
Continuing the Fight against International Trade Finance Subsidies

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In the 65 years since the creation of the US Export-Import Bank, the world has come to a much greater recognition of the crucial role that trade can play in promoting prosperity—and by promoting prosperity, promoting global peace. In the words of Cordell Hull: “When goods do not cross borders, armies do.”

Promoting trade and commercial exchange between nations is Ex-Im Bank’s mission, and it is a mission that has served the United States extraordinarily well these past 65 years. In a more integrated world, there will continue to be a case for national institutions that support the financing of exports. For example, where national and international capital markets are imperfect or underinformed, governments can write insurance that the markets will not. This has always been a crucial part of Ex-Im’s work and one that the United States will continue to support.

This chapter focuses on another, increasingly crucial aspect of Ex-Im’s work: what might be termed its role in US national economic defense. Just as the real virtue of a strong military is that it can prevent wars, the virtue of maintaining a strong and credible Ex-Im Bank is that it can help to deter abusive subsidies by other countries—and to reduce the chance that the United States will need to resort to costly subsidies. The chapter has three parts:

- First, what the United States has already achieved in scaling back unfair international export subsidies;

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- Second, the next frontier in the battle to deter costly international subsidy competition; and
- Third, the broader issues that the United States must confront with respect to the global adoption of more socially responsible, sustainable trading practices.

Preventing a Race to the Bottom in Export Subsidies: The Record to Date

The Organization for Economic Cooperation and Development (OECD) Arrangement was created just 22 years ago. It has had enormous--and underappreciated--success in preventing much counterproductive, expensive subsidy competition in international trade. What is more, these benefits have been achieved not through a legally binding treaty between governments but through a gentleman's agreement:

- By reducing export subsidies, the Arrangement has successfully confronted a particularly insidious form of trade protectionism and saved US taxpayers billions of dollars. The annual budget savings for the United States alone are probably more than \$500 million.
- By emphasizing transparent competition, the Arrangement has helped to promote a level playing field for global trade and a stronger, more efficient global economy.
- By ensuring the best use of official export finance, the Arrangement has helped to improve the effectiveness of development policy.

The OECD Arrangement is part of a broader US effort to promote free and fair trade by reducing export subsidies in the international arena, most notably through the United States's work on the General Agreement on Tariffs and Trade (GATT) and with its successor, the World Trade Organization (WTO). In fact, the United States has used the Arrangement to fill gaps in the WTO subsidy rules and help strengthen the broader system.

WTO rules rightly permit the use of development assistance to help promote economic development in poorer countries. But when aid is designed more for the benefit of domestic exporters than the countries for which the assistance is supposedly intended, the resulting distortions undermine the very basis of fair and open trade, and corrode the ideals upon which official development assistance is based.

That is why in the early 1990s the Clinton administration pushed hard to conclude an agreement on tied aid. In many ways, that agreement is a

model of what countries belonging to the Arrangement should be working to achieve in other aspects of the international economic system. That agreement committed members of the Arrangement to follow clear multilateral rules for tied aid. As a result:

- Trade distortions due to tied aid have been reduced by approximately \$6 billion a year since 1993—a total of \$42 billion.
- Open competition for new projects has created additional US exports of about \$1 billion a year.
- US taxpayers have been saved the annual cost of more than \$300 million that would have been required to support the same level of exports through competing export subsidies—a total of \$2.1 billion since 1993.

New Frontiers in the International Subsidy Wars

The Emergence of “Untied Aid”

The tied aid agreement has produced enormous benefits. But perhaps inevitably, these benefits are increasingly threatened by the migration of troubling practices to the arena of “untied aid”—aid that is not covered by OECD rules. At least in a small number of countries, such aid now comes with well-connected strings.

Such “pseudo-untied aid” can take a number of forms. For example, a donor government can ensure that untied aid is linked to domestic exports or to the services of a domestic company by providing detailed project design advice—“technical” assistance—that leads to very specific conclusions. In practice, it may be hard for the recipient to ignore such recommendations. This, in turn, confers an enormous advantage on national exporters in the bidding for the final contract.

More generally, any project—including one that is commercially viable—can be distorted by the provision of what is supposed to be neutral advice to that recipient. And the discretion involved in administering a bidding process can be abused to promote national exports unfairly. For example, not long ago a major US firm bid against a major foreign competitor for an infrastructure project overseen by the competitor’s national aid agency. Although the bid of the US firm was 10 percent below the foreign bid, and of at least the same quality, the contract was awarded to the foreign bidder.

These practices corrode the effectiveness and credibility of the multilateral tied aid disciplines that Arrangement members have worked to achieve during the past decade. And they corrode the ideals of untied

aid. The actual and potential misuse of untied aid poses a serious threat to the credibility and integrity of the OECD system of discipline over the use of concessional aid financing. Unfortunately, such abuses are not confined to untied aid.

The Emergence of “Market Windows”

Several prominent OECD members—including some with a strong tradition of using aid for commercial advantage—have managed to elude the restrictions on their national export credit agencies by providing or maintaining the ability to provide export subsidies through other state-owned or -controlled institutions—so-called market windows. Because market window institutions purport to operate both under private-sector discipline and also according to the competitive constraints of privately owned financial institutions, there currently is no agreement to subject them to any disciplines under the Arrangement.

However, market window institutions actually, or potentially, contravene Arrangement rules because they are controlled and indirectly subsidized by the state. Thus, market window institutions operate with an unfair competitive advantage because they benefit from special government concessions, including guarantees by the state that enable them to raise funds at a lower cost than their private competitors, and because they are exempted from certain taxes and dividend payments. At the same time, they act like official export credit agencies when they restrict financing to national exporters.

The US Response to Abuses of Multilateral Discipline

The United States cannot stand by and watch a small number of countries undermine the multilateral trading discipline that it has worked so hard to achieve. It is both reasonable and necessary to insist that any exemptions from multilateral rules must themselves be agreed to on a multilateral basis. Practices that involve the unilateral reinterpretation of multilateral rules undermine the effectiveness of the Arrangement and the competitiveness of US exporters and financial institutions.

The US government’s response is twofold:

- First, by highlighting the existence of such unilateral practices, the United States hopes to encourage its partners in the OECD to examine these issues in detail before the OECD participants meet in November 2000. It is clearly in the mutual interest of OECD members to undertake serious negotiations with the objective of reaching multilateral agreement on rules and procedures that would clarify when untied aid and market windows should be exempt from existing agreements.

- Second, although the United States sincerely hopes that these problems can be resolved on a multilateral basis through negotiation, it stands ready to act unilaterally if they are not. The US government has both the responsibility and the tools in hand to protect US exporters from unfair practices that undermine their competitiveness.

The Need for New Multilateral Rules

Working to preserve the effectiveness of existing multilateral rules should not prevent OECD Arrangement members from broadening those rules to address new issues that can affect competitiveness and the global economy. There are two areas in which the OECD should take action in the coming months: protecting the environment and preventing bribery.

Establishing Guidelines for Minimum Environmental Standards

Each year, export credit agencies provide about \$60 billion in medium- and long-term financing for exports of equipment for international power and industrial projects. ECAs are a major source of finance for these projects. The United States has taken steps to set environmental standards and guidelines for the exports that Ex-Im Bank finances. Ex-Im will not provide any support to projects for which environmental harm cannot be adequately mitigated. It makes no sense to have in place multilaterally agreed-on standards and guidelines for projects financed by multilateral development banks and then to undermine them with projects financed by the US government.

That is why the United States has taken the lead in the OECD Arrangement to push members to agree on common guidelines that would impose minimum environmental standards for export credit agencies. But progress toward such standards has so far been very limited—and that is troublesome. Other ECAs, including some Group of Eight (G-8) agencies, have been hesitant to address this issue with the urgency that it deserves. The US government is pressing its counterparts at this year's G-8 summit in Japan to establish an expert group that would develop a common G-8 position on environmental guidelines for official export financing. The G-8 has a responsibility to lead on this issue, and it must act quickly.

Strengthening the Implementation of Antibribery Agreements

The Foreign Corrupt Practices Act has been US law for more than 20 years. It prohibits bribery in international trade. Ex-Im Bank actively

supports US policy against bribery by insisting that exporters sign a supplier certificate that affirms that no bribes have or will be paid to secure the contract. This certificate puts exporters on notice that bribery makes them ineligible for Ex-Im Bank financing, and it can assist the US government in prosecuting firms that may be found to have violated the law.

In a variety of forums, the United States has also led a major international effort to reduce corruption. Now that the OECD Antibribery Convention is in place, the United States calls on its partners in the OECD to support the convention by actively prohibiting bribery in the transactions that their ECAs support. It is a US priority to reach agreement among ECAs so that they can be part of an all-out assault on bribery and corruption in international trade.

Conclusion

Institutions survive over time by adapting to meet new circumstances. Of course, one must first identify the challenges correctly. Because Ex-Im Bank remains alert to new developments, it will meet its challenges and ensure that US exporters remain competitive.