UOB 大華銀行

Introduction to International Trade

Why does International Trade exist?

International trade is the buying and selling of goods and services across national borders or territories, allowing both the buyer and seller to expand their markets for goods and services that otherwise may not be made available to them.

All countries have different assets or strengths in terms of land, labour, capital, technology and natural resources. Hence, most countries usually focus on those products and services which they possess comparative or absolute advantage through specialisation. However, such specialisation may result in excess production capacity for certain goods and services, but also opportunity cost for not producing enough of other goods and services.

In summary, international trade exists for the following reasons:

1. There is an uneven distribution of natural resources in different countries. Therefore, international trade exists to bridge the gap across geographical boundaries.

2. All countries possess diverse strengths and weaknesses in terms of land, labour, capital and technology. By focusing on industries with comparative advantage, cost and operations efficiencies are reaped via specialisation.

3. It provides consumers the opportunity to be exposed to those goods and services that are not available in their own country.

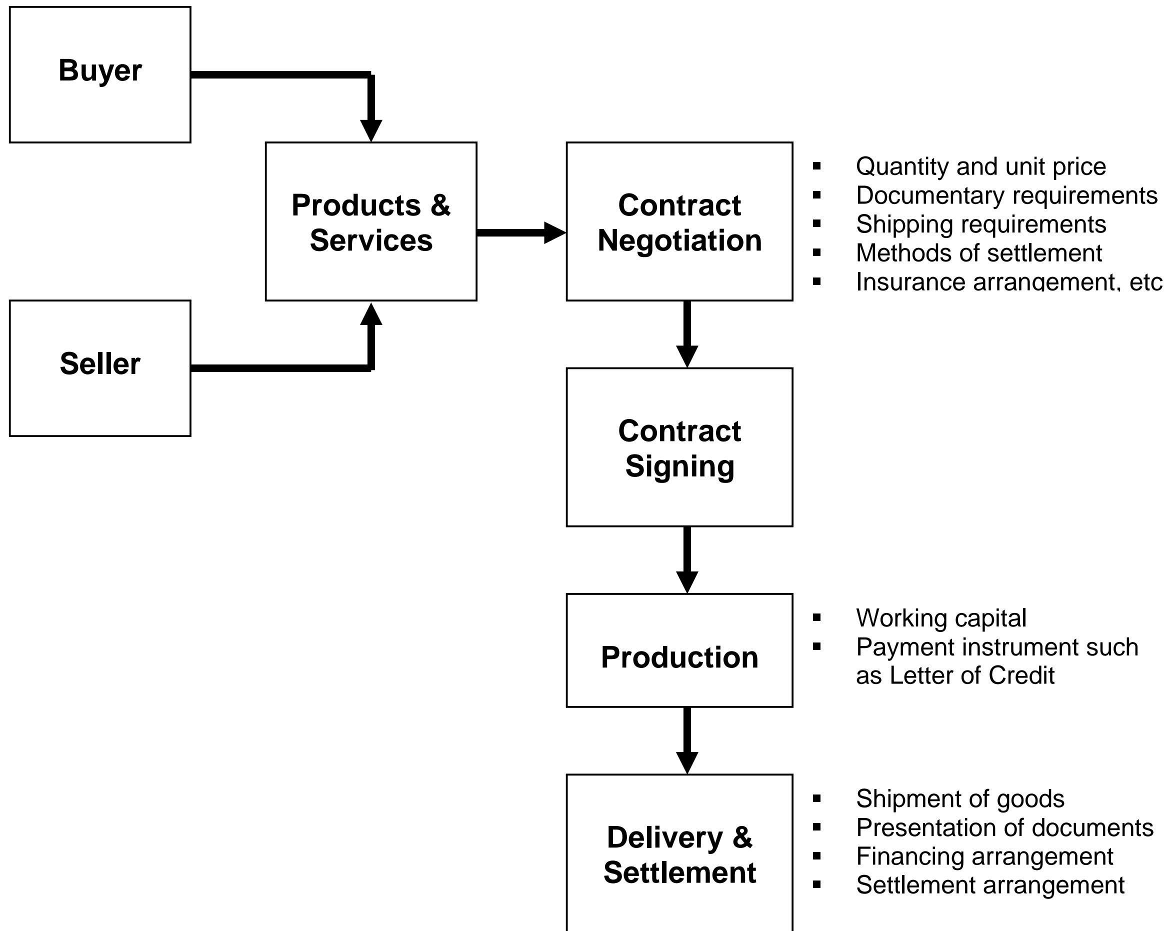
4. It reduces dependency on domestic market by expanding customers' demand in other countries.

5. It enhances economic growth and contribute significantly to the country's Gross Domestic Product.

This document is for information only and is designed to provide you with a general description of the trade products and services in Singapore. The information in this document relates to services offered to clients as of April 2010 and may be subject to change in the future; it is purely illustrative in nature and therefore does not contain or cannot result in any contractual or non-contractual obligation or liability of United Overseas Bank Limited and/or any of its affiliates.

United Overseas Bank Limited Co. Reg No. 193500026 Z

Key Steps in Concluding International Trade



This document is for information only and is designed to provide you with a general description of the trade products and services in Singapore. The information in this document relates to services offered to clients as of April 2010 and may be subject to change in the future; it is purely illustrative in nature and therefore does not contain or cannot result in any contractual or non-contractual obligation or liability of United Overseas Bank Limited and/or any of its affiliates.

United Overseas Bank Limited Co. Reg No. 193500026 Z

UOB 大華銀行

Methods of Payment in International Trade

There are four common methods of payment in international trade:

- Open Account
- Advance Payment
- Documentary Credit (Letter of Credit)
- Documentary Collection

Open Account

Definition

An arrangement between the buyer and seller whereby the goods are manufactured and delivered before payment is made. This is the most advantageous to the buyer in cash flow and cost terms, but it posts the highest risk for the seller.

Advantages to the Buyer

- The buyer pays for the goods or services only when they are received and/or inspected.
- Unlike advance payment, the buyer's working capital is not tied up.
- Payment is subject to political, legal or economic situations in the buyer's country.

Advantages to the Seller

- It enhances the seller's competitiveness in the global market.
- It helps to establish and maintain long-term trade relationship with the buyer.

Key Considerations

- It is recommended to use to secure trading relationships in competitive markets.
- Seller must be confident that the buyer will accept shipment and pay on the agreed time.
- Seller need to assess the political, legal or economic conditions in the buyer's country to avoid delay in payment.
- Seller may mitigate risk of non-payment by using various trade financing options such as accounts receivable financing, export credit insurance, factoring and forfaiting.

This document is for information only and is designed to provide you with a general description of the trade products and services in Singapore. The information in this document relates to services offered to clients as of April 2010 and may be subject to change in the future; it is purely illustrative in nature and therefore does not contain or cannot result in any contractual or non-contractual obligation or liability of United Overseas Bank Limited and/or any of its affiliates.

United Overseas Bank Limited Co. Reg No. 193500026 Z

UOB 大華銀行

Advance Payment

Definition

An Advance Payment is the whole or part of a contractually due sum that is paid by the buyer in advance prior to shipment of goods or provision of services.

Advance payment is expensive and contains certain degrees of performance risk to the buyer. However, it is not uncommon when the manufacturing process or services delivered are specialised or capital intensive. In such circumstances, the parties may agree to fund the deal by partial advance or progressive payments.

Advantages to the Buyer

- The buyer may be able to negotiate for a discount in prices in lieu of advance payment.

Advantages to the Seller

- The seller can have immediate use of funds.
- The risk of non-payment is eliminated.

Advance Payment is commonly used when:

- The buyer's creditworthiness is doubtful.
- There is unstable political or economic environment in the buyer's country.
- There is a potential delay in receiving funds from the buyer due to events beyond the buyer's control.

Documentary Credit (Letter of Credit)

Definition

Documentary Credit (or Letter of Credit) is an undertaking issued by a bank for the account of the buyer or for its own account, to pay the seller provided that all the terms and conditions of the credit are complied with.

Advantages to the Buyer

- The buyer's creditworthiness is enhanced with a bank willing to issue a documentary credit for his account.
- Payment is only made by the bank upon the seller's fulfilment of the terms and conditions of the credit.
- It helps to facilitate downstream import financing services.

Advantages to the Seller

- The Bank acts as a trusted third party to guarantee payment if the seller can fulfil the terms and conditions of the credit.
- Title of the goods is retained by the seller or bank until payment or acceptance of documents by the buyer.

This document is for information only and is designed to provide you with a general description of the trade products and services in Singapore. The information in this document relates to services offered to clients as of April 2010 and may be subject to change in the future; it is purely illustrative in nature and therefore does not contain or cannot result in any contractual or non-contractual obligation or liability of United Overseas Bank Limited and/or any of its affiliates.

United Overseas Bank Limited Co. Reg No. 193500026 Z

- Documentary credit operations are guided by recognised international rules and practices.
- It facilitates pre or post shipment financing related to the documentary credit.

Key Considerations

- When the seller is preparing quotations for prospective buyer, he has to be mindful that banks pay only the amount specified in the documentary credit, even if additional costs such as shipping or insurance charges are incurred and documented.
- Payment under a documentary credit is based on documents rather that the terms of sale or the physical conditions of the goods.
- When the seller receives a documentary credit in his favour, he should examine its terms and conditions against the pre-agreed contractual terms.
- Seller must be confident that he can fulfil the terms and conditions of the documentary credits in order to secure payment. If in doubt, the seller should approach the buyer to amend the terms and conditions in the documentary credit.
- The terms and conditions of a documentary credit must not be ambiguous so as to avoid future disputes.

Documentary Collection

Definition

An arrangement whereby goods are shipped and the relevant bill of exchange (draft) is drawn by the seller on the buyer, and/or documents are sent to the seller's bank with clear instructions for collection of payment through a bank located in the domicile of the buyer.

Under collection, title to the goods is not passed to the buyer (unless the buyer is the named consignee on the transport document) until the draft is paid or accepted by the buyer. Unlike documentary credit, the bank normally does not provide any undertaking to pay the seller.

Advantages to the Buyer

- Payment may be deferred until the arrival of goods or even later if delayed payment arrangements have been made between the buyer and seller.
- Documentary collection is relatively cheaper than documentary credit.
- The buyer may have the opportunity to inspect the documents prior to making payment.

Advantages to the Seller

- Documentary collection is generally uncomplicated and inexpensive compared to a documentary credit.
- The seller may arrange the title documents to be released to the buyer only upon his payment or acceptance of draft.
- In the event of non-payment or non-acceptance, the appointed Collecting Bank, if properly authorised, may arrange for releasing or warehousing of goods, insurance or even re-shipment to the seller.
- It facilitates pre or post shipment financing related to the documentary collection.

This document is for information only and is designed to provide you with a general description of the trade products and services in Singapore. The information in this document relates to services offered to clients as of April 2010 and may be subject to change in the future; it is purely illustrative in nature and therefore does not contain or cannot result in any contractual or non-contractual obligation or liability of United Overseas Bank Limited and/or any of its affiliates.

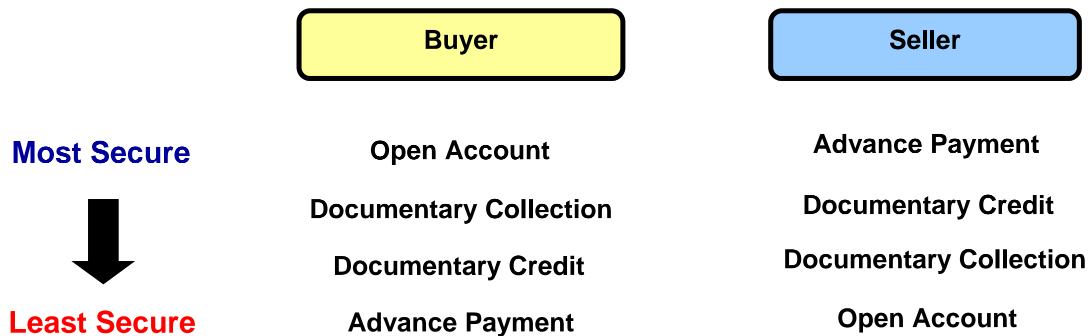
United Overseas Bank Limited Co. Reg No. 193500026 Z

UOB 大華銀行

Key Considerations

- Documentary collection is a good trade-off if the seller is not prepared to transact on open account basis and does not want to go through the hassle of settling a transaction using documentary credit.
- Unlike documentary credit, banks do not guarantee payment under a documentary collection.
- Documentary collection is suitable for the seller if:
  - the buyer's creditworthiness is not in doubt;
  - the political and economic situation in the buyer's country is stable; and
  - there is no foreign exchange control policy in the buyer's country.
- By releasing a copy of the original bill of lading to the buyer made out to or endorsed the latter's order, the seller will lose control over the titles of the goods.

Level of Security for Different Methods of Payment



This document is for information only and is designed to provide you with a general description of the trade products and services in Singapore. The information in this document relates to services offered to clients as of April 2010 and may be subject to change in the future; it is purely illustrative in nature and therefore does not contain or cannot result in any contractual or non-contractual obligation or liability of United Overseas Bank Limited and/or any of its affiliates.

United Overseas Bank Limited Co. Reg No. 193500026 Z