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Unit 1

Introduction



Objectives

After reading this unit, you will understand

- The importance of foreign trade to a nation
- In a general way China's foreign trade
- The main process of export and import
- In a general way the relevant laws and regulations in international trade
- The organizations involved in export and import
- Basic requirements for the work of import and export
- The main contents of this course
- How to learn this course well



Preview Case

BEIJING, July 6, 2009 (Xinhua)—The Bank of China (BOC), China's largest foreign exchange bank, announced Monday that it had transacted the first cross-border yuan trade settlement deal Monday morning. The BOC said its Shanghai branch had received the first cross-border yuan trade settlement deal from the BOC (Hong Kong) Monday. The payee was Shanghai Electric International Economic and Trading Co. Ltd., a subsidiary company of Shanghai Electric Group Co. Ltd., and the remitter was the company's business partner in Hong Kong, said the Beijing-based BOC in a statement on its Web site Monday. China's State Council, or Cabinet, announced in April this year a pilot program to allow exporters and importers in Shanghai, and southern Guangzhou, Shenzhen, Zhuhai and Dongguan cities to settle cross-border trade deals in Renminbi (RMB), or yuan.

1.1 The Importance of Foreign Trade for a Nation

Foreign trade is of great importance to a nation for three reasons.

Firstly, foreign trade can create jobs. The international market is very large while the domestic market is limited. So, with foreign trade, a nation can increase its products' sales and thereby create jobs at home. This is especially true of China, whose exports are produced labor intensively. Calculations indicate that for each increase in export sales by one hundred million dollars, twelve thousand new jobs are created in China.

Secondly, foreign trade can improve living standards. According to international trade theory, a key driver of international trade is cost differentials between countries for the same commodity. A nation can buy goods in a foreign country more cheaply than it can produce those goods at home. Thus, by reducing the cost, and by increasing the range of goods available to the consumer, foreign trade raises living standards.

Finally, competition with foreign companies brings long-term improvement in industrial competitiveness. Production efficiencies are upgraded by the introduction into the home market of advanced technologies and equipment improvements that strengthen the growth of domestic industries.

Students' Task Can you feel the influence of foreign trade on your own life? Share your examples with your classmates.

1.2 A View on China's Foreign Trade

Since 1978, China has seen steady growth in its foreign trade. The following table shows this. (In hundred million USD)

	1980	1990	1995	2000	2005	2008
Import	195.5	533.5	1,320.8	2,250.9	6,601.2	11,330.0
Export	182.7	620.9	1,487.8	2,492.0	7,620.0	14,285.5

In 1980, China's foreign trade accounted for less than 1% of global trade and ranked 32 in the world. In 2008, after more than two decades of development, China ranked third in terms of trade volume and accounted for more than 8% of global trade. Following

adjustments in its industrial structures and technological advancement, China's principal exports in 2008 were industrial finished goods (94.6% of total export volume), with primary goods accounting for only 5.4% of the total export volume. In the year 1980, the proportion of primary goods in the total export was 50.3%.

There are some problems with China's foreign trade. The export mix needs further optimization. At present, most of China's exports are produced labor intensively. Their added value is comparatively low. Low price makes China's goods attractive in export markets. However, with other countries coming in with more competitive costs, the advantage of low price cannot be sustained.

China's exports are produced largely by companies dependent upon foreign investment. Thus, China's control over its export is still relatively weak.

Target export markets are restricted. At present China's three biggest trade partners are: the European Union, Japan and the U. S. and these markets account for more than 50% of China's total export volume. For international trade is influenced by relations between trade partners, in order to minimize political and market risk, it will be necessary that China diversify its export markets.

China's Top 10 Trading Partners, 2008 (in hundred million USD)

Country or Area	Export	Import
EU	2,928.8	1,327.0
U. S.	2,523.0	814.4
Japan	1,161.3	1,506.5
ASEAN	1,141.4	1,169.7
HK, China	1,907.4	129.2
South Korea	739.5	1,121.6
Taiwan, China	258.8	1,033.4
Australia	222.4	374.2
Russia	330.1	238.3
India	315.0	202.8

Source: General Administration of Customs of the People's Republic of China.

Students' Task Do a research on the foreign trade in the area where you are studying and write a report of no less than 500 words in English on your findings.

1.3 The Classification of International Trade

1. International trade and foreign trade

International trade is the exchange of commodities or services between different nations. Foreign trade is the exchange of goods or services between one nation or area with other nations or areas. Foreign trades of all nations and areas together form international trade.

2. Visible trade and invisible trade

Visible trade is the trade of visible goods. Invisible trade is the offering and accepting of services or technologies and so on.

3. Export and import

Export means the selling of goods or services by one nation to another nation; for the selling nation it is export; for the buying nation it is import.

4. Direct trade and indirect trade

Direct trade means the trade directly between the importing nation and the exporting nation. Indirect trade refers to the trade done through a third nation or country, it happens when the importing nation and the exporting nation do not have normal trade relations. For example, before China and the U. S. established normal diplomatic relations, Chinese goods were exported to the U. S. through Hong Kong.

1.4 The Analysis of Foreign Trade for a Nation

1. Scale of a nation's foreign trade

The scale of a nation's foreign trade is described by the country's total volume of exports and imports, by its ranking in world trade and by the percentage it takes of world trade.

2. Export mix

Export mix means the composition of exported goods. From its export mix, we can see the competitive advantages and disadvantages of the nation. For example, the export mix of the U. S. and China are quite different.

3. The geographic distribution of exports

The geographic distribution of exports means the different areas to which a nation is exporting its commodities. It describes the closeness of trade relations between a nation and other parts of the world.

4. Foreign trade policy

Foreign trade policy means the principle of actions of a nation in foreign trade.

Fundamentally, all nations implement a free trade policy or protectionist policy. Free trade theory advocates the free flow of goods and services between nations. Protectionism holds that governments should act to prevent the free flow of foreign products into their domestic markets.

Question What are trade barriers and what forms do trade barriers take in international trade?

1.5 International Organizations Involved in International Trade

To help international trade develop smoothly and normally, quite a few organizations were set up. They include the World Trade Organization (WTO), the International Chamber of Commerce (ICC), the United Nations Conference on Trade & Development (UNCTAD), the International Monetary Fund (IMF) and the World Bank Group (WB).

1. World Trade Organization (WTO)

According to the website of the WTO, “The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world’s trading nations and ratified in their parliaments. The goal of the WTO agreements is to help producers of goods and services, exporters, and importers conduct their business.”

For more information, please visit the official website of WTO: <http://www.wto.org/>

Do you know the following about the WTO?

Location: Geneva, Switzerland

Established in: January, 1995

Created by: The Uruguay Round Negotiations

Membership: 153 members on 23 July, 2008

The functions of the WTO can be described as:

- It’s an organization for liberalizing trade.
- It’s a forum for governments to negotiate trade agreements.
- It’s a place for them to settle trade disputes.
- It operates a system of trade rules.

Question When did China join the WTO? What significant changes have the WTO brought to China's foreign trade?

For information about the WTO and China, please refer to the website: <http://www.chinawto.org.cn/>.

2. International Chamber of Commerce (ICC)

Founded in 1919, the ICC is an organization made up of companies from more than 130 nations. They represent a broad cross-section of business activity including manufacturing, trade, services and the professions. Through membership of the ICC, these companies shape rules and policies that stimulate international trade and investment. The companies in turn count on the prestige and expertise of the ICC to get business views across to governments and intergovernmental organizations, whose decisions affect corporate finances and operations worldwide.

The purposes of the ICC are the following:

- Setting rules and standards.
- Arbitration under the rules of the ICC International Court of Arbitration is on the increase. ICC's Uniform Customs and Practice for Documentary Credits (UCP600) are the rules that banks apply to finance billions of dollars worth of world trade every year. ICC Incoterms are the standard international trade definitions used every day in countless transactions between countries. ICC model contracts make life easier for small companies that cannot afford big legal departments.
- Promoting growth and prosperity.
- Spreading business expertise.
- Being an advocate for international business.

For detailed information, please visit the official website of ICC: <http://www.iccwbo.org/>.

Question What is the difference between the function of the WTO and that of the ICC?

3. ICC China

Established in May 1952, China Council for the Promotion of International Trade (CCPIT) comprises VIPS, enterprises and organizations representing the economic and trade sectors in China. It is the most important and the largest institution for the promotion of foreign trade in China. The aims of the CCPIT are to operate and promote foreign trade, to

use foreign investment, to introduce advanced foreign technologies, to conduct activities of Sino-foreign economic and technological cooperation in various forms, to promote the development of economic and trade relations between China and other countries and regions around the world, and to promote the mutual understanding and friendship between China and peoples and economic and trade circles of all nations around the world, in line with law and government policies of the People's Republic of China. With the approval of the Chinese government, the CCPIT started to adopt a separate name — China Chamber of International Commerce (CCOIC) in 1988, which is used simultaneously with the CCPIT. The CCPIT admits new members from among enterprises in all parts of China and promotes trade through its functions of information consultation, exhibition, legal assistance, etc. For more information, please visit the website: <http://www.ccpit.org/>.

Question Visit the website of CCPIT branch office in your area and get to know how it helps local enterprises in international business?

4. United Nations Conference on Trade & Development (UNCTAD)

Established in 1964, the UNCTAD promotes the development-friendly integration of developing countries into the world economy. The UNCTAD has evolved into an authoritative knowledge-based institution that helps shape policy and thinking on development. A particular focus of the UNCTAD is ensuring that domestic policy and international action are mutually supportive in bringing about sustainable development.

The organization works to fulfill this mandate by carrying out three key functions:

- It provides a forum for intergovernmental deliberations, supported by discussions with experts and exchanges of experience, aimed at consensus building.
- It undertakes research, policy analysis and data collection for the debates of government representatives and experts.
- It provides technical assistance tailored to the specific requirements of developing countries, with special attention to the needs of the least developed countries and of economies in transition.

One of the principal achievements of UNCTAD has been to conceive and implement the Generalized System of Preferences (GSP). It was argued in UNCTAD fora that in order to promote exports of manufacturers from developing countries, it would be necessary to offer special tariff concessions to such exports. Accepting this argument, the developed countries formulated the **GSP Scheme** under which exports of manufacturers and semi-manufacturers and some agricultural items from the developing countries enter duty-free or at reduced rates

in the developed countries. Since imports of such items from other developed countries are subject to the normal rates of duties, exports from the developing countries would be more competitive. Under this program, developed nations offer **generalized, non-reciprocal, and non-discriminatory** tariff preference for the import of finished and semi-finished products from developing nations.

The claim for GSP treatment must be supported with the appropriate documentary evidence. The **GSP Certificate of Origin Form A** is used for this purpose. The GSP Certificate of Origin Form A is issued by the local branch office of the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (<http://www.aqsiq.gov.cn/>).

China is now a beneficiary country of GSP program. In the world, there are more than 30 industrial countries who offer GSP preferences to certain goods imported from the beneficiary countries. Most preference giving countries offer preferences to China. For detailed information about the preference giving countries and the beneficiary countries, please visit the website of United Nations Conference on Trade and Development (<http://www.unctad.org/>).

Question Can a beneficiary country of GSP enjoy the special treatment forever? Do all the goods imported from the beneficiary country enjoy the preferences? How to apply for a GSP Certificate Origin Form A?

1.6 Institutions Involved in a Foreign Trade Transaction

A foreign trade transaction generally includes a set of steps in which quite a few institutions are involved:

Name of Institution	Function Served
Exporter	Produces or provides commodities
Forwarder (shipping agent)	Acts as a bridge between the shipping company and the consignor (in some cases, arranges for customs clearance for the exporter or importer)
Shipping company	Provides transportation services
Insurance company	Provides insurance services for the cargo

(continued)

Name of Institution	Function Served
Inspection institution	Provides inspection services and issues relevant certificates of inspection
Exporter's bank	Provides settlement and finance services to the exporter
Importer's bank	Provides settlement and finance services to the importer
Customs	Approves the import and export of goods
Importer	Buys the commodities and makes payment

1.7 Laws and Regulations Governing International Trade

Doing international business is just like playing games with people from all around the world. To insure the play fair and smooth, a set of rules and laws must be in place. With hundreds of years' development, quite a few rules and laws have come into being to regulate and administer the transactions of international trade.

1. The United Nations Convention on Contracts for the International Sale of Goods (CISG)

The United Nations Convention on Contracts for the International Sale of Goods is a treaty offering a uniform international sales law that, as of July 2008, had been ratified by 71 countries that account for a significant proportion of world trade, making it one of the most successful international uniform laws. Japan is the most recent state to have ratified the Convention. The CISG allows exporters to avoid choice of law issues as the CISG offers “accepted substantive rules on which contracting parties, courts, and arbitrators may rely”.

The CISG was developed by the United Nations Commission on International Trade Law (UNCITRAL) and was signed in Vienna in 1980. It came into force as a multilateral treaty on 1 January, 1988, after being ratified by eleven countries. Countries that have ratified the CISG are referred to within the treaty as “Contracting States”. Unless excluded by the express terms of a contract, the CISG is deemed to be incorporated into (and supplant) any otherwise applicable domestic law(s) with respect to a transaction in goods between parties from different Contracting States. Of the uniform law conventions, the CISG has been described as having “the greatest influence on the law of worldwide trans-border commerce”.

The CISG has been described as a great legislative achievement and the “most successful international document so far” in unified international sales law, due in no small part to its flexibility in allowing Contracting States the option of taking exception to some specified

articles. This flexibility was instrumental in convincing states with disparate legal traditions to subscribe to an otherwise uniform code. A number of countries that have signed the CISG have made declarations and reservations as to the Treaty's scope, though the vast majority has chosen to accede to the Convention without any reservations.

References will be made to the CISG from time to time when going through this book. For full version of it just refer to the appendix.

Question Did China have some reservations to the CISC when signing it?
Share your findings with your classmates.

2. Incoterms 2000

“Incoterms, the official ICC rules for the interpretation of trade terms, facilitate the conduct of international trade.” Incoterms define the rights and obligations of buyers and sellers in international sales contracts. On January 1st, 2000, Incoterms 2000 replaced the previous Incoterms dated 1990. Some terms can be used only for sea and inland waterway transport, whereas others can be used irrespective of the mode of transport. Incoterms 2000 describe the respective responsibilities of buyers and sellers in international trade. Devised and published by the International Chamber of Commerce, they are at the heart of world trade. ICC introduced the first version of Incoterms—short for “International Commercial Terms”—in 1936. Since then, ICC experts, lawyers and trade practitioners have updated them six times to keep pace with the development of international trade.

Most contracts made after January 1st, 2000 will refer to the latest edition of Incoterms, which came into force on that date. The correct reference is to “Incoterms 2000”. Unless the parties decide otherwise, earlier versions of Incoterms — like Incoterms 1990 — are still binding if incorporated in contracts that are unfulfilled and dated from before January 1st, 2000.

Versions of Incoterms preceding the 2000 edition may still be incorporated into future contracts if the parties so agree. However, this is not recommended because the latest version is designed to bring Incoterms into line with the latest developments in commercial practice.

Students' Task Refer to Incoterms 2000 to get a general idea about the obligations of the seller and the buyer which are specified by Incoterms 2000.

3. UCP 600

The Uniform Customs and Practice for Documentary Credits (UCP) is a set of rules

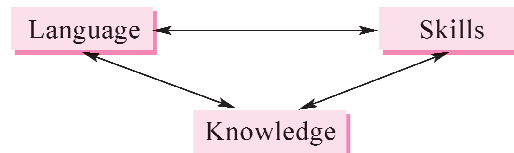
governing credits drafted by the International Chamber of Commerce. The UCP is periodically reviewed and updated by the ICC Banking Commission. Since 1993, the UCP 500 has applied, which governed all documentary credits that incorporated the UCP into their terms. As of 1 July 2007, however, the new revision came into force; the UCP 600.

After more than 3 years of review, debate and analysis the drafting group released the UCP 600. The UCP 600 is shorter than its predecessor, coming in at 39, rather than 49, articles. The new UCP also looks different; it is not arranged into sub-parts as is the UCP 500, although it can be broken up in much the same way.

Students' Task Have a glance over the UCP 600 and get a general idea about its contents and structure.

1.8 The Aim of the Course

The aim of this course is to give the students training in three aspects: language, knowledge and skills required for the practice of international trade.



1. Knowledge

After learning this course, students will be well-equipped with knowledge in the following areas: commodity name; quality and quantity of goods; packing of goods; price terms; cargo transport and insurance in international trade practice; payment in international trade; commodity inspection; claim and arbitration and the negotiation and performance of contracts. The knowledge will give the students a clear picture about the process of international trade practice and help them think and solve problems in a systematic way.

2. Language

In international trade, most communications, either written or oral, are done in English. English is becoming increasingly important for a student who wants to develop a career in the field of foreign trade. The English used in international trade is quite different from the English used in daily life. English in international trade practice has its own vocabulary, grammar, style and format. Only through use can a student improve his/her ability to

communicate in English in different international trade settings.

3. Skills

The practical skills needed in international trade practice include: the skills of negotiation; problem analysis and solving; communicating orally and in writing effectively; preparing various documents required for the transaction and skills for the management of risks.



Exercises

I. Translate the following institution names into Chinese and explain their basics to your classmates in your own words.

1. World Trade Organization _____
2. International Chamber of Commerce _____
3. United Nations Conference on Trade & Development _____
4. World Bank _____
5. International Monetary Funds _____
6. The Ministry of Commerce of the People's Republic of China _____
7. The China Council for the Promotion of International Trade _____
8. General Administration of Customs of the People's Republic of China _____
9. General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China _____

II. Judge whether the following statements are true (T) or false (F).

- () 1. China is now the biggest country in the world in terms of export and import volume.
- () 2. According to Factor-Proportion Theory, China shall only produce labor intensive products.
- () 3. GSP tariff rate is the lowest compared with MFN Tariff Rate and General Tariff Rate.
- () 4. Incoterms 2000 specify all the obligations of the seller and the buyer in a trade transaction.

()5. Most of the international transactions are paid by letter of credit.

III. Project.

Do a research on the foreign trade condition of the city/area where you are studying and write a report of no less than 500 words to cover your findings. You may work by yourself or with other students to accomplish this project.

Your research may include some or all of the following:

1. The foreign trade volume of the city/area.
2. The main target markets for the export.
3. The main categories of goods for export and import.
4. The advantages and disadvantages of the export.
5. The main companies involved in export and import.

Your report shall meet the following requirements:

1. The data and facts shall be true and real.
2. The reasoning process is logic.
3. The conclusion shall be reasonable.
4. The sources of information for reference shall be indicated.
5. English shall be the report language.

Assessment criteria for reference:

Item	Proportion
Contents	50%
Language	20%
Logic	10%
Team work (if any)	10%
Research method and preparation	10%