

# **INTERNATIONAL TRADE AND FINANCE**

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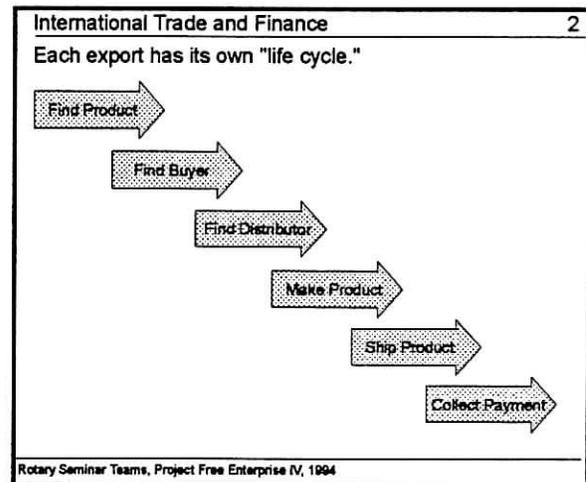
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**Rotary Seminar Teams, Project Free Enterprise IV, 1994**

From the start, we need to emphasize that the topic of International Trade and Finance is not going to answer your questions about where to get other people's money to finance your new business. That approach is not realistic. Although some money is available for Poles who would like to start a business, most people need to begin by using their savings. The European Bank for Reconstruction and Development is interested in very large projects, jointly sponsored by the government. The banks will not lend you money unless you have significant amounts of collateral. This all means that the potential small businessman must use his savings, or that of his friends and relatives. Once you decide to set up a business, you must determine where the potential markets are for your product. Poland has a great cost advantage over the US, Japan, and Western Europe, so exports are indeed possible. Once you establish exports, then it becomes easier to obtain financing.

International Trade and Finance	1
The West will not give you money just because you ask for it.	
<ul style="list-style-type: none"><li>• EBRD will not give it to you</li><li>• Polish banks will not give it to you</li><li>• Personal savings</li><li>• More money means more markets</li><li>• Finding markets means exports</li><li>• Exports means financing of exports</li></ul>	
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Each export has its own life cycle. You must determine what products are needed by what markets, at what price, and with what quality and packaging. You might want to find a direct buyer yourself. This requires having personnel outside of Poland. Alternately, you might decide to use the services of a Distributor. This person will buy the product from you and find buyers. The first financing issue arises when you start to take orders. Do you have enough capacity to fill the order in the given timeframe? You may need financing to buy more equipment, but a bank will not lend you the money because you will not have a Letter of Credit or Sight Draft at this point in time. Most likely, you will not find a buyer in the West who will commit money until he is convinced that the product can be built and delivered. Another problem arises when you try to ship the product. A final issue is the collection of payment.



You must determine how your proposed product will fit with the demands, tastes, and regulations of the western markets. Western markets have been accustomed to higher-quality goods than were traditionally produced by Communist-bloc countries. Packaging is another important issues. Many countries have import quotas to protect domestic industries. In addition, Western Europe and the United States have many environmental and health and safety regulations that must be observed. It takes many years to get a biomedical device approved for use in the United States.

International Trade and Finance	3
Do you have a product that can be sold in the West?	
<ul style="list-style-type: none"><li>• Quality issues</li><li>• Style issues</li><li>• Cost issues</li><li>• Tariffs and quotas</li><li>• Regulatory issues (FDA, EPA, OSHA)</li></ul>	
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You must determine to whom you want to sell your product. Do you want to establish a direct relationship to one or more stores? This can require a lot of effort and expertise. Someone has to go the country and meet with individual companies, explaining the product and negotiating purchases. Alternatively, you can sell your products to a distributor. This person will find buyers for you. The benefit is that you do not have to have a presence in the country. The cost is that the buyer will take a commission.

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Do you have potential buyers?	
<ul style="list-style-type: none"><li>• Types of buyers</li><li>• Product samples</li><li>• Risk aversion</li><li>• Seller-buyer relationship<ul style="list-style-type: none"><li>• Investment</li><li>• Licensing</li></ul></li></ul>	
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No one in the West will buy a product that you have never produced before, so you need to make this product for Polish domestic consumption. Then, when you have experience and samples to be evaluated, you will be able to get orders. As a small business, you might have trouble accommodating the order size. A large western company is likely to request the product in volumes that your small company can not handle. This presents both a problem and an opportunity -the opportunity to get financing to expand your company.

International Trade and Finance	5
Can you meet the production demands?	
<ul style="list-style-type: none"><li>• Volumes</li><li>• Schedule</li><li>• Quality</li><li>• Packaging</li><li>• Financing of production</li></ul>	
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Transportation of the product becomes another problem. Who will pay for it? Ideally, you would like a Letter of Credit from the buyer, or a Sight Draft, payable upon loading of the product. The buyer would like the LOC payable upon delivery of the product. You may be able to get financing for this phase through the Polish government.

International Trade and Finance	6
Can you transport and deliver the product?	
<ul style="list-style-type: none"><li>• Financing of goods in transit</li><li>• Freight forwarder</li><li>• Shipper</li><li>• Insurer</li><li>• Customs</li><li>• Ownership</li></ul>	
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The most common forms of payment are letters of credit and sight drafts. There are also foreign exchange issues. A letter of credit denominated in a particular currency, if it is issued several months before the delivery of the product, can be exposed to foreign exchange risk. The dollar has been fluctuating a lot this year. Sometimes you can hedge this by specifying that the rate to be paid is the rate that is in effect when the product is delivered, not when the LOC is written.

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How can you get paid for your product?	
<ul style="list-style-type: none"><li>• Forms of payment</li><li>• Speed of payment</li><li>• FX issues</li><li>• Risk hedging</li></ul>	
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## International Trade and Finance

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To summarize, remember that no one is going to lend you money if you have no experience and no product. A good way to get money to expand your business is to start exporting. A viable approach is to get western partners to help finance this growth. The disadvantage is that you will lose control of your business.

International Trade and Finance	8
You need to keep several points in mind.	
<ul style="list-style-type: none"><li>• Money does not grow on trees</li><li>• Find an exportable product</li><li>• User order to get financing</li><li>• Look for partners</li></ul>	
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While there are several sources of funding for start-up companies, most small business will not qualify for them.

International Finance	9
Sources of financing for start-up businesses	
<ul style="list-style-type: none"><li>• EBRD</li><li>• US AID</li><li>• Polish American Enterprise Fund</li><li>• Other funds</li><li>• Joint ventures</li></ul>	
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This concludes my presentation. I will be available for discussion of these finance and trade areas during the workshop at the end of the seminar.