Question No. 4 Comment on the following statements: b) From the exporter’s point of view, advance payment is not free from any kind of credit or transfer risks.

Solution: In this method, the payment is made either at the time of acceptance of the order, or at the same time before the shipment. This is the safest and ideal method from the exporter’s side. In most cases, however, this method is not likely to be favoured by the buyer, the buyer may favour this method when he is an overseas affiliate of the exporter, or urgently requires the goods and the exporter is in a position to dictate his terms. The buyer may make remittance by:

(a) Purchasing a draft from the bank payable at a bank in India and dispatching it to the exporter, or

(b) Arranging through his bank for a bank in India to be instructed by mail or capable to pay the exporter (i.e., by mail transfer or telegraphic transfer). The draft, mail or telegraphic transfer will be in the currency specified in the contract of sale.

From the exporter’s point of view, it is not only the simplest method but also frees from any kind of credit or transfer risks. Payment is received before the shipment, and hence there is no need for prior post – shipment finance of any kind. And as no interest or commission is charged by Indian banks for payment of clean remittances, it works out to be the cheapest method as well. However, in case the exporter has quoted in a foreign currency, an exchange risk exists from the date of contract until payment is received from the buyer.