CHAPTER I OVERVIEW

Official export credit agencies (ECAs), a key pillar of the international financial architecture in the second half of the twentieth century, financed a significant share of exports from industrialized countries and provided larger debt financing for developing countries than either multilateral or bilateral creditors. Since the early 1990s, however, the world has changed dramatically. As noted in a conference in 2000 on the role of the U.S. Export-Import Bank in the twenty-first century, private credit insurance companies have "increasingly occupied the market" while "government-insured export business tends to account for a shrinking share of total exports in the major exporting countries."[1] Indeed, globalization, fueled by privatization and trade and capital liberalization, has significantly altered the landscape of international trade finance in recent years.[2] Yet there are more ECAs than ever before, as developing countries launch agencies of their own.

This study takes stock of developments in officially supported export credits since 1995. Following a precipitous decline in the overall level of activity during the 1980s, new export credit commitments by official export credit agencies quadrupled between 1988 and 1995.[3] Since then, the export credit business has been affected by several financial crises in emerging markets. At the same time, the activity of ECAs has evolved, shaped significantly by the environment in which they operate, particularly government policies and the willingness and capacity of the private sector to provide trade finance.

These developments raise important issues. In particular, with the recent changes in global finance, what role do official export credit agencies play today? Is there a need for continued government involvement in international trade finance? What are the key challenges facing public agencies in industrialized countries? What are the implications for developing countries and the new agencies that have been set up in those nations to promote export development? This study addresses these questions by assessing the available statistical evidence, summarizing the various responses by public and private trade finance providers, and drawing policy implications that may have consequences for countries. The aim is not to deny the well-known political and budgetary constraints in dealing with these issues, which, if adequately addressed, would help ensure balanced and sustainable trade and growth in the world economy.

This study is based on discussions with representatives of export credit agencies during the period from October 2003 to May 2004. A survey of 27 agencies provided valuable insights. The statistical analysis relies primarily on data provided by export credit agencies to the International Union of Credit and Investment Insurers (known as the Berne Union) and the Organization for Economic Cooperation and Development (OECD). These data are not with-

[1]See Hufbauer and Rodriguez, 2001, p. 8.

[2]The changing world of trade finance has been widely recognized (see the Berne Union Yearbooks over the past several years) and the subject of review by export credit agencies and industrial experts (see Export Credits Guarantee Department, 2000a; Export Credit Office, 2002; Export Finance and Insurance Corporation, 2001; Organization for Economic Cooperation and Development, 1998, 2001, 2003; Becker and McClenahan, 2003; Cruse and others, 2003; Moran, 2003; Barovick, 2004). Stephens, 1999, p. 29, notes that developments during the period have been "more rapid, more frequent, and more significant" than before (see also Stephens and Smallridge, 2002). Aspects of these developments were described in recent staff reviews of agencies that provide official financing to developing countries (Ross and Harmsen, 2001; Gilman and Wang, 2003).

[3]See Kuhn, Horvath, and Jarvis (1995).

out limitations (see Appendix I for more details), and thus caution is needed in their interpretation. In particular, the databases may not capture export credits supported by agencies or export-import banks in developing countries that are either small or not primarily credit insurers. Analysis of the changing trade finance marketplace is also made difficult by the lack of comprehensive and reliable data on other trade finance providers, particularly private sector providers.[4]

Financial flows facilitated by official export credit agencies are large in comparison with official development assistance and gross lending by international financial institutions to developing countries. However, the importance of officially supported trade finance has been declining relative to the rapid expansion of world trade and total capital flows to developing countries. Available evidence suggests that the private sector now provides most credit insurance in the short-term market in OECD countries. Medium- and long-term officially supported export credits relative to total capital goods exports in these countries have continued a declining trend since the late 1970s. In contrast, new ECAs have been set up in emerging market economies and their business has been growing, but their overall scale has remained relatively small. Low-income countries are getting a smaller share of officially supported export credits.

Underlying these developments is a sharp reduction or elimination of explicit subsidies in OECD countries through the Arrangement on Guidelines for Officially Supported Export Credits (known as the OECD Arrangement), the privatization of ECA activity in industrial countries and state-owned enterprises in developing countries, the rapid growth of foreign direct investment and intrafirm trade, the increased availability of trade finance from local sources in emerging markets, and the rise of the private sector and other new trade finance providers. These developments have led to changes in the role played by official export credit agencies, particularly those in industrialized countries, and raise questions regarding the need for continued government involvement in the future.

This study finds that, considering the private sector's growing appetite and capacity, the trend toward a reduced level of business supported by official export credit agencies in industrialized countries is likely to continue. However, private sector appetite at present remains limited in certain markets, particularly long-term credits, very large projects, small- and medium-sized enterprises, and markets considered relatively risky, such as a number of low-income countries. In these circumstances, official export credit agencies may be able to play a useful role by filling in the market gaps, where national and international interests warrant, while continuing to curtail distortionary subsidies under the OECD Arrangement and the World Trade Organization (WTO) Agreement on Subsidies and Countervailing Measures (SCM).

The study highlights the key challenges facing official export credit agencies, including complementing the private sector, facilitating financing to low-income countries while helping maintain these countries' debt sustainability, and playing a positive role in the area of trade finance in international efforts to address emerging market financial crises. Strengthening the capacity of official export credit agencies to serve as reinsurer and coinsurer may help them to meet the challenges ahead. ECAs in developing countries face an additional challenge to ensure that limited public resources are best used for economic development. Joining the

[4]Aside from the lack of reliable sources, several other problems in private sector trade finance data make it virtually impossible to estimate the global amount of external trade finance provided to developing countries. For commercial banks, only a subset of developing countries' external borrowing is identified by purpose, and of that, only data on commitments (not disbursements, repayments, or the stock of debt) are reported. In addition, it is difficult to distinguish bank loans that are guaranteed or insured from those that are not. There clearly are some overlaps between bank lending data and exposure data reported by credit insurers. Finally, survey data from suppliers and purchasers do not usually distinguish between domestic and international sources of finance (see World Bank, 2004).

international effort to eliminate export subsidy competition, including following the OECD Arrangement, would help in this regard.

Chapter II of this study presents available evidence on the levels and composition of officially supported export credits from both developed and developing countries, as well as recent structural changes in key segments of the market. Chapter III analyzes the factors contributing to recent developments, particularly the decline in officially supported export credits relative to exports in OECD countries. The changing roles of, and the main constraints faced by, official export credit agencies in comparison with the private sector and multilateral development banks are discussed in Chapter IV. The study concludes with a discussion of the challenges facing official export credit agencies, pointing to the areas in which the role of those agencies may be enhanced.