CROSS BORDER TRADE, INCREASED VALUE ADDED AND ECONOMIC GROWTH IN EMERGING MARKET ECONOMIES: CAN EXPORT CREDIT AGENCIES HELP?

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ABSTRACT
Cross border trade is an important engine of global growth. Export Credit Agencies (ECAs) can be useful facilitators and promoters of export from home to host country, especially during economic and financial crisis. In fact, ECAs can help both home company (exporters) increase sales opportunities, as well as their business partners, who are operating in emerging market economies with less developed financial systems, and need to import new machinery to modernize their processing lines and increase their value added. This is especially true for companies engaging in capital intensive activities, including investments with long repayment periods. This article discusses the role of ECAs in facilitating cross border trade to emerging markets and demonstrates how selected risk mitigation instruments have been applied in practice. Cases are presented that highlight how companies (the importers) have used the service of ECAs to obtain better lending terms, including longer term loans and at lower interest rates. The cases also illustrated home companies (the exporters) can benefit from ECAs' service when selling their products.

KEYWORDS: *Cross border trade, trade promotion, export credit agencies (ECAs), commercial and non-commercial risks, risk mitigation instruments, cross border risk management*

JEL CLASSIFICATION: *F14, F21, G01, G24, G32*

1. INTRODUCTION

Cross border trade is an important engine of global growth. The 2008 economic and financial crisis, considered by many to be one of the greatest economic challenges since the Great Depression of the 1930s, resulted in a sharp fall in international trade in the second half of 2008 and early 2009. According to a recent IMF working paper export credit agencies (ECAs) played an important role in cushioning this downturn. The same IMF paper argued that ECAs "may also have played an important signaling role by reassuring the private sector that official institutions stand ready to back up at difficult times." (Asmundson, et al., 2011: 33).

In addition to playing a crucial stabilization role during times of economic and financial crisis, ECAs can be useful facilitators and promoters of export from home to host country. ECAs can also help companies, operating in emerging market economies with less developed financial systems, who need to import new machinery to modernize their processing lines and increase their value added. This is especially true for companies engaging in capital intensive activities, including investments with long repayment periods. This article discusses the role of ECAs in facilitating cross border trade to emerging markets and demonstrates how selected risk mitigation instruments have been applied in practice. Cases are presented that highlight how companies have used the service of ECAs to obtain better lending terms, including longer term loans at lower interest rates.

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The article will be structured as follows after this brief introducion: First, some definitions of ECAs as well as commercial and non-commercial risks. Second, the role of ECAs during times of crisis is discussed. Third, some economic justification for the existence of ECAs are identified as well as theoretical considerations. Forth, is a brief section on methodology. Fifth, some risk mitigation instruments offered by ECAs are identified and analysed. Sixth, a few cases are discussed that demonstrate the application of ECAs risk mitigation instruments, including findings from a primary research conducted by the authors in co-operation with a large Icelandic company, Marel. Marel is engaged in manufacturing and exporting food processing equipment and has production facilities in a number of countries in Europe, America and Asia. This case demonstrates how Vietnamese companies could benefit from the services of ECAs when upgrading their processing lines, increasing their value added and promoting economic growth in Vietnam. Finally, there is a concluding chapter also suggesting some future research.

2. ECAs, COMMERCIAL AND NON-COMMERCIAL RISKS - SOME DEFINITIONS

What is an ECA? On the website of the OECD one can find the following information „Governments provide official export credits through Export Credit Agencies (ECAs) in support of national exporters competing for overseas sales. ECAs provide credits to foreign buyers either directly or via private financial institutions benefiting from their insurance or guarantee cover. ECAs can be government institutions or private companies operating on behalf of the government." (OECD n.d.).

ECAs thus facilitate cross border trade by providing insurances or guarantees against commercial and non-commercial/political risks. But what are those risks? MIGA defines political risk broadly as "the probability of disruption of the operations of MNEs by political forces or events, whether they occur in host countries, home country, or result from changes in the international environment. In host countries, political risk is largely determined by uncertainty over the actions of governments and political institutions, but also of minority groups, such as separatist movements. In home countries, political risk may stem from political actions directly aimed at investment destinations, such as sanctions, or from policies that restrict outward investment" (MIGA 2009: 28). The Oxford Handbook of international Business defines political risk as "the probability of disruption to an MNE´s operations from political forces or events and their correlates. It involves governmental or societal actions, originating either within or outside the host country, and negatively affecting foreign companies´ operations and investments. Political risk reflects the degree of uncertainty associated with the pattern of decisions made by the political institutions such as governmental and legislative agencies"[i] (Luo, 2009: 2).

Commercial risk is defined by the OECD (in the context of export credits) as "the risk of nonpayment by a non-sovereign or private sector buyer or borrower in his or her domestic currency arising from default, insolvency, and/or a failure to take up goods that have been shipped according to the supply contract" (OECD, 2003).

For the purpose of this article we will be concerned with commercial and non-commercial risks faced by exporters who wish to engage in cross border trade to emerging market economies. Those economies are often undergoing a political and economic transition which makes private sector engagement more challenging than when exporting to developed economies. Companies entering emerging markets can expect to face higher market barriers and more political uncertainties than those entering developed high income countries.

3. ECAs DURING TIMES OF CRISIS – CROSS BORDER TRADE RISK MANAGEMENT

In an increasingly globalized world, continued economic growth depends much on openness of economies and trade among nations. The 2008 economic and financial crisis severely affected global trade flows. A recent IMF Working Paper referred to above shows that exports of advanced, emerging, and developing nations were all growing strongly through mid-2008 but then dropping sharply in the second half of 2008 and 2009 (Asmundson et al., 2011). According to the IMF working paper the prompt action by the G-20 and ECAs likely helped keep trade flowing during the worst of the disruptions (Asmundson, et al., 2011). A recent column published by two World Bank staff members, titled “Export credit agencies to the rescue of trade finance” argues that export credit agencies played a key role in stabilizing the trade finance market. They also refer to surveys that have detected an increased need for more guarantees and insurance to facilitate the release of trade finance funds (Chauffour & Saborowski, 2010). Furthermore, according to Steve Tvardek at the OECD, when discussing trade flows in the aftermath of the economic and financial crisis that started in the fall of 2008, “ECAs not only became more important than ever as a source of trade finance, they actually became one of the principal policy tools governments used to cushion the real economy from the chaos in the markets” (Tverdek, 2011, p.1). The demand for the services of many ECAs increased during the crisis. For example according to EKN, the Swedish Export Credit Agency, the volume of guarantees issued increased from more than SEK 20 billion in 2007 to more than SEK 115 billion in 2010 (EKN, 2010). This evidence unequivocally illustrates that risk mitigation instruments are in high demand in a developed country like Sweden.

4. SOME THEORETICAL CONSIDERATIONS

According to Raoul Ascari[ii] the rationale for establishing an ECA has never been spelled out in a definite way. Furthermore he states that the "economic literature on this line of research has almost disappeared over the last two decades" (Ascari, 2007: 3). Ascari, however, refers to the World Bank Research Observer from 1989 that lists some rationales behind export credit. Those are: domestic distortions, capital market failures[iii]; risk uncertainty and incomplete insurance markets; moral hazard[iv], and adverse selection[v]. As Ascari points out moral hazard and adverse selection may rise premium above the threshold at which exporters are willing to buy insurance (Ascari, 2007: 3). Other rationales for export credit and insurance are: industrial policies; export externalities; employment and balance of payments and matching other countries programs (For detail, see Fitzgerald & Monson, 1989; Ascari, 2007).
According to a report published by the WTO in 1999 aggravated asymmetric information[vi] in cross border trade, and the inability or unwillingness of private commercial banks to take on economic/commercial risks and political/non-commercial risks is often seen as an economic justification in trade financing (Finger & Schuknecht, 1999). This is especially true for large and long-term trade contracts to countries with less developed financial systems. Obviously asymmetric information can be significantly larger in international trade, as compared with domestic trade. This is because information about foreign companies (e.g. importers) is often more limited or less familiar to the supplier or exporter and his bank than in the case of domestic clients. This problem relates to commercial risks. Another problem associated with distant market has to do with policy changes which make transfer of foreign exchange difficult or impossible thereby preventing the importer/purchaser from making a payment to the exporter/supplier. This problem relates to non-commercial risks.
ECAs from developed countries can help in this process if they guarantee exports to emerging markets and by doing so reduce the needs for domestic financing. ECAs can provide cover for both commercial and non-commercial risks. In fact most developed countries have ECAs that help promote exports. As Finger and Schuknecht point out ECAs provide trade related financing through

three main instruments: (i) credits for trade transactions which would be difficult, or more costly to finance via commercial lending, (ii) guarantees for repayment of credits which help exporters receive more favorable lending terms from their local or international banks, (iii) insurance for exporters against commercial and non-commercial/political risk (Finger & Schuknecht, 1999: 9).

5. METHODOLOGY

The methodology used in the article is the case study method. Compared to other research methods, a case study enables the researcher to examine the issues at hand more in-depth. According to Yin (Yin, 2009: 101-102) there are six sources of evidence that are most commonly used in doing case studies. Those are: documentation, archival records, interviews, direct observations, participant-observation, and physical artifacts. Each of these sources has advantages and disadvantages and according to Yin one should “note that no single source has a complete advantage over all the others. In fact, the various sources are highly complementary, and a good case study will therefore want to use as many sources as possible” (Yin, 2009: 101). Among the sources of evidence used for the analysis in this article are interviews with the four of the largest fish processors in Vietnam and ECAs in Denmark, the Netherlands, Singapore and Sweden. Documentation/secondary data, including reports and scholarly literature are also used. Direct observation also plays a role in this article as the authors draw on a field visits to four of the largest fish processors in Vietnam in November 2011. Other cases from Vietnam, Jordan and Ukraine that are secondary information from the Danish ECA, EKN, are to illustrate how the instruments of ECAs have been applied in real world situations. Case studies do not present results that can be evaluated on the basis of statistical significance and one should be careful in generalizing findings of one case study on another cases or situations. However, some lessons from the study on Vietnam can have a wider relevance than for Vietnam only. This is especially true for emerging market countries with large processing industries, requiring capital intensive processing lines to increase the value added in their processing. This is also true for companies in emerging markets that have limited access to long term funds and often face high and fluctuating real interest rates that complicate investment decisions and result in sub optimal processing solutions.

6. ECAs AND SOME RISK MITIGATION INSTRUMENTS

When private companies engage in cross border trade to emerging markets, the risks they face is a key concern. Managing those risks will be one of the primary objectives of the company. Not only small and medium sized companies need to evaluate and assess the risks they are faced with carefully, but also large corporations with stronger financial capabilities need to protect their business from risks. In order to meet this existing demand the political and commercial risk insurance industry has been formed. The leading association in this industry is the Berne Union (founded 1934) with 73 members including mainly ECAs, multilaterals, and private insurers (MIGA, 2010). ECAs are either public-sector institutions in their respective countries, established to provide support for the exports of that country, or private-sector companies that act as a channel for government support for exports from the country concerned (Yescombe, 2002).
In general, these ECAs will charge a premium to those companies who use their products. According to MIGA the “OECD country ratings are designed to set guidelines to price the default risk on export credit and to set minimum premium rates charged by participating ECAs” (MIGA, 2010: 63). The ratings known as the Knaepen Package came into effect in 1999, is a system for assessing country credit risk and classifying countries into eight risk categories, from 0 to 7 (OECD, n.d). Basically, ECAs will assess political risk and commercial risk when they issue guarantees to exporters or foreign buyers. ECAs use country ratings by OECD as platform to assess political risk or country risk while commercial risk is assessed based on each individual corporate´s information such as operation and background information, financial and audited annual reports, project

feasibility studies, etc. Companies who are eligible to use products or services provided by an ECA must have their operations relevant to national interest of the country where the ECA is located. In other words, the companies must contribute to national economic development of that country in a direct or indirect way. For instance, a company must have production facilities located in the home country of the ECA. The ECA can also support a home company who has production facility in a host country.

There are various products or risk mitigation instruments offered by ECAs and these products can be the same or very similar from one ECA to another. Products of ECAs include, for example: Bond Guarantee, Investment Guarantee, Project Financing Guarantee, Financing Guarantee, Project Delivery Guarantee, Working Capital Guarantee or Reinsurance.

The products that this article focuses on and analyses are: (i) Buyer Credit Guarantee, (ii) Supplier Credit Guarantees and (iii) Export Loans. The authors of this article chose those three products based on their research of a large European company, Marel, in connection with its business expansion in Vietnam. These products seem to be suitable for risk mitigation when companies export goods or services to their buyers in emerging markets. However, companies need to find what product suits them best on a case by case basis.

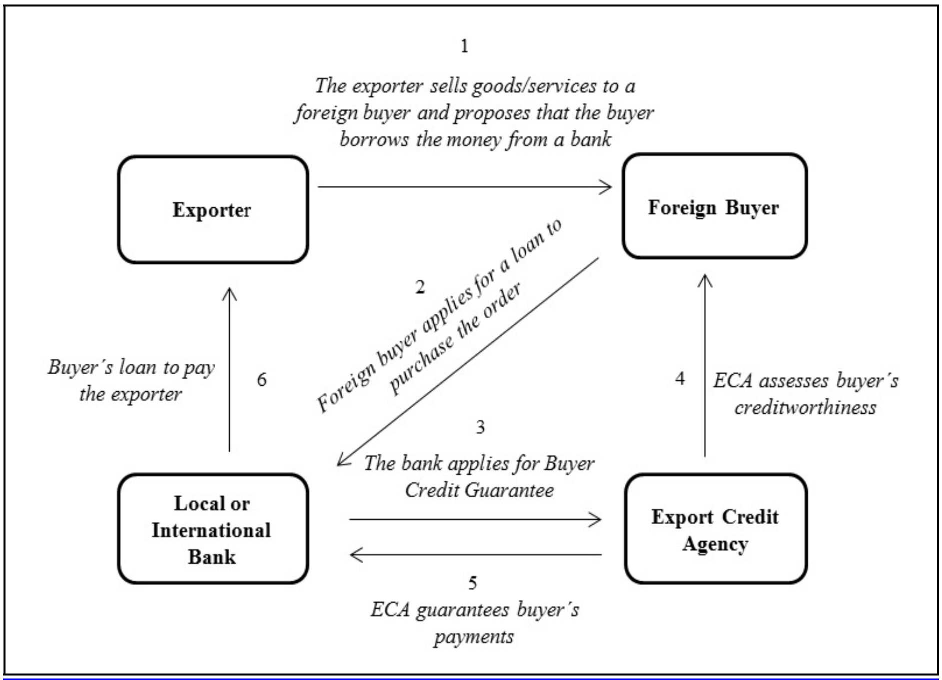

Figure 1. Model of Buyer Credit Guarantee.
Source: Prepared by the authors.

A Buyer Credit Guarantee is basically a guarantee issued by an ECA to a bank that lends money to a foreign importer to pay for an order of goods or services from an exporter in the country where this ECA is located (see figure 1). In emerging market countries, both local and international banks are cautious when deciding to lend capital to companies. A field research[vii] among the largest fisheries processors (ranked by VASEP[viii]) in Vietnam conducted by the authors in November 2011 found that when companies applied for medium or long-term loans (up to 5 years) to invest in their processing equipment they usually only got 50 to 55 per cent of the amount requested. If a company has good working experience and good relations with a local bank and the feasibility study of their project is highly assessed, the amount of loan could be increased to 70 per cent of the total loan requested. The companies had to use their own funds for the rest of the investment. Some processors said that they could hardly obtain any medium or long term loan if the size of the loan is up to few millions US dollars. This has been one of the companies´ main constraints and it prevents companies from investing in comprehensive and modern processing lines. Often they end up buying piecemeal solutions that are unlikely to result in highest value added in that industry.

A Buyer Credit Guarantee can help foreign buyers in emerging markets to obtain larger loans from international banks with longer lending term and at more favourable interest rates. This can also be done through a local bank but it would normally take longer time as the ECA is more likely to know the international banks. The bank will then be covered from buyer´s default in repayment due to either commercial or non-commercial risks.

A Supplier Credit Guarantee is a guarantee issued by an ECA to the supplier or the exporter and this exporter can then grant the foreign buyer extended credit on amounts payable for the order. The supplier or the exporter will be protected against the risk of not being paid by the buyer or the importer due to political or commercial risks. The exporter can take advantage of supplier credit guarantee to lend the foreign buyers in an emerging market where an extended credit period may be the key incentive for the buyers to select the most competitive supplier over the others. Supplier Credit Guarantee helps the buyer or the importer repay the order in a longer period (see figure 2). This can be very advantageous for a buyer who may have limited cash flow and has difficulty in accessing funds. During a research conducted by the authors of this article among 20 largest Vietnamese fisheries processors in August 2011, a questionnaire was sent out. All of those who answered indicated that they have to pay the supplier within 3 to 6 months after the equipment has been fully installed and checked. This short term repayment period for the equipment from the supplier is one of their main constraints especially for companies who lack working capital and have difficulty in obtaining loans. The field research conducted by the authors in November 2011 found that these companies have not been offered an extended credit period from any supplier. They have to apply for loans from local banks with high interest rates. Most loans lent to them are both short term loans (less than 12 months) and the amount allocated is far lower than the amount they requested. This constraint appears to be one of the reasons why Vietnamese fisheries processors could not purchase sophisticated processing equipment from European manufacturers on a large scale. Comprehensive processing lines are not affordable for these processors.

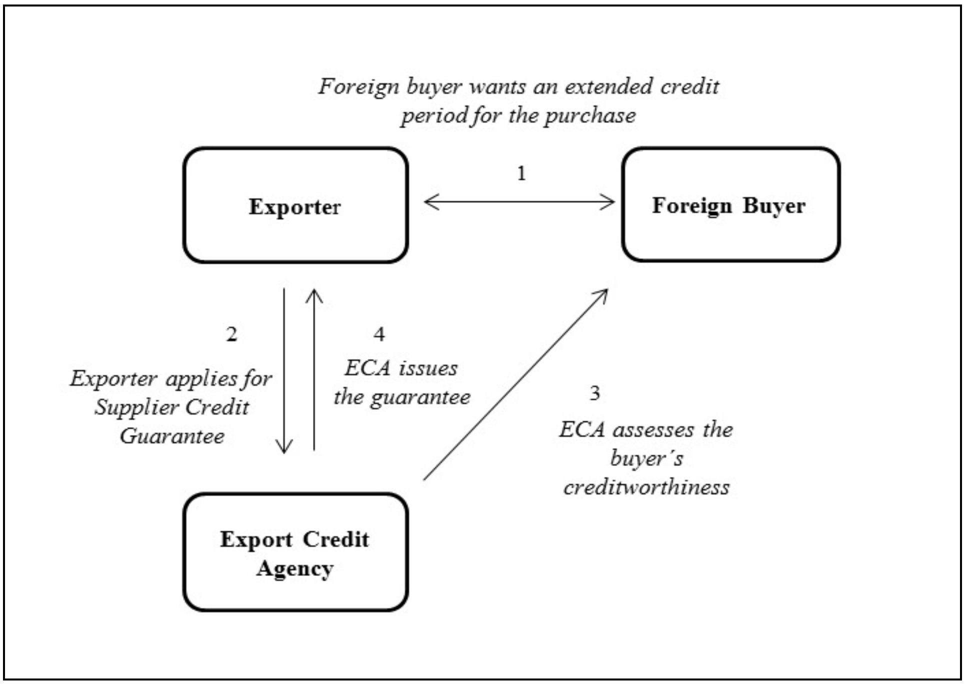

Figure 2. Model of Supplier Credit Guarantee.
Source: Prepared by the authors.

They only purchased a small part of the equipment needed from these manufactures and the rest of processing lines were locally made or imported from more affordable Asian manufacturers like China. This suggests that if buyers from an emerging market like Vietnam were offered an extended credit period, it might affect their investment decision which means that they would perhaps invest more sophisticated processing equipment on a larger scale. Some of the processors in Vietnam indicated that if they were granted a longer repayment period from the supplier and at reasonable cost they would consider to invest and modernize their processing lines more comprehensively. See figure 2 for the description of how Supplier Credit Guarantee works.
An export loan is a lending scheme to help the exporter´s foreign buyer when this buyer is unable to secure credit facilities from banks for purchasing products and services from the exporter (see figure 3). In the case of EKF, the Danish Export Credit Agency, they would facilitate the export loan through a bank, and the loan is based on the bank´s lending terms. It depends on each individual ECA whether or not they offer the export loan product and how long the lending term will be. But this product is very important during financial crisis when banks are unable to provide loans to companies. The EKF offers export loans as a result of the crisis and application for an export loan from EKF can be made until end of 2015.

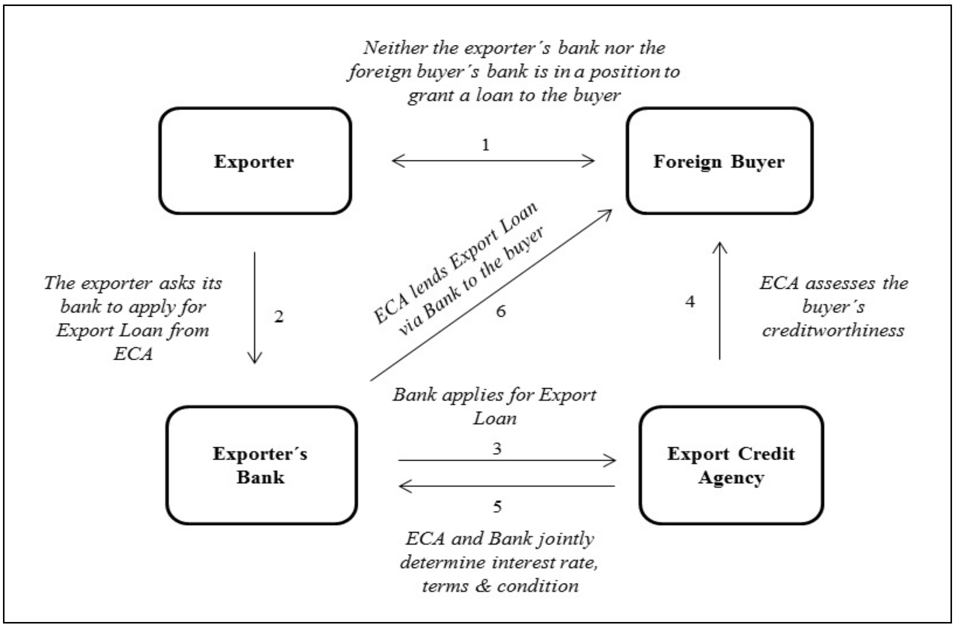

Figure 3. Model of Export Loan.
Source: Prepared by the authors.

However, the associated costs and premium for this Export Loan scheme is not necessarily cheaper than other traditional lending schemes because the export loan is granted jointly by a bank (usually the exporter´s bank) and an ECA to the foreign buyer on a commercial basis and market conditions. Export loan can be even more expensive but it also can be critically important in international trade especially during financial crisis time where many banks are unable to provide funds to companies. The next section will illustrate how this produce is applied with a case in Jordan.

7. THE APPLICATION OF ECAs' RISK MITIGATION INSTRUMENTS – SOME SELECTED CASES IN CROSS BORDER RISK MANAGEMENT

Continuous opening up of trade with emerging market economies provides companies with many new opportunities but at the same time it involves international business risks. This section discusses some selected stories of companies who used products of the Danish Export Credit

Agency, EKF, when engaging in cross border trade. These cases are quoted directly from cases published on the EKF´s website.

7.1 Olam International Limited in Vietnam

Olam Internatioanl used Buyer Credit Guarantee from the Danish ECA - EKF – for its manufacturing facility in Vietnam (2009). Olam is a leading global supply chain manager and processor of agricultural products and food ingredients. With direct sourcing and processing in most major producing countries for various products, with the headquarters in Singapore, Olam has built a global leadership position in many businesses, including cocoa, coffee, cashew, sesame, rice, cotton and wood products. Olam operates an integrated supply chain for 20 products in 65 countries, delivering these products to over 11,000 customers worldwide (Olam, 2011).

7.1.1.The Challenge

In the year 2009, Olam was looking to invest in equipment for its new coffee manufacturing facility in Vietnam. Olam chose a Danish company namely GEA Process Engineering A/S as the supplier. Unfortunately, the global economic and financial crisis made it difficult for Olam to secure the financing it needed to buy the equipment. At the same time, Olam´s bank was reluctant to secure long term financing. “Owing to the lack of liquidity in the financial market in February 2009 it would in all probability have been impossible to secure financing with a repayment term beyond 2-3 years for Olam,” says Antero Ranta from Olam’s bank, ANZ Structured Asset and Export Finance, in Singapore

7.1.2. The Process

Thanks to long standing working relations between GEA and EKF, GEA proposed that EKF be involved in the process of procuring financing for Olam´s project in Vietnam. “I was convinced that EKF would be able to assist in putting the financing in place. For our part, it was all plain sailing, as, right from the start, our customer and ANZ were keen to take over and deal with EKF directly,” says Jesper Duckert, Project Finance Manager, GEA Process Engineering A/S. In order to implement the financing negotiations, EKF decided to send its representatives to Vietnam and had a meeting with representatives from Olam and ANZ Structured Asset. After the visit to Vietnam, EKF had better basis for assessing the actual credit risk entailed by the project.

7.1.3. The Solution

After the meeting and negotiation EKF came up with a detailed assessment of the project and was able to offer a buyer credit guarantee. This guarantee meant that EKF assumed a share of the risk of extending a loan to Olam, and therefore, ANZ could secure financing for Olam as they needed. “With an export credit guarantee from EKF we were able to offer Olam a loan with a repayment term of 8.5 years,” says Antero Ranta from ANZ Structured Asset and Export Finance in Singapore. “In spite of the financial crisis we were able to secure long-term financing for our activities on a growth market,” says Arun Sharma, Senior Vice President, Coffee Division, Olam (EKF, 2009a).

7.2 The Jordanian Modern Cement & Mining Company

A Jordanian company, namely Modern Cement & Mining Company, got Export Loan and Buyer Credit Guarantee from the Danish ECA – EKF for the period 2010 to 2017.

7.2.1. The Challenge

In July 2008 the Jordanian company Modern Cement & Mining Company chose a Danish company namely FLSmidth as an equipment supplier for its new cement plant in the south of Amman. The first deliveries were already paid by the Jordanian company but the main part of the order was to be financed by a local bank. However, due to the global economic and financial crisis, the bank turned down applications for new loans. This threatened the progress of the construction and the order of

FLSmidth. FLSmidth decided to contact EKF in the spring of 2009 because FLSmidth had previously been assisted by EKF with guarantees for financing solutions.

7.2.2.The Process

EKF had meetings with a number of international and local banks who expressed their interest in taking on the risks of the project provided that EKF would guarantee most of the loans. Furthermore, through the export lending scheme EKF was able to offer a loan to the buyer of FLSmidth services. Then EKF quickly endorsed the project. "EKF's endorsement was conditional to the approval of the risks and terms in the transaction, its environmental impact and the extent of the Danish economic interest in the transaction – aspects which all needed further examination and subsequent negotiation with the parties involved" (EKF, 2010).

7.2.3. The Solution

Finally the solution came into place in May 2010. "Half of the FLSmidth contract was financed with equity from the owners of the cement plant while the other half was financed with loans. More than half of the debt financing came from the Danish export lending scheme administered by EKF, while the remainder was provided by a group of local banks" (EKF, 2010). HSBC London arranged the EKF financing. HSBC London is also acting as agent bank on behalf of EKF. Thanks to EKF's loan and guarantee, the construction of the cement plant in Jordan could continue as planned (EKF, 2010).

7.3. Nibulon in Ukraine

The grain and seed exporter Nibulon Company in Ukraine used EKF´s Buyer Credit Guarantee to borrow money from a European Bank at a far lower interest rate than in Ukraine.

7.3.1. The Challenge

In 2009, a Danish company, Cimbria Unigrain received the first of two large orders worth EUR 20 million from Nibulon, Ukraine's largest grain and seed exporter and a high-growth company. This order consisted of eight silo facilities for storing, drying and loading grain and seed. And Nibulon uses this equipment to extend and standardize its storage and transportation facilities by the rivers of Ukraine and the Black Sea. However, the Ukrainian buyer´s constraint was that they had to borrow at a high interest rate in Ukraine to pay Cimbria Unigrain. And this might create uncertainty regarding the order from the Danish manufacturer.

7.3.2. The Process

Cimbria contacted EKF and EKF agreed to assess the viability of the export order and work on the financing options via a guarantee from EKF. ”Even allowing for the premium payable to EKF, Nibulon is making a big saving," says Sales Director Henning Roslev Bukh. He adds that Nibulon regards Cimbria Unigrain and EKF as important and regular business partners.

7.3.3.The Solution

Finally EKF offered a buyer credit guarantee to Nibulon. This meant that Nibulon was able to secure a loan from a western European Bank at a far lower interest rate than in Ukraine. ”Nibulon is very pleased that it was possible to arrange a Danish guarantee for this order. We might well have got the order anyway, as Nibulon has ordered from us for many years and is very satisfied with our products. Nibulon could perhaps have financed the purchase with equity, but it is often cheaper to borrow the money than to use equity, and equity is greatly needed in a growth-oriented company such as Nibulon," says Henning Roslev Bukh. And in 2010, Nibulon made another order for eight silo facilities – and once again, EKF provided a guarantee for the buyer's payments. Thanks to this order Cimbria Unigrain has hired 30 employees in 2010 (EKF, 2009b).

7.4 Marel´s expansion in Vietnam

Marel is among leading manufactures in food processing equipment and solutions globally. Marel is headquartered in Iceland[ix] and has production facilities for processing lines for fish, poultry, and meat in numbers of European countries as well as in America and Asia. Marel is ambitious to expand their business in emerging markets where food processing industry is becoming more important like for example in fast growting East Asia, including China, Thailand and Vietnam. However, the purchasing volume of buyers from these markets remains relatively low especially in Vietnam. The research conducted by the authors in cooperation with Marel, mentioned above, among largest pangasius processors in Vietnam, found that Vietnamese buyers bought some limited processing equipment rather than investing in comprehensive processing lines. During in-depth interviews with 4 of the largest Vietnamese processors, the authors were told that most of the equipment made by European manufacturers is very sophisticated and advanced, however, this equipment is too expensive for them to purchase on a large scale. Instead, they needed to select some equipment which is most important for them. The remaining equipment they bought from more affordable manufacturers from Aska and some other equipment is locally made. When asked, these processors said they were aware of the fact that having more advanced equipment in their processing lines would enable them to export more of their products to high income markets like USA, Europe and Japan. The critical issue is lack of funding which prevents them from investing intensively. The issues here include low amount of loan allocation from local banks, limited availability and accessibility to long term loans especially in foreign currency like USD, high interest rates, short repayment period to the equipment suppliers etc.

At the same time, the authors visited and interviewed some ECAs in Europe like EKF (Denmark), EKN (Sweden) and Atradius (Netherlands), and ECICS in Asia (Singapore). In response to the question what products offered by ECAs they thought would be most suitable for Marel and its buyers in Vietnam given the constraints mentioned above, these ECAs thought that two products should be suitable which are Buyer Credit Guarantee and Supplier Credit Guarantee (described above). The recommended products of ECAs could help Marel achieve its goal which is to expand its business in Vietnam. However, the ECAs also said that in order to be supported by ECAs´ instruments, the Vietnamese buyers need to fulfil requirements in terms of being able to provide sufficient and transparent information about their companies, especially financial information, including audited annual reports. The readiness and good “home-work” of Vietnamese buyers will help the process of ECAs in assessing their creditworthiness and making decision on their request quicker. Most of the Vietnamese fisheries processors now are working with local banks both state owned and private, however, ECAs indicated that if foreign buyers work with international banks it will normally make the process faster because ECAs have more working experience with large international banks than local banks in a specific country.

8. CONCLUSIONS

Cross border trade is an important engine of global growth. Export Credit Agencies (ECAs) can serve as facilitators and promoters of export from home to host country. This is especially true during times of economic and financial crisis.

Continuous opening up of emerging market economies provides companies with many new trade opportunities, but at the same time it involves international business risks. When companies engage in cross border trade they are likely to face higher risks than in domestic markets. These risks can be political and commercial risks and the level of risk is different in different markets.

From the perspective of home companies (exporters), ECAs can help mitigate cross border risks allowing them to become more competitive in the market and thus increase sales opportunities. ECAs can also help companies, operating in emerging market economies with less developed financial systems, who need to import new machinery to modernize their processing lines and increase their value added. This is especially true for companies engaging in capital intensive

activities, involving large investments with long repayment periods like is the case with the fisheries sector in Vietnam.
This article discussed the role of ECAs in facilitating cross border trade to emerging markets and demonstrates how selected risk mitigation instruments have been applied in practice. The cases presented highlight how some companies have used the service of ECAs to obtain better lending terms, including longer term loans at lower interest rates. This can be done both, because an ECA guarantee typitally reduces the risk for the lending bank, and because borrowing in foreign currencies can lower the interest rates. Borrowing in foreign currencies can be especially feasible for companies who receive income in the same foreign currency. Access to longer term loans at lower costs can help companies modernize their processing lines, especially those engaged in capital intensive activities, and enable economies in transition increase the value added of their industries.
In order to cover the existing demand and to promote the export of its home products, ECAs worldwide provide various risks mitigation instruments for cross border trade. Through the research done by the authors and the cases described in this article, we can see that there are real possibilities for companies to have risks covered and thus enhance their business development especially when they tap into emerging markets.
Companies who want to use the services of ECAs need to enable them to assess their creditworthiness and ownership structure. This is especially true for host country buyers in emerging markets. Therefore, in response to this issue, foreign buyers of equipment should provide full and transparent financial information to help the process move faster, including audited annual reports. The availability of audited financial statements according to international standards helps reduce the information asymmetry that exist between the ECA, the foreign exporting company and foreign bank on one hand, and the local company and the local bank on the other hand.
ECAs often prefer working with international banks that they know and already have a business relationship with so it could be advantage for buyers in emerging markets to seek loans from international banks or international financial institutions such as the Asian Development Bank and the International Finance Corporation of the World Bank Group, etc.
The products offered by ECAs show that the risks associated with political and commercial risks in emerging markets can be managed, and the cases discussed in this article are a tangible evidence of recent success during a global economic and financial crisis. Those transactions would hardly have taken place unless the parties involved considered them benefitial. Nevertheless, more research needs to be done to access the costs of using the services of the ECAs on one hand and the benefits of longer term loans, possible with lower interest rates, on the other hand. This can, however, be difficult as ECAs, banks and companies engaged in cross border trade often are reluctant to share data on those transactions.
During the interviews with the ECAs there was evidence that they relay on past performance as a primary indicator of future repayment potential. While past performance is important, stronger strategic position of companies who want to modernize their processing line, and thus increase their value added and future profitability, should also be considered. There is evidence to suggest that in this regards ECAs tend to be too risk averse when evaluating borrowers in emerging markets. More research needs to be done in this area.
Finally, the case study on Vietnam can have a wider relevance than for Vietnam only. This is especially true for emerging market countries with large processing industries, requiring capital intensive processing lines to increase the value added in their processing. This is also true for companies in emerging markets that have limited access to long term funds and often face high and fluctuating real interest rates that complicate investment decisions and result in sub optimal processing solutions.

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[i] Different conceptualization of political risk can lead to different data sources, analytical tools, and interpretation of results (Luo 2009).

[ii] At the time of writing his paper (2007) Raoul Ascari was the CFO of SACE. Currently he is the Chief Operating Officer of SAGE. In an email to the authors dated February 22, 2012 Ascari confirmed with the authors of this article that according to his knowledge this gap in the literature still exists.

[iii] Incomplete information on export risk can, for example, cause lenders to charge higher rates or to demand more collateral.

[iv] Moral hazard is a problem created by asymmetric information after the transaction occurs. This occurs when the borrower engages in activities that are undesirable for the lender in the sense that they make it less likely that the borrower can pay back the loan. In the case of ECAs moral hazard would exist if the insured exporter has an incentive to change its behavior once it has the insurance. The exporter would sell to a riskier importer and transfer higher risk than he would want bear in the absence of insurance.

[v] Adverse selection is the problem created by asymmetric information before the transaction takes place. This occurs, for example, when the borrower who is least likely to produce a desirable outcome most actively seeks a loan and thus is most likely to get the loan. Exporters would have an incentive to insure only high risk sales but not those that are considered low risk.

[vi] This implies that one party does not have enough information about the other party to make decisions. For example, the borrower who takes a loan often has better information on the potential returns on an investment project than the lender has.

[vii] In co-operation with Marel Food Systems, the authors selected, visited and interviewed 4 of the largest Vietnamese pangasius processors in order to understand their difficulties and constraints in modernizing their processing lines. Export value of these processors on a yearly basis varied from USD 17 million to USD 61.7 million in 2010 (according statistic from VASEP sent via email July 22, 2011). These companies are thus an important source of foreign exchange for Vietnam.

[viii] Vietnam Association of Seafood Exporters and Producers (VASEP) is a non-governmental organization, established on June 12th 1998, based on the principles of volunteer, autonomy and equality. VASEP members include leading Vietnamese seafood producers and exporters and companies providing service to the seafood sector.

[ix] Iceland has an ECA called TRÚ. This agency has so far been inactive and has never processed a transaction. Since Marel has production facilities in several countries the company can use the services of the ECAs in those countries. Iceland, like several small states, is not member of the regional development banks (see, for example, Hilmarsson 2011). This limits the access of Icelandic companies to the risk mitigation instruments of IFIs. For more detail about the application of IFI risk mitigation instruments in emerging market economies (see, for example, Hilmarsson 2012).