GEOPOLITICAL TENSIONS SHAKES UP THE GLOBAL TRADE

Dear Readers,

Hope you are doing well!

We bring you the insights of export trade challenges wherein Geopolitical tensions in the world have disrupted global trade, posing significant challenges for Indian businesses engaged in exports. Few examples are stated below:

Global Recession (2008-2009): The global recession triggered by the financial crisis of 2008 had a severe impact on Indian exporters. Reduced consumer spending and shrinking demand in key export markets led to decreased orders and lower revenues for Indian exporters across various sectors. Also, many business faced the challenge of not availability of enough forex with the buyer’s country and had to write off their shipments to losses.

Eurozone Crisis (2010-2012): The Eurozone crisis was a period of economic instability in several European countries, like Greece, Spain, and Italy, due to high levels of government debt. Because of this crisis, people in these countries had less money to spend, causing a drop in demand for products from India. Indian exporters faced challenges because European consumers were buying fewer goods. The impact of the same was seen in balance of payments of these years and considerable amount of exports declined.

US-China Trade War (2018-2021): The trade war between the United States and China involved both countries imposing tariffs or taxes on each other's goods. This disrupted global trade patterns and made it harder for Indian exporters to sell their products or even route their products from these ways. With trade routes changing and uncertainty about future trade policies, Indian exporters found it challenging to access markets and predict demand.

COVID-19 Pandemic (2020-2022): The COVID-19 pandemic caused widespread disturbances worldwide, including to global trade. Lockdowns and restrictions meant that businesses were closed, travel was limited, and supply chains were disrupted. Exporters faced cancelled orders, delayed payments, and reduced demand for their products as a result, even they had faced major losses for their uninsured shipments that were already dispatched before the announcement of lockdown and the shipments were stuck on the way to their destination.

Oil Price Volatility (2020-2021): Fluctuations in global oil prices have implications for Indian exporters, especially those in sectors like petrochemicals, plastics, and textiles. Sharp changes in oil prices can affect input costs, transportation expenses, and consumer purchasing power in key export markets, impacting the competitiveness and profitability of Indian exporters.

Red Sea Crisis (2024): Indian exporters are facing a major challenge with delayed and uncertain shipment schedules. The closure of important shipping lanes and the necessity to reroute cargo have resulted in significant delays, making it harder for exporters to fulfil their delivery promises. This is causing strains in their relationships with international buyers, who are becoming increasingly frustrated with the unpredictable supply chain. Moreover, these disruptions are also putting a significant strain on the working capital of Indian exporters. The delays in shipments are forcing SME exporters to explore costly alternatives like air freight, further squeezing their finances. Coupled with delayed payments from overseas buyers and the need to find pricier shipping routes, many SMEs are finding it tough to maintain a healthy cash flow.

Protecting Your Export Business: The Role of Trade Credit Insurance in Managing Risks:

Trade credit insurance provides protection to exporters against the risk of non-payment by their buyers due to commercial or political reasons. It safeguards exporter's accounts receivable, ensuring they receive payment even if their overseas buyers default.

We would like to highlight few benefits of trade credit insurance:

- Mitigating Financial Risks: With delayed payments from overseas buyers and uncertainties in the supply chain, exporters face heightened financial risks. Trade credit insurance acts as a safety net, enabling firms to safeguard their cash flow and working capital.
- Government Support and Initiatives: The government plays a pivotal role in promoting awareness and adoption of trade credit insurance among exporters via ECGC. In order to promote safe exports, ECGC organizes workshops, seminars, and awareness campaigns to educate exporters about the benefits and importance of this insurance.
- Long-Term Sustainability: By protecting your business through credit insurance, exporters can strengthen their resilience and sustainability in the face of geopolitical uncertainties and market volatilities. It instils confidence among exporters to explore new markets and expand their global market.

In conclusion, amidst geopolitical tensions disrupting global trade, Indian exporters face significant challenges. Past events have hit them hard, causing delayed payments, disrupted supply chains, and decreased demand. These challenges strain their business finances. As they cope up with the Red Sea crisis, uncertain shipment schedules and tight working capital, it's crucial for exporters to protect themselves. Trade credit insurance emerges as a vital solution, mitigating financial risks, backed by insurers' support. It ensures sustainability, helping exporter's non-payment uncertainties and seize growth opportunities in the international market.

Best Regards,

Credit Vertical,

Beacon Insurance Brokers Pvt Ltd.