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Article

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STATE EXPORT CREDIT GUARANTEES IN A GLOBALISED WORLD

INTRODUCTION

ERDAL YALCIN¹

Global economic integration through international trade has steadily increased, along with the orderly elimination of trade barriers, for over half a century and it is by no means an overstatement to consider the increase in cross-border business as one of the major drivers of global economic growth and development. A common characteristic of emerging economies like China, Brazil or Turkey is the strong increase in their import and export activities accompanied by outstanding economic progress: open economies have improved their allocation of scarce resources, benefit from greater economies of scale, and are advancing at the same time thanks to international know-how and innovation spillover.

In light of this ongoing process of global economic integration, the importance of financial resources to firms' economic success seems incontestable and has been bitterly underlined over the last decade. The financial crisis in 2008/09 led to a collapse of credit markets, triggering one of the largest recessions in history. Due to the strong interdependence of nations *via* international trade, what started out as a regional financial liquidity shortage in credit markets snowballed into a prolonged slowdown in global economic growth. One key new insight gained from this crisis was that exporting firms are highly sensitive to credit constraints. Interestingly, prior to the crisis academic experts in international trade were not really aware of this sudden stylised fact. More importantly, they could provide no plausible explanation for why the drop in international trade was much sharper than that in national GDPs.

Different stakeholders, ranging from policymakers and lobby groups to experts in financial institutions, expressed understandable criticism about scholars' nescience in international trade and finance interrelationships. The economic crisis of 2008/09 illustrated

that the academic community has a long way to go before it understands how international trade is shaped by international finance and an increasingly volatile economic environment. The crisis also demonstrated that the practical world of financial intermediaries is not perfect either. More specifically, financial markets are dysfunctional and this imperfection varies substantially across countries. It also emerged that a *laissez faire* approach may not have been the most efficient economic strategy for overcoming major collapses in the financial markets.

Differently stated, there appears to be a role for the state to play in at least mitigating imperfect financial or credit markets. One efficient public instrument for overcoming the weaknesses of financial intermediation cited above can be found in state credit guarantees. In the post-crisis years, academic attempts to understand the relationship between international trade, finance, uncertainty and the role of the state have redoubled. Indeed, a rising number of economic studies illustrate that public credit guarantees support firms in their bid to overcome financial constraints and operate profitably, particularly in cross border transactions.

However, several key fundamental questions much more widely discussed among practitioners than among scholars remain. How large should public support for internationally active firms become? And more importantly, given the increasing fragmentation of production – an ever larger share of the value chain within a production process is produced offshore across different countries – firms are confronted with new financial needs and challenges. How are cross border financial transactions and trade in goods and services affected by these developments? What are the new insights into the links between trade and finance in the light of globally organised value chains? How are entrepreneurs, financial institutions and governments dealing with these new challenges, or how should they approach them?

In cooperation with the German Federal Ministry for Economic Affairs and Energy, the Ifo institute organised a joint conference that brought together experts from financial institutions and international enterprises, representatives of public institutions and minis-



¹ Ifo Institute.

tries, and leading scholars to discuss the questions raised in international trade finance, identify new challenges and generate recommendations.²

This special edition of the CESifo Forum 2014 presents a collection of articles resulting from the conference called 'The State Export Credit Guarantees in Globalised World' that was held at the Ifo Institute in February 2014. In the first part of the special issue, five stakeholders from different institutions assess developments in global value chains and discuss the role and challenges for export credit agencies (ECA) from their point of view.

Davide Drysdale, Head of the Export Credits Division of the OECD Trade and Agriculture Directorate, discusses the varying scope of ECA support across countries based on his insider knowledge. *Kalina Manova* from Stanford University follows him with a recent empirical analysis in which the relevance of credit constraints along the global value chain are discussed and evaluated. Her research identifies important new interdependencies between cross-border production fragmentation and financial markets. *Marc Auboin* from the WTO's Economic Research and Statistics division takes a broader view by describing the efforts of the international community to support trade finance, particularly in times of economic distress, and the role of the WTO in this context. *Oliver Hunke* from the Federal Ministry for Economic Affairs and Energy illustrates how foreign content rules for German state credit guarantees are regulated and how potential changes may affect both globally integrated firms and national suppliers if existing regulations are relaxed due to the increasing internationalisation of production chains. *Beate Bischoff*, Head of Business Division Corporates at BHF-Bank AG, discusses the need for changes in ECA content regulations from a banker's perspective. Finally, *Andreas Klasen*, Managing Director of the official German export credit and investment insurance scheme, and Vice President of the Berne Union, the leading international association for the export credit and investment insurance industry, presents an economic analysis of major drivers of export credit guarantees and insurance.

In the second part of the special edition four experts present empirical analyses for countries with very spe-

cific characteristics. Using the case of Turkey *Banu Demir* from Bilkent University illustrates how trade finance in developing countries shapes export patterns and what role policymakers can adopt to overcome financial market shortcomings. *Harald Badinger* from WU Vienna and *Thomas Url* from the Austrian Institute of Economic Research provide an economic assessment of the determinants and effects of state export credit guarantees by the Austrian ECA. Interestingly, even in a country with a well-developed financial market, there is a need for public instruments that enable exporters to extend business in specific countries and sectors. *Karel Janda* from the Charles University in Prague extends the previous evaluation by analysing the effects of state guarantees in the case of the Czech Republic. A major focus of his analysis is on how the specific regulations of the Czech ECA may be responsible for commercial banks' reluctance to provide firms with trade finance. The last contribution by *Gabriel Felbermayr*, *Inga Heiland* and *Erdal Yalcin* presents the findings of a large evaluation study of Germany's export credit guarantee programme. Their empirical analysis intends to establish a causal relationship between the public finance instrument and export driven employment.

Export credit agencies have experienced a strong revival since the financial crisis. The following collection of articles covers a broad range of new economic insights concerning the role of state credit guarantees in the past and the future. It aims to facilitate an exchange between different stakeholders, to gain a better understanding of the discussed public instrument, and to pave the way for improvements in the field of financial intermediation and international trade.

² The conference (State Export Credit Guarantees in a Globalized World. Practical and Political Challenges in Financing International Business) is available as a video stream in CESifo Groups' media library – http://mediathek.cesifo-group.de/iptv/player/macros/cesifo/mediathek?content=3170045&idx=1&cate_gory=2141192207.