



# Course objectives

- Identify and analyse risks involved in Int. trade and finance and how to mitigate them;
- Understand the types of docs used; legal and regulation framework and conventions;
- Explain the advantages, disadvantages of solutions in Int. trade finance;
- Discuss method of trading and finance alternatives;
- Explain financial crime, the regulatory environment and the need for ethical behavior.



### COURSE LEARNING OUTCOMES

#### Knowledge

- CLO1: Apply the basic knowledge of social sciences, methodologies, and information technology for lifelong learning, research and work;
- CLO2: Classify the documents used, sources of laws, and practices applied in the international trade finance;
- CLO3: Distinguish and analyze risks in international trade and trade finance; risk mitigation measures. Analyze and evaluate financial crime, legal and ethical regulations in the international trade finance;
- CLO4: Analyze in-depth international trade finance issues, in line with international professional certificates such as the Certificate in International Trade and Finance (CITF), Certificate of Documentary credits Specialist (CDCS), Certificate on Demand of Guarantee (CSDG)...



### COURSE LEARNING OUTCOMES

#### Skills

- Have skills in analyzing and solving in-depth problems in the field of international trade finance;
- Have capability of proactively planning, implementing, evaluating and improving the effectiveness of activities; self-study, accumulating knowledge and experience to improve professional qualifications and lifelong learning;



#### COURSE LEARNING OUTCOMES

#### Autonomy and responsibility

- Have ability of working in the changing conditions of the global context, having the ability to lead, proactively guide and supervise the work of team members to perform defined tasks;
- Have innovative thinking and self-directed ability, drawing professional conclusions and being able to defend individual views in front of the collective; Have the courage to overcome difficulties and challenges and be responsible for individuals and groups as well as a sense of service to the community.



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- 4. Eric Bishop, 2003, Essential Capital Market: Finance of International Trade, Chương 5, 7
- 5. Eiteman, Stonehill, Moffett, 2013, Multinational business finance, 3nd, Pearson, Chương 20
- 6. Các tập quán quốc tế áp dụng trong tài trợ thương mại: Incoterms, URC 522 ICC, UCP600, ISP 98, URDG...



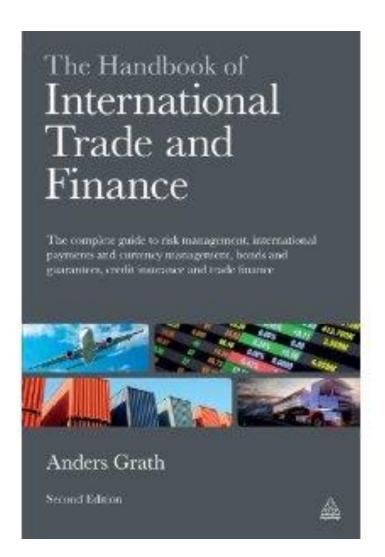
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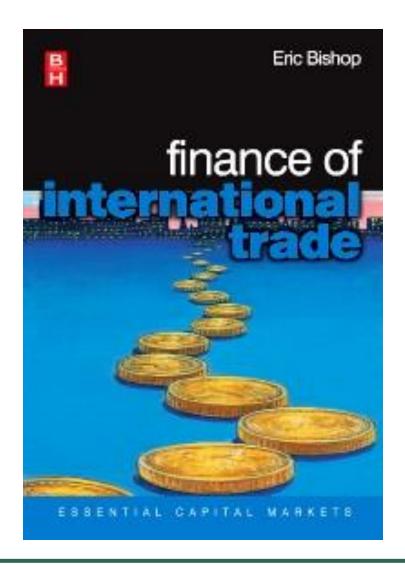
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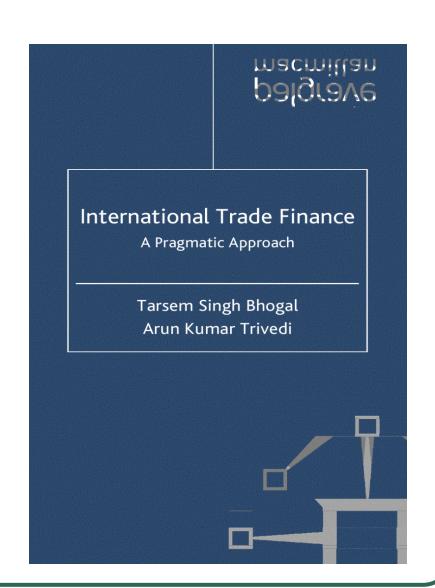


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Chapter 1, 2, 3, 5,6,7, 8,9, 13, 17, 20





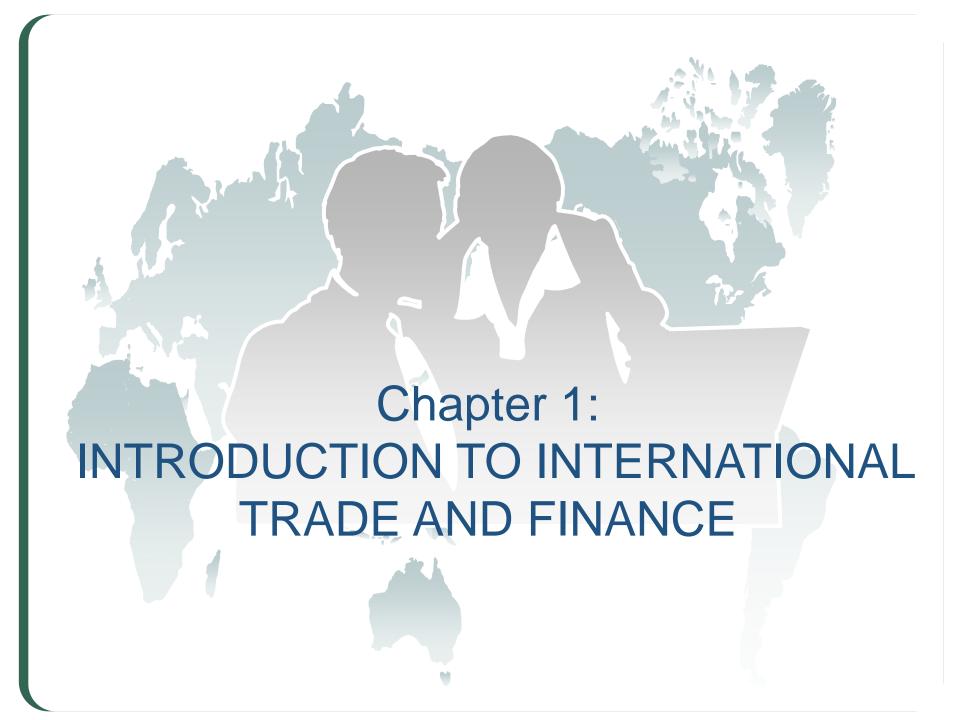
#### Assessments

- 10% attendance
- 30% mid-term assignment
- 60% final exam



#### Content

- Chapter 1: Introduction to Int. Trade and Finance
- Chapter 2: International Sale contracts and commonly docs used in international trade Chapter 3: Methods of payment
- Chapter 4: Bonds and guarantees
- Chapter 5: Factoring and Forfeiting
- Chapter 6: Financing alternatives





# Chapter 1:Introduction to International Trade and Finance

# Objectives:

- Concept and Features of International Trade
- Risk in International Trade
- Concept and Features of International Trade Finance
- The roles of International Trade Finance
- Forms of International Trade Finance



# Outline of Chapter 1:

- I. Background of International Trade
  - 1. Concept
  - 2. Risks
- II. Overview of International Trade Finance
- III. Roles of International Trade Finance
- IV. Forms of International Trade Finance



# I. Backgrounds of International Trade

# 1. Concept

- Classic:
  - Exchange of goods, services
  - Between nations
  - Through monetary
  - Principle of parity
  - For the benefits of all.



WTO: includes all transactions in trading nature such as: goods, services of transportation, investment, banking, franchising, promotion, communication...



#### 2. Risks in International Trade

#### Risks Of Int. Trade

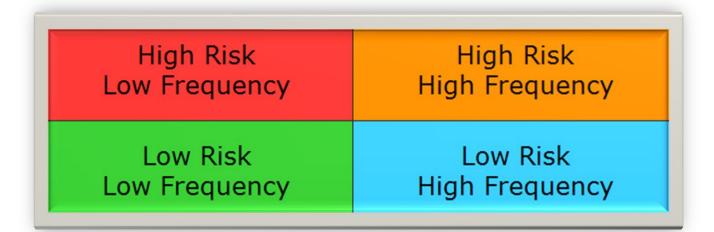
- Common risks in Int. Trade
- Process of risk management (through Identification, measurement, evaluation and decision)
- The measures of risk management.



#### 2. Risks in International Trade

#### 2.1. Foundations of Risk In Int. Trade

- International Trade: Return & Risk
- Risk is instability?
- Risk in Economy? Level (amplitude/range) & Frequency
- Normal Risk & Speculated Risk





# 2.2 Types of risk in Int. Trade

Commerce (method of payment)

Production Transport

Exchange Rate



Country (politics & society)

Business (ethics of each party)

Finance (financial obligation to all parties



# (1). Production & Transport Risk

- Risk results from Production/ manufacture, transport and delivery
- Risks due to operating conditions, maintenance (commodity risk)
- Risks due to lack or carelessness of cargo insurance
- Mostly suffered due to exporters





# (2). Commerce Risk

- ❖ Occurs when the importer loses the ability to perform the contract or disputes → Mostly suffered due to importers
- Types of commercial risks:
  - Bankruptcy or insolvency by the buyer
  - Force majeure (unexpected circumstances: strike, fire,...)
  - Protracted default (time delaying)
  - Problems with payment arrangements
  - Problems with the merchandise
  - Contract disputes (Is contract true and valid?)
  - Additional costs for financing, insurance, and shipping



# (3) Exchange Rate Risk

- Named foreign exchange risk or Currency Risk
- Due to the fluctuation of exchange rate.
- 3 main types of exchange rate risk
  - Transaction Exposure: Firm has contractual cash flows (receivables and payables) influenced by exchange rate
  - Economic Exposure (operating exposure) firm's market value is influenced by exchange rate
  - Translation Exposure: A firm's financial reporting is affected by exchange rate movements.



# (3) Exchange rate risk

- ❖ Transaction Exposure directly affect cash flows, revenues, costs and profits of the business → the most important risk
- ❖ Translation and economic Exposures often reflect on records (accounting) may not actually incurred losses → need cash flow management.





# (4). Finance Risk

- ❖ Finance risks contains in all commercial activities including the attached financial obligations.
- Financial risk is the default inherent in the loan, the financing that exporters receive.

**Example**: Risk due to not repay on time, risk of losing collateral, risk of fines for overdue ...





# (5) Country Risk

- Nation / Country risk or politics risk may due to :
  - Political conditions / government's instability
  - Social instability
  - Economic instability
- Political risk associated with the country's macroeconomic factors (quota, license...)

### → Country risk and commerce risk?

In country A, due to some issues of national security, the government declares a quota level for the product Q: import company Z have received the import quota at the beginning of each year  $\rightarrow$  affect the signed contract of Z



# (5) Country Risk

- ❖ Politics Risk related to relationship to other nations, the possibility of terrorism, war, civil war ...
- ❖ Economy risk: Regarding economic policy or the openness of economy → direct influences confidence index of the economy.
- Society risk: can affect international trade in the long-term operation (affecting production, consumption habits ...)



# (5) Country Risk

#### **Economist.com rankings**

#### Country risk

Selected countries and territories, August 2008 (except where noted)

#### Least risky Rank Score\* Switzerland † 1 12 Finland \*\* 2 14 Norway \*\* 14 Sweden †† 14 Canada \*\* 17 Denmark † 17 Netherlands 17 8 Germany †† 18 9 Austria \*\* 19 France †† 19 11 Belgium †† 20 12 Singapore 21 13 Hong Kong 23 Japan \*\* 23

#### Most risky

Rank		Score
120	Zimbabwe	86
119	Iraq	79
118	Sudan	76
	Myanmar	76
116	Jamaica	69
115	Nicaragua	68
114	Kenya	66
113	Cuba	63
112	Ecuador	62
111	Vietnam	61
	Pakistan	61
	Côte d'Ivoire	61
	Cambodia	61
107	Venezuela	60
	Syria	60

<sup>\*</sup>Out of 100, with higher numbers indicating more risk. Scores are based on indicators from three categories: currency risk, sovereign debt risk and banking risk.

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† May 2008; \*\* July 2008; †† June 2008; § March 2008

Source: Economist Intelligence Unit

Britain §



# (6) Business Risk

- Business risk includes active bribery, money laundering, risk of liquidity (cash transition) ... is the common risk which affects the business contract as well as the financial credibility of the seller.
  - Bribery risks
  - Risk of money laundering
  - Risk of cash/payment transition



# 2.3. Risk Management

Identify risks in each Contract, recommend how risk assessment and risk prevention measures.

Assessment of risk prevention measures. What type of Risks can be prevented through management measures inside and outside the enterprise?

Are risks acceptable In terms of contract?

**Yes: Preparation** 

No: cancel or change the terms of contract



#### II. International Trade Finance

- What is trade finance?
  - Credit, Sponsor?
  - International Trade Finance or Sponsorship





# 1. Concept of Int. Trade Finance

"International trade finance is (1) an objective economic phenomenon, (2) including the overall set of policies, measures and forms of financial assistance (3) directly or indirectly (4) for entrepreneurs joining Int. Trade, (5) in one or several or all stages of the production process from: reinvestment, production and sale of products or provision of services (6) going to the international market (7) for the benefits of all participants. "



# Concept of Int. Trade Finance

- 1. Objectively Economic phenomenon (meaning)
- 2. Including the set of policies, methods and measures of assistance in finance (objects)
- 3. Direct and indirect (methods)
- 4. For entrepreneurs joining Int. Trade (subjects)
- 5. in one or several or all stages of the production process (ranges)
- 6. To International market (ranges)
- 7. For the benefits of all participants (purpose)



# Concept of Int. Trade Finance

- Visible: Loan, financing, credit
- Invisible: policies, regulations, measures
- Financing for benefit # non-benefit
  - Benefits > Profits





#### III. Roles of International Trade Finance

# 1. The catalyst of development

- Economic zones between economies
- Cash-flow investment from rich countries to poor countries
- Finance of developed countries



#### III. Roles of Int. Trade Finance

# 2. Leverage of production and consumption M- G → Production → M' – G'

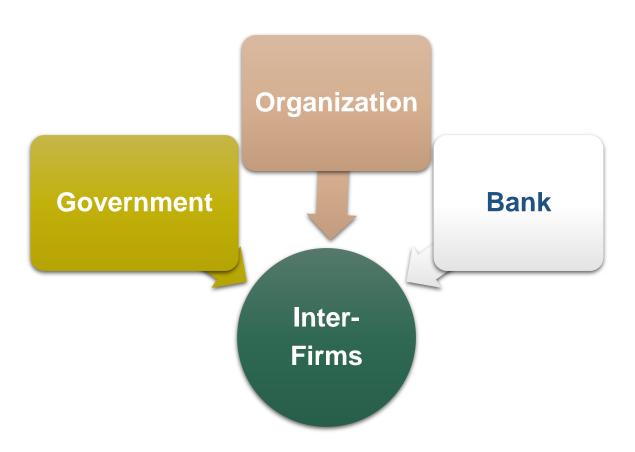
Allocation of Capital, distribution of wealth Increase competitiveness

- 3. Connect national and international markets.
- Promote International Trade, Co-operation among nations.
- The borderless of economy



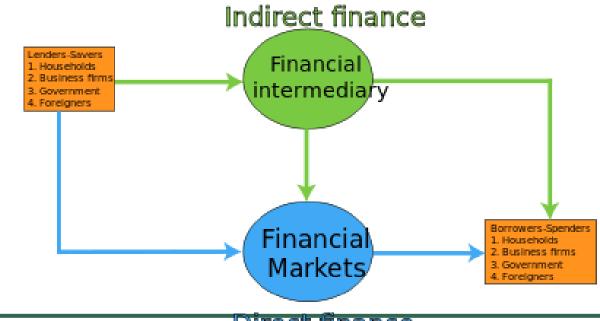
### IV. Forms of International Trade Finance

# 1. Based on providers:



# IV. Forms of International Trade Finance

- 2. Based on methods:
- Direct Finance: direct support to production and trading of ex-im companies
- Indirect Finance: provides positive environment and facilities for ex-im companies





#### IV. Forms of International Trade Finance

- 3. Based on Finance means
- Capital
- Services
- Creditability / Credibility
- Modern Banking Operations and enquiries.

