

Digital tech can help narrow trade finance gap

KIJIN KIM for ADB Blogs

DIGITAL or financial technology – including mobile internet access, blockchain, artificial intelligence, and big data – can make international trade more efficient and support financing options.

Trade finance provides exporters and importers with effective tools to manage working capital and reduce risks related to trading across borders. Around 40 percent of global international trade is financed by banks through trade finance transactions such as letters of credit, loans, and guarantees. There are around \$1.5 trillion of rejected trade finance applications globally in 2018, which is as much as 8 percent of global goods trade, according to the recent report, Trade Finance Gaps, Jobs, and Growth Survey. The Asia-Pacific region accounts for 40 percent of the total rejection.

The lack of financing acts as a significant barrier to trade, particularly for small and medium-sized enterprises in developing economies. These businesses are most affected as they tend to have higher rejection rates relative to larger firms. Around half of the rejections originate from small and medium sized enterprises. The survey shows that around 44% of the firms with rejected trade finance applications were unable to find appropriate alternative financing.

Here are three major challenges in meeting the unmet need for trade finance:

INEFFICIENCIES FROM PAPER-BASED TRANSACTIONS

A significant number of trade finance transactions still rely on paper-based documentation which is prone to delays and human error. Manual processing and handling can cause many payment errors, thus lead to delays in payment or even non-payment of transactions. For example, letter of credit transactions which are often paper-based may lead to multiple potential risk points including delays, additional costs incurred by manual labor, and financial fraud.

REGULATORY COMPLIANCE REQUIREMENTS

Compliance with anti-money laundering and know-your-customer regulations is an intensive process for both banks and firms. A majority of banks identify these requirements as one of the largest challenges for the industry to grow, although they are necessary to ensure sound cross-border transactions. Also, the new Basel III standards require banks to have more regulatory capital and liquidity.

INFORMATION ASYMMETRY

The third challenge is related to the fact that the amounts of information that lenders and borrowers have are different—so-called information asymmetry. Lenders usually

require collateral or information on borrowers such as credit history to mitigate risks. Such requirements may not be available for some small businesses. Or it could be costly for banks to obtain, especially when dealing with small and medium-sized enterprises where the loan amounts and profits are small relative to the needs of bigger firms. Ironically, requirements to reduce information asymmetry may add more challenges to access to trade financing.

Fintech or financial technology makes use of mobile internet access, blockchain, artificial intelligence, and big data to improve access to information with fewer security concerns. These technologies can help improve efficiencies substantially at various stages of international trade. They help address the three challenges previously mentioned, and therefore draw more small and medium-sized enterprises into global trade.



For example, electronic bills of lading and other e-documents can greatly enhance process efficiency by reducing paperwork and facilitating transactions with customs. Blockchain and artificial intelligence can facilitate due diligence and payments for small businesses that have difficulty finding representative banks. Fintech firms using big data coupled with artificial intelligence can ease the costs of asymmetric information by providing alternate (non-bank) credit information.

We should note that digitalization is far from complete. High implementation costs are one reason it is not happening right now. A recent survey by the International Chamber Commerce shows that roughly 40% of responding banks said that digitalization was not part of their immediate agenda. Banks also find that the high cost of technology adoption is the biggest impediment in technology

adoption, followed by lack of global standards, laws and rules for digital finance.

How can we strengthen our support for small and medium-sized enterprise trade finance through digital technology? It is important to create an environment in the medium to long term that can facilitate the adoption of digital technologies in trade finance. International standards in technology should also be encouraged to ensure interoperability and compatibility of various systems.

Three global initiatives are worth receiving support. First, the Digital Standards for Trade initiative aims to develop digital standards so different systems can be interoperable in the trade ecosystem. Next, the Global Legal Entity Identifier system can provide a global harmonized identity for all companies, large and small. It promotes transparency and security by enabling firms to have a unique identity. Thirdly, there has been little

US outlines phase 1 trade deal with China

Suspends October tariff hike



REUTERS

US Trade Representative Robert Lighthizer talks to China's Vice Premier Liu He during a meeting with US President Donald Trump in the Oval Office at the White House in Washington on October 11.

REUTERS, Washington

US President Donald Trump on Friday outlined the first phase of a deal to end a trade war with China and suspended a threatened tariff hike, but officials on both sides said much more work needed to be done before an accord could be agreed.

The emerging deal, covering agriculture, currency and some aspects of intellectual property protections, would represent the biggest step by the two countries in 15 months to end a tariff tit-for-tat that has whipsawed financial markets and slowed global growth.

But Friday's announcement did not include many details and Trump said it could take up to five weeks to get a pact written.

He acknowledged the agreement could fall apart during that period, though he expressed confidence that it would not.

"I think we have a fundamental understanding on the key issues. We've gone through a significant amount of paper, but there is more work to do," US Treasury Secretary Steven Mnuchin said as the two sides gathered with Trump at the White House. "We will not sign an agreement unless we get and can tell the president that this is on paper."

With Chinese Vice Premier Liu He sitting across a desk from him in the Oval Office after two days of talks between negotiators, the president told reporters that the two sides were very close to ending their trade dispute.

"There was a lot of friction between the United States and China, and now it's a lovefest. That's a good thing," he said.

Liu took a different tone in his remarks,

however.

"We have made substantial progress in many fields. We are happy about it. We'll continue to make efforts," Liu said.

China's official state-owned news organization Xinhua said that both sides "agreed to make the efforts towards a final agreement."

In an editorial published online by the state-run People's Daily newspaper on Saturday, China called the latest round of talks constructive, frank and efficient and noted that while the two sides were moving toward a resolution, "it is impossible to resolve the problem by putting arbitrary pressure on the Chinese side."

Trump, who is eager to show farmers in political swing states that he has their backs, lauded China for agreeing to buy as much as \$50 billion in agricultural products. But he left tariffs on hundreds of billions of dollars of Chinese products in place.

His announcement, while seen as progress, drew some scepticism.

"I'm unsure that calling what was announced by President Trump an agreement is justified," said Scott Kennedy, a China trade expert at the Center for Strategic and International Studies in Washington.

"If they couldn't agree on a text, that must mean they're not done. Wishing an agreement does not one make. This isn't a skinny deal. It's an invisible one."

Mnuchin said the president had agreed not to proceed with a hike in tariffs to 30 percent from 25 percent on about \$250 billion in Chinese goods that was supposed to have gone into effect on Tuesday.

To save climate, tax carbon at \$75 per tonne: IMF

AFP, Washington

THE world's biggest carbon polluting nations should jointly agree to tax emissions at \$75 per tonne in the next decade to keep climate change at safe levels, the International Monetary Fund said Thursday.

The global crisis lender's call for immediate action confronts a policy dilemma that has left major economies rife with discord in recent years as they battle to prevent catastrophic warming of the planet.

"Carbon taxes are the most powerful and efficient tools but only if they are implemented in a fair and growth-friendly way," IMF researchers said in a blog post.

After violent protests last year, France suspended plans to raise carbon taxes beyond \$50 per tonne. Meanwhile, US President Donald Trump has moved to withdraw the United States from the 2015 Paris Agreement and some American lawmakers have advanced a "Green New Deal" to invest in de-carbonizing the economy.

The report was released ahead of next

week's annual meetings of the IMF and World Bank at which newly installed IMF Managing Director Kristalina Georgieva is expected to urge member countries to action.

Taxing emissions -- raising the cost of carbon-intensive energy for electricity, travel, manufacturing, shipping and food -- is the most efficient way to prevent global average temperatures from rising more than 2 degrees Celsius (3.6 Fahrenheit) above pre-industrial levels, the goal set in the Paris accord, according to the IMF research published Thursday.

While the current global average cost is \$2 per ton, a coordinated increase to \$75 by 2030 among the largest emitters in the Group of 20 economies would be the most likely to succeed.

A common approach would prevent "free-rider" countries from benefiting from reforms made by other nations and allow industries within countries to remain competitive with those in other nations, the report said.

But IMF researchers acknowledge the daunting and unequal costs this could

impose.

Coal prices would more than triple. Electricity would shoot up by more than 30 percent in Canada and by between 70 and 90 percent in Australia. Gasoline prices would rise by between five and 15 percent in most countries, according to the report.

But environmental benefits would more than offset such costs -- by 2030, a \$75 per ton tax would prevent an estimated 725,000 premature air pollution deaths, mainly in China, according to the report.

And consumers and firms eager to keep costs will have an immediate incentive to avoid emissions and invest in cleaner energy.

Tax revenues could be used to make such changes politically acceptable: targeted assistance to poor and vulnerable households, displaced workers and regions hit disproportionately by the transition.

Offsetting cuts to payroll and income taxes, combined with dividends to the public, could make the transition more politically palatable, the report said.

India's passenger vehicle sales dive 24pc as slowdown persists

REUTERS, New Delhi/Bengaluru

INDIA'S passenger vehicle sales slumped 23.7 percent in September, the eleventh straight month of declines, prompting an industry body to flag more job cuts if sales failed to pick up soon.

Passenger vehicle sales dropped to 223,317 units in September, the Society of Indian Automobile Manufacturers (SIAM) data showed, while passenger car sales dived 33.4 percent to 131,281 units.

SIAM's data comes as the domestic automobile industry faces a crippling slowdown in demand that has led to production cuts and thousands of job losses. The industry is seeing its longest ever streak of sales decline.

"We are preparing for best-case and worst-case scenarios ... worst case there will be more production and job cuts," said SIAM president Rajan Wadhwa.

Car and auto component makers have cut thousands of jobs and halted some production as the industry grapples with various challenges amid a broader economic slowdown. The government stepped in last month, announcing a corporate tax rate to boost manufacturing and lift growth.

On Friday, SIAM's Wadhwa said it expected some improvement in the situation on the back of the festive season.

However, Wadhwa refrained from giving out a forecast for future sales, saying SIAM would maintain a cautious stance until October performance numbers are in.

Aggregate revenue for listed automobile companies is estimated to have dropped by one-fourth in July-September, CRISIL, the Indian arm of S&P rating agency, said in a note on Thursday.

Advertisement

BASIS National ICT Awards 2019 Held

BASIS National ICT Awards 2019 powered by IPDC Finance Limited successfully ended with the Grand Award Giving Ceremony yesterday, October 12, 2019 where Dr. Hasan Mahmud, MP, Honorable Minister, Ministry of Information was present as Chief Guest. Besides, Farhad Hossain, MP, Hon'ble Minister of State, Ministry of Public Administration, Sharif Ahmed, MP, Hon'ble Minister of State, Ministry of Social Welfare, Zunaid Ahmed Palak, MP, Hon'ble Minister of State, ICT Division were present as Special Guests. As Guest of Honor Senior Secretary of ICT Division N.M. Ziaul Alam, BASIS President Almas Kabir was also present at the ceremony along with BASIS Director Didarul Alam who was the Convener of the BASIS National ICT Awards 2019. This year BASIS Awarded 69 awards in 35 Categories and along those total 80 Member delegation will participate at this year's APICTA Awards 2019. The Total submitted projects were 1175 from across the country. D-254

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Established in 1969, Commercial Bank of Ceylon PLC is the largest private bank in Sri Lanka and the only Sri Lankan Bank amongst the Top 1000 Banks of the world for ninth successive years with unparalleled growth and achievements in its operation in Bangladesh since 2003. The Bank endowed with the highest credit rating "AAA" by CRISL in Bangladesh for 9 consecutive years.

TRAINEE EXECUTIVE

Commercial Bank of Ceylon PLC with a view to meet the future expansion requirements is looking for young, dynamic individuals to enroll in the Entry level Training Scheme of the Bank. Upon successful completion of "on the job training period" the Trainee Executives will be absorbed in the Permanent Cadre.

Educational Requirements

- Bachelor degree in any discipline with a minimum CGPA of 3.00 (out of 4.00).
- Post graduation qualification will be treated as an added advantage.

Additional Requirements

- Age at most 30 years.
- Good command in English both oral and in writing.
- Conversant in MS Office applications.
- Should be prepared to work in any part of the country.

Engagement Pattern and Allowances

Engagement Pattern: Full Time

Training Period: 18 Months

Allowances: The Trainee Executive will be entitled to receive a Gross Training Allowance of Tk. 25,000/- per month during the first 12 (twelve) months of the Training and Tk. 27,500/- per month during the following 6 (six) months. Upon successful completion of the Training the Trainees may be absorbed to the Permanent Cadre at the grade of an Officer. Then he/she will be entitled to regular salary along with other admissible benefits as per the Policy of the Bank.

If you meet the above criteria and feel yourself prepared to take up the challenge, please forward your Curriculum Vitae (CV) along with a recent passport size photograph & details of two unrelated referees to career@combankbd.com not later than **October 19, 2019** or apply through BDJOBS.COM. Only the short listed candidates will be called for the Written Test.

Canvassing in any form will be considered as a disqualification

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