

A Series of New Century International Business  
新世纪国际商务丛书

Elements of International Trade Payments

# 国际商贸支付精要

WENG Fengxiang 翁凤翔 编著



浙江大学出版社

ZHEJIANG UNIVERSITY PRESS

A Series of New Century International Business 新世纪国际商务丛书  
Series Compiler: WENG Fengxiang 丛书主编:翁凤翔

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## 图书在版编目(CIP)数据

国际商贸支付精要 / 翁凤翔编著. — 杭州: 浙江大学出版社, 2004. 6  
(新世纪国际商务丛书)  
ISBN 7-308-03657-X

I. 国... II. 翁... III. 国际贸易 - 支付方式  
IV. F830.73

中国版本图书馆 CIP 数据核字(2004)第 041945 号

出版发行 浙江大学出版社  
(杭州浙大路 38 号 邮政编码 310027)  
(E-mail: zupress@mail.hz.zj.cn)  
(网址: http://www.zjupress.com)

责任编辑 杜玲玲  
排 版 浙江大学出版社电脑排版中心  
印 刷 杭州杭新印务有限公司  
开 本 787mm × 960mm 1/16  
印 张 14.75  
字 数 335 千字  
版 印 次 2004 年 8 月第 1 版 2004 年 8 月第 1 次印刷  
印 数 0001—4000  
书 号 ISBN 7-308-03657-X/F·497  
定 价 20.00 元

## About the series compiler :



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*International Business English Translation* , Zhejiang University Press, 2002 .

*A Dictionary of Commonly-Used Words in International Business English with Both English and Chinese Definitions and Examples of Usage* , Human Literature and Art Publishing House, 1998 .

*Detailed Interpretation of International Business Graphs and Tables* , Zhejiang University Press, 2002 .

*Cambridge Business English Vocabulary and International Business English Synonyms* , Shanghai Jiaotong University Press, 2003 .

*“Functional Equivalence and Translation of Maritime Rules and Regulations”* , Shanghai Journal of Translators for Science and Technology, Issue No.5, 1996 .

Having been engaged in teaching and making researches on international business/business English for a long time, Prof. WENG Fengxiang is a consultant of some companies and a supervisor of the postgraduate. Once working for companies, Prof. WENG Fengxiang has much experience in international business practice, especially in international trade. He worked as a visiting professor in the Business School of University of Central England, Birmingham for one year and is the academic team leader of his discipline in the university. During his stay in the United Kingdom, WENG Fengxiang finished PhD Courses and worked as a supervisor of MBA and MSc. Prof. WENG Fengxiang holds a master degree in international business translation. The courses he teaches include: International business, International trade, Business English for MBA, International business translation for students studying for master's degree and doctorate, etc.

# Preface

Opportunities for careers in International Business have increased tremendously especially since China joined the World Trade Organization. As a result, the need for current knowledge about international business practice and terminology is crucial. Although there are many reference books available, some are published abroad and therefore can be very difficult to understand, while those published in China lack the necessary international business terminology and expressions in English. *The Series of New Century International Business*, edited by Professor WENG Fengxiang, solves these problems. *The Series* consists of four books written in simple English, but it also includes explanations of the more difficult points written in Chinese. Readers are sure to benefit from his explanations of English international business English expressions. Professor WENG makes a great contribution to the teaching and learning of international business.

Professor WENG Fengxiang, having worked as a consultant for international companies, is very experienced in current international business practice. Currently, he is an Associate Professor of International Business at Shanghai Maritime University. As well as teaching International Business English, Professor WENG also teaches International Trade and International Payments. As a leading expert in his discipline, Professor WENG is among the supervisors of International Business Translation postgraduates. Having conducted academic research in the UK, he has been invited to be a visiting professor at the Business School of University of Central England, Birmingham.

Professor WENG is the author of a number of books on International Business English. Changes in international business happen quickly, and keeping up with international issues and their impact on international business can be difficult. *The Series* addresses both the instructors' and the students' needs for current information. I highly recommend *The Series* to the International Business and Business English learners.

**Han Zhonghua** (韩忠华)

Professor of English & Translation

Shanghai Maritime University

January 28, 2004

## Acknowledgements

In preparing this book, the author has been greatly assisted by a number of companies and organizations and friends. Some of them are:

China Scholarship Council.

Business School of University of Central England, Birmingham.

Professor John David, Business School of University of Central England, Birmingham.

Jerry Snow, my English friend who has contributed a lot to this series.

Dr. LI Jun (李俊), University of Luton Business School of Britain.

ZHNAG Jinghao (张经浩), Professor of Shanghai University for Science and Technology.

HAN Zhonghua (韩忠华), Professor of Shanghai Maritime University.

YUAN Yali (袁亚丽), lecturer of Shanghai Maritime University.

I'd like to express my special hearty thanks to Miss Yuan for her professionally proofing the draft of my book.

YANG Xiuying (扬秀英), Chairman of China Nanchang Spaceflight Group.

XIAO Quanyi (肖泉毅), Chairman of Shanghai Fusheng Science and Technology Industries Co. Ltd.

WEN Jun'e (温俊娥), General manager of Shanghai Fusheng Biology Engineering Research Institute Co. Ltd.

LIU Lan (刘岚), Auditor of China Rights on Certified Public Accountant Co.

GU Yazhu (顾亚竹), Associate Professor of Shanghai Maritime University.

GONG Zhaogang (龚兆岗), Associate Chief Engineer of Shanghai Bright Electronic Systems Ltd. and supervisor of postgraduate of Electronics Department of Shanghai Maritime University.

JIN Caiju (靳才举), my postgraduate.

# Introduction

The purpose of this book is to describe the framework within which international payments are made in order to meet students' increasing demand for knowing something about international payments. After reading this book, students can have a brief but clear picture of international payments. The Chinese version in each chapter is designed to help students to clear up what puzzles them.

International payments are a key part in international business. The seller can select different methods to make payments depending on the particular situation. It is therefore very important for international businessmen to know how international payments are made.

In China, more and more people, especially the young, show great interest in international business. This is because China is playing an increasingly important role in international business. Since China joined the WTO, China has been doing very well in international business. Therefore, more opportunities in international business will favour those who are familiar with international business. Without doubt, being good at international payments or knowing something about it will help them to become more competitive.

This book is intended for undergraduates of international trade, especially those who major in international accounting, international finance, international business, etc. and for MBA students as well. The book is also beneficial to those who are engaged in international business or those whose work is concerned with international payments. As the book is written in simple English, readers will find it very easy to understand.

The author will feel very much obliged to any one who kindly provides suggestions and comments about this book.

**WENG Fengxiang** (翁凤翔)

January 18, 2004



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## Chapter 1

# *General Introduction*

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### 1.1 The Significance of International Payments

It is well-known that international payment is the most important in the international trade in that the seller's most interest is to get the money. Only after the seller has received the full sum of money without claims can we say the transaction is concluded and will the seller feel at ease. In other words, getting paid to the seller's utmost satisfaction is the most important aspect of international trade; on the other hand, the buyer's first obligation is to pay the money or to promise to pay the money for the goods he buys from the seller. Otherwise, all the effort that is put by the seller into marketing (research), pricing, physical distribution, documentation and so on would be for nothing.

Of the 3P's (payment, price, packing) of international trade, learners of international trade need pay most attention to payment. How, when and where to pay is of mutual interest, which should be discussed, negotiated about before the contract is signed by and between the seller and the buyer. Payment terms, which will be discussed later in this chapter should be clearly specified in the Contract. Therefore, both the seller and the buyer have to acquaint themselves with international payment methods and the relevant things such as foreign change rate, the role of banks, etc.

## 1.2 Risks in International Payments

Chances are that sellers who are not sure that payment can be surely obtained will run into difficulty and likewise that buyer who are not sure that goods in good condition can be received will also get into trouble. Both the seller and the buyer bear the risks in getting paid and paying. International trade has been growing fast, though. Whoever does business must run some risks. Basically speaking, the more risks one bears, the more profits he may get.

Practically, there are four chief methods of payment commonly adopted in international trade, each offering different levels of security and risk to both the seller and the buyer. The four chief methods are: prepayment (CWO), documentary Letter of Credit, documentary collections and open account trading. What method is to be adopted depends on the relationships between the seller and buyer. Both parties have to fully understand the payment terms agreed and the obligations that the arrangement entails. The following figures (Figure 1.1 and Figure 1.2) show the risks either party bears:

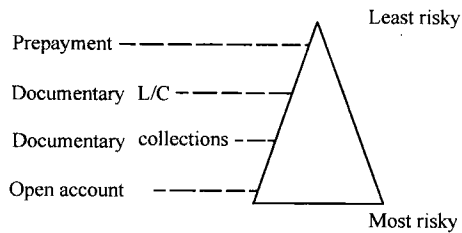


Figure 1.1 Payment Risks to the Seller (Exporter)

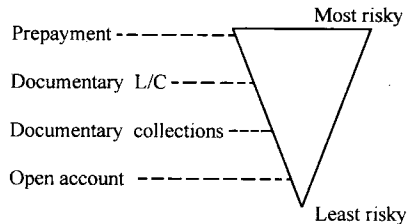


Figure 1.2 Payment Risks to the Buyer (Importer)





### 1.3 Terms of Payment

Terms of payment are actually what are mentioned just above, namely, the ~~four chief~~ methods of payments and some others. The seller is especially cautious about the terms of payment, because when selling goods to the customer in a different country it is essential to safeguard oneself against the risks. By risks we mean not only the physical risks of loss, damage or delay of the goods in transit but other risks of non-payment, force majeure, conflict of different laws and the like. Terms of payment normally need repeated discussion by both the seller and the buyer before the terms are put down in the Contract. Terms of payment range from “cash with order” at one end to “open account” at the other. Here again the terms are listed in the order of least risk for the seller:

- CWO (cash with order)
- Part-cash with order — balance due on notice of readiness to ship
- Documentary Letter of Credit
- Documentary collections (D/P: documents against payment  
D/A: documents against acceptance)
- O/A (open account)
- Other payment mechanisms like consignment sales or countertrade

### 1.4 Currency Matters in Relation to International Trade

One of the most important elements in an international trade transaction is what currency is to be used for invoicing. In some transactions, no choice exists. For example, crude oil trading is traditionally done in US dollars. And sometimes it is possible that a firm sticks to his home currency.

International payments are mostly the same as in essence but are much more complicated than and different in the methods from the domestic payments, the reason for which is that international payments are closely related to the different laws, different international trade practices, different practices of the banks as well as different currencies.