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Competitive Neutrality of the OECD Consensus Myth or Reality

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This research paper gives into context ongoing changes in the balance of forces in the international markets caused not only by the crisis and the need to restore market-neutral internationally agreed system for state participation in the support for exports based on real economic criteria. The aim of this research is to demonstrate the changes of the balance of forces in the international markets. This paper presented the statistical data relating to development of GDP, indebtedness or value of exports or imports that the present changes in international markets and open discussion about the topic problem. This article recalled the basic principles of insurance and export financing with state support and also are presented current problems of implementation rules of the CONSENSUS. Due to the fact that state support for exports is an important internationally respected system it is necessary to overcome some doubts and bring to the system real market neutrality. Therefore, we ask whether are respected in practice the agreed principles of international state aid exports and what problems currently international markets and fundamentally different countries are struggling. It can be said that the rules CONSENSUS OECD has contributed to the creation of fair market conditions in international markets, but it can be also monitored over time to some extent being away from the demands of market neutrality. In view of these facts it can be considered as the basis of the current situation primarily to ensure a truly market and competitive neutrality of state support for exports.

Keywords: CONSENSUS OECD, state support, export credit insurance, territorial risk, commercial risk, risk category of country

Introduction

It is increasingly clear that the current economic and financial crisis is the crisis of the advanced/Euro-Atlantic region of the world, which in his behavior crossed the imaginary, but real valid and thousands of years of practice, rules of thumb relating to the necessity of compliance consumption and creation of real sources. The crisis was trying to live on credit, not just individual members of a corporation, but the whole state authorities. Such access and such enforcement of policy interests of the ruling elite, based on life standard, which does not correspond to our economy, could not long continue.

The advent of the crisis of 2008 led to a massive reduction of public and private consumption, an increase in the frequency of corporate bankruptcies and unemployment and internationally to activate so far some latent

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economic problems.

Given the subject of this essay we will address in particular the increase in riskiness of international trade in terms of maturity claims arising from commercial contracts, approach to the classification of these risks, the possibility of their coverage of insurance products, on the basis of the current change of circumstances in the international markets in general and particularly in the Union.

Our aim is to highlight the need for transition the system of state export support to this concept, which will (again, as before) be based on a real assessment of export credit risks in the context of the natural interests of the member states of the European Union (EU) and this community as a whole.

Changes in International Markets in the Context of (not Only) the Current Crisis

The current situation in international markets has long been characterized by changes in the balance of forces that the financial and economic crisis has only accelerated. This change is better than any verbal reasoning document figures of the International Monetary Fund (IMF) about the development of GDP over the last 30 years (accompanied by a forecast to 2015).

Already from this review (see Table 1), it is clear which regions are carriers of the pace of economic development and which ones achieve a relatively lower growth rate. Winners of this contest become clearly emerging countries in Asia but also Central and Eastern Europe, while the U.S. and the EU in achieved economic growth rates significantly lag, and in this case in terms of global comparison is the growth hardly on average.

Table 1

Growth Rates of GDP by Regions in the Period 2010/1980 and the IMF Assumptions About the Development Into 2015 (in %)

	85/80	90/85	95/90	00/95	05/00	10/05	15/10	15/80
World	111.6	185.5	134.0	108.3	141.3	138.2	137.5	806.6
EU	83.5	231.1	130.3	92.6	161.9	118.1	125.4	558.2
U.S.	137.5	151.2	127.8	134.1	126.8	115.1	119.8	623.8
Central and Eastern Europe	105.1	138.2	139.6	119.3	194.9	149.9	142.3	1,006.7
RZ Asia	125.7	134.7	162.4	127.6	174.0	234.1	174.4	2,492.5
Latin America	92.7	151.6	153.5	116.8	125.0	181.7	144.5	826.9
Middle East and North Africa	90.3	120.3	108.0	132.8	167.4	180.2	144.3	678.2
Sub-Saharan Africa	67.6	155.0	110.0	101.2	194.2	167.4	151.6	574.8

Note. Source: Own elaboration (data from IMF, 2012).

This new situation is confirmed by data (see Table 2) about the development of international markets for the last 10 years, which confirm retreat of developed countries from “limelight” to less prestigious positions.

Table 2

Shares of Selected Countries and Their Groups in Total Exports

Rank	Country	Value of exports (in billion USD)			Share of total (in %)	Share of total (in %)	Growth rate (2003 = 100)
		2002	2005	2010	2002	2010	
2010/05/03	World total	6,093.3	10,243.2	14,841.1	-	-	243.6
1./3./4.	China	327.6	752.2	1,506.0	5.4	10.1	459.7
2./1./2.	Germany	608.0	1,016.0	1,337.0	9.9	9.0	220.0
3./2./1.	U.S.	687.0	927.5	1,270.0	11.2	8.6	184.9

(Table 2 continued)

Rank	Country	Value of exports (in billion USD)			Share of total (in %)	Share of total (in %)	Growth rate (2003 = 100)
		2002	2005	2010	2002	2010	
4./4./3.	Japan	383.8	550.5	765.2	6.3	5.2	199.4
5./5./5.	France	307.8	443.4	508.7	5.1	3.4	165.3
6./10./11.	J. Korea	162.6	288.2	466.3	2.7	3.1	286.8
7./7./8.	Italy	259.2	371.9	458.4	4.3	3.1	176.8
8./8./9.	Netherlands	243.3	365.1	451.3	4.0	3.0	185.5
9./9./7.	Canada	260.5	364.8	406.8	4.3	2.7	156.2
10./6./6.	Great Britain	286.3	327.7	405.6	4.7	2.7	141.7
	Top 10/world	3,528.0	5,407.3	7,554.1	57.9	50.9	217.63
23./23./25.	Brazil	59.4	115.7	199.7	1.0	1.3	336.1
1./3./4.	China	327.6	752.2	1,506.0	5.4	10.1	459.7
22./33./31.	India	46.32	76.2	201.0	0.7	1.4	-
37./40./34.	JAR	31.8	50.9	76.9	0.5	0.5	241.8
12./13./17.	Russia	104.6	245.0	376.7	1.7	2.5	359.7
	BRICS/world	537.92	1,189.1	2,283.4	8.8	15.4	-
	EU 27	-	1,330.0	1,791.0	-	12.1	-

Note. “-” not available. Source: Own elaboration (data from IMF, 2012; WTO, 2012).

The Concept of State Support for Exports

The intensity and the development of new forms of state support for exports generally relate with groundbreaking economic and political moments and each new situation in the world economy have led to modifications of the existing system utilization of financial and insurance principles, methods, and tools for the benefit of export support of individual countries and increasingly in broader concept and in the promotion of international trade.

These tendencies can be characterized by the growing involvement of states and their institutions as well as increasing effort about international coordination of procedures used. This coordination embodied particularly in the arrangements for officially supported export credits called CONSENSUS OECD[1] was designed to ensure competitive neutrality of this support in such way that critical for business success in international markets is the quality of goods and accompanying services provided by the exporter. It is, after all, also declared doctrine to which is founded about 80 years Berne Union[2], i.e., the International Association of Credit and Investment Insurers.

In the new situation, in which economies, particularly of developed countries and international markets are now, a question arises whether this principle is in practice into detail really respected and whether is the accepted and the practical implementation of the concept an objective contribution to further development. Are truly this principle and its practical application the best guarantee of prosperity and initiate further development of the world and international trade? In other words, does so far correspond defined framework of this support level, frequency and origin of risks, which now fundamentally international markets and countries are struggling with?

[1] The Arrangement on Guidelines for Officially Supported Export Credits (2011).

[2] Berne Union is the leading international organization of public and private sector providers of export credit and investment insurance. Founded in 1934, it is an international, non-profit organization dedicated to facilitating world-wide cross-border trade and investments by fostering international acceptance of sound principles in export credits and investments insurance, and by providing a forum for professional exchanges among its members.

To better highlight indicated problems of international rules, we must first short mention at least about agreed fundamental principles on which it is now based an internationally acceptable state support for exports.

The Basic Principles of Insurance and Financing Exports With State Support

Mentioned the Arrangement—CONSENSUS OECD[3] in the introduction sets the objective of the Arrangement as follows: "The main purpose of the Arrangement on Guidelines for Officially Supported Export Credits, Referred to Throughout this document as the Arrangement, is to Provide a framework for the orderly use of Officially Supported Export credits".

The Arrangement thus relates to rules:

- State-supported direct or refinancing of export credits include subsidizing interest rate differences;
- State aid insurance of these credits or providing guarantees.

The purpose of this document is to define the framework in which can be state aid of export credits and their insurance accepted, and in which segments exporters will benefit from the financial and insurance services provided on a commercial basis, i.e., without any involvement of the state.

In the field of state aid of insurance and financing of export credits is important (for the purposes of this paper) the application of:

- A uniform system of classification of countries into risk categories;
- A minimum interest rate;
- Minimum premium rates for each risk category of countries and borrowers, depending on the length of the loan.

In this context, in terms of insurance it is considered as a decisive criterion, whether the risks are "marketable", it means hedge able by commercial reinsurance or "non-marketable", it means whose insurance can be provided or ensured only with participation of the state, i.e., with the state support.

The OECD CONSENSUS therefore provides a list of events respectively a list of causes which insurance event insurable with state support occurs from.

These are such risks having in terms of the participants of credit and business relationship so to speak nature of "force majeure".

In addition, they are generally defined de facto by "negative definition" also so-called commercial risks from insolvency or protracted default of the importer or other debtor while insurance of such risks cannot be implemented (due to the negative definition) with the support of the state, i.e., with hedging through the state budget, but only ensuring by market participants—reinsurance.

Compared to so-called territorial risks, i.e., those that are insurable with state support, or when it is possible to use state support, commercial risks arise from the economic and financial situation of the foreign buyer or borrower.

Already here we can be about the accuracy of that definition so-called commercial risk in doubt! It is automatically assumed that these are situations that are influenced by the buyer (failure to pay due to insolvency or late payment). Does the insurer or the state know if that insolvency, but also partly unwillingness is a consequence of mismanagement of the non-governmental debtor or, conversely, the result of government economy and conditions that are formed by financial policy?

In any case, the CONSENSUS can be considered as an important step to layout rules of state support for exports.

[3] The Arrangement on Guidelines for Officially Supported Export Credits (2011).

The Current Problems of Implementation Rules of CONSENSUS

From the beginning the CONSENSUS was conceived such a way (through its rules and criteria) to not interfere but to contribute to maintaining competitive neutrality state support for exports, which are fully complied with the principles of fundamental contractual documents of GATT resp. WTO.

However, inauspicious changes that occurred in recent years in world markets, especially in the financial, have reflected on the ways of implementation of this Arrangement.

In several previous essays (Böhm & Fujerová, 2012; Böhm & Tůmová, 2009) on this topic we pointed out some problems with the implementation of the principles CONSENSUS related. In particular:

- Failing and misleading territorial riskiness assessment of individual countries, and especially those that are classified as so-called most developed countries, where the system does not presuppose the existence of territorial risk;
- Emerging need for re-evaluation, reclassification, territorial, and commercial risks that associated with the intensifying impact of state policies on the export ability of individual firms;
- The need for increased integration of specific approaches and measures for state support of export with overall economic policy of individual countries.

Strengthening the effectiveness of state support for exports and general use of financial and insurance mechanisms thus requires particular:

- Objectification of procedures applied in evaluating of territorial riskiness of countries;
- Reassessment of the current definition of so-called territorial and commercial risks.

Objectification Country Riskiness Rating

Already in the introduction we mentioned the strong and yet unfinished regrouping of forces in international markets, which brings significant changes in the economic strength of regions as well as countries.

There is no doubt that the current and on the basis of global data in the table above presented changes in the ratio of strengths and growth potential of individual parts of world economy are extremely significant, but in our opinion, these changes are not sufficiently reflected in economic policy or the policy itself and in addition the policy does not respond to them as we have indicated, neither the system of state support for export.

That these changes cannot respect now applied the system CONSENSUS disputes the proclaimed competitive neutrality. This is particularly about following issues:

(1) The award, which the countries assigned to the group 0 within (no) evaluating[4] their riskiness are getting, is not objective. It does not represent their real and especially economic situation and as traders so investors mislead.

This statement demonstrates following data about the status of selected countries, both of those so-called developed countries (members of the EU and others), as well as selected dynamically developing countries. Let’s look at their results through the indicators that are now mainly in the EU considered decisive quantity for

[4] By creating so-called zero-risk category, into which are assigned countries with gross national income (GNI) exceeding a certain value expressed in USD per capita, countries were de facto excluded from regular evaluations that take place in other countries at regular intervals. In reality, this applies even after November meeting (2012), on which the participants in the Arrangement on Officially Supported Export Credits agreed that there should be terminated automatic classification between high-income OECD countries and the euro area in zero-risk groups. The fact that most of Eurozone member states or members of the EU does not meet this criterion is another question and herewith we will not deal in this paper.

assessing the eligibility of individual countries to adopt the single European currency, thus by development tendencies related to the development GDP, the level of openness of the economy as well now often presented indicator of debt/GDP. We also attach the rating of individual countries and in contrast to how they are evaluated in the OECD CONSENSUS.

Table 3

Basic Indicators of Economic Development of Selected EU and BRICS Countries

	Development of GDP 2010/2000	Indebtedness		Export/GDP 2011	Rating	GNI[5] 2011/2002	Import 2011/2007
		2000	2010				
Czech Republic	166.3	17.8	37.5	75.4	AA-	2.95	114.1
France	134.0	57.3	82.4	21.5	AAA	1.90	112.2
Ireland	147.4	37.5	92.5	58.3	A	1.65	90.3
Italy	129.6	108.5	118.7	23.8	BBB	1.77	91.6
Germany	121.0	60.2	83.2	41.2	AAA	1.94	111.9
Portugal	135.5	48.4	93.4	24.7	BB	1.83	75.1
Greece	168.9	103.4	142.8	10.2	CCC	1.97	64.8
Slovakia	210.9	50.3	41.1	82.6	A	2.73	108.7
Spain	166.8	59.3	61.2	19.9	BBB+	2.05	78.2
Sweden	147.0	53.9	39.4	34.8	AAA	1.95	92.6
Great Britain	149.9	40.9	75.1	19.6	AAA	1.45	93.5
Brazil	319.6	66.5	65.1	10.3	BBB	3.51	145.9
China	404.7	16.4	33.5	26.0	AA-	3.02	142.2
India	343.6	72.7	69.4	17.7	BBB-	3.02	145.6
Russia	618.2	59.9	11.7	28.2	BBB	5.07	120.5
JAR	149.57	43.3	31.5	..	BBB	2.66	104.3

Note. Source: Own elaboration (data from IMF, 2012; WTO, 2012).

As is evident when looking at specific statistical data neither the group of countries the EU or euro area or counties of any formal or informal grouping do not constitute in terms of economic development a monolithic shape. Each country is different (despite some common characteristics), at least in terms of a professional, social and ideological or religious structure of the population, sectorial structure of the economy and its performance.

These real existing differences, however, particularly in case of the developed countries are not reflected in the evaluation of their overall territorial risk, which is in principle contradiction with the principles on which it is based methodology of the risk rating referred in the OECD CONSENSUS.

(2) Doctrine, according to which in all of so-called developed countries does not exist territorial risks also distorts possibilities and conditions under which it may be offered insurance of territorial risks associated with the export to these countries.

The fact that classification of countries into risk categories does not correspond to the current situation and

[5] GNI is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. GNI, calculated in national currency, is usually converted to U.S. dollars at official exchange rates for comparisons across economies, although an alternative rate is used when the official exchange rate is judged to diverge by an exceptionally large margin from the rate actually applied in international transactions.

the balance of power between participants in international markets is not the only problem of the system or its application.

Conversely, it is even the beginning of deformations by which this system suffers today. To the classification of countries into risk categories is bound primarily price of insurance, it means insurance rates, but among other things, the permissible length of the maturity of loans provided to customers from such evaluated countries. In a situation where in the system CONSENSUS applies the principle of minimum premium rates, differentiated according to risk level of target country of insured export and according to the length of maturity of the loan, represents unobjective rating of countries a significant deformation of currently used mechanism of state support for exports.

Exports to these territories can insure in principle only on a commercial basis de facto against the risk of the company, but not against the risk generated by activity (or inactivity) of the state—the territorial risk. It can be by the CONSENSUS rigorously defined conditions insured against risk of territorial risk only claims arising from exports, where the importer or purchaser or debtor is a state or by its established institution. However, the classification of so-called developed countries into risk category 0 brings to exporters in those territories the lowest minimum premium rates, which in many cases does not correspond to the economic and financial capacity of target country to repay or secure repayment of obligations arising from such contracts. In contrast, insurance of exports to countries categorized in 1-7, that subject to regular rating by group of experts OECD, is burdened with higher insurance rates, corresponding to the appropriate risk category, they are also for exporters from so-called developed countries de facto increased costs related with their exports. Range respectively rate of these differences illustrates the following Figure 1.

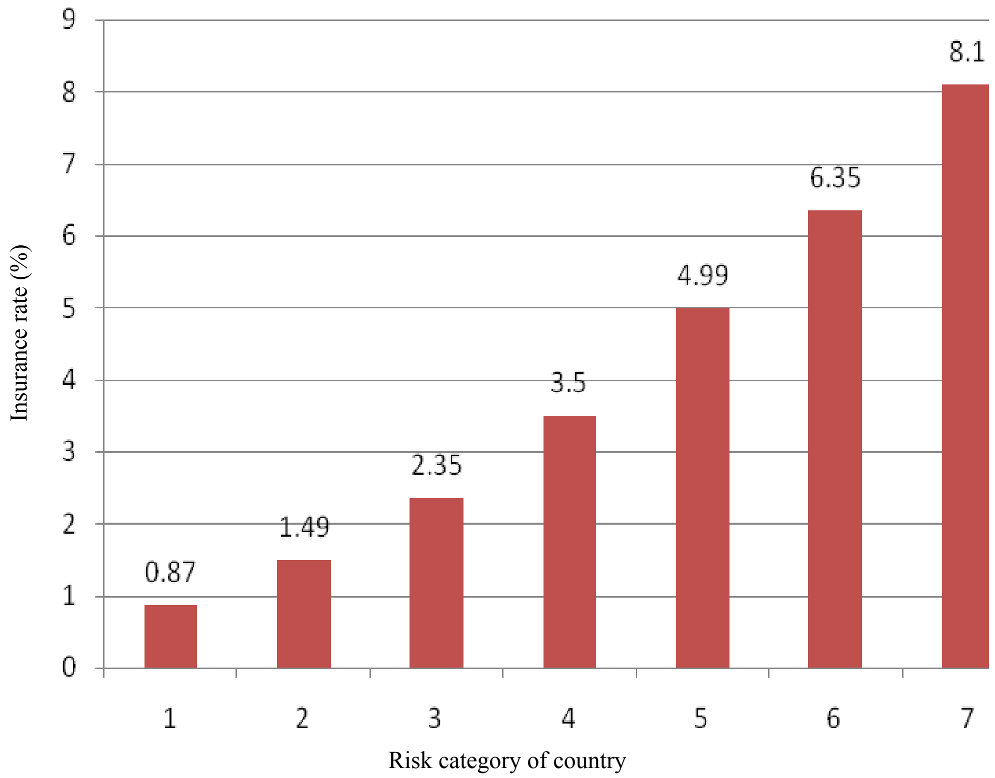

Figure 1. Differences between insurance rates for exports to countries from different risk categories—Sovereign borrowers.

CONSENSUS announced principles of the timeliness and transparency of procedures applied in the evaluation of territorial risk thus taking for their with the fact that the system of state support for exports, which was originally conceived as a competitively neutral and was deformed and did not provide in the meaning of the participants in this international trade fair condition.

Commercial or Territorial Risks

For states are now (due to implemented system consensus, that does not consider the existence of territorial risks) de facto removed the possibility of support through insurance or financing of export in the territorial structure, which it considers from a macroeconomic perspective as necessary. Impossibility of state support of internal EU business may be unpleasant. In this context it should be noted that, especially Eurozone countries then have practically no opportunity to stimulate their export. Due to variance economic potential, different degree of openness of the economy and due to other differentiated characteristics cannot these countries (but they probably would use in other circumstances) use fully the exchange rate of common currency euro as one of the most important tools of macroeconomic and also of export policy?

Related to this is perhaps more important question! Are perhaps importers and borrower's risks actually associated exclusively with their insolvency or protracted default, which are insurable only in mode so-called commercial insurance, or are their carries also acts of states?

Are the commercial risks actually authentically those, that are by current system considered or are they (especially in some countries) rather risks that have from the perspective of participants of a business relationship—it means concrete manufacturing or trading companies—the nature of "force majeure", i.e., territorial risks? Let us recall how so-called territorial risks define the CONSENSUS:

- General repayment moratorium announced by the government of the buyer, borrower, guarantor, or export company of the country, that affects payments;
- Political events and/or economic difficulties or legislative/administrative measures in a third country, that make impossible or delay transfer of funds paid in the credit contract;
- Other additional measures or decisions of government foreign countries, that make impossible loan repayment;
- Intervention by higher power, i.e., war (including civil war), expropriation, revolution, riots, civil disturbances, cyclones, floods, earthquakes, eruptions, tidal waves, and nuclear accidents.

Are not measures that in an effort to overcome the current financial and economic crisis implemented EU, European Central Bank (ECB), and governments of most affected countries by the crisis, just those that increase their riskiness and through an effect restrict the credibility of local businesses? If yes, then it is logical question of the adequacy the current definition of export credit insurance with state support, implicitly defining the space for commercial insurers in this insurance industry.

Let's look at a concrete example of the crisis shaken Greece and at the most efficient macroeconomic and policy measures that with "assistance" of the EU and some member states this country adopted.

These measures for the purposes of our paper we roughly divided into three categories, namely, measures for household consumption, the management of companies, and macroeconomic measures. Already it is clear that these necessary measures reduce the scope for exports to that country, as well as their riskiness. Due to employees and consumers it is about for example wage measures in the public sector, increasing value added tax (VAT), increases in excise duties and taxes on luxury goods, and also the introduction of so-called "crisis" tax. In relation to companies there was introduced income tax and that differentiated for different levels of profit.

The most important in terms of our discussion, however, is so to speak macroeconomic measures, which include especially relatively drastic reduction in domestic investment and effort to maximum use of external resources especially from the EU.

A special chapter is the massive privatization program, which envisages the privatization of practically all major state-owned enterprises, but also state-owned shares in the business of other companies. From experience with the transformation process that took place in post-socialist countries in the 90th of the 20th century, we know that re-starting the newly privatized companies is neither simple nor immediate and can bring positive results after a certain time, while now there is no talk about certainly needed state revenues from the sale of such companies.

Another state that was most affected by the crisis is Ireland, where the government's "plan for national recovery" brought in particular the gradual increase in rates of value added tax, reduces the number of civil servants, cuts in social benefits, and reduces the minimum wage. In contrast to Greece, Ireland however maintains a low tax on corporate profits. Even here was reduced the absorption capacity of the market.

Also in Spain there is the basis of austerity measures increase of value added tax or cut a variety of benefits for state employees. The specificity of Spain is significant attention by the State to rescue the banking sector, which is given by the fact that banks are majority holders of Spanish government bonds and the status of Spanish banks is so tightly linked to the health of public finances.

However, either really developed countries, such as Germany, France, Netherlands, etc. did not avoid the effects of the crisis and therefore also here we can see decline or, at best case minimal growth in imports. In these cases, it is the consequence of not only restrictive economic measures, but also of large transfers of funds to the crisis-torn countries. Only contributions to the European Stability Mechanism in the case of Germany it is more than 190 billion, France more than 143 billion euros, Netherlands 40 billion etc.[6]

It can therefore continue to have considered that all the CONSENSUS declared so-called developed countries are free from so-called territorial risk in situations where there are macro-economic and administrative measures that limit or restrict the possibility of imports and therefore reduce assurance of successful completion of contracts for exporters to given territories. Is not that exactly the situation that is defined as one that authorizes the use state support for insurance of contracts with companies in these countries? And not to mention the fact that their rating by all recognized agencies indicates about their belonging to a completely different risk category.

Summary and Conclusion

What edification follows from above said for the further development of rules of the application of state support rules exports as they are formulated by the OECD CONSENSUS.

First of all, we can say that this system undoubtedly contributed to the rational organization of rules for state support for export and thereby to create fair market conditions in international markets. This system allowed to individual countries through appropriate institutions support export efforts of their companies in a

[6] In many cases and in large-scope are resources provided to "crisis countries" the source for debt repayment their bodies just financial entities in creditor countries. Their use in the real economy is with regard to their "caution" minimal and does not strengthen the import potential of companies.

way that gaining a competitive advantage in the market flowed only from the quality of goods and services by which the manufacturer/exporter presents in the market.

It can be noted that the application of system, especially in specific conditions of the world economy is to a certain extent moving away from unique requirements of market neutrality. On one side it is given by the artificial creation of a group of countries that are (in conflict with the original idea of the CONSENSUS) considered as risk-free, on the other side it is given by non-respect of both processes and phenomena that are taking place in the economies of individual countries and their groupings, namely, those related to the current redistribution their position in international economic relations, which is in so-called developed (mainly European) countries accompanied by the crisis and the other on the other hand by rapid development.

The system, which is now based on the fact that a sign of advancement and evidence for classification between so-called developed "risk-free" countries is exceeding a certain value of Gross National Income (GNI) or other summary macroeconomic indicator moreover irrespective of status of other macroeconomic parameters is not good and has practically no predicative ability as shown in particular the current economic practice: It is just another manifestation of unhealthy "homogenization" of certain groups of countries, that is especially reflected in the EU (but also in access to other areas); and these lands pay for it.

Face to face deep crisis phenomena that have an impact on these developed countries occur significant national macroeconomic processes that significantly change their economic and ownership structure and these are accompanied by major austerity measures that restrict purchasing power and credibility of their citizens, companies, and countries themselves. As a result, this leads to a reduction in effective demand, investment opportunities and also to interstate differentiated growth of riskiness of trades with such partners.

Risks that were until now considered (in the jargon of the CONSENSUS) as "commercial" suddenly in a number of cases have rather characteristics of those risks that are defined as "territorial", whose insurance with state support, however, the CONSENSUS does not expect. Is not the time to retreat from that principle and to recognize its existence even in developed countries, and in this sense enable their insurance with state support? Weak dynamics of the volume of international as well as of internal EU business requires support!

The solution of the current situation can be seen especially in ensuring effective market and competitive neutrality system of state support for exports, based on:

- Rigorous implementation of existing principles determining riskiness of countries and their classification into risk categories namely for all, including so-called developed countries;
- Strict respect for current economic and political realities of international markets and state of economy of individual evaluated countries;
- Abandonment of the dogma of the absence of territorial risks in selected countries;
- Maintaining applied parameters of insuring export credit risks as they are defined in the OECD CONSENSUS, particularly as regards principles of the system minimum.

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