

From Main Street USA to the world: financing US exports to emerging markets

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Seventy years ago, when President Franklin Roosevelt established the Export-Import Bank as one of many efforts to jump-start the economy during the Depression, our export world was very different. Global trade was extremely limited, agricultural products were a leading US export, commercial aviation was in its infancy, and the first, primitive computer was still a decade away.

Today, global exports total \$8 trillion, a number that's doubled just since 1990 – and the World Trade Organization forecasts that global trade could expand by up to 7.5% this year. This has fuelled the greatest aggregate wealth creation in history by spurring productive enterprise.

While Ex-Im Bank has evolved with changing times, one thing remains the same: the Bank is still committed to helping US exporters sell their goods and services, thereby creating and sustaining US jobs.

As President George W. Bush has said: "The Export-Import Bank of the United States helps advance US trade policy, facilitate the sale of US goods and services abroad, and create jobs here at home."

Indeed, the Bank's trade-finance products and services – including export credit insurance, loan guarantees, working capital guarantees, and direct loans – have supported close to a half trillion dollars in US exports and millions of US jobs since the Bank was founded in 1934. But numbers don't tell the whole story, because Ex-Im Bank specializes in helping to finance US exports to emerging markets where commercial financing is unavailable or insufficient.

Today's global trade environment

This type of trade financing is critical in today's global trade environment, which is both complex and challenging, yet enormously promising.

While globalization has brought about challenges, it is clear that the exponential expansion of world trade has brought prosperity and better lives to hundreds of millions of people.

Twenty years ago, the prevailing wisdom from most investment managers was to diversify one's investments – as one part of the world was likely to do well when another part was in a slump. Now, the United States can only do well if other countries do well, and other countries can only do well if we do well.

In short, our fortunes are all inextricably linked.

US exports have soared from about \$42 billion to almost \$1.1 trillion in the last 35 years. That represents an increase from about 4% of GDP to about 10%. Last year, US exports again grew – by 4.6%.

In an \$11 trillion economy, this means that approximately one in 10 US jobs is now dependent on exports. Indeed, there are 240,000 American exporting companies. They have helped create millions of jobs and \$100 trillion of new net worth in the United States over the last four decades.

Export credit agencies such as Ex-Im Bank consistently have played a critical role in filling financing gaps to keep trade flowing to emerging markets. This is because commercial banks simply do not have a large appetite for placing emerging-market risk on their books.

This has been particularly true in recent years, as net commercial bank lending to emerging markets has fallen significantly.

Private financing, of course, could reverse this trend again with a change in risk perception. But it's hard to see private finance fully supplanting the role of export credit agencies in providing significant trade finance to higher-risk emerging markets in the foreseeable future.



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Ex-Im Bank support for US exports

In a very important sense, Ex-Im Bank provides dual benefits. We help US exporters make sales to these markets by partnering with commercial lenders so that they can provide loans to exporters and foreign buyers. This in turn enables US companies to expand production and sales, thereby creating and sustaining US jobs. At the same time, this helps developing countries and their companies get high-quality US goods and services that they need to grow.

Ex-Im Bank provides guarantees, insurance, and direct project finance products in areas where private capital alone cannot afford to take either the political or commercial risk that we underwrite. We also help US exporters meet foreign competition supported by subsidies from their governments. We seek a level playing field.

We are legally mandated to find that a ‘reasonable assurance of repayment’ exists for every transaction we authorize. Yet, we also like to see ourselves as catalysts that pave the way in opening up and cultivating more difficult markets.

At Ex-Im Bank, we have three key priorities: putting our customers first, improving our transaction-processing time, and expanding support for knowledge-based and service exports.

Ex-Im Bank is active in 90 countries, and open for

business in 60 more. We support every kind of export – from capital goods associated with large infrastructure projects, jet aircraft, medical equipment, and engineering and other services, right through to exports by thousands of small businesses. We are precluded by law from supporting military exports, which is the province of the Defense Department, and we are required to rigorously review environmentally sensitive projects.

There’s no export too small or too large that Ex-Im Bank can’t support. In fact, we recently financed the sale of \$67,000 of used clothing to Ghana.

Ex-Im Bank’s medium- and long-term guarantees of commercial banks’ loans are widely used to support larger exports such as capital goods. Lenders – who are in an excellent position to sell customers on the benefits of exports – clearly can profit from a strong trade finance portfolio.

Ex-Im Bank’s export credit insurance protected nearly 2,100 mostly small-business exporters and their lenders last year against the commercial and political risks of a foreign buyer defaulting on payment. Export insurance – which can cover multiple buyers, countries, and transactions – also enables exporters to extend credit terms directly to their international buyers.

The Bank’s working capital guarantee helped 390 small businesses last year by covering 90% of the principal and interest on working capital loans for pre-export costs. These costs can include purchase of raw materials or finished products, production of exports, and coverage of standby letters of credit serving as bid bonds, performance bonds, or advance payment guarantees. Participating lenders with delegated authority from Ex-Im Bank can process the loans directly without pre-approval. Our working capital guarantee provides 100% coverage for businesses owned by women and minorities.

Ex-Im Bank works hard to reach out to small businesses – as well as large ones — to ensure that every US company that exports is aware of the Bank’s financing tools. We work through eight regional offices and many partners in the United States, and our website – www.exim.gov — has been completely upgraded to serve our customers in the global village.

In 1934, one transaction came in to the Bank →

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US Ex-Im Bank

► to finance the sale of silver ingots to Cuba. In the last fiscal year, we provided more than \$10.5 billion in financing, and 83% of the 2,707 transactions we authorized involved small businesses; 356 of these small businesses were first-time Ex-Im Bank customers. All told, the export value of these transactions totaled \$14.3 billion, up from \$13 billion in the previous year.

The largest share of our portfolio involves financing transportation, energy, and construction.

Our commercial aircraft portfolio includes more than 700 aircraft purchased by 75 airlines in 60 countries. These aircraft exports typically involve thousands of US sub-suppliers. We have also supported light-rail systems in Latin America, and are currently backing a major railroad modernization programme in Kazakhstan.

Our project finance programme is particularly useful for major infrastructure development needs such as transportation, oil and gas and other energy facilities, and major telecommunications systems. Pemex and Sonatrach, the Mexican and Algerian oil companies, have extensively used Ex-Im Bank financing for oil and gas exploration and production, and Nigeria recently embarked on a significant expansion of its liquid natural gas facilities using a \$135 million Ex-Im Bank loan guarantee. In the last year, we supported transactions such as the Nanhai petrochemical project in China, a power-generation project in Brazil, and a cellular telecommunications network in Jordan.

The Bank is also a key financier of pipeline projects ranging from the 1,100-mile Baku-Tbilisi-Ceyhan project, which will transport oil from Azerbaijan to a Mediterranean terminal in Turkey, to the 700-mile Chad-Cameroon pipeline in West Africa.

With service exports accounting for about 28% of

Ex-Im Bank has also enhanced financing available for certain categories of exports. These include environmentally beneficial goods and services, medical equipment, and transportation security equipment. For these products, we offer special extended repayment terms.

total US exports and high-tech industries growing rapidly in recent years, Ex-Im Bank is keenly aware of the need to expand our support in these areas. During the last eight years, we have underwritten between \$1 billion and \$2 billion per year of services and high-tech exports such as satellite and telecommunications projects.

In two recent transactions, for example, Ex-Im Bank backed the export of portable intensive care units produced by a California company called Integrated Medical Systems and flood-forecasting equipment sold to the Romanian government by Lockheed Martin Corporation and a number of other suppliers. We also can finance the export of engineering and design services, as we did when we recently supported



School children in the Caribbean nation of Grenada will have a new two-story elementary school that is being designed by Armentrout Roebuck Matheny Consulting Group of Athens, Georgia, thanks to an Ex-Im Bank loan guarantee

the Georgia-based Armentrout Roebuck Matheny Consulting Group's design plans for a new elementary school in the Caribbean nation of Grenada.

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Integrated Medical Systems, of Signal Hill, California was able to expand foreign sales of its portable intensive care unit (ICU), known as Life Support for Trauma and Transport (LSTAT), thanks to a recent \$500,000 working capital guarantee from Ex-Im Bank

equipment, and transportation security equipment. For these products, we offer special extended repayment terms.

Over the years, Ex-Im Bank has developed many innovative financing structures. We made emergency reconstruction loans to Europe to help it rebuild after World War II.

When Israel was being formed in the late 1940s, then-Chairman William McChesney Martin led the Bank in providing Israel's provisional administration with loans.

We developed an oil and gas framework for Russia in the early 1990s so that investment in oil infrastructure was possible as the Soviet Union evolved into Russia. And just this past December, we spearheaded a 16-nation, multilateral effort to provide export credit support to the new Trade Bank of Iraq. We know that in troubled areas, one of the best ways to foster prosperity and peace is through trade.

In recent years, because buyers seeking the best quality and price in complex transactions often turn to companies from several nations, Ex-Im Bank has worked to develop co-financing arrangement with other nations' export credit agencies. Since 2001, we have concluded such agreements with the Export Credits Guarantee Department (ECGD) of the United Kingdom, the Export Development Corporation (EDC) of Canada, and Servizi Assicurativi del Commercio Estero (SACE) of Italy.

Ex-Im Bank also works closely with other US gov-

ernment agencies that are part of the Trade Promotion Coordinating Committee. These include the US Department of the Treasury, the US Department of Commerce, the Small Business Administration, the Trade and Development Agency, and the Overseas Private Investment Corporation.

While Ex-Im Bank assists US exporters and foreign buyers in virtually every part of the world, we have special programmes targeted to particular regions and countries.

In sub-Saharan Africa, for example, we have a pilot programme that allows us to finance exports to nearly every country in the region. Last year, we helped finance a record \$700 million in US exports to sub-Saharan Africa, about 15% of the US total.

In Russia, Ex-Im Bank has established credit guarantee facilities and other cooperation agreements with a number of Russian financial institutions to help Russian buyers purchase more US goods and services. Just last fall (autumn), I joined President Putin and Vnesheconombank Chairman Vladimir Chernukhin in signing one such agreement. In addition, our municipal exports initiative – which makes it possible for creditworthy cities and other local governments to procure needed goods and services – has already helped St. Petersburg modernize the lighting in its city schools.

In Mexico, Ex-Im Bank's number one market, we have a master guarantee agreement with NAFIN, Mexico's development bank, that enables Mexican companies to obtain more favourable credit terms for their purchases. In addition, we have a foreign currency agreement with NAFIN that allows NAFIN to offer peso-denominated loans guaranteed by Ex-Im Bank to small- and medium-sized enterprises buying US exports.

While these and other initiatives may be tailored to the particular needs of different countries, as well as different types of US exporters and lenders, Ex-Im Bank's underlying mission is consistent: we aim to help US exporters sell their goods and services in challenging foreign markets. We do this for two reasons: US exports translate into millions of jobs. And trade will continue to drive increasing global prosperity, including our own. ■

