

Rules need further reforms for smooth global trade finance



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The main modes of international trade are export and import and they involve four common methods of payment: cash in advance, open account or supplier credit, documentary collection, and documentary credit or letter of credit (LC).

The rules of Bangladesh Bank (BB) and the import policy order of the government allowed all modes of payments for export. But for import, the cash in advance is not allowed except for small transaction such as the purchase of books.

In the course of time, the BB allowed the advance payment against the commercial import, which was limited to \$5,000 for an importer and only in 2019 the amount was increased to \$19,000 per annum.

There was another option of prior permission for the higher amount of transactions.

The restriction was relaxed for a limited period during the pandemic for up to \$500,000 or equivalent other foreign currency for importing coronavirus-related life-saving drugs, medical kits or equipment and other essential medical items.

The rule of the BB and the import policy order of the government restricted the import transactions through LC. It is expensive and time-

consuming.

The LC has become obsolete since it has involvements of different parties, namely the nominating bank, the reimbursing bank, and the confirming bank.

Some of them are involved only to ensure the creditworthiness of the issuing bank against a certain percentage of commission.

On January 14, the BB issued a rule on advance payments against imports under buyer's credit to open up the transaction of import, if the money is directly paid by the external financiers and/or offshore banking operations of scheduled banks.

The additional condition of repayment guarantees irrespective of amount acceptable to ADs comes from banks abroad.

Cash in advance is a popular



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Trade finance has another purpose of reducing risks involved in cross-border trade transactions, which would otherwise be borne by importers and exporters.

method of a transaction as this is the cheapest mode. There is no universally accepted regulation on cash in advance. It is guided by the purchase or sale agreement. In this mode, the interest of exporter is fully protected, and the interest of importer is not protected.

Banks are involved in the process of transferring payment. Documents and shipments are directly handled by the

exporters and importers.

The import policy order of the government allows import against LCs having at sight or at deferred payment basis. Import against LC authorisation is also permissible under certain conditions. These international transactions usually involve finance as well.

Trade finance has another purpose of reducing risks involved in cross-border trade transactions, which

would otherwise be borne by the importers and exporters.

Trade finance mechanism has a range of financing methods and tools to facilitate the payment for goods to exporters, who require payment for the goods and services in advance.

Import financing is a specialised segment of trade finance that exclusively provides financing for imports. Import financing includes

a variety of financial products and financial services that have in common the similar purpose or objective of providing the international financing and methods of payment that are needed to purchase and import goods from another country.

Factoring, one of the tools of international trade finance, is a global financial product for trade financing for both domestic and international trade. It is an effective mean of short-term funding for easy access to working capital. The domestic factoring can revolutionise the financing of working capital of the production of goods and services.

Factoring is known as invoice factoring, or invoice trading or invoice discounting in case of export. Exporters by selling their account receivables can get quick access to cash while they wait for their overseas importers to pay for the goods they received. They can reinvest that cash or use it to cover other expenses as well as day-to-day operations. The traditional bank finances rely on the security of the mortgage, but the factoring does not require such mortgage of fixed assets and others.

Bangladesh has introduced a system of trade financing close to factoring for export transactions. The BB circular issued on June 30 under the subject of "Export under open account credit terms against payment undertaking/payment risk coverage with the option of early payment arrangement on the non-recourse basis" is mooted as credit guarantee. This is a rule of factoring mostly focusing on recovering export proceeds but not full factoring services such as export trade finance. There are some shortcomings of this rule.

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The beauty of modern trade finance is extending financing without a mortgage or third-party guarantee as those have in-built mechanisms to ensure security

Regulator vows to build people's confidence in insurance

STAR BUSINESS REPORT

The Insurance Development and Regulatory Authority (IDRA) is working to build people's confidence in the insurance sector, its Chairman Mosharraf Hossain said yesterday.

"Though there is some disappointment about the sector, some reforms have been going on."

His comments came at a seminar organised by the Daily Banijo Protidin in the auditorium of the Economic Reporters' Forum (ERF) in the capital.

"All the people should be brought under the insurance coverage. If this can be done, it would benefit both the people and the insurance companies," he said.

Contribution of the insurance sector to the Bangladesh economy is 0.57 per cent while it is 3.69 per cent in India and 2.36 per cent in Indonesia, the chairman said.

The insurance sector in Bangladesh has failed to grow keeping pace with the economy of the country, he said.

"The sector needs to gain confidence for bringing all under the insurance coverage," said Mizanur Rahman, commissioner

"All the people should be brought under the insurance coverage. If this can be done, it would benefit both the people and the insurance companies," IDRA chairman says

of Bangladesh Securities and Exchange Commission.

There is some problems in the sector, but it has huge potential also, said Rahman.

Insurance sector-related people should play an active role to remove the confidence crisis, he added.

In the seminar, Sayedur Rahman, president of Bangladesh Merchant Bankers' Association, AKM Rashed Shahrir, editor of Daily Banijo Protidin, and Md Kazim Uddin, CEO of National Life Insurance, also spoke.

Special committee working to rein in edible oil prices: minister

STAFF CORRESPONDENT, Chattogram

A high-level committee of the commerce ministry is working to ensure fair prices of all essential commodities, including edible oil, according to Commerce Minister Tipu Munshi.

"A decision has been taken to sell all brands of loose edible oil in consumer packs or bottles to help easily identify brand names and prevent adulteration of edible oil in the market," Munshi said during a press briefing after a meeting with edible oil traders at his office yesterday.

"Besides, the commerce ministry, industry ministry and various businessmen are also working in this regard. Hopefully, they will be able to implement it soon," he added.

The commerce minister also said that fair prices of import-dependent products would be ensured after considering international market prices.



"No one will be allowed to take the opportunity to make extra profit in excise of the international market price," Munshi said.

During the meeting, officials of the commerce ministry submitted a report to the minister, outlining the steps to be taken to control the price

of edible oil.

According to the report, edible oil manufacturers are causing problems in the product's supply chain to local markets as they have issued advance sales orders (SO-Sleep Order) in excess of their production capacity.

In addition, the SOs issued by the

companies are handed-over one to another several times while creating huge profit opportunities for market players.

The report also said that if the price of the product tends to rise in the international market, companies reduce the supply of oil through pre-issued SOs and issue new SOs.

For this reason, the market of the product has become unstable in the market, it said.

To address these supply chain issues, the report also said that edible oil producers should take steps to ensure that SOs are not issued in excess of their capacity and that the SO is valid for only 15 days.

Commerce Ministry Secretary Md Zafar Uddin, Chairman of Bangladesh Trade and Tariff Commission Munshi Shahabuddin Ahmed, Chairman of TCB Brigadier General Ariful Hasan, Chairman of Meghna Group Mostafa Kamal and senior officials of the ministry were also present in the meeting.

GLOBAL BUSINESS

US Fed holds first policy meeting of Biden administration

AFP, Washington

With a new year and a new administration in the White House, the US central bank nonetheless faces an unprecedented challenge in guiding the post-pandemic economic recovery. One thing Federal Reserve Chair Jerome Powell is unlikely to face from President Joe Biden is the barrage of Twitter attacks he was subject to, sometimes daily, under former president Donald Trump.

White House spokeswoman Jen Psaki last week said Biden "clearly has a great deal of respect and value for the Federal Reserve and role they play. "But even absent political pressures, the outlook is daunting. The initial rollout of Covid-19 vaccines has raised hopes companies will be able to open for business and shoppers will open their wallets, improving the economy's prospects.

But the historic nature of the job losses during the pandemic -- more than 10 million US workers remain unemployed -- coupled with the likelihood inflation in

some sectors could spike once the recovery takes hold, will test the Federal Reserve's limited toolkit.

These challenges could be discussed when the Fed's policy-setting Federal Open Market Committee (FOMC) opens its first two-day policy meeting of the year on Tuesday. After slashing the benchmark lending rate to zero early in the coronavirus crisis, and massively increasing bond purchases to pump cash into the economy, the FOMC has signaled will not change policy in the near future. "I think they've set their course pretty clearly," Stephanie Aaronson, a vice president at the Brookings Institution and former Fed research economist, told AFP. "I would be surprised if that really changed throughout the spring.

Business shutdowns imposed to contain the spread of the virus caused immediate, massive job losses in 2020, and at the end of the year, four million people had been unemployed for six months or more, comprising 37 percent of total unemployment. The expectation for more government



REUTERS/FILE

The Federal Reserve building is pictured in Washington.

aid under the Biden administration -- which has proposed a massive \$1.9 trillion rescue package -- will give the central bankers hope for a more solid rebound and improved hiring, Aaronson said.

Still, so much about the pandemic-induced recession has been historic, and the recovery too will present policymakers with scenarios they have never

encountered. When the recovery does begin, the Fed's main nemesis -- inflation -- is likely to flare up in areas that bounce back first, like hotels, restaurants and air travel. "There are many aspects of our current economy that are still unprecedented. And that means that their job is incredibly challenging," George Washington University economist Tara Sinclair

said in an interview.

The Fed last year announced a new framework that gives officials flexibility to address the situation. The central bank pledged to allow inflation to exceed its two percent goal for a time to ensure the unemployment rate drops from its 6.7 percent level at the end of 2020. That is a radical shift from the past, when central bankers would raise rates early to head off inflation. "They can see the whites of inflation's eyes before they need to be necessarily thinking about really changing policy" under the new framework, Sinclair said.

But Aaronson noted that Powell will have to communicate clearly to both Wall Street and small businesses to calm concerns.

Overshooting on inflation "shouldn't induce a loss of credibility, as long as they are able to convince people say that it's transitory and that this is absolutely part of what they're aiming for," she said. The Fed's preferred inflation measure, the PCE price index, is running at just over one percent as of November.

Germany urges Taiwan to help ease auto chip shortage

REUTERS, Berlin/Taipei

Germany has asked Taiwan to persuade Taiwanese manufacturers to help ease a shortage of semiconductor chips in the auto sector which is hampering its fledgling economic recovery from the COVID-19 pandemic.

Automakers around the world are shutting assembly lines due to problems in the delivery of semiconductors, which in some cases have been exacerbated by the former Trump administration's actions against key Chinese chip factories.

The shortage has affected Volkswagen, Ford Motor Co, Subaru Corp, Toyota Motor Corp, Nissan Motor Co Ltd, Fiat Chrysler Automobiles and other car makers.

In a letter sent by Reuters on Sunday, German Economy Minister Peter Altmaier asked his Taiwanese counterpart Wang Mei-hua to address the issue in talks with Taiwan Semiconductor Manufacturing Co Ltd (TSMC) 2330. TW, the world's largest contract chipmaker and one of Germany's main suppliers.

"I would be pleased if you could take on this matter and underline the importance of additional semiconductor capacities for the German automotive industry to TSMC," Altmaier wrote.

Altmaier said the aim was to enable additional capacities and deliveries of semiconductors in the short and medium term. The German automobile industry was already in direct talks with TSMC about hiking deliveries and there had been "very constructive" signals from TSMC to solve the problem, he wrote.

A German economy ministry spokeswoman said it was monitoring the situation very closely and that it was in talks on the issue with the car industry.