

# Countries Stepping in to Finance Export Trade

The New York Times  
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March 4, 2009

As hard as it is for businesses to get loans these days, consider this: even for Toyota Motor, the world's largest automaker, the well has run dry.

The problem, which led Japan to take the rare step Tuesday of tapping its foreign currency reserves to help, is a result of banks curbing the once-easy stream of credit that had helped nurture a boom in global trade.

When the world's economies were expanding, banks financed up to 90 percent of the \$13.6 billion market for merchandise trade. But lenders pulled back sharply when the credit crisis hit, forcing governments that are already providing trillions of dollars to financial institutions to support another vital part of the system that extends loans to exporters and importers.

In Japan's case, while many companies are flush with cash, the government said Tuesday it would dip into \$1 trillion worth of foreign currency reserves to lend dollars to Toyota, Sony and other struggling exporters, a sign of how deeply the credit crisis has started to affect even the biggest businesses.

About \$5 billion of Japan's foreign currency reserves will be used to finance a government-backed bank that will be charged with making dollar-denominated loans. The carmaker said its wholly owned subsidiary Toyota Financial Services was requesting money that would help it make more loans to customers in the United States.

"We expect difficulties in corporate financing in Japan as well as overseas to reach their peak soon as economic difficulties deepen," said Japan's finance minister, Kaoru Yosano. Japan will also expand an emergency loan facility aimed at struggling domestic companies to 1.5 trillion yen (\$15.4 billion), from 1 trillion yen, Mr. Yosano said.

Elsewhere in the world, companies are complaining about similar problems. "We cannot get credit from U.S. banks," said Byon Hyong Jun, who works for a small trading firm in South Korea that takes orders from American clothing companies and arranges for them to be made in Vietnam and other Asian countries.

In part because of the borrowing difficulties, he added, "garment exporters like us have reduced our shipments to the U.S. by as much as 70 percent."

Normally, trade finance is considered virtually riskless. The collateral is the underlying merchandise itself, which is occasionally lost at sea or damaged but cannot vanish into the air like home values or the price of a stock.

“Trade financing is one of the safest lending activities, and it is very simple,” said Jean-François Lambert, global head of trade finance at HSBC in London.

But those dynamics have changed as the global economy contracts. Consider the tale of Jeff Auton, the manager of trade finance at Mark Andy, a maker of specialized printing equipment in Chesterfield, Mo. When he fielded a call from his distributor in Brazil in December, Mr. Auton received the good news first.

“Hey, we’ve got a buyer here,” Mr. Auton recalled the distributor saying. The bad news, however, was that at least three sales, worth a total of \$1 million, were at risk because “the local banks were pricing the deal out of the picture.”

Hoping to rescue the sales, Mr. Auton dug into the financials of his customers and managed to persuade the Export-Import Bank of the United States, a government agency, to guarantee a private loan to the Brazilian buyers.

“You can sit on the sidelines or you can get involved, especially with the customers you have relationships with,” Mr. Auton said. “But it is tough and it takes a lot of effort.”

Mr. Auton, who called the current climate for exports the worst he has ever seen, said he was lucky to make the Brazilian sales. Many potential customers abroad, he thinks, simply give up when they cannot get credit locally.

The change in the cost of financing trade deals highlights the problem. The interest rate on export finance loans to India, to take but one example, has gone from a fraction above Libor, a floating benchmark rate set in London, to about 5.5 percentage points higher.

Sure enough, one potential Mark Andy customer in India, mulling a \$750,000 order, has not been able to get financing.

“The deals don’t so much fall through as we haven’t been able to obtain the business in the first place,” Mr. Auton said.

That is amplifying a demand-driven downturn in international trade: For example, Japan, long an export powerhouse, registered its fourth consecutive month of trade deficits in January, the longest such stretch since the price of oil upset its trade balance in the 1970s. The International Monetary Fund expects the total volume of global trade to shrink in 2009 by 2.8 percent, the first contraction since 1982.

Japan’s initiative Tuesday was the latest in a series of programs by countries and international organizations to revive the private market.

The nation recently pledged \$1 billion to the World Bank to finance trade with emerging markets in partnership with banks, and is underwriting a regional insurance system for trade finance. In Europe, the French government recently used a new agency to finance exports of \$6.5 billion in planes made by Airbus, the European commercial jetliner manufacturer. The German government, working through a private insurance company, is putting more resources into exports to Russia.

The world's export credit agencies, like the Ex-Im Bank, are also finding new ways to finance exports. In a shift, the agency, which traditionally insures only loans made by private banks, is lending money directly to non-American buyers of American products, exercising a legal authority that it has but almost never uses. Last year, it lent about \$12 million to sell helicopters to Brazil and \$344 million for a rural electrification facility in Ghana. In January, it made two loans for Boeing-made airplanes to customers in Dubai and Morocco.

Still, said Jeffrey Abramson, vice president for trade finance and insurance at Ex-Im, taking the place of the banks is a distant second choice.

“Part of our basic mandate is not to compete with the private market,” he said. “We want people to stay in the trade finance game.”

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