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EXPORT–IMPORT BANK

THE EXPORT–IMPORT BANK SHOULD BE ABOLISHED

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The Export–Import Bank of the United States (EXIM or the Bank) is a federal agency that was established in 1934 to provide export subsidies through taxpayer-backed financing to private exporting corporations, as well as to foreign companies buying U.S. exports, with the ostensible purpose of promoting American exports, creating jobs, supporting small businesses, improving U.S. competitiveness, and protecting U.S. taxpayers.

In 1986, David Stockman, who served as Director of the Office of Management and Budget under President Ronald Reagan, wrote that:

> Export subsidies are a mercantilist illusion, based on the illogical proposition that a nation can raise its employment and GNP by giving away its goods for less than what it costs to make them.... Export subsidies subtract from GNP and jobs, not expand them.... Moreover, in 1981, the EXIM's practice was to bestow about two thirds of its subsidies on a handful of giant manufacturers, including Boeing aircraft, General Electric, and Westinghouse.[1]

Since then, very little has changed. EXIM operates in effect as a protectionist agency that picks winners and losers in the market by providing political privileges to firms that are already well-financed. By doing so, it risks taxpayer funds as it stymies economic growth. This reality is not altered by the argument that the Bank could be a weapon to fight China—an argument that rests on a misguided understanding of what competitiveness is and how it is achieved and maintained. The Bank should be abolished.

BACKGROUND

The Export–Import Bank was created in 1934 as an export credit agency (ECA) to finance trade with the Soviet Union. It was reorganized as an independent government agency in 1945. President Franklin Roosevelt's Executive Order 6581 gave it "the power to aid in financing and to facilitate exports and imports and the exchange of commodities between the United States and other Nations or the agencies and nationals thereof" to create jobs in the United States.[2]

EXIM has four main tools with which to pursue these goals: loan guarantees, working capital guarantees, direct loans, and export-credit insurance. Importantly, for four years starting at the end of 2015, the Bank became incapacitated. Lacking a quorum for its board of directors, it could not extend financing that exceeded $10 million per project. That put an end to about 85 percent of the Bank's financing obligations. As the numbers below show, the Bank hasn't yet recovered from that long interruption.

Total Bank authorizations in recent years have gone from $12.6 billion in fiscal year (FY) 2007[3] to $21.5 billion in FY 2014[4] to $5.2 billion in FY 2022.[5] A better way to understand these numbers is to look at the amount of financial exposure the Bank has—that is, the risk the Bank takes for which taxpayers are ultimately responsible. During this same period, the Bank's total exposure increased from $57.42 billion in FY 2007[6] to $112.1 billion in FY 2014[7] and then fell to $41.3 billion in FY 2021[8] and $35.4 billion in FY 2022.[9]

CLAIMS VS. THE FACTS

Supporters of EXIM make many claims about the benefits that our nation and citizens derive from having an Export Credit Agency. These claims, however, are not supported by the facts.

The Bank is an example of government-granted privilege. Traditionally, one of EXIM's top 10 domestic beneficiaries is Boeing, which at a 40 percent share of total loan authorizations dwarfs the 25 percent share for all small businesses that received EXIM's services combined.[10] On the foreign side, things are not much different: The subsidized financing largely benefits very large companies like Mexico's Pemex, Ireland's Ryanair, and Emirates Airlines that either collect massive subsidies as state-controlled entities or could easily access private financing.[11] American businesses that lack political connections are put at a competitive disadvantage by their own government because they are forced to compete against both domestic and foreign businesses that enjoy access to subsidized loans.[12]

The Bank does not maintain or create jobs. EXIM's supporters point to the numbers of new jobs that they claim have been created through federal spending, but the unseen effects are ignored. For example, funding for one industry or firm might take more jobs away from other industries and firms, resulting in a net job loss even though jobs are created for the financed firm. At best, it could be said that the Bank redistributes employment from unsubsidized firms to subsidized firms.

However, with very rare exceptions, most exports financed by EXIM would have taken place without government support. Many companies have said so themselves;[13] the procurement happens before the decision to get government support; and, as noted above, most EXIM deals go to large companies with easy access to capital. Thus, the agency is taking credit for jobs that would have existed in any event.

The Bank does not promote exports. EXIM presidents commonly claim that the agency's mission is to support U.S. jobs by facilitating American exports through its export-financing tools. However, trade economists have long known that export credit subsidies merely redistribute exporting opportunities to subsidized firms instead of increasing the net number of exports—something that also slows economic growth.[14]

Even more telling is the performance of the U.S. economy and American exports during the four years when EXIM lacked a board quorum (2015–2019) and was barred from finalizing deals in excess of $10 million. During that time, EXIM authorizations fell from $21 billion in FY 2014 to $3.6 billion in FY 2018 (adjusted for inflation).[15] However, also during that time, regular big-ticket EXIM beneficiaries continued to benefit from their easy access to capital markets and still had the ability to finance their export activities.

Further, U.S. exports were utterly unaffected by the reductions in the Bank's activities.[16] U.S. unemployment fell to a level not seen in half a century, but exports soared with financing provided by commercial lenders. The only negative economic impact from EXIM's lack of a board quorum was its effect on the Bank itself. This contradicts EXIM's claim that its activities are crucial for the success of U.S. exporters and economic growth. Instead, it shows that economic growth is the best booster of U.S. exports and job creation and that it does not depend on EXIM subsidies.

Subsidy-boosted exports do not boost economic growth. EXIM's primary reason for existing is to increase exports, as if more exports *themselves* represent more jobs and economic growth. Recent expressions of this fallacious belief can be found in a book by former EXIM President Fred Hochberg. According to Hochberg, "We know that trade, and exports in particular, can have a big impact on jobs."[17] While this is a common misconception about exports, it is one worth correcting. As trade economists know, exports are a cost to the economy: They subtract from GDP. Imports, on the other hand, add to GDP. If the U.S. could acquire all of the imports that it currently gets without exporting anything in exchange, that would be the best of all worlds. Unfortunately, one reason that foreigners are so eager to sell us their goods is that they want our dollars to buy our debt, invest in the country, and buy our exports. That is why exports drop when overall imports drop.

Exports promote U.S. economic growth *only* if the value of the resources used to produce them is less than the value of what we receive as imports in exchange for those exports. By subsidizing American exports, EXIM causes too many resources to be devoted to producing exports. As a result, the total value of our exports is made larger than it would otherwise be to obtain any given amount of imports. In other words, EXIM thus compels American taxpayers to subsidize foreigners' standards of living at no appreciable benefit to the U.S.

Unfortunately, this misunderstanding and the constant glamorization of exports and their impact on jobs and growth are used to justify government support for some exports (on average, 98 percent of exports are not backed by EXIM financing). It also is extremely unfair. Because capital will tend to shift from unsubsidized companies to subsidized companies (taxpayers foot the bill if companies backed by the Bank default), unsubsidized export companies face higher borrowing costs, which could translate into fewer jobs in unsubsidized companies or lower pay for their workers.

The Bank does not promote growth by leveling the playing field. EXIM's charter stipulates that one of its missions is to support U.S. exports with the goal of creating jobs and promoting economic growth through the provision of export financing via its loan-guarantee and insurance programs. In particular, EXIM is to intervene in cases "where such support is necessary to level the competitive playing field for U.S. exporters due to financing provided by foreign governments to their exporters."[18]

As a result, EXIM for years has been focused primarily on what other countries' ECAs are doing and how much financing they are providing.[19] A reading of any of EXIM's Competitiveness Reports shows that the Bank frames the "competitiveness" of the U.S. economy and exporters in extremely narrow terms—specifically, as the amount of business that foreign ECAs are doing relative to EXIM.

The report for 2020 features striking evidence of this mindset. For instance, lamenting the "nearly four-year hiatus" during which the Bank lacked a board quorum to approve large deals, EXIM's leadership maintains that these years "severely hindered EXIM's ability to support the competitiveness of U.S. exporters." During that time, foreign ECAs "fundamentally evolved their philosophy and substantively expanded their roles," and "the United States must work hard to keep pace." The Bank goes on to promise that it will "re-emerge from the years of being out of the long-term export finance business and restore its standing as one of the world's most competitive ECAs."[20]

In other words, EXIM bureaucrats appear to believe that economic growth and jobs result not from a favorable tax and regulatory environment, but from a victory in hand-to-hand subsidy combat between government banks. The Bank's

Competitiveness Reports include a table that ranks countries by ECA financing volume. An adjacent map displays the most "competitive" ECAs around the world, implying that the U.S., which ranked eighth in terms of volume in 2019 (the year before the pandemic), is losing ground compared to more "hyperactive" (ranked higher) ECAs.[21] The implication is that ECA export financing improves the overall health of the export market and thereby fuels economic and job growth—which it does not do.

- Consider Italy's hyperactive ECA. In 2019, Italy was ranked first among Organisation for Economic Co-operation and Development (OECD) countries in terms of volume and was highlighted in the report as an example for other countries to follow. Yet the Italian ECA's hyperactivity appears to have had little impact on that country's economic growth or employment.

- Germany was the second-highest ranked OECD country on this list in 2019. While Germany had respectable economic growth at the time of the report, only 0.7 percent of its exports were backed by ECA financing. These data provide little support for the argument that Germany's strong economic performance has much, if anything, to do with the German ECA.

- China by all accounts had a hyperactive ECA: It ranked first on the list in 2019. ECA-backed exports in China represented 2.1 percent of exports backed by government financing. Whatever one perceives as China's economic successes, it is hard to argue that the main driver of China's exports is its ECA.

- The report highlights the eighth-ranked U.S. for its unusually low level of EXIM-backed exports. At the time of the report, the U.S. economy was thriving, wages and employment were up, and the country still had flourishing trade—but it was also striving when EXIM was mostly dormant. In other words, one cannot argue that the bustling economy was the result of EXIM support.

Even in countries touted as leaders in relying on ECA financing, ECA-backed exports are never more than 4.7 percent of total exports. Moreover, even that is an outlier. For 23 of the 28 countries on this list (including both China and the U.S.), the share of exports backed by ECA financing is less than 2 percent. This fact suggests that—contrary to the claims of EXIM's advocates—ECA financing is irrelevant to the overall health of the export market as well as to economic growth. This is consistent with what economists know about the impact of subsidies on economic growth.

The Bank does not support small businesses. Most of the Bank's funding goes to large corporations such as Boeing—a recipient of 68 percent of EXIM's loan guarantees and 30 percent of EXIM's overall activities.[22] Over the years, 10 large domestic corporations have received roughly 65 percent of the Bank's total assistance (it is closer to 70 percent today). More than 99.9 percent of U.S. small businesses receive no benefits from EXIM and are often placed at a competitive disadvantage by the subsidies doled out to larger competitors. In fact, the Bank's support for small businesses has declined from $2.3 billion in FY 2019[23] to "more than $2.0 billion" in FY 2020[24] to only $1.6 billion in FY 2021.[25] This decline occurred amid a pandemic that hit small businesses especially hard, and it continues today.

The Bank is not a good deal for taxpayers. The Bank's accounting practices are deficient, and the Bank miscalculates its budget savings. While it claims that its operations will save taxpayers $14 billion over the next decade, the Congressional Budget Office has found that EXIM programs will actually *cost* taxpayers $2 billion.[26] Numerous audits done by the Bank's internal inspector general also show that the Bank's risk analyses, default assumptions, internal reporting procedures, and financial reporting practices are not reliable enough to ensure the safe stewardship of taxpayer funds and responsible management of EXIM's vast portfolio.[27]

FAILING TO MEET THE CHINA CHALLENGE

These days, to get whatever expansion of government one wants or to justify a new government activity, one has only to declare that more government intervention is needed to help fight China. President Trump used this argument to secure reauthorization of EXIM in 2019. Today, President Biden argues that the Bank could be a powerful weapon in the government's geoeconomic arsenal against China.

The rationale is that this will prevent China from dominating the global market with its subsidies and will boost American jobs and manufacturing. The problem is that cynics who support such policies make no effort to adopt a serious strategic plan to achieve this goal. For instance, how can EXIM help us to fight China while state-owned Chinese companies like China Air have been some of the companies most subsidized by EXIM?[28] Furthermore, it has now been four years since Congress instructed EXIM to focus on China, but there has been no fundamental change in the way EXIM operates or the companies to which it extends taxpayer-backed financing: Deals related to the aircraft industry still dominate the Bank's portfolio.

In addition, there is no evidence that EXIM has altered its intense focus on competing with other governments' ECAs. If the Bank were serious about competing against China, it would be targeting the low-income markets where China has been making its most important investments. Instead, its obsession with other ECAs has caused EXIM to direct the vast majority of its funding to large foreign companies in higher-income nations. Data available on the OECD website show that the level of ECA financing in high-income countries in 2019 was more than double the amount in low-income countries.[29] The same was true for previous years. In other words, EXIM and the ECAs of the OECD are competing in markets where commercial lending is abundant—a trend that continues today.

The failure to deliver on its congressionally imposed obligation—however misguided that obligation may be—is also noticeable in the fact that EXIM's China and Transformation Exports Program (CTEP) extended only $141.3 million in financing in FY 2022—a fraction of the $27 billion it is supposed to deliver by the end of 2026.[30] The Bank's efforts have also included a misplaced focus on emerging technologies such as quantum computing and artificial intelligence, which do not need EXIM financing because their foreign sales attract commercial financing without government support. The lack of demand for EXIM products could also be reflected in the Bank's authorization of $5.2 billion in loan guarantees and support in FY 2022,[31] down from its FY 2012 peak of "over $35.7 billion" during the Obama Administration.[32]

This lack of activity also extends to the semiconductor industry, which has been picked as a focal point for a governmentwide industrial policy effort to counter China's ambition to dominate that industry. Ironically, at the same time that some want to become more like China to fight China, China's leaders are realizing that their heavy-handed semiconductor subsidies are weakening the Chinese economy. According to Bloomberg News:

> Top [Chinese] officials are discussing ways to move away from costly subsidies that have so far borne little fruit and encouraged both graft and American sanctions, people familiar with the matter said. While some continue to push for incentives of as much as 1 trillion yuan ($US145 billion), other policymakers have lost their taste for an investment-led approach that's not yielded the results anticipated, the people said.[33]

This development is not surprising to those who understand basic economics. The goal of using EXIM as a weapon against China was a bad idea in the first place. Even if it were a good idea, for it to succeed would have required that EXIM stop serving the clients it has been serving for decades. That has not happened, and it will not happen.

CONCLUSION

The Export–Import Bank should be abolished because it wastes taxpayer money, adversely affects American businesses, and does not promote economic growth effectively. Furthermore, any attempts to reorient the agency and make it a weapon with which to fight against China are going to fail. Economic fights and national security fights are not won with subsidies.

THE CASE FOR THE EXPORT–IMPORT BANK

Jennifer Hazelton

In 1986, President Ronald Reagan signed a bill extending the charter of the Export–Import Bank (EXIM) by an additional six years. In a signing statement attached to the bill, the President declared that "[t]his sends an important signal to both our exporting community and foreign suppliers that American exporters will continue to be able to compete vigorously for business throughout the world."[34]

As a candidate for President, Ronald Reagan was opposed to EXIM, but as President, he learned the challenges America's businesses face when competing for opportunities overseas, and his position on EXIM evolved. As President Reagan once famously remarked, "Why would I want our businesses competing with two hands tied behind their backs?" On January 30, 1984, the President said, "Exports create and sustain jobs for millions of American workers and contribute to the growth and strength of the United States economy. The Export–Import Bank contributes in a significant way to our nation's export sales."

President Reagan was exactly right. EXIM provides a mechanism that American companies can use to vie for projects that would otherwise be out of reach, notably deals that the banking industry won't finance because of the risk associated with the host country or because the host nation itself requires a sovereign guarantee in order to submit a bid. EXIM is the only American vehicle that can provide that sovereign guarantee.

Since Reagan's presidency, the global economic order has shifted dramatically, and a rising China has completely disrupted the export credit sector.

- In Reagan's era, export credit financing was a means for nations to compete for and win projects overseas in order to create more jobs at home. It was a benign tool for economic expansion. China, however, has morphed export credit financing into a weapon of national security.

- Where most nations have just one export credit agency (ECA), China has three, all targeted for specific stages of economic and industrial development. The amount of money China has put behind these three instruments is staggering.

- It is estimated that in 2018, China provided more than $500 billion in export credit, approaching in that one year the total amount of financing EXIM has provided in its 90-year history.

- China's export credit activity is greater than that of the ECAs of the entire G7 combined. Today, China is the world's largest official creditor, maintaining a portfolio more than twice the size of the World Bank and International Monetary Fund combined.

- China's highly aggressive Belt and Road Initiative, which has prompted international criticism for ensnaring the developing world in "debt-trap diplomacy," has created a sphere of economic and strategic influence that includes about 150 countries, rivaling the relationships of the United States and her allies.

Unlike America and the G7 economies, China does not subscribe to the rules-based order that has governed export credit financing for nearly a century. As in so many other things, China plays by its own rules and is opaque in how it operates, weaponizing its export credit financing deals by offering developing nations terms that are often "too good to be true." Once the project is underway, the Chinese have been known to change the terms, making a project unaffordable for the purchasing country. These tactics have yielded China important strategic plunder like mines and critical minerals, satellites, and even ports like those in Hambantota, Sri Lanka, and Mombasa, Kenya.

Export credit is a strategic weapon in China's whole-of-government approach to enhance its global power, economic might, and national security. The only country that has the economic heft to counter China's aggressions in export credit financing is the United States. Not only do American companies risk losing out to Chinese competitors for international opportunities if EXIM is not there to offer support, but a United States without a functioning export credit agency also leaves an unchecked China with a wide-open field to claim jurisdiction over swaths of ocean and shipping lanes, expand its economic influence, and create major changes in the global balance of power.

In response to Chinese aggression in export credit, the ECAs of other countries have reacted defensively to change their policies and programs to avoid losing access to large chunks of global markets. Many countries, including strong U.S. allies like the United Kingdom, Canada, Japan, and Italy, have changed the mission of their ECAs from one of leveling the playing field for their exporters to hunting proactively for transactions for their businesses and advancing their national strategic interests over the long term. In addition, foreign buyers, particularly those looking to build large international projects, have been indicating that the availability of government-backed financing is a core component of their evaluation of bids and identification of sourcing. Allied nations have taken steps like lowering their content requirements in order to lure more deals, often at U.S. expense.

Meanwhile, U.S. content requirements have remained constant, and the United States continues to abide by traditional Organisation for Economic Cooperation and Development (OECD) rules. For example:

- The United Kingdom offered Boeing financing backed by Britain's ECA if Boeing would put Rolls Royce engines on its jets instead of GE engines.

- Italy's ECA offered General Electric export credit financing in exchange for moving the production of some of its turbine components from the United States to Italy.

China's tactics, as well as those of some of America's allies, have been successful in drawing manufacturing and the jobs associated with that production away from U.S. soil. EXIM's 2018 Competitiveness Report accurately documents how extensively foreign ECAs have expanded programs aimed at embedding their small and medium-sized exporters into the global supply chain to the detriment of U.S. exporters, particularly small businesses.[35] To ignore these changes and leave the United States without its own export financing weapon is to resign the United States to a reduced role in world geopolitical affairs and accept fewer jobs and lower standards of living for many Americans.

Critics of EXIM employ a host of defamatory slurs like "crony capitalism" and "Bank of Boeing." The "Bank of Boeing" moniker is particularly misleading, as it was born in the wake of the 2008 financial crisis when the airline industry was particularly hard hit and private-sector financing was not available for many airlines looking to purchase Boeing aircraft. EXIM's portfolio tends to be cyclical with different industries relying on export credit financing at different points in time, depending on economic conditions.

The truth is that EXIM provides financing only when the private sector will not or cannot (a concept known as additionality). In addition:

- When EXIM does provide financing, usually in the form of a loan or loan guarantee, the borrower pays interest rates that are driven by the market.

- EXIM does not undercut the private sector. It does not solicit any applications for financing, and all applications are judged on the merits of the transactions.

- All transactions must have "reasonable assurance of repayment," which is why EXIM has an exceptionally low default rate, historically hovering around 0.5 percent—a default rate that is the envy of private banking.

- When EXIM enters a deal, the American taxpayer is always protected first. If a deal goes into default, the U.S. taxpayer is paid back before any other lender.

- Borrowers are loathe to default on the United States of America.

This ability to manage risk successfully is why EXIM actually makes a profit for American taxpayers, described in government parlance as "negative subsidy," sending more than $9 billion to the U.S. Treasury for debt reduction since 1992. The bank has also supported hundreds of thousands of U.S. jobs, most of them in manufacturing, during the past decade.

Export credit financing has become a critical lever for macroeconomic growth for many countries, allies and competitors of the U.S. alike. Other nations are using ECAs strategically to influence decisions and procure economic opportunities, hindering the participation of U.S. firms and costing American jobs, particularly in manufacturing.

China's aggressive actions in export finance bleed beyond economic advancement and are clearly an effort to expand both its national security and its global power. The United States would be foolish to abandon this field of play, surrendering it to China and other nations, and to relinquish EXIM as a powerful tool in America's asymmetrical warfare toolbox.

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