IMF Working Paper

WP/98/175

INTERNATIONAL MONETARY FUND

Policy Development and Review Department

Export Credit Agencies, Trade Finance, and South East Asia

Prepared by Malcolm Stephens[1]

Authorized for distribution by Anthony R. Boote

December 1998

Abstract

This paper looks at the causes of the reduction in trade finance in South East Asian countries post-1997, with a particular focus on the role of export credit agencies. It concludes that while such agencies did not cause or prolong the problem, they did not contribute significantly to a solution. The paper also suggests some implications from events in South East Asia for both traditional debt-relief mechanisms and for the architecture of the international financial system.

JEL Classification Numbers: F19, F32, F43, F49, G15, N75

Keywords: Export credit agencies, trade finance, South East Asian countries

Author's E-Mail Address: ciga@dial.pipex.com

---

[1]I was invited by the IMF's Policy Development and Review Department in April 1998 to do some work as a Visiting Scholar on export credit agencies and South East Asia. This paper is the result of this work. In addition, a forthcoming IMF publication on "The Changing Role of the Export Credit Agencies" will be published in 1999. The views and opinions and recommendations in this paper are mine, and do not in any way represent the views of the IMF Executive Board or staff. Neither do they represent the views of the International Union of Credit and Investment Insurers (the Berne Union), of which I was Secretary-General until March 1998.

I should like to record my thanks for all the help and kindness I have received from the staff of the International Monetary Fund, and especially Anthony R. Boote and Doris Ross and their colleagues in the Policy Development and Review Department. I am also grateful to Sulochana Kamaldinni for all her excellent work in typing several versions of this report, and to Graham Young, the Berne Union Research Officer, for his help with some of the statistics.

Contents | Page

Summary

Events from late 1997 in many South East Asian countries have produced challenges and problems for many entities, both inside and outside the countries concerned. A particular problem has been the reduction in trade finance, though it is not easy to distinguish cause and effect. And this has impeded the development of solutions to some of the problems and difficulties.

This paper tries to analyze some of the problems—especially in relation to trade finance—particularly in the context of the role of the export credit agencies. Its main conclusions are that the export credit agencies in no sense caused or prolonged the reduction in trade finance, but neither have they helped solve the problem. This is due partly to some—apparent—misdiagnosis of the essential and basic causes of the difficulties. In addition, the changing nature of some of the problems means that "traditional" solutions to debt difficulties almost certainly require review and change.

Finally, the involvement of the export credit agencies in world trade and investment flows is so substantial (about $500 billion annually) that it seems appropriate to try to make some contribution—from the standpoint of the export credit agencies—to the current debate on such wider issues as moral hazard and international financial "architecture." This is done in the paper's final section.

I. Background

1. For all kinds of reasons, mid-1998 is proving to be a very timely period during which to review the subject of the export credit agencies and trade and export finance, especially in the context of South East Asia.

2. This is not only because many of the topics are now of considerable practical importance but also because significant changes in a number of areas suggest that traditional methods for tackling some problems are no longer relevant, let alone adequate.

3. In the real world, the export credit agencies (ECAs) do not operate in a vacuum but are a vital part of the infrastructure supporting international trade and investment flows. Thus, the export credit agencies not only influence the activities of others—both private and public—but, in turn, are themselves deeply affected by the actions (and inaction) of others, in their own and other countries.

4. In considering South East Asia and the role of the export credit agencies, this paper tries not only to set the activities of the export credit agencies in context but also attempts to suggest some important lessons and questions for the future, particularly in the context of countries experiencing problems in repaying their external debts in a timely way.

5. The paper concentrates on South East Asia with some emphasis on the difficult problems relating to trade finance and, finally, on the roles which export credit agencies both in South East Asia and outside might play in the next year or so. Some conclusions are drawn both for the export credit agencies and more widely both on trade finance and more widely.

6. But since, unfortunately, considerable ignorance about the role and objectives of the export credit agencies remains, and because a number of myths and misconceptions have consequently developed over the years which seem to be very resistant to correction, an Occasional Paper will, it is hoped, be published in early 1999 dealing with the Changing Role of the Export Credit Agencies. This will, inter alia, deal with the background, histories, and changing role(s) of the export credit agencies, the main characteristics of export credit agencies, their development and, in particular, the changing frontier in this area between the public sector and the private sector. This is important since the challenges presented by some events and developments in South East Asia have come at a time when the export credit agencies are having to face a range of wider changes and challenges (and competition) not least on some of the activities they have carried out in the past on an almost monopoly basis.

II. TRADE FINANCE

General

7. Since trade finance, or the apparent lack of it, has been perceived as an important problem in South East Asia, it may be helpful to try to examine trade finance difficulties in some detail. Trade finance, like many other features of day-to-day commercial life, is heavily dependent on confidence and information and on what others are doing/not doing.

8. However, because short-term credit/trade finance tends to be a somewhat routine and conveyor belt operation, it risks being taken for granted and arouses little interest and attention—especially amongst top managers or officials or decision takers. This is true in spite of the huge and vital role which trade finance plays in world trade.

9. And so it is only when something goes wrong that any kind of general interest or, indeed, "senior" interest tends to be taken in trade finance. This is as true of export credit agencies as for other institutions.

10. Given this background, it is perhaps not surprising that, if and when problems do arise, some of the diagnosis of the real issues and real problems is incomplete and therefore some of the solutions produced are not totally helpful or relevant.

Basic features

11. It is generally accepted that more than 90 percent of world trade is conducted on the basis of cash or short-term credit (i.e., up to 180 days). In addition, much of this trade is on a "continuing", rather than a "one-off", basis.

12. So arrangements for handling the business, not only by exporters and buyers but also in banks and export credit agencies, need to be flexible and as streamlined as possible. Generally recognized practices and generally accepted and agreed procedures are vital. Hence, for example, the importance of the International Chamber of Commerce "Code" on letters of credit.

13. Trade finance mechanisms provide both the means of moving or transferring payments for goods and services and also some security. Probably the three most common methods are letters of credit, cash with order or cash against shipping documents and open account. Bills of exchange or promissory notes would tend to be used more for longer credit or one-off transactions.

14. None of these mechanisms offers total security for all parties and, for example, whilst cash with order offers full protection to suppliers, it leaves buyers with the risk that they will not get the goods and services for which they have paid.

When problems arise

15. When problems arise with suppliers or in supplying countries, buyers may first seek or investigate alternative sources of supply or be unwilling to make payments in advance or may seek some security on the return of their payments against the risk that goods and services of an acceptable quality as ordered are not received.

16. When, on the other hand, the problems are with buyers or in buying countries, various parties can be involved.

For example:

Buyers

- Buyers may be concerned about their ability to pay in foreign exchange for imports if they face a heavily depreciating currency. Or they may worry to about their ability to get working capital at all or at an acceptable cost/interest rate to enable them to remain in business and, for instance, to produce goods for subsequent export. They may also be concerned about their ability to sell imported goods (or final products that include imported components, etc.) if future domestic demand is uncertain or if there are doubts about the willingness or ability of domestic buyers to pay for goods and services supplied.

Local banks

- Local banks may have problems not only in providing or continuing to provide working capital but also in appraising the financial position and creditworthiness of their corporate customers. This can mean that either they are not willing to open letters of credit at all on behalf their customers or they require large sums of local currency to be deposited before they will do so.

Governments of importing countries

- The governments of the buying countries can then face not only the prospect of falling exports but also of declining revenue from duties and taxes both on imports and of other various kinds on a falling GDP. They may also be asked for guarantees to support or stand behind local importers and/or banks.

Suppliers/exporters in other countries

- Suppliers/exporters in other countries face worries not only that they may not be paid for goods already supplied but also that future business may not take place or may involve unacceptable risks of payment delays/defaults.

Banks in exporting countries

- Banks in supplying countries may be asked by their customers to confirm letters of credit opened by banks in the buying country. They may not be happy to do so, especially if they are experiencing or expecting problems with their own lines or loans or facilities to banks and/or companies in the buying country.

Export credit agencies

- Likewise, export credit agencies or export credit insurers in supplying countries may have a range of concerns/problems. First, on possible losses on the exposure they have from business already done/underwritten. Second, the likely upsurge in demand they may face from exporters who may not previously have insured their exports. Third, whether or not they can prudently continue to underwrite new business (with the agreement, as appropriate, of their reinsurers or guardian authorities or governments) and on what basis.

Governments of supplying countries

- Amongst the problems which they may face in this context are requests from their exporters and banks to provide "facilities" of various kinds on the basis that these are essential if exports to the problem countries are to be maintained. They may, similarly, face requests for "help" from the buying countries and from the international financial institutions.

International financial institutions

- When problems arise they will not be concerned solely with trade finance and so the international financial institutions will be aware or involved with this area as part of a wider and deeper set of difficulties. The countries with problems will probably be seeking help in this context both to keep foreign bank and trade lines in place so as to maintain the flow of—essential—imports and also to prevent the collapse of exports. For their part, the international financial institutions will no doubt have in mind some considerations of moral hazard as well as the point that—probably—the intricacies and technicalities, etc., of trade finance may not be totally familiar to them.

III. SOUTH EAST ASIA: THE DRYING UP OF TRADE FINANCE

17. Most of the problems set out above have arisen in South East Asia and it is probably true to say that none has yet been fully solved.

18. This is partly because, almost certainly, there are no perfect or single or across-the-board solutions. But it is, perhaps, partly because:

- Some of the diagnosis/analysis of what were the basic problems which required solution seems to have been partial or not totally accurate/relevant (e.g., was the problem **really** one of foreign banks being unwilling to confirm letters of credit, rather than one of the importers being unwilling/unable to import on credit or of local banks being unwilling to open letters of credit). In addition, if facilities are to be developed to provide working capital for importers to import raw materials and intermediate goods for re-export, it seems desirable first to check on the ground in the countries concerned what in detail the position is of the **major** exporters in the country(ies) concerned, if they are, in practice, experiencing such problems and to ascertain whether they have been able to solve them.

- Some banks and trade insurers may have "threatened" totally to withdraw trade lines **but** this should have been evaluated against the background of where such actions would, in reality, have left banks and insurers in relation to their existing exposure. In other words, in this area some kind of "work out" solutions may be the best or only way for banks and insurers and suppliers to prevent the total loss of existing exposure/liabilities.

- Some of the reactions from creditor governments seem to have been heavily influenced by political and/or presentational considerations rather than by the details of providing practical help.

- Provision of across-the-board working capital or trade finance facilities on the basis of blanket guarantees from host/debtor governments needs very careful consideration. For example, if the credibility of such guarantees is to be maintained, presumably there is a limit to the extent to which they can be made available. And if one creditor or creditor government or export credit agency stipulates such guarantees as a basic condition for providing any new facilities at all (or even maintaining existing facilities), then it places huge pressure on all other similar institutions to do likewise. In addition, providing such guarantees inevitably puts the debtor government into the very uncomfortable position of taking responsibility for the financial obligations of individual private sector companies and banks.

19. With the benefit of—at least some—hindsight, perhaps some rather tentative conclusions may be drawn in the context of trade finance. These are referred to later in this section and in the final section.

- First, that there is unlikely to be one simple, single or perfect solution. So what is done may well be second best or least bad in nature.

- Second, that across the board solutions should be treated with caution—it seems best to work on a country-by-country basis and to try to the maximum practicable extent to analyze the situation in each country individually so as to try to isolate the most fundamental problems, as distinct from the symptoms of these problems.

- Third, that the threats of banks and insurers to pull or cancel all lines, etc., should be treated with some caution—especially to take account of the need to look at "work outs" to protect **existing** exposure and liabilities. Moral hazard considerations arise here as in other contexts both for the international financial institutions and also for creditor governments and "their" export credit agencies.

- Fourth, that it may be best to look at some kind of "**partial** guarantee" from debtor government at an early stage—e.g., to offer a "floor" for future exchange rates to importers and their banks for what might be regarded as "essential imports". This **may** help both to stabilize the situation and also to avoid some of the pressure—later—for the provision of total or blanket or across-the-board debtor government guarantees.

- Fifth, a collapsing exchange rate **may** be felt to be one of the fundamental problems in this area and so some—early—solutions might be aimed more specifically at this.

- Finally, some across-the-board and total moratorium on **all** outflows from the country might—just—enable more responsible creditors to get a fairer deal and enable some of the other points above to be examined and developed in a less crisis-ridden atmosphere/situation. Otherwise there is a serious risk of a mass rush for the exit and/or some creditors trying to dump the problem on other creditors who may be less able or willing to take a totally short-term view. And, as noted above in the context of requiring government guarantees, the rush of some creditors for the exit puts huge pressure on others to do likewise with, inter alia, the risk that it is mainly the international financial institutions and creditor governments and their institutions which are then left with the problems and the pressure to find "total solutions".

IV. South East Asia and Export Credit Agencies

A. The Past

General

20. Asia—including the South East Asian countries currently experiencing problems—has been of steadily growing importance to the export credit agencies and has, for example, represented a growing percentage of their exposure. In absolute terms, medium- and long-term project business has, in recent years, played a significant part in this.

21. These points are demonstrated by Tables 1, 2, 3, and 4 in Appendix I.

Tables 1, 2, and 3 relate South East Asia exposure to total exposure of Berne Union export credit agencies on all non-OECD countries at end-June 1996 and end-June 1997 while Table 4 relates commitments on South East Asia to overall commitments on all countries at end-December 1996 and end-December 1997 (1998 figures are not yet available for Table 4).

22. In addition, the position of some South East Asian countries vis-à-vis other large exposure countries for the export credit agencies is illustrated by the table showing the trend over the last eight years of the Berne Union "Top Five Markets" in terms of medium- and long-term exposure—Table 5 of Appendix I.

23. Three points should, perhaps, be stressed:

- that short-term business and therefore exposure on this business—noting that one export credit agency held about 80 percent of the short-term South East Asian exposure in June 1997 and about 72 percent in June 1998—was much less substantial than medium- and long-term exposure. In addition, of the short-term business done by export credit insurers in South East Asia, a comparatively large exposure was held by private insurers or by export credit agencies writing on an "own account" basis.

- that many exporters and banks and investors seem not to have been sufficiently concerned about risks in South East Asia as to seek export credit agency cover, even on project business.

- that a number of Berne Union members had also noted a tendency for some projects to be funded locally (e.g., in Malaysia) or, probably more significantly, by capital market investors, again with no requirement for export credit agency support.

Individual countries—some examples (June 1997)

24. But generalizations may be misleading and may mask changes going in different directions in different countries. Thus, the general position and attitude of the export credit agencies toward some of the individual countries in South East Asia is shown by the brief summaries in Appendix II of the reported positions of Berne Union members as at June 30, 1997. It is interesting to compare these details with the summaries in Appendix III for the position as at June 30, 1998.

B. The Present and the Future

General

25. As noted earlier, in the weeks and months following the problems of the second half of 1997, South East Asian countries have faced many of the "trade finance" problems referred to in Section II and Section III.

26. There were, similarly, problems and challenges for the export credit agencies and their governments—not least how to help to reinstate and sustain market confidence in the countries whilst, at the same time, trying to avoid excessive claims and losses both on new business and on existing exposure. No doubt there was also some consciousness not only of moral hazard considerations but also of the desirability of some real burden sharing amongst the range of creditors.

27. Compared with, say, commercial bank lending or total Berne Union short-term business, short-term business in South East Asia was not huge but as Table 6 in Appendix I shows, it fell between June 1997 and June 1998 from about $20 billion to below $15 billion, at least as far as Berne Union OECD members are concerned (these are listed at the foot of the table).

28. It should be stressed that, as discussed below and as demonstrated by the summary reports on individual countries in Appendices II and III, the fall in short-term business was **not** due to the export credit agencies withdrawing cover but, primarily, to the fall in business put to the export credit agencies.

29. Project and medium- and long-term business had been growing in both size and importance in the years before 1997 but from late 1997 and in 1998 new projects were inevitably not a major priority for countries facing a range of serious and immediate problems. And so the export credit agencies were not faced with problems and challenges of whether or not to underwrite new projects and so incur substantial **new** medium- and long-term exposure on the countries but, rather, with what to do about existing exposure and, particularly, what to do about potential claims arising from the termination or postponement of projects on which they had commitments of various kinds.

Individual countries (June 1998)

30. It may again be helpful to illustrate some of these points by summarizing the most recently reported position (June 30, 1998) of Berne Union members on some South East Asian countries—see Appendix III—and to compare the position with the June 1997 position

summarized in the previous section and in Appendix II. It is again stressed that across-the-board generalizations can be dangerous since, for example, within the overall figures, exposure of some export credit agencies may have increased whilst exposure of others may have decreased.

International consultations

31. Particularly within the G-7, there were discussions—especially in early 1998—about providing and maintaining export credit agency cover and trying to use this—publicly—to increase market confidence and to try to get back to some kind of virtuous circle where capital outflows and the cutting/withdrawal of trade and other lines by others ceased and exchange rates stabilized.

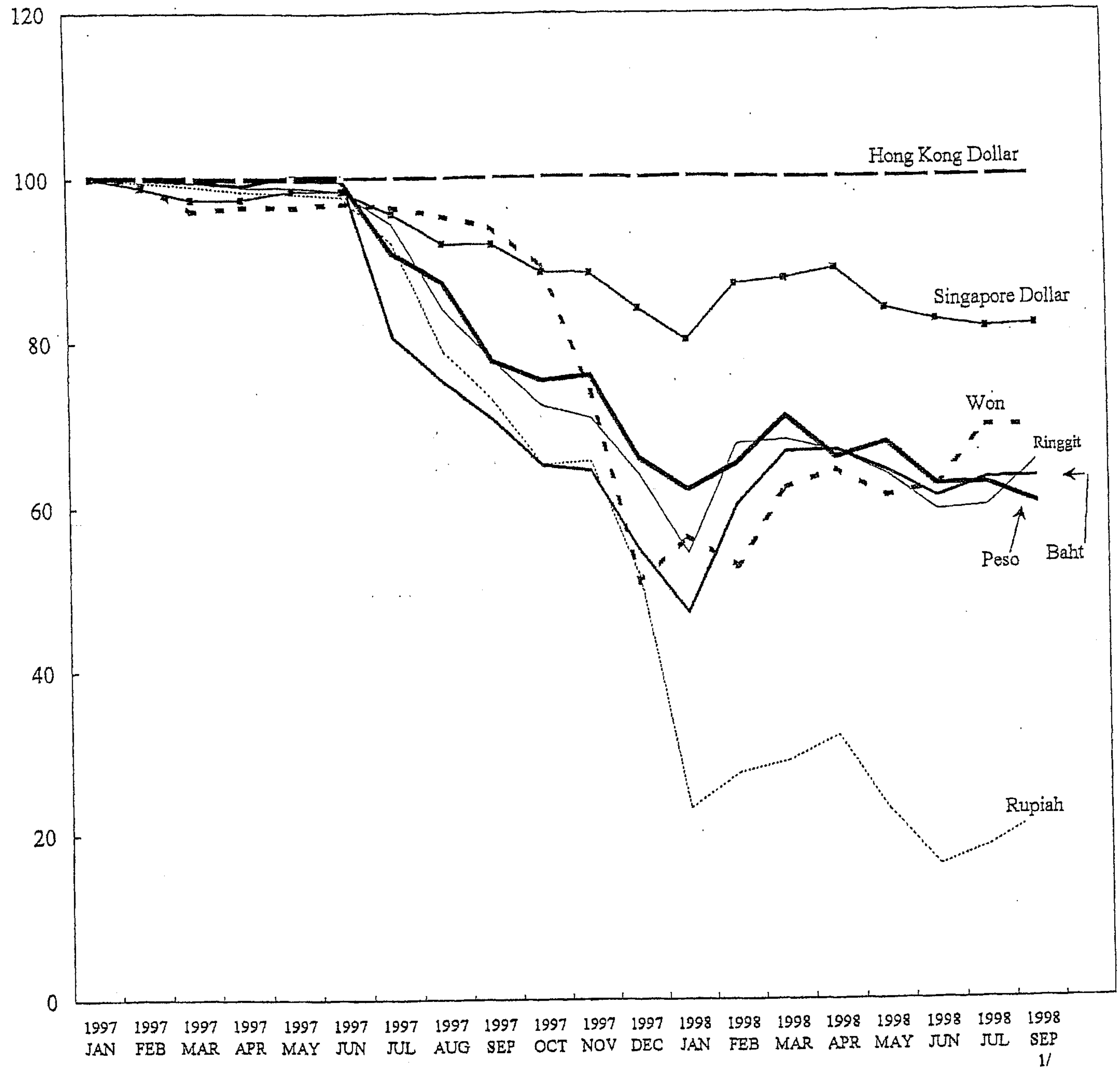
32. Some results of these discussions—which raised sensitive issues about the wish of many countries to take their own decisions on the provision of new export credit cover—are illustrated, first, by the press release issued following a G-7 meeting in London in February 1998 and, second, by an extract from the April 1998 Berne Union Annual Press Release. Both of these are set out in Appendix IV.

33. But, as noted earlier, in spite of these moves, perceived problems within South East Asian countries on short-term trade finance are still regarded as serious. And, in addition, new cover for projects is not directly relevant to rebuilding confidence both within and outside the countries for as long as there is no demand for such cover. Indeed, it might be argued that highlighting the continued availability of such cover/facilities risks the same kind of credibility problems as arise when debtor governments issue guarantees in a universal or across-the-board way.

Short-term/trade finance

34. Problems in individual countries presented underwriters in export credit agencies with severe difficulties. This is especially true of the implications for buyers and their banks of the collapse of exchange rates which many underwriters saw and still see as a central problem. The severity of the exchange rate movements is clearly illustrated by Figure 1 on page 13.

Figure 1: Asian Exchange Rates, January 1997 - July 1998 1/
Dollars per Unit of Local Currency; End-January 1997 = 100



Sources: IMF IFS, IMF *News in Brief*, daily of 9/16/98, and staff calculations.

1/ End of month rates except for September which represent daily rates of 9/15/98.

35. In 1998 short-term business underwriters in the export credit agencies have been faced not only with potential claims on existing commitment/business but also with a range of actually or technically or potentially insolvent buyers or, at best, with buyers on whom financial and status information was either obsolete or significantly out of date. Stipulating the normal security of a letter of credit in a general or across-the-board way was hardly relevant, due partly to the unwillingness of local banks to open them and, in some countries, to general problems and concerns with the current status and reliability of most local banks and, indeed, with the whole banking system/structure. Particularly amongst export credit agencies with little or no recent experience of trade finance and short-term business in the countries concerned, there was, therefore, probably some inevitability (stemming in part from the wish to be seen to be doing something) about going for the option of seeking blanket host government guarantees for all new short-term trade finance facilities.

36. But this should not mask the uncomfortable fact that export credit agencies seeking blanket or across-the-board host government guarantees for **all** new short-term business is a rather public demonstration of no confidence in **any** buyer or **any** bank in the countries concerned. Arguably, this is hardly conducive to re-establishing market confidence in the countries.

37. And the earlier point on the importance of existing exposure and commitments should not be overlooked. The most effective way to protect such commitments (unless of course they can be, in effect, transferred to someone else) will not normally be to cut or withdraw all new facilities/lines—which will often have the effect of quickly precipitating insolvency and thus non-recoverable losses for insurers/creditors—but, rather, to continue to keep some facilities in place so as to try to "nurse" buyers back to health or at least to try to keep them in existence. In other words, to become involved in the trade finance equivalent of case-by-case workouts.

Medium- and long-term project business

38. As the tables in Appendices II and III show, the export credit agencies remain very heavily exposed to South East Asia on project business but virtually all of these commitments are in respect of cases signed before the crisis began.

39. The problems export credit agencies have faced in this area over the last few months have not really been about new cover or new projects (whether to make new facilities available, how much, what terms, what security, what premium rate, etc.) essentially because, unsurprisingly, there has been little or no demand for new projects, either from the South East Asia countries themselves or from exporters/contractors/investors and their banks in exporting countries.

40. Rather, the problems have concerned what to do about existing exposure. Problems and uncertainties arose on projects which were at an early stage or which had not been

completed, e.g., would they be terminated or postponed by host governments and what would be the consequences of this on sponsors, investors and lenders (and their insurers) who had already put money into such projects? There have also been problems and uncertainties over projects which had been completed or were almost completed but where, for example, exchange rate depreciation meant that huge tariff increases would be required for the "output" of the projects in order to repay foreign currency credits and loans. And there also remained the underlying risk that some sovereign debts might have to be rescheduled—risks which have now materialized in Indonesia.

41. All of these questions are complicated. For example, the cancellation of projects may well be bad news for the export credit agencies, private insurers, and others directly involved in the projects by precipitating claims payments which may be virtually impossible to recover (as in Indonesia). But an Institute of International Finance (IIF) report of May 1998 noted that the reference in the early 1998 Indonesian budget to the possible revival of some projects which had been earlier postponed or canceled had a "severely adverse market reaction". If, in fact, very large claims are paid on postponed or terminated projects by **private** market political risk insurers which prove not to be recoverable and thus dead losses, then it is not yet possible to predict what the impact of that will be on what has been the growing willingness of private market insurers and reinsurers to provide capacity for this kind of business. This could be a point of some real and general significance.

42. It should also be stressed that what happens—and particularly the actions taken (or not taken) by host governments—regarding postponed or "terminated" projects is an issue of real significance which goes well beyond the impact on export credit agencies and investment insurers. Not only will it impact on the future actions of potential lenders and investors but it would **not** be an exaggeration to say that it could have direct implications for future privatization programs not only in Indonesia and other South East Asian countries but also more widely in emerging markets. In other words, **if** host governments treat (or are advised to treat) lenders and investors (and their insurers) in a rigid or negative or dilatory or legalistic way and/or delay discussions and decisions and solutions, **then** they (and their advisers) should not be surprised if the parties who suffer the consequences of this—and others who witness the process—are then very adversely influenced when asked to participate in future privatizations or privatized projects. Put more starkly, it would be very unfortunate indeed if it appeared to be the case that, if problems arise, host governments feel it is somehow acceptable to walk away from or breach power purchase agreements and the like.

Conclusions

43. Hopefully, it is clear from the foregoing that the crisis in South East Asia was neither caused nor precipitated by the export credit agencies. Neither have their subsequent actions/inactions or policies prolonged it. In particular, the export credit agencies were **not** amongst those who rushed for the exits at the first sign of difficulties.

44. There remains, for example, no export credit agency parallel to the massive withdrawal of short-term capital. In May 1998, the IIF estimated that in 1995 and again in 1996 foreign banks extended net lending to Indonesia, South Korea, and Thailand of $45 billion but withdrew net flows of $25 billion in 1997 as crisis struck. At the end of 1996, short-term loans from banks amounted to no less than 45 percent of total external debt of the three countries (compared with the IIF estimate of 21 percent for 33 other emerging market economies).

45. Various problems seem to have stemmed from the collapse of the exchange rates, the severe reduction in imports and the inability of local exporters to take advantage of the competitive openings from the depreciations. And if exchange rate collapses were a central and basic problem, how could foreign export credit agencies have solved or even helped to solve this—especially, as noted earlier, when they were faced directly with widespread uncreditworthiness and probable insolvency of buyers, with huge problems on banks and with governments terminating or postponing projects (and, possibly, seeking debt relief of some kind)? It is also important to remember in this and other contexts that short-term trade finance credits have to be repaid withing six months—especially important if they are guaranteed by debtor governments, i.e., the breathing space provided by new short-term trade credits is a very short one.

46. However, if the export credit agencies did not cause the problems, it is also true (so far at any rate) that they have not played a central role in solving them. But this is not really surprising or blameworthy, given the role and objectives of the export credit agencies. They are not providers of aid or direct instruments of foreign policy. They are required to break even, over time. In addition, the traditional role of export credit agencies is to support trade and to facilitate trade. They are less effective in, somehow, trying to create or initiate trade, especially, in circumstances where neither importers nor exporters are really willing (or able) to trade with each other.

47. Even recognizing that export credit agencies should not take a totally short-term and reactive view and that political considerations enter into underwriting decisions and policy, the question can legitimately be asked "Who does offering or providing credit to basically insolvent (and probably shell shocked) buyers and/or banks really help?" This is especially the case if the importers themselves are unhappy with the risks involved for them in accepting foreign currency credits and thus obligations to repay in foreign exchange at some future date and where their local banks are unable or unwilling to assist them. Without the benefit of hindsight it is, in practice and in the real world, very difficult to pick out which of the whole mass of technically or actually insolvent importers (and banks) will survive and which will not. And should foreign export credit agencies sensibly try—or be encouraged to try—to be a substitute for local shortages of working capital and credit?

48. It seems clear that, whatever else happens, imports into South East Asia will fall and so export credit agencies in other countries will continue to face falling demand for cover—offset partly by banks and other insurers reducing or withdrawing lines and facilities and exporters seeking cover who had not previously done so (both of which raise the kind of moral hazard issues discussed elsewhere in this report). And economic activity within the problem countries is likely also to fall—reflecting in part that policies to achieve an objective in one area may cause problems in other areas, e.g., raising domestic interest rates for exchange rate or other reasons will hardly improve the position or confidence of heavily borrowed local borrowers/companies or of banks with large numbers of non-performing loans.

49. All of this makes life more difficult for the export credit agencies. But, having said that, it is important to note from the earlier parts of this section that export credit agencies have for the most part **not** taken steps to cut existing facilities or to refuse new applications or to impose conditions which would have the effect, inter alia, of starving importers in problem countries of raw materials and intermediate goods with which to generate exports.

50. It is, however, possible that there **will** be a role of some importance for foreign export credit agencies at a slightly later stage when both local confidence improves and demand for imports in problem countries begins to pick up and when there is renewed interest either in reactivating postponed projects or in undertaking new ones. At this later stage the "bridge building" role of the export credit agencies could be significant and a useful plank in rebuilding trade.

V. Some Possible Follow Up: Local and Foreign Export Credit Agencies

51. If the earlier analysis is anything like correct, then a key point is helping **exporters** in the problem countries.

52. As far as export credit agencies are concerned, the prime role here will be for the **local** export credit agencies. However, none, apart from Korea Export Insurance Corporation (KEIC) in South Korea and Hong Kong Export Credit Insurance Corporation (HKEC) in Hong Kong is very large or very long established. The emphasis so far seems to have been placed by governments in the countries on their local export credit agencies playing a role in trying to bring about the availability of working capital (e.g., local export credit agencies in Hong Kong, South Korea, Malaysia, Philippines, Thailand). But, even if these working capital facilities are done and operated on behalf of government or on the account of government (rather than by local export credit agencies using their own capital and balance sheets), this is a very complex and high risk area. Furthermore, since a key requirement will be analyzing the intrinsic financial strength and survival prospects of **local** companies/exporters and in a situation where political pressures will be strong and direct, providing working capital is, arguably, not an obvious role for an export credit agency (and

especially not for a new or relatively inexperienced export credit agency). This is partly since, normally, the key day-to-day financial relationships of private companies will have been with their bank and not with their local export credit agency.

Foreign export credit agencies

53. Provision of working capital support to exporters in other countries can hardly be done by foreign export credit agencies.

54. This then leaves two other areas. First, imports of raw materials and intermediate goods by local importers; second, the subsequent exports to other countries. The first involves foreign export credit agencies and the second local export credit agencies.

55. As noted earlier, importing on credit as a substitute for local credit or local working capital is not an easy or cost/risk free process. Even so, there seems to be no evidence that exporters in South East Asia were in any systematic way prevented or inhibited from exporting by the refusal of foreign export credit agencies to continue to support credits to them for imports of raw materials and intermediate goods.

56. However, as exchange rates stabilize and as at least some exporters in South East Asia rediscover the confidence to import on credit in order to (re-)export and are able to access the necessary working capital, foreign export credit agencies will then, probably, have a potentially important role **if** they are willing to underwrite credit sales to such companies without the availability of totally up-to-date status and financial information and without automatically seeking across-the-board local bank or even government guarantees. This is not an easy process and can be done effectively only by underwriters experienced in dealing both with the importing country and with commercial risks in and on the particular sector(s) involved. Arguably, this kind of essentially commercial and case-by-case approach can be more useful and effective and relevant than across-the-board provision of "gesture" facilities (however apparently large) which require 100 percent host government guarantees.

57. Another role for foreign export credit agencies discussed below is cooperation of various kinds with local export credit agencies.

Local export credit agencies

58. All of the countries in South East Asia whose problems have been discussed in this report now have export credit agencies. But most are rather new and relatively inexperienced or rather small in terms of exports from their countries or both—with the exception of Korea.

59. But to the extent that the devaluations present strong opportunities for exports from the countries concerned, there are important potential opportunities for the local export credit agencies to help their exporters increase their exports both in traditional markets and in new

markets. But this will not just happen automatically. Additional resources and greater efforts and expertise will be necessary as will increased cooperation with, and between, various entities.

60. As noted earlier, efforts so far seem to have concentrated heavily on involvement with working capital to try to plug gaps left by the problems of many local banks. This is understandable but it is not an ideal role for any export credit agency to play and especially not for new export credit agencies to play, other than as a short-term/stop-gap arrangement. It will be a great pity if the emphasis on working capital prevents or inhibits local export credit agencies from preparing themselves for the upturn in exports and thus in their business and, just as important, from helping their customers (both exporters and banks) to do likewise.

61. There are various important aspects to this. For example:

- Governments in the countries concerned should understand better the important role that their export credit agencies can play in supporting and increasing exports—both to OECD and to non-OECD markets. Again this will not just happen naturally, it needs positive and active measures.

- Cooperation with local banks is vital—local export credit agencies should not be or seem to be in competition with the local banks. Cooperation requires positive and active steps by the export credit agencies, the banks and also, and importantly, by bank supervisors, (e.g., in the way that they treat or "rate" bank lending for exports supported by export credit facilities, i.e., to make this more attractive to local banks—there are clear models for doing this in OECD countries).

- Local export credit agencies need to undertake significant marketing and "education" programs to exporters (and to banks), recognizing the fact that in most of the countries export credit insurance is not understood, let alone instinctively sought out by exporters and that, whilst it is a complicated area, it can be a very flexible and relevant product.

- Local export credit agencies will need extra skills and incremental experience and expertise—this cannot be "trained" into existence overnight and so some of it will need to be acquired and transferred in various ways from other countries.

- Efforts should be made to tap private market resources internationally—especially of reinsurance—to the maximum possible extent. This will be useful for various reasons and not simply since it will help to reduce the calls for resources, especially money, on governments in South East Asia. It is an important part of the process of local export credit agencies getting up to speed internationally, so to speak.

- The international financial institutions (both the IMF and the World Bank) when drawing up programs of various kinds should not overlook both what local export credit agencies could do to help increase exports in a prudent way but also their need for resources of various kinds in order to achieve this.

62. Extra resources will be required to achieve a number of these objectives and one relatively quick and easy way to try to begin to achieve this in the most cost effective way would be to fund an urgent "audit" in each of the countries first to evaluate what—in detail—the local export credit agencies could best do to achieve their realistic potential in supporting the increase in exports, how this could most rapidly be done, and what the resource implications are likely to be.

Footnote

63. There is one other area where joint action between local and foreign export credit agencies could be useful. This concerns cooperation/coinsurance/multisourcing.

64. In other words, exchange rate depreciations will increase the competitiveness of exports from South East Asia. Inter alia, this will mean that companies and exporters in these countries will be even more attractive sub-contractors, sources of supply and partners to main contractors in OECD countries. The main contracts will usually be for projects in third countries.

65. Any actions to encourage this trend will be of mutual benefit to both main contractors and sub-contractors but the contractual and financing arrangements then become that much more complicated, especially if there have to be separate loans, etc., from different supplying countries.

66. It is in this area that local export credit agencies and foreign export credit agencies can help by taking positive and active steps not only to support and encourage such multisourcing and sub-contracting developments but also to **simplify** them. In other words, the more that it is possible for export credit agencies to sign specific cooperation arrangements with each other, to use common approaches, formats, policy wordings, conditions of cover and premium rates, etc., and to be prepared to "follow" each other and, even, to **reinsure** each other (rather than insisting on totally separate and different arrangements and facilities which are in accordance with "normal practices and procedures"), the better and quicker will the commercial multisourcing contractual and procurement arrangements take place.

67. These "multisourcing" arrangements are desirable for all kinds of reason but experience between OECD countries clearly shows that they do not just happen—active steps to compromise on traditional policies and practices and to make them happen are vital. And there will be no better time than now to begin to make them happen.

VI. Some of the Wider Challenges Now Facing Export Credit Agencies

A. A Watershed?

68. If even some of the points made earlier in the report are valid, then we may well be at some kind of watershed for the export credit agencies and for the way in which political risk business is done. Events in South East Asia could play a significant part in this.

69. A not uncommon view amongst some export credit agencies is that as soon as there are any claims, then the insurers and reinsurers from the private sector will disappear.

70. However, this is surely a misreading of the nature of insurance and the business sense of those in the private sector who carry out the activity. Insurers and reinsurers know that business which never gives rise to claims is business which will constantly be at risk either to other insurers offering lower premium rates or, probably more dangerously, to insured parties engaging in "self insurance"—in other words, not seeking insurance cover from anyone.

71. Therefore insurers and reinsurers expect to pay claims—the key point is that these do not, regularly—as opposed to every so often—exceed premium income.

72. In addition, there have been some clear signs of the capital markets being willing to finance/fund quite substantial projects via bonds without seeking traditional or, indeed, **any** insurance facilities from export credit agencies. But a very difficult—and new—question mark must be raised over this point until the fall-out of recent problems in South East Asia (and Russia) and, in particular, the impact of this on capital markets/bond markets is rather clearer than it is now.

73. This is of course one form of "self insurance" but the fact that so many bond market investors were—and perhaps are still or maybe will soon again be—no longer afraid of lending into emerging markets projects, must have some effect on the position of political risk underwriters both in the private sector and in the public sector.

B. A Dilemma for the Export Credit Agencies

74. For many official insurers, their "mandates" from their governments are likely to be under severe strain. That is to say, many have the dual objective of breaking even over time but not competing with the private sector and so, in some ways, being the "insurer" of last resort. But it is increasingly difficult for the same person to ride these two horses at the same time!

75. This is made worse/more difficult if, having withdrawn from an area like short-term trade finance type business, an official export credit agency is "compelled" by its government or guardian authorities to re-enter the area for political or diplomatic reasons and/or if banks or insurers threaten to cut all existing lines, etc. This risks not only moral hazard, as mentioned elsewhere, but also even greater difficulty in breaking even.

76. If official insurers are to break even, then they, like any insurers, need a spread of risk and so it is very difficult for them **both** to break even and **also** not to seek to do any piece of business if the private sector is prepared to do it.

77. Thus one of the interesting questions will inevitably be the extent to which the private sector and the public sector can **both** cooperate and compete.

C. A Dilemma for Project Sponsors and Others

78. But if there is this kind of dilemma for the export credit agencies, there is also a dilemma for other parties, especially those involved with major projects.

79. In particular, **if** it is the case that—over time—the impact of South East Asia proves not to be huge and consequently that there is a continuation of the trend where the level of business done by the export credit agencies begins to fall away as other parties are either prepared to lend into projects or to invest in projects **without** insurance or for private sector insurers to play an increasingly large role, **then** it seems that an inevitable result of this will be that the ability of the export credit agencies to keep in place their "infrastructure" to provide—when required at some future date—either export credit or investment insurance facilities will also begin to fall away.

80. In other words, it is quite unrealistic for people to work on the basis that the existing infrastructure of the export credit agencies can, somehow, be frozen into limbo whilst little or no short-term or investment insurance or medium/long term or project business is done by them and that, if and when the situation changes, the export credit agency infrastructure can spring back into life like Sleeping Beauty being brought back to life by a kiss from the Prince in the same condition as when she went to sleep!

81. Furthermore, there is a potentially extremely important question about what will happen in future when some projects get into difficulties.

82. It is unavoidable not only that some projects will have problems but that, in addition, some countries will in the future run short of foreign currency. Indeed, both have already happened in South East Asia.

83. The "new" conventional wisdom was, perhaps, that the solutions of the past (particularly multilateral debt reschedulings through the London Club and the Paris Club)

would no longer be needed since it is the exchange rate which will take the strain. However, how realistic is this, particularly where devaluations are very large and where infrastructure projects are involved? For example, in the case of a water project, water consumers may well not be very accustomed to paying anything for water, let alone the true or economic cost. Water projects are unlikely to generate any foreign currency. Thus, in the event that a country runs into foreign exchange difficulties and there is a **severe** depreciation of the exchange rate, significant increases in water tariffs will be necessary in order to buy foreign currency to repay foreign creditors and foreign investors. This is very unlikely to be an attractive policy option for governments.

84. In addition, for this and other—wider—reasons it seems very important that all lenders into projects should work on the basis that, if there are problems in repayments or on the availability of foreign exchange, then **all** creditors will be expected to share the pain and grief.

85. In other words, it is dangerously unrealistic if capital market lenders, for example, work on the basis in this or wider contexts that they should or will, somehow be given what is in effect a "preferred creditor position" since other creditors (including the export credit agencies and the banks) will, if asked, accept arguments such as that, if capital market lenders are not repaid at due date then there will be "chaos in the capital markets". (The same kind of problems arise, mutatis mutandis, when the international financial institutions cofinance projects.)

86. This, frankly, seems to represent not only some kind of blackmail but a blackmail that is unlikely to be very effective since official bilateral creditors of various sorts are likely to insist either that **all** creditors bear the consequences of debt problems and thus share the pain and grief equally, both on individual projects in which they may be involved and more generally or to be very cautious about cofinancing projects.

87. These kinds of issues are discussed more widely and in greater detail in an Occasional Paper to be published in 1999 on "The Changing Role of the Export Credit Agencies".

VII. Summary and Conclusions

88. Some of the issues referred to in this section extend beyond the immediate area of the export credit agencies. And the view from the export credit agencies on questions such as burden sharing and moratoria on payments is inevitably partial. However, given in particular the significant role which the export credit agencies play in world trade and investment flows and the extent of their existing commitments and exposure on emerging markets, it seems legitimate for there to be some export credit agency input to the analysis and review process on these vital wider and deeper "policy" questions. Thus it is important that some of the comments which follow should be read in this context.

89. Whilst recognizing that generalizations are difficult/dangerous, a number of important points begin to emerge:

- First, the profile and composition of external debt in most emerging markets is changing, with less medium- and long-term government/public sector debt and more private sector debt, both short term and project-related. In addition, creditors now include to a greater extent and on a wider scale capital market lenders, private sector investors, forfaiters and "owners" of short-term deposits of various kinds.

- Second, most emerging market economies—including their capital accounts, to a greater or lesser extent—have been liberalized significantly and most exchange rates are now more flexible than in the past.

- Third, it is naive to believe (or to act as though you believe) that situations with countries experiencing shortages of foreign exchange and problems in meeting external debt are—somehow—**not** going to happen in the brave new liberalized/open world.

- Fourth, it is potentially dangerous for both creditors and debtors to borrow externally to finance a large number of big projects which do not earn foreign currency.

- Fifth, in many countries—and especially OECD countries—the role of governments in supporting short-term "trade finance" type exports is being reduced for a variety of reasons, not least the increased capacity and willingness of private market and/or "own account" insurers to do such business. In other words the involvement of governments in exporting countries in trade finance is decreasing and in some countries has almost disappeared (as will "government" experience and expertise in trade finance).

- Sixth, neither the IMF nor the World Bank nor other regional international financial institutions has, at least in my view, any real track record or expertise in operating short-term trade finance facilities on any wide scale.

- Seventh, in these changed circumstances, traditional mechanisms for handling external debt problem countries/situations (especially via the Paris Club or London Club) may be less relevant in the future than in the past. At the very minimum, their roles and working methods, etc., need to be radically reappraised.

- Finally, for a whole range of reasons, it would seem very desirable that the level of preferred credit debt should be kept to an absolute minimum. These reasons include the changing composition and profile of external debt and external creditors and therefore the changed "format" of debt relief, etc., which may be necessary in future—e.g., fewer future debt exercises likely to be done on the basis only of the

Paris Club and London Club, and so will be more likely to be done on the basis of more equitable burden-sharing involving other creditors and "workouts" on individual projects. In other words, the international financial institutions should not seek to throw their preferred creditor umbrella over other creditors (e.g., "B loans") in any general or substantial kind of way. Apart from anything else this simply penalizes those lenders who do not seek or get this status and discourages them from lending or cofinancing. This is **not** an argument against international financial institutions maintaining this status but, in the current circumstances, simply against it being extended and widened to other creditors, especially for infrastructure and non-foreign exchange earning projects. The temptation for the international financial institutions to do this may be very strong if they see this "umbrella" technique as—somehow—the best (or cheapest) way of re-introducing some South East Asian countries to the capital markets and commercial banks, etc.

90. Against this background, some difficult questions arise, especially, in relation to countries which face significant short-term external debt, where the debtors are in the private sector and where a range of economic and commercial problems may result to a lesser/greater extent in the collapse of the exchange rate.

91. In this context, and others, there must—seen from the perspective of the export credit agencies—be some doubt about the **real** benefits to a country of short-term capital inflows, i.e., what comes in quickly for short periods can almost invariably leave in the same way. But this kind of evaluation is beyond the scope of this report.

92. However, a very important question (or series of questions) center(s) on what should be the appropriate policy response from the parties set out below, when a country (or buyers/borrowers in the country) has/have difficulty in paying external foreign currency debts in a timely way:

- the government of the debtor country;
- individual debtors—both companies and banks;
- the international financial institutions;
- governments of creditor countries;
- "official" export credit agencies in creditor countries;
- private export credit insurers in creditor countries;
- foreign banks;
- suppliers/exporters (especially of raw materials and intermediate goods) in creditor countries.

93. In order properly to review these questions, it is helpful to consider how a "crisis" might manifest itself, whilst noting that an obvious point which will be addressed later is how it might—at least in theory—be possible to prevent such crises arising in the first place.

94. As noted in Sections II and III, a possible series of events might be:

- pressure on the exchange rate leading to increasing depreciation;
- withdrawal of short-term capital;
- delays in payments for imports;
- concern amongst importers about importing, especially on credit, due to growing uncertainty about exchange rate depreciation implications (i.e., what the exchange rate will be in six months when the credit ends and so payment in a foreign currency to the overseas supplier falls due);
- concern and growing unwillingness of banks in the debtor/buying country to open letters of credit for import;
- exporters in other countries seeking or imposing "tighter" payment terms (e.g., requiring letters of credit or guarantees or providing shorter credit and/or higher "charges", etc.);
- insurers and export credit agencies in exporting countries reducing credit limits/credit facilities or requiring tighter credit terms and/or increased premium rates;
- foreign banks cutting or threatening to cut credit lines and/or increasing costs/fees;
- foreign banks refusing to confirm letters of credit without full cash security from opening banks;
- exporters ceasing to supply except on cash with order terms;
- banks in importing countries ceasing to open any letters of credit for imports;
- importers ceasing to import except, possibly, on cash terms;
- working capital ceasing to be available, including for established importers/exporters;
- a fall in both imports and exports;
- exchange rate depreciation increases which worsens all of the factors set out above.

95. In other words, the situation goes from bad to worse and, arguably, the most serious risk is that the exchange rate goes into free fall, bringing companies and banks and, indeed, the whole economic and commercial and banking systems closer and closer to total collapse.

96. It is very important to distinguish between **real** and practical solutions and, on the other hand, solutions which are motivated primarily by presentational and political factors, however they are dressed up, e.g., as measures to "improve market confidence".

97. At the risk of stating the obvious, it is also important carefully and accurately to analyze and identify the problem **before** a solution is developed.

98. These "obvious" points are mentioned since, as noted earlier, some of the "solutions" produced for some South East Asia countries had strong "presentational" characteristics and did not obviously meet the real or basic problems or seemed to have been produced in a policy vacuum and without any real quantification or understanding of the extent or even the nature of the fundamental problems.

99. The following points demonstrate that these are not hypothetical issues:

- What was the value of export credit agencies and their governments confirming the continued availability of medium- and long-term credit facilities for projects, when the real problem was the non-availability of short-term trade finance? Arguably, countries with severe short-term debt/exchange rate problems and in the process of terminating and postponing projects need new large projects like they need a hole in the head. And would the announcement of "irrelevant" help/support of this kind really do anything to increase or sustain market confidence?

- What is/was the relevance of facilities from export credit agencies or international finance institutions to confirm letters of credit or to induce offshore banks to do so, **if** the real problem is/was the unwillingness of importers and banks to **open** letters of credit at all?

- Is it not dangerous to announce a willingness to make new facilities for imports or working capital available **but** only on the basis of across-the-board host government guarantees—in other words to provide facilities which involve very substantial potential calls on the host government which "mature" within a very short period, e.g., 180 days. Does this not, inter alia, risk government guarantees losing credibility in the market place? And, in addition, requiring government guarantees across-the-board for all importers and all banks can easily and quickly be seen as a—rather public—vote of no-confidence in **all** local companies and **all** local banks. How does this increase or sustain foreign confidence in a country?

- What is the significance of producing "solutions" to the perceived problem of the inability to import raw materials and intermediate goods of **exporting** companies of countries in difficulties without first knowing in some detail either whether the largest exporters in the problem countries concerned **really** face this kind of problem or what solutions they may already have reached either with suppliers of raw materials, etc., and/or buyers of the subsequent exports? And is it not little short of absurd to believe that such facilities at times of crisis can be used to train or to "introduce" new or small companies in problem countries to exporting for the first time?

- Should (or to what extent) the "threats" of banks or insurers or exporters in creditor countries—whether made to debtors or to international financial institutions or to their own governments—to withdraw completely or totally to cut trade lines/trade credit facilities be taken at face value? This an important question. Creditors of any kind who have existing exposure outstanding of any size would, in practice and in the real world—as opposed to theory or as part of a "negotiating threat"—be very cautious in actually withdrawing or totally cutting lines, etc., simply because of the very bad effect this would inevitably have for them on their own existing exposure **unless** some other party is prepared to come in to support or provide new facilities. To put it another way, experience shows that the best chance of recovering **existing** debts/exposure is usually to keep the debtor in existence and in working order, so to speak. If debtor/buyers or debtor companies are, in effect, put out of business by the total withdrawal of facilities, then creditors will face the prospect of total loss of existing debts/exposure. This is something they will be reluctant to face and is why lenders and investors and insurers become involved in "workout" situations.

  In addition, if governments of creditor countries rush in with—no doubt well intentioned—new facilities which enable private lenders or insurers to withdraw, is this not a clear case of moral hazard and so of such governments not practicing what they preach to the international financial institutions?

- One of the points identified earlier in the report is the caution which should be exercised by **all** parties (including both potential debtors and creditors and the international financial institutions) in the external financing of projects (including, but not restricted to, infrastructure projects) which do not earn foreign exchange.

  Added to this should, probably, be the caution which should be exercised in relation to what may be called private or privatized projects but which involve so much host government involvement and so many undertakings and decisions and approvals, etc., that they are, in reality, government or public sector projects masquerading as private projects.

  This is obviously a complex and controversial area but one of the points being made here is that the international financial institutions should exercise considerable caution in promoting and extending "guarantee programs" which have the direct effect of **encouraging** countries to borrow offshore for projects which do not generate foreign currency. And of course such international financial institutions' guarantees require back-to-back host government country guarantees on their (e.g., IFI) guarantees of host government Undertakings/Understandings/Letters of Comfort of various kinds, so directly re-involving the host government in individual projects which they wish to do—or have been advised to do—on a "privatized" basis.

A. Preventing "Problem Situations" Arising

100. One of the most vital points here is the ready accessibility/availability of good, hard, detailed and current information.

101. Of central importance will be macro figures on the level and nature and profile of external debt and of reserves and whether such debts are private or public debts. Also relevant, and important would be the extent to which—apparent—reserves have in fact been sold forward and so are not available in any real sense. Better, more detailed and more transparent information would help every interested party to make better judgements on the vulnerability of a country to the kind of risks/manifestations set out above (including to increases in external interest rates). Obviously it may be difficult for a number of countries to acquire/collect and to record reliable and up-to-date figures on short-term debt but, in some ways, one of the lessons of South East Asia is the critical relevance of such figures.

102. But this, i.e., macro information is clearly not the whole story. Because, as is increasingly the case, debtors and potential debtors are private companies/private banks, then timely and reliable accounts on them, audited to international standards, are also vital.

103. In addition, another "debt recording" problem is what should most appropriately be the position on external debts arising from projects (e.g., power or water projects) where the government may not be the borrower or the buyer but where it may have provided to foreign creditors a whole range of Undertakings or Understandings, etc., which, when taken together, go very close to being an implicit (if not explicit) guarantee or commitment from the host government. At present, these "contingent obligations" are **not** included in IMF ceilings, etc., but should this continue to be the case or, at least, should this practice/policy not be reviewed again and, at least, more transparent information be provided?

104. **But**, even complete transparency and perfect information cannot guarantee that payment problems, etc., will not arise and, in addition, there must be serious doubts about whether the international finance institutions, and the IMF in particular, can show **public** "yellow cards" or cautions to some countries and governments (partly for the benefit of existing and potential creditors) if they (the IMF) have concerns over the policies of such governments.

105. In addition, it is probably the case that two things which have characterized financial markets (and especially lenders) over the last 25 years have been, first the "herd instinct" and, second, rather short memories, especially if there looks to be a good prospect of someone else picking up the check. This, inter alia, reinforces the need to avoid moral hazard and to leave lenders and insurers, etc., with the consequences of their own decisions. But crucial to this

would be such institutions being aware from the outset when taking their decisions that, when problems arise, no one else would appear to take over the problems or to assume the consequences of these decisions.

106. The basic point is that it is inevitable that, for a variety of reasons, some countries will—often for reasons largely beyond their control—at some stage run short of foreign exchange. Thus, whilst prevention may be better than cure, this does **not** mean that there is not a real need for contingent policies and mechanisms, etc., to be used when problems of the kind described earlier in this chapter begin to arise.

B. Possible Mechanisms

General

107. It would possibly be fairly common ground—at least amongst most creditors—that two of the criteria by which possible mechanisms or "solutions" or policies should be judged would be:

(1) that there should be equal burden sharing and that no individual creditor/or category of creditor, with the exception of the international financial institutions having preferred creditor status, should have a free ride or be exempted from the burden of "debt relief";

(2) that moral hazard should be avoided to the maximum practical extent.

108. That is to say, not only that **all** lenders and investors and insurers, etc. should work on the basis of their own credit analysis and judgements using the best available information and taking account of existing bankruptcy laws, etc., but also that **they** will be responsible for the consequences of their own actions and decisions. This should include recognition by creditors of, for example, the extreme difficulty of borrowing countries maintaining dual and concurrent policies of fixed or even "pegged" exchange rates and liberalized short-term capital flows.

109. In other words, some classes of lenders and borrowers, etc., should not work on the basis that, if anything goes wrong, then someone else will solve the problems or will take over the debts or will allow 'queue jumping" in any creditors queue or will give relief from providing debt relief or allow exemption from making some contribution to problem solving, etc.

110. In addition, since no two situations are likely to be precisely the same, then any mechanisms or policies would need sufficient flexibility to be adjusted to the particular circumstances of individual countries.

111. **But**, these difficulties are not sufficient reasons for not trying to work on contingent mechanisms, etc., so as to try to have them available for **urgent** use in case of need.

112. Both points "Exchange rates: a kind of "safety net" and "Temporary moratorium on external payments" discussed below are, to some extent, predicated on the general approach that the sooner or earlier you act, the less you may need to do.

113. Both raise all kinds of difficult issues but **may**, on balance, be "least bad" options.

Exchange rates: a kind of "safety net"

114. What is the central or root or main or most serious aspect of a "debt problem" is a very difficult question to answer. It may vary not only from country to country but also between the parties asking or considering the question.

115. But it is, in any case, a different question from what may have **caused** the problem.

116. If foreign creditors are concerned about a country then, in more or less liberalized economies, this will probably from now on be manifested by actions or events which lead quickly and directly to a depreciation of the exchange rate. Without wanting to get into arguments about what is the proper or appropriate exchange rate and the inevitability and desirability of relying on market forces, etc., the recent experience of many South East Asia countries suggests that, once an exchange rate begins to fall, there is an element of self-fulfilling prophecy and events and actions can come together to put a currency almost into free fall. The results of this are likely to be universally bad for almost all parties.

117. When this happens, then the government of the country concerned, international financial institutions, and creditor governments may find that the problems assume such proportions that they are very difficult to tackle. One manifestation of this may be that the "host" government will come under huge pressure to provide guarantees on a vast scale for, or on behalf of, private banks and companies in the country concerned. Indeed, the scale may be so large as to inhibit, if not destroy, the market credibility of the host government's guarantees.

118. Thus, would it not be preferable for the host government to step in at an early stage and to provide or guarantee some "safety net" forward exchange rate?

119. In other words, all or selected entities (e.g., importers for goods, etc., to be processed and exported) could be promised access to foreign exchange at a specified "floor" rate (if necessary below the current exchange rate) for a maximum period—say six months. Possibly, if the exchange rate improved/recovered, then institutions would **not** have to close the deal but could purchase foreign exchange on the open market.

120. This is clearly not a risk free or cost free policy—especially if exchange rates continue to fall steeply.

121. However, it could:

- provide some **greater** confidence and at an **earlier** stage than some other mechanisms applied at a later stage;
- allow some trade (especially imports) to continue;
- help to prevent a collapse of exports;
- help to protect some banks;
- provide some stability at an early stage and avoid the whole situation getting, or appearing to get, out of control.

122. If this proposal was felt to have any merit, then no doubt further work could be done on it as a "policy option" or contingent mechanism so as to have at least a "framework" ready in case of need.

Temporary moratorium on external payments

123. Many of the factors mentioned in 'Exchange rates: "some safety net"' could also have some validity in another context.

124. Withdrawal of capital at short notice or cutting of bank lines may be felt to be intrinsic parts of a free market. **However,** it could also be argued that those who do this (i.e., pull out short-term capital on any scale) would, in some situations, actually **cause** problems for others (and, inter alia, risk sending exchange rates into free fall, as described above). And some would argue that those creditors who behave most "responsibly" (i.e., those who do **not** rush for the exit at the first sign of difficulties) are the ones who are then punished.

125. Experience suggests that, if this "rush to exit" process begins then, sooner or later, some kind of—more or less untidy—moratorium or series of moratoria will be inevitable—for example, as has recently occurred in Russia. The risk is not only that such panic-induced moratoria may cause more problems than they solve but also that they may be unclear or obscure and that many creditors clog the machine by trying to demonstrate that they are—or should be—in the category(ies) exempted from the moratorium.

126. This, then, raises the question of whether it would not be best to have at least the possibility of an (international financial institutions approved) outward external payments/transfers moratorium mechanism which could be imposed at a very early stage, subject to some (pre-agreed) trigger mechanism and which would be to the maximum extent across-the-board and thus without exemptions or categories of debt excluded from its terms.

127. Again, this is of course not an easy or soft or cost or problem free option, **but** would it not be better to have the possibility of a mechanism which could be used at short notice and at a very early stage, (and where the advice of some of the key parties, e.g., banks, insurers, investors could have been taken into account at the "technical stage")? There could of course be more than one type of "moratorium mechanism" if this was felt to be desirable.

128. What this boils down to is that, **if** some of the events described earlier in this report begin to occur and, especially, if the exchange rate begins to fall rapidly and significantly and if short-term capital loans and lines, etc., look like being withdrawn on a substantial scale, **then** it could be best to impose a total and across-the-board moratorium or cessation of external/outward payments and foreign currency movements, so that in this "breathing space" the situation can be analyzed and policies, etc., developed to try to prevent a total collapse of the currency. This could also be argued to be a potent—if crude—way of trying to avoid moral hazard.

129. The concept of a Chapter 11-type arrangement may not be original but does not the problems in South East Asia (and Russia, for that matter) now give the possibility greater urgency and greater attraction?

Some possible micro measures: finance and working capital for essential imports for processing and subsequent export

130. One of the problems referred to earlier was the feeling that importers of raw materials and intermediate goods to be used for subsequent exports may be unable to get import financing facilities and/or working capital. So, far from exports increasing in response to the devaluation, they may actually fall. In other words, the problem is perceived as the inability of established exporters to take advantage of the export opportunities provided by the depreciation of the currency, due to the actions of others.

131. In turn, this may be perceived as being due to:

- inability of companies to import raw materials and intermediate goods;
- inability of companies to obtain working capital from their bank(s).

132. In turn, this may be perceived as being due to:

- unwillingness of foreign suppliers to extend credit to companies;
- unwillingness of foreign banks to confirm letters of credit issued/opened by local banks.

133. However, as noted earlier, the root problems may well be:

(i) unwillingness of importing companies to take credit—even 180-day credits—in foreign currency due to uncertainty over future exchange rates and so over the amount of the local currency they could be asked to produce to purchase foreign exchange to meet the debt;

(ii) unwillingness of local banks to open letters of credit for importing companies due to (i) and to the perceived "insolvency" of so many local companies.

134. If the local banks react—as banks often do—by requiring 100 percent or more cash to be deposited by importing companies **before** letters of credit are opened, then the importing companies clearly get little or no benefit from any credit extended by foreign suppliers and so might just as well pay cash—thus putting greater immediate pressure on exchange rates and foreign currency reserves.

135. In any such situations it is dangerous to rely on the "theoretical" in the sense that it may not be clear whether the largest exporters in a country are **really** suffering these problems or if they have already solved them in some way.

136. Thus the essential first step in each case should be for urgent information to be sought on:

- Who are the top 30 or 50 exporters?
- Are they having problems with importing raw materials and intermediate goods?
- If not, how have they solved them?
- Are they having working capital problems?
- If not, how have they solved them?

137. In the light of this information, **if** problems are found to exist, a possible approach might then be to try to develop ad hoc mechanisms.

138. For example:

(i) Retention of foreign exchange

It could be helpful if companies who are both importers and exporters could "retain" much of their export proceeds to use as collateral, etc., for foreign supplies, etc. This may of course already be allowed by exchange control regulations but is likely to come under pressure if foreign exchange reserves start to run low and exporters are required to repatriate all foreign exchange earnings at the earliest possible date.

(ii) Escrow accounts

A variation of (i) would be to set up "structured trade finance" type of arrangements and offshore escrow accounts.

139. In other words, the proceeds of the appropriate exports could be held in escrow accounts offshore, the first charge on which would be payment for the imported goods, raw materials, and intermediate goods and, where appropriate, to secure the provision of working capital.

140. This kind of security package could give confidence to banks and foreign suppliers, and could also have a fairly rapid turn-over since relatively short periods of time could be involved for the whole cycle from the import of raw materials/intermediate goods to the deposit of the proceeds from the subsequent exports.

141. It follows from this that it would seem best to rely on a case-by-case approach concentrated on the largest importers/exporters rather than trying to develop general or across-the-board schemes and, especially, schemes directed at new or small importers/exporters.

C. Moral Hazard—A Postscript

142. This report has covered a wide range of issues and subjects. However, one point which has arisen in a number of contexts is "moral hazard".

143. It would, probably, be common ground amongst many parties that all lenders and investors and insurers should carry the consequences of their own decisions and should not expect other institutions (e.g., the IMF or creditor governments) to rescue them from these consequences.

144. But in a privatized and liberalized world economy this is, perhaps, now a more complicated area than may have seemed the case in the past.

145. First, it arises at both ends of transactions in that, for example, external borrowing by private sector entities involves decisions by both borrowers and lenders and so the parties at **both** ends of the transactions should expect to bear the consequences and responsibilities involved if things go wrong. It is, however, more complicated if the transactions are encouraged or supported by governments at either or both ends.

146. Second, as part of the processes, the appropriate due diligence should take place. **But** this should involve, as noted earlier, the ready availability of the most accurate and timely and full information. The whole process is made more difficult if only **some** lenders or investors (e.g., international financial institutions or creditor governments) have regular access to more or better information than is available to other (e.g., private sector) entities. For example, after a prolonged period of exchange rate stability, it is not surprising if, deprived of "sensitive" information (e.g., of short-term debt and current account "forecasts") both private borrowers and private lenders believe that the status quo will continue and that exchange rates are, and will remain, somehow, fixed or pegged.

147. Third, if things go wrong and "work outs" of various kinds or delays or losses become involved, the more equality between creditors the better. Thus, for example, the fewer people and less debt with preferred creditor status the better. In addition, to illustrate this point, if lenders or insurers are involved in a project which is very successful, it is unfortunate and unfair if they are not paid in a timely way because foreign exchange is "diverted" to pay other creditors.

148. Fourth, there is surely moral hazard at the debtor end if governments assume on a regular basis or as part of the "system" greater and greater responsibilities for private sector debts, etc.

149. Fifth, if creditor country governments become involved, they should not do so without first considering issues such as what others—e.g., private creditors—would, in practice, do about existing liabilities or exposure and thus what are the real prospects of trade lines, etc., being cut totally.

150. Finally, the need for all—or at least the main—creditors (both public and private) to discuss as soon as possible in the event of problems with the maximum practicable exchange of information. This is, perhaps, one of the reasons for having some kind of across-the-board moratorium on **all** external repayments whilst this is done. This partly reflects the fact that loss of confidence and its consequences can be a self-fulfilling trend.

151. Hindsight of course makes decisions much easier to "re-take", but it would be unfortunate—and, indeed, a missed opportunity—if the events of the last year in South East Asia were not a vital part of the learning process needed to produce changed and more relevant policies, mechanisms, practices and "architecture", etc., in a wide range of contexts.

Table 1: Berne Union Members' Business on Selected S.E. Asian Markets

Short Term Business, June 1997 - June 1998

	As at 6/30/1997			As at 6/30/1998		
	Commitments	Debts	Exposure	Commitments	Debts	Exposure
Group A						
Hong Kong	4,903.9	24.6	4,928.5	3,448.5	9.3	3,457.8
Indonesia	2,867.5	49.6	2,917.1	1,409.0	18.2	1,427.2
Malaysia	2,493.0	4.1	2,497.1	1,304.1	4.7	1,308.8
Philippines	1,180.2	12.5	1,192.7	845.3	14.8	860.0
Thailand	3,245.8	6.0	3,251.8	1,457.5	400.1	1,857.6
Total	14,690.4	96.7	14,787.1	8,464.4	447.0	8,911.3
Group B						
Members' total exposure on non-OECD countries	39,447.0	3,125.9	42,572.9	32,784.2	4,149.9	36,934.1
Memo:						
Group A in percent of Group B	37.24	3.1	34.7	25.8	10.8	24.1

Notes:
Commitments - means business for which the due date of payment has not yet been reached, plus amounts overdue for payment (i.e., amounts not yet the subject of a claims payment).
Debt - means claims paid not the subject of refinancing or rescheduling.
Exposure - sum of commitments and debt.

Table 2: Berne Union Members' Business on Selected S.E. Asian Markets

Medium- and Long-Term Business, June 1997 - June 1998

	As at 6/30/1997			As at 6/30/1998		
	Commitments	Debts	Exposure	Commitments	Debts	Exposure
Group A						
Hong Kong	4,895.7	18.2	4,913.9	4,033.8	14.7	4,048.5
Indonesia	23,448.6	223.5	23,672.1	20,585.7	293.2	20,878.8
Malaysia	3,279.1	10.1	3,289.2	2,387.5	0.5	2,388.0
Philippines	7,573.7	2,154.9	9,728.6	8,461.6	2,299.9	10,761.6
Thailand	12,986.7	0.9	12,987.6	9,928.6	2.4	9,931.0
Total	52,183.8	2,407.6	54,591.4	45,397.1	2,610.7	48,007.8
Group B						
Members' total exposure on non-OECD countries	247,955.9	149,638.7	397,594.6	231,341.7	139,276.4	370,618.1
Memo:						
Group A in percent of Group B	21.05	1.6	13.7	19.6	1.9	13.0

Notes:

Commitments - means business for which the due date of payment has not yet been reached.

Debt - means amounts overdue for payment (i.e., amounts not yet the subject of a claims payment) plus claims paid but not the subject of refinancing or rescheduling, plus debt refinanced or rescheduled.

Exposure - sum of commitments and debt.

Table 3: Berne Union Members' Business on Selected S.E. Asian Markets
Total Business, June 1997 - June 1998

	As at 6/30/1997			As at 6/30/1998		
	Commitments	Debts	Exposure	Commitments	Debts	Exposure
Group A						
Hong Kong	9,799.6	42.8	9,842.3	7,482.3	24.0	7,506.3
Indonesia	26,316.1	273.0	26,589.1	21,994.6	311.4	22,306.0
Malaysia	5,772.1	14.2	5,786.4	3,691.6	5.2	3,696.8
Philippines	8,753.9	2,167.4	10,921.3	9,306.9	2,314.7	11,621.6
Thailand	16,232.4	6.9	16,239.3	11,386.1	402.5	11,788.5
Total	66,874.1	2,504.3	69,378.4	53,861.5	3,057.7	56,919.1
Group B						
Members' total exposure on non-OECD countries	287,401.9	152,764.6	440,166.5	264,124.9	143,426.3	407,551.2
Memo:						
Group A in percent of Group B	23.27	1.6	15.8	20.4	2.1	14.0

Notes:
Commitments - see notes to Tables 1 and 2.
Debt - see notes to Tables 1 and 2.
Exposure - sum of commitments and debt.

Table 4: Berne Union Members' Business on Selected S.E. Asian Markets

Commitments, December 1996 - December 1997

	As at 12/31/1996			As at 12/31/1997		
	Short term	Medium and Long term	Total	Short term	Medium and Long term	Total
Group A						
Hong Kong	4,635.3	5,625.8	10,261.1	3,814.4	6,723.3	10,537.6
Indonesia	2,405.9	23,115.2	25,521.1	2,253.1	22,036.6	24,289.7
Malaysia	1,713.8	3,504.1	5,217.9	2,478.8	2,856.9	5,335.7
Philippines	873.8	7,272.6	8,146.4	1,010.8	8,455.2	9,466.0
Thailand	2,960.5	12,071.9	15,032.4	2,223.6	11,547.1	13,770.7
Total	12,589.3	51,589.6	64,178.9	11,780.8	51,619.0	63,399.7
Group B						
Members' total exposure on non-OECD countries	164,259.0	396,863.0	561,122.0	175,942.5	300,243.5	476,186.0
Memo:						
Group A in percent of Group B	7.66	13.0	11.4	6.7	17.2	13.3

Notes:

Commitments - means business for which the due date of payment has not yet been reached, plus amounts overdue for payment (i.e., amounts not yet the subject of a claims payment).

Debt - means claims paid not the subject of refinancing or rescheduling.

Exposure - sum of commitments and debt.

Table 5: Berne Union Members' Major Exposure Markets
Members' Medium- and Long-Term Exposure; December 1991 - June 1998

(In billions of U.S. dollars)

as at 31/12/91		as at 31/12/92		as at 31/12/93		as at 31/03/94	
USSR	35,132	USSR	26,985	China	27,790	China	30,998
Algeria	25,815	Algeria	22,681	Algeria	21,197	Algeria	21,656
Indonesia	17,030	China	20,863	Mexico	20,304	Indonesia	21,284
Mexico	16,501	Indonesia	18,652	Indonesia	19,579	Mexico	19,184
China	16,062	Iran	18,040	USSR	18,574	USSR	18,786
as at 30/6/94		**as at 30/09/94**		**as at 31/12/94**		**as at 31/03/95**	
China	33,309	China	35,739	China	36,760	China	40,635
Indonesia	22,870	Indonesia	23,534	Indonesia	24,019	Indonesia	26,670
Algeria	21,734	Algeria	23,158	Algeria	21,398	Algeria	20,828
USSR	17,361	USSR	17,553	Mexico	16,672	Russia	16,962
Mexico	15,963	Russia	15,181	USSR	15,963	Iran	16,537
as at 30/6/95		**as at 30/09/95**		**as at 31/12/95**		**as at 31/03/96**	
China	37,959	China	33,857	China	36,327	China	35,883
Indonesia	24,177	Indonesia	22,268	Indonesia	23,038	Indonesia	23,874
Algeria	17,295	Russia	16,072	Russia	15,368	Turkey	15,830
Russia	16,669	Algeria	15,958	Algeria	15,229	Russia	15,788
Mexico	14,672	Mexico	14,527	Mexico	14,961	Mexico	13,563
as at 30/6/96		**as at 30/09/96**		**as at 31/12/96**		**as at 31/03/97**	
China	35,847	China	37,520	China	38,158	China	39,663
Indonesia	23,711	Indonesia	23,690	Indonesia	23,136	Indonesia	22,593
Turkey	15,917	Russia	16,690	Russia	16,110	Russia	15,971
Russia	15,628	Turkey	16,183	Turkey	15,929	Turkey	15,706
Mexico	14,483	Algeria	13,835	Mexico	12,605	Thailand	12,347
as at 30/6/97		**as at 30/09/97**		**as at 31/12/97**		**as at 31/03/98**	
China	40,454	China	41,306	China	41,502	China	40,600
Indonesia	23,192	Indonesia	23,901	Indonesia	22,037	Indonesia	22,168
Russia	15,564	Turkey	15,881	Russia	16,884	Russia	17,957
Turkey	15,359	Russia	14,992	Turkey	15,389	Turkey	15,661
Thailand	12,942	Thailand	12,999	Mexico	11,596	Mexico	11,438
as at 30/6/98							
China	41,099						
Indonesia	20,586						
Russia	18,454						
Turkey	14,523						
Mexico	10,833						

Table 6: Selected South East Asian Markets - Short-Term Exposure
(In billions of U.S. dollars)

	6/30/97	12/31/97	3/31/98	6/30/98
	(1)	(2)	(3)	(4)
Hong Kong	4.8	3.8	2.9	3.2
Indonesia	2.8	2.2	2.4	1.4
Korea	2.2	2.1	3.2	2.9
Malaysia	2.5	2.5	2.1	1.3
Philippines	1.2	1.0	1.0	0.8
Singapore	3.2	3.5	3.4	2.6
Thailand	3.2	2.2	3.2	1.4
Total OECD Members	19.9	17.3	18.2	13.6

The Berne Union OECD members are:

Country	**Member(s)**
Australia	EFIC
Austria	OeKB
Belgium	OND
Canada	EDC
Czech Republic	EGAP
Denmark	EKF
Finland	FGB
France	COFACE
Germany	HERMES
Hungary	MEHIB
Italy	SACE, SIAC
Japan	EID/MITI
Korea	KEIC
Mexico	BANCOMEXT
Netherlands	NCM
New Zealand	EXGO
Norway	GIEK
Poland	MEHIB
Portugal	COSEC
Spain	CESSC,CESCE
Sweden	EKN
Switzerland	ERG, FEDERAL
Turkey	TURKEXIMBANK
United Kingdom	ECGD, EULER TI
United States	EXIMBANK, FICA

The Position of Berne Union Export Credit Agencies on Individual S. E. Asian Countries

June 1997

Hong Kong

As at June 30, 1997, 27 Berne Union members reported commitments/exposure:

	U.S. dollar billions
Total commitments outstanding	9.8
Of which	
Short-term business	4.9
Medium-/long-term business	4.9

Thirty-two members reported their terms of cover. All members reporting were open for both short-term and for medium-/long-term business.

For short-term business, all members were open for cover without restriction. No member required any across-the-board requirement for third party security. No members reported any limit on their exposure.

For medium-/long-term business all members were open for cover without restriction. Three members required a "State" guarantee of payment. Three members reported a specific limit on their exposure.

Arrears and overdues but where claims had not yet been paid amounted to US$8.19 million.

Debt not refinanced/rescheduled but where claims had been paid amounted to US$34.6 million (short term US$16.38 million, medium/long term US$18.32 million).

There were no refinanced/rescheduled debts.

Indonesia

As at June 30, 1997, 25 Berne Union members reported commitments/exposure:

	U.S. dollar billions
Total commitments outstanding	26.3
Of which	
Short-term business	2.9
Medium-term business	23.4

Thirty-four members reported their terms of cover. Thirty-three members reporting were open for short-term business and thirty members were open for medium-/long-term business.

For short-term business, most members reported being open for cover without restriction. Some members always required either a letter of credit or a commercial bank guarantee and some also had some form of limit on their exposure.

For medium-/long-term business most members were open for cover without restriction though some members required either a central bank guarantee or a state guarantee of payment. A number of members reported some form of limit on their exposure.

Arrears and overdues but where claims had not yet been paid amounted to US$37.7 million.

Debt not refinanced/rescheduled but where claims had been paid amounted to US$85.4 million (short term US$49.6 million, medium/long term US$35.8 million).

Refinanced/ rescheduled debt amounted to US$146.9 million with arrears of US$3 million.

Malaysia

As at June 30, 1997, 22 Berne Union members reported commitments/exposure:

	U.S. dollar billions
Total commitments outstanding	5.8
Of which	
Short-term business	2.5
Medium-term business	3.3

Thirty-four members reported their terms of cover. All members reporting were open for both short-term and for medium-/long-term business.

For short-term business, most members were open for cover without restriction. A few members always required either a letter of credit or a commercial bank guarantee and a few also had some form of limit on their exposure.

For medium-/long-term business most members were open for cover without restriction though some members required either a central bank guarantee or a state guarantee of payment. A few members also had some form of limit on their exposure.

Arrears and overdues but where claims had not yet been paid amounted to US$1.1 million.

Debt not refinanced/rescheduled but where claims had been paid amounted to US$13.1 million (short term US$2.9 million, medium/long term US$10.2 million).

There were no refinanced/rescheduled debts.

Philippines

As at June 30, 1997, 23 Berne Union members reported commitments/exposure:

	U.S. dollar billions
Total commitments outstanding	8.8
Of which	
Short-term business	1.2
Medium-term business	7.6

Thirty-three members reported their terms of cover. All members reporting were open for both short-term and for medium-/long-term business.

For short-term business, most members were open for cover without restriction. A few members always required either a letter of credit or a commercial bank guarantee and a few also had some form of limit on their exposure.

For medium-/long-term business most members required either a central bank guarantee or a state guarantee of payment. A number of members also had some form of limit on their exposure.

Arrears and overdues but where claims had not yet been paid amounted to US$8.8 million.

Debt not refinanced/rescheduled but where claims had been paid amounted to US$96.4 million (short term US$3.8 million, medium/long term US$92.6 million).

Refinanced/rescheduled debt amounted to US$2 billion with arrears of US$46 million.

Thailand

As at June 30, 1997, 25 Berne Union members reported commitments/exposure:

	U.S. dollar billions
Total commitments outstanding	16.2
Of which	
Short-term business	3.2
Medium-term business	13.0

Thirty-six members reported their terms of cover. All members reporting were open for both short-term and for medium-/long-term business.

For short-term business, most members were open for cover without restriction. A number of members always required either a letter of credit or a commercial bank guarantee and a few also had some form of limit on their exposure.

For medium-/long-term business most members were open for cover without restriction. A number of members required either a central bank guarantee or a state guarantee of payment. A few members also had some form of limit on their exposure.

Arrears and overdues but where claims had not yet been paid amounted to US$1.2 million.

Debt not refinanced/rescheduled but where claims had been paid amounted to US$5.7 million (short term US$4.8 million, medium/long term US$0.9 million).

There were no refinanced/rescheduled debts.

The Position of Berne Union Export Credit Agencies on Individual S. E. Asian Countries

June 1998

Hong Kong

As at June 30, 1998, 25 Berne Union members reported commitments/exposure:

	U.S. dollar billions
Total commitments outstanding	7.5
Of which	
Short-term business	3.4
Medium-term business	4.1

Thirty-four members reported their terms of cover. All members reporting were open for both short-term and for medium-/long-term business.

For short-term business all members were open for cover without restriction. No members required any form of third party security. Three members had some form of limit on their exposure.

For medium-/long-term business all members were open for cover without across-the-board restrictions. Three members required a state guarantee of payment. Three members also had some form of limit on their exposure.

Arrears and overdues but where claims had not yet been paid amounted to US$6.5 million.

Debt not refinanced/rescheduled but where claims had been paid amounted to US$24 million (short term US$9.3 million, medium/long term US$14.7 million).

There was no refinanced/rescheduled debt.

New transfer delays in excess of three months arising during the three months ended June 30, 1998 amounted to US$0.3 million, all of which was in respect of short-term business.

Indonesia

As at June 30, 1998, 24 Berne Union members reported commitments/exposure:

	U.S. dollar billions
Total commitments outstanding	22.0
Of which	
Short-term business	1.4
Medium-term business	20.6

Thirty-seven members reported their terms of cover. Thirty-six members reporting were open for short-term business and thirty members were open for medium-/long-term business.

For short-term business, most members were open for cover without restriction. Some members required either a letter of credit or a commercial bank guarantee and also had some form of limit on their exposure.

For medium-/long-term business most members were open for cover without across-the-board restrictions though some members required either a central bank guarantee or a state guarantee of payment. Some members also had some form of limit on their exposure.

Arrears and overdues but where claims had not yet been paid amounted to US$107.6 million.

Debt not refinanced/rescheduled but where claims had been paid amounted to US$66 million (short term US$18.2 million, medium/long term US$47.8 million).

Refinanced/rescheduled debt amounted to US$137.7 million with no arrears.

New transfer delays in excess of three months arising during the three months ended June 30, 1998 amounted to US$0.5 million, all of which was in respect of short-term business.

Malaysia

As at June 30, 1998, 23 Berne Union members reported commitments/exposure:

	U.S. dollar billions
Total commitments outstanding	3.7
Of which	
Short-term business	1.3
Medium-term business	2.4

Thirty-six members reported their terms of cover. Thirty-five members reporting were open for both short-term and for medium-/long-term business.

For short-term business, most members were open for cover without restriction. A few members required either a letter of credit or a commercial bank guarantee and a few also had some form of limit on their exposure.

For medium-/long-term business most members were open for cover without across-the-board restrictions though some members required either a central bank guarantee or a state guarantee of payment. Some members also had some form of limit on their exposure.

Arrears and overdues but where claims had not yet been paid amounted to US$2.6 million.

Debt not refinanced/rescheduled but where claims had been paid amounted to US$2.6 million (short term US$2.1 million, medium/long term US$0.5 million).

There was no refinanced/rescheduled debt.

There were no new transfer delays in excess of three months arising during the three months ended June 30, 1998.

Philippines

As at June 30, 1998, 23 Berne Union members reported commitments/exposure:

	U.S. dollar billions
Total commitments outstanding	9.3
Of which	
Short-term business	0.8
Medium-term business	8.5

Thirty-three members reported their terms of cover. All members reporting were open for both short-term and for medium-/long-term business.

For short-term business, most members were open for cover without restriction. Some members required either a letter of credit or a commercial bank guarantee and a few also had some form of limit on their exposure.

For medium-/long-term business most members required either a central bank guarantee or a state guarantee of payment. Some members also had some form of limit on their exposure.

Arrears and overdues where claims had not yet been paid amounted to US$11.5 million.

Debt not refinanced/rescheduled but where claims had been paid amounted to US$65.8 million (short term US$3.3 million, medium/long term US$62.5 million).

Refinanced/rescheduled debt amounted to US$1.7 billion with arrears of US$2.5 million.

There were no new transfer delays in excess of three months arising during the three months ended June 30, 1998.

Thailand

As at June 30, 1998, 24 Berne Union members reported commitments/exposure:

	U.S. dollar billions
Total commitments outstanding	11.4
Of which	
Short-term business	1.4
Medium-term business	10.0

Thirty-six members reported their terms of cover. All members reporting were open for both short-term and for medium-/long-term business.

For short-term business, most members were open for cover without restriction. A number of members required either a letter of credit or a commercial bank guarantee and a few had some form of limit on their exposure.

For medium-/long-term business most members were open for cover without across-the-board restrictions. A number of members required either a central bank guarantee or a state guarantee of payment. A few members also had some form of limit on their exposure.

Arrears and overdues where claims had not yet been paid amounted to US$396 million.

Debt not refinanced/rescheduled but where claims had been paid amounted to US$6.4 million (short term US$4 million, medium/long term US$2.4 million).

There was no refinanced/rescheduled debt.

There were no new transfer delays in excess of three months arising during the three months ended June 30, 1998.

G-7 Press Release

"February 21, 1998

ECA JOINT STATEMENT IN SUPPORT OF ASIA

Group of Seven member countries:

Export Development Corporation (ECD) [Canada]
Ministere de l'"Economie, des Finance er de l'Industrie (COFACE) [France]
Federal Ministry of Economics (HERMES) [Germany]
Sezione Speciale per l'Assicurazone del Credito all'Esportazione (SACE) [Italy]
Export-Import Insurance Department/Ministry of International Trade and Industry of Japan (EID/MITI) [Japan]
Export Credit Guarantee Department (ECGD) [United Kingdom]
Export-Import Bank of the United States (Ex-Im Bank) [United States]

ECA JOINT STATEMENT IN SUPPORT OF ASIA

London, United Kingdom: (February 21, 1998) Export credit agencies (ECA's) from 18 countries met yesterday to discuss the current situation in Asia. At this meeting, the G-7 ECAs and their relevant national authorities approved a practical and immediate initiative to help stabilize the Asian markets. This initiative will allow for continued trade flows that will benefit the economies and support employment of all involved countries. The twelve other export credit agencies present welcomed and supported the G-7 ECA initiative. This ground-breaking meeting reflected the great importance both of the issues involved and the need for coordinated action.

Export credit agencies have a unique role in international trade and are positioned to support and supplement the financing of trade in the region, recognizing that a lack of financing restricts trade flows in the various Asian economies, has a detrimental effect on their local economies, and limits the export of goods and services to these key markets.

Given the fundamental long-term strength of the Asian economies, the reform programs being adopted by a number of affected countries, and the commitments which the ECAs already have in the region, the G-7 ECAs believe that there is a strong case and need to maintain trade finance support to the region. Last year, these ECAs supported some $15 billion of short-term credits to Indonesia, Korea and Thailand alone.

The initiative builds on existing G-7 ECA programs and each agency will continue to operate under its independent rules and regulations. Understanding that the most important single factor in enhancing creditworthiness is the prompt and complete implementation of policy reforms in the affected countries, particularly when these reforms have been agreed to with the International Monetary Fund (IMF), G-7 ECAs have agreed to:

* continue provision of, and where appropriate expand, short-term insurance, guarantees and reinsurance to creditworthy buyers in the region.

* increase ECA cooperation among themselves in addressing the difficulties which some corporations in the region are facing in managing their existing foreign currency debt obligations.

* exchange information on market developments and implementation of reform measures in the countries of interest recognizing that the resumption of financial stability is crucial to all parties.

In addition, these G-7 ECAs noted they remain open for medium- and long-term creditworthy business.

In pursuing this multi-lateral initiative, the G-7 ECAs recognize the importance of working with Asian nations in overcoming current difficulties in order to maintain trade flows and foster stable long-term growth. The agencies will remain in close contact with each other to monitor progress in the region.

The export credit agencies, in addition to those from the G-7, attending the meeting:

Oesterreichische Kontrollbank Ag (OEKB) [Austria]
Export Finance and Insurance Corporation (EFIC) [Australia]
Office National Du Ducroire (OND) [Belgium]
Eksport Kredit Fonden (EKF) [Denmark]
Finnish Guarantee Board (FGB) [Finland]
Banco Nacional De Comercio Exterior (Bancomext) [Mexico]
Nederlandsche Credietverzekering Maatschappij N.V. (NCM) [Netherlands]
Garanti-Instituttet for Eksportkredit (GIEK) [Norway]
Compania Espanola de Seguros de Credito a la Exportacion, S.A. (CESCE) [Spain]
Exportkreditnamnden (EKN) [Sweden]
Geschaftssttelle fur die Exportrisikogarantie (ERG) [Switzerland]
Trade Indemnity (United Kingdom)

Agency in support but not attending the meeting:

IFTRIC [Israel]

Private Association attending the meeting:

Berne Union Secretariat"

Berne Union Press Release, April 1998

" EXPORT CREDIT AGENCIES SUPPORTING TRADE FINANCE IN ASIA

EXPOSURE ON INDONESIA, SOUTH KOREA AND THAILAND USD 45 BILLION

Export Credit Agencies play an essential role in supporting trade with Asian countries. Speaking after the General Meeting of the Berne Union, Mr. Francois David, President of the Berne Union and Chairman of COFACE said: "Export Credit Agencies concluded at the Meeting that strong continuing support is required to help the recovery of the Asian economies.

During the General Meeting of the Berne Union held in London on 22–24 April, 1998 the Export Credit Insurance Agencies had in-depth discussions on the Asian Crisis with the IMF, World Bank and Asian Development Bank.

"Harmful over-reaction should be prevented", Mr. David said, "and coherent policies implemented by the International Financial Institutions in co-operation with the Governments concerned should be supported".

As banks may reduce their short-term trade financings to these countries the share of Export Credit Agencies in supporting trade finance to Asia is expected to increase.

As at March 1998 the exposure of Berne Union Members on Indonesia, South Korea and Thailand amounted to USD 45 billion (both short term and medium term credits). These figures are expected to increase as several Agencies are expected to put in place special short term trade finance facilities. This is in order to enable producers in these countries to access necessary inputs.

But the availability of these short-term trade facilities and the support to individual debtors to overcome their payment problems depends heavily upon measures taken by Governments in these countries, including implementation of IMF and World Bank programmes."