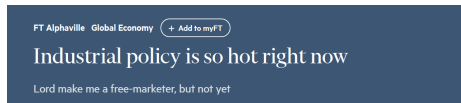# Discussion of "EXIM's Exit: The Real Effects of Trade Financing by Export Credit Agencies"

By Kabir, Matray, Müller, and Xu

Joao Monteiro
EIEF

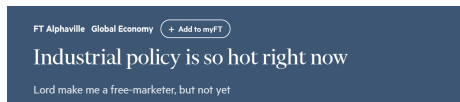Adam Smith Workshop
April 19, 2024

Industrial policy has become relevant again

FT Alphaville Global Economy (+ Add to myFT)

Industrial policy is so hot right now

Lord make me a free-marketer, but not yet

Financial Times, 01/30/2023

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  - Policies that target transformation of economic activity
  - Goals: boost GDP, exports, investment, growth, ...

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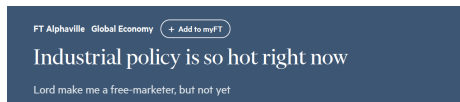Lord make me a free-marketer, but not yet

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- Should we conduct industrial policy?
  - Geopolitics, industrial strategy, political economy, ...   Mueller (2023)
  - Goal vs. implementation.

Government trade financing

Focus on **trade financing**.

- US: state-backed trade financing represents $212 billion in 2000–2019.
  - Mostly loans and loan guarantees to importers of US goods.
- Usual criticisms of industrial policy apply!
- One extra criticism - most aid is directed at developed countries.
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This paper: Does government trade financing matter?

What they do

Shock: EXIM quorum lapse between 2015 and 2019.

- EXIM provides aid to exporters with an annual exposure cap.
- Most aid is in the form of loan guarantees to foreign importers.
- EXIM board must have at least 3 members to approve large transactions.
- Republican opposition led to a lack of quorum.

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Data: US firms.
- Matched Compustat with EXIM transaction data.
- Data on exports.

What they do

Identification: compare firms that received aid vs. those that did not.
- Matching + DiD.
- Using only US firms in Compustat.
- Partially controlling for destination-level confounders.
- Use global sales as an outcome variable.

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Key questions:

1. Does the removal of EXIM aid have an effect on US firms?
2. Which firms are most affected?
3. Was EXIM picking the "right" firms?

Result 1 - global sales decrease
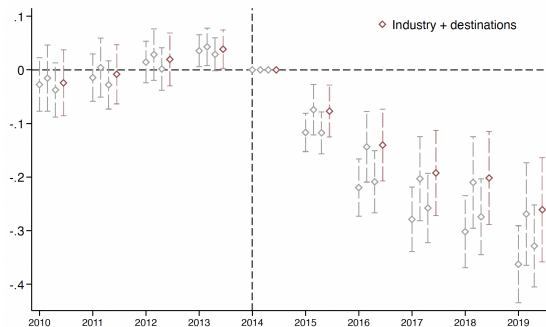
- Average effect = 18%.

Result 2 - results driven by financially constrained exporters

Dependent variable		Global sales		
Financing frictions proxy:		Leverage	Dividends	Hoberg and Maskimovic (2015)
	(1)	(2)	(3)	(4)
EXIM×Post	-0.18***			
	(0.037)			
EXIM×Post×Constrained		-0.16**	-0.21**	-0.25***
		(0.077)	(0.087)	(0.081)
Fixed Effects (not interacted)				
Firm	✓	—	—	—
Destinations×Year	✓	—	—	—
Industry×Year	✓	—	—	—
Treated×Year	—	✓	✓	✓
Fixed Effects (interacted)				
Firm	—	✓	✓	✓
Destinations×Year	—	✓	✓	✓
Industry×Year	—	✓	✓	✓
Observations	26,732	25,592	25,297	25,438

Result 3 - EXIM was picking the right firms

Dependent variable	Capital		
Sample	Low	High	All
	(1)	(2)	(3)
EXIM×Post	-0.044	-0.25***	
	(0.055)	(0.061)	
Treated×Post×MRPK			-0.21***
			(0.087)
Fixed Effects (interacted)			
Firm	✓	✓	✓
Industry×Year	✓	✓	✓
Destinations×Year	✓	✓	✓
Treated×Year	—	—	✓
Observations	13,782	13,691	27,473

- Sales decrease by more for firms with high MRPK.

What should the effect on sales be?

$$\frac{\Delta \text{Sales}}{\text{Sales}} = \frac{\Delta \text{Sales}_{\text{not exim}}}{\text{Sales}} + \frac{\Delta \text{Sales}_{\text{exim}}}{\text{Sales}}$$

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ATT: $(\theta - 1) \times \frac{\text{Sales}_{\text{exim}}}{\text{Sales}}$

- Worst case scenario: $\theta = 0$ and all sales backed by EXIM disappear.
- Best case scenario: $\theta = 1$ and ATT = 0.

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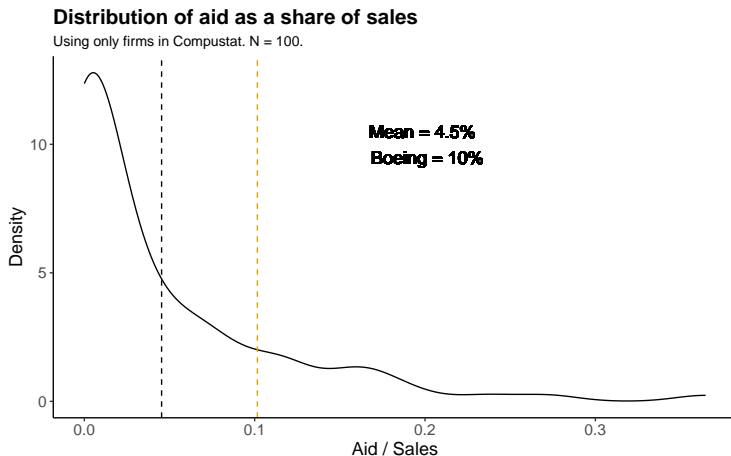
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- Worst case scenario: $\theta = 0$ and all sales backed by EXIM disappear.
- Best case scenario: $\theta = 1$ and ATT = 0.
- Let's compute $\frac{\text{Sales}_{\text{exim}}}{\text{Sales}}$.

Average share of EXIM in total aid is around 5%

Distribution of aid as a share of sales

Using only firms in Compustat. N = 100.

Mean = 4.5%

Boeing = 10%

- Match around 60% of total aid before shock.
- Aid covers 85% of exports $\implies$ share = 4.5/0.85 = 5.3%.

How can we rationalize these results?
Complementarity

Effect on sales is **much larger** than the share of EXIM aid.

- Firms have increasing returns to scale?
- Internal capital markets?
- Other sources of complementarity?

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Using structure, results predict that complementarities account for at least 2/3 of result.

- Maximum drop in sales generated by EXIM under separability is 5%.

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Control group

If we narrow in on largest recipient of aid (Boeing):   Benmelech and Monteiro (2023)

- Use Airbus as control group.
- Sales decrease by 4% relative to 10% share $\implies \theta = 0.6$.
- Sales backed by EXIM do not disappear.

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What can be driving this?

- Potential **selection bias**: who wants EXIM aid?
- Matching on foreign firms rather than US firms.

Role of financial frictions

Result: financially constrained exporters more affected by shock.

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- 86% of aid are loan guarantees to **importers**.

- From perspective of importer, this is a negative demand shock.

- Assumption of regression is that shock is identical to all treated firms.

- Model in paper is about EXIM lowering cost of capital.

Role of financial frictions

$$\text{MRPK} = \underbrace{\omega}_{\text{wedge} \geq 1} \times (1 + r)$$

- Simple model with a collateral constraint.
- Can be generalizable.
- Wedge is larger for financially constrained firms.
- Introduces permanent differences in MRPK.

Role of financial frictions

How do demand shocks interact with financial frictions?

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- In line with empirical results!

EXIM and misallocation

Result: drop in sales sharper for firms with higher MPRK.

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- Result 3 = Result 2.
- Two-way split - MPRK and financial frictions.
- Maybe use TFP?

EXIM and misallocation
Other sources of misallocation

Misallocation across importers: within firm.

- Most of EXIM aid is directed at developed countries.
- Elasticity of demand wrt EXIM aid is likely to be low.
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Misallocation across sectors

- Maybe within sector EXIM gets it right.
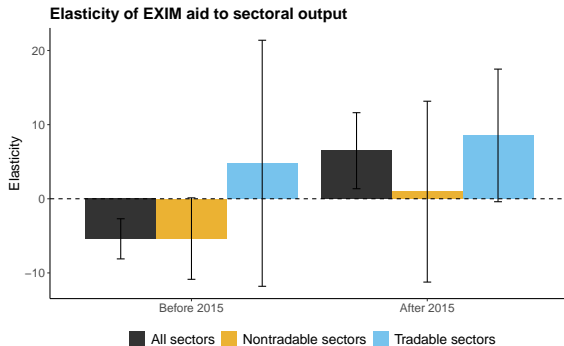- What about aid across sectors?

EXIM and misallocation

Aid across sectors

$$\log \text{Aid amount}_{sdt} = \lambda_{dt} + \alpha_s + \gamma \times \log \text{Output}_{st} + \varepsilon_{sdt}$$

EXIM and misallocation

Aid across sectors

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Elasticity of EXIM aid to sectoral output

Legend: All sectors, Nontradable sectors, Tradable sectors

- EXIM was supporting underperforming sectors.
- Shifts after 2015 shock.

Conclusion

I really like this paper!

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- Topic is hot in policy circles. Time for economists to weigh in!

- Discussion of effectiveness and importance of industrial policy is very important.

- I find the misallocation avenue very promising.
    - This is what policymakers need!
    - However, not enough to compare firms within sectors.