Discussion on…
“Unlocking Finance and Trade”
: A Microscopic View

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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

Suggestions

- Add more descriptive explanation in the paper
- Add more policy recommendations
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 \(\uparrow\) Export

2. Extensive Margin: Impact on more variety of products, more markets and becoming exporters
   - Trade Finance \(\uparrow\) Export more products \(\uparrow\) Access more markets \(\uparrow\) 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
   - Export by Sea
   - Export finished products
   - Low quality of financial int.
   - Low interact b/w partners

\[\text{Trade Finance} \uparrow \text{High Elasticity} \rightarrow \text{More Export} \]

Key Assumption: Trade finance constraint is the main problem

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

1. Trade Structure Issue
2. Trade Finance Issue
3. Data Issue
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.

**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

**World Trade (% of GDP)**

- **2008**: 61%
- **2015**: 58%

**Source**: World Bank

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

Source: World Bank
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

**Mass Market**
Thai products lost comparative advantage in price

Thai Export’s been pressured by both markets.
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

Roles of traditional financial intermediaries are decreasing over time

**Advance Payment**

**Direct Payment**

**Indirect Payment**

- **Dealing**
- **Ordering**
- **Production**
- **Trading Document**
- **Transportation**

- **Letters of Credit (L/C)**
- **Bills for Collection (B/C)**
- **Insurance and so on**

**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)
Point of Discussion: 2. Trade Finance Issue

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

(2015)
Total Export
7.2 tril. Baht

L (73%)  
MNCs (51%)
SMEs (27%)
Big Thai (22%)

In-House Financing
- Corporate Bonds
- Raising funds in SET
- Trade Credits

In hetero-elasticity by industry part

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

Value of Corporate Bonds in 2005-2015

No. of IPO in 2006-2015

Source: BOT

Source: SET
Point of Discussion: 3. Data Issue

### 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 → 32% are exporters.
  - The OSMEP: 36,000 of 2.8 million → 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

Synergy

Role of Private Financial Intermediaries

- Close Weaknesses & Reinforce Strengths for each other
- No Price War
- No Competing for Customers
- Synergized Trade Finance products
  - eg. W/C + Export Credit Insurance
  - eg. Soft Loan Scheme

Roles of Public Financial Intermediaries

Boost up Thai Export
Policy Recommendations: Private Financial Intermediaries

Being more than just creditors

Digital Banking

“Some online processed by bank”

Future

Solution Facilitator & Platform Provider

To fix loophole of traditional trade finance

“Blockchain Technologies”

Past and Present

Physical Banking

“Paper-based processed by bank”

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

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

Need new platform

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Source: SWIFT
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.

Note: During Tom Yum Kung Crisis
- EXIM’s Credit: +24%
- Commercial Bank’s Credit: -16%

Roles
- Cushion
- Catalyst

Cushion
Trade Finance

Close liquidity gap

Trade Finance
- Insurance/Guarantee
- Forward/Options
- Financial Literacy

Export to new frontier markets

Focused Customers
- SMEs
- High Elasticity Industries
- No access to source of funds

Focused Customers
- SMEs
- High Elasticity Industries
- No access to source of funds
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