US Export-Import Bank Annual Meeting

Trade and Exports Credits in the Global Agenda

Remarks by Angel Gurría,
Secretary-General
OECD

Washington D.C., 12 March 2010
Ladies and Gentlemen:

It is a great pleasure to participate again in this annual meeting of the US EXIM Bank.

Thanks to Chairman Fred Hochberg for this kind introduction. You are right; I was one of the first to respond to your call. I came to this important conference because the issues you are addressing today are of the highest importance for the world economy. But I also accepted this invitation as a family member, as I myself was head of the EXIM Bank in Mexico, as Finance Minister, but also as its actual director. So I am fully aware of the loneliness this position can sometimes bring!

Let me congratulate you for this impressive conference. We were privileged to hear President Obama yesterday, and to witness the very important efforts he is undertaking to boost US exports. We could not agree more with this initiative. It is very well crafted, and includes the most important elements to promote exports, including the high tech focus, access to finance, very specific support for Small and Medium Size Enterprises, advocacy and support to identify new markets for US enterprises. The fact that President Obama is putting together a high level group of officials to lead the initiative underscores the priority it has in his agenda.

These elements included in the President’s initiative are quite timely because, as the global crisis becomes a jobs crisis, this initiative is putting the emphasis on creating jobs. This is the most important element of the proposal; jobs, jobs, jobs.

At the systemic level, we welcome the initiative because it is based on open markets, a level playing field, and support for the rules-based system. This is what the OECD has been promoting since its inception, and we will continue supporting the US in this new drive.

In this context this year’s EXIM Bank conference topic — “Exports Live! Powering Jobs, Sales and Profits through Exports” — couldn’t be more appropriate and timely. International trade has to be, along with innovation and green growth, one of the engines of the recovery of the world economy.
International trade is to the global economy what the circulatory system is to a healthy body. This is indeed a great opportunity to highlight the strategic importance of trade and its related activities and policies.

1. The world economy is recovering, however…

The world economy is coming out of a crisis unprecedented since the Great Depression. The difference this time around is that the lessons of the 1930s have been well learned. The economic and financial policy responses have helped to attenuate the recessionary pressures.

This time leaders have committed to maintaining open markets as an integral part of getting the world economy out of the crisis. Leaders also committed short-term trade credit and other financing facilities to mitigate the sharp increases in risk and liquidity premiums in private markets.

These financial and economic policy responses have been multilateralised rather than implemented independently, thereby improving their positive impact. The largest coordinated response in history managed to stabilise markets and we are now expecting world output to grow by 3.9 % in 2010 and 4.3 % in 2011. This is good news.

However, the recovery remains fragile; its resilience will depend on continued growth in demand for goods and services from consumers and businesses around the world. It will also depend on the dynamism and stability of emerging economies and on the policy decisions that will have to be made to support the expansion in demand.

2. Keeping markets open: top priority

Keeping markets open and world trade flowing during the recovery phase is a crucial priority. So far, world leaders have shown resolve in meeting these objectives. This week, with the WTO and UNCTAD, we have just issued, our second report to G20 leaders on trade and investment protectionism measures, and will continue supporting them to avoid an increase in protectionist measures.

Open economies are richer and more productive than closed economies. An increase in the share of trade in GDP of one percentage point raises the income level by between 0.9 and 3%.

But keeping markets open is just one part of the equation. We also have to be proactive in helping exporters to seize those markets. This became an enormous challenge in the midst of a global credit crunch. This is how export credits came back to centre stage and became central for the world recovery.

Let me share with you the OECD perspective on this crucial tool.

3. The renewed importance of export credits

Only two years ago, Export Credit Agencies (ECA’s), such as U.S. EXIM Bank, were concerned about their very existence as the market was flush with liquidity and willing to take unprecedented levels of risk. What a difference two years make.

The sudden retreat of markets from trade finance caused by the global crisis has once again reminded us why our governments created and maintain these institutions. Faced with an implosion of trade, ECAs stepped-in to fill the void left by the private markets to ensure that good projects and important export contracts were not cancelled for lack of financing.

Of course, this is nothing new: ECAs have always played such a counter-cyclical role. But what is new this time is how ECAs also served as an important policy tool: the G-20 Trade Finance Initiative served to calm anxious markets by guaranteeing that governments would provide the level of support needed. This Initiative was also unprecedented in terms of the amounts of financing pledged ($250 billion as a point of departure), the number of cooperating parties, and the scope of the financial tools used.

Our host today — EXIM Bank — provided a vital contribution to this Initiative by moving aggressively to fill the financing gaps left as financial markets retreated both in the U.S. and in
foreign export markets. Chairman Hochberg is to be congratulated on this important contribution.

The OECD also played its part. In November 2008, Members took early action to counter the market paralysis following Lehman Brothers’ failure: we issued a public pledge that Export Credit Agencies would provide adequate amounts of medium- and long-term support to replace declines in market financing and, in January 2009, Members agreed to adjust the OECD rules to help facilitate the financing of projects.

As overall trade figures now show, the decline has stopped and, with the help of the G20 Initiative and the support of Export Credit Agencies, the markets are returning to normal. However, we need to ensure that ECAs do not retreat too quickly from providing support and that countries maintain their commitments to sustainable economic growth and development: the OECD stands ready to help our Members in this endeavor.

The OECD is also working with the WTO to ensure that a crisis that has impaired world trade does not spill over to the trade policy agenda. I am happy to report to you that we found no evidence that protectionism was a factor behind the trade collapse. Rather, commitments to stay open to foreign products and services, together with concerns to keep global supply chains open, seem to have helped countries resist protectionist pressures in support of the disciplines stemming from the WTO’s rules-based system.

However, complacency is not justified. Just the opposite in fact. Governments need now, both, to be vigilant about others and to avoid protectionist actions themselves that may be politically expedient in the short term but that could have devastating long-term consequences.

4. The persisting risk of protectionism

Protectionist sentiments are likely to increase with persistent unemployment and mounting pressure on government finances. Moreover, once in place, protection becomes entrenched and is increasingly difficult to undo. Retaliation will almost certainly occur, compounding the effects of unilateral measures.
Continued attention and vigilance are warranted to denounce any signs of increased resort to trade defense measures, a barometer of protectionist sentiments.

Of immediate concern is the impact on trade of behind the border measures that are found in some crisis-induced fiscal stimulus packages. We generally think of protectionism in terms of measures at the border; but there is a wide array of measures that governments can take behind their borders that will have very similar effects — including various forms of direct subsidies.

Support to one sector in one country, whatever the motivation, disadvantages competing sectors in other countries. Countries that do not have the fiscal resources to compete on the basis of subsidies will be major losers as they could find themselves excluded from protected markets. There is a danger that the important advances made in recent years by some developing countries whose economies were lifted by aid and by trade, may be lost.

5. Doing Doha is an imperative, but... is it enough?

One sure way to stop protectionism and to ensure that the trade recovery is not interrupted by a further series of restrictive measures is to bring the Doha Development Agenda (DDA) to a successful conclusion. This would have the benefit of preventing backsliding, bringing much needed stability and predictability to international markets, and would, through further opening, give impetus to the recovery.

Liberalising trade, however, has to be accompanied by other international measures and fundamental agreements. A liberalized international trading system can only produce its best fruits if we manage to:

1. Fix the major weaknesses in the operation of financial regulatory and supervisory frameworks, including the ones that contributed to the build-up of excessive leverage and risk appetite;

2. Significantly reduce the current account imbalances that have built up during the past decade and which, through major outflows from surplus countries, helped fuel the rapid credit expansion in deficit countries, allowing them to postpone hard policy choices;
3. Transform the industrial metabolism of our economies to base our social and economic progress on “green growth” and renewable energies.

We will only succeed in addressing these major challenges if we work together, through inclusive multilateral schemes and organisations. This is why the OECD is opening up. This is why, in May 2007, we agreed to open membership discussions with Chile, Estonia, Israel, Russia and Slovenia and we were mandated to develop an Enhanced Engagement strategy with Brazil, China, India, Indonesia and South Africa “with a view to possible membership.”

They have all been invited to attend OECD export credits meetings since November 2006, to help them learn about our work and persuade them that they would be better off applying the same disciplines and helping to review them when necessary. This effort has already born important fruit: Brazil joined the negotiating talks for a revised Aircraft Sector Understanding, signed in Rio in July 2007, and continues to play an active role in our aircraft discussions.

This is only the beginning: it is important that non-members do not see an economic benefit in staying outside the OECD-based rules. We need to reiterate that adhering to the OECD-based rules remains a reliable, dynamic and practical alternative to a costly race to the bottom or a prolonged dispute at the WTO.

Ladies and Gentlemen:

The recovery of the world economy is real, but it is still fragile. Its projected growth will not be enough to significantly reduce unemployment in the short term. For the OECD area, we are expecting a timid 1.9% increase in economic activity during 2010 and 2.5% for 2011, while the fiscal stimulus packages reach their natural sunsets. Like never before, we need the dynamism of international trade. The link between our lack of flexibility in the negotiations of the DDA and our double digit unemployment is more and more evident. It’s time to change. It’s time to make Doha happen. It’s time to go Exports Live!

The crisis has taught us that protecting our markets does not necessarily mean protecting our jobs. We have been conservative in negotiating Doha to keep our jobs and we ended up with
the highest unemployment figures in decades. It is time to be bold and far sighted. After all, trade liberalization is not an end in itself; it is a means to promote human development.

The OECD will keep working intensely to prove that trade liberalization is a shot in the arm, not in the foot. To show that the potential benefits of Doha are far greater than its risks. To support export credits and export credit agencies to help exporters thrive and become more responsible and to help countries develop the innovation and green growth strategies that we need to make global trade sustainable. The EXIM Bank can count on the OECD in the pursuit of a stronger, cleaner and fairer world economy.

Thank you very much.