

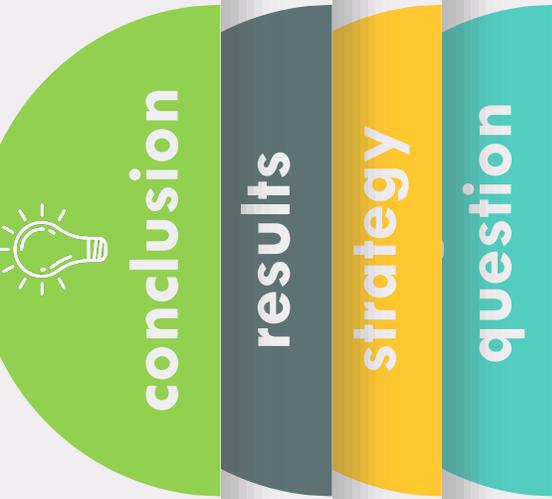


Arab Exports and Creditworthiness

Are there real needs for specialized export credit institutions

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Official export insurance: a strategic instrument...

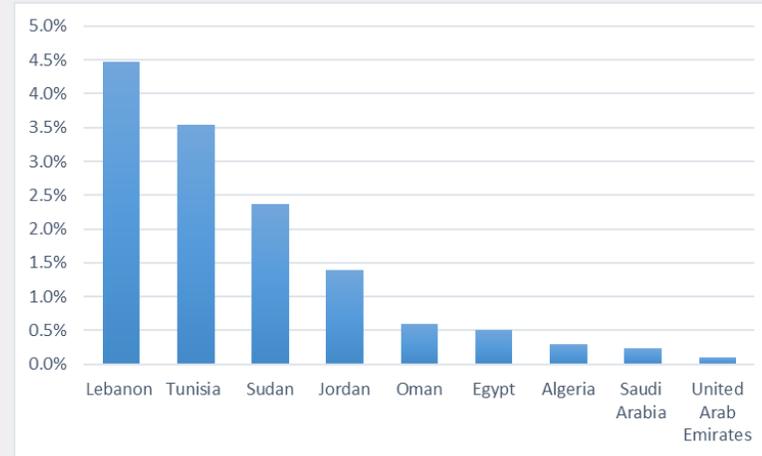
- Goods and services in international trade are becoming increasingly similar shifting the competition from products itself to price, marketing and payment terms services. Costs can be kept in the minimum level and offered to the customer at the most appropriate price, only through the use of proper financing techniques.
- Developed countries implement foreign trade policies to develop various institutions (ECAs) to give their entrepreneurs competitive advantage in foreign markets.
- Insured exports in most industrialized economies roughly vary between 10% to 20% of total exports. Up to 80% of trade is financed by some form of credit, guarantee or insurance.
- Beside the role of the ECAs in providing coverage against the risk of default, two wider policy goals deserve special attention:
 1. this type of insurance is used as an instrument of strategic export promotion against foreign competitors in third markets;
 2. developing countries obviously are the export destinations for which official export insurance schemes especially are significant.



...underused in the Arab world

- The Arab countries are relatively new in the business of export credit support. Out of the 22 Arab League members, only 12 have ECAs, Export-Import banks or similar programs. In addition to the national ECAs/Programs, two multilateral ECAs in the region serve member countries: Dhaman and ICIEC.

Trade Insurance Volumes as a Share of Merchandise Exports for Selected Arab ECAs, Average 2008-2014.



Sources: Aman Union for credit export insurance series covering 9 Arab ECAs; UnctadStat for merchandise exports series

- Are there real needs for specialized export financial institutions to finance exports and mitigate credit risks in Arab countries?



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An indirect empirical strategy

- The deficiency in terms of detailed statistics on the activities of ECAs in the Arab world inhibits the adoption of a direct empirical strategy to test whether public export credit guarantees lead to a significant amount of additional exports.
- To overcome this deficiency, we investigate empirically the significance of the relationship between **exports** and **credit-worthiness** of importing countries, using merchandise export values for a balanced panel of 107 Arab partner countries (importer countries) between 1997 and 2017, totalizing in average 85% of the total Arab merchandise exports (898.5 billion US\$ in 2017).

$$\ln(\text{Export}_{it}) = c + \alpha \ln(\text{Creditw}_{it}) + \beta \ln(\text{FDI}_{it-1}) + \gamma \ln(\text{Manuf}_{it}) + \varepsilon_{it} \quad (17)$$

$$\ln(\text{Export}_{it}) = c + \theta \ln(\text{Export}_{it-1}) + \tilde{\alpha} \ln(\text{Creditw}_{it}) + \tilde{\beta} \ln(\text{FDI}_{it-1}) + \tilde{\gamma} \ln(\text{Manuf}_{it}) + \tilde{\varepsilon}_{it} \quad (18)$$

Main assertion

The export value per capita of an importing country is an increasing function of the credit score (*Creditw*) that is tagged to that importing country ($\tilde{\alpha} > 0$).



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Table 3- Estimation of the Dynamic Model

	System GMM
$\ln(Export_{it-1})$	0.534*** (0.051)
$\ln(Creditw_{it})$	0.386*** (0.161)
$\ln(FDI_{it-1})$	0.237*** (0.036)
$\ln(Manuf_{it})$	-1.191*** (0.316)
Dummy variable for years 2008 and 2009 ¹	-0.077*** (0.254)
Number of observations	2033
Number of partners	107
Wald Chi2	605.48***
Sargan test of overidentifying restrictions p-value	1.00
Arellano-Bond AR(1) p-value	0.00***
Arellano-Bond AR(2) p-value	0.36

Table 4- Estimation of the Dynamic Model for Non-High Income Countries and 4 Product Groups, System GMM, 1997-2017

	Total Goods	Primary Commodities	Manufactured Goods	Machinery and Transport Equipment
$\ln(Export_{it-1})$	0.609*** (0.050)	0.489*** (0.068)	0.629*** (0.063)	0.615*** (0.057)
$\ln(Creditw_{it})$	0.466*** (0.151)	0.584*** (0.224)	0.426*** (0.147)	0.723*** (0.157)
$\ln(FDI_{it-1})$	0.196*** (0.042)	0.206*** (0.057)	0.261*** (0.072)	0.271*** (0.074)
$\ln(Manuf_{it})$	-0.897*** (0.340)	-1.397*** (0.542)	-0.208 (0.169)	-0.146 (0.216)
Dummy for 2008 and 2009 ¹	-0.114*** (0.040)	-0.084* (0.052)	-0.077* (0.042)	-0.082 (0.060)
Number of observations	1197	1197	1197	1197
Number of partners	63	63	63	63
Wald Chi2	458.84***	169.01***	486.78***	446.05***
Sargan test p-value	1.00	1.00	1.00	1.00
Arellano-Bond AR(1) p-value	0.0014***	0.0014***	0.0015***	0.0004***
Arellano-Bond AR(2) p-value	0.130	0.130	0.497	0.308



results

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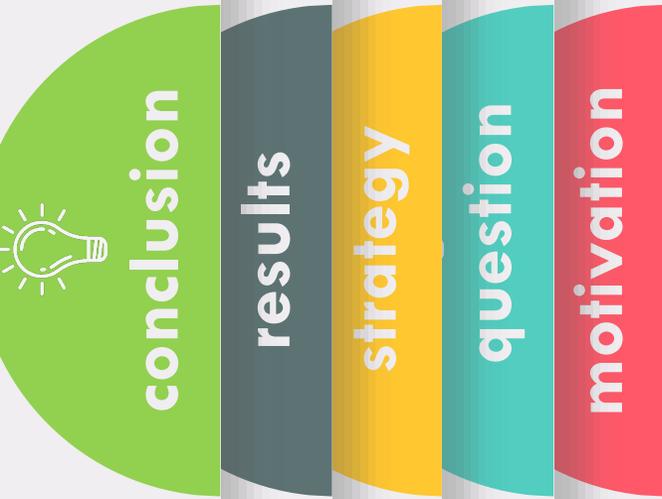
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Conclusion and policy recommendations

- The empirical results provide a clear and compelling justification to the usefulness of specialized export financial institutions to financing exports and mitigating credit risk, particularly in Arab non-oil exporting countries.
- Establishing or developing an already present public ECA could help relieve export constraints, by facilitating access to credit for exporters through mitigating risk and increasing banks' willingness to lend. This can also be supported by helping exporters to offer better payment terms to importers, in addition to backing all efforts to enhance confidence in both relevant Arab banks and enterprises.
- A specialized export finance institution requires in the first place comprehensive understandings and analyses of the current conditions and trends within the financial sector of the country in question. The substance of this should be detecting any market failures and imperfections that may adversely affect the volume of exports. For that purpose, the depth of the financial system and actual lending practices should be carefully assessed.





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