

Research on the Comparison and Selection Strategy of the Payment Modes in International Trade

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Abstract. Payment mode of international trade means the liquidation mode of creditor's right and debt, and the choice of international settlement ways is one of the links, which face a variety of risks. Different settlement methods have their own comparative advantages, so export enterprises should choose the correct way of export settlement combined with their own reality. Based on the author's work practice, this paper first compares the common methods of payment in international settlement, and then it puts forward the choice strategy of the common payment ways in international settlement.

Keywords: International Trade; Settlement; Comparison; Selection Strategy.

1. Introduction

The rapid development of market economy has gradually formed the pattern of world economic integration. With the production of such an economic pattern, the international trade has changed to be more and more. In the daily practice of international trade, international settlement is one of the important part, and choosing the right and proper way of settlement is of great significance to reduce the risk of international settlement and ensure the smooth progress of international trade.

2. Comparative Analysis of the Common Methods of Payment in International Settlement

2.1 Comparison of payment responsibilities

Although the remittance, collection and letter of credit are conducted based on the bank, they are quite different in nature. Remittance and collection is based on commercial credit, and whether the exporters can safely receive the money is entirely based on the importer's commercial reputation. Importers are the only responsible person, if one party breach of contract, it can only rely on the sale contract. The credit payment method is a kind of bank credit, and the issuing bank to assume the first payment. As long as the exporter provides all the documents in accordance with the provisions of the credit, the issuing bank must pay.

2.2 Comparison of handling charges

Remittance is divided into the following three types: mail, telegraphic transfer and draft. Mail transfer fee is comparatively low, and the telegraphic money order has the fast collection speed, but its has a relatively high cost, which is usually used in case of emergency. The draft procedure is simple, transferable, to enter the market circulation. In short, the remittance settlement procedure is relatively simple, and the bank cost is less.

2.3 Comparison of financing methods

In the remittance business, if the buyer is paid in advance, funds are fully funded by the importer; if the goods to the payment, the funds are entirely borne by the exporter. Although the collection and remittance are based on commercial credit, the documents are delivered and controlled by the bank. In this way, the bank can provide trade finance for the importer when using the collection payment method, but this kind of financing way control is strong, often only limited to the business with a good credit.

2.4 Comparison of risks

Remittance and collection are based on commercial credit, so whether the seller can receive the payment is in full with the buyer's commercial reputation. There are two main forms of remittance, one is the advance payment, and the other is the goods to the payment. The advance payment is beneficial to the exporter's capital turnover, but for the importer, this is not conducive to its capital turnover. Of course, this approach is generally not easy to be widely accepted, only used in individual

small transactions. Cash on delivery will increase the financial burden of the seller, but for importers, it is the most favorable way, it can reduce the use of funds, but also has a greater initiative. Collection payment method is divided into D/P and D/A. After the delivery of the exporter, the relevant documents are handed over to the bank, if it is document against payment after sight, the seller may fully call in a loan after the goods arrived. D / P is more secure than the advance payment. On the whole, the importing party is more willing to adopt this kind of settlement, but for exporters, the risk is great, including market risk, political risk and own risk. Therefore, it is not balanced to use the settlement of collection for the distribution of risks and benefits to both sides of the trading business. Under the letter of credit payment, the issuing bank is the first payer, as long as the exporter provides all kinds of documents in accordance with the provisions of the credit, the issuing bank should guarantee payment, for the exporters, his collection of funds can get a degree of security, reduce the risk of foreign exchange, but also be easy to obtain financing.

2.5 Comparison of effects

Because of the simple procedure and less time required, remittance facilitates the trade between the two sides. Payment by collection has balanced the risk for both imports and exports, and the banks also provide financial inter mediation. Because the remittance and collection is based on commercial credit and the bank is just the media, so it does not assume responsibility, just charge a certain fee. In the way of credit payment, for exporters, one is to protect the safety of his collection; two is to obtain foreign exchange security; three is to provide trade financing. For the importer, it is beneficial to receive the goods on time, and it also provides financing facilities for importers. Banks provide credit to expand their business, and increase economic benefits.

3. The Choice of Payment Method in International Settlement

3.1 Factors affecting the choice of international trade settlement

Various settlement methods have their own advantages and disadvantages, in international trade, each enterprise should choose the appropriate settlement according to its own characteristics. The choice of settlement method is related to the vital interests of both parties, so selecting a reasonable payment method can help foreign trade operators to enhance the competitiveness and reduce the pressure of funds. In the selection, in addition to considering the risk of foreign exchange financing and other conventional factors, enterprises should also consider the following factors to make a rational choice.

First, the trading rivals' credit. In the actual business of international trade, it needs to assess the credit of the counterparty in advance, so that it can select the appropriate settlement method according to the counterparty's credit rating. For the enterprise whose credit rating is not high or not yet been fully understood though the first deal, it should choose the settlement with less risk to deal with it. In the export business, exporters can generally use a documentary credit, if necessary, it may be required to pay in advance in order to ensure their safety of foreign exchange. If it is to trade with customers with high credit rating, it can choose some the method with simple procedure and less cost. In the export business, it generally uses D/P, in this way, the security of the security of property rights can be grasped in a certain degree; If the customer's credit rating is very high or often with the exchange, it can also directly uses D/A or T/T.

Second, the supply and demand of goods. Choosing what kind of settlement payment method should be combined with the business intent. When the goods are selling well, it can not only improve the price, but also can choose the method of settling accounts that is profitable for the exporter. For example, using the letter of credit settlement, even requiring the importer to advance part or all of the payment. If the goods unsalable fierce competition, the seller not only needs to reduce the price, but also needs to make a reasonable concession in the choice of settlement. In order to enhance their competitiveness, at this point, it can choose to D/A or even cash on delivery.

Third, trade terms and contract amount. In the sale contract different trade terms make a different delivery methods and delivery modes, which will inevitably affect the choice of settlement methods.

CIF and CFR are symbolic delivery terms, and the delivery of the exporter and the importer's receipt are not in the same place, so the transfer of ownership of goods is based on documents, in this case, it can choose a documentary credit, if the importer's credit is good, it also can choose D/P payment method for payment. Group E and group D are substantial delivery terms, in such a business, the exporter or the carrier directly deliver the goods to the importer, if collection by bank, in essence, it is cash on delivery, so exporters bear a great risk, Therefore, generally it does not use the collection. In FOB, FCA trade term contract, although it can confirm the payment and delivery by the transport documents, the means of transport under these terms are arranged by the buyer, and the seller is difficult to control the goods, so in this case, the general should not use collection. Generally speaking, a larger the contract amount means a greater the risk the buyer and the seller will take. For exporters, it is advisable to adopt the letter of credit to pay even the advance payment, generally not to use the collection or delivery of goods to the payment. On the contrary, if the amount of the contract is not large, it can remittance settlement whose speed is fast and cost is relatively low.

Fourth, export enterprise's own scale and financial situation. The size of a company's own scale and financial situation also determine what is the right payment way enterprises should choose. If the size of an enterprise is relatively large and its capital is relatively strong, it can adopt a more relaxed settlement way, so that it can enhance the competitiveness of enterprises. For enterprises with small scale, weak financial enterprise, whether the enterprise can recover the money on time seriously affect the capital turnover to the enterprise. Therefore, it needs to choose settlement with a relatively low risk.

The choice of payment method in international settlement. First, combination of remittance and collection. This way refers the importer pays a certain proportion of the deposit as a guarantee, and uses the settlement method of documentary collection to pay most of the money. In practical application, it often takes the first T/T advance payment 10%, and then takes the payment of 40% using T/T, and the last 50% takes the D/P payment method. For the importer, the combination of these two ways, on the one hand, it can ensure the timely fulfillment of the exporter's duty of delivery, on the other hand, it can save the cost of the bank, save the cumbersome details of the letter of credit, save valuable trade time. For the exporters, it can restrict the importer to pay in time, if the collection amount has been dishonored, The exporter may return the goods, and the advance payment or deposit will pay the freight and other losses. Second, combination of collection and letter of credit. This way refers to the payment and settlement part of a deal is settled by letter of credit, and others are settled by collection. In the actual business, the exporter issue two bills of exchange. The fund belonging to letter of credit uses clean draft, and the balance uses documentary bill. In practice, it often uses this way to settle accounts, for the importer, it can reduce the issuing amount and reduce the deposit in advance compared with the use of a single letter of credit. For the exporter, the risk in the payment of foreign exchange can be controlled effectively, because there are some letters of credit to pay the guarantee, and only the importer fully paid the goods, they can get the documents. Even if the importer does not pay the bill, the exporter can also make up for the loss of the credit under the letter of credit, so the combination of collection and credit is generally acceptable to both parties. Third, combination of remittance and letter of credit. It refers to a small portion of the payment or deposit by the methods of remittance and others are paid by the letter of credit. In practical application, for the commodity whose competition is not very big, it often prepaid 10%-20%, and the remaining uses the letter of credit. Thus, exporters can start shipping after receipt of advance payment and L / C, which can protect the safety of foreign exchange. For competitive goods or the primary commodity, it needs to use the letter of credit to pay the fund of 70%-80%. After the goods arrive at the destination, pay for the rest of the payment by remittance, so even if the importer does not pay the balance, the loss has been reduced to a minimum.

4. Conclusion

This paper first studied the comparative analysis of the common methods of payment in international settlement, and then put forward the choice of payment method in international settlement. Through the correct understanding of the way of international trade settlement, the exporter can choose the most appropriate way of settlement, rather than the most secure way. At the same time, it analyzes the choice strategy of international trade, taking the customer credit, business intent and other aspects as an important basis for selection strategy, and combines the specific circumstances of the company to select the appropriate international trade settlement. This paper analyzes the risk of settlement and the corresponding strategies, putting forward the risk prevention measures of political risk, credit risk and currency risk in international trade settlement.

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