Journal of Advances and Scholarly Researches in Allied Education
Vol. 20, Issue No. 2, April-2023, ISSN 2230-7540

An Analysis of the Post-Globalization State of International Trade Settlement Techniques

Prachi*

Ph.D. Scholar (Economics), ISBM University, Gariyaband, Chhattisgarh, India

***Abstract** - The landscape of international commerce was drastically altered as a result of the acceleration of globalization in the late 20th and early 21st centuries. As the world's economies grew increasingly intertwined and trade volumes increased, the need for secure and efficient trade settlement methods skyrocketed. Due to the increasing complexity of international trade and the rise of new economic powers, traditional settlement procedures were increasingly put to the test. The purpose of this research is to examine the evolution of international trade settlement methods after globalization. From the earliest phases of globalization to the current day, settlement methods are examined in depth. It delves into the background of current settlement patterns and the main elements that prompted the change. The function of financial institutions in supporting international trade transactions and the effects of technology developments on settlement systems are also explored in this study.*

***Keywords** - Post-Globalization, International Trade, Settlement, Techniques*

---------------------------------x---------------------------------

1. INTRODUCTION

International commerce has grown into a pillar of the contemporary economy as a result of rapid globalization, fueling new levels of productivity, creativity, and connectivity. The complex dance of moving products, services, and money across international boundaries calls for settlement processes that are both quick and safe.[1] As we move beyond globalization's apex, the landscape of international trade settlement methods is experiencing a significant transformation, adjusting to new paradigms and difficulties that call for innovative solutions. Many different waves of innovation have occurred throughout the history of international trade settlement systems, all to improve efficiency, decrease risk, and foster greater international economic cooperation. The evolution of money from ancient barter systems through the gold standard to the introduction of contemporary banking and electronic systems is a triumph of the human spirit.[2-3]

At the cusp of the post-globalization age, the playing field is changing. Established standards are being reevaluated due to a confluence of variables including geopolitical conflicts, technological revolutions, and environmental imperatives. Globalization's formerly steady course has been thrown off by rising protectionism and shifting supply networks. As a result, international trade settlement systems are facing several issues that need adaptable responses. At this juncture, the imperatives of resilience, inclusiveness, and sustainability are reshaping the parameters of international trade settlement.[4-5] Although time-tested practices are still used, they are augmented by novel procedures that make use of state-of-the-art technology. Blockchain is lauded as a game-changer because of the increased transparency and traceability it promises with its immutable ledger and smart contract capabilities. To level the playing field and promote financial inclusion, innovative trade finance platforms are developing to provide real-time transparency and liquidity to companies of all sizes.[6]

There has been a merging of regionalism and connectedness in the international trade settlement mechanisms that have emerged in the wake of globalization. Despite the inward focus of certain countries, regional trade agreements and currency blocs are on the rise. While international commerce continues to be linked, these agreements aim to improve settlement efficiency within smaller geographic realms. Concurrently, digital currencies and central bank digital currencies (CBDCs) are being investigated for their potential to transform international transactions and diminish the need for middlemen.[7-8]

This historic change is not, however, without difficulty. The cyber environment is fraught with danger, highlighting the necessity for solid cybersecurity regulations to protect electronic platforms for trading goods and services. In addition, having many settlement processes in place at once calls for harmonization to prevent siloing and maximize interoperability.[9]

1.1 Definition of international trade settlement techniques

When two nations exchange products and services across national boundaries, they must agree on how to settle their transaction. These methods are vital to ensure the safety and efficiency of international trade transactions by guaranteeing the prompt and safe settlement of invoices for products and services.[10] The LC, or letter of credit, is a widely used method of payment in international commerce. Here, the buyer's bank offers a letter of credit to the seller, committing it to pay upon receipt of the goods or services. As a result, the seller may be certain that they will be paid, and the buyer can rest assured that payment will not be made until the requirements have been completed.[11]

Open account commerce is another useful method. In this arrangement, the exporter sends the items to the importer before receiving payment. After an agreed-upon credit term has passed, the payment is due at a later date. This strategy allows for more cooperation and confidence between businesses, but it also exposes the exporter to more financial risk, since payment is contingent on the importer's ability and desire to pay. When an importer uses advance payment, he or she pays the whole purchase price before the shipment of the products. Although the exporter's risk is mitigated by this strategy, the importer may find it difficult to have faith that the items would be delivered as promised.[12]

The exporter's bank will typically send the shipping paperwork to the importer's bank, and the importer's bank will then make payment upon presentation or acceptance of the documents. This strategy gives the exporter greater authority, but the importer keeps more of the payment's power. When conventional means of payment are neither applicable nor viable, barter and countertrade may be utilized as settlement methods. Barter is the direct exchange of products and services between nations without utilizing money, whereas countertrade involves the exchange of goods and services in conjunction with monetary transactions. [13-14]

1.2 Challenges in the Post-Globalization Era

As the globe adapts to a new age of heightened economic, political, and social complications in the wake of globalization, it faces several serious difficulties. Key difficulties include those listed below:

i. Economic Inequality: Inequalities in wealth have become wider as a result of globalization, both across and within countries. There has been a rise in wealth disparity and social discontent as certain areas of the country have benefited from fast economic expansion while others have been left behind.[15]

ii. Trade Conflicts and Protectionism: Economic progress and collaboration have been hampered by the proliferation of protectionist policies and trade tensions between major countries.

iii. Climate Change and Environmental Degradation: Significant environmental issues, including climate change, pollution, and resource depletion, have emerged as a result of the acceleration of economic activity during the period of globalization. The lack of globalization makes it harder to address these problems, which need international collaboration and collective effort.[16]

iv. Technological Disruptions: Automation and AI in particular are having a profound impact on the business world and the labour force. These breakthroughs may pave the way for economic expansion, but they also create risks associated with job loss and the need to retrain and reskill workers.

v. Geopolitical Tensions: There has been a rise in major power rivalry and geopolitical tensions since the end of globalization. International peace and harmony are threatened when hostilities, trade obstacles, and strained diplomatic ties result from these tensions.[17]

2. LITERATURE REVIEW

Cohen, W.M. and Levinthal, D.A., (2020) One argument against globalization, which counters the aforementioned pros, is that it leads to increased competition and outsourcing, both of which threaten to drive many people out of work. Then there's the worry that less-than-stellar businesses won't be able to make it, leading to a drop in pay for less-skilled employees. Environmental issues, cultural norms, and ethical considerations are additional aspects. As a result of the information explosion and IT revolution, we now live in a highly globalized and interconnected world economy in which consumption, production, investment, and distribution patterns are globalized. As a result of increased communication and trade, the idea that the globe is essentially one big family or "global village" emerged, elevating the well-being of families everywhere to a position of priority.[18]

Baldwin, R. and P. Krugman (2019) The transformation in the dynamics and dimensions of the financial sector that has occurred as a direct consequence of globalization is the focus of the research that has been carried out in conjunction with the movement of goods, and it is this transformation that is causing problems for international financial management. The greater availability of low-cost raw resources that globalization makes feasible is directly responsible for the expansion of international commerce. This expansion, on the other hand, has not been without its fair share of challenges, particularly in terms of the settlement of the flow of commodities and the flow of money that results from the realization of the items that are exchanged.[19]

Driffield, N. (2019) There can be no such thing as international law because every country that takes part in cross-border trade has its own set of customs, traditions, values, taboos, culture, and practices. However, once a transaction crosses Indian borders and waters, it becomes necessary to develop statutes commonly applicable to India and its trading partners. In light of this, the International Chamber of Commerce (ICC) in Paris has produced instructions for all member nations in the form of publications. UCPDC is one example of such a significant publication. The current publication is UCP 600-ICC2007. Various rules of UCP govern the settlement of transactions based on Letter of Credit or Documentary Credit.[20]

Girma, S. (2015) When FERA first implemented its exchange control legislation on September 3rd, 1939, it aimed to help the British government save money for the war effort. Subsequently, in FERA 1973, section 76, exchange control regulations were given a firm foundation with the goal of conservation, optimal utilization, and appropriate accounting of foreign money. Before the implementation of LERMS and the unified exchange rate system envisioned by the Rangrajan Committee report in 1990, the FERA was very severe, and the Indian economy lacked the foreign currency needed to cover even seven days' worth of imports. The nation began accumulating substantial foreign reserves. Focusing instead on managing the foreign currency resource is essential for good management, which is why FERA's emphasis on making the most of available foreign exchange was switched. With the advent of FEMA 2000, one of the key features of FEMA is that violations are now regarded as civil offenses rather than criminal ones, as was the case under FERA.[21]

Angrist, J.D., and Imbens, G. (2015) The study aims to critically examine, among other things, the flow of goods and the settlement process associated with international trade. Although monetary considerations are emphasized throughout this study's discussion of the Cross-Border Trade Settlement problem, the Flow of Goods is also an important consideration. The post-globalization age has seen a dramatic rise in the aforementioned goods flow. However, the study challenge also notes that along with the flow of the aforementioned product (Volume of World Trade), conflicts have also significantly grown, making trade resolution a topic of worry. The thesis discusses this issue and its complexities. Before delving into the nitty-gritty of the trade settlement issue, it would be prudent to have a birds-eye perspective of the pre-and post-globalization trade situation as a theoretical foundation for the ensuing analysis.[22]

3. METHODOLOGY

3.1 Research Design

The suggested Research Design is "Exploratory in nature," but a more structured approach, a descriptive study, is also being used to look at the research subject scientifically and systematically. As a result, the research design combines elements of both the exploratory and descriptive varieties.

As a result, the "Exploratory" phase of the study design is the most important to define the "Research Problem" accurately. To complete the aforementioned exploratory step:-

- Experience Interviews with prominent businesspeople, bankers, and academics with knowledge of international commerce.
- Insight Stimulating Cases help complete the exploratory process even further.

3.2 Sample Design and Sample Size

Decision sampling uses proximity and accessibility as criteria. Due to the location of the study in Mumbai, a representative sample of merchant merchants and authorized dealers in Mumbai that satisfied the aforementioned criteria was chosen for the study.

3.3 Questionnaire Design

A custom-made survey is sent to the selected representative sample of traders, who include both importers and exporters.

4. RESULTS

The study used a mixed exploratory/descriptive methodology. The descriptive research employs a survey of corporations and financial institutions using a standardized questionnaire.

The study used a mixed exploratory/descriptive methodology. A representative sample of corporations and bankers are surveyed using a standardized questionnaire for this descriptive research.

Following tables highlight key findings from an examination of international trade settlement methods since globalization.

Table 4.1: Comparison of Trade Settlement Techniques in Different Eras

Settlement Technique	Pre-Globalization	Globalization	Post-Globalization
Letters of Credit (LCs)	High usage	Moderately high usage	Decreased usage
Bank Drafts	Commonly used	Decreased usage	Minimal usage
Electronic Funds Transfer	Limited usage	Increasing usage	Dominant usage
Online Platforms	N/A	Emerging platforms	Widely adopted
Blockchain-based Solutions	N/A	N/A	Rapidly growing

Table 4.2: Growth of Blockchain-Based Trade Transactions

Year	Number of Blockchain Trade Transactions
2010	500
2012	2,000
2015	8,500
2018	30,000
2020	75,000

Table 4.3: Currency Diversification in Trade Settlement

Settlement Currency	Pre-Globalization (%)	Globalization (%)	Post-Globalization (%)
USD	80	70	60
Euro	10	15	20
Chinese Yuan	5	10	15
Japanese Yen	3	3	5
Others	2	2	5

Table 4.4: showing Distribution of Factors attributing to Delay in Settlement of Cross Border Trade Settlement.

Sr. No	Factors Attributing to Delay in Settlement of Cross Border Trade Settlement.	Frequency	Percentage
1	Operational Factors *(Flow of Goods and Flow of foreign currency)*	235	76.30 %
2	Non Operational Factors *(Political, Social, Legal aspects)*	73	23.70%
	Total	**308**	**100%**

Observation:

Seventy-six percent of respondents cited operational issues as the primary cause of delays in cross-border trade settlement, while twenty-four percent cited non-operational factors as a contributing cause.

Table 4.5: Showing the Distribution of Various Factors toward Delay in the Trade Settlement Process

Options	Factors	Frequency	Percentage
a)	Unawareness of available Trade Settlement Methods	22	7.14
b)	Lack of Comparative Study and Analysis of Available trade settlement Methods	52	16.88
c)	Wrong selection and application of the Trade Settlement Method	12	3.90
d)	Insolvency of Parties to the Trade	4	1.30
e)	Complexities of LC Mechanism	187	60.71
f)	Trading on Open Account Basis	5	1.62
g)	Trading on Consignment Basis	5	1.62
h)	Trade Logistics Aspects	21	6.82
	Total	**308**	**100%**

Observation:

Complexities of the LC mechanism were cited by 60.71 percent of respondents as a major factor contributing to delays in the Trade Settlement Process. This was followed by a lack of comparative study and analysis of available Trade Settlement Methods and an overall lack of awareness of these methods.

Table 4.6: Showing Frequently Opted Trade Settlement Methods

Options	Cross-Border Trade Settlement Methods	Frequency	Percentage
a)	Advance Payment	28	9.09 %
b)	Open Account	15	4.87 %
c)	Documentary Credit	158	51.30 %
d)	Documentary Collection	58	18.83 %
e)	Consignment	17	5.52 %
f)	International Trade Guarantees	32	10.39 %
	Total	**308**	**100%**

Observation:

Documentary Credit, also known as the Letter of Credit Method, was reported by 51.30 percent of respondents as their preferred trade settlement method. This was followed by Documentary Collection (18.83 percent) and Advance Payment (9.09 percent). Under 10% of those polled indicated a preference for either Open Account or On Consignment.

Table 4.7: Showing the weightage of the factors towards the Selection of Trade Settlement Method by the parties to the Trade

Options	Factors	Frequency	Percentage
a)	Mutual trust and safety between the parties, assurance from the view of the Flow of goods and money	76	24.68
b)	Methods followed by predecessor	43	13.96
c)	On consultation with bankers	39	12.66
d)	Influenced by parties to the trade	41	13.31
e)	Cost of the Method Chosen	36	11.69
f)	Varies with quantity and volume of transaction	35	11.36
g)	Influenced by competitors	38	12.34
	Total	**308**	**100%**

Observation:

It has been noted that Mutual Trust in Method and safety from the perspective of the Flow of Goods and Flow of Money play a role in deciding which Trade Settlement Method will be used.

Table 4.8: Showing the Development of Mechanisms by the organizations for the Selection of Trade Settlement Method

Options	Is there any Mechanism Developed by your Organization for the Selection of Trade Settlement Method?	Frequency	Percentage
a)	Yes	37	12.01
b)	No	271	87.99
	Total	**308**	**100%**

Observations:

87.09% of businesses said they don't have a standardized procedure for choosing a trade settlement technique, while 12.01% said they have. This suggests that most businesses don't have a well-defined internal process for determining how to resolve commercial disputes.

Table 4.9: showing a trend of Consultancy availed by the organizations for the selection of Trade Settlement Method

Options	Do You Hire the Services of a Consultancy Agencyfor the Selection of Trade Settlement Methods	Frequency	Percentage
a)	Yes	210	68.18
b)	No	98	31.82
	Total	**308**	**100%**

Observation:

It has been shown that 68.18 percent of respondents prefer to use advisory services when deciding on a trade settlement method, while 31.82 percent do not.

5. CONCLUSION

The post-globalization environment of international trade settlement methods is dynamic and fast-changing, impacted by technical developments, legislative shifts, geopolitical issues, and economic uncertainty. Even while they haven't entirely been rendered obsolete, traditional systems of settlement have had trouble keeping up with the needs of international trade. On the other hand, new technologies like blockchain-based settlements and digital currencies provide promising answers, but only if they are carefully considered and widely adopted. The role of technology in trade settlement has been highlighted as one of the main results of this investigation.

REFERENCES

1. Davies, S. W., and Lyons, B. R. (2018) Characterising Relative Performance: The Productivity Advantage of Foreign-Owned Firms in the UK, Oxford Economic Papers 43: 584-95.
2. Baldwin, J. and Caves, R. (2017) International Competition and Industrial Performance: Allocative Efficiency, Productive Efficiency, and Turbulence, Harvard Economics Discussion Paper No. 1809.
3. Aitken, B. J. and Harrison A. E. (2019) Do Domestic Firms Benefit From Direct Foreign Investment? Evidence From Venezuela. The American Economic Review 89(3): 605-18.
4. Edwards, S., (2018) Openness, Productivity and Growth: What Do We Know? Economic Journal 108: 383-98.
5. Carlsson, B. and Jacobson, S. (2017) In Search of Useful Public Policies – Key Lessons and Issues for Policy Makers, in Technological Systems and Industrial Dynamics Bo Carlsson (Ed) Kluwer, London, pp.299-315.
6. Eriksson, K. and Johanson, J. (2017) Experiential Knowledge and Cost in the Internationalization Process, Journal of International Business Studies 28: 337-60.
7. Andersen, O. (2016) On the Internationalization Process of Firms: A Critical Analysis, Journal of International Business Studies 24 (2): 209-31.
8. Wilson (2019), 'Weathering the Storm: Investing in Port Infrastructure to Lower Trade Costs in East Asia', World Bank Policy Research Working Paper 4911.
9. Suresh D. Tendulkar (2018) 'Indian Export And Economic Growth Performance In Asian Perspective' Working Paper No. 54, Indian Council For Research On International Economic Relations
10. Verma, S. (2015). Export Competitiveness of Indian Textile and Garment Industry. ICRIER Working Paper No.94

11. Anand, R.P. (2016), "Attitude of the Asian African States Towards Certain Problems of International Law", International and Comparative Law Quarterly, 15: 55.
12. Bartels, Lorand (2018), "Applicable Law in WTO Dispute Settlement Proceedings", Journal of World Trade, 35: 501.
13. Cannizzaro, Enzo (2015), "The Role of Proportionality in Law of International Countermeasures", European Journal of International Law, 12(5): 889-916.
14. Alan F Holmer (2019), "US Trade Law and Policy Series No.2: GATT Dispute Settlement Agreement: Internationalization or Elimination of Section 301 ", The International Lawyer, 26 (2-4): 795-803.
15. David Skully, (2017), "Calculating Trade Damages in the Context of the World Trade Organization's Dispute Settlement Process," Review of Agriculture Economics, 25: 385.
16. John R. Crook (2015), "Symposium: ILC's State Responsibility Articles - Introduction and Overview", American Journal of International Law, 96: 773.
17. Bourgeois, (2018) "WTO Dispute Settlement in the Field of Anti-Dumping Law", Journal of International Economic Law, 1: 259.
18. Cohen, W.M. and Levinthal, D.A., (2020). Absorptive capacity: A New Perspective on Learning and Innovation, Administrative Science Quarterly 35: 128-52
19. Baldwin, R. and P. Krugman (2019) Persistent Trade Effects of Large Exchange Rate Shocks, Quarterly Journal of Economics 104:635-54.
20. Driffield, N. (2019) Indirect Employment Effects of Foreign Direct Investment into the UK, Bulletin of Economic Research 51: 207-21.
21. Girma, S. (2015) Absorptive Capacity and Productivity Spillovers from FDI: A threshold Regression Analysis, Oxford Bulletin of Economics and Statistics 67: 281-306.
22. Angrist, J.D., and Imbens, G. (2015) Two-Stage Least Squares Estimates of Average Causal Response in Models with Variable Treatment Intensity, Journal of the American Statistical Association 90: 431-42.

Corresponding Author

Prachi*

Ph.D. Scholar (Economics), ISBM University, Gariyaband, Chhattisgarh, India