Description of document:	Office of General Counsel of Export-Import Bank (Ex-Im) Bank memoranda re balancing of competing market objectives, 2005-2006
Request date:	05-July-2012
Released date:	26-November-2013
Posted date:	23-June-2014
Source of document:	Freedom of Information and Privacy Office Ex-Im Bank of the United States 811 Vermont Ave., NW Washington, DC 20571 Fax: (to Dawn R. Kral at) (202) 565-3294 E-Mail: foia@exim.gov Online FOIA request form

EXPORT-IMPORT BANK
OF THE UNITED STATES

November 26, 2013

Via Electronic Mail

Re: FOIA Request #201200048F

This is in final response to your Freedom of Information Act (FOIA) request to the Export-Import Bank of the United States (Ex-Im Bank), which we received in our FOIA office via E-Mail on July 5, 2012. Your request was as follows: "Ex-Im Bank has a mandate 'to be competitive' with foreign export credit agencies while 'taking into consideration' the cost of funds and the impact of the case on the domestic economy, conflicts which require a careful balancing of competing objectives. I request a copy of legal memoranda in the Office of General Counsel of Ex-Im Bank that discuss this balancing."

Our search located 55 pages of documents we believe respond to your request. Of those pages, we are releasing 28 pages to you in their entirety. We are also releasing 27 pages to you with redactions made in accordance with FOIA Exemption 5 (5 U.S.C. 552(b)(5)), which protects "inter-agency or intra-agency memorandums or letters which would not be available by law to a party . . . in litigation with the agency" and which incorporates the deliberative process privilege, whose general purpose is to "prevent injury to the quality of Agency decisions." For your convenience, we are attaching the documents to this letter as two pdf files.

811 VERMONT AVENUE, N.W. WASHINGTON, D.C. 20571

You have the right to appeal the decision regarding non-disclosure of redacted information by writing to the Export-Import Bank of the United States, Attention: Assistant General Counsel for Administration, 811 Vermont Avenue, N.W., Washington, D.C., 20571. Any appeal must be received by that office within 30 days from the date of this letter. You may also submit an appeal via E-Mail at foia@exim.gov. The phrase "FOIA APPEAL" should appear on the letter and on the outside of the envelope containing the appeal or in the "Subject" line of the E-Mail. If you have any questions about your request, please do not hesitate to contact me at (202) 565-3248 or by E-Mail at dawn.kral@exim.gov.

For your information, Congress excluded three discrete categories of law enforcement and national security records from the requirements of the FOIA. See 5 U.S.C. §552(c) (2006 & Supp. IV (2010). This response is limited to those records that are subject to the requirements of the FOIA. This is a standard notification that is given to all of our requesters and should not be taken as an indication that excluded records do, or do not, exist.

If you have any questions about this request, please do not hesitate to contact me at (202) 565-3248 or by E-Mail at dawn.kral@exim.gov.

Sincerely,

Dawn R. Kral

Dawn R. Kral
FOIA Public Liaison

Attachment

William H Crane 12/30/2005 10:41:38 AM From DB/Inbox: William H Crane

Cable
Text:
UNCLASSIFIED
TELEGRAM December 28, 2005

To: SECSTATE WASHDC - ROUTINE

Action: EAP

From: AMEMBASSY BEIJING (BEIJING 20921 - ROUTINE)

TAGS: EAID, ECON, EFIN, ETRD, PGOV, CH

Captions: SENSITIVE

Subject: CHINA'S EXPORT CREDIT BUSINESS GROWING

Ref: None

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1. (SBU) Summary: Discussions at the Ministry of Commerce, China Exim Bank, and the China Export and Credit Insurance Corporation indicated that China's export credit business has been growing steadily over the past five years. Visiting officials from the Department of Treasury and U.S. Exim Bank discovered during a recent visit to Beijing that China's export credit infrastructure is well-developed and business is growing. Chinese officials did not necessarily agree, however, on how projects are determined on a case-by-case basis. A Ministry of Commerce official stated that China Exim makes its own loan determinations, including specific terms and conditions such as interest rates and repayment terms, but a China Exim official asserted that the bank only does what the Central Government wants it to do. China's largest export and credit insurance entity, Sinosure, declared that most project decisions are made according to market factors, but that a significant amount of medium and long-term business is carried out according to political priorities. All three agencies referred policy-related questions to the Ministry of Finance (MOF), but MOF declined to meet with the USG representatives. The officials also visited Huawei Technologies, China's leading telecom equipment company. The company denied receiving any government funding support for its operations, despite news reports and industry insider comments to the contrary. End Summary.

2. (SBU) Steven Tvardek, Director, Office of Trade Finance, Department of the Treasury, and Piper Starr, Coordinator-Special Projects, Planning and International Organizations, Export-Import Bank (EXIM) visited Beijing December 5-6. Tvardek and Starr met with counterparts at the Ministry of Commerce (MOFCOM), China Exim Bank, and the China Export and Credit Insurance Corporation (Sinosure) on December 6.

China Modifying its Export-Oriented Strategy

3. (SBU) Li Rongcan, Deputy Director General of the Department of Planning and Finance at the Ministry of Commerce (MOFCOM), introduced China's trade strategy since China opened to the west in 1978 and addressed ways in which the strategy currently is changing. Starting in 1978, Li stated, China adopted an export-oriented strategy akin to the "Asian Tigers" model. This strategy facilitated China's rapid development to the point where its trade volume was the third largest in the world at the end of 2004. The export-oriented strategy was enhanced further by (1) China's exchange rate regime in the 1990's first with a devalued renminbi (RMB) and then with a currency pegged to a relatively weak U.S. dollar and (2) government policies that encouraged foreign investment and established development zones on the mainland.

4. (SBU) The Central Government has begun to rethink this export-oriented approach, however, especially given three primary factors: (1) China has increased its export volume but has failed to realize its profit expectations due to low-value exports, (2) the strategy has strained China's environment and resources, and (3) an enormous trade surplus has caused frictions with trade partners not only in the United States but in developing countries where governments bring anti-dumping and countervailing duties cases against China.

5. (SBU) China's 11th Five-Year Plan, therefore, takes these concerns into account, Li said, and China's new strategy will aim for a more efficient and more profitable trade policy that also will coincide with an adjustment of the exchange rate. (Note: Li reiterated the Central Government's stated commitment to exchange rate adjustment, noting the two percent revaluation of the bandRMB in July as well as the move from a dollar peg to a system that uses a reference basket of currencies. End Note.) Seeking to gradually change its export-oriented strategy to a more balanced approach, Li emphasized that China places paramount importance on its relationship with trade partners. He pointed to the recent U.S.-China agreement on textiles as an example of this focus.

Renewed Emphasis on Global Responsibility

6. (SBU) Li also stated that in its efforts to build a "harmonious society," China would seek to promote exports that are priced more realistically, that are beneficial to domestic employment, and limit the exports of high-energy/high resource consumption and polluting products in

order to improve the perception both in China and overseas that Chinese firms are responsible corporate citizens. At the same time, he said, China will continue to increase its imports and will encourage foreign investment into China with a particular emphasis on hi-tech and natural resource independence industries that foster natural resource independence in an effort to reduce its trade surplus, achieve a more equitable trade balance, and to encourage the development of China "brands" as well as more self-reliant energy sources.

7. (SBU) Regarding China's export finance system, Li stated that MOFCOM, the Ministry of Finance (MOF) and China Exim Bank all play a role and each has an opportunity to express its views on export credit policy through a joint conference system. Although MOF has more authority over China Exim's activities, Li said, MOFCOM also has a seat on China Exim's Board of Directors. On specific projects, China Exim makes final decisions and MOFCOM acts as an advisor. According to Li, China Exim Bank references the OECD and WTO best practices, and seeme~~d~~s to fully understand the WTO rules on export subsidies. With regard to the greater Chinese OECD participation in OECD work on export credits and other areas, Li further stated that China has been involved in the drafting of the OECD Shipbuilding agreement. In addition, he stated that if China was~~were~~ to join be a more active participant in the OECD, they would have more opportunities to drive policy. In concluding, Li hoped China, as a "responsible country," will eventually have more opportunities to join international organizations such as the OECD so that it will be in a position to help draft international rules and engage other countries on macroeconomic policies.

8. (SBU) On China's external aid policies, including concessional lending, Li clarified that MOFCOM has a different department that focuses on outgoing aid assistance, and he acknowledged that in the export credit arena there is a delicate balance between aid and export subsidies. China understands "aid is aid" and cannot be combined with other trade benefits, Li said. He added that China's assistance to other countries is "not as great as people imagine," and he noted China's aid to Pakistan after the South Asian earthquake as an example of such assistance. (Note: To date, China's assistance to Pakistan for the October 2005 earthquake has totaled USD 320 million, including USD 300 million in concessional loans. End Note.)

China Exim Bank Supporting Chinese Exports

9. (SBU) Zhang Xuesong, General Manager, International Business Development, China Exim Bank, explained that his organization functioned much like its U.S. counterpart as an export credit agency to provide financial support to Chinese enterprises overseas. The bank, which is 100 percent government-owned, was established in 1994 and currently has 800 staff and 17 departments spread across China as well as in South Africa and France (the Paris office was recently

relocated from Ivory Coast). China Exim Bank provides export credits (buyer and supplier), special/preferential loans to developing country governments, foreign direct investment financing, international guarantees, and foreign governments' on-lending program (for domestic development projects). Over the last 11 years, China Exim has provided financing support totaling RMB 400 billion (USD 50 billion) to support USD 190 billion in Chinese exports. Their financing has been used to support construction projects, off-shore investments and sales of agricultural equipment. According to Zhang, the ratio of the bank's non-performing loans is low at 5.3 percent. China Exim has capital of RMB 5 billion and is reported to have raised USD 1 billion recently in the international capital markets.

10. (SBU) Zhang emphasized that China Exim is a policy bank, meaning that MOFCOM, MOF, and PBOC make policy and China Eximbank implements the policy. Hence, China Exim is somewhat beholden to these entities. "Whatever the Chinese government wants us to do, we do," he said. In that vein, Zhang would not discuss how to avoid conflicts between special financing and normal trade flows financing and instead referred the question to MOF. He indicated that EXIM receives no government budget for its special financing projects, since it is able to raise very low cost capital through flotation of domestic bonds. The interest on these bonds is low enough to be enable such preferential lending without losing money. He insisted, however, that China Exim references the OECD terms, and normally provides loans with

an interest rate of 3-4 percent with repayment terms of 10 and up to 20 years. Finally, China Exim does not charge any exposure fees but does charge a management fee of 0.5 percent. Zhang also noted that despite China Exim's role as a policy bank, it aims to support market-determined loans rather than politically motivated projects. (Note: Zhang later acknowledged, however, that China Exim's resources often are used for political ends. End Note.) Sinosure, the China Export and Credit Insurance Corporation carries limited country risk and political risk, but for the most part, China Exim will not do business in high-risk markets, but instead, leaves this to MOFCOM's special program.

Export Insurance Business Growing by Leaps and Bounds
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11. (SBU) Chen Yang, Senior Assistant Manager of the Risk Management Department at Sinosure told Tvardek and Starr that Sinosure was established in December 2001 after moving the Export and Credit Insurance function out of China Exim where it had been since 1994. Sinosure now has 670 employees country-wide, with headquarters in Beijing and 20 domestic offices as well as one overseas office in London that opened in 2004. Sinosure works with MOF (programs and case specific), MOFCOM (industrial policy), MFA (diplomatic strategy), the China Insurance Regulatory Commission (CIRC), and China Exim to determine China's export credit policy.

of Sinosure's four primary functions---are export credit insurance (short, medium and long term), investment insurance (inwardand outbound), bonded guarantees, and rating performance services on a fee basis. Sinosure also is planning to offer domestic credit insurance in 2006. The organization's primary role (90 percent of its work), however, remains providing export credit insurance. According to Sinosure's statistics, export credit insurance business is booming, with the corporation's portfolio doubling annually from USD 2.8 billion in 2002 to USD5.7 billion in 2003 to USD 13.3 billion in 2004 to USD 20 billion in 2005. Sinosure's capital is RMB 4 billion or roughly USD 500 million.

12. (SBU) Chen explained that Sinosure's business falls into two categories: short-term and medium/long-term. Its short-term program is in relatively low-risk markets, and 86 percent of Sinosure's export credit insurance is provided on a short-term basis in 160 countries, of which the top five markets are the United States, Hong Kong, Japan, Germany, and South Korea. The focus of the short-term strategy is on the commercial viability of projects. Chen noted that Sinosure has flexibility in pricing and policy wording for these low-risk markets. Thirty-eight percent of the short-term business is based in Asia, followed by North America at 29 percent, Europe at 23 percent, and Latin America at four percent. The leading commodities for Sinosure's short-term business are light industrial products (59 percent) and mechanical and electronic products (25 percent). Sinosure's export credit insurance income from short-term projects is 65 percent of its total income but only 38 percent of its liability.

13. (SBU) Conversely, Sinosure's policies and practices for medium and long-term markets are set by MOF and MOFCOM, and while these projects account for only 35 percent of the corporation's income, it adds up to 54 percent of its overall exposure. Sinosure has long-term business in 40 countries, with the leading five recipients being Sudan, Iran, Philippines, Bangladesh, and Pakistan. Reportedly, 60 percent of Sinosure's portfolio are China Eximbank generated transactions. In addition, the China Development Bank, another policy bank which has been exclusively focused on domestic development and infrastructure, has recently entered the export credit business (medium and long-term). Sinosure noted that there were several "in the pipeline" cases from CDB that Sinosure has been asked to cover.

14. (SBU) Any Sinosure medium and long-term projects exceeding USD 30 million in value require explicit approval from MOF before export credit insurance can be provided. In 2004, Sinosure insured 27 medium and long-term projects, with the insured amount totaling USD 2.06 billion, an increase of 82.3 percent over 2003. Fifty-nine percent of medium and long-term projects are found in Asia followed by 21.5 percent in Africa and 12 percent in Latin America. Medium and long-term projects have a different approval

process than short-term export credit insurance, and this process is largely based on political considerations.

Ministry of Finance Unavailable for Meetings
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15. (SBU) MOFCOM, China Exim Bank, and Sinosure all referred export credit policy-related questions to the MOF. Representatives at MOF, however, declined to meet with Tvardek and Starr during their visit to Beijing.

Visit to Huawei
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16. (SBU) During a visit to the offices of Huawei Technologies Ltd., China's leading telecom equipment company, Wang Xin, Vice President of International Marketing, stated that despite the ability to receive funding from the China Exim Bank and the China Development Bank, 85 percent of its deals are self-financed by telecom operators. A typical deal structure requires the operator to pay 15 percent as a deposit, 50 percent upon delivery, 30 percent after acceptance testing and the remaining 5 percent one year later. The average size of a deal ranges from between US$20 million and US$ 50 million. Both the Exim Bank and China Development Bank have very strict loan requirements that make their loans less attractive to the operators. Telecom operators' financials have been very strong over the past few years, making such self-financing deals possible. Should that situation change, it is possible that operators would turn to other sources for funding, said Wang. In a side conversation, Wang also claimed that Huawei, a 100 percent employee-owned company, has never received any outside funding, government or otherwise, even as a start-up. (Note: Econoff, in a separate meeting, mentioned this claim to a telecom industry consultant with deep ties to the industry in China. The consultant scoffed, saying that Huawei was nearly bankrupt "several years" ago and that the Chinese Government stepped in to provide "massive amounts" of funding to bail out the company. According to news reports, Huawei receives significant trade credit financing support from the China Development Bank. End note.)

17. (SBU) Steven Tvardek, Director, Office of Trade Finance, Department of the Treasury and Piper Starr, Coordinator-Special Projects, Planning and International Organizations, Export-Import Bank (EXIM) cleared this cable.

RANDT

Additional Addressees:
None

File: Non-OECD ECAs

March 2, 2006

NON-OECD ECAS: BRIEFING AGENDA
(9:00 am Friday, March 3)

I. Main Issue = Matching

A. Cory 2-Pager

B. JCC Memo on OECD/Treasury Context for this Issue

II. Background/Context

A. Macro/Strategic Context (New Republic article)

B. Trade/Institutions Overview

1. Competitiveness Report on China, Brazil, India ECAs
2. Trend Data on Non-OECD ECAs

C. China Trip

1. Piper Trip Summary
2. State Official Summary
3. OECD Secretariat Summary of Their Trip (same time)

D. Summary of Responses to G-7 Questionnaire on Non-OECD Experience

March 1, 2006

NON-OECD ECAS AND MATCHING

- Ex-Im Bank's Charter directs the Bank to "be competitive in all of its financing programs with countries whose exports compete with United States exports." (Sec. 2(a)(2)) For years, the OECD Arrangement was a useful tool for maintaining Ex-Im Bank's competitiveness.
  - Historically, Ex-Im Bank has competed with ECAs who are similar to Ex-Im Bank – they are ECAs from developed countries that are members of the OECD, and they follow the export credit rules of the Arrangement. Therefore, Ex-Im Bank has fulfilled its competitiveness mandate for years while complying with the Arrangement.
- However, over the past several years, the ECAs of countries that are not members of the OECD and are not bound by the Arrangement have become increasingly prominent.
  - These ECAs include China Ex-Im Bank and Sinosure of China, as well as BNDES and SBCE of Brazil. The Chinese ECAs' combined medium/long-term activity is among the largest in the world, on par with Exim/German business volumes (regularly the largest in the OECD).
  - WTO obligations do not compel these ECAs to follow the Arrangement rate/term guidelines, and (b) (5)
(b) (5)
  - For example, (b) (5)
(b) (5)
  - We and our G-7 competitors are seeing more and more competition from non-OECD ECAs, particularly the Chinese. The question is: (b) (5)
(b) (5)
- A literal reading of the Bank's Charter clearly indicates that, in the case of head-to-head competition with an ECA (whether in or out of the OECD) that is not following the Arrangement, the Bank is to level the playing field for U.S. exporters. Hence, (b) (5)
(b) (5)

(b) (5)

(b) (5) For example:

- (b) (5)

- (b) (5)

- (b) (5)

- Therefore, (b) (5)
  (b) (5)

January 25, 2006

APPENDIX A

(to Exim (b) (5)

THE OECD ARRANGEMENT: HISTORICAL IMPORTANCE AND (b) (5)

<u>The Evolution of the OECD Arrangement In the 21st Century</u>

When Exim last faced a massively changed macro environment and a non-compatible ECA world that threatened to undermine the Bank's ability to meet its philosophical principles and legislated mandates, the OECD Arrangement rode to the rescue. Can the Arrangement play a similar role today?

A look at the dynamics in play, and actions taken, over the last five years (b) (5)
(b) (5) In fact, recent trends suggest that (b) (5)
(b) (5)

(b) (5) The first step to understanding that (b) (5)

(b) (5) Then, (b) (5)

(b) (5)
(b) (5) That is, (b) (5)

(b) (5) 1) (b) (5) and

(b) (5)

(b) (5) 2)

(b) (5)

(b) (5)

(b) (5)

(b) (5)

While the (b) (5) objective is a reasonable and responsible interpretation of events, the (b) (5) is highly debateable. For example, (b) (5)

(b) (5) (b) (5)

The core strategy has two components:

(b) (5)

(b) (5) 1)

(b) (5)

(b) (5) 2)

(b) (5)

(b) (5)

How the "New" Arrangement Affects Exim Competitiveness

Exim competitiveness for the last decade or so has been built around an ability to offset increasingly significant legislative/inter-agency constraints on availability/scope of support (e.g. sanctions, economic impact, foreign content) by pricing its products in the lower end of typical ECA pricing (taking advantage of the Bank's "guarantee" system and its financial economies of scale on long-run break even costs). (b) (5)

(b) (5)

(b) (5)

(b) (5)

Where from Here?

(b) (5) As it is currently going, (b) (5)

(b) (5)

THE NEWREPUBLIC

THE NEWREPUBLIC ONLINE

HOW CHINA IS CHANGING GLOBAL DIPLOMACY.

Cultural Revolution

by Joshua Kurlantzick
Post date: 06.21.05
Issue date: 06.27.05

At a major Asian security conference this month, Secretary of Defense Donald Rumsfeld was typically blunt. Discussing China's military modernization, Rumsfeld said that China's upgrade of its military technology was a threat to countries across Asia. "Since no nation threatens China, one wonders: Why this growing investment?" Rumsfeld asked.

Unfortunately, he is focused on the wrong problem. China is indeed on the verge of posing a major threat to U.S. power and could potentially dominate parts of the developing world. But the real concern is not that China's armed forces will challenge the mighty U.S. military, which soon may spend more on defense than the rest of the world combined.

No, China's rising power is reflected in a different way. In late 2003, Australia hosted back-to-back state visits by two world leaders. The first to head down under was George W. Bush, a staunch ally of Australia, which, along with the United Kingdom, was a major provider of non-U.S. troops for the invasions of Iraq and Afghanistan. On arrival, however, Bush was treated like a boorish distant cousin; his official reception was polite, but barely so. He stayed just 21 hours, and, speaking before the Australian parliament, faced protests outside and inside the chamber, where Green Party senators repeatedly interrupted him with catcalls.

The treatment was far different when Chinese President Hu Jintao arrived for a more extended stay. Though, less than a decade ago, fear of being swamped by Asians was a potent electoral issue in Australia, now Canberra threw open its arms to the Chinese leader. For days, Australia's business and political elite fêted Hu at lavish receptions. And, at China's request, Australian lawmakers barred potential irritants--like Tibetan activists--from parliament, as Hu became the first Asian leader to address the Australian legislature, receiving a 20-minute standing ovation. Perhaps this differing treatment shouldn't have been surprising. Australia's leaders were simply following their people's lead. Recent polls suggest that, despite decades of close American-Australian relations, Australians generally have a more favorable view of China than of the United States.

China has also scored diplomatic successes in Latin America, long thought to be within Washington's sphere of influence. During a highly successful twelve-day Latin America trip, which, like his visit to Australia, coincided with a brief Bush trip to the region that received a cool reception, Hu signed some $30 billion in new investment deals and subtly staked a claim that the United States was failing as the major power in the region. Hu stopped in regional giant Brazil, where President Luiz Inácio Lula da Silva upgraded bilateral trade ties with Beijing and decided to send Brazilian advisers to Beijing to study Chinese economics. During an earlier trip to China, Lula had cooed to Hu: "We want a partnership that integrates our economies and serves as a paradigm for South-South cooperation."

Most important for Beijing, in oil-rich Venezuela, a nation increasingly shunned by the United States--which tacitly condoned a 2002 coup attempt against Venezuelan leader Hugo Chávez--Chinese officials are solidifying an alliance with Caracas while providing Chávez an opportunity to point out Washington's failures in the region. While Chávez talks of slashing oil deliveries to the United States, he promises Beijing a long-term supply of petroleum. "China is a world power. She doesn't come here with imperialist airs," announced the Venezuelan leader, leaving the distinction with another world power unsaid. Chávez also plans to send advisers to Iran to help Tehran funnel *its* oil to Beijing. (Iran has inked deals to supply China with natural gas and to provide the Chinese state oil company, Sinopec, with a stake in one of Iran's biggest oil fields.)

Beijing's inroads with Australia and Latin America, two vastly different regions of the world, signify aspects of the same sea change. For the first time in centuries, China is becoming an international power, a nation with global foreign policy ambitions. In fact, China may become the first nation since the fall of the Soviet Union that could seriously challenge the United States for control of the international system.

As it develops, China has several key interests in the world. Because of China's booming economy and lack of domestic resources, securing stable supplies of oil, natural gas, and other natural resources--as well as safe passage for these resources--is of primary interest to Beijing. Second, as China's leading companies continue to grow and improve the quality of their products, Beijing clearly needs access to foreign markets. Less obviously, but no less significantly, China seeks to demonstrate that it is an international power, worthy of the same respect as the United States and capable of projecting enough power to limit U.S. intentions in Asia and other parts of the developing world. And, perhaps most important, Beijing wants to bring its own socioeconomic and political models to other developing countries, just as the United States historically has been committed to--at least rhetorically--the spread of democracy.

Beijing is pursuing these interests through a two-pronged strategy. On the one hand, China appears to be building a string of alliances across the globe with nations shunned by the United States--nations like Venezuela, Iran, Sudan, Burma, and Zimbabwe. At the same time, China appears to be wooing non-rogue developing nations--both democracies like Brazil and stable pseudo-authoritarian states like Malaysia. Beijing does so by championing a vision of international relations centered on national sovereignty--one that contrasts sharply with recent U.S. doctrine, by leveraging China's economic successes to win over foreign leaders and by using Chinese soft power to win hearts and minds even in places like Australia, once considered firm American allies.

China's rise may have significant positive effects. As China takes on a larger role in the world, it may come to assume a large role in peacekeeping, global aid disbursements, and other responsibilities currently handled by the United States and other wealthy nations. China even contributed funding to elections in Iraq. Because it straddles both the rich and the poor world, China could also help mediate between developed and developing countries at institutions like the World Trade Organization (WTO).

Yet China's more prominent international footprint is likely to threaten U.S. interests seriously. Beijing's quest for natural resources will thrust it into competition with the United States, particularly in crucial regions like West Africa and the Middle East. China's emergence as a growing power could threaten America's role as the primary guarantor of stability in Asia. Its increasing access to international markets could damage U.S. corporations, especially if Chinese businesses were subsidized by Beijing through soft loans that would allow them to operate unprofitably, at least for a time, and squeeze competitors' margins. And China's power could damage one of the most important U.S. interests of all: the spread of democracy, which will ultimately enable us to win the war on terrorism. Despite stumbles in Uzbekistan, Saudi Arabia, and other places where the White House continues to choose stability or cooperation on counterterrorism over liberalization, the United States remains the major force for democratization in the world.

Though hawks have been warning of a "China threat" for over a decade, they usually focus on China's military capabilities, not its diplomatic skills. The view elaborated in Rumsfeld's speech will likely be reflected in an upcoming Defense Department report on China's military intentions, programs, and strategies. Hawks have pushed to make the report as dire as possible, portraying China as a military threat that has sized up the weaknesses of the U.S. Armed Forces. Similarly, a recent *Atlantic Monthly* piece by Robert Kaplan forecasts a military showdown with Beijing. Yet, while China probably has the world's third-largest military budget, in most respects, Beijing badly lags the U.S. military. The Chinese military still relies too heavily on conscripts and wastes time and resources forcing troops to study political doctrine. Beijing probably spends less than $80 billion per year on its military, according to a RAND study, in contrast to over $400 billion that the White House requested for the Pentagon's fiscal year 2006 budget. (China's defense spending as a percentage of GDP is also smaller than that of the United States.) In fact, a 2003 report on the Chinese military by the Council on Foreign Relations concluded that Beijing was at least two decades from closing the gap on the United States.

In reality, an insecure Beijing, weakened by 150 years of foreign incursions into China, historically pursued a relatively nonaggressive foreign policy, focusing on defending core interests but rarely seeking influence over issues outside its borders and usually abstaining from important debates at the United Nations. In launching China's reforms in the late '70s, Deng Xiaoping pushed the country to develop its domestic economic and social resources, and not to focus on foreign affairs. In fact, Deng often explicitly warned China not to be a world leader--at least not for now--and, during Deng's time, China remained a poor, inward-looking nation.

That has begun to change. In May alone, China ran a trade surplus of almost $9 billion, and it sits atop the second-largest pile of currency reserves on earth. High growth--combined with intensive inculcation of nationalism via the Chinese press and education system--has created a self-confident populace more insistent that China play a major role in the international system, as University of Colorado

Sinologist Peter Hays Gries notes in his book, *China's New Nationalism*. And, though this nationalism sometimes lies dormant beneath the surface of Chinese society, it can explode with little warning, as with the anti-Japan protests this spring--when I witnessed Beijingers, who normally brag about their Sony DVD players, scrambling over each other to try to smash up the Japanese embassy.

Meanwhile, two decades of development have also sharply raised the education level of Chinese leaders and diplomats. As former *Time* foreign editor Joshua Cooper Ramo notes in a fascinating new essay called "The Beijing Consensus," "In 1982 only 20 percent of China's provincial leaders had attended college. In 2002, this number was 98 percent." The Chinese government has made a concerted effort to upgrade its diplomatic corps, boosting their language fluency and other important skills. As a result, today Chinese leaders and diplomats are savvier and more knowledgeable about the outside than the men of Deng's generation. As one former American diplomat in China told me, Chinese officials can now describe in detail the splits within the U.S. neoconservative movement, a grasp of nuance sorely lacking in Beijing just ten years ago.

Richer, more worldly, more confident, China's mandarins have begun to reassess their place in the world. As Ramo writes, China is pursuing a deliberate policy to bolster its role in the international system and project its development model abroad. It is enunciating a new foreign policy doctrine, just as a young United States once did. The China doctrine has several components. One is the idea of "peaceful rise"--that China is growing into a preeminent power but would never use its strength unilaterally to threaten other countries, supposedly a sharp distinction from U.S. policy. Second is the notion that China has created a model of socioeconomic development that can be applied elsewhere--what Ramo calls the "Beijing consensus" of development for poor nations. This model argues that developing nations must pursue innovation-led growth by obtaining the latest technology; must control development from the top, so as to avoid the kind of chaos that comes from rapid economic opening; and must rely on links with other developing nations to counter the economic advantages of Western states. In controlling development from the top, of course, the Beijing model implicitly rejects both the free market and the idea that ordinary citizens, not a small elite of rulers, should control countries' destinies.

China then wields its policy doctrine, along with other weapons like trade and aid, to draw developing nations to its side. Beijing focuses in part on countries like Iran and Sudan, which are shunned by the United States, but it also aims closer to Washington's heart, seeking, if not to win over U.S. allies, then at least to complicate their loyalties by emphasizing that gains for developing nations come at the expense of arrogant Western powers. Playing off Western powers works: As prominent Indian economist Jayanta Roy said after visiting China, "I was happy to see that there is a hope for a developing country to outstrip the giants in a reasonably short period of time."

The Chinese challenge is most obvious in three areas of the world: Asia, Latin America, and Africa. Asia is China's natural sphere of influence and the one with the largest number of ethnic Chinese living outside China's borders. Asia is also the area in which China has made up the most ground on the United States. At first, China concentrated on Asian nations alienated from Washington. Since 1997, the United States has enforced severe sanctions against Burma's dictatorship. China has unsurprisingly paid the sanctions no mind. Instead, Beijing has sold Burma's military junta over $1 billion in military equipment. In return, Chinese businesses have gained access to Burma's valuable natural resources, while Chinese diplomats have become almost the only foreigners with insight into the workings of the secretive Burmese government. Today, wealthy Chinese businesspeople cruise the streets of Rangoon, Burma's impoverished capital, in late-model Mitsubishi jeeps, gabbing on ultra-pricey cell phones.

In Laos, until recently blocked by Congress from enjoying normal trade relations with the United States, China has become one of its largest trade partners. In Cambodia, where Prime Minister Hun Sen's poor human rights record--including alleged involvement in a grenade attack that maimed an American citizen--has led to frosty relations with Washington, China has given Phnom Penh at least $200 million in loans. Likewise, after the recent Uzbekistan crackdown on demonstrators, China quickly welcomed Uzbek autocrat Islam Karimov to Beijing. Across the Pacific Ocean, meanwhile, China has become a major aid donor to countries like Fiji--countries that could be crucial to U.S. military basing and missile defenses but that Washington has essentially ignored.

But, in the past five years, Beijing has also honed in on countries with close relationships with the United States, nations like South Korea, Thailand, and Mongolia. Again, understanding that leveraging Beijing's policy doctrine is crucial, Chinese diplomats repeatedly contrast China's "peaceful rise"--and its supposedly nonthreatening posture--with an aggressive, unilateralist United States. "We Asian countries" must work more closely together, at this time of "new manifestations of power politics," Chinese Premier Wen Jiabao told Southeast Asian leaders at a 2003 summit, using typical Chinese coded language to refer to the United States. What's more, Chinese diplomats emphasize that China does not prod foreign nations to pursue political reform or market-driven economic liberalization. This reassurance is popular among Asian nations--such as Cambodia or Thailand--that have poor human rights records, that resent U.S. criticism of their domestic affairs, and that have a history of centralized economic planning, which makes China's Beijing consensus economic model appealing.

The response to Beijing has been overwhelming. As Southeast Asia scholar Carlyle Thayer has reported, China has inked long-term bilateral cooperation agreements with Indonesia, the Philippines, and Singapore. The Philippines, a former U.S. colony, has, for the first time, accepted military aid from China. At the same time, while progress on several prospective trade pacts between the United States and Thailand have stalled, trade between China and Southeast Asia is growing by nearly 20 percent per year, and ten Southeast Asian nations have agreed to join a free-trade zone with China. China's trade with the rest of Asia is also expanding. Even India, which has a long-standing border dispute with China, has established new trade ties with Beijing.

Asian leaders increasingly look to China for economic and political cues as well. Though, less than a decade ago, Beijing maintained icy relations with Jakarta--strained by periodic attacks on Indonesia's ethnic Chinese--today, Indonesia's president publicly praises China's emergence as a leader in Asia. Singapore's senior minister, Goh Chok Tong, has expressed similar sentiments, saying, "China's extraordinary development sets the example for other Asian countries to follow." Ramo has reported that Vietnam, which fought a border war with China only 25 years ago, is now studying China's economic models for clues to faster development. In South Korea, President Roh Mun-Hyun has led Seoul toward Beijing's orbit, looking to China for help handling North Korea. In Thailand, which, during the cold war, was probably America's staunchest ally in Southeast Asia, Prime Minister Thaksin Shinawatra has said that China and India are now the "most important countries for Thailand's diplomacy." Meanwhile, Central Asian nations have formed a regional security group with China, the Shanghai Cooperation Organization--an organization in which China takes the lead, pushing the group to focus on issues of concern to Beijing, such as the restive ethnic minority Uighur population in western China.

As they look to China, Asian leaders are increasingly willing to do Beijing's bidding. Nations from Nepal to Singapore have restricted the activities of Tibetan and Falun Gong activists. Presumably at China's insistence, Malaysia's deputy prime minister publicly warned Malaysian politicians to avoid official visits to Taiwan, while Thailand tried to deny a visa to a top Taiwanese labor official.

Average Asians, too, look to China, which is building up its soft power in the region. In one poll, three-quarters of Thais said they considered China Thailand's closest friend, while less than 10 percent picked the United States. Asian businesspeople covet invites to the Boao Forum for Asia, a conference about Asia's future held on a Chinese resort island to which Beijing invites thousands of business and political leaders. Asian students increasingly seek out education in China, rather than the United States, and Chinese-language schools are gaining popularity in South Korea, Malaysia, and other countries. Meanwhile, ethnic Chinese living outside the Chinese mainland, once afraid to showcase their heritage for fear of being singled out as a wealthy minority, have become increasingly outspoken about their roots. In part, they are more comfortable with their heritage, because China has begun actively promoting Chinese culture through new cultural centers and TV stations. (By contrast, the United States has cut back on its cultural centers in Asia, many of which used to be affiliated with the United States Information Service.) "It looks like being Chinese is cool," publisher Kitti Jinsiriwanich told *The Wall Street Journal*, explaining his decision to produce a glossy magazine about ethnic Chinese life in Bangkok and why advertisers were lapping up his copy.

In Africa and Latin America, where postindependence economic models imposed by Western international financial organizations have failed to raise living standards, China's ideas, its companies, and its emphasis on a multipolar international system are also increasingly welcome. Beijing has signed trade deals with 40 African states. In many resource-rich African countries--including pariah nations like Sudan, where Beijing covets Sudanese oil--China has dramatically bolstered its diplomatic and economic presence, as Stéphanie Giry has reported in these pages ("Out of Beijing," November 15, 2004). In Zimbabwe, Beijing has become a major provider of military hardware, including fighter jets. "Suffering under the effects of international isolation, Zimbabwe has looked to new partners, including China, who won't attach conditions [to aid]," one Western diplomat told *The Christian Science Monitor*.

Hu's 2004 trip to Latin America highlighted China's growing power there as well, even as the Bush administration neglects the region. As Ramo notes, China's enormous consumption of natural resources, such as steel, oil, and copper, makes it an essential ally and trading partner of nearly any nation in Latin America and Africa. Indeed, not only did Hu sign $30 billion in new investment deals during his Latin trip, but China has become Brazil's second-biggest trading partner. By comparison, during his 2004 Latin America swing, Bush spent little time anywhere other than Colombia and Chile (and almost got in a fistfight in the latter).

Furthermore, the American president has failed to persuade Latin nations to back his proposed Free Trade Area of the Americas pact, one of the White House's main goals for the Western Hemisphere.

As in Asia, China's education system and culture-- components of its soft power-- have become attractive to African and Latin American elites. Beijing has developed a proposal to bring over 10,000 African professionals to China for human resources development. And, as in Asia, key African and Latin leaders, awed by China's economic success, praise Beijing's foreign policy doctrine and development model. "China is doing a wonderful job," Muyingo Steuem, a Ugandan government adviser dazzled by China's big cities, told *The Financial Times* during last year's World Bank conference on poverty alleviation, held in bustling Shanghai. "In developing countries, China is regarded with a mixture of envy, admiration, and awe," U.N. Development Program chief Mark Malloch Brown told the *FT* during the same conference.

In some respects, China's new foreign policy assertiveness is only natural, and it could benefit the developing world. Until 150 years ago, China was one of the world's most powerful nations, and Beijing is, in many respects, regaining the position in foreign affairs and global trade it enjoyed for centuries. As China engages more with the developing world, it is beginning to project its power for the good of others. It has been expanding its participation in U.N. peacekeeping operations. Beijing has also started playing a larger, more positive role in global trade talks and could help to bridge the gap between richer nations and the developing world on tough issues like agricultural subsidies; China has also lived up to its WTO commitments, in some cases more so than the United States. After the Asian tsunami, China offered significant aid disbursements to affected nations (though Beijing's pledge of roughly $85 million in initial government aid was dwarfed by the U.S. offer). China also has become more of a player on the U.N. Security Council, a role it traditionally abdicated--Beijing has backed antiterrorism resolutions and avoided blocking the U.S.-led war in Iraq. As China becomes more powerful, it may take on a more beneficent role at Turtle Bay.

But, despite significant political opening over the past two decades, China remains a highly authoritarian state, one in which individuals who try to form national political organizations are suppressed. In recent months, the government has launched a new strike against dissent, detaining prominent intellectuals, upping its crackdown against the Uighurs and other ethnic minorities, increasing press censorship, and bolstering its Internet firewalling. China also canceled an international human rights conference due to be held in Beijing and arrested a Hong Kong-based journalist for the Singapore *Straits Times* and a Chinese researcher for *The New York Times*. Today, China has the largest number of journalists in jail of any country.

This is hardly an ideal political model for developing nations--following the Chinese model might forestall democratization. Indeed, African, Asian, and Latin American democrats certainly can take no comfort in their leaders moving closer to Beijing, since China places no priority on human rights in its decisions about its allies. Beijing's aid and trade prop up the brutal Burmese and Sudanese regimes, allowing them to ignore Western sanctions, and Beijing reportedly has helped prevent the U.N. Security Council from taking tougher action against genocide in the Sudanese region of Darfur.

What's more, China's talk of noninterference may be just that--talk. As the University of Colorado's Hays Gries writes, China historically has practiced a politics defined by the term *biao li bu yi*--"surface and reality differ." After all, Chinese academics at government-linked think tanks say that, ultimately, China will surpass the United States in Asia and control the region. Some foreign leaders recognize that China's kinder face abroad may mask a desire to increase Chinese power across the developing world. A classified report by the Philippine armed forces captures the difference between Beijing's statements and actions. It notes: "China's actions are widely viewed as a doubled-edge[d] diplomatic strategy aimed at furthering its strategic goals in the region."

Unfortunately, though some nations may resent China's growing power, too often they resent the United States more. The United States has all but abdicated its presence in parts of the developing world, and Washington seems unprepared for China's emergence as a more aggressive foreign policy actor. Washington lacks enough diplomats who truly understand China's foreign policy intentions and how it executes its ambitions on the ground. *Foreign Affairs* editor James Hoge has noted that the workforce at the U.S. Embassy in Beijing is half the size of the one assigned to the new embassy in Baghdad.

At the same time that China's influence has grown, the U.S. means of leverage--aid allocations, trade deals, academic ties, popular culture--are weakening, undermined by everything from new restrictions on student visas to the prisoner abuse scandals at Guantánamo Bay and Abu Ghraib. Worse, when dealing with longtime allies like Thailand, Washington too often talks about little other than terrorism. Asians find the American "obsession" with terrorism tedious, Karim Raslan, a prominent Malaysian writer, told *The New York Times*. "We've all got to live. We've all got to make money," he said. "The Chinese want to make money, and so do we."

Savvy American officials are beginning to understand how China is switching from a defensive to an offensive foreign policy. During an important visit to Southeast Asia earlier this year, new Deputy Secretary of State Robert Zoellick, a former trade negotiator, tried to recapture lost ground. He emphasized not only counterterrorism cooperation but also economic ties, aid disbursements, and other issues of importance to Asian nations. The mild-mannered Zoellick was a hit. "The Zoellick road show was an important signal from Washington that Southeast Asia was not being ignored by the world's No. 1 superpower," enthused the Singapore *Straits Times*.

Meanwhile, administration hawks--who concentrated on China early in Bush's first term--are beginning to refocus their attention on Beijing. Even as Rumsfeld talks about China's military power, other hawks are trying to more effectively leverage key foreign allies against China. They are doing so by drawing important nations more tightly under the U.S. security umbrella. Washington appears to have convinced Tokyo to move closer to the U.S. position on Taiwan--as reflected in a joint statement issued in February--and the Bush administration is reaching out to India, with Rumsfeld calling for closer ties with New Delhi.

But these are only initial steps. Is Washington up to the task of reorienting foreign policy to handle a competitor like the cold war-era Soviet Union, one with a defined foreign policy doctrine and allies across the globe?

Too often, official Washington, whether focused on China's military or awed by

China's booming economy, simply disregards the gravity of China's changing foreign policy. During a private luncheon last year for the American ambassador to Thailand, one person asked about recent unrest in southern Thailand, where the United States closed its consulate a decade ago--and where the region has become a potential hotbed of Islamic extremism. The ambassador mentioned that the United States was still trying to exert influence in the south and had reopened a program in southern Thailand, a small "American corner" where Thais could read English-language books to learn about the United States. What happened to the U.S. consulate, asked someone else in the audience. The ambassador paused. "I think it's the Chinese consulate now," he said. Everyone in the room laughed.

JOSHUA KURLANTZICK is the foreign editor at TNR.

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Appendix F: Emerging Market Export Credit Agencies

Introduction

While the participants and issues in the world of official export credits has slowly evolved over the last few decades, the status quo is being challenged by the emergence of an "alternate ECA world", led by the rapidly growing ECA systems in China, Brazil and India. Not since Japan emerged in the 1960s as a major provider of capital equipment and export credits has the export credit arena seen the scope and scale of change that is likely to occur in the next five years.

The recent rapid growth in activity of the Chinese, Brazilian and Indian ECAs reflects a concerted effort on the part of their respective governments to expand the competitive position of their export sectors worldwide. These ECAs have grown so dramatically since the turn of the century that their activity now substantially exceeds that of many OECD ECAs. For example, by 2004 the total medium- and long-term ECA support from China's two official export credit providers probably put them in the top five ECAs globally. [Total medium- and long-term "activity" of the ECAs from all three countries is about one-quarter of OECD ECA activity.]

This chapter represents the first step in an ongoing Ex-Im Bank effort to evaluate the competitive implications of the official support provided by the Chinese, Brazilian and Indian ECAs. Ex-Im Bank conducted research on these ECAs by speaking with exporters and banks who have had competitive experience with these ECAs, reviewing annual reports and press clips and, in some cases, interviewing officials from these ECAs. However, information on the specific terms and conditions offered by these ECAs in competitive situations is very limited, in part because they are not members of the OECD. Nevertheless, there is reason to believe that (b) (5)

(b) (5) (b) (5)

The remainder of this chapter will provide an overview of each country's strategic focus and philosophy regarding exports and export finance, generate (to the extent possible) a comparative data reference, summarize export credit programs to illustrate how they support national export strategies and provide a preliminary indication of competitive implications for Ex-Im Bank.

China

Overview

China's exports have risen dramatically over the last several years, from $249 billion in 2000 to $593 billion in 2004. The United States is China's largest export market with a 21% share, followed by Hong Kong at 17% and Japan at 12%. Principal export products include office machines and data processing equipment, telecommunications equipment, apparel and clothing, electrical machinery and textiles.

In 2002, the Chinese government implemented a "Going Out" strategy to encourage domestic enterprises to export and invest abroad. While part of this strategy involves trade with the major developed economies, China is also rapidly expanding trade with other developing countries. "Directed" official export credit support (e.g., for certain sectors, such as telecommunications, in select markets) is seen as one way to establish Chinese market share in riskier markets where major multinational corporations have less exposure.

China has two government entities that support Chinese exports and carry out Chinese trade policy – the Export-Import Bank of China (China Eximbank) and Sinosure. China Eximbank provides short-, medium- and long-term loans and guarantees for Chinese exports while Sinosure provides short-, medium- and long-term export credit insurance. Sinosure insurance may also be used in combination with China Eximbank funding. However, the extent to which Sinosure insurance and China Eximbank lending overlap is not completely clear. Nonetheless, it is known that the two institutions are not required by law to do business with one another, which is a common practice in other Asian countries such as Japan.

Export-Import Bank of China (China Eximbank)

China Eximbank was established in 1994 as a wholly government-owned entity under the guidance of the State Council. Its mandate is "to implement state policies in industry, finance, foreign trade and economy, to promote the export of Chinese mechanical and electronic products and high and new tech products, to encourage well established Chinese enterprises with comparative advantages to implement the national strategy of 'going out', and to enhance Sino-foreign economic and technological cooperation and exchanges by means of providing policy financial support."

China Eximbank achieves this mandate by offering a variety of export financing products, including export loans, export credit guarantees and concessional loans. China Eximbank will provide preferential terms for priority projects by major Chinese enterprises. Since its inception, China Eximbank has increased its loan activity consistently by focusing on industries such as China's high-tech sector. In 2003 (2004 data is not yet available), the China Eximbank approved new credits worth 8.3 billion USD, with a total year-end exposure of 30.4 billion USD. Major sectors receiving support include shipping, power and high-tech industries.

China Eximbank provides loans to both exporters and overseas buyers of Chinese exports. For exporter credits, the China Eximbank requires a down payment of at least 15%, and interest rates are determined by the People's Bank of China. Supplier credits target specific sectors such as shipping, high technology products and mechanical and electrical products. Buyer credits (many of which are "big-ticket" projects such as telecom and power station projects), on the other hand, are provided on terms and conditions that, according to the China Eximbank's web site, "generally follow the Arrangement." Interest rates are either fixed or floating rates. The maximum repayment term is 15 years from the first disbursement of the loan. In addition, China Eximbank requires a minimum 15% down payment.

Like many OECD governments, China Eximbank provides concessional loans to support both foreign policy and national industrial development goals. (b) (5)

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Specific information on the terms and conditions of China Eximbank's soft loans is not available; however, anecdotal evidence from U.S. exporters suggests that (b) (5) (b) (5) (b) (5)

Two key sectors that U.S. exporters believe are Chinese concessional lending targets are resource exploration and high technology products (e.g., telecom). U.S. high technology exporters believe that China Eximbank is providing soft loans to commercially viable sectors in developing economies to establish market share. Resource-rich developing countries in Africa and the Middle East have been the primary beneficiaries of Chinese soft loans. In 2001, the last year China Eximbank publicly provided such data, the total volume of China Eximbank's concessional lending reached 10.6 million RMB (128 million USD).

Figure F1: China Eximbank Activity 2000-2004 (in $mns)*

China Eximbank	2000	2001	2002	2003	2004
Short-term	NA	NA	$ 980	$ 2,850	NA
M- & L-term	NA	NA	$4,560	$ 8,690	NA
TOTAL	NA	NA	$5,540	$11,540	NA

* It should be mentioned that the M/LT data is probably overstated by $1 billion or more because it includes investment loans. In addition, the ST data is also probably overstated as it contains some MT data as well. These discrepancies are due to the need to proxy disaggregation of aggregate data to achieve a comparable table.

Sinosure

Sinosure is a wholly state owned export credit insurance agency that was formed in December 2001 as a result of the merger between the export credit insurance system of People's Insurance Company of China and China Eximbank. Sinosure is headquartered in Beijing with a national service network of 12 regional offices and seven representative offices. Sinosure's mandate is "to support the export of goods, technology and services, especially high-tech and high value added capital goods, to provide Chinese enterprises with protection against payment risk and to facilitate the development of overseas markets." In addition, a related goal is to facilitate the financing of export transactions and to improve the competitiveness of Chinese companies in international markets and provide them strong support in their overseas expansions.

To achieve this objective, Sinosure offers a number of programs aimed at the export financing needs of the Chinese economy. These programs include short-, medium- and long-term export credit insurance, investment insurance, export related bonding and guarantees. Furthermore, Sinosure has initiated special programs aimed at the top 200 Chinese exporters by offering priority services to major companies and "best customers." In addition, the Chinese government announced in October 2004 that it would pay half of the premium charged by Sinosure to encourage increased use of Sinosure's programs.

Since 2001, Sinosure's medium and long-term support has increased from $940 million to $1.36 billion in 2003. Total activity was near $6 billion in 2003 and Sinosure recently announced a goal of doing $20 billion in 2005. U.S. exporters indicate they are seeing increasing competition from Sinosure in sub-Saharan Africa, particularly in Nigeria.

Figure F2: Sinosure Activity 2000-2004 (in $mns)

Sinosure	2000	2001	2002	2003	2004
Short-term	$1,940	$1,430	$1,750	$4,260	NA
M- & L-term	$1,770	$940	$ 820	$1,360	NA
TOTAL	$3,710	$2,370	$2,570	$5,620	NA

Competitiveness Impact

(b)(5)

Figure F3: Total Chinese Officially Supported Export Finance (in $mns)*

China	2000	2001	2002	2003	2004
Short-term	$1,940	$1,430	$2,730	$7,110	NA
M- & L-term	$1,770	$ 940	$5,380	$10,050	NA
TOTAL	$3,710	$2,370	$8,110	$17,160	NA

* This probably overstates the total business done by China Eximbank and Sinosure. This is due to the fact that Sinosure insures a portion of China Eximbank's business. As mentioned above, the extent to which the two agencies work together is uncertain.

Brazil

Overview

Brazil's exports have nearly doubled in the past few years, increasing from $55 billion in 2000 to $96 billion in 2004. Although Brazil is a major agricultural exporter, the majority of its exports are industrial goods. In fact, Brazil's largest export sector by dollar volume is aircraft, with domestic manufacturer Embraer one of the leading aerospace manufacturers globally. Other key capital goods exports include oil and gas equipment, automotive equipment and telecommunications.

Brazil has two primary export credit agencies. Banco Nacional de Desenvolvimento Econômico e Social (BNDES), or the Brazilian Development Bank, provides direct loans. Seguradora Brasileira de Crédito à Exportação (SBCE), or the Brazilian Export Credit Insurance Agency, provides export credit insurance. In addition, Banco do Brasil administers Programa de Financiamento as Exportacoes (PROEX), or Export Financing Program, which offers both direct loans and interest rate equalization for banks providing trade finance. (The PROEX program seems to have diminished in importance relative to BNDES and SBCE; hence, this section will not address PROEX further.) An inter-ministerial committee, the Export Finance and Guarantee Committee (COFIG), makes overall export credit policy; monitors PROEX and the Export Guarantee Fund

(FGE), which backs SBCE; and approves PROEX and SBCE transactions over approximately $5 million dollars.

Banco Nacional de Desenvolvimento Econômico e Social (BNDES)

BNDES was created in 1952 to be the main source of long-term financing for the Brazilian domestic economy. Similar to Germany's KfW, BNDES serves many domestic development functions in addition to providing export finance, including social programs, infrastructure support and the development of small and medium-sized enterprises (SMEs). BNDES' total disbursements have ranged from $11 billion to $18 billion from 1997 to 2004.

BNDES began its export finance program in 1991. The program has four key objectives:

1. Offer financing for the export of goods and services of "greater added value" under internationally competitive conditions;
2. Increase Brazil's export base, with an emphasis on SMEs;
3. Generate foreign currency, income and employment; and
4. Promote the integration of South America (an overarching Brazilian government goal).

Because Brazil's domestic banks are unable to provide long-term financing for Brazilian exporters, and because foreign banks are unwilling to finance Brazilian exports with a Brazilian government guarantee, BNDES operates as the country's primary provider of medium- and long-term export finance. Thus, the "internationally competitive conditions" articulated in the first objective above mean that BNDES will both meet official export credit competition on OECD Arrangement terms *and* private finance on market terms (i.e., market window financing). Rather than operating as a lender of last resort, BNDES is Brazil's trade finance lender of only resort.

Three factors constrain and philosophically parameter the aggressiveness with which BNDES pursues its mission of providing competitive financing to its exporters, regardless of the source of competition. First, the Brazilian government's cost of funds is high enough that BNDES could easily deplete its capacity if it over-subsidized loans. Second, a large portion of BNDES funding derives from national unemployment insurance and social security programs paid for by payroll taxes. BNDES is extremely sensitive to stewarding these funds, given the dire political and economic consequences it would face by mismanaging these key social safety nets. Finally, BNDES' export credit program is subject to a certain amount of domestic suspicion from those who question why the Brazilian government "gives" money to foreign buyers – particularly in other developing Latin American countries – when Brazil itself is in need of money. BNDES must demonstrate that its foreign lending has a positive effect on the Brazilian economy and is not a subsidy for other countries. Stemming from the need to carefully steward its financial resources, BNDES requires a bank guarantee or SBCE insurance cover on its loans to mitigate potential losses.

BNDES provides direct loans for both short-term pre-shipment (working capital) and medium- and long-term post-shipment transactions. Its post-shipment support includes both suppliers' and buyers' credits. In the last five years, total export credit support has comprised one-quarter to one-third of BNDES' overall activity. Medium- and long-term loans make up 50%-70% of BNDES' export credit volumes (by annual disbursement). Approximately 40% of its medium- and long-term support goes toward aircraft sales. Another major sector for BNDES is oil and gas equipment. Most of BNDES loans are for exports to other Latin American countries, largely because these are the main markets for Brazilian capital goods exports. On the other hand, most BNDES supported aircraft sales are to the U.S. market. BNDES is trying to expand its markets with a focus on China, Vietnam and Iran. In the past five years, BNDES has supported anywhere from 24% to 34% of Brazil's national exports, providing support to 250-300 exporters.

BNDES uses Libor as the base rate for its loans. It charges a 2% spread for its risk, and the guaranteeing bank will charge an additional spread. Additional commitment fees or other charges may also be added. BNDES generally tries to reference the Arrangement, although it will provide more flexible terms when necessary. BNDES will typically not offer more than 12-year repayment terms, and its average repayment term is eight years. However, it has provided up to 20-year repayment terms, including for exports to China's Three Gorges Dam. It will also provide 15-year terms for aircraft transactions. BNDES will finance 100% of an export transaction, rather than the OECD's required 85% maximum, although BNDES will not provide local costs support. When BNDES loans receive SBCE cover on behalf of the Brazilian government, SBCE will charge a premium in compliance with the Arrangement.

Figure F4: BNDES Activity 2000-2004 (in $mns)

BNDES	2000	2001	2002	2003	2004
Short-term	$1,303	$969	$1,278	$1,981	$1,921
M- & L-term	$1,779	$1,663	$2,669	$2,025	$1,940
TOTAL	$3,082	$2,602	$3,947	$4,006	$3,861

[Excludes domestic loans.]

Seguradora Brasileira de Crédito à Exportação (SBCE)

SBCE was created in 1997 to provide export credit insurance for Brazilian exporters. It is 24% owned by the Brazilian government (12% by Banco do Brasil and 12% by BNDES) and 27% owned by Coface, with the remaining shares held by private banks. Similar to Coface, SBCE provides medium- and long-term insurance on behalf of the government, and short-term insurance is provided on its own account. COFIG, the inter-ministerial committee, meets monthly to decide on all SBCE transactions over $5 million. SBCE's official export credits are backed by the Export Guarantee Fund (FGE), a Brazilian Treasury account.

SBCE works very closely with BNDES to provide official export credit support for Brazil's exports. BNDES, the state development bank, provides funding for transactions, while SBCE will provide credit risk insurance for the transaction, so rather than competing with one another they provide complementary roles in financing Brazilian exports. Approximately 98% of SBCE's medium- and long-term export credit insurance is provided to transactions where BNDES is the lender, with the remaining 2% insuring Banco do Brasil loans. In addition, BNDES holds half of the Brazilian governments shares in SBCE. The two agencies also collaborate in the management of the FGE, with SBCE responsible for risk monitoring and portfolio analysis and BNDES responsible for accounting.

SBCE's medium- and long-term insurance volumes have averaged approximately $600 million a year from 2001 to 2003. There was a dramatic surge in the transaction volume level in 2002; the increase was attributed solely to transactions for the United States. The United States was the destination for almost 70% of SBCE's insured transactions, most likely for aircraft sales. The rest of SBCE's activity went primarily to other Latin American and Caribbean countries.

SBCE indicates that it generally complies with Arrangement rules, with the exception of regional aircraft transactions where Canada's market window, EDC, is its biggest competitor.

Figure F5: SBCE Activity 2000-2004 (in $mns)

SBCE	2000	2001	2002	2003	2004*
Short-term	$208	$187	$1,381	$202	NA
M- & L-term	$ 0	$198	$1,336	$733	NA
TOTAL	$208	$385	$2,717	$935	NA

*2004 activity levels for SBCE are not yet available.

Competitiveness Impact

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(b)(5) (see Chapter 4A for more information). Exporters in other sectors have noted Brazil as a competitor, and this could increase as these ECAs expand their activity. Although the majority of the Brazilian ECAs export support goes to the U.S., Latin America is a market where U.S. exporters should expect to see competition from Brazilian companies. The sectors where this activity is likely to be concentrated in include transportation equipment (automobiles and rail) and telecommunications. As Brazil's economy matures and Brazilian companies become more engaged in manufacturing of capital equipment, competition may expand to other industry sectors like petrochemicals.

Figure F6: Total Brazilian Officially Supported Export Finance (in $mns)

Brazil	2000	2001	2002	2003	2004*
Short-term	$1,307	$973	$1,306	$1,985	NA
M- & L-term	$1,779	$1,667	$2,696	$2,040	NA
TOTAL	$3,086	$2,640	$4,001	$4,025	NA

*2004 activity levels are not shown because SBCE activity levels are not yet available.

(b)(5) (b)(5)

(b)(5) Market windows and their competitive implications are discussed in more depth in Chapter 5B of this report, in the context of EDC of Canada and KfW of Germany.

India

Overview

India's economic performance has been impressive since undertaking widespread economic reforms in the early 1990s. India has posted an average GDP growth rate of 6% since 1990, and achieved a robust 8% growth rate in 2003/2004. Led by large numbers of highly educated English-speaking people, software services alone are estimated to reach 7% of India's total GDP and 35% of India's total exports by 2008.

India's exports have grown from $45 billion in 2001 to over $60 billion in 2003, registering a 33% increase. Preliminary IMF 2004 data suggest total export volume will approach $80 billion in 2004. Major export sectors include engineering, gems and jewelry, auto components, pharmaceuticals and textiles. India's Foreign Trade Policy plan for 2004-2009 hopes to double India's share of world merchandise trade within five years. Included in the strategy are 220 export items and 25 markets that would receive special attention.

India has two export credit agencies: the Export Import Bank of India (India Eximbank), which provides loans and guarantees, and the Export Credit Guarantee Corporation of India (ECGC), which provides export credit insurance and guarantees to commercial banks only. India Eximbank and ECGC have similar roles in that they are both key public sector trade promotion institutions in India. Given the importance of export promotion in India, India Eximbank and ECGC play important roles in advancing trade policy by enhancing the competitiveness of India's export sector and expanding the geographical reach of Indian products.

India Eximbank and ECGC also have distinct roles in that they provide different export credit products and each institution forms its own partnerships with the private sector banks and private sector insurers. The bulk of India Eximbank's financing is provided on medium terms (there are select long-term transactions) while ECGC provides mostly short terms. There is modest collaboration between India Eximbank and ECGC, although ECGC may insure large export contracts supported by India Eximbank. Data representing the extent to which ECGC acts as an insurer on India Eximbank transactions is unavailable.

Historically dissimilar roots also separate India Eximbank and ECGC. At its inception in 1957, ECGC's main function was to provide official export credit insurance. However, at that time India's trade policies focused on import finance rather than export finance. By the early 1980's, India realized that its import substitution policies were discouraging exports. As a result, trade policy shifted from import finance to export finance, and India Eximbank was established to implement India's export policy. India Eximbank became the central export funding institution while ECGC continued in its role as official export credit insurer.

Export Import Bank of India

Established by an Act of the Indian Parliament in 1981, India Eximbank is India's principal provider of trade finance and export promotion. Its goal is to finance, facilitate and promote India's international trade and investment. Although India Eximbank is a public sector institution, approximately 80% of its total resources are funded through the market on its own authority.

India Eximbank provides several products aimed at the pre-export production process as well as performance bonds and guarantees. In addition, India Eximbank offers post shipment direct loans and lines of credit. India Eximbank's target markets are Africa, Latin America and China.

Lines of credit appear to be a major vehicle for the provision of India Eximbank support. In 2004, India Eximbank extended 12 lines of credit worth $168 million to the governments of Ghana, Zambia, Sudan, Angola, as well as the Central Bank of Djibouti, Eximbank of Hungary, the West African Development Bank, and six Iranian banks. India Eximbank currently has 28 lines of credit worth $530 million available to 51 countries.

The 2000-2004 data for total India Eximbank lending activity (as presented from India Eximbank and shown in the table below) includes all lending and guarantee programs, of which approximately 60% represents export credit contracts and the remaining 40% is comprised of loans for building export competitiveness.

Based on 2004 data , short-term activity totaled $647 million and medium-and long-term activity totaled $2,173 million. Total Indian Eximbank activity has been steadily increasing. This trend reflects the growing importance of export promotion in India.

Figure F7: India Eximbank Activity 2000-2004 (in $mns)

India Eximbank	2000	2001	2002	2003	2004
Short-term	NA*	$79	$151	$259	$647
M- & L-term	NA*	$1,420	$1,481	$1,965	$2,173
TOTAL	NA*	$1,499	$1,632	$2,224	$2,820

* Data not available.

2004 data indicates that India Eximbank approved 164 export contracts amounting to $1.7 billion in 48 countries for 96 Indian exporters in 2004. By contract type, the deals were broken down as follows: 28 turnkey projects valued at $921 million; 11 construction contracts valued at $333 million; 114 supply contracts valued at $437 million and 11 consultancy contracts worth $33 million.

India Eximbank finances a wide range of sectors, including textiles (11%), petroleum and petrochemicals (10%), pharmaceuticals (10%), and "other categories" which includes engineering services, information technology services, financial services, hospitality services, auto components, consumer goods, gems and jewelry, etc. (31%). The remaining 38% is comprised of capital goods, telecommunication, chemicals, and metal.

India Eximbank will finance up to 90% of the contract value of the exports it supports. Eligible products are classified into two product groups. Group A includes capital equipment and may receive credit terms ranging from three to 11 years, although 3-5 year terms are most common. Group B is comprised of consumer durables and industrial items usually exported on a cash basis, with maximum credit terms of 2 years. When providing rupee loans, India Eximbank sets a fixed market-based interest rate, while it will provide foreign currency loans on a floating rate basis with a spread over Libor.

Export Credit Guarantee Corporation of India (ECGC)

Founded in 1957, ECGC operates under the administrative control of the Ministry of Commerce and Industry but like India Eximbank, it raises funds in the market. Its mission is "to support and strengthen the export promotion drive in India." Of note, the Ministry of Commerce and Industry is also the oversight body for concessionary financing.

To accomplish this broad mandate, ECGC offers a range of credit risk insurance products to exporters and financial institutions. Insurance cover is available for short, medium and long terms. ECGC also provides pre-shipment support, guarantees for commercial bank loans, and exchange rate fluctuation cover on a risk shared basis with the exporter for both pre and post shipment financing. In addition, ECGC provides foreign direct investment insurance. Banks financing exports, including India Eximbank, are eligible for ECGC cover. ECGC insurance covers approximately 11% of India's exports. ECGC is the only official trade insurance agency but may share coverage with private insurance companies for short-term insurance.

Of ECGC activity in 2004, short-term insurance (new business) totaled $7,811 million and medium- and long-term insurance totaled $288 million. Total ECGC activity has been generally uneven in three key regions since 2000. According to ECGC, this trend reflects periodic downturns in business investment attributable to sluggish African economies, the outbreak of SARS in Asia, and political uncertainty in Latin America.

Figure F8: ECGC Activity 2000-2004 (in $mns)

ECGC	2000	2001	2002	2003	2004
Short-term	$5,518	$5,055	$8,115	$6,062	$7,811
M- & L-term	$72	$174	$58	$131	$288
TOTAL	$5,590	$5,229	$8,173	$6,193	$8,099

ECGC coverage spans an array of sectors, including engineering (14%), chemicals (12%), leather (9%), textiles (7%) and "other categories" (40%). The remaining 18% includes sectors such as gems and jewelry, tea and handicrafts.

ECGC will provide 90% cover on insurance policies for commercial and political risks. The remaining 10% is borne by the exporter. ECGC reserves the right to offer a lower percentage of cover in certain cases. Premia vary depending on the payment terms, country risk classification, and type of risk covered (commercial, political, or a combination of the two). Based on the information available, ECGC will generally issue coverage for up to a one-year term, but terms may be extended for longer-term transactions.

Competitiveness Impact

The terms offered by the Indian ECAs appear to be generally consistent with the OECD Arrangement. Repayment terms of 3-11 years are more or less in line with OECD guidelines. Interest rates are market-oriented. As prescribed by the OECD Arrangement, Indian ECA premia are risk-differentiated. Indian ECAs generally observe the OECD guideline of charging a 15% cash payment, although they operate on a scale that ranges from 10% to 20% depending on the program.

Figure F9: Total Indian Officially Supported Export Finance (in $mns)*

India	2000	2001	2002	2003	2004**
Short-term	$5,518	$5,055	$8,115	$6,062	NA
M- & L-term	$793	$679	$ 941	$2,009	NA
TOTAL	$6,311	$5,734	$9,056	$8,071	NA

* This may overstate the total business done by India Eximbank and ECGC. This is due to the fact that ECGC insures a portion of India Eximbank's business. As mentioned above, the extent to which the two agencies work together is uncertain.
**2004 activity levels are not shown because ECGC activity levels are not yet available.

India's impressive growth has hinged on their ability to provide high-level services relatively inexpensively, be they in the engineering, telecommunications, software development, or financial services arenas. (b)(5)

(b)(5)

Medium – Long Term Export Credits supported by China, Brazil and India export credit insurers (Source: Berne Union Data – confidential)

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China Trip Report
December 1 – 7, 2005

The highlights and key findings in this report reflect the discussions held in Beijing with private banks, the Chinese ECAs and related government agencies, OECD ECAs, and private companies engaged in doing business in (or in competition with) China. The referenced discussions took place during the two-day Euromoney Export and Trade Finance Conference held in Beijing as well as in official meetings arranged over another two days by the U.S. Embassy on our behalf. (Ex-Im Bank/Piper Starr was accompanied on the official meetings by the U.S. Department of Treasury representative, Steve Tvardek, and various members of the U.S. Embassy Economics section).

I. Purpose of Trip

The purpose of the trip was threefold:

- To gather and evaluate information regarding the export strategy of the Chinese government and to better understand the policies, programs, and practices of the Chinese agencies engaged in providing export credit support for Chinese exports.

- To establish relationships with members of these various official ECA entities (and related Ministries) as a means to both facilitate gathering additional information in the future and ease the exchange of case specific information/details of ECA offers.

- To communicate Ex-Im's strong willingness to the Chinese ECAs to engage in an ongoing dialogue in which transparency of information is key.

The balance of this report will address these three goals in this order, beginning with an Executive Summary of the Key Findings, followed by a more detailed Highlights section that addresses the Chinese ECAs' policies, programs and practices, and the Implications for Ex-Im Bank. The remaining sections address the latter two goals regarding relationships and transparency of information.

II. Executive Summary

- ➢ China has defined (and is in the process of implementing) its short and long-term strategy to ensure a prominent position within the global community. This strategy includes:

    - o Reinvigoration of basic industries and infrastructure and the development of new and self reliant industries that produce essential raw materials/resources necessary to sustain and contribute to the internal strength, competitiveness and vitality of the economy over the long term.

- Concerted efforts to expand on its "going out/going global" strategy to establish footholds through a broadening of its economic and political/diplomatic means, mechanisms, and agencies.

- Aggressive and expansive export credit and investment financing are critical instruments in achieving a superior position within the global environment.

- To the extent possible, the use of the financing instruments will comport with international guidelines and standards; however if necessary to consolidate this position, the financing offered is likely to be extended on terms and conditions that give a competitive advantage to ensure that relations with other governments and economies are solidified.

- The pattern of financing support (especially the more concessional support) appears to be one characterized by a focus on:

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- While the GoC has engaged the services of now three different financing organizations (with China Development Bank as the newest participant) to support its strategic objectives and there appears to be overlap and duplication of efforts and resources, chances are the GoC will reconcile and redefine the roles of these agencies in a way that more rationally allows it to maximize its resources and effectiveness over time.

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III. Highlights

A. Chinese Government Strategy

Key to understanding the vision of the Chinese Government generally and as it applies to its strategy regarding exports and export credit financing is recognizing that the current government wants to implement policies and programs across all spectrums in order to ensure China's success and long term sustainability. Accordingly, the recently adopted 11th 5 Year Plan, while very similar to the 10th

Year Plan, has been modified to reflect the GoC's recognition that this strategy will require (b)(5)

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This new focus which is driving both domestic and foreign policy is described by the Chinese Government as striving for a "harmonious society" and is being manifested in specific programs and practices. For example, a strong emphasis has been placed on the urbanization of the rural areas, with government incentives and programs being provided to encourage foreign and domestic investment in manufacturing facilities (in sectors/products that have a strong and profitable export potential) in the western provinces as well as in critical infrastructure projects (roads, railways, airports, communication systems) that are necessary to serve as the backbone of and platform for continued development and growth in the provinces. In addition, consistent with this approach is a new effort to assist SMEs in these economically deprived areas.

In terms of the GoC's broad export and foreign investment agenda, the "going out" or "going global" strategy is still key with two motives and corresponding avenues. The first relates to its broad export strategy that has been slightly modified to support the government's desire to redistribute the benefits accruing to the economy as a whole as well as using these two avenues as the means to secure long-term diplomatic ties with certain governments. Specifically, a focus on "socially beneficial exports" are the new buzz words with benefits needing to accrue to both the host country as well as to China.

The second key motivation relates to (b)(5)

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(b)(5) In addition, underlying both the socially beneficial and the diplomatic objectives is China's concerted effort to secure long-term and consistent sources of supply of critical natural resources needed to sustain its ongoing export-led growth and development as well as building its own domestic supplies to avoid reliance on outside sources. This diplomatic and strategically motivated equation typically consists of a *quid pro quo* in which China, in exchange for investing in "benefit-to-the borrower" projects, receives a long-term commitment for a critical resource. Perhaps the best example is oil in which China has identified key oil producing countries where they have provided financing support in the form of government supported foreign direct investment (FDI) or low cost export credits (tied to Chinese exports) to the host government to facilitate the investment in the oil fields and/or oil shipping facilities development. In exchange, China has secured long-term commitments for oil. (b)(5)

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B. Organization of "Export China"

1. Oversight

The State Council (of the People's Republic of China), also known as the Central People's government, is the highest executive body of State power. The State Council is chaired by the premier and comprised of the vice premiers, State counselors, and ministries – in total about 50 individuals representing key government agencies/ministries. The State Council is comparable to our cabinet, although the SC is much larger. The three ministries that are members of the State Council, and are directly relevant to and have varying degrees of oversight responsibilities for the two Chinese ECAs, China Eximbank (CXM) and Sinosure, include the Ministry of Commerce (MOFCOM), the Ministry of Finance (MOF), and the Ministry of Foreign Affairs (MOFA). The role that the ministries play in the ECAs are described in more detail in the ECA sections below.

2. Export Credit Agencies

a. China Eximbank

China Eximbank (CXM) was formed in 1994 as the official export credit financing agency of the Chinese government, is wholly owned by the GoC and operated as a policy bank. As such, CXM implements the policy of the GoC (as opposed to making it). CXM has a Board of Directors comprised of various members of the State Council and reports directly to the State Council with "authority" over its activities loosely governed by the Ministry of Commerce (MOFCOM) and to a lesser degree the Ministries of Finance and Foreign Affairs. CXM also must report its activities to the Chinese Banking Regulatory Commission (CBRC). By most others' accounts (other than CXM and MOFCOM), (b)(5)

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CXM officials noted (and consistent with their 2004 Annual Report) that it is directed to implement state policies in industry, foreign trade, and economy, finance and foreign affairs. In this capacity, it focuses its support to promote the export of Chinese mechanical and electronic products, complete sets of equipment, high and new tech products, and to support Chinese companies with comparative advantages to go abroad for overseas construction contracts and offshore investment projects and, to enhance Sino-foreign relationship and international economic trade cooperation.

In 2004, CXM reported a commitment level of roughly $13 billion for its export credit business. Based on 2004 figures, (b)(5)

(b)(5) and it intends to keep growing in a steadily upward direction in ways that are in keeping with its policy guidance. Medium-term is defined by CXM as 3 years or less and long-term as anything greater than 3 years. MT accounts for roughly 40% and LT representing the balance. CXM has capital in the amount of 5 billion RMB (or around $625 million) and recently raised an additional $1 billion on the international capital market, another $500 million bond in the form of an on-shore syndication, and finally, local financial bonds of RMB 34 billion (or roughly $4 billion).

CXM currently offers three primary products: export credit (buyer and supplier), concessional loans to other governments, and guarantees.[1] CXM explained that they have essentially modeled themselves after JBIC (Japan). CXM does not charge any risk/exposure fees; only a management fee of .5%. CXM also states that they generally extend their credits on OECD terms, noting that they typically lend at CIRR. CXM indicated that their buyer credits are typically in US dollars and the CIRR they use is the U.S. CIRR.

Regarding CXM's concessional loan program, (b)(5)
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(b)(5) They did however explain that these loans typically are at interest rates in the 3-4% range (RMB loans) and repayment terms generally at 10 years but can be up to 20 years. Regarding the program's primary focus, CXM explained that (b)(5)

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CXM's exporter profile consists of large state owned enterprises (SOEs) or large wholly private or partially government owned companies in certain key sectors: ship building, telecom, power, and high technology. In its 2004 Annual Report, CXM also emphasized a "two-big" strategy: big companies with big projects.[2] Key markets have included SE Asia (Viet Nam and Cambodia – infrastructure; Malaysia – oil fields development; Indonesia – hydro power; Philippines –

[1] CXM also offers an on-lending to domestic projects with foreign government loan funds and foreign direct investment financing, and in 2006, they intend to offer import credits to support the development of certain industry sectors of strategic importance.

[2] However, according to one CXM official, this is an "old policy" because CXM is now being asked to focus more of its efforts and resources on Chinese SMEs as am means to allay the concerns of inequality. In this regard, CXM expressed an interest in learning more about U.S. Ex-Im's small business programs.

highway development), Africa (Nigeria, Angola – oil fields development) and Latin America (Venezuela, Brazil – oil, infrastructure). Finally, CXM explained that they do not do business directly in the highest risk markets but the Ministry of Commerce has a "special aid window" for these activities. (We were not able to verify this with MOFCOM as we had already met with them.)

Finally, CXM also recently had a change in leadership with a new Chairman replacing the former Chair in July, 2005. The Chairman has been described by (b)(5) outside observers as (b)(5)

b. Sinosure

Sinosure is the official export credit insurance agency of the Government of China, is wholly owned by the GoC, and is operated as a policy agency of the GoC. Sinosure was created in 2001 when PICC, the then export credit agency that included China Eximbank, was dissolved and China Eximbank and Sinosure were formed as separate entities reporting to different authorities. Sinosure's primary guardian authority is the Ministry of Finance (whereas China Eximbank's primary oversight is the Ministry of Commerce and Ministry of Foreign Affairs), but the Ministries of Commerce (industrial policy) and Foreign Affairs (diplomatic/political policy) have a tangential relationship with Sinosure as well. Sinosure states that it operates on commercial terms and abides by the guidelines of the Berne Union and the OECD (although it is not a member of the latter).

According to Sinosure, their authority to make independent decisions is limited primarily to the short-term area and smaller dollar business. In the medium and long term export and investment insurance areas, any (including short term) transaction greater than $30 million requires the Ministry of Finance approval. Moreover, the MoF also plays a more hands-on role in the medium and long-term area, often participating in transaction decisions and setting policy and guiding practices.

Since its founding, Sinosure's book of business has grown dramatically: from $ 2.8 billion in 2002 to an estimated $20 billion in 2005. Of that amount, roughly 86% (in dollar volume) is short-term business spread across 160 countries in the developing and developed world (e.g., US, Hong Kong, the EU, South Korea representing the top country exposures). The remaining 14% is spread across the other product lines, with a little over half being medium/long term (while investment finance accounts for the remainder). The medium/long term portfolio however has a very different, and higher risk profile: Sudan, Cuba, Angola, Nigeria, Iran, Philippines, Brazil, and Pakistan.

While figures on Sinosure's claims experience thus far is limited due to its short (4 year) life thus far, the data collected would indicate that (b)(5)

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(b)(5) In any event, Sinosure reports that it has a capital base of 4 billion RMB (or the rough equivalent of $500 million), and in 2005, Sinosure reportedly will have supported roughly 5% of Chinese exports with management stating that they intend to double this share (to 10%) by 2007.[3]

In its capacity as a credit insurer, Sinosure works closely with the private banking community which is currently dominated almost entirely by foreign banks operating in China, namely Societe Generale, BNP Paribas, and Citigroup as the largest players. Of the two primary Chinese export credit providers, Sinosure and China Eximbank, Sinosure (b)(5) (b)(5) Sinosure has also entered into a number of cooperative financing agreements with other ECAs with the most recent being EDC/Canada (others include: Euler Hermes/Germany, Sace/Italy, MIGA/World Bank).

According to Sinosure and industry observers, (b)(5) (b)(5)

The exporter/sectoral composition of Sinosure's current portfolio (b)(5) (b)(5)

A new president of Sinosure was recently appointed and has been described by some outside observers as (b)(5) with a goal of growing Sinosure's presence in the market as quickly and as prudently as possible. This vision/mandate is fully consistent with the overall government

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"going out" strategy with an emphasis on supporting socially beneficial exports and investments.

In summary, (b)(5)

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In addition, while the general perception is that (b)(5)

(b)(5)

c. ***China Development Bank*** **(CDB)** (We did not visit CDB because the Embassy was unable to schedule an appointment. The information provided below is based on CDB published information and to a more limited extent, drawn from various discussions with other individuals regarding CDB during the trip.)

CDB was formed in 1994 and is under the jurisdiction of the State Council. Similar to CXM and Sinosure, the CDB is a policy bank that has traditionally focused primarily on internal domestic economic development with special emphasis on infrastructure and pillar industries. In addition, CDB is viewed as (b)

(b)(5)

Given this focus, CDB's financial support has been concentrated in rural development in the western and northeastern regions of China, all areas around the Yangtze River where efforts are being made to revitalize old industrial bases as well as facilitate the development of new and efficient industries, especially in those sectors of critical importance, e.g., energy independence (oil, coal, electricity), transportation (railways, highways) and telecommunications. More recently, CDB has expanded its focus in several areas considered essential to establishing and maintaining China's long term competitiveness: R&D/innovation and the development of Chinese high quality "brand name" industries/companies; SME's; and support for companies in their overseas expansion in the form of foreign investments of a "developmental nature." These have included Petro China, Sino-Chem, China Minmetals Corporation, CITIC Group, MCC Group and China Construction Group. In 2004, CDB's support in this area totaled $780 million.

C. Implications for Ex-Im Bank

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4. Both China Ex-Im Bank and Sinosure seemed willing to develop a stronger relationship with U.S. Ex-Im Bank in terms of sharing information more broadly.

IV. Establishment of Relationships

Ex-Im Bank was able to establish key contacts with officials at Sinosure and China Eximbank, the Ministry of Commerce, as well as with private sector executives doing business in and/or in competition with China. We were also able to apprise the U.S. Embassy officials as to our specific goals and interests so that they are now aware of the types of information we are interested in collecting in the future. Interestingly, the Embassy noted that our specific meetings served as an ideal way for Embassy staff to gain access to and learn from, and about, the government agencies with whom we met.

Going forward, Ex-Im should be in a better position to further develop these relationships and to draw upon these assets.

V. Transparency

At each meeting with GoC officials, Ex-Im conveyed our explicit desire to establish a closer and more transparent working relationship with China Eximbank and Sinosure. Both ECAs responded positively to this invitation. (b)(5)

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Finally, both China Eximbank and Sinosure were invited to visit Ex-Im Bank to give Ex-Im Bank the opportunity to reciprocate their hospitality, and to offer a forum for a broader exchange of information regarding our respective programs, policies, and practices.

VI. List of Meetings and Organizations

A. Commercial Banks

1. BNP Paribas
2. Societe Generale
3. Standard Chartered

B. Companies

1. Lucent
2. Bechtel
3. United Technologies
4. U.S. Information Technology Office
5. Wilmer Cutler Pickering Hale & Dore LLP
6. APCO Asia
7. Huawei Technologies Co., Ltd.

C. Government of China Organizations

1. Ministry of Commerce (MOFCOM)
2. Sinsoure
3. China Eximbank

(NB: While the U.S. Embassy made considerable efforts to schedule a meeting with the Ministry of Finance on our behalf, they were unable to do so.)

D. ECAs

1. Euler Hermes
2. Finnvera
3. EDC
4. Coface

E. (Stateside) U.S. Government Participants

1. U.S. Ex-Im Bank – Piper Starr
2. U.S. Department of Treasury – Steve Tvardek

F. U.S. Embassy/Beijing

1. Robert Luke, Minister – Counselor for Economic Affairs
2. Brent Christensen - Economic Officer
3. Mathew Murray – Second Secretary, Economic Section
4. Sally Behrhorst – Economic Officer

Piper Starr
December 22, 2005

OLISEIB

12/19/2005 11:15 AM

To: Cory A. Firestone/POLICY/EXIMBANK@EXIMBANK, Isabel Galdiz/POLICY/EXIMBANK@EXIMBANK, Michele Kuester/POLICY/EXIMBANK@EXIMBANK, Piper Starr/EVP/EXIMBANK@EXIMBANK, Youliana Ivanova/POLICY/EXIMBANK@EXIMBANK
cc: James Cruse/POLICY/EXIMBANK@EXIMBANK
Subject: XCRED2005.298 -- OUTREACH: CONTACTS WITH CHINA

----- Forwarded by OLISEIB/POLICY/EXIMBANK on 12/19/2005 11:09 AM -----

<Xcred.Secretariat@oecd.org>

12/19/2005 08:44 AM

To: <echecg@olis.oecd.org>
cc: (bcc: OLISEIB/POLICY/EXIMBANK)
Subject: XCRED2005.298 -- OUTREACH: CONTACTS WITH CHINA

ATTENTION: ALL MEMBERS OF THE WORKING PARTY ON EXPORT CREDITS AND CREDIT GUARANTEES (ECG) AND PARTICIPANTS TO THE ARRANGEMENT

STATUS: FOR INFORMATION

SUBJECT: OUTREACH: CONTACTS WITH CHINA

Dear Colleagues,

1. Following our mission to China at the end of November/beginning of this month, we made a very short presentation to the Working Party of the Trade Committee on export credits provided by China; I attach our presentation for your information. You may also be interested to know that at the last OECD Council Meeting on 15 December 2005, the Chairman of the ECG and the Participants to the Arrangement presented the work of export credits in the OECD; the Council showed a great interest in how the Participants/ECG will face the challenges posed by China.

2. We are currently putting together the further Outreach document promised at the plenary meetings held last month; we had hoped to issue such a paper before the end of this year. However after our mission to China, it took more time than expected to gather and cross-check data on China's medium and long-term export credits activities. In this respect, last Friday (16 December) we had a follow-up meeting with colleagues from the Paris office of the CHINA EXIM BANK (Messrs Xinjiang SUN and Ning GAO) and we would, in our further Outreach document, like to reflect and digest all this information; accordingly, we foresee issue of the document in early 2006.

3. Meantime, I give below the details of the Paris office of CHINA EXIM BANK, should you wish to make contact; if you have no objections, we would provide reciprocal information to CHINA EXIM BANK, Paris, by passing on the co-ordinates of the Heads of Delegation of the ECG Members - please let me know in the next day or so whether you would object to the Secretariat providing such information to Mr. Sun.

- Mr. Xingjian SUN, Chief Representative, Paris Office, 6 Avenue Marceau, 75008, Paris, France. Tel: +33 (0) 1 47 23 88 80/05 10; xingjiansun@yahoo.com
- Mr. Ning GAO, Representative, Paris Office, Tel: +33 (0) 1 47 23 88 80/04 10; gaoningparis@yahoo.com

4. Thank you in advance for your understanding.

<<MISSION REPORT BEIJING WPTC DEC 2005.ppt>>

Best regards,

Janet WEST
Head, Export Credits Division
OECD

MISSION REPORT BEIJING WPTC DEC 200

EXPORT CREDITS AT THE OECD AND CHINA

OECD Secretariat
Export Credits Division
December 2005

OECD OCDE

- Context and objectives of the Export Credits mission to China
- Outcome of the mission
- Possible follow-up steps

OECD OCDE

CONTEXT OF THE MISSION TO CHINA
(29 Nov-2 dec 2005)

- Increased competition of China as a provider of medium and long term export credits
- Outreach to major non-OECD competitors is a priority for the Participants to the Arrangement

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OBJECTIVES OF THE MISSION

- Establish appropriate contacts in China – Export Credit Agencies (ECAs), Guardian Authorities, other officials
- Gather/exchange information on China's export credits practices
- Evaluate any future steps for engaging China in OECD work on export credits

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OUTCOME OF THE MISSION -1-

TWO CHINESE ECAs WITH DIFFERENT MISSIONS/PRODUCTS

SINOSURE

- Established 2001
- Credit insurer for Short Term and Medium/Long Term
- Operates on a break-even basis
- Says it is under-used by Chinese exporters
- Objective to insure 8-10% of China's exports (1% now)

(b)(5)

CHINA EXIMBANK

- Established 1994
- Policy-oriented Bank
- Extends export loans at market terms and also soft loans (subsidised)

(b)(5)

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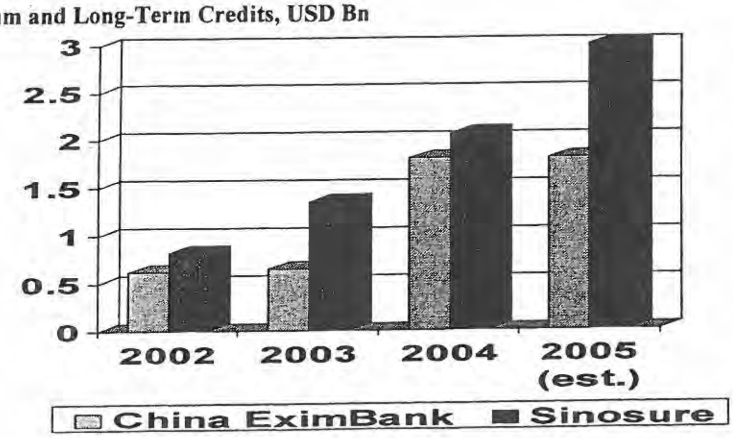
OUTCOME OF THE MISSION -2-

TWO CHINESE ECAs GROWING RAPIDLY

Medium and Long-Term Credits, USD Bn



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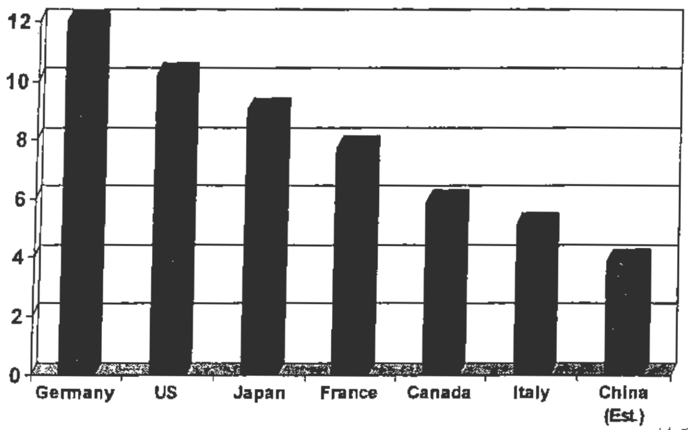
OUTCOME OF THE MISSION -3-
CHINA ALREADY MEMBER OF TOP SEVEN ECAs

Medium and long-term credits in 2004, USD Bn



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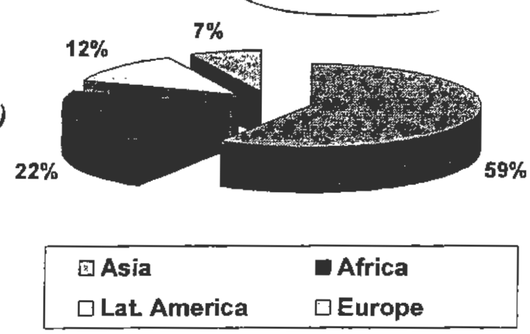
OUTCOME OF THE MISSION -4-
CHINESE COMPETITION WITH OECD ECAs:

SECTORS COVERED

- *Ships*
- *Construction*
- *Transportation (railway)*
- *Mechanical/electronics*
- *Telecom*
- *Power*

MARKETS TARGETED
(Sinosure – 2004)



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FOLLOW UP – NEXT STEPS
HOW TO ENGAGE WITH CHINA

- Objective: level the playing field by a wider adherence to Arrangement disciplines
- Ways and Means
  - Monitor China's programmes and practices, through e.g. China's participation in annual export credit consultations meetings

(b)(5)

  - Active support from OECD Members in laising with China

(b)(5)

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