



Documentary credit payment financing and guarantee technology for foreign trade (3332)

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Abstract

Intentionally business is associated with the trade particularly since many centuries. It is evident that business in the international market is highly competitive and tough ask for the entrepreneur to sustain their position. in the business LC (Letter of Credit) is the focus for the business and run their operations through it in the internationally while on the other hand; banks are highly harmonized to deal with it adequately. Financial inefficiency of the business directly impact upon banks and also the trade conditions as well. The LC is the official procedure that is being issued by the banks and other financial organizations in order to assume that seller will be receiving the money with the surety after handing over the papers to the bank. The banking term of trade finance is the combination of two words that are: Trade and Finance; Trade is the very old terms and known since the many centuries with the passage of time trade meaning has been changed considerably. In this paper researcher has presented the different players that exist in the market regarding providing the finance such as: financial institutions, commercial and corporate banks, business development banks, export creditors are operating to streamline the financial flows of the market and contribute adequately towards the international trade as well. The study focuses upon the induction of Letter of Credit in the trade in the international context and use as the tool to help the trade.

Keywords: Credit, banks, focuses, receiving

Introduction

Internationally trade is considered as the development of financial concern and brings the new arena for the entrepreneurs. It increases the performance of the economy through the logical and strengthening the hierarchy to increase the other sector of it. For the international trade; globalization is the highly effective feature for the world trade. Globalization is the means of increasing the thought process, develop individualisms, product development, managing and enhancing the capital for the business and social. As far as the financial combination is concern; globalization is the main feature for the international trade, trade finance opportunities, increasing capital portfolio, and develop balance between payment and receipts (Neelankavil *et al*, 2014) ^[14]. Globalization is associated with the international trade and it advantages is directly linked with the development of world economy. It is being heard internationally the there is the lack of ordinary financial operations or those nations that are rich do not have the actual monetary benefits that is contradicting the concept of First World War which has impact adversely upon the economic sector. Max Weber has raised some questions regarding the monetary which is associated but not implement. In the case of financial factor of intensity, distant trade is the indirect influence. The outside trade is the significant feature for the countries to increase the intensity which is required to be segregated from the main factors of finance and required to be associated to attract the economic features and increasing the possibility to manage the trade adequately. Development of capital and segregate of the economic factors into the sectors in order to boost economy and increases the national economy as well. The management of remote trade increases the national ability to produce goods and manage the cost to an extent. Trade

which is outside develops the political and acceptable securities between the different nations that increase the trade marking and provide indirect advantages. It increases the feasibility of the business and increases the favorability to grow in the market for the nation.

Foreign Trade

Foreign trade is the development of current financial operations. To deliver the high volume and variety of merchandise for the purpose of generating profit there is a need to strengthen the public sector based upon promoting foreign trade as the important feature. If there is no trade then there will be no profit generation and there will be no up gradation to the flow of financial activity. Trade on the single handed based upon profit generation that will not be possible without focusing upon the foreign trade which urges the investment to start up the new business. Foreign trade increases the wealth of the nation and empowers the economy as well. Fares are considered as the main stream for the development of profit that cannot be possible without the foreign trade and increases the financial assistance. Tarshis conducted the research and suggested that national salary should be highly equivalent to international standards to increase the nation powers (Wasow and Bernard, 1978) ^[20]. The important impact is that to supply the products or services to the nation which increases the foreign trade and increases the military force of the country. It is suggested as the supply impact of foreign trade. The other impact of the foreign trade from the perspective of power is to instantly spread the power. It is considered as the tool of getting an offer in the absence of the other nation; can impact upon the war of foreign trade that develops the political and financial security between the nations that further illustrates trade making and gaining benefits from it. It does not increases

the ability of the business holder to get upper hand and increases the equal opportunities to the other nations as well

Financing of International Trade

International trade is the main source of producing development and progress for the nation. Support to the trade through financial possibilities requires special arrangement to manage their finances. Managing international trade from the perspective of supporting through financial means require a comprehensive financial model. Banking role is very important in the international trade and these banks are relying upon their customer's investment and credit (Bishop and Eric, 2004) ^[4]. Studies suggested that financial development will only be possible if the export of produced goods increases (Beck, 2002) therefore; organizations are not having high probability to become exporters (Muuls, 2008). Banking industry is not highly competitive because there is different perspective; because every bank is the sub set of central bank in lending and borrowing the money in the different sectors. Banks that are required to support the lending the risk of failure is associated that can be from the part of the customer or the suppliers as well (Antras *et al*, 2015 ; Mostafa & Eneizan, 2018) ^[2, 12]. In the international trade exporters are the industrialist country and the other country is on the receiving end of these exports. The international trade is between the two countries that exchange the finance in terms of their trade. However; this international trade activity is between few countries and economies that enjoy the benefits of it. As the imports are high the income will be raised due to the stock market. It is evident that international trade has enabled the country economy and financing activities adequately. Quality products can be purchased with the scope of international trade. The support of the banks in terms of financing the international trade has increases incredibly.

Foreign Trade Payment

Back in 1990s, the initiation of liberalism and globalization has been emerged in the international arena that has brought change in the international market and internal sectors of the countries as well. It is evident that focused was being given on the foreign trade to make it progressive (Terpstra and Vem, 1970) ^[18]. Globalization is not bound with the country or the nation it is considered as the boundary less. It is having high probability for the businesses to get growth and get the desired economies of scale to increase their global presence and get the best customers around the world. Globalization has made the market highly productive as well as the best producers (Wright and Richard, 1970) ^[23]. In the case of financial factors of powers; it is evident that foreign trade has become the important part of it. Foreign trade promotes the capital management and encourages the internal and external economies of the country. The management of foreign trade emphasize to produce quality products that are effective and in the reach of the consumers. Foreign trade promotes the political and financial security of the country that provides adequate benefits to them. Foreign trade promotes the financial activity and it is considered an important element for the country. There is two way influence of the foreign trade on the power position on a country; the basic impact is to provide various products that are being provided by the suppliers according to the need purchaser. The second

impact is the distribution of the powers effectively. The influence of the foreign trade affects the trade between the country A and other nations such as B, C, D and others; similarly B, C, D, are having other products (Hirschman and Alberto, 1980) ^[8]. Foreign trade is supported by the state because there are many organizations that are called as the FTOs that come under the Ministry of Foreign Trade (MFT). The Ministry of Foreign Trade is the under the Government Council of Ministers. Foreign trade organizations are required to involve in the foreign trade activities adequately (Wolf and Thomas, 2013) ^[22]. In order to empower the investment creating the government has involved in the foreign trade activities in the mid of 50s. Srinivasan suggested that the Established developed economy from the state works according to the foreign trade associations, having powers to handle the foreign trade operations (Bhagwati *et al*, 1979) ^[3]. According to the Herberler, foreign trade provide support to the financial progress through achieving the capital from the international investment, development from the perspective of raw material, products and tools, along with the technical support. Foreign trade brings the change in the fair market, aggression by decreasing imports and increasing the exports adequately. The innovation is the main feature which promotes trade activities and generates profitability (Medhora *et al*, 2014) ^[11]. It is required to free trade zone and warehousing zones in order to motivate the potential importers and exporters to have the case free transactions adequately. it is required to settle the foreign trade and there should be having the fair conviction that these kind of zones should be having the common currency or cash equivalent. There is no development of rupee in the international market but the CIF should be approving the transaction and providing the converted money on the transactions. The transactions should be in the standardized currency such as the dollar in the ACU nations. Providing support to the financial activities of the foreign trade is the important feature for the financial model of the economy. There are three types of making payment techniques used in the foreign trade that are: advance payment in cash, using letter of credit and sale on account and export credit institutions (Mustafa, 2010) ^[13].

Documentary Credit Payment

In the international trade the use of letter of credit is very usual way of payment which is being backed by the bank guarantee, payment in advance through cash or open account. There are some other tools for the payment that are; forward exchange contracts, standing letter of credit, loan in foreign currency, import or export letter of credit that can be used by the importer or exporter (Nwogugu and Edwin, 1965) ^[16]. Documentary letter of credit is called the letter of credit which is being used by the banks against the material or goods. International chamber of commerce has defined the standardized rule about the use of letter of credit (Nolan *et al*, 1996) ^[15]. Uncelebrated Giants are the World exports credit agencies (ECA). ECA is more superior bank than the other renowned banks such as; World Bank, Asian Development banks and others. World's credit agencies are controlling the business administration globally and having cooperation of about forty nations that are dealing in the exchange. They provide less understanding about the management of these agencies action and access of the data on the required action (Delphos and Williams, 2004) ^[5].

ECA accreditation, association and protection is having more worth than the other international agencies such as the US Agency for international development (Gianturco and Delio, 2001) [6]. Despite of this there are only few entrepreneurs that focus upon the ECA. In the case of having international transaction ECA has the edge over other agencies for the exporters or importers (Gianturco and Delio, 2001) [6]. ECA credit facility is more than 30 days and less than five years loan on the prescribed rate of their national loan rates. ECA provides loan, secure for long and short period of time, these actions are being taken in order to promote the credit growth to the minority countries (Kirpalani and Vishnu, 2013) [9].

Letter of credit is the tool of exchanging cash and work between the bank and the customer. For the sake of safeguarding the payment customer is required to provide a authentic and competent letter of credit (Ward and Thomas, 2009) [19]. That bank that has issued the letter of credit will not allow the payment until the recipient should not provided adequate documents according to the terms and conditions of the letter of credit. Inefficiency in meeting the compliance according to the conditions it will reject the letter of credit. The contract is between the seller and purchaser and it is noted that seller is the beneficiary. The contract that is associated with the business include the unlimited payments and includes the different phases of actions that includes; illustration of letter of credit, amount, quality, volume, nature of stock and shipping date. The other contract is being done with the bank and the purchaser that issued the letter of credit (Duff *et al*, 2009). It is mandatory that the supplier should provide the required documents that are prescribed in the letter of credit then the payment will be made against it. The third contract is between the bank and the recipient after issuing the letter of credit. Bank always negotiates regarding the documentations rather than about the goods because the terms of letter of credit are being agreed by the seller and purchaser as well. The bank is responsible to provide the terms and conditions prior to the issuance of letter of credit to the recipient and for the purpose assessing the documents as per the rules and regulations of the state the formal letter is being generated (Ahn and Jae, 2011) [1].

Strategies of bank in international trade

International trade exists with the business for a longer period of time. It has developed in making history where countries are attempting to manage their trade with the immigrants of their country (Neelankavil *et al*, 2014) [14]. During the period of 2000 to 2006 the international trade growth rate was 13% per annum and the overall growth rate was 87% during the period of six years. Management of international business is complicated job because it includes different features and sectors as well. Banking operations are based upon borrowing and lending of money. Bank acquires money from the customer and they lend to the entrepreneurs. The operations of banks produce the credit facility (Kumar and Rajesh, 2014) [10]. This feature of bank highly contributes towards the development of economy. Producing credit is the variety in its nature. In the perspective of banking operations the single banks generate credit from the principal money that is being borrowed by the customers (Hajela, 2009) [7]. Hartley Withers consider that banks have the ability to generate credit with the minimum of resources (Wither and Harley, 1926) [21]. It is

also suggested that banks are not the suppliers of money but they are effective in producing the money (Sayers and Richards, 1936). In view of the economist; the generation of credit is not associated with the banks but they are source of acquiring the loan from the investors. Under the Basel accord; banks are required to undertake the capital prior of issuing the letter of credit. Trade finance is the bank most used products and they are highly focused upon it in the supply of letter of credit the term and condition do not allow the banks to generate adequate profitability which they are generating through the trade financing. Private Banks and central banks are play the role of central clearing house for the saving banks that provide short and long run loans to the small organizations. Banks are issuing the guarantees whether they are short or long based upon the customer requirement. The customer raises the request for the issuance of guarantee and makes the contract with the bank. The agreement should be clear between the bank and the customer in order to have the clean and transparent agreement to have the adequate transactions. Banks issue the guarantee and ask the customer to sign it duel to ensure the terms and conditions are completely undertaken.

Table 1

<i>Parties to a guarantee</i>	<i>Contractual relationship</i>
Principal (debtor)	Principal – beneficiary
Guarantor bank	Principal – guarantor bank
Correspondent bank	Guarantor bank – correspondent bank
Beneficiary	Guarantor bank – beneficiary

Once the guarantee is being generated then it includes various contracts between the bank and the parties that is being shown in the table as mentioned above. It is a commercial agreement but do not disclose the terms and conditions only the parties identification is being mentioned adequately (Bishiop and Eric, 2004).

Trade finance is the major impact upon the great trade collapse, there is an opposite impact upon the global financial crisis which is based upon the supply and cost of the trade finance is having inadequate balance for the international trade having disadvantage based upon the information. As the use of letter of credit has increased in the international trade; this impact badly.

Financing and guarantee technology

Banks guarantee has the two kinds such as: guarantee for the increase in the credit and guarantee for contingent contracts. In the case of guarantee for the increase in the credit covered the associated risk in the name of the beneficiary that may be for the creditors, investors or exporters adequately. Commercial and standing letter of credit is falling into the category of first place. Contingent contract guarantee is protecting the risk of the beneficiary. The guarantee is valid in some conditions such as: accidents, fail to respond the particular contract, which will trigger the contingent contract guarantee. Bank guarantee is also being divided into different categories such as: full, partial, risk associated or pro rata basis. As far as the full bank guarantee is concern the bank own the liability of payment whether the customer is failed to fulfill any contract or not able to pay as per agreement. That suggest bank is fully responsible of payment whether the customer

is meeting the client requirement or not. The full bank guarantee shifts the risk from the customer and from the beneficiary to the bank solely (Gianturco and Delio, 2001) [6].

Conclusion

The trade operations are associated with the developments that are based upon the world wide business. The issue regarding the trade has not been finalized or sorted out adequately floods are associated with those countries that are not having expanded industrialized operations. Letter of credit is being used to ensure the other party regarding the payment that bank is responsible of making payment if the client is failed to respond or not performed as per agreement. The improvement from the historical cost to effective accounting standard that is having high cost which is required for the letter of credit which will influence its clarity. It varies case to case but letter of credit is having the high trend and effectiveness in the international trade. There are two most important issues included in order to maintain the consistency that suggest to which extent the archives should be presented under the terms and conditions of letter of credit that can be modified according to the rules and regulation of the letter of credit and the exclusion of blackmail transaction that suggest when the payment should be made on the request of the blackmail to access under the letter of credit. It is required from the courts to give the verdict upon it and illustrate under the Uniform Commercial code which is highly important in this regard. The illustration is highly essential and necessary as it is basic for the transparent transactions. The wrong time and decision will increase the risk that is increasing to secure the payment through the letter of credit in the international trade. Internationally economy is in the process of developing cooperation with the trade in the international scenario so it is required that an efficient, adequate and legitimate system of payment should be used to secure it.

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