The trade jungle of export credits

by T.M. Burns

One of the most intractable international trade issues over the last decade has been the question of officially supported export credits. Successive Summit meetings, including the most recent Versailles Summit, have all underlined the point that there is a need for international agreement on this subject. Progress in achieving such agreement has been slow; in fact those agreements which have emerged have not yet fully dealt with the principal problem — that is the distorting effect on international trade flows of export credits, carrying terms and conditions which are subsidized or concessionary.

In this discussion, the term "official export credits" will refer to financing in support of export sales of capital goods and associated services. This is the financing that is provided either directly or indirectly through the actions of official government agencies in the country of export of the goods and services in question. In practice, there is a wide variation in the techniques used by the industrialized countries in providing this financing support, but whatever the techniques, their common features are that they all provide relatively low fixed rates of interest and relatively long terms — five years or above. Official export credits are particularly important in sales of capital goods and services from the industrialized world to the developing countries, to countries in Eastern Europe and the USSR and to a lesser extent in trade between industrialized countries.

Origins of export credits

Official export credits, according to this definition, have only become an important element of international trade since the end of World War II. It is true that a few countries had official export credits agencies earlier than that, but their activities were essentially insurance-oriented, aimed at providing commercial and political risk cover for their exports. In the past thirty-five years, there has been a significant growth in international trade in capital goods. A substantial part of that growth has been in sales to the developing world. More capital goods have meant more and longer credit. The chronic shortage of capital and foreign exchange in developing countries has meant that buyers in those countries have had to rely increasingly on credit to finance their imports of capital goods. The increasing size of these transactions and the financial status of the buyers have meant that these exports could be sold only on credit; but the private sector could not take on such credit, due to its length and the risk that it entailed.

As a result, government-supported agencies came more and more into a principal role in the provision of such credit, with terms and conditions typically of five years or longer, and with fixed rates of interest. Because the financial package is now recognized as one of the major elements to be taken into account in determining the overall competitiveness of offers of capital goods, buyers' demands have led to an increasing emphasis by industrialized countries on supplying "competitive" financing.

In the fifties and sixties, as this international system came into place, the relative stability of interest rates and modest inflation rates allowed it to continue with comparatively few problems. However, the onset of the 1970s introduced new elements that have successively brought the whole question of export financing into international controversy. Without listing them in order of importance or of chronology, those elements included the following:

1. Inflationary trends moved sharply upwards and, crucially in this context, at different rates in different countries. This trend has put substantial upward pressure on domestic interest rates in many, but not all, industrialized countries. The resulting wide variation in market interest rates has meant that countries at the high end of the scale have had to take special action to maintain relatively low fixed rate export financing in order for their exports to remain competitive.

2. The adverse effect on the balance of payments position of industrialized countries imposed by sharply increased oil import bills put the promotion of exports much higher on the priority scale of most industrialized countries. As well, unsatisfactory rates of domestic economic growth sharpened the competition among industrialized countries for export business which might compensate for poor domestic performance.

3. The impact of oil prices on the non-oil developing countries imposed an ever greater demand for credit, if development programs in these countries were to continue.

4. Finally, the United States, which had been relatively uninterested in the subject of international export financing practices, became increasingly concerned, as it recog-

T.M. Burns is President of the Canadian Export Association in Ottawa.