COMPREHENSIVE STUDY ON MYTHS OF PAYMENTS IN INTERNATIONAL TRADE

AUTHORS: MR. HIMANSHU PATIDAR AND MS. NEHA PUTHRAN
GUIDE: PROF. DR. M. SUMETHA
AFFILIATION: FMS, PARUL UNIVERSITY

Abstract: So there are many risk involves but the research is based on payment risk and how we can avoid the risk in international trade. The goal of this research is to access the risk involved in payment in international trade and what are the different modes of payment are available in international trade. International trade expose exporters and importers to substantial risk especially when the trading partner is far away or in a country where contract are hard to enforce (Friederike Niepmann 2013).

Keywords: International Trade, risk research, payment risk

I. INTRODUCTION

This paper has attempted to study the Myths of payment risk in International Trade.

A common myth is that risk is an undesirable element of international trade that must be eliminated. In fact, risk is an inescapable reality of international business, and risk elimination is often impractical, extremely expensive and usually undesirable. Risk is an excellent and closely correlated indicator of probable returns.

In international trade, it is easier to avoid problems involving bad debts than to rectify them after they have occurred. Normal business prudence is crucial to the exporter in limiting risks. Credit checks and services such as the U.S. Commercial Service’s International Company Profile, which conducts background checks on potential foreign partners, can be of great help in mitigating any risks in advance.

Just as in a company’s domestic business, exporters occasionally encounter problems with buyers who default on their payment. When these problems occur in international trade, obtaining payment can be both difficult and expensive. Even when the exporter has insurance to cover commercial credit risks, a default by a buyer still requires the expenditure of both time and money to collect payment. This is because the exporter must exhaust all reasonable means of obtaining payment before an insurance claim will be honored. Even after all the insurer’s requirements have been met, there is often a significant delay before the exporter receives reimbursement.

With the increase in globalization, international trade companies have found it easier to expand into new markets. Innovations in communication and transportation have paved the way for globalization, yet many companies struggle with a fundamental aspect of business: the exchange of money for goods and services. Below are six issues we commonly see importers and exporters face when dealing with international payments.

Hidden Fees
Trade companies are paying far more than they should to receive their own payments. Businesses can incur flat fees on incoming wire transfers, which can be a $20–50 fee assessed on receiving the wire. Moreover, intermediary banks are sometimes in the middle of a transaction and charge their own additional wiring fee.

Exchange Rates
Exchange rates affect both the importer trying to pay for goods, and the exporter trying to collect on the goods. Banks charge a premium on foreign exchange, which is often a large margin above the mid-market exchange rate.

Payment Tracking
International payments unfortunately don’t have the tracking abilities of carrier services. Importers have no insight into if or when their payments have been delivered into the exporter’s bank account, and the exporter has no view into the status of the payments.

Payment Identification
Exporters’ Accounts Receivable departments spend time and resources identifying and reconciling wire transfers, as it is often difficult to identify any payer information on a deposit.

Importers Can’t Easily Pay
Importers are often constrained to making payments via wire transfer, and are unable to utilize more modern payment methods, such as credit/debit card, or e-wallet methods.
Fraud
The more a business expands internationally, the more compliance and antimony-laundering considerations there are that need to be addressed. International payment processors provide solutions to these issues by streamlining the process. They bring transparency and speed to transactions between importers and exporters, thus solving important cash flow issues. Payment processors also take away all the headaches that come with regionspecific challenges in markets where businesses don’t have banking relationships or infrastructure

2. LITERATURE REVIEWS

(Anna – gael vaubourg 2016)
The aim of this paper is to review the literature on the links between finance and international trade. In this review paper different sectors of international trading is been defined. its says that Insufficient development and finance crisis hazard export when the companies rely on external finance or payment options.

(Yılmaz Akyüz 2015)
This review paper is signaling more on FDI. FDI is considered a one of the long term cross bordered flow of capital that adds to productivity.FDI helps to meet balance of payments and management skills
It is more about transfer and exercise of control than movement of capital. (Oxford university press 2018)
This review paper signifies understanding the impact of general exceptions on the interpretations of existing investment obligations on international law. Investment laws have already been evolved to encompass policy space

Payment choice in international trade 2016
This paper provides evidence for this hypothesis employing firm-level data from a large number of developing countries. As predicted, international transactions are more likely paid after delivery when financing costs in the source country are high and when contract enforcement is low. Empirical study on determinants of payment in international trade 2019
According to empirical findings, trading experience, transaction duration, and contract contents can be important determinants in terms of payment delays. Industry uniqueness and market uncertainty were found to be in opposition to the hypothesized relationships. The results of this study will be useful for trading companies to reduce their payment risk.

The Link Between Incoterms 2000 and Letter of Credit Documentation Requirement and Payment Risk 2006
This paper explores the link between international delivery terms and documentary requirements of the letter of credit. Preliminary data from an industry survey suggests that exporters are contracting on international delivery terms that may leave them unnecessarily exposed to non-payment risks.

Bank play a crucial role in international trade because bank work as a middle man between the two partner of different country. Bank reduce the payment risk associated international trade. There are different method available which money can be transfer securely through bank. So in international trade which good are move from one country to another so the first risk comes into mind is payment risk. As we see that the role of bank in international trade has reduce the payment risk.

Friederike Niepmann Tim Schmidt

The purpose of the study is to understand the payment risk in the international trade and what are secure payment method .AS finding suggest that the payment risk management in international trade is critical due to cross-country trade. To understand more about the payment risk it is very important to understand the insight to banking and financial industry. Banking sector and financial industry play a crucial role in the risk management in international trade. The fact that banking and financial institution are work as a middle man to handle the international transaction of people. But still there is risk in this sector due to changing technology and when its come to new era it is more complicated for the banking and financial institute to manage the international payment risk. Due to the increase in international trade every businessman expectation is their should be minimum payment risk. So fulfill the expectation the banking and financial institute need to simplify the trade financial process.

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SafezaMohd Sapian1*, Norhazlina Ibrahim2, SyahidawatiHj. Shahwan3

After the liberalization and globalization the international trade are increase rapidly and International trade provide opportunity to every country and help in enhancing their economic growth and also reduce the unemployment level and enhance living standard. In international trade one of the problem is the payment risk. Most of the people are not expanding their business internationally due to the payment risk but the risk is disappear due to the involvement of banking system and financial institute. Due to the increase of technology expansion there are different methods are available that every country use to reduce the payment risk in international trade. One of the method is BPO that is bank payment obligation. It reduce the payment risk in international trade. In this irrevocable undertaking given by cre bank to another that payment will be made on specific time period.

Dr. Lecturer Alper YILMAZ
Adnan Menderes University Soke Faculty of Business, 02565111423
International trade is an important term for economic growth for each country. It helps the country to presence in the international market, but different types of risk occur in international trade. In international trade both the parties are located in different countries and do not know each other; it is very difficult to take a risk mostly the payment risk. A major risk in international trade is inability to receive payment. So the risk in international trade is on different dimensions in comparison to domestic risk. The concept of risk in international trade has following possibilities threat of loss or harm to asset.

Metehan Ortakarpuz PhD. Assistant Professor, Selcuk University, Beysehir Ali Akkanat Business Faculty, Turkey

3. STATEMENT OF PROBLEM

This study firstly conceptualizes the concept of risk management and then the possible risks in international trade, and then examine the collection risk in the context of payment methods. In the last part of the study, various methods for managing the collection risk in export are explained and recommendations are given. The study is expected to provide a new perspective to the literature with the guidance of exporters, the concepts and in-depth investigation.

4. OBJECTIVES

- To study about the types of payment methods in International Trade
- To articulate all the risk factors of the international trade transactions
- To differentiate between the myths and reality of International trading
- To know about the real and valid transaction system of International trading

5.1 RESEARCH METHODOLOGY

Types of Research

Descriptive Research
Descriptive research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way. Many scientific disciplines, especially social science and psychology, use this method to obtain a general overview of the subject. Description of all the data articulated is summarized along with intervals of review research.

Exploratory Research
Exploratory research design is chosen to gain background information and to define the terms of the research problem. This is used to clarify research problems and hypotheses and to establish research priorities. A hypothesis is a statement based on limited evidence which can be proved or disproved and leads to further investigation.

Here we try to prove that some myths about payment risk can be proved vain and showcase the reality of actually how it functions.

DATA COLLECTION METHOD

Data was collected by using main two methods primary data and secondary data.

SECONDARY DATA

Secondary data is the data which is available in readymade form and which is already used by people for some purposes. There may be various sources of secondary data such as newspapers, magazines, journals, books, reports, documents and other published information. Secondary data is used for the study. Published financial statements are used for analysis. The company information will be collected from their official website and NSE.

ANALYSIS OF STUDY

The goal of this research is to access the risk involved in payment in international trade and what are the different mode of payment are available in international trade. Since international trade is a trading activity that takes place between exporting and importing countries with a long distance between them, which are bound by different culture, languages, legal system and regulation outside the border of the country, this difference may lead to greater risk diversity in international trade than in domestic trade. (Metehan Ortakarpuz) PhD. Assistant professor, Selcuk university.

International trade expose exporters and importers to substantial risk especially when the trading partner is far away or in a country where contract are hard to enforce (Friederike Niepmann 2013). So there are many risk involves but the research is based on payment risk and how we can avoid the risk in international trade.
OUTCOME OF THE STUDY

As we seen that in international trade. The exporter and importer are far away. The outcome of the study is to understand the payment risk involved in international trade. The study helps in accessing the different modes of payment can be used in international trade which makes the payment transfer easy and secure.

CONCLUSION

The goal of this research is to assess the risk involved in payment in international trade and what are the different modes of payment that are available in international trade. Since international trade is a trading activity that takes place between exporting and importing countries with a long distance between them, which are bound by different cultures, languages, legal systems, and regulations outside the borders of the country, these differences may lead to greater diversity in international trade than in domestic trade. So there are many risks involved, but the research is based on payment risk and how we can avoid the risk in international trade.

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