



## Financing Trade and International Supply Chains

*Alexander R. Malaket*

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In the book “Financing Trade and International Supply Chains,” Alexander R. Malaket, the author, starts by discussing the importance of international trade with respect to growth, economic prosperity, international development and how it has been seen as the path to recovery following the 2007 global economic crisis. He further puts international trade into perspective by mentioning that growth in trade flows has exceeded the growth of GDP in the last four to five decades and that global merchandise exports according to the World Trade Organization stood at \$18 trillion out of which 80% - 90% used some form of financing. Malaket also highlights the size of the trade finance market and the various types of trade finance arrangements using an adaptation from an International Monetary Fund paper from 2008.

While academia may still not agree on the definition of supply chain finance and its relationships with trade finance, the author defines supply chain finance as encompassing the newer solutions that are being offered in the market and as not only taking a bilateral view between a buyer and a seller but a broader view of the entire supply chain or a network of such chains. He further emphasizes that trade and supply chain finance is not only about fi-

nancing and liquidity but should contain four things. They are payment facilitation, provision for financing, mitigation of international trade risks and, provision for information about transactions and related financial flows.

Import, export, and investment has historically been seen as discreet activities but the advent and central role of outsourcing, offshoring and foreign affiliates in recent years has fundamentally changed trade models with import, export and investment taking place concurrently. The author uses the “Integrative Trade” concept developed by Export Development Canada to describe this evolution. The complex nature of supply chains has been further discussed by looking at a single supply chain as consisting of three supply chains namely the physical supply chain (the actual flow of goods), the information supply chain (the flow of financing data and information for banks and governments) and, the financial supply chain (financial flow between various parties in the supply chain).

The author further expands the readers’ understanding of international trade by explaining how the needs of buyers and sellers vary in trade and supply chain finance. Small businesses are generally concerned with cash flow and working capital management whereas mid-market clients may focus on financing and capital efficiency. On the same hand, large cash-rich corporate clients may look to effectively mitigate risks associated with international trade. Malaket further describes that these needs not only vary according to the size of the business but also due to the time it takes for them to receive an order and to be paid for that order by the buyer. Furthermore, exporters who are also able to package attractive

financing options may gain an added competitive advantage in the present post-crisis scenario where liquidity is in shortage. The author then proceeds to explain how the needs and expectations of importers and exporters vary across regions such as North America, Europe, Asia etc.

Anyone trying to understand international trade and its various mechanisms would face a plethora of confusing terms. But Malaket, after introducing the reader to some concepts such as incoterms, recourse versus non-recourse etc., explains various traditional payment, settlement and therefore financing options such as trade on open account, documentary collections, documentary letters of credit, standby credits and guarantees and, cash in advance in a clear and straightforward manner. Special terms or features of letters of credit such as confirmation, transferable and back-to-back credits have also been clearly described. The author also concisely explains other financing mechanisms such as factoring, forfeiting, aval, etc. Malaket then moves on to the concept of supply chain finance.

The technological advancement in the late 1990s along with high growth and affordable liquidity gave rise to the use of open account terms for international trade. Being wary, of losing their facilitative roles, banks developed new propositions relating to the financing of global supply chains. Malaket goes on to explain that supply chains today are complex networks and post 2007, have lesser access to liquidity. International trade today is also required by compliance and regulations to be more transparent. In such a scenario, companies based in emerging markets, can gain easy access and cheap financing through another member of the supply chain leading to the ultimate benefit of the entire supply chain.

Supply chain finance program has been illustrated using a buyer-centric supply chain finance program. In such a program, the buyer

is generally a large global buyer and is financially and commercially stronger than most of its suppliers. The smaller suppliers are able to access credit and liquidity from banks based on the financial strength of the global buyer.

Financing can be availed at various stages of the trade transaction flow, and the author has described specific trigger events on the basis of which financing solution can be availed. Such events could be the signature of the sales contract, issuance of a purchase order, issuance of documentary credit and production and preparation for shipment, etc. The author mentions that businessmen and entrepreneurs should consider all the options available to them from domestic and international sources to extract the maximum value possible.

Malaket tries to help businessmen and entrepreneurs engage effectively with bankers, boutique firms, international financial institutions (IFIs) and export credit agencies (ECAs) by explaining their motivations and how to effectively engage with them. He discusses whether to have separate lead and trade finance banks, regulatory and compliance issues, the level of openness with finance providers and, the regional focus, priority and mandate of IFIs and ECAs. ECAs operate under different models such as public sector and commercial focus. The reader is acquainted with these various models along with a brief overview of some prominent ECAs. The author also discusses the various trade finance programs being run by IFIs such as World Bank, International Finance Corporation, Asian development Bank and European Bank for Reconstruction and Development. Besides these, the author discusses other sources of supply chain finance such as factors, hedge funds, etc.

Small and medium enterprises (SMEs) and developing markets have their unique characteristics and face specific challenges. The author mentions that in a post-crisis era, banks are attracted towards SMEs not only due to

political pressure but also due to a “*mid-market sweet spot*” where profits can be achieved in contrast to previous beliefs. Furthermore, in supply chain finance, these companies are no longer viewed as single entities but as a part of a network anchored by a large multinational. All these developments are now making it possible for SMEs to access the benefits of trade finance. Similarly, companies operating in developing countries face challenges due to the lack of infrastructure, information, capital markets, financing and liquidity but, the author points out that, the very nature of trade finance is well suited for operating in such environments.

Companies involved in international trade face many additional risks. Malaket discusses the various types of risks and how such risks can be managed. He also discusses fraud in the context of international trade. However, he ultimately says that it is up to individual companies and businessmen to optimize risk based on their level of risk tolerance, target return, and acceptable risk mitigation costs.

Near the end of the book, the author presents a case study involving companies in Canada, Germany, and Ethiopia. The case brings to light how complex relationships requiring trade finance solutions develop between companies over time. The case also mentions how financial institutions serve these companies with trade finance products and solutions. Finally, the author discusses some of the factors favoring and some that are adversely affecting trade

only people just starting to understand it but also to seasoned bankers and finance experts. He adds that he hopes the book inspires the next generation of entrepreneurs and businessmen.

The book does rightly achieve what it sets out to do. The book comprehensibly covers international trade finance. Concepts and topics have been explained in a manner that anyone can understand them regardless of his or her background. New and emerging topics and trends have also been covered. This book will not only help bankers and finance professionals, but even businessmen and entrepreneurs looking to engage in international trade and anyone trying to understand how trade finance works.

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