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# GTR

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A photograph showing the lower legs and feet of a person wearing bright red winter pants and black boots, walking on a frozen body of water. The background is a clear blue sky and distant land.

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# A tale of two cities

*Lakshmanan Sankaran*, head of the Trade Finance Centre at Commercial Bank of Dubai's head office, has extensive experience of trade finance operations in both Mumbai and Dubai. He talks to *Ravi Mehta* about the similarities and dissimilarities of the trade finance markets of two countries, UAE and India.

☞ In fact for some banks, trade finance is the 'bread and butter' business that sustains their profits ☞

The discrepancy rate is above 50% in UAE and consequently the rejection rate is also higher. This is due to the trading nature of the imports and traders are keenly watching price fluctuations.

UAE is a highly competitive market with the presence of a large number of local and international banks specialising in trade finance. In fact for some banks, trade finance is the 'bread and butter' business that sustains their profits. Therefore, in UAE performance standards are very high and almost all transaction processing is completed on the same day of receipt.

India is a huge economy and has a very large import and export trade. The imports are mainly for manufacturing, selling in the local market and consumption. The re-export component is insignificant compared to Dubai. Consequently the discrepancy and rejections rates are lower. In sheer size and volumes, Indian trade finance is huge. Most of the banks have regional foreign trade centres to process trade transactions speedily. Trade finance still being mostly paper-based, there are tremendous logistics involved in India to move paper from the exporter to the banks/processing centres and vice versa.

I am not sure that most of the banks in India have the 'same day processing' standards like the UAE banks. Two to three days processing time was the norm when I used to work in Indian trade finance more than a decade earlier. However, the Indian banking scene has witnessed a great transformation in the last 10

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**GTR:** It is said that although India has developed a trade finance infrastructure it is inept in issuing letters of credit (LCs) and artful in finding discrepancies. Could you tell us, from your experience, the similarities and dissimilarities in the trade finance management systems of these two countries.

**LS:** To begin with, one must be aware of the fact that UAE and India are very different countries and economies. The phrase 'apples and oranges' is applicable to a large extent.

Having said that, from a purely banking perspective, trade finance is conducted in a similar fashion in both countries.

UAE is highly import-oriented; exports are beginning to grow but the recent scrapping of textile quotas would definitely slow down garment exports. The UAE, especially Dubai, is a trading hub next only to Hong Kong and Singapore and there is a huge amount of re-exports flowing through UAE to the Middle East and Africa.

years or so and most of the banks have highly advanced and sophisticated trade finance systems in place.

In India, there is much more awareness and push towards automating trade finance processing. Setting up huge global trade finance processing centres by international banks like Citibank, ABN Amro, Deutsche, Standard Chartered, HSBC, JPMorgan Chase and Wachovia is a clear indicator of this trend.

**GTR:** How have you adapted your trade finance and expertise, which you acquired in India, to the needs and expectations of the UAE?

**LS:** In fact, it is not too difficult for trade finance banking professionals from any country to work in any other country. It did not take me much time and effort to adapt myself to the trade finance environment of Dubai. The presence of a large number of staff in trade finance in UAE from the Sub-Continent did help. I have friends working in trade finance in countries like the UK, US, Hong Kong, Saudi Arabia, Bahrain, Singapore, Germany, Canada, Korea and Japan and we all speak the same language when it comes to trade finance. English is the common language and the procedures and products are very similar.

**GTR:** You have marketed trade finance services to India's international traders and are now marketing to UAE traders. What are the similarities and dissimilarities in their approach to conduct of international trade with LCs?

**LS:** Trade finance professionals in many banks in India and UAE are treated as part of marketing support also. This gives an opportunity for trade finance professionals to regularly meet and deal with corporate customers and develop an intimate knowledge of their businesses.

Trade finance professionals are involved frequently in structuring cross-border transactions and solutions for their customers. In

India one had an opportunity to deal with a very large number of big manufacturing companies and multinational corporations, whereas in UAE the scope is limited.

Trade finance professionals often deal with the small and medium (SME) sector.

Traders in UAE are knowledgeable in LC-related issues, some of them even in UCP/ISBP. These traders have pretty standard terms which they incorporate in the sale contract. Certain categories of traders provide lengthy and complicated clauses in LCs and even insist on checking documents themselves

having a near absence of red tape and controls.

However, in UAE, one is expected to be highly knowledgeable in international rules like UCP, URC and banking practice.

**GTR:** Compare the working characteristics of banking staff in the two countries. Which country's banking workforce is more forceful – helpful – for business and economic development, and why?

**LS:** India's workforce, especially banking employees, are highly organised and unionised. This has an impact on service

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or that the bank check the documents carefully with the objective of getting out of the LC obligation where the price has turned against them or due to quality disputes.

I would rate dealing with traders in India less complicated for a banker as the rate of rejection is much less. The discrepancy rate is less in India compared to UAE. Submission of documents under LCs by exporters in UAE and India – the rate or chances of discrepancies are more or less the same due to lack of focus and attention to details while preparing documents. The UCP knowledge also is lacking some times.

**GTR:** Which country's regulatory environment is more banking-friendly, import-friendly and export-friendly; more helpful to the country's economic development, and how?

**LS:** UAE is definitely a more friendly environment and less regulated. It was such a relief to leave back in India several volumes of exchange control manuals issued by the Reserve Bank of India and the exim policy by the ministry of commerce. I would definitely rate UAE as much more open, friendly and as

standards, productivity, and so on.

I used to face some problems in dealing with these staff as a manager and officer early in my career. I myself was a regional secretary for the officers' association of a big Indian bank. But in the last several years, a huge inflow of young workers have come into the banking industry in India and transformed the banking scene and customer service concepts, thanks to India's highly efficient private and foreign banks. These youngsters are so fresh, career-oriented and eager to learn and apply, it is a pleasure dealing with them as a customer.

India's young population is going to be a huge advantage to the country in years to come. In UAE, customer-orientation is much more and from the beginning banks have adopted the 'customer is king' approach in view of extreme competition. The presence of a highly broad-based multicultural workforce in UAE also contributes to a more efficient and productive workforce.

**GTR:** Many trade finance specialists from India are working in the Middle East. Why is there a

brain-drain from India's trade finance system to the Middle East's? What's the impact of this on India's and UAE's economy?

**LS:** I don't think there is a brain drain from India to UAE because of the large number of Indian trade finance professionals present in UAE. India has such a large pool of educated, qualified and efficient manpower that the flow of a small number of trade finance professionals to UAE just doesn't impact India at all. In fact, India has been doing extremely well in the last several years in the area of manpower export for services and knowledge-based industries and is a leading global player now.

The presence of trade finance professionals from India has been definitely a positive for UAE. They have added significant value and contributed their might during the last decades of their presence here.

**GTR:** International trade (finance) is a must for a developing economy. If a developing country lacks international trade finance talent should it acquire or hire it for economic development?

**LS:** There is nothing wrong as such in a country importing some of its manpower requirements. UAE has a small population and has made giant strides in the last few decades, from being a developing country to an almost developed country now.

However, overwhelming dependence on foreign labour may not be good for a country in the long run. It has to be a right balance of local and expatriate manpower.

UAE is nurturing a local/national workforce and implementing several measures to encourage UAE nationals to take up jobs in the public and private sector. UAE banks have taken the lead in this regard and become one of the leading employers of local talent ie, UAE nationals.

The expatriate professionals in UAE must also take part in this localisation exercise by genuinely training, coaching and developing UAE nationals to take up key jobs from the expats in the days to come.