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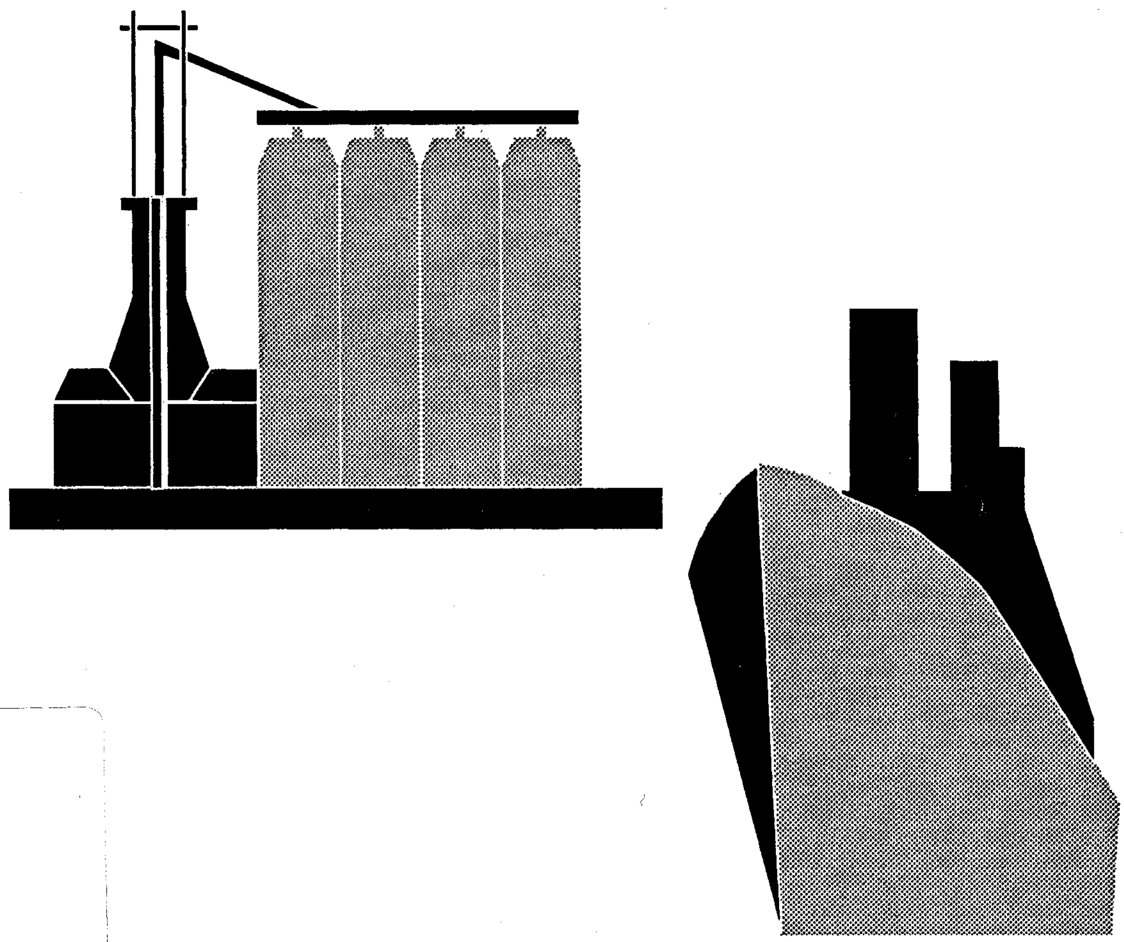
Financial Barriers to International Trade in North Dakota

James F. Baltezore, Cole R. Gustafson, and F. Larry Leistritz



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Highlights

The purpose of this study was to assess the extent that financing is a barrier to international trade in North Dakota. In 1991, 10 percent of total sales of responding manufacturing firms were from international trade, and North Dakota manufacturers conducted international trade with nearly 19 separate countries. Of those firms having an interest in international trade, less than 20 percent received international financing or financial services from private/public institutions for such activities.

Manufacturers thought credit availability was the main financial obstacle to international trade. Manufacturers with international trade financing indicated collateral requirements were excessive. Manufacturers without international trade financing thought short-term capital was not available.

Capital rationing was a considerable financial constraint for firms engaged in international trade. Evidence of capital rationing included

- *manufacturers felt their lender was not knowledgeable about international finance,*
- *manufacturers were denied international trade financing,*
- *manufacturers used domestic loans to finance international trade,*
- *manufacturers were willing to borrow additional money even at interest rates that exceeded their current rate, and*
- *manufacturers thought credit availability was inadequate.*

Additional evidence of capital rationing were excessive collateral requirements and insufficient long-term financing for international trade activities.

Private/public financial institutions were unable to service all the international trade financial needs of manufacturers with international trade financing. Specifically, financial institutions were unable to provide letters of credit. Other needs included financing to ship products to their final destination and for production, marketing, and research.

Twenty percent of the North Dakota manufacturers responding frequently or always used domestic loans to finance international trade. However, nearly 85 percent of the manufacturers with international trade financing frequently or always used domestic loans to finance international trade. Manufacturers used domestic loans to free up capital needed to support their international trade needs. The primary reason for using domestic loans rather than international loans was because their lender was not knowledgeable about international finance.

North Dakota manufacturers would attend workshops related to international trade, especially about international market development. Manufacturers were also concerned with such topics as international trade laws, sales contracts, and letters of credit.

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Introduction

North Dakota's economy continues to depend upon agriculture, federal activities, and energy. These economic sectors have accounted for an average of 42, 32, and 15 percent, respectively, of the state's economic base from 1985 through 1989 (Leistritz and Coon 1991). The state's economy remains at the mercy of weather, federal government expenditures, and oil prices. Adverse weather conditions, falling commodity prices, declining federal government outlays, and decreasing oil revenues suggest North Dakota's economy may contract considerably in the future if reductions in these economic sectors are not offset by increases in others (i.e., manufacturing and tourism).

North Dakota must diversify its economic base to minimize or reduce the economic impact fluctuations in agriculture, federal activities, and energy have on the state's economy (Kluzak 1991). Economic diversity is achieved through increased business activity in other economic sectors, such as manufacturing, which accounted for only 8 percent of North Dakota's economic base on average from 1985 through 1989 (Leistritz and Coon 1991). Part of the reason manufacturing accounts for such a small percentage of North Dakota's economic base is because of the relatively new emergence of a manufacturing sector and the relatively small size of manufacturing firms that operate in the state (Leistritz and Wanzek 1992).

International trade[1] could expand North Dakota's manufacturing sector. Changes in some of the economies around the world have created unprecedented business opportunities and challenges. Firms that could take advantage of such opportunities could expand their business activities. Only 25 percent of North Dakota manufacturing businesses sell products outside the United States (Leistritz and Wanzek 1992a). However, 50 percent plan to serve international markets in the next five years.

Progressive business firms realize that they must be able to compete both in domestic <u>and</u> international economies to maintain or expand their business activity. Potential growth in international markets offers the best opportunities for future business growth in some industrial areas. International market opportunities provide businesses with economic stability through market diversification. However, even those firms actively seeking international trade may encounter trade barriers that restrict or prohibit the production and flow of goods and services across international borders.

International Trade Barriers

Domestic businesses face barriers that limit their access and ability to expand into international markets. Trade barriers impose economic costs on firms in the exporting countries and on consumers in the importing countries. Trade barriers generally can be categorized into four areas--political, structural, logistical, and financial.

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[1]For purposes of this study, international trade refers to <u>both</u> exportation and importation of raw and/or finished products.

Political barriers include tariffs and quotas. Tariffs place a tax on imported goods, and quotas limit the quantity of a particular good entering a country. Such barriers are designed primarily to protect the continued economic viability of domestic industries.

Structural barriers relate to the principle of comparative advantage. Firms in some countries simply have an economic advantage in the production of some goods. This economic advantage prevents firms in other countries from competing in domestic or international markets without government assistance.

Logistical barriers are factors within the firm that inhibit the business' ability to enter international markets. Some businesses do not have the plant capacity necessary to meet the demands of both domestic and international markets. Other firms lack the managerial expertise to develop international markets, customers, and business connections necessary to expand international sales. Management may not have the practical knowledge required to develop and comply with an international sales contract to include letters of credit, exchange rates, and insurance.

Individual firms trying to finance international trade activities face barriers. Manufacturers need financing to cover labor, material, and other production and shipping expenses that lead to international sales. Foreign buyers require financing to purchase imported goods. Businesses are not able to obtain international loans because their current financial institution may not have knowledge or experience in international finance. Moreover, local lenders may not have correspondent relationships with a financial institution that has international finance experience. Lenders may not have the expertise to evaluate creditworthiness of and price of an international loan.

Businesses can do little to compete against political and structural international trade barriers. However, logistical and financial trade barriers can be overcome through education and increased market activity.

Financing International Trade

Export financing is a key determinant of the competitiveness of U.S. exporters in world markets. Financing is needed to cover production expenses or to provide flexible payment terms to foreign buyers. Flexible payment terms are an increasingly important aspect of international trade, especially as competition grows among exporters in developing countries. Financial terms for foreign buyers often determine the success of an export transaction as products and services become more similar.

Many U.S. companies have difficulty obtaining financial support for exports. A national survey of exporters found 66 percent thought competitive export financing was either sometimes or rarely available, and 53 percent stated they had lost export transactions because of reasons related to financing (U.S. Government Printing Office 1988). Over half of the exporters indicated they would export more if export financing were available.

A survey of North Dakota manufacturers found that firms selling in international markets had significantly more difficulty obtaining financing than did those selling only in domestic markets (Leistritz and Wanzek 1992). Manufacturers that tried to expand into international markets found it significantly more difficult to obtain financing compared to manufacturers that did not service international markets. Over 60 percent of North Dakota manufacturers would like to see more export financing for working capital and billing/payment (Kluzak 1991).

Moreover, the recent withdrawal of U.S. commercial banks from export financing has exacerbated the problem of obtaining credit. From the mid-1960s through the early 1980s, financial institutions were actively engaged in trade financing (U.S Government Printing Office 1988). However, events in the banking industry during the middle and late 1980s led to a slower rate of expansion and to a decline in international lending. Events affecting financial institutions' attitudes toward international lending included

- the Third World debt crisis,
- increased competition within the banking industry,
- higher capital reserve requirements, and
- changes in tax policies.

These changes have reduced the level of trade financing and increased fee-based trade services financial institutions offer.

North Dakota financial institutions are highly solvent and maintain relatively low loan-to-deposit ratios. The average loan-to-deposit ratio of North Dakota banks was 50 percent in 1990 (Springer 1990). Financial institutions in the state have the financial capacity support international business expansions and/or creations.

Studies indicate banks in North Dakota are underdiversified and highly dependent on economic conditions in local communities (Gustafson and Beauclair 1990). Community development depends on bank lending policies, and fund availability at banks depends on local economic activity levels, creating a circular relationship. Local communities and commercial banks depend on each other. International business opportunities would provide both North Dakota commercial banks and businesses a means of diversification.

Capital Rationing

Capital rationing occurs when lenders supply a smaller amount of funds for a quoted interest rate than borrowers desire (Jaffee and Russell 1976). Loan-quantity rationing and loan-size rationing are the two forms of capital rationing (Aguilera 1990). Loan-quantity rationing implies that borrowers apply for more loans than they receive. Loan-size rationing implies borrowers receive partial financing for all loans. In both cases, borrowers have received all the financing they can obtain although they have other profitable loan proposals remaining (Barry and Baker 1971).

Financial institutions ration credit when they are unwilling to loan money, even though borrowers are willing to pay premiums for debt capital. Lenders ration credit because they think the risk premiums borrowers are willing to pay do not cover the costs of potential default. The premium a borrower is willing to pay is insufficient to compensate for the costs of the businesses' potential bankruptcy (Stiglitz and Weiss 1981).

Rationing also occurs when lenders are not knowledgeable about the type of business applying for a loan. Financial institutions are unable to accurately evaluate the creditworthiness of such loans since inherent business risks are unknown. Consequently, financial institutions limit the number of loans or reduce the amount of the loan to minimize their financial exposure.

Financial institutions are likely to ration capital to firms involved with international trade activities. Instability in world markets and politics makes it extremely difficult for financial institutions to accurately evaluate the creditworthiness of an international loan proposal. As a result, financial institutions provide less credit than is needed to meet the financial demands of international businesses.

Purpose

The purpose of this study is to assess the extent that financing is a barrier to international trade in North Dakota. Specific objectives include

- determining the extent of international trade financing in North Dakota,
- identifying financial institutions that offer international trade financing and financial services,
- determining terms associated with international trade agreement and financing, and
- identifying international trade needs of North Dakota businesses.

Identifying and addressing issues for international trade financing will help North Dakota businesses to compete in growing world markets. Increased economic activity at the firm level will strengthen and diversify North Dakota's economic base, helping to ease the state's budgetary problems.

Procedures

Various methods were used to administer the survey, assess international trade barriers, and conduct significance tests. The following discussion identifies specific methods and steps taken in this study.

Survey

Primary survey data were collected, using a mail questionnaire. The survey sample was developed from a previous data base of North Dakota manufacturers (Leistritz and Wanzek 1992). Manufacturers included in the survey had had difficulty obtaining financing, had sold their products in international markets, had expanded into international markets within the past five years, or had planned to serve international markets in the next five years. The survey sample included manufacturers currently involved in international trade and those actively seeking access to international markets. The survey sample size was 152 manufacturers.

Survey Instrument

A survey instrument was designed to determine the extent of international trade financing, identify international trade barriers, and assess international trade needs in North Dakota (Appendix A). A draft questionnaire was sent to two international trade professionals for their review. Questionnaires were mailed to ten manufacturers January 29, 1992, to pretest the survey instrument. Six questionnaires were returned. Responses from industry experts and the pretest were used to confirm that study objectives would be met and to identify ambiguous, inflammatory, or unnecessary sections.

Mailings

The initial mailing to 146 manufacturers was sent March 16, 1992. A second mailing to 105 manufacturers was sent April 8, 1992, with a reminder to encourage a response (Appendix B). The third mailing was sent to 75 manufacturers May 8, 1992, and also included a reminder informing potential respondents this was their final opportunity to respond (Appendix B). Mailings were sent first class.

Response

Over 27 percent of the first mailing, 19 percent of the second mailing, and 11 percent of the third mailing questionnaires were returned (Table 1). The overall response rate was nearly 60 percent (91 observations).

TABLE 1. SURVEY RESPONSE RATE, BY MAILING, NORTH DAKOTA MANUFACTURERS, 1991

Mailing	Questionnaires Mailed	Refusals or Undelivered	Returned	Response Rate
	------- number of questionnaires --------			- percent -
Pretest	10	0	7	70.0
First	146	0	40	27.4
Second	105	0	28	19.2
Third	75	0	16	11.0
Total		0	91	59.9

Sample Groups

Manufacturer responses were arranged, whenever possible, into two groups--those who did and those who did not receive financing or financial services in 1991 from private and/or public institutions to support international trade activities. Various statistical tests were performed to determine significant differences in responses between the two types of manufacturers. Results were used to identify differences in manufacturer characteristics and to assess their attitudes about trade barriers and international trade needs.

Significance Tests

Various significance tests were used to determine if differences existed between the two sample groups for nonparametric (attitudinal) and parametric (ordinal) parameters. A Kruskal-Wallis test (used to test for attitudinal differences) or a T-test (used to test for ordinal differences) was used to determine if significant differences existed between sample groups for various survey questions.

A Kruskal-Wallis test was used to detect differences in responses between sample groups for questions with yes/no and ranking (i.e., strongly agree, agree, disagree, strongly disagree) responses. Kruskal-Wallis one-way analysis of variance by ranks is useful in testing whether independent samples are from different populations (Daniel 1978). The test determines if differences between samples represent merely chance variations or genuine population differences (Seigel 1956). The test converts scores to ranks, using more of the information in the observation than a means test, and is useful in situations where a normality assumption (homoscedasticity) does not hold or is not critical (Mendenhall et al. 1974). A 90 percent confidence level (α=0.05) was used to determine significant differences.

A T-test was used to determine if the means from two different sample groups were the same. The T-test accommodates the assumption that variances from sample groups were unequal and that variables are normally and independently distributed within each sample group (SAS Institute Inc. 1985).

A 90 percent confidence level (α=0.05) was the criterion for significance testing.

The chances of finding significant differences between sample groups for a particular question were somewhat constrained because of the limited number of responses. Although considerable differences in responses appear between sample groups for some questions, none differed statistically. A statistical difference may have been found if more observations had been in the data set. Questions with statistical differences in response between sample groups represent a genuine difference between groups.

Agreement Index

An agreement index was developed to determine the extent to which respondents agreed with various international trade barriers and needs. The agreement index for a particular group response equals

(percent responding strongly agree x 2) plus
(percent responding agree x 1) less
(percent responding disagree x 1) less
(percent responding strongly disagree x 2).

A positive index indicates a sample group generally agrees with a specific issue. A negative index indicates a group generally disagrees.

Results

Results were organized into four general areas -- manufacturer characteristics, international trade financing, trade barriers, and international trade needs. Summary statistics were presented for both manufacturers who did and who did not receive international trade financing. Statistical comparisons were made between the two groups where appropriate.

Manufacturer Characteristics

Just over 19 percent of the manufacturers responding had received financing or financial services from private and/or public institutions to support international trade activities in 1991. These manufacturers had outstanding international loans with an average combined value of $773,750 in 1991. The original dollar amount of these outstanding loans was over $6 million on average (Table 2)[2] and varied from $45,000 to over $34 million.

Manufacturers responding had an average of $15 million in total domestic and international sales in 1991 (Table 3). Total sales ranged from a low of $26,000 to a high of over $344 million. Manufacturers with international trade financing had slightly higher total domestic and international sales ($20.9 million) than did manufacturers without international trade financing ($13.7 million). No significant difference in total sales was found between manufacturers with and without international trade financing.

Nearly 12 percent of total North Dakota manufacturer sales, on average, were from international trade in 1991 (Table 4). The percentage of total sales associated with international trade ranged from 0 percent to over 80 percent. Manufacturers with international trade financing had an average of nearly 25 percent international trade sales compared to nearly 10 percent for

[2]This was based on the top three loans according to loan size or value of credit guarantee.

TABLE 2. ORIGINAL LOAN AMOUNT FROM PRIVATE/PUBLIC FINANCIAL INSTITUTIONS SUPPORTING INTERNATIONAL TRADE ACTIVITIES OUTSTANDING IN 1991, TOP THREE BASED ON LOAN SIZE OR VALUE OF CREDIT GUARANTEE, NORTH DAKOTA MANUFACTURERS

Loan	n	Mean	Minimum	Maximum
		----------------	dollars	----------------
One	8	2,936,875	45,000	13,700,000
Two	5	4,055,000	200,000	16,200,000
Three	2	2,325,000	150,000	4,500,000
Total	8	6,052,500	45,000	34,400,000

TABLE 3. TOTAL DOMESTIC AND INTERNATIONAL SALES IN 1991, MANUFACTURERS WITH AND WITHOUT INTERNATIONAL TRADE FINANCING, NORTH DAKOTA MANUFACTURERS

Manufacturer	n	Mean	Minimum	Maximum
		----------------	dollars	----------------
All[a]	55[b]	14,998,936	26,000	344,000,000
With International Trade Financing	10	20,947,700	180,000	130,000,000
Without International Trade Financing	45[b]	13,676,988	26,000	344,000,000

[a]No significant difference was found between manufacturers with and without international trade financing based on a T-test with a 90 percent significance level.
[b]Excludes one observation that had international sales of $13.3 billion in 1991.

TABLE 4. PERCENTAGE OF TOTAL SALES THAT WERE THE RESULT OF INTERNATIONAL TRADE IN 1991, MANUFACTURERS WITH AND WITHOUT INTERNATIONAL TRADE FINANCING, NORTH DAKOTA MANUFACTURERS

Manufacturer	n	Mean	Minimum	Maximum
		---------	percent	----------
All[a]	67	11.7	0.0	83.0
With International Trade Financing	11	23.5	2.0	83.0
Without International Trade Financing	56	9.4	0.0	60.0

[a]No significant difference was found between manufacturers with and without international trade financing based on a T-test with a 90 percent significance level.

manufacturers without international trade financing. No significant difference in the percentage of total sales from international trade was found between manufacturer types.

Over 65 percent of North Dakota manufacturers had international sales in Canada during 1991 (Table 5). Over 75 percent of manufacturers without international trade financing had Canadian sales compared to over 40 percent for manufacturers with international trade financing. Over 16 percent of the manufacturers with international financing had sales in Germany (17 percent), Japan (25 percent), Saudi Arabia (17 percent), and Spain (17 percent).

TABLE 5. COUNTRIES WITH WHICH MANUFACTURERS HAD THE LARGEST INTERNATIONAL SALES IN 1991, NORTH DAKOTA MANUFACTURERS

	All Manufacturers		With International Trade Financing		Without International Trade Financing	
Country	n	Percentage[a]	n	Percentage[b]	n	Percentage[c]
Australia	2	4.4	0	0.0	2	6.1
Canada	30	66.7	5	41.7	25	75.8
Denmark	1	2.2	0	0.0	1	3.0
England	5	11.1	1	8.3	4	12.1
France	1	2.2	0	0.0	1	3.0
Germany	5	11.1	2	16.7	3	9.1
Indonesia	1	2.2	1	8.3	0	0.0
Italy	2	4.4	0	0.0	2	6.1
Jamaica	1	2.2	1	8.3	0	0.0
Japan	7	15.6	3	25.0	4	12.1
Mexico	3	6.7	0	0.0	3	9.1
Netherlands	1	2.2	1	8.3	0	0.0
New Zealand	1	2.2	0	0.0	1	3.0
Saudi Arabia	3	6.7	2	16.7	1	3.0
Singapore	1	2.2	0	0.0	1	3.0
Spain	4	8.9	2	16.7	2	6.1
Taiwan	1	2.2	0	0.0	1	3.0
Thailand	1	2.2	0	0.0	1	3.0
Venezuela	1	2.2	0	0.0	1	3.0

[a]Percentage based on 45 manufacturers with international sales.
[b]Percentage based on 12 manufacturers with international sales.
[c]Percentage based on 33 manufacturers with international sales.

North Dakota manufacturers without international trade financing had sales in more countries than did manufacturers with international trade financing. However, manufacturers without international trade financing relied more heavily on Canadian sales than did manufacturers with international trade financing. Manufacturers with international trade financing served fewer total markets, but were more diversified in the international markets they served than were manufacturers without international financing.

International Trade Financing

Various agents are involved in financing international trade activities. Public and private financial institutions with the expertise to evaluate international loans must be identified, financial terms must be known, and services that institutions offer must be recognized. Manufacturers familiar with these factors of international trade stand a better chance of successfully completing an international venture. Manufacturers not currently involved in international trade activities must be aware of these aspects to ensure they can take advantage of an international trade opportunity should one arise.

Public and Private Financial Institutions

North Dakota manufacturers received financing and/or financial services for international trade activities from both private and public institutions in 1991 (Table 6). Manufacturers received assistance from 10 different private North Dakota financial institutions and from institutions located in four other states. Public institutions financing or providing financial services included the Bank of North Dakota, Bismarck, and the Export-Import Bank, Washington, D.C.

TABLE 6. NAME AND LOCATION OF PRIVATE AND PUBLIC INSTITUTIONS FINANCING AND/OR PROVIDING FINANCIAL SERVICES FOR INTERNATIONAL TRADE ACTIVITIES IN 1991, NORTH DAKOTA MANUFACTURERS

Name[a]	Location
Private Institutions	
Bank of America	Los Angeles, CA
Bank for Cooperatives	St. Paul, MN
First Bank of Bismarck	Bismarck, ND
First American Bank	Carrington, ND
First Interstate Bank of Fargo	Fargo, ND
F-M Bank	Langdon, ND
Harris Trust and Savings	Chicago, IL
Liberty National Bank	Dickinson, ND
Norwest Bank	Minot, ND
	Minneapolis, MN
Royal Bank of Canada	New York, NY
Security State Bank	Dunseith, ND
State Bank of Bottineau	Bottineau, ND
Valley Bank	Grand Forks, ND
Universal Corporation	Richmond, VA
Western State Bank	Devils Lake, ND
Public Institutions	
Bank of North Dakota	Bismarck, ND
Export-Import Bank	Washington, DC

[a]Represents only those financial institutions survey respondents identified. Other financial institutions may be providing financing or financial services to North Dakota manufacturers to finance international trade.

The primary international trade activity that private/public institutions supported financially was the exportation of finished products (Table 7). Private/public institutions also supported, but to a lesser extent, the exportation of raw products. Not one North Dakota manufacturer reported that private/public institutions supported the importation of any international trade activity.

TABLE 7. INTERNATIONAL TRADE ACTIVITIES PRIVATE/PUBLIC INSTITUTIONS FINANCIALLY SUPPORTED, NORTH DAKOTA MANUFACTURERS WITH INTERNATIONAL TRADE FINANCING, 1991

Activity	n	Percentage
Exports		
Raw products	2	20.0
Technological products	0	0.0
Finished products	8	80.0
Services	0	0.0
Imports		
Raw products	0	0.0
Technological products	0	0.0
Finished products	0	0.0
Services	0	0.0

Over 45 percent of North Dakota manufacturers with international trade financing indicated that the private institutions that provided financing or financial services to support international trade activity in 1991 had banks headquartered in North Dakota with offices exclusively in the United States (Table 8). Over 30 percent of North Dakota manufacturers with international trade financing responded that the private institutions supporting international trade activities had banks headquartered in another state with offices exclusively in the United States. North Dakota manufacturers indicated that the only public institutions that provided primary or additional financing or financial services to support international trade activities in 1991 were the Export-Import Bank (EXIMBANK) and state agencies (Table 9).

Over 40 percent of the North Dakota manufacturers responding thought their current financial institutions did not have anyone knowledgeable about international finance or international letters of credit (Table 10). Over 60 percent of North Dakota manufacturers with international trade financing indicated their financial institution did not have anyone knowledgeable about international trade activities compared to 40 percent for manufacturers without international trade financing. Most manufacturers (43 percent) thought their current financial institution could refer them to a financial institution with international trade financing experience.

Financial Terms

Primary forms of payment North Dakota manufacturers with international trade financing used in export/import transactions were an open account (69 percent)--payment only after the product was delivered--and letters of credit (61 percent)--a financial institution conditionally guarantees payment (Table 11). Nearly 40 percent and over 20 percent of North Dakota manufacturers used advance payments and drafts, respectively, as payment.

TABLE 8. PRIVATE INSTITUTIONS PROVIDING FINANCING OR FINANCIAL SERVICES TO SUPPORT INTERNATIONAL TRADE ACTIVITY IN 1991, NORTH DAKOTA MANUFACTURERS WITH INTERNATIONAL TRADE FINANCING

Private Institutions	n	Percentage
Banks headquartered in North Dakota with offices exclusively in the United States	6	46.2
Banks headquartered in another state with offices exclusively in the United States	4	30.8
Multinational bank headquartered in North Dakota	0	0.0
Multinational bank headquartered in another state	1	7.7
Other private financial institutions	1	7.7
Export management companies	0	0.0
Export trading companies	1	7.7

TABLE 9. PUBLIC INSTITUTIONS PROVIDING PRIMARY OR ADDITIONAL FINANCING OR FINANCIAL SERVICES TO SUPPORT INTERNATIONAL TRADE ACTIVITIES IN 1991, NORTH DAKOTA MANUFACTURERS WITH INTERNATIONAL TRADE FINANCING

Public Institutions	n	Percentage
U.S. Department of Agriculture (USDA)	0	0.0
Small Business Administration (SBA)	0	0.0
U.S. Exportation Administration (USEA)	0	0.0
Export-Import Bank (EXIMBANK)	1	50.0
Foreign Credit Insurance Association (FCIA)	0	0.0
Private Export Funding Corporation (PERFCO)	0	0.0
State Agencies	1	50.0

The primary type of credit private/public financial institutions supplied North Dakota manufacturers with international trade financing to support international trade activities in 1991 was short-term (Table 12). Eighty percent of the credit private/public institutions supplied had a term of one year or less. Ten percent of the credit private institutions provided North Dakota manufacturers was for more than six years.

Over 65 percent of manufacturers with international trade financing had obtained secured credit lines from private/public sources (Table 13). Over 15 percent of the manufacturers had unsecured credit lines. The primary collateral used to secure agreements was company assets.

TABLE 10. RESPONSES TO "DOES YOUR CURRENT FINANCIAL INSTITUTION HAVE ANYONE KNOWLEDGEABLE IN INTERNATIONAL FINANCE OR INTERNATIONAL LETTERS OF CREDIT AND IF NOT, CAN THEY REFER YOU TO A FINANCIAL INSTITUTION THAT DOES?" MANUFACTURERS WITH AND WITHOUT INTERNATIONAL TRADE FINANCING, NORTH DAKOTA MANUFACTURERS

Question/ Manufacturer	Response		
	Yes	No	Don't Know
	-------- percent --------		
Institution knowledgeable in international trade financing			
All[a]	22.5	43.7	33.8
With international trade financing	15.4	61.5	23.1
Without international trade financing	24.1	39.7	36.2
If not, can they refer you			
All	42.9	25.7	31.4
With international trade financing	37.5	37.5	25.0
Without international trade financing	44.4	22.2	33.3

[a]No significant difference was found between manufacturers with and without international trade financing based on a Kruskal-Wallis test with a 90 percent significance level.

TABLE 11. FORMS OF PAYMENTS FIRMS USE IN EXPORT/IMPORT TRANSACTIONS, NORTH DAKOTA MANUFACTURERS WITH INTERNATIONAL TRADE FINANCING, 1991

Type of Payment	n	Percentage
Advance Payment--payment up-front	5	38.5
Open Account--payment only after the product is delivered	9	69.2
Consignment--payment after products are sold	1	7.7
Drafts--exchange of documents authorizing payment and title transfer	3	23.1
Letter of Credit--payment conditionally guaranteed by financial institutions	8	61.5

Only 25 percent of North Dakota manufacturers with international trade financing had assets pledged by security agreements for international trade activities (Table 14). A floating lien--lien on owned and acquired goods--was the predominant security interest used. One manufacturer reported a plaster lien--lien on all owned and acquired assets.

Over 70 percent of North Dakota manufacturers with international trade financing did not know how interest rates and collateral and documentation requirements of international loans compared with domestic loans (Table 15). None of the manufacturers thought interest rates and collateral and documentation requirements for international loans were lower than domestic

TABLE 12. PERCENTAGE OF CREDIT TYPES SUPPLIED BY PRIVATE/PUBLIC FINANCIAL INSTITUTIONS TO SUPPORT INTERNATIONAL TRADE ACTIVITIES IN 1991, NORTH DAKOTA MANUFACTURERS WITH INTERNATIONAL TRADE FINANCING

Credit Type	Private	Public
	---- percent ----	
Short-term credit (1 year or less)	81	80
Intermediate-term credit (between 1 and 6 years)	9	20
Long-term credit (more than 6 years)	10	0

TABLE 13. CREDIT LINES OBTAINED FROM PRIVATE/PUBLIC SOURCES AND COLLATERAL, NORTH DAKOTA MANUFACTURERS WITH INTERNATIONAL TRADE FINANCING, 1991

Line of Credit	n	Percentage
Unsecured	2	16.7
Secured	8	66.7
Both	2	16.6
Collateral		
Company Assets	9	69.2
Bill of Lading	3	23.1
Warehouse Receipt	0	0.0
Trust Receipt	2	15.4
Other[a]	3	23.1

[a]Other reported collateral included finished goods and a personal guarantee.

TABLE 14. RESPONSES TO "DOES YOUR FIRM HAVE ASSETS PLEDGED BY SECURITY AGREEMENTS FOR INTERNATIONAL TRADE ACTIVITIES AND IF YES, WHAT FORM OF SECURITY INTEREST IS USED?", NORTH DAKOTA MANUFACTURERS WITH INTERNATIONAL TRADE FINANCING, 1991

Response	n	Percentage
Yes	3	25.0
No	9	75.0
Form of Security Interest		
Floating Lien --lien on owned and acquired goods	3	100.0
Plaster Lien --lien on all owned and acquired assets	1	33.3
Proceeds --proceeds of goods sold	0	0.0

TABLE 15. RESPONSES TO "HOW DO INTERNATIONAL LOANS COMPARE WITH DOMESTIC LOANS FROM PRIVATE FINANCIAL INSTITUTIONS IN THE FOLLOWING AREAS?", NORTH DAKOTA MANUFACTURERS WITH INTERNATIONAL TRADE FINANCING, 1991

Area	n	Don't Know	Same	Lower	Higher
		percent			
Interest Rates	11	81.8	9.1	0.0	9.1
Collateral Requirements	11	81.8	9.1	0.0	9.1
Documentation Requirements	11	72.7	9.1	0.0	18.2

loans. Nearly 20 percent of the manufacturers indicated documentation requirements were higher.

Services

Over 35 percent of North Dakota manufacturers with international trade financing indicated private/public financial institutions offered none of the services listed in the questionnaire to support international trade activities (Table 16). Over half of the manufacturers indicated letters of credit and money transfers were services private/public financial institutions offered to support international trade activities. All of the manufacturers rated letters of credit as very important. Only 25 percent of the manufacturers received credit information on potential buyers and suppliers. Over 65 percent of the manufacturers receiving this service indicated it was very important.

TABLE 16. SERVICES PRIVATE/PUBLIC FINANCIAL INSTITUTIONS OFFERED CONCERNING INTERNATIONAL TRADE ACTIVITIES AND THE RELATIVE IMPORTANCE OF EACH, NORTH DAKOTA MANUFACTURERS WITH INTERNATIONAL TRADE FINANCING, 1991

Service	Yes Responses	Not Important	Somewhat Important	Very Important
	percent			
Trade development (finding new markets or supply sources)	33.3	25	50	25
International trade publications	16.7	100	0	0
Credit information on potential buyers and suppliers	25.0	33	0	67
Information on importers	16.7	50	0	50
Information on exporters	16.7	50	0	50
Business introductions	16.7	50	50	0
Letters of credit	58.3	0	0	100
Money transfers	50.0	0	17	83
None of the above	36.4	-	-	-

Less than 10 percent of manufacturers indicated that private/public sources of financing had branch offices in the country with which they conducted international trade. North Dakota manufacturers indicated that branch institutions operating in foreign countries provided no services to them.

Trade Barriers

Nearly 75 percent of all North Dakota manufacturers agreed international business connections were a restraint to initiating or expanding their international trade activities (Table 17). Other barriers to international trade activities were international customers, trade barriers, and laws. Over 70 percent of North Dakota manufacturers with international trade financing agreed international financing was an additional restraint to expanding international trade activities.

TABLE 17. RATINGS OF RESTRAINTS TO INITIATING OR EXPANDING INTERNATIONAL TRADE ACTIVITIES, MANUFACTURERS WITH AND WITHOUT INTERNATIONAL TRADE FINANCING, NORTH DAKOTA MANUFACTURERS, 1991

Group/ Restraint	n	Strongly Disagree	Disagree	Agree	Strongly Agree	Don't Know	Agreement Index[a]
		percent					
All Manufacturers[b]							
International financing	50	8.0	18.0	18.0	16.0	40.0	16.0
International customers	52	7.7	15.4	21.2	38.5	17.3	67.4
International business connections	52	3.8	7.7	25.0	48.1	15.4	105.9
International trade barriers	52	3.8	13.5	30.8	23.1	28.8	55.9
International laws	52	1.9	15.4	15.4	23.1	44.2	42.4
International product prices	52	1.9	23.1	25.0	13.5	36.5	25.1
Within firm limitations	50	2.0	22.0	34.0	8.0	34.0	24.0
Insurance	52	3.8	36.5	13.5	9.6	36.5	11.4
Exchange rates	53	5.7	24.5	20.8	15.1	34.0	15.1
Market risks	51	3.9	21.6	31.4	13.7	29.4	29.4
With International Trade Financing							
International financing	7	14.3	0.0	14.3	57.1	14.3	99.9
International customers	9	0.0	22.2	22.2	55.6	0.0	111.2
International business connections	8	0.0	12.5	0.0	87.5	0.0	162.5
International trade barriers	8	0.0	12.5	12.5	50.0	25.0	100.0
International laws	8	0.0	25.0	12.5	37.5	25.0	62.5
International product prices	9	0.0	22.2	33.3	33.3	11.1	77.7
Within firm limitations	7	0.0	14.3	42.9	28.6	14.3	85.8
Insurance	8	0.0	37.5	12.5	25.0	25.0	25.0
Exchange rates	9	0.0	22.2	44.4	22.2	11.1	66.6
Market risks	8	0.0	37.5	25.0	25.0	12.5	37.5
Without International Trade Financing							
International financing	43	7.0	20.9	18.6	9.3	44.2	2.3
International customers	43	9.3	14.0	20.9	34.9	20.9	58.1
International business connections	44	4.5	6.8	29.5	40.9	18.2	95.5
International trade barriers	44	4.5	13.6	34.1	18.2	29.5	47.9
International laws	44	2.3	13.6	15.9	20.5	47.7	38.7
International product prices	43	2.3	23.3	23.3	9.3	41.9	14.0
Within firm limitations	43	2.3	23.3	32.6	4.7	37.2	14.1
Insurance	44	4.5	36.4	13.6	6.8	38.6	(18.2)
Exchange rates	44	6.8	25.0	15.9	13.6	38.6	4.5
Market risks	43	4.7	18.6	32.6	11.6	32.6	27.8

[a]Agreement index equals ((% responding strongly agree * 2) + (% responding agree * 1)) - ((% responding disagree * 1) + (% responding strongly disagree * 2)).
[b]No significant differences were found between manufacturers with and without international trade financing based on a Kruskal-Wallis test with a 90 percent significance level.

North Dakota manufacturers with international trade financing rated restraints in the questionnaire considerably higher than did firms without international trade financing. However, no significant differences were found in ratings between manufacturer sample groups among restraints.

Nearly 70 percent of all North Dakota manufacturers responding never used domestic loans to finance international trade activities (Table 18). However, 20 percent frequently or always used domestic loans to finance international trade. Almost 85 percent of North Dakota manufacturers with international trade financing frequently or always used domestic loans to support international trade compared to less than 5 percent for manufacturers without international trade financing. Manufacturers with international trade financing were significantly more likely to use domestic loans to finance international activities than were manufacturers without international trade financing.

TABLE 18. EXTENT MANUFACTURERS USE DOMESTIC LOANS TO FINANCE INTERNATIONAL ACTIVITIES, NORTH DAKOTA MANUFACTURERS, 1991

Group	n	Never	Seldom	Sometimes	Frequently	Always
		percent				
All manufacturers[a]	66	69.7	4.5	6.1	4.5	15.2
Manufacturers with international trade financing	13	15.4	0.0	0.0	23.1	61.5
Manufacturers without international trade financing	53	83.0	5.7	7.5	0.0	3.8

[a]A significant difference was found between manufacturers with and without international trade financing based on a Kruskal-Wallis test with a 90 percent significance level.

The primary reason manufacturers used domestic loans to finance international activities was their lender did not know anything about international finance (Table 19). Eighty percent of the manufacturers with international trade financing indicated their lender did not know anything about international finance. Nearly 80 percent of the manufacturers without international trade financing used domestic loans because international trade was a small part of their total business.

Only 8 percent of manufacturers had unofficially been denied international trade financing or services from a private/public financial institution (Table 20).[3] Twenty-five percent of manufacturers with international trade financing had unofficially been denied international financing. Significantly more manufacturers with international trade financing had been unofficially denied financing than had manufacturers without international trade financing.

[3]An unofficial denial implies being told that pursuing a loan application to finance international trade activities would be a waste of time because it would likely be rejected.

TABLE 19. REASONS MANUFACTURERS MIGHT HAVE USED DOMESTIC LOANS TO FINANCE INTERNATIONAL ACTIVITIES, NORTH DAKOTA MANUFACTURERS, 1991

Group[a]/ Reason	n	Strongly Disagree	Disagree	Agree	Strongly Agree	Don't Know	Agreement Index[b]
		---------------- percent ----------------					
All manufacturers							
Don't know how to obtain international financing	20	15.0	15.0	40.0	20.0	10.0	35.0
Lender doesn't know anything about international finance	19	5.3	10.5	26.3	26.3	31.6	68.4
International trade is a small part of our total business	18	16.7	11.1	33.3	27.8	11.1	44.4
Too time-consuming to comply with international financing requirements	18	0.0	11.1	16.7	22.2	50.0	50.0
Our firm is too small to compete for international credit	17	11.8	11.8	23.5	23.5	29.4	35.1
Manufacturers with international trade financing							
Don't know how to obtain international financing	9	11.1	11.1	55.6	22.2	0.0	66.7
Lender doesn't know anything about international finance	10	10.0	0.0	20.0	40.0	30.0	80.0
International trade is a small part of our total business	9	33.3	11.1	22.2	33.3	0.0	11.1
Too time-consuming to comply with international financing requirements	9	0.0	11.1	0.0	33.3	55.6	55.5
Our firm is too small to compete for international credit	8	25.0	0.0	25.0	25.0	25.0	25.0
Manufacturers without international trade financing							
Don't know how to obtain international financing	11	18.2	18.2	27.3	18.2	18.2	9.1
Lender doesn't know anything about international finance	9	0.0	22.2	33.3	11.1	33.3	33.3
International trade is a small part of our total business	9	0.0	11.1	44.4	22.2	22.2	77.7
Too time-consuming to comply with international financing requirements	9	0.0	11.1	33.3	11.1	44.4	44.4
Our firm is too small to compete for international credit	9	0.0	22.2	22.2	22.2	33.3	44.4

[a]Represents those manufacturers who used domestic loans to finance international trade activities sometimes, frequently, or always.
[b]Agreement index equals ((% responding strongly agree * 2) + (% responding agree * 1)) - ((% responding disagree * 1) + (% responding strongly disagree * 2)).

Nearly 6 percent of all manufacturers had officially been denied financing or services from a private/public financial institution (Table 20).[4] Over 18 percent of manufacturers with international trade financing had been officially denied financing. Significantly more manufacturers with international trade financing had been officially denied financing than had manufacturers without international trade financing.

The primary private source officially and/or unofficially denying manufacturers financing or financial services was banks headquartered in North Dakota with offices exclusively in the United States (Table 21). Public sources denying manufacturers financing or financial services included USDA, SBA, EXIMBANK, and state agencies (the North Dakota Department of Economic Development and the Bank of North Dakota).

[4]An official denial implies having an actual loan application rejected.

TABLE 20. FIRMS UNOFFICIALLY/OFFICIALLY DENIED INTERNATIONAL TRADE FINANCING OR SERVICES BY PUBLIC OR PRIVATE FINANCIAL INSTITUTIONS, NORTH DAKOTA MANUFACTURERS, 1991

Group	n	Yes Responses
		- percent -
Unofficially[a] Rejected[b]		
All Manufacturers	71	8.5
Manufacturers with international trade financing	12	25.0
Manufacturers without international trade financing	59	5.1
Officially[c] Rejected[b]		
All Manufacturers	70	5.7
Manufacturers with international trade financing	11	18.2
Manufacturers without international trade financing	59	3.4

[a]Told that pursuing a loan application to finance international trade activities would be a waste of time because it would likely be rejected.
[b]A significant difference was found between manufacturers with and without international trade financing based on a Kruskal-Wallis test and a 90 percent significance level.
[c]Had an actual loan application rejected.

TABLE 21. PRIVATE AND/OR PUBLIC SOURCES THAT OFFICIALLY OR UNOFFICIALLY DENIED FINANCING OR FINANCIAL SERVICES, NORTH DAKOTA MANUFACTURERS, 1991

Source	n	Percentage
Private		
Banks headquartered in your state with offices exclusively in the United States	5	100
Banks headquartered in another state with offices exclusively in the United States	0	0
Multinational banks headquartered in your state	1	20
Multinational banks headquartered in another state	1	20
Other private financial institutions	1	20
Export management companies	0	0
Export trading companies	0	0
Public		
U.S. Department of Agriculture (USDA)	1	20
Small Business Administration (SBA)	2	40
U.S. Exportation Administration (USEA)	0	0
Export-Import Bank (EXIMBANK)	1	20
Foreign Credit Insurance Association (FCIA)	0	0
Private Export Funding Corporation (PEFCO)	0	0
State Agencies	2	40

That the proposal was considered too risky and that financial institutions lacked the international knowledge to support the proposal were primary reasons firms were denied financing (Table 22). Manufacturers had an average of two investment proposals with an average value of $433,000 denied in 1991.

TABLE 22. REASONS FIRMS WERE DENIED FINANCING, NORTH DAKOTA MANUFACTURERS, 1991

Reason	n	Percentage
Proposal was considered too risky	3	50
Insufficient collateral	1	17
Insufficient documentation	0	0
Proposal was not financially feasible (did not cash flow)	0	0
Absence of a letter of credit	0	0
Financial institution lacked the international knowledge to support the proposal	3	50
Don't know	1	17

The average manufacturer would borrow nearly $400,000 more if the firm could borrow at an interest rate that was 2 percentage points <u>less</u> than their current rate (Table 23). Manufacturers with international trade financing would borrow an average of over $850,000 additional money if they could borrow at an interest rate 2 percentage points less than their current rate. No significant difference was found between manufacturers with and without international trade financing based on the average additional money firms would borrow.

On the average, manufacturers would like to borrow nearly $80,000 additional money if the firm could borrow at an interest rate 2 percentage points <u>more</u> than their current rate (Table 23). Manufacturers with international trade financing would like to borrow an average of over $315,000 additional money if they could borrow at an interest rate 2 percentage points more than their current interest rate. No significant difference was found between the two sample groups in the average additional money firms would borrow.

International Trade Needs

Over 40 percent of the manufacturers with international trade financing indicated that private/public financial institutions were not able to service all their international trade financial (credit and service) needs. The primary service they were unable to provide was letters of credit. Additional needs were financing for shipping products to their final destination and for production. Respondents indicated a need for financing marketing and research development. Respondents thought that new markets required more capital investments to support research and marketing.

Only 25 percent of North Dakota manufacturers had unmet international trade financial needs (Table 24). However, nearly 50 percent of the manufacturers with international trade financing had unmet international trade financial needs. Significantly more manufacturers with international trade financing had unmet international trade financial needs than did manufacturers without international trade financing. Primary needs manufacturers were more capital and market information.

TABLE 23. AVERAGE ADDITIONAL MONEY FIRMS WOULD BORROW IF THE FIRM COULD BORROW AT AN INTEREST RATE THAT IS 2 PERCENTAGE POINTS LESS OR MORE THAN THEIR CURRENT RATE, NORTH DAKOTA MANUFACTURERS, 1991

Group	n	Mean
		- dollars -
2 percentage points less[a]		
All Manufacturers	53	398,151
Manufacturers with international trade financing	12	852,250
Manufacturers without international trade financing	41	265,244
2 percentage points more[a]		
All Manufacturers	52	79,231
Manufacturers with international trade financing	10	317,000
Manufacturers without international trade financing	42	22,619

[a]No significant difference was found between manufacturers with and without international trade financing based on a T-test with a 90 percent significance level.

TABLE 24. RESPONSES TO "DOES YOUR FIRM HAVE ANY UNMET INTERNATIONAL TRADE FINANCIAL NEEDS?" NORTH DAKOTA MANUFACTURERS, 1991

Response	All Manufacturers[a]	With International Trade Financing	Without International Trade Financing
		percent	
Yes	24.6	46.2	19.6
No	75.4	53.8	80.4

[a]A significant difference was found between manufacturers with and without international trade financing based on a Kruskal-Wallis test with a 90 percent significance level.

Nearly 75 percent of North Dakota manufacturers responding rated the small amount of credit available was an obstacle to international trade (Table 25). Other obstacles to international trade were unavailability of short-term capital and high documentation requirements. Positive agreement index scores imply that all of the factors listed were, to some extent, obstacles in international trade.

Nearly 90 percent of the manufacturers with international trade financing agreed excessive collateral requirements were an obstacle to international trade (Table 25). Low amounts of credit and short time credit agreement were additional factors manufacturers thought were obstacles to international trade. Significantly more manufacturers with international trade financing agreed the length of credit agreements was too short than did manufacturers without international trade financing.

TABLE 25. RATINGS AND AGREEMENT INDEXES OF FACTORS THAT MIGHT BE OBSTACLES TO INTERNATIONAL TRADE, NORTH DAKOTA MANUFACTURERS, 1991

Group/ Factor	n	Strongly Disagree	Disagree	Agree	Strongly Agree	Neither	Agreement Index[a]
		percent					
All manufacturers							
Short-term capital is not available	50	8.0	20.0	24.0	40.0	8.0	68.0
Intermediate-term capital is not available	49	6.1	22.4	32.7	30.6	8.2	59.3
Long-term capital is not available	52	5.8	17.3	30.8	28.8	17.3	59.5
Documentation requirements are too high	51	3.9	21.6	33.3	31.4	9.8	66.7
Collateral requirements are excessive	50	4.0	22.0	42.0	24.0	8.0	60.0
Amount of credit available is too low	49	4.1	18.4	42.9	30.6	4.1	77.5
Length of credit agreements are too short[b]	51	5.9	15.7	47.1	19.6	11.8	58.8
Distances between the firm and the financial institutions are too great	51	5.9	27.5	51.0	7.8	7.8	27.3
Manufacturers with international trade financing							
Short-term capital is not available	9	0.0	44.4	11.1	33.3	11.1	33.3
Intermediate-term capital is not available	9	0.0	33.3	33.3	22.2	11.1	44.4
Long-term capital is not available	10	0.0	20.0	20.0	40.0	20.0	80.0
Documentation requirements are too high	10	0.0	20.0	40.0	30.0	10.0	80.0
Collateral requirements are excessive	9	0.0	11.1	33.3	55.6	0.0	133.4
Amount of credit available is too low	9	0.0	22.2	11.1	66.7	0.0	122.3
Length of credit agreements are too short	10	0.0	10.0	30.0	40.0	20.0	100.0
Distances between the firm and the financial institutions are too great	10	0.0	50.0	30.0	10.0	10.0	0.0
Manufacturers without international trade financing							
Short-term capital is not available	41	9.8	14.6	26.8	41.5	7.3	75.6
Intermediate-term capital is not available	40	7.5	20.0	32.5	32.5	7.5	62.5
Long-term capital is not available	42	7.1	16.7	33.3	26.2	16.7	54.8
Documentation requirements are too high	41	4.9	22.0	31.7	31.7	9.8	63.3
Collateral requirements are excessive	41	4.9	24.4	43.9	17.1	9.8	43.9
Amount of credit available is too low	40	5.0	17.5	50.0	22.5	5.0	67.5
Length of credit agreements are too short	41	7.3	17.1	51.2	14.6	9.8	58.7
Distances between the firm and the financial institutions are too great	41	7.3	22.0	56.1	7.3	7.3	34.1

[a]Agreement index equals ((% responding strongly agree * 2) + (% responding agree * 1)) - ((% responding disagree * 1) + (% responding strongly disagree * 2)).

[b]A significant difference was found between manufacturers with and without international trade financing based on a Kruskal-Wallis test with a 90 percent significance level.

Nearly 70 percent of manufacturers without international trade financing rated unavailability of short-term capital a major obstacle in international trade (Table 25). Additional factors manufacturers without international trade financing considered to be obstacles to international trade included amount of credit available was too low, documentation requirements were too high, and intermediate-term capital was not available.

The majority of firms responding would attend workshops relating to international trade (Table 26). Over 75 percent and 65 percent of the manufacturers with and without international trade financing, respectively, would attend workshops.

Nearly 80 percent of manufacturers both with and without international trade financing were interested in workshops about international market development (Table 26). Other topics of particular interest to manufacturers with international trade financing were international trade laws, sales contracts, and letters of credit. Manufacturers without international trade financing were interested in sales contracts, international trade laws, insurance, and risk.

TABLE 26. FIRM INTEREST IN ATTENDING WORKSHOPS RELATING TO INTERNATIONAL TRADE AND POTENTIAL TOPICS, NORTH DAKOTA MANUFACTURERS, 1991

Question/ Response	All Manufacturers	With International Trade Financing	Without International Trade Financing
	percent		
Interested			
Yes	67.6	76.9	65.5
No	32.4	23.1	34.5
Topics			
International market development	78.7	70.0	81.1
International trade laws	55.3	60.0	54.1
Sales contracts	61.7	60.0	62.2
Foreign exchange operations	36.2	40.0	35.1
Insurance	48.9	40.0	51.4
Risk	55.3	70.0	51.4
Financial sources	38.3	50.0	35.1
Financial techniques	34.0	40.0	32.4
Financial services	38.3	40.0	37.8
Financial proposals	27.7	40.0	24.3
Letters of credit	42.6	60.0	37.8

Summary

Less than 20 percent of the North Dakota manufacturers identified as actively involved in international trade or planning to serve international markets had received financing or financial services from private/public institutions to support international trade activities in 1991. These manufacturers had a total average international loan value of over $770,000 in 1991. An average of 10 percent of total North Dakota manufacturer sales were the result of international trade in 1991. The country with which North Dakota manufacturers had the largest sales in 1991 was Canada. North Dakota manufacturers conducted trade with 19 countries in 1991.

North Dakota manufacturers received financing and/or financial services from both private and public financial institutions to support international trade activities in 1991. Manufacturers received assistance from 10 private financial institutions in North Dakota, four private financial institutions in other states, and two public financial institutions. The primary international trade activity these institutions supported financially was the exportation of finished products.

Over 40 percent of the North Dakota manufacturers responding thought their financial institution did not have anyone knowledgeable about international finance or international letters of credit. The majority (60 percent) of North Dakota manufacturers with international trade financing indicated their financial institution did not have anyone knowledgeable about international trade activities. Most manufacturers thought their financial institution could refer them to another institution with international trade financing experience.

Over 70 percent of North Dakota manufacturers with international trade financing did not know how interest rates and collateral and documentation requirements of international loans compared with domestic loans. However, none of the responding manufacturers thought these financial factors would be lower for international loans compared to domestic loans.

Over a third of the manufacturers responding indicated private/public financial institutions offered no additional services to support international trade activities. Over half of the manufacturers indicated letters of credit and money transfers were services financial institutions offered to support international trade activities. All manufacturers rated letters of credit as a very important service.

North Dakota manufacturers rated international business connections as the main restraint to initiating or expanding international trade activities (Table 27). Manufacturers with and without international trade financing agreed this factor was their primary restraint in international trade development. Other primary restraints were international customers and international trade barriers. Manufacturers with international trade also rated international financing as a considerable restraint.

TABLE 27. RANKINGS OF RESTRAINTS TO INITIATING OR EXPANDING INTERNATIONAL TRADE ACTIVITIES BASED ON AGREEMENT INDEX (IN PARENTHESES), MANUFACTURERS WITH AND WITHOUT INTERNATIONAL TRADE FINANCING, NORTH DAKOTA MANUFACTURERS, 1991

Restraint	All Manufacturers	With International Trade Financing	Without International Trade Financing
International business connections	1 (106)	1 (163)	1 (96)
International customers	2 (67)	2 (111)	2 (58)
International trade barriers	3 (56)	3 (100)	3 (48)
International laws	4 (42)	8 (63)	4 (39)
Market risks	5 (29)	9 (38)	5 (28)
International product prices	6 (25)	6 (78)	7 (14)
Within-firm limitations	7 (24)	5 (86)	6 (14)
International financing	8 (16)	4 (100)	9 (2)
Exchange rates	9 (15)	7 (67)	8 (5)
Insurance	10 (11)	10 (25)	10 (-18)

Seventy percent of North Dakota manufacturers responding never used domestic loans to finance international trade activities. However, 20 percent frequently or always used domestic loans to finance international trade. Nearly 85 percent of North Dakota manufacturers with international trade financing frequently or always used domestic loans to support international trade. The primary reason firms used domestic loans to finance international trade was their lender did not know anything about international finance (Table 28). This was the most common reason for manufacturers with international trade financing. That international trade was a small part of their total business was the main reason for manufacturers without international trade financing.

Less than 10 percent of North Dakota manufacturers had unofficially been denied international trade financing or services from private/public financial institutions. Significantly more manufacturers with international trade financing had been unofficially denied financing compared to manufacturers without international trade financing. Over 5 percent of North Dakota manufacturers had officially been denied financing or services. Significantly

TABLE 28. RANKINGS OF REASONS FIRMS MIGHT HAVE USED DOMESTIC LOANS TO FINANCE INTERNATIONAL ACTIVITIES BASED ON AGREEMENT INDEX (IN PARENTHESES), MANUFACTURERS WITH AND WITHOUT INTERNATIONAL TRADE FINANCING, NORTH DAKOTA MANUFACTURERS, 1991

Reason	All Manufacturers	With International Trade Financing	Without International Trade Financing
Lender doesn't know anything about international finance	1 (68)	1 (80)	4 (33)
Too time-consuming to comply with international financing requirements	2 (50)	3 (56)	2 (44)
International trade is a small part of our total business	3 (44)	5 (11)	1 (78)
Our firm is too small to compete for international credit	4 (35)	4 (25)	3 (44)
Don't know how to obtain international financing	5 (35)	2 (68)	5 (9)

more manufacturers with international trade financing had been officially denied financing than had manufacturers without international trade financing. That proposals were too risky and that financial institutions lacked the international knowledge to support the proposal were the main reasons firms were denied financing.

Only a fourth of North Dakota manufacturers had unmet international trade financial needs. However, nearly 50 percent of the manufacturers with international trade financing had unmet financial needs. Significantly more manufacturers with international trade financing had unmet international financial needs compared to manufacturers without international trade financing.

North Dakota manufacturers rated the small amount of credit available as the main obstacle to international trade (Table 29). However, manufacturers with international trade financing rated excessive collateral requirements as the main obstacle. Manufacturers without international trade financing rated the lack of short-term capital as the primary obstacle.

TABLE 29. RANKINGS OF FACTORS AS OBSTACLES IN INTERNATIONAL TRADE BASED ON AGREEMENT INDEX (IN PARENTHESES), MANUFACTURERS WITH AND WITHOUT INTERNATIONAL TRADE FINANCING, NORTH DAKOTA MANUFACTURERS, 1991

Factors	All Manufacturers	With International Trade Financing	Without International Trade Financing
Amount of credit available is too low	1 (78)	2 (122)	2 (68)
Short-term capital is not available	2 (68)	7 (33)	1 (76)
Documentation requirements are too high	3 (67)	4 (80)	3 (63)
Collateral requirements are excessive	4 (60)	1 (133)	7 (44)
Long-term capital is not available	5 (60)	5 (80)	6 (55)
Intermediate-term capital is not available	6 (59)	6 (44)	4 (63)
Length of credit agreements are too short	7 (59)	3 (100)	5 (59)
Distances between the firm and the financial institutions are too great	8 (27)	8 (0)	8 (34)

Conclusions

Few North Dakota manufacturers receive financing or financial services from private/public financial institutions to support international trade activities. One reason for a lack of international trade financing is that manufacturers do not have the necessary international business connections to expand their international business activity. International trade financing is not essential if international demand for products North Dakota manufacturers produce does not exist or if international consumers are not aware of North Dakota products.

Even if North Dakota manufacturers had extensive international business connections, North Dakota financial institutions lack the necessary financial experience to conduct international trade financing. North Dakota manufacturers are unable to obtain international financing because their financial institution is unable to evaluate the creditworthiness of the loan proposal and, as a result, considers the proposal too risky. Consequently, North Dakota manufacturers use loans to support domestic markets to free capital to expand into international markets.

Capital rationing is a major financial obstacle to international trade. Public and private financial institutions provide insufficient short- and long-term financing to support international trade needs, and collateral requirements for international loans are excessive. Consequently, manufacturers have difficulty raising the necessary capital to enter into or expand existing international markets.

International financing is a restraint North Dakota manufacturers face when trying to expand into international markets. Manufacturers need additional financing and financial services to compete successfully in international markets. However, until financial institutions develop the means to evaluate international loans and can provide services to support international trade activities, North Dakota manufacturers will have limited success gaining access to and expanding into international markets.

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Appendix A

International Trade Questionnaire

March 9, 1992

Dear

MAILING LABEL

The Department of Agricultural Economics, North Dakota State University, is studying financial factors which may be barriers to expanding **your firm's** international trade activities. Your firm has been identified as engaging in international trade activities. Little is known about financial impediments businesses face when they try to develop and/or expand international trade. Survey results will attempt to identify the sources of financial barriers to international trade.

A major part of the study involves you, businesses either currently operating in international markets or those interested in developing international markets, who are asked to complete this questionnaire. **Note: International trade refers to both exportation and importation of raw and/or finished products**. Please complete the questionnaire at your earliest convince--right now, if you can--and place it in the return envelope provided. **The questionnaire should be completed by the individual or group of individuals responsible or would be responsible for financing international trade activities within your firm**. Information you provide will be kept confidential and used to develop overall statistics. Your participation is voluntary, but we need your cooperation in order to ensure your concerns are represented.

If you would like a copy of the survey results, fill in the information requested below.

Name and Title:	______________________	Institution:	______________________
P.O. Box	______________________	Street Address	______________________
City and State	______________________	Zip	______________________

Thank your for your cooperation.

Sincerely,

Cole R. Gustafson Assistant Professor	F. Larry Leistritz Professor	James F. Baltezore Research Associate

INSTRUCTIONS: please try to complete all parts of the questionnaire. If you are not sure of a response, answer the best you can. Keep in mind that **international trade refers to both exportation and importation of raw and/or finished products.**

1. From which of the following sources did your firm receive financing or financial services from to support international trade activities in 1991? (Check all that apply)
   ____ Private Financial Institution(s)
   ____ Public Institution(s)
   ____ Neither
   If you answered **NEITHER**, go to question 16.

2. What are the names and addresses of the top three (based on loan size or value of credit guarantee) private/public institutions financing and/or providing financial services for your firm's international trade activities and what were the original amount of the loans outstanding in 1991?

   Name: ____________________ Addresses: ______________________________ $____________

   Name: ____________________ Addresses: ______________________________ $____________

   Name: ____________________ Addresses: ______________________________ $____________

3. What was the estimated combined value of all international loans held by your firm or subsidiaries in 1991?

   $_______________

4. Which of the following forms of payments does your firm use in export/import transactions? (check all that apply)
   ____ Advance Payment--payment up-front
   ____ Open Account--payment only after the product is delivered
   ____ Consignment--payment after products are sold
   ____ Drafts--exchange of documents authorizing payment and title transfer
   ____ Letter of Credit--payment conditionally guaranteed by a financial institution
   ____ Other (specify) ________________________

5. Did your firm use "factors" (firms which buy accounts receivable without recourse) or commercial finance companies in 1991?
   ____ Yes ____ No

6. What percentage of the following credit types were supplied by private/public financial institutions to support your firm's international trade activities in 1991?

Private	Public
____% Short-term credit (1 year or less)	____% Short-term credit
____% Intermediate-term credit (between 1 and 6 years)	____% Intermediate-term credit
____% Long-term credit (6 years or more)	____% Long-term credit
100 % Total	100 % Total

7. What line of credit was your firm able to obtain from private/public sources? (check all that apply)
____ Unsecured ____ Secured

If **SECURED**, what was used as collateral? (check all that apply)
____ Company Assets ____ Warehouse Receipt
____ Bill of Lading ____ Trust Receipt
____ Other (specify) ____________________

8. What services did private/public financial institution(s) offer concerning international trade activities and rate the relative importance of each? (circle one number for each item checked)

	Not Important	Somewhat Important	Very Important
____ Trade development (finding new markets or supply sources)	1	2	3
____ International trade publications	1	2	3
____ Credit information on potential buyers and suppliers	1	2	3
____ Information on importers	1	2	3
____ Information on exporters	1	2	3
____ Business introductions	1	2	3
____ Letters of credit	1	2	3
____ Money transfers	1	2	3
____ Other (specify) ____________________	1	2	3
____ None of these above			

9. Did private/public sources of financing have branch offices in the country with which you conducted international trade?
____ Yes ____ No ____ Don't know

If **YES**, which of the following services were provided by branch institutions operating in foreign countries? (check all that apply)
____ Local laws ____ Tax structure
____ Customs ____ Markets
____ Business methods ____ None
____ Other (specify) ____________________

10. Does your firm have assets pledged by security agreements for international trade activities?
____ Yes ____ No

If **YES**, what form of security interest is used? (check all that apply)
____ Floating Lien--lien on owned and acquired goods
____ Plaster Lien--Lien on all owned and acquired assets
____ Proceeds--proceeds of goods sold
____ Other (specify) ____________________

11. Which of the following international trade activities were supported financially by private/public institutions? (check all that apply)
____ Exportation of raw products ____ Importation of raw products
____ Exportation of technological products ____ Importation of technological products
____ Exportation of finished products ____ Importation of finished products
____ Exportation of services ____ Importation of services
____ Other (specify) ____________________

12. Were private/public financial institutions able to service all your international trade financial (credit as well as service) needs?

____ Yes ____ No

If **NO**, what financing or financial services were they unable to provide?

____

____

____

13. Which of the following private institutions did your firm receive financing or financial services from to support international trade activity in 1991? (check all that apply)

____ Did not receive financial assistance from a private institution (**go to question 15**)
____ Bank(s) headquartered in your state with offices exclusively in the U.S.
____ Bank(s) headquartered in another state with offices exclusively in the U.S.
____ Multinational bank(s) headquartered in your state
____ Multinational bank(s) headquartered in another state
____ Other private financial institution(s)
____ Export management companies
____ Export trading companies
____ Other (specify) ______________________________
____ Don't know

14. How do international loans compare with domestic loans from private financial institutions in the following areas? (Circle one number for each area)

	Don't Know	Same	Lower	Higher	How Much
Interest Rates	1	2	3	4	_____ Percentage Points
Collateral Requirements	1	2	3	4	_____ Percent
Documentation Requirements	1	2	3	4	N/A

15. Which of the following public institution(s) did your firm receive primary or additional financing or financial services from to support international trade activities in 1991? (check all that apply)

____ Did not receive financial assistance from a public institution
____ U.S. Department of Agriculture (USDA)
____ Small Business Administration (SBA)
____ U.S. Exportation Administration (USEA)
____ Export-Import Bank (EXIMBANK)
____ Foreign Credit Insurance Association (FCIA)
____ Private Export Funding Corporation (PEFCO)
____ State Agencies (specify) ______________________________
____ Other (specify) ______________________________

16. Does your current financial institution have anyone knowledgeable in international finance or international letters of credit?

____ Yes ____ No ____ Don't know

If **NO**, can they refer you to a financial institution that does? ____ Yes ____ No ____ Don't know

17. What were your firm's total domestic and international sales in 1991? $________________

18. What percentage of total sales were the result of international trade in 1991? _________%

Please list the top three countries in which your firm had the largest international sales in 1991.

______________ ______________ ______________

19. Please rate the following as restraints to initiating or expanding your firm's international trade activities?

	Strongly Disagree	Disagree	Agree	Strongly Agree	Don't Know
International financing	1	2	3	4	5
International customers	1	2	3	4	5
International business connections	1	2	3	4	5
International trade barriers (quotas, tariffs)	1	2	3	4	5
International laws	1	2	3	4	5
International product prices	1	2	3	4	5
Within firm limitations	1	2	3	4	5
Insurance	1	2	3	4	5
Exchange rates	1	2	3	4	5
Market risks	1	2	3	4	5

Other (specify) ____________________________

20. To what extent does your firm use domestic loans to finance international activities? (circle one number)

Never	Seldom	Sometimes	Frequently	Always
1	2	3	4	5

If you answered 3, 4, or 5, please respond to the following statements concerning why you might have used domestic loans to finance international activities.

	Strongly Disagree	Disagree	Agree	Strongly Agree	Don't Know
Don't know how to obtain international financing	1	2	3	4	5
Lender doesn't know anything about international finance	1	2	3	4	5
International trade is a small part of our total business	1	2	3	4	5
Too time-consuming to comply with international financing requirements	1	2	3	4	5
Our firm is too small to compete for international credit	1	2	3	4	5

Other (specify) ____________________________________

21. Does your firm have any unmet international trade financial needs?

____ Yes ____ No

If **YES**, what are they? ____

____

____

22. Has your firm unofficially been denied any international trade financing or services by public or private financial institutions (i.e., told that pursuing a loan application to finance international trade activities would be a waste of time because it would likely be rejected)?

____ Yes ____ No

23. Has your firm officially been denied any international trade financing or services by public or private financial institutions (i.e., had an actual loan application rejected)?

____ Yes ____ No

IF YOU ANSWERED "NO" TO BOTH QUESTIONS 22 AND 23, THEN PLEASE GO TO QUESTION 28.

24. From which private and/or public source(s) was your firm officially or unofficially denied financing or financial services from? (check all that apply)

Private

____ Bank(s) headquartered in your state with offices exclusively in the U.S.
____ Bank(s) headquartered in another state with offices exclusively in the U.S.
____ Multinational bank(s) headquartered in your state
____ Multinational bank(s) headquartered in another state
____ Other private financial institution(s)
____ Export management companies
____ Export trading companies
____ Other (specify) ______________________

Public

____ U.S. Department of Agriculture (USDA)
____ Small Business Administration (SBA)
____ U.S. Exportation Administration (USEA)
____ Export-Import Bank (EXIMBANK)
____ Foreign Credit Insurance Association (FCIA)
____ Private Export Funding Corporation (PEFCO)
____ State Agencies (specify) ______________________________
____ Other (specify) ______________________________

25. For what reason(s) was your firm denied financing? (check all that apply)

____ Proposal was considered too risky
____ Insufficient collateral
____ Insufficient documentation
____ Proposal was not financially feasible (did not cash flow)
____ Absence of a letter of credit
____ Financial institution lacked the international knowledge to support the proposal
____ Other (specify) ______________________________
____ Don't know

26. What was the dollar value your firm wanted to borrow for international trade activities, but was denied in 1991?

$____________

27. How many separate international investment proposals did your firm try to or want to obtain financing for in 1991?

______ proposals

28. If your firm could borrow at an interest rate that is 2 percentage points **less** than your present rate, how much additional money would your firm borrow (assuming the money was available)? $________________

29. If your firm could borrow at an interest rate that is 2 percentage points **more** than your present rate, how much additional money would your firm borrow (assuming the money was available)? $________________

30. Rate the following factors as obstacles in international trade?

	Strongly Disagree	Disagree	Neither	Agree	Strongly Agree
Short-term capital is not available	1	2	3	4	5
Intermediate-term capital is not available ...	1	2	3	4	5
Long-term capital is not available	1	2	3	4	5
Documentation requirements are too high ..	1	2	3	4	5
Collateral requirements are excessive	1	2	3	4	5
Amount of credit available is too low	1	2	3	4	5
Length of credit agreements are too short ..	1	2	3	4	5
Distance between the firm and the financial institution are too great	1	2	3	4	5
Other (specify) ____________________					

31. Would your firm be interested in attending workshops relating to international trade?
____ Yes ____ No

If **YES**, what topics would you like discussed? (check all that apply)

____ International market development
____ International trade laws
____ Sales contracts
____ Foreign exchange operations
____ Insurance
____ Risk
____ Financial sources
____ Financial techniques
____ Financial services
____ Financial proposals
____ Letters of credit
____ Other (specify)____________________

THANK YOU FOR YOUR HELP!

Appendix B

Survey Reminders

Second Mailing Reminder

We have not received your response to our financing international trade survey. Your response is essential to identify financial barriers your business experiences initiating and/or expanding international trade activities. ***Even if you are not currently financing international trade activities, please answer question 1 and then continue to follow the instructions provided in the questionnaire.*** *Please complete and return the questionnaire enclosed as soon as possible. Your assistance is greatly appreciated.*

Thank you!

Third Mailing Reminder

We have not received your response to our financing international trade survey. Your response is essential to identify financial barriers your business experiences initiating and/or expanding international trade activities. ***Even if you are not currently financing international trade activities, please answer question 1 and then continue to follow the instructions provided in the questionnaire.*** *Please take this* ***final opportunity*** *to complete and return the questionnaire enclosed as soon as possible. Your assistance is greatly appreciated.*

Thank you!