# UNDERSTANDING HOW CONTRACTS ARE USED IN INTERNATIONAL TRADE : Based on the Course Experience

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**Abstrak**

Esai ini mengeksplorasi pentingnya kontrak perdagangan dalam perdagangan internasional, menekankan peran mereka dalam menetapkan syarat dan ketentuan yang jelas, mengurangi risiko, dan membina hubungan bisnis. Studi ini menyelidiki proses pembuatan kontrak perdagangan dan menyoroti pentingnya memahami ketentuan mereka. Ini membahas aspek-aspek utama seperti teori perdagangan internasional, transaksi perdagangan, karakteristik kontrak perdagangan, peran INCOTERMS 2020, dan studi kasus ekspor. Studi ini menggarisbawahi peran vital kontrak dalam memfasilitasi perdagangan global dan mendorong kelancaran transaksi lintas batas.

**Kata kunci :** pengertian, kontrak, internasional

**Abstract**

This essay explores the significance of trade contracts in international trade, emphasizing their role in establishing clear terms and conditions, mitigating risks, and fostering business relationships. The study investigates the process of establishing trade contracts and highlights the importance of understanding their terms. It discusses key aspects such as international trade theories, trade transactions, characteristics of trade contracts, the role of INCOTERMS 2020, and an export case study. The study underscores the vital role of contracts in facilitating global commerce and promoting smooth cross-border transactions.

**Keyword :** understanding, contracts, international

## 1. INTRODUCTION

I am a double degree program student at Dong A university in South Korea and Universitas Muhammadiyah Surakarta in Indonesia . My experience as an international student was a great one. I have been studying International Trade as a major in South Korea.

International trade has become a vital aspect of the global economy. Businesses around the world are now expanding their operations beyond their national borders to tap into new markets and achieve their financial objectives. This expansion, however, requires them to enter into trade contracts with foreign parties. These contracts outline the terms and conditions of the transaction and specify the process of establishing a trade contract.

In essence, contracts are essential for establishing clear and enforceable terms and conditions in international trade. They help mitigate risks associated with international trade, ensure compliance with applicable laws and regulations, and foster relationships between businesses. Therefore, it is critical for businesses engaged in international trade to understand the importance of contracts. This essay will explore the process of establishing a trade contract in International and the importance of understanding the terms and conditions of formal transactions.

## 2. METHOD

This essay aims to provide readers with a comprehensive understanding of the critical role that contracts play in international trade and the importance of understanding how they are used. It also will provide an overview of the various types of contracts used in international trade. By the end of the essay, the reader will have a better understanding of the role of contracts in international trade.

## 3. RESULTS DAN DISCUSION

### 3.1 Results

In my experience as an international student at university in South Korea, I had the chance to take a trade contract theory course from one of the most respected professors. She had years of experience teaching this content and was able to bring a wealth of real-world knowledge into the classroom. The professor for this course is an expert in the field of international business and has a lot of experience teaching this class. The reason why I chose this course was because I was interested in learning about trade contracts and how they work. This course provided me with the necessary skills needed to understand how contracts are used in international business. The most important thing we learned was how contracts can be used by businesses around the world. I have learned a lot from this course and am very grateful for all of the experiences that I have had during my time in this class.

Trade contract theory is one of the most important things in international trade, and it's taught at many universities across the world. The class was difficult, but she made sure that we were all able to understand the material. From the course content ,it gave us a chance to apply what we had learned in class and see how it worked in practice!

Attending trade contract courses in university can provide a valuable opportunity for students to learn from experienced professionals in the field, and to gain knowledge that can be used to enhance their career prospects. From learning new skills to developing a better understanding of industry standards, trade contract courses in university can provide many opportunities for growth. It is important to identify and overcome any obstacles that may arise in order to get the most out of this rewarding experience. Furthermore, the courses can help to improve communication skills, as they provide the opportunity to interact with industry professionals in a professional setting. Additionally, trade contract courses can provide students with insight into the industry, as they can gain first-hand knowledge of how the industry works, and how to successfully navigate the industry.

Taking an international trade contract class at Dong A University in South Korea has been an enlightening and unique experience. The unique structure of this class, centered around a single assignment, provided me with valuable insights into the intricacies of international trade contracts. The professors' lectures, presentation handouts, and assessments, including a midterm and final exam, contributed to my comprehensive understanding of the subject matter. The assignment in this class involved translating an example document of a sales agreement from English to Korean. This practical task allowed me to apply the theoretical knowledge gained throughout the course to a real-world scenario. Translating the sales agreement required careful attention to legal terminology, contract clauses, and precise language usage in Both English and Korean. It challenged me to enhance my language skills while grasping the specificities of international trade contracts. Throughout the class, the professor presented comprehensive lectures and provided presentation handouts. These resources served as valuable references for understanding the fundamental concepts and principles of international trade contracts. The lectures were informative, covering various topics such as the essential elements of a contract, the significance of international trade agreements, and terms and conditions of international trade. By actively listening to the professor, I gained a comprehensive understanding of the legal framework and practical considerations involved in international trade contracts.

In addition to lectures and the assignment, the class structure included a midterm exam and a final exam. These assessments were instrumental in evaluating my understanding of the course material and my ability to apply the concepts learned. The exams tested my knowledge of the process of establishing a trade contract in International , and also the terms and conditions of formal transactions. They provided an opportunity to demonstrate critical thinking, analytical skills, and a thorough understanding of the subject matter.

While the class focused on a single assignment and primarily involved listening to the professor's lectures, this format provided a strong foundation in understanding the complexities of international trade contracts. Translating the document enabled me to apply theoretical knowledge practically, while the professor's lectures and presentation handouts provided the necessary guidance and supplementary information.

Moreover, the class offered an opportunity to interact with classmates who shared a common interest in international trade. Engaging in discussions with fellow students enhanced my understanding of the subject matter and exposed me to diverse perspectives.

Collaborating on the assignment and exchanging insights and ideas allowed me to broaden my perspective and deepened my understanding of the subject matter.

The concept of international trade is cross-border transactions between parties in different countries. Currently, there are many countries on the planet, but the resources required for human life are concentrated in specific regions, and each country has a different degree of economic development and lifestyle, so there is a big difference in economic development and lifestyle, so there is a big difference in supply capacity and demand. The Ricardian Model and the Heckscher-Ohlin Model are two of the most widely used theoretical frameworks in international trade. The Ricardian Model, developed by David Ricardo, emphasizes differences in countries' relative productivity and technology as the primary determinants of comparative advantage in trade. In contrast, the Heckscher-Ohlin Model, developed by Eli Heckscher and Bertil Ohlin, emphasizes differences in countries’ relative factor endowments, such as labor and capital, as the primary determinants of comparative advantage.

The Ricardian Model assumes that there are only two goods produced in the world, and countries differ only in their relative labor productivity. The model predicts that countries will specialize in producing and exporting goods in which they have a comparative advantage, leading to mutual gains from trade. However, the model ignores many real-world complexities such as transportation costs, economies of scale, and technological differences.

The Heckscher-Ohlin Model assumes that there are multiple goods produced in the world, and countries differ in their relative factor endowments, such as labor and capital. The model predicts that countries will specialize in producing and exporting goods that use their abundant factors more intensively, leading to mutual gains from trade. However, the model also has limitations, such as assuming that factors of production cannot move across borders and that there are no barriers to trade.

**3.2 Discussion**

International trade refers to the export or import of goods, etc. among international commerce. Trade can be divided into the transaction destination , tangible trade (visible) and intangible trade (invisible). Refers to the goods (Goods), and then the latter are service or technology trade. Technology trade refers to trade targeting intellectual property rights such as patent rights, design rights, and copyright. Since trade transactions are interstate transactions, subsequent settlement contracts are required to implement them, and various risks exist in the implementation process. However, since such trade transactions are also made based on contracts between the parties, international contracts constitute the most important aspect of trade transactions. Therefore, it can be said that the key point for the implementation of trade transactions is to conclude a trade contract. Trade contracts refer to contracts for international sales of goods. This becomes an export contract on the seller's side, that is, from the exporter's point of view, and an import contract on the buyer's side, that is, from the importer's point of view.

Then I learned about the concept of a trade contract**.** We live by signing various types of contracts in our daily lives. In particular, it can be said that our commercial activities must originate from contracts between the trading parties. A contract can be defined as a legal act established by the agreement of conflicting expressions of intention between multiple parties for the purpose of generating a certain bond relationship.

As society develops, the mass production of trade transactions is also changing, and today, the targets of trade transactions are expanding not only to goods, but also to services such as technology, financial and capital transactions, and overseas construction. However, trade transactions are still dominated by the sale of goods, so when it comes to trade contracts, it is common to refer to international sales contracts. These trade contracts become export contracts for exporters (sellers) and import contracts for importers (buyers).

To summarize the above discussions and classify the concept of a trade contract into branches, first, a trade contract is a sales contract. A contract for the sale of goods is called a sale if the property in goods is transferred from the seller to the buyer in exchange for the monetary abbreviation of payment. Second, a trade contract is a contract for goods. Commodities are stipulated to refer to movable property other than documents that embody payment means, securities, and bonds prescribed by the National Exchange Transaction Act.
Third, a trade contract is an international contract. An international contract can be defined as "an agreement of intent between two or more parties related to two or more sovereign states or legal systems against each other."

Let's move about the Characteristics of Trade Contracts. First, we have the need for a dependent contract. First thing is the contract of carriage. Transportation refers to the physical act of moving people or goods from one place to another by means of transportation, such as motorcars, railways, ships, aircraft, or other means of transportation to create static utility. In order for the goods to move from the seller and reach the buyer, a transportation contract with a professional carrier is required. The transportation method includes sea transport, air transport, land transport, or complex transportation, and the contents of the transportation contract, such as the parties to the transportation contract, and the person responsible for the freight, are determined by the trade term in the sales contract unless otherwise agreed between the trading parties. And the second one is an insurance contract. Insurance contracts are required to guarantee risks during transportation. The last one is an exchange contract. The seller prepares a bill of exchange to recover the price of the goods along with the letter of credit and issues a bill of exchange to the bank. The bill of exchange is attached to the bill of exchange with shipping documents and is used for D/A or D/P contracts and L/C contracts.

Determination of Governing Law is one characteristic of trade contracts . Since trade contracts are transactions between parties with different laws, it is difficult to determine the applicable law of the contract. Therefore, international-level legislation is needed because sellers and buyers will want to make their own laws the governing law in signing contracts. In response to this need, the United Nation Convention on Contract for the International Sale of Goods (CISG) was established in 1980 and has been in effect since 1988.

Lastly, we also have the application of trade customs. Not only are the circumstances of the two countries variable, different laws, systems, languages, cultures, and currencies, but transportation, insurance contracts, and banks are involved in the process of implementing trade contracts. Therefore, the parties to the transaction, not experts in the contract, agreed only the basic conditions of the transaction and explicitly stated them, and the unification rules on other conditions were enacted, these are INCOTERMS.From this course, also learn about the process of establishing a trade contract in International. Trade contracts are concluded between the trading parties through various negotiation stages. The first stage is overseas market research. Overseas market research is the first procedure for exporters to explore the market where their goods can be exported most efficiently in the long run, and is a series of activities to collect, synthesize, and compare various information related to the sale of the goods in a scientific way. The second stage is Client Selection and Transaction System. When the target market is determined through overseas market research, reliable trading lines must be discovered. If a marketable target market for its products is selected through such a thorough overseas market survey, potential customers or promising clients are selected. After selecting, a circular letter is sent to enable the creation of transactions. A letter of solicitation refers to a letter that informs promising trading ships of their own company and briefly guides them on the goods handled, terms of transaction, etc. In some cases, it is desirable to enclose a catalog, sample, and price list. Next stage, Inquiry. refers to an inquiry when a prospective client recommended by a transaction relationship is interested in the recommendation or intends to purchase goods. And the last is credit inquiry. For companies expressing interest in the transaction proposal, the credit status of the company must be investigated before the establishment of a trade contract. Credit is an intermediate medium for exchanging current value for future possibilities, and credit inquiry is very important in diagnosing future transaction possibilities and preventing risk factors in advance. First, it is a survey using the Bank Reference. When a transaction party makes a transaction proposal, the company's trading bank is often designated as a credit inquiry destination. At this time, you can request your main bank to investigate the credit status of a new client through the bank. Second, it is a trade reference. A business partner inquiry is a request to a regular client to investigate and report the other party's credit status. Third, it is a case of investigating by requesting a credit agency to a commercial promotion agency. If the credit of the counterparty needs to be investigated in detail, it is recommended to refer it to a professional credit investigation agency.

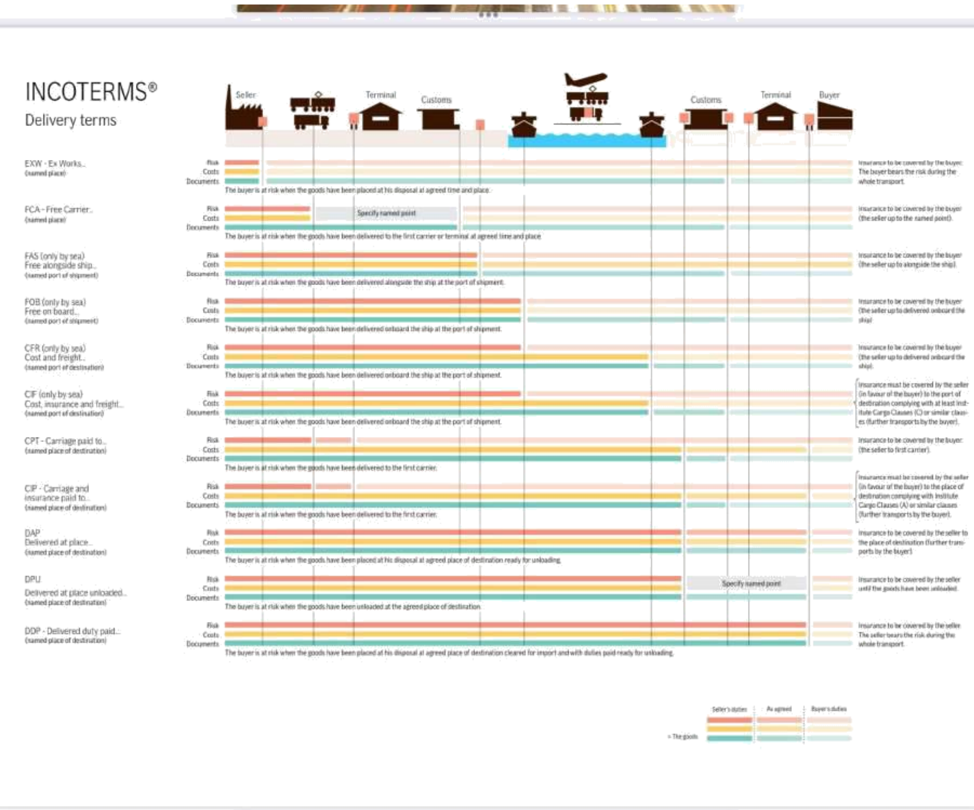
An international goods sale contract is established by the agreement of intention by subscription and acceptance, which are the expressions of intention of opposing parties, that is, the seller and the buyer.

Subscription is the unconditional and absolute consent of the applicant. If there is, it is a unilateral and definitive expression of intention to the applicant by the subscriber for the purpose of establishing a contract. For example, if Seller A expresses his/her intention to sell the product, and Buyer B expresses his/her intention to sell it, it refers to Seller A's expression of intention (establishment of the contract). The seller must clearly specify the key elements of the contract in the communication exchanged between the parties. For example, a commodity contract should state the ordered goods without ambiguity, the purchase price should indicate the terms of payment, etc., and specify the terms of transportation, including instructions on packaging and invoicing, transportation and insurance.

Acceptance is the applicant's expression of intention to agree to the terms of the offer in a manner designated by the subscriber. Acceptance takes effect by the statement or act of the respondent expressing consent. Since establishing an agreement is the purpose of acceptance, acceptance must be completely consistent with the contents of the subscription. In other words, acceptance means unconditional-absolute consent to the subscription. There are two questions about how to send a notification of acceptance. First, the method of consent is designated in advance on the subscription form.In such cases, a notice of consent shall be sent in the designated manner. Second, there is no separate agreement on the method of consent. In this case, the method of consent is free in principle, just like the method of subscription.Therefore, it may be accepted in writing, oral or by action. However, consent needs to express its intention to the outside world. Therefore, sleeper or inaction cannot be accepted by itself.

Once the topic of the contract has been established, it is important to consider the terms and conditions of the transaction. INCOTERMS are a set of international rules for the interpretation of the most commonly used trade terms in foreign trade. They provide a standard set of definitions and rules for the interpretation of trade terms, helping to reduce misunderstandings and disputes between parties.

Incoterms 2020 is the latest edition of international commercial terms published by the International Chamber of Commerce (ICC). These terms are used to define the responsibilities and obligations of buyers and sellers in international trade transactions. Incoterms 2020 defines 11 trade terms that can be used in international trade contracts. These terms are divided into two categories: (1) those that can be used for any mode of transportation, and (2) those that can only be used for sea and inland waterway transport.




Picture 1. INCOTERMS 2020 (source. if.fi International Chamber of Commerce)

EXW (Ex Works): The seller makes the goods available at their premises, and the buyer is responsible for the entire transportation process, including loading the goods, export clearance, and all subsequent costs and risks. FCA (Free Carrier): The seller delivers the goods to a carrier or another party nominated by the buyer at a specified location. The buyer is responsible for the main carriage, export clearance, and related costs from that point. CPT

(Carriage Paid To): The seller delivers the goods to a carrier or another party nominated by them at a specified location. The seller is responsible for the main carriage, but the risk transfers to the buyer once the goods are handed over to the carrier.

CIP (Carriage and Insurance Paid To): Similar to CPT, the seller is responsible for the main carriage and arranges insurance for the goods. The risk transfers to the buyer once the goods are handed over to the carrier. DAP (Delivered at Place): The seller is responsible for delivering the goods to an agreed-upon location. The seller bears the risk and costs of transportation until the goods are ready for unloading at the named place of destination.

DPU (Delivered at Place Unloaded): The seller is responsible for delivering the goods to an agreed-upon destination. The seller bears the risk and costs of transportation until the goods are unloaded at the named place of destination.

DDP (Delivered Duty Paid): The seller is responsible for delivering the goods to the buyer at an agreed-upon destination, including import clearance and payment of any applicable duties or taxes. The seller bears all risks and costs until the goods are delivered. FAS (Free Alongside Ship): The seller delivers the goods alongside the vessel at the port of shipment. The buyer is responsible for the main carriage, export clearance, and related costs. FOB (Free on Board): The seller delivers the goods on board the vessel at the port of shipment. The buyer assumes responsibility for the main carriage, export clearance, and related costs from that point. CFR (Cost and Freight): The seller delivers the goods on board the vessel at the port of shipment. The seller covers the costs and freight to transport the goods to the port of destination, while the buyer assumes the risk once the goods are on board. CIF (Cost, Insurance, and Freight): Similar to CFR, but the seller also arranges insurance coverage for the goods during transportation. The buyer assumes the risk once the goods are on board.

One case of a company in Indonesia wanting to export their product is a small business that produces handmade soap. The company has been successful in selling their soap locally and wants to expand their business by exporting their product. Here are the steps they would take:

Preparing Legal Documents for Export, In order to make the export handmade soap process easier, we need to synchronize all the export information including company name, company address, goods exported, and so on. then, the legality documents are :

SIUP (Trade Permit) by the Regency/City One-Stop Service Investment Service (DPMPTSP).

TDP (Company Registration Certificate) by the Regency/City One-Stop Service Investment Service (DPMPTSP).

NPWP (Taxpayer Identification Number) by the Tax Service Office.

NIK (Customs Identity Number) by the Directorate General of Customs and Excise.

Preparing Export Documents, Prepare all required export documents, such as : Invoice issued by the exporter. Packing list made by the exporter. Bill of lading made by shipping company (sea) or airway bill (air). Shipping instruction from the exporter to the Shipping line. PEB (Export Notification of Goods) from the exporter. Certificate of origin (District/City Department of Trade and Industry). Determine Export Destination Countries

Registering a Business Website to International Business Portals. The company also needs to register the business website on international business portals. Thus, opportunities to get consumers from other countries are increasingly open. Utilizing Facilities from the Government. The Directorate of National Export Development (DJPEN) of the Ministry of Trade has trade representatives, namely the Indonesia Trade Promotion Center (ITPC) and Trade Attaches (Atdag) spread across five continents. Through these representatives, you can get information about inquiries from foreign companies for a product, market briefs, and market intelligence for a product. You can access this information on the official website djpen.kemendag.go.id.

Prepare Purchase Order Documents. Make sure you have a purchase order document. This document is proof of a request for goods from a buyer located overseas which will later become a requirement for making an invoice document or billing letter to the buyer.

Perform Customs Declaration. Conduct customs notifications to the government through Customs and Excise by submitting all Export Declaration of Goods (PEB) documents and their supporting documents as previously explained. If your export application has been approved, you will receive an Export Approval Note (NPE) issued by Customs. If you have obtained the NPE, legally your goods are considered as export goods. Sales contract process A sales contract is a document/approval letter between the seller and the buyer which is a follow-up of the purchase order requested by the importer. The contents regarding the terms of payment for goods to be sold, such as price, quality, quantity, method of transportation, payment of insurance and so on. This contract is the basis for the buyer to fill out an application for opening an L/C to the Bank. L/C opening process, Letter of credit (L/C) is a guarantee from the issuing bank to the exporter in accordance with the instructions from the importer to pay a certain amount for a certain period of time on the basis of submission of documents requested by the importer. Cargo shipment process, An important output from this process is a shipping document which is proof that the exporter has shipped the goods ordered by the importer in accordance with the requirements stated in the L/C.

## 4. CLOSING

In conclusion, attending an international trade contract class as an international student at DongA University in South Korea has been an enlightening and valuable experience. Through this course, I have gained a comprehensive understanding of the process of establishing trade contracts in the international arena and the critical importance of understanding the terms and conditions, particularly within the framework of the INCOTERMS 2020. The class has provided me with a deep appreciation for the complexities involved in establishing trade contracts internationally. Understanding the intricacies of international trade contracts is vital for engaging in successful business transactions and fostering strong global relationships. A key takeaway from this learning experience is the importance of understanding the terms and conditions of formal transactions, particularly within the context of the INCOTERMS 2020. These internationally recognized trade terms establish standard guidelines that define the rights and obligations of buyers and sellers. By studying the INCOTERMS 2020, I have gained a comprehensive understanding of key concepts such as the transfer of goods, risk allocation, and the point of delivery in international trade.Furthermore, understanding the terms and conditions not only ensures transparency and effective communication between parties but also helps mitigate risks and ensure compliance with international trade regulations. By recognizing potential risks and negotiating favorable terms, I can protect the interests of the parties involved and foster successful business relationships.

Attending an international trade contract class as an international student at DongA University in South Korea has broadened my global perspective and equipped me with the necessary knowledge and skills to thrive in the international business arena. I am confident in my ability to navigate the process of establishing trade contracts internationally, while understanding the significance of clear contractual agreements.

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