

Contents

	PAGE
◆ <i>Foreword</i>	<i>I-5</i>
◆ <i>Certificate in Trade Finance</i>	<i>I-7</i>
◆ <i>Syllabus</i>	<i>I-9</i>
◆ <i>Chapter-heads</i>	<i>I-11</i>

SECTION 1

MACRO PERSPECTIVE

CHAPTER 1.1

THEORIES OF INTERNATIONAL TRADE

International Trade

◆ The Theory of Absolute Advantage	3
◆ The Theory of Comparative Advantage	4
◆ The Heckscher-Ohlin Theory	5
◆ The Factor-price Equalization Theory	5

CHAPTER 1.2

INTERNATIONAL TRADE POLICY FRAMEWORK

◆ World Trade Organization	7
◆ Regional Trade Blocks	8
◆ Potential Negative Effects of Regional Trade Agreements	9
◆ Major Regional Trading Blocks	9

CHAPTER 1.3

INTERNATIONAL CHAMBER OF COMMERCE

◆ The ICC's Origins	14
◆ Practical Services to Business	14
◆ Section 1 - Self-Review	15

SECTION 2**TRADE TRANSACTIONS**CHAPTER 2.1**COMPONENTS OF TRADE**

◆ Key Factors in Trade	19
◆ Risks in International Transactions	20
◆ Incoterms	21
◆ Invisible Trade Transactions	26

CHAPTER 2.2**MODES OF INTERNATIONAL TRADE**

◆ Clean Payments	28
◆ Bills for Collection	29
◆ Documentary Credit	29

CHAPTER 2.3**CLEAN PAYMENT TRANSACTIONS**

◆ Introduction	30
◆ Payment in Advance	30
◆ Open Account	31

CHAPTER 2.4**DOCUMENTARY COLLECTIONS**

◆ Introduction	33
◆ Exporter	34
◆ Exporter's Bank	34
◆ Buyer/Importer	34
◆ Importer's Bank	34
◆ Dishonor	35
◆ Protest Bills	35
◆ Settlement of Bills	36
◆ Risks	38
◆ Usance D/P Bills	38

CHAPTER 2.5**DOCUMENTARY CREDIT**

◆ Introduction	41
----------------	----

CONTENTS

I-15

	PAGE
◆ Parties to Letters of Credit	42
◆ Inter-bank Communication	43
◆ Process Details	45
◆ Revocable Letter of Credit	48
◆ Irrevocable Letter of Credit	49
◆ Confirmed Letter of Credit	49
◆ Sight Credit and Usance Credit	49
◆ Back-to-Back Letter of Credit	50
◆ Transferable Letter of Credit	51
◆ Standby Letter of Credit	51
◆ Fees and Reimbursements	52
◆ Risks Associated with Opening Import LCs	52
◆ Regulatory Requirements	56
◆ Trade Control Requirements	56
◆ Exchange Control Requirements	56
◆ UCPDC Guidelines	56
◆ ISBP 681	56
◆ FEDAI Guidelines	57
◆ Bank's Internal Procedures	57

CHAPTER 2.6

IMPORTANT TRADE DOCUMENTS

◆ Documents	59
◆ Air Waybill	60
◆ Bill of Lading (B/L)	60
◆ Certificate of Origin	62
◆ Combined Transport Document	62
◆ Commercial Invoice	63
◆ Draft (or Bill of Exchange)	63
◆ Insurance Policy/Certificate	64
◆ Insurance Policy	64
◆ Insurance Certificate	64
◆ Packing List/Specification	65
◆ Inspection Certificate	65
Section 2 - Self-Review	66

SECTION 3**TRADE FINANCE**CHAPTER 3.1**IMPORTANCE OF TRADE FINANCE**

◆ Financing can make the sale	70
◆ Financing Costs	70
◆ Financing Terms	70
◆ Risk Management	70
◆ Working Capital Loans	71
◆ Term Financing for Foreign Buyers	71
◆ Export Trade Finance	72
◆ Import Trade Finance	72

CHAPTER 3.2**PRE-SHIPMENT TRADE FINANCE**

◆ Types of Pre-shipment Finance	74
◆ Requirements for Getting Packing Credit	74
◆ Different Stages of Pre-Shipment Finance	75
◆ Special Cases	77

CHAPTER 3.3**POST-SHIPMENT TRADE FINANCE**

◆ Features	81
◆ Financing for Various Types of Exports	82
◆ Buyer's Credit	83
◆ Supplier's Credit	83
◆ Types of Post-Shipment Finance	83
◆ Options for the Exporter	86

CHAPTER 3.4**FORFAITING AND FACTORING**

◆ Brief History	88
◆ Forfaiting	89
◆ Documentary Requirement	91
◆ Fee Type Description	91
◆ Factoring	92
◆ Different Models of Factoring	92

CONTENTS

I-17

PAGE

◆ Benefits of Factoring	94
◆ Factoring: Operating Procedure	95
◆ Bill Discounting Vs. Factoring	96

CHAPTER 3.5

BANK GUARANTEES

◆ Types of Bank Guarantees	97
◆ General Guidelines	99
◆ Standby Letter of Credit	101
◆ Co-Acceptance of Bills	102

CHAPTER 3.6

DOMESTIC TRADE FINANCE

◆ Channel Financing	105
◆ Vendor Financing	106
◆ Section 3 - Self-Review	107

SECTION 4

RISK MANAGEMENT

CHAPTER 4.1

RISK ELEMENTS

◆ Risk elements	111
-----------------	-----

CHAPTER 4.2

TRANSPORT RISK

◆ Scope of coverage	114
◆ Specialist covers	114
◆ Seller's/buyer's contingent interest insurance	115
◆ Loss of profits/consequential loss insurance	115
◆ Charterer's liability insurance	115

CHAPTER 4.3

CONTRACT AND CREDIT RISK

◆ Credit Risk Management	116
◆ Type of Contract	117
◆ Credit Insurance	118
◆ Payment risk	118

	PAGE
◆ Bad debt protection	119
◆ Benefits of credit cover	120

CHAPTER 4.4

COUNTRY AND POLITICAL RISK

◆ Pre-delivery cover	122
----------------------	-----

CHAPTER 4.5

CURRENCY RISK

◆ Currency hedging	124
◆ Tender to contract risks	125
◆ Forex Market	125
◆ Spot rate	125
◆ Forward price	126
◆ Forward price vs. Spot price	126
◆ RBI reference rate	126
◆ Inter-bank rate	126
◆ T.T. Rate	126
◆ TC rates	127
◆ Currency rate	127
◆ Cross rate	127
◆ Long and short	127
◆ Bid and ask	127
◆ Buying and selling	128
◆ Forex rates vs. Interest rates	128
◆ Hedging	128
◆ Speculation	130
◆ Calculating the forward rate	130
◆ Inter-play between trade, forex rates and interest rates	131

CHAPTER 4.6

WHEN THINGS GO WRONG

◆ Watch out list	133
◆ Late payment	133
◆ Rescheduling	134
◆ Loss	134
◆ Non-honoring	135
◆ Political contract frustration	135
◆ Section 4 - Self-Review	136

SECTION 5**REGULATORY FRAMEWORK**CHAPTER 5.1**REGULATORY FRAMEWORK**

◆ Director General of Foreign Trade (DGFT)	140
◆ Reserve Bank of India (RBI)	140
◆ International Chambers of Commerce (ICC)	140
◆ Foreign Exchange Dealers' Association of India (FEDAI)	141

CHAPTER 5.2**DGFT REGULATIONS**

◆ General provisions regarding Imports and Exports	142
◆ Incentives to exporters	148

CHAPTER 5.3**EXIM POLICY**

◆ Highlights of Exim Policy 2009-2014	150
◆ Miscellaneous	152

CHAPTER 5.4**FOREIGN EXCHANGE MANAGEMENT ACT**

◆ Some highlights of FEMA	154
◆ Buyer's/supplier's credit	155

CHAPTER 5.5**ICC - UCPDC GUIDELINES**

◆ ICC - UCPDC Guidelines	158
--------------------------	-----

CHAPTER 5.6**FEDAI GUIDELINES**

◆ Export Transactions	161
◆ Import Transactions	162
◆ Section 5 - Self-Review	163

SECTION 6**FACILITATION BODIES**CHAPTER 6.1**EXPORT-IMPORT BANK OF INDIA**

◆ The Institution	167
◆ Export credits	169
◆ Finance for Export-Oriented Units	169
◆ Overseas Investment Finance	171
◆ Confirmation of Letters of Credit (L/C) by Exim Bank under the Global Trade Finance Program (GTFP) of the International Finance Corporation (IFC), Washington DC	171
◆ Export Services	172
◆ Lines of credit	172

CHAPTER 6.2**EXPORT CREDIT GUARANTEE CORPORATION OF INDIA**

◆ What is ECGC?	175
◆ Credit Insurance Policies offered to Exporters	176
◆ Corporate agency arrangement with Commercial Banks	177

EPILOGUE**THE THIRD WAVE**

◆ Wave Theory	181
◆ Business of old and new	181
◆ Challenges before Trade Finance Service Providers	182
◆ The Way Ahead	183
Appendix 1 : <i>Important Trade Terms</i>	185
Appendix 2 : <i>List of Canalized Items</i>	190
Appendix 3 : <i>Deemed Exports</i>	192
Appendix 4 : <i>Important Regulatory/Other Forms</i>	194
Appendix 5 : <i>Exim Bank's Operative Lines of Credit</i>	216
Appendix 6 : <i>Case Studies</i>	247
◆ TRADE FINANCE TEST	253