INTERNATIONAL REGULATION OF OFFICIAL TRADE FINANCE: COMPETITION AND COLLUSION IN EXPORT CREDITS AND FOREIGN AID

by

Peter C. Evans

Submitted to the Department of Political Science on May 23, 2005 in partial fulfillment of the requirement for the Degree of Doctor of Philosophy in Political Science at the Massachusetts Institute of Technology.

ABSTRACT

Advanced industrial countries provide over $120 billion annually in medium to long-term credits on various terms and conditions to support exports and investments abroad. The regime governing these official trade finance (OTF) flows has puzzling features. The legal basis of the regime, officially known as the Arrangement on Guidelines for Officially Supported Export Credits (Arrangement), is ambiguous. Its proceedings are secret. Its membership is restricted to a relatively small number of states. Finally, some sectors and modes of finance are more tightly regulated than are others. Some are not regulated at all. My research goal was not only to explain the unusual institutional features and scope of the regime as it currently stands, but also to explain why this regime emerged. I argue that the Arrangement is best understood as a cartel comprised of the leading suppliers of state-backed trade finance. Supplier states comprise the rich industrial countries that "produce" official export finance or "give" foreign aid to finance the exports of capital goods, military equipment and agricultural products sought by buyer states. Buyer states are generally developing countries, which have limited ability to pay in cash or self finance these imports. The cartel serves the collective interest of supplier states in: 1) controlling the predatory use of export finance to shift rents from one supplier state to another; 2) controlling the unintentional transfers of wealth from supplier states to buyer states. By colluding to limit competition through jointly agreed upon rules, supplier states increase their market power vis-à-vis buyer states. The Organization for Economic Cooperation and Development (OECD) became the forum of choice for the Arrangement because it permitted secrecy and selective membership that better aligned the interests of supplier states against buyer states. However, cartels, whether market distorting or market correcting, are imperfect arrangements. To succeed they require the control of a large market share, the presence of weak and disorganized buyers, and access to information on financing terms on a timely, *ex ante* basis. The body of evidence gathered for this dissertation shows this to hold true for official trade finance, explaining the variation in rule formation across sectors and across modes of financing.

To receive an electronic copy of the dissertation, please contact Dr. Evans at MIT's Laboratory for Energy and Environment. Email: evansp@mit.edu.