(ii) Export Financing as a Factor in Competition

In Canada, the U.S. and other industrialized countries the private sector's current production inputs and investment are financed through the private financial market. To the extent that national savings are insufficient, the financial system or individual firms generally have the capacity to raise funds in the international financial and capital markets. Thus, government-supported export financing has been, with some exceptions, an insignificant factor in trade among industrialized countries.

It is in the Third World and Eastern Europe that government-supported export financing plays an active role in competition. For most developing and Eastern European countries, their insufficient domestic savings and limited access to international financial and capital markets has meant that our export sales to them are contingent on the availability of officially backed sources of financing.

Export financing when supported by governments has two fundamental characteristics. First, financing is made available to borrowers and buyers who do not normally have access to financial markets. Second, government intervention, particularly in the form of medium- and long-term financing at fixed interest rates, has in fact resulted in subsidies by lowering interest rates on export financing below market rates.

All industrialized countries, several developing countries (e.g. Brazil, Argentina, Korea, India), and Eastern European countries have government-supported programs for export financing. In general, financing is provided in accordance with OECD ground rules (see below), but recently there has been an increase in mixed credit or "concessional financing" competition (i.e. a combination of concessional funding, usually official development assistance, and commercial export credits).

The development argument for blending aid with export credit is that it stretches a limited amount of aid funds over a larger number of projects or markets. However, mixed credits or concessional financing have also been used to finance exports which previously had been largely financed through normal export credits. They have also been used to finance sales to countries that are on their way to being able to support commercial financing terms. This has created a number of problems, and the response has come on two fronts. Ground rules for mixed credit have been negotiated in international forums (see below), but since these have met with limited success most industrialized countries, including Canada and more recently the U.S., have resorted to "matching" programs or to modifying their aid programs to put their exporters on an equal footing.