简明英语读本

国际贸易金融

THE FINANCE OF INTERNATIONAL TRADE

诸葛霖 主编

中国对外经济贸易出版社

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（英汉对照）

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前　言

自从实行开放政策以来，我国的对外贸易和对外金融业务发展很快。需要一大批既懂英语又懂实际业务的工作人员。凡是涉及外经贸的业务活动，基本上必须通过外语来进行，以英语为最实用。因此通过学习英语去学外贸与金融业务，可以收到事半功倍之效。

《国际贸易金融》简明英语读本，英汉对照，浅近易学；收集的专业用语和词汇相当广泛，业务知识丰富，可以使读者了解国际上进出口业的资金融通手段以及现行的国际结算（支出）方法。在学习完成后可以在实际工作中懂得运用这些手段和方法，获得最佳效益。本书适用于外经贸、财经、金融，企业管理学院学员与外经贸和银行等干部学习与参考之用。

本书由诸葛霖主编，潘意刚，王每心和蒋伟参加了编写和翻译工作。在编写过程中得到中国银行对外业务部同志的帮助和对外经济贸易大学系（英语系）领导的支持，谨此表示衷心的感谢。

由于我们的英语和业务水平不高，缺点错误在所难免，诚恳希望读者指正。

编　者

1989年11月1日

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Chapter 1
An Overview

There is little doubt that international trade is more complicated than domestic trade. There are surely many potential exporters and importers who are dissuaded by payment difficulties. For those brave tyros, the first venture into the world export market might result in either a bad debt, or payment being made over so protracted a period that all the profit has disappeared. For inexperienced importers, things can be equally bad. The ordered goods may not arrive on time, or may never arrive after the payment has been made, or else the arrived goods may turn out to be much inferior to that ordered. More commonly in actual practice, failure to allow for an alternative mode of payment may cause many otherwise hopeful deals abortive. Many of these problems are due to a lack of knowledge of the finance of international trade and of the appreciation of different modes of payment used in international trade.

Since World War II, the volume of international trade has grown quite rapidly at a rate higher than the average growth rate of the GNP of most countries. By and large, the businesspeople engaging in international trade rely on commercial banks for import and export finance. Mostly they have not got adequate capital to finance all their imports and exports despite their enthusiasm, ability and proficiency. Without bank finance, their business turnover will be greatly reduced. Under such circumstances, they have to reduce their business undertakings and miss many lucrative opportunies. Sometimes they would be compelled to decline large profitable orders or dispose of the goods at reduced prices, if bank finance were not available to them.

It is very important for those who are engaged in international business to acquire the basic knowledge of different modes of payment and more importantly, import and export finance.

When an exporter agrees with his buyer on letter of credit terms for his exports, normally he must be sure that he has got enough funds to finance the purchase and/or production of the export goods, otherwise he will not be able to fill the anticipated order. Similarly, an enterprise which intends to import advanced technology and equipment from abroad, must apply for a foreign exchange loan from the Bank of China, if it has not the corresponding amount of foreign exchange. Only after it gets the finance, it can then commits itself to enter into a purchase contract with an overseas supplier, which stipulates L/C payment terms. In short, financial management is crucial to the success of an enterprise. It is especially so, when the enterprise is engaged in international trade.

It is beyond doubt that when a student studies the finance of international trade, simultaneously he will understand different modes of payment. Payment and finance are correlated and inseparable from each other in a business transaction. The bankers often call them means of settlement. Here settlement refers to the payment of debts which an importer incurs after he has contracted to buy goods from an overseas supplier or after he has duly received the shipping documents, as the case may be. Payment or settlement, whatever it may be, either of them is embodied in the same subject — the finance of international trade.

Means of Settlement

Every week, hundreds of thousands of international business transactions take place in the commercial world. These transactions, large or small, have to be settled through payment by the importers. However, international trade is often beset with more difficulty than domestic trade owing to the fact that either party to a business transaction has relatively limited knowledge of the financial strength and commercial reputation of his counterpart. There is no guarantee for the punctual delivery on the part of the seller and payment by the buyer. Sellers usually have sought to retain legal control over their goods until receipt of payment, whereas buyers have been reluctant to pay before possessing the goods. Experience and necessity thus have contributed to the creation of acceptable means of settlement intended to reduce risk in international trade by assuring the seller of payment and the buyer of receipt of the goods. Before we discuss international trade financing at length, it is useful for us to review these means of settlement, as they arise in the normal sequence of trade transactions. Since the turn of the century, their evolution has propelled the development of international finance as well as the trade itself.

Export Financing

Every shipment from an exporter to an importer requires some kind of financing while in transit. To an exporter, the exact method or combination of methods of financing used for any one transaction depends on such factors as his financial resources, his trust in the importer, the currency of invoice, availability of bank lines to him and availability and cost of credit in different countries. Here, internationally operating banks not only help with the provision of means of settlement but also with that of credit.

Very often, an exporter, with much enthusiasm and potential, only operates on limited capital. A need may therefore exist for him to apply for either pre-shipment finance or post-shipment finance. Sometimes, the credit provided by his bank is used as working capital or trading funds which enable him to produce or buy the goods and put them on board a ship (or other means of transport). In this case, he requires pre-shipment finance. Post-shipment finance is usually provided to meet the need of exporters to compete in international credit race and to cater for the increasing world trade in capital goods, in which the provision of medium- and long term export financing by the bank is nowadays a must to secure export orders. Preshipment and post-shipment finance, working together as export financing, are therefore of much significance to exporters.

Import Financing

Just as an exporter needs financing to conduct his business, an importer needs it as well. When a bank or some other financial institution helps to finance an importer, it may be done by providing different methods of payment or finance on an unsecured or secured basis. The methods of payment developed to facilitate the financing of international trade and, import transactions in particular here, are open account, bill of exchange and bank credit. In the field of import financing, a review of these methods of payment may serve to clarify the role of banks in the process of effecting payment and in the meantime to place these import financing arrangements in their proper perspective.

Apart from different methods of payment, financing on an unsecured or secured basis is also vital to an importer. If an importer requiring financing enjoys a strong financial position and is of undoubted integrity, unsecured financing is usually available from his bank. However, when an importer is operating on limited capital and his financial position is not strong enough to induce a financial institution to give him unsecured credit, a need may arise for the importer to use the actual merchandise being shipped as collateral to obtain a secured financing. We shall look at the means of settlement used in import financing as well as unsecured and secured financing provided by banks or financial institutions, later in the 4th chapter.

Documentary Letter of Credit

At present, most of the business transactions call for L/C payment terms, but few of us truly have a profound understanding of the nature and main features of letter of credit, how it crept into use, what are its advantages to the exporters and importers, how to apply for it to the commercial bank, and so on.

There are implications in an L/C, which we should grasp, before we can be competent to check the L/C terms for our exports, and to draft the application for outgoing Ls/C for our imports. In the day-to-day business, a business cadre may run across quite a few types of Ls/C. They are revocable and irrevocable letter of credit, sight and usance credit, confirmed and unconfirmed credit, transferable and nontransferable credit, revolving credit, Red Clause credit, reciprocal credit, back-to-back credit and standby credit. Those Ls/C are designed for various uses in international trade to suit different circumstances.

The way the exporters or importers finance their trade has a close bearing upon the choice of the right type of L/C and the drafting of its terms. Invariably finance and payment are correlated. What kind of finance to be arranged determines the type of L/C to be used. In this sense, L/C is an instrument to materialize the financial arrangement. Obviously, to study different types of L/C is important for business cadres who undertake negotiation responsibilties, when they learn the financing techniques of foreign trade.

There is always a stipulation in the L/C of nearly all the countries in the world today, stating that the L/C is subject to Uniform Customs and Practice for Documentary Credit (UCP). Therefore it is incumbent upon the bankers as wel las businessmen to study the history and evolvement of the UCP and particularly the terms embodied in the UCP. Thus they will be able to handle and resolve any disputes arising from the interpretation of the L/C terms.

The continuing revolution in transportation technology and the geopraphical extension of containerization and combined transport contribute to the change in international trade practice. Besides, communication revolution, which replaces paper as a means of transmitting information (data) relating to a business transaction by methods of automated or electronic data processing devices also brings about some changes in trade practice. These changes are reflected in the 1983 edition of the UCP, which is the latest edition so far. A comparative study of the 1983 edition and the 1974 edition of the UCP can benefit the readers in that they can understand how evolvement of the modes of international trade payment caters for the needs of international trade, which itself is also evolving and moving forward. We should be far-sighted and make use of the changes in an appropriate way.

Collection

As competition is getting keener on the international market, collection offers an alternative to exporters, when the L/C arrangement appears to be too expensive for the overseas buyers, and especially the small importers, to buy Chinese products. Collection offers advantages to exporters as well as importers, of which we should be able to make concrete analysis under different conditions, so that we can apply it appropriately to our advantage.

Clean collection is similar to open account settlement, which is favourable to the buyers, but brings about more risks to the exporters especially when business is slack and a fall in market price is expected. Consequently it is less often used than documentary collection, under which the exporters may ask for documents against payment (D/P) or documents against acceptance (D/A). In reality D/A is no better than clean collection, because the overseas buyer can get hold of the shipping documents before payment just the same. Under D/P collection, the seller can exercise control over the goods exported and if necessary, resell the goods or re-ship them to some other places, in case of default on the part of the buyer.

In order to avoid any mishap, the exporter should be careful when filling out the form of a collection order. It embodies the exporter's instructions as to how to deliver the shipping documents to the overseas buyer, how to dispose of the goods when the buyer defaults, who is to pay the collection charges, to what extent the case-of-need should be entrusted, under what conditions a protest is necessary, and so on. These instructions provide a basis, on which the collecting bank may have power to act on behalf of the exporter according to different circumstances.

The commercial banks who undertake collection need a set of rules to regulate their liabilities and indemnities vis-a-vis the exporters, i.e. the principals. The International Chamber of Commerce published the Uniform Rules for Collection. A perusal of these rules ICC No. 322 may enable the exporters and businesspeople by and large to understand how far the banks will be responsible for the collection and which party shall pay the collection charges and other incidental expenses, if any.

Since there are risks inherent in a collection, the exporters ought to know what precautions and counter-measures they can take against them. Similarly, there are also risks for an importer under collection, and he should also manage to take precautions against them.

Both documentary credit and collection are the two principal methods of payment, which require us to delve, if we all aspire to do a good job in foreign trade.

Credit Risk

International trade often involves two parties living half the world apart. Therefore, an exporter, when receiving an order from a foreign buyer whom he does not know, has to find out the size, reputation, and financial strength of a foreign buyer to decide under what terms he should deliver the goods and to avoid the unnecessary risk. Likewise, it is sometimes useful for the buyer to investigate the honesty, ability and reputation of the seller as to whether he is willing and able to deliver the exact product he offers. For these, the importer and exporter can check with his bank in order to minimize the risk inherent in each transaction.

Often, for an exporter, credit information on the importer is not available or, at best, sketchy. The political, transfer and commercial risks associated with export credit make an exporter have a second thought before he concludes the transaction with a foreign buyer. The insurance for export credit thus plays a catalytic role in promoting export financing by banks and consequently in pushing export sales. Through the provision of insurance and/or guarantee by private and/or governmental agencies, export credit risks can be limited to the minimum.

Exchange Risk

In addition to credit risk, exchange risk is of another special concern for the importer and exporter. Exchange risk arises from the fact that an importer or an exporter is not always in a position to contract for payment in his home currency. Therefore, the risk of loss due to fluctuation in the exchange rate of his currency vis-a-vis that of the contract may exist between the date of his contract and the date he receives payment from abroad. There are different ways of avoiding these risks, which will be interesting to the readers.

Exchange Controls

In today's world, many governments have resorted to some kind of exchange controls to protect their own interests. As far as goods and services are concerned, these exchange controls are designed to ensure that exports are paid for in a currency that suits a particular country and that imports are paid in a manner that is as convenient as possible to that country. An analysis of the nature and purpose of exchange controls as well as types of controls is necessary to us.

Financial Institutions

The finance of international trade, both the making of payment and the provision of credit, has become a routine and a sort of bridge-building of internationally operating banks. By making means of settlement available, these banks bridge gaps of distance and custom of different countries and differing currencies, thus linking a buyer and a seller together in a business transaction, who might be half the world apart. Moreover, by providing credit, these banks bridge a time gap which arises between the delivery of the goods by the seller and making of payment for them by the buyer. To get some knowledge of these banks and financial institutions which make important contributions to the financing of international trade and related services is vital for the understanding of international trade financing. However, to make an in-depth study of these banks and financial institutions is no doubt out of the scope of this book. Therefore, only a brief description is made of the financial institutions in China, Britain and the U.S.A. in the last chapter of this book.

Summary

We have looked briefly at the principal aspects of the finance of international trade. This course will delve, in some depth, into all the areas that have been mentioned above.

Chapter 2
Basic Concepts of Means of Settlement

The system of trade which has evolved over the years caters for the varying degrees of trust between buyer and seller. Trust often comes with knowledge of the other party and the banks assist in this direction by obtaining status reports for the benefit of either or both of the parties concerned.

To the exporter of goods, the most satisfactory arrangement, as far as payment is concerned, is to receive it in advance. At the other extreme, because he has developed a sound relationship with the foreign buyer of his goods, an exporter may decide to trade with him on an open account basis. Between these two extremes, there are other means of settling debts incurred in international trade, one is collection which tends to favour the importer, the other is credits which tend to favour the exporter. This chapter discusses these various methods of payment ranging from the method that is least favourable to the exporter to the method that is most favourable to the exporter.

I. Open Account

Open account business is an arrangement between buyer and seller for the buyer to settle his debts with the seller at a predetermined future date, perhaps at the end of the month, or one month after each shipment.

In the simplest case, the seller sends the documents direct