

ICC
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GUIDING
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DRIVING
CHANGE IN
TRADE FINANCE

2013

RETHINKING TRADE & FINANCE

AN ICC PRIVATE SECTOR
DEVELOPMENT PERSPECTIVE

World Economic Outlook >

Global and Regional Trends in Trade Finance >

Business Trends in Export Credit Insurance >

Business Trends in Trade Facilitation Programmes >

Looking Ahead - Expert Observations
and Analysis for the Future >



International Chamber of Commerce

The world business organization

ACKNOWLEDGEMENTS

We are pleased to release Rethinking Trade & Finance 2013, a flagship private sector initiative of the International Chamber of Commerce (ICC). Leading international institutions and foremost experts in banking and international institutions collaborated in its completion.

The survey uncovers patterns in business and trade, helping our members make sense of these changes and their implications. An accurate snapshot of market trends, the survey enables bankers, traders and government officials to gauge global trade expectations.

We would like to thank all of our ICC Banking Commission members for their timely inputs to this report. We would like to express our gratitude to ICC's network of 93 national committees for providing information and advice to lead us through the often-complex process of conducting such a global survey.

The present report depended on the support of various experts from organizations outside ICC. Marc Auboin of the World Trade Organization was instrumental in requesting that this Survey be established. We would like to extend our special thanks to our partners in this Survey: Mariem Malouche and Amir Fouad of The World Bank Group; Fabrice Morel from the Berne Union; Anders Aeroe and Julia Spies from the International Trade Centre (ITC); Steven Beck of the Asian Development Bank; André Castermann and Nadine Louis from

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We would also like to thank Vincent O'Brien, Chair of the ICC Market Intelligence Group; and Derek Ennis of Coastline Solutions for their timely inputs to this report.

The ICC thanks its members and sponsors for their support in the preparation of this Survey.

Partners:



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ACRONYMS

ADB	Asian Development Bank
AfDB	African Development Bank
BAFT	Bankers Association for Finance and Trade
BCBS	Basel Committee on Banking Supervision
BIS	Bank of International Settlement
Bp	Basis point
BRIC	Fast-growing developing economies of Brazil, Russia, India, and China
CCF	Credit Conversion Factor
DCI	ICC's quarterly newsletter, DCInsight (ICC Publication)
DDA	Doha Development Agenda
EBRD	European Bank for Reconstruction and Development
ECA	Export Credit Agency
ECA	Europe and Central Asia
GTA	Global Trade Alert
GDP	Gross Domestic Product
ICC	International Chamber of Commerce
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFSA	International Financial Services Association
ILO	International Labor Organization
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
LCs	Letters of credit
LGD	Loss Given Default
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
MENA	Middle East and North Africa
MIC	Middle-Income Countries
NTM	Non Tariff Measure
PO	Procedural Obstacles
PRC	People's Republic of China
SAR	South Asia
SME	Small and Medium-sized Enterprise
SSA	Sub-Saharan Africa
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UCP	Uniform Customs and Practices for Documentary Credits (ICC Rules)
UK	United Kingdom
USD	United States Dollar
WTO	World Trade Organization



FOREWORD



“Fears that trade finance in 2012 would become a vector for bank deleveraging proved unfounded. Instead, trade finance has grown – moderately and broadly. Given the current state of the world economy we must remain vigilant. Above all, we must be proactive.”

Countering expectations

Fears that trade finance in 2012 would become a vector for bank deleveraging proved unfounded. Instead, trade finance has grown – moderately and broadly in line with the slow pace of world trade, with some regional differences. This shows that financial intermediaries are continuing to satisfy the demand for financing and that investing in trade assets is part of a more sustainable model of banking.

Our collective endeavour to convince decision-makers, private or public, regulators, and other actors that trade finance products are safe and support economic development, may be starting to pay off.

Positive proof

The gradual expansion of the ICC Trade Register, born in the WTO Expert Group on Trade Finance, has done much to provide hard evidence that standard trade finance is one of the safest and soundest segments of the financial industry.

Regulators have recently used this information in designing provisions favourable to trade finance. For example, the Basel Committee on Banking Supervision decided to waive the one-year maturity floor on short-term, self-liquidating trade instruments, after reviewing the maturity structure of short-term trade finance in the registry.

Further discussions with the Chair of the Financial Stability Board and the Basel Committee helped clarify the real liquidity needs involved in contingent instruments, such as letters of credit.

More technical talks are taking place on how to apply the leverage ratio and on credit conversion

factors. These deliberations are based on a thorough examination of the data that banks collected for the ICC Trade Register.

This is why the industry must regularly update and expand the ICC market intelligence, including the ICC Trade Register.

Trend-spotting

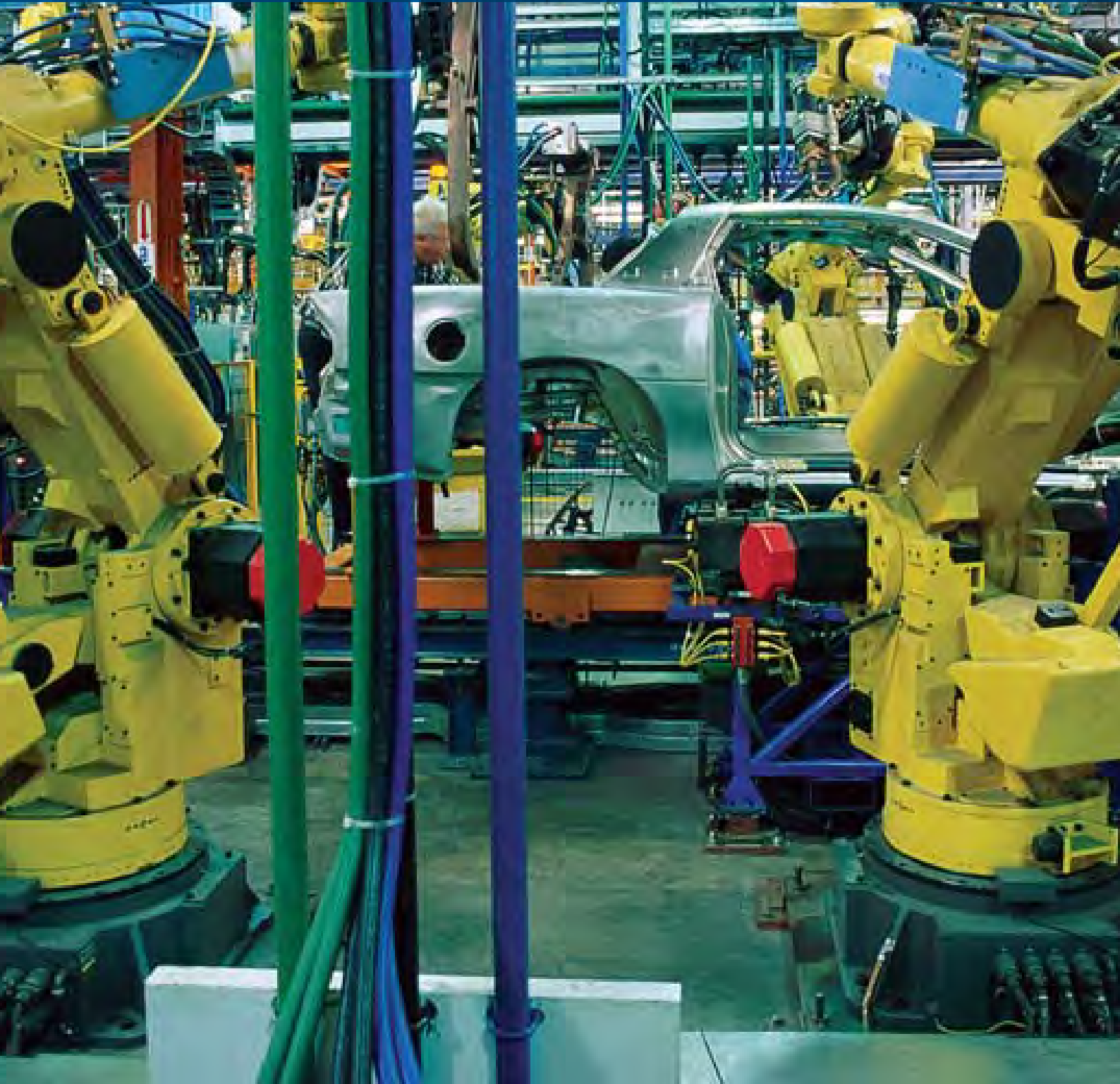
This annual report, ICC Rethinking Trade & Finance 2013, is also very useful to detect short-term trends. Policy-makers need to have a well-informed opinion on markets. They also need to be informed of ongoing changes to the industry’s underpinnings: structured finance versus open account financing; bank intermediation versus other forms of financing; small traders versus large traders, to name a few.

ICC reports on trade finance complement other statistical references, such as the WTO’s new statistics on trade in value added, to promote better understanding of the structural developments of world trade.

Building up capacity

The next step forward in WTO-ICC cooperation should be on education and training, to respond to a real need in the marketplace for this instruction. WTO is ready to cooperate with the ICC to strengthen trade finance capacity all over the world.

Pascal Lamy
Director-General
World Trade Organization





SUMMARY REVIEW

With the purpose of identifying the highlights of this report, this section provides a summary of the patterns, challenges and opportunities in trade finance.

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INTRODUCTION



“Long considered a very respectable undertaking, trade finance has been a core offering in a banking services portfolio for corporate and small and medium-sized enterprises.”

Long considered a very respectable undertaking, trade finance has been a core offering in a banking services portfolio for corporate and small and medium-sized enterprises.

Trade finance intermediation provides real-time risk mitigation, improves liquidity and cash flow of the trading parties, and gives localized small and medium-sized enterprises (SMEs) much-needed access to hard currency to finance imports.

Trade finance is the oil that powers the engine of global economic growth. This is an invaluable contribution to the market economy. Trade finance is a business built on real underlying transactions, by companies making real goods that are moved from one place to another, so real people can consume them in the real world.

Compared with other financial markets, trade finance deals mainly in short-term maturities; the security is held in the underlying goods moved in the transaction. The ICC Trade Register further confirmed that trade finance is a safe business with low risk of default for all trade finance instruments.

Despite these encouraging signs, this stellar image of the industry is imperiled going forward. For trade finance faces headwinds that may completely upend the global landscape in which it operates in the next five years. We review the most important of them here.

A welter of new regulations

In the wake of the financial crisis, the number of regulations is rising seemingly exponentially. While many regulatory changes have already been implemented or proposed, the regulatory future remains unclear. For example, harmonization of Basel III principles is a major problem for policy makers and regulators,

because different countries are adopting different standards. Over the next several years, the regulatory burden may not only worsen, regulations may become more difficult to put into action, and thus lose their effectiveness.

Global economic shifts and a two-speed financial system

Tough decisions in 2013 and 2014, as they strive to decipher many mixed messages on the global economy. Amid the Great Recession, market conditions have been poor and outlooks mixed for the global economy. Optimists cite recent data suggesting global trade has bottomed out and is starting to recover.

Pessimists abound. Figures from recent ICC research show merchandise trade slowed in most major economies in the second quarter of 2012, contracted in Europe, and also fell in India and Russia.

By contrast, economic opportunity is expanding in the eastern and southern parts of the globe. Emerging markets will likely account for a far larger share of global economic activity. For instance, the outlook for Africa's trade is positive with a persistent demand for many of the commodities Africa produces, coupled with rising imports of food, fuel and consumer goods, and vibrant intra-regional flows of goods in some regions of the African continent. South-South trade is also becoming a reality. Just 20 years ago, South-South represented barely 10 percent of world trade. By 2020, a third of global trade is likely to be South-South. Therefore, the global trading system will be re-arranged in coming years.

Sovereign debt and deleveraging

The trade finance industry is still undergoing major change amid the European sovereign debt crisis. Ballooning government debt is

a serious issue in many developed countries. In many cases, governments have shouldered private sector liabilities, including those of the banking sector. Some European banks have been under pressure to deleverage, and have sold assets, including trade finance assets, and raised capital, to strengthen their balance sheets and regain investor confidence.

A recent study by the International Monetary Fund (IMF), Global Financial Stability Report 2012, showed that in a sample of 58 EU banks, 24 banks, including some of the largest global banks in trade finance, will sell about USD2 trillion in assets from 2011 to 2013. The IMF estimated that European banks could shrink their balance sheets by USD2.8 trillion by the end of 2013, or in the worst case scenario by USD4.5 trillion. Meanwhile, banks in the United States and Asia are stepping into the void, and are expanding their trade finance activities.

Development banks are increasing in trade finance capacity

Multilateral development banks (MDBs) are significant players in trade finance. Four MDBs now have comprehensive trade facilitation programs (TFPs): the European Bank for Reconstruction and Development (EBRD); the International Finance Corporation (IFC); Asian Development Bank (ADB); and Inter-American Development Bank (IDB). The African Development Bank (AfDB) also recently decided to adopt a permanent program similar to the ADB's. These programs not only take advantage of the extensive network of banks the MDBs have, to bridge gaps in the provision of trade finance; they also offer a strong commitment to emerging markets.

SMEs are losing out

SMEs make up 80-90% of businesses in most regions and most are de facto in the informal sector. Lending to SMEs is limited by their lack of collateral, credit history, and technical expertise in trade finance. As a result, in many regions the trade finance gap is large for SMEs.

For instance, a recent ADB study cited in this report showed a trade finance gap, represented by unmet demand for lending and guarantees, of USD1.6 trillion in trade, USD425 billion alone in developing Asia.

According to a World Bank-IFC study, total SME lending in South-Sahara Africa is also estimated at USD25 billion-30 billion, leaving a gap of

USD80 billion-100 billion. The non availability of trade finance for SMEs will impact economic growth and job creation.

The future of trade finance may look like this:

- Regulations become more burdensome, reducing profit margins of financial institutions and constraining bank intermediates.
- A two-speed economic and financial system emerges, with developed markets in slow gear and developing markets in higher gear.
- Deleveraging and US dollar liquidity issues continue disrupting the traditional trade finance model. The economy remains more volatile and unpredictable than before the financial crisis.
- Trade facilitation programs of MDBs provide much needed liquidity, but are not sufficient alone in scope to bridge the trade finance gap.
- New SME entrants are starved of trade finance in many countries due to the prevailing trade finance gap.

Despite these challenges, the future is not necessarily bleak. A rosy outlook is not off the cards. A major challenge for the industry is the lack of data timely and detailed enough to understand and monitor trade finance metrics. In any case, ICC is committed to bridging this information gap through its market intelligence reporting.

We would like to thank the ICC Banking Commission Members and partners to Rethinking Trade & Finance 2013 for their continuing support. I hope you find this report informative and provocative.



Thierry Senechal
Senior Policy Manager
Executive Secretary, ICC Banking Commission

KEY FINDINGS

A continuing tradition of providing leading information on trade and finance.

This ICC Rethinking Trade & Finance 2013 received responses from representatives of 260 banks located in 112 countries. This response rate represents a continued increase over that of previous reports. In 2012, responses were received from 229 banks in 110 countries. In 2011, responses were received from 210 banks in 94 countries, and in 2010, from 161 banks in 75 countries. The increase in the number of countries participating allows us to provide a more diverse view of the global position regarding trade finance activity and constraints.

We are therefore pleased to note that participation in ICC Market Intelligence Reports continues to gain wide recognition in the industry, and Rethinking Trade & Finance 2013 contents clearly remain at the forefront in providing key information on trade finance, thereby significantly bridging the information gap.

The global economy: Uneven performance across the world again in 2012

Global trade fell back to 3.8 percent growth in 2012, from 6.1 percent growth the previous year. Sluggishness in the Eurozone economy prompted weak global demand by midyear, as economies in China, India, Brazil, and other emerging markets slowed down in turn. Nodes of uncertainty over the US presidential election results, crises in the Middle East, and Sino—Japanese tensions all contributed to the lackluster pace of world trade. A mid-year slackening in global imports, with contracting import demand from high-income countries,

especially in the Euro-zone, hamstrung global trade in 2012.

Although developing country real exports fluctuated throughout the year, with strong variations from country to country and region to region, they have bypassed pre-crisis levels in 2010 and rose 8.5 percent in 2012. The superior export performance of developing countries points to a larger trend: the prominent and growing role these countries play in the global economy. Since 2000, the share of developing countries in global trade has risen 10 percent. The resilience and increasing importance of their role has become more evident since the financial crisis, and developing countries have increased market share twice as fast post-crisis.

Trade finance statistics in 2012 confirmed improvements in market conditions

The shortage of trade finance for international trade remains a major challenge for economic recovery and development. To finance exports and imports, traders, especially SME's in emerging markets, continue to rely on loans in local currency, restricting their ability to trade at optimum level during these challenging times.

While 68% of Survey respondents reported an increase in trade finance by value, a mildly encouraging development, this was somewhat less than the previous year (80%). Still, the market for trade finance seems to be growing slowly and steadily. The alarming rise in fees for trade risk after the 2009 trade collapse has abated.



An enigma has surfaced: a large gap remains in the market for trade finance and risk coverage even while 80% reported prices are lower or unchanged.

A total of 69% of respondents noted a decline in reported court injunctions barring payment under trade finance instruments, indicating a return to normal trading conditions. Banks remain cautious in examining documents. Worryingly, only 7% reported a decrease in spurious discrepancies when documents are presented under a letter of credit. Documentary compliance remains challenging. Respondents said Know Your Customer Principles are hampering the smooth flow of trade finance. Some 65% of respondents said implementation of Basel III regulations is to some extent or a large extent affecting the cost of funds and liquidity for trade finance.

It was also noted that SWIFT Trade traffic dropped 2.22% in 2012, underscored by a 1.45% drop in category 7 and a drop of 4.61% in category 4. Although SWIFT trade traffic fell overall in 2012, regions varied widely. Asia-Pacific import traffic rose the most, an increase of 2.32% in 2012. By contrast, import traffic fell the most from the Europe-Euro zone, a drop-off of 13.5%. The ICC report further revealed that Asia-Pacific generated 73% of export transactions in 2012, receiving 73% of the MT 700 in volume, followed by Europe-Euro Zone with 10.4%. But these two regions rank at the bottom in average value. Asia-Pacific also received the most L/Cs. Asia-Pacific is the region that uses this instrument the most heavily, even for low value transactions, so the average value of an export transaction is the lowest at USD455,000.

The Berne Union outlook is largely positive

According to the Berne Union, turnover in insured short-term exports rose 2.3% in 2012 to over USD1.5 trillion, mirroring the growth

in global trade, a reflection of the link with global exports and continued demand for risk mitigation products supplied by credit insurers. Insurance capacity, measured by credit limits approved and granted to exporters, stood at USD980 billion end-2012 and just under the historical high reached before the onset of the global financial crisis.

In addition, cover by Berne Union ECs for medium- and long-term transactions, insuring exports of capital goods for repayment terms of two to 15 years, were at a historical peak at the end of 2012: USD625 billion, up 7% from the previous year. New business remained strong at USD181 billion of insured transactions. High demand for MLT cover by ECAs is unchanged since the 2008 economic downturn. Few large MLT transactions close without ECA risk mitigation.

Trade facilitation programs by multilateral development banks are on the rise

MDBs played a mission critical role at the onset of the global financial crisis in 2008. During the prolonged period of uneven economic recovery, MDB's have expanded, diversified, and launched innovative trade finance models. MDBs have been a lifeline for emerging markets and second- and third-tier banks, to support their growing base of small- and medium-sized customers during a time of economic turmoil. Confirming banks have also scaled up dramatically their use of trade facilitation programs to offset risk amid deleveraging.

The biggest lesson that MDBs learned during this recent period is that, despite providing strong support for high-risk emerging markets, these trade facilitation programs recorded no losses. If anything, the involvement of MDBs in trade finance has accelerated. Going forward, they will become even more instrumental in supporting global recovery, economic development, and poverty alleviation.





THE FULL REPORT

A detailed statistical analysis of the regional and global trends in trade finance followed by a digest of the activities of multilateral development banks and export credit agencies in trade finance that charts their growing presence.

World Economic Outlook >

Highlight: International Trade Centre (ITC)
– Credit Constraints and Non-Tariff Measures >

Global and Regional Trends in Trade Finance >

Highlight: ICC Trade Register >

Business Trends in Factoring >

Business Trends in Export Credit Insurance >

Business Trends in Trade Facilitation Programmes >

Highlight: The Asian Development Bank
(ADB) Trade Finance Survey >

WORLD ECONOMIC OUTLOOK

Trade growth stalls out

Global trade growth in 2012 fell back to 3.8 percent in 2012, a drop from the 6.1 percent level in 2011. Sluggishness in the Eurozone economy prompted weak global demand by midyear, as economies in China, India, Brazil, and other emerging markets slowed down in turn. Nodes of uncertainty over the US presidential election results, crises in the Middle East, and Sino—Japanese tensions all contributed to the lackluster pace of world trade.

Global economic volatility did not translate into a rise in new trade-restrictive policy measures, although the share of these measures adopted by G20 countries is rising, notably on antidumping. Lack of multilateral cohesion further stalled negotiations on the Doha Development Agenda (DDA), at a time when costs are mounting from inaction on supply chain barriers and trade facilitation improvements.

Developing countries cushion slump

A mid-year slackening in global imports, with contracting import demand from high-income countries, especially in the Euro-zone, hamstrung global trade in 2012. Year-on-year imports of industrial goods contracted during the first half of 2012, as firms and households held back on buying big-ticket items amid economic uncertainty, although stronger demand for imports by developing countries helped buffer the downturn. Developing countries made up a large share of the increase in exports from France and Germany (63 percent) and the US (58 percent).

Developing country real exports fluctuated throughout the year, with strong variations from country to country and region to region (See Figure 1). East Asia and Pacific (EAP) offset a third quarter slump with strong export growth from the region's newly industrialized economies in the first half of the year, and an 8.6 percent surge in Chinese exports from September to November. High commodity prices in Sub-Saharan Africa (SSA) stimulated regional investment: 15 countries reported positive real export growth from January to June, four of them recording seven percent growth. Export growth ebbed in SSA amid the midyear decrease in global demand.

Developing countries are fueling the recovery in trade since the financial crisis.



3.8%

Global trade fell back to 3.8 percent growth in 2012

Trade was slightly less volatile in South Asia (SAR), Europe and Central Asia (ECA), and Latin America and the Caribbean (LAC). Turkey was a regional bellwether: the country's industrial production rose, helping offset weak European demand by trading more with developing countries. The economies in SAR and LAC turned down in the second quarter, though both started recovering by midyear, buoyed by trade in India and Brazil. Exports in the Middle East and North Africa (MENA) have continued to lag behind all regions since late 2011. The economic fallout from the Arab Spring, combined with ongoing weak demand from MENA's largest trading partner, the Euro Area, forestalled any improvement, despite an upturn late in the year.

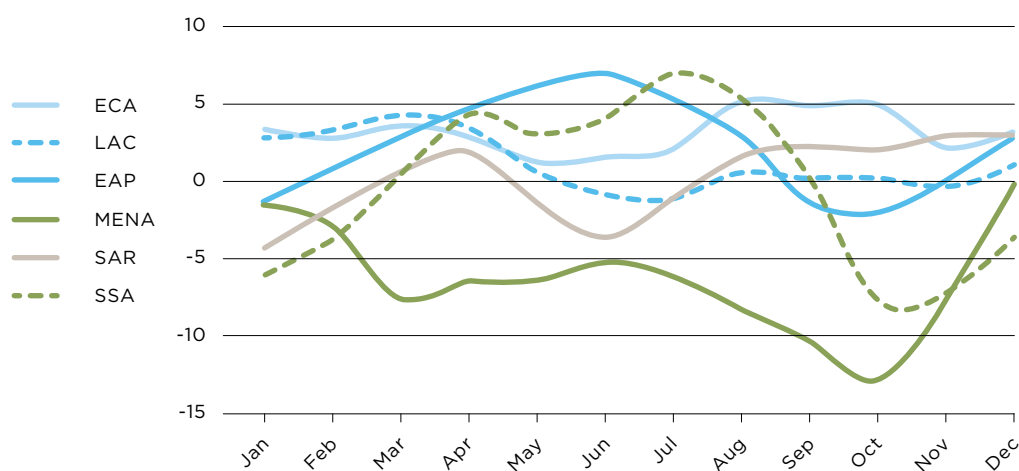
Motor of trade recovery

Since the financial crisis, developing countries have been fueling the trade recovery. Developing country exports bypassed pre-crisis levels in 2010 and rose 8.5 percent in 2012 (See Figure 2 overleaf). Exports from high-income countries did not rise above their pre-crisis peak until early 2012 before dipping and then stagnating. Japan's exports have been especially hard hit, falling 14 percent from February to December 2012 alone, partly due to the aftermath from the 2011 earthquake.

The superior export performance of developing countries points to a larger trend: the prominent and growing role these countries play in the global economy. Since 2000, the share of developing countries in global trade has risen 10 percent. The resilience and increasing importance of their role has become more evident since the financial crisis, and developing countries have increased market share twice as fast post-crisis.

Figure 1: Many developing country exports slackened in the third quarter of 2012

(%, 3m/3m Seasonally Adjusted Annual Rate)



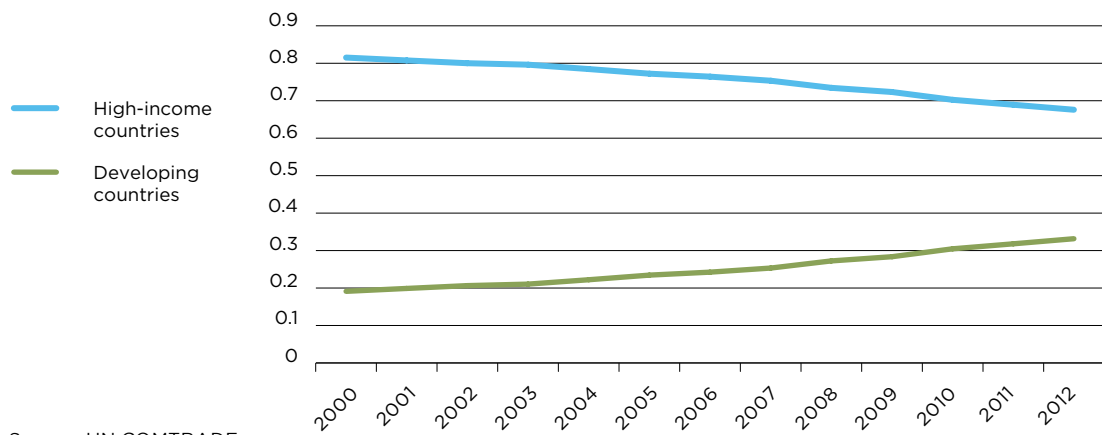
Source: The World Bank

ECA: Europe and Central Asia, LAC: Latin America and the Caribbean, EAP: East Asia and Pacific, MENA: Middle East and North Africa, SAR: South Asia, SSA: Sub-Saharan Africa.

While high-income countries have been coping with above average unemployment, fiscal consolidation, and debt crises, developing countries have been coping with the downside of their interconnectedness with the North by trading with each other: South-South trading, which has emerged over the last decade, has become the most vibrant in volume and rate of growth (See Figure 3). Since 2010, South-South trade has accounted for over half of developing country exports. Developing countries now trade more amongst themselves.

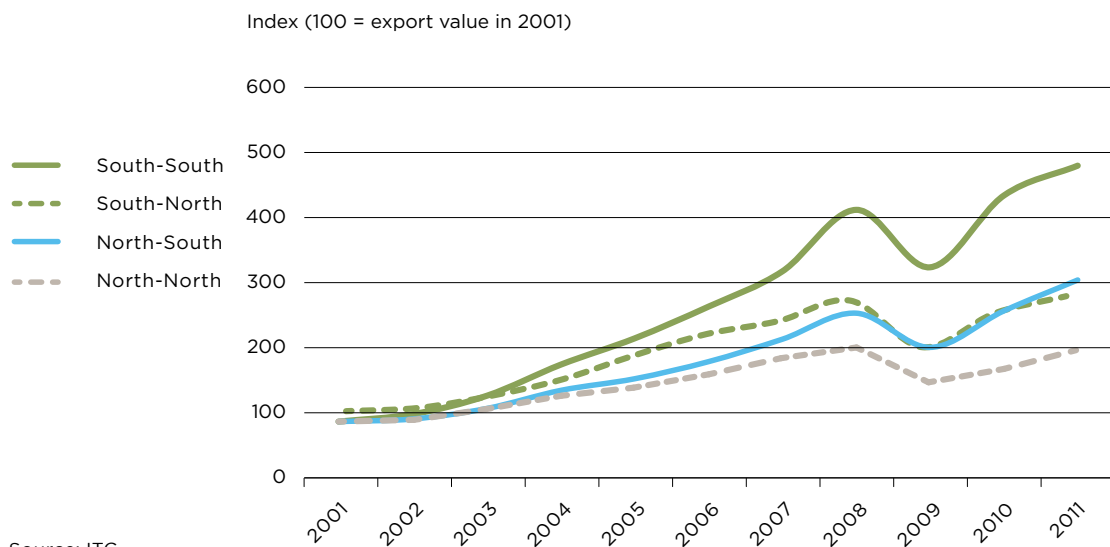
Figure 2: Growing importance of developing countries in global trade

Developing countries percent of global imports 2000-2012.



Source: UN COMTRADE

Figure 3: South-South trade has become increasingly more dynamic



Source: ITC

Temporary trade measures to ease the financial crisis are being removed slowly.

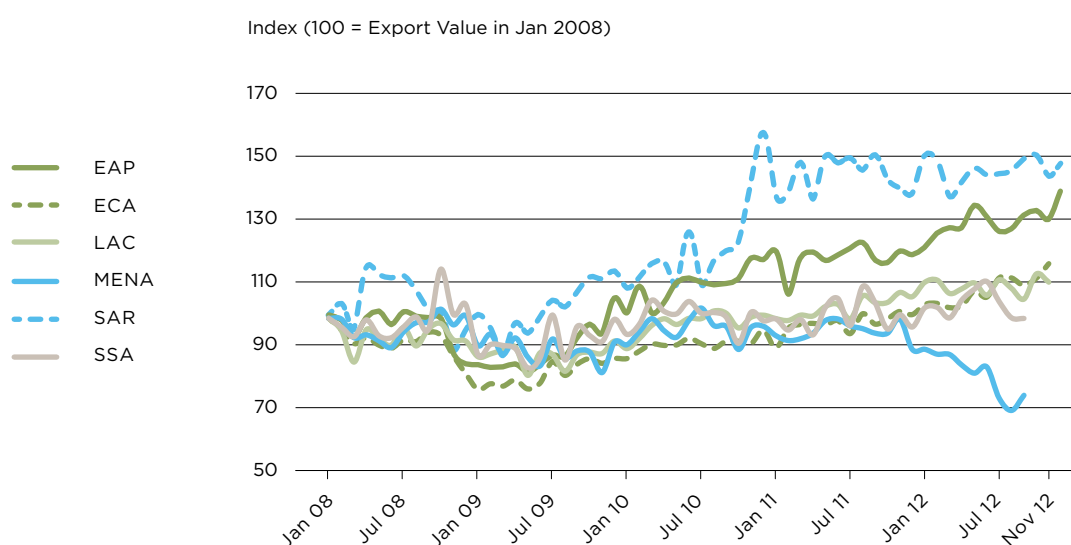
On a roll

Demand for imports from the emerging economies is expected to keep rising in the medium term, while high-income economies struggle with economic malaise. Through 2015, developing countries are projected to grow annual imports and exports eight percent a year on average, with shares of each rising 33 percent and 31 percent, respectively. Half the growth will come from Brazil, Russia, India, and China (BRIC), as EAP countries also boost their competitiveness.

These divergent recovery patterns have dented export growth in regions typically reliant on the US and the EU. Exports from ECA, LAC, and SSA all hover near pre-crisis levels. And while countries such as Romania, Bolivia, and Burundi have made impressive strides in export growth, this has been held in check by disappointing export levels from Russia, Ecuador, Zimbabwe and others. In the MENA region, exports have declined since late 2011 as political tensions, external economic weakness, Iran's sanction-ridden economy, the conflict in Syria, and continued unrest in North Africa, Yemen, and Iraq all undermine development.

Other regions have adjusted better, such as EAP, where export growth has been steady, powered by China, Cambodia, Vietnam, Thailand, and Lao PDR. EAP intraregional trade is also rising: intraregional exports since 2008 have risen 30 percent, helped by robust imports in Japan, Australia, and Brazil. Exports have bounced back most in SAR, where exports peaked in December 2010 at one and a half times higher than before the crisis, led by India and Bangladesh, but since then exports have been lackluster (See Figure 4).

Figure 4: Uneven Merchandise Export Growth in developing regions



Source: World Bank

ECA: Europe and Central Asia, LAC: Latin America and the Caribbean, EAP: East Asia and Pacific, MENA: Middle East and North Africa, SAR: South Asia, SSA: Sub-Saharan Africa.

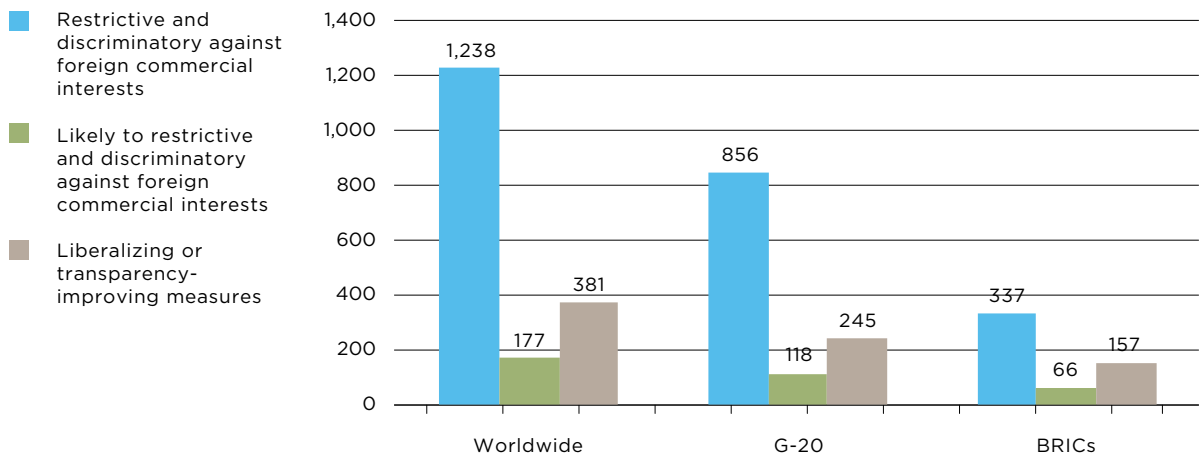
On a macro level, developing regions have reason to be optimistic, as their share of international trade continues to grow. But these countries still remain tethered to the fate of their high-income trade partners, and constraints in infrastructure, logistics, and access to finance also hem in tremendous upside potential.

Supply chain barriers are larger impediments to trade and prosperity than tariffs.

Trade barriers going up

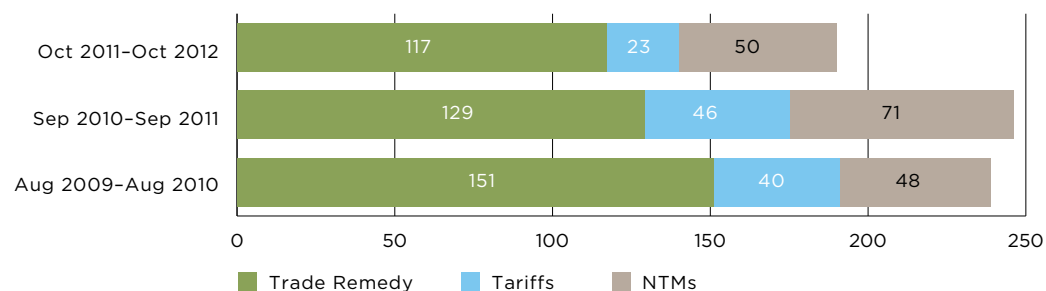
In June 2012, countries reaffirmed their commitment to expand markets, open investment, and refrain from adopting trade-restrictive measures. But at the same time these economies make up an increasing share of these measures: 74 percent in 2012, up from 60 percent in 2009. G20 countries have also put in place 64% of trade-liberalizing measures, although this represents only a quarter of all measures enacted (See Figure 5).

Figure 5: Trade measures in force 2008-2012



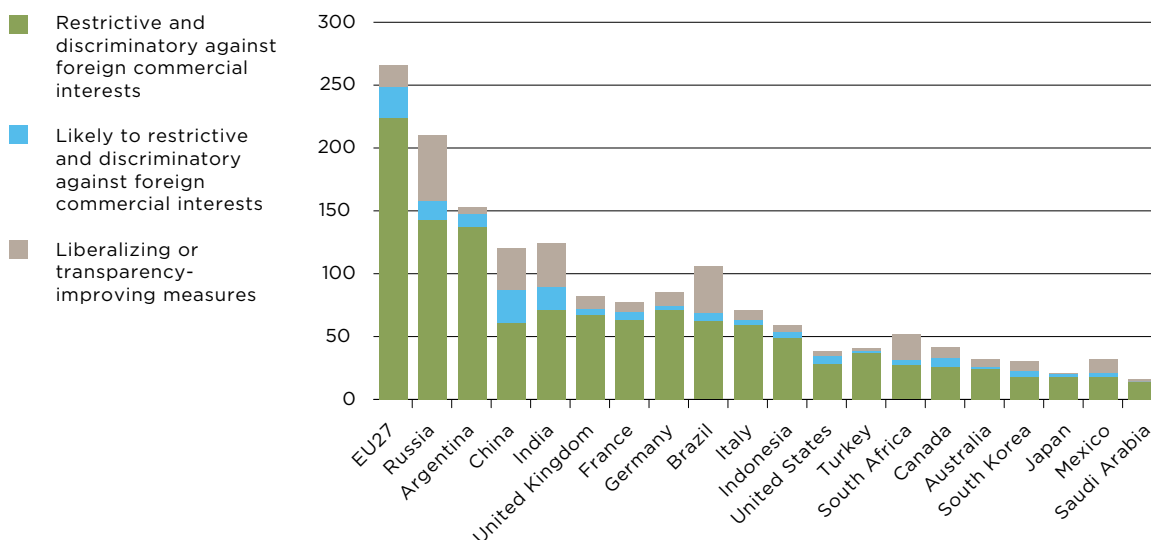
Source: Global Trade Alert database.

Figure 6: G20 implementation of new trade restrictive measures has decreased



Source: WTO Data and Authors' Calculations

Figure 7: Total number of measures implemented and still in force by each G20 country



Source: Global Trade Alert database.

Individual measures may cover a very large portion of trade or one product—so the data may not reflect trade coverage. For example, Mexico reduced tariffs on 5,000 tariff lines, which is reflected in just a few measures.

While WTO monitoring shows G20 countries introduced 190 new trade-restrictive measures from mid-October 2011 to mid-October 2012 (See Figure 6), a slowdown compared with previous years, these add to the stock of measures put in place since the crisis. By October 2012, a total of 21 percent of these temporary measures had been removed, up from 18 percent in May 2012.³ While encouraging, the pace of removal is slow. The accumulation of trade restrictions is concerning, not only because it undermines the benefits of open trade, but also because of the combined effects of the new measures with pre-crisis restrictions and distortions, such as agriculture subsidies and tariff peaks.

Anti-dumping ascending

Developing countries are using more trade remedies since the crisis, adding to the alarming number of South-South antidumping policies in the last decade. Countries may be resorting to antidumping because it is allowed by the WTO Framework. But countries often do not use such policies in WTO-consistent ways. This can cause problems for firms vying to enter foreign markets, especially in developing economies. By 2009, 68 percent of imported products subject to antidumping policies in large developing countries were imposed on imports from other developing countries, especially from China. This continued when G20 developing countries implemented 37 out of 63 antidumping policies introduced in the first 10 months of 2012, most targeting developing economies. Thousands of antidumping policies translate into billions of dollars in lost trade.

³ The policy measures most commonly eliminated are mainly the termination of trade remedy actions, namely the removal of antidumping duties or the termination of anti-dumping investigations without imposition of duties (WTO 2012).

In part, this is because these measures are implemented temporarily. In reality, they linger much longer due to the fact that they often foster political constituencies and domestic backing.

Fuzzy logic

The third most-frequently introduced barrier is non-tariff measures (NTMs), behind-the-border policies from import restrictions to 'buy national' requirements. NTMs are not as transparent as tariffs, and the boundary is hazy between implementation for legitimate reasons, such as to protect against health and environmental hazards, and trade-distorting ones. For example, Argentina now requires all products clear a single window at the country's tax agency, so import authorization can take 10 working days.

Argentina, Brazil, India, Russia, the EU, and India adopted the most trade-restrictive measures in 2012. These measures were viewed as policy responses early in the crisis to cushion the effects of the global economic downturn. Recently, they seem to be for other reasons. Some G20 countries put in place import-restricting measures in 2012 on food, probably in response to prolonged high food prices. But many others, such as Argentina's import substitution division in the mining sector, or Brazil's bilateral agreement with Mexico limiting duty-free car imports, seem geared toward insulating national industry and could stay on the books much longer.

Concluding the Doha Development Agenda remains critical to curb the effects of trade-restrictive measures and to promote trade openness. But prospects remain dim, as talks enter their twelfth year. WTO members are turning their attention in 2013 to 'realistic' deliverables, reports say.

The deadlock is costly. At stake is a global welfare boost of some USD160 billion through greater market access. Overlooked is the opportunity cost if the WTO cannot deliver as an arbiter of new rules in policy matters outside the DDA framework, such as green industrial policy measures, natural resources and climate-related trade policies, including carbon border adjustments, and export restrictions on food products.

Bigger barriers looming

The Doha Round is stagnating at a time when bigger impediments to prosperity and trade growth are emerging from supply chain barriers than from tariffs. Better border administration, coupled with more efficient transport and telecommunications infrastructure, could boost global exports 14.5 percent, if countries adopted half the speed, quality, and cost efficiency of global best practice, as observed in Singapore. Eliminating tariffs would boost global exports by an estimated 10.1 percent. Shipping-related costs, from transporting containers through ports and filing paperwork to paying for in-transit fuel costs and security are usually much higher than tariff costs. Adopting best infrastructure management practices would boost global exports and GDP, especially for developing countries.



10%

Since 2000, developing countries share of global trade has risen 10 percent



G20 countries made up nearly three-quarters of new trade restrictions in 2012.

Tariffs are at historical lows in many countries, but evidence suggests trade costs for developing countries remain high, as they struggle to gain a lasting foothold in international supply chains. A new World Bank/UNESCAP database shows maritime transport connectivity and logistics performance as the biggest determinants of bilateral trade costs, on par with geographical distance. Neighboring countries in regions such as MENA often have higher trade costs with each other rather than with more distant higher-income markets, disrupting regional integration efforts. Policies and international talks can help on both fronts. The Doha trade facilitation agenda alone, which calls for freedom of transit, limited border fees, and transparent trade regulations, could lift global GDP by USD385 billion, reshaping bilateral trade and investment and production distribution patterns.

Greatest gains from Doha Round

Agreements that lower trade costs will expand trade for: existing products, export markets, new markets, and even new products. But DDA negotiations have rarely emphasized new markets and new products, which stand to gain the most from trade liberalization. Trade facilitation emerged in 2012 as a subject with widespread support among the chairs of Doha negotiating groups, as a candidate for a stand-alone agreement if wider negotiations fail. Such a deal would be significant for market access, based on new research on supply chain barriers. It would send a positive signal to the private sector, and keep the reputation of the WTO intact should a wider DDA agreement fail to materialize.



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> HIGHLIGHT:

CREDIT CONSTRAINTS AND NON-TARIFF MEASURES

The International Trade Centre (ITC) is a new partner this year to ICC's Global Survey on Trade Finance. A team of ITC Analysts share the results of a new study here, which looks into the connection between credit constraints and non-tariff measures (NTM's) for the exports of least developed and developing countries.

Recent financial and economic crises have cast a bright light on how financial constraints affect international trade. Access to external capital is vital for how many markets and products a firm can serve, studies show. Capital constraints can become even more problematic when firms are faced with NTMs, such as technical regulations, shipment inspections or charges and taxes. These NTMs are less visible and more complex than tariff protection. They have proved to be particularly burdensome for small- and medium-sized enterprises (SMEs) in developing countries, which frequently do not have the capacity to comply with the imposed rules and regulations. To explore in greater depth the obstacles companies may face when they engage in international trade, ITC surveyed 21 developing countries, 10 of which have been included in this study for analysis: Ivory Coast, Guinea, Kazakhstan, Senegal, Tunisia, Mauritius, Jamaica, Trinidad and Tobago, Egypt and Cambodia.

Results show almost 50% of the companies in the study are seriously affected by NTMs, especially in the agriculture sector. Of all the problematic NTMs exporting companies reported, up to 94% of these are applied by importing countries. Cross-country evidence from the ITC survey suggests that most burdensome NTMs reported by exporters concern:

- Sanitary and Phytosanitary (SPS) Measures
- Technical Barriers to Trade (TBT) (in particular measures of conformity

assessment such as certification, testing and technical inspection requirements)

- Rules of Origin
- Pre-shipment Inspections
- Charges/Taxes

Even though NTMs pose many challenges for exporting firms, it is often the way these measures are implemented rather than the measure itself that causes problems for businesses. These implementation issues are referred to as "procedural obstacles", the most commonly mentioned procedural obstacles include, but are not limited to:

- Time Constraints (including delays related to regulations and short deadlines for submitting documentation)
- High/Informal Payments
- Administrative Burdens

Many of these obstacles directly or indirectly entail costs before export revenues are generated. With internal resources rarely available, exporters in developing countries must rely to a large extent on external capital to tackle these barriers. In order to study how limited credit affects the perception of NTMs as a burden, we have grouped NTMs have been into the following categories:

- Cost-Related
- Unrelated to Cost (Quotas or prohibitions)
- Procedural Obstacles (NTMs which usually directly involve the payment of charges, fees or taxes)

Heaviest load

Cost-related constraints account for 87% of all burdensome NTM cases reported by exporters in the 10 countries analysed, 31% of

which represent payment-related NTMs and POs (See Figure 8). The share of cost-related barriers varies widely from country to country. In Cambodia, 99% of export complaints are cost-related. In Tunisia, by contrast, cost-related measures account for only 75% of all cases.

An inverse relationship between credit availability and the effect of cost-related NTMs on exporters is revealed by data gathered from the 10 countries. Exporting firms from countries which suffer from credit constraints are more likely to be confronted with burdensome NTMs than exporting firms from countries where credit is available. In fact, the variation in available credit explains around one-third of the variation in how exporters are affected across countries. If one looks at payment-related NTMs and POs, the findings suggest that credit availability is an even better predictor of obstacles directly involving payment.

Crimping credit, constraining trade

ITC notes that limited credit in a country goes indeed hand in hand with the countries' exporters perceiving NTMs abroad as burdensome. This confirms that credit constraints make firms more likely to encounter cost-related obstacles in a foreign market.

To sum up, in countries where financing is limited, compliance with cost-related NTMs and POs poses more often an obstacle to trade than in countries where credit is easily obtainable. In times of considerable financial uncertainty, identifying and removing burdensome NTMs should be a high priority for policymakers. At the same time, SMEs need support to get better access to available trade finance. ITC's work addresses both problems: ITC runs business surveys to identify NTMs and engages in follow-up activities to reduce perceived constraints. ITC also assists SMEs in developing countries in improving their access to trade finance.

Figure 8: NTM cases by type of cost

	Cost-related NTMs ¹	Payment-related NTMs & POs	Other and unidentified	NTM affectedness ²
Ivory Coast	361 (95.8%)	138 (36.6%)	16 (4.2%)	54.3%
Egypt	882 (83.4%)	216 (20.4%)	176 (16.6%)	36.7%
Guinea	316 (92.9%)	180 (52.9%)	24 (7.1%)	93.5%
Jamaica	305 (82.2%)	178 (48.0%)	66 (17.8%)	41.0%
Kazakhstan	139 (82.2%)	19 (11.2%)	30 (17.8%)	29.9%
Cambodia	576 (99.0%)	254 (43.6%)	6 (1.0%)	82.1%
Mauritius	148 (91.9%)	6 (3.7%)	13 (8.1%)	27.1%
Senegal	297 (89.5%)	107 (32.2%)	35 (10.5%)	50.9%
Trinidad & Tobago	261 (82.6%)	111 (35.1%)	55 (17.4%)	22.5%
Tunisia	345 (75.5%)	67 (14.7%)	112 (24.5%)	61.3%
Total	3630 (87.2%)	1276 (30.7%)	533 (12.8%)	45.4%

out of which

1 - Total number of cost-related NTMs per country.

2 - NTM affectedness: the share of all surveyed exporters that report to be confronted with at least one burdensome NTM while selling their products to foreign markets.

GLOBAL AND REGIONAL TRENDS IN TRADE FINANCE

Introduction

The ICC Banking Commission has undertaken another global trade finance Survey to gather reliable quantitative and qualitative data for the trade finance market and to gauge the current position and outlook for trade in 2012.

The purpose of the Survey is to obtain information from the marketplace that reflects current commercial and operational practice in the community of banks working in international trade finance, to aid senior executives and world leaders in formulating policy.

In addition to participation by members of the ICC Banking Commission, cooperation and partnership with trade organizations was also key to producing this Survey.

The contributions of these organizations have helped build on the success of previous Surveys – both in terms of content examined and participation. SWIFT has again provided recent and exclusive historical trade flow data (volume and value) for contextual and comparative purposes.

The members of the ICC Banking Commission once again responded to the call to provide information on trade products to the marketplace. The development banks (EBRD, IFC, IDB and ADB) again mobilized the member banks in their respective trade facilitation programs to participate in the online Survey and contributed a section with their responses to the crisis.

The methodology for this Survey was, primarily based on a 30-item questionnaire developed to collect information from the trade finance banking members of the participating organizations.



68%

Of respondents reported an increase in trade finance by value



65%

Respondants who said implementation of Basel III regulations is to some extent or a large extent affecting the cost of funds and liquidity for trade finance

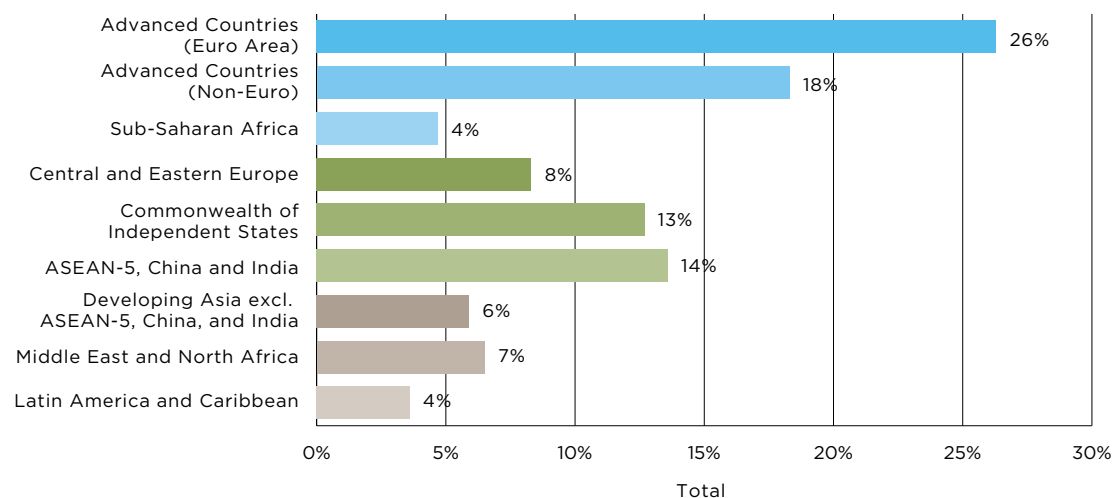


Key findings

- While there are signs trade finance is more available, the reported increase is marginal
- The shortage of trade finance for international trade remains a major challenge for economic recovery and development
- To finance exports and imports traders, especially SME's in emerging markets, continue to rely on loans in local currency of overdrafts, restricting their ability to trade at optimum level during these challenging times
- Encouragingly, 68% reported trade finance increased by value, but less than the year before
- The alarming rise in fees for trade risk after the 2009 trade collapse has abated
- An enigma surfaced: a large gap remains in the market for trade finance and risk coverage even while 80% reported trade finance pricing is lower or unchanged
- A total of 69% of respondents noted a decline in reported court injunctions barring payment under trade finance instruments, indicating a return to normal trading conditions
- Banks remain cautious in examining documents. Worryingly, only 7% reported a decrease in spurious discrepancies when documents are presented under a letter of credit
- Know Your Customer Principles are seen hampering the smooth flow of trade finance
- 65% said implementation of Basel III regulations is to some extent or a large extent affecting the cost of funds and liquidity for trade finance
- Documented losses are low on trade finance products

Figure 9: Technical Analysis of Respondents Data

A total of 260 banks responded to the Survey from 112 countries, with the largest response coming from advanced countries, as in years past.



Methodology

Because of its broad and comprehensive distribution of responses worldwide, the Survey is a reliable resource for stakeholders and policymakers (See Figure 9).

The largest group of respondents work in banks with trade finance departments of less than 50 employees, while 16% are employed in large global trade finance banks with more than 500 trade finance staff (See Figure 10).

As the crisis continues in Europe, the center of gravity of world trade is shifting to Asia: 23% of respondents identified ASEAN markets as their primary region for financing trade.

Trade focus on the Middle East and North Africa rose to 8% of the total, versus 7% in last year's survey, and in sub-Saharan Africa increased to 5% from 4% (See Figure 11).

In the context of the trade product mix within respondent banks, commercial letters of credit for export transactions by banks registered a slight decline to 43% from 44%, consistent with the shift from traditional trade finance products to open account structured transactions (See Figure 12).

The 19% for open account transactions needs some context: survey respondents generally come from traditional trade finance departments, whereas open account transactions are typically handled by many departments in banks, so a large share of open account transactions are undertaken without any intermediation by the trade finance department.

ICC Banking Commission experts support the widely-held expert view that around 80% of trade remains on open account, which suggests open account growth will continue to expand. A sense of urgency seems to be gathering pace to find an optimum solution for trade finance on open account.

As the crisis continues in Europe, the center of gravity of world trade is shifting to Asia: 23% of respondents identified ASEAN markets as their primary region for financing trade.

Figure 10: Employee Level within Trade Finance Banks

Size of trade finance banks by number of employees, % of respondents

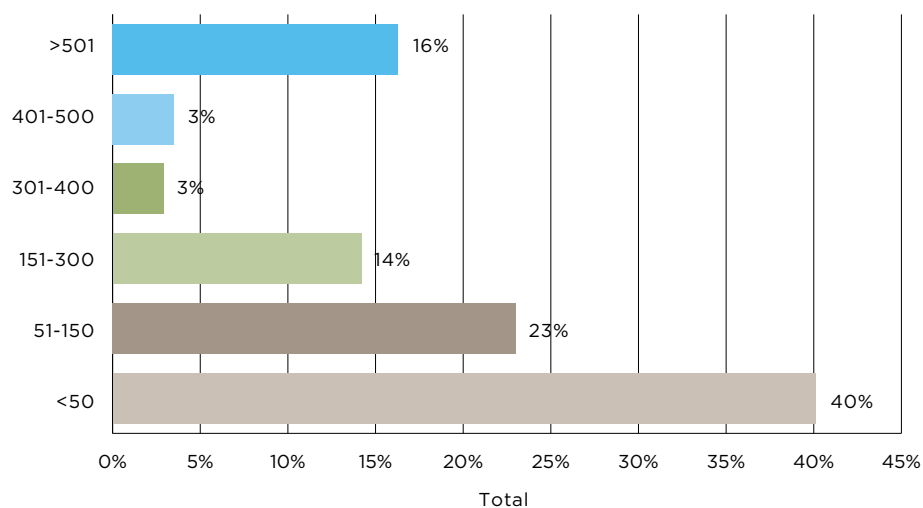


Figure 11: Regional focus

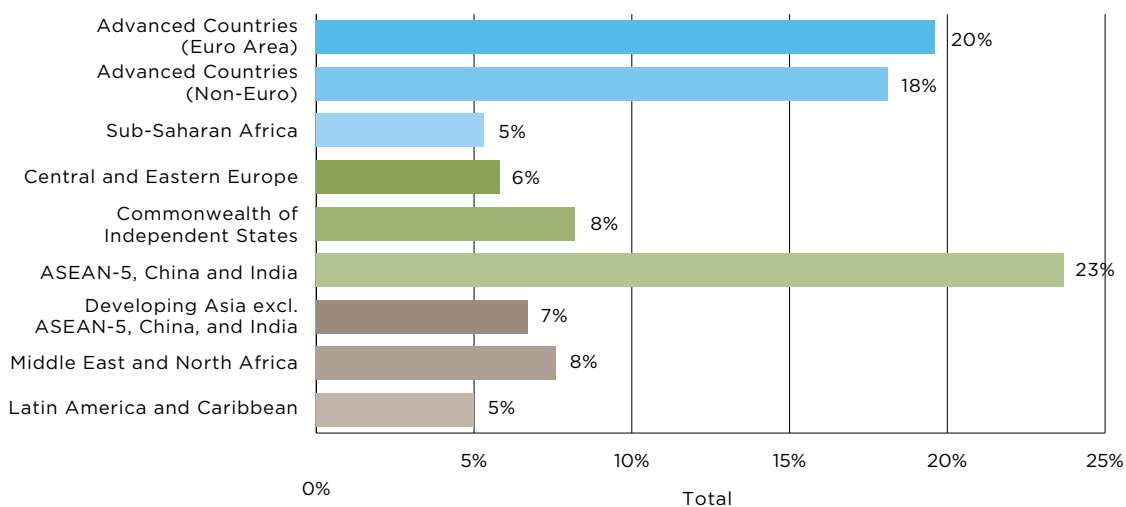
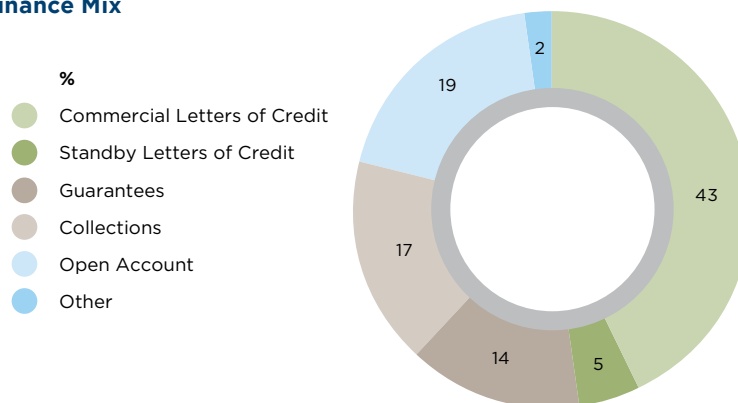


Figure 12: Export Trade Finance Mix



Analysis of ICC Survey Data

Import Trade Finance

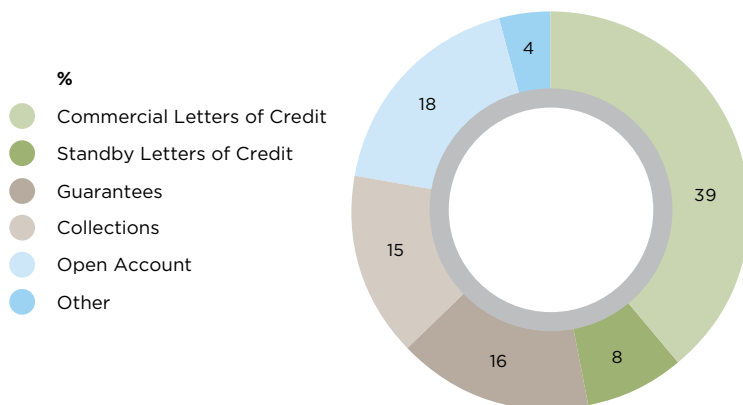
The shift away from traditional trade finance products, such as collections, commercial letters of credit, guarantees and standbys is even more evident for imports. Respondents reported drops in every category between 2011 and 2012:

- Commercial Letters of Credit – down from 44% to 39%
- Guarantees – down from 21% to 16%
- Standby Letters of Credit – down from 10% to 8%
- Collections – down from 18% to 15%

The most often-heard explanation for the waning volumes was that as the global recession continues in most markets, exporters and sellers are aggressively competing for sales and market share, placing buyers or importers in a stronger negotiating position over trade and payment terms.

This shift from traditional trade to open account reflects greater negotiating power for buyers or importers and is effectively seen as a buyers' market.

Figure 13: Import Trade Finance Mix



Commercial letters

↓ 5%

Guarantees

↓ 5%

Standby letters of credit

↓ 2%

Collections

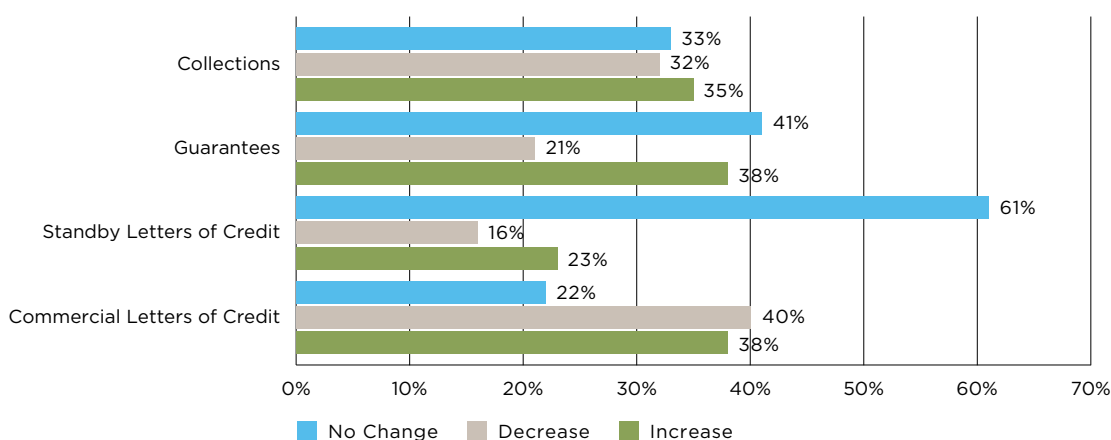
↓ 3%

Export processing

A total of 40% of respondents reported a decrease in commercial letters of credit for export processing. Use of guarantees and standby letters of credit by respondents to protect against default rose, with 38% reporting an increase in guarantees and 23% an increase in standby letters of credit.

While these are signs that indicate trade finance is becoming more available, the results are marginal at best. The shortage of trade finance for international trade remains a primary challenge for economic recovery and development.

Figure 14: Export Processing

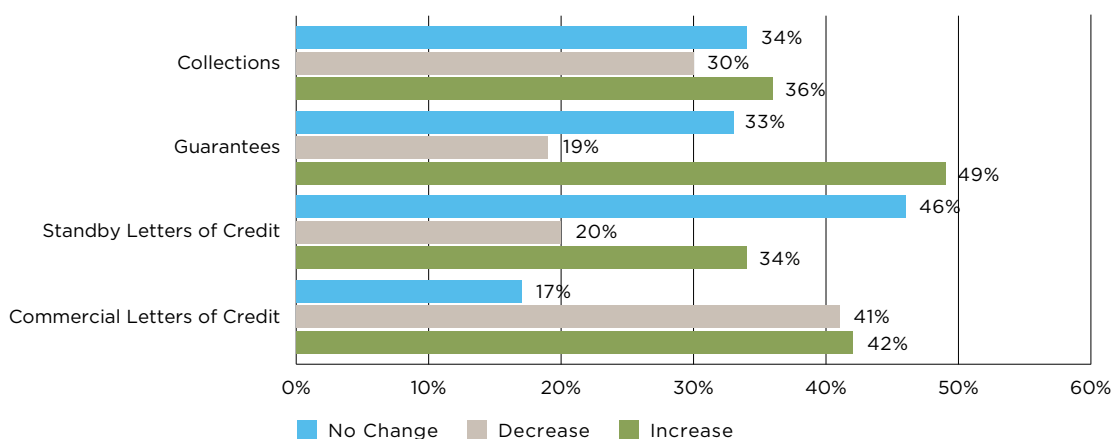


Import Processing

In terms of import processing the trends reported by respondents for commercial letters of credit was basically flat with 42% of respondents reporting an increase which was pretty much balanced with 41% reporting a decrease.

In the context of guarantees and standby letters the responses were more dramatic with 49% of respondents reporting increases in guarantees and 34% of respondents reporting increases in Standby Letters of Credit.

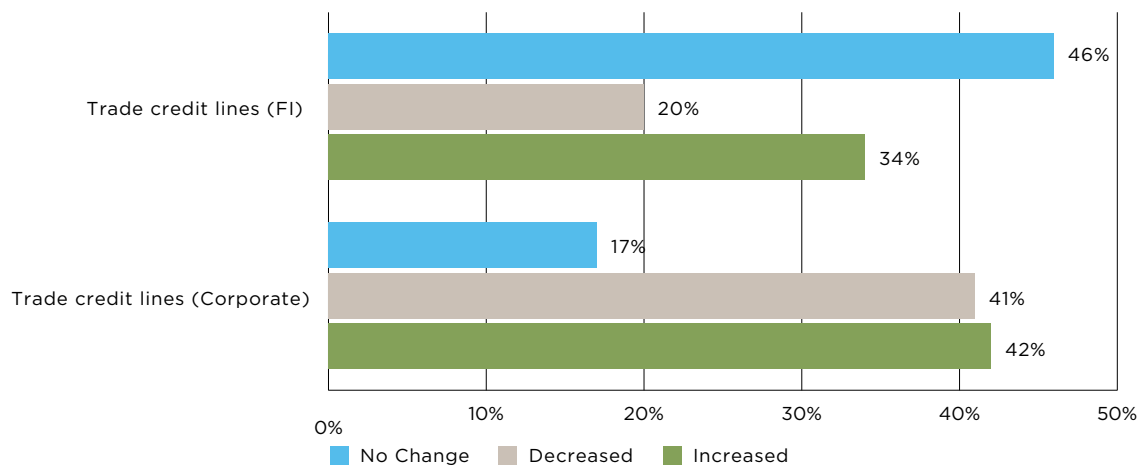
Figure 15: Import processing



Trade Finance Availability

The gap between supply and demand for trade finance has been well documented, but encouraging signs are appearing: 34% reported trade credit lines for financial institutions were more available, and 42% reported more credit lines for corporate customers were available (See Figures 16).

Figure 16: Trade finance availability



Many traders, especially SME's in emerging markets, continue to rely on loans in local currency or overdrafts to finance exports and imports. This is a major limitation that restricts their ability to trade at optimum level during these challenging times.

Trade finance trends

Somewhat encouragingly, 68% reported an increase in trade finance revenues, but fewer than last year, when 80% saw a lift in activity (See Figures 17).

Confirmation requests

Many experts say the market for international finance has been growing slowly but steadily over the past few years, borne out by this year's Survey: 67% saw an increase in the demand for confirmation of letters of credit, slightly less than the year before (See Figures 18).

Demand for confirmation is driven by perceptions of increased risk in global markets, not necessarily an indicator the market is picking up. What is more, respondents witnessed a drop in pricing for these requests, which may also have boosted demand.

Figure 17: Trade finance trends 2012

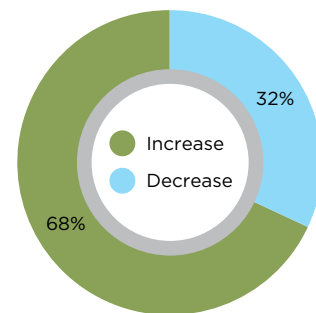
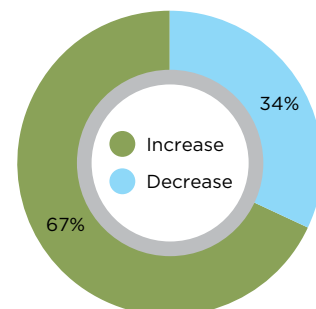


Figure 18: Confirmation requests 2012



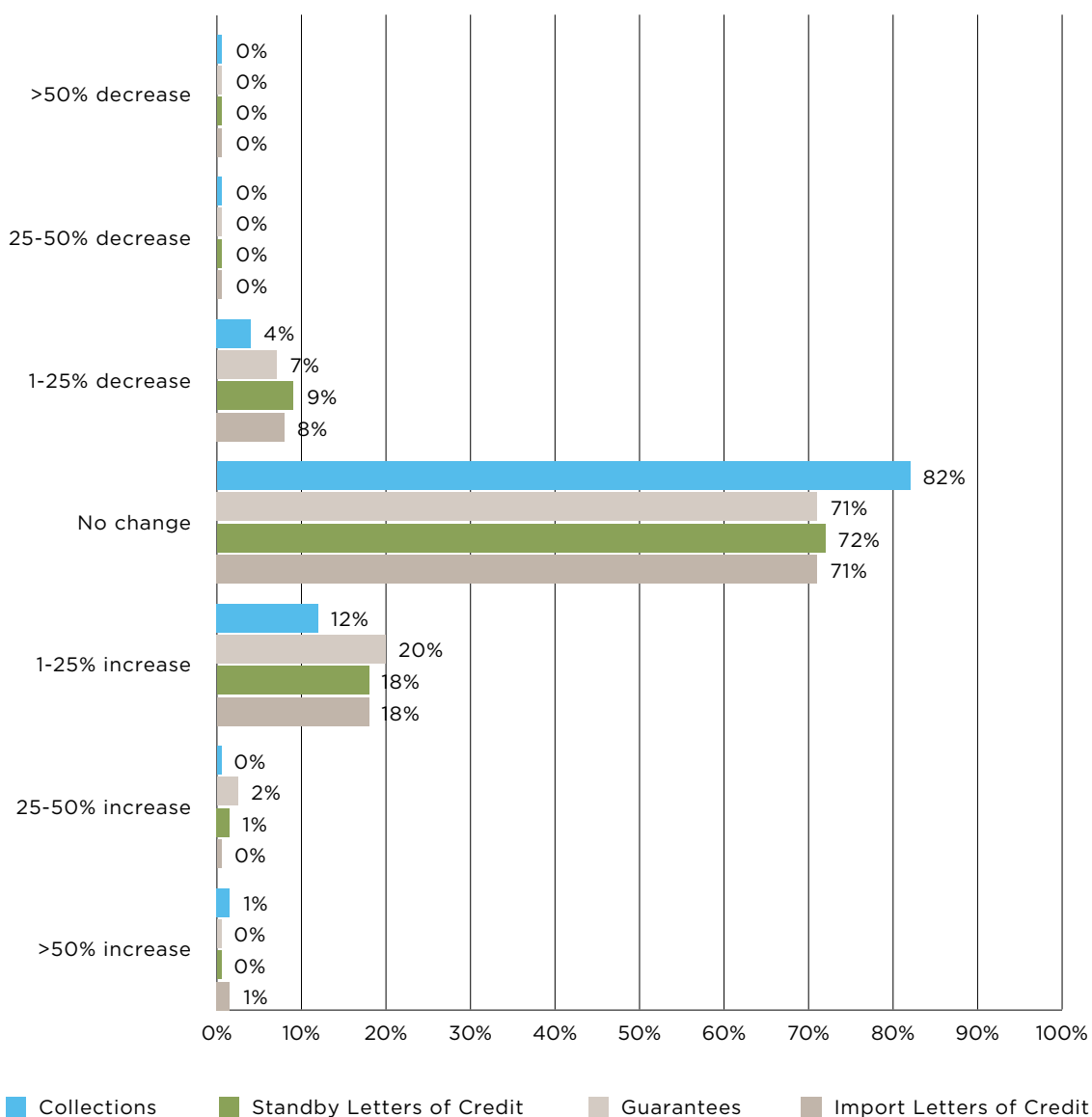
Fees

The alarming increase in fees for trade risk coverage after the 2009 collapse in global trade and trade finance has clearly abated. Fees have been stabilized by bank crowding into trade finance in pursuit of quality short-term assets, and by banks realizing that profit margins on trades have been squeezed to maintain market share on goods and services sold.

Therein lies an enigma: a large gap in the market for trade finance and risk coverage remains while approximately 70-80% report prices are lower or unchanged (See Figure 19).

It is now widely agreed that trade growth can only be sustained in the SME and corporate sectors if fees are absorbed into pricing in an increasingly competitive environment.

Figure 19: Trends in Trade Fees



Court injunctions

A total of 69% of respondents noted a decline in reported court injunctions barring payment under trade finance instruments, indicating a return to normal trading conditions, consistent with last year's Survey (See Figure 20).

Spurious discrepancies

Banks remain cautious in examining documents, with 93% of survey respondents reporting no change or an increase in spurious discrepancies, while only 7% reported a decrease in spurious discrepancies when documents are presented under a letter of credit (See Figure 21).

While it is unrealistic to ever expect these incidents to be completely eliminated, the revised version of the International Standard Banking Practice for the Examination of Documents (ISBP) will help to address this disruptive practice.

Revised in 2013, the ISBP is a checklist of best practices worldwide for checking documents under the UCP; ICC's universally used rules on letters of credit. ISBP has already played a significant role in reducing international discrepancies for documentary credits and is regularly consulted by a wide range of banking, logistics, insurance, legal and corporate professionals and academics worldwide.

Documents refused on first presentation

Documentary compliance remains challenging: 46% of respondents reported an increase in refusal rates of documents on first presentation (See Figure 22).

Traders are seeking out new payment alternatives to these problems with letters of credit, evident by the huge interest in the BPO project, the massive increase in short term export credit insurance, and increased use of international factoring to finance export receivables.

The ICC Uniform Rules for Bank Payment Obligation (BPO) produced jointly between SWIFT and ICC can be defined as an irrevocable conditional undertaking to pay given from one bank to another but can also be viewed as an electronic letter of credit and is an alternative means of settlement in international trade. It provides the benefits of a letter of credit (LC) in an automated environment and enables banks to offer flexible risk mitigation and financing services across the supply chain to their corporate customers.

Claims under guarantees and standbys

Comparing 2012 with 2011 we see an improvement in the trend concerning claims made under guarantees and standby letters of credit.

Claims made under guarantees and standby letters of credit improved: 52% of respondents in this year's Survey saw a decrease in claims. (See Figure 23).

Despite this reported progress, ongoing monitoring is needed for this category.

Fraud allegations

In fraud allegations on transactions supported by trade finance, 65% said they saw a decline in these claims, slightly more than the previous year, but a trend that continues to move in the right direction (See Figure 24).

Figure 20: Court injunctions 2012

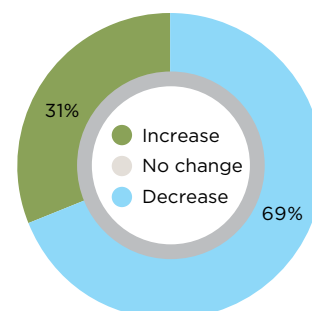


Figure 21: Trends in spurious discrepancies 2012

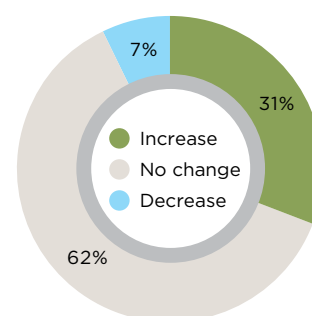


Figure 22: Documents refused on first presentation 2012

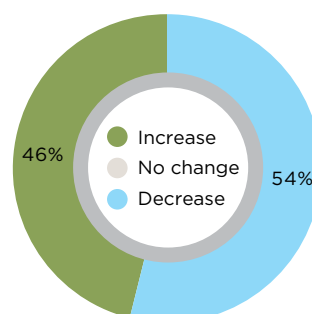


Figure 23: Claims under guarantees and standbys (Comparing 2012 with 2011)

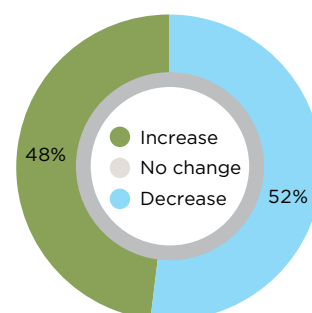


Figure 24: Percentage of fraud allegations (Comparing 2012 with 2011)

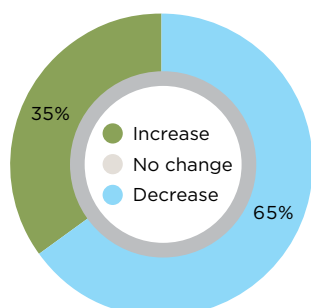
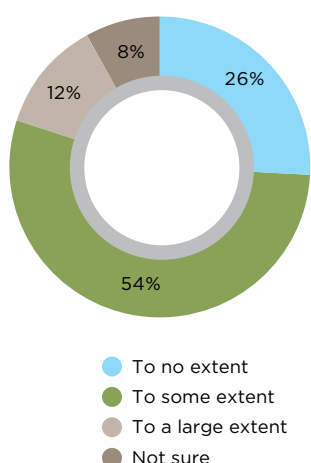


Figure 25: Know Your Customer – principles impact on trade finance



Internal Guidelines for processing trade-related transactions

A total of 69% of respondents reported their bank had reviewed its internal guidelines on processing trade-related transactions and 82% of this group said as a result more stringent controls and guidelines were introduced.

A hot button issue: Know Your Customer

Our body of survey work has previously shown KYC issues can complicate or prevent trade deals. This year’s survey reinforces that view, as a total of 66% said KYC hampers the well-functioning of trade finance transactions to a greater (12%) or lesser extent (54%), and is now a hot topic for discussion among stakeholders who support global trade.

To make matters worse, 35% of respondents considered closing correspondent relationships due to rising compliance costs (See Figure 25).

Other compliance challenges for banks in providing trade finance services

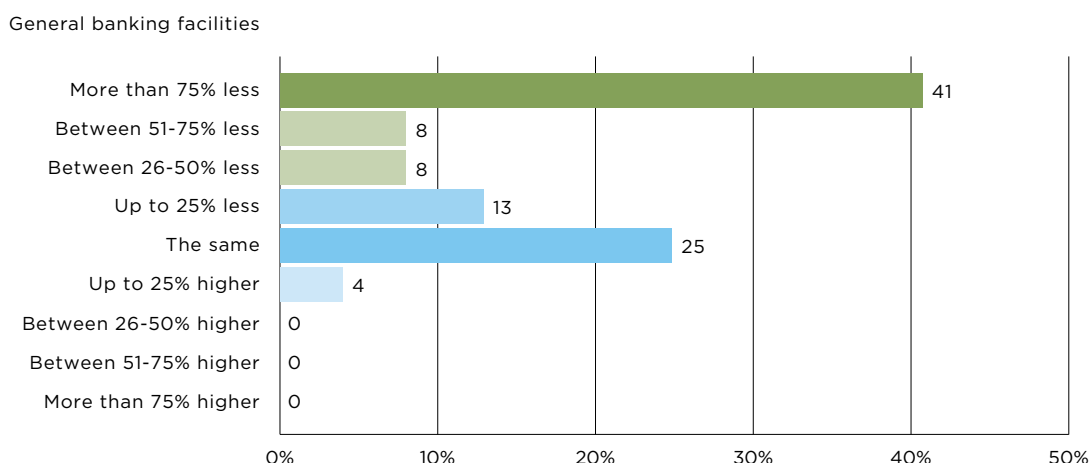
- 51% said complying with sanctions restricted trade finance operations to a greater extent than in previous years.
- 65% said implementation of Basel III is to some extent or to a large extent affecting the cost of funds and liquidity for trade finance.
- 57% believe Basel III will have a negative to very negative impact on their trade finance business.
- Respondents ranked the possible consequences from compliance as follows: increased fees charged to customers, reduced international trade activity, and banks leaving trade finance.

Loss rates

This year’s Survey documented low losses from trade finance products, a trend seen in all previous surveys and confirmed by the ICC Trade Finance Report 2013 (See next section).

- 41% of respondents said their level of losses with traditional trade products was at least 75% less than from general banking facilities.
- 95% reported the level of loss from traditional trade products was the same or lower than for general banking facilities.

Figure 26: Losses in traditional trade products versus general banking facilities



> HIGHLIGHT:

THE ICC TRADE REGISTER

All-encompassing data on the entire range of all major trade and export finance products and transactions from the biggest banks in trade and export finance worldwide.

Trade finance is critical for supporting global trade flows, which totalled around USD18 trillion in 2011. It encompasses a wide range of products and services that help reduce the risks of cross-border transactions. The ICC Trade Register captures data on trade finance to build a reliable and comprehensive fact base for understanding the real risks within international trade. The analysis this year builds on what was done in previous years to create a view of the risks in trade finance, which is more consistent with the Basel methodology.

For the 2013 Trade Register report 21 banks have provided data on more than 15 million short-term trade finance transactions globally. Both data volume and quality have been increasing year on year and the ICC Banking

Commission will continue to work with the participating banks to support the Trade Register.

The 2012 data set strongly reinforces the hypothesis that trade finance transactions enjoy a lower than average likelihood of default. That is, in relation to comparable corporate default rates, the trade register data recorded a lower level of defaulted transactions. However, in order to arrive at an assessment of expected losses, exposure at default and Loss Given Default (LGD) need to be considered.

Notwithstanding the methodological and data challenges, the results indicate some further support of the hypothesis that trade instruments are low risk products, demonstrated by relatively low loss rates.

For short-term trade finance, the analysis of the data in the Trade Register shows:

Figure 27: Analysis of short-term trade finance data in the Trade Register

TOTAL 2008-11	TRANSACTION DEFAULT RATE	DEFAULTED TRANSACTION LOSS RATE	M (IMPLIED, DAYS)	SPECIFIC TXN- LEVEL LOSS RATE
Import L/Cs	0.020%	42%	80	0.008%
Export Confirmed L/Cs	0.016%	68%	70	0.011%
Loans for Import	0.016%	64%	110	0.010%
Loans for Export: Bank risk	0.029%	73%	140	0.021%
Loans for Export: Corporate risk	0.021%	57%	70	0.012%
Performance Guarantees	0.034%	85%	110	0.029%
Total	0.021%	57%	90	0.012%

“The ICC Trade Register is an indispensable tool for policy-makers and financial executives. This information is vital to closely monitor and manage risk in the sector, because the scale and speed of regulatory change is unprecedented.”

Kah Chye Tan

Vice Chairman, Corporate Banking, Barclays Bank



Our analysis showed that:

Variability of default rates across provider banks was very low, with the vast majority clustered between 0% and 0.1% across all products. Furthermore, the interquartile ranges are small, indicating that the variability in default rates is extremely low. We observe some high maximum figures within the sample, but these are not the same bank across products and specific countries drive the higher default rates in specific years. Therefore, we would hypothesise that the cause of these outliers is specific to the counterparty in each case, rather than due to consistent bank operational failures.

Default rates for countries in recession were higher, as might be expected. As a country experiences recession, counterparties within it become less liquid and so the likelihood of late or non-payment of loans increases, as does the likelihood of them failing to fulfil their obligations on letters of credit (L/Cs) or guarantee covered transactions.

Export confirmed L/Cs and loans for export (bank risk) appear strongly negatively correlated to GDP growth. As growth slows down, the likelihood of default increases. In both instances, the issuing bank is facing off against another bank instead of a corporate. Considered against the backdrop of 2008-2009 credit markets, it seems plausible the increased default rates were driven by an inability of these counterparty banks to access shortterm lending to pay trade finance obligations and so late or non-payments increased.

Conversion rates are low for import L/Cs, export confirmed L/Cs and performance guarantees. These products are contingent on an event happening, such as underlying service or transaction occurring, or presentation of compliant documents, before the bank needs to make a payment to the beneficiary of the product. Once these contingent events have occurred and the contingent liability has converted into an exposure, the issuing bank will typically use funds from the importers' accounts directly to make the payment. That means the issuing bank generally only pays out of its own funds where there are insufficient funds in the importers' accounts to meet the claim.

For medium and long-term Export Credit Agency (ECA)-backed transactions, a similarly relative low risk is observed:

Figure 28: Medium and long-term ECA-backed transactions

TOTAL 2006-11	TRANSACTION-WEIGHTED			EXPOSURE-WEIGHTED		
	Default rate	Economic Loss Rate	EL	Default rate	Economic Loss Rate ¹	EL
Observed	1.11%	31.8%	0.35%	0.59%	27.5%	0.16%
Expected		7.0%	0.08%		6.1%	0.04%

As reported in the Register, the 'observed' figures are based on recoveries (which in many cases is partial, since ECAs pay out over time as opposed to immediately), while the 'expected' figures are based on the assumption that ECAs pay out in full (which is what typically happens).



For more information, please visit our website:

www.iccwbo.org/Products-and-Services/Trade-facilitation/ICC-Trade-Register

➤ SWIFT TRADE MESSAGING TRENDS

The following section has been provided by the Society for Worldwide Interbank Financial Telecommunication (SWIFT) and outlines background information and contemporaneous data on trade finance messaging volumes worldwide on an exclusive basis.

Global Trends

A good barometer of trade finance activity is overall usage trends for letters of credit (L/C) via the SWIFT network, which captures about 90% of these transactions. The following pages documents SWIFT year-on-year trade traffic in 2012 around the world and regionally.

Trade traffic falls for a second year

Trade traffic dropped 2.22% in 2012, underscored by a 1.45% drop in category 7 and a drop of 4.61% in category 4. Documentary collections (category 4) represented fell to 24% of total trade traffic in 2012, versus 30% in 2003 (See Figure 29).

Traffic patterns for the world's major regions

Use of collections (MT 400) is low in Asia-Pacific, compared with the use of L/Cs (MT 700), whereas in North America and Europe Eurozone, the use of collections (MT 400) is much higher than L/Cs (MT 700).

The volume of MT 700 for documentary credit rose 0.1%, but was higher than the past four years except for 2010 (See Figure 30).

The MT 700 is used as an indicator of trade finance, because it is a structured message that contains the structured field 32B. This field contains the currency code and amount of the documentary credit. But the MT 700 only represents 15% of category 7, while the free format trade message MT 799 represents 38%. Documentary credits issued through MT 799 were not taken into account.

Asia-Pacific continues to register by far the most import MT 700 messages, accounting for 66% of world traffic in 2012, followed by Europe - Eurozone at 9% and the Middle East at 7%.

Although SWIFT trade traffic fell overall in 2012, regions varied widely. Asia-Pacific import traffic rose the most, an increase of 2.32% in 2012. By contrast, import traffic fell the most from the Europe-Euro zone, a drop-off of 13.5%.

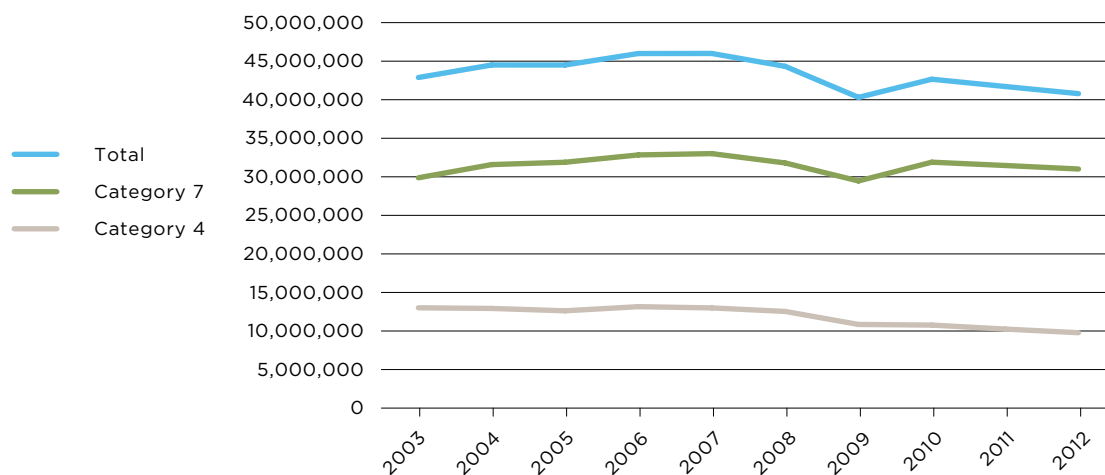


Key findings

- Year-on-year trade volume fell for the second year in a row
- Traffic highest in the Asia-Pacific
- Largest importers: China, South Korea, Bangladesh, Hong Kong, Singapore, India
- Europe-Euro zone traffic declined the most
- Average value of a L/C (MT 700 only, converted to USD) rose 2.2%

Asia-Pacific continues to register by far the most import MT 700 messages, accounting for 66% of world traffic in 2012.

Figure 29: Overall picture of trade traffic

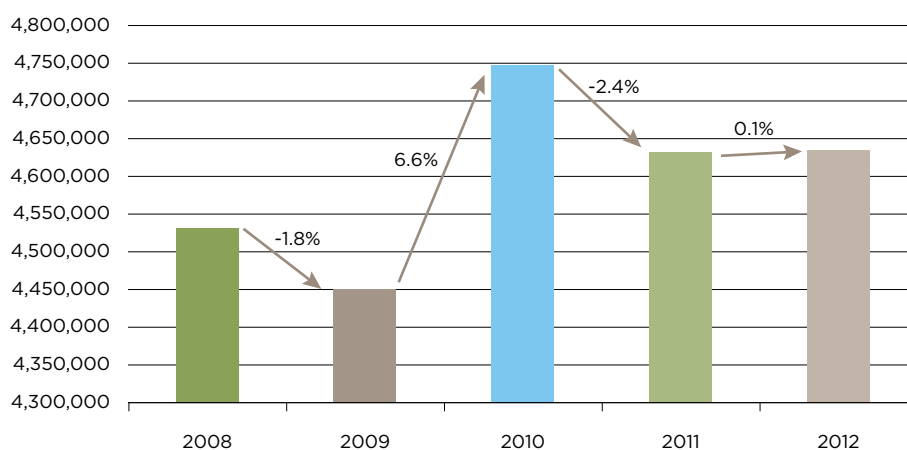


The highest annual growth in import traffic came from Bangladesh (+42%).

Asia holds the record for imports

Looking at total MT 700 messages sent in 2012 in the top 15 importing countries, the largest in descending order were: China, South Korea, Bangladesh, Hong Kong, and India. Also, the highest annual growth in import traffic came from Bangladesh (+42%), Indonesia (+11%) and the United Arab Emirates (+6%). The steepest declines in import traffic were France (-8%), Algeria (-7%), Taiwan (-6%) and Japan (-6%). For a full visual representation of these trends, SWIFT has provided additional graphs on page 46 (See Figures 39 and 40).

Figure 30: Volume of MT 700 2008-2012



Top Importing Countries

These are the fastest-growing importing countries (with a yearly volume higher than 10,000 trade messages MT 700 sent):

- Bangladesh: +42%
- Bahrain: +22%
- Qatar: +22%
- Russia: +20%
- Venezuela: +16%
- Nepal: +13%
- Ethiopia: +11%

These countries showed the largest drops in import traffic (representing countries with a yearly volume higher than 10,000 trade messages MT 700 sent):

- Sri Lanka: -28%
- Italy: -19%
- Netherlands: -15%
- Spain: -15%
- Germany: -12%
- Nigeria: -12%
- Lebanon: -11%
- Turkey: -10%

Asia-Pacific continues to register far greater volume for sent (import) MT 700 with 66% of the world traffic in 2012. It is followed by Europe - Eurozone (9%) and Middle East (7%) (See Figure 31).

Asia also holds the record for exports

Although SWIFT trade traffic fell in 2012, regional patterns varied widely.

Asia-Pacific was the only region in 2012 where export traffic increased by 1.16%. Europe-Euro zone recorded the biggest drop in export traffic of 5.71% (See Figure 33).

Figure 31: A look at regions (imports)

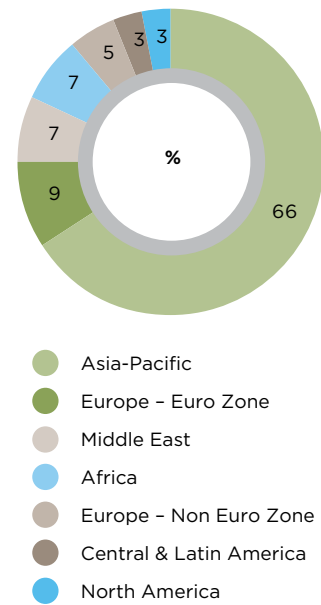


Figure 32: A look at regions (exports)

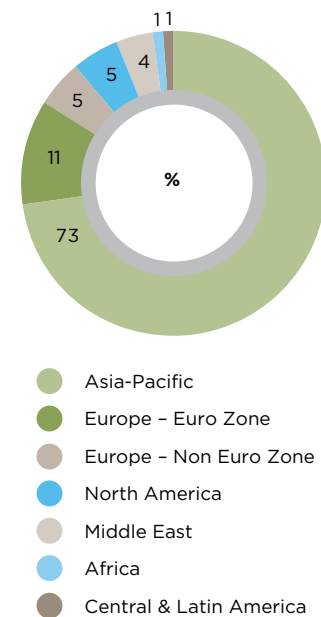
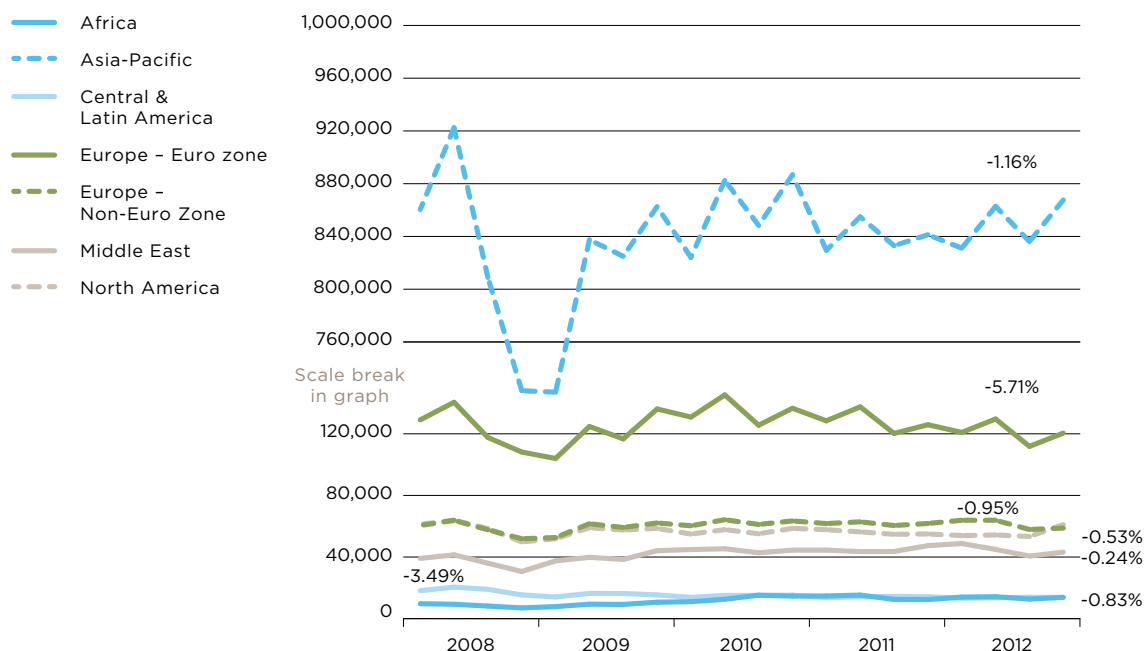


Figure 33: MT 700: Issue of a documentary credit

MT 700 received by region, 2008-2012.

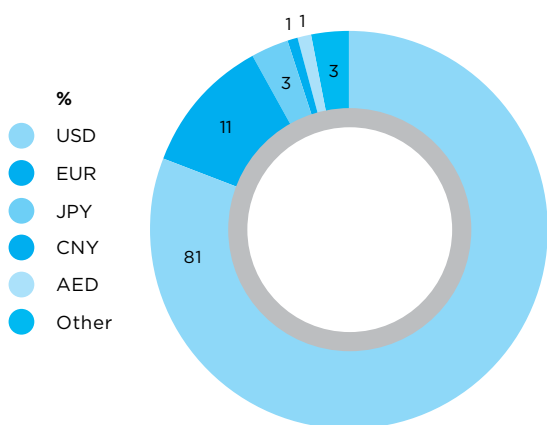


Average amount of an L/C

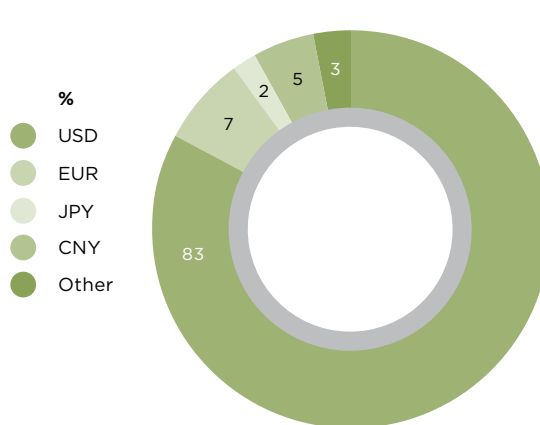
The average value of a Letter of Credit (MT 700 only, amount converted to USD) was USD616,000 in 2012 compared with USD603,000 in 2011. In 2012, the USD is the currency used in 81% of the MT 700 (volume of L/C issued = number of MT 700). It is also the currency that represents 83% of the total value of L/Cs issued via SWIFT (See Figure 34).

Figure 34: Letter of credit value rises

L/C in volume (of MT700)



L/C in value (of MT700)



USD: US dollars, EUR: Euros, JPY: Japanese yen, CNY: Chinese Yuan, AED: United Arab Emirates Dirham

Top exporting countries

The largest exporters in 2012 ranked in descending order China, Hong Kong, Singapore, India, Japan, by volume of MT 700 received. For a full visual representation of these trends, SWIFT has provided additional graphs on page 47 (See Figures 41 and 42).

The fastest-growing exporting countries were Bangladesh (+118%), Indonesia (+6%) and Singapore (+4%). The countries where exports fell the most were Japan (-12%), Germany (-7%), and Taiwan (-6%). The 15 top countries represent 80% of MT 700 worldwide.

These countries registered the fastest export growth (with a yearly volume higher than 10,000 trade messages MT 700 received).

- Bangladesh: +118%
- Saudi Arabia: +11%
- Turkey: +9%
- Vietnam: +6%
- Indonesia: +6%
- Pakistan: +4%
- Singapore: +4%

These countries recorded the steepest falloff in exports (countries with a yearly volume higher than 10,000 trade messages MT 700 received).

- Algeria: -16%
- Denmark: -15%
- Japan: -12%
- Sweden: -10%
- France: -10%
- Brazil: -9%
- Austria: -9%
- Belgium: -8%



118%

The fastest growing-exporting country - Bangladesh



The top 15 countries represent 80% of the MT 700 worldwide (export).

Asia-Pacific issues most letters of credit for imports

Asia-Pacific initiated 66% of import transactions, sending an equivalent percentage of MT 700 in volume, followed by Europe-Euro Zone with 8.7%, although these two regions were not the largest importers by average value.

Asia-Pacific issued the most L/Cs, used mostly for intra-regional trade. Because Asia-Pacific used this instrument much more than any other, the average value of an L/C from the region was USD571,000 for imports, not at the high end of the scale.

Figure 35: Volume of L/Cs issued (Importing regions)

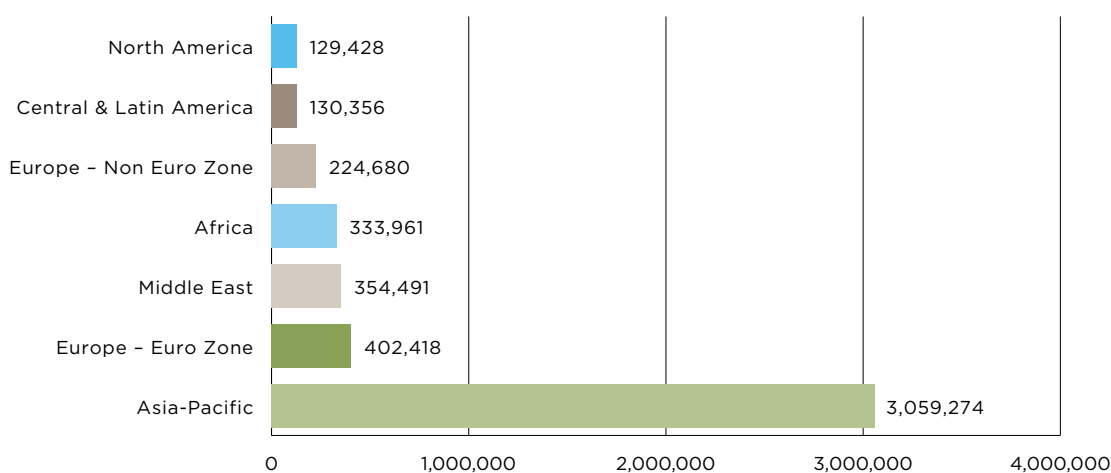
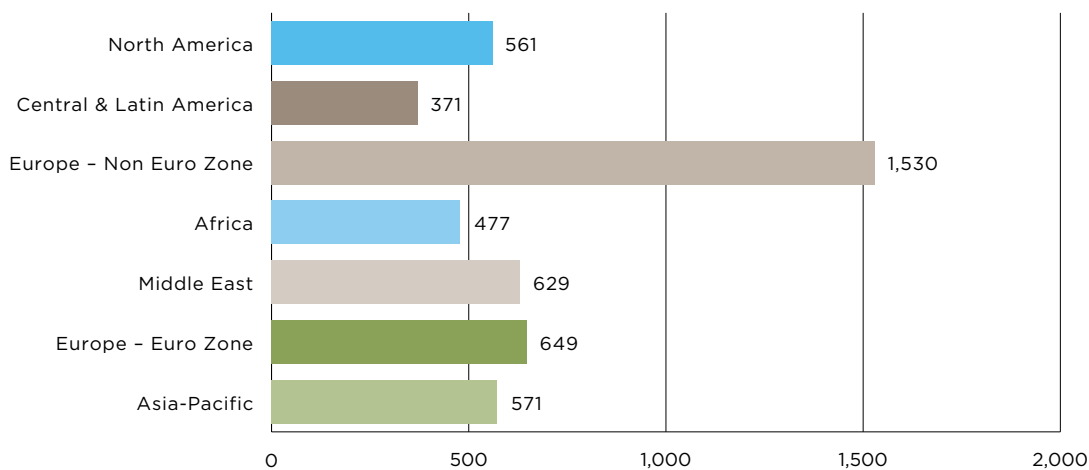


Figure 36: Average value of L/Cs issued (Importing regions)

USD (000's)



Asia-Pacific lead exporter as well

Asia-Pacific generated 73% of export transactions in 2012, receiving 73% of the MT 700 in volume, followed by Europe-Euro Zone with 10.4% (See Figure 32). But these two regions in average rank at the bottom in average value.

Asia-Pacific also received the most L/Cs. Asia-Pacific is the region that uses this instrument the most heavily, even for low value transactions, so the average value of an export transaction is the lowest at USD455,000 (See Figure 37).

Figure 37: Volume of L/Cs received (Exporting regions)

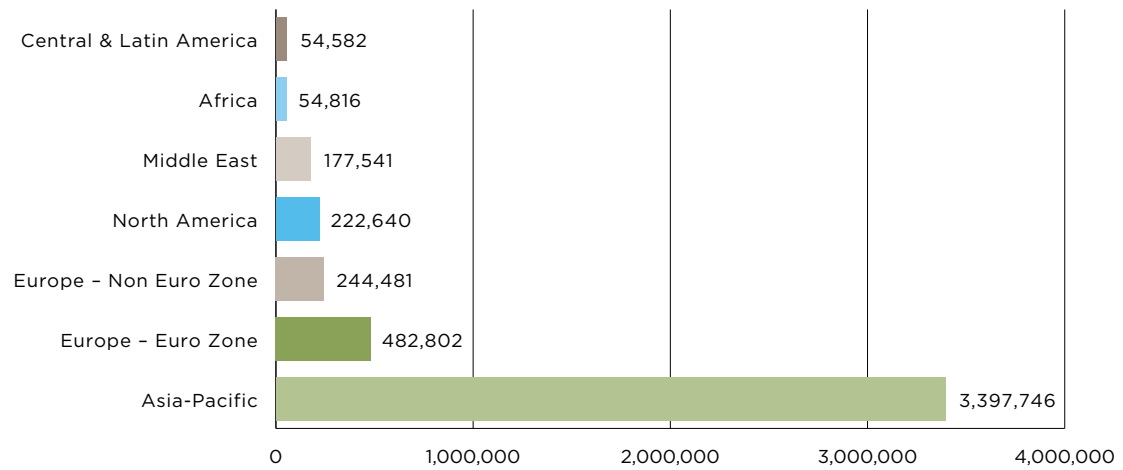
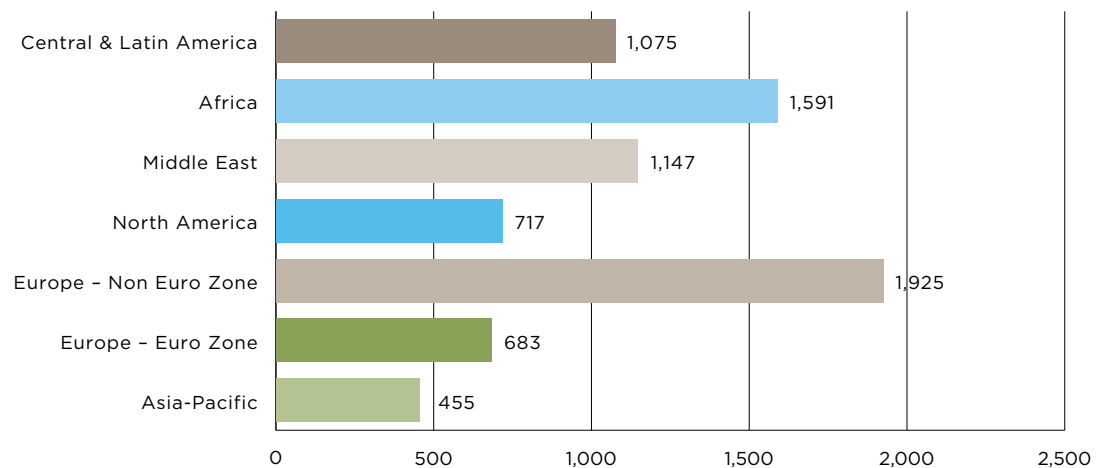


Figure 38: Average value of L/Cs received (Exporting regions)

USD (000's)



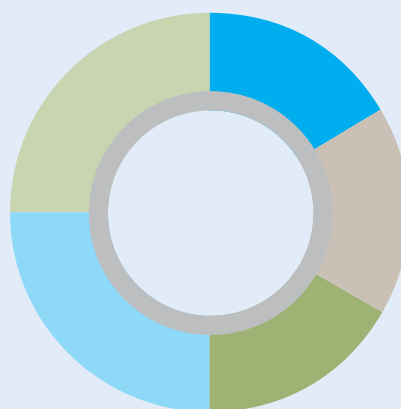


WATCH ANALYTICS

Watch Analysers, a set of tools to increase your business performance. Analyse traffic volumes, the associated value, the global market's activity, currency flows and your overall SWIFT expenses.

The data in this section was gathered by SWIFT Watch Analytics which provides direct access to dynamic search and analysis of business data.

- **Watch Message Cost Analyser:**
Your SWIFT messaging costs and charges
- **Watch Billing Analyser:**
Your SWIFT invoice in detail
- **Watch Market Analyser:**
Total share
- **Watch Value Analyser:**
Your transaction value by currency
- **Watch Traffic Analyser:**
Your traffic volumes by market, message type and region



Find more online, go to www.swift.com

SWIFT: ADDITIONAL DATA ON REGIONS

Figure 39: Top 5 countries in volume of MT 700 sent

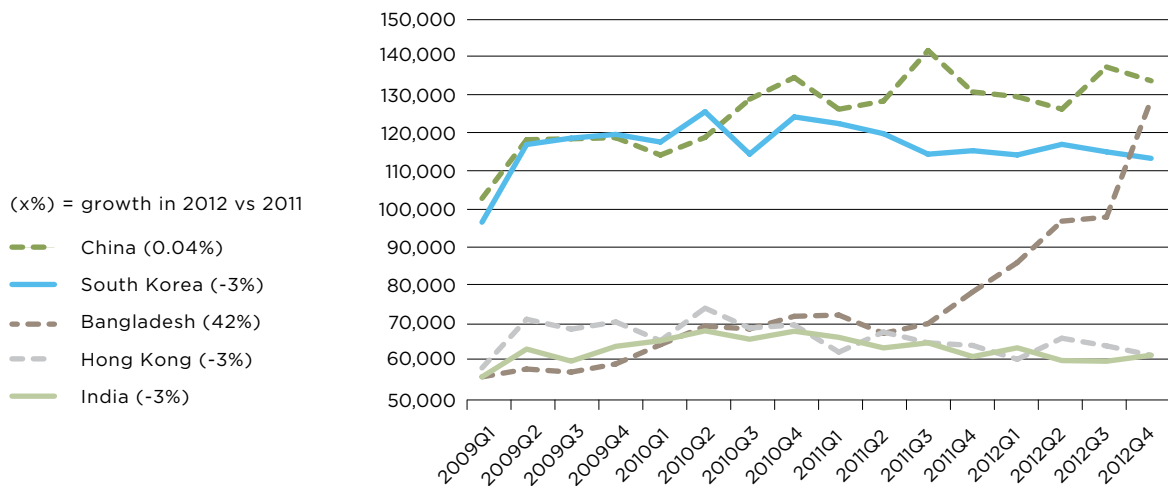


Figure 40: Top 6 to 15 countries in volume of MT 700 sent

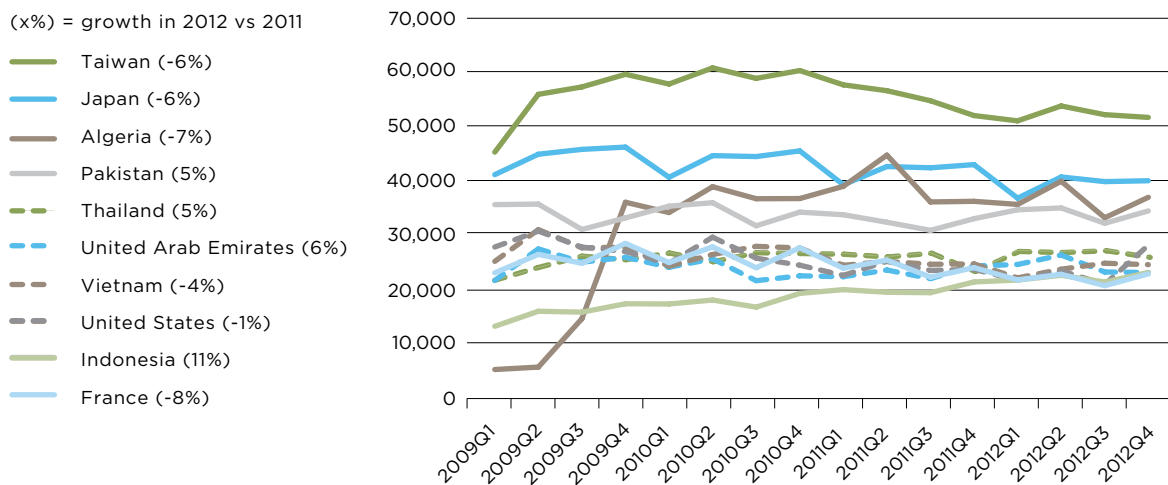


Figure 41: Top 5 countries in volume of MT 700 received

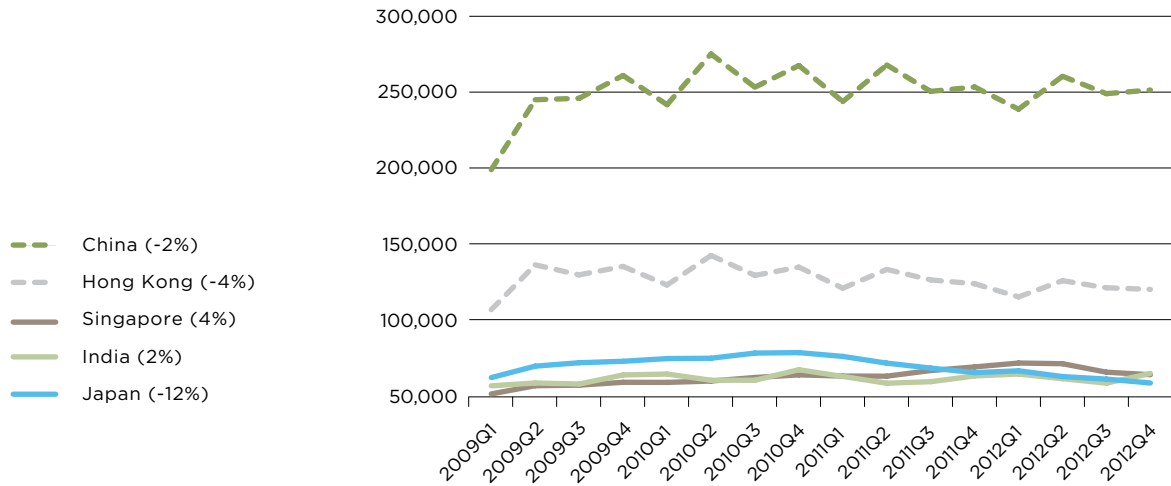


Figure 42: Top 6 to 15 countries in volume of MT 700 received

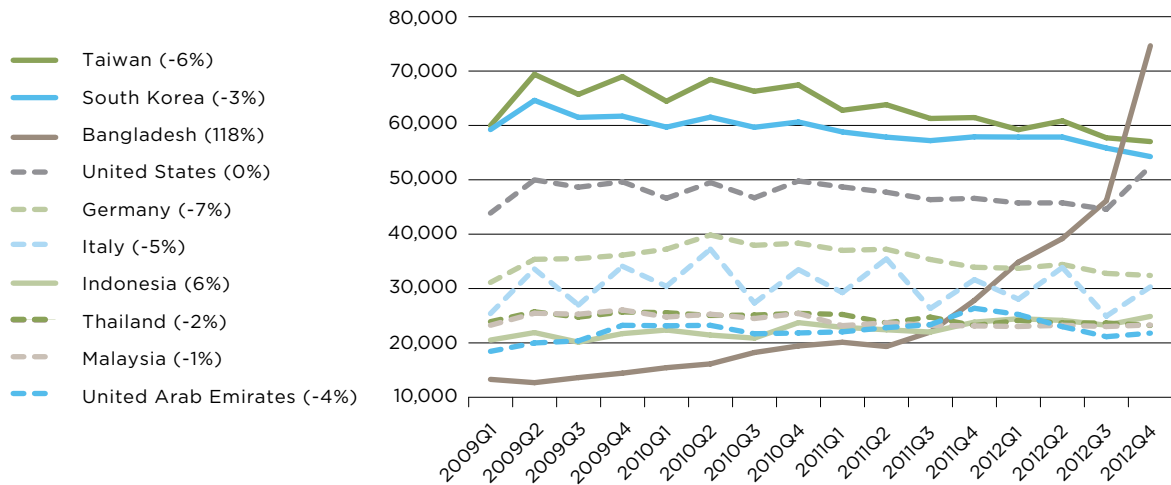


Figure 43: MT 700 sent by region, 2012

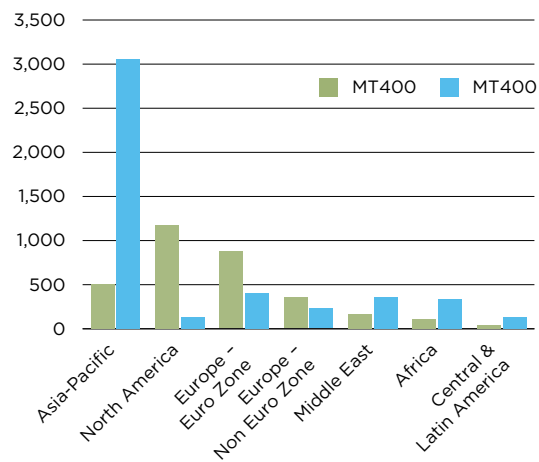
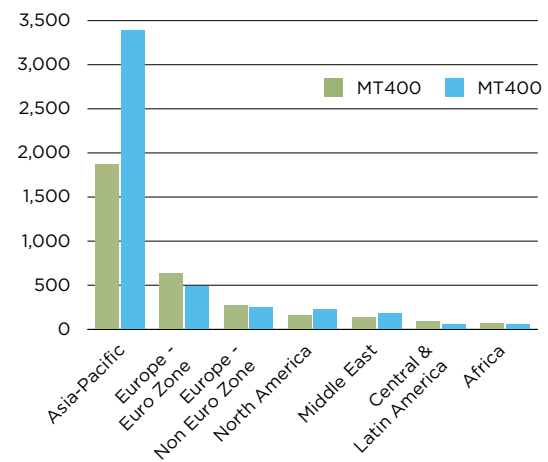


Figure 44: MT 700 received by region, 2012



Regions preferences for usage of financial instruments such as L/Cs (MT 700) and collections (MT 400) through SWIFT

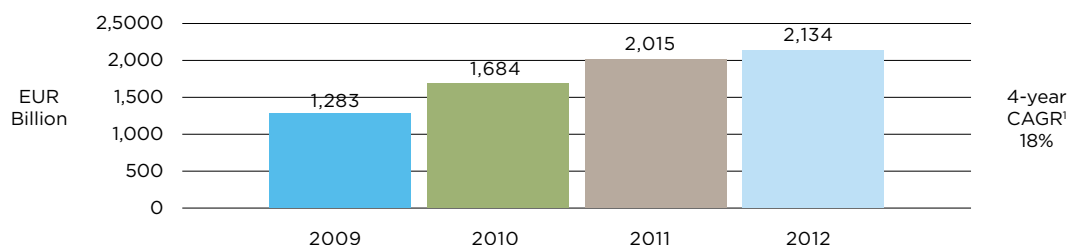
It is striking, although not surprising, to see the difference in usage MT 400 and MT 700 on a regional basis. Use of collections (MT 400) is low in Asia-Pacific, compared with the use of L/Cs (MT 700), whereas in North America and Europe Eurozone, the use of collections (MT 400) is much higher than L/Cs (MT 700).

BUSINESS TRENDS IN FACTORING

The economic crisis of 2008-2009 led to one of the most explosive changes in global trade: the continuous shift to open account and the massive growth in the demand for factoring. This non-traditional form of trade finance has made significant inroads in the global trade landscape. The global factoring industry has been growing at a rate of nearly 13% per annum over the past decade, ending in 2009, when the factoring industry declined for the first time as global demand soured. But since the financial crisis, factoring has been growing at an even faster pace, as evidenced in the Figure below, adding nearly EUR1 trillion in annual factoring volume, practically doubling in size within a 3-year period, a substantial feat considering the industry was formed in the United States over a century ago.

Since the financial crisis, the use of factoring has accelerated. Annual factoring volume is now nearly EUR1 trillion.

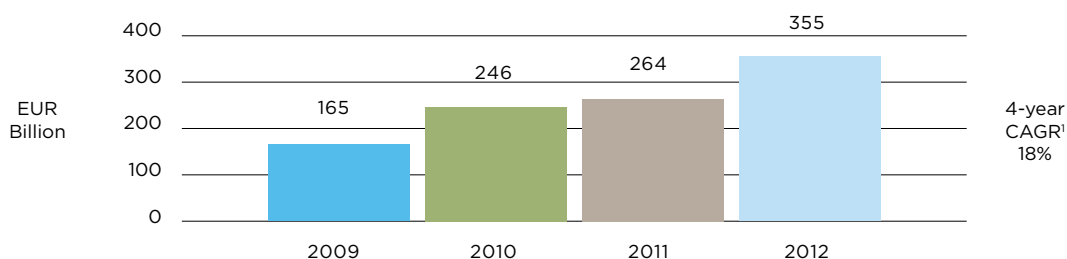
Figure 45: Total world factoring volume 2009-2012



¹ CAGR: Compound Annual Growth Rate

This significant increase in world factoring volume (which includes both domestic and cross border activity) has been driven by a systematic growth in factoring throughout most of the developed and developing world, led predominantly by commercial bank-owned factoring companies, in part due to an enhanced perception of risk globally, but also stemming from The shift from overdraft and unsecured credit facilities to receivables and invoice-discounting portfolios. This shift is also enhanced by the introduction of Basel II/III rules impacting capital requirements but also based on the understanding that factoring is simply a more prudent form of funding.

Total cross border factoring volume has grown even more rapidly than domestic factoring and has been the primary driver in the increase in factoring globally (See Figure 46).

Figure 46: Total International cross-border factoring volume 2009-2012

¹CAGR: Compound Annual Growth Rate



Cross-border factoring rose 36% in 2012, generating over EUR23 billion in annual volume.

The growth in cross-border factoring has been driven by the continued growth in open account trade, especially used by suppliers in the developing world, and prompted by major retailers and importers in the developed world, as factoring becomes an acceptable alternative to traditional letters of credit. Factoring deployed by the greater China region has grown by leaps and bounds over the past three years.

Founded in 1968, Factors Chain International (FCI) is a global network of leading factoring companies, whose common aim is to facilitate international trade through factoring and related financial services. FCI has nearly 270 members in 74 countries, and is the world's largest factoring network, with member transactions representing 90% of the world's international cross-border correspondent factoring business. Today, over 85% of the members of FCI are bank related.

FCI's correspondent factoring volume of cross-border business increased 36% in 2012, generating over EUR23 Billion in annual volume. Its top three export factoring markets are China, accounting for more than one-third of the volume, Turkey, and Hong Kong. FCI's three largest import factoring markets are the US, France, and China, where volumes soared 160% in 2012 alone.

Not only is most of the business conducted within the framework and membership of FCI, but FCI also provides a legal foundation to conduct cross-border correspondent factoring.

Factoring is at an interesting crossroads – international factoring in particular. Factoring is now at a crossroads, and that is especially true for the international market. After an unprecedented growth spurt led by FCI, the industry has doubled over the past three years. Central bankers and regulators have come to appreciate the product as a safe and secure way to finance trade. Governments and policy makers have come to appreciate the invaluable role factoring plays in financing SMEs. The recent crisis has shone a light on the important role of factoring. While the industry faces many challenges on the road ahead, notably in the developing world, the winds of change are blowing, and factoring will play an ever-more important role as trade continues to evolve towards financing on open account.

BUSINESS TRENDS IN EXPORT CREDIT INSURANCE

As a facilitator of international trade, trade credit insurance is a bellwether for trends in international trade and trade finance, especially on attitudes towards a range of credit risks, from default to bankruptcy.

The Berne Union, which last year supported one-tenth of global trade, provides valuable insight with its survey into international trade patterns at this uncertain moment in the global economic recovery.

Credit insurance growth steady stable despite so-so trade

Even though trade grew 2.4% in 2012, according to the UN, the volume of exports covered by Berne Union members rose 1.5% to USD1.7 trillion, most of it representing export credit insurance for short-term (ST) trades, with USD181 million for medium and long-term (MLT).

During the crisis, the share of exports covered by Berne Union members rose. While most members recorded strong results in 2012, some insurers reported higher losses than average. Claims paid totaled USD4.7 billion in 2012, with short-term claims rising and medium-term remaining even with the previous year.

Since the beginning of the crisis in 2008, Berne Union members paid just under USD20 billion to exporters, in compensation for losses from defaults by buyers or other obligors.

Insurance capacity still plentiful

Despite these challenges, Berne Union members continue to provide ample insurance capacity overall to support international trade transactions.

Short-term outlook

Turnover in insured short-term exports rose 2.3% in 2012 to over USD1.5 trillion, mirroring the growth in global trade, a reflection of the link with global exports and continued demand for risk mitigation products supplied by credit insurers (See Figures 47).

Insurance capacity, measured by credit limits approved and granted to exporters, stood at USD980 billion end-2012 and just under the historical high reached before the onset of the global financial crisis.

Total short-term claims paid by Berne Union members increased more than expected in 2012, although the effects were uneven.

**Last year, the
Berne Union
supported
one-tenth of
global trade.**

**1.5
USD TRILLION**

Turnover in insured short-term exports rose 2.3% in 2012 to over USD1.5 trillion, mirroring the growth of global trade.

Figure 47: Short-Term Export Credit Insurance

MILLION USD	2005	2006	2007	2008	2009	2010	2011	2012
New business covered	843,719	975,262	1,126,721	1,296,878	1,122,608	1,257,794	1,495,227	1,530,097
Claims paid	702	783	1,007	1,128	2,418	1,508	1,323	2,093



Since the crisis, credit insurers have successfully strengthened their risk management tools and underwriting processes.

A few insurers suffered more than others, but most paid similar amounts of claims compared to the previous year. Those members who paid higher claims than average ran the gamut of membership from large to small firms, from private market to state-backed export credit agencies (ECAs).

Claims paid by Berne Union members to exporters to indemnify them for defaults on trade receivables rose by 58% to USD2.1 billion in 2012. This remained below the peak level of claims paid during the financial crisis, when claims paid rose 114% year on year, but indicates continuing volatile market conditions for credit insurers.

The short-term loss ratio for Berne Union members as a whole (claims paid in relation to premium income) will likely be higher in 2012, as claims were higher and premium income remained flat. Premium income is expected to be stable, despite higher volumes due to stiff price competition.

ECAs tend to have higher short-term loss ratios than private market insurers, as ECAs support national exporters and cover transactions across the full risk spectrum, where insurance might be hard to secure.

The highest level of short-term claims paid per country in 2012 were due to defaults in Italy (USD235 million), the US (USD172 million), the UK (USD134 million), Germany (USD133 million), and Spain (USD114 million).

It is no surprise the US and countries in Western Europe topped this list, countries with the largest volumes of international trade and therefore the largest short-term exposures. The high amounts of claims paid by Berne Union members reflects the large amount of insured ST exports to these markets and their troubled economies, which led buyers to default.

New record

Medium and long-term cover by Berne Union ECAs for medium and long-term transactions, insuring exports of capital goods for repayment terms from two to 15 years, reached the highest amount ever recorded at USD625 billion at the end of 2012, up 7% from the previous year. New business remained high at USD181 billion of insured transactions.

High demand for MLT cover by ECAs is unchanged since the 2008 economic downturn. Few large MLT transactions close without ECA risk mitigation. As the global risk environment remains challenging, banks rely more on insurers to shoulder the risk of obligor defaults.

Figure 48: Medium and Long-Term Export Credit Insurance

MILLION USD	2005	2006	2007	2008	2009	2010	2011	2012
New business covered	104,241	126,891	142,120	153,591	190,589	173,393	191,195	181,025
- of which insurance	100,433	119,321	132,522	142,225	164,038	161,529	177,005	157,238
- of which lending	3,808	7,570	9,599	11,366	26,552	11,864	14,190	23,397
Claims paid	2,115	1,913	1,245	1,128	3,004	1,836	2,457	2,608

ECAs total claims paid to customers increased slightly to USD2.6 billion, from 2.5 billion in 2011. The highest claims paid per country were due to defaults in Iran (USD501 million), Libya (USD457 million), South Korea (USD129 million), Ukraine (USD90 million), and Russia (USD79 million).

It is difficult to draw general conclusions from this list. MLT claims can occur for political reasons, such as in Iran, where obligors have difficulty transferring payments abroad, or for commercial reasons, when a large debtor defaults, affecting several insurers.

Given current political and economic uncertainties, combined with the huge demand in emerging markets for capital goods to realize infrastructure, energy, and natural resources projects, ECA support is more crucial than ever to help banks and exporters trade internationally.

The year 2012 was challenging for the credit insurance industry, due to geopolitical and regional tensions and a slowdown in advanced economies.

More resilient

Since the crisis, credit insurers have successfully strengthened their risk management tools and underwriting processes. Inevitably, some players may continue to feel the effects in 2013. However, the industry has demonstrated its resilience to major shocks as it showed in the recent financial crisis.

Competition will remain strong for short-term insurance, which will ensure adequate insurance capacity and attractive pricing for risk mitigation for exporters. Losses suffered by some insurers in 2012 serve as a reminder that pricing of insurance products must be commensurate with risk.

Running scarce

In the medium- to long-term market, the main challenge exporters' face is a shortage of funding, especially in US dollars.

To support national exports, ECAs, notably in Europe, have launched initiatives as requested by their governments to attract funding from capital markets and non-banking related sources. This is a welcome development, as the real economy, financiers and insurers must join forces to keep global trade flowing.

Medium and long-term cover reached the highest amount ever recorded at USD625 billion in the end of 2012.

BUSINESS TRENDS IN TRADE FACILITATION PROGRAMMES



Multilateral development banks (MDBs) played a mission critical role at the onset of the global financial crisis in 2008. During the prolonged period of uneven economic recovery, MDBs have expanded, diversified, and launched innovative trade finance models. MDBs have been a lifeline for emerging markets and second- and third-tier banks, to support their growing base of small- and medium-sized customers during a time of economic turmoil. Confirming banks have also scaled up dramatically their use of trade facilitation programmes to offset risk amid deleveraging.

The biggest lesson learned from the trade finance programmes of MDBs during this recent period is that, despite providing strong support for high-risk emerging markets, these programmes have recorded no losses. If anything, the involvement of MDBs in trade finance in 2012 has accelerated, and going forward their role will become even more instrumental in supporting global recovery, economic development and poverty alleviation.

Figure 49: Overview of the main trade development banks

	EBRD	IFC	IDB	ADB
Program Title	TFP	GTFP	TFFP	TFP
Number of Countries of Operation	20	94	21	18 (soon to be 19 with expansion to Myanmar)
Program Commencement	1999	2005	2005	2004
Number of Transactions since Commencement (year end 31 Dec 2012)	13,504	25,000	1,079	6,295
Value of Transactions since Commencement	EUR8.8 bn	USD21.8 bn	USD2.62 bn	USD12.6 bn
Number of Confirming Banks	800	1,050	224	120
Claims to Date	2 No losses	0	0	0
Website	ebrd.com/tfp	ifc.org/gtftp	iadb.org	adb.org/tfp

European Bank for Reconstruction and Development (EBRD)

Trade finance wanes in Eastern Europe and CIS

As a fallout from the Eurozone crisis, starting in the second half of 2011, foreign commercial banks in 2012 continued reducing trade finance lending to Eastern Europe and CIS countries, especially to small- and medium-sized banks.

As a result, general export and import volumes were muted in many countries. Especially hard-hit were those Eastern and South-Eastern European countries closely integrated with the Eurozone. Eurozone banks reduced cross-border lending and withdrew financing from their subsidiaries in the region, affecting volumes and capacity of these banks to offer trade finance for international trade. Due to ongoing political and economic instability in Belarus, Ukraine and Kazakhstan, western commercial banks remained cautious in lending.

Baltic countries reported trade finance volume growth, especially for exports, largely due to economic reforms and higher productivity than before the crisis, while resource-rich Mongolia and Russia saw strong demand continue for imports of machinery and investment goods.

Montenegro and Russia became members of the WTO in 2012. Going forward, this will help reduce trade finance barriers and ease the flow of trade finance with these countries, market distortions notwithstanding.

Customs Union kick-starts growth

Since the Customs Union of Russia, Kazakhstan and Belarus was set up in 2009, inter-union trade finance rose around 70% through 2011, as internal border controls were lifted, the market was enlarged, and cross-border production cycles brought into sync.

Due to the shrinking pool of trade finance, small and regional private banks in Russia and other CIS countries continued to ask for the support of EBRD Trade Facilitation Programme (TFP).

The TFP promotes foreign trade in Central and Eastern Europe and the CIS, and more recently to Egypt, Jordan, Morocco and Tunisia, offering guarantees to 104 international confirming banks and factoring companies, and 800 confirming banks worldwide, amounting to a record 1,800 transactions totaling EUR1.1 billion in 2012.

TFP cover was vital for large sums and longer-term trade finance transactions in Russia, Belarus, Ukraine, and Kazakhstan, and for small sums and short-term transaction in Georgia, Azerbaijan, Moldova and Armenia, underlining TFP's value for small- to medium-sized exporters and importers. In Armenia, for example, the average transaction was EUR 130,000 to cover 180 days.

The biggest lesson learned from the trade finance programmes of MDBs during this recent period is that, despite providing strong support for high-risk emerging markets, these programmes have recorded no losses.



450

Intra-regional transactions reached a record in 2012.



Small trade finance lines are at highest risk in non-core countries.

Intra-regional deals at record high

Intra-regional transactions, long a focus of EBRD, reached a record of more than 450 in 2012, and recently included exports of foodstuffs from Ukraine to Azerbaijan, machinery exports from Lithuania to Belarus, and consumer goods from Turkey to Russia.

For banks with very limited or no trade finance experience, TFP provides technical assistance through consultancy services and classroom-style training on UCP 600 rules, URDG 758 rules, trade debt restructuring, and correspondent banking for trade. Since its inception, more than 500 trade specialists from over 130 banks across EBRD region have taken e-Learning courses EBRD developed with the International Chamber of Commerce (ICC) on all ICC international trade-finance products and Incoterms.

The attractiveness of trade finance to banks may also be hurt by changes in the Basel III rules, which may raise conversion factors to 100% for short-term, off balance-sheet products, such as letters of credit and shipping guarantees. These products are currently subject to a 20% credit conversion factor in risk-weighted assets calculations, while L/Cs and other products are subject to a 50% factor. Under Basel III, these conversion factors may be increased to 100%, which may end up sharply raising capital costs for providing trade finance.

Trade finance outlook gloomy for 2013

EBRD's assistance to partner banks and exporters and importers will continue, as these entities feel the aftershocks from the Eurozone crisis and its global repercussions.

International Finance Corporation (IFC)

Demand for short-term facilities from IFC rose to new records in 2012, as traditional trade finance players in emerging markets faced tougher regulations, continued capital constraints, and macroeconomic uncertainty. IFC launched new initiatives to keep working capital flowing to developing country banks and firms.

The IFC's Global Trade Finance Programme (GTFP) now provides guarantees of around USD6 billion of trade finance annually for imports and exports to and from the world's poorest markets. In September 2012, IFC's Board approved a USD2 billion expansion of this programme.

The GTFP supports emerging-market trade in 94 countries through partial or full guarantees for individual trade transactions backed by IFC's triple-A rating. GTFP has proven extremely useful in expanding issuing banks' access to international banks.

An outgrowth of the GTFP, the IFC created a coordinated set of trade and working capital financing programmes to stabilize and foster trade and commodity finance to emerging markets. New trade products, such as the Global Warehouse Finance

Programme and the Critical Commodities Finance Programme, complement IFC's efforts to address critical issues, such as food security.

Support for USD6 billion in trade

In 2012, the GTFP provided guarantees to support individual trade transactions totaling more than USD6 billion, 13 percent more than the previous year and double that of 2009. In response to the Eurozone crisis, IFC approved a three-year extension of its Global Trade Liquidity Programme (GTLP), which uses a portfolio approach for emerging-market banks.

Building on the GTLP, in 2012 IFC introduced the USD2 billion Critical Commodities Finance Programme (CCFP) to finance agricultural producers and energy importers in emerging markets. The total volume of trade in the two instruments is USD36 billion.

Ramping up trade support in Asia

In 2012, IFC expanded trade support, mostly in Asia, with nearly 25 percent year-on-year growth, issuing USD1.2 billion in GTFP guarantees for banks across 10 countries. Vietnamese and Bangladeshi banks remained among IFC's strongest partners, receiving a combined USD900 million in trade guarantees. IFC also increased its trade commitments by 20 percent in the Middle East and Africa, with the greatest demand for GTFP support coming from Lebanon and Pakistan. GTFP commitments in Sub-Saharan Africa also grew to USD1.4 billion in 29 countries, with the greatest share from Nigeria, Kenya, and Ghana.

The largest demand for GTFP still comes from Latin America of USD1.6 billion in guarantees or 27 percent of the total volume. The programme doubled support to Central America to USD600 million, notably in Guatemala, Honduras, Nicaragua, and Panama. In Central and Southern Europe, the GTFP continued to grow through landmark capital equipment transactions in Armenia, Russia, and Turkey.

As constraints on trade and commodity financing continue, especially for smaller markets and clients, IFC's trade finance and working capital support is critical to enable businesses to continue to grow and hire new employees. In 2012, over 80 percent of the guarantees provided under the GTFP went to small and medium-sized enterprises (SMEs), and nearly 60 percent enabled trade in International Development Association (IDA) countries, the World Bank Group's largest source of assistance for the world's 81 poorest countries.

IFC's GTFP signed 15 new confirming banks and 26 new issuing banks in 2012, expanding its potential to create linkages for underserved markets including Bangladesh, Kazakhstan, Laos, and Vietnam in Asia; Congo, Cote d'Ivoire, Sierra Leone, and Tunisia in Africa; Macedonia, Romania, and Turkey in Europe; and Bolivia, Panama, Suriname, and Uruguay in Latin America. IFC's trade advisory services have trained over 4,400 bankers, exporters and importers in 60 countries.

In emerging markets, credit remains tight, access to financing is below pre-crisis levels, and non-performing loans are rising.



**1.2
BILLION**

IFC expanded trade support, mostly in Asia, with nearly 25% year-on-year growth issuing USD1.2 billion in GTFP guarantees for banks across 10 countries.

IFC's trade advisory services have trained over 4,400 bankers, exporters and importers in 60 countries.

Only a third of the world's 60 poorest countries benefit regularly from trade finance.

International banks are competing for the same small pool of first- and second-tier clients, driving pricing down across Asia, Africa and Latin America. But this movement toward lower-risk clients has frozen third-tier banks out of the market in many countries. The end result is that many corporates realized their reliance on large commodity banks for financing was precarious, and they have stepped up their efforts to diversify, seek alternative financing from multilaterals, insurance markets and non-traditional players, and incorporate non-traditional deal structures.

In 2012, IFC closed the first deals under its new supplier finance initiative in China, India, Indonesia, and Mexico. The Global Trade Supplier Finance (GTSF) programme provides short-term financing to producers in emerging markets that sell to large international and established domestic companies on open account.

The Inter-American Development Bank (IDB)

The IDB's access2Trade programme includes trade finance guarantees, loans and co-financing facilities as part of the Trade Finance Facilitation Programme (TFFP), IDB-financed trade funds to mobilize equity investors, specialized trade finance technical assistance and knowledge products. The programme is geared toward augmenting the supply of financing and trade-related infrastructure in Latin America and the Caribbean (LAC), despite uncertainty in international markets.

China lifts intra-regional trade

Global demand fluctuations during the crisis had a dramatic impact on LAC trade. From 2008 to 2009 as the crisis swept over advanced economies, developing countries emerged as key drivers of global demand. In 2010 and 2011, demand from China boosted trade in LAC, which registered 6.3% and 4.5% economic growth respectively, and lifted intra-regional trade.

IDB research shows LAC's exports increased only 1.5% in 2012, after growing over 25% from 2010 to 2011 as the world rebounded from the financial crisis. Imports grew in 2012 slightly faster at 4%, compared with 29% and 22% in 2010 and 2011.

LAC suffered shocks from lower demand in Europe, where LAC exports fell by 5%, and from lower economic growth in China and South Korea. LAC export growth to Asia rose only 1% in 2012. The US provided LAC with the greatest source of bilateral export growth at an estimated 3%.

In 2012, the TFFP included 88 issuing banks in LAC with approved lines over USD1.7 billion and a network of 256 confirming banks in 55 countries. Last year, IDB issued 308 guarantees and seven direct loans amounting to USD772 million.

TFFP guarantees and loans in 2012 increased 15.4% to USD772 million, and instruments issued increased to 315 from 278, a more stable expansion after 65% average annual growth from 2005 to 2012.

IDB's trade finance funds allow the IDB to reach out directly to these importing and exporting companies. Including third-party equity and long-term funding, the funds support importers and exporters, targeting lack of access to finance for end-beneficiaries and ensure funding reaches all sectors. The funds provide a stable source of financing through special-purpose trade vehicles for exporters, especially for SMEs in high impact sectors. These funds complement the services of banks in the region that lack expertise on commodity-based financing or are restricted by Basel III lending requirements.

Amid slow progress in the multilateral trading system, LAC countries have relied heavily on preferential trading arrangements to strengthen integration and development.

Recently several agreements have come into force: Venezuela as a full member of MERCOSUR, launch of the Pacific Alliance, and consolidation of agreements between Mexico and the Central American Common Market (CACM) into a single framework, to name a few.

Exposure limit raised

In response to the global economic crisis of 2008, IDB expanded its TFFP exposure limit to USD1 billion, up from its original USD400 million and modified to allow the issuance of direct loans and support transactions denominated in currencies other than the U.S. dollar, such as the Japanese yen and the euro.

A role for insurers

To lessen the impact of Basel III provisioning requirements, there is room to combine insurance companies, which understand and provide coverage on trade finance portfolios, with banks, which have experience originating trade finance products on a transaction level. Insurance companies are slowly starting to use their liquidity to invest in trade finance instruments. Together these two entities could expand the trade finance market.

IDB with its partners is also exploring the potential of pension funds to expand the region's trade finance markets, which are growing in the region, becoming more flexible, thus making it easier to invest in financial products and instruments and diversify portfolio risk.

Asian Development Bank (ADB)

The Trade Finance Programme (TFP) of ADB fills market gaps for trade finance, providing guarantees and loans through over 200 banks. TFP supported over USD4 billion in trade in 2012. While ADB's TFP operates in 18 countries, its six most active markets are Bangladesh, Mongolia, Pakistan, Sri Lanka, Uzbekistan and Viet Nam. TFP does not assume risk in more developed financial markets, concentrating on filling the biggest market gaps where private sector capacity to provide trade finance is weakest. TFP expanded to Kazakhstan and

The trade finance outlook is stable and may improve for certain LAC economies. Since the economic crisis, LAC countries have struggled with increasing protectionism in global markets and within their own regions.



Investor interest in trade finance is surging at a time when more traditional asset classes have folded.

Kyrgyz Republic in 2012, and is in the process of expanding to Myanmar in 2013.

Focus on intra-regional trade

Half of the 2,032 transactions TFP did in 2012 supported intra-regional trade, including between developing countries of operation and non-operation countries like Australia and Japan. To help manage growing volumes and boost private sector involvement, TFP signed a risk distribution agreement in 2012 with the OPEC Fund for International Development, adding to agreements with Swiss Re and EFIC, Australian export credit agency, and FMO, a Dutch private sector-oriented development agency. Risk sharing with these entities exceeded USD500 million in 2012.

Private sector accented

While ADB deploys its resources to plug gaps, mobilizing the private sector is the main focus, which contributed more than half of TFP's volume in 2012. Partial guarantees by the TFP help the private sector move into 'frontier markets' which shrinks gaps for trade finance.

In 2012 TFP supported over 1,577 small and medium-sized enterprises (SMEs), the engines of job creation.

The gap widens

Regulatory requirements for trade finance have widened the trade finance gap in developing countries, raising the demand for multilateral development banks to help close the gap. ADB's TFP had over 20% growth in Q1 2013.

Myanmar

ADB's TFP is keen on expanding to Myanmar, an exciting new market with huge potential and major challenges. By the fourth quarter 2013, the ADB's TFP expects to make its first transaction in its newest country of operation, Myanmar.

> HIGHLIGHT:

THE ASIAN DEVELOPMENT BANK (ADB) TRADE FINANCE SURVEY

Objectives

ADB conducted a survey in the fourth quarter of 2012 to identify and quantify trade finance gaps, if any, and to better understand the relationship, if any, between these gaps and business expansion and job creation, both of which are very important to economic growth and poverty reduction.

Findings from this study should stimulate debate on the importance of trade finance and draw attention to its implications on growth, jobs, and poverty reduction.

The survey may also stimulate more rigorous and in-depth study in this area (See Figure 51).

Gaps

The total value of trade finance requests received in 2011 by the banks responding to the survey amounted to about USD4.6 trillion. Of this total amount, more than USD1.6 trillion was rejected. This suggests a global unmet demand (or gap) of USD1.6 trillion. Of the USD1.6 trillion, USD425 billion in unmet demand was in developing Asia (See Figure 50).

Figure 50: Proposed trade finance, globally and in Asian developing economies

REGION		TOTAL (USDBN)
Global	Value of proposed trade finance	4,598.08
	Value of trade finance rejected	1,643.76
Asian Developing Economies	Value of proposed trade finance	2,076.01
	Value of trade finance rejected	424.72

Gap's Impact on Growth and Trade

The companies participating in the Asian Development Bank (ADB) survey indicated that a 5% increase in trade finance support would mean a 2% growth in their business and a requirement to hire 2% more staff. The same companies said that a 10% increase in trade finance support would result in 5% more production and 5% more jobs. Reducing unmet demand for trade finance will result in economic growth and job creation.

Reasons for Gap

Surveyed banks identified a number of factors inhibiting their financial support for trade, including poor payment records by correspondent banks, low country ratings in developing countries, and weak banking systems. Another factor aggravating trade finance support identified by banks was more

stringent Basel III regulatory requirements. On average, surveyed banks indicated that they would reduce support to trade finance by about 13% if Basel III is fully implemented. Since the survey was concluded, Basel announced more lenient liquidity requirements for banks (See Figure 52).

This is expected to ease but not eradicate the perceived negative impact that Basel III may unintentionally bring about to trade finance.

Filling Gaps

To fill market gaps in trade finance, multilateral development banks (MDBs) have developed trade finance programs, which provide guarantees and loans to commercial banks to support trade, particularly in the most challenging countries where country ratings are low and banking systems are weak.

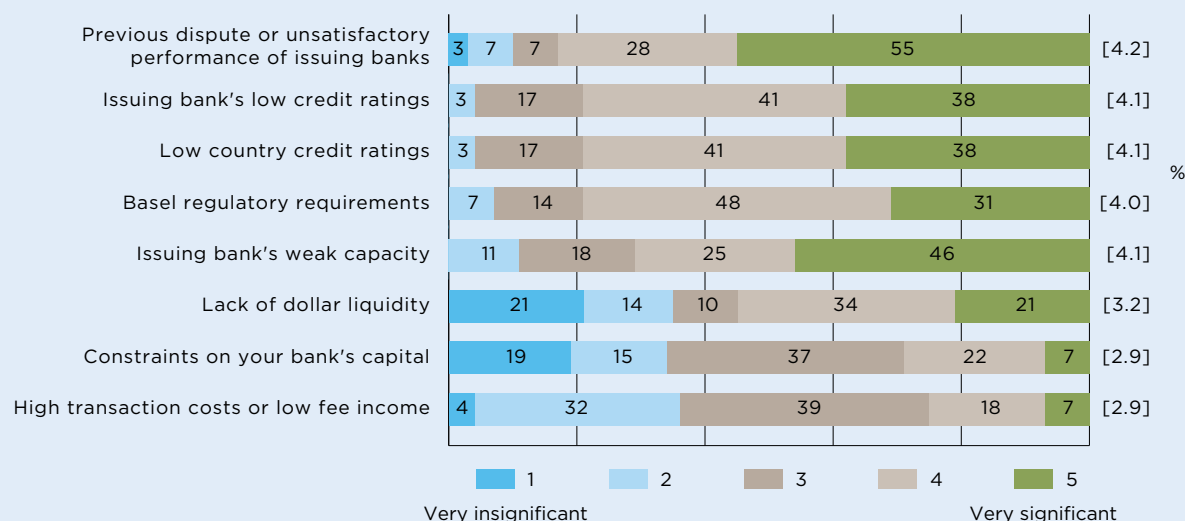
“Dramatic shortfalls in meeting financing needs of importing and exporting companies are exacting a huge toll on job creation and economic growth.”

Steven Beck

Head Trade Finance, Asian Development Bank and serves on the newly created Advisory Board of ICC’s Banking Commission



Figure 51: Biggest obstacles to financing trade for international banks



Over 70% of banks surveyed indicated that ADB’s Trade Finance Program (TFP) is important or very important to supporting trade in developing countries. While the TFP operates in 18 countries and is focused on the poorest markets, its six most active countries are Bangladesh, Mongolia, Pakistan, Sri Lanka, Uzbekistan, and Viet Nam. The TFP is in the process of expanding to Myanmar.

In 2012 alone, the TFP supported USD4 billion in trade through 2,032 transactions involving 1,577 small and medium-sized enterprises.

Surveyed banks indicated that without the ADB TFP, their trade finance support to companies in TFP’s 18 countries of operation would decline by at least 13%. This suggests that ADB TFP supports production and jobs. Moreover, the catalytic impact of ADB, and presumably other MDB trade finance programs, is substantial in

terms of its ability to mobilize private sector capital to support trade, economic growth, jobs, and ultimately poverty reduction in developing countries.

Conclusions

In conclusion, findings from the ADB survey suggest that trade finance gaps exist and need to be addressed because of the strong links between trade finance, business expansion, and job creation. The survey underscores the importance of further study and collaboration among MDBs, government, financial institutions, and companies to ensure maximum financial support to trade is available, given that the interlinked component parts of trade finance, business expansion, and jobs need coordination to create as much growth and poverty reduction as possible.

Figure 52: Reduction in bank support if Basel III is fully implemented

% REDUCTION IN BANK SUPPORT														TOTAL		
	0	2	3	5	10	15	20	25	30	35	40	50	60	N	Ave.	
Banks (%)	22	1	2	14	19	6	15	7	9	1	2	1	1	100	96	13





LOOKING AHEAD

A panel of industry experts share their views on the drivers and solutions to a more robust and resilient market, with a few retrospective observations on the Survey and a call to take part in the next edition.

[Editorial by Pascal Lamy >](#)

[The Interviews >](#)

[Closing Remarks >](#)



EDITORIAL

“There seems to be no overall serious capacity constraint for trade finance on a global level.”

Pascal Lamy

Director-General, World Trade Organization

In your opinion, what are the prevailing market trends in trade finance today? Do you see any sign of recovery on a global and regional basis?

On the current market situation, participants in the WTO Expert Group on Trade Finance agree that volumes in trade finance markets are growing slowly, in line with the relatively slow growth of world trade. However, there seems to be no overall serious capacity constraint on trade finance, at least from a global point of view – although geographically there are tensions in Europe and in other parts of the world. Also, US dollar funding remains an issue outside the United States. Importantly, there is continued stress at the low end of the market. This is a market which is critical for poor and low-income countries or small and medium sized enterprises in middle income countries, hence justifying the continued need for risk mitigation provided by multilateral development banks.

In the wider scheme of things, the trade finance market seems to experience structural changes in market shares, operators and instruments. This has involved shifts away from letters of credit to open account financing in line with the expansion of supply chains and the integration of new countries into such value chains. Less bank intermediation, perhaps more inter-company lending, supported by more trade insurance volumes, and greater interest by non-banks to invest into trade assets; perhaps less convening power by global banks on third party financing, and more by regional banks. However, global and other international trade banks would certainly benefit from the continued expansion of international supply

chains, in which their large clients were key players. This expansion is likely to be driven, as it has been in the past, by the growing import content of exports in all parts of the world.

What are the main ‘Driving Forces’ at play behind trade finance in coming years (Political, Economic, Regulatory, Technological, Environmental)?

The trade finance industry is linked to the pace of expansion and structure of world trade, as the two industries are linked by an almost one-to-one relationship. On the supply side, though, the availability of trade finance is linked to the safety and soundness of the global financial sector, and its ability to support the expansion of global activity.

On the demand side, despite the recent slowdown in world trade, one observes that over the past decade (2001-2011) global trade had grown almost twice as fast as global GDP. The past is not necessarily a good predictor of the future. However, a number of elements lead us to think that the trend towards the opening up of economies to traded goods and investment flows is not reversing, particularly in the developing and emerging world. This means that the demand for trade finance is likely to grow, by and large, with that of trade and investment flows. On the supply side, it will be interesting to see whether and how a financial system that is currently deleveraging will respond to such a demand.

In principle, deleveraging could affect trade finance negatively if new credit was rationed to meet prudential ratios; if it affected the smallest economic agents or credit disproportionately – despite their good credit



or safety record; and, if trade finance was used as a vector for deleveraging by not renewing short-term credit lines. On the other hand, the new prudential system is expected to restore incentives to engage in low-risk, safe financial activities such as trade finance. In that case, lending would be reoriented toward real economy financing, including trade finance. Let us hope that financial intermediaries will continue to respond to the demand from traders. My hope is sustained by the fact that trade assets remain in high demand, because of their excellent quality, underlying value (merchandise) and low default rates.

According to you, what are the main uncertainties in the sector and how do you rank them in order of importance for potentially disrupting the existing business model?

There is a risk, limited in my opinion, that the incentives in the financial sector are not favorable to trade finance. As an example take the case of “re-nationalisation” of lending or excessive focus on the higher yielding activities. A scenario which I do not necessarily believe will happen because trade finance is essentially a demand-driven business. Exporters and importers, who are often large customers, expect their financial intermediaries to support them in their international operations.

Looking forward, in 2018, how would you flesh out a few plausible scenarios for the industry? What are your best-case and worst-case scenarios?

The art of prediction is difficult and one should always build on a good baseline scenario. I have laid out above some structural trends

that seem to be transforming the industry. For example, it is likely that market shares will continue to change, along with the trends of world trade. If Asian or Latin American traders continue to get a higher share of world trade, there is no reason that in the long run the financial institutions that have financed these developments do not also catch a higher share of trade finance markets.

What do you think should be the role of the ICC Banking Commission over the next 5 years, and what are the key issues to address?

Over the past five years, the ICC Banking Commission has proved to be a reliable and effective partner with international organizations interested in trade and development. The ICC’s annual survey on trade finance has been established as a very useful instrument to detect short-term trade finance trends. The ICC Banking Commission has also played an important role in expanding the trade finance register, which was born in the WTO Expert Group on Trade Finance, and which has proven to be a useful fact-finder in the dialogue with Basel regulators.

These are outcomes of the effective collaboration between the industry, the ICC and other professional organizations, and international organisations. Let us hope that such collaboration continues in the future, in particular in areas such as data gathering and trade finance statistics, further expansion of the trade finance register, and the development of training and education modules on trade finance, thus increasing the trade capacity of poorer countries.

THE INTERVIEWS

The ICC Banking Commission also asked seven industry experts to comment on the future shape of trade finance markets.



GEORGINA BAKER

Director of Trade and Supply Chain for International Finance Corporation (IFC)

As Director of Trade and Supply Chain for the International Finance Corporation (IFC), Georgina Baker expanded IFC's short-term finance offerings, which garnered several awards for their role as rapid responders to the recent global financial crisis. In Baker's more than two decades at IFC, she has managed manufacturing and financial investments in many of the world's growing regions from Eastern Europe to South Asia. Georgina serves on the newly-created Advisory Board of ICC's Banking Commission.



DANIEL COTTI

Global Trade Executive,
JP Morgan Treasury Services

Daniel Cotti is in charge of strategy and daily management of JP Morgan's global trade, supply chain, and export finance portfolio. He has a wealth of experience in global trade, cash management, and financial services spanning more than 30 years, previously leading the global trade and supply chain activities for ABN AMRO.



JAMES EMMETT

Global Head of Trade & Receivables Finance, HSBC

James Emmett is responsible for global trade and receivables finance at banking and financial services company HSBC, providing customers from small to very large with financing and risk mitigation for domestic and international trade encompassing the entire supply chain. James serves on the newly-created Advisory Board of ICC's Banking Commission.



CHENG JUN

Global Head of Trade Services, General Manager of Corporate Banking of Bank of China Group

Cheng Jun is in charge of strategic planning and development of trade finance at the Bank of China, where he accumulated over 20 years of experience in the sector. Jun is the former Director of the International Forfeiting Association and has authored many articles on trade finance, and served on many regional committees on banking and trade financing. Cheng serves on the newly-created Advisory Board of ICC's Banking Commission.



FABRICE MOREL

Deputy Secretary General, Berne Union

Fabrice Morel is Deputy Secretary General of the Berne Union. Fabrice previously held senior roles at the Multilateral Investment Guarantee Agency of the World Bank, and at Alliance Group, an international insurer and one of the world's largest asset management firms.



KAH CHYE TAN

Vice Chairman, Corporate Banking, Barclays Bank

Kye Chye Tan is the Chair of the ICC's Banking Commission. Kan Chye leads Barclay's worldwide efforts on trade and working capital. Tan has extensive experience in banking and trade finance, having worked for 20 years in corporate trade and cash roles at Standard Chartered Bank, JP Morgan Chase, Deutsche, and Citibank. He is a member of The Trade Expert Committee of the WTO.



JORGE TAPIA

Managing Director and Global Head of Trade, Export & Commodity Finance at Santander Global Banking & Markets

Jorge Tapia manages a worldwide team of trade specialists as Global Head of Trade, Export, and Commodity Finance at Santander Global Banking and Markets. Tapia also served as the head of market risk, asset and liability management control, and wholesale banking risk control at Santander. Jorge serves on the newly-created Advisory Board of ICC's Banking Commission.



QUESTION 1:

In your opinion, what are the prevailing market trends in trade finance today? Do you see any sign of recovery on a global and regional basis?

► **DANIEL COTTI:** Amid economic slowdowns in many regions, something new is emerging: trade assets, which are shorter term, less risky, and relatively liquid, remain attractive. The result: these assets are in high demand but in short supply, which means excess liquidity in short-term markets, is exerting a downward pressure on pricing. For example, a year ago we charged a Chinese bank 150 Basis points. Today our rate is 40. The risk is the same, but our income is much lower. Banks are going crazy to add short-term risk to their portfolios.

We have veered from the financial crisis to liquidity problems to political and economic problems. This has been caused by the European Central Bank, governments printing money nonstop, and banks adding these assets without taking into account capital requirements and extra costs, just to keep their people working to show shareholders and analysts they are taking action. The situation is complicated and won't be resolved quickly.

We continue to see a slowdown in many parts of the world, underscored by weak underlying demand for trade finance. The traditional powerhouses of China, India, South Korea, and Brazil are all performing below last year at this time.

“We have veered from the financial crisis to liquidity problems to political and economic problems.”

Daniel Cotti



“Trade is forecasted to grow 3.6% and, as we move into 2014, climb to 5.3%.”

Kah Chye Tan

› **KAH CHYE TAN:** The recovery in trade finance will likely be intermittent and heavily dependent on regional dynamics. I do not see a speedy recovery in 2013. However as quantitative easing measures are stepped up, we will see regions that suffered in 2012 start picking up in late 2013 and into 2014. Trade is forecasted to grow 3.6%, and as we move into 2014, climb to 5.3%. In many markets, supply of trade finance is outstripping demand. Bad news for banks but great news for our clients - for whom there is no better time to enter trade finance.

› **JORGE TAPIA:** It's not yet clear. While we see some positive signs, we also see difficulties in the economic underpinnings of countries on both sides of the Atlantic, which analysts say will delay the recovery until the second quarter of 2014.

› **CHENG JUN:** One possible scenario: the global economic and trade environment recovers moderately, with unemployment declining in developed countries, all major economies recovering simultaneously, and emerging economies performing well. As proof, major global indicators of manufacturing, real estate and foreign trade activity all point to a recovery. While uncertainties persist in the recovery of traditional markets, such as Japan, the United States, and the European Union, robust growth of emerging markets such as

the Association of Southeast Asian Nations (ASEAN) and the BRICs will become the major driving force for future global economic growth. The role emerging market economies will play in the consistent rebound of the world economy will be undeniable.

► **GEORGINA BAKER:** The global lending outlook improved in the second half of 2012 and financial markets showed early signs of bouncing back, but the recovery remained fragile. This is especially true for emerging markets, where credit conditions continue to be tight, access to finance remains below pre-crisis levels, and nonperforming loans are on the rise.

► **FABRICE MOREL:** The global trade landscape is going through fundamental changes. While Europe and the US are still the powerhouses of world trade, new patterns are emerging, where the Western consumer is replaced by a myriad of consumers in emerging countries. This is evident in short-term (ST) export credit insurance, where China and Brazil have entered the list of top destination countries for consumer goods exports insured by Berne Union members a few years ago, and now rank 6th and 9th respectively.

The view that global growth will be driven by emerging markets is also corroborated by the fact that the share of ST credit limits granted by Berne Union members for trade to non-OECD countries has increased from 24% in 2005 to 35% in 2012. In a recent survey, all but one Asian member of the Berne Union indicated that they have observed an increase of intra-Asian trade in the past two years.

Regarding capital goods exports to emerging markets, south-south trade is growing and the traditional exporters from Europe, Japan and North America face competition from emerging market exporters. As a consequence, state-backed export credit agencies from countries like Brazil, China or South Africa have considerably strengthened their business over the years. However, the strong and sustained demand from emerging markets for capital goods should ensure that there is room for all players in that business.



35%

The view that global growth will be driven by emerging markets is also corroborated by the fact that the share of ST credit limits granted by Berne Union members for trade to non-OECD countries has increased from 24% in 2005 to 35% in 2012.

“The global lending outlook improved in the second half of 2012 and the financial markets showed early signs of bouncing back, but the recovery remained fragile.”

Georgina Baker

“Large emerging market economies are set to generate lion’s share of GDP growth in the near-term... However, we don’t believe trade opportunities will be restricted to emerging economies. We are already seeing those nations who have raised their exposure to China outperform other economies.”

James Emmett

Global trade volumes have quickly recovered to reach pre-crisis levels in 2011 but have been flat in 2012. However, much of international trade remains untapped and credit insurers can grow their business even while global growth is flat or negative.

► **JAMES EMMETT:** Large emerging market economies are set to generate lion’s share of GDP growth in the near-term. This is likely to drive a rebound in world trade, with the emerging economies of Asia (excluding Japan) proving particularly dynamic. HSBC expects China to grow by 8.2% this year and by even more in 2014.

This trend is set to continue in the longer term, with India, Vietnam and China all expected to post double-digit annual growth throughout the period 2013-20.

However, we don’t believe trade opportunities will be restricted to emerging economies. We are already seeing those nations who have raised their exposure to China outperform other economies. While it is the case today that advanced economies conduct the majority of their trade with other developed economies, research suggests that a growing share of these exports will be directed to the emerging markets. For instance, HSBC expects UK merchandise exports to Asia to grow at an average pace of 9% a year over the period 2013-15, which is more than twice the average annual growth expected for exports to Continental Europe, of under 4%.

Unsurprisingly, China is one of the most dynamic export stories, one which is being driven by the industrial machinery and ICT equipment sectors. In fact, these two sectors alone are expected to account for around half of the forecast growth in China’s total exports, illustrating the shift towards higher value-added sectors in China as wages rise.

Looking ahead, as further supply chain efficiencies are sought, there will be increased demand for open account, but will not replace demand for traditional trade instruments, such as letters of credit, which will continue to bridge the “trust-gap” especially in emerging markets. In addition, the development of alternate pre-shipment financing capabilities for suppliers will also continue to be important.



8.6%

HSBC expects China to grow by 8.6% this year and by even more in 2014.



QUESTION 2:

What are the main ‘Driving Forces’ at play behind trade finance in coming years (Political, Economic, Regulatory, Technological, Environmental)?

► **KAH CHYE TAN:** Since the financial crisis, bank-to-bank trade finance has been growing. This is the preferred method banks in emerging markets are using. In Colombia, Russia, Turkey, Pakistan, and the Philippines, growth rates in bank-to-bank trade financing from advanced economies has outpaced those for non-bank loans by over 30% since the low water mark of 2010. We see a similar trend across Latin America, and in Africa and the Middle East to a lesser extent. As trade flows between Latin America and Asia increase, the need for bank-to-bank financing will keep on rising.

Another trend we see due to the limited access to credit in Europe is the growth in open account finance. Small and medium-sized enterprises in the Eurozone reported continued difficulties securing bank finance in late 2011 (ECB SAFE Survey). Tightness in credit markets will continue to fuel alternatives, such as factoring and asset-based lending.

► **DANIEL COTTI:** The foundational shift in the regulatory environment cannot be ignored - new regulators, new legislation, stricter interpretations of the rules, and tougher enforcement. Coupled with the impact of Basel III requirements, the costs and complexity of trade finance are rising rapidly, without a supporting increase in pricing. The effect of these factors on the competitive landscape will be inescapable.


► **JORGE TAPIA:** Banks are concentrating their efforts on low capital, easy-to-mobilize assets, where trade finance has a competitive advantage; credit departments decide where to deploy the capital and the liquidity, notably in ECAs.

► **CHENG JUN:** Supply chain finance will be the major source of innovation in trade finance, amid the continued rapid transformation in the industrial division of labor, trade between core enterprises in the supply chain and its upstream and downstream enterprises.

Companies will demand comprehensive financial services as a part of supply chain management practices, including financing, hedging and settlement.

“Growth rates in bank-to-bank trade finance in Columbia, Russia, Turkey, Pakistan, and the Philippines has outpaced those for non-bank loans by over 30% since 2010.”

Cheng Jun



“European banks’ liquidity premiums are almost back to normal.”

Georgina Baker

30%

Columbia, Russia, Turkey, Pakistan, and the Philippines: growth rates in bank-to-bank trade financing from advance economies has outpaced those for non-bank loans by over 30% since the low water mark of 2010.

“Economic growth patterns are more scattered and more difficult to interpret.”

Daniel Cotti

Trade finance and IT will be more interwoven. As the world economy becomes further integrated, trading parties will demand faster and more efficient payment of banking services instead of the credit support, driving banks to create new products and services with information technologies.

Trade finance will become more closely aligned with the industry chain, taking full advantage of peripheral platforms such as logistics, regulation and transaction systems, and become a major source of financial innovation.

► **GEORGINA BAKER:** As European banks’ capacity and appetite for trade and commodity finance continues to wane, Asian, American and emerging market banks are growing their presence in this space. But the adjustment to the European crisis has significantly lagged behind market needs. New players face challenges in developing correspondent banking relationships, establishing counterparty limits, and implementing Know Your Customer (KYC) protocols, especially in the poorest countries facing the largest gaps.

► **JAMES EMMETT:** The ‘export agenda’ developing countries are pursuing, targeted at increasing trade as an antidote to low growth post-crisis. Given the different regulations within each country, we believe it is of critical importance that there is a coordinated approach to trade agreements, as the world becomes more interconnected and new generations of FTA agreements are concluded. In particular, while the development of bilateral and multilateral trade agreements will have a potentially positive impact, they should be designed with the possibility of future multilateral-level agreements in mind. Key to this will be coordination amongst regulators and negotiators, which should help ensure the most equitable outcome for the all countries involved in these new trade agreements.

As for technology, the biggest driver will be the increasing need for advanced infrastructure systems, which will enable a wider spectrum of trade finance capabilities. We believe changes will include more streamlined, open architecture solutions to simplify client on-boarding/access, and growth in low-cost vendor platforms, enhancing local player competitiveness.

Driven by the increasing importance of China to the global economy, perhaps the biggest economic driving force for trade over the next generation will be the rise of the country’s currency, the Renminbi (RMB). Indeed, HSBC’s forecast for the period 2013-2015 predicts a surge in global RMB trade settlement transactions, with USD2 trillion in annual trade flows settled in RMB, which represents half of China’s total trade flows with emerging markets. We also believe that the faster growth predicted for China, compared to that of its main trading partners, will support the gradual appreciation of RMB, which will reinforce the currency’s role in the global trade cycle.

Finally, while the proposed Basel 3 liquidity rules are broadly supportive of trade finance as an asset class, the impact these changes will have on individual providers will vary.



› **CHENG JUN:** The New Basel Capital Accord carefully manages the risks of commercial banks quantitatively, which will significantly improve the risk management of trade finance. In turn, banks must reform their allocation of internal resources and performance assessment, from a returns-oriented approach to a more scientific, modern one that takes risk, return, and capital cost into consideration.

› **GEORGINA BAKER:** Regulatory requirements have made KYC procedures prohibitive, especially in markets where business activity doesn't justify opening correspondent lines. Meanwhile, intraregional and South-South trade are picking up as manufacturers seek new places to sell their goods, but these markets represent only a fraction of Europe's demand. Corporates in these markets will increasingly strive to diversify their funding sources, seek alternative financing from multilaterals, insurance markets and non-traditional players, and incorporate non-traditional deal structures into their work.

› **JORGE TAPIA:** We see political forces coming to the fore. With anemic economic growth, trade finance is seen as driver to boost economies through domestic and cross-border trade. The conclusions of the G20 have proven essential to mitigate unexpected consequences of the new regulations.

We expect politicians to take a more active role on country defaults. The experience of Argentina, Kazakhstan and other countries has proven that trade finance debt was repaid. We are asking for a more resilient process to protect trade finance from country defaults. We see the IMF in the driver's seat on this, following the G20 mandate.

› **DANIEL COTTI:** Technology has the potential to revolutionize trade finance over the next five years. With the advent of Swift Trade, TSU, and the BPO, the industry will be far better

“Thanks to the new Basel Capital Accord, trade finance products which need little capital investment but generate high returns will have more room for development.”

Cheng Jun



2022

The World Bank predicts south-south trade will represent half of the developing country exports by 2022.

1.7 USD TRILLION

The Berne Union Group of Export Credit Agencies provided short-term insurance to USD1.7 trillion worth of exports, nearly USD250 billion more than the previous peak.

positioned to facilitate risk mitigation and financing through an exchange of data, rather than paper. We can fundamentally change the way products and services are delivered, better aligned with our corporate clients' automated and highly data driven processes. That being said, broader availability of information will be a great equalizer and most likely prices will fall, since more market participants will have the same information - and more quickly, erasing the advantage of those who previously controlled the information.

› **KAH CHYE TAN:** As a result of tough credit and economic conditions affecting SMEs and global corporates, we're seeing more companies support partners along the value chain. The size of the cross-border supply chain finance market in the UK, France and Germany alone is over €460 billion, whereas bank penetration is thought to be 5-10%.

› **DANIEL COTTI:** In 2014, many competitors will become more aware of the impact of Basel III on their balance sheets, so they will raise prices, reallocate capacity to less capital intensive products, and maybe even exit the business. Less developed economies will find themselves institutionally frozen out of the trade finance market due to tightening KYC standards on less transparent economic actors.

› **FABRICE MOREL:** Regarding credit insurance, as more and more exporters and banks seek protection for their trade receivables; this generates attractive business opportunities for credit insurers. The demand is driven by the current volatility in the global environment, which makes a compelling case for risk mitigation through credit insurance.

Technology has a huge potential to help in delivering credit insurance more efficiently and additional services can be offered to make life easier for exporters. In fact, credit insurers already deliver more services to their customers than pure insurance protection. The range of products goes from credit information services up to the full outsourcing of receivables management.

In a general sense, credit and political risk insurers have a role to play in supporting the spreading of new technologies, for example on products and services to safeguard the environment. These are the exports of the future, and stated-backed export credit agencies have a clear mandate to support these sectors where transactions can be particularly risky.

While all of these are driving forces which will boost credit insurance, be it from the demand or the supply side, the regulatory environment is a new and unfamiliar risk for credit insurers. The increased regulatory burden for banks and insurers has the potential to reduce credit insurance either directly or indirectly and dent the market for trade finance, upon which a part of the insurers' business depends.



QUESTION 3:

According to you, what are the main uncertainties in the sector and how do you rank them in order of importance for potentially disrupting the existing business model?

► **CHENG JUN:** I would rank trade protectionism, financial disintermediation and the blending of industry and finance, and new regulatory policy barriers, in descending order.

► **GEORGINA BAKER:** The biggest uncertainty is how new regulations will impact the global lending environment. At present, reporting is not standardized, and there is widespread confusion in the industry over the cumulative effects of new regulations, with Basel III, Dodd-Frank, insurance standards, and other new requirements in various stages of rollout. The aggregate costs of complying with all of these new regulations have not been quantified. On top of this, the playing field is not level between Europe, the U.S., and Asia. European banks feel they are being treated more stringently than their counterparts in other regions.

We are seeing that a lack of clarity among industry players is resulting in the reduced availability of credit. As banks assess their geographically dispersed operations, entire programs and countries, particularly emerging markets, are on the chopping block, and small businesses and agricultural producers are at the greatest risk.

► **JORGE TAPIA:** The main uncertainties are macro-economic. If economies are not recovering, trade finance will not grow. You need economic growth to build a solid base of high-quality trade assets.

► **DANIEL COTTI:** Regulatory compliance, KYC, and the prospect of another global economic slowdown are the main risks and unknowns. Not only are KYC rules changing and increasingly overlapping, they vary from jurisdiction to jurisdiction and can be extremely difficult to interpret and apply effectively. The same can be said for regulations.

40%

“Bank estimates put the cost impact of Basel III as high as 40% and customer pricing could go up by more than 20%”

Kah Chye Tan

“The main uncertainties are macro-economic. If economies are not recovering, trade finance will not grow.”

Jorge Tapia



“While the need for strong and effective regulation in the financial sector is undisputed, the combined consequences on trade and trade finance are unclear.”

Fabrice Morel

› **KAH CHYE TAN:** Local governments must also re-examine growth expectations in Asia, as these countries struggle to keep up with recent rates of economic growth. The EU has positioned itself well to lead the Eurozone to recovery by putting in place corrective measures, however it is important that the same focus for change takes place in other regions such as Asia and Latin America, otherwise we will open ourselves up to further pricing arbitrage.

› **FABRICE MOREL:** The regulatory environment is probably the major uncertainty for the industry. While the merits of each piece of regulation are being discussed widely in various forums, the sheer volume of different regulations that affects credit insurers and trade finance banks can potentially be disruptive to business growth. The cumulative impact of Basel III, KYC standards, Solvency II, sanctions and all kinds of local regulatory and compliance issues is hard to predict.

While the need for strong and effective regulation in the financial sector is undisputed, the combined consequences on trade and trade finance are unclear. In the worst case, trade finance banks will concentrate on financing big ticket deals with top tier obligors, leaving the less developed and less transparent economies with smaller borrowers locked out from access to trade finance.



QUESTION 4:

Looking forward, in 2018, how would you flesh out a few plausible scenarios for the industry? What are your best-case and worst-case scenarios?

► **FABRICE MOREL:** In a best-case scenario, the world will have returned to healthy growth with the general understanding that trade is the key to global growth and development, and that protectionist policies are not an answer to economic challenges. The demand for credit insurance will strongly benefit from the recognition that it provides simple and cost effective protection against risks in international trade. Penetration rates for credit insurance will increase, and the product will continue to significantly contribute to support global growth. Credit insurers will continue to charge premium rates commensurate with the risks they are taking.

Worst-case would be another severe global economic slowdown, with drastically reduced trade volumes and increased buyer defaults at a global level, which would translate into heavy losses for the credit insurance industry.

► **JAMES EMMETT:** The outlook for global growth appears significantly brighter than 12 months ago, with world GDP expected to increase to approximately 5% in the period leading up to 2018. Asian emerging markets are likely to be a significant driver of trade growth and as they move up the value chain, and are expected to expand their share of global GDP.

“The outlook for global growth appears significantly brighter than 12 months ago, with the world GDP expected to increase to approximately 5% in the period leading up to 2018.”

James Emmett



30 USD BILLION

“A return to 2011 levels would have the effect of adding at least USD30 billion to Documentary Collections and LC volumes.”

Kah Chye Tan

› **GEORGINA BAKER:** In five years, China will have undoubtedly taken on a larger role on the global stage. Specific to the trade finance industry, there are already many banks seeking to support RMB-denominated trade. South-South flows will have strengthened. Global banks will have mostly moved away from a buy and hold strategy to one of originate and place with regard to trade finance assets. With proper performance tracking and standardization of terms, this market shift will have given rise to a large secondary market that attracts institutional investors and other non-bank financial players.

Best-case: Most trade will be done on an open account basis, leaving banks to provide more tailored products like supply chain finance. Intraregional trade will continue to grow, especially in Africa, thanks to investment in the infrastructure necessary to move goods back and forth between warehouses, markets, and ports. Regional banks will move fully to fill the gap left in the aftermath of the European banks' departure from the market, either by developing the capacity themselves or by buying their predecessors' trade business.

Worst-case: If banks are unable to distribute their trade assets, they will get out of the trade finance business entirely. Smaller

players and companies in higher-risk markets will continue to lack access to finance, have the best terms and conditions withheld, and find themselves marginalized. Banks' SME customers will not get very much support; any support they do receive will only be at exorbitant rates.

► **KAH CHYE TAN:** Based on the current state of affairs, a best-case scenario would see further compromise on the capital treatment of trade finance, whether at the supranational level, or in national implementation. We'd also expect to see a credible plan in place for the budget issues that are plaguing certain countries, leading to restored confidence and an early stage recovery. A type of normalcy would return to the credit markets with the unwinding of QE, and liquidity levels and yields would stabilize around historic norms.

As trade picks up, we would expect to see a recovery of LC and Collections issuance from developed economies that witnessed a drop. A return to 2011 levels would have the effect of adding at least USD30 billion to Documentary Collections and LC volumes, a 1% boost to global volumes. A growing use of securitization, open account and supply chain finance would complement more modest growth in documentary trade. In 2011 world factoring volumes reached EUR2 trillion. With historical growth rates above 10%, the receivables finance market may well surpass traditional documentary trade within the next three years, if it hasn't already. About 80% of world trade is done on open account, leaving significant room for growth.

A more pessimistic scenario would see little change in the supranational regulatory environment. Treatment of trade finance would be left to national regulators, which would see varying degrees of easing. Stagnation can be expected in documentary trade volumes, as regulatory costs offset gains from trade growth. A compromise of sorts will be reached in the US deficit standoff, and Europe will eventually move to a fragile, if uneven and volatile, recovery. A shift to open account and supply chain finance is more likely, as credit is likely to remain constrained.

► **CHENG JUN:** Best-case, developed economies in Europe and America recover gradually, world trade will gain more momentum. The emerging markets will take a larger proportion

80%

"80% of world trade is done on open account, leaving significant room for improvement"

Kah Chye Tan



"Best-case, developed economies in Europe and America recover gradually, world trade will gain more momentum."

Cheng Jun

“Trade finance supports this growth with a wider product range, with a lower volume of documentary credit versus open account.”

Jorge Tapia

in and make greater contribution to the world economy. Enterprises' demand for settlement and financing under the trade account will grow, bringing opportunities for the development of banks' trade finance business.

As the new operational mode of global trade bank (GTB) being practiced in developed and emerging markets, banks' traditional international trade services are increasingly transformed into a part of the product portfolio of multinational financial management, extending to comprehensive financial services covering the whole industry chain to drive trade finance business to transit to a higher level.

Worst-case, the world economy stays in recession, with a gloomy outlook continuing in developed economies, and fiscal and financial policies playing a limited role, while newer economies face the dual pressures of rising inflation and declining economic growth. World trade remains weak, and trade conflicts intensify, while trade protectionism becomes more complicated and harder to quantify, expanding into financial, high-tech and new energy industries.

› **JORGE TAPIA:** I am optimistic and only see a best-case by 2018: by then economies will recover fully, confidence in goods and financial services markets returns, and trade, domestically and cross border, grow strongly. Trade finance supports this growth with a wider product range, with a lower volume of documentary credit versus open account. In the end, the trade finance industry emerges stronger, as one of the products with a higher yield on capital. Politicians take the right measures to control the repayment of debt in situations of sovereign default.

› **DANIEL COTTI:** In the best-case scenario, a relatively small number of sophisticated bank providers, working side-by-side with multi-lateral banks, provide trade finance that is priced adequately and rationally. Technology ensures high level of productivity and secures data, which has integrity and is evaluated within a standard global compliance framework. Worst-case, a patchwork of protectionist, insular national economies emerges, with clients focused on the home market, governments trying to limit competition from abroad, with lower cross-border exchanges of goods, services, and intellectual capital.





QUESTION 5:

What do you think should be the role of the ICC Banking Commission over the next 5 years, and what are the key issues to address?

► **CHENG JUN:** To support a recovery in trade and the economy, address the shortage of trade financing, and forge closer communications links with regulators, with the overall aim of seeking adjustment in necessary provisions.

Revise the rules and regulations for settlement, promote trade and economic and exchanges and commercial arbitration, and expand into new trade finance businesses. Strengthen cooperation with multilateral banks and international organizations including the WTO, IFC and ADB; study financial and technological developments, economic environment, regulatory environment and trade protectionism; and explore opportunities for business cooperation and development in trade finance.

► **GEORGINA BAKER:** Help banks define terms of compliance building on the existing body of work, most importantly for national regulators, and help manage reputational risks through an environmental and social sustainability framework. Alongside WTO, BAFT, and others, harmonize an approach to global industry constraints to doing business in trade finance. Crowd institutional investors and insurers into the trade finance space, and establish a framework so they are comfortable investing in this asset class.

► **JORGE TAPIA:** Act as the main counterparty with politicians on sovereign defaults. Consolidate data from the banks as continued evidence that trade finance is a low risk asset. To serve as an essential tool in all discussions on the sector, ICC's default register should strive to cover the full range of trade finance products.

► **DANIEL COTTI:** Create global definitions of trade products, and further define and standardize their documentation. Help develop standard, broadly understood, and generally accepted trade-related asset classes, which could become marketable securities.

“The unique values of trade finance should be stressed: it’s stability, low risk and high profitability. This helps promote a sustainable banking industry, which furthers global economic recovery and prosperity.”

Cheng Jun



“Support the standardization around open account, now the largest source of financing and growth.”

Kah Chye Tan

Lead an effort in writing directives, to give the industry a practical roadmap for implementing, in a standard and transparent way, the Wolfsberg Principles on anti-money laundering, and other industry guidelines.

Influence, direct, and codify how new communications platforms and electronic formats, such as SWIFT tools, are deployed, to ensure they have a positive effect on the trade finance market and in the spirit of collaboration.

› **KAH CHYE TAN:** Ensure efforts are taken to create measures supporting access to trade finance for low-income countries and small banks in developing countries. Adequate and affordable access to trade finance is fundamental to economic growth and recovery.

Support standardization around open account, now the largest source of financing for global trade.

› **JAMES EMMETT:** Continue to focus on strengthening the infrastructure of international trade and playing a leading role in the on-going development of trade knowledge.

› **FABRICE MOREL:** Sustain work on the Trade Register, which is fundamental in providing evidence that trade and export finance are low-risk banking activities, and they provide crucial support to the real economy.

CLOSING REMARKS

“Thanks to you, the ICC Global Survey 2013 successfully provides the most comprehensive and insightful look at today’s trade finance industry.”

Thierry Senechal

The changes and additions to this latest Report expand our scope and take the global conversation to a higher level. This year once again, we have managed to survey this vast market, while bringing on board new partners, such as the International Trade Centre (ITC) and Factors Chain International (FCI).

This report now counts the highest number of banks around the world who provided data and views, allowing us to hold substantive discussions with industry leaders. We believe a deep and wide dialogue on solid market intelligence is fundamental to bring new ideas to the table and alleviate future risks.

We have heard and adopted many suggestions on where we should focus our efforts in the future, and our team has now laid the groundwork to see these projects through in the coming years. These efforts notwithstanding, we would like to formally invite you to take part in our upcoming ICC Global Survey 2014.

In closing, on behalf of our partners, sponsors, and staff, we would like to express our sincerest appreciation again to all those of you who contributed to the making of this report. Going forward, we trust that we will always be able to count on your commitment to the ICC Banking Commission, as we continue building our reputation as the most authoritative voice on trade finance.

Thank you.

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The ICC Banking Commission and ICC International Centre for Expertise administer the ICC Rules for Documentary Instruments Dispute Resolution Expertise (DOCDEX) to facilitate the rapid settlement of disputes arising in banking.

EDUCATION AND CERTIFICATION

Over ten thousand people in over 100 countries have trained and certified in international trade finance using our suite of ICC approved online training services and certification facilities.

SPECIALIZED TRAININGS AND EVENTS

In addition to its bi-annual summit gathering +300 international delegates every six months, the ICC Banking Commission organizes regular seminars and conferences around the world, in partnerships with ICC National Committees and other sponsors.

STRATEGIC PARTNERSHIPS

Well-established collaboration with leading policy makers and trade association, including WTO (World Trade Organization), ADB (Asian Development Bank), Berne Union, EBRD (European Bank for Reconstruction and Development), IDB (Inter-American Development Bank), IFC (International Finance Corporation), IMF (International Monetary Fund), SWIFT, the World Bank and others.



International Chamber of Commerce

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