“How the U.S. Can Lead the World in Exports: Retooling Our Export Finance Strategy for the 21st Century”

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The Center for American Progress is the right place for conversation about priorities and issues that we as a nation have to grapple with.

And they are difficult issues—issues that go to the heart of our values and competitiveness, something that is indelibly American.

Let me start with a couple of slides that illustrate what we face.

Slide 1 – US, Germany, Japan, China exports over time

- For many years, our major competitors in Export Import Bank markets were Germany and Japan.
- Though we have a larger economy, we export at similar levels.
- China is now the 2nd largest economy and the largest exporter of goods.
- All indications are that this trend will continue.

Slide 2 – US vs. China trading partners

- When we look at some of the markets where we see tremendous opportunity for growth and therefore demand for American products—such as India and South Africa, or when we look at markets which have historically been key exports markets for the US, China’s performance is outpacing ours.

- Ten years ago in India, we exported twice as much as China. Today, they export twice as much as us.
- We used to export 3-times as much to South Africa, now they export twice as much as us.
- And in Germany, we exported 3-times as much as China 10 years ago, today they export $70b vs. about $50b for the US.

Slide 3 – G7 vs. BIC export finance

- When we look at financing these exports, China, India and Brazil today provide more export financing to support their exporters than the G7 combined.
- The world has clearly changed.

So what does this mean in terms of our competitiveness…and leading the world in exports…as well as our standing across the globe?

How will it affect our long-term economic growth?

And our quality of life?

What does it mean for American competitiveness?

What does competitiveness say about the value and durability of American-made products?

And our ability to remain the strongest, most innovative economy in the world?

The growth of emerging economies has – and will continue to – raise the standard of living for millions of people around the globe.

This is a good thing and a trend we welcome and support.

Infrastructure investment, reliable power generation, transportation development: These are sectors that we want to be full partners in helping emerging economies develop and build.

However, the rise of these emerging economies, and their growing influence in export markets, also means the rules of the game have changed.

And we must reorient and adjust ourselves to a very different global landscape. One with new players, and new types of engagement.

We have documented many of these new types of engagement in a report we are releasing today that takes an in-depth look at the use of export financing by emerging economies, like China, Brazil and India.

This report allows us to better prepare – and address the challenges we face.

And one of these challenges is the proliferation of state-directed capital into the global marketplace.

Since our nation's founding, our economic model has produced boundless opportunities, created unprecedented wealth, and raised the standard of living for generations of Americans from coast to coast.

Today, that economic model (the jobs it produces and the middle class it has built) is being challenged as never before – not only from traditional competitive forces, but from the rise of foreign state-owned enterprises and state-owned banks that are playing a growing, more influential role in the global marketplace.

PATTON ELECTRONICS

Last week, I visited a company in Gaithersburg, Maryland….called Patton Electronics.

They make this router.

Which is basically the infrastructure for modern telecommunications systems.

This family-run business has 200 employees.

They sell to 120 countries – and exports make up about 70 percent of their $30 million business.

A central part of their business model is that Patton designs and builds all of their products in the United States because it allows them to innovate faster and more efficiently.

CISCO

Another company that we've been working with – and who makes similar products – is Cisco, a $42 billion company.

International sales make up about half of their business.

Both Patton and Cisco make great products.

Both understand the importance of American competitiveness.

And senior management at both companies worry about the same thing:

That the rise of state-directed capital, combined with below market financing, is threatening their export sales and their very existence in key markets.

It's hurting their bottom line.

Hampering their growth.

And hindering our ability as a nation to compete.

HUAWEI

Let me explain how….

Both Patton and Cisco compete with Huawei.

A Chinese company based in Shenzhen.

They make a router that looks remarkably similar to this one here.

Huawei didn't even export until 1997.

And in less than 15 years, they have positioned themselves ahead of global leaders like Nokia and Siemens.

In India, Huawei grew from $50 million in sales to $2.5 billion in just one year.

One year.

Folks, that kind of growth takes more than just good sales and marketing strategies.

Both Cisco and Patton will tell you they have no problem going head to head with Huawei and other competitors based on the quality of their products—and the service and expertise their companies provide.

They can even compete on the price-value relationship.

But what you can't see when you look at a Huawei router – and one of the central reasons the company's growth has been so dramatic – is that it's backed by a $30 billion credit line from the Chinese Development Bank.

This backing allows Huawei to significantly reduce its cost of capital and to offer financing to their buyers at rates and terms that are better than their competitors.

This financing model not only affects the bottom line of companies trying to compete, but it also affects the bottom line of our economy – particularly as exports play an increasingly important role in our economic recovery and job creation.

The reality is opaque state-directed capital allows foreign governments to target their financing at specific sectors and companies, while aggressively grabbing market share in an attempt to dominate a market.

Companies like Patton and Cisco don't have access to $30 billion to offset this market distortion.

And, frankly, neither do we.

Ex-Im Bank provides Patton a $4 million government-backed working capital line of credit to purchase inventory and finance receivables.

While this is important to Patton's export growth, it's not enough to meet the challenges of the new global marketplace.

And it is certainly not just the U.S.

None of the G-7 countries provide levels of financing anywhere near those of the China Development Bank.

That keeps me up at night.

HISTORY

For those not familiar, Ex-Im Bank was created by FDR.

Our mission is to create American jobs through exports.

We do it through a combination of financing to buyers of American exports, receivable insurance for U.S. exporters and through working capital – like we provide Patton.

Our early work focused on filling market gaps where the private sector was unable or unwilling to take on the risk.

Places like Russia or Latin America or Africa.

Areas where some government involvement was needed to make these export sales possible.

We continue to fill those gaps.

But, over time our mission evolved to address U.S. competitiveness in the global marketplace.

In these situations, we use export financing as a tool to level the playing field and to take financing off the table when it comes to closing a sale.

We operate along guidelines established by the Organization for Economic Cooperation and Development, or the OECD. There are about 30 countries that are part of this arrangement.

The arrangement was borne out of a desire for fair and transparent markets, so government financing would not undermine the export sales of another country.

Products and services should compete on their own merits, without the distortion of government intervention, particularly in the area of export credits.

For years, this Ex-Im report looked only at the competitiveness of U.S. export financing within this framework.

It assessed the export financing tools that the United States had available for American businesses. And compared them to the G-7: Japan, Germany, France, Canada, UK, and Italy.

For the last few decades, that was the competitive landscape.

Clearly, the times have changed – and it's safe to say that we've reached a tipping point.

The role of export financing by developed countries is clearly being eclipsed by developing countries.

It's not just the amount that is of concern; it's the manner in which it's administered.

It's not transparent.

And it's not rules based.

Look at the renewable sector.

In 2000, the United States was a market leader in wind power.

Just a decade later, China dominates this sector, controlling almost half of the $45 billion global wind energy market.

And while China has finally agreed to end hundreds of millions of dollars in subsidies for the wind industry, following a WTO complaint filed by the U.S. – it was not until they built up a huge competitive advantage.

Renewables, aviation, biotechnology, telecommunications, capital goods…..

Within five years, China will have its own aircraft manufacturing industry.

During the late 60s, the U.S. manufactured 90% of the commercial aircraft in the world; we now share this market with Airbus, Embraer and Bombardier. Soon, we'll have China, Japan and Russia, as well.

Think about the implications of that….The industries I just mentioned are not only critical to our economic security, but our national security.

And emerging economies – are in many ways – following a similar roadmap for using state-directed capitalism to build their position in these industries.

As many of you saw…there was a front page story in the Wall Street Journal on Monday about how Brazil is using its state-owned bank to fuel their global economic growth

SOLUTIONS

So what can we do about this?

I've got three thoughts in particular--

> The first area I want to focus on is our toolkit for addressing market distortions and how we can use government policies and programs more effectively and aggressively.
>
> Second is re-orienting both the public and private sector around exporting. The President's National Export Initiative has jumpstarted this process.
>
> Third is tackling big, complex domestic issues (education, health care, infrastructure, public debt) that are critical to our long-term global competitiveness.

TOOLKIT FOR ADDRESSING MARKET DISTORTION

PAKISTAN RAIL

Let me tell you a story that illustrates how we are using our toolkit to address market distortions.

Two American companies (GE and EMD Locomotives) recently bid on a $500 million rail project to supply 150 locomotives to Pakistan.

These locomotives are critical to building the infrastructure of Pakistan's economy, so products and commodities can get to market.

Pakistani rail officials were willing to pay a premium for the high-quality and dependability of American-made locomotives.

A few years ago, they purchased locomotives from a foreign competitor….Let's just say they were not very pleased with the performance, quality or service.

In fact, many were simply abandoned shortly after they were purchased.

I am told hills were a particular problem.

Not very good given the mountainous terrain in Pakistan.

So when it came time to place a new order, they were extremely interested in American locomotives.

There was, however, one sticking point -- financing.

China provided its locomotive manufacturer an advantage that the American companies, despite the quality of their products, could not compete with:

Longer terms and drastically reduced fees.

This put the entire sale and almost a thousand American jobs at risk.

To remedy this, the Obama Administration put together a competitive financing package.

And for the first time, we went to the OECD to share with them our decision to offer financing outside of internationally agreed upon terms and conditions.

That's how we can level the playing field for American businesses – and for companies around the globe.

One of the most important outcomes from the Pakistan rail transaction is that it sparked an urgently needed dialogue within the OECD. And offered a roadmap for other countries to consider this approach.

Our goal going forward is not to continue offsetting or matching forever.

It's to ensure a transparent and level playing field for American exporters.

That's been our goal for 75 years.

However, when we see a clear example that state-directed capital is impeding a sale for an American company, we will go the extra step to offset the market distortion.

The more we do this, and the more other OECD countries do this, the more momentum we can build toward internationally agreed upon terms and conditions.

We want emerging economies to be a part of creating these guidelines.

And we want them to be transparent.

As a nation, we believe in a market based economy.

Our challenge is making that market economy work in the new global landscape.

That means strengthening our tool box. It means using the levers we have – and developing new ones.

We need to use institutions like the WTO and the OECD to enforce rules against state-created advantages.

And we need to pass the Free Trade Agreements that have been negotiated – and are pending Congressional approval.

Making sure that we have the tools—and flexibility—we need to make international markets work more equitably is critical to building and maintaining American competitiveness in the 21st Century.

REORIENTING ECONOMY – (EXPORTS)

Second, we need to reorient both the public and private sector around the importance of manufacturing and exporting.

President Obama's National Export Initiative has jumpstarted this effort.

At its heart, the NEI is about rebalancing our economy.

Moving away from a consumption-based economy to one more focused on manufacturing, exporting and investment.

Whether you sell agriculture equipment, IT services, medical supplies, or automotive parts, the U.S. makes what the world wants.

To have long-term success, companies—large and small—must target the 95% of customers that reside outside the United States.

At Ex-Im, we are focused on nine countries where we see the most opportunity (Brazil, Colombia, Mexico, Turkey, South Africa, Nigeria, India, Indonesia and Vietnam).

And within these countries, we are focused on the industries where we see growth:

- construction equipment,
- power generation,
- renewable energy,
- agribusiness,
- medical equipment,
- and avionics…to name just a few.

Economic data shows that in the short run trade grows when existing exporters (mainly large multinationals) sell more abroad, however, long-term, sustained export growth requires new companies to get in the game.

In many cases, these are small- and medium-size businesses.

Getting more of these small businesses exporting is one of my top priorities at the Bank.

Whether it's Patton Electronics, or any of the 2,400 small businesses we're financing this year. The President's goal is making sure small businesses have the tools they need to make exporting a central part of their business.

Exports played a critical role in our economic recovery – and must play a central role in our long-term economic stability and prosperity.

Exports are up almost 17 percent in the past year.

Putting us on track to reach the President's goal of doubling exports by 2015.

April was the highest one month total ever recorded for exports.

The record before that was March.

Before that it was January.

Building on this momentum is critical.

And the opportunities are abundant.

TACKLING DOMESTIC CHALLENGES

Third, we must address key domestic issues that are holding back our competitiveness and our long-term export growth.

These are big, complicated and emotionally-charged issues.

Public sector debt, health care costs, education, infrastructure, energy policy.

I certainly don't have all the answers, but I do know this…..

When the CEOs of Honeywell, Boeing, Caterpillar and Siemens were at our annual conference, they spoke at length about how closing the education gap, graduating more engineers—and all of the issues I just mentioned—are critical to their global competitiveness.

When I meet with renewable start-ups or small businesses to discuss their export strategies, the conversation inevitably turns to domestic issues like infrastructure investment, health care and energy costs.

That's one of the reasons I wanted to come to CAP today.

Because it's institutions like this—leaders like John and Neera—that are working every day to address these big issues.

To develop the policies and to spark the conversations and dialogue that will bring about solutions.

This much I do know.

On an individual basis, we are some of the most competitive people on this planet. It's in our DNA.

We see it in sports, in our schools and in business.

This same competitive spirit – this same enduring drive – has led to extraordinary advances and efficiencies in industry after industry.

If you look at the 20th century – the automotive revolution, the aviation revolution and the information revolution – have all been the province of American innovation, manufacturing and competitiveness.

And I'm bullish the same story will also be told of the 21st Century.

The 21st century must also be the American century.

CONCLUSION

So let me close with a few quick points.

We face serious challenges at home and abroad.

The changing global landscape only makes these challenges more acute – and leaves us less margin for error.

Ensuring American competitiveness requires leveling the global playing field, rebalancing our economy and doing the hard work necessary to tackle domestic challenges.

It requires us to be much more active globally in addressing the rise of state-directed capitalism – and much more thoughtful domestically about how we address obstacles impeding competitiveness.

It means not only creating and designing goods in America.

It means making them here.

And selling them around the world.

The key is to continue making the U.S. the best – and most strategic – place to start a business, expand a business, or operate a foreign subsidiary that sells to markets around the world.

Letting the most innovative, productive and competitive individuals and companies do what they do best.

Thank you.