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BACKGROUNDER

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Foreign Export Credit Subsidies: Kill Them, Don't Copy Them

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Abstract

Many supporters of the U.S. Export–Import Bank (Ex–Im Bank) assert that the bank serves a legitimate purpose as a response to export subsidies provided by foreign governments. But reauthorizing the Ex–Im Bank would do absolutely nothing to reduce the use of export credit programs by China and other countries. A better approach would be to encourage adherence to World Trade Organization (WTO) rules that limit the use of export subsidies. Enforcing WTO rules that limit other countries' export subsidies is a wiser policy than engaging in a subsidy competition with dozens of government-backed export credit agencies.

Key Points

- Reauthorizing the Export–Import Bank would not reduce the use of export credit programs by China and other countries. A better approach would be to encourage adherence to World Trade Organization rules governing export subsidies.
- In 1947, the average tariff rate in industrial countries was about 40 percent. Today, the average worldwide tariff rate is less than 3 percent.
- This reduction in tariffs would not have occurred if the United States had raised its tariffs to match high tariffs in other countries—the approach many supporters of the Export–Import Bank advocate with respect to export subsidies.
- As the U.S. Trade Representative and the Commerce Department reported earlier this year, "Ultimately, a trading environment that is free from trade-distorting government subsidies will be more open and competitive, bringing significant economic benefits to American manufacturers, workers and consumers alike."

Many supporters of the U.S. Export–Import Bank (Ex–Im Bank) assert that the bank serves a legitimate purpose as a response to export subsidies provided by foreign governments. For example, according to National Association of Manufacturers President and Chief Executive Officer Jay Timmons,

> The size and scope of the Ex–Im Bank pales in comparison to the official export credit agencies of our top competitors. If Congress eliminates the Ex–Im Bank, these other nations will jump in and fill the void, and manufacturers in the United States stand to lose tens of billions of dollars in business.[1]

Such rhetoric vastly overstates the Ex–Im Bank's importance. According to Heritage Foundation Research Fellow Diane Katz, "Only 1.6 percent of all U.S. exports last year received Ex–Im financing, which means that more than 98 percent of American exporters are competing without the bank's intervention. Nor is the play-

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ing field leveled for the domestic firms that do not receive special treatment."[2] Reauthorizing the Ex–Im Bank would do absolutely nothing to encourage other countries to reduce their export subsidies. A better approach would be to encourage China, the United States, and the European Union to adhere to World Trade Organization (WTO) rules, which limit the use of all export subsidies.

Instead of escalating export subsidies to match other countries, the United States should allow the Export–Import Bank to expire and use WTO rules to eliminate export subsidies provided by other governments.

Arguments over export credit subsidies bring to mind debates over U.S. tariff policy in the 20th century. There was no legitimate economic argument for the United States to maintain protective tariffs, which impose costs on consumers and transfer their resources to politically powerful or well-connected firms—a classic case of cronyism. Yet proponents often argued that the United States should impose self-destructive tariffs to counter high tariffs in other countries, just as some people now argue that the United States should impose self-destructive export subsidies in response to foreign export subsidies.

U.S. and foreign tariffs were dramatically reduced through the General Agreement on Tariffs and Trade (GATT) and WTO negotiations. In 1947, the average tariff rate in industrial countries was about 40 percent. Today, the average worldwide tariff rate is less than 3 percent.[3] This huge reduction would not have occurred if the United States had decided to raise its tariffs after World War II to match high tariffs in other countries—the type of approach many supporters of the Ex–Im Bank advocate with respect to export subsidies.

The same WTO rules that limit tariffs also limit many export subsidies. Instead of escalating export subsidies to match other countries, the United States should allow the Export–Import Bank to expire and use WTO rules to eliminate export subsidies provided by other governments.

The WTO vs. Export Credit Agencies

Export credit agencies provide loans, loan guarantees, and insurance to boost exports. About 60 official export credit agencies are operating worldwide. In the United States, the primary export credit agency is the Ex–Im Bank, which provides working capital guarantees (pre-export financing), export credit insurance, and loan guarantees and direct loans (buyer financing).[4] Most of the activities of the Ex–Im Bank and its foreign counterparts are considered subsidies under WTO rules.

The WTO's Agreement on Subsidies and Countervailing Measures (SCM) specifically addresses export credit activities, including loans and loan guarantees provided by government-backed export credit agencies:

> For the purpose of this Agreement, a subsidy shall be deemed to exist if there is a financial contribution by a government or any public body within the territory of a Member where a government practice involves a direct transfer of funds (e.g., grants, loans, and equity infusion), [or] potential direct transfers of funds or liabilities (e.g., loan guarantees), and a benefit is thereby conferred.[5]

1. National Association of Manufacturers, "NAM Report Shows China, Other Countries Significantly Outpacing the U.S. Export–Import Bank," National Association of Manufacturers, July 29, 2014, http://www.nam.org/Communications/Articles/2014/07/NAM-Report-Shows-China-Other-Countries-Significantly-Outpacing-the-US-Export-Import-Bank.aspx (accessed August 1, 2014).
2. Diane Katz, "U.S. Export–Import Bank: Corporate Welfare on the Backs of Taxpayers," Heritage Foundation *Issue Brief* No. 4198, April 11, 2014, http://www.heritage.org/research/reports/2014/04/us-exportimport-bank-corporate-welfare-on-the-backs-of-taxpayers.
3. Douglas A. Irwin, "International Trade Agreements," in David R. Henderson, ed., *The Concise Encyclopedia of Economics*, 2nd ed. (Indianapolis: Liberty Fund, 2008), http://www.econlib.org/library/Enc/InternationalTradeAgreements.html (accessed August 1, 2014), and World Bank, "Tariff Rate, Applied, Weighted Mean, All Products (%)," http://data.worldbank.org/indicator/TM.TAX.MRCH.WM.AR.ZS (accessed August 1, 2014).
4. Export–Import Bank of the United States, "Who We Are," http://www.exim.gov/about/whoweare/ (accessed March 25, 2014).
5. World Trade Organization, "Agreement on Subsidies and Countervailing Measures," part I, art. 1.1, http://www.wto.org/english/docs_e/legal_e/24-scm_01_e.htm (accessed March 25, 2014).

In other words, if a WTO member makes grants, loans, or loan guarantees, either directly or through a public body such as an export credit agency, and if someone benefits as a result, a subsidy shall be deemed to exist.

The WTO explicitly prohibits certain types of export subsidies, including:

> The grant by governments (or special institutions controlled by and/or acting under the authority of governments) of export credits at rates below those which they actually have to pay for the funds so employed (or would have to pay if they borrowed on international capital markets in order to obtain funds of the same maturity and other credit terms and denominated in the same currency as the export credit), or the payment by them of all or part of the costs incurred by exporters or financial institutions in obtaining credits, in so far as they are used to secure a material advantage in the field of export credit terms.[6]

This rule prohibits the Ex–Im Bank and its foreign counterparts from offering credit at lower rates than firms could obtain through private capital markets.

The WTO also prohibits subsidies that are contingent upon export of the subsidized product or that require the use of domestic goods. This provides an additional way to attack foreign export subsidies which, by definition, are intended to boost exports.[7] The United States could challenge any such export credit activity as a violation of WTO rules. Of course, other countries could use these rules to challenge Ex–Im Bank subsidies that are designed to boost exports or any of the Ex–Im Bank's policies that require the use of domestic goods. The Ex–Im Bank's 2013 Competiveness Report states: "Ex–Im Bank... does not allow for any direct support of foreign content."[8] For short-term support, "*Each product* must be ***shipped from the U.S.*** to a foreign buyer; and... have more than 50% U.S content."[9] In addition, the Ex–Im Bank requires companies to use domestic vessels for all exports supported by direct loans or loan guarantees in excess of $20 million.[10]

Even if an export subsidy is not prohibited by the WTO, it may still be "actionable." Actionable subsidies are allowed under WTO rules unless a country can prove that the subsidy is specific to certain enterprises and that the subsidy adversely impacts its interests.[11] Actionable subsidies include those that displace or impede the exports of a like product from another WTO country.[12] This is exactly what many export credit activities are intended to do: boost domestic exports at the expense of another country's exports. This means that, if another country subsidizes exports to the United States or to third countries and a U.S. industry is harmed, the WTO may allow the U.S. government to seek compensation or to impose "countervailing duties." For example, in WTO disputes between the United States and Europe over subsidies to Airbus and Boeing, each side alleged that the other party's subsidized aircraft displaced their own exports.[13]

These trade remedies are imperfect at best. As the International Financial Institutions Advisory

6. Ibid., Annex I(k).
7. Ibid., part II, art. 3.
8. Export–Import Bank of the United States, *Report to the U.S. Congress on the Export–Import Bank of the United States and Global Export Credit Competition: For the Period January 1, 2013 Through December 31, 2013*, June 2014, p. 97, http://www.exim.gov/about/library/reports/competitivenessreports/upload/Ex-Im-Bank-2013-Competitiveness-Report-to-Congress-Complete.pdf (accessed August 1, 2014).
9. Export–Import Bank of the United States, "General Bank Policies: Short-Term Content Policy," http://www.exim.gov/generalbankpolicies/content/short-term-content-policy.cfm (accessed March 27, 2014) (original emphasis).
10. Export–Import Bank of the United States, "General Bank Policies: U.S. Flag Shipping Requirements," http://www.exim.gov/generalbankpolicies/us-flag-shipping-requirements.cfm (accessed March 25, 2014).
11. World Trade Organization, "Understanding the WTO: Anti-Dumping, Subsidies, Safeguards: Contingencies, Etc," http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm8_e.htm (accessed August 17, 2014).
12. World Trade Organization, "Agreement on Subsidies and Countervailing Measures," part III, art. 6.3(b).
13. Simon Lester, "The Airbus–Boeing Subsidy Dispute: With Both Parties in Violation, Is There an End in Sight?" *ASIL Insights*, May 9, 2012, http://www.asil.org/insights/volume/16/issue/17/airbus%E2%80%94boeing-subsidy-dispute-both-parties-violation-there-end-sight (accessed August 8, 2014).

Commission, chaired by economist Allan H. Meltzer, reported:

> If countries do not accept WTO decisions, injured parties have the right to retaliate by putting restrictions on imports from the offending country or region. The injured party then suffers twice—once from restrictions on its exports, imposed by the foreign governments, and again when tariffs or duties raise the domestic cost of the foreign goods selected for retaliation. To compensate for the injury done by others, we impose costs on ourselves as well as them.[14]

Yet when the WTO works as intended, the threat of lose-lose retaliatory duties encourages countries to play by the rules rather than face the threat of retaliatory tariffs.

There is an exception to WTO rules for export credit agencies that comply with interest rate guidelines set by the Organization for Economic Co-operation and Development (OECD) Arrangement on Export Credits.[15] The OECD Arrangement sets minimum interest rates for its members each month. According to the OECD, these rates are intended to reflect commercial rates.[16] As long as members comply with the minimum rates, then their subsidies are not prohibited by the WTO, although they may be "actionable." This applies only to interest rate provisions, not to other types of subsidies. As the Cato Institute's Simon Lester explained:

> In essence, this provision means that government export credit agencies can provide export subsidies as long as they comply with certain international agreements (in practice, the OECD Arrangement on Export Credits). If they comply with the terms set out there, then the practice "shall not be considered an export subsidy prohibited by this Agreement." Of course, that doesn't change the fact that it's still probably an export subsidy. It's just not prohibited.[17]

The WTO's anti-subsidy rules are stricter than the OECD guidelines, which do not ban export credits, but "provide a framework for the orderly use of officially supported export credits."[18] The OECD establishes minimum interest rates for export credit agency lending. Many export credit agencies circumvent WTO rules by using the OECD "safe harbor" provision to offer export subsidies that might otherwise be inconsistent with their WTO obligations. For example, governments may be allowed to provide export credit support to aircraft manufacturers if they comply with the OECD arrangement, even though such activity might otherwise fit the WTO's definition of a prohibited export subsidy. This results in a perfect example of a government subsidy intended to help one industry (e.g., aircraft manufacturers) that can hurt another industry (e.g., airlines). In 2010, the Air Transport Association's President and CEO wrote:

> The undisciplined competition among ECAs [export credit agencies] to support aircraft sales by their home country manufacturers is causing direct and substantial competitive harm to U.S. airlines. It is widely reported by industry observers that this credit race has contributed to a glut in global capacity. We estimate that

14. Robert Z. Lawrence, "Crimes and Punishments? An Analysis of Retaliation Under the WTO," Harvard University, John F. Kennedy School of Government, June 25, 2003, p. 4, http://www.hks.harvard.edu/fs/rlawrence/Crimes%20and%20Punishments%20Final%20June%2025.pdf (accessed August 1, 2014).
15. "Provided, however, that if a Member is a party to an international undertaking on official export credits to which at least twelve original Members to this Agreement are parties as of 1 January 1979 (or a successor undertaking which has been adopted by those original Members), or if in practice a Member applies the interest rates provisions of the relevant undertaking, an export credit practice which is in conformity with those provisions shall not be considered an export subsidy prohibited by this Agreement." World Trade Organization, "Agreement on Subsidies and Countervailing Measures," Annex I(k).
16. Organization for Economic Co-operation and Development, "Summary Overview of the Arrangement," http://www.oecd.org/tad/xcred/summaryoverviewofthearrangement.htm (accessed August 17, 2014).
17. Simon Lester, "Export Subsidies Aren't Really Prohibited," April 15, 2012, http://worldtradelaw.typepad.com/ielpblog/2012/04/export-subsidies-arent-really-prohibited.html (accessed March 31, 2014).
18. Organization for Economic Co-operation and Development, "The Arrangement on Export Credits," http://www.oecd.org/tad/xcred/arrangement.htm (accessed August 1, 2014).

> U.S. and European export credits have resulted in the subsidized carriers acquiring at least 11 percent more capacity than if they had to pay market rates.[19]

Much export financing activity by other governments is not regulated by the OECD. For example, according to a U.S. Ex–Im Bank report on China's export credit activity, "Most of the terms and conditions of their financing *did* not and *do* not fit within the OECD guidelines."[20] About two-thirds of global export support takes place outside the OECD Arrangement, either through activities not regulated by the OECD or through activities by countries such as China and Brazil that do not belong to the OECD Arrangement.[21] Therefore, it is a mistake to assume that reauthorizing the Ex–Im Bank would mean that the U.S. would be competing on equal terms with export credit activity by China and other countries that do not follow OECD guidelines.

However, just because export credit activity does not comply with OECD guidelines does not mean it is unregulated. Such activity, including most of China's export credit support, remains subject to the WTO's Agreement on Subsidies and Countervailing Measures. The United States and other WTO members have a right to challenge subsidies that they believe break the WTO's rules.

China and Export Credit Subsidies

According to the National Association of Manufacturers:

> China dominates the export credit financing landscape, with the China Ex–Im Bank alone authorizing more than $153 billion in 2013.... Total export credit authorizations in China have expanded from $15.9 billion in 2005 to $153.8 billion in 2013, an 867 percent increase.[22]

EU Commissioner for Trade Karel De Gucht said Chinese subsidies are "where by the way I think the real problem lies." According to the *Wall Street Journal*:

> Perhaps most importantly, Mr. De Gucht wants China to commit to a program as part of negotiations launched two years ago by the U.S., the EU, Japan, China and others to develop international guidelines on export-credit financing, people familiar with the negotiations said. Europe and the U.S. say China's export-credit policies have allowed its companies to beat out Western competitors, particularly in the developing world. Most of the developed world's export-credit agencies have agreed to rules that set limits on how much financing they can provide. China has refused to sign that agreement.[23]

Ex–Im Bank Chairman Fred P. Hochberg has often made a similar assertion: "There is a massive, global race to create jobs through increased exports. And often our main competitors in developing countries like China, India and Brazil simply do not abide by the same export-finance rules we follow."[24]

19. Air Transport Association, letter to Timothy F. Geithner, August 16, 2010, http://atwonline.com/site-files/atwonline.com/files/archive/atwonline.com/sites/files/misc/ATA%20Letter%20to%20Secretary%20Geithner.pdf (accessed August 17, 2014).
20. Export–Import Bank of the United States, *Report to the US Congress on Export Credit Competition and the Export–Import Bank of the United States, for the period January 1, 2009 through December 31, 2009*, June 2010, p. 99, http://www.exim.gov/about/library/reports/competitivenessreports/upload/2009_competitiveness_report-1.pdf (accessed August 1, 2014) (original emphasis).
21. Export–Import Bank of the United States, *Report to the U.S. Congress on the Export–Import Bank of the United States and Global Export Credit Competition*, pp. 20–21.
22. National Association of Manufacturers, "The Global Export Credit Dimension," 2014, p. 5, http://www.nam.org/~/media/9F39010380DB48FAB3347A86CEB04AA0/Global_Export_Credit_Dimension___Web.pdf (accessed August 17, 2014).
23. Matthew Dalton, "EU Yields on Tariff Threats to China Telecom Equipment Firms," March 27, 2014, http://stream.wsj.com/story/latest-headlines/SS-2-63399/SS-2-493120/ (accessed March 29, 2014). The quote refers to the OECD Export Credit Arrangement rules.
24. Export–Import Bank of the United States, *Annual Report 2013*, p. 3, http://www.exim.gov/about/library/reports/annualreports/2013/chairman.html (accessed August 1, 2014).

However, it does not logically follow that the United States should try to be more like China, India, and Brazil. Instead, the U.S. can take a more constructive approach.

A Better Alternative to Export Subsidies

Reauthorizing the Ex–Im Bank would do nothing to reduce China's export credit activities. The U.S. needs a better approach. One option would be to encourage all WTO members to follow the agreement's anti-subsidy rules.

China agreed to eliminate all noncompliant subsidies when it joined the WTO in December 2001. China's WTO accession agreement states: "China shall eliminate all subsidy programmes falling within the scope of Article 3 of the SCM Agreement upon accession."[25] This section includes the WTO's limit on export credit subsidies, whether used by China, the U.S. Ex–Im Bank, or other export credit agencies. The United States should take full advantage of existing WTO rules to challenge export subsidies used by China and other foreign governments.

The U.S. Trade Representative's Office has taken steps in that direction:

> The Subsidies Agreement, which establishes multilateral disciplines on subsidies, is the primary instrument for reining in the use of distortive subsidy practices worldwide.
>
> The United States pursues enforcement of its rights under the Subsidies Agreement through its participation in the World Trade Organization's (WTO) Subsidies Committee, bilateral contacts, multilateral pressure and, where justified, WTO dispute settlement proceedings. The basic goal of these activities is to deter distortive subsidization and prevent or remedy harm caused to U.S. producers and workers as a result of such subsidies by foreign governments. By working actively to address some of the most important causes of unfair trade distortions, the subsidies enforcement program is helping to strengthen the open, competitive trading environment that is of enormous benefit to American producers and consumers alike.[26]

For example, the United States maintains that India is in violation of the WTO's Agreement on Subsidies, which prohibits subsidies contingent upon the use of domestic over imported goods. According to U.S. Trade Representative Michael Froman:

> These domestic content requirements discriminate against U.S. exports by requiring solar power developers to use Indian-manufactured equipment instead of U.S. equipment. *This kind of discrimination is against WTO rules,* and we are determined to stand up for U.S. workers and businesses.[27]

Ambassador Froman's predecessor, Ron Kirk, targeted Chinese auto-export subsidies in 2012:

> *Export subsidies are prohibited under WTO rules because they are unfair and severely distort international trade.* China expressly agreed to eliminate all export subsidies when it joined the WTO in 2001. China benefits from international trade rules and must in turn live up to its international obligations.[28]

25. Thomas H. Au, "Reconciling WTO General Exceptions with China's Accession Protocol," *Tsinghua China Law Review*, Vol. 5, No. 2 (Spring 2013), http://www.tsinghuachinalawreview.org/articles/PDF/TCLR_0502_AU.pdf (accessed August 1, 2014).
26. Office of the U.S. Trade Representative, "Subsidies Enforcement," http://www.ustr.gov/trade-topics/enforcement/subsidies-enforcement (accessed August 1, 2014).
27. Michael Froman, "Remarks by United States Trade Representative Michael Froman Announcing Enforcement Action with Regard to India," Office of the U.S. Trade Representative, February 10, 2014, http://www.ustr.gov/about-us/press-office/press-releases/2014/February/Remarks-by-USTR-Froman-announcing-enforcement-action-with-regard-to-India (accessed March 27, 2014) (emphasis added). The Ex–Im Bank also has domestic content requirements.
28. Press release, "Obama Administration Challenges China's Export Subsidies to Auto and Auto Parts Manufacturers in China," Office of the U.S. Trade Representative, September 17, 2012, http://www.ustr.gov/about-us/press-office/press-releases/2012/september/obama-administration-challenges-china-auto-subsidies (accessed March 27, 2014) (emphasis added).

Earlier this year, the United States won a trade dispute with China over "rare earth" exports.[29] There is precedent for using the same dispute resolution process to challenge a country's export-finance subsidies. In a dispute between Canada and Brazil, the WTO determined that Brazil's subsidies to foreign buyers of domestic exports were inconsistent with the WTO's prohibition of subsidies that are contingent upon export performance.[30]

On March 27, 2014, the WTO affirmed that the United States can target Chinese subsidies.[31] The U.S. should seek to reduce subsidies in China and elsewhere—including the United States—in accordance with mutually accepted trade rules.

Scrap the OECD's Safe Harbor

Some observers have called for new global export credit negotiations. According to the U.S. Treasury Department, "Treasury believes a new international successor arrangement is needed to replicate the success of the [OECD] Arrangement in creating a level playing field for all major providers of official export credits and their respective exporters."[32]

When Congress reauthorized the Ex–Im Bank in 2012, it required the U.S. Treasury Secretary to initiate negotiations with other countries "to substantially reduce, with the ultimate goal of eliminating, subsidized export financing programs and other forms of export subsidies."[33]

Instead of using the WTO to rein in China's export credit activity, the White House launched export financing negotiations with China amid much fanfare in 2012. The objective was to reach an agreement by 2014, but other than creating an International Working Group on Export Credits, the talks have so far failed to make significant progress toward that goal.[34] Little evidence indicates that China is willing to make the kinds of broad-based changes desired by the United States in these negotiations, and July's Treasury Department fact sheet on the U.S.–China Strategic Economic Dialogue dropped all references to the proposed 2014 completion date for negotiations.[35]

Reauthorizing the Ex–Im Bank would do nothing to reduce China's export credit activities.

A more effective approach for the United States would be to lead an effort to scrap the safe harbor provision that allows countries to circumvent WTO anti-subsidy rules if they follow the OECD Export Credit Arrangement's interest rate guidelines. In the past, many governments were more interested in protecting their own subsidies than in reducing other countries' subsidies. This is no longer the case. The dynamics have changed, largely because of significant and growing Chinese official export credit volumes.[36]

Although the WTO has not been as successful in controlling subsidies as in reducing tariffs, the potential benefits are significant. Relying on the WTO may not be a magic bullet, but it is better than simply reauthorizing the Ex–Im Bank and allowing other countries to maintain their export credit subsidies. As the Office of the U.S. Trade Representative and the U.S. Department of Commerce reported

29. Tom Miles and Krista Hughes, "China Loses Trade Dispute over Rare Earth Exports," Reuters, March 26, 2014, http://www.reuters.com/article/2014/03/26/us-china-wto-rareearths-idUSBREA2P0ZK20140326 (accessed August 1, 2014).
30. World Trade Organization, "Brazil—Export Financing Programme for Aircraft," Dispute DS46, http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds46_e.htm (accessed August 1, 2014).
31. Tom Miles, "China Loses WTO Bid to Overturn U.S. Law Against Unfair Subsidies," Reuters, March 27, 2014, http://www.reuters.com/article/2014/03/27/us-china-usa-wto-idUSBREA2Q11M20140327 (accessed March 28, 2014).
32. U.S. Department of the Treasury, "Treasury Report to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives on Export Credit Negotiations," December 2013.
33. Export–Import Bank Reauthorization Act of 2012, Public Law 112–122, §11(1), p. 8.
34. Doug Palmer, "U.S., China Agree to Negotiate Export Credit Deal," Reuters, February 14, 2012, http://www.reuters.com/article/2012/02/14/us-usa-china-exportcredits-idUSTRE81D1YV20120214 (accessed June 24, 2014).
35. U.S. Department of the Treasury, "U.S.–China Joint Fact Sheet Sixth Meeting of the Strategic and Economic Dialogue," July 11, 2014, http://www.treasury.gov/press-center/press-releases/Pages/jl2561.aspx (accessed August 17, 2014).
36. Export–Import Bank of the United States, *Report to the U.S. Congress on the Export–Import Bank of the United States and Global Export Credit Competition*, pp. 17–18, Figure 4.

earlier this year, "Ultimately, a trading environment that is free from trade-distorting government subsidies will be more open and competitive, bringing significant economic benefits to American manufacturers, workers and consumers alike."[37]

Global Subsidy Game: The Only Winning Move Is Not to Play

Enforcing WTO rules that limit other countries' export subsidies is a wiser policy than engaging in a subsidy competition among dozens of government-backed export credit agencies. As American Enterprise Institute scholar Derek Scissors observed:

> Rather than having subsidies envy, the President and Congress should be thankful for their limited authority. American corporate balance sheets have been returning to normal while Chinese corporate debt is worst among major economies. The PRC [People's Republic of China] has doubled local government debt while seeing macroeconomic indicators deteriorate. Chinese subsidies without question hurt individual American companies, but they harm the entire Chinese economy. Promoting competition, not sinking to China's level, is by far America's best response.[38]

Reauthorizing the Ex–Im Bank would do nothing to reduce the use of export credit programs by China and other countries. A better approach for the United States would be to use WTO rules to reduce global export credit subsidies, working toward their eventual elimination. The focus should be on reducing foreign subsidies, not increasing U.S. subsidies.

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37. Office of the U.S. Trade Representative and the U.S. Department of Commerce, "Subsidies Enforcement Annual Report to Congress," February 2014, p. 40, http://enforcement.trade.gov/esel/reports/seo2014/seo-annual-report-2014.pdf (accessed August 1, 2014).

38. Derek M. Scissors, "The Importance of Chinese Subsidies," testimony before the Subcommittee on Economic Policy, Committee on Banking, Housing, and Urban Affairs, U.S. Senate, December 11, 2013, http://www.aei.org/speech/foreign-and-defense-policy/regional/asia/the-importance-of-chinese-subsidies/ (accessed March 29, 2014).