrictions.

Privatize Eximbank

Organizations from the political left to the right, from the Corporate Welfare Project to the Competitive Enterprise Institute, agree that Eximbank's activities should be privatized—albeit for different reasons. The left believes that Eximbank's appropriations should be

Key Recommendations

- Organizations from the left to the right believe that Eximbank's operations should be privatized.
- If Eximbank continues as a federal agency, beneficiary companies must follow codes of good conduct, and an annual public accounting of the U.S. taxpayers' costs and benefits must be disseminated.
- Beneficiary countries should enact and enforce labor, consumer, and environmental protection laws; countries should attempt to agree multilaterally to eliminate Eximbank-type subsidies and agencies.

used instead for truly needy people. The right wants to downsize government. Business leaders, too, should logically support privatization of Eximbank. The high cost of Eximbank's credit programs creates a tax burden for all businesses in order to cover subsidies that benefit only a few. Entrepreneurs considering offering export services similar to those provided by the government may be deterred by fears of competing against a behemoth federal agency. Alternatively, a dual system of private and public entities offering similar services creates the potential for cherry picking by the private sector, leaving

the most risky and costly projects for the government.

Eximbank Chair and President James A. Harmon testified before the House of Representatives Subcommittee on International Economic Policy and Trade in October 1998 that only 1% of U.S. exports are supported by Eximbank programs; in other words, 99% of U.S. exports compete without this assistance. Now, during a relatively robust U.S. economic environment, is the time to cut the 1% off the federal dole. If the U.S. eliminates its Eximbank program, other countries won't be able to claim they need similar subsidies to level the playing field with the United States. Currently, countries with Eximbank-type programs waste their taxpayers' money on subsidies to bring their companies in line with those from other nations. If no countries provided this assistance, everyone would be in the same relative position regarding subsidies, without the drain on their treasuries.

Private alternatives to Eximbank already exist. For example, Norwest Bank in Minneapolis and Wells Fargo HSBC Bank in San Francisco are leading trade lenders for companies exporting to Latin America. The size of private export credit deals is getting larger, and the private insurance market is increasingly providing medium-term (five-year) coverage. As more private lenders, guarantors, and insurers enter the market, importers become more savvy too and shop around the world to lower their financing costs.

To privatize its operations, Eximbank should sell its portfolio of loans, guarantees, and insurance on the open market. The taxpayer money saved by eliminating

this agency should be redirected toward providing nutrition, housing, health care, education, and job training programs for poor people in the United States and developing countries.

Place Restrictions on Eximbank Operations

Corporate beneficiaries of Eximbank programs should face the same requirements as individual recipients of social payments (e.g., means testing and time limits on receipt of benefits). Currently, wealthy corporations like Boeing take advantage of Eximbank's taxpayer-subsidized and -backed programs indefinitely. Companies that benefit from Eximbank assistance should be required to show directly resulting net U.S. job creation. Often, agencies report jobs created but ignore jobs lost.

Beneficiary companies should be good corporate citizens. They should adopt and adhere to recognized codes of conduct such as the Principles for Global Corporate Responsibility established by a coalition of organizations in the United States, Canada, and Great Britain. These principles require companies to set standards for corporate governance and advertising and to protect the environment, workers, and children. Companies should not be allowed to export dual-use products to military organizations. A "three strikes and you're out" rule should apply to corporate beneficiaries of Eximbank operations who have committed crimes and misdeeds.

Recipient countries should enact and enforce labor, consumer and environmental protection laws, and Washington should ban Eximbank assistance to countries that fail to enact and enforce these laws. Potential economic gains should not supersede the preservation of human rights. China, with its dismal human rights record, is one of the major recipients of Eximbank assistance; paradoxically, the U.S. government's Overseas Private Investment Corporation (OPIC) excludes China from its financing and insurance programs.

Eximbank should provide an annual public accounting—showing the financial and nonfinancial benefits and costs to U.S. taxpayers of each Eximbank program outstanding during that fiscal year, organized by beneficiary company. The government should hold public hearings at least every two years to determine whether Eximbank should continue to exist as a federal agency.

In recent years, the U.S. government has shifted its foreign aid budget to programs that assist domestic and foreign entrepreneurs. This puts decisions and money into private hands that may be more interested in personal gains. Eximbank and other foreign business programs should not be funded from the foreign aid budget and should not substitute for foreign aid that directly attempts to improve the circumstances of needy people.

The U.S. should negotiate with other countries to multilaterally eliminate Eximbank-type subsidies and agencies. Rather than limiting sovereignty, these agreements would end forced subsidies established to retaliate against those of another country. Resulting savings could be targeted to more appropriate uses.

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