

# Methods of International Payment

In a cross-border trade process, the exporter is giving away his merchandise until the importer pays his invoice, and the importer is donating to the exporter until the goods reach his hands in perfect condition. To reduce the risks that both faces, it is essential to know all the international payment methods and choose the most suitable one.

## **Cash in Advance.**

With this mechanism, the exporter is paid before the shipment is made. It is one of the safest ways for him since he will only send the merchandise until he receives the transfer of funds. However, requiring payment in advance is the least attractive option for the buyer because it creates unfavorable cash flow. Foreign buyers are also concerned that the goods may not be sent if payment is made in advance.

## **Documentary Collections.**

A bank on behalf of the exporter presents the documents to the buyer or importer so that they can receive the merchandise with the aim of making the corresponding payment immediately.

## **Credit Letters**

This instrument is the safest for both parties since it is subject to regulation by international organizations and is managed by financial institutions. With this mechanism, the importer agrees to pay the exporter through a bank, if the terms and conditions of the delivery of merchandise are met. Everything, established in a letter.

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## Open Account

This method obliges the exporter to send the goods without any guarantee. Finally, when the importer receives them in accordance with his expectations, he will start counting the payment period agreed upon a priori. They can be from 30, 60 or 90 days after receiving the shipment. There is no document or financial institution involved, so the exporter assumes all the risk.

## Consignment

It is based on a contractual agreement in which a foreign distributor or independent agent receives and sells the exporter's goods, the exporter has the right to the goods until they are sold. The modality does not guarantee any payment to the exporter. Selling on consignment can also help exporters reduce the direct costs of storing and managing inventory.

### Reference:

(N.D.) BANCOMEXT

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