Here’s a dilemma: Many who are troubled by the slow growth of the U.S. economy, from President Obama on down, are touting exports as a great way to stimulate it. While U.S. consumers are still spending cautiously and businesses are wary of expansion and new undertakings, why not boost GDP with the component that is often an afterthought: foreign trade? That’s a great and seemingly painless strategy—except that the actions required to boost exports run exactly counter to the rules of survival that companies live by in a troubled time like the present one. Companies are trying to minimize risk, hold down their costs, and keep their liquidity high.
Still, the potential rewards of resolving that conflict are so high that companies have compelling reasons to put their doubts and fears aside. Moreover, the expense and risk of navigating complicated overseas markets, understanding and complying with myriad local regulations, and insuring against devastating losses because of currency fluctuations can be offset by relationships with global financial institutions.

Several forces have surged and joined together in the past several years to change some of the traditional corridors of world trade. First, emerging manufacturing hubs in Asia have a huge appetite for raw materials—for example, steel and cotton—from countries rich in natural resources, such as Australia, Brazil, Russia, and the U.S., which is a major steel exporter. Second, big jumps in incomes in the BRIC countries (Brazil, Russia, India, and China) as well as other fast-developing countries have propelled demand for imported consumer goods.

The U.S. is not necessarily the beneficiary of all the changing trade patterns. Interestingly, the global shift is away from unilateral trade flows—emerging markets exporting to the U.S. and Western Europe, for example—and toward the growth of intra-regional trade flows between developing markets. Latin American countries have benefited from Asia’s demand for commodities, and China, India, and other Asian countries have developed markets for their consumer goods in Latin America.

A third force, however, has clearly buoyed U.S. exports: the current weakness of the dollar relative to other currencies, making American goods and services cheaper for foreigners. According to the Peterson Institute, a 1% decline in the dollar’s exchange rate translates into a $20 billion increase in U.S. exports over two to three years.

To promote exports further, the U.S. has created the National Export Initiative, which aims to encourage small and medium-size enterprises (SMEs) in particular to boost their efforts. By one estimate, $1 billion in agriculture exports, for example, creates 9,000 jobs. So President Obama, under continual pressure to reduce unemployment, has asked the Export-Import Bank to increase financing available for SMEs from $4 billion a year to $6 billion.

The opportunities offered by export growth are enticing, but companies of all sizes still face significant challenges when trying to do business overseas. The first hurdle is liquidity. The lifeblood of daily operations, liquidity became a priority for many companies when credit was tight during the financial crisis. The conservative use of liquidity and credit is now an entrenched discipline. But export growth requires the use and availability of adequate liquidity—drawing down the company’s available cash—because global supply chains typically lengthen the time it takes sellers to get their money.

What’s more, exporting has numerous inherent risks, because it depends on rules and regulations of multiple countries, with different currencies, languages, and standards—all complications that tend to slow down transactions. A longer collection cycle, less familiarity with overseas customers and partners, and a lack of access to information in some of the more opaque foreign markets increase the likelihood of late payments and payment defaults.

Currency fluctuation is a major worry. While a declining U.S. dollar creates momentum for U.S. exporters, selling into global markets also exposes them to huge currency risks. Suppose the local currency in which the exporters are being paid declines? One hundred pesos, for instance, can no longer be exchanged for $10, but only $5. Companies have to hedge or insure against such events in order to protect profits. In addition, exporting requires a high level of compliance with customs and other foreign government regulations. Sometimes the rules are confusing or contradictory and are not always applied consistently. For companies new to foreign trade, small companies in particular, such uncertainty is daunting.
So how do companies bridge the gap between their hopes for high export profits and their anxieties about expensive export disasters? Global banks and other financial institutions can help. The spectrum of trade solutions that such institutions offer stretches from short-term traditional trade instruments, such as letters of credit, to more complex and tailored medium- to long-term arrangements, which include support from export credit agencies as well as multilateral development agencies. What’s more, because banks consider trade finance to be backed by assets, and to be short-term and self-liquidating, they offer it more readily than they offer working capital finance. Here’s how a savvy trade financing strategy can help exporters, Jain points out in his Bank of America report.

Supply-chain financing. This collaborative form of financing lowers the overall cost of working capital in the supply chain, because both seller and buyer are using the same banks. The sellers’ costs of financing working capital are reduced, so the buyers are able to extend the time over which they pay the sellers.

Opening opaque markets. Opaque markets are those that don’t provide easy access to information that exporters can use to assess the financial stability of their customers and partners. Banks can help mitigate the risks of payment default and delay. The banks’ tools include traditional commitment-to-pay services like letters of credit and letters of credit confirmations, which mitigate country and bank risk by shifting the payment risk to the exporter’s local bank.

Streamlined processes. Technology can increase efficiency by automating the preparation of purchase orders, shipping documents, and invoices. Automation, moreover, improves accuracy, speeds up processing, reduces costs, and increases process transparency. All of that improves cash flow for exporters.

Visibility. When all members along the supply chain have access to data in the same format at the same time, the flow of physical goods, information, and cash is much better integrated. The seller has the opportunity to finance a transaction at various points in the supply chain while the goods and documents are still in movement. At the same time, the bank feels more comfortable offering financing, because it can see exactly where the goods and the documents are in the supply chain.

The right provider. Because export growth strategy is complex, an exporter must choose the right bank or other strategist that provides an integrated approach to financing, risk mitigation, and process optimization. An ideal provider knows both sellers and buyers and from this position can work to facilitate payment, mitigate risk, provide cost-effective financing, and resolve disputes that impede timely payment. This requires an ability to obtain business intelligence from on-the-ground staff located in the buyer’s country and, indeed, all around the world.

An economic recovery in the U.S. and other developed countries that is driven by exports would be good not only for those nations, but also for the global economy. For the most part, developed nations are net importers. Increasing their exports could correct the balance of trade worldwide, strengthening and stabilizing the global economy by more evenly distributing supply and demand among interconnected individual economies. Export growth for the U.S., therefore, would be a win-win game—with both the U.S. and the world as victors.