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Optimal Payment Contracts in Export Relationships

Abstract:

I study an exporter's optimal choice of payment contracts in a situation of repeated contracting with adverse selection. The exporter repeatedly sells a product in a foreign market at arm's length through an importer who either is of reliable or unreliable type. Payment contracts allow to shift a transaction's payment risks from the importer to the exporter, and vice versa. I show that choosing a payment contract has fundamental implications on the exporter's ability to learn about the importer's reliability. In the context of export relationships, deciding on the dynamically optimal payment contract requires to balance its impact on successfully completing the current export transaction with its capacity to reveal information about the importer's type. Importantly, this trade-off is shaped by the quality of the contracting institutions of the foreign market. Trade credit insurance can catalyse export growth and transaction profitability but its positive impact is limited to the initial phase of export relationships.