



International

Trade Finance

A Pragmatic Approach

Second Edition

Tarsem Bhogal - Arun Trivedi



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Preface

The global trading system is undergoing a period of transition. Shifting economic circumstances, major advances in technology and the emergence of new players on the global scene all underscore that we are on the cusp of big changes. Persistent imbalances, driven largely by macro-economic factors, continue to be a cause of concern in some major economies. Even in such a climate of uncertainty, one thing is certain: that there is a great need to strengthen the global trading system by making it more equitable and relevant for those who trade in the twenty-first century with Uniform Customs and Practice.

In retrospect we find that in 2005, the value of world merchandise exports rose by 13% to \$10.1 trillion and the value of world commercial services export by 11% to \$2.4 trillion. The volume and value of international trade is a testimony to make us believe that the world order has changed quite swiftly over the past ten years at a much faster pace than that of the previous 20 years. It is difficult to contemplate what the world trade/economies will look like in 2010. One thing is certain, however: Change is inevitable. Bankers and trading communities operating in such a climate will have to face challenges that are immense.

Technology has indeed opened up new markets, with geographic boundaries becoming non-existent to the web-enabled community. What we see today is the beginning of the reaction to this expansion as an outcome of globalisation and internationalisation, adding multi-complexities to the players in the international trade.

In this spectrum, industry practitioners will solicit solace by resorting to basics and learning the lesson of the laser. How to understand rather than find a solution from the ponderance? So we did, encouraged by these international interactive developments.

Based on our learning experience and working as practitioners facilitating international trade, in our capacity as bankers, we have worked on the treatise in your hands: *International Trade Finance: A Pragmatic Approach* (2007). In fact, we have been motivated to write this book in view of the urge from the beginners as well as industry practitioners to understand and grasp the type and nature of various documents in use in international trade and mechanisms of settlement of payments thereof.

The book is organised into 25 chapters endeavouring to address key topics relating to the gamut of international trade, letter of credit mechanism, collections, trade customs and practice, and so on. We do not pretend that all technical concerns are answered but we are confident that we have gone much further than any other published material on the subject. Dealing with complicated implementation issues in a forthright and comprehensive fashion and design, we have given a lucid account of provisions vis-à-vis trade customs and practice while protecting the interests of the parties involved in international trade. We have striven to present and explain transaction flow through diagrams, easing the job of a learner enabling to understand and grasp the hardcore subject matter.

We sincerely believe that this book will be regarded as an essential tool for both beginners and practitioners in international trade. We are hopeful that the readers will position this book within easy reach for navigating solutions to assorted trade-related issues and/or as a constant travel companion when in business across the world.

London, UK
London, UK

Tarsem Bhogal
Arun Trivedi

Acknowledgements

We are grateful to the following authorities for their permission to publish information in this book relating to their products and services. As the systems and procedures of international trade change with improvements of information technology and other developments, we request the readers to visit their websites to obtain the latest information:

1. Export Credit Guarantee Department—www.ecgd.gov.uk.
2. UK Export Finance—www.ukexportfinance.gov.uk
3. International Chamber of Commerce (ICC) Paris—www.iccwbo.org
4. Society for Worldwide International Financial Telecommunication—www.swift.com

Disclaimer: The authors have made reasonable efforts to ensure the accuracy of the information given in this book at the time but assume no liability for any inadvertent error or omission that may appear. The information may change from time to time and practical procedures may also differ from one bank to another; the authors do not accept any liability for the consequences of error or omission.

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Arun Trivedi

Praise for *International Trade Finance*

“This book is a welcome addition to the literature with details of both innovative concepts and professional practice. This book will be highly useful to academics, practitioners and banking officials all over the world.”

—Professor Thomas Muthucattu Paul, *Professor of Economics and Finance, PNG University of Technology, Papua New Guinea*

“This topical book is essential reading suited to a wide range of readers interested in International Trade Finance. An armchair read for consultants and practitioners, it features useful background material for short duration or capsule programmes run by trainers. The extensive content qualifies this as a good desk reference book for both bankers and shippers.”

—Somya Mishra, *Assistant Vice-President, Risk COO, Deutsche Bank London, UK*

“This handy tool provides a comprehensive foundation for understanding all aspects of International Trade Finance in a global context, covering the key principles, concepts, infrastructures, practices, issues, and current developments. Definitely a must read for professionals in banking, commerce, trade and transport industry who want to gain a closer understanding of International Trade Finance pragmatically.”

—Ankita Sethi, *freelance Socially Responsible Investment Consultant, analyst and writer*

“I appreciate the endeavours of the authors in bringing this informative, educational and self-training literature on this subject. The topics covered in the second edition will be appreciated by beginners and practitioners undertaking the demanding and complex international trade business.”

—B.C. Bassi, *Former Non-workmen Director on the Board of State Bank of India (formerly known as State Bank of Patiala)*

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