

EXIM's Exit: The Real Effects of Trade Financing by Export Credit Agencies

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Summary

- ▶ **Research Question:** Real effects of trade financing provided by export credit agencies
- ▶ Theoretically ambiguous
 - ▶ Alleviate financing frictions and support exports
 - ▶ Reallocation of market share with no effect on total exports
 - ▶ Unconstrained firms might receive trade financing – no effect on exports
 - ▶ Financing firms with low MRPK – capital misallocation costly
- ▶ **Setting:** Shutdown of EXIM in 2015

Main findings

- ▶ Product level
 - ▶ EXIM creates exports. US exports of EXIM-dependent products declined in the post shutdown period
- ▶ Firm-level: EXIM financing not merely a windfall. EXIM-backed firms experience
 - ▶ Lower total sales
 - ▶ Lower capital and employment
 - ▶ No effect on profit rates
- ▶ Investment of high MRPK firms more negatively affected – higher misallocation
- ▶ Mechanisms:
 - ▶ More financially constrained firms are more affected
 - ▶ Exports to countries that face larger trade financing frictions are more affected
- ▶ EXIM doesn't suffer losses \implies no adverse effect on the broader economy

Discussion

- ▶ Broad and important question
- ▶ Well-written and careful empirical analysis
- ▶ Discussion goes beyond what we can learn from the empirical analysis

I really like the paper!

- ▶ Some comments on the empirical analysis
- ▶ Interpretation of findings

Comment 1: Reliance on EXIM financing

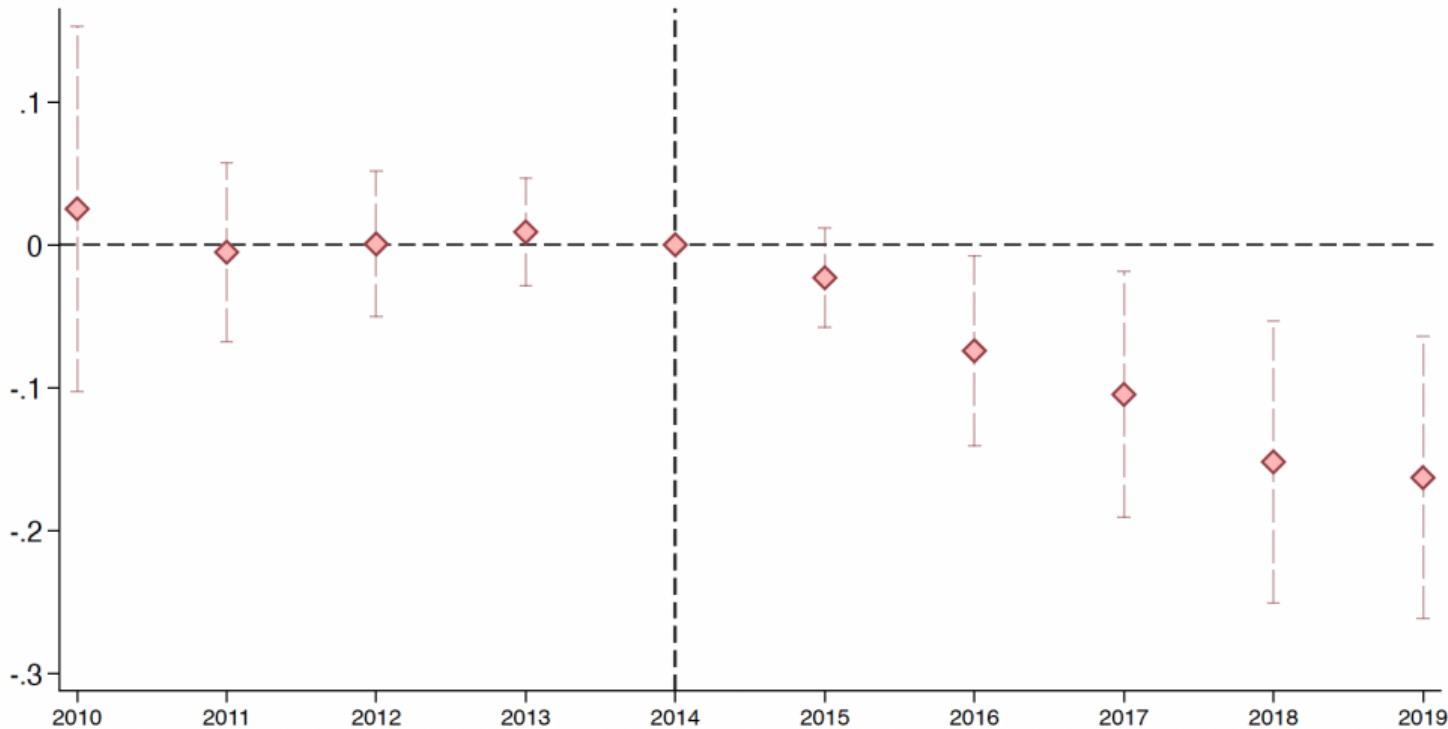
- ▶ For the product-level analysis, EXIM reliance is defined as EXIM financing scaled by exports
- ▶ Could underestimate reliance on EXIM for a large exporter
- ▶ Scaling by total financing can reduce measurement error
- ▶ At the firm level, reliance is an indicator variable capturing whether or not a firm received EXIM financing in the pre-shock period
- ▶ Why not use EXIM financing scaled by total external financing?

Comment 2: Restrict the sample to exporting firms

$$\Delta Y_{i,j,t} = \beta \text{ EXIM}_i \times Post_t + \gamma_{j,t} + Exporter_{i,t_0} \times \delta_t + X_{i,t_0} \times \delta_t + \varepsilon_{i,j,t}$$

- ▶ What is the correlation between Exporter and EXIM?
- ▶ How many firms are not exporters but still receive EXIM financing?
- ▶ If the number is not small, it would be better to either restrict the sample to exporting firms or have a triple interaction specification

Comment 3: Results for foreign sales



Comment 4: Firm-level outcomes by export intensity

| Dependent variable | Revenues | Tangible capital | Intangible capital | Employment | Profit margin |
|---------------------------------------|-------------------------------|------------------------------|--------------------------------|-------------------------------|-------------------------------|
| | (1) | (2) | (3) | (4) | (5) |
| EXIM _i × Post _t | -0.12 (0.035) [0.00072] | -0.14 (0.044) [0.0014] | -0.19 (0.047) [0.000042] | -0.098 (0.032) [0.0025] | 0.00024 (0.0062) [0.97] |
| <i>Fixed Effects</i> | | | | | |
| Exporter × Year | ✓ | ✓ | ✓ | ✓ | ✓ |
| Industry × Year | ✓ | ✓ | ✓ | ✓ | ✓ |
| Observations | 25,174 | 24,635 | 25,015 | 22,902 | 25,174 |

- ▶ What is the elasticity of employment and investment to exports?
- ▶ Would be useful to interact with share of foreign sales to better understand how fall in exports affect firm outcomes

Comment 5: Effect on profits

$$\begin{aligned} \max_{K_{i,m}} \quad & \Pi_{i,m} = f(K_{i,m}) - r_{i,m} \times K_{i,m} \\ \text{s.t.} \quad & K_{i,m} \leq D_{i,m} \end{aligned}$$

- ▶ Definition of profits includes interest payments whereas empirical analysis shows results for operating profits
- ▶ Use net income scaled by revenues?

Comment 6: Evidence on frictions

- ▶ Effect of EXIM shutdown higher on firms that are financially constrained and those that face larger trade financing frictions
- ▶ Can we understand the source of trade financing frictions a bit more?
 - ▶ Could multi-product firms not switch to exporting products that have a lower trade financing requirement?
 - ▶ Do you have firms in the sample that receive trade financing from banks as well as EXIM financing? How difficult is it for these firms to switch between the two types of financing?
 - ▶ After the first 1-2 years of the shutdown, did firms not optimally implement offsetting strategies?

Comment 7: Business model of EXIM

- ▶ What makes EXIM ‘efficient’ at providing working capital financing for exports?
Monitoring, incentives of employees?
- ▶ No losses suffered by EXIM evidence of efficient lending? What is EXIM maximizing?
What are the costs? What are the benefits?
- ▶ Should we expect results to hold for other types of financing subject to similar frictions or is export financing special?

Conclusion

- ▶ Super interesting research question
- ▶ Clever identification strategy to answer a hard question
- ▶ Encourage everyone to read the paper