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Export-Import Bank Financing for U.S. Exports to Latin America

by Eduardo Aguirre, Jr.

“The United States is committed to proceeding with trade initiatives globally, regionally, and with individual nations,” President Bush said in a speech to the Organization of American States earlier this year. The Export-Import Bank of the United States (Ex-Im Bank) stands ready to help fulfill the Administration’s and the U.S. Congress’ commitment to supporting U.S. exporters, as well as increasing economic stability in emerging markets, and reducing the likelihood of crises and sharp declines in investment flows.

Latin America is a priority market for U.S. exporters. Mexico alone accounts for 14 percent of U.S. merchandise exports, and Central and South America account for another 8 percent—for a total of more than \$170 billion in annual sales. Latin America also has consistently ranked as Ex-Im Bank’s top market.

The U.S. commitment to Latin America is backed by solid action by the Bush Administration, including the President’s commitment to building a stronger and deeper relationship with Mexico and the Administration’s strong advocacy for the creation of a Free Trade Area of the Americas, which could bring gains of \$53 billion a year for the United States and at least as much for the countries of Latin America. All thirty-four democratic leaders of the hemisphere are committed to free trade, and there is hope to complete negotiations on the Free Trade Area of the Americas by 2005. In addition, the Administration was pleased that discussions were initiated last year among Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua to establish a free trade agreement with the United States and establish closer economic relations with the U.S.

Although many parts of Latin America face economic uncertainty at present, and world trade growth slowed from 12 percent in 2000 to 2 percent in 2001, the new round of global trade liberalization talks proposed at Doha last year and the Bush Administration’s efforts on behalf of free and expanded trade should help reignite long-term growth.

Indeed, keeping trade flowing and growing will be a central component in generating global economic growth. At Ex-Im Bank, it’s our job to finance exports, whether in difficult times or difficult markets, and to enable governments and private-sector borrowers in emerging markets such as Latin America and the Caribbean to buy from U.S. exporters. While many in the U.S. and Latin America have concerns

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about the health of markets and the availability of financing, Ex-Im Bank will continue to provide financing as it has for sixty-eight years.

Export credit agencies (ECAs) such as Ex-Im Bank consistently play a critical role in filling the financing gaps to emerging markets. Ex-Im Bank provided more than one-quarter of the total medium- and long-term export credits (repayment terms of more than one year) provided by the ECAs of the Organization for Economic Cooperation and Development (OECD). All told, ECAs provided about \$34 billion in medium- and long-term export credits.

Globalization and increasing global interdependence are here to stay, and that's good for the consumer and for global economic stability. Indeed, the growth of many emerging markets has lifted more people out of poverty and brought greater prosperity than ever before. The 14-fold increase in trade during the last fifty years has meant better lives for literally hundreds of millions of people. The doubling of U.S. trade with Mexico in just the last seven years, for example, has meant significant improvements in Mexican living standards. For U.S. citizens, the annual benefits of NAFTA and the Uruguay Round of GATT, both negotiated during the 1990s, are estimated at between \$1,260 and \$2,040 per family.

A recent World Bank study¹ concluded that countries such as China that have opened their economies to trade and investment, have experienced much more rapid economic growth than other countries. The globalizers' economic growth accelerated to 5 percent per year by the 1990s, while developing countries that remained largely cut off from trade and investment saw their economic growth actually decelerate from 3 percent to barely 1 percent.

Another World Bank study estimated that completely abolishing trade barriers and coordinating efforts to promote trade and reforms in developing countries could increase global income by \$2.8 trillion and lift 320 million people out of poverty by 2015.²

One of the great challenges for the new century is how we can expand the positive forces of globalization while diminishing the negative dimensions. We can jump-start the economic engines of development in a number of ways—through trade, through credit, through targeted micro-loans to emerging market entrepreneurs, and through financing for power plants and infrastructure, transportation and medicines.

That too is something to which Ex-Im Bank contributes. While we are chartered to support U.S. jobs by financing U.S. exports that would not otherwise be possible without our backing, our actions support economic development and growth in emerging markets as well as in the United States.

In FY 2002, Ex-Im Bank authorized \$10.1 billion in loans, guarantees, and export credit insurance, which supported nearly \$13 billion of U.S. exports to markets around the world. These included more than \$3 billion in authorizations for Latin America and the Caribbean.

These authorizations included a \$500 million credit facility to Petroleos Mexicanos (Pemex), the Mexican oil company, for two oil and gas exploration and production

projects. This followed a series of long-term loan guarantees to Pemex during the last few years worth more than \$1.4 billion to develop oil and gas resources in the Burgos Basin and the offshore Cantarell Oil Field.

Other large projects that Ex-Im Bank has supported in Latin America include a 469-megawatt combined cycle power plant in Araucaria, Brazil, Rio Polimeros, a \$1.1 billion integrated ethylene and polyethylene complex in Rio de Janeiro that we are co-financing this with SACE, the Italian export credit agency, and the Brazilian National Development Bank.

Ex-Im Bank's focus on promoting environmentally friendly exports and renewable energy led it to co-sponsor a conference with Banobras, Mexico's development bank, on financing environmental infrastructure projects in Mexico this September. The sold-out conference, which was attended by dozens of Mexican municipal leaders, yielded eighty-seven potential environmental projects.

The Bank has supported the sale of U.S.-made solar power cells to Argentina and Mexico, as well as water-filtration and wastewater-treatment facilities to Brazil and Mexico. The Bank's efforts to become a leader in supporting renewable energy technologies paid off in an export sale by the Maryland-based BP Solar, the world's leading solar electric company, to an Argentine utility that is installing photovoltaic energy panel systems on homes in rural areas of Jujuy province.

In Venezuela, this year, Ex-Im Bank supported U.S.-based Siemens Transportation Systems' export of \$62 million in equipment for light rail mass transportation systems in the cities of Maracaibo and Valencia. In addition, the Bank has provided \$628 million in financing for equipment to perform oil and gas exploration and production for the Hamaca project in Venezuela.

Telecommunications has been another important export sector that Ex-Im Bank has promoted. Several recent sales have included wireless equipment to Mexico, exported by Motorola and other U.S. companies, and digital cable-TV equipment to Venezuela, exported by Power Telephone Supply Co. of Memphis, Tenn., and Harmonic Inc. of Sunnyvale, Calif.

Lest anyone think that Ex-Im Bank only supports large projects, it has also backed a wide variety of transactions in Latin America and the Caribbean. These have ranged from the sale of jets to LAN Chile and the Panamanian airline COPA to greenhouses to Mexican farmers, hospital equipment for an Evangelical Lutheran hospital in Sao Paulo and equipment for a wastewater treatment plant in the Dominican Republic.

In fact, after Mexico, the Dominican Republic became our second-largest market in Latin America in terms of authorizations in FY 2002, where we backed the export of everything from prefabricated housing and medical equipment to sporting goods and engineering services. But we are also active in smaller markets such as Nicaragua, where we recently facilitated the sales of a variety of farming equipment.

Ex-Im Bank has always had a particularly close relationship with Latin America. During the first decade of the Bank's history, 60 percent of Ex-Im Bank authorizations involved Latin American countries such as Mexico, Panama and the Dominican

Republic. Ex-Im Bank has been engaged with most Latin countries since its very earliest days. It has long-established relationships with commercial banks, development banks, and private-sector companies in the region and in the U.S. that do business with the region.

Ex-Im Bank also has long sought to establish new partnerships and new ways of supporting exports to Latin America. In addition to Banobras, Ex-Im Bank has agreements with Nacional Financiera SNC (NAFIN), Mexico's development bank, which enable Mexican companies to obtain favorable credit terms for their purchases from the United States. This agreement allows NAFIN to finance local Mexican buyers of qualifying U.S. goods and services. In keeping with our mission to focus efforts on small business, Ex-Im Bank recently signed a foreign currency agreement with NAFIN that allows it to offer peso-denominated loans guaranteed by Ex-Im Bank to small and medium-sized enterprises buying U.S. exports.

The Bank is constantly searching ways to grow trade between U.S. and Latin America—especially for small and medium-sized companies. For example, we recently partnered with a financial institution in Mexico to finance short-term trade receivables through a commercial paper facility that will provide qualifying Mexican buyers with lower cost trade financing.

Because local governments and municipalities are often major buyers of everything from transportation to health-care infrastructure, as well as other goods and services, Ex-Im Bank now accepts the credit of qualified cities, states and other sub-sovereign governments in emerging markets for the purchase of U.S. exports. This alternative credit approach allows foreign borrowers with municipal, state and provincial support to gain access to Ex-Im Bank financing to buy products and services to upgrade local infrastructure. In Latin America, this initiative is available in Brazil in the states of Bahia and Ceará, and the city of Rio de Janeiro.

These new Ex-Im Bank programs and policies are part of our continuing efforts to expand and deepen commercial ties between the United States and Latin America. It is in the interests of all people in our hemisphere to work toward that goal.

Free trade and a vibrant market economy are two of the best possible catalysts of economic and political development. This is a direction that promises to strengthen the already strong ties between the United States and Latin America.

Our shared economic interests will enable us to achieve our common goals and strengthen our economic ties. At the Export-Import Bank, we want to be fully engaged in this vibrant relationship in the years ahead.

Notes

¹ David Dollar and Aart Kraay, "Trade, Growth and Poverty," Finance and Development 38:3 (September 2001).

² Cited in speech by WTO Director General Mike Moore, "How Trade Liberalization Impacts Employment," 18 March 2002, Geneva.