ASEAN cooperation needed in credit finance and insurance

(Reprinted from UN report on "Economic Cooperation for ASEAN")

This report envisages the expansion of the export trade of the ASEAN countries both to the outside world and to each other.

The principal problems that are likely to arise fall into four broad groups:

(i) the provision of short term export credit;

(ii) the provision of medium term export credit;

(iii) the problems of export credit insurance and reinsurance;

(iv) the problems of increasing the availability of the necessary credit information.

Short term export credit

Most of the existing exports from ASEAN member countries are settled within 120 days and nearly all within 180 days. Exporters' demands for credits vary considerably from country to country. Exporters rely for pre- and post-shipment export credit on commercial banks which are in some cases assisted by preferential central bank rediscount facilities.

In Indonesia financial support for exports has been restricted and confined to pre-shipment credit; in the short run exporters must do business on a cash basis and this has proved an obstacle to the development of new non-traditional exports, particularly of light manufactures. As the balance of payments position improves, it is hoped to extend deferred payments to foreign customers. It is sometimes possible to finance exports by obtaining foreign exchange credits from foreign banks on terms related to interest rates abroad. But in general, interest rates for exporters (these are slightly higher than those for producers) were of the order of 2-1/4 per cent a month early in 1971 and there were cases of exporters of non-traditional products paying 4 to 6 per cent a month during the period of inflation. Bank Indonesia re-finances export credits on preferential terms.

Malaysian exporters have had far less difficulty in obtaining credit, and the commercial banks have ample funds for both pre-shipment and post shipment financing; the latter is concentrated on primary exports. Commercial banks usually hold trade bills to maturity or discount them abroad. Interest rates have been around 9 per cent per annum in recent years.

In the Philippines export-oriented industries have been exempted from some of the restrictions imposed for balance of payments reasons. But in 1970–71 exporters were encountering difficulties in obtaining adequate export credit. Interest rates reached about 12 to 14 per cent. The commercial banks can rediscount with the Central Bank which offers special facilities for exports.

Singapore exporters have access to ample pre- and post-shipment credit. With increasing exports of light manufactures, foreign competition has made necessary an increased concession of short-term deferred payment terms to foreign buyers, usually with maturities of up to 120 days. Commercial banks either hold the export bills or discount them abroad. The Monetary Authority of Singapore does not at present offer preferential rediscount facilities on such bills.

Thai exporters of agricultural products do not normally have difficulty in obtaining finance for production and if necessary for extension of credit to foreign buyers. Exporters of non-traditional products, such as light manufactures, may find financial obstacles to the development of an export, particularly if they need first to establish a good credit rating and prove their export capacity.

Medium term credit export

The need for medium term export credit is likely to grow as ASEAN countries begin to diversify industrial production into those branches of industry that produce capital goods and durables that are usually sold on longer credit terms.

Medium term export credit is ordinarily for 180 days to five years. Hitherto there has been relatively little demand for it from ASEAN exporters. The Asian Development Bank is at present studying the problem and the role that it might play in its provision.

Export credit insurance

The same factors which will lead to growth of demand for both short and medium term export credit will also call for export credit insurance. If trade in manufactures is rapidly increasing, both with the extra-ASEAN world and in the intra-ASEAN markets, there will be more traders engaging in trade with customers whose credit worthiness is less familiar than that of the houses through which the traditional trade in primary products has been conducted. The risks involved are both to the traders themselves and to the banks from whom they are seeking credit.

The risks fall into two main categories:

a) risks arising from the possible insolvency of the buyer, his defaulting on a payment or his refusal to accept the goods shipped;

b) 'political' risks arising from such factors as war, disturbances in the buyer's country, cancellation or non-renewal of an export license, delay or failure in the country of the buyer in providing foreign exchange to cover imports, unforeseen or additional charges resulting from diversion or interruption of the shipment of goods.

The principal problems that arise with any new credit insurance agency are these:

a) Will the potential volume of exports, particularly of manufactures and semi-manufactures, provide a sufficient premium income to make an agency economic?

b) Can the experienced and highly qualified staff be found to operate the agency?

c) Is adequate credit information available?

Though trade developments may require credit information and credit insurance regarding a multiplicity of new countries and new traders, possibly with high commercial and political risks, the bulk of the business is concerned with the import markets of well-known developed countries.

The problems of sufficient premium income to justify the setting up of an agency raise again a 'chicken and egg' issue. Premium income is at present inadequate because the trade is small. The trade is small because the credit risks cannot be insured.

An estimate of the probable premium income for an ASEAN system, on the basis of US\$20 to \$30 millions of exports declared for cover annually, would be approximately US\$100,000 to \$150,000. If, as is almost certainly the case, the agency would require to have an office in each national capital, this income could not make it self-supporting without government assistance.

There is however, a more fundamental difficulty in setting up a multi-national agency. The political risks of conflict between the individual countries which are joining to set up the agency and between which, as trade partners, much of the trade to be insured is flowing. The means of dealing with this problem would need to be solved. At a minimum it would need to be established that no political or exchange transfer losses could be accepted from participants in the system — that each country would be liable for any risks resulting from its own policies.

These represent difficult but not insoluble problems. It is recommended that the ASEAN governments set up a joint committee to examine the possibility of an ASEAN export credit insurance agency. The committee should consider this proposal in the light of any proposal for a wider regional scheme that may emanate from the ECAFE study of the problem.

Export credit reinsurance

As in the case of ordinary insurance, an export credit insurance agency may find a need to reinsure certain commercial export risks which it cannot itself absorb. It is a serious difficulty of any small agency that it is likely to have difficulty finding adequate reinsurance cover at moderate cost and may find itself forced to cede more than it would wish of the risks insured in order to obtain reinsurance cover. In the circumstances, international reinsurance cannot be regarded as a potential means of support for a new credit insurance institution.

Credit information

No credit insurance system can work without credit information. Improvement of credit information facilities in the ASEAN region can not only facilitate intra-ASEAN trade but could also lend to sales of credit information to exporters and credit reporting institutions in the rest of the world.

It is recommended, therefore, that reporting services be established in those ASEAN countries in which they are lacking and improved in all countries where they exist, as a necessary step towards closer co-operation in trade credit and credit insurance. Since the services can be most effectively provided by the private sector, it is important that from the first representatives of the banks and business communities be involved in any measures to improve these services.