EXPORT-IMPORT BANK OF WASHINGTON x [redacted]

For The Press | For Release at 1:00 P.M., EST April 24, 1959 | REpublic 7-7890



Address by Samuel C. Waugh, President
Export-Import Bank of Washington
at luncheon sponsored by the
Foreign Trade and Investment Committee of the
Chamber of Commerce of Greater Philadelphia
April 24, 1959

## Developments in the International Trade Field



Nearly two years ago you invited me to Philadelphia to talk before your annual World Trade Dinner. I chose for my subject, the role of the Export-Import Bank under the title "The President Reports to his Stockholders."

Inasmuch as the Export-Import Bank's $1 billion capital stock, authorized by the Congress, is owned entirely by its stockholders, the United States taxpayers, it is proper that periodic reports be given publicly in addition to the Bank's comprehensive semiannual reports made to the Congress.

The average annual bank report has not in the past been classified as either light or interesting reading. It has been encouraging to see the changes that have been taking place in the field of financial reporting. We at the Export-Import Bank hope that we have improved the reporting of our own activities and are today concentrating on a report to be issued at the close of our fiscal year commemorating the Bank's 25th anniversary.

During the Bank's 25 year history there have been many changes in its organization, but the three basic objectives enumerated by the Congress a quarter of a century ago remain unchanged. The primary objective of the Export-Import Bank is to aid in financing the foreign trade of the United States; second, the Bank should supplement and encourage and not compete with private capital; and third, loans made should, in the judgment of the Board of Directors, offer reasonable assurance of repayment.

In the ensuing twenty-three months since my last visit to Philadelphia the Bank has approved 515 loans in 39 countries under credits totaling about $1.8 billion. This is evidence that your Export-Import Bank, making loans at the rate of one every working day for nearly two years, has continued to be active in supporting and facilitating the trade of the United States with other friendly countries throughout the world.

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Inasmuch as this is an anniversary year, it should be recorded that in the Bank's history, from 1934 through March 1959, loans have been authorized in excess of $10 billion. Of this total, approximately $2 billion have been taken over by others at their own risk or cancelled for various reasons. The Bank has disbursed $6.7 billion and has obtained payments approximating 50%. This leaves loans outstanding today of $3.4 billion. In addition, the Bank has current commitments, that is, loans authorized where shipments have not as yet been made, of $1.4 billion.

During the Bank's 25 year history it has paid interest on all monies borrowed at the rate asked by the U. S. Treasury. For several years it has paid dividends of $22.5 million per year to the U.S. Treasury on its capital stock -- the total amount of dividends is $195.9 million -- and it has also paid every dollar of its administrative expense out of earnings. After paying these costs of operations the Bank has accumulated in excess of $540 million as a reserve for contingencies.



During the past two years there have been many moves which, in varying degree, have affected our foreign trade and, therefore, the operations of your wholly-owned U. S. bank. Each of these moves is, in itself, of sufficient importance to be the subject of extended discussion and debate. In fact, the International Chamber of Commerce has been spending the entire week in Washington discussing certain phases of the current problems. I will review four of the current developments but without attempting to evaluate their relative importance.

1.

We have experienced in the United States a sharp recession and an unprecedented record recovery. During this period our imports held up but there was a marked decline in exports, with the result that we experienced a substantial reduction in our gold and dollar reserves and corresponding increases in the reserves of our friendly trading partners.

There has been a decline in worldwide prices of the basic commodities and this has had a marked effect on the economies of our allies, notably our Latin American friends. This price decline has been attributed by some to the aforesaid recession. The income of more than half of the Latin American countries depends upon the price of coffee; the economy of a half dozen countries depends upon bananas; in Chile it is copper; in Bolivia, tin; in Uruguay, wool. And this week, during the visit of Prime Minister Fidel Castro of Cuba, the subject of sugar has been uppermost in the minds of many interested in that basic commodity.

The decline in prices paid for these raw materials has had a restrictive effect on the development plans of the various Latin countries as well as on their purchasing power for the imports desired from the United States. This decline in income together with the continuing desire to import both hard and soft goods plus their understandable desire to industrialize and to raise living standards has resulted in a marked imbalance in the financial position of several of our important trading partners in Latin America.

Here it should be emphasized that in accordance with our basic policy the

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Bank has made an effort to facilitate the flow of trade. We have made several loans to assist in improving the exchange position of certain countries. In this connection we have worked closely with our private banks and international organizations, notably the International Monetary Fund. These loans were made only after extended negotiations with the authorities of various countries in a combined effort to improve fiscal and trade policies to the end that imbalance would be corrected.

The preceding comments have referred to Latin America, but it should also be recorded that the Export-Import Bank was called upon by and responded to the United Kingdom following the Suez crisis and to France during its most recent financial difficulty.

2.



Other and most important developments are being witnessed today on the European scene. On January 1, 1958, the European Economic Community, better known as the European Common Market, came into being. This treaty calls for the gradual elimination of trade barriers among France, Germany, Italy, and the three Benelux countries -- Belgium, Luxembourg, and the Netherlands -- along with the gradual alignment of their economic, financial, agricultural, and social policies.

Under study throughout all of the past year has been a plan sponsored by the other eleven European nations comprising the Organization for European Economic Cooperation (OEEC), spearheaded by the United Kingdom, to form what has been referred to as a Free Trade Area to permit a free flow of trade among all seventeen of the OEEC countries. Despite extensive negotiations, which have sometimes become heated, the trade problems of the six countries comprising the Common Market and the eleven countries sponsoring the Free Trade Area remain unsolved.

Also on January 1, 1958, the European Economic and Atomic Energy Community came into existence to control the development and research of nuclear energy in the six-country Community. The creation of the Common Market and Euratom follows the pattern established in 1952 of the European Coal and Steel Community. All these developments point toward a Western Europe economically unified which, if successful, may prove to be the outstanding achievements of the current century.

The Export-Import Bank is fiscal agent for the United States Government in connection with the $100 million basic loan made to the European Coal and Steel Community in the year 1953. This loan has been heralded as the basis for subsequent financing by the Community in the private markets of the United States and Europe.

More recently the U. S. Atomic Energy Commission and the Export-Import Bank, with the approval of the Congress, are joining in an extensive program for the development of nuclear energy throughout the six-country area. Negotiations are currently under way for the signing of a contract whereby the Export-Import

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Bank will loan $135 million of a proposed $340 million over-all program for the establishment of basic nuclear energy plants and for research.

3.

A new challenge developing in the international trade field has become more acute since I spoke in Philadelphia two years ago -- the growing economic thrust of the Soviet Union. This is a challenge to establish concepts and standards of trade and finance in the newer expanding countries of the world in a manner far different from, and inimical to, our western ways. There can be no doubt but that a serious challenge to the free economic system of the United States is coming from the state monopolistic system of the Soviet Union.



We have two authorities for this prediction -- the leader of the Communist Party in Russia and the head of their government, Mr. Nikita Khrushchev, and Mr. Allan W. Dulles, Director of the United States Central Intelligence Agency, who is one of our best informed citizens on the subject of the Soviet Union.

Recently Mr. Khrushchev stated:

> "The Soviet Union intends to outstrip the United States economically . . . . to surpass the level of production in the United States means to exceed the highest indexes of capitalism."

And what this means, Mr. Dulles said in a recent speech, is that Khrushchev "is convinced that the final victory of Communism can be achieved mainly by non-military means." "Here," Mr. Dulles continues, "the Soviet economic offensive looms large." Mr. Dulles went on to state, and with permission I quote from his manuscript:

> "The proceedings of the recent twenty-first party congress laid out what we might call the Soviet economic order of battle.
>
> "Khrushchev explained it in these words, . . . .
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> "'The economic might of the Soviet Union is based on the priority growth of heavy industry; this should insure the Soviet victory in peaceful economic competition with the capitalist countries; development of the Soviet economic might will give communism the decisive edge in the international balance of power.' "

Russia's economic offensive began in 1954 with an $11 million credit to Afghanistan. It has been increased, largely in the countries of the Middle East, year by year. But it was not until 1958 that the Soviet program of economic and

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military aid, and technical assistance, began to cause concern in the capitals of the West; and it was not until that year that Mr. Khrushchev began to be explicit about future cold war plans, laying more and more emphasis upon the economic offensive. Thus far the total amount of assistance which the Soviet Union has pledged -- and not all that has been promised, incidentally, has yet been provided -- is small when compared to the United States program.

Indeed, the communist bloc of countries last year -- Russia, the Eastern European satellites, and China -- made aid agreements with 18 countries totaling approximately the equivalent of $1 billion. In that same period your Export-Import Bank, which is primarily a financial institution and not a foreign aid agency, made credits in some 24 countries abroad for approximately $1 billion. And the Eximbank is but one of several agencies at the service of the U. S. Government to promote economic development abroad. So the United States today remains in a strong position as a source of assistance for economic development by other countries.



But as to the future, in this competition with communism, we must look to our laurels. Regardless of what may transpire, we at the Export-Import Bank believe the United States must not be stampeded into lending practices which are contrary to principles upheld within our own country. Unquestionably, the Soviet Union and its bloc can give us strong economic competition. For the Kremlin leaders direct a far higher proportion of total resources to national policy purposes -- such things as defense and investment in heavy industry -- than does the United States. As Mr. Dulles said, and I use his words, the Russians

> "are, in effect, plowing back into investment a large section of their production, thirty percent, while we in the United States are content with 17-20 percent."

What does this forecast for the future mean? Referring to the prospects of Mr. Khrushchev's present 7-year plan, Mr. Dulles says:

> "...the Soviet Seven Year Plan, even if not fully achieved, will provide the wherewithal to push the expansion of trade and aid with the uncommitted and underdeveloped nations of the Free World. By 1965 Soviet output of some basic raw materials and some industrial products will be approaching, and in a few cases exceeding, that of the United States. Most prominently, these products will be the kind that are needed for industrialization in the less developed countries.
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> "The outcome of this contest -- the Communist challenge in underdeveloped areas -- is crucial to the survival of the Free World."

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There you have the challenge. Who will it affect first? Of course, the newer countries, and the so-called underdeveloped countries, a label not entirely to my liking. Speaking generally, all countries of the world are underdeveloped in some way. None of us is complete, and all have something, either in the way of industry or the cultural arts, to contribute to his neighbor. What John Donne wrote in the late 16th century remains true today. Here are his immortal words:

> "No man is an island, entire of itself; every man is a piece of the continent, a part of the main; if a clod be washed away by the sea, Europe is the less, as well as if a promontory were, as well as if a manor of thy friends or of thine own were; any man's death diminishes me, because I am involved in mankind; and therefore never send to know for whom the bell tolls; it tolls for thee."



4.

In this rather kaleidoscopic resume of current trade problems, this brings me to a discussion of an important factor affecting U. S. business and finance and therefore the Export-Import Bank. During the past two years there has been increased activity in Washington in the field of international finance. Upon recommendation of President Eisenhower, and with the approval of the Senate and House Banking and Currency Committees as well as the Congress, the loaning authority of the Export-Import Bank was increased by $2 billion.

There are pending before the present Congress bills to authorize increased participation by the United States in the International Monetary Fund and the International Bank for Reconstruction and Development. Due to the increase in world trade these increases are to be desired. At the same time it is understood that there will be a more equitable readjustment of country quotas plus an increased effort to obtain payment of outstanding subscriptions of certain countries.

Two years ago this month former Secretary of State Dulles recommended to Congress the establishment of a Development Loan Fund which was done. At the present time there is before Congress a request for a supplemental appropriation for this current fiscal year for the Development Loan Fund as well as a request for an additional sum for operations during fiscal year 1960. The law clearly states that the Development Loan Fund shall be operated so as not to compete with private investment capital, the Export-Import Bank or the International Bank for Reconstruction and Development, or other financing sources.

In August of last year the decision was made at the highest levels of our government that the United States would participate in a Mid-East Development Fund as well as an Inter-American Development Bank. Within the past few days a majority of the twenty-one Latin American countries and the United States signed an agreement which, when ratified by the respective governments, will bring into being an Inter-American institution with an initial capital of $1 billion.

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Here again statements have been made that this new bank will supplement the activities of the existing financial institutions.

In the fall of 1957, in extending for another year the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480) the Congress made the Export-Import Bank responsible for lending certain foreign currencies to private enterprise. Under the so-called Cooley Amendment, the Bank may receive up to 25% of the proceeds in foreign currencies of sales of agricultural commodities negotiated under the new legislation.

The Bank may lend these funds to (1) United States firms or their branches, subsidiaries, or affiliates for business development and trade expansion in the foreign country, or to (2) either United States firms or firms of the foreign country for expanding markets for and consumption of United States agricultural products abroad.



The law requires that the loans be mutually agreeable to the Export-Import Bank and the foreign government. The law prohibits loans for the manufacture of products to be exported to the United States in competition with products produced in the United States, or for the manufacture or production of commodities "to be marketed in competition with United States agricultural commodities or the products thereof."

The making of sound loans with local currencies in some twenty or more countries is a new departure from the operation of the Export-Import Bank, but has been carried on, we believe, successfully insofar as U. S. private business is concerned and has fitted in with certain types of dollar loans the Bank is being called upon to make to U. S. private business overseas.

A few days ago, on April 16th, Senator Humphrey of Minnesota introduced a bill into the Congress entitled "National Food for Peace Act of 1959." This calls for the creation of a Peace Food Administrator, a five year program of local currency sales, stepping up the sale of agricultural surpluses to $2 billion a year as compared with $1.5 billion under the present Public Law 480. Among other sections the bill provides for the substitution of the U. S. Development Loan Fund for the Export-Import Bank in the handling of the funds described above.

In a letter recently received from Senator Humphrey he states that it appears that the Export-Import Bank has been doing a very responsible job of administering this program. He adds that considerable doubt has existed as to whether or not it should be a part of the Export-Import Bank's work. We are of the impression that he had not been previously fully informed as to the Bank's operations in this field and the potential possibilities and therefore we were encouraged when he added that he wanted our views and advice regarding any such transfer and that careful hearings will be conducted before any such change is made. This suggested change will undoubtedly be of interest to the U. S. private businessmen who two years ago initiated, and in fact, sponsored this legislation. The Bank has made a most satisfactory record in making sound loans in local currencies, repayable in local currencies, under the Cooley Amendment. I trust I will not be accused of being immodest in making this statement.

In the international field there has been proposed by Senator Monroney the creation of an International Development Agency wherein, in cooperation with other countries, local currencies the United States has received will be turned over to an international organization for the making of development loans. With proper authority and management, we believe these local currencies can be advantageously loaned by the Export-Import Bank.



After six years of traveling throughout our own country and throughout the Free World, I firmly believe there is but one concept upon which there seems to be a complete unanimity of thought, and that is the necessity for maintaining within our own United States a strong and virile economy.

A protracted recession would materially affect our buying power as well as our ability to create the capital and credit that is so necessary throughout the world today.

And it is in support of this agreed premise that we at the Export-Import Bank feel that in the consideration of all proposals for the creation of additional institutions in the aid and financing field extreme care be given to the protection of our own domestic economy. Most certainly this is not a plea for a Buy American policy, but rather a suggestion that certain countries, having been gladly aided in the recovery of their economies should recognize their own greater responsibilities in the field of foreign aid and trade.

During the past few months we have heard from outstanding United States bankers and industrialists to the effect that here in our own country we are pricing ourselves out of the international market. I suggest that one of the major factors in the present dilemma is the quantity of dollar financing that is now being supplied for purchases in the international market.

There seems to be a trend within certain sections of the executive and legislative branches of our government -- a trend being actively sponsored by internationally-minded advocates abroad -- to the effect that the United States should participate more actively, by its financial support, in international or multilateral institutions as opposed to wholly-owned United States, or bilateral, operations in the aid and finance field.

The U. S. aid and financing programs have admittedly not been perfect, but some of them have been of comparatively recent origin and I submit that the errors are of omission and commission in the operations and are not in the basic principles involved.

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In order that there could be no possible misunderstanding as to my personal position on the question of international cooperation, let me say I am wholeheartedly in favor of international organizations, especially in the areas where the responsibilities are assumed proportionately. Based on the past six years' experience in international trade and finance, I am not ready to concede that international organizations in the field of economic aid or finance can better serve the foreign policy of the United States than operations on a bilateral basis.

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