3

A Chairman's Perspectives on the Future of Ex-Im Bank

JAMES A. HARMON

There may be a few brave souls willing to admit they know all about turning 65 years old, as the US Export-Import Bank now has. But I do know that there are two schools of thought on the subject. One says you have entered your "golden years"; the other says you are "over the hill." I think a lot depends on your outlook—on the goals and challenges still ahead and on your commitment to reaching them. A lot also depends on how you have taken care of yourself during those 65 years. Did you challenge yourself? Did you keep growing, learning, and adapting?

Just as this is true for a person, I think it is true for a commercial entity. As we celebrate the 65th anniversary of an organization that has had an impact not only on this country and its place in the world, but also on nations and people around the world, I have no doubt that Ex-Im Bank today is 65 years young. I firmly believe that—if valued for all its worth and challenged to reach its true potential—Ex-Im's greatest moments are yet ahead.

Building a Future for Ex-Im as Bright as Its Past

The last sentence is a bold statement about an agency that helped finance the 717-mile Burma Road in China in 1939. An agency that was "command central" for the Marshall Plan that rebuilt Europe after World War II and established the United States as a global superpower. An

James A. Harmon is president and chairman of the Export-Import Bank of the United States.

agency that aided Russia's transformation from a centrally planned to a free-market economy. An agency that helped stabilize Asia and Latin America in the wake of the past decade's global financial crises. We must ensure that Ex-Im Bank's future lives up to its proud history—not merely to retain the luster on our image, but because this country has never needed the Bank and the work of the US exporting community more than it will in the years to come.

Without question, incredible opportunities exist in developing countries. But there also is a formidable amount of competition. So, although I am proud of Ex-Im Bank and its accomplishments, I also am concerned about the future and about keeping jobs here in the United States.

Like it or not, the United States is an increasingly export-dependent nation. Fifteen years ago, exports made up 7 percent of its GDP. Today the proportion is near 12 percent and growing. Although it has only 4 percent of the world's population, the United States represents 30 percent of the world's wealth. Exports fuel its jobs and economy. But this is even more true of other countries, many of which rely on exports for a quarter of their GDP. They take the business of exports seriously, and that sets up a real showdown in the developing world, where most of the future world economic growth will be.

In this hotly contested environment, I worry that somewhere along the line we may have stopped pushing Ex-Im Bank. The more I watch other countries in action, the more I sense that Ex-Im has been lulled into complacency by a strong economy, and that today's record prosperity masks some significant shortcomings in its competitive position. The developing world's crises in 1997 and 1998 temporarily slowed Ex-Im's competition. Most export credit agencies (ECAs) report financial results to their minister of finance, and no ECA wants to report losses. This means that, during times when support is most needed, most ECAs become cautious. Ex-Im Bank steps up because its positions are already "marked to the market." This is what occurred in recent years, and this is why Ex-Im's competitive position remained relatively strong during the Asian crisis. But in recovery periods, other ECAs will return to their customary aggressive stance.

Ex-Im Bank is definitely losing ground to more and more sophisticated, aggressive competitors. This power shift is happening very quickly. I believe that if Ex-Im waits until it has completed a multiyear study to confirm what those doing business around the world already know, it will be too late, and Ex-Im's window of opportunity will have closed.

Increasingly, we see people express their concern about globalization. But, by and large, the protesters do not target Ex-Im Bank. There is a sense that it does something fairly pure and constructive: It creates jobs through exports. It helps other parts of the world grow by extending financing that is not available through commercial banks. And, on Congress's instruction, it works in an environmentally friendly manner. Last year, Ex-Im Bank supported $17 billion in exports that otherwise would not have gotten done. In short, it can continue to help the US economy grow, sustain and create jobs in the United States, and do it in a way that makes Americans feel good about global commerce.

A Changing Competitive Landscape

Ex-Im Bank has stepped up its activities quite a bit in recent years. Soon after I arrived as Ex-Im chairman, the Asian economic crisis hit. By refusing to retreat like most financial institutions, Ex-Im played a role in stabilizing the situation. It also uncovered some key opportunities for US businesses. When you write the word "crisis" in Chinese, it is made of two characters—risk and opportunity. In the past 3 years, Ex-Im has taken on more risk in order to seize the legitimate opportunities that exist in Asia, sub-Saharan Africa, Russia, and the Newly Independent States of the former Soviet Union. Ex-Im also is more creative in its financing—with subsovereign guarantees, guarantees in local currency, and plans for greater risk sharing with private banks.

More than any other country, the United States recognizes and values the tremendous potential that exists to increase the participation of small and medium-sized businesses in the global marketplace. Today, fewer than *5 percent* of all US businesses sell internationally. That must change if the US economy is to keep growing. Ex-Im is pursuing initiatives to increase that number—from outreach partnerships with more than 50 trade associations, to programs that target women- and minority-owned businesses, to an ambitious effort to build a "virtual Ex-Im Bank" by making its programs accessible on the Internet and thus dramatically extending the reach of its 420-person staff.

Without question, exports fuel future economic growth in virtually every mature economy around the world. As a result, the developing world will turn into an increasingly important battleground in determining what share of the business each country will get. Today, the United States is not overly preoccupied with this contest. But when its economy slows down—and most people agree that it is only a question of when—it will have a real challenge on its hands. That moment is not the time to realize that it is not equipped with the most modern, competitive tools.

Some of Ex-Im's ECA colleagues from other countries have contributed to this volume. Read closely what they have to say. As I have gone to Group of Seven meetings and other international gatherings, I have listened to them. It is a real wake-up call. Despite Ex-Im's solid progress in the past 3 years, it is at risk of falling behind in some key areas. Many export credit agencies have much larger budgets than Ex-Im. Many have invested more in technology. The United States is the world's leader in technology, yet other countries automated ahead of it--which is to their credit. Today these countries also are using new and effective tools, such as market windows and untied aid.

Many countries have completed a strategic study of their export credit agencies during the past decade—several in the past year or so. Canada is just completing a year-long Parliamentary review. The United Kingdom and Japan have undertaken similar efforts this past year. The results of such reviews are never "steady as you go." Rather, the typical conclusion is to jump-start a radical change. During the past decade, some countries have significantly restructured their export strategies. Others have consolidated trade finance departments or merged their aid and export credit functions into one agency.

My background is in business. If I were evaluating Ex-Im Bank as a company, I would express concern that its competition is better structured to face future challenges. I would also be concerned that it operates under laws that hinder its competitiveness and replaces senior management with every election cycle. These underlying weaknesses barely show up on the radar screen of today's strong economy. But I firmly believe that if Ex-Im continues to operate in this manner, ultimately the United States will export fewer goods and more jobs.

I am concerned that prominent US companies are making a business decision that they can get other official financing with fewer restrictions from agencies other than Ex-Im Bank. That is a dangerous position for the United States. When we think about the role of the Bank in the next 65 years, we need to more closely bear in mind this bottom-line perspective. I am not saying to throw our values out the window, but we do need to think hard about some long-held assumptions at the center of US trade strategy in light of today's more competitive landscape. We need to step back, look at the whole equation, focus on the results we want—for the United States to continue to create jobs through exports—and figure out what variables need to be adjusted on the other side of the equation to achieve that outcome.

A Pivotal Moment for America's Future

At this point, you are probably thinking: "Well, isn't it the Bank's *job* to make sure we get this positive outcome?" The answer is "Yes." And I have a number of ideas. Some of my ideas may not be too popular, but after 3 years in this job and more than 40 years in business, they are beliefs I have grown to hold very passionately. I believe that we do need to approach our export finance efforts from a greater business orientation. That entails a fundamental realignment of Ex-Im Bank, its programs, and its culture. We have started down this path these past 3 years. But we have a ways to go.

I have asked the National Academy of Sciences and the Institute for

International Economics to study the future of Ex-Im Bank and US trade finance competitiveness. This study needs to be a no-holds-barred examination of the Bank, its programs, and its competition. The study needs to result in a strong business plan—complete with recommendations—that can be presented to the next president of the United States and to the next Congress. The study needs to find forceful ideas on how to better level the playing field and empower more US businesses to continue growing our economy and creating jobs through exports. The essays in this volume will be of great value for the study.

It is my hope that no issue will be "untouchable." For example, I think the study should take a fresh look at US sanctions policy. Sanctions flip our exports on and off like a light switch—Colombia, India, Russia. Even with the debate on China, we heard some suggest using Ex-Im Bank as a threatened sanction. This erodes the Bank's reputation for reliability. The day after the United States sanctioned India, Airbus made an immediate offer to fill the void. That story is hardly unusual. Although sanctions often serve a vital purpose, there is no debating the fact that they also tie one hand behind Ex-Im's back. I am not saying, "Get rid of all sanctions." But we do need a serious examination of this thorny issue and *all* its consequences.

I also would like to see a fresh analysis of the Chafee Amendment, which allows the president or the secretary of state to stop an export financing transaction. The infamous Tyumen Oil transaction certainly gives us reason to pause. I will not rehash the details, but, basically, the State Department stopped a $500 million transaction from going forward because of corruption concerns in Russia. In the end, Ex-Im was able to move forward, but it could have lost that sale in the meantime. Again, there are reasons for this policy. But Ex-Im needs to consider more closely its effects in light of the dramatic changes taking place around the world. For each decision that detracts from Ex-Im's competitiveness, it needs to find ways to make up what it gives up, so that its businesses and the US economic future are not penalized.

We should examine the whole range of well-intentioned policies to ensure that they continue to achieve their goals. For example, everything Ex-Im Bank finances over $10 million has to be exported on a US-flagship. Also, for many years, the Bank has had a policy prohibiting it from financing any export item that is not at least 50 percent made in the United States. The intentions behind these policies are beyond dispute. But I am not so sure the same can be said of their actual outcomes. If other ECAs do not operate under all these restrictions, then they have an edge. We owe it to the American worker to ask: Does it really make sense to pass on a multimillion-dollar order because we cannot ship it on a US-owned vessel? Does it really make sense not to support a 40 percent made-in-United States product, if our refusal to finance ultimately moves the jobs to another country?

It draws yawns when I say it, but we also need to review vital governance challenges related to the Bank. These issues are not front-page news, but they strike an important key for any successful corporate strategy—solid fundamentals. I cannot overstate how damaging it has been to Ex-Im's export strategy and management that I am one of the very few chairmen in the Bank's 65 years to stay for a full 4 years.

When I arrived at Ex-Im, I was the fourth chairman of the Bank in 5 years. We have far too many challenges ahead of us for that to happen in the future. We all know what would happen to a company that had four chief executive officers in 5 years. It would be history. It would never be able to find its stride, let alone adapt and get ahead. The study I outlined above should explore this weakness. Maybe my successor should serve a 6-year term. Maybe that would give our export finance strategy the longer-term business orientation it deserves.

The Bank must continue to have a first-rate staff. Although Ex-Im has many talented employees, recruiting and retention are a tremendous challenge throughout government. But particularly in finance--where there is such a powerful gravitational pull toward the private sector--we have to be more creative. We cannot match corporate salaries, yet we absolutely need the best and brightest on our team in order to stay competitive. How do we do it?

Regardless of the political landscape, I will offer to the next administration to remain as Ex-Im chairman until my successor is sworn into office. If granted this request, I will recommend to Congress in January that it move up the date of the Bank's reauthorization hearing to the spring instead of the fall. This way, I hope to pass not just the baton to my successor, but a reauthorized agency. I realize this is not generally done in Washington, but I feel strongly that we will miss a great opportunity if the minute we swear in a new chairperson, he or she must immediately lead the Bank's reauthorization effort.

We should also examine the trade finance structures of other countries. There is a lot of sensitivity in Washington to even raising this issue, but we need to understand why most other countries have combined their trade agencies, to see whether it is merely a question of coordination or one of synergies. If combining or better coordinating the work of Ex-Im Bank, the Trade Development Agency, and the Overseas Private Investment Corporation would improve US export competitiveness, then the issue deserves serious consideration. At a minimum, I believe these agencies should be housed in the same building and report to and coordinate with a White House office, so that we work more closely together in a complementary rather than a competitive manner. These opinions do not win popularity contests in Washington. But thoughtful people have to admit their merits as well as the value of the committee exploring these complex issues in the spirit of open-mindedness and recommending ways to shore up our competitive position.

Conclusion

During the past 3 years, I have come to deeply admire the US Export-Import Bank. The Bank has many accomplishments, and it plays a role in today's strong economy. It will need to play an even stronger, more central role in the future-–one that will level the playing field for US businesses, keep American jobs here at home, grow this strong economy, and help protect the United States's superpower status.

Given all the changes taking place around the world, there is little question that this is a pivotal moment for Ex-Im Bank. The choices it makes today will have a lasting impact not only on the Bank but also on the US economy. Ex-Im Bank was created in 1934 by Franklin Roosevelt. The man who dug our nation out of the Great Depression resisted the lure of isolationism and saw that the United States's economic salvation and future growth would come from selling more products to the world. He was right. In the years to come, he will only be proven more right. How Ex-Im Bank refocuses to meet the challenges of the twenty-first century will go a long way toward determining US competitiveness for the *next* 65 years.