

# The Change and Development Trend of International Settlement

## Methods

Jia Liu

City University of Hong Kong, Hong Kong 999077, China.

---

**Abstract:** The integration of the world economy has promoted the exchanges and cooperation among countries in the field of trade. In order to meet the needs of the development of international trade, the methods of international settlement are constantly evolving, showing the characteristics of diversification and personalized development. International settlement refers to the payment of claims and debts in currency or the transfer of funds between countries due to political, economic, cultural, diplomatic and other aspects of communication or contact. Among them, international settlement with a trade background is called trade international settlement, while those without a trade background are called non-trade international settlement. Non-trade international settlement is mainly based on remittance, the operation is relatively simple and the risk is small. Under normal circumstances, the international settlement of trade is more complicated and risky.

**Keywords:** International Settlement; Current Status; Development Trend

---

## Introduction

In the process of diversification and evolution of international settlement methods, the interest competition between buyers and sellers has always penetrated, and this competition has become the internal driving force of the evolution of international settlement methods. International settlement is the intermediary business of banks, which is more complicated than domestic settlement, and is based on international trade, and has nothing to do with international finance. The research object of international settlement is mainly the means of payment, the mode of settlement and the transfer mode centered on the bank. Its purpose is to use the most scientific and effective method to settle the inter-currency performance of the creditor's debt relationship or cross-border transfer of funds.

### 1. The main method of traditional international settlement

#### 1.1 Remittance

Remittance refers to the payment party through the bank, the use of certain settlement tools (bills), the payment of the settlement method. Under the trade can be divided into prepayment and cash on delivery two kinds. Because the capital burden and risk of remittance business are concentrated on the payer, most of them are used to pay the advance payment or the balance payment in our country, which accounts for a small share in international settlement. Among developed countries, remittances remain one of the main methods of settlement, since much of the trade is internal transactions of multinationals and foreign trade firms have reliable trading partners abroad.

#### 1.2 Collection

Collection refers to the settlement method in which the exporter hands over the relevant documents to the local bank and entrusts the bank to hand over the documents to the foreign importer through its foreign agent bank. It is divided into clean collection and documentary collection according to whether the shipping documents are attached. As the collection method is mainly based on commercial credit, it is disadvantageous to exporters. In the process of settlement, the exporter only delivers the goods by the credit of the importer, and receives the payment after the delivery of the goods. The risk is larger, and the risk of rejection or delay of payment

after acceptance by the importer is easy to appear. Therefore, collection is more popular in Europe and the United States and other regions with good commercial credit, while it is relatively less used in the Asia-Pacific region.

### **1.3 Letters of credit**

Letter of credit is divided into clean bill and documentary, usually referred to as documentary letter of credit, that is, the bank issued to the seller according to the requirements and instructions of the buyer, in a fixed amount and a specified period of time, by the written promise of payment against the stipulated shipping documents, compared with remittance and collection methods, due to the involvement of the bank, the bank credit replaces the commercial credit. As long as the exporter provides the documents that meet the conditions, he can get the payment, and the importer can get the document representing the ownership of the goods as long as the payment, the risk of both the buyer and the seller is greatly reduced. For a long time, letter of credit has been the most commonly used method of international trade settlement. However, with the global economic slowdown, the situation is quietly changing. Full credit still maintains a dominant position in the international settlement of China and the industrial Pacific region, but in developed countries and regions such as Europe and the United States, affected by the temporary mode of international settlement, the proportion of L/C settlement has dropped significantly, especially in the European Union, the amount of L/C business is very small, known as "sunset business".

## **2. Current status of international settlement**

International settlement before the 19th century was called traditional international settlement. With the development of international trade and the emergence of modern commercial banks, the traditional international settlement is constantly changing. Progress from cash settlement to non-cash settlement; From payment against goods to payment against documents; Progress from direct settlement to bank settlement; And then it develops into the combination of international settlement and trade finance. After the 19th century, international settlement entered the modern stage. It is characterized by bills as the foundation, bills as the condition, banks as the center, settlement and financing are integrated and increasingly standardized.

In recent years, international settlement has the following characteristics in the international field: the standardization of documents, the processing of letters by express mail, the electronization of settlement means, the increase of non-letter of credit business, and the extension of financing terms.

Documents become the fundamental carrier of international trade and an important basis for international settlement. The relatively perfect legal system has fixed the contractual relationship, creditor's rights, real rights and insurance rights on the documents, so that the logistics, capital flow and information flow in the trade are dispersed to the third party, and then through their documents at different points in the trade process to manipulate the risk.

With the receipt and payment of funds, settlement will naturally show the imbalance of fund balance and shortage, and the buyer, seller or both parties may need financing, which brings trade financing accompanied by settlement to the bank. International trade financing can promote the progress of international trade settlement. It is beneficial to absorb deposits and consolidate the bank's capital strength; Improve the quality of bank funds. International trade financing is characterized by various forms, simple methods, promoting the reorganization of bank functions, and increasingly rich and perfect settlement systems and practices. It is important to note that settlement uncertainty requires trade finance, while financing certainty requires settlement, and the dominance of settlement is quite clear. However, in the current international business market, the settlement instruments have the characteristics of serious homogenization, whether to obtain financing has become an important criterion for choosing banks.

## **3. Development trend of international settlement**

### **3.1 Promote the adoption of new technologies in conjunction with electronization**

With the rapid development of electronic technology, international settlement and bank clearing are moving towards the direction of computerization. Informatization has not only affected international trade, but also directly affected the means of international settlement, and the wide application of the Society for Worldwide Interbank Financial Telecommunication (SWIFT) system has predicted this trend. SWIFT is a high-speed telecommunications network between banks around the world that uses its highly sophisticated communication system to transfer messages, bills and position transfers between members. When a financial institution

receives SWIFT information, it will act on its contents. Since SWIFT's communications are computerized, the transfer of funds between members is greatly accelerated. Its transmission takes only a few minutes. SWIFT operates 24 hours a day, 7 days a week, with automatic storage of information, automatic encoding or verification, cryptographic processing of messages, automatic classification of documents and many other functions. It provides a standardized and uniform format for receiving and sending telecommunications, using a uniform currency symbol. The adoption of SWIFT codes makes international settlements faster, more secure and more secure. SWIFT's influence in the world is gradually expanding, and the number of banks and import and export companies using SWIFT in China's international settlement is also increasing. In the future, international settlement will progress towards the direction of electronic bills, documents and even money, all businesses are processed by computers, and a settlement business can be completed in an instant.

Of course, electronic international settlement is not limited to this, electronic documents based on EDI technology is an unstoppable trend, internal system integration of banks, system docking between banks, bank business system and customer ERP system docking, banking system and regulatory authorities system docking and so on are unstoppable.

### **3.2 The types of financing are more abundant**

The combination of settlement and financing will be more refined, and each link of settlement may have financing. Financing methods and content will continue to be expanded, in addition to the traditional way of negotiation, discount, etc., has been shown under the credit insurance financing.

### **3.3 More perfect international practices**

Since the participants of international settlement may be in different countries and regions, their practices may vary greatly, and disputes cannot be stopped, trade and settlement in the direction of modeling and standardization, need to be unified constraints of international practice. Judging from the current progress of international practice, the field covered by the practice will continue to be delayed, and the practice itself will continue to be improved.

### **3.4 Business credit will play a more important role**

The participation of bank credit in trade settlement is mainly due to the fact that one party to the trade thinks that the risk of the other party is uncontrollable. With the establishment and improvement of the social credit system, the credit situation of natural and legal persons will be completely recorded, and a breach of trust will lead to heavy consequences. Given that the high price of bank credit is no longer readily available, commercial credit itself is a strong constraint.

### **3.5 International factoring**

International factoring refers to a way in which exporters use commercial credit to sell goods, sell invoices, bills of exchange, bills of lading and other relevant documents to factoring without recourse after shipment, and receive all or part of the payment immediately or in the long term, so as to obtain financial financing. International factoring should be based on the current situation of non-letter of credit settlement in international trade, which has been widely used in foreign countries. In today's international trade settlement has exceeded the letter of credit settlement volume. The financing term of international factoring business is generally less than 180 days, and the financing amount does not exceed 80% of the invoice value. It is a comprehensive service business integrating financing, settlement, accounting management and risk guarantee, which has unique advantages for exporters, importers and banks. For exporters, it can eliminate the trouble of enterprise receivables management and enhance the competitiveness of enterprises. For importers, it can reduce transaction costs and improve the utilization rate of funds. For banks, this business can enrich the variety of banking business and obtain considerable profits.

## **Conclusion**

In short, the electronic degree of international settlement will be higher and higher in the future. Payment methods will also be easier. The enrichment of financing types. Perfection of international practice. The credibility of commercial credit is greatly improved. These various trends will continue to promote the international settlement to make a qualitative leap. The continuous improvement of international settlement methods after application will greatly reduce the risk and ensure the international settlement to make great progress in the future.

## References

- [1] Lv X, Li M. IMF classification of capital flow management measures of countries (regions) [J]. China Foreign Exchange,2020(09).
- [2] Zhang XM. IMF and OECD Cross-border capital flow management framework adjustment and inspiration [J]. Finance,2021(07).
- [3] Zhong Z, Li HX, Zhang XW. Comparative analysis of views of IMF and OECD on capital account opening criteria [J]. Finance,2021(03).
- [4] Shi H, Dai XH, Yu GP. Construction of digital trade industry chain and ecological chain financial service system: from supply chain finance to blockchain finance [J]. Times Economic & Trade,2021(12).
- [5] Zhou WH, Xu WJ, Hu X. Research on the development path of trade finance driven by blockchain technology -- taking the Trade finance Blockchain platform of the People's Bank of China as an example [J]. Innovation Technology, 2022(01).