Study on the Development of the International Trade Financing of the Commercial Bank in China

Wenbiao Li
School of Economics & Trade Nanchang Institute of Technology
Nanchang, Jiangxi Province, China
nitliwb@yahoo.com.cn

Abstract

The international trade financing business was one of the capital business for commercial bank, and could support rapid development of international clearing business, had characteristic of low risk and high profit. Development of international trade financing not only affected profit of bank, but also affected the development of the international trade. The present situation of the international trade financing of commercial bank in China was analyzed. And then the advantages and disadvantages of international trade financing in Chinese commercial bank was studied, and competition status of the international trade financing for Chinese commercial bank was discussed, and the model of guarding against credit risk was established. The developing strategies of the international trade financing in Chinese commercial banks were put forward according to the present situation.

1. Introduction

The international financial crisis and slowing world economy inflicted heavy losses on the trade worldwide and trade financing. According to the new data coming from the World Bank, up to may 2009, the trade world decrease over 10%, flow ability gap of the trade financing increased from $25000 million in November 2008 to $300000 million. China put into effect the policy of the expansion of domestic demand, and a series of policies that would increase the foreign imports and exports and trade facilitation, which offered much business opportunity for international settlement and international trade financing of the commercial bank. Therefore the study on how the international trade activities of China’s commercial banks suit for the changes of the market and grasp the opportunity, and make best use of the advantages and bypass the disadvantages, and bring into play comparative advantages would have the guiding significance for development of international trade financing of commercial bank in China.
2. Recently development of the international trade financing of the commercial bank in China

With the improving of the economic globalization, because the international trade financing activities had the characters of intense self-liquidating, low risk and high yield rate, it had become an important service for the commercial bank in China. In recent years, the international trade financing of the commercial bank in China developed, however, it was still in the early stage. It occupied a little ratio among all the professional work of the commercial bank, the main existing problems was laid as following:

(1) The marketing model lagged behind and the marketing means was single. Recently the vertical and multi-layer conventional marketing model was executed by the commercial bank in China. The information between upper layer and bottom layer, same layers and different parts in bank had difficulty in communicating and transmitting, and the phenomena of cutting up the links among departments and regions was serious, the client resources and product resources could not be integrated effectively. For the moment, every commercial bank desired to get the client, and gave a lower condition to absorb the client, for example, decreasing the rate of the financing, or exempting deposit of issuing. Disorderly competition not only decreased the profit of the commercial bank, but also brought a risk for the commercial bank.

(2) The financing products were single, and lacked originality. In recent years, the professional work in Chinese bank mainly focused on the exempting deposit of issuing, packing credit and bill purchased, which belonged to the professional work item of the traditional letter of credit. For the of the products of forfeiting, international factoring, international trade financing combination, which were relative complex products, most commercial bank went completely blank or was limited in number of the professional work. Product innovation lagged behind, the ability of putting new products and integration of that was weak, and the commercial bank could not suit for the demand of the development of the market and could not satisfy the requirement of the increasingly international trade financing of the clients.

(3) The inner of the commercial bank lacked the effective risk preventing management system, and the controlling means of the risk lagged behind. Although professional work standard and manage method of the international trade bank financing was established by every commercial bank, however the effect of internal controls suboptimal. Every affiliated agency was in an effect to complete the evaluation of the task index, and desired for business scale one-sided, and operated extensively, and the risk area campaign was great.

(4) The high-standard and mixed mode qualified personnel who was proficient in business of international trade financing was lack in the commercial bank in China. The knowledge structure of the internal staff in commercial bank was single, and could not satisfy the requirement of the international trade financing to the knowledge of the international settlement, credit and law. The quality of the internal staff in the commercial bank affected the service quality, product innovation and risk management directly. Brain drain was a great obstacle of preventing the development of the international trade financing business of the commercial bank.

3. the internal ability analysis of the international trade financing of the commercial bank in China

The advantages and disadvantages of the internal ability were the positive and negative factors during the process of the development of the international trade financing business for the commercial bank. These would belong to the scale of management, products, service and human resources.

(1) Analysis of the factors of the advantage
(a) Rich business variety. With the rapid development of foreign trade in China and the international trade financing getting mature, the variety of international trade financing in Chinese commercial bank was rich. The commercial bank not only had traditional products such as export and import bill purchase, Shipping Guarantee, package loan, but also had new products such as international factoring, structural financing and supplying chain financing. Now both state ownership and joint-stock commercial bank
some commercial banks founded trade financing department, and invested special human and capital to
develop this business.

(b) Service and marketing had good quality and high efficient. Development of the international trade
financing could not go without good quality and high efficient service and effective marketing. In recent
years, the commercial banks also studied from the HSBC and Chartered Bank and other excellent banks
about the service and marketing, and scrambled trade financing share through innovated service means,
developed service channel, improved the strength of the investment. Now the commercial bank had
changed the fixed and single service to the service model as tailor the right drug to the right person,
founded good service and marketing system.

(c) Information developed quickly. With the strengthen of the international trade and further boosting
the development of different regions, the commercial banks needed a advanced information platform to
manage the trade financing business. In the information technology field of the international trade
financing, foreign banks had been forward, in recent years, the commercial banks in China pushed
technology innovation actively, the information platform was established quickly. China bank opened the
trade system based on SWIFTNET TSU, and China construct bank put forward internet trade clearing
system at the same year, and trough this system, client could share all-weather trade financing service at
any place as long as the internet was joint.

(d) Keeping up with the times and innovating constantly. With the development of the international
trade, the requirement of export and import enterprise to the trade clearing and financing service had
developed form the original trading and payment, cash flow controlling to capital utilization and financial
management. In order to suit for this change, the commercial banks all established trade financing variety
with keeping itself character and suiting for corporation demands. China bank founded “Da” series trade
financing products, and Industrial and Commercial Bank put forward “capital and intelligence
worldwide” trademark.

(2) Analysis of the weakness
(a) The structure of the client was unreasonable. Now the structure of the client of international trade
financing for the commercial bank in China had the characters as following: the radio of the big client
was little, but the quantity of the business was large. The media and Small Corporation occupied great
radio, but the quantity of the business was little. Under the effect of the traditional ideas, the commercial
bank in China put their business on the good quality big and media corporation, and these corporations
could get many capital supporting, and the media and small corporations which was in weak completive
and need the capital supporting in need could got loan. These client structures would improve the
coefficient risk. Credit management and business program did not in with the characters of the
international trade financing.

(b) Existing research suggests that Chinese entrepreneurs have a strong interest in obtaining political
capital through political investment. In imperial China, merchants were, politically, at the bottom of the
four major social strata-scholars, peasants, partisans, and merchants—and were thus interested in gaining
honorary official titles from the imperial court through political donations in order to elevate their
political status. One line of research had documented how during the Reform Era, private entrepreneurs
began investing in securing Chinese Communist Party memberships even before 2000, when a scientist
officially expressed the Three Represents Theory, through which he welcomed private entrepreneurs to
join the Chinese Communist Party. To date, Chinese Communist Party membership still remains a
credential for successful careers in most government-controlled institutions, and is often considered the
most important form of political capital because of the one-party political system.

Recent reports also suggested that more and more private entrepreneurs had got membership in the
People’s Congress or the People’s Political Consultative Conference. The People’s Congress was China’s
legislative body and the People’s Political Consultative Conference was kind of like the upper house in
Great Britain, but its functions were limited to consultation (for simplicity, hereafter I use legislative
membership to refer to both the People’s Congress membership and People’s Political Consultative Conference membership). Although a significant proportion of the positions in both the People’s Congress and People’s Political Consultative Conference are preserved for current or semi-retired party/government officials, people from other social strata were also represented in all levels of the two political organs. While there were almost no private entrepreneurs in the two organs before the reform because of the elimination of the whole stratum, entrepreneurs had been increasingly represented in both the people’s congress and people’s political consultative conference since the reform began. Now, around 30% of private entrepreneurs with at least eight employees were already members of either the People’s Congress or People’s Political Consultative Conference nationwide.

(c) Benefits of legislative membership. Organizational legitimacy was a generalized perception or assumption that the actions of an entity were desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions. In this study, organizational legitimacy refers more narrowly to perception of desirability of the organizational activity within the larger economic and political system. And the state-controlled media, in addition to public opinion in many regions, was often prejudiced against private entrepreneurs throughout most of that period. All these factors suggest that the private sector lacked full organizational legitimacy. Lack of organizational legitimacy has severe consequences for private firms. It partly explains why private firms had difficulty in getting a variety of critical resources, most of which are still controlled by the state. During most of the reform period, the state had distributed these resources more on the basis of political considerations than economic ones. As a result, politically legitimate firms, such as state-owned enterprises, have enjoyed preferential treatment while private firms, being less legitimate, had been discriminated against in terms of obtaining access to government-controlled resources.

(d) Bank financing had in fact been one of the most important sources of finance for private firms in China. It also offered a political explanation for the significant role played by bank financing in private sector growth under the legal and regulatory constraints. Given the significance of politics in businesses, many Chinese entrepreneurs had been eager to obtain political capital, as clearly shown by multiple national surveys. And legislative membership had especially been sought by private entrepreneurs because of substantial legitimacy and social network benefits that it could bring to incumbents. The regression analysis suggested that legislative membership is associated with lower self-reported degree of difficulty in obtaining bank loans and higher probability of access to bank loans for private entrepreneurs; higher-level legislative membership is more useful in solving bank financing obstacles.

Taken together, the findings suggest that politics plays an important role in entrepreneurial development in China; and to succeed in business, an entrepreneur often needs not only business skills but also continuous political investment, which, however, is a double-edged sword for entrepreneurial development. On the one hand, political investment activities can be seen as the grease for wheels of commerce under legal and regulatory constraints faced by entrepreneurs.

(d) The model of guarding against credit risk

(1) Assigned matrix. The assigned matrix could be established as following

\[ R = (r_{ij}) \quad i = 1,2,\ldots,8 \; ; \; j = 1,2,3,4 \]  \hspace{1cm} (1)

Where \( r_{ij} \) indicated the percentage ratio for the ith the line of the credit under jth guarantee method.

The condition \( \sum_{i=1}^{8} r_{ij} = 1 \; (j = 1,2,3,4) \) should be satisfied.

(2) Matrix of the evaluation. The survey on the information of the corporation should be carried out before the international trade financing of the commercial bank to the clients. In order to ensure the evaluation line of credit under all kinds of guarantee, several checks should be carried out as following. Export and import status of the corporation: the marketing of the products or the final products, trading state, trading quantity, the ability of creation and profit, and the clearing record in bank; the basic
qualities of the enterprise: the quality of the headers, the quality of staffs, management level, technological level, and developing potentialities; financial status of corporation: capital status, three ratio indexes of the finance; the whole profit status of the enterprise: the profit in last year and increasing status, asset payment rate and other factors. The evaluation matrix was constructed as following:

\[ V = (v_{ij}) \quad i = 1,2,3,4; \quad j = 1,2,3,4 \]  \hfill (2)

Where \( v_{ij} \) indicated the evaluation value for ith guarantee. When the condition \( i \neq j \) was got, \( v_{ij} = 0 \).

The evaluation value of bank to a customer was: the credit evaluation value was expressed as \( V_1 \), guarantee evaluation value was expressed as \( V_2 \), deposit evaluation value was expressed as \( V_3 \), pledge evaluation value was expressed as \( V_4 \), then the evaluation matrix was expressed as:

\[
V = \begin{bmatrix}
V_1 & 0 & 0 & 0 \\
0 & V_2 & 0 & 0 \\
0 & 0 & V_3 & 0 \\
0 & 0 & 0 & V_4 \\
\end{bmatrix}
\]  \hfill (3)

(3) The risk coefficient matrix. Although the evaluation value was confirmed after the commercial bank investigated the clients, the losses due to pledge and deposit still existed, and the series risk such as commission would form, the risk coefficient matrix would be founded through changed the evaluate value to the value which the risk ended under certain proportion.

\[ A = (a_{ij}) \quad i = 1,2,3,4; \quad j = 1,2,3,4 \]  \hfill (4)

Where \( a_{ij} \) indicate the transferring coefficient for ith guarantee method. When the condition \( i \neq j \) was got, \( v_{ij} = 0 \). Such as \( \alpha_1 \) indicated the value of the credit, \( \alpha_2 \) indicated guarantee value, \( \alpha_3 \) indicated deposit value, and \( \alpha_4 \) indicated pledge value, when these parameters was changed to the value which the risk ended, the risk coefficient matrix could be expressed as:

\[
A = \begin{bmatrix}
\alpha_1 & 0 & 0 & 0 \\
0 & \alpha_2 & 0 & 0 \\
0 & 0 & \alpha_3 & 0 \\
0 & 0 & 0 & \alpha_4 \\
\end{bmatrix}
\]  \hfill (5)

(4) The line of credit matrix. According to the above principle, combined the formula (1), (3) and (5), the line of credit matrix would be established as following:
The development measurement of the international trade financing business of the commercial bank in China

(1) Founded a special marketing management system of the international trade financing in China
Using the international trade financing business as the main business, and founded special managing system, this offered a safeguard of developing the international trade financing. Business division was the organization system adopted by many banks worldwide, the commercial banks in China could draw on the experience of the business division in foreign banks. The business department of the international trade financing operated independently, adjusted accounts independently, managed vertically. Arrangement of team for international trade financing was constructed based on the client-centric; the business arranged allocation of department adhering to customer-centric. Different team was set up according to different fields of service clients, which offered special service, and at the same time, workbench cooperation was given consideration to both, and served together.

(2) Actualizing the clientele strategic, offering discrepancy tailoring services and products, quickening products and technology innovation.
Based on the customer segmentation, the discrepancy international trade financing service was offered according to different customers. For example, a exporter’s credit in bank was tense, and had intense financing requirement, the account manager of the bank communicated with the customer and discovered the customer needed to pay a certain sum wages, and the program of loan was slow, but some credit had been accepted, and the account manager introduced the forfeiting business to the customer, and the customer got the financing convenient of bank without occupying line of credit, and the account clearing solved the capital problems of the customer.

The commercial bank could offer the discrepancy products with service scheme, and helped the customers to solve the financing requirement, and got good profit, and satisfied the demand of the customers that prevented the risk of credit, rate, interest rate, and state. For example, based on the demand of the financing, clearing, trading and or so, the commercial bank could combine the basic financing products of international trade with capital trading products. After the business program was amended and combined, the customer could get the wide variety of financial services international trade scheme appropriately. Customer could combine the best financing scheme according the clearing means and the pleasant trading stages.

5. Conclusions

In a word, international trade financing business could improve the quantity of the business and the profit ability of the commercial bank as a financial support which could promote trade, and a certain risk still existed. According the present stern economical form, the commercial bank in China took preventive
measures for different part to control the risk according different financing means, and came into effect
development strategies of marketing, and improved the core competitive of the commercial bank in China.

References

Development and Cultural Change, 2003(51):823-850


2004(109):1045-1074

Journal of Finance, 2005(60):147-177