

Discussion on...

***“Unlocking Finance and Trade”
: A Microscopic View***

Bank of Thailand Symposium 2016

Centara Grand Hotel at Central World

Commented by Dr. Rak Vorrakitpokatorn

Senior Executive Vice President

EXPORT-IMPORT BANK OF THAILAND (EXIM)



Overview

The Paper in Brief



Points of Discussion



Policy Recommendations



Good for looking at another side of the mirror to explain the slowdown of Thai export

Strengths

Interesting topic that hasn't frequently seen in Thailand

Well-organized tons of economic data

Excellent prototype for continuing study in other related areas

Add more descriptive explanation in the paper

Add more policy recommendations

Suggestions

The Paper in Brief

Main Question : Why export shrank more than GDP in the crisis?

Key Assumption : Trade finance constraint is the main problem

Results : The effects of trade finance on export are separated into 3 dimensions;

1. **Intensive Margin** : Impact on increasing of the same export product in the same market

Trade finance esp. W/C



Export



2. **Extensive Margin** : Impact on more variety of products, more markets and becoming exporters

Trade Finance



Export more products



Access more markets



Becoming export firms



3. **Heterogeneous Effects** : Impact on differences of firm size, type of shipment, quality of financial institution in destination country and level of interaction between trading partners

Smaller Firms

Low quality of financial int.

Export by Sea

Low interact b/w partners

Export finished products



Trade Finance



High Elasticity

More Export



Export elasticity varies across industries



Misallocation of trade finance

Points of View



1. Trade Structure Issue



2. Trade Finance Issue



3. Data Issue



Points of View : Key Concept

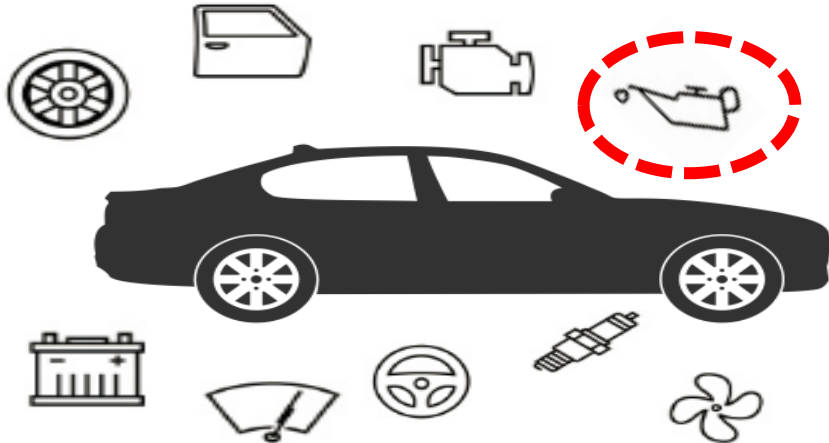
If we assume **export's** like a car



Trade Finance's just one part of the car
to make it moves



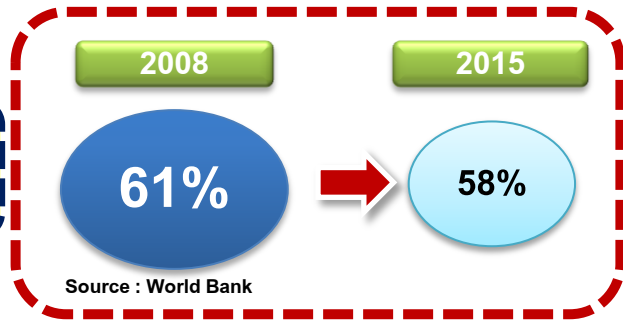
Trade Finance is often
explained as a
lubricant of export



Point of Discussion : 1. Trade Structure Issue

Global trade structure has changed and affected by many factors during crises that scaled down the size of international trade market as a whole

World Trade
(% of GDP)



Negative Factors



More domestic production and Reshoring



Investment induces Trade/ Merger & Acquisition (M&A)



Innovative financial products to invest in destination country instead of export



Anti-Globalization/ Populist Leaders/ NTMs

In crisis, connected global supply chain caused trade value decreasing more than demand

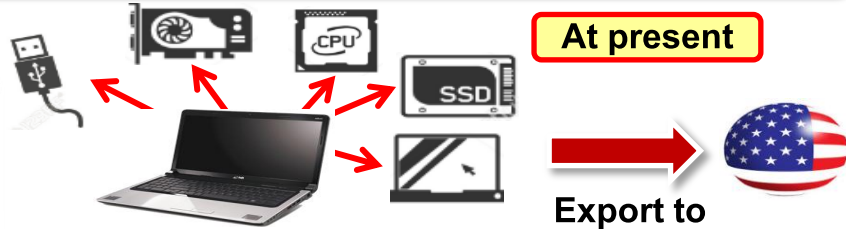
In the past



1 product produced by 1 country



At present



1 product produced by various countries

Point of Discussion : 1. Trade Structure Issue

Declining Thai export growth is caused by many factors other than Trade Finance

Internal Structural Problems

- Labor Shortage and Higher Cost of Labor
- Lack of Innovation and Technological Development

Small groups of MNCs have driven total Thai Export (over 50% of total export value)

- Automobiles, Electronics, Appliances and so on

No Power of Market Pricing

- OEM in Manufacturing Products
- Agricultural Products (Homogenous goods)

Some Thai and MNCs Entrepreneurs are moving out

Premium Market

Thai products do not have enough innovation and creativity

Thai Export's been pressured by both markets

Mass Market

Thai products lost comparative advantage in price

Point of Discussion : 2. Trade Finance Issue

Exporters need not only loans, but also other trade finance instruments

To Raise Capital

Loans

(Working Capital/ Long-Term Loan)

Buyer/Supplier Credits

B2B Lending

Leasing

Inventory Financing

To Mitigate Risks

Export Insurance

Export Credit
Guarantee

Factoring/ Forfeiting

Forward/Swap/Option

To Make Settlement

Advance Payment

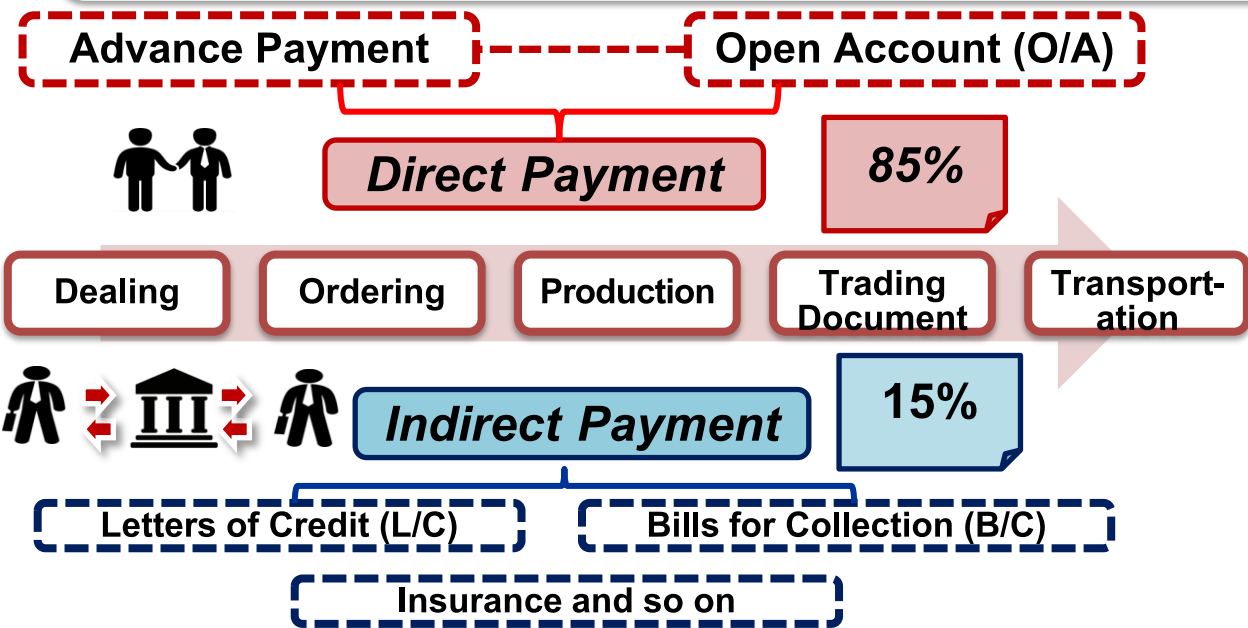
Open Account (O/A)

Letters of Credit (L/C)

Bills for Collection (B/C)

Point of Discussion : 2. Trade Finance Issue

Most of exporters haven't done international transaction via financial intermediaries, but they use trust between trading partners

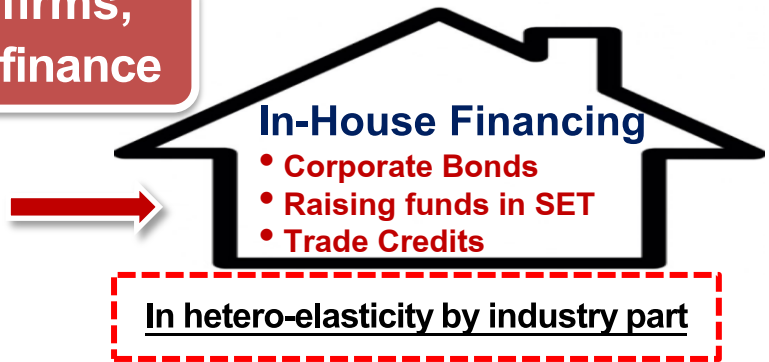
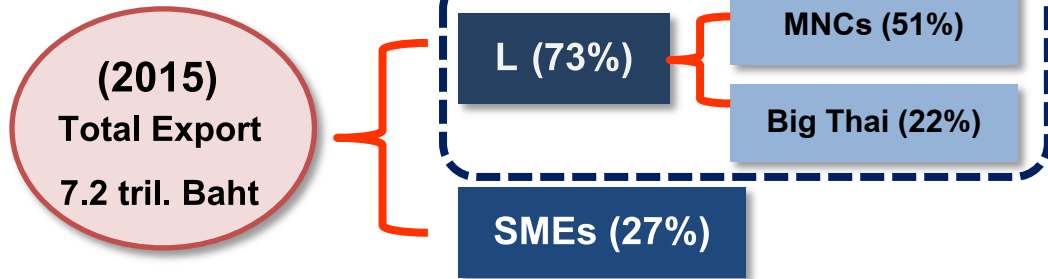


Lesson Learned
Launching new product :
“Super Value Export Credit”
(3.99% interest rate)
First few months : Required L/C
↓
Adjust to : Non-L/C
(Because 80-90% of customers use O/A term of payment)

Roles of traditional financial intermediaries are decreasing over time

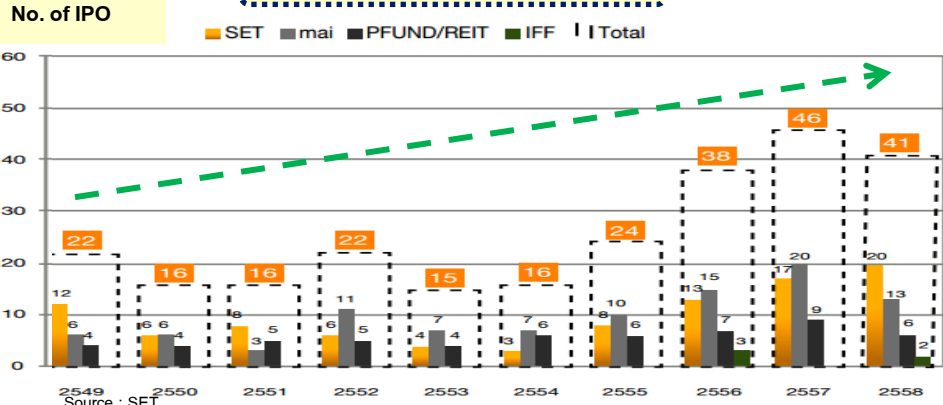
Point of Discussion : 2. Trade Finance Issue

Thai export sector has been driven by large firms, especially MNCs that mostly need less external finance

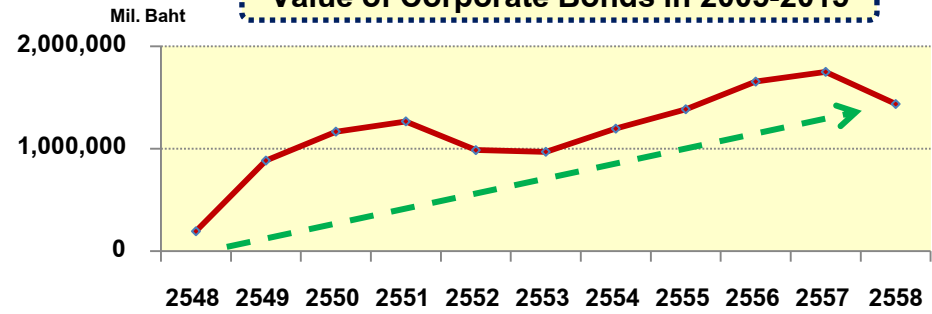


Why not exclude MNCs & Big Thai, it might show **different results** of elasticity across industries that truly need credits indeed

No. of IPO in 2006-2015



Value of Corporate Bonds in 2005-2015



Point of Discussion : 3. Data Issue

Remarks

Credits

- Credit growth might not be only one factor to **represent financial constraints**, it should also consider **rejection & credit penetration rate**
- L/T credit might be used for both **domestic and export markets**
- L/T credit might be used in short-term purpose (**Mismatch**)
- W/C should be used in term of **“turnover” to show relevant results**

No. of Exporters

- The data might **include 1 time exporter**
- In the paper : 90,019 exporters of 279,913 \Rightarrow **32% are exporters**
 - The OSMEP : 36,000 of 2.8 million \Rightarrow **Only 1.2% are exporters**

Types of Entrepreneur

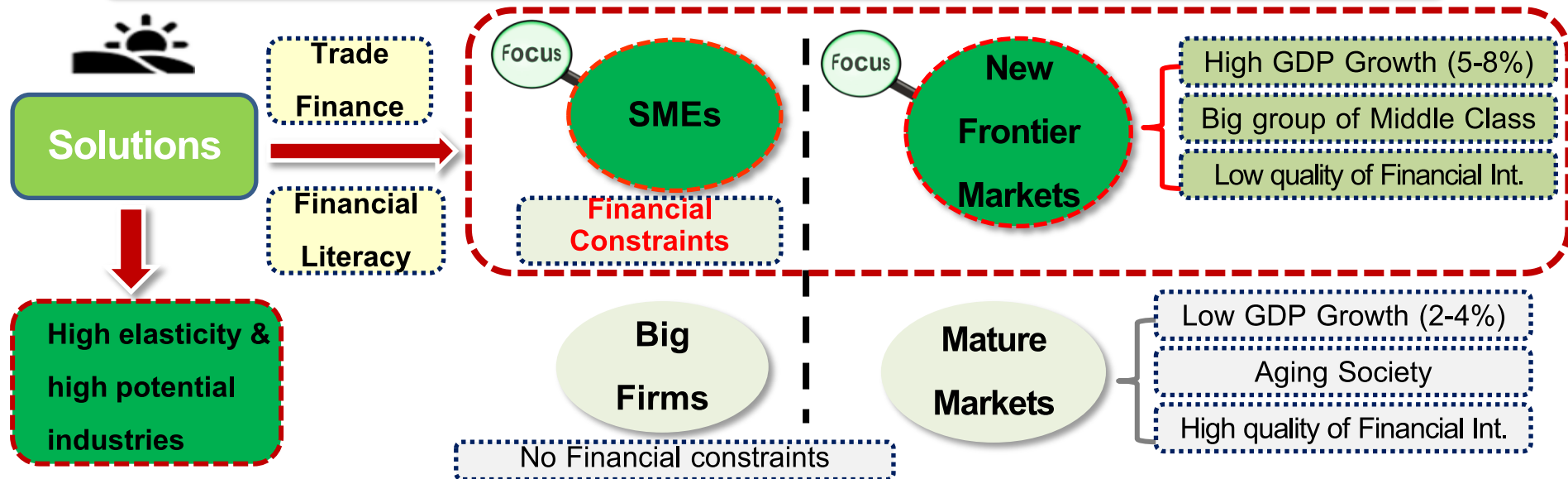
- Types of entrepreneur might be **misleadingly classified**
- In the paper, the data consists credit line above 20 mil. baht
 - In Practical, Credit line above 20 mil. baht is too much for small enterprises

Policy Recommendations

Key answer of the paper

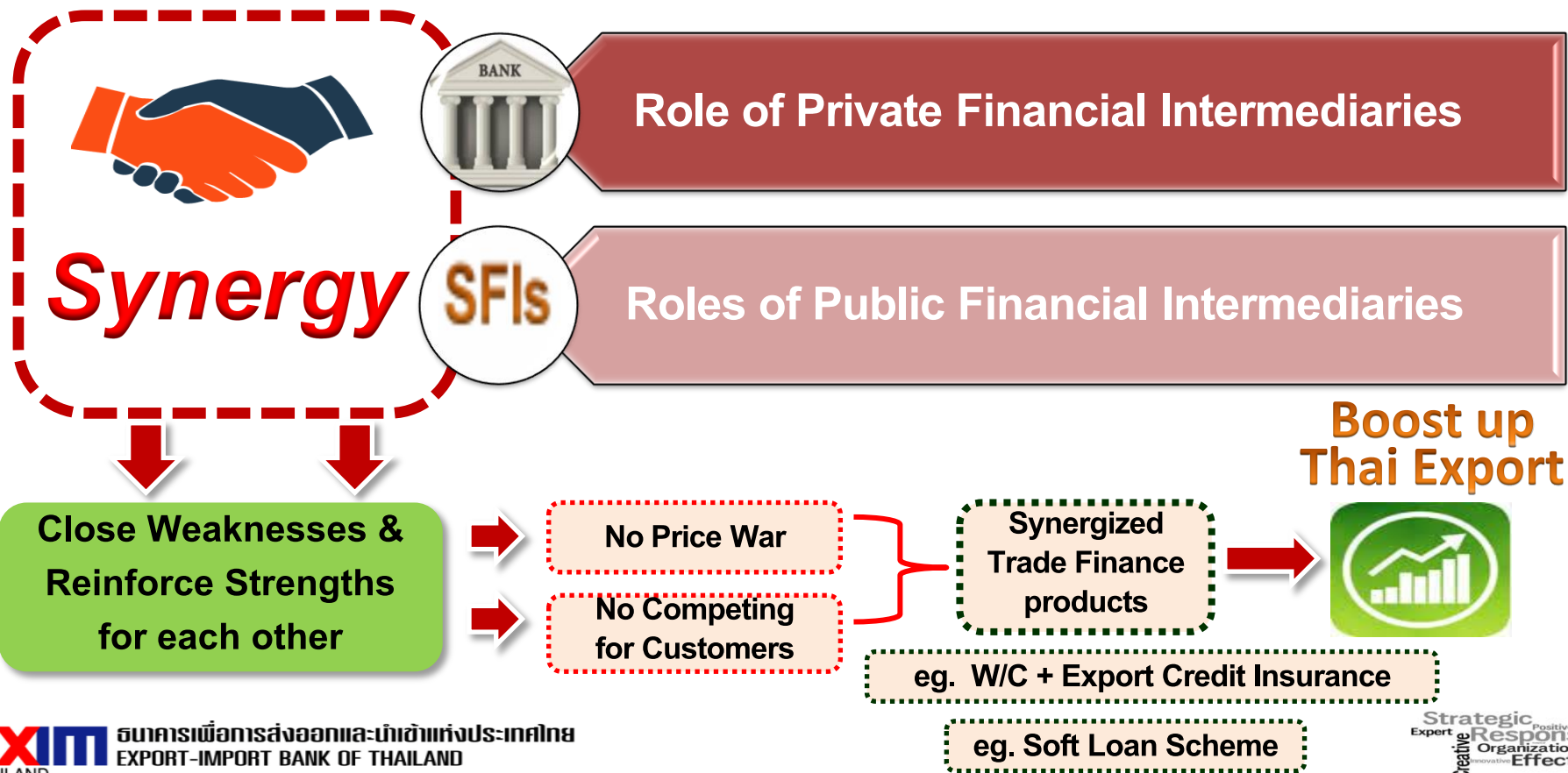


“Trade Finance” is a key driver to boost export, *especially for*



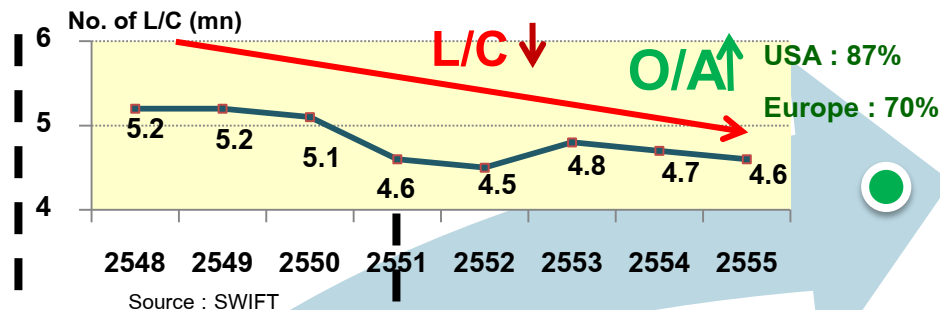
The paper did confirm that the government and related parties are working on the right path to hold up Thai export growth

Policy Recommendations : Synergy to support Thai export



Policy Recommendations : Private Financial Intermediaries

Being more than just creditors



Past and Present

Digital Banking
 "Some online processed by bank"

Physical Banking
 "Paper-based processed by bank"

- Paperless
- Reduce multi-parties
- Eliminate fraud
- Traceability along supply chain
- Reduce operational costs

On Process :
 Standard Chartered, JPMorgan
 HSBC, Bank of America, Barclays

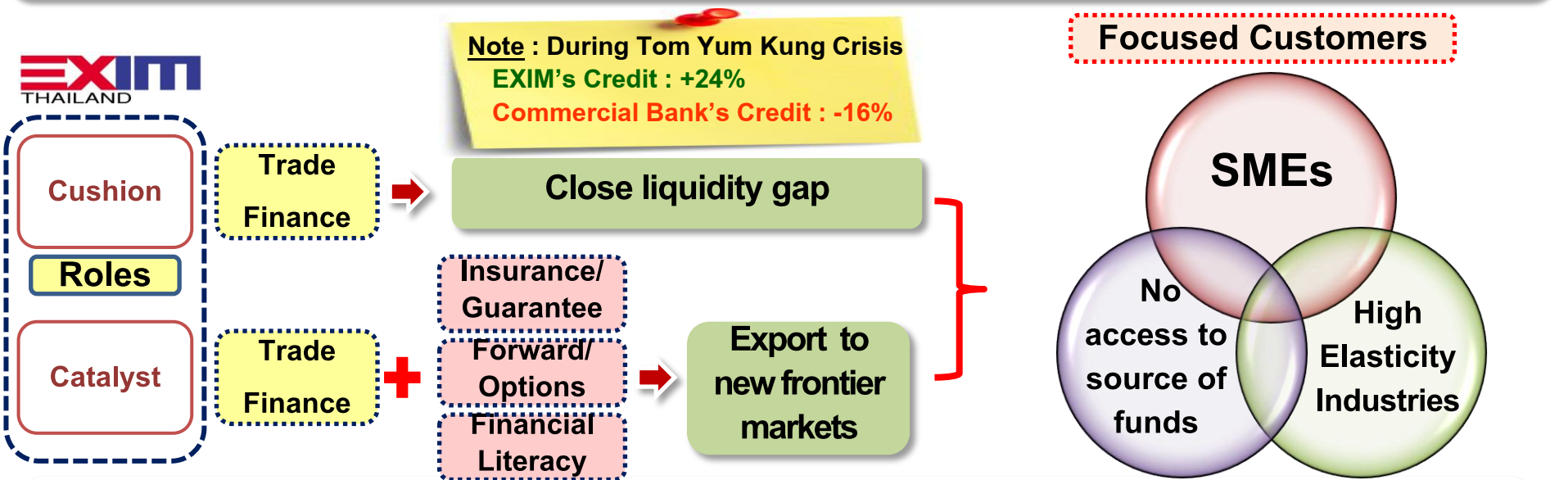
Need new platform → Future
 Solution Facilitator & Platform Provider
 To fix loophole of traditional trade finance

"Blockchain Technologies"

- Invoice financing
- Digital money transfers
- Smart Contracts
- Electronic L/C, B/C, B/L
- Traceability & Data Sharing

Policy Recommendations : Public Financial Intermediaries

Public Financial Intermediaries should enhance their roles to close the gap between private financial intermediaries and exporters



Some exporters have no financial problems, but they still need other financial tools like export guarantee and insurance to beef up their confidences



Help young people. Help small guys.
Because small guys will be big.
Young people will have the seeds
you bury in their minds, and when
they grow up, they will change the
world.

— Jack Ma —

*Thank
you*



Leading Regional *ECA*



E

**Excellent Portfolio
Management**



X

**Exporters & Investors'
Top of Mind**



I

**Impressive Human
Capital & Internal
Process**



M

**Most Trusted
Government Agency**
