

Reviving Trade Finance for Corporation and SMEs

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Abstract

- During financial crisis, trade finance shrunk and cost higher because of shrinkage of world trade, trade protection and higher risk in financial market.
- To mitigate trade finance problems, the first step was to loose the liquidity problem in financial market and applied financial support to SMEs.
- In the long-run, every country should not only provide favorable domestic environment to trade development, but also cooperate with each other to make the trade more liberalized.
- Though international financial institutions applied financial assistance to some countries to stabilize their financial market, the SMEs still encountered trade finance difficulty. The solutions would be not only cooperation in public and private financial sector, but also the practical way to enhance the functions of supply chain finance.

Outline

- Trade Finance Problems during and after Financial Crisis
- Reasons of Trade Finance Problems
- Policy Responses for Trade Finance
 - Short-run and Long-run
 - Chinese Taipei experience
- Recommendations for Reviving Trade Finance

Abbreviation

- ADB : Asian Development Bank
- AfDB : African Development Bank
- ACU : Asian Clearing Union
- ADF : Asian Development Fund or African Development Fund
- BIS : Bank for International Settlements
- ECA : Export Credit Agencies
- FSO : Fund for Special Operations
- GCI : General Capital Increase
- IADB : Inter-American Development Bank
- ICC : International Chamber of Commerce
- IMF : International Monetary Fund
- ITC : International Trade Centre UNCTAD/WTO
- MTR : Mid-term reviews
- UCP : Uniform Customs and Practice for Documentary Credits
- UNIDROIT : International Institute for the Unification of Private Law
- URC : Uniform Rules for Collection
- WB : World Bank

Outline

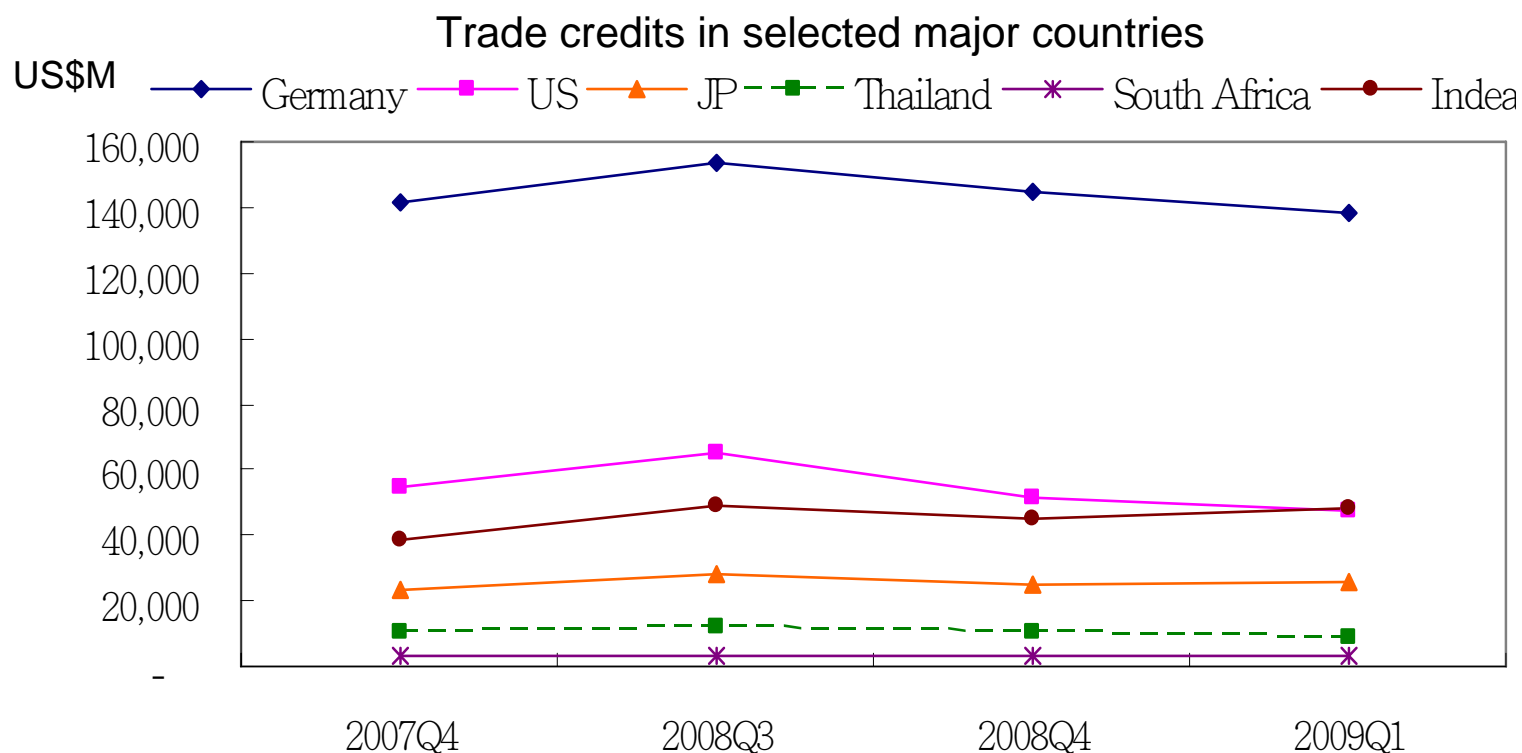
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Trade finance problems during financial crisis

1. Trade finance shrunk

- According to Banker's Association for Trade and Finance (BAFT) Survey (2009), flows of trade finance to developing countries decreased 6% or more.

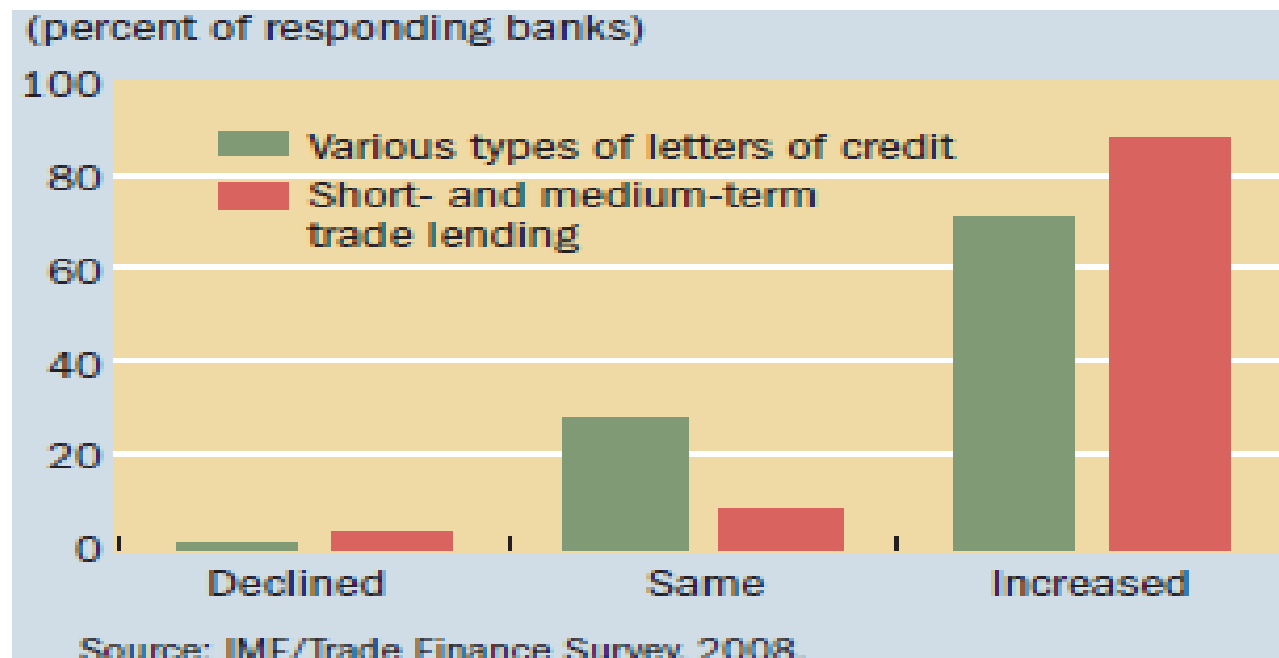
2. Limited data set on trade finance flows and information gap among banks and countries.



Trade finance problems during financial crisis

3. Trade finance cost higher.

- IMF Survey (2008) showed that 70% of banks report prices for letters of credit have risen and 90% say the price of trade lending has risen since late 2007.



Note: Respondents are 40 globally active financial institutions.

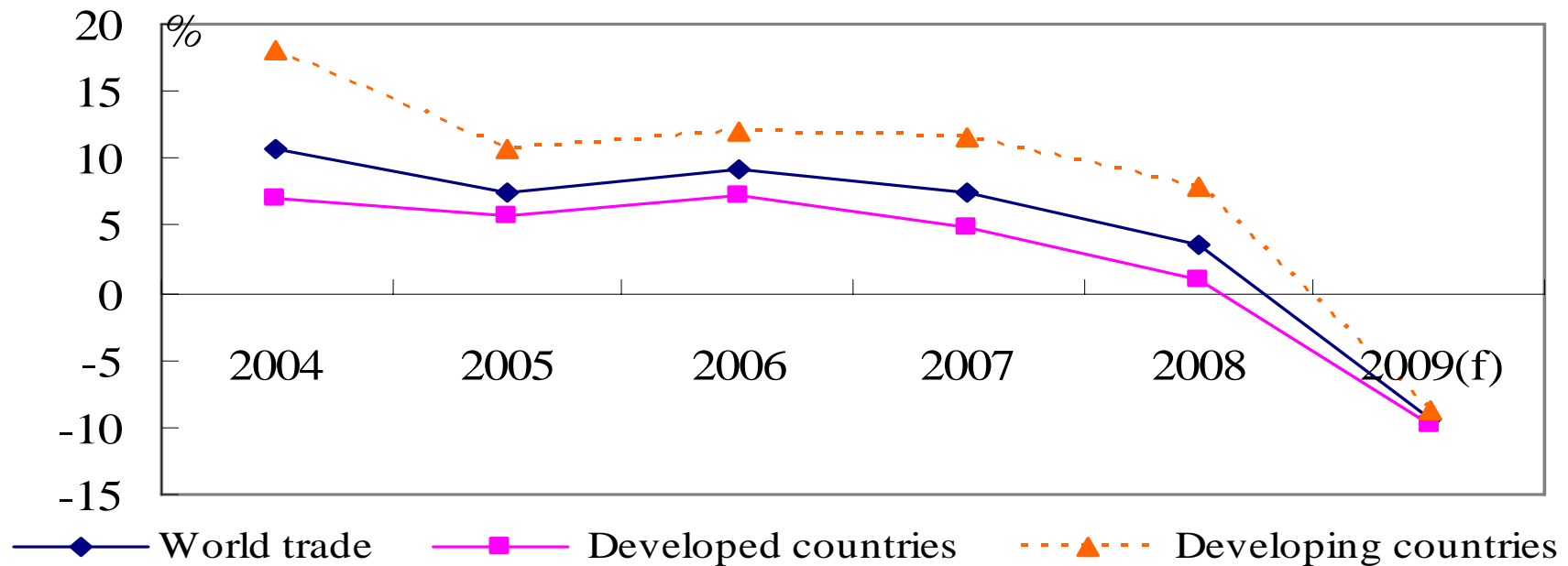
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Reasons of trade finance problem – Demand side

1. Financial crisis lead to shrinkage of world trade.
 - However, part of the collapse of world trade due to trade finance problems.

Growth Rate of World Trade

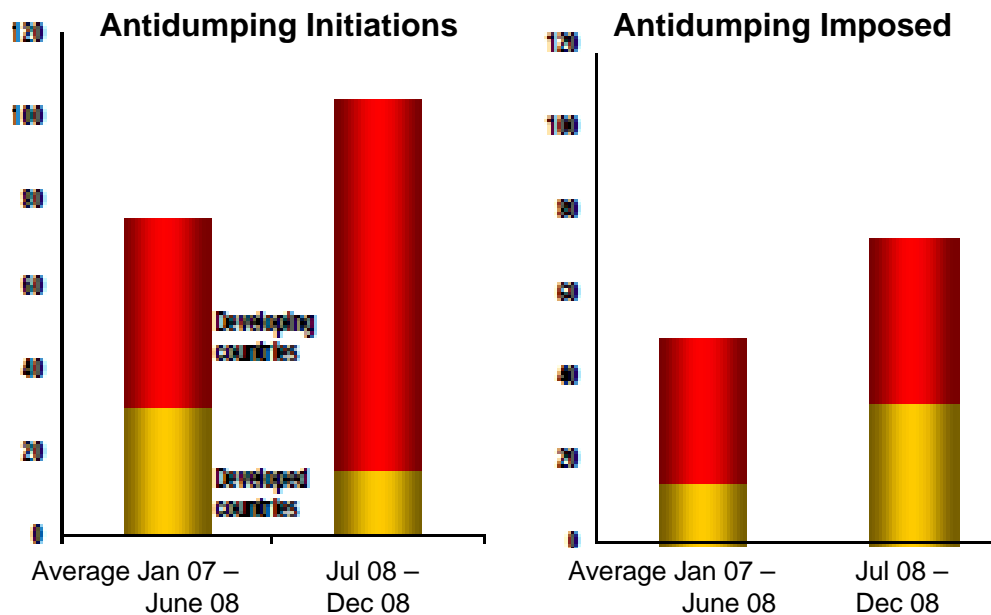


Reasons of trade finance problem – Demand side

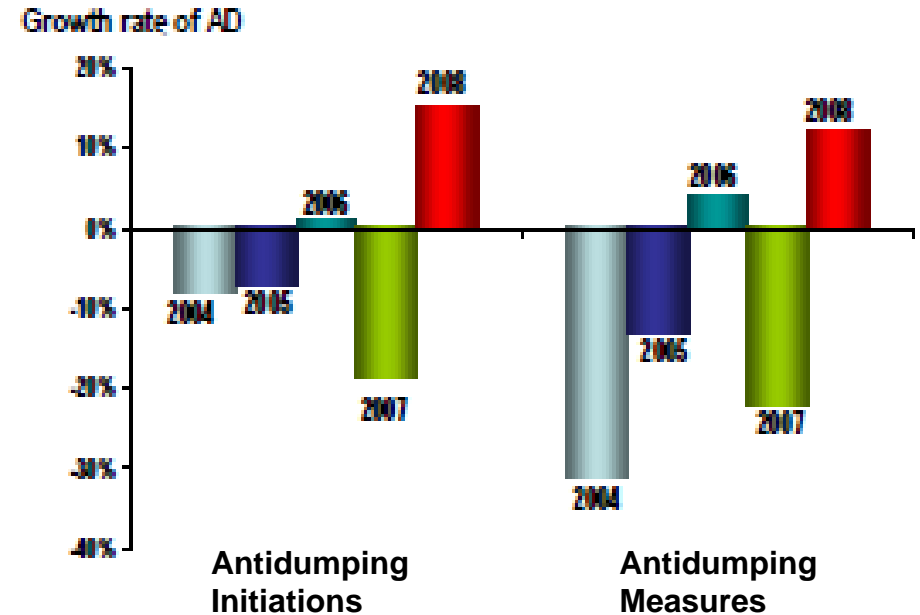
2. Trade protection

- WTO surveyed that the number of antidumping cases surged in 2008.
- Compared to 2007, antidumping initiations grew by 15%.

Anti-dumping cases, 2007-2008



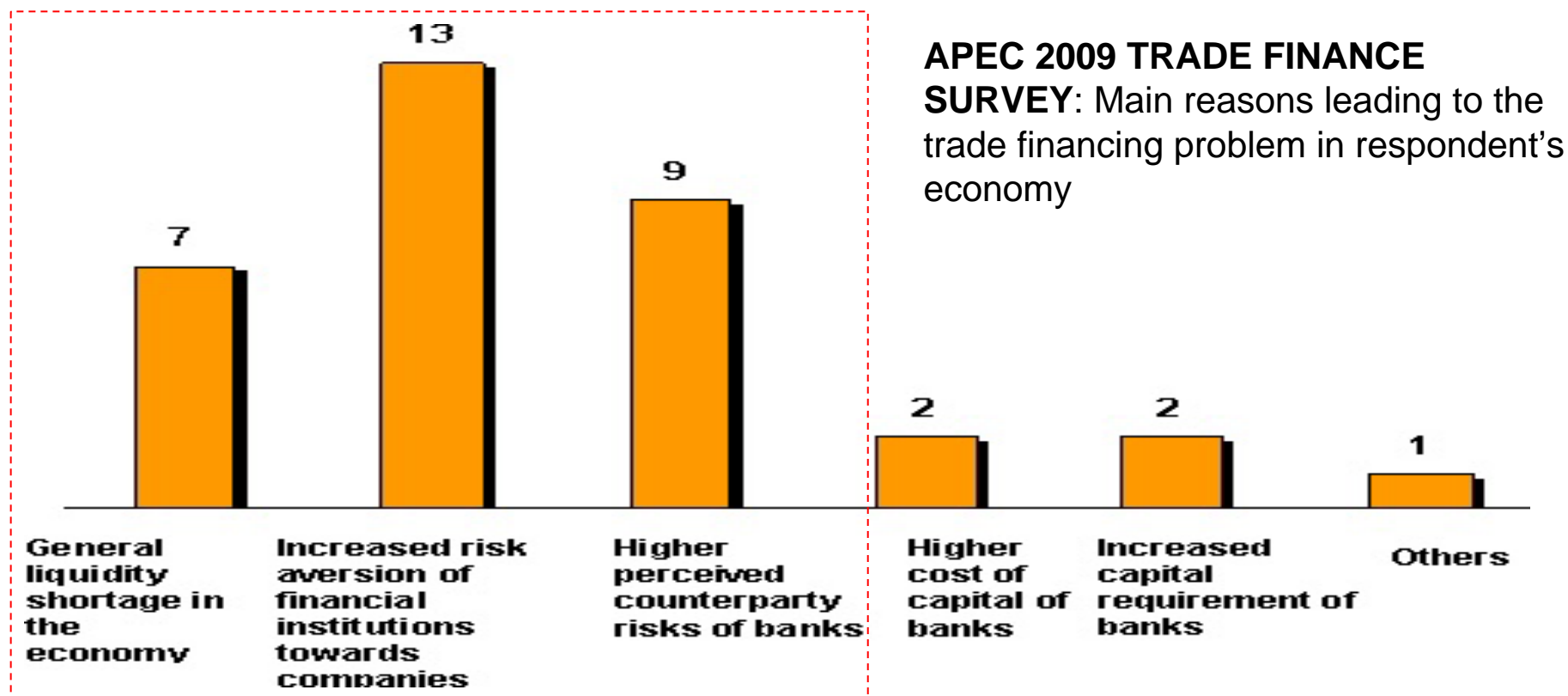
Growth rate of anti-dumping cases



Reasons of trade finance problem – Supply side

◆ The banks encountered higher risks which make trade finance pricier.

- Macroeconomic risk
- Liquidity risk
- Credit risk: Default risks, Counterparty risk, Commercial risk



Note: Results are based on 18 APEC economies surveyed. Respondents can choose more than one option.

Source: APEC 2009 TRADE FINANCE SURVEY

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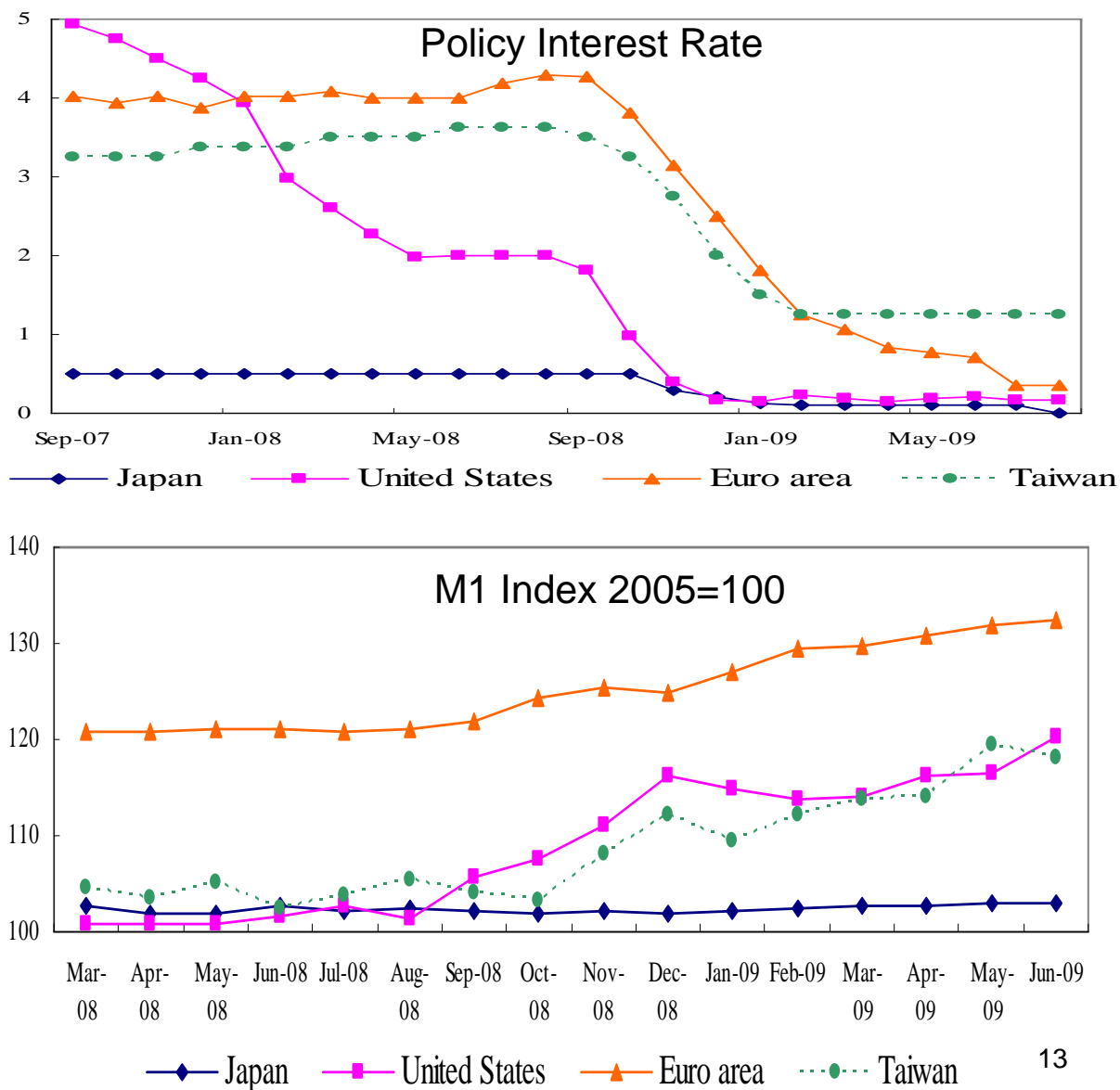
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Policy responses – Short-run

Objective: Mitigate financial pressure

1. Money Policies:

- Decrease policy interest rate
- Lessen the liquidity squeeze



Policy responses – Short-run

2. Government financial support to SMEs:

- Guarantee
- Extension of loan payment

	Measures supporting sales, cash flows and working capital				Enhance SME access to liquidity, especially to bank loan		Strengthen proinvestment measures	Strengthen capital base and private equity and venture capital
	Alleviating working capital shortage in the economy	Reducing and easing tax payments	Export facilitation	Easing procurement payment procedures	Creation and extension of loan & guarantee schemes	Mediation and monitoring		
France	✓	✓		✓	✓	Mediator	✓	
German			✓		✓		✓	
Japan					✓		✓	
Korea					✓			
UK					✓			✓
USA					✓	Monitoring	✓	
Taiwan		✓			✓	Mediator	✓	

Source: Country Responses to the 14 January 2009 OECD WPSMEE Questionnaire on the Impact of the Global Crisis on SMEs and Entrepreneurship Financing and publicly available information

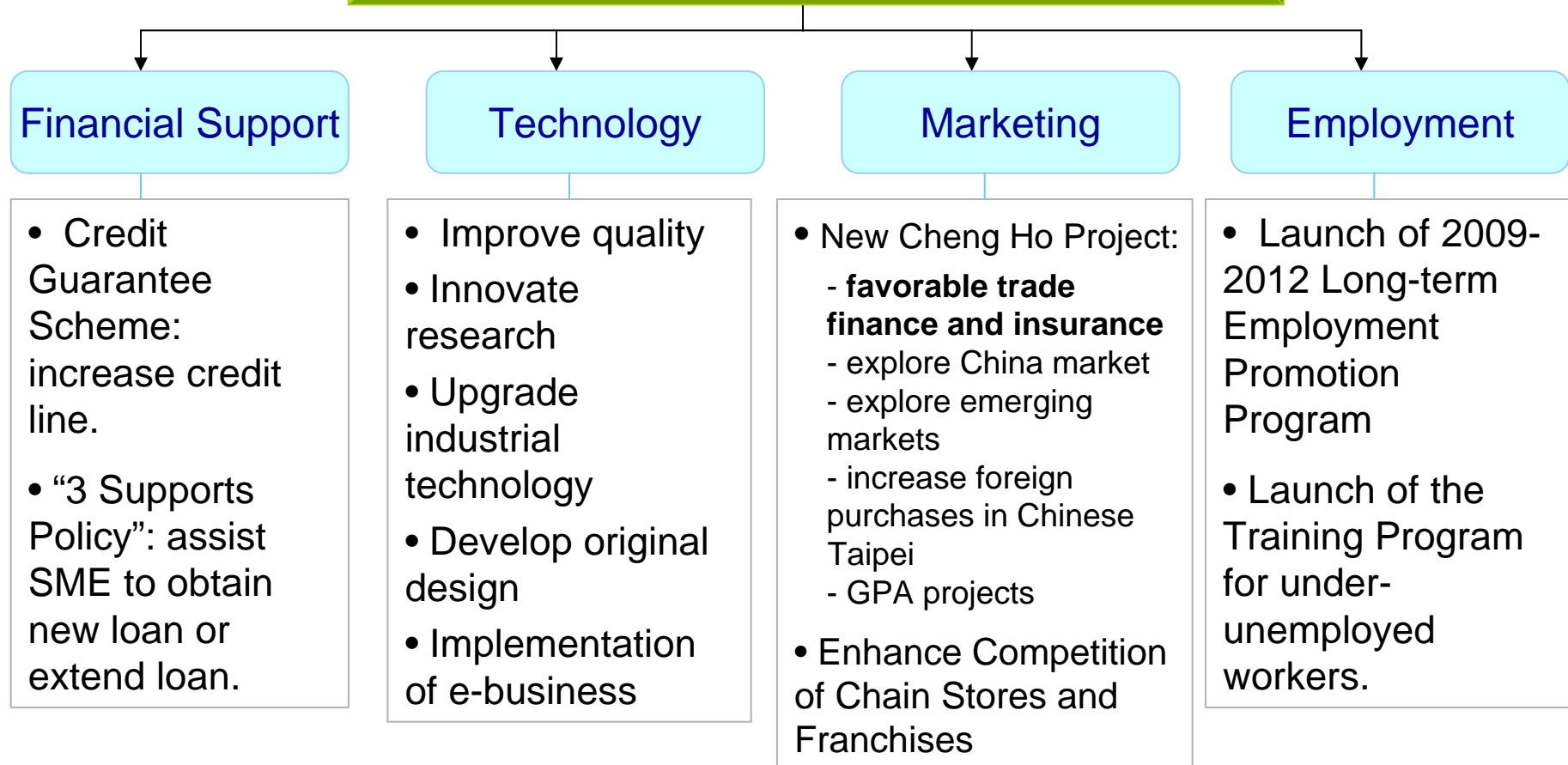
Regional policy responses

- ◆ The international financial institutions applied much financial assistance.
- ◆ APEC: Asia-Pacific Trade Insurance Network to facilitate intra- and extra-regional flows and investment through reinsurance cooperation.
 - However, SMEs still encountered financing difficulty.

MDB	Lending	Concessional Window	Private Sector Leverage	Capitalization Plans
IADB	2008: \$11.3b 2009: \$12b	FSO: approx. \$200m per year	Trade Finance Facilitation program offers loans and guarantees – weak demand in 2009. Liquidity program: \$2b approved to date for 5 countries, \$225m disbursed.	Working paper to be discussed by Board of Governors on July 2.
ADB	2009: \$14.3b 2010: \$11.8b 2011: \$10.7b	ADF: 2009: \$3.4b 2010: \$2.8b 2011: \$2.6b	Trade Finance Facilitation program expanded from \$150m to \$1b. Equity investment in infrastructure	Minimum ratio of equity to liability is 26%, will be reached over medium term. Board of Governors adopted 200% GCI in April 2009 which will triple capital base to \$165b. As of June, no member subscriptions yet.
AfDB	2009: \$10.8b 2010: \$7.7b 2011: \$7.7b	ADF: 2009: \$4.1b 2010: \$2.2b	Trade Finance Initiative (\$1b) established in March 2009. Emergency Liquidity Facility (\$1.5b) established in March 2009.	Technical paper for 6th GCI discussed by Board in March 2009. Commence proceedings on accelerated replenishment of ADF12 at the MTR in October 2009.

Policy responses – Chinese Taipei experience in the long-run

Active Service of Caring SMEs Program

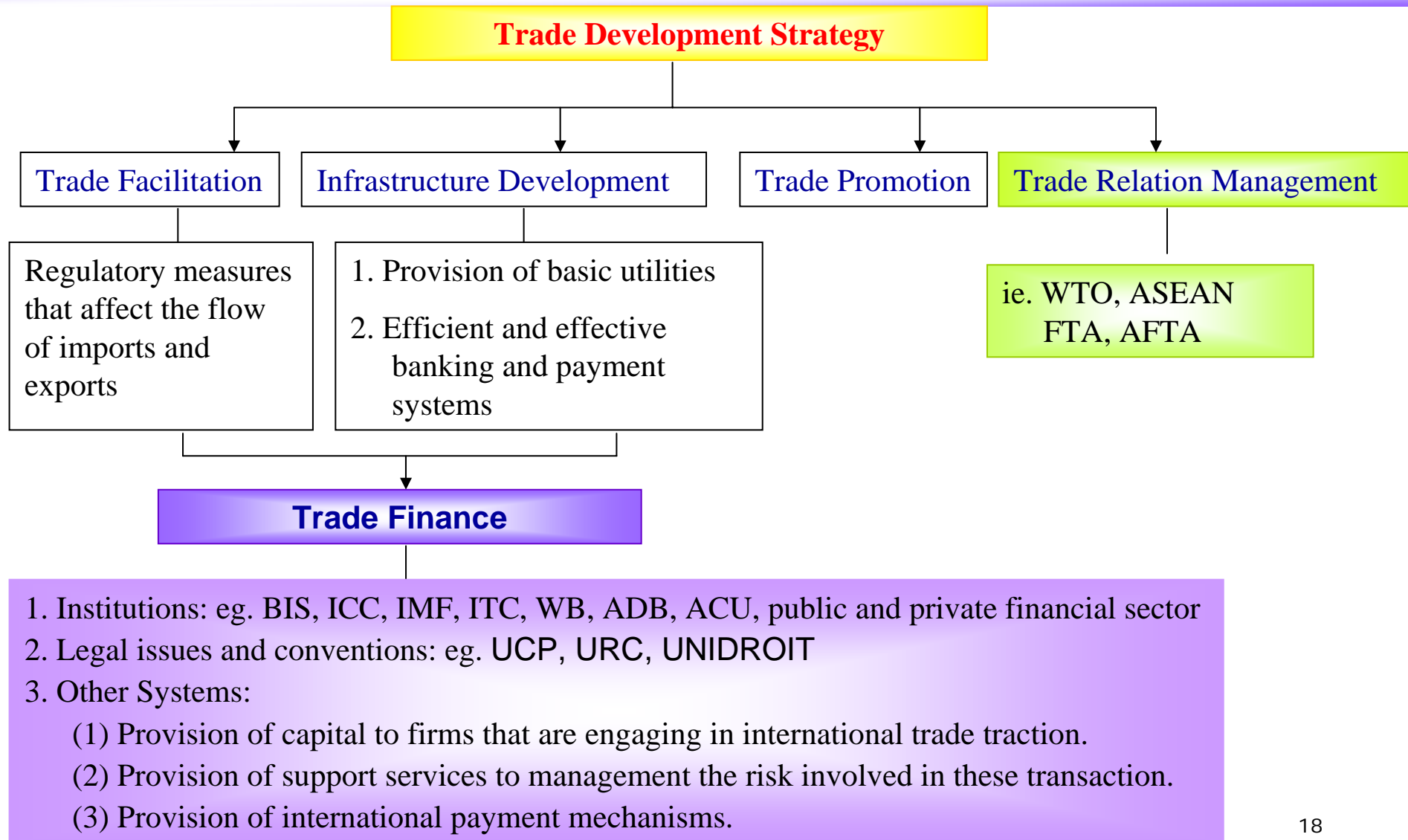


Note: Cheng Ho was an excellent Chinese mariner, diplomat and fleet admiral in 15th Century, who made the voyages to Southeast Asia, South Asia, and East Africa, collectively referred to as the travels of "*Zheng He to the Western Ocean*" from 1405 to 1433.

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Reinforce trade finance to facilitate international trade



Create favorable domestic and international environments for trade finance

Domestic

- Favorable domestic environment to trade development.
- Government leadership and cooperation between banks.
- Adequate financial environment and infrastructure.

International

- Resist protectionism and strengthen the multilateral trading system
- Regulation environment for international transactions
- Stable foreign exchange regimes

Regional Cooperation to revive trade finance(1)

- **Regional cooperation in SME Credit Guarantee Scheme**
- **Enhance ECA (Export Credit Agencies) in the region to offer credit insurance or AR (Account Receivable) finance as a credit enhancements for banks to facilitate trade business.**
- **Monetary, financial cooperation and integration**
 - Regional cooperation among central banks and clearing houses.
 - Enhance regional trade finance capacity, eg. regional guarantee scheme, co-sharing of risk or co-finance with regional public sector-backed institutions.

Regional Cooperation to revive trade finance(2)

➡ Cooperation on global supply chain finance

- ➡ Buyers and suppliers of SMEs in supply-chain operations can finance and manage their working capital by global supply chain finance.
 - Large credit line can be arranged to secure supplies with key trading partners, eg. the Japan with Korea and China, the multinational enterprise with its suppliers.

➡ Minimize information gap

- ➡ Filling the information gap was also one of the highest priorities of WTO Exert Group Meeting on March 18, 2009.
- ➡ Promote information sharing
 - Circulate what programs or policies ECAs have done.
 - Regional data collection of trade finance