

# The Role of Banks Funding and Promoting the Foreign Trade: Case of Turkey

Mikail Altan

**Abstract**—International trust takes first place in the development of foreign trade in the country. They see an important role in ensuring that trust. Various payment methods that are developed in the banking system provide fast and reliable way to execution and promote foreign trade by financing the foreign trade. In this study, we investigate the influence of bank on foreign trade in Turkey. 26 years of data for 1990-2015 period have been used in this study. After correlation analysis, a simple regression model was established. Payment methods that are developed in the banking system make a positive contribution in Turkey's foreign trade volume. In addition, the export of Turkey was affected positively more than import's by these payment methods.

**Keywords**—Banks, export, foreign trade, import.

## I. INTRODUCTION

**S**AVINGS failure and inability the economic development of the foreign exchange income, creates bottlenecks in achieving the targeted growth. The inability to invest, increase the import of capital goods and raw materials. Increased import demand in the foreign exchange needed can meet from two sources, export or external debt [1]. The resources provided in the form of foreign debt, the country is not preferred because it brings interest burden. Eliminating the shortage of foreign currency should be based on broadly export opportunities. The exports growth, depends on the country's foreign trade policy and a system of finance to ensure export transactions rapidly, secure and easier. The banking system in the country responds to these needs. A payment instrument that is developed in the banking system, cash against documents, advance payment, purchaser prefinance, bank guarantees, acceptance credit, letter of credit, provide rapid easier and reliable foreign trade transactions and promotes it.

The aim of this study is to determine whether payment instruments developed in banking system encouraged foreign trade or not.

## II. PAYMENT AND FINANCING METHODS IN INTERNATIONAL TRADE

International trade finance has very complex process. The main reason of this complexity is foreign money and foreign country that have different regulations. In addition, payment is made in form of forward and from faraway. Because of this reason, both exporter and importer need credit to finance

international trade. The finance of international trade is the oldest function of international business. Even if the finance techniques become standardized application may be differ from country to country. The main problems of international trade are as follow [2]:

- Foreign exchange,
- Lack of information about foreign customers,
- Cost of finance,
- The rules of foreign exchange in developing country.

Exporter and importer can trust the bank to manage these problems. Especially the government tries to develop export to increase employment and to get balance of payment. Foreign trade financing can be most profitable activities of banks. The banks can get too much profit from foreign exchange transaction [2, p.386].

Foreign trade payment differs from domestic trade because buyers and sellers in different countries. Both exporters and importers in foreign trade, they face significant risks. The biggest risk for the importer is low quality of goods after paying the money. The biggest risk for the exporter is unable to collect the money after delivery of the goods. These payment methods are developed to protect both importer and exporter from these risks [3]. These payment methods can also be used to finance foreign trade short-term financing. This payment and financing methods are described as follow.

### A. Letter of Credit

Letter of credit is a payment commitment of the issuing bank for the exporter (beneficiary) depends on the basis of importer's demand and instruction in which up to a certain amount and certain maturity. So letter of credit provides some kind of assurance for international foreign trade. The banks make transaction considering documents by using letter of credit, the goods are not considered. There are many kinds of letter of credit; as revocable, irrevocable, confirmed-unconfirmed, red -clause, green -clause, back to back, stand -by credits, and revolving credit [4]. If there is distrustfulness between exporter and importer, letter of credit is a main tool to solve this problem. The banks that have international trust use these tools. Letter of credit protects both exporter and importer from risks. The rules of decisions about letter of credit are determined by International Chamber of Commerce. But, this rules are not obligatory, they are advising. There are three types of letter of credit contract; (1) sales contract between exporter and importer, (2) a contract between importer and Issuing Bank to open letter of credit, (3) a contract between importer and exporter to pay cost of goods. The main characteristics of letter of credit are as follow [5]:

Mikail Altan is with Selçuk University, Faculty of Economic and Administrative Science, Accounting and Finance Department, Turkey (e-mail: maltan@selcuk.edu.tr).

- Letter of credit is frequently used payment method in international trade.
- It protects both exporter and importer.
- It is a commitment of bank to pay the cost of goods to exporter.
- It is an expensive payment method but very reliable.
- The risk of transfer is absence.
- It is a finance technique for both exporters and importer.

#### B. Credit Acceptance

Credit acceptance is a method of payment or credit that is connected to a draft. These loans can be used by importers or importer's bank submitted documents. The banks are carrying out mediation function and get a commission for it. In this case, the bank accepts the draft or makes endorsement. So exporters are taken to guarantee itself against importers who want to make payment in the form of forward [5, pp.83-84]. There are three types of credit acceptance: credit acceptance – cash against goods, credit acceptance-letter of credit, and credit acceptance-cash against goods. The main characteristics of credit acceptance are to discount the draft in secondary market and lower cost than other types of credit [2, pp.398-401].

#### C. Purchaser Prefinance

Purchaser prefinance is a currency bank credit used by exporter providing from importers or foreign bank via a bank in a home country. The bank in home country may guarantee or not for his credit [4, pp.215-236]. Exporter can provide cost of goods from importers partially or completely pre-export by using purchaser prefinance. Before sending goods, payment is made as a credit by importer to exporter. When export is realized, it becomes a payment of goods.

#### D. Other Payment Methods

*Cash against Documents:* It is a payment method that the bank sends shipping documents to importer after receiving money from importer then they get the goods from custom. The rules of cash against documents are determined in Uniform Rules for Collection (U.R.C). The characteristics of this method are as follow [5, pp.90-93]:

- All risk is carried by exporter. The risk of exporters in cash against documents; the goods may not be accepted by the importer and the draft may not be paid due date.
- It is not necessary to enter the goods into the importer's country.

It is a finance technique for exporter. The draft (document) can be discounted by the exporter's bank.

*Cash against Goods:* The cost of goods purchased by importer is paid after the goods arrive at their destination as shown in the sales contract. After exporters shipped the goods, the documents send to importers directly or via bank with delivery condition. The importer pays the cost of goods after customs checks. In this form of payment, importers have advantageous because of customs control. There is an unpaid risk for exporter. Because of this reason, it can be applied to highly trusted customers.

*Advance Payment:* In this form of payment method the cost of good is paid before export. Exporters receive the cost of goods from the bank. The bank gives foreign currency purchase payroll to exporters, and it approved by customs. All risk is carried by importer. But the risk can be guaranteed by the bank of exporter. The main characteristics of this method are as follow [5, p.79]:

- It is used to sale for goods that is demanded too much in market.
- It is a finance technique for exporter.
- It is a payment method depends on trust between exporter and importer.
- It is not a payment method that is used rather frequently in international markets because of hard competition.
- The advance payment document (draft) does not transfer to anyone.

### III. LITERATURE REVIEW

Nart has examined the impact of Custom Union on Turkey's foreign trade [6]. Güneş and Uğur have investigated the effect of Eximbank Loans on foreign trade of Turkey [7]. Özsağır and Çütçü have examined the impact of innovation on foreign trade and they find out positive relationship between foreign trade and received patents [8]. According to Mann and Kula, letter of credit is used as a means of verifying the possibility of payment [9]-[10]. Gozgor and Pişkin find out an inverse relationship between volume of foreign trade and unemployment in Turkey [11]. Elmas had analyzed the concept of foreign trade in the context of Modern World System that is developed by Immanuel Wallerstein in 1970s [12]. In a study conducted by Altıntaş has been determined a positive relationship between foreign direct investment and the volume of export and import [13].

### IV. DATA SET AND METHOD

Volume of the tools used by the bank in financing foreign trade (Table I) and Turkey's Foreign Trade Volume (Table II) are used for the period of 1990-2015 in this study as data. Data were obtained in Turkey Banks Union of Banks of books and Undersecretaries of Foreign Trade Statistics and were analyzed in SPSS.18. In this study, correlation analysis is made after that a simple regression model was established.

### V. RESULTS

As it seen on Table III, there is a positive relationship between the volume of international trade and its financing techniques that are used by banks in Turkey. The letter of credit affects both the volume of export and import but it affects volume of export more than import. In the same way credit acceptance affects volume of export more than import. There is no relationship between purchaser prefinance and volume of export and import.

TABLE I  
THE TOOLS USED BY THE BANK IN FINANCING FOREIGN TRADE

Years	Letter of credit (Million TL)	Acceptance credit (Million TL)	Purchaser prefinance (Million TL)	Total (Million TL)
1990	8,6	4,4	0,24	13,24
1991	14,5	6,5	0,40	21,4
1992	29,5	12,3	0,86	42,66
1993	62,5	24,8	1,12	88,42
1994	136,1	37,7	1,46	175,26
1995	310,6	69,6	17,8	398
1996	660,6	156,9	36,7	854,2
1997	1362,2	345,6	37,7	1745,5
1998	17725	562,9	84	18371,9
1999	3287,3	839,1	130,2	4256,6
2000	4735,5	1250,4	33,1	6019
2001	7960,6	2095,4	139,3	10195,3
2002	8523,5	1971,6	208,5	10703,6
2003	8909,6	2289,9	150,1	11349,6
2004	11408,4	3017,5	96,6	14522,5
2005	13021,5	2623	8,3	15652,8
2006	15251,5	2541	6,6	17799,1
2007	16657,8	2508,9	7,1	19173,8
2008	21666	3204	19	24889
2009	20277	2952	22	23251
2010	27888	3550	62	31500
2011	37636	6412	18	44066
2012	37081	8429	16	45526
2013	50321	12596	2	62919
2014	54094	14606	2	68702
2015	70902	18520	2	89424

TABLE II  
TURKEY'S FOREIGN TRADE VOLUME

Year	Export (Million dollars)	Imports (Million dollars)	Total Foreign Trade Volume (Million dollars)
1990	12959	22302	35261
1991	13593	21047	34640
1992	14715	22871	37586
1993	15345	29428	44773
1994	18106	23270	41376
1995	21637	35709	57346
1996	23224	43627	66851
1997	26261	48559	74820
1998	26974	45921	72895
1999	26587	40671	67258
2000	27775	54503	82278
2001	31334	41399	72733
2002	36059	51554	87613
2003	47253	69340	116593
2004	63167	97540	160707
2005	73476	116774	190251
2006	85535	139576	225111
2007	107272	170063	277334
2008	132027	201964	333991
2009	102143	140928	243071
2010	113883	185544	299428
2011	134907	240842	375749
2012	152462	236545	389007
2013	151807	251650	403457
2014	156610	242177	399787
2015	143861	207206	351068

TABLE III  
CORRELATION COEFFICIENTS

N=26	Export	Import	Total Foreign Trade Volume
Total volume of Tools Used by the Bank in Financing Foreign Trade (Sign: 0.01)	0,883	0,867	0,875
Letter of Credit (Sign: 0.01)	0,894	0,879	0,886
Credit Acceptance(Sign: 0.01)	0,817	0,794	0,805
Purchaser Prefinance (not significant)	-0,280	-0,299	-0,292

TABLE IV  
REGRESSION MODEL OF EXPORT

Dependent Variable: Export( $Y_{EXP}$ )	B	Beta	t	Sign.
Constant	28589,1		4,304	0,00
Total volume of Tools Used by the Bank in Financing Foreign Trade (X)		0,883	9,221	0,00
F: 85,022 Sign. 0,000				
Durbin-Watson: 0,503				
R <sup>2</sup> : 0,780				
Adjusted R <sup>2</sup> : 0,771				
Standard Error of the Estimate: 25213,9				
Model: $Y_{EXP} = 28589,1 + 0,883X$				

TABLE V  
REGRESSION MODEL OF IMPORT

Dependent Variable: Import ( $Y_{IMP}$ )	B	Beta	t	Sign.
Constant	46495,76		4,261	0,000
Total volume of Tools Used by the Bank in Financing Foreign Trade (X)		0,867	8,517	0,000
F: 72533 Sign. 0,000				
Durbin-Watson: 0,532				
R <sup>2</sup> : 0,751				
Adjusted R <sup>2</sup> : 0,741				
Standard Error of the Estimate: 42255				
Model: $Y_{IMP} = 46495,76 + 0,867X$				

TABLE VI  
REGRESSION MODEL OF TOTAL FOREIGN TRADE VOLUME

Dependent Variable: Total Foreign Trade Volume ( $Y_{FTV}$ )	B	Beta	t	Sign.
Constant	75054,9		4,335	0,000
Total volume of Tools Used by the Bank in Financing Foreign Trade (X)		0,875	8,841	0,000
F: 78,16 Sign. 0,000				
Durbin-Watson: 0,507				
R <sup>2</sup> : 0,765				
Adjusted R <sup>2</sup> : 0,755				
Standard Error of the Estimate: 67049,2				
Model: $Y_{FTV} = 75054,9 + 0,875X$				

## VI. CONCLUSION

The main roles of banks are financing and mediation of payment between exporter and importer in international trade. The international trade can be financed by using methods of letter of credit, advance payment, cash against document, credit acceptance purchaser prefinance. The bank undertakes very important responsibilities to apply these methods.

We found positive and significant relationship between total volume of tools used by the bank in financing foreign trade and volume of export and volume of import. Accordingly, the tools used by banks to finance foreign trade have contributed to the increase in Turkey's foreign trade volume. The export volumes of foreign trade of the banks are more positively affected the funding process. Imports are affected less

favorably than exports. So it can be said that the banks encourage the export more than import in Turkey. Letter of credit takes place first rank, credit acceptance takes place second rank to encourage export and import. We can predict the volume of export, import and foreign trade by using established regression models.

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