Letters of Credit: The Bridge in Global Trade

Key Takeaways

- Global trade depends not only on physical infrastructure but also on financing, payment systems, insurance and guarantees.
- Trade finance helps exporters cover production costs before receiving payment and gives importers greater confidence that transactions will proceed as agreed.
- Trade finance is particularly important for Thailand because international trade accounts for a large share of its economy.
- A Letter of Credit (LC) helps reduce payment risk by requiring the bank to pay when the agreed documents comply with the LC terms.
- Access remains unequal, and the global trade-finance gap continues to limit business growth, trade and economic development.

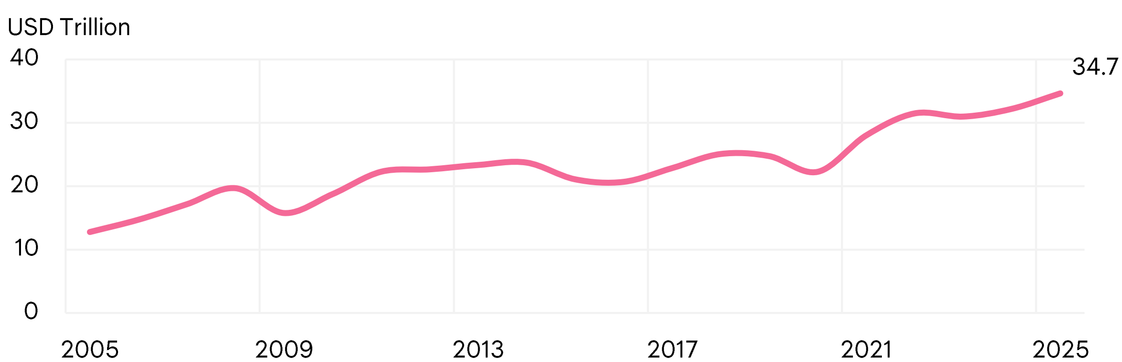
Global Trade Depends on Finance

In 2025, global trade in goods and commercial services reached USD 34.65 trillion. Moving this enormous volume of trade requires ships, ports, aircraft and warehouses, but physical infrastructure alone is not enough. Trade also needs finance.

Exporters often need money to produce and ship goods before they are paid, while importers need confidence that the goods will be delivered as agreed. Payment systems, credit, insurance and guarantees help bridge these financial and commercial risks.

The World Trade Organization estimates that around 80-90% of world trade relies on some form of trade finance. Transport moves the goods, while trade finance helps the transaction move forward.

World Trade in Goods and Commercial Services (Balance-of-Payments Basis)



Source: World Trade Organization (WTO)

Why Trade Finance Matters

The importance of trade finance becomes clearer when we consider the gap between receiving an order and receiving payment.

Suppose a furniture company receives an export order worth USD 1 million before receiving payment. It must buy wood, pay workers, operate the factory, package the goods and arrange transportation. The overseas buyer, however, may not pay for several months. While a large company may have enough cash to wait, a smaller exporter may not, and so although this USD 1 million may be a profitable order, the company will be unable to produce it. The problem is not demand, but cash flow.

Trade finance can provide the funding and payment support needed to begin production, ship the goods and manage the period before payment arrives. Its benefits also extend to suppliers, logistics companies, insurers, ports and workers. Trade finance therefore supports activity across the real economy, not only within the banking system.

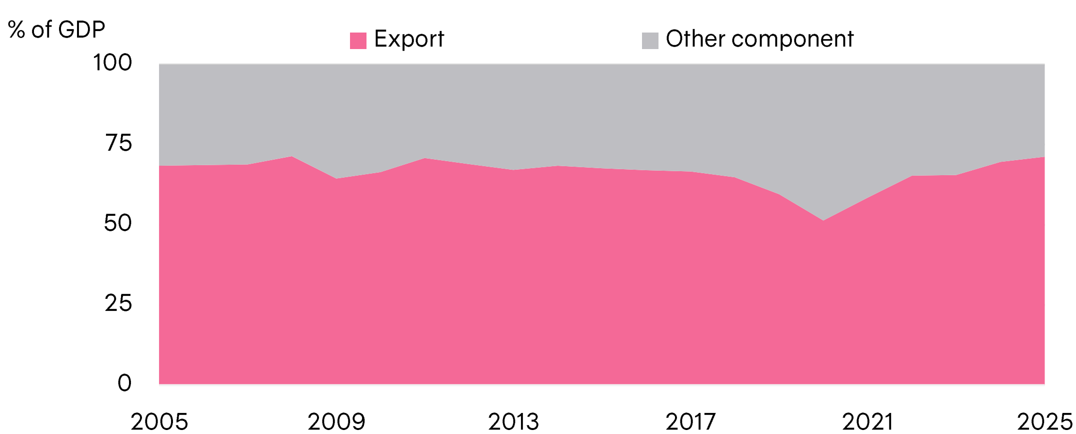
Why Trade Finance Matters for Thailand

Trade finance is especially important for countries that rely heavily on international trade such as Thailand. In 2025, exports of goods and services were equivalent to around 70% of GDP.

Thai exporters often need to cover production and shipping costs weeks or months before receiving payment from overseas buyers. Access to finance can determine whether an export order becomes actual production or cannot proceed because the exporter lacks funding.

By helping businesses fulfill export orders, trade finance supports investment, employment and Thailand's position in regional and global supply chains.

Thailand's Exports of Goods and Services



Source: Office of the National Economic and Social Development Council (NESDC)

Unequal Access to Trade Finance

Despite its importance, not every business can access trade finance. According to the Asian Development Bank, the global trade-finance gap was USD 2.5 trillion in 2025. This represents unmet demand for products including loans, guarantees, supply-chain finance and letters of credit.

For a larger company, a rejected financing request may be inconvenient. For a smaller exporter, it may mean losing the entire order. Limited access to trade finance therefore not only holds back individual businesses, but can also constrain production, employment, international trade and economic development.

One important instrument that helps businesses manage these financing and payment risks is the Letter of Credit, or LC.

How Do You Trust a Buyer 10,000 Kilometers Away?

Imagine a Thai exporter receiving a large order from a buyer in Europe, the exporter must spend money on production and shipping before receiving payment. What happens if the buyer does not pay?

However, the buyer faces the opposite risk: What happens if payment is made but the goods are never shipped? Both companies want to trade, but neither wants to carry all the risk.

This is where a Letter of Credit can help fill the gap

What Is a Letter of Credit?

An LC is a conditional payment commitment issued by a bank on behalf of the buyer. The bank agrees to pay the exporter once the required documents comply with the terms of the LC. Payment is based on documentary compliance rather than inspection of the goods themselves.

This gives the exporter greater payment security while giving the buyer documentary evidence that the required shipping documents have been presented in accordance with the LC terms. The LC may also require an independent inspection certificate to verify that the goods comply with specified inspection requirements.

LC are particularly useful when buyers and sellers have limited trading history, transactions are large, payment periods are long, or commercial and country risks are high. By reducing uncertainty between buyers and sellers, LC help turn an agreement into action.

How an LC Supports Business Liquidity

Beyond reducing payment risk, an LC may also help an exporter obtain the liquidity needed to cover business costs before payment is received.

By providing greater assurance that payment will be made once the required documents comply with the agreed terms, an LC may help the exporter secure financing to buy materials, pay workers, begin production and arrange shipment while waiting for the overseas buyer to pay.

An LC does not provide liquidity automatically or eliminate every risk. However, it can strengthen the transaction and help turn a profitable order into production, shipment and income.

Turning Trade into Investment

The role of an LC extends beyond individual export orders; they can also help investment projects move forward.

A company building a factory in Thailand may need to import machinery, equipment and specialised components from several countries. Overseas suppliers may be unwilling to ship expensive equipment without reliable payment assurance. An LC can reduce this uncertainty and help the project obtain the machinery needed to begin production.

While an LC does not create investment by itself, it can help turn an investment plan into equipment, operating factories, new jobs and future exports. Through these transactions, letters of credit and other forms of trade finance support Thailand's participation in regional and global supply chains.

The Final Take

People often focus on trade, investment, employment and economic growth, but these outcomes do not happen automatically. Before an order becomes production or income, businesses need financing, risk management and enough confidence to move forward.

Trade finance provides this foundation. Within that system, LC work behind the scenes, helping distant buyers and sellers reduce payment risk and turn agreements into real economic activity.

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