FRED P. HOCHBERG
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"A Wake-Up Call on American Competitiveness"
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I. Introduction

I'd like to thank Neera and the entire CAP team for hosting me today.

But first, let's take a moment to reflect on what CAP actually stands for:

The Center for American Progress – precisely what I want to talk about today.

- Our progress as a people;
- Our competitiveness as a country; and
- Our ability to create middle class jobs for the next decade and beyond.

All of this rests on America's ability to sell more of what we make around the world.

- 95 percent of the world's consumers live beyond our borders; and
- Vibrant middle classes are emerging in country after country.

Take China for example – where there are 250 million middle class people right now.

By 2020, they are projected to have over 600 million, with a purchasing power rivaling the American middle class.

It should be clear to all of us that exports must be a prime driver of American growth for years to come.

Of course, other countries have reached a similar conclusion.

Foreign competition in America’s desired export markets is tough, and getting tougher every day.

Which is why President Obama has relentlessly focused on strengthening American exports and manufacturing.

Fundamental to that effort is the Export-Import Bank.

At Ex-Im, we have a pretty simple goal – to help grow American exports and support the jobs they create.

We do it by providing export finance for American companies selling into foreign markets where financing isn't readily available OR available at competitive terms.

As we did last year, Ex-Im is releasing our annual competitiveness report, and it has findings that are a wake-up call for everyone:

- In this room,
- In this city;
- And indeed in America.

This is essentially Ex-Im’s report card.

It is used by Congress to assess our competitiveness against other export credit agencies, or ECAs, around the world…

…specifically, the 34 advanced economies in the Organization for Economic Co-operation and Development, or the OECD.

And on this report card, we made the honor roll.

Last year was Ex-Im’s third consecutive year of record-breaking activity.

We provided just under $33 billion in export finance to support over 3,600 American companies.

We financed sales of:

- American planes to Ethiopia;
- Power plants in Turkey; and

- Locomotives to Kazakhstan…

- …All of those exports creating good paying jobs for American workers.

And – for the first time in five years – we did a higher volume of loans than any other ECA in the G-7.

Now, I'd like to think this was all because we're so brilliant at what we do.

But we had a little help.

The European debt crisis and Basel III's higher capital requirements made many lenders skittish about providing loans.

The result:

Ex-Im often stepped into the breach, and financed more U.S. exports and jobs.

So, by year-end, we supported 290,000 American jobs, at zero cost to U.S. taxpayers.

That's the good news. Ex-Im got a good report card and school's out.

It IS June after all.

Time to wrap it up for the summer?

Well, not so fast.

Because the most striking finding in this report is not what Ex-Im did – it's what the rest of the world is doing.

The international export finance landscape is changing dramatically, and not in ways that necessarily benefit the United States.

And today, I want to discuss those changes, and suggest two prescriptions for how America can respond.

1) Building a broader new framework for export finance that includes more countries and more transparency; and

2) Reorganizing the trade functions within the U.S. government, which President Obama called for last year.

II. Going Underground

In developing this report, we looked beyond OECD-regulated export finance – which is the world that Ex-Im and most of our competitors have inhabited since 1978.

That's when OECD countries established a framework to keep export finance in the background, but also out of the shadows.

- The OECD wanted to make export finance transparent; and

- To ensure that companies won business because they made great products – not because they were supported by cut-rate or one-off financing.

This framework was effective for decades – but our report clearly shows that it is showing its age.

For the first time this year, Ex-Im sent a team of analysts around the world to:

- Mumbai;
- Mexico City;
- Rio;
- Beijing; and
- Other stops in between.

We interviewed:

- Clients;
- Buyers;
- Banks;
- Lenders; and
- Other ECAs about the changing nature of international export finance.

And what did we find?

We found a stunning increase in the amount of ECA financing that is happening underground and in the dark.

We found increased use of unregulated OECD programs like direct investment and untied financing, as well as the growing presence of ECA's from Brazil, India and China – which are not part of the current export credit guidelines.

So what do I mean by unregulated export finance?

I mean official forms of finance that advance medium-to longer-term national interests.

When Ex-Im provides financing, we consider whether it is necessary to close the sale of a U.S. export.

But countries operating outside the OECD framework can offer financing to promote any number of long-term national interests such as:

- Increased access to natural resources,
- Future inbound investment; and
- Creating a better overall environment for certain national champions.

Like when Canada's export credit agency delivered a $100 million loan to Colombia's Ecopetrol – with the understanding that Canadian companies will get a first look in future investment and procurement decisions.

Or when Japan's ECA delivered $200 million to India to finance clean energy projects – with the expectation that more Japanese technologies will eventually be used by India.

It's a wink and a nod. Finance now for future benefits.

This is happening more and more. Our report found that unregulated government export finance exceeds all the official activity of the G-7 COMBINED.

Our study estimated that there was roughly $100 billion in unregulated OECD export financing and an additional $60 billion from the BIC countries.

And my guess is that our estimate of BIC financing is still too low.

Because this activity is so opaque, I know that we have only scratched the surface.

Export finance is increasingly like the Wild West, where rules are loosely followed, if at all.

Our research showed that OECD regulated financing has dropped from 2/3 to 1/3 of export finance in the last decade. And it is continuing to fall.

That's why the United States is working to build a new international architecture to bring more of this activity into the light…

…to reduce the trade distorting export finance that creates a less efficient and less stable international trading system.

When President Obama met with Vice President Xi in February 2012, they directed the U.S. and China to begin work on a new rules-based and transparent framework.

Since then we have expanded our working group to include other countries – and the meetings have been honest, unscripted and productive.

That's diplomatic speak for "we are making progress" – progress towards a more level playing field for companies around the world.

The plan is for an agreement to be reached by the end of 2014.

And it is critically important to American workers and businesses that we create this new framework…

…Because the conditions that allowed Ex-Im to have such a powerful impact last year are <u>transient</u>.

The rapid rise of state-backed finance for exports <u>is not</u>.

For the foreseeable future, our economic competitors will strongly support their companies, and industries that serve their national strategic interests.

They will continue trying to create their own national champions.

This is the new order of things.

How America responds to this new order will determine if we can create the millions of middle class jobs our nation will need in the years ahead.

III. The World Changes, America Does Not

Why?

Because growing exports is essential to future U.S. economic growth and job creation.

That's a fact.

President Obama knows that.

And so do the CEOs of every major company you can name and virtually every small business owner I meet.

McKinsey reports that America needs to create 21 million new jobs by 2020 to once again achieve full employment.

That will require robust economic growth, and you can only get growth from four places:

- Consumer, business, and government spending; and

- Exports

The first three of those are facing big headwinds, to say the least.

Exports are where the growth is, and increasingly where the jobs are too.

Exports already support some 10 million American jobs – the type of skilled, good-paying jobs we need more of.

America needs to once again become the top exporter in the world…

…We need to reclaim the position we gave up a decade ago, first to Germany, and then to China.

And I don’t just say this out of some feel-good nostalgia.

With the size of our economy and the challenges we face, it is unacceptable to be in third place.

America is the top producer of goods and services in the world.

We SIMPLY MUST sell more of them abroad.

And we can. If we keep building on the success of recent trade agreements with Colombia, South Korea and Panama…

…if we stick to the vision of President Obama’s National Export Initiative – which gives our companies more of the financing and other tools they need to compete abroad…

…then we CAN lead again.

Doing more exporting is a no-brainer.

In fact, America doubled our exports in the last decade…

…and President Obama’s wants to double them again in half the time.

But our economic competitors have brains too – and they have focused them on growing their exports.

They are not standing still.

In the last decade:

- Chinese exports of goods have grown by a factor of six; and
- Brazilian exports have tripled.

This didn't happen on its own.

Our competitors were strategic.

China and other countries single-mindedly focused on outcomes.

They identified businesses and industries with growth potential and they put significant resources behind them.

America on the other hand took a largely reactive, transactional and hands-off approach to the maintenance of our long-run trade prospects.

We had such a huge domestic market for so long that exports were frankly an afterthought.

We didn't have or need a real plan to grow our exports. We made great products, and we had little competition.

We were complacent and our complacency went beyond exports. For years, the U.S. underinvested in:

- Education,
- Infrastructure,
- Research and development; and
- The other foundations of economic competitiveness.

Fortunately, President Obama has been working to rebuild this foundation since the day he entered office.

And just in time.

IV. Where We Are

Look around the world right now…

…at Europe struggling through a historic debt crisis, and mostly in recession...

…at Brazil, India and China starting to slow down after years of breakneck growth.

Many emerging countries have to grow at seven to eight percent a year just to tread water.

China alone is working to create 45 million jobs over the next four years…

…and Russia needs 25 million in the next decade.

Believe me, China and other countries will not be shy about using any tool – as much as they can and for as long as they can – to put their people to work.

State-owned enterprises, sovereign wealth funds, state-directed capital – they will leverage every single one in an attempt to outcompete us.

And it won't be long before they have an opportunity to do so.

Our report found that many international buyers think countries like China are only 3-5 years away from reaching parity with the U.S. in some high value-added goods.

They're already getting closer with their advanced industrial equipment.

And airplanes and avionics – our number one export and a huge source of American jobs – could well be next.

With Embraer, Brazil already has a first rate regional aircraft business.

China will soon be coming to market with the COMAC 919 that will try to compete directly with Boeing and Airbus.

So what do we do?

A few weeks ago in Cuyahoga, you heard the president's agenda for a more competitive and prosperous America…

…One that continually innovates and develops cutting edge products and services from aircraft to IT services to farm equipment.

So I'd like to close today with a few prescriptions for the export, and by extension, export finance elements of that agenda.

V. What Must Be Done

First, America needs to lead the world in developing a new framework for international export finance.

In developing that framework, Ex-Im must first and foremost retain a muscular presence around the world.

We need to keep supporting our small businesses and fast-growing American industries like renewable energy, medical devices and construction equipment.

That’s exactly what we are doing.

I just returned yesterday from Russia where Ex-Im signed a $1 billion financing arrangement with their largest bank to boost exports of U.S. aircraft, energy equipment and other goods and services.

And in fact, Ex-Im is once again on track to have a fourth consecutive record-breaking year of financings.

If America demonstrates that we will do whatever it takes to ensure our companies compete on a level playing field, others will have a lot more incentive to join a rule-based framework.

That’s what we are working to achieve by 2014 – the date set by President Obama and Vice President Xi.

If we fail, international export finance will start to resemble the cluster of car dealerships out in Tyson’s Corner.

That’s where each American flag is bigger than the next, and where air dancers entice buyers in with signs that say:

- No interest financing;
- No money down;
- Cash back.

And as every car dealer knows, you can only give away so much before you undercut yourself.

That’s what we need to avoid with export finance.

We can’t have a race to the bottom to see who can offer the most cut rate financing…

…and we can’t have export financing being used to secretly curry competitive advantage.

Because in the end, we all lose and it’s not sustainable.

But if we get everyone playing by the same rules and adhering to the same standards, we’ll get more efficiency, stability and innovation.

We just want everything above board.

With more transparency, you know what everyone is actually doing and you stand a better chance of eliminating trade distorting export finance altogether.

And that's a goal virtually everyone in Congress can agree upon.

Here's a second thing America can do to get our own house in order.

Congress can make it easier to reorganize America's trade related agencies.

They can give President Obama the fast-track authority to submit a reorganization plan for an up or down vote by Congress.

The president made this request last year, and it would basically reinstate the authority that presidents have enjoyed for the better part of 50 years – from Franklin D. Roosevelt to Ronald Reagan.

America's trade stance has often been reactive instead of proactive because responsibility is diffused across too many different agencies.

Other countries are much more strategic.

For example, many foreign export credit agencies effectively have their own domestic versions of Ex-Im, USTR, OPIC, USTDA, ITA, and SBA all under one roof.

They take our alphabet soup and pour it into one big pot that offers a customer-oriented entry point for their country's business interests.

There needs to be a healthy debate about what configuration will ultimately work for the United States.

But Congress needs to act and give President Obama the authority to make our government more streamlined, more effective and more responsive to the needs of citizens.

These two prescriptions – building a better export finance framework worldwide and a more streamlined trade apparatus at home – are achievable.

And they are urgent.

But these specific changes require a more deep-seated change in the way Washington thinks about international trade.

As you all know, Ex-Im just came through a bruising reauthorization fight with Congress.

In the end, we rallied broad bipartisan support to provide American companies and their workers with the export finance support they need.

But the fact that we even had this fight in the first place is troubling.

The debate in Congress wasn't just about Ex-Im. We were a proxy in a bigger fight over how vigorously our government should promote U.S. business interests around the world.

And I have to say: I don't get it.

Almost no one in Congress questions whether the United States should aggressively push our strategic and defense interests abroad.

But when it comes to fighting for our economic interests, that bipartisan consensus breaks down.

We have too many who think America should just unilaterally disarm just as foreign competition is heating up.

That makes no sense.

There are over 60 export credit agencies around the world, and each and every one is working to expand their footprint and increase their activity.

This is the world we live in. And we've got to compete in the world as it is, not as we'd like it to be.

American companies have what it takes to win in the global economy. They can go head to head with any company in the world.

But they can't go head to head with another country bringing all kinds of financing resources – both visible and hidden – to support its own companies.

President Obama is right. We need a government that will fight for our economic interests around the world, to create more American jobs at home.

Pro-business means pro-trade, which means pro-exports and pro-jobs – and that means emphatically supporting an expanding partnership between business and government to grow our economy.

There is no time to wait. It's time to get to work. Thank you.