

September 2015

Trade Finance

A Catalyst for
Growth in Asia

Claude Lopez, Stephen Lin,
and Jakob Wihelmus



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ASIA CENTER

MAX GROSS 34 000 KG
TARE WT 4 780 LB
NET WT 29 220 KG
CU CAP 67.4 CU M
2.384 CU FT

MAX GROSS 34 000 KG
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MAX GROSS 35 000 KG
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About the Milken Institute

The Milken Institute is a nonprofit, nonpartisan think tank determined to increase global prosperity by advancing collaborative solutions that widen access to capital, create jobs and improve health. We do this through independent, data-driven research, action-oriented meetings and meaningful policy initiatives.

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“Up to 80 percent
of global trade
is supported
by some form
of financing or
credit insurance”

—Roberto Azevêdo,
WTO Director-General, in opening remarks at the
seminar Trade Finance in Developing Countries,
March 26, 2015. WTO estimates global trade
around \$18 trillion.



Executive Summary

Access to funding is critical for the flow and growth of trade. This is especially true for Asia, the world's largest trading region and the one most reliant on trade finance.

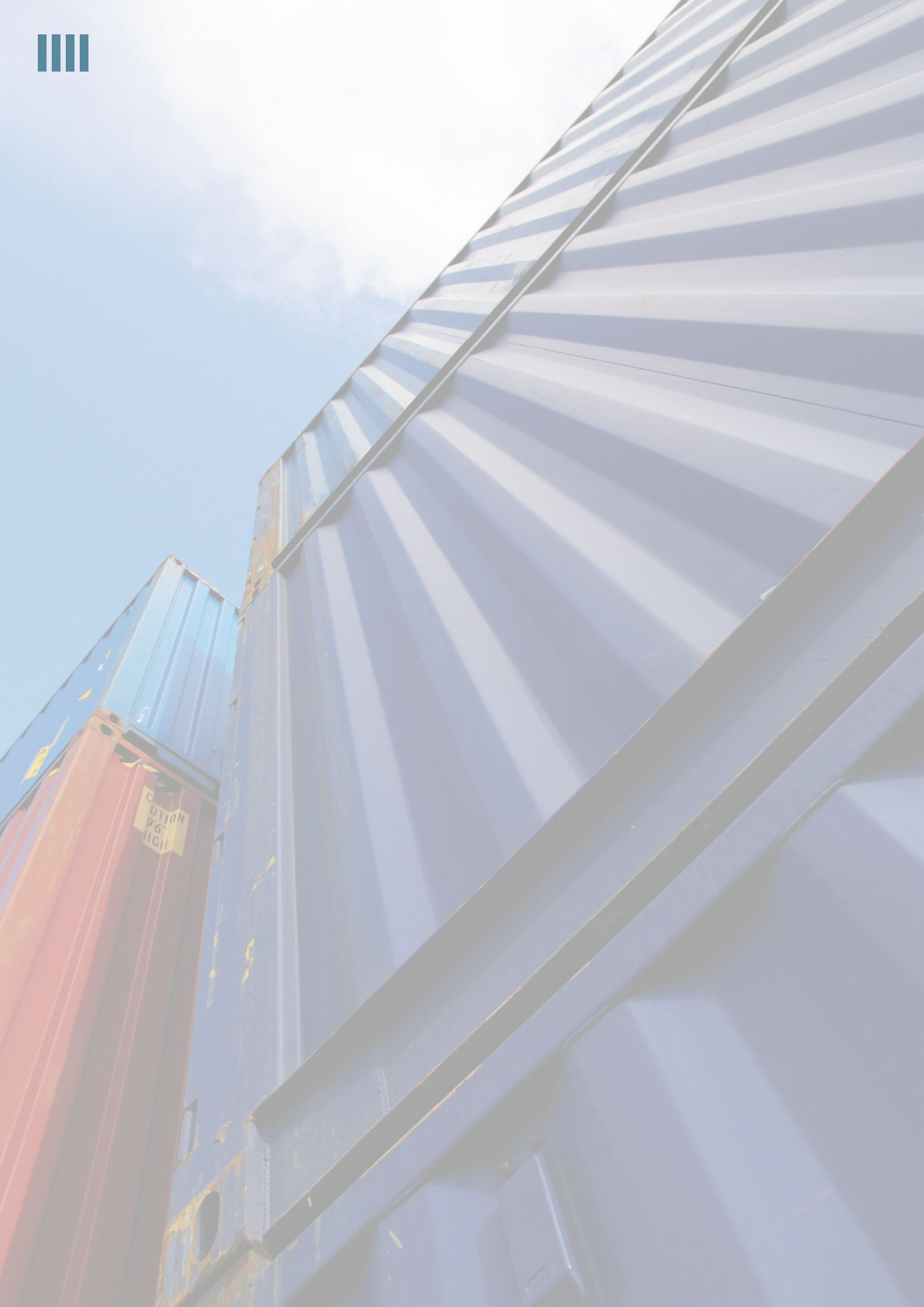
In this report, we first assess the state of trade finance in Asia, paying particular attention to the ASEAN countries and small and medium-sized enterprises. We then identify the latest trends in trade finance across the region before concluding with recommendations designed to help ensure that trade continues to grow and stimulate GDP in emerging Asia.

Key points:

- The positive impact of trade liberalization on a nation's growth is very short-lived in the absence of financial deregulation.
- Asia's heavy dependence on letters of credit (L/Cs) to finance trade leaves significant unmet needs, especially among small and medium-sized enterprises (SMEs).
- Alternatives are slowly emerging, including bank tools such as factoring and supply chain finance, as well as non-bank solutions, including global and regional value chains and inter-firm trade credit.
- For investors, the use of trade receivable assets, through securitization or direct investment, could be an attractive alternative because of new regulations and low interest rates. They offer appealing alpha yields, consistent returns, low volatility, "real economy" investment, and lower default rates than other interest-based assets. Also, their behavior is uncorrelated to the market.

Policy recommendations:

- Streamline the trade finance process
- Standardize international regulations
- Strengthen the institutions that mitigate risk and access to funding
- Dematerialize financing through the use of technology



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Introduction

Proposed treaties such as the Trans-Atlantic Trade and Investment Partnership, the Trans-Pacific Partnership and the Trade in Services Agreement confirm perceptions that trade will become an even more powerful engine for economic growth. However, without better access to capital or trade credit, the value of these treaties, especially for small and medium-sized enterprises (SMEs) or firms in less developed economies, will be limited.

While mature markets such as North America and Europe have returned to normal conditions since the recession, the worldwide recovery has been uneven. In its latest survey on trade finance, the Asia Development Bank (ADB) reports a growing rejection rate of funding requests from Asia, especially among SMEs. ADB estimates the unmet global demand for trade finance in developing Asia could have been as high as \$1.1 trillion in 2013.¹ Asia, the largest user of trade finance, relies heavily on SMEs, which generate up to 50 percent of Asia-Pacific GDP and employ up to 50 percent of the labor force. The lack of access to funding is often identified as the reason why SMEs account for 35 percent or less of direct exports. From the supply side, the International Chamber of Commerce (ICC) Global Survey 2014 confirms such findings. Respondent banks acknowledge a shortfall in the availability of global trade financing for SMEs and identify the increasing compliance and regulatory burden as a key impediment.²

The Asia-Pacific region became the “biggest trading region in the world, in terms of both imports and exports, overtaking Europe in 2012,” accounting for close to 36 percent of merchandise export and import.³ In 2013, close to half of merchandise trade in the region was intraregional. Meanwhile, the region held a 27.7 percent share of global exports of commercial services. Six territories — China, Hong Kong, India, Japan, Singapore, and the Republic of Korea — accounted for 67.5 percent of the total.

The establishment of the ASEAN Economic Community, targeted for December 2015, should strengthen this trend by lowering trade barriers between countries in Southeast Asia.⁴ This single market should ensure free flow of goods, services, investment, skilled labor, and capital. This would be the latest of several agreements reached since 2000 among primary ASEAN trade partners such as Australia, China, India, Korea, and New Zealand.

However, previous experience has shown that the impact of trade liberalization on countries' growth is short-lived unless it is accompanied by financial deregulation to expedite the flow of capital to exporters and importers. Peter and Schnitzer (2012) illustrate this in their analysis of the influence of the North American Free Trade Agreement on Mexico. “After the trade agreement,” they write, “Mexico increased its GDP and its exports. However, due to institutional gaps, in particular credit market development, the productivity gap with respect to the U.S. and Canada did not close.” Furthermore, Chang et al. (2009) show that financial and trade liberalization tend to amplify one another's impact on growth. In the case of ASEAN countries, trade integration requires financial integration as well. The ASEAN Financial Integration Framework (AFIF) was approved in 2011 and has a target end date of 2020. In a recent speech, Ravi Menon, managing director of the Monetary Authority of Singapore, expressed concern regarding the slow pace of development of AFIF.

1. The Asian Development Bank (2014) estimates that close to two-thirds of that amount can be attributed to China and India.

2. ICC global survey (2014) is based on data from 298 banks in 127 countries.

3. UN ESCAP (2014);

4. The member states of Association of Southeast Asian Nations (ASEAN) are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam.



This report investigates the latest developments in trade finance in Asia, with a focus on ASEAN countries. Asian trade is highly dependent on bank-intermediated financing. However, banks tend to focus on creditworthiness and, as a result, are unable to accommodate a large percentage of SME requests, especially in the less developed countries. Consequently, several alternatives such as inter-firm credit or global and regional value chains are becoming more popular. Since the financial crisis, new regulations and U.S. compliance rules have also had a significant impact on trade finance in Asia. The withdrawal of European banks after the crisis has allowed regional banks to gain market share. Yet differences in the infrastructure and support systems (banking, insurance, advice, network) of Asian nations are among the main concerns of lenders when considering funding requests from SMEs and less-developed countries. In this paper, we argue that the regional effort of integration must be combined with procedure dematerialization and standardization—processes that reduce reliance on paper documents in favor of electronic and Web-based platforms while easing cross-border procedures. Simultaneously, policymakers should create international criteria to streamline the trade finance process. These proposals will help widen the pool of lenders and investors.

In this report, we proceed as follows: Section 2 provides an overview of trade finance with a focus on the specific circumstances currently found in Asia, especially the reshaping of its banking landscape as a byproduct of new financial regulations. Section 3 discusses trade finance agreements as a class of assets, while Section 4 assesses the potential and challenges before concluding.

State of the Market

International trade must resolve a fundamental dilemma: how to bridge the gap between the exporter's deadline for payment and the date when the importer is willing to pay. Trade finance (letter of credit or L/Cs, documentary collection, import and export loans), trade credit (cash-in-advance and open accounts) and export credit insurance are key tools used to facilitate such transactions. (See Appendix for definitions.) These alternatives exist to protect both importer and exporter from risks, such as non-completion or foreign-exchange risk, and to provide means of financing.

The lack of uniform data makes it difficult to accurately assess the composition of trade finance. The consensus among the IMF, the BAFT-IFSA, the BIS and the ICC is that bank-intermediated transactions represent 30 percent to 50 percent of finance arrangements and that inter-firm trade credit funds the rest.⁵ Asia Pacific relies more heavily on trade finance than other regions of the world. In Table 1, the column labeled Percentage of Merchandise Trade illustrates this. Globally, 36 percent to 40 percent of trade depends on trade finance arrangements. That compares with 47 percent for China, 41 percent for India, and 56 percent for South Korea. Furthermore, Asia accounts for more than 50 percent of L/C usage.⁶ These relatively high percentages are rooted in logistical and economic issues, including the distance separating trading partners, local market efficiency, weaker domestic legal and contractual systems, a lower degree of financial development, higher political risk, historical preferences, and the costs of operating through L/Cs, etc. Ahn (2014) emphasizes that most of the countries in the Asia-Pacific region have foreign-exchange regulations or strict banking regulations, and that some governments, such as China, have policy requirements favoring L/Cs.

TABLE 1: BANK-INTERMEDIATED TRADE FINANCE MARKETS IN 2011

COUNTRY	TRADE FINANCE (US\$ BILLIONS)		PERCENTAGE OF MERCHANDISE TRADE
	Stock	Annual Flows	
Global estimate	1625-2100	6500-8000	36-40
L/Cs (SWIFT)		2782	15
ICC trade register		1958	11
China	218	871	47
Hong Kong	44	131-175	29-38
India	82	164	41
S. Korea	76	304	56

Source: BIS (2014)

Heavy reliance on these traditional modes of payment can no longer satisfy market requirements and credit needs. Asia, especially SMEs in the region, accounts for the most unfunded requests.⁷ However, several alternatives are emerging, including bank-intermediated tools such as factoring and non-bank solutions such as global and regional value chains and intra-firm trade credit.

5. As a share of global trade, the estimate is somewhat lower than what has been reported from surveys conducted by the IMF and BAFT-IFSA (2009, 2010, 2011). In those surveys, participating banks estimated that about 40% of global trade was supported by bank-intermediated trade finance, with the remainder funded on an open account or cash-in-advance basis. On the other hand, some industry studies put the share of trade covered by trade finance much lower, at around 20% (ICC (2009)).

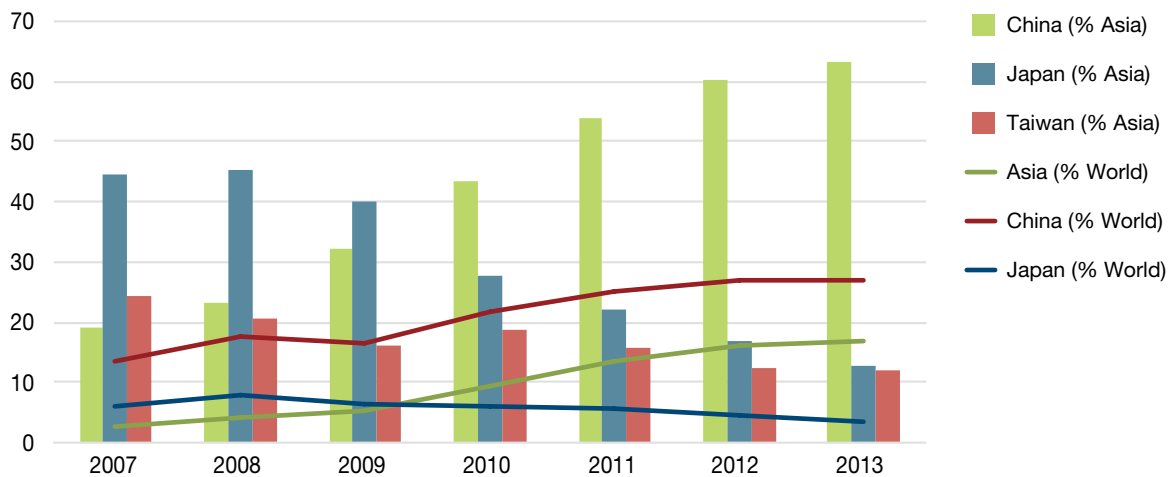
6. See BIS (2014)

7. See ADB(2014) and Enterprise survey (2014).

Factoring is an asset-based financing method used to increase working capital. A factor (80 percent of Factors Chain International, a global network of banks and factoring companies, are commercial banks) can assist an exporter with financing through the purchase of invoices or accounts receivable.

To accomplish this, the factor purchases the exporter's short-term foreign accounts receivable for cash at a discount from the face value, assumes the risk on the ability of the foreign buyer to pay, and collects receivables. Because it focuses on the value of the receivables instead of the firm's creditworthiness, factoring is a great alternative to loans for SMEs. It is gaining popularity in Asia-Pacific, representing close to 30 percent of the global cross-border factoring volume in 2013 compared to 12 percent in 2007. Figure 1 also shows a change in key Asian players. Japan which used to be the Asian leader in factoring in 2007 is, in 2013, at the same level as Taiwan while China takes the lead, accounting for 12 percent of the world factoring market and 63 percent of the Asian market.

FIGURE 1: TOTAL FACTORING VOLUME IN ASIA BY PERCENTAGE



Source: Factors Chain Annual review (2014)

The emergence of preferential trade agreements since 2000 facilitates the development of global and regional value chains (GVCs and RVCs) in the region as an alternative to bank-intermediated trade finance.⁸ GVC refers to the full range of cross-border, value-added business activities that are required to bring a product or service from the conception, design, sourcing of raw material, and intermediate inputs stages to production, marketing, distribution and supplying the consumer. Many regional enterprises have participated in GVCs, especially the automotive, electronics, food and apparel/garment sectors. So far, Asia-Pacific SMEs play a limited role due to low value-addition and lack of proper network.⁹

Finally, inter-firm trade credit is an alternative system relying on business relationships and trust between importers and exporters. It uses either open account or cash-in-advance. While this type of transaction entails lower fees and more flexibility, it has a higher payment risk. As a result, most of the firms using this solution have either well-established commercial relations or, given the expanding role of global multinational companies, are affiliated companies. So far, these flows remain relatively small.

8. Since 2000, more than 70 preferential trade agreements have been signed so far, the bulk being bilateral but a growing share is plurilateral. See Baldwin and Kawai (2013).

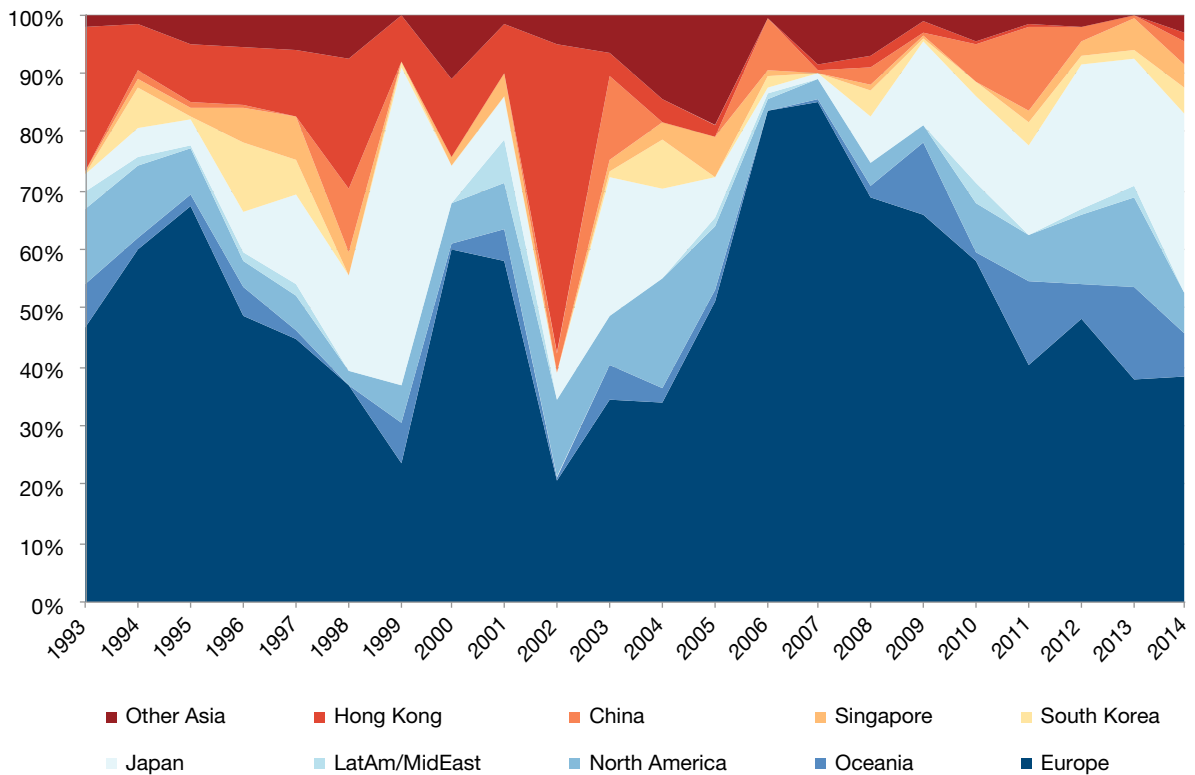
9. See ESCAP (2007) and WTO (2013).



Who are the lenders? Regional vs. international

The financial crisis and new regulations, such as Basel III, Know Your Customer and Dodd-Frank, forced a deleveraging process, especially for European banks. (See Box 1 for a detailed illustration on the impact on the Asian syndicated loan market.) The short-term nature of trade finance, 90 days for L/Cs and 105 days for loans, makes it an easy target when banks need to rapidly reduce their exposures. Figure 2 shows how the withdrawal of European banks allowed regional banks to build market share. European banks reduced their deal participation from close to 90 percent in 2007 to 50 percent in 2014. In contrast, Asian banks led close to 50 percent (31 percent of which are Japanese banks) of the deals in 2014, compared to around 10 percent in 2007. For several regional banks, such a window of opportunity became part their ongoing international expansion in the key emerging market regions, especially with the rise of South-South trade. Besides providing support to the trading activities of domestic corporations, as follow-your-client strategies, involvement in trade finance allows newcomers to build client relationships and, eventually, to offer a wider range of banking services. American and Australian banks also gained market share.

FIGURE 2: ASIAN TRADE FINANCE DEAL VOLUME, BY COUNTRY OF MANDATED LEAD ARRANGER



Source: Dealogic.

BOX 1: OVERALL FINANCING LANDSCAPE IN ASIA SINCE THE CRISIS

Prior to the crisis, Asian countries, especially those in the ASEAN region, had been highly dependent on trade financing and on loans from Europe and the U.S. In 2006, \$18 billion of the total \$24 billion of syndicated loans to Singapore originated outside of Asia, an almost ubiquitous pattern throughout the ASEAN group. (see Figure A)

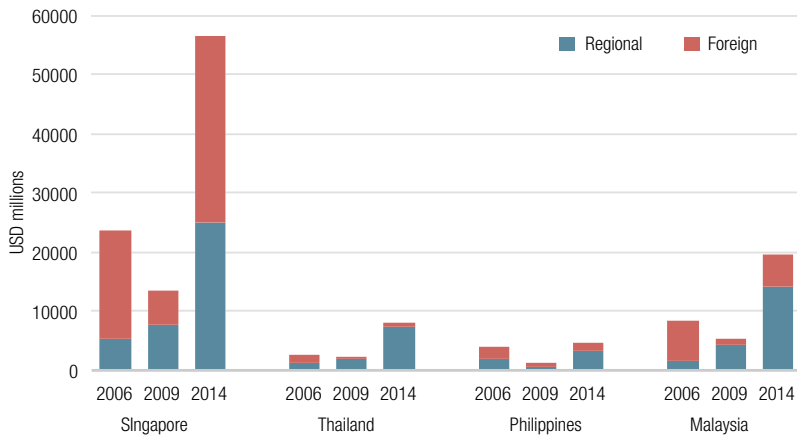
With the unfolding of the financial crisis, however, most European and U.S. banks began a deleveraging process that reduced their positions in many ASEAN countries. Regional banks stepped in to fill the liquidity gap by picking up a larger share of syndicated loans issued to ASEAN members.

During the deleveraging, foreign banks prefer to reduce foreign loans rather than those extended to domestic borrowers. Commercial banks, the main providers of syndicated loans, seemed to have based the decision on their

engagement in the specific countries. Deleveraging, therefore, was greatest in regions where the banks had no established subsidiaries or partnerships. Figures B and C summarize syndicated loans. It is worth noting that subsidiaries of foreign banks are mostly accounted for in the foreign share of loans.

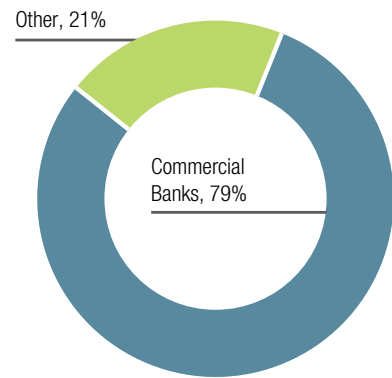
Overall, countries with a lower percentage of foreign banks, such as Thailand and Malaysia, where foreign banks represent 20 percent and 40 percent of all the operating banks, respectively, were more affected by deleveraging. Local banks had to step in to buffer the withdrawal of foreign loans. In the case of Malaysia, the percentage of syndicated loans provided by national banks increased from 11 percent in 2007 to 48 percent in 2009, a total increase of \$1 billion. Yet, foreign banks remained in financial hubs such as Singapore.

Figure A: Origin of Syndicated Loans, Total Amount



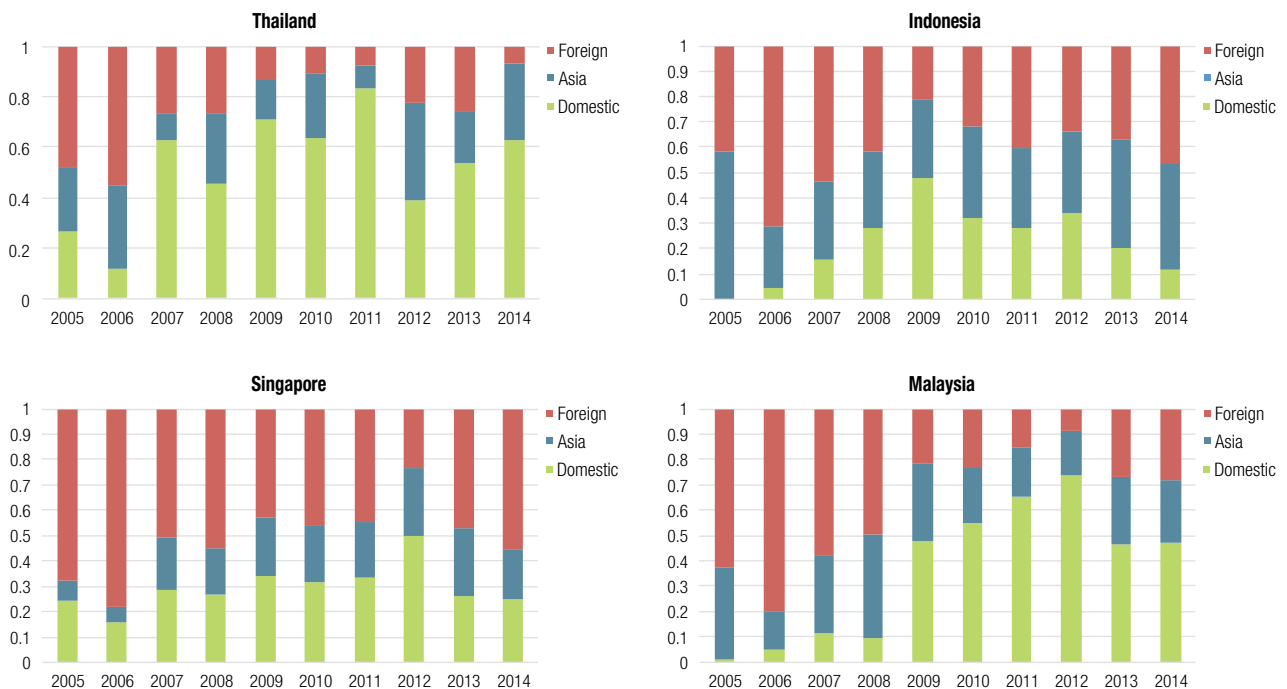
Source: Bloomberg

Figure B: Loan Providers



Source: Bankscope

Figure C: Origin of Syndicated Loans, Share of Total Loans



Source: Bloomberg

Trade Finance Assets

Banks' lending capacities are under pressure mainly for two reasons. First, the growth of trade generates increased demand for capital that is not offset by the introduction of new financial institutions. Second, Basel III regulatory demands (higher capital requirements, reduced leverage and placed liquidity requirements) provide incentives for banks to either reduce trade finance exposure or find an alternative to remove trade loans from their balance sheets. The latter may explain the recent surge of securitization deals as shown in Table 3. By establishing an origination and funding platform for trade banks with global market position, securitization programs can help the banks address challenges such as capital management, liquidity, increased credit constraints and the new capital requirements. Banks have the ability to fund their originated trade finance assets in a capital and balance sheet efficient manner through issuances of medium-term asset-backed securities, enabling them to increase the efficiency of capital dedicated to trade.¹⁰

TABLE 2: ANALYSIS OF SHORT-TERM TRADE FINANCE PRODUCTS - RISK CHARACTERISTICS

	CUSTOMER DEFAULT RATE (%)	MOODY'S RATING WITH SAME DEFAULT RATE	TRANSACTION DEFAULT RATE (%)	GLOBAL CORPORATE BOND DEFAULT RATE ¹³
Export L/C	0.03%	Aaa-Aa	0.00%	0.49%
Import L/C	0.12%	Aa	0.04%	0.99%
Performance Guarantees	0.16%	Aa-A	0.03%	2.73%
Loans for Import/Export	0.24%	A-Baa	0.04%	4.61%

Source: ICC(2014)

Global trade finance assets are estimated around at \$14 trillion to \$16 trillion, only a small portion of which has been securitized. In comparison, the size of the U.S. mortgage loan market is about \$13 trillion, of which 65 percent is securitized into either agency or non-agency MBS.¹² The potential for securitization is reinforced by the record-low default rate. The average default rate on short-term international trade credit ranges from 0.03 percent to 0.2 percent, with a recovery rate of 60 percent. The comparable corporate bond default rate ranges from 0.5 percent to 4.6 percent. Although investors are attracted by the low-risk nature of trade finance assets, they also require granularity and diversity in the underlying reference pools to avoid cases such as the BNP Paribas Lighthouse vehicle. (Focused on energy commodities from Eastern Europe, the venture ended early due to the Ukrainian crisis, because it lacked the trade finance deals needed to support the structure.)

10. Citigroup press release of September 20, 2011.

11. Average Cumulative Moody's 10-Year Default Rate.

12. Agency MBS are securitized or guaranteed by Government-Sponsored Entities (e.g., Fannie Mae, Freddie Mac, Federal Housing Administration, etc.), while non-agency MBS are securitized by private mortgage conduits.

TABLE 3: MAIN SECURITIZATION DEALS SINCE 2006

DATE	VEHICLE	ISSUING BANKS	TYPE	DETAILS
Dec. '06	Trade CABS I	Citibank	Synthetic	\$199 mln, 5 tranches.
Nov. '07	Sealane I	Standard Chartered	Synthetic	\$3 bln, 4 tranches, \$120 mln equity tranche; 85% of borrowers from Asia Pacific and MENA.
Aug. '11	Sealane II	Standard Chartered	Synthetic	\$3 bln, 4 tranches, \$180 mln equity tranche; metal and mining, energy, oil and gas, and food and beverage, with 88% of portfolio from Asia, India, and Middle East and North Africa.
May. '12	Trafigura	RBS	True sale	\$430 mln, 2 tranches, oil, metal, coal.
Aug. '13	Lighthouse	BNP Paribas	True sale	\$132 mln, 4 tranches; oil, metal, energy backed by assets originated by Geneva office to mostly commodities sourced from Eastern Europe.
Sep. '13	CoTrax II-1	Commerzbank	Synthetic	\$500 mln, 3 tranches; \$22 mln mezzanine tranche; 74% of portfolio (18 countries total) from Asia, Latin America, and Russia.
Dec. '13	Trade MAPS I	Citibank, Santander	True sale	\$1 bln, 4 tranches; top borrowers include financial intermediaries, agriculture, transportation, oil & gas; backed by assets originated by both banks' branches or entities in Asia, Latin America, Europe, Middle East and North America.
Feb. '14	TFF I	IIG Trade Finance		\$220 mln, 3 tranches; \$33 mln income tranche; backed by non-bank trade finance loans; soft commodities (i.e. cotton, agriculture, seafood); borrowers from Latin America.

Sources: Bank press releases and prospectuses, Structured Finance News, Trade Finance Magazine, Trade and Forfaiting Review.

The Citibank-Santander issuance, MAPS 1, was the first to use a joint-origination model, allowing great scale and country diversification in its underlying pool of trade assets, as well as better access to dollar funding for participating banks. (see Table 4)¹³ The creation of a much larger interbank securitization pool, larger than any single bank can possibly provide, increases diversity and lowers risk for investors. Yet, the average loan size of the MAPS 1 securitization is rather large, above \$140 million.

More recently, IIG Trade Finance has proposed an alternative program, the first to use a pool of trade finance loans structured by a non-bank, openly interested in including trade-oriented SMEs: Up to 85 percent of the notes are backed by short-term trade finance loan advances to SMEs engaged in the processing/export of physical commodities, such as cotton, frozen beef, frozen shrimp/seafood, powdered milk, and soybean meal.¹⁴

13. Santander has a strong presence in Latin America and Europe whereas Citibank provided the United States and Asia exposure.

14. IIG trade press release, February 10, 2014

**TABLE 4: MAPS I AND COTRAX II—1 UNDERLYING LOAN DISTRIBUTION**

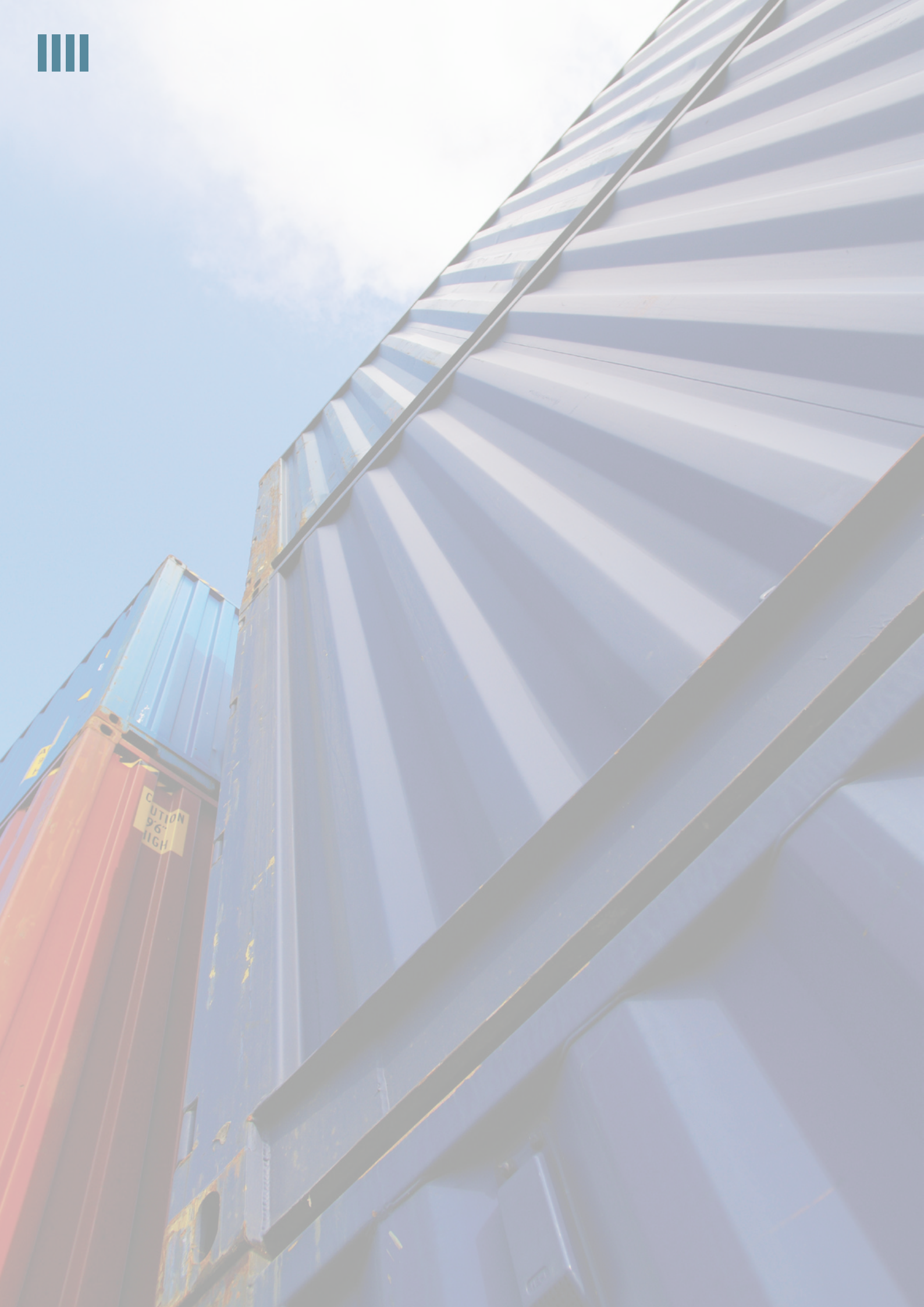
COUNTRY OF EXPOSURE	% OF LOANS MAPS I	COUNTRY OF EXPOSURE	% OF LOANS COTRAX II-1
United States	86.2	Brazil	23.0
Latin America	1.0	China	22.0
Asia	10.9	Panama	12.0
Europe	1.7	Russian Federation	7.0
Other	0.1	Other	36.0

Source: MAPS I prospectus and Krohn (2014)

Finally, yield is a key factor for investors. To achieve higher yields than traditional trade-finance transactions normally offer, the collateralized loan obligations are sliced into tranches, allowing a “high yield” piece. Hans Krohn, head of trade products at Commerzbank, describes the CoTrax deal as follows: the pool of assets was sliced into a senior tranche, a first-loss piece, which Commerzbank kept, and a \$27 million mezzanine tranche. Of the latter, \$22 million was successfully placed with institutional investors.¹⁵ Similarly, in the Citi MAPs structure, a total of four classes of notes publicly rated by Standard & Poor’s and Fitch Ratings were sold. The investment-grade tranches were floated at one month Libor + 70-225 basis points (bps), while the B/BB tranche was priced at one month Libor + 500 bps. By comparison, the average floater spread of AAA global bond instruments was one month Libor + 37 bps, and one month Libor +178 bps for BBB-rated instruments.¹⁶

15. Krohn (2014)

16. Aggregated Bloomberg data from SRCH and LSRC between 1/1/2014 and 6/24/2015. Aaa to Aa3, and Baa1 to Baa3 used, assuming a one-year default probability of 0.20%.



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Potential and Challenges

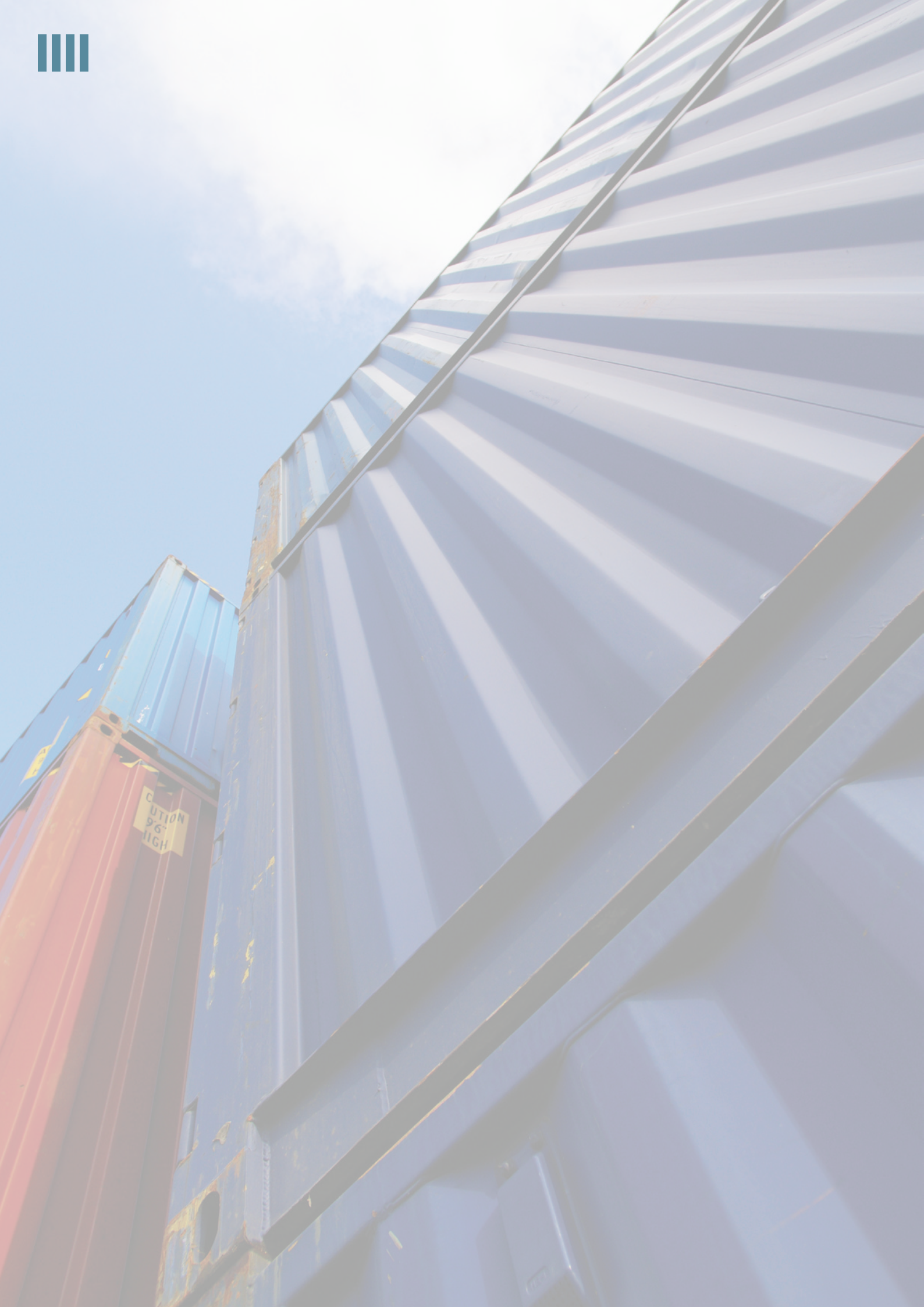
Regulatory and compliance arbitrages as well as yield-search, especially with the current low interest rates, have made trade finance and its multi-trillion market attractive to institutional investors. As previously discussed, trade finance instruments range from direct to securitized investments and tend to be short-duration loans sponsored primarily by large corporations or B2B and supplier networks. Some long-term options with durations of 10 to 12 years also are used to finance large transactions among firms like Airbus SAS, Boeing Co., and General Electric Co.

In today's short-term, fixed-income environment, trade finance and trade receivable assets offer several interesting features, including attractive alpha yields, consistent returns, low volatility, and "real economy" investments tied to specific commercial transactions. They also offer comparatively low default rates. Given the short duration of these loans, risk is more contract-related than market-related, making them mostly an uncorrelated asset class. However, several challenges stand in the way of a full democratization of such assets among a broader pool of investors.

First, most investors are unfamiliar with these assets. Because trade finance is a bank-dominated industry where the products are focused on the origination side of the business, there are no uniform procedures. Required documentation can vary enormously from deal to deal because trade involves multiple parties across a wide range of jurisdictions, bankruptcy laws, tax regimes, and sovereign risk ratings. Many institutional investors are building the necessary in-house expertise and sector knowledge in order to take advantage of this asset class.

Second, there is a need to streamline the overall procedures. The lack of consistency from country to country in terms of due diligence under law, combined with the increasing cost of compliance with regulations such as Anti-Money Laundering/ Know Your Customer, call for an international standardization and simplification of procedures as well as standardization of financial regulations, bankruptcy rules, and payment systems. In other words, while banks should implement master agreements for trade finance deals that provide yield, security, and granularity in the asset reference pool, policymakers and regulators should help standardize the documentation required.

Greater standardization and increased investor awareness of the benefits of trade finance assets may have several benefits. First, it will help provide more stable access to funding. Second, the originate-to-distribute model, in which the originator of the loan sells it to third parties, will help mitigate the issues linked to new banks' capital-requirement issues. And third, it will offer investors an uncorrelated and safe, stable asset class. However, all this relies on one key and costly element: creating the required infrastructure, including custodians, asset managers, and risk-mitigation mechanisms.



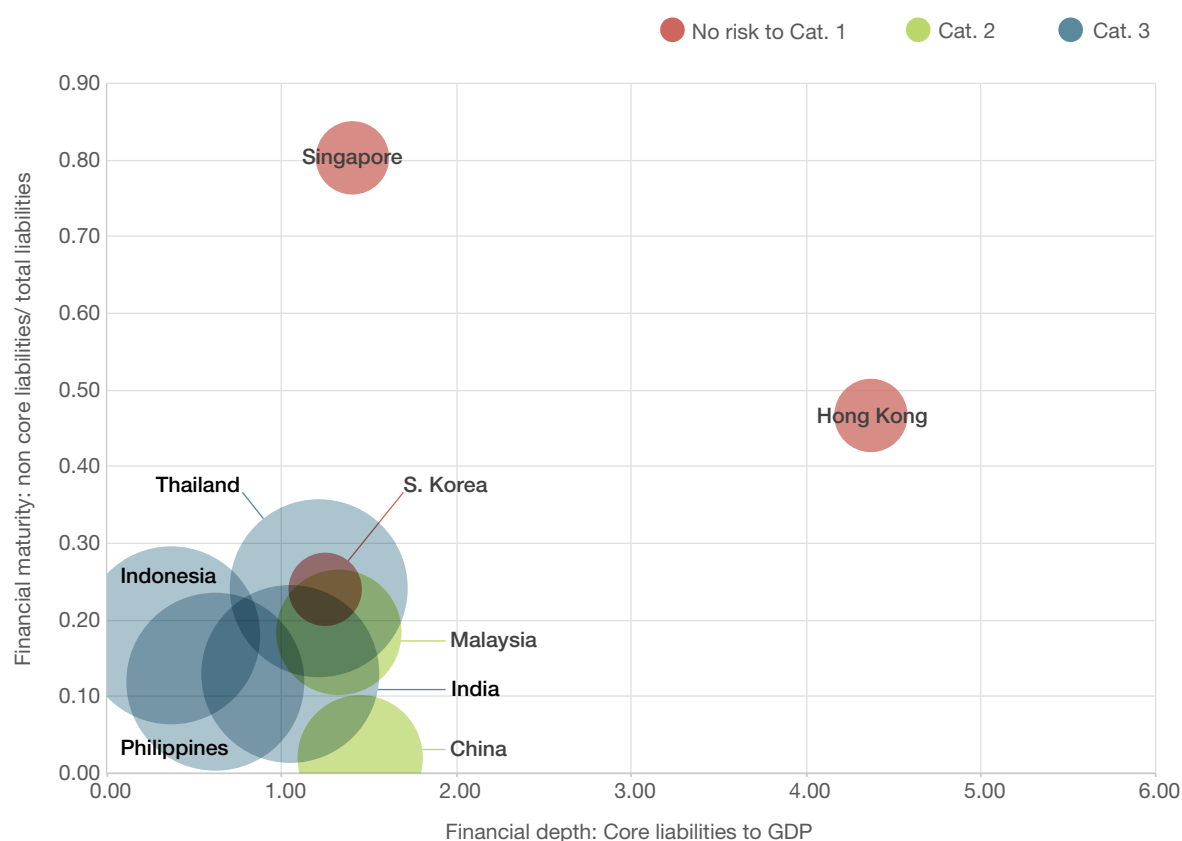
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Concluding Remarks

Strengthening regional infrastructures

Access to trade finance is often identified as the greatest obstacle in business operations, especially for SMEs. This is particularly true in Asia, where SMEs are key to a growth strategy that is shared by nations across the region. The infrastructure discussed previously meets some specific challenges in the ASEAN region due to heterogeneous economic and financial developments. Figure 3 shows the countries' financial depth (size of the core liabilities over GDP), maturity (fraction of total liability held by non-depository financial institutions), and the risk classification provided by the Organization for Economic Co-operation and Development (OECD), dictating the minimum premium rates for credit risk.¹⁷ These challenges can be sorted around three main axes of improvement:

FIGURE 3: FINANCIAL DEVELOPMENT AND RISK ASSESSMENT BY COUNTRY



Source: Lopez et al, 2005

Strengthening and broadening pool of lenders and instruments

Figure 3 suggests that most of ASEAN countries rely heavily on banks for funding; hence, a resilient banking network with strong geographic coverage is key. Similarly, corporations are becoming more interested in supply chain finance to ensure access to funding to all of their suppliers, especially in a period of enhanced regulatory burden and in a region that is highly fragmented in terms of currencies, legal jurisdiction, regulations, and languages. The establishment or strengthening of government-

17. Core liabilities are retail deposits of domestic households and businesses while non-core liabilities encompass the other major forms of funding, such as lending between banks or foreign lending, and include sources for banks and other financial intermediaries.

18. While liability information is not available for all ASEAN countries, we can still report the classification for the remaining ASEAN countries: Brunei (2), Cambodia (6), Laos (7), Myanmar (7), Vietnam (5). The scale is from non-rated for the safest countries to 7 for the riskiest.



backed export credit insurance, guarantee institutions, and export-import banks (Ex-Im) would help mitigate risk and facilitate access to affordable funding by reassuring lenders and attracting more trade finance providers. Similarly, international institutions such as ADB should be supportive of non-bank finance instruments. UN ESCAP (2015) suggests the creation of an Asia-Pacific Trade Development Fund that would provide a collateral-free guarantee mechanism to companies.

Adapting through technology

New technologies can ease paperwork processing. As an illustration, an online procurement mechanism and electronic repository for information required for trade transactions may help expand geographically the network of providers and reduce costs while enhancing transparency. Even B2B direct lending may provide a solution for affordable trade finance access to SMEs, but suitable infrastructure such as custodians, legal, and regulatory framework and risk rating of markets, needs to be created.

Broadening the pool of capital

Streamlining the process to provide better infrastructure, more reliable risk assessment, and greater ease in completing transactions will automatically attract more investors. While securitization is at its early stage, it may be the easiest channel for democratizing trade finance investment.

Finally, the ASEAN region needs to complement trade integration with financial integration. Yet, the latter requires some degree of economic convergence. A broader participation in GVCs may help achieve shared GDP and employment growth. More specifically, the future engagement of SMEs in GVCs relies strongly on the existence of an adequate infrastructure: access to institutional funding for new or riskier markets, business development services, and incentives for larger firms to include SMEs in their supply chains.



Appendix

Definitions

Letters of credit (L/C) have short-term tenors (less than 90 days). An import L/C is a bank's commitment on behalf of the importer that payment will be made to the exporter, provided that the terms and conditions stated in the L/C have been met, as verified through the presentation of all required documents. The importer pays his bank a fee for this service. The goods being traded serve as the bank's collateral. The exporter, in turn, may engage its own bank to provide an export-confirmed L/C which would guarantee the payment from the importer's bank. An L/C is useful when reliable credit information about a foreign importer is difficult to obtain, but the exporter (or its bank) is satisfied with the creditworthiness of the importer's bank. The L/C protects the importer because no payment obligation arises until the goods have been shipped or delivered as promised, removing the risk of shipment of goods other than those ordered.

Documentary collection is a transaction in which the exporter entrusts the collection of payment to the remitting bank (exporter's bank), which in turn sends documents to a collecting bank (importer's bank), along with instructions for payment. Funds are received from the importer and remitted to the exporter through the bank in exchange for those documents. The banks' liability is limited to the forwarding and release of documents against payment and acceptance or promise of payment by the importer.

Import and export loans consist of a cash advance to the importer or exporter on presentation of appropriate documentation. This type of financing may also be linked to an L/C.

Supply chain finance (SCF) is a relatively new and expanding business area for banks that entails combinations of technology and services to facilitate processing and financing payables and receivables within a global supply chain. The supply chains are typically anchored around the global purchases and sales of a major retailing or manufacturing firm. The financial services within the SCF platform may involve many elements of traditional trade finance (e.g., pre-shipment or post-shipment finance, receivables purchases, or discounting), with the notable exception of letters of credit. Attractions for participants include the possibility of optimizing payment and financing terms to suppliers and improving working capital both for suppliers and sellers. Because the supply chain funding centers on purchase commitments by the buyer, SCF offers the possibility of funding rates based on the buyer's creditworthiness or rating rather than on the supplier.

In **open account** transactions, the exporter extends credit to the importer by shipping and delivering goods before payments are due (which is usually within 30 to 90 days). This option is the most advantageous to the importer in terms of cash flow and cost, and consequently presents the highest risk for the exporter, who is exposed to the risk of non-payment.

In **cash-in-advance transactions**, the importer pays the exporter upfront and the associated cash flow and settlement risks are reversed. This option is less frequently used.

Export credit insurance enables exporters to mitigate the risk of non-payment. They can buy the insurance from private insurance firms (typically for shorter-term financing) or obtain guarantees from public export credit agencies or ECAs (usually for export loans of two years or longer). These firms typically insure against default by the importing firm and political risk. Banks may also seek ECA guarantees for particular international trade transactions to mitigate risks of non-payment from other banks or from customers.

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MSW 35000 kg 77160 lb
Tare 4500 kg 9920 lb
Payload 30500 kg 66940 lb
Cube 67.4 m³ 2380 cu ft

MAX. G. W. 34,000 KGS
TARE 4,500 LBS
NET 29,500 KGS
CU. CAP. 67.4 CU. M.
2,380 CU. FT.

MAX GROSS 34000 KG
TARE 4500 LB
NET 29500 KG
CU. CAP. 67.5 CU. M.
2380 CU. FT.

MAX GROSS 34000 KG
TARE WT. 4750 LB
PAYLOAD 29250 KG
CU. CAP. 67.4 CU. M.
2380 CU. FT.

CAUTION
9'-6"
HIGH

CAUTION
9'-6"
HIGH

MAX GROSS 34000 KG
TARE WT. 4700 LB
PAYLOAD 29300 KG
CU. CAP. 67.4 CU. M.
2380 CU. FT.

MAX. G. W. 35,000 KGS
TARE 4,500 LBS
NET 30,500 KGS
CU. CAP. 67.9 CU. M.
2,397 CU. FT.

MAX GROSS 34000 KG
TARE 4620 LB
NET 29380 KG
CU. CAP. 67.5 CU. M.
2380 CU. FT.

MAX GROSS 34000 KG
TARE 4480 LB
NET 29520 KG
CU. CAP. 66.930 LB
67.5 CU. M.
2380 CU. FT.

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MAX GROSS 34000 KG
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NET WT. 29200 KG
CU. CAP. 67.4 CU. M.
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