

Payment Methods in International

Introduction:

Today's lecture focuses on one of the most critical aspects of international trade: Payment Methods. When companies engage in international transactions, they face various risks, especially regarding payment. Therefore, understanding different payment methods is essential to minimize risk and ensure smooth transactions.

1. Importance of Payment Methods in International Trade

- International trade involves buyers and sellers from different countries.
- There is often a lack of trust, different legal systems, currency risks, and time differences.
- Selecting the right payment method protects both the exporter and the importer.
- Payment methods vary in terms of risk, cost, and speed.

2. Main Payment Methods in International Trade

Let's look at the four most common payment methods used in international trade, ranked from most secure for the exporter to least secure.


+ Advance Payment (Cash in Advance)


Definition: The importer pays the exporter before goods are shipped.

Advantage for Exporter: No risk of non-payment.

Disadvantage for Importer: High risk – they pay without receiving the goods.

Common When: Exporter has strong bargaining power or when dealing with new customers.

 **Example:** A Chinese electronics manufacturer may request full payment before producing and shipping goods to a new client in Africa.

 **B. Letter of Credit (L/C)**

Definition: A written guarantee from the importer's bank that payment will be made once conditions are met.

Advantages:

Exporter gets paid if all terms are fulfilled.

Importer is protected as payment is made only if conditions are satisfied.

Disadvantages:

Expensive due to bank fees.

Requires strict documentation.

Types:

Revocable and Irrevocable

Confirmed and Unconfirmed

✚ **Example:** A Tunisian textile exporter uses an irrevocable letter of credit to ensure they get paid by a French buyer after shipping the goods.

✚ C. Documentary Collection (Cash Against Documents - CAD)

Definition: Exporter ships goods and sends documents through banks. Importer pays to receive the documents.

Advantage: More secure than open account, less costly than L/C.

Disadvantage: No guarantee of payment.

Two Types:

Documents against Payment (D/P)

Documents against Acceptance (D/A)

✚ **Example:** A Moroccan exporter sends olive oil to Italy and instructs the bank to release the documents only after payment is made.

✚ D. Open Account

Definition: Goods are shipped and delivered before payment is due (usually 30, 60, or 90 days).

Advantage for Importer: Low risk and better cash flow.

Disadvantage for Exporter: High risk of non-payment.

Used When: Trust exists between the two parties.

- ❖ **Example:** A long-term relationship between a German machinery supplier and a Turkish importer allows transactions on open account terms.

3. Other Emerging Payment Methods

Online Payment Platforms: PayPal, Stripe, etc. – suitable for small transactions.

Blockchain and Cryptocurrency: Still in early stages, but promising for secure and transparent payments.

Supply Chain Financing: Banks pay exporters early while importers pay later.

4. Factors Influencing the Choice of Payment Method

Level of trust between parties

Political and economic stability

Banking infrastructure

Transaction value

Buyer and seller experience

Country regulations

5. Conclusion

Choosing the right payment method in international trade is crucial. Exporters want to avoid the risk of non-payment, while importers want to receive goods as promised. A balanced approach, often using letters of credit or documentary collection, provides security and flexibility.

Remember: In international trade, payment risk is real. Understanding payment methods helps protect your business and build lasting trade relationships.