Chapter 9
International Trade and Cash Management:
Does Financial Inclusion Matter in OIC Countries?

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ABSTRACT

This chapter assesses the impact of international trade on cash management by considering the financial inclusion for 2,202 non-financial firms in Organization of Islamic Cooperation (OIC) countries over 2004-2021. Empirical results demonstrate that there is a positive (negative) relationship between trade volume and cash holdings when financial inclusion is higher (lower). This result is in line with the precautionary motive of cash. Non-financial firms operating in OIC countries can leverage these insights to inform their cash management strategies. Firms may consider adjusting their cash reserves based on fluctuations in trade volume and prevailing levels of financial inclusion. This proactive approach to cash management can help firms better navigate uncertainties in the international trade environment.

INTRODUCTION

International trade serves as a cornerstone of economic development, enabling countries to expand their markets, diversify their economies, and spur growth. For member countries of the Organization of Islamic Cooperation (OIC), effective participation in global trade is not only a pathway to economic prosperity but also a means to achieve sustainable development goals. However, the efficiency and success of international trade are significantly influenced by financial systems and the

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inclusiveness of financial services. This chapter explores the intricate relationship between financial inclusion and cash management in the context of international trade within OIC countries.

Financial inclusion, defined as the availability and accessibility of financial services to all individuals and businesses, plays a pivotal role in enhancing economic stability and growth. In the context of international trade, financial inclusion facilitates smoother transactions, reduces costs, and mitigates risks associated with cross-border exchanges. For OIC countries, which often grapple with varying degrees of financial infrastructure and regulatory frameworks, the degree of financial inclusion can markedly influence their trade dynamics and economic outcomes.

This chapter delves into the impact of financial inclusion on cash management practices within OIC countries engaged in international trade. Cash management, which involves the collection, handling, and utilization of cash flows, is crucial for maintaining liquidity, ensuring operational efficiency, and optimizing financial performance. Efficient cash management practices are particularly vital in international trade, where transactions span multiple currencies and jurisdictions, often presenting unique challenges and opportunities.

It will examine the current state of financial inclusion in OIC countries, identifying barriers and opportunities for improvement. Furthermore, this chapter will assess how enhanced financial inclusion can streamline cash management processes, ultimately bolstering the international trade capabilities of these nations. Through empirical analysis and case studies, we aim to provide a comprehensive understanding of the symbiotic relationship between financial inclusion and cash management in the realm of international trade among OIC countries.

By addressing these critical issues, this chapter seeks to contribute to the broader discourse on economic development and trade facilitation within the OIC. It underscores the necessity of inclusive financial systems as a catalyst for robust international trade and highlights actionable insights for policymakers, financial institutions, and trade stakeholders in OIC member countries.

CONTROVERSIES IN THE LITERATURE

Theoretical Framework

Understanding the relationship between international trade, cash management, and financial inclusion within the context of OIC countries requires a multidisciplinary approach, integrating theories from international economics, financial management, and development studies. This theoretical framework outlines the key concepts and theoretical underpinnings that will guide our analysis.