Foreign Trade Finance and its Impact on International Trade

A Systematic Literature Review

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Global Financial crisis of 2007-08 was the most severe and the deepest economic slump since World War II (Shelburne, 2010) whereby the world trade experienced a higher downfall than the fall in production. As a consequence of the collapse of the world's major financial institution, the financial market dried up. Trade finance market was entangled with various issues like high financing cost, stringent capital norms, high demand for collateral securities and, shortage of liquidity at banks, and reduced maturity period of foreign trade finance products. Due to which the trade financing gap had widened. While around 80-90 per cent of International trade is depend on trade finance (WTO). The objective of this paper is to systematically present a review of the existing studies that have undertaken to reveal the impact of foreign trade financing shocks during 2008 financial crisis on world trade deterioration. We followed the methodology formulated by Tranfield, Deneyar and Smart (2003) for conducting a systematic literature review. With the help of snowball and direct database search techniques, we identified 34 papers after the period of 2008 for the study.

Keywords: Financial crisis 2008, Foreign trade finance, Bank-intermediated trade finance, Export credit guarantees and insurance, World trade collapse, Credit crunch 2008, and Banking Crisis 2008.

Introduction

INTERNATIONAL trade accelerates the economic growth and development of the country. Moreover, it increases the competition among nations that results in providing better services and a quality product at low cost, attracting more foreign exchange, full deployment of resources and diffusion of knowledge and technology. The success of international trade depends on a sufficient flow of trade finance. Many studies (Abor *et al.*, 2014; Greenaway *et al.*, 2005; Kumarsamy and Singh, 2018; Jaud *et al.*, 2014; Muuls, 2015) confirmed that financial development and finance both are the significant determinants for firms' entry and export performance. Further, Bellone *et al.* (2010) say "Better access to external financial resources increases the probability to start exporting and also shortens the time before firms decide to serve foreign customers".

The dream of going global can be possible when the firms are access to sufficient finance. Exporting firms bear several risks and high entry costs. For entering successfully into an international market, firms are required to make customized products and services matching the foreign regulations and taste and also provide them at a competitive price. In addition to this, firms are also required to make heavy investments in up-front fixed costs that are incurred on marketing research, product development, advertising, acquiring new technology, packaging, and channel of distribution. Further, "shipping longer distances also increase the risk of damage that adds to insurance cost" (Demir, 2014). Credit constraints reduce the opportunities for firms to enter into the foreign market especially in

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industries that largely use external finance.

As a consequences of 2008 financial crisis, financial market collapsed which leads a disruption in the growth of international trade. This is the most severe and the deepest economic slump since World War II whereby the world trade experienced a higher downfall than the fall in production. With the collapse of big financial institutions, the trade finance market (inter-firm and bank-intermediated) dried up. Firms dealing in international trade were not able to access trade finance because of high financing cost or high-risk premium, shortage of funds at the bank, and stringent credit regulations. Banks were reluctant to extend credit to avoid the chances of counterparty and country risks. If the banks extended credit to firms, they were demanding high collateral securities, guarantees, and insurance and reducing the maturity period of trade finance products to avoid their own risk. This has made the economist and policy-maker think carefully whether limited access to trade finance was the main reason for a great trade collapse or not.

The aim of this research is to present a systematic literature review that establishes a relationship between the shortage of foreign trade finance and a trade collapsed during the financial crisis of 2008. To the best of my knowledge, no such systematic review-based study has yet been done exclusively on this topic. Such a review would be of great worth as it presents the synthesized knowledge on the topic and shows the area for future research. This paper is arranged as follows. Section 2 describe trade finance and its importance. Section 3 highlights the economic condition during the 2008 financial crisis. Section 4 summarizes the literature that investigates the primary reasons driving the collapse in world trade. Section 5 presents the literature that outlines the factors channelizing trade finance shocks. Section 6 review the literature to analyze whether limited access to trade finance caused a great trade collapse or not. Sections 7 and 8, present the discussion and conclusion of reviewed papers respectively.

Research Methodology

A systematic literature review is a scientific approach that identifies and syntheses the existing literature to outline the answer to the given problem. This approach reduces the likelihood of bias within a review and ensures the inclusion of complete literature on the selected subject. Several authors suggested different steps to conduct a systematic literature review. However, we applied the following methodological steps formulated by Tranfield *et al.* (2003):

In the first stage (planning the review), we identified the need for the review and developed the review criteria that are presented in the introduction section. In the next stage, we identified the research paper/articles that helped in conducting the review. We applied the snowballing technique and direct database search technique for extracting literature. Financial crisis 2008, foreign trade finance, world trade collapse, bank-intermediated trade finance, export credit guarantees and insurance, credit crunch, Basel Norms and banking crisis 2008 were used as a "search string/ keywords" to extract literature from research database: ABI/ Inform (Pro-Quest), Scopus, SSRN, ISI web of knowledge, EBSCO Business Source Elite, Elsevier, Wiley Online Library and JSTOR. In the third stage, we summarized the paper findings that are shown in Sections 4, 5 and 6.

A total of 34 papers published after 2008 were selected for the review and discussion. These papers are arranged into three categories:

- The first category contains papers focusing on major factors causing world trade collapse.
- The second category contains the papers that highlighted the factors which channelized the credit shocks and,
- The final category exclusively includes the papers that empirically define the relationship between trade finance crisis and a great reduction in world trade .

Trade Finance: A Lifeline of International Trade

Firms generally finance their trade transactions through internal sources (retained earnings) and external sources. According to WTO, "around 80 to 90 per cent of international trade relies on trade

finance". Trade finance refers to the financial tools/products that are used by firms to facilitate international/domestic trade. Credit extended by exporters and importers to each other under open account and cash-in-advance payment terms is known as "inter-firm trade credit". Under *open account transactions*, exporters extend credit to importers by the way of shipping the goods before payment is due whereas in *cash-in-advanc* importer provides credit to exporters by giving advance payment before shipment. Open account transactions are largely used by the importer as it gives the advantage of cash flow and cost to them, but the risk of non-payment makes open account transactions riskier for exporters. Opposite to this, cash in advance transactions imposes two problems on importers - the risk of non-performance of contract and working capital burden.

On the other hand, a wide range of products such as working capital loans, buyer's credit, letter of credit, export credit insurance and guarantees, factoring and forfeiting, etc. provided by financial institutions and banks are refered to Bank-intermediated finance. Exporter/importer can mitigate the risk of non-payment/non-performance through export credit insurance and guarantees. When exporter do trade under open account, working capital finance is required for the purchase of raw material, labour, and other services to execute the export order. Such a finance is provided by commercial banks at the subsidized rate of interest. Further, banks also help in the execution of the export sale, transfer of documents and payment transactions. That is way, the term trade finance generally imply for bank-intermediated trade finance (CGFS, 2014).

Economic Conditions during Financial Crisis

A dramatic increase in financial shocks provoked the growth of world output (real GDP) to reduce to 2.8 per cent in 2008 from 5.4 per cent a year earlier and further in 2009 negative growth rate was experienced (Figure 1).

The advanced economy felt the sharp contraction in GDP growth from 2.8 per cent in 2007 to .05 per cent and G7 economies (i.e. UK, Canada, Germany, the US, Japan, Italy and France) registered the highest negative growth of -0.3 per cent in 2008 and -3.8 per cent in 2009. While, developing and emerging nations, kept themselves away from the worst effect of crisis spread by the developed economies and accounted for slow GDP growth of 5.8 per cent in 2008 and 3 per cent in 2009 while it was 8.6 per cent in 2007.

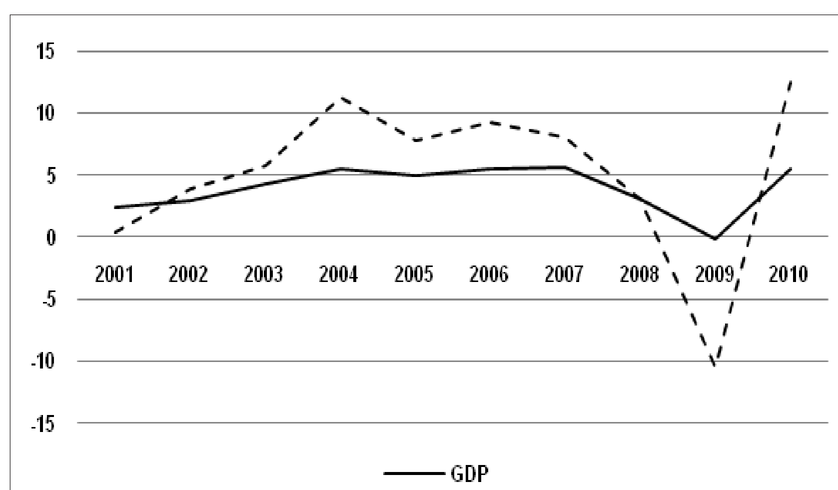
Gradually and slowly the growth rate improved after the second quarter of 2009 and developing and emerging economies accounted for a higher growth rate of 7.4 per cent in 2010, whereas advanced economy accounted for a low growth rate of 10 per cent in 2010. Even the five-year average growth rate for 2010-14 of advanced economies was very low as compared to the emerging and developing economies (Table 1).

Effect of Financial Crisis on World Trade

The most significant striking feature of global financial crisis is world trade deterioration. During the peak (Q4, 2008 to Q1, 2009) of the financial crisis, the global trade declined very sharply, steeply and in a highly synchronized fashion across the globe. The world trade declined to 2.9 per cent in 2008

FIGURE 1

WORLD GDP AND TRADE (PERCENTAGE CHANGE)



Source: *World Economic Outlook Database* (October 2014) IMF.

TABLE 1

SUMMARY OF WORLD OUTPUT/GDP GROWTH (PERCENTAGE CHANGE)

Country Group Name	Annual Average		2005	2006	2007	2008	2009	2010
	2003-07	2010-14						
World	**5.1**	**3.9**	**4.6**	**5.3**	**5.4**	**2.8**	**-0.6**	**5.1**
Advanced economies	**2.8**	**1.8**	**2.6**	**3.02**	**2.8**	**0.05**	**-3.5**	**3.0**
Major advanced economies (G7)	2.9	1.8	2.5	2.9	2.1	-0.3	-3.8	2.8
European Union	3.5	0.9	2.2	3.7	3.3	0.7	-4.3	2.0
Developing and emerging nations	**7.7**	**5.7**	**7.2**	**8.1**	**8.6**	**5.8**	**3**	**7.4**
Commonwealth of Independent States	8.1	3.2	6.9	8.9	9	5.3	-6.4	4.6
Emerging and developing Asia	9.5	7.6	9.3	10.1	11.2	7.2	7.5	9.6
Emerging and developing Europe	5.9	3.4	5.9	6.5	5.5	3.1	-3	4.7

Source: World Economic Outlook Database (October 2014), IMF.

TABLE 2

SUMMARY OF WORLD TRADE OF GOODS AND SERVICES (%)

Country Group Name	Annual Average		2005	2006	2007	2008	2009	2010
	2003-07	2010-14						
World	**8.3**	**5.8**	**7.6**	**9.2**	**8.1**	**2.9**	**-10.4**	**12.7**
Advanced economies	**7.3**	**5.3**	**6.1**	**8.7**	**7.4**	**2.2**	**-11.8**	**12.3**
Major advanced economies (G7)	6.4	5.2	5.6	9.0	6.1	1.6	-13.3	12.6
Emerging and developing economies	**11.1**	**6.7**	**11.6**	**10.5**	**9.7**	**4.4**	**-7.7**	**13.6**
Commonwealth of Independent States	10.2	3.9	6.7	9.1	8.4	4.6	-14.1	7.5
Emerging and developing Asia	15.5	9.9	17.2	17.3	15.0	6.1	-7.6	22.2
Emerging and developing Europe	11.8	6.7	10.3	12.2	11.1	5.9	-7.9	10.7

Source: IMF, *World Economic Outlook Database*, October 2014.

from 8.1 per cent a year earlier, even this growth was low of the last five-year average growth (2003-07). Further, in 2009 the world trade experienced a negative growth rate of 10.4 per cent that shows a large fall in trade activity than world GDP (Table 2). The crisis severely affected the trade growth of advanced and transition economies as compared to developing economies. According to the World Bank Survey; 2009, approximately 67 per cent of firms in developing countries claim that reduction in exports is largely due to the loss of new orders and a fall in finance from buyers.

Effect of the Financial Crisis on Trade Finance

The success of world trade can't be imagined without trade finance. As a consequences of financial crisis, the financial market dried up due to which every size of firms dealing in international trade suffered in accessing trade finance (inter-firm and bank-intermediated). In spite of being a more secure and liquidated form of financing option than any other banking product, banks were reluctant to extend the trade finance. Banks used to minimize or avoid their own risks by demanding large guarantees and insurance, reducing the maturity period of trade finance products, and requiring high collateral securities from the customers. The main effect of the crisis can be seen in terms of increased pricing and fall in the value/volume of foreign trade financeas well.

TABLE 3

BANK-INTERMEDIATED TRADE FINANCE AND MERCHANDISE EXPORTS

Groups of Countries	2008Q4 vs. 2007Q4		Jan. 2009 vs. Oct. 2008		2009Q2 vs. 2008Q4	
	Goods Exports	Trade Finance	Goods Exports	Trade Finance	Goods Exports	Trade Finance
Industrial Countries	-12.4	2.4	-31.0	-9.2	-13.5	-9.1
Sub-Saharan Africa	-11.2	1.4	-43.2	-8.1	-13.2	-3.0
Emerging Europe	-14.9	4.3	-33.0	-11.1	-11.8	-10.4
Southeast Europe/Central Asia	-8.1	-4.3	-54.5	-13.2	-30.6	-7.8
Emerging Asia incl. China and India	-0.4	9.1	-29.0	-9.7	-18.0	0.0
Developing Asia	0.4	4.2	-8.8	-9.1	0.8	-3.8
Middle East and the Maghreb	1.0	2.2	-20.4	-5.3	1.4	-5.3
Latin America	-10.4	4.8	-37.4	-9.5	-10.4	-13.7
Overall	-10.3	3.4	-32.2	-	-14.7	-7.5

Source: Adapted from Asmundson, Dorsey, Khachatryan, Niculcea, and Saito (2011), p. 16.

Paucity of distinguished (as includes both domestic and cross-border trade transactions) and historic data on trade finance makes it difficult to portray the exact reduction trade finance supply. Yet, the prominent step was taken by the pioneer organizations to conduct the various surveys (ICC, 2009; ICC, 2010; IMF-BAFT, 2009; IMF-BAFT 2010; World Bank 2009) to collect field data on trade finance to determine the significant effects of the crisis. Banks participated in IMF-BAFT and ICC surveys indicate that fall in demand is a primary factor for reduction in trade finance followed by the less availability of trade finance instruments in their institutions and stringent credit criteria.

Asmundson *et al.* (2011) reports "the value of bank-intermediated trade finance was increased by 3.4 per cent in the first quarter of 2008 as compared to the same quarter of 2007". This increase in trade finance may be attributed to increased perceptions of default; firms have shifted from open account/ advance payment transactions to trade finance provided by banks/ financial institutions. Moreover, in the peak of crisis (Jan. 2009 vs. Oct. 2008) the fall in the trade finance went up substantially across all-region, but the reduction in the value of merchandise trade was higher for the same period. Further, merchandise trade shows lesser decline in 2nd quarter of 2009 and same in the case of trade finance. Across the product group, the value of the L/C fell sharply (Table 4). Banks limited their supply of trade finance for some specific countries and sectors. Weak emerging countries like Pakistan, Bangladesh, Vietnam, and Malaysia, etc. suffered badly (*ICC Survey, 2009 and 2010*).

TABLE 4

PRODUCT LINE (PERCENTAGE CHANGE IN VALUE)

Time	L/C	Export Credit Insurance	Short-term Export Working Capital
Oct. '07 vs. Oct. '08	-8	2	7
Oct. '08 vs. Jan. '09	-11	-4	-3

Source: Adapted from IMF/BAFT-IFSA Trade Finance Surveys (2009).

Banks also increased the prices of trade finance products for eliminating default risk and fulfilling the higher capital requirements. Yet the firms were ready to pay high costs to banks for availing these products due to payment default risk. Therefore, some increments in trade finance could be seen in the last quarter of 2008. According to ICC Survey (2010), firms experienced a large number of rejections even at small discrepancies due to increased scrutiny of documents. The demand for confirmed L/C increased from unconfirmed L/C from the customers to secure their payment but increased perceptions of risk and pressurizes the banks to tighten the liquidity.

Major Causes of International Trade Deterioration

The 2008 global financial crisis has gained tremendous attention from academia, economists and policy-makers to determine the causes of the world trade deterioration. During this period the global trade experienced an 8 times larger reduction in trade than the reduction in world output over this period (Cheung & Guichard, 2009). Some authors have different views regarding the large fall in world trade relative to the fall in GDP. They have highlighted that reduction in world demand, international supply chain, protection policy, international exchange rate policy, and credit/trade finance crunch have caused the great trade collapse. However, there is no consensus regarding the factors that have negatively impacted world trade during the crisis period. Every finding is controversial in its view, yet we, summarize some of the causal factors on the basis of available literature:

(i) *Fall/changes in world demand:* During the crisis period the sudden and severe postponement in demand for products especially of consumer durable and capital goods caused a sharp fall in world trade. Some studies (e.g. Behrens, Gregory, & Giordano, 2010; Bricongne, Fontagne, Gaulier, Taglioni & Vicard, 2012; Cheung & Guichard, 2009; Eaton, Kortum, Neiman, & Romalis, 2016; Wang, 2010;) empirically and theoretically confirms that world demand is the primary driver for the collapse of world trade. Bricongne *et al.* (2012), found a small impact of credit constraints and the global value chain on trade. Cheung and Guichard (2009) tell credit rationing along with world demand is responsible for trade decline via trade finance constraints. Eaton *et al.* (2016) cite that changes in the composition of demand causes trade decline.

(ii) *Trade protection measures:* As soon as the world trade was experienced the negative shocks of the financial crisis 2008, governments of some of the countries had started to adopt tariff and non-tariff policies to protect their domestic trade. Bown (2009) and Kee *et al.* (2013) measured the adverse effect of protectionist policy on trade. However, general consensus suggests that protection policy was not a major factor for a reduction in world trade.

(iii) *Shortages of finance:* During the crisis, the global capital market was disturbed that adversely affected the supply of finance to international trade. As the global capital market froze, financial institutions (Banks) were forced not only to reduce the supply of finance but also charge high financing costs. Chor and Manova (2012); Amiti and Weinstein (2011); Ahn, Amiti, and Weinstein (2011); Iacovone and Zavacka (2009); and Paravisini, Rappoport, Schnabl, and Wolfenzon (2015), etc. support the view that credit shocks are responsible for a significant decline in world trade.

(iv) *Supply chain effect (vertical production linkage):* In the era of globalization, most of the businesses are taking advantage of the supply chain to minimize the production cos**t.** Bems, Johnson, and Yi (2012) and Levchenko, Lewis, and Tesar, (2010) believ**e** that a highly integrated supply chain caused an abrupt fall in world trade. However, Benassy-Quere *et al.*, 2009 do not support this argument. Further Bems *et al.* (2012) confirm that shocks to credit supply also affected trade volume but protection measures played no important role.

Factors Channelizing Credit Shocks in the Trade Finance Market

Reduced world demand, increased protectionist measures, vertical production linkage and shortages of credit are the factors that caused fall in world trade. However, it is also important to know about the drivers that make financial crises so severe due to which financial shocks abruptly affect international trade. Available literature reports that banking sector health (availability and cost of funds), bank and firm relationship, external financial dependence of firms and stringent Basel norms, and AML/KYC regulations shortfall in trade finance instruments, etc. are major determinants that channelized the financial shocks in international trade.

(i) *Banking sector health:* Banks' health can be measured in terms of availability of credit. Banks that suffered badly from liquidity shocks during the financial crisis 2008 were failed to provide finance (Paravasini *et al.*, 2015).

(ii) *Reduced inter-bank lending and high cost of finance:* After the bankruptcy of Lehman Brother, interbank lending market squeezed and caused to increase in the interbank borrowing rate which imposes a big challenge for banks to raise funds. The high cost of inter-bank lending made banks incapable to provide low cost and sufficient credit to firms dealing in international trade (Amiti and Weinstein, 2011; Chor and Manova, 2012). Banks that are highly rely on interbank financing curtail their credit supply during the financial crisis (*Iyer et al.*, 2013). In the same way, low returns also motivated banks to reduce credit supply especially for cross-boarder loans (Hale *et al.*, 2016). Further, ICC (2009-10); IMF/BAFT (2009-10) and World Bank survey (2009) reported that high financing cost and greater counterparty risk made access to trade finance more vulnerable.

(iii) *Bank and firm relationship:* Bank-firm relationship is a prominent factor that decides the supply of finance even in a period of crisis (Vovchak, 2017). In the same way, Bentolila *et al*. (2013) also support this view. Iyer *et al*. (2014) determined that the economic crisis affects the formation of a new relationship between client and bank. So, during the period of crisis inter-bank liquidity crunch intensively reduce the bank lending to the firms that are especially small in size and having a low relationship with the bank.

(iv) *External financial dependence:* The research of Aisen, Alvarez, Sagner, Turen (2013); Bricogne *et al.* (2012); and Chor and Manova (2012); confirm that sectors/firms that use external finance (bank finance and intra-firm finance) more intensively to finance their trade were more severely suffered from the crisis. Bricongne *et al.* (2010) define that credit-constrained is a significant factor that reduces exports by 20 per cent of French firms that are largly rely on external finance. Aisen *et al.* (2013) determine that larger exporting firms having external financial dependence experienced negative export growth than smaller firms during the crisis by using Chilean export firm data.

(v) *Regulatory factors:* Stringent Basel norms, and AML/KYC regulations, intense scrutiny of documents reduced the supply of foreign trade finance during the crisis period (ICC, 2009; ICC, 2010; IMF-BAFT, 2009, IMF-BAFT, 2010; World Bank 2009).

Role of Trade Finance in World Trade Deterioration

A large proportion of international trade is financed through foreign trade finance instruments. However, as a result of the banking crisis, the trade finance market dried and trade finance became expensive and less available for international trade (Chor and Manova, 2012). Inspite of being a less risky instrument, a sharp fall was seen in trade finance volume in financial crisis (ICC, 2009; ICC, 2010; IMF-BAFT, 2009, IMF-BAFT, 2010; Ahn *et al.*, 2011). This has made the economist think carefully about the role played by trade finance during the financial crisis to get the world trade worst. Very scant empirical literature is available that discuss the role played by trade finance in world trade slump. Among them, some authors strongly and moderately support this view and some oppose this. Let us discuss the following studies that are in favour:

Hwang and Im (2017) analyze the effect of trade finance shocks on

export trade by using the bank-intermediated trade finance data on trade loans and documentary bills as a direct proxy of trade finance in Korea. Their research found around 10-14 per cent changes in export transactions and SMEs was suffered badly than larger firms. Likewise, by using trade finance data of US Banks Niepmann and Schmidt-Eisenlohr (2014), determined that reduction in trade finance lending during financial crisis has a significant negative effect on US exports and this effect is more prominent in very poor and small countries where less number of US Banks are active. It estimates that on an average exports decreased by 1.5 per cent due to shock of 1 SD in the country's supply of L/C and it got more than double during the crisis period. Ahn and Sarmiento (2019) in their study investigates the effect of bank liquidity shocks on the supply of L/C to import transactions in Colombia during 2008 financial crisis. The study determined the significant effect of bank liquidity crisis on import transactions.

Some of the research use bank health and export price movement as an indirect proxy to trade finance to measure the adverse effect trade finance shortage on world trade. Amiti and Weinstein (2011) determine that decay in the health of the banks that provide trade finance to Japanese exporters caused a major deterioration in the export sales than their domestic sales during the period of the financial crisis. Ahn *et al.* (2011) explain the adverse effect of trade finance on US export through price movements and determined "import and export prices of goods shipped by sea, which are likely to be affected most by trade finance contractions, rose disproportionately more than those shipped by air or land". This price movement ultimately affect US export. Likewise, Aisen *et al.* (2012) use Chilean firm-level data as indirect proxies to determine the effect of credit contraction on the intensive and extensive margin of exports in the aftermath of a financial crisis. The results reveals export credit as a significant factor causing export contraction (especially intensive margin) and the contraction in export is heterogeneous across the firm size. Larger exporters experienced the contraction in the intensive margin (no of unit exported), while smaller exporters suffered from lower entry and higher exit during a period of financial crisis.

However, CGFS (2014) on the basis of national data collected from CGFS member countries, an econometric analysis conducted by the Group determined that decline in trade finance may cause 1/5th reduction in world trade volumes. Similarly, Kohler and Saville (2011) through cost of trade finance as an indirect proxy to evaluate the impact of trade finance on export decline of South Africa during the crisis conclude that financial crisis was responsible for increasing the cost of financing, however, it doesn't mean that trade finance was the major factor, other factor also played the equal role. Van der Veer (2015) also confirms that private credit insurance's significantly reduce world trade during the period of crisis. Reduced supply of credit insurance are responsible for 5-9 per cent fall in world trade and 10-20 per cent fall in European export.

Contrary to the above views, some of the research do not support that trade finance was responsible for abrupt fall in world trade. Levechenko *et al.* (2010) in his study hypothesized that trade was collapsed due to the transmission of shocks through vertical production linkage, compositional effects, and a shortfall in credit supply. They use firm-level data and conclude that there is no significant contribution of trade credit to decline the trade. However compositional effects (sectors suffered from a larger reduction in domestic production contributed more to trade decline) and vertical linkage are found an important cause of the reduction. Prete and Fedrico (2014) investigated how a reduction in credit supply (trade finance vs. ordinary loans) affects the trade of Italy in the aftermath of the Lehman Brothers crisis. They report the fact that credit shocks experienced by exporters were mainly because of shortages in ordinary loans not by the constraints in trade finance. Trade finance, a more secure form of credit instrument did not affect trade reduction. First-time Auboin & Engemann (2012) used macro-level data on insured trade credit as a direct proxy of trade finance and reveals the positive and substantial effect of trade finance on trade. However, this effect remains unaltered during the non-crisis and crisis period. Likewise, Song (2014) also confirms the views of previous studies and used country-level aggregate data on trade finance and firm-level data of Korea. The result of aggregate data shows that drying up of trade finance play no role in world trade collapsed.

Discussion

Based on the objective of my research paper, we reviewed around 34 research paper published during 2008-2018 and their systematic research review provides some important and useful insights which are given below:

(i) The empirical literature on trade finance is limited due to the paucity of authentic trade finance data. Officially, no aggregate data (working capital finance, term loan, guarantees, factoring and export credit) is available so that the exact picture of world trade reduction can be portrayed due to falling in foreign trade financing during and aftermath of the financial crisis.

(ii) Only 13 studies out of 34 selected studies, exclusively related to trade finance shortage and world trade decline. All studies except Auboin and Engemann (2012) are based on micro-level data (firm-level, sector-level, and country-level). Apart from this, Amiti and Weinsten (2011); Ahn *et al*. (2011); Aisen *et al*. (2012); Kohler and Saville (2011) & Van der Veer (2015) used indirect proxies of trade finance. Such type of study that use indirect proxy and micro-level data on trade finance may give ambiguous or inconclusive results.

(iii) Out of above 13 studies, 4 studies are not in favour of the view.

(iv) Generally, most of the studies are based on developed countries. Very few studies (e.g. Kohler and Saville, 2011; Ahn and Sarmiento, 2019) discuss the role of foreign trade finance with reference to developing countries and economies in transition, while these countries suffered from the huge short-fall in trade financing supply during and after the recent financial crisis.

Conclusion

The significance of trade finance to promote international trade cannot be underestimated. The strong financial system offering sufficient and customized trade finance products is the backbone of international business. After the financial market collapsed in 2008, world trade was drastically declined as the consequences of fall in demand, drying up of trade finance, protectionism policy, exchange rate policy, etc. While trade finance products are highly secured and collateralized, yet sharp fall was seen in trade finance. The fall in trade finance attracts the attention of policy-makers, economists, academicians and leaders of the world economy to investigate whether trade finance played any significant role to decline the world trade or not.

After a systematic review of the literature concerning this issue, we determine that some empirical literature blames trade finance reduction as a prominent factor in world trade slump, while others oppose this view and failed to establish the strong causal relationship. On the basis of existing literature, we can conclude that the short-fall in trade finance was not the only major causing factor that reduced trade during the financial crisis, other factors might be responsible. Because this view cannot be generalized as the studies undertaken on this issue are suffered from the following limitations: (a) Studies are few in number, (b) Most of the studies are micro-level study (firm or sector or country-specific), (c) Due to paucity trade finance data, most of the studies based on indirect proxies, (d) In this matter, very few studies have undertaken with refrence to developing countries which had experienced the higher shortfall in trade finance supply.

This is the best advantage of a systematic literature review that opens the way for further research and highlights the area where more research is required. The area of trade finance with reference to a great trade collapsed is underexplored as very few literature is available. So, more macro-level studies using aggregate trade finance data should be conducted. Further, more studies must be undertaken for developing nations as they face major shortfall in trade finance.

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