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A View of Ex-Im from the US Congress

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I know of few institutions in the US government that have been more successful and enjoy more bipartisan support than the US Export-Import Bank. Republicans, Democrats, business, and labor have all come to appreciate that this professional institution, although not large in size, provides enormous assistance in helping the American worker and American business compete in a very sophisticated global trading environment.

I will not make specific recommendations for changes in Ex-Im Bank's operations or charter, but I wish to express my support for the Bank's precepts. Ex-Im's role in US trade finance reflects the almost instinctive American philosophical preference for open markets and free trade. But although we might wish for a world without government intervention in trade finance, the fact of the matter is that without the Bank US exporters would be left defenseless in the face of officially financed foreign competition. The ability of US firms to win contracts, market share, and follow-on deals in important emerging-market economies—and the generally high-wage jobs that support those exports—would be placed in jeopardy.

I would like to focus here on three themes: a brief review of congressional action during the last charter renewal of Ex-Im Bank in 1997; recent developments of interest to Congress and prospects for charter renewal in calendar year 2001; and US policy toward two great powers and developing markets on the Eurasian land mass, Russia and China.

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Ex-Im's Charter Renewal in 1997

During 1997, Congress reauthorized the US Export-Import Bank for 4 years—through 30 September 2001. Initially, many observers expected that charter renewal would prove extraordinarily difficult. There were several controversial issues. First was the charge that Ex-Im Bank financing represented an invidious form of "corporate welfare." Second was a concern that the Bank's independence had become compromised through alleged entanglement in the so-called donorgate fundraising scandal. Third, the Bank was criticized for its financing activities in Russia. At issue was a concern that the Bank's support for US exports to Russia, often purchased by state-owned enterprises, was inadvertently undercutting US efforts to promote a high-integrity, free-market economy. In addition, there were suggestions that Congress should merge all the trade development agencies--Ex-Im, the Overseas Private Investment Corporation (OPIC), and the Trade and Development Agency—into a new trade promotion body that might develop administrative synergies and be more responsive to US foreign policy—as opposed to more narrow commercial concerns.

None of these issues ultimately presented a serious obstacle to Ex-Im's charter renewal. The Senate passed a bare-bones reauthorization with little difficulty. For our part in the House, the Committee on Banking and Financial Services approved its own relatively "clean" reauthorization bill, and the committee bill ultimately passed the House by an overwhelming vote of 378 to 38. The ensuing House-Senate conference report was expeditiously approved at the end of the first session of the 105th Congress.

Why did Ex-Im's reauthorization receive such unexpectedly widespread support? Although there is no definitive answer, one explanation is that Congress accepted the premise that the most compelling rationale for the Bank is that it helps to "level the international playing field" for US exporters. In so doing, Ex-Im provides leverage in trade policy negotiations to induce foreign governments to reduce and ultimately eliminate export subsidies. In hindsight, Congress also appears most willing to support a US export credit agency (ECA) that—unlike foreign ECAs—functions exclusively as a lender of last resort and does not compete with the private sector. In addition, members of Congress were generally mindful and supportive of the Bank's enhanced efforts to increase exports by small business.

Ex-Im's Charter Renewal in 2001

Looking forward to the US Export-Import Bank's charter renewal in 2001, several points are of interest. One involves the catalytic role played by the Bank in addressing the serious credit shortage that ensued in the aftermath of the emerging-market crisis of 1997-98. The global financial crisis sharply impaired the ability of affected countries to obtain normal trade finance, such as letters of credit. Members from districts representing agribusiness and manufacturing, in particular, were very appreciative of Ex-Im's commitment of additional short-term financing in support of US exports to Indonesia, South Korea, and Thailand, as well as the Bank's subsequent commitments to Brazil.

Although there can be little doubt that the Bank played a key role in facilitating US exports to faltering markets during the Asian crisis, new questions are surfacing about a potential erosion in the competitiveness of Ex-Im Bank financing. Three issues stand out.

First, according to Ex-Im Chairman James Harmon and the Bank Advisory Committee, the agency needs additional budget resources to invest in technology infrastructure to support an exporting community that increasingly requires "real-time" standards for decision making and communication. I am hopeful that the recent increases in the Bank's administrative budget will be maintained and that the $63 million request for fiscal year 2001 will be supported in the appropriations process.

Second, the Bank reports that certain nonfinancial aspects of its support detract from the overall competitiveness of its financing. These range from unilateral US sanctions to foreign-content rules and US shipping requirements. On sanctions, my view is that history has shown that unilateral economic sanctions are problematic and often counterproductive. Foreign content and shipping are hot-button political issues. Many members of Congress are sympathetic to Ex-Im's concerns. But it is always difficult to ensure that Congress will be rational when voting blocs get organized.

Third and most troublesome, there is a developing trend among competitor ECAs toward the use of public-private combinations to augment official export credits. Increasingly, these combinations appear to be in the form of so-called market windows—a new term of art for institutions that claim to operate on a commercial basis while benefiting directly or indirectly from government support in manners analogous to our government-sponsored enterprises (GSEs).

According to a 1999 Bank report, "The increasing use of these practices generates a particularly potent threat to US exporters" for three reasons. OECD agreements on best practices in trade finance neither address nor control such combinations. Moreover, US and other commercial lending institutions are increasingly shying away from the risks involved in trade finance. Finally, Ex-Im Bank is not legislatively armed to challenge such public-private combinations.

Frankly, Congress has yet to fully engage on these competitiveness issues. I suspect, however, that Congress would be very reluctant to authorize the creation of a Fannie Mae-like GSE to assist Ex-Im in countering the proliferation of foreign market windows. Conversely, Congress might consider enabling the Bank to use its "tied aid war chest" to counter the use of market windows—which, it is to be hoped, would provide the Treasury Department and Ex-Im with enhanced leverage to seek negotiated limits on the use of these indirect export subsidies. The House Banking Committee looks forward to a dialogue with the Executive Branch and the private sector on these difficult questions.

Russia and China

Let me turn to issues involving US policy toward Russia and China, two potentially large customers for US Export-Import Bank financing. Both involve bilateral relationships of seminal importance to the national interests of the United States.

I recently returned from a trip to Moscow, where I focused on three issues: the importance of a strong intermediary financial system for national economic well-being; the common threat that the United States and Russia face from the danger of money laundering and capital flight; and the future of the United States-Russia relationship, particularly at the people-to-people, rather than the government-to-government, level.

In Russia, as in the United States, the start of a new presidential administration is a time of renewal. Few countries on the planet have greater potential or greater opportunity than Russia today. Early actions in a new presidency may be particularly meaningful, as exemplified in the approval of both the Strategic Arms Reduction and Test Ban treaties. But whereas Franklin Roosevelt produced a 100-day model, his was the only US presidency that successfully undertook such comprehensive initiatives in so short a period of time. The challenges for President Vladimir Putin and the new Duma are to lead both now and for the longer term. Symbolic tokenism and scapegoating will not suffice.

From an outside perspective, it appears that Russia's future is in the balance. Whether communism will simply give way to "corruptionism" is the fundamental challenge that must be addressed. The revolutionary struggle to root out corruption may be more difficult than overthrowing communism. Avarice is more fundamental to human nature than Marxist precepts.

Many types of political systems have been chronicled in Western thought since Aristotle. But history provides no model of a sustainable system to which corruption is endemic. Compromise is possible on most political issues; but on integrity, there can be none. Given that Russia, like the United States, is an expansive frontier country, analogies to the Wild West are much in vogue. At the risk of exaggeration, from the outside it appears that the principal difference is that in Russia today the outlaws may be running rather than robbing the banks, and the sheriffs may be controlling rather than reporting to the politicians.

The obvious policy for the United States, of course, is to help promote our values and interests in establishing the rule of law in Russia. In one sense, there is no more impressive way to raise the US flag in Russia and the Newly Independent States of the former Soviet Union than to dot the landscape with our world-leading products, from farm equipment to aircraft to high technology.

However, there is an unresolved tension regarding the appropriate function of Ex-Im Bank. Congress has mandated Ex-Im's mission to sustain jobs by supporting exports to high-risk developing markets—such as financing trans-Caspian pipeline projects in the Near East and Newly Independent States, or facilitating trade with sub-Saharan Africa—many of which have highly imperfect legal and political systems. Unlike OPIC, Bank operations are not formally subordinated to the priorities of US foreign policy.

Under the leadership of Chairman James Harmon, the Bank has taken progressive steps, consistent with its mission, to develop incentives for these countries' governments to recognize their obligation to provide a transparent, equitable, and predictable legal infrastructure. But as the Tyumen Oil controversy symbolized, there can be conflicting views over how to strike the right balance between promoting US commercial interests and advancing broader foreign policy concerns, including integrity questions. Likewise, there are issues as to the appropriate standard of evidence necessary to justify State Department action to block Ex-Im loans on noncommercial grounds--in this case, allegations that a Russian company may have acted improperly. These conflicts have the potential to disrupt US exports to the developing world. Congress will presumably revisit these issues, along with the appropriate use of the Chafee Amendment, as it considers charter renewal in 2001.

Regarding China, the issue of seminal importance for the national interests of the United States is the case for Permanent Normal Trade Relations (PNTR). There is little doubt that PNTR was the most consequential foreign policy legislation this Congress had been asked to address. Impressively, the vast majority of members of Congress appeared united on the principle that it is in the interests of the United States to develop a credible strategy for integrating China into the world economy as a responsible power that accepts international political and trading norms. What was at issue was means, not ends; that is, whether granting PNTR advances US interests and values in modern China.

In my judgment, approving PNTR for China serves the enlightened self-interest of the people both of the United States and of China. It promotes our economic well-being by opening Chinese markets to US goods and services. It advances our interest in a rules-based international trading system by helping to lock in Chinese reforms, economic restructuring, and a commitment to orderly globalization. China's accession to the WTO, in turn, also paves the way for the long-overdue entry by a democratic Taiwan into the global trading body.

China's entry into the WTO, coupled with PNTR, opens up substantial commercial advantages to the United States. With market-opening commitments in agriculture, telecommunications, banking and financial services, and a panoply of other industries, Americans and other exporters will have much greater access to a market that holds fully one-fifth of the world's population. Credible estimates suggest that the market-opening concessions that accompany PNTR would boost US exports to China by around $3 billion, close to a 15 percent increase in current US exports to China.

Indeed, the math is on our side. Although the United States frequently has 3-5 percent tariffs on Chinese goods coming into the country, just as frequently there are 30-50 percent tariffs on US goods entering China. This agreement negligibly affects the United States's tariff structure, but dramatically reduces Chinese levies—down in most instances to the single-digit level.

PNTR is unambiguously good news for US exporters, many of whom may need to seek the support of Ex-Im Bank financing. Although the Bank to date has primarily helped finance purchases of aircraft and power equipment, one can envision Ex-Im supporting a range of products—from environmentally sound infrastructure to medical equipment and wastewater treatment systems.

The House Banking Committee has jurisdiction over certain macroeconomic issues as well as the financial services industry in particular. With regard to commercial products, China maintains unfairly high tariffs, which the PNTR approach is designed to reduce. With regard to financial services, China maintains arbitrary nontariff barriers, which the PNTR approach is designed to dismantle. Reduction in Chinese tariffs and nontariff barriers is in the US national interest. Not insignificantly, commerce follows finance.

If we had failed to pass PNTR, China would have simply imported fewer manufactured goods and farm products from the United States. French, German, and Japanese banks would have entered China and, by so doing, would have facilitated exports from the companies they serve in their own countries. The United States would have remained an import haven, but opportunities for building export jobs here, at home, would have been denied to US workers. It would leave the United States unable to apply WTO rules and obligations to the Chinese government, including standards of openness and reciprocity, as well as mechanisms for dispute resolution. In other words, US farmers, workers, and consumers would have been denied the market-opening, rules-based trade benefits that China would grant to our European and Japanese competitors when it joins the WTO.

It must be stressed that although our economic ties to China have grown rapidly in recent years, so too has the size of our trade deficit. A billion-dollar-a-week trade deficit is politically and economically unsustainable, particularly if China's market were closed to US products or biased toward foreign firms.

The best way for countries to have good, sustainable political relations is to have reciprocal open markets, and the best way to achieve reciprocity in trade is to get politics out of economics and competition into the market. Balanced, mutually beneficial trade is a cornerstone of good Sino-American relations. Likewise, unbalanced trade contains the smoldering prospect of social rupture. Hence, PNTR is one of the few measures in the US interest: to promote the reform and liberalization of China's economic, trade, and investment regimes and to bind China to the rules of international commerce.

For some, the PNTR issue has come to symbolize concerns about globalization and the increased integration of the world economy through trade flows, capital flows, and high-speed information technology. Although there is angst about competition and globalization in some segments of the American public—as in all publics—the historical record affirms that market systems based on free trade and the rule of law lead to higher standards of living than systems based on political isolation or economic autarky.

Protectionism is particularly harmful in the credit, securities, and savings industries because the general economy is dependent on each of them. In the United States today, approximately one-fourth of banking assets and one-third of commercial loans are made by foreign entities. Although some may be startled by these statistics, in general Americans consider foreign financial competition good for the nation's economy. This kind of competition would be even better in developing countries such as China, which need to build financial systems that can allocate capital on a market basis. Hence, one of the most beneficial, far-reaching aspects of our bilateral WTO accession agreement is China's commitment to undertake the progressive dismantling of barriers to foreign investment in its financial services industry.

More broadly, Beijing's commitment to the rules and obligations of a WTO-based framework should help support China's transition to a modern market economy based on the rule of law. Because China is the world's most populous nation, its successful management of economic and social reform is very much in the interest of the United States and the broader global economy. Joining the WTO binds China to a set of market rules, which limits the ability of government officials to capriciously change rules to advance personal or vested interests. This will help Chinese reformers lay the basis for a rules-based economy that is the best hope for controlling pervasive official corruption. In this context, it deserves to be stressed that government-centered, managed trade provides fertile ground for corrupt practices. Conversely, free trade under the rule of law is an economic framework in which social corruption has a more difficult time flourishing.

Many Americans, including members of Congress, are vexed by the human rights record of China and are concerned by the pace of economic and political change in China. Yet experience teaches that the political system that best fits economic free enterprise is reflected in democratic political institutions of, by, and for the people. Advancing freely associated economic ties with the West under the rubric of internationally accepted trade rules has one principal political side effect: it builds bridges to democracy. But quixotic attempts to isolate China economically run the great risk of ensuring oppression and causing intemperate international actions.

From a historical perspective, free trade is a natural extension of the open-door policy that was the hallmark of US involvement in China at the end of the nineteenth century. Rejecting PNTR would have effectively driven a stake through the heart of our economic ties with China and placed in grave jeopardy the future of our relationship with one-fifth of the world's population.

Whether the twenty-first century is peaceful and prosperous will most of all depend on whether China, the most populous country on the globe, can live with itself and become open to the world in a fair and respectful manner. How the United States, its allies, and the international system respond to the complexities and challenges of modern China is clearly one of the central foreign policy challenges of our time.