

Government basis

Government



One alternative for currency shortage is counter-trade or the payment of goods in exchange for other goods. This is usually done on a G-to-G basis or government-to-government basis. The government of the country where the goods are coming from guarantees the acceptance of the corresponding goods as payment by the other country. It then sells the goods to its own constituency for consumption, and then pays the trading firm with its own currency reserves. Another way to deal with currency shortage of the importer is to allow the payment to be in form of a usance Letter of Credit.

Usance L/Cs are designed in such a way that a sister bank of the servicing bank used by the importer guarantees the payment of the L/C. A Stand-By Letter of Credit (SBLC) is used as the guarantee for payment while the trader is collecting payments from sales and depositing these payments into the mother servicing bank. While the actual buyer is selling the goods in the country where it is imported, the servicing bank gives it a chance to gather the accepted currency. Banks usually extend this service to buyers if they have hard collateral or they are preferred customers.

Usance L/Cs have usually 180-day or 300-day terms and it is expected that within the period, the buyer would be able to sell the imported goods and look for the currency needed to pay the LC. Usance L/Cs are deferred payments only but are guaranteed by the servicing bank of the buyer.

Usance L/C's incur costs of money charges or interest charges to the account of the buyer. In relation to garnering more margins to play around with by the trader, a commonly known method is forward buying (this is a practice where the Chinese are experts).

For example, if the price of urea is predicted to increase substantially for next year, the trading firm buys all or majority of the produce of a processing plant in the Ukraine. Another example of forward buying is that a trading firm can buy in advance the one-year production of a sugar mill located in the Philippines in anticipation of a 4% increase in world prices in Shri-Lanka due to damaged crops in India or where Shri-Lanka normally imports its sugar from.

The prices can be negotiated because in forward buying discounts are usually offered by the manufacturer, thereby increasing the gross margin of the commodity when it is traded. It means a more flexible range of margin can be played around with by the traders. The disadvantage of forward buying is that it is capital intensive. 2. Conclusion China is a very large but tough market to contend with. Probably, a trading firm that would be capable in doing business with China has to flex also its policies especially when it tries to secure the goods first before it trades with China.

For example, if the firm wants to sell to China coconut fibers or coir, it may opt to buy all the produce of a large coconut farm in Hawaii. It has to further negotiate with the Chinese the acquisition of the decorticating machines. It would mean additional investments for the firm, probably creating a new department specifically to handle coconut products. Recapitulating the concerns of a trading firm regarding the importance of new emerging consumer markets and how to penetrate such is actually a learning process and may be not taught in college.

The standard procedure is to learn the customs and traits of the country the firm wants to deal with. The firm can hire or appoint a country representative and for China the most probable base is Hong Kong. There is no best substitute for immersion into the culture and practices of the people with whom the trading firm wants to do business with. This procedure for trading companies to hire country representative would probably be the best method to get into the market chain.

References:

- Arnold, D. (2003). Strategies for Entering and Developing International Markets. In *Mirage of Global Markets, The: How Globalizing Companies Can Succeed as Markets Localize* (First ed.): Financial Times Prentice Hall.
- Arnold, D. (2004). *The mirage of global markets : how globalizing companies can succeed as markets localize*. Upper Saddle River, NJ: FT Prentice Hall.
- Emerging Economies Coming Out Ahead. (2006, September 28, 2006). Retrieved October 24, 2006, from http://ifcblog.ifc.org/emergingmarketsifc/2006/09/emerging_econom.html
- FRASHURE, R. D. , & WANG, C. H. (2002). *Emerging Markets: Has Their Time Finally Come*. Perspectives, 3(4).
- Keegan, W. J. , & Green, M. C. (2002). *Global marketing management* (7th ed.). Upper Saddle River, N. J. : Prentice Hall.
- Motamen-Samadian, S. (2005). *Dynamic models and their applications in emerging markets*. Houndmills, Hampshire ; New York: Palgrave Macmillan.
- Mullins, J. W. (2005). *Marketing management : a strategic, decision-making approach* (5th ed.). New York ; Boston: McGraw-Hill Irwin.
- Pacek, N. , & Thorniley, D. (2004). *Emerging markets : lessons for business success and the outlook for*

different markets. [http://ifcblog.ifc.](http://ifcblog.ifc.org/emergingmarketsifc/2006/09/emerging_econom.html)

[org/emergingmarketsifc/2006/09/emerging_econom.html](http://ifcblog.ifc.org/emergingmarketsifc/2006/09/emerging_econom.html)