



A New Global Trade Environment

Managing Risk & Optimizing Working Capital

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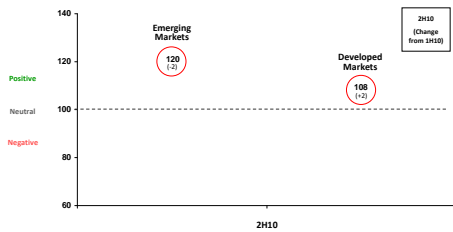
Windy City Summit May 18-20



The State of Global Trade

- Trade Confidence globally remains positive
- Developed markets outlook positive although tempered versus 1H 2010
- Emerging markets continue to drive global trade confidence with developing markets showing higher levels of confidence
- In the next six months, intra-regional trade will continue to be the lynchpin of global trade driven by strong prospects and increasing interaction between emerging markets

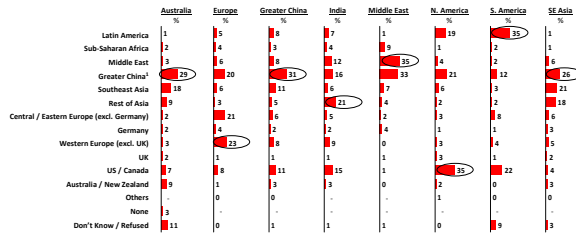
Emerging markets lead global trade confidence; developed markets gaining momentum



Notes:
(1) Emerging Markets include 11 markets—Hong Kong, India, Indonesia, China, Malaysia, Singapore, Vietnam, UAE, Saudi Arabia, Mexico, and Brazil
(2) Developed Markets include 6 markets—USA, UK, Germany, France, Australia, and Canada

Emerging Markets Trade Corridors - a shift from West to East

Trade between emerging markets to mark the 'new normal' in global trade



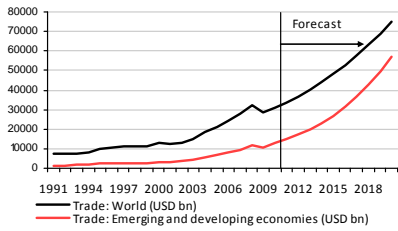
Note: ¹ Greater China includes Hong Kong SAR, Mainland China, Taiwan, Macau

"The BRICs are going so fast that you can't see the bumps in the road – and bumps were all the downturn was to them."

Extending the Internationalization of Trade

From traditional to emerging lines of trade

- New phase of trade internationalization among emerging economies:
 - Drive increasing trade volume and investment and bypass the developed world



Source: IMF and HSBC

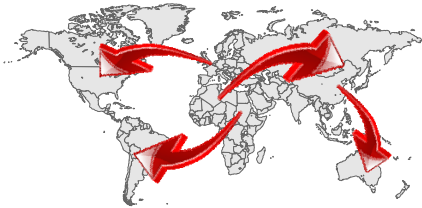
Factors in the Growing Internationalization of Trade

Among Emerging Economies

- **Distribution of natural resources** Asia's need for energy and commodities which leads to new trade channels with developing regions rich in necessary resources which in turn leads to a return flow of trade
- **Increase of skilled specialist workforces** As a result, trade flows are in a constant state of flux based on cost and availability of niche pools of expertise across emerging economies
- **Desire for own currency settlement** China is one of three Asian countries where SMEs and MMEs feel that fluctuating exchange rates are the greatest barrier to growing import/export business (eg. RMB trade settlement scheme)
- **Independence** Emerging economies increasingly feel less inclined to be indebted to the countries they regard as responsible for the economic situation

Where are the new Trade Corridors?

- Paradigm shift in the balance of global trade: the "New Normal"
- Emerging markets are bypassing traditional markets leading to new trade corridors
- Trade within the emerging world is vibrant



Where are the new Trade Corridors?

Asia-Middle East

- Asia is the Middle East's largest export market (50% share)
- Asia is the Middle East's second largest source of imports (30% share)
- Middle Eastern exports to Asia have risen by 780%
- Middle Eastern imports from Asia have risen by nearly 550%



Where are the new Trade Corridors?

Asia-Latin America

- Growth of trade driven by mutual benefits
- Asia's strong demand for Latin America's natural resources
- Latin America's demand for Chinese manufactured goods
- Frequent high level political contact between the regions



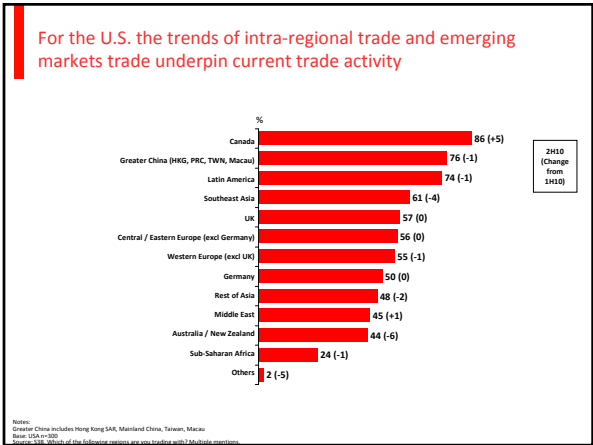
Where are the new Trade Corridors?

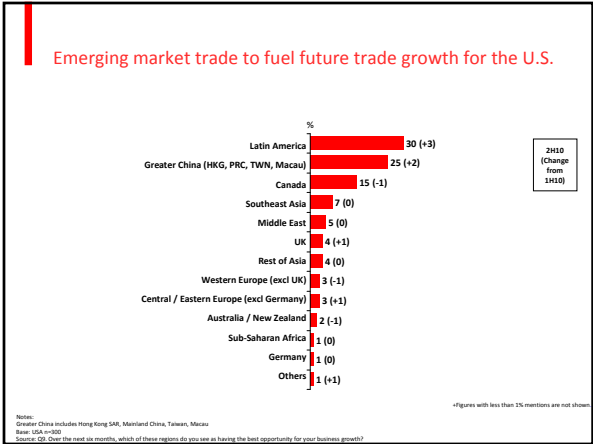
Asia-Africa

- Fueled primarily by China and India's long term commitment to Africa
- China-Africa Development Fund (CADF) committing USD5bn over the next five years
- India/Africa bilateral trade is projected to grow by a factor of nearly ten by 2012.



Emerging Markets and U.S. Trade





Emerging markets growing importance to the U.S.

- **Brazil**
 - Exports to Brazil up 223% from 1994 to 2009
 - Top exports: Machinery, Aircraft, Electrical Machinery, Mineral Fuel, and Optic and Medical Instruments.
 - Imports from Brazil up 131% over the last 15 years
 - Top imports: Mineral Fuel and Oil (crude), Machinery, Iron and Steel, Spices, Tea, and Coffee
- **Mexico**
 - Exports to Mexico up 154% from 1994 to 2009
 - In 2009, 12% of total U.S. merchandise exports were destined for Mexico and 11% of U.S. merchandise imports came from Mexico.
 - Top exports: Electrical Machinery, Machinery, Vehicles, Plastic, and Mineral Fuel and Oil.
 - Export-oriented plants generate a large amount of trade with the United States and a majority of the plants have U.S. parent companies
- **China**
 - Exports to China in 2009 up 650% from 1994 to 2009
 - Top exports: Electrical Machinery, Miscellaneous Grain, Seed, Fruit (soybeans), Machinery, Aircraft, and Plastics.
 - Imports from China up 664% over the last 15 years

■ *Office of the U.S. Trade Representative

Major Risks

- Political Risk
 - War, civil disturbance, or revolution
 - Expropriation
 - Inconvertibility of local currency into dollars or other hard currency. (Transfer Risk)
- Commercial Risk/Business Risk
 - Disputes between buyer and seller.
 - Controlling title to goods pending payment.
 - Customer illiquidity or insolvency
 - Inability to finance company "investment" in export accounts receivable
 - Control of quality of goods.
 - Working capital tied up
 - Increasing reliance on bank debt.
- Documentary Risk
- Interest Rate Risk
- Foreign Exchange Risk

What You Should Consider about the Countries You Trade In

- Do you know enough about the countries you are trading in?
- For Importers, do you know enough about your supplier's financial health?
- For Exporters, do you know enough about your buyer?
- Are there regulatory or other challenges that make it more difficult for your suppliers to obtain access to credit?
- Are your suppliers working with global banking partners or with local financial providers?
- Is there an opportunity to leverage your bank's global presence?

For importers, your suppliers' financial health matters

- How does your Supplier access working capital finance?
 - Do they have access to lines of credit?
 - What are their bankers' terms?
 - What is the local market condition?
- What are your Supplier's other customers doing?
 - What is their customer base behavior pattern
 - Are terms being stretched?
 - Are discounts being demanded?
 - Are orders being cancelled?
- What can you do to support the Supplier?
 - Collateralize orders with LCs
 - Monetize Time LCs
- Who does your Supplier bank with?
 - Strength and stability
 - Industry knowledge
 - Is Trade a core competency

US exporters should consider how their buyers are doing

- Are there signs your buyer has cash flow concerns?
 - Slow prior payment history?
 - Is a buyer who has traditionally been timely with payments, now slow to pay?
- Is your buyer located in a country and/or in an industry that has been particularly impacted by the economic downturn?
 - Are orders being modified and/or cancelled?
- Is your buyer pressing for extended payment terms?
- Who does your buyer bank with?
 - Strength and stability
 - Industry knowledge
- What can you do to accommodate the buyer without jeopardizing your cash flow?
 - Request Time LCs to enable extending terms
 - What about something here like seek to work with a reliable financial provider that understands both sides of the transaction

Trade and Supply Chain and Financial Providers

- Banks major role in International Trade is to assist clients in
 - Mitigating risk
 - Effecting Payment
 - Providing a level of trust and integrity to the transaction between two parties that are frequently not well known to each other
- In any trade arrangement, a conflict of wants exists between:
 - Supplier
 - Wants payment for the goods
 - Wants payment prior to shipment of the goods
 - Buyer
 - Wants to receive the correct goods
 - Wants goods at the right time
 - May want credit terms
- Banks assist in bridging the gap between these conflicting wants

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