Poultry in Motion: A Study of International Trade Finance Practices

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Abstract

This paper analyzes the financing terms that support international trade and sheds light on how and why these arrangements affect trade. Using detailed transaction level data from a U.S. based exporter of frozen and refrigerated food products, particularly poultry, it begins by describing broad patterns in the use of alternative financing terms. These patterns help motivate a model, and the data are used to test the predictions of the model. The results indicate that transactions are more likely to occur on cash in advance or letter of credit terms when the importer is located in a country with weak contractual enforcement and in a country that is further from the exporter. As an importer develops a relationship with the exporter, transactions are less likely to occur on terms that require prepayment. During the recent crisis, the exporter was more likely to demand cash in advance and letter or credit terms when transacting with new customers, and customers that traded on cash in advance terms prior to the crisis disproportionately reduced their purchases.

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