CHAPTER

6 The U.S. Export-Import Bank and the Asian Crisis

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Before the Asian debt crisis in the late 1990s, short- and medium-term credit support from the U.S. Export-Import Bank for exports of goods and services to Korea, Indonesia, and Thailand was very limited because these countries were generally adequately served by private financial institutions without official export credit agency support. However, when the debt crisis emerged, the private sector concerns with repayment prospects caused an increase in demand for financing support from Ex-Im Bank.

In response to the economic and financial crisis in Asia in early 1998, the U.S. Ex-Im Bank, led by Chairman James A. Harmon, embarked on an initiative to ensure that U.S. exports of necessary raw materials, spare parts, consumables, and small capital equipment could continue to flow into the markets of Korea, Thailand, and Indonesia by providing the necessary short-term credit for importers through selected lenders in these markets.

Typically, the transactions supported under the short-term program included raw materials used in the production of goods (e.g., hides and skins, spare parts, auto parts, selected agricultural commodities) and small manufacturing equipment. The transactions were financed up to 360 days.

Korea

U.S. Ex-Im Bank support for capital equipment exports under the program for Korea was available for short- and medium-term export sales (Box 6.1). Specifically, in January 1998, Ex-Im established a short-term export credit insurance program to support U.S. exports being financed with letters of credit issued by selected Korean banks and confirmed by banks operating in the United States. At that time, Ex-Im's Board of

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Box 6.1. U.S. Ex-Im Bank's Korea Short-Term Facility During the Asian Crisis

Products supported: A large quantity of agricultural products were supported by the U.S. Ex-Im Bank under letters of credit payable at sight because the U.S. Department of Agriculture (USDA) Commodity Credit Corporation's export guarantee programs were not available on these terms or for the specific types of products. Hides and skins were the largest single product type, while pulp and paper, spare parts, scrap metal, and capital goods components comprised the majority of products supported under the facility.

Repayment terms: Excluding agricultural products (handled at sight), the letter of credit tenor breakdown was 40 percent at sight; 40 percent for 150-180 days; and 20 percent, other.

Administrative efficiencies: Initially, each individual transaction was handled by Insurance Division credit staff. However, due to the heavy volume of applications received during the initial months of operations (literally hundreds a day) and the need for a 24-48 hour turnaround on the letters of credit, Ex-Im modified the case processing approach by instituting revolving lines with participating U.S. confirming banks. Specifically, individual U.S. banks insured under the program were authorized (for varying amounts depending on anticipated demand and capability levels, but excluding capital goods) to approve individual transactions up to a set amount, provided these approvals were promptly reported to Ex-Im. Capital goods exports that were to be covered under the facility had to be reviewed by Ex-Im Bank prior to approval, due to economic impact review procedures that Ex-Im was required to evaluate. The revolving line approach allowed U.S. banks to respond quickly to their customers' needs on routine transactions, and freed up Ex-Im staff to process those requiring additional review. As a result of the Korea facility and the pressures on staff resources stemming from the high level of demand for Ex-Im support, the development of the revolving line processing approach has served as a model to handle other situations calling for administrative efficiencies since then.

Underwriting issues: Due to the high risk of private corporations in Korea, particularly the chaebols (because they lack current and reliable financial statements), the uncertainty surrounding the pace of reforms in Korea that would have strengthened the private sector, and Ex-Im's statutory requirement to find reasonable assurance of repayment, Ex-Im Bank determined after extensive analysis that the Korean banking sector represented the most viable primary source of repayment. Moreover, even though the banks were encountered a relatively high level of nonperforming loans, the Korean government took steps to rectify the banking sector's problems through consolidation and recapitalization. Hence, Ex-Im Bank found comfort that Korea would see the reforms through to ensure a more stable and financially sound banking sector.

Levels of activity from January 1998-June 1999: The initial 6 to12 months of the program accounted for most of the activity, since the private sector was not in a position to assume the risks independently. By March 1999, demand for Ex-Im support began to decline with the upgrade of Korea's sovereign rating (reflecting progress and growing stability resulting from the reforms initiated during the prior year). With the upgrade, the private sector, particularly the larger money center banks, became more comfortable with Korea risk, while U.S. regional lenders remained less aggressive and consequently constituted a larger portion of Ex-Im's Korea facility than previously. In addition, the USDA's Commodity Credit Corporation resumed its export credit programs for Korea, thereby lessening the need for Ex-Im support for agricultural commodities. The cumulative effect was an overall decline and eventual discontinuation of the program, as the private sector once again resumed its ability to assume Korean risk on its own. Ex-Im had successfully filled a market gap during a time of need and willingly withdrew once the private sector stepped back in.

Directors approved a total limit of $750 million with varying U.S. dollar sublimits approved for 10 Korean banks. The program was used actively, with U.S. exports supported at a value of over $1 billion. Moreover, there were no claims filed or paid under the Korea initiative.

Subsequently, in August 1998, Ex-Im and the Korean government signed a sovereign guarantee agreement for up to $2 billion for medium-term transactions (1 to 5- year repayment terms), which included capital equipment sales. Under this program, the Korean government agreed to guarantee up to $2 billion in medium-term direct loans from Ex-Im Bank to the Korea Development Bank (KDB). In conjunction with this agreement, both parties agreed that once a medium-term transaction was concluded under the program, Ex-Im would increase its total limit on the short-term program up to $1 billion (or an increase of $250 million above the previously approved $750 million) to be managed by the KDB.

There were eight correspondent banks located in the United States that were appointed by the Korean government to participate in the medium-term program. Financing was accessed in one of two ways: the end-user could apply directly to the Ex-Im Bank or contact KDB directly and have KDB formally apply to the Ex-Im Bank for financing.

Thailand

On July 31, 1998, Ex-Im Bank and Thailand signed a $1 billion sovereign guarantee agreement to support short-term letter of credit transactions. Thai Ex-Im (guaranteed directly by the minister of finance) would act as the intermediary guarantor on behalf of private Thai banks that would issue irrevocable short-term letters of credit to be confirmed by banks operating in the United States. Ex-Im would insure the U.S. bank's confirmation of the letters of credit on behalf of the U.S. exporter. However, this program never became fully operational because while the Thai authorities were trying to finalize the documentation, conditions within the economy improved and the need for Ex-Im support decreased.

Indonesia

On May 8, 1998, Ex-Im Bank and the government of Indonesia signed a $1 billion sovereign guarantee agreement to support irrevocable short-term letters of credit issued by selected private Indonesian banks, guaranteed by the minister of finance, and confirmed by banks operating in the United States. The Ex-Im would be insuring the U.S. banks' confirmation letters of credit on behalf of U.S. exporters. However, the Indonesian banks that participated in the program required that the Indonesian importer provide at least 100 percent cash collateral to secure the financing. As a result, no business was transacted under this program.

Summary

While the U.S. Ex-Im Bank actively engaged the governments of Korea, Thailand, and Indonesia in developing programs to support short-term trade finance transactions, only Korea actually benefited from it. Under the Korea program, a little over $1 billion was utilized, while not a single claim was filed. Overall, this program was considered a success, as it filled a financing gap that the private sector was not willing to or could not finance by providing a temporary bridge for needed short-term trade finance support. Once conditions normalized in Korea, the private sector re-engaged in trade financing and the Ex-Im Bank phased out its operations.