KEY FINDINGS AND EXPERT INSIGHTS

Global trade is key to the continuing expansion of economic development, alleviation of poverty and stability. Although not perfect, global trade has by and large delivered positive results to the global community.

The ICC was established by people with a shared vision of creating international prosperity through cooperation and business nearly 100 years ago in 1919 – the Merchants of Peace!

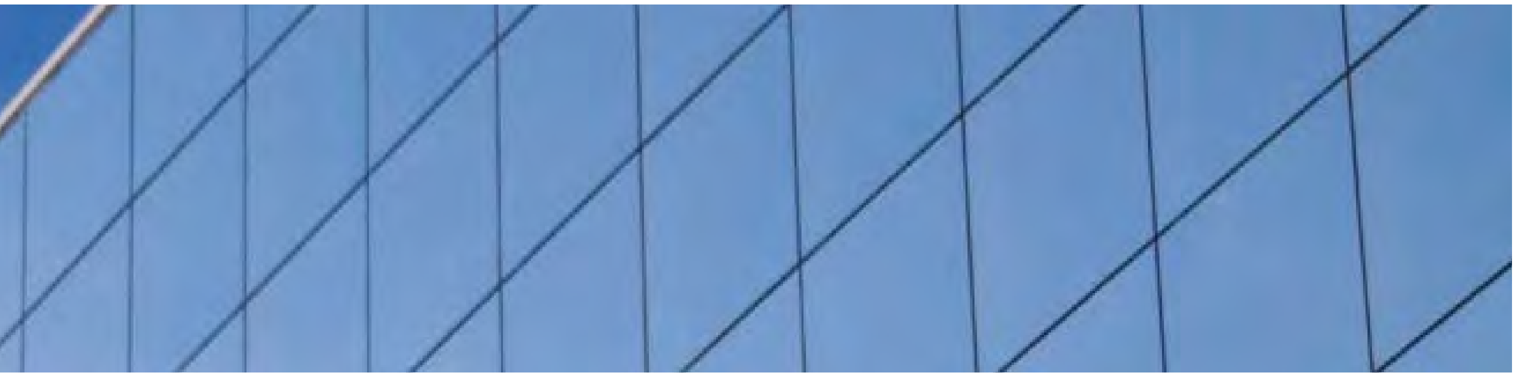
With the fall of the Berlin Wall in 1989, it was not only the wall that fell, but other trade barriers started to crumble. Since then global trade has been growing in pretty much a consistent manner. There were some drops and recoveries but the long term trajectory has been positive global trade growth, both in volume and value terms. Growth in the world economy was overtaken by exceptional growth in trade.

From 1990 towards the end of 2008, world merchandise trade growth accelerated at approximately two times the rate of world GDP.

The ICC Global Trade Finance Survey reports have consistently highlighted the challenges impacting the continuing expansion of international trade and in turn international trade finance.

We are now facing a new reality.

- The reality is that 2016 is likely to be fifth consecutive year in which global trade growth was below global GDP growth.
- The reality is that we saw growth of 2.7 per cent in trade volume terms for 2015 which means volume trade growth for the past 5 years has been under 3%.
- The reality is that the monetary value of world merchandise exports declined by 14 per cent in 2015, down to USD 16 trillion from USD 19 trillion in 2014.
- The reality is that the WTO has recently downgraded its forecast for world trade growth in 2016 to 1.7 percent, down from the WTO's previous estimate of 2.8 percent in April.



On the positive side, at the G20 meeting in Hangzhou, leaders of the G20 members, which account for 80 percent of the world's trade, agreed to promote growth by formulating a strategy for global trade development and creating guiding principles for the introduction of a global investment.

As President Xi Jinping urged at the G20, it is time to deliver 'real action' and 'no empty talk'.

The only way to solve a problem is to be aware of the problem, to take ownership and decisive action. The ICC Global Trade Finance Survey report is one of the primary channels to provide policy makers and commercial counterparties with timely international trade and finance insights and market intelligence to make informed forward looking decisions.

Developing markets facing headwinds

It was encouraging to see that developing economies had advanced to have a 42% share of merchandise trade in 2015, it was also encouraging to see the WTO report that merchandise trade between developing economies had increased from 41% to 52% of their global trade in the last ten years. Furthermore, trade between emerging and advanced economies now exceeds trade among advanced economies.

However, the developing economies remain over reliant on primary commodities which are priced in US Dollars. Any dramatic fall in commodity prices can have an immediate and dramatic impact on local liquidity and ability to trade and access trade finance in some of the poorer countries striving to expand cross border trade.

Since January 2016, primary commodity prices have fallen more than 50% on average with drops of around 20% for food and beverages, 30% for metals, and 65% for energy.

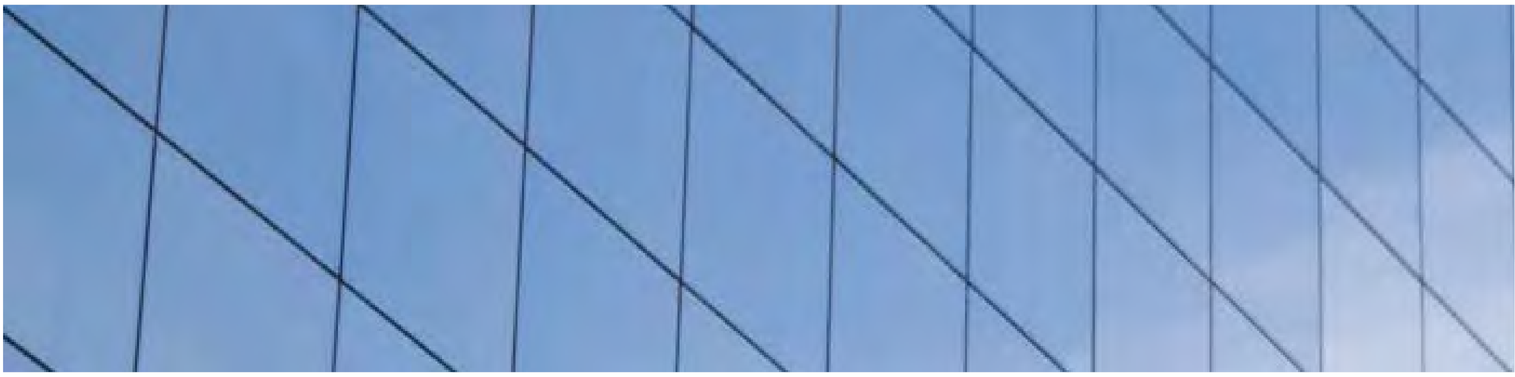
Facing this backdrop, where commodities are predominantly priced and funded by trade finance in USD, we have seen that trade growth turned negative in 2015 for emerging markets. Furthermore, the uneven impact of low commodity prices and consequent imbalances can be seen across all markets. Clearly, commodity importers are faring substantially better than net commodity exporters: growth forecasts in 2016 for the commodity exporters have been scaled back to just 0.4% from 1.6%.

It is true that base commodities including fuels and mining accounted for more than half of the plunge in the value of trade in 2015, but that is not the full story. Declining trade in manufactured goods, agricultural products and even international services also contributed to the overall trade decline.

Despite challenges Asia remains a primary market for trade finance

Despite the much publicised challenges facing trade in Asia, the ICC Global Trade Finance Survey underlines the continuing importance of the Asian markets, and in particular for trade finance. China may be rebalancing its economy, but trade, even though it may become a smaller component will continue to be a major contributing factor in what will remain one of the countries near the top of the field in the GDP growth stakes.

Asia will continue to deliver the primary growth with global trade supply chains remaining materially anchored in Asia. While the growth rate is slower, China is now a much larger and more diversified economy. Since the financial crisis of 2008 it is estimated that the Chinese economy has grown in size by 85%. It was interesting to observe that 18% of respondents to the 2016 ICC Global Survey on Trade Finance reported that the Asian market remain their primary markets for trade finance. This figure is down from approximately 21% in 2015. Despite this moderate decrease the continuing importance of the Asian market for trade finance must be taken into account. Trends in terms of corporate debt and the nature of that corporate debt in Asia will assume increased importance in terms of trade finance risk management.



Africa focus: a continent of challenge – a continent of opportunity

Through research interviews and a highlight on Africa in the ICC Global Trade Finance Survey report 2016 it can be seen that the challenges in facilitating international trade and finance across Africa are enormous. In particular, Africa has encountered extreme difficulties in terms of the collapse in primary commodity prices.

Africa has suffered in terms of trade finance business volumes and values. With 80% of exports based on unprocessed commodities where letters of credit are predominant, the unprecedented fall in the value of commodities has had a huge impact not only in terms of business but also created liquidity gaps for many banks across Africa.

The China-Africa trade corridor also experienced setbacks in 2015. In December 2015, Africa's exports to China fell by 7.6%, receding for the 14th straight month. Total Chinese imports from Africa also fell by 40% to USD 45 billion in 2015.

De-risking and regulatory changes are adversely affecting trade finance flows and financial inclusion, especially for smaller banks and their SME customers across Africa.

Despite the challenges, there are significant opportunities in Africa. The Continental Free Trade Agreement (CFTA), agreed to by all African heads of state in 2012 is looking towards implementation in 2017. This agreement will create the largest free-trade area in the world, by number of countries. It will establish a single market with an estimated 2 billion people by 2020 and a potential gross domestic product of more than USD 3 trillion.

The negative consequences affecting Africa can also be seen in the SWIFT data reported for 2015 in that Africa is identified as the region that has experienced the highest annual decrease in import and export letter of credit messaging traffic with falls of more than 15% and 13% respectively.

Trade finance activity in volume terms increased moderately – troublesome trends persist

It was somewhat encouraging to see that 52% of the respondents reported increased trade finance activity in volume terms, though lower than 63% in last year. Despite market and operational challenges 89% of respondents felt that their bank's ability to satisfy their customers trade finance needs had remained stable or their ability to satisfy customers had increased.

In terms of trade finance fees, approximately 65% of respondents cited that there was no increase in trade finance fees during 2015. However, 31% of respondents expect to see trade finance fees increase during 2016 which is due predominantly to increased costs in terms of compliance and consequently, operational risk management.

The troublesome trends with claims under guarantees, court injunctions barring payment of bank independent undertakings, and allegations of fraud, continue to persist:

- 21% of respondents reported an increase in claims under bank guarantees and standby letters of credit.
- 15% of banks reported experiencing an increase of court injunctions.
- 13% of respondents reported an increase in the troublesome issue of allegations of fraud.

The good news, despite some jurisdictions taking excessive time to render judgments, is that the independence principle continues to be supported and protected through judicial decisions, with courts in the majority of jurisdictions guided by the major legal traditions, clearly recognizing the fundamental value of trade finance instruments and the importance of the principle of independence.

Trends in SWIFT messaging underline the low trade growth reality

Overall SWIFT trade finance traffic fell for the fifth year in succession during 2015 with a decline in volume during 2015 of almost 5%. This drop was steeper than that experienced in 2014 of 1.79%. The figures for issuance of documentary credits, the cornerstone trade finance product are particularly insightful where an accelerated rate of decline to 3.76% was experienced in 2015. Furthermore, it is worth noting that we have to go all the way back to 2009, in the aftermath of the financial crisis to find a lower volume of MT700 messages compared to that now reported in 2015. The decline in SWIFT trade finance traffic is global in nature with all regions experiencing falling SWIFT messaging volumes during 2015.

Africa was the region that showed the steepest annual decrease of 15.25%.

Cross border factoring moving forward but at a moderate pace

Factoring and variations of the product have been leading the charge in the expansion of trade and supply chain finance in recent years. However, the figures for 2015 for the growth of factoring around the world are also anaemic having increased only by 1.1% in 2015. Domestic factoring around the word actually declined in 2015 by 1% compared to 2014. In terms of trade finance and cross border supply chain, then international cross border factoring turned in a reasonably impressive positive growth rate of 8%. This growth in cross border factoring was driven predominantly by Europe. In 2015, even though Asia was the second largest factoring market, Asia experienced a decline of approximately 8%. The largest factoring market in Asia continues to be China where factoring remains popular with Chinese corporations.

Consistent with the indicators for trade activity for Africa, factoring across the African continent dropped by 13% in 2015. However, we believe that in the context of factoring and the African continent the glass remains 'half full' and not 'half empty', in that Africa with its huge concentration of SME's and natural resources and only accounting for 1% of the global factoring market can, with the correct policies, legal structures and guidelines, experience significant factoring and other supply chain finance growth and expansion.

Berne Union members show support for short and medium term export credit insurance

The importance of the role played by Berne Union members in supporting cross border trade can be seen in that during 2015, Berne Union members supported approximately 11% of global trade. This was up form 10% of global trade supported in 2014. However, consistent with the falling product values in dollar terms the overall total value of Berne Union supported trade came in at USD 1.78 trillion which was a decline of 7% in 2014. In the context of current developments in international trade finance it is interesting to note the significance of the short term business which comprised USD 1.59 trillion of the overall cover written by Berne Union members, whereas despite the strategic importance of the medium and long term business, the figure for the latter came in at a much smaller figure of USD 154 billion.

The mission critical role played by the Berne Union members in keeping supply chain lines open to emerging markets since the financial crisis can be seen by the fact that since the financial crisis, Berne Union Members have paid out approximately USD 35 billion to exporters and banks in respect of defaults by buyers and other obligors.

Here again we see trends moving deeper into negative territory. Short term claims paid out by the Berne Union members rose from USD 2 billion in 2014 to USD 2.6 billion in 2015. In the context of claims paid out under the medium to long term transactions covered by Berne Union Members the numbers are also quite alarming with claims paid to policy holders amounting to USD 3.25 billion in 2015, a significant increase of 51% when compared to 2014 defaults of USD 2.15 billion.

Multilateral development banks going where commercial banks will not venture
The positive work of the multilateral development banks supporting trade transactions which would otherwise not be covered by commercial banks without MDB support is commendable. Billions of dollars of trade deals are supported through the MDB trade facilitation programmes which, without the MDB support, would never happen. When most of these transactions are supporting poorer developing markets and their SME sectors, this work takes on even greater importance. At time of writing this report, collectively the EBRD, the IFC, the IDB, the ADB and the ITFC have facilitated trade finance transactions in challenging markets to a level in excess of USD 120 billion.

In this report you will learn of the important work of the African Development Bank, which through it's open door policy for trade is supporting trade through the banking sector across the continent of Africa, right down to the smallest grassroots SMEs.

SME's hardest hit by the trade finance gap and compliance challenges
Overall, in this years survey it was reported that 44% of proposed trade finance applications had been submitted by SMEs, 40% by large corporates and 16% by multinational companies. Many of these trade finance proposals were declined by banks, but SMEs were hardest hit. Of all the declined trade finance proposals, over half of them (58%) were submitted by SMEs. The rate of declined trade finance proposals from SMEs can be seen to have moved up from 53% reported for 2014.

Compliance is now part of the global financial system and rightly so. However, the percentage of respondents citing anti-financial crimes compliance as a significant impediment has been increasing, reaching 90% of respondents in this years 2016 survey, up from 81% in last year's survey.

Clearly, difficulties remain due to differing standards being applied - 65% of respondents consider that the lack of compliance harmonisation between jurisdictions is a great challenge to the trade finance industry, an increase from 53% reported last year. Again SME's are feeling the burden with 75% or respondents identifying SMEs as the customers most negatively impacted by more strict compliance standards.

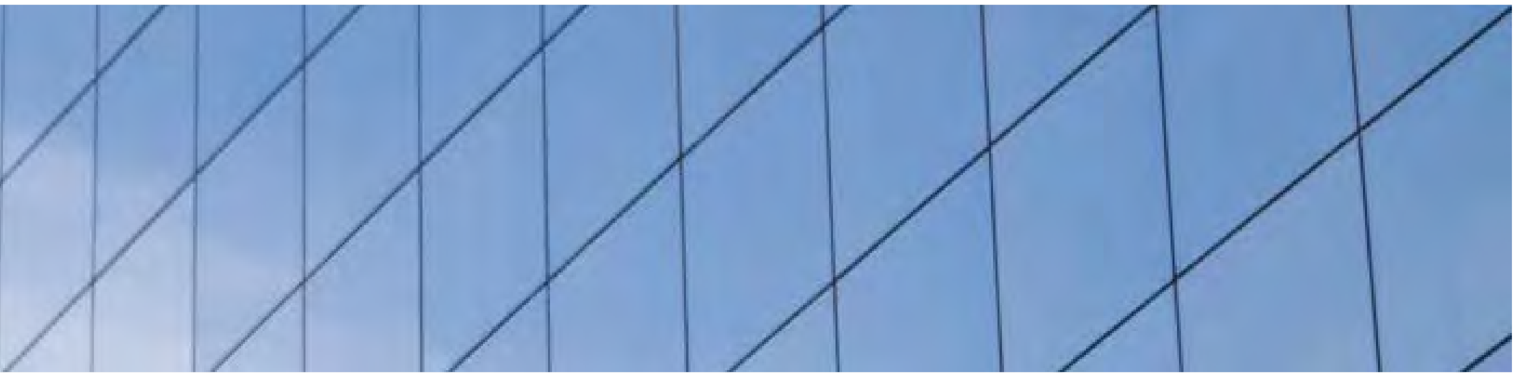
Through detailed research and analysis conducted by the Asian Development Bank, the global trade finance gap currently stands at USD 1.6 trillion, USD 693 billion of which is in developing Asia.

Conclusion – turning challenges into opportunities
Recent global events and trends as reported in the 2016 ICC Global Trade Finance Survey are reported as being predominantly negative at this point in time for the international trade and finance communities across the globe.

However, following the G20 meeting in Hangzhou, China, the ICC put forward 4 practical steps that G20 can take in the coming months to revitalise world trade as a driver of growth, opportunity and jobs:

1. Ratify the WTO's Trade Facilitation Agreement

Four G20 countries are yet to ratify the World Trade Organisation's landmark Trade Facilitation Agreement forged in 2013. ICC has called for the deal to be ratified and implemented without delay to facilitate access to global markets by reducing unnecessary red tape at borders. The deal could add more than USD 1 trillion to global trade flows, creating 20 million jobs in the process. G20 governments need to lead by example in ensuring this agreement is implemented without further delay.



2. Stop protectionism in its tracks

A recent WTO report cited that between mid-October 2015 and mid-May 2016, G20 economies had introduced new protectionist trade measures at the fastest pace seen since 2008.

ICC has been clear that tackling protectionism should be a first order priority for the G20 and has called on the G20 to lead by example when it comes to refraining from introducing new trade barriers.

3. Spearhead talks on digital trade

In a letter to the Financial Times published Monday, ICC Secretary General John Danilovich said that spearheading talks on a new e-commerce agreement under the auspices of the World Trade Organisation could “unleash a new era of genuinely inclusive growth”.

With studies showing the growth of small- and medium-sized enterprises using online platforms to be five times more likely to export than those in the traditional economy, ICC believes efforts to level the global trading field must start with a concerted push to address remaining barriers to Internet-enabled commerce.

4. Make the case for why trade matters

ICC couldn’t agree more with the G20’s analysis that the benefits of trade and open markets must be communicated to the wider public more effectively. But amid souring public opinion on trade in many of the world’s largest economies, what is the best way to explain how and why trade matters for all?

Launched earlier this year, ICC’s TradeMatters campaign aims to promote a balanced and evidence-based debate on the role of trade in today’s economy.

The G20 summit in China concluded with a pledge to fight protectionism and to boost trade growth and innovation because trade really matters.

President Xi Jinping declared in his closing G20 remarks: “We have agreed to support the multilateral trade system and oppose protectionism - We need to reignite the engine of growth via innovation.”

When we consider that the G20, represents 85 per cent of the world’s gross domestic product and two-thirds of its population this declaration provides a solid platform for the advancement of trade and the continuing benefits that it brings to people in all corners of the world.

Vincent O’Brien
Member of the Executive Committee,
ICC Banking Commission Chair,
ICC Banking Commission Market
Intelligence Task Force