

EX-IM BANK COMPETITIVENESS DOESN'T HELP EXPORT COMPETITIVENESS

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Ex-Im Bank Advisory Committee

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Members of the advisory board, members of the board of directors, thank you for the opportunity to submit this testimony. My name is Veronique de Rugy. I am a senior research fellow at the Mercatus Center at George Mason University, where I have been studying the Export-Import (Ex-Im) Bank for many years.

According to Section 3(d)(4) of the Ex-Im Bank's charter, the purpose of the Advisory Committee is to advise the bank on its programs and inform Congress "on the extent to which the Bank is meeting its mandate to provide competitive financing to expand United States exports, and any suggestions for improvements in this regard."¹ The committee's comments are to be submitted alongside the Ex-Im Bank's periodic *Report to the U.S. Congress on Global Export Credit Competition (Competitiveness Report)*, which itself is supposed to document the competition that US exporters face because of the financing provided by foreign export credit agencies (ECAs).

I will focus my remarks on the first dozen pages of the 2020 *Competitiveness Report*, which contain an opening letter from the bank's leadership as well as the response that the Ex-Im Bank's charter requires the Advisory Committee to produce. These pages highlight the fundamental weaknesses in the strategic vision espoused by the bank's leadership, a vision the Advisory Committee has not just supported, but amplified. (For my detailed comments on previous years' reports, I welcome the committee to look at my previous testimonies.²)

As I have documented on numerous occasions in recent years, the vision of global competition the *Competitiveness Report* lays out bears little resemblance to economic reality.³ This dissonance between

1. Export-Import Bank of the United States, *The Charter of the Export-Import Bank of the United States*, January 19, 2021, 52.

2. Veronique de Rugy, "Comments on the Ex-Im Bank's Proposed Additionality Criteria" (Public Interest Comment, Mercatus Center at George Mason University, Arlington, VA, October 9, 2019); Veronique de Rugy, "The Ex-Im Bank Won't Help Fight China as It Is," *National Review*, September 18, 2019.

3. Veronique de Rugy, "The Export-Import Bank: Winners and Losers of Government Granted Privilege (Testimony before the Senate Committee on Banking, Housing, and Urban Affairs, Mercatus Center at George Mason University, Arlington VA, June 2, 2015); De Rugy, "Comments on the Ex-Im Bank's Proposed Additionality Criteria"; Veronique de Rugy, "Should I Keep Fighting the Ex-Im Bank or Give Up?," *Daily Economy*, American Institute for Economic Research, January 26, 2020.

reality and the report persists despite each new presidential administration’s attempts to use the bank to resolve rising economic challenges. I submit this statement to urge the newly appointed members of the Advisory Committee to use their statutory role to critically examine the old premises on which the bank continues to rest its operational focus and strategy. Failure to do so will render the Ex-Im Bank increasingly irrelevant in addressing current economic challenges.

COMPETITION AMONG EXPORT CREDIT AGENCIES RATHER THAN EXPORTERS

The Ex-Im Bank leadership frames the competitive factors facing the US economy in extremely narrow terms—i.e., in terms of the amount of business that foreign ECAs are doing relative to the bank.

The opening letter of the 2020 *Competitiveness Report* focuses on the fact that the Ex-Im Bank ranks 13th among major providers of export credits. Lamenting the “nearly four-year hiatus” during which the bank lacked a board quorum to approve large deals,⁴ the opening letter asserts that these years “severely hindered EXIM’s ability to support the competitiveness of U.S. exporters.”⁵ Furthermore, the letter argues that foreign ECAs “have fundamentally evolved their philosophy and substantively expanded their roles” and that “the United States must work hard to keep pace.”⁶ The letter also says that the bank 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.”⁷

EX-IM BANK LEADERSHIP OFFERS NO EVIDENCE THAT FOREIGN ECA ACTIVITY HAS HAD AN ECONOMIC IMPACT

The letter highlights that “[i]n response to their collapsing economics, many governments called on their ECAs to serve as a tool to help boost economic growth at home.”⁸ A graph on page 20 of the report attempts to quantify the intentions of foreign ECAs.⁹ However, the graph does not show the outcomes of these programs. In addition, the report provides no evidence regarding whether ECAs followed through on the commitments of these programs, if these programs were a significant element of the overall policy response to crises by each ECA’s government, or if the following through (or lack thereof) of ECAs on their commitments affected economic growth.

PERFORMANCE OF THE US ECONOMY DURING THE FOUR YEARS WHEN THE EX-IM BANK LACKED A BOARD QUORUM (2015–2019) BELIES THE CLAIM THAT THE US ECONOMY (OR ITS EXPORTERS) SUFFERED HARM

During this period, US unemployment reached historically low levels, and exports soared with the financing provided by commercial lenders, even for the Ex-Im Bank’s biggest domestic exporters.¹⁰ The most significant negative economic impact from the bank’s lack of board quorum was on its own loan portfolio. This four-year natural experiment undercuts the leadership’s assertion that the bank’s own competitiveness and that of US exporters are intertwined. They are not.

4. Export-Import Bank of the United States, *Report to the U.S. Congress on Global Export Credit Competition*, June 2021, 3.

5. Export-Import Bank of the United States, *Report to the U.S. Congress*, 3.

6. Export-Import Bank of the United States, 5.

7. Export-Import Bank of the United States, 4.

8. Export-Import Bank of the United States, 3.

9. Export-Import Bank of the United States, 20, figure 1.

10. Veronique de Rugy and Justin Leventhal, “Ex-Im Favors High-Income Nations When Choosing What Exports to Support,” Mercatus Center at George Mason University, June 12, 2020.

ECAS, SIMILARLY TO THE EX-IM BANK, FOCUS THE BULK OF THEIR SUPPORT ON HIGH-INCOME COUNTRIES WHERE THEY ARE COMPETING WITH COMMERCIAL LENDERS, RATHER THAN PROVIDING SUPPORT IN EMERGING MARKETS

Data available on the Organisation for Economic Co-operation and Development (OECD) website show that a relatively small share of the export credits provided by ECAs in OECD countries go to low-income countries. In 2019, the level of financing provided by ECAs to high-income countries was more than double the amount provided to low-income countries. In earlier years, the ratios were also high: 22 to 1 in 2018, 5 to 1 in 2017, and 24 to 1 in 2016.¹¹ If the bank is supposed to be supporting US exporters competing against Chinese firms, as it claims, then it should be targeting the low-income markets where China is making its most important investments. Instead, as these data show, the bank and ECAs across the OECD are competing in markets where commercial lenders are capable of—and are indeed—doing business.

THE APPROPRIATE ROLE OF THE ADVISORY COMMITTEE IS TO HOLD EX-IM BANK LEADERSHIP ACCOUNTABLE

The Advisory Committee has merely picked up and amplified the Ex-Im Bank's unproven claims while attempting to fulfill its statutory function to comment on the *Competitiveness Report*.

The committee notes, for example, that “ECAs in Europe and elsewhere actively courted U.S. exporters to fill the void left by EXIM during the quorum lapse.”¹² It also states that “even some of our close allies are doing everything they can to take away American jobs.”¹³ Such a claim is not only unsubstantiated by evidence of actual impact on US exports and jobs, it is also a gross oversimplification of the dynamics in the export credit market. About two-thirds of the Ex-Im Bank's business is in just two sectors (aviation and oil and gas), and the factors that determine the competitive dynamics in these markets have little to do with the availability of government-backed export financing. The vast bulk of the financing for these sectors comes from the private market. Evidence also shows that these two sectors, including the Ex-Im Bank's biggest domestic export client Boeing, did very well during the four years when the Ex-Im Bank no longer had a quorum.¹⁴

There was very little that export subsidies could have done during the pandemic to support these sectors, which were suffering from a sharp decrease in demand for oil and air travel owing to the virus rather than financing issues. This fact did not, however, prevent the Ex-Im Bank from providing support to these sectors that they did not need. As I have observed in print, the Ex-Im Bank programs purporting to provide relief during the pandemic largely served these two sectors.¹⁵ Before the Advisory Committee endorses a claim as far-fetched as one that foreign ECAs are able to use export credit financing to lure US production overseas, the Ex-Im Bank's leadership should provide evidence in support of such a claim.

11. “Trends and Cashflow,” Export Credit Statistics, Organisation for Economic Co-operation and Development, accessed September 29, 2021, <https://www.oecd.org/trade/topics/export-credits/statistics/>, figure 3; De Rugy and Leventhal, “Ex-Im Favors High-Income Nations.”

12. Export-Import Bank of the United States, *Report to the U.S. Congress*, 9.

13. Export-Import Bank of the United States, 6.

14. Veronique de Rugy and Justin Leventhal, “Ex-Im Bank: A Comparative Analysis of Pre- and Post-Quorum Lending” (Mercatus Policy Brief, Mercatus Center at George Mason University, Arlington, VA, April 2019).

15. Veronique de Rugy, “The ExIm Bank Is Still the Bank of Boeing,” *Daily Economy*, American Institute for Economic Research, June 22, 2020.

THE ADVISORY COMMITTEE'S ENDORSEMENT OF THE EX-IM BANK'S CLAIM OF A \$39 BILLION PIPELINE OF DEALS IS QUESTIONABLE

The \$39 billion figure has been used since the time of Trump administration to quantify the level of business at stake if the Ex-Im Bank does not get reauthorized and its quorum restored. Former Ex-Im Bank Chair Kimberly Reed attested to this figure before the Senate Committee on Banking, Housing, and Urban Affairs in 2020, and the Advisory Committee reiterated the claim in its comments on the 2020 *Competitiveness Report*. However, the basis of this allegation has never been disclosed, and I would ask the Advisory Committee if they have seen any evidence that the projects in the pipeline are real.

THE PUBLIC POLICY IMPLICATIONS OF BAD ANALYSIS

The view of global competition that the Ex-Im Bank conveys in the *Competitiveness Report* will lead policymakers to make poor choices on the use of scarce taxpayer dollars.

In its comments at the front of the 2020 *Competitiveness Report*, the Advisory Committee urged the Ex-Im Bank to take its message to Congress, the National Security Council, and other parts of the government to provide “detailed briefings on the competitive global landscape of export credit finance” and explain “how U.S. companies’ utilization of foreign ECA financing impacts global competitiveness.”¹⁶ At the Ex-Im Bank’s annual conference on September 21, the National Security Council’s Peter Harrell noted that “EXIM plays a critical role in our economic strategy going forward, especially at a time like this, supporting exporters in our country as they try and find new markets for American goods and services.”¹⁷ The focus of the Ex-Im Bank seems to be on bolstering its own competitive position relative to foreign state-owned banks in wealthy nations. Relying on advice from the bank will leave the White House using a policy strategy that lacks relevance for current challenges. The Advisory Committee has a statutory obligation to hold the bank’s leadership accountable. Rather than amplifying the Ex-Im Bank’s unsubstantiated claims, the committee should press the leadership for intellectual honesty.

In these challenging times, it is important for governments to get as many policy calls right as they can. Doing so requires that policymakers can trust their sources. I urge the Advisory Committee going forward to use its statutory role to hold Ex-Im Bank leadership to account on the claims that they make in the *Competitiveness Report* so that policymakers can make the right decisions on the deployment of scarce taxpayer resources.

16. Export-Import Bank of the United States, *Report to the U.S. Congress*, 10.

17. Export-Import Bank of the United States, “U.S. Secretary of Commerce Gina Raimondo, National Security Council’s Peter Harrell Discuss Biden-Harris Administration’s Building Back Together at EXIM Annual Conference,” press release, September 21, 2021, <https://www.exim.gov/news/secretary-commerce-gina-raimondo-national-security-council%E2%80%99s-peter-harrell-discuss-biden-harris>.