

# Research on Risk Prevention of Export Credit Insurance in China's Foreign Trade

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**Abstract:** Since the reform and opening up, export trade has made great contribution to China's economic growth. Facing the complex and changeable international situation, how to continue to play the role of export in promoting China's economic growth. By analyzing the risks faced by China's export trade and exploring the mechanism of export credit insurance, this paper draws the following conclusions: export credit insurance provides help to export enterprises in terms of loss compensation, financing support and risk management, reduces the risks faced in foreign trade, and then effectively stimulates trade exports and promotes economic growth.

**Keywords:** Export trade, Risk, Export credit insurance.

## 1. Introduction

Exports, consumption and investment are the troika driving economic growth. Since Reform and Opening-up, Export-oriented Economy Brings Strong Impetus to China's Economic Growth [1]. At present, the international situation is complex, coupled with the impact of the new coronavirus epidemic, domestic consumer demand and investment demand are affected to varying degrees, but China's economy still shows a good trend in general, and the growth of export trade plays a huge role here.

Since the global spread of the new coronavirus epidemic, except for the fourth quarter of 2021, the growth rate of total exports has been basically higher than that of GDP. The increase in external demand fills the gap between supply and demand caused by insufficient domestic demand. This is mainly due to China's active and effective measures to prevent and control the epidemic, making China's economic recovery ahead of other countries. However, it should be noted that the current complex international situation, the prevalence of trade protectionism, the US-led Western countries' isolated checks and balances against China, and the tensions between Russia and Ukraine, coupled with the persistence of the new coronavirus epidemic, have increased the uncertainty of China's export trade.

At present, China is building a new development pattern with the domestic cycle as the main body and the domestic and international dual cycles promoting each other. While building a unified domestic market, how to continue to play the role of exports in driving China's economic growth needs to analyze the current risks of China's export trade, and explore how to prevent and resolve these risks from the perspective of export credit insurance to promote the steady growth of China's foreign trade.

## 2. The Current Risks of China's Export Trade

Export trade risk refers to the various uncertainties faced by export enterprises in their trade activities. Foreign trade is a complex commodity exchange activity, involving a wide range of factors, and thus a wide variety of risks caused [2].

Export trade risk can be divided into market risk and political risk. For market risk, it can be specifically divided into commercial risk, exchange risk, storage and transportation risk, environmental risk, credit risk and emergency risk. For both sides of the trade, credit risk may occur because the deterioration of the business situation leads to the failure to perform the contract in time. Foreign trade is usually difficult to complete in a short time, often through a long time. Therefore, in the process of trading, changes in exchange rates and changes in prices will affect the normal conduct of export trade. At the same time, sudden natural disasters and public health events also greatly increase the uncertainty of trade activities. For political risks, it can be specifically divided into national risks, institutional risks, social risks, war risks, and regulatory risks. The exchange rate system, interest rate system, import and export control of the countries where the trading parties are located will cause risks in trade activities. Domestic turmoil, inter-state war, will have a huge impact on foreign trade activities.

At present, the world is facing unprecedented changes in a century, and the international trade environment has also undergone tremendous changes. The strengthening of the global division of labor, the rise of trade protectionism and trade rules are facing shocks and challenges, breaking the original rules of international trade, the new international trade pattern is gradually taking shape. In this context, China's foreign trade risk also presents new features:

(1) Political polarization deepened. In 2021, the internal politics and society of many countries show a trend of differentiation. In the United States, for example, a series of social and political issues have not been resolved, such as the continuing ferment of racial issues, the entanglement of Democratic and Republican parties, and the growing problem of gun violence. At present, inflationary pressure is spreading all over the world. It is foreseeable that the degree of political polarization and social weathering will be further deepened.

(2) The confrontation between countries intensified. Since the Sino-US trade war, the game between China and the United States has become increasingly fierce and involved more and more fields, from the previous trade field to ideological and other fields. The United States held the so-called Democratic Summit, launched a virus traceability

survey, promoted the construction of the Indo-Pacific economic framework, and also took the initiative to invite countries outside the region to join the chaos. At the same time, hard confrontation is also intensifying. The situation between Russia and Ukraine is tense. The conflict between the two sides broke out in February 2022, and there is no sign of ending.

(3) Emergencies occur frequently. In recent years, with the changing climate and the deterioration of the environment, various natural disasters occur frequently. At the same time, the occurrence of large public health events also seriously affects people's lives. In particular, the outbreak and spread of the new coronavirus has hindered the normal progress of global trade. Under the influence of the new coronavirus epidemic, export enterprises will face huge risks and may suffer huge losses.

### **3. The Mechanism of Export Credit Insurance**

Export credit insurance is a non-profit policy support measure formulated by the state to promote the export trade of the country and ensure the safety of foreign exchange receipts of export enterprises and the credit security of banks. Therefore, export credit insurance can also be considered as a policy insurance. It is also a trade promotion measure permitted under World Trade Organization rules. Export credit insurance is one of the few tools WTO rules allow member governments to use to encourage exports [3], has been widely used by countries all over the world.

The Function of Export Credit Insurance is Embodied in Microcosmic and Macroscopical Aspects [4]. From a macro perspective, export credit insurance has stimulated exports, thereby promoting economic growth, ensuring employment and industrial upgrading, and achieving policy transmission. From a micro perspective, export credit insurance plays a role in the fields of loss compensation, financing support and risk management of export enterprises. Specifically, the mechanism of export credit insurance is reflected in four aspects:

(1) Policy transmission mechanism. Export credit insurance provides export enterprises with loss compensation, solves financing constraints, strengthens risk management, and effectively stimulates trade exports, thereby increasing employment and promoting economic growth.

(2) Loss compensation mechanism. In foreign trade, exporters bear the cost of raw material procurement, processing and product assembly. Once there is a risk, export enterprises may not receive the payment of goods sold, and may even bear the loss of products. If the export enterprise previously purchased export credit insurance, in the event of a loss of policy agreement can be obtained after the insurer's compensation, thus compensating the exporter part of the loss, reducing the burden on enterprises.

(3) Financing support mechanism. Enterprises need a lot of financial support in order to enhance their competitiveness, expand production scale and develop new technologies. In international trade, financing constraint is a common problem for export enterprises. Export credit insurance can convert overseas receivables of enterprises into available liquidity through risk transfer and bank insurance cooperation, thus effectively solving the problem of financing constraints of enterprises.

(4) Risk management mechanism. In foreign trade, export

enterprises often face unfamiliar partners, unfamiliar competitors, unfamiliar market environment and unfamiliar policies and laws. Information asymmetry has seriously affected the foreign trade of enterprises. However, enterprises have to face high-risk international markets for their own development and other factors. Therefore, export enterprises for risk management, credit services and other services demand is very large. Export credit insurance can help exporters deal with the problem of information asymmetry in international trade and effectively reduce the risk of export enterprises by tracking different risks, feedback risk dynamics to export enterprises and providing risk management services.

### **4. The Deficiency of Export Credit Insurance in China**

Since the establishment of China Export and Credit Insurance Corporation in 2001, China export and credit insurance has achieved rapid and stable development to leapfrog development, until it ranks among the top in the world [5]. According to the data provided by China Export and Credit Insurance Corporation, the underwriting volume and premium income of export credit insurance have maintained a perennial high growth trend. In 2020, the insured amount reached \$704.07 billion, and in 2021, the insured amount exceeded \$800 billion, reaching \$830.17 billion.

Export credit insurance provides all-round risk protection for Chinese export enterprises to carry out foreign trade activities and promotes the growth of China's foreign economy. However, compared with the development of export credit in developed countries, China's export credit insurance still has obvious shortcomings, which are reflected in the following aspects:

(1) Single type of insurance. China's export credit insurance system has always been carried out in a unified way. The guarantee business has only financing guarantee and non-financing guarantee, and most of them serve large enterprises, and there are few insurance products serving small and medium-sized enterprises.

(2) Uneven coverage. From the perspective of regional distribution, the permeability varies greatly among provinces and cities. The permeability of Beijing, Shanghai and other places exceeds 50%, while the permeability of the central and western regions is generally between 20-25%. From the perspective of enterprise distribution, China's export credit insurance business is mainly aimed at large enterprises, and there are few small and medium-sized enterprises that can enjoy insurance services.

(3) The insurance rate is higher. Compared with developed countries, China's export credit insurance premium rate is relatively high. For example, in France, the average premium rate of short-term export credit insurance for three years is only about 0.5%, while in China it reaches 1.5%.

(4) The program is complex. Compared with developed countries, the insurance process of China's export credit insurance is very complicated. In developed countries, it only takes an average of 5 days from application to contract signing, while in China, it usually takes about 1 month to complete the whole process.

### **5 Conclusions and Suggestions**

By analyzing the current risks faced by China's export trade and exploring the mechanism of export credit insurance,

this paper draws the following conclusions: export credit insurance provides help to export enterprises in terms of loss compensation, financing support and risk management, reduces the risks faced in foreign trade, and then effectively stimulates trade exports and promotes economic growth. However, China 's export credit insurance still has room for improvement. In view of the shortcomings of China 's export credit insurance, it is necessary to increase the variety of export credit insurance, especially the insurance services for small and medium-sized enterprises. At the same time, simplify the export credit insurance procedures to improve the efficiency of application for approval. In the context of common prosperity, it is necessary to expand the coverage of export credit insurance, increase the penetration rate of export credit insurance in the central and western regions, reduce the insurance premium rate, reduce the burden on enterprises, and allow more export enterprises to enjoy insurance services.

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