Welcome and Remarks *(Regency Ballroom)*
Charles J. Hall, Acting Chairman and President
Export-Import Bank of the United States

Announcer: Ladies and gentlemen, welcome to the 41st Annual Conference of the Export-Import Bank of the United States. Please welcome acting Chairman and President of the Export-Import Bank of the United States, Charles J. Hall.

Charles J. Hall: Good morning, and welcome to the 2017 Annual Conference of the Export-Import Bank of the United States. Please rise for the National Anthem, which will be sung by Senior Vice President of EXIM Bank, Jesse Law.

Jesse Law: Oh, say can you see

By the dawn's early light

What so proudly we hailed

At the twilight's last gleaming.

Whose broad stripes and bright stars

Through the perilous fight

O'er the ramparts we watched

Were so gallantly streaming.

And the rocket's red glare

The bombs bursting in air

Gave proof through the night

That our flag was still there.

Oh, say does that star spangled

Banner yet wave?

O'er the land of the free

And the home of the brave.

Charles J. Hall: That's great. Thank you. Thank you, that was really great.

Okay, thank you very much. Now, no one can say that the senior management team at EXIM Bank isn't multi-talented.

So thank you for coming. Thank you for joining us today at our annual conference. As usual, in previous years, our EXIM team has put together a really interesting program for all of us. And I know you're all very eager to get into it, but I need to do two things first. First of all, late yesterday, the House of Representatives changed the voting schedule for members of the House today. So we've had to do some last-minute changes to the schedule, which means, ironically, that lunch will be a little bit earlier than was originally planned. But we need to accommodate the Congressional panel that we have in the schedule, so I would encourage you to check the revised Schedule of Events for this morning and early afternoon.

Secondly, before ... as I say, I know that you're all eager to get into the excellent program we have set up ... but before we do that, I want to say a few words about context. And before I am finished, I'll get to the context specifically facing EXIM Bank, within the U.S. Government. But before that, I want to talk more about the high-level, broad context facing all of us in the world of international trade. And to do that, I've selected, what I think is absolutely the most remarkable aspect of that international trade context of the last fifteen years. And that, for our purposes today, I'll call the China Challenge. I'd like to spend a few minutes talking about what I think the China Challenge is, how it's manifest in international trade and global economics, and then because, after all, we are the U.S. government, I'm going to be a bit prescriptive and give you some views on how, at least, I think the U.S. should respond to the China Challenge. So, let's get into it.

This is a graph that's familiar to everybody in this room: U.S. nominal gross domestic product, from 1980-2016. Very positive trend line, I would say. Of course, there's that blip representing the great recession, but by and large, I would say that's a pretty good trend line. Let's see how China plots on this graph. That's also pretty impressive, I would say, particularly when you see where they started in 1980. But we all know that comparing nominal GDP's is a hazardous business because nominal GDP comparisons include exchange rate distortions. So the way that we really should compare countries' GDP's is that totality of goods and services produced in their economies is on a purchasing power parity basis.

So what does China look like against the U.S. in terms of purchasing power parity? That goes a lot farther toward explaining what I think the China Challenge is. So again, now, this graph is only from 1990, but virtually in 1990, an even shorter period of time, China has come up from almost nowhere to being, now, the largest productive economy in the world. That is one way of expressing what I call the China Challenge.

So if I'm going to focus on GDP, we need to talk a little bit about why I think GDP is important. And, of course, in the first instance, GDP is both an indicator of, and a determinant of domestic prosperity. That's the way most people think of it, and it is very important. In fact, for most governments, it is one of the highest priorities, if not the highest priority, of government is to ensure domestic prosperity. So that's a good reason to think GDP is important, but it's not the reason I've chosen GDP as an indicator today.

In the world of international trade, there's another reason I think that GDP is important, and I would pose it that it's because, in my view, the size and shape of a country's GDP determines the role of that country in the world economy. Let me say that again. The size and shape of a country's GDP determines the role of that country in the world economy. The size and shape of a country's GDP determines the role of that country in the world economy. So that puts a different light on it when you look at this graph. That is one way of expressing the China Challenge.

If we're going to talk about GDP, let's dig into it a little bit more. I'm going to date myself by admitting to you that when I first studied macroeconomics, the U.S. national income accounts focused on gross national product rather than gross domestic product. But, frankly, the concepts are the same and for our purposes, talking about international trade and capital flows, GDP is actually a much more appropriate data set to use.

So this is the old expenditure formula for GDP: personal consumption, business investment, government expenditure, and then that trade factor at the end, exports minus imports. I'll get into the policy tools a little bit later that governments have at their disposal to effect each of these factors in the equation. But after all, this is the annual conference of the Export-Import Bank, so for the moment, I would like to focus on that X-factor: exports. I'll get back to the rest of it a little bit later.

So here is exports for three countries: United States, Germany, and Japan. Again, reasonably positive trend lines, at least for the United States and Germany. A much more pronounced blip for the great recession, but nevertheless, reasonably positive. How does China plot on this graph? That is even more remarkable than the GDP trend line, I would say. Again, going back to 1980, where was China in 1980 in exports? Nowhere. So China, from 1980, in fact, really, just the last fifteen years, has gone from almost nowhere in exporting to being the largest exporting economy in the world. That's an even better expression of the China Challenge.

What accounts for this comparative performance in exports? Well, there are probably numerous features accounting for that, but I would argue that one of those key features is a very different approach to export promotion on the part of the Chinese government from the U.S. government. In fact, it's an approach to export promotion that is so starkly different, that I think we could call it, "A

Tale of Two Approaches" ... very significant differences between the two countries. Within export promotion, there is, of course, that big subset called "official export finance", which is, obviously, what U.S. EXIM Bank was set up to engage in in the first place. So within the area, that subset of export promotion called "official export finance," there are significant quantitative and qualitative differences that distinguish the U.S. from China. So let's talk about some of those.

First, on the quantitative side, the first quantitative difference is going to be simply the number of agencies engaged in this activity. In the United States, we have EXIM Bank. In China, there's China EXIM, there's ChinaSure, and the China Development Bank, all engaged in the same kinds of activities that U.S. EXIM is engaged in. Number of agencies maybe isn't so important, that's just the way governments organize themselves. So, what about employees? U.S. EXIM has about 420 employees. Between the three Chinese agencies, there are over 10,000 government employees engaged full-time in official export finance. 25 times the number of government employees we have engaged in that activity.

But what really matters, of course, is financing. So 2015, which is the last year we have good figures for the Chinese agencies, how much financing got done? In the United States, $10.6 billion. In China, the three agencies together did $576 billion of official export finance in 2015, 54 times what the U.S. did. That is a stark quantitative difference. And I'll leave you with a different data point, too. In just two years, in 2014 and 2015, China did more official export finance than U.S. EXIM did in its entire 83-year history. Two years, 83 years ... that is a stark difference.

So those are big quantitative differences, I mentioned that there were also some qualitative differences. There are a lot of them. I'm just going to give you a few to give you a flavor for the different approach between the two countries. The U.S., from the beginning, has been committed to the OECD arrangement, that Organization of Economic Cooperation and Development arrangement on official export credits which is designed, and was designed from the beginning, to regulate competition among governments on official export finance. China has been outside the OECD arrangement, and has shown very little interest in getting into it.

We've also been negotiating with the Chinese government for a number of years in what's called the "International Working Group" on official export credits. It's become apparent in those negotiations that while the United States has a goal of maximum transparency in official export finance, China has a goal of minimum transparency. The United States would like to see broad rules coverage governing the competition between countries in order to achieve the level playing field that we're looking for; China has consistently had the goal of limited rules coverage. The United States would like to see a standardized rules-based system; China would like to see maximum flexibility. The United States would like to see detailed rules; China would prefer to see just general principles.

The United States has a policy that U.S. EXIM should not compete with private sector banks, and I think many of you are aware that 98% of the transactions done by EXIM Bank are in partnership with private sector banks, and insurance companies, and other private sector entities. In China, on the hand, of course, in a system of state capitalism, the whole concept of public sector versus private sector is a bit more vague. But, in any case, they have absolutely no problem with their ECA's competing with private sector entities.

So to summarize all of these qualitative differences, I would say, in general, the United States, over the years, has used official export finance as a defensive tool, whereas China has used it as an offensive weapon. That summarizes the qualitative differences between the two countries.

So, these quantitative and qualitative differences, taken together, what do they really mean in terms of quantity of export finance? You can see where this is going just from the scale of the graph. So here we have official export finance from Japan, Germany, and the United States from 2000 to 2015. This is only a 16 year period, 2000 to 2015. Where does China plot on this graph?

I would urge you to look at this graph at both ends. The right side of the graph, of course, we have China doing 54 times as much official export finance as the U.S. But equally impressive is the left side of the graph. As recently as 2000, China was doing nothing in this area. This is a phenomenon that's come up just in the last 15-16 years. That's why I say this is the most remarkable phenomenon that exists in the world of international trade. And we saw the effects that this had on their exports around the world.

So, if there's one graphic I would ask you ... one visual image I would ask you to take away from my brief remarks today, it's this one. This shows the stark difference between the approach taken by the United States and the approach taken by China in terms of official export finance, and more broadly, export promotion. In fact, this graph is so important that I put it in twice. I want you to see that red line go up there again.

Okay, so if that's the China Challenge ... I said in the beginning that I would say a few words about what the U.S. response should be to that challenge. But before I do that, I have to talk a little bit about what the policy tools are available to all governments to affect that GDP and exports and all of the other macroeconomic factors that we like to talk about. So there's that expenditure formula again, personal consumption, business investment, government expenditure and trade, exports minus imports. What are the policy tools that are available to any government in dealing with that formula?

Well, those policy tools really fall into three big buckets. The first is monetary stimulus, which affects directly personal consumption and business investment. The second is fiscal stimulus, which affects directly that government expenditure factor. And the third is export promotion, which I spoke about a minute ago, including the area of official export finance. Those three big sets of policy tools are what are available to governments to affect the macroeconomic outcome, including international trade. So let's look at all three of those in turn.

First of all, monetary. This is another graph that will be familiar to everybody in this room. That's U.S. interest rates, otherwise known as the price of money. Long-term down trends since 1980, culminating in recent years in that flat section there, which is sometimes referred to as "zero bound interest rates" or, "ZIRP", zero interest rate policy on the part of the Fed. I don't think there's much scope for those interest rates to go much lower. In fact, we know now that the Fed has now three times recently, since the great recession, raised interest rates. And we know that the trend actually is going to be upward in interest rates going forward, not downward. So that's the price of money.

What about the quantity of money? This chart is the Fed balance sheet. We're all familiar with the quantitative easing experimentation that's been going on in the U.S. Fed over the last few years, which has taken their balance sheet to unprecedented heights. There's never been a Fed balance sheet like this before. Their attempts to stimulate the economy through monetary policy in an environment where they'd already run out of options on interest rates. We also know that the Fed is now starting to talk about how they're going to bring their balance sheet down. So further experimentation in quantitative easing is really not in the cards. So what does this graph tell us about the prospects for monetary stimulus going forward in the U.S. economy? I would argue that's a very, very constrained set of policy tools available to the U.S. government.

What about fiscal stimulus? Here's another graph that's familiar to everybody here, U.S. national debt from 1980-2016, homing in on $20 trillion. Every few years, there's a robust argument in Congress and elsewhere about how much national debt can be supported by the U.S. economy. What really matters, though, just like in GDP ... comparative GDP ... it's really purchasing power parity that matters, not nominal amounts. What matters in national debt terms is not nominal amounts, it's rather, "how much is that debt as a percent of GDP?" That's what really needs to be looked at in terms of how much additional capacity the economy has to bear official debt.

Well, this is what the U.S. national debt looks like as a percent of GDP from 1980-2016, homing in on 120% of GDP. I think the vast majority of economists agree that at 120%, this is just official national debt, that is a real constraint on the ability of the government to apply fiscal measures to stimulate the economy. Despite all of the discussion going on now about infrastructure spending, which I personally believe is very warranted, how we're going to finance that is going to be affected by these factors of debt capacity in the economy. So what does that tell us about fiscal stimulus as an option? I would argue there, also, we're very constrained. We really don't have much room to do additional fiscal stimulus in the U.S. economy going forward.

So what does that leave us in terms of policy tools? We're back to export promotion again. This is the one area of policy that is virtually unconstrained. The U.S. government is not constrained in its ability to promote its exports in order to affect the GDP, and therefore, affect the role of the U.S. in the world economy. And as I said before, a major issue ... a major subset of that export promotion policy set is official export finance, which is what U.S. EXIM was set up to perform in the first place. That's our mission.

In the beginning, I started out by saying, "there's a China Challenge" ... I would talk a little bit about what it is. And I said I would talk about, in my view anyway, what the United States should do to respond to it. If you'll bear with me for one more minute, I'd like to turn that question around, though, and phrase it slightly differently. Before I say what the U.S. should do, in my opinion, I'll say what the U.S. most decidedly should not do. And in my view, to respond to the China Challenge, this is exactly what the United States should not do. This is U.S. Export-Import Bank authorizations 2000-2016 on a scale that's more readable than the one I showed earlier. That is clearly not what the United States should be doing to respond to the China Challenge. By the way, if I did want to put the Chinese number on there, the red line would be somewhere above the penthouse in this building.

So then, back to the original question, finally: how should the United States respond to the China Challenge? I think that it's very clear and its very straightforward and it's very simple. I would argue that the United States needs to restore the United States EXIM Bank to full functionality. That's the single most important thing ... in my view, that's the single most important thing that the U.S. can do to respond to the China Challenge in international trade and global economics. And how is that done? Well, there are two things I would suggest. Most immediately, I would urge President Trump to nominate, and I would urge the Senate to confirm, a full slate of five board members for U.S. EXIM Bank, so the bank can get back up to firing on all cylinders, providing all of the services to U.S. exporters that it was designed to present. That's a pretty straightforward thing, and it's something that should have been done a year and a half ago. But, in any case, it needs to be done now.

Secondly, come 2019 when it's time to reauthorize EXIM Bank again, I would argue that Congress should return to a policy of long term reauthorizations, so that U.S. EXIM Bank can return to being the kind of credible and reliable partner to the exporting community that it was designed to be in the beginning, and that it needs to be if we're going to respond adequately to the China Challenge.

So those are my context comments. I hope that they help frame your conversations in the next day and a half. I'm looking forward to speaking with most, if not all, of you individually over the next two days. We can continue the conversation on this theme, or on any other theme that you'd like. But in the meantime, allow me to welcome you again, and thank you for coming. And I hope the next day and a half to two days are productive, useful, and pleasant for all of you.

Thank you very much.