

International Trade and Finance

I. Subject Overview and Objective

Service provided by banks to their customers who are engaged in international trade business is a highly specialized banking service. International trade is a core economic activity in any open economy. Conventionally, international trade has been funded and facilitated by banks as the trade settlements require banks as trade agents to settle payments between exporters and importers. In addition, customers require specialized credit facilities to fund their trading operations. As the international trade involves in payments and receipts by different currencies, foreign exchange services are also required from banks. Accordingly, banks provide a host of financial services to international trade customers. International trade involves in extensive regulatory procedures and economic policies locally and globally. Therefore, this subject is designed to provide knowledge on trade finance services and trade related local and global procedures and systems to banking and financial professional to assist them to perform in the trade services profession with comprehensive technical knowledge.

11. Recommended Subject Coverage

- (a) Basic Economics of International Trade and Finance: Structure of balance of payments, balance of payments financing options (Central Bank reserves, foreign capital), exchange rate mechanisms, convertibility of currency and exchange controls (current and capital), trade policies (tariff and non-tariff policies, export promotion and import substitution), economic importance of international trade for economic growth, income, employment and access to benefits from globalization
- (b) Trade documents: Bill of exchange, bill of lading, Performa advice, commercial invoice, inspection certificate, certificate of origin, freight insurance, certificate issued by beneficiary
- (c) Trade payments methods and systems: Documentary collection (DP and DA terms), documentary credit, open account, consignment account, advance payment, SWIFTS, corresponding banks and Nostro/Vostro accounts
- (d) International Chamber of Commerce (ICC) Regulations (latest version): Uniform Customs and Practices for Documentary Credit (UCP), Uniform Rules for Documentary Collections, Uniform Rules for the use of domestic and international trade terms/contracts (Incoterms), Uniform Rules for bank to bank reimbursement under documentary credit, Uniform rules for demand guarantees
- (e) Custom procedures: Classification of goods and harmonized system, documents required, clearance of imported goods, calculation of taxes/tariffs and payments, bonding and entrepot trade, deferment facility
- (f) Trade financing: Bill discounting, bill purchase, financing of receivables, pre-shipment credit (packing credit), post shipment credit, pledge/trust receipts loans, acceptance, buyers' credit, working capital loans, export credit insurance, international guarantees (advance payment guarantees, bid bonds, performance bonds, financial guarantees, letters of credit (standby, back-to-back, transferable, revolving, etc), forfaiting and avalization
- (g) Foreign currency services: Spot buying and selling, forward buying and selling, determination of forward exchange rates, collecting and paying bank services, foreign currency accounts (RFC, NRFC, SIA, FEEA, Nostro, etc)
- (h) Export and import connected regulations and taxes/tariffs in Sri Lanka: General

permissions of exchange controls on payments and receipts, exemption from requirement of repatriation of exports proceeds, rates of taxes, cess and tariffs on exports and imports and their objectives, advance payments on imports, forward contracts, provisions of the Import and Export (Controls) Act and the Special Import License and Payment Regulation.

- (i) International trade arrangements and standards: International organizations and systems: World Trade Organization (origin and evolution from GATT and Uruguay round of trade talks, objectives, WTO Agreements on dumping and subsidies, import licensing, pre-shipment inspection, trade barriers, trade disputes resolutions, rules of origin, preferential/free trade, etc.) International Monetary Fund (origin, Bretton Woods system, evolution, objectives, Special Drawing Rights(SDR), credit schemes to countries such as Standby Arrangement and extended fund facility), free trade zones, bi-lateral and multilateral trade agreements, customs unions, economic unions(e.g. European Union), Generalized System of Preference (GSP plus by E U and GSP by USA)