Emerging Trends in International Trade and Banking

M. K. Kadaiah*

Introduction

International trade is a business under which the goods and services are sold and purchased between customer/companies situated in different countries. Machineries, raw materials, consumer goods etc. are sold and bought in the foreign markets. The trade includes Remittances, Export, Import, Merchanting Trade, Overseas Direct Investment (ODI), Foreign Direct Investment (FDI) and outsourcing of job. International trade business increases the demand of local producers and traders. The producers improve their services and products to meet the demands of the global market.

Cross Border trade allows countries to increase their market share and can also access the foreign markets for availing services and purchase of goods which may not be available locally. Foreign Market is very competitive due to international trade which can ultimately leads for more competitive pricing and cheaper products. If Indian customer sells a product to the foreign customer in the global market which is called an Export, in the same way if the Indian customer buys a product from the foreign customer in the global market is called as an Import. Both Exports & Imports transactions are considered by the country in their Current Account section for arriving country's Balance of Payment (BP).

International trade helps for country's growth and Export-Import data is one of the main contributors to a country's Gross Domestic Product (GDP). Every country is trying hard to improve their cross border presence and strengthen its global trade relationships with global leaders.

International Trade and Banking

International trade and banking with the help of various cross border products and services move together on the global platform. The traders i.e. buyer and seller who are sitting in different countries may not know each other or meet across the tables, but they undertake business without any obstacle. Demand & Supply of goods/services, trust between them and monopolistic situation are few of the important factors which are met mutually and amicably. Further, there is a strong link between various stakeholders like exporter, importer, regulator and agents in global business which is called Banking system. There is a concept called Correspondent Banking Arrangement between Indian Banks and Foreign Banks which guides various financial products and services which are used by both "Market Makers" and "Market Users".

Products in International Trade

• ***Advance Remittance against Export/Import***

The exporter can receive advance payment (Inward Remittance) from Foreign Buyer before the shipment is made in which an exporter can minimise the risk of payment default. In the same manner, the importer can also send advance payment to Foreign Supplier

*Senior Vice-President, Axis Bank Limited.

against future import (Outward Remittance) in which an importer may run risk of non-shipment of goods by the supplier. In both the cases, exporter/importer is required to fulfil certain regulatory obligations.

• *Buyer's Credit*

Buyer's credit is a type of Trade Credit (TC) which helps to bridge the cash flow mismatch of the company. Importer's bank will arrange Buyers Credit from the Foreign Banks or through its branches in Foreign Country by giving a guarantee on behalf of the Indian Importer. Buyers Credit can be availed either in Foreign Currency or in Indian Rupee. As per the extant regulation, the buyer credit is available upto one year from the date of shipment in case of non-capital goods and 3 years for Capital goods.

• *Supplier's Credit*

Supplier's credit is also a type of Trade Credit under which an exporter provides credit to the buyer in the form of Foreign Letters of Credit opened for more than 180 days tenor.

• *Letters of Credit*

A Letters of Credit (LCs) is a set of instructions given by the Importer Bank on behalf of his customer to foreign / correspondent bank confirming the payment to the beneficiary provided the terms and conditions stated in the LC have been met and for evidencing the same to present the specified set documents which are mentioned in LC.

• *Bank Guarantee/Standby Letter of Credit*

It is a type of security and payment commitment given by the bank to the beneficiary provided the agreed promise is met. In the business, bank issue guarantees on behalf of their customers for various purposes. Guarantee enables the principal (customer) or the debtor to acquire goods, buy machinery or obtain loan for the business. In United States of America, the said product is called by name "Standby Letter of Credit" which is similar to Bank Guarantee.

• *Factoring and Forfaiting*

Factoring is type of finance which comprises purchase of invoices and receivable which involves collection service and book keeping as agreed between exporter and factor.

Forfaiting is also a type of trade finance which permits exporters to get immediate cash by selling their receivable at a discount on a "without recourse" basis.

• *Documentary Collection*

A Documentary Collection is a method of bill collection process, whereby, the exporter ships the goods to the buyer and forward the documents to foreign bank with an instruction to collect the bill proceeds from the foreign buyer as per the payment instruction provided. Foreign Bank present the documents to its buyer and collect the payment as per the payment instruction and remit the funds to exporter bank. The Documentary Collection Payment term may be either delivery of documents against Acceptance (Usance Bill – DA) or delivery of documents against Payment (Sight Bill-DP).

• *Open Account*

In the open account transaction, the exporter ships goods directly to the foreign buyer. Upon receipt of shipping documents, the foreign buyer will take delivery of goods from the customs. Thereafter, he may go to his bank for remitting payments to the exporter. In this process, the exporter may run payment risk because he ships the goods before collecting the money. This type of transaction will takes place where there is a mutual trust between the buyer and seller.

• ***Capital Account Products***

The familiar products under Capital Account are External Commercial Borrowings (ECBs), Foreign Direct Investment (FDI) and Overseas Direct Investment (ODI).

Emerging Global Trade Trends

After 2008 Financial Crisis the global economy has started showing recovery and volume of transactions have increased. Further, due to increase in volume of transactions the complexity of the transactions has also increased, the reason could be customer behaviour, lack of full proof system in the banking, customs etc. To overcome and meet this rapidly growing trends, we need to have more system driven process rather existing manual process. Further, we need to understand the requirements of various stakeholders. In the increasing global trade, the banking sector is experiencing sudden change driven by regulatory changes, technological advancements, change in customer demand, geopolitical developments etc. Few emerging global trade trends arediscussed below:

• ***Invoice Discounting Solutions***

It is a type of Bill Finance extended based on the invoice and receivables of the company. In this process the person who owns the invoices sells it to a third party at a discount. There is also a separate window available for SME clients for invoice discounting which is called "Trade Receivable Discounting System (TReDS)". In this process, there is little loss due to the discount but still the business accepts the loss because of getting immediate cash.

• ***Artificial Intelligence & Machine Learning***

The integration of Artificial Intelligence (AI) and Machine Learning (ML) helps in analysing potential disruption, access credit risk and identify data pattern. Also, AI and ML helps to mitigate potential losses in the business. AI and ML allows detection of anomalies in the data proactively.

• ***Digitalization of Documents***

To meet the emerging global trade trends, digitization of trade documents is one of the big game changer. The existing paper based document is required to be replaced with digital images of Bill of Lading, Letters of Credit and other trade documents which is gaining more popularity. Digitisation of trade documents not only speed up the documentation process but also reduces the risk of errors. We explain below some of the critical aspects required for digitalisation of documents.

a) There is a requirement of universally accepted common standard for trade documents acceptable to all stakeholders.

b) Also, there is need of a comprehensive legal framework standardising the entire documents and process involved in the trade. For e.g. UK's Electronic Trade Documentation.

c) Additionally, we also need to have a system or interconnected systems through which the information/documents can be shared digitally which is also very critical at this moment.

d) There should be an ecosystem of market-players who may accept above data through systems and facilitate physical movement of goods.

• ***Environmental Health, Social Safety and Governance***

Environmental Health and Safety are of utmost importance for most organisations. Now a days, if any entity wants to undertake business, they should follow the regulations related to maintain environmental health and safety to get the permission/license for doing the business. Regulator, investor and consumers are expecting that the company should left side and right side should be equal health and safety measures. Sustainable business practices are attracting interests in globala trade finance. Environmental, Social, Governance (ESG) related practices are finding their place into best of their business operations.

• *Supply Chain Finance*

Finance is available to suppliers and buyers at different stages of the supply chain. Supply chain finance helps customer to improve liquidity, reduce working capital gap and improves company's health.

• *Geopolitical Changes*

Global trade trends either directly or indirectly is more dependent on geopolitical behaviour and changes. In the recent and ongoing geopolitical shifts, changes in the trade policies and trade tensions can impact the movement of goods and the terms and conditions of trade agreements. Businesses entities should stay updated on the changes and developments vis-à-vis the geopolitical changes and find out the suitable strategies to sustain uncertainties. To overcome and respond to these geopolitical changes, business should maintain strong and resilient trade operations.

• *Non-bank Financing Solutions*

Normally, only commercial banks are providing the financial support to the entities who are involved in international trade. However, Non-banking institutions like fintech and other trade finance providers have started to finance the international trade business. This may be considered as which is one of the transformative phase in the global trade. We have noticed healthy competition in the industry as both traditional commercial banks and non-banking institutions are financing international trade business.

• *Blockchain in Trade Finance*

Connecting blocks and list of records cryptographically is called Blockchain. Every block is connected by a transaction of the previous block, time stamp and cryptographic hash. It is an open distributed ledger between two entities managed by a peer-to-peer network following a protocol for validating the new blocks. Once the transaction is agreed and completed then alteration would be difficult. This technology is ideal for sensitive information, providing tamper proof storage and safe record keeping.

There are many advantages and disadvantages in Blockchain Technology (BCT), few of them are provided below for reference.

Advantages	Disadvantages
More transparent	More Complex
Transaction completes fast	Suitable for less number of transactions
Cost effective	Require significant power for computer
Mitigate Risk – Financial & Operational	Legal challenges

It reduces the cost involved in cross border trade transactions and increases the speed. It also helps companies to develop products as per their clients' needs which finally improve financial inclusion of companies.

Challenges of International Trade

As the world continues to see a more volatile global trade environment, companies are heading into unchartered territory – facing growing challenges in an increasingly complex trading landscape. The World Trade Organization (WTO) is facing its biggest challenge since inception, multilateral trade liberalization efforts are stalled and the dispute settlement mechanism still faces political impasse.

Bilateral and regional trade regimes continue to proliferate and although some present enticing opportunities, particularly in emerging markets, they also mean varying degrees of different standards, rules of origin and tariff and non-tariff measures, which can be difficult and costly to navigate for businesses. Recently, European Union (EU) has brought new regulation on Deforestation under which the Indian exporter are required to submit proofs stating that the products exported to the EU have been grown on land which has not been deforested after December 31, 2020. We provide below few of the International Trade challenges.

- ***Logistics and Shipping***

In an International trade logistics and shipping play a vital role. Products needs to be properly and consistently packaged, meeting of promised delivery time, tracking orders, determining liabilities of goods in-transit have become more challenging in cross-border trade. International trade involves more paper work as compared to domestic trade. If the logistics and shipping are digitised, it may simplify the challenges in planning of routes and track the movement of goods.

- ***Customer***

In International trade business the customers expect that their entire business cycle should be easy and fast as per the timeline as domestic business. Both the buyer and seller never met each and however, they want to do the business for which there should be well defined rules and regulations which are common for both. A strong localised check out process is pre-requisite for a successful cross-border trade proposition.

- ***Brands***

Branding is one of the important parameter in the international trade through which company can go for advertisement and marketing for their products and get more business in the market. If the market accepts the company's brand then order will flow to the company.

- ***Tax and customs***

Many times customer may not be knowing the complete fees and taxes involved in international trade which is also not discussed at the time of concluding the contract. The details of various taxes and fees involved in the business need to be discussed and finalised at the time of concluding the sale itself.

- ***Paperwork, regulations and compliance***

International trade involves use of several documents such as Invoice, Packing List, Certificate of Origin, Customs Declarations, Import Licenses, Bill of Lading, Airway Bill, evidence of Import and Export etc., which also varies across countries and markets. Further, custom regulations also varies from country to country. For procuring the above said documents, a lot of time and money is consumed which is not accounted anywhere in the lifecycle of the business.

The logistic partners and customs agents who are specialised in their respective field can be considered and included in the international trade ecosystem to facilitate these requirements efficiently. By streamlining the process of documentation, we may reduce the time and future compliance issues. The details of new regulations, list of barred goods of the particular country and formats in which the custom declaration to be provided etc. may be updated on their respective countries website on real time basis which may help customers who are dealing in international trade.

- ***Return of goods***

In the international trade, the goods return process is more complex because of custom duty and tax structure. Customers, may not be fully aware about goods return policy at the time of shipment of goods. In the present customs practice, if any goods return from the foreign country, whatever the reason, the custom charges/duty will be exorbitant which customer may not be in a position to pay because there are instances where the custom return charges is more than the value of the returned goods. Further, Exporter/Importer does not have visibility and control over the goods return process due to which they cannot plan for reselling of returned goods. In the cross border trade, businesses want to manage their costs and consumers want to protect their choice but striking the balance between them is very difficult.

Recent trends in the cross-border payments system

In a fast-changing macroeconomic environment, financial institutions must ensure quick, efficient and safe payments avenues to customer. There are few emerging trends which are disrupting the global trade such as International payments method, New Technology and Risk Management which are elaborated below:

New payment methods

In the international trade, payment method is one of the important component. International payment methods need to be fast, secure and cost-effective for consumers. As a result, expectations in the cross-border transactions have increased, necessitating transformation for financial institutions.

Examples of new payment methods include:

Payment Rails: New methods of payment rails are developing quickly, including account-to-account payments, pay-to-wallet and real-time rails. In the future, AI may help existing rails improve speed and security.

Central Bank Digital Currencies (CBDCs): Central banks developing digital currencies aim to decrease settlement times and cost while improving visibility into payments status for cross-border payments.

New technology

New technology and innovations are getting improved in international payment process by creating more efficiency and transparency. Banking system who are involved in cross border trade should adopt innovative technology to meet customers' expectations.

Technology advancements to consider include:

Application Programming Interface (API): As the name suggests, it helps two different applications or software to communicate each other. It takes data or information from one computer and sends the same to other computer through a programming interface. API helps in decreasing the cost involved in the process. API can also be used to trigger appropriate workflows in the trade business.

Artificial Intelligence (AI): Artificial Intelligence helps to increase operational efficiency and allows massive amounts of data to be analysed and detects anomalies proactively. Natural language processing interprets and validates regulations and contractual clauses and helps extracting relevant information from dense documents, while learning models enable accurate predictions. It enhances Straight-Through Processing (STP), which is presently more in demand in international trade business.

Risk Management

International trade business involves different regulators, different systems, multiple players like buyer, seller, customs, banking system etc. This leads to complexity of risks related to parties and processes involved.

The various risks involved in international trade are, Credit Risk, Foreign Exchange Risk, Transport Risk, Country Risk, Political Risk etc. Most of the organizations seek assistance from their banking partners to mitigate the risks particularly these related to Payment frauds.

Export Promotion Schemes – International Trade Enabler

To encourage exporters, the Government of India has brought various export promotion schemes. These schemes will also help in increasing the exports from the country, earning foreign exchange and produce high quality of goods which are competitive in international market.

Some of the schemes are implemented by Department of Commerce and few of the schemes are implemented by Department of Revenue and few more are implemented by other Agencies. We discuss below some of the important schemes.

Various Government Schemes:

- **Advance Authorisation (AA)**

This scheme is provided by Directorate General of Foreing Trade (DGFT), Government of India. It allows eligible exporters to import inputs which are physically incorporated in an export product without any duty.

- **Duty Free Import Authorisation (DFIA)**

Similar to the Advance Authorisation (AA) Scheme, Duty Free Import Authorisation (DFIA) allows imports without paying duty on Post Export basis. Inputs Imported under DFIA are only exempted of the Basic Customs Duty.

- **Export Promotion Capital Goods (EPCG)**

This scheme enables exporter to import capital goods which can be used for producing quality products for exports.

- **Deemed Exports**

Deemed Exports refers to supplies of goods manufactured in India which do not leave the country and the payment is received either in rupee or in free foreign exchange.

- **Status Holder Certificate**

Exporters who have contributed more in export and helped for the country's foreign trade have been recognised by issuing a Status Holder Certificate. This certificate will be issued as 1 Star export house to 5 Star export house based on their export performance. The Status Holder Exporter have some special privileges from the Government of India.

- **Interest Equalisation Scheme (IES)**

This scheme is available for exporter who are availing Pre and Post Shipment Rupee Export Credit from the banking system. In this scheme, exporter will get interest rebate for the finance availed from the bank. For getting the benefit under the scheme, the exporter is required to obtain a Unique IES Identification Number (UIN) from DGFT which is valid for one year. With effect from July 1, 2024, only MSME Exporters would be eligible under the scheme.

- **Market Access Initiatives (MAI)**

This scheme works as a catalyst for Indian exporter to access International market and promote India's exports to the maximum extent. This scheme is formulated on "focus product–focus country" approach to evolve specific market and specific product through market studies or survey. Under this scheme, financial assistance is provided to eligible agencies for eligible activities.

- **Duty Drawback (DBK)**

Duty Drawback scheme provide some rebate to the exporter on the duty paid towards goods manufactured in India and Exported.

Few other schemes for facilitating International Trade are:

- Refund of Duties and Taxes on Export Products (RoDTEP)
- Refund of Export of Apparel/Garments and Made-Ups
- Export Development & Promotion of Spices
- Export Promotion – Providing Transit/Freight Assistance for Coffee Exports
- Financial Assistance Scheme

Conclusion

To compete and succeed in the global market, our exporter is required to supply goods to the foreign buyer with an attractive price and best in quality vis-à-vis the other competitive markets in the globe. Before entering the global trade, the Indian customer has to ascertain the foreign buyer creditworthiness. For this, he should evaluate history of his trade and payment through status reports provided by various agencies like Dun & Bradstreet Information Services India Private limited, Experian, Foreign Correspondent Banks etc. Indian Exporter can also obtain Insurance from Export Credit Guarantee Corporation of India for their export of goods and services. International Trade plays an important role in ensuring a healthy economy. Several interventions made by regulators and Government have paved a way for developing an ecosystem for safe, efficient and robust cross-border trade.

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