

International Trade Settlement Case Analysis

Yujiao Cui¹, Yang Wang², Jiahao Tang³, Jingchen Wu¹ and Guangbo Ma¹

¹School of Finance and Public Administration, Anhui University of Finance and Economics, Bengbu, China;

²School of Finance, Anhui University of Finance and Economics, Bengbu, China;

³School of Business Administration, Anhui University of Finance and Economics, Bengbu, China.

Abstract

International trade settlement is the cash settlement of debts arising from trade transactions between countries. With China's accession to the World Trade Organization and the implementation of the reform and opening policy, more and more international trading companies, international trade and trade settlement are expanding. Competition among international markets is becoming more and more fierce. In order to increase their share in the international market, Chinese foreign trade enterprises not only rely on price competition, but also use preferred payment methods to finance product buyers, which increases the risk of export revenue and increases its share in the international market. This article briefly analyzes the characteristics and risks of international trade settlement in the development of foreign trade institutions. It guides foreign trade agencies in selecting the appropriate trade settlement method, thereby helping to achieve transaction goals and the goals of both parties.

Keywords

International Trade Settlement; Settlement Parties; Settlement Cases.

1. Overview of International Settlement

The most important settlement methods in international trade are import and export bills, packaged loans, and deferred payment of deposits. International trade settlement is a trade settlement based on goods settlement and customs clearance. Trade settlement is an important part of all trade activities, and it is also the most important process for both parties to fulfill their obligations to sell import and export goods. On the basis of global economic integration, trade among developing countries has developed rapidly, and import and export transactions have become the main form of global trade. Analyze the risks faced by international trade settlement, scientifically predict and prevent risks, make full use of various insurance systems and bank financing functions, and prevent international financial and commercial risk settlement.

In recent years, the explosive growth of China's export trade has not only come from economic globalization, but also from China's open policy. In addition, with the deepening of globalization, the frequency of trade between countries in the international market is also increasing. In the entire international trade, international settlement plays a central role. International settlement determines whether the goods are received and paid smoothly, and directly affects the relationship between the two parties. Import and export, whether to achieve international reconciliation is the success of commercial transactions. Due to the different settlement methods chosen by import and export companies, the determination of the risks and costs borne by both parties depends on the direct interests and profits and losses of both parties. When signing a trade agreement, both parties will try to sign a more favorable solution.

However, since international trade is an economic exchange between companies in different countries, the main institutions for international settlement are companies and banks in different countries, which makes international settlement more complicated due to differences in foreign exchange.

2. Trade settlement method

International trade settlements are rarely based on cash settlements, and most companies rely on non-cash settlements. The narrowest method of international settlement between companies is through invoice settlement. Remittance and collection are also commonly used international settlement methods, among which remittance is divided into three types: letter transfer, telegraphic transfer and draft transfer. In the process of commercial settlement, trade settlement means that the parties agree on the payment date, and the remittance is transferred between claims through banks or other means. Due to different delivery conditions, it can be divided into documents against payment and documents against acceptance. Letters of credit can also be issued in international trade settlement as a condition for the import and export of goods. At the request of the importer, the goods provided by the bank or the importer to the exporter will be picked up with invoices, documents and guarantee documents in compliance with credit conditions, acceptance and payment conditions.

At present, letter transfers are rarely used in China, and telegraphic transfers and draft transfers are widely used. Although bills, remittance and collection, and international settlement are relatively simple and transaction costs are relatively low, they are all commercial credit payments. Although most transactions are conducted through banks, banks only process transfers and receivables at the request of buyers or sellers, without any obligation to pay or verify the authenticity of documents. Therefore, exporters can safely and timely receive remittances from companies that rely on remittances or group import and export settlements based on the commercial credit level of importers. Furthermore, any transaction between a buyer or a seller requires capital and risk, and the financial burden and risk is highly unbalanced. Any unilateral violation of a treaty may cause damage to the other party. In the international market dominated by sellers, both import and export urgently need an international settlement method to offset the settlement risk between sellers and buyers

3. Advantages and disadvantages of international trade settlement methods

International trade usually involves the settlement and payment of debts between buyers and sellers, known as international trade settlement. International trade settlement is a physical trade settlement based on commodity, commodity and currency transactions. Billing methods include credit settlement, bank transfer, collection, bank guarantee and various commercial billing methods.

3.1. Advantages and disadvantages of letter of credit settlement

(1) Advantages:

Credit statements based on bank loans in lieu of major importers. As long as the issuer meets the credit conditions and submits documents corresponding to the documents, in theory the issuing bank must fulfill its payment obligation, which means that the issuer is usually able to recover the payment. This is also the main reason for the ubiquity of credit settlement.

Credit settlement is secured by documents provided by the issuing bank, payment obligations and correspondent bank. Thus, importers and exporters can obtain financial relief from banks at any stage of their transactions with the relevant banks, such as packaging loans, remittances and discounts before shipment after receipt of letters of credit. Trade finance solves the

problem of capital flow between importers and exporters to a certain extent, which is usually more beneficial to exporters.

Some importing countries implement strict foreign exchange controls, and all payments must be approved by the foreign exchange control department. This problem can be effectively solved if credit is used, because banks must submit external management for approval before opening credit. As long as banks can issue letters of credit, this also means removing restrictions on the foreign exchange payment policy in this trade.

(2) Disadvantages:

The advantages of letter of credit settlement are very obvious, but any settlement method is not perfect, and its disadvantages are also obvious. The advantages of credit settlement are very obvious, but any billing method is not perfect, and the disadvantages are also obvious.

Since the letter of credit invoice is a purely commercial document, the documents issued by the bank must be paid abroad, and the importer must pay and take back the documents. Importers may receive credit-qualified documents, but they may not necessarily receive full credit-qualified; there are some fraudulent practices, exporters can produce or even forge inventory documents; exporters may sometimes face unreasonable issuing banks refusal or failure to pay. If the exporter meets the credit conditions, sometimes due to various reasons, the documents do not match, and the issuing bank refuses to pay; opening a letter of credit can reduce risks, and usually a certain deposit is charged from the importer when opening a letter of credit. Due to the relatively long settlement time of the letter of credit, the funds are held by the bank. This suggests that billing letters are not perfect, as they are a more convenient source of billing methods.

3.2. Advantages and disadvantages of remittance settlement

The advantage of remittance is that the procedure is simple and the cost is low. The disadvantage of remittance is high risk and unbalanced financial burden. With cash on delivery, the seller is offering the buyer excellent credit and capital financing. Prepayment provides seller with credit and financing. In both cases, the risks and financial burdens are concentrated on one side. In China's foreign trade practice, remittances are usually only used to pay the final amount of deposits, commissions and other fees, not the main invoice. In developed countries, due to the large amount of trade within multinational companies, foreign trade companies have reliable trading partners and distribution networks abroad, and remittance is the most important means.

3.3. Advantages and disadvantages of collection settlement

(1) Advantages of collection settlement method:

A quick and easy solution. In document collection, the exporter controls the goods by managing the documents of title. Delivery for collection must be made or accepted by the importer, so under normal circumstances the exporter does not deliver the documents in real time when the loss is settled. As long as the importer pays or accepts, he can receive documents representing the ownership of the goods, which is more secure than prepayment. Therefore, payment and billing documents are more secure than bank transfers for importers and exporters. In the business of international commercial banking, it is sometimes possible to obtain payment from the servicer while providing funds to the client to facilitate financing. What is clear, however, is that debt collection financing goes beyond the scope of debt collection by banks. Compared with credit settlement, the handling fee is relatively low, and the handling fee of the documentary bank is relatively low.

(2) Disadvantages of collection settlement method:

The shortcomings of collection and settlement are obvious. Whether the exporter can recover the payment in time depends entirely on the credit of the importer. Exporters may not receive

payment in a timely manner if the importer does not pay or accept payment due to changes in working conditions, or deliberately delays payment after accepting payment. The beneficiary bank and the beneficiary bank are not responsible, and we usually call it a commercial loan. The reasons may vary, such as the importer has become bankrupt for some reason and cannot make payments, some restrictions on foreign exchange imports and foreign trade have been controlled.

4. International financial trade settlement risk

In the international trade settlement process, different countries, currencies, settlement methods and instruments represent some risk factors. Some political, economic and credit reasons may also lead to some risks in the process of international trade settlement.

4.1. Political risk

When addressing international trade issues, a country's political situation and its ability to repay its debts play a role, known as political risk. For example, in times of war, in addition to implementing relevant national risk policies, once relevant national decisions are made, major events and foreign relations of coastal countries will change the national risk. Political unpredictability leads to losses for both parties to the transaction, and these political risks will have an impact on the delay or recovery of payments under international trade settlements.

4.2. Credit risk

In international trade and financial settlement, credit risk depends largely on the business quality of importers and exporters. Through international settlement activities, buyers receive goods and sellers receive payment at different times and locations. In the process, if one party fails to meet its obligations under the trade agreement, the other party faces credit risk. For example, there are various credit risks such as rejection of goods, late payment or excessive default by both parties.

4.3. Currency risk

In the process of international financial and trade settlement, exchange rate fluctuations within a certain period of time will lead to currency appreciation and depreciation, which is a one-sided understanding of transactions involving currency risks. Currency risk generally includes two types: settlement transaction risk and selling risk. Whether a currency rises or falls in a trade can result in commodity or financial losses. Foreign exchange risks in international trade settlements lead to unstable trade transactions.

5. Risk prevention measures related to the trade settlement process

In the process of international trade settlement, measures should be taken to prevent risks in different situations on the basis of analyzing future unpredictable risks and consequences, so as to maximize profits and minimize losses.

5.1. Preventing political risks

By establishing a timely forecast system in the process of bilateral trade, understand the different regulatory conditions of partner countries, and collect information on different policy developments, so as to identify political risks at an early stage and take actions to effectively reduce losses. Investing in the project protects both parties to the transaction. Beneficiaries who obtain political risks from relevant insurance institutions in order to avoid political risks. You can apply for protection and compensation, or you can apply for a guarantee with your local bank. If the policy changes, the guarantor can file a lawsuit against the guarantor financial institution to minimize losses.

5.2. Credit risk prevention

By setting up a credit risk unit within the institution, the investigation agency will review and study the information on the other party's past transactions before the transaction between the two parties, and communicate closely with the company's representatives. Strengthen credit risk prevention during the transaction process and avoid credit risks as much as possible. Be careful when choosing a trading partner. Through a series of credit checks by consulting companies, you can choose a reputable partner, thereby offsetting credit risk and financial loss.

5.3. Avoid exchange rate risk

During a transaction, hedging aims to protect against economic losses due to changes in exchange rates. Importers can buy foreign currency during the course of a transaction, while exporters can sell foreign currency for hedging gains that offset losses and profits. Alternatively, an early or delayed payment of the first tranche of foreign currency is a strategic measure to avoid currency risk in transactions or to set conditions for currency hedging. If the unilateral exchange rate during the transaction exceeds the specified range, it must be adjusted according to the terms of the contract to achieve the purpose of hedging. Alternatively, the establishment of an insurance agency serving foreign trade and an appropriate exchange rate guarantee plan can mitigate the losses caused by exchange rate changes during the transaction to a certain extent. The severity of the economic difficulties that both parties may face due to the exchange rate.

5.4. Prevent settlement risk

In economic transactions, the choice of settlement business method may be the advance payment method in export trade, while in import trade, the exporter must determine the highest credit value and choose the advance payment calculation method. When executing a transaction, both parties should consider the characteristics of the settlement itself and other external factors to choose the most appropriate trade settlement method.

In the process of trading, one must have a strong sense of risk prevention in order to maximize the economic benefits of international trade settlement and minimize losses.

6. Conclusion

International settlement is a comprehensive field, including domestic and foreign industries, various industries and rich products. The risk of international reconciliation is more complicated, so the assessment and prevention of avoiding the risk of international reconciliation must be expanded and deepened to a certain extent. At the same time, macroeconomic and microeconomic measures need to be supported and funded to investigate the risks of international settlements.

Since international settlement risks exist at every stage of a transaction, each trading firm inevitably faces different risks. Therefore, risk prevention not only requires a company to take active measures, but also requires all companies to cooperate with the government, society and other forces to prevent and avoid risks. Therefore, it is necessary to comprehensively manage and prevent the risks of international settlement. This is the original intention of this article to analyze the risk of international reconciliation from various aspects. Therefore, in international reconciliation, if all parties do not unite and cooperate, and do not consider their own interests, the risk of international reconciliation can be reasonably avoided and avoided, and ultimately promote the stable development of China's trade.

Under the current situation, global economic integration has been continuously strengthened and developed, and more and more Chinese companies have shown abnormal vitality in overseas international trade. Nevertheless, opportunities and challenges coexist, and many

foreign trade institutions are also facing the pressure of fierce competition, which leads to increased risks. Especially in international settlements affected by various factors, risks are difficult to control or avoid. Therefore, this paper analyzes the different risks under different resolution conditions, and analyzes the risks of international resolution banks under different external factors at the bank level from an institutional perspective. International solutions are at risk. By analyzing various risks in the international settlement process, I found that the main risk is credit risk and its valuation.

Finally, it is recommended to take preventive measures for common risks, through the study of international settlement risks, analysis and evaluation of its risk degree, and put forward corresponding solutions. Our foreign trade companies should not use a single billing method, but flexibly and comprehensively use multiple billing methods according to changes in international billing topics, such as a combination of letters of credit and transfers, as well as multiple letters of credit, multiple prepayments Deposit etc. In this way, we can avoid the risks brought by Chinese foreign trade companies who are not familiar with international settlement. Factors such as customer credit limits, varying commercial intentions, and the use of transaction, shipping, and document conditions all affect potential risks in the international settlement process. Trading conditions and shipping documents affect risk far more than differences in credit customers and willingness to work. In other words, transaction conditions, transportation and use of documents are the main factors affecting the risk of international settlement.

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