In 1992, over 50 million currency options and futures contracts were traded on organized exchanges worldwide. Through the first half of 1992, US$156 billion worth of new currency swaps were arranged.[40] Canadian dollar swaps amounted to US$16 billion, with nearly US$14 billion of those involving the U.S. dollar. The largest Canadian banks had about C$2.2 trillion worth of derivatives outstanding in 1992, over C$1 trillion of which was forward contracts on foreign exchange.[41]

Clearly, the instruments available to large companies or multinational corporations in the management of their foreign exchange risk are numerous. One question that emerges, however, is whether those same instruments are as readily available to small and medium-sized enterprises (SMEs). If the cost of managing foreign exchange risk is too high for SMEs, international trade might not be profitable. Yet, the availability of foreign exchange hedges to Canadian firms depends more on the currency they need to hedge than on the size of the firm or the size (dollar value) of the hedge. Although SMEs face other export readiness difficulties, with respect to currency risk, large and small firms alike tend to use currency forwards. Banks are far more receptive to the arrangement of such contracts if the currency is one in which the market is large and liquid.

What Does It Mean For Trade?

It would be difficult to provide evidence that directly links the existence and expansion of instruments to alleviate certain risks associated with international trade and an increase in trade volumes. There are many circumstances unrelated to trade in which some of the instruments listed above could be applied. As there are active secondary markets in futures and options, they can be purchased as investments and not necessarily as hedges.

To the extent that hedging instruments remove some uncertainty, we can cite them as trade enhancing. By themselves, hedging instruments will not likely stimulate trade in markets previously thought of as being too risky. Rather, they facilitate trade where opportunities have already been identified and exploited, and profits can be enlarged with proper risk management. An anecdotal point, which leads us to no firm

---

[40] Bank for International Settlements, *63rd Annual Report*. Basle: June 1993, pp. 124, 126.

[41] S.M. O'Connor, *The Development of Financial Derivatives Markets: The Canadian Experience*. Technical Report No. 62. Ottawa: Bank of Canada, June 1993, p. 55.