

Essays in trade financing and trade relationships

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Avhandlingen baseras på följande delarbeten:

1. Parviz Alizada
Duration of supplier-customer trade relationships
2. Parviz Alizada and Fariz Huseynov
The effect of cash holdings and financial constraints on trade credit
3. Parviz Alizada
Bank distance and commercial letters of credit
4. Abhinayan Basu Bal, Trisha Rajput, Parviz Alizada
International single window environment: Prospects and challenges



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In this dissertation, I examine the factors affecting trade financing and trade relationships mainly from the perspective of information asymmetry. In particular, I analyze how levels of information asymmetry affect trade financing contracts and how they can be mitigated. Signaling and screening reveal information about the types of the agents, thereby, affecting the terms of trade financing contracts. I examine the outcome of signaling and screening on trade financing. Additionally, I explain factors that define supplier-customer trade relationships.

First, I show that hold-up, information asymmetry, and trade credit affect the duration of inter-firm relationships. Particularly, if suppliers are held up by their customers the duration of relationships will be longer but at extremely high level of hold-up the likelihood of terminating the relationships will increase. Moreover, reduced information asymmetries extend the duration of relationships. If customers receive trade credit from suppliers it decreases the likelihood of terminating the relationship.

Second, I find that financially constrained firms with greater cash holdings are likely to receive significantly more trade credit. Consistent with precautionary motives, cash holdings serve as liquid collateral to offset potential default, thus providing a channel for constrained firms to obtain greater financial flexibility (i.e., signaling channel).

Third, I show that banks located close to major US trade hubs issue more commercial letters of credits (LCs) compared to their remotely located peers. After controlling for the demand, I find that this effect is due to soft information. I show that the effect of distance is greater for national, large and non-traditional banks. The results also reveal that during financial crisis, remote banks with the lowest cost of debt involve in uninformed supply of LCs.

Finally, I examine the information asymmetry in international trade by analyzing ASEAN Single Window (SW) countries. Although SW aims at reducing information asymmetry among member countries, it does not immediately increase trade flows. I argue that full potential of SW environment can be realized through integration of transport and commercial requirements thereby improving G2G, B2G and B2B information flows. Nevertheless, such integration would require the ability to capture the complex relationships between various transport actors from legal and technical standpoints.

Keywords: Trade relationships; Trade financing; Information asymmetry.

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