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## Trade credit exposures rise in China & India

By Georgina Joseph | Posted: 11 June 2010 1935 hrs

SINGAPORE : Businesses in China and India are relaxing their credit terms on the back of increasing domestic competition and improving sentiment, but they are exposing themselves to more risk, according to a survey of 2,000 companies, conducted by French trade credit insurer Coface.

Stiffer competition has prompted some companies in China and India to offer more favourable business terms last year.

Coface's survey found that 56 per cent of the Chinese companies are now extending their credit terms, while Indian firms are offering more open accounts - up from 10 per cent to 30 per cent.

Open accounts are orders that have been made on credit, with an agreement to pay at a later date.

And Coface said these arrangements could be risky.

"There is a direct correlation between the magnitude of the risk and the duration of the credit terms when it comes to not paying up on time," warned Jean-Claude Speitel, regional MD of Coface Singapore.

It could expose the companies to greater risk of payment defaults, especially if the economic recovery is derailed by the European debt crisis.

Coface said extended payment defaults in China increased by 55 per cent last year, while in India, 95 per cent of businesses had customers who could not pay up.

To guard against such risks, observers said there are some basic measures that companies should adopt.

"Very often, smaller SMEs do enter into commercial contact and commitments without really knowing who they are dealing with. The elementary precaution to take is to at least check bank references or take in a credit report on the company," said Speitel.

Experts added that Asia needs to catch up with the risk mitigation tools that are used in Europe. They include credit insurance, a market which is currently worth 6 billion euros, with 5 billion euros in Western Europe.

In contrast, credit insurance in Asia only amounted some 150 million euros.

Coface said it could take Asia up to a decade to align with Western standards on risk mitigation.

The survey was conducted in the fourth quarter of last year and involved 2000 companies, mainly from the manufacturing industry in China and India.- CNA /s



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Workers assemble a bus on a production line at an auto factory in Beijing.