In post-export financing, we primarily deal with the situation where the exporter was able to purchase the goods or services and shipment was made to its overseas destination. The U.S. exporter might look to the financial industry for resources in order to shorten their business payments cycle since the international transaction normally takes longer to complete than domestic trade.

Within the element of risk we have to consider two important features: commercial risk and political risk. Commercial risk on the international scene has to consider foreign business practices and the long distance to the overseas buyer. Political risk will entail the economic and political condition created by foreign governments. It is very possible that a foreign buyer is a very strong business entity. However, due to economic policies, the importer's country is unable to generate foreign exchange for its economy. The result is the foreign business has no means to pay for U.S. goods imported into the country. A good example is Mexico and Latin American countries in late 1982.

To get paid in the international market, four alternatives are available: cash payment, open account transactions, documentary collections, and letters of credit transaction. The most significant and commonly used vehicle in international trade is letters of credit. A letter of credit is a guarantee issued by a bank to a beneficiary stating that if the beneficiary will meet all terms and conditions of the letter of credit, the bank will guarantee payment. In most cases, a commercial letter of credit is the only way a U.S. exporter is willing to sell his products overseas.

There are three ways post-export financing can be handled. In direct borrowing, financial resources will be made available to a company based on their financial strength. Considering the lag time, from the time a shipment is made and payment is received, it is foreseeable that the manufacturer will need to borrow money from a financial institution. Receivable financing is another way a financial institution will make monetary resources available to the borrower. This is a factoring arrangement, and the foreign receivables will support the transaction.

Sometimes an inducement will be necessary to encourage a financial institution to lend money to an exporter for post-export financing. The inducement can take various forms, but the most commonly used vehicles are private insurance companies, foreign credit insurance associations such as the FCIA, Export-Import Bank, and the U.S. Department of Agriculture.

THE ROLE OF THE EXPORT-IMPORT BANK IN EXPORT FINANCING

By
Harold W. Sundstrom
Export-Import Bank of the U.S.

The Export-Import Bank of the United States is a U.S. government agency. It is an independent agency, with five Presidentially appointed directors Eximbank has one mission -- to aid in financing and to facilitate U.S. exports. It was founded in 1934 to stimulate trade during the depression.

Contrary to its name, Eximbank does nothing with imports. However, Eximbank has contributed financing support for over $180 billion of U.S. exports. That's about five percent of total U.S. exports during the period. During the past five decades, it helped create extensive markets for U.S. products abroad and sustained U.S. jobs at home.

Eximbank through the years has enabled U.S. companies to market new products, such as commercial jet aircraft, and new technologies, such as nuclear power plants, which commercial banks could not finance on their own. Today, Eximbank is also engaged in a major new marketing effort to broaden our nation's export base by reaching out to small and medium-size companies.

There are certain key elements and developments in the world economy which have a major impact on what Eximbank can do to assist the U.S. economy. With the world's largest gross national product of 4.4 trillion dollars, the U.S. is showing a sustained period of real growth. The U.S. economy has increasingly relied on imports resulting in major deficits in both trade and current accounts. However, the U.S. has no problem in financing these growing deficits, because foreign governments and private business continue to see the healthy U.S. economy as the place to invest their money in equities and securities. Indeed, the U.S. is already the world's largest debtor, with obligations to foreign creditors of over $800 billion dollars.

The scale of persistent imbalances in U.S. external accounts and its federal budget deficit have contributed to a major dollar depreciation. These trends are of concern to many, but too often critics place total responsibility for correction on the U.S. In spite of the dominant U.S. role, other countries also have a major influence on world trends. Japan, particularly, is being called upon to adjust its economy to the benefit of other countries throughout the world. With its GNP reaching 2.3 trillion dollars, it is the second largest economy in the world. It shows the largest trade and current account surpluses of any country in the world with 90 billion dollars, compared to the U.S. deficits of 150 billion dollars. As a result, its capital accumulation has led to massive new outflows of loans and investments. One year ago, of the fifty largest banks in the world, 20 were in Japan, and seven of the top ten were Japanese. Europe also has become a center of trade and current account surpluses, and the largest of these is in Germany at 40 billion dollars. There is room, too, for these capital accumulations to flow to the benefit of borrowers throughout the world. Both in Japan and in Europe, their current account surpluses have come largely at the expense of the U.S. A steady U.S. growth has enabled these countries to export with increasing success into the United States. Moreover, these countries have competed with increasing aggressiveness for markets in third world areas.

The world's attention is focused increasingly on how to resolve the external debt services problems of less developed countries. When the world moved into a recession after the series of oil shocks, commodity prices of many key exports of these debtor problem countries dropped remarkably. They further suffered the impact of a rise in dollar interest rates, which compounded their debt service problems at the same time their export foreign exchange earnings declined.

With austerity programs combined with policy and structural reform, assisted by the International Monetary Fund and World Bank, these countries have struggled to reduce their trade deficits and related debt burdens. However, the progress in reducing deficits has come largely through curtailing imports which are necessary to the long term growth of these developing countries. This is not a posture they can maintain, because growth must be restored for economic, social, and political reasons.

Viable growth in the less developed countries will require an ability to restore equilibrium in exports, imports and two-way capital flows on a sustained basis. This growth will also facilitate resumption of substantial U.S. exports to traditional U.S. markets and in Latin America particularly. Consequently, today we face a great turmoil in the world of ideas from our academic, business and public policy leaders as they seek appropriate policies, and possibly new solutions, to meet the needs of these debt problem countries. Against these contemporary trends in the world scene, what corrective actions are emerging to improve the U.S. situation? We have seen a marked depreciation of the dollar, particularly against the Japanese Yen and the German Mark, which is restoring U.S. export price competitiveness. However, that depreciation in itself cannot assure a turnaround in the American trade deficit. A large portion of the U.S. loss of market share overseas has come through gains by the newly industrialized countries of Hong Kong, Korea, Singapore, and Taiwan. Against those currencies the dollar depreciation has been minimal.

Domestically, U.S. monetary policy designed to avoid the resurgence of inflation has buttressed confidence of foreign investors in the U.S. dollar. The U.S. has collaborated with other governments to avoid a chaotic drop in the dollar, while accepting economically driven depreciation. The U.S. is also pursuing budget restraint as a further control on inflation which also strengthens confidence in the U.S. economy.

As further action to deal with the U.S. trade deficit, the U.S. has taken steps in multilateral forums, as well as in bilateral negotiations, to sustain open markets for U.S. exporters. Congress is greatly concerned about the failure of other governments to comply with this international objective of open markets, and has sharpened U.S. tools for potential retaliatory actions should these prove necessary. What is the Eximbank strategy to be relevant and operate effectively in this environment? What are the key areas where we can best contribute? Recognizing that macro-economic policies, exchange rates and LDC debt management will remain the dominant forces in deciding the pace of U.S. exports, we believe Eximbank can contribute significantly in the following areas to benefit the U.S. economy:

1) continuing to assure financing for exports which otherwise would not go forward because adequate financing is unavailable for reasons of risk assessment or competition from other government export agencies.

2) offering programs to bring new companies into exporting, particularly the smaller firms.

3) offering programs to bring banks back into the trade finance role on which U.S. exporters have relied in the past.

4) assuring that Eximbank export credit programs are competitive with those offered by other governments.

5) working with export credit agencies of other countries and the IMF, IBRD, and other international development banks to assist the restoration of viable economic growth and debt service by LDCs with debt management problems.

Eximbank's basic mission remains to help finance the exports of U.S. goods and services. This has been our objective for fifty-three years, and Administrations and the Congress have consistently restated the importance of this purpose. The Administration sought, and the Congress has given Eximbank ample budget authority in recent fiscal years. For FY 1987, we have a guarantee and insurance authority of 11.4 billion dollars and 900 million dollars in subsidized direct credit authority. We will use perhaps two thirds of our guarantee and insurance authority, and perhaps sixty percent of our authority to issue subsidized direct credits.

We have seen a substantial increase in requests for use of our insurance, because trade finance which used to go through the commercial banks can no longer rely on the same volume of bank support. Banks have reacted to legitimate concerns with the riskier international lending environment, and particularly the larger banks have changed their pattern of business to seek better returns through capital market activity instead of relying on holding credit paper.

The failure to draw fully upon our subsidized direct credit authority has been somewhat unexpected. We offer such credits only to compete with subsidized credits by other governments. While we have made billions of dollars in offers, many of these simply do not proceed because of curtailed growth in developing countries. Large infrastructure projects, such as mining, electric power, and basic metals expansion, all have been cut back because of slower economic growth.

To assist commercial banks to remain active in trade finance for their client exporters, we have enhanced our guarantee coverage. For commercial risk we have increased cover so that the commercial bank or the exporter will have to take only a two percent risk-sharing with us. The balance is covered by Eximbank. For political risk, Eximbank covers one hundred percent.

We have improved our programs to reach out to new exporters and to the small businessman. We have a highly successful working capital program. We provide guarantees to a commercial bank which finds it cannot risk a working capital loan to a company which is new to export, or to a small company undertaking a large export beyond its previous scope of operations.

In summary, we feel our programs are fully competitive with those of countries whose exporters are the major competitors of U.S. exporters. We are ready to take greater risk, both through our risk protection programs and in our country-risk attitude. We think Eximbank is now ready to help exploit the growing opportunities for American exporters, as the dollar has become more competitive and as the U.S. works to restore growth in the developing countries.