The ripple effect: supply chain reconfigurations and cross-border credit dynamics

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Resumen:

We study the role that cross-border firm-to-firm credit plays in financing exporters. Exploiting the exogenous shock of US tariffs on Chinese goods in 2018–2019, we examine the response of Colombian firms – bystanders not targeted by trade policy – to redirected US demand. Using credit registry information for cross-border and domestic non-financial firm financing, we find that almost 40 percent of the total credit sourced by exporters came from cross-border firm-to-firm credit at end-2019, which represented 80 percent of their cross-border credit. In contrast to traditional trade credit, which is typically short-term, firm-to-firm credit has an average maturity of almost 2 years, and has characteristics resembling bank lending. Our findings highlight an overlooked financial channel underpinning the international trade network.

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Focus

This paper uncovers a novel channel of cross-border financing: long-term loans from foreign firms that resemble bank credit, not trade credit. Using rich firm-level data from Colombia for the Q1 2016–Q4 2019 period, it shows how these loans helped exporters expand during US–China trade tensions, stepping in where foreign banks were slower to respond. Unlike banks, foreign firms have more flexibility to act during uncertainty, using commercial ties and with fewer regulatory constraints. The study matches customs, credit registry and external debt data to trace how trade shocks reshape both production and financing in emerging markets.

Contribution

The paper sheds new light on how firms in emerging markets finance export surges during global trade disruptions. Using detailed data on all external liabilities of Colombian firms, it compares domestic bank loans, cross-border bank loans and loans from foreign non-financial firms. The authors find that this last category – cross-border firm-to-firm credit – responds most strongly to trade shocks. Exposed exporters receive more credit, at longer maturities and lower rates. Colombia's role as a bystander in US–China trade tensions provides a novel setting to isolate these effects and highlight an underexplored form of cross-border financing.

Findings

Colombian firms exposed to the US–China trade tensions significantly increased their exports of tariff-affected goods to the United States, without a corresponding rise in exports to other destinations or of other products. This rules out a simple rerouting of goods from China. These firms also boosted investment and working capital, pointing to an actual expansion in production. In parallel, they accessed more credit, particularly from domestic banks and foreign non-financial firms. While US-based banks reduced loan volumes and maturities and raised rates, foreign firm-to-firm credit expanded the most, offering larger loans, longer maturities and lower interest rates. These results highlight the stabilising role of long-term cross-border corporate lending in times of global trade disruption.