

Complying with supply chain due diligence

A crucial aspect for Bangladeshi exporters



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On June 11 earlier this year, the German Parliament, the Bundestag, passed a law called "Act on Corporate Due Diligence in Supply Chains". This law obliges business organisations to fulfil their due diligence obligations in their supply chains with regard to respecting internationally recognised human rights and certain environmental standards.

In other words, companies have to take responsibility for any labor or environmental abuses in their global supply chain; they will be held responsible in case of any violation of human rights while conducting any activity, from raw material sourcing to finished products.

This law originated from the UN's guiding principles on business and human rights, which are the most important internationally recognised standards of corporate responsibility.

This act will come into effect in 2023. Initially, German companies having 3,000 or more employees will be under the purview of this law.

From 2024 onwards, business houses with 1,000 or more employees will be brought under this law. In accordance with the law, companies will have to ensure that there are no human rights violations in their immediate business activity and the business operations of their direct or primary suppliers.

Risk analysis for the indirect or secondary suppliers is only required where a German company is informed about a human rights violation. In that event, they must also conduct risk analysis and institute preventive measures, although the requirements are less stringent in these cases.

In case the companies fail to abide by the law, they will have to face hefty fines which can go up to 2 per cent of the annual turnover for those with average revenues of more than €400 million per annum.

The maximum fine for companies with annual revenues below this threshold is €800,000. For some of the largest German companies this could mean billions of euros in fines per incident. So, it can be expected that German companies will be extremely compliant with this act.

This law will have profound impacts on Bangladeshi exporters. Germany is Bangladesh's largest trading partner in Europe and the second largest globally.



OPINION

According to the Export Promotion Bureau (EPB), Bangladesh's exports to Germany amounted to \$5.95 billion in fiscal 2020-21. Germany alone contributed 15 per cent of the country's total export earnings for the year, standing second in the list after the US with \$6.97 billion worth of exports.

The main products that Bangladesh exported to Germany were knit T-shirts (\$1.23 billion), non-knit men's suits (\$1.09 billion), and knit sweaters (\$975 million).

During the last 24 years, Bangladesh's exports to Germany have increased at an average annual rate of 12.4 per cent.

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GLOBAL BUSINESS

Powell's wait-and-see speech reassures some investors

REUTERS, Chicago/New York

Federal Reserve Board Chairman Jerome Powell's wait-and-see approach in Friday's long-awaited address gives investors and market participants an extraordinary central bank to support the economy. Assets that have reassured us that efforts are likely to support the more risky ones will be a little longer.

In a comment to the annual, but this year's Virtual Jackson Hall Economic Conference, Powell said the economy continues to move towards benchmarking to reduce the Fed's pandemic era emergency programs, while raising interest rates. He said he was calling attention to the final decision.

Powell doesn't say anything about when he plans to cut back on asset purchases, other than saying that the central bank could be "this year."

Cathy Jones, Chief Bond Strategist at the Schwab Financial Research Center, said:

Equities rose after Powell's speech text was released, and the benchmark S & P 500 index hit a record high, but about when the US central bank could start pairing bond purchases. Government bond yields and US dollar depreciation due to lack of new hints.

Investors focused on the potentially imminent decision by the central bank to begin cutting \$ 120 billion in monthly purchases of US Treasuries and mortgage-backed securities. Powell said he agreed with the majority of his colleagues that "this year" a bond "taper" might be appropriate.

Schwab's Jones said the Fed could announce a taper at the September meeting at the earliest if the August employment report scheduled for September 3 was strong, but weaker employment data was released. May be pushed up in December.

Jones added that in light of Powell's remarks and given the slow pace of policy changes, there is no reason for investors to adjust their position in the market.

"Apart from the big surprise, I think we'll continue to see equity performance, high yield bonds and investment grade bonds. These are all overpriced and could be perfect prices, but enough to change the trend. A signal from the Fed that they are trying to pull back."



REUTERS/FILE

The Federal Reserve building is set against a blue sky in Washington, US.

Rick Rieder, Chief Investment Officer of BlackRock's Global Fixed Income, said in a research note: "...

For US Treasuries, Powell's message was "maintaining the status quo and monitoring data," according to Gennadiy Goldberg, interest rate strategist at TD Securities.

"In fact, next month's or two-month data will determine what the Fed will do," he said.

Roberto Perli, Global Policy Officer at Cornerstone Macro, said the hurdles for raising interest rates next year are high, given Powell's remarks, including "a number of reasons why inflation should be temporary."

"If the market eventually accepts Powell's outlook on rate hikes, the yield curve should rise a bit again," Perli said.

Treasury prices have risen, especially in the five- to seven-year part of the curve, according to Bank of America analysts, "indicating that the Fed has ongoing challenges to meet the criteria

for rate hikes. "I'm reading Powell's comment."

The Fed has a three-part test to meet the criteria for rate hikes. The labor market should be consistent with the maximum employment rating. That inflation has risen to 2 per cent. And inflation has been on track for some time above 2 per cent. While the second condition is met, the Fed's inflation gauge has been above 2 per cent for several months. Powell has shown that meeting the other two conditions is not at hand.

"There are many grounds to cover to reach maximum employment, and over time we will know if we have reached 2 per cent inflation on a sustainable basis," Powell said.

For Jay Hatfield, CEO of Infrastructure Capital Management, Powell's words rarely confused the risk asset cart. Investors are safe to believe that the Fed is making a mistake in treating inflation as temporary and that it could ultimately hurt high-risk assets when it is corrected. It's not time to give up high-risk assets for shelter.



GLOBAL BUSINESS

China targets US IPOs, algorithms, cloud in latest tech takedown

REUTERS, Shanghai

China has launched a multi-pronged attack on its tech companies, threatening to curb their ability to list in the United States, seeking to tighten up regulation of their use of algorithms and sidelining their cloud computing businesses in a major city.

In another move amid a wave of regulations on the tech sector announced in recent months, Beijing has also cracked down on what it described as a "chaotic" celebrity fan culture, imposing new restrictions on already tightly controlled content in China.

The moves further clip the wings of Chinese tech behemoths such as Alibaba Group and Tencent Holdings and have unnerved investors, hammering Chinese shares traded at home and abroad.

Chinese tech firms have raised billions of dollars in overseas listings, particularly in the United States, as Beijing for years pursued a more laissez faire approach to the industry.

Now China is framing rules to ban internet firms whose data is deemed to pose a potential security risk from listing abroad, a person familiar with the matter said.

The new rules would also put an emphasis on the legal responsibility of underwriters in overseas listings and require a more thorough disclosure of shareholdings for those with so-called variable interest entities (VIE) structure.

The VIE structure, used widely by tech firms, was created two decades ago to circumvent rules restricting foreign



REUTERS/FILE

The Chinese national flag is seen in Beijing, China.

investment in sensitive industries such as media and telecoms.

It gives firms more flexibility to raise capital offshore via initial public offerings (IPOs), while bypassing the scrutiny and lengthy vetting that locally-incorporated companies face.

As China's tech sector has grown in size and prominence so Beijing has become increasingly wary of its influence and the

mountains of data it controls.

In a move underlining that concern, Tianjin, a city of 14 million lying south of Beijing, told companies controlled by the municipality to migrate data from clouds run by private operators like Alibaba and Tencent to a state-run system by September 2022, a document dated August 12 showed.

Shares in Alibaba, China's biggest cloud service provider, closed 4 per cent lower in

Hong Kong on Friday.

Its US-listed shares were down more than 3 per cent in pre-market trade in New York.

Alibaba Cloud, whose revenues remain modest compared to its parent company's vast e-commerce business, has been heavily promoting its cloud services.

Last year, it said it planned to spend \$28 billion over three years on next-generation data centres. Chinese technology stocks have seen tens of billions of dollars wiped off their stock market valuations since Beijing commenced its crackdown on the sector in November 2020 with the shock halt of Ant Groups IPO, billed as the world's largest share sale.

Since then, the tech sector has dropped nearly 20 per cent. The Cyberspace Administration of China said on Friday it was also tightening oversight of algorithms used by tech firms, telling them to act fairly and not use algorithm models that entice users to spend cash in a way that could disrupt public order.

The guidelines include a proposal to let users turn off algorithm recommendation services, giving consumers a greater say over an area of the internet that has also been the target of authorities in the United States and Europe.

"This policy marks the moment that China's tech regulation is not simply keeping pace with data regulations in the European Union but has gone beyond them," said Kendra Schaefer, head of tech policy research at Beijing-based consultancy Trivium China.

Biden admin defends approving licences for auto chips for Huawei

REUTERS

The Biden administration, which was criticized this week for approving licenses for auto chips for Huawei, said it has not changed the policy on restricting sales of goods and technology to the Chinese company that was put in place during the Trump presidency.

"The policy has not been eased or amended," a Commerce Department spokesperson said.

The comments came in response to demands from Sen. Marco Rubio that US officials explain why they approved hundreds of millions of dollars worth of auto chip sales to the company, as reported by Reuters this week.

Rubio called the move "yet another example of President Biden's failure to protect America's economic and national security." Huawei was placed on a US trade blacklist in 2019, after the Trump administration said it was operating contrary to national security and foreign policy interests.

The so-called "entity list" restricts suppliers from selling US goods and technology to the world's largest telecommunications equipment maker.

The Commerce Department is prohibited from disclosing license approvals or denials, the spokesperson said.

But some sales were allowed and others denied as the United States intensified its crackdown on the company and expanded US authority to require licenses for sales of semiconductors made abroad with American technology.

An August 2020 rule said that licenses for products with 5G capabilities were likely to be rejected, but sales of less sophisticated technology would be decided on a case-by-case basis. During the Trump administration, \$87 billion worth of licenses for Huawei were approved after its blacklisting, but \$119 billion were denied as the presidency wound down in January, according to a Commerce Department document seen by Reuters.

"The Biden Administration has not changed the regulatory restrictions on Huawei and its affiliates on the Entity List imposed in 2019 or 2020 or the policy for implementing those restrictions developed during the Trump administration," the Commerce Department spokesperson said.

UK aims to conclude Pacific trade group talks next year

REUTERS

Britain aims to conclude negotiations to join the trans-Pacific trade group by the end of 2022, the Financial Times reported on Saturday, citing International Trade Secretary Liz Truss.

"We will be able to have concluded negotiations by the end of next year," Truss told the newspaper.

She argued that the deal would help Britain benefit from economic growth in the Asia-Pacific region.

Britain received a green light in June to start the process of joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership of 11 countries — Japan, Canada, Australia, Vietnam, New Zealand, Singapore, Mexico, Peru, Brunei, Chile and Malaysia.

Truss told the FT she expects trade between the United States and Britain could be liberalised if Washington rejoined the group.

Thailand eases curbs on retail, restaurants to spur economy

REUTERS, Bangkok

Thailand will lift most coronavirus restrictions on retail and dining from next month and permit gatherings of up to 25 people in Bangkok and other high risk areas, its Covid-19 task force said on Friday.

Easing restrictions and adjusting measures were necessary to revive the economy safely, the task force said, as the country battles its worst coronavirus outbreak and struggles to ramp up vaccinations, with only 1 in 10 people inoculated so far.

From Sept. 1, shopping malls, salons, barber shops, foot massages and sports fields in 29 high-risk provinces including Bangkok, are allowed to resume operations, while restaurants can open to diners, the task force said.

Authorities asked business operators to ensure service staff are fully vaccinated and regularly tested with antigen kits, and to require customers to show proof of vaccination and negative tests.

Thailand reported 18,702 new cases and 273 new deaths on Friday, among some 1.14 million cases and 10,587 deaths overall, the overwhelming majority since April.

Its current struggle is with the highly transmissible Delta variant of the virus, which has seen record deaths during August.

"We need to adjust the way we handle and live with the disease safely... by adjusting strategy and build confidence so disease control measures are in line with reviving the economy safely," task force spokeswoman Apisamai Srirangsan told a briefing.



REUTERS/FILE

People queue for free coronavirus disease rapid antigen tests at a mass testing station, as the spread of Covid-19 continues, in Bangkok, Thailand on July 15.