Trade risks rise amid economic turmoil

Worldwide economic troubles are reshaping the trade landscape. For the next few years, companies engaged in cross-border trade must navigate a sea of rising risk and face the mountainous prospect of protectionism, according to international risk expert Hans Belcsak.

Belcsak, president of S. J. Rundt & Associates and publisher of *Rundt's World Business Intelligence Briefs* and other global trade publications, says exporters already are facing a clear escalation of customer risk.

"You see it in sharply increasing bankruptcy rates, especially among small- to medium-sized companies," Belcsak says. "And it's not just in emerging markets, but also in Western and Eastern Europe."

Country risk — the risk that trade obligors cannot repay their obligations to foreign creditors because of political or general economic factors in their country — is rising as well, Belcsak says. Many countries, such as Iceland, are experiencing major problems with their banking systems, he notes.

In Eastern Europe, many companies have taken advantage of low foreign interest rates to borrow in a foreign currency in order to finance working capital. "Now that their currencies have collapsed, these loans have become extremely difficult to repay," Belcsak says.

How should exporters respond?

Exporters need to work harder than ever to monitor their customers' creditworthiness, Belcsak counsels. "Make sure you have up-to-date financial statements, and keep screening your customers, even long-time customers whom you fully trust."

Banks like RBS can be a great source of customer credit information, he says.

"Unless you sell on letter of credit terms, as an exporter you also accept the bank risk," Belcsak says. "Your bank can be extremely helpful with information about the status of your customer's bank."

Re-evaluate trade terms

In recent years there has been a shift toward suppliers granting open account terms to foreign buyers. In some industries and relationships, it has become a competitive necessity. Yet Belcsak suggests that the current economic downturn and growing customer and country risks dictate that exporters re-evaluate the trade terms they offer on a customer-by-customer basis.

It won't be easy, he cautions. "Customers have become used to open account terms, but in many cases they are no longer warranted."

Other terms options that companies should consider in this environment include letter of credit and cash against documents, he says.

"Unless you absolutely must offer open account for competitive reasons, you should try to get a document you can pursue in the courts in the case of a payment problem," Belcsak says.

Opportunity for credit managers

Belcsak says the next few years will present credit managers with an opportunity to showcase the positive contribution they can make to the company's bottom line.

Too often, credit managers are looked at negatively as managers who say "no" to sales opportunities. However, in the next few years, with a weak global economy and tighter credit terms, they will have a chance to illustrate how valuable they can be by finding ways to say "yes."

"Credit managers can make difficult sales possible by carefully assessing the risk and finding ways to lay off some or all of it," he says.

Beware of deglobalization

The other risk companies need to monitor is deglobalization. Belcsak says globalization — of merchandise trade, capital flows and jobs — historically has taken two steps forward and then one step back. Today, he says, there are signs that the trading community is beginning to take "one step back."

He sees protectionism growing in the United States (e.g., the "buy America" provisions of the stimulus package) and around the world. He sees financial deglobalization, with the International Monetary Fund predicting that private capital investment in emerging markets will drop in 2009 to $30 billion from $254 billion last year. And he sees deglobalization on the jobs front, with many countries imposing tougher restrictions on illegal immigration.

"Protectionism turned the 1930s recession into the Great Depression," Belcsak says. "We're not there right now. But the trend is in a similar direction and it's kind of disquieting."

Trading companies don't have a lot of ammunition with which to combat protectionism, he says. Importers can attempt to diversify their sourcing of goods, and exporters can closely monitor their markets and attempt to expand into new ones.

About the only other step they can take is to lobby Congress. "You want to make sure the U.S. government does not become overly protectionist, because that invites retaliation," Belcsak says. "The protectionists have a lot of lobbyists, but the free trade lobby isn't nearly as strong."

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