

# Risks and Management of International Trade Financing for Small and Medium-sized Enterprises in My Country under the Financial Turbulent Environment

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## Abstract

**Economic globalization is an important trend in the development of the world economy, and enterprises are interconnected and interdependent through foreign trade. Therefore, under the turbulent international financial environment, my country's economy has undergone great changes, so for the development of small and Medium-sized enterprises, it is also in a very critical period. The sound development of small and Medium-sized enterprises will drive the sound development of the national economy. Therefore, it is necessary to strengthen the analysis of the trade financing risks of small and Medium-sized enterprises, and study the corresponding solutions. This paper first expounds the analysis of the international trade financing environment and the current situation of small and Medium-sized enterprises' financing. Secondly, it discusses the causes of the international trade financing risks of my country's small and Medium-sized enterprises under the financial turbulent environment. Finally, the countermeasures for the international trade financing risks of small and Medium-sized enterprises under the financial turmoil are put forward.**

## Keywords

**Financial Turmoil; SMEs; International Trade Finance; Risks; Measures.**

## 1. Introduction

In recent years, my country's small and Medium-sized enterprises have developed rapidly and contributed more and more to economic growth. In particular, it occupies a major position in international finance. However, in recent years, the instability of the international economic environment has affected the development of enterprises in various countries around the world, making the business of small and Medium-sized enterprises in international trade ushered in new opportunities and challenges. On the one hand, it is conducive to the introduction and utilization of foreign capital by Small and Medium-sized enterprises enterprise(SMEs), on the other hand, it also bears higher risks. For overseas financing, due to cultural and language barriers, the two sides of the trade often have differences in communication. In addition, the currencies are different, and the exchange rate exchange and due payment risks are extremely high.

Different countries have different policies on foreign exchange. There is a completely free foreign exchange market, and there are certain controls on foreign exchange. How to make good use of overseas financing funds under the premise of policies and reasonably repatriate them to domestic use; and how to remit funds due overseas to return the financing under the premise of policies. Clear questions need to be considered. Compared with other countries, my country's international trade financing has developed relatively late, and the professional level of relevant domestic financial personnel is relatively low, which fails to meet the needs of international trade financing development. As a result, my country's small and Medium-sized enterprises cannot choose the optimal plan or optimal combination in international financing.

At the same time, the overall professional level of financial personnel of small and Medium-sized enterprises in my country is not high, which also causes the mismatch between long-term financing and short-term financing, and the lack of advanced and strategic financing plans.

Therefore, the analysis of the risk of international trade financing of small and Medium-sized enterprises plays a vital role in the sound and stable development of our country's economy.

## **2. Analysis of the International Trade Financing Environment and the Current Situation of SME Financing**

### **2.1. International Trade Finance Environment**

The current international trade plays a vital role in promoting the further development of Chinese enterprises and provides important support for the import and export trade. These are established on the basis of credit. One of the most distinctive features is that the parties on both sides of the loan People who are not from the same country, thus making borrowing a certain risk. In international trade, borrowers are usually import and export businessmen, the main body of credit is enterprises or individuals, and the currencies are very diverse. Therefore, it is very important to choose the currency of financing. In the event of market turmoil or changes in international politics Under these circumstances, the exchange rate of the currency will fluctuate, so there will be great risks in the process of international trade financing. Such risks may arise in the settlement process for some fraud and other credit risks. Therefore, we should analyze the risks of international trade financing, make corresponding preparations in advance, and adopt scientific and reasonable strategies to deal with them.

### **2.2. Analysis of the Current Situation of Financing of Small and Medium-sized Enterprises in My Country**

Small and Medium-sized enterprises have the characteristics of a single trade form in the process of international financial trade financing. The single financing method is difficult to deal with the problems that arise in the turbulent process of international financial and trade, which seriously affects the development of small and Medium-sized enterprises. Although the current international trade financing methods are various, the number of small and Medium-sized enterprises in my country is relatively large, and the geographical distribution is relatively wide. Add that to the fact that SMEs have a lot of variance in terms of the nature of the company, the size of the company, the way the company operates, and the internal processes of the company. Therefore, SMEs have diversified characteristics in terms of loans. Under normal circumstances, loans to small and Medium-sized enterprises are short-term working capital loans, which are greatly affected by international market factors. Therefore, this requires that the loan procedures are relatively simple and the loan period is relatively short, so as to meet the needs of business operations. In recent years, due to the rapid development of small and Medium-sized enterprises, their demand for settlement and financing has gradually increased.

## **3. Risks of My Country's SMEs in International Trade Financing under Financial Turbulence**

### **3.1. Customer Default Risk**

As my country's small and Medium-sized enterprises have been in a disadvantaged position in international trade for a long time, the export of products is mostly sold on credit, and at most, only the customer pays the bill of lading. For the import of products or equipment, the full payment method is often used, and at most 5% to 10% of the balance is reserved as a deposit for equipment installation, commissioning and acceptance. In addition to causing greater financial pressure on enterprises, such a trade method also greatly increases the risk of default

by customers. Once the customer chooses to breach the contract, it often happens that after receiving the goods, they refuse to pay for the goods for various reasons, or the products provided have quality problems, and even refuse to deliver the goods after receiving the payment. Since it is an international trade, the price of rights protection will be extremely heavy, not only the capital cost of rights protection is high, but also the rights protection cycle spans a long time, and the final effect of rights protection is not satisfactory. The result is that once an international trade dispute arises, many small and Medium-sized enterprises will choose to suffer from a dumb loss, and are unwilling to spend a lot of manpower, financial resources, material resources and time to defend their rights.

Since the main business of international trade is international trade activities, it is a common practice to use US dollars or other international common foreign currencies as the settlement currency. As long as transactions are not conducted in local currency, there is a problem of exchange rate fluctuations, and import and export trade will inevitably be affected by exchange rate fluctuations. However, due to the creditor's rights and debts generated by international trade financing, due to fluctuations in the exchange rate, the financing cost will be reduced or increased, which will bring gains or losses to the enterprise.

### **3.2. Country or Regional Risk**

In international trade, due to sudden turmoil in the country or region where the customer is located, disputes (or even war) with other countries or regions, and economic sanctions by other countries, the customer's payment for goods cannot be recovered or the contract for which payment has been made cannot be executed, and further As a result, bank debts are not repaid in time, overdue, and things that affect corporate credit records often occur. In addition, due to the rise of unilateral trade protectionism, the hegemonic countries headed by the United States have repeatedly ignored the rules of WTO agreements, made use of tariff barriers, put forward various unreasonable demands, and engaged in trade wars with my country, resulting in a large number of export orders from Chinese enterprises. It was forced to abolish import tariffs significantly. Therefore, tariff policy is the biggest risk for trade cooperation with non-disturbed countries or regions.

### **3.3. Interest Rate Risk**

In recent years, the United States has taken advantage of its global financial hegemony to impose economic sanctions on some countries or regions, causing economic turmoil in the countries or regions under economic sanctions. The exchange rates between the local currencies of various countries and the US dollar have fluctuated greatly, and the local currency has repeatedly depreciated by more than 20% in one day. , and even depreciated by more than half. In order to stabilize the value of the national currency and prevent the local currency from exchanging a large amount of foreign currency for the purpose of maintaining its value, and exacerbating the extreme situation of the devaluation of the local currency, the central bank can only increase the benchmark interest rate in an instant and sharply. If a Chinese enterprise has financing or trade transactions in the country or region subject to economic sanctions, the financing interest rate will also increase with the increase of the benchmark interest rate, and the trade payments made by customers in this country or region to Chinese enterprises are all in US dollars. The main international currency. Customers need to pay a large amount of additional local currency to be able to exchange a full amount of foreign currency to pay for the goods owed, resulting in serious losses or even difficulty in payment for customers, and eventually choose to default from time to time. However, when Chinese enterprises return the financing funds of the country, they need to pay extra interest that is not expected, which increases the financing cost of Chinese enterprises.

### **3.4. Other Risks**

In the process of international trade financing for Chinese SMEs, in addition to the above four risks, there are also policy risks, operational risks, liquidity risks of financing tools, bank credit risks, long-term financing mismatch risks, and financial personnel professional misjudgment risks.

## **4. Causes of International Trade Financing Risks of My Country's Small and Medium-sized Enterprises under the Financial Turbulent Environment**

### **4.1. Lack of More Professional Risk Management Talents**

Influenced by the lack of their own capital investment and the short development time, small and Medium-sized enterprises lack more professional management talents as a guarantee in the process of international trade financing. The main reason for this situation is that some SME managers focus their energy and attention on the pursuit of immediate interests, such as paying more attention to the improvement of financing efficiency or operating efficiency, but not too much emphasis on training The professionalism of the financing risk management team. In addition, some small and Medium-sized enterprises have not trained these talents, which leads to the lack of comprehensive quality of the internal management personnel of the enterprise, which cannot meet the requirements of international trade financing risk management, resulting in a low level of international trade financing risk management of enterprises.

### **4.2. The Awareness of Preventing Financing Risks Needs to be Improved**

The poor awareness of financing risk prevention of some SMEs is mainly reflected in: first, settlement and assessment of customer credit. Some small and Medium-sized enterprises pay too much attention to financing efficiency, but do not use Sinosure to pay attention to the settlement process, resulting in higher settlement costs. At the same time, when small and Medium-sized enterprises cooperate with enterprises in other countries, they have not grasped and evaluated their credit and capital chain, thus increasing the credit risk and capital risk of enterprises.

### **4.3. The Financing Risk Management System Still Needs to be Improved**

At this stage, although small and Medium-sized enterprises in my country have begun to pay attention to the management of international trade financing risks, and have formulated some financing risk management systems, there are many problems in these systems, such as the lack of financing approval management system, unrealized financing The management of the whole process, the unreasonable use of funds, etc. Based on the occurrence of these problems, coupled with the fact that some financial supervision departments have not comprehensively managed and controlled the financing behavior of SMEs, this has led to the gradual increase of financial risks faced by small and Medium-sized enterprises in my country in the context of international financial turmoil. If you want to solve these problems, it will bring great development difficulties to small and Medium-sized enterprises.

## **5. Responses to SMEs' International Trade Financing Risks under Financial Turmoil**

### **5.1. Set up a Professional Financing Risk Management and Control Team**

As the main executors of combating international trade financing risks, the professional financing management team of small and Medium-sized enterprises plays a pivotal role. Only by improving the comprehensive quality and professional skills of the financing management

team can we significantly improve the enterprise's ability to manage and control international trade financing risks, and in the context of international financial turmoil, we can actively respond to international trade financing risks and comprehensively promote small and Medium-sized enterprises. development of. Therefore, it is necessary to attract the attention of SME leaders and strengthen the construction of financing risk management and control teams. In the application stage, evaluate and analyze the comprehensive quality of financing managers, such as managers' financing ability, professional quality, moral accomplishment, management ability, innovation ability, cognitive ability of trade products, correct confirmation of financial institutions and approval process Know the situation, etc., and apply for more professional and high-quality financing management personnel through the method of selective admission, so as to improve the overall quality of the entire financing management team.

Specialized risk management personnel were trained to guide more financial risk management personnel to actively participate in the training activities. At the same time, increase the investment in talent training. On the basis of building a more perfect talent training mechanism, it is also necessary to increase the investment in related equipment and funds, so that the established training mechanism can play a huge role.

Formulate more clear talent training goals and training content, that is, through training, to cultivate more high-quality talents as the purpose of training. The content of the training is: risk prevention and control measures, awareness of risk prevention and control, characteristics of international trade financing products, methods of foreign trade business development, moral literacy, innovation ability, etc., through these training content to improve the comprehensiveness and effectiveness of talent training Therefore, it can actively respond to the international trade financing risks of small and Medium-sized enterprises in the turbulent international financial environment.

## **5.2. Build a Sound Trade Financing System**

In order to improve the ability to deal with financing risks, it is necessary to develop a more complete trade financing system. On the one hand, banks need to optimize the credit aspect and adjust the structure to realize the diversification of financial services, which has played a good role in the risk of small and Medium-sized enterprises in international trade financing. On the other hand, it is necessary to improve the relevant laws and regulations of trade financing, establish a more perfect credit system on the basis of improving its own supervision capabilities, and analyze its capital situation after the credit assessment of the cooperative enterprises, so as to further reduce Financing risks for SMEs, companies can seek long-term development in a turbulent environment. It can be seen that the improvement of these two aspects can reduce the risks of small and Medium-sized enterprises in international trade financing to a certain extent.

## **5.3. Strengthen Enterprise Risk Prevention Awareness**

Some small and Medium-sized enterprises have insufficient awareness of risk prevention, which makes them unable to actively respond to international trade financing risks in the context of international financial turmoil. Under this circumstance, only by raising their awareness of risk prevention can small and Medium-sized enterprises assess the potential risks, and use the risk prevention methods they have mastered to make improvements in a timely manner, so as to minimize the risks of international trade and finance. . Therefore, it is very important to strengthen the risk prevention awareness of SME managers.

First, use credit insurance to reasonably choose the settlement method to reduce settlement costs. For example, to strengthen the cooperation between SMEs and China Credit Insurance Corporation, SMEs can obtain financing funds from banks by using themselves as insurance policies instead of non-credit settlement methods, which can not only reduce the cost of



financing, but also use themselves as insurance policies. And improve the financing efficiency of enterprises.

Secondly, it is necessary to investigate the credit of cooperative customers, establish a more friendly cooperative management with third-party institutions, and investigate and understand the solvency and commercial credit information of cooperative foreign-funded enterprises through various channels. Analyze the information of the foreign enterprise and analyze the credit of the enterprise. If the credit rating is high, follow-up cooperation is required. On the contrary, the cooperation is terminated.

Finally, it is also necessary to improve its own credit management repository, and divide different cooperative enterprises according to their credit grades, so that in the subsequent financing process, enterprises with higher credit grades are selected for financing cooperation, which will help reduce the credit risk of customers. and enhance the ability to cope with risks.

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