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# Introduction to the Special Section: Strengthening Institutional Collaboration for Development and Economic Growth

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Open markets, international trade and foreign direct investments (FDI) are a source of prosperity in challenging times. This Special Section looks at developed economies and emerging markets, also taking into account the role of trade for impactful capacity-building in Least developed countries (LDCs). Specific emphasis is placed on financing economic development and trade, analysing what roles trade and development finance should play in the quest for an efficient mobilisation of private capital for growth, trade and development.

A global economy producing, trading, and consuming goods and services across borders is a reality for billions of people and firms. Over the last decades, the expansion of international business activities through a multilateral system for trade and investment provided a major pillar for growth enjoyed by developed and developing economies. However, the rise of nationalist and populist politicians in countries such as the United States has put into question the consensus around trade and investment liberalism that has sustained economic openness for many years (Hale and Held, 2017). Despite numerous gains made from free trade between countries and global investment activities, multilateral efforts to enhance global governance seem to have come to a standstill. As it stands, multilateral trading and investment systems face a new set of challenges such as a fragmented policy making landscape and institutional inertia (Klasen, 2017).

This Special Section discusses open markets, international trade and foreign direct investments (FDI) as a source of prosperity in challenging times. It looks at developed economies and emerging markets, also taking into account the role of trade for impactful capacity-building in least developed countries (LDCs). Specific emphasis is also placed on financing economic development and trade, with contributions from practitioners from a variety of backgrounds and countries on different perspectives regarding the question what roles trade and development finance should play in the quest for an efficient mobilisation of private capital for growth, trade and development.

The contributions follow an intense discussion at the IfTI Global Symposium held at Offenburg University's Institute for Trade and Innovation in 2018. The aims of this high-level symposium were to inform financiers and policy makers, improve knowledge and expertise, strengthen institutional collaboration and move towards creating a dynamic marketplace for mobilising capital. The symposium offered space

to share approaches to better understand and address current challenges, present case studies, and to discuss practical and pragmatic ways to move forward. Furthermore, it was unique in its quest to bring together experts from 30 countries.

## Global challenges for economic development

Global trade of goods and services experienced a substantial recovery with a growth of 4.1 per cent in 2018 (World Bank, 2019). Drivers for growth were not only stronger intra-regional trade developments in Asia but also rising imports in the United States, in particular due to additional fiscal stimulus. The rebound of international trade also had the effect of boosting manufacturing exports in many countries. However, global trade slowed again more abruptly than envisaged in 2018, and moderate trade growth is expected over the next years because of political factors as well as structural developments. For example, rising trade protectionism and the slower growth of global value chains might lead to substantial challenges for exporters. The same applies for investment activities: forecasts point to solid investment in many developed economies. However, investment growth rates in several emerging markets and developing economies such as China remain below those in recent years. FDI activity is relatively weak across many sectors on a global level with the rate of expansion of international production slowing down. In addition to increased policy uncertainties and geopolitical risks, the decrease in rates of investment return was one of the main reasons behind the recent downturn. Moreover, the future investment climate might also be negatively affected due to the fact that industrial production and new export orders recently decelerated.

The benefits, as well as the challenges of globalisation, are discussed by Oramah and Dzene. They analyse why the

United States and other member countries of the Organisation for Economic Co-operation and Development (OECD) remain the largest beneficiaries of a global business environment. In addition, they look at opportunities in Africa that show how the continent can host labour-intensive manufacturing companies using investments as an instrument for reducing poverty. However, both authors also mention how rising anger in societies due to inequalities of the global economic environment could spark national and international conflicts. The European perspective is assessed by Hinz. She shows that open markets are a source of prosperity using the example of the Federal State of Baden-Wuerttemberg in Germany. Although the region prospers, Hinz discusses that an important task for a future-oriented economic policy is to create appropriate framework conditions so that the economy can continue to grow while dealing with challenges of the 4th industrial revolution.

Adhikari focuses on LDCs and looks, in particular, at the role of Aid for Trade (AFT), an initiative launched by the World Trade Organisation (WTO) to tackle critical supply-side-constraints facing both developing countries and LDCs. One of the key lessons described is that AFT interventions do not operate in a vacuum, and the right conditions need to be in place for them to succeed. From Adhikari's point of view, it is also critical to target interventions focusing on a specific issue or sector in order to get the best results rather than spreading resources too thinly. Suehrer adds the FDI perspective and looks at the United Nation's Sustainable Development Goals (SDGs): he discusses that impact investments and SDG-related investment portfolios have the potential to become an attractive alternative for investors to divert from pure profit-oriented thinking to a more impact-oriented approach. The development of LDCs is not only a momentary investment opportunity: transforming countries into stable and sustainable economies will create a long-term investment potential.

### Financing trade

The following chapters focus on financing foreign trade. Markets are mechanisms for allocating resources and are, by and large, the most efficient way to coordinate an economy. If markets are perfectly competitive, participants have perfect information, and there are no externalities and no public goods, market outcomes without major public interventions are said to be efficient. However, shortcomings are widely acknowledged in certain situations whereby the conditions for perfect competition are not met. Markets can fail to achieve efficient outcomes because they suffer, in particular, from imperfect information and externalities. Stiglitz and Weiss (1981) have shown that this can result in unmet demand for credit. Externalities are typically a main justification given for government intervention to support export industries or provide development financing. In addition to market failure, policy goals can be a crucial aspect for public interventions. As governments play an important role in growth processes, goals can be related to the provision of domestic infrastructure. In addition, policy goals can

be associated with employment in the national economy or industrial policy objectives (Klasen and Eicher, 2017).

To expand economic growth and foreign trade, governments around the globe promote exports and established trade-related financing and risk mitigation instruments. The first export credit agency (ECA) was created 100 years ago in the United Kingdom, followed by other highly industrialised countries such as Germany, Italy, Spain and Denmark. Private credit insurers and commercial banks often have limitations in terms of costs and risk appetites, in particular for exports to high-risk markets and transactions with extended credit periods involving capital goods. This creates a need for ECA support in developed economies. Due to limited private offerings and export-related policy goals, many developing countries such as China, India and Russia have also begun to provide export credit and insurance facilities in recent decades (Broocks and Biesebroeck, 2017; Klasen, 2014).

In his article, Kumar focuses on the accumulation and mobilisation of capital for sustainable development taking into account historical perspectives and the significance of ECA financing. Schöne looks at requirements and challenges of foreign trade finance in times of change and also discusses recent developments associated with the 4th industrial revolution, location-independent production and automation of underwriting decisions. Because small and medium-sized companies (SMEs), in particular, need significant support from ECAs, Oberle and Ponterlitschek make SMEs the focus of their contribution and present a practitioner's guide for small and medium-sized exporting businesses.

### A level playing field in order to create impact

As mentioned above, normally the rationale for ECA activities is to stimulate national exports if there is a market failure in commercial lending or private credit insurance. The principles of ECAs can include a 'lender or insurer of last resort' approach, catalytic effects in export development, as well as sound risk underwriting and organisational financial viability (Klasen, 2017). Some agencies also provide solutions through or close to 'market window' financing by applying terms and conditions consistent with those available from commercial banks. However, most institutions take into account the principles of additionality, catalyst effects and sustainability. There is no standard definition or approach for the ECA concept of additionality, but proof of market failure can be provided using a market test or by requiring letters of rejection from commercial banks or private insurers. ECAs also play a crucial role in mobilising financing from private-sector sources: creating a catalyst effect. The involvement demonstrates to commercial lenders and insurers through credit decisions that transactions in risky political and economic environments can be viable. In addition, ECAs include several aspects of sustainability in their financing and insurance underwriting decisions.

Groth discusses reasons why the measurement and reporting of social impact is a major issue for export credit

agencies. Specifically, he argues that better communication is key in order to show that ECAs are ultimately driven by their ambition to contribute to society. Søndergaard-Jensen then looks at the level playing field for official export credit support. From her point of view, competition among exporters based on the quality and price of goods and services exported is crucial. She also argues that the OECD export credit framework and existing multilateral structures regulating trade finance and official finance for other purposes are no longer adequate, but that moving outside the existing framework is not the answer: good governance and fair trade are mutually supportive.

### The role of development banks in trade – and reasons for multifaceted cooperation

In order to address market failure and reach specific policy goals, many governments in both developed and developing economies have set up a broad variety of government financing vehicles to improve access to finance, foster innovation, promote exports or stimulate economic development. These financing vehicles can include not only ECAs but also national development banks (NDBs), innovation funds or development finance institutions (DFIs). The establishment of development banks goes back to the 19th century when rapid industrialisation could often only be achieved by government provisions of long-term financing for risky transactions. Already at this early stage, some NDBs concentrated not only on the domestic economy but also on assistance and financing for foreign developing countries. In addition, many governments established DFIs in the 1960s or 1970s that solely focused on developmental assistance. On a multilateral level, multilateral development banks (MDBs) provide financial support to developing countries through grants, equity, loans, guarantees as well as technical assistance. For some NDBs, DFIs and MDBs, the aspect of trade can play a significant role, for instance, with regard to trade finance programmes and technical assistance.

Smallridge analyses the mandate of NDBs, specifically how they play a potentially crucial role in bridging market gaps and supporting segments of the market in local economies that have been shut out by commercial banks. The author argues that while trade finance prospers in a well-regulated global financial system, policy makers need to find the right balance between encouraging and managing the risk-taking behaviour that facilitates growth and economic development. In this regard, multilateral and national development banks are well positioned from Smallridge's point of view to work alongside policy makers and regulators to address trade finance gaps.

A specific problem is related to local currencies and the question if gradual de-dollarisation would boost trade. Hirschhofer analyses this important aspect of ECA, DFI and MDB interventions. Putting currency risk on the shoulders of borrowers in developing countries does not seem an effective, sustainable or fair solution. Therefore, he argues that markets with the support of specialised institutions can mobilise local currency financing in rapidly increasing volumes.

There are potential overlaps and collaboration of ECAs, NDBs, DFIs and MDBs, and there is a growing convergence of export credit and development finance. DFIs are scaling up their activities and providing loans and guarantees that look a lot like export credits. ECAs and DFIs together are important external financiers of developing countries irrespective of their different mandates and the role of ECAs. Therefore, related trade and developing financing partners must adjust to the shifting landscape. Schipfer discusses these numerous similarities between the worlds of MDB/DFI and ECA in detail. He shows that public financing instruments must be complemented by private-sector development to improve self-sufficiency and the integration of emerging economies into international supply chains.

The larger the development project, the greater the need for capital to fund it. Therefore, according to Riordan, collaboration between the public and private sectors is a necessity to bring transformative projects to life. In the last contribution for this Special Section, he discusses ways to bring together elements for partnerships between public and private entities. For example, he explains that public-sector organisations have a deep understanding of local market dynamics and the local or regional culture. Private-sector companies can supply technical expertise, experience in innovative forms of financing and risk management, and attract additional investment.

### Summary and conclusion

Global trade and investments are key drivers for economic growth, and trade and investments are related to several dimensions, namely: the 4th Industrial Revolution with disruptive technologies, the globalisation of markets, innovation leading to new trade opportunities, as well as foreign investments following exports. This leads to both challenges and opportunities for companies operating in cross-border business. Digital technologies, for instance, are changing the business environment at breathtaking speed. Exports are important drivers to increase economies of scale, boost sales volumes and diversify companies' customer bases, while FDI can substantially yield competitive advantages for firms. From an economic perspective, growth is powered by innovation, investments and exports, helping both industrialised and developing countries to reduce poverty and prosper. However, rising trade protectionism and slower growth in global value chains might lead to substantial challenges.

In addition to market failure, policy goals for infrastructure projects abroad can be a key aspect for public interventions. As governments play an important role in growth processes, policy goals can be related to employment or to industrial policy objectives. However, emphasis can also be placed on the SDGs, including poverty reduction. In recent years, a number of governments have begun to combine objectives regarding trade and development cooperation. Many policies, for example, focus on promoting sustainable and inclusive growth, as well as enhancing international earning capacity by pursuing a progressive international trade and investment agenda.

There are different mandates or characteristics when comparing ECAs, NDBs, DFIs and MDBs. ECAs were founded to support domestic businesses to engage in international trade, and job creation in the national economy often plays a key role. NDBs and bilateral DFIs typically focus on specific development impacts, while MDBs are more broadly directed at regional development and integration. However, trade aspects can play a major role not only for ECAs but also for NDBs, DFIs and MDBs. In addition, there is a growing convergence among different institutions which can lead to competition and challenges to maintaining a level playing field for exporters.

In addition to growing competition, there is also growing collaboration between trade and development finance government vehicles. The same applies for public and private-sector activities where cooperation at the transaction level is found in the form of syndication, coinsurance or reinsurance. A second form is policy development, knowledge or information sharing. Furthermore, another trend is seen in designing or offering a new or improved service or product by leveraging a cooperation partners' respective strengths. Although cooperation mostly occurs between ECAs or within the DFI/MDB environment, other examples exist as well, for instance, public and private institutions working together in the form of co-financing as well as policy development and knowledge exchange. Lastly, several government institutions also look at private insurance for eligible transactions to free up their balance sheets.

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