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Export Policy – Import And Related Parties In Letter Of Credit

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Abstract

International trade policy is carried out to stabilize the economy that occurs between several countries. International Trade with this Letter of Credit is a sale and purchase price agreement carried out before international trade activities. This study aims to find out how policies in export and import activities use a Letter of Credit and parties participating in import export activities. The use of the method in this study is to use the type of analysis method in a qualitative way based on data from several sites such as Emerald, ScienceDirect, and Google Scholar. We find that international trading has a positive impact, namely encouraging manufacturing activities, making economic growth increase, employment rates increasing, financial institutions gaining trust and domestic needs will be met. Based on the concept of national economic strategy, policies in conducting international trade are divided into two types. First, the policy of free trade. This policy explains if the government gives permission to carry out exports and imports without interference from various rules. This import-export activity has an influence on the competition between each country. Second, trade defense policy. This policy explains if there is government interference in export and import activities. This government intervention is to protect various sectors that carry out export and import activities in order to survive in international competition.

Keywords : International Trade, Letter of Credit Policy, Party Letter of Credit
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Introduction

Buying and selling activities that are carried out internationally or commonly known as international trade, this activity trades goods needed by the country that buys them. Apart from goods, services are also one of those traded in international trade (Doni et al., 2012). These international trade activities include exports and imports as well as capital. International trade is one way for every country that does it to meet every need of its country. One of the indicators for measuring the state of development of the country can be seen from economic growth activities. Economic growth itself is a process of the country's economy towards increasing production in the form of national income (Zatira et al., 2021). International trade has an impact on economic growth rates. If export activities have a higher value than import activities, the importing country will benefit from economic growth which will later specialize in producing goods or services. (Andriana & Septiana, 2020). Under real circumstances, this international trade policy practice is carried out in order to maintain the stability and sustainability of cooperation activities between several countries. This implementation is carried out to protect both parties in the implementation of international trade (Mahayana et al., 2018).

Simple forms of parties in a letter of credit that perform a credit opening can be mentioned, including: sellers, buyers, and banks. The bank itself is one of the parties that can open credit, the buyer is the party who tells the bank to open a credit, and the seller is the party who provides credit to the buyer through the bank (Suhendar, 2020). An agreement is created from the existence of the three parties concerned in this credit opening activity, then an agreement will be created, namely the relationship between importers and banks, the relationship between importers, banks, and exporters, and the relationship between banks and exporters. In the credit opening activities submitted by the buyer and carried out by the seller, there is no direct relationship due to locations that are usually far apart. However, it is not an obstacle because there are banks that are their payment channels (Alysianingrum et al., 2019)

International trade is one of the international business activities carried out by multinational organizations. In international trade, there are transactions between countries including payments (Widarni & Bawono, 2020). There are several ways to make payments for international trade transactions, one of which is a Letter of Credit. It is widely used especially in sales transactions where the exporter and importer are not in the same country. The great distance location between the two sides always invites uncertainty, speculation, and worry because it is very difficult to trust each other. Dealing with someone you don't know or with in the same place is very dangerous especially if the sale involves a lot of money and expensive goods (Puneri, 2021). The L/C itself also involves third parties such as financial institutions. Meanwhile, the involvement of these third parties brings other problems that add to the complexity of the transaction process. Dependence on third parties, prolongation and complexity of processes, risk of information leakage, high cost of intermediary services, monopoly power, low efficiency, and lack of transparency are common challenges faced by L/C users (Toorajipour et al., 2022). With this, export and import activities carry a high risk. This requires a policy. This policy is used to avoid deviations or cancellations. This makes it easier for international trade (Sarjiyanto & Septian, 2019).

Literature Review

Letter of Credit is a letter of agreement given to the bank at the request of the importer for export purposes. The Letter of Credit itself contains price agreements made by importers and exporters before carrying out international trade activities (Widyastuti, 2019).

Research from Harahap (2017) explains that this Letter of Credit is an agreement with certain provisions, where what kind of documents must be prepared during export and import activities before heading to payment.

According to Cindawati (2018), the bank functions as an intermediary in the implementation of foreign payments. As an intermediary, banks do not perform their own duties, but rather need banks that have correspondence in their respective countries.

According to Lubis et al (2018), in their research on juridical analysis of export-import activities using a Letter of Credit, it is explained that these international trade actors get legal protection both outside and within the country. In this study, the researcher used a statutory approach, where this method analyzes the law in the use of Letters of Credit on an international trade scale. Data are obtained from primary legal materials with authoritative properties. The results of this research are that in international trade transactions there are exporters (sellers), importers (buyers), L/C opening banks, and L/C recipient banks.

In the research conducted by Djuwitiastuti & Adiastuti (2016) there is legal protection for every country that conducts international trade with a Letter of Credit. In addition, in ASEAN itself, this international trade activity has the advantage of having an ASEAN Economic Community that cooperates in the economic field in asean region countries.

International trade has two important aspects that must be understood. The first is about the definition, buying and selling transactions between countries that are carried out to meet the needs of each country that can be carried out by individuals, groups, or governments. Second, international trade is a factor that can increase The Gross Domestic Produk (Warni & Setyari, 2019).

Research Methods

Data Sourcing and Collection

This study aims to examine how the policies used in protecting international trade activities or export and import activities using the Letter of Credit method and also to discuss who are the individuals who take a role in export and import activities using method Letter of Credit. The preparation of this study refers to a systematic literature review through journals in ScienceDirect, Emerald, and Google Schoolar. In this study, researchers collected several journal references and used the method of literature review and content analysis. This research is a qualitative research with the results in the form of hypotheses from previous researchers.

Thematic Analysis

Thematic analysis is an analytical method used in research with qualitative properties. Broadly speaking, this thematic analysis itself has a definition of a method that uses a system of identifying, analyzing, and reporting themes on a data (Purssel & Gould, 2021)

Dalam penelitian ini, dilakukan beberapa penelitian mengenai beberapa perspektif tentang kebijakan untuk kegiatan ekspor dan impor dengan metode letter of credit dan juga perspektif dari beberapa penelitian sebelumnya mengenai berbagai oknum yang berperan dalam kegiatan ekspor impor dengan metode letter of credit. Letter of credit sebagai tema utama tidak akan lepas dari hubungan kebijakan dan oknum yang terkait, khususnya dalam hal kegiatan ekspor dan impor.

Ditinjau dari studi pendahuluan, dapat ditentukan beberapa tema yang akan dibahas. Pertama, mengenai kebijakan apa saja mengatur kegiatan ekspor dan impor menggunakan Letter of Credit. Kebijakan ini mengarah kepada perlindungan yang diberikan kepada para pihak yang ikut serta dalam kegiatan perdagangan tersebut. Kedua, mengenai pihak yang terkait dalam kegiatan ekspor dan impor menggunakan Letter of Credit. Perlu diketahui jika pihak yang terlibat ini bukan hanya eksportir dan importir, melainkan ada pihak lainnya.

Setiap tema ini akan dilakukan pengembangan yang didasarkan atas studi literatur yang akan dilakukan melalui data jurnal yang berasal dari ScienceDirect, Emerald, dan Google Schoolar. Analisis isi ini dilakukan untuk mengetahui bagaimana kebijakan yang akan diterapkan dan untuk melindungi kegiatan ekspor dan impor. Selain itu untuk mengetahui siapa sajakah pihak yang terkait dalam kegiatan ekspor impor menggunakan letter of credit.

Discussion

International trade has policies in its implementation such as national policies or government regulations. These government policies are direct and indirect in nature that can affect the composition, form, and structure of international trade. This policy was taken because it is to protect the national interests of a country and to help solve some problems that are still related to international trade. This policy is necessary because international trade activities do not always have a positive impact on a country. International trade can have a negative impact if a policy is not given in carrying out these activities.

International trade activities have several advantages such as a country's manufacturing activities will have progress, economic growth will increase, employment opportunities will be wider, the functions of financial institutions will be stronger and all domestic production needs will be met. Behind the advantages of international trade activities, there are disadvantages that will be seen if these international trade activities are not considered in detail. The disadvantage that international trade activities will cause if it does not get the attention of the government is that local industries will find it difficult when it comes to competing with imported products. This is because imported products will tend to have prices below local products which will cause consumers to prefer products with lower prices.

Based on UCP 600 (Uniform Customs & Practice for Documentary Credits) which is an international regulation that has been issued by the International Chamber of Commerce (ICC) and has been revised three times, namely UCP 300 in 1983, UCP 500 in 1993, and UCP 600 in 2007. In this UCP, it is explained how this international trade process is carried out, both in terms of international trade policy and the side of parties in international trade with a Letter of Credit. In UCP 600, the policies that must be considered are transportation documents either land, sea, or air, transportation of goods, what cargo is being carried, and also insurance documents used during the transportation process. Some of these policies must be considered to make it easier for exporters to ship and export goods to the country that is being their destination.

UCP 600 itself also regulates parties in international trade with a Letter of Credit. In this case, UCP 600 is binding on all parties if the Letter of Credit has been issued by the Issue Bank. However, if the Letter of Credit has not been approved and has not been issued, then UCP cannot bind the parties concerned, be it importers, exporters, or related banks. UCP 600 itself has been considered a complete regulation if used in international trade. However, we must also know whether UCP 600 is really effective or not. Because if we don't read it thoroughly, it could be that only one party benefits from the cheating that is done.

Currently, if reviewed on the basis of the concept of a national economic strategy. Policies that regulate international trade so that it runs in accordance with expectations and is expected to always have a positive impact are divided into two types. First, the free trade policy, where trade activities between countries can run and will smoothen the flow of commodities for exports and imports without any significant obstacles. Without hindrance this means having to abandon policies that protect and must carry out international trade without tariff or non-tariff barriers. The imposition of tariffs is one of the barriers that needs to be removed if this free trade policy is implemented. In addition to barriers in the form of tariffs, there are also obstacles in the form of export subsidies for every exporter who wants to send their products abroad. By providing this subsidy, it will be an opportunity for every producer to export because they get a quota in exporting.

However, this free trade policy has its downsides if it is always applied in conducting international trade. One of them is like a country's income will decrease. This is because countries that use free trade policies will find it difficult in terms of competing in the global market. In addition, the country will find it difficult to create quality products that can compete in the global market. This causes the level of imports to be higher than exports. A lower level of exports indicates that a country's income will be low as well. Meanwhile, state spending will not experience significant changes or may increase. If it is like that, national income will decrease and can even increase the level of the country's debt.

The second is a protection trade policy or for protection. This policy is a regulation that provides limits on international trade in the form of goods or services. This protection policy is carried out to protect the domestic economy of a country. There are several reasons why a country should establish this protection policy to protect international trade activities in their country. First, this policy is one way to prevent unfair trade competition. This policy can be retaliation to trading partner countries. Manufacturers in partner countries can carry out anti-competitive practices such as dumping. Dumping here is a practice that should not be done because producers will provide low prices or even prices below the right price when exporting goods abroad. Because they provide low prices, local companies have to face unfair price competition and should not occur from imported goods. In addition to preventing unfair trade competition, this protection policy provides protection to emerging industries. This industry can be said to be *an infant industry* because they have just grown up and need a healthy environment in developing their industry. The government made this policy for several reasons. This new industry will provide employment for every country that implements this policy. They also contribute to long-term production, so that it will have an impact, namely the growth of new industries which are industrial subsidiaries of industries that have developed.

Aside from the advantages of this protection policy or protection policy, there are several criticisms that provide arguments for this policy. This criticism explains that this protection policy only provides benefits for one party, but harms the other party. This is more directed towards the inefficiency of allocating resources for the production of each industry. Protection policies also put losses on local consumers. Consumers have to pay a higher price because these goods are not imported. In addition to the high price, the choice of products they use will also be less and less choice. It is different from imported products that have advantages over local products. There is also an argument that this protection policy will make industry players feel spoiled by the policies provided by the government. They will be lazy to make new products and have an advantage over imported products because they depend on this policy. Industry players will find it easy when it comes to competing in the international market.

Of the two policies above, there are several arguments in favor of free trade policies or protection policies. There are also those who feel that the policy has a negative impact, both in terms of industry and production results. For each may have to look at the conditions of how their international trade markets are before determining what policies should be applied in conducting international trade. In addition to looking at conditions, the government must also know the industrial conditions in the country. Because the industrial conditions of each country will have an impact on determining policies for the future. If the government is not careful in this regard, it is possible that the country's economy will fall and the industry in the country will be further lost slowly.

Apart from the government's policy in international trade with Letters of Credit, there are also parties involved in international trade activities with Letters of Credit. The first is a direct party where this party has a direct relationship either in writing or in law. This party has a direct relationship with international trade activities between countries that will be carried out. In this direct party there are several parties that are directly related to international trade activities with letters of credit. The first is a buyer, also known as an applicant, importer, or buyer. The buyer is the party who applied for the opening of the Letter of Credit. The buyer must provide credibility that can be considered by the bank to open a Letter of Credit for the buyer. The second is the seller, also known as the beneficiary, exporter, or seller. The seller becomes the party who submits to the bank for whom this Letter of Credit is. The seller must meet several requirements of the Letter of Credit that he has received. After completing the desired documents, the seller submits the documents to the paying bank.

Next is the Letter of Credit Issuing Bank, or what is commonly referred to as an opening bank, issuing bank, or bank importer. This bank has the task of issuing a Letter of Credit intended for the seller or beneficiary through a bank intermediary in the seller's home country. This bank also checks the documents that the seller has submitted to this bank whether they match the requirements of the Letter of Credit or not. Issuing Bank also has a function to regulate transaction financing if requested by either the importer or the exporter and also releases the Letter of Credit document to the buyer and also asks for payment to the buyer. Then there is the Letter of Credit Guarantee Bank, or commonly referred to as a confirming bank and a foreign coresspondent bank. This bank serves as a second bank, the Advising Bank which is a confirming bank and further assigns to the seller if this Letter of Credit can be done. Furthermore, the importer or opening bank if not making payment on the Letter of Crredit agreement, advising bank will pay it first.

The paying bank is one of the direct parties in international trade with a Letter of Credit. A paying bank or commonly known as a Paying Bank is a bank whose bank name is stated in the Letter of Credit document. This bank is the party that makes payments to the seller or exporter on the condition that the terms of the Letter of Credit document have been completed by the seller or exporter. Then there is Negotiating Bank, this bank is not named in the Letter of Credit document and it is this bank that approves the purchase of money orders from sellers or exporters. The last one is Reimburse Bank which has the task of being the third bank. It can be used if the exporter bank and the importing bank do not have an account number relationship, then the presence of Reimburse Bank is required.

Apart from direct parties, there are indirect parties. These indirect parties are not included in the payment of the Letter of Credit. This payment for indirect parties is different from all the others. This party is also not stated in the agreement, meaning that each importer or exporter only has a mutual agreement to use which party. The first indirect party is a shipping (shipping) company. This party is a party that receives merchandise from the exporter and regulates all transportation of goods that want to be exported. In addition, the shipping company also created a document in the form of a Bill of Landing which was used as proof of delivery of goods. What goods are being shipped and what is the load. A lot of information in this Bill of Landing itself. Next is Customs and Excise (Customs), the functions of customs and excise for these importers and exporters are different. If for importers, these customs and excise provide documents for the release of goods abroad based on the Bill of Landing that has been issued by the shipping company and has paid off all payments that are borne by the importer. For exporters themselves, customs and excise are parties who research documents and pay taxes and give permission for goods to be loaded on ships and landed in their destination country.

In addition to shipping and customs and excise companies, there are insurance companies. This party has a duty insuring the goods to be shipped in accordance with the agreed nominal value and in accordance with the provisions. This party also issues insurance certificates to anticipate risks that are not cooled during the delivery of goods. This insurance company will settle bills or losses suffered by exporters or importers. Next is the Audit Agency or Sucofindo (Specifically for Indonesia). This Inspection Agency is a body appointed by the government in checking whether it is true that the goods imported come from the importing country and certain export goods will receive inspection if they have arrived in their country. This party also has authority in the inspection of the quality, type, quantity of goods and so on.

From the discussion, it is known that the policy in international trade with the Letter of Credit and also the parties concerned with this Letter of Credit has a relationship with each other. For the party itself is an agency that carries out international trade activities and also handles all the needs or conditions needed by international trade with a Letter of Credit. For this party, it also gets protection from policies that will be implemented by the government.

Conclusion

International trade or buying and selling activities between countries are activities that trade goods or services needed by exporting countries in meeting production needs. This international trade is also one of the supporting factors in a country's economic growth. If the level of exports is higher than imports, a country will experience an increase in its economic growth. However, if the import rate is higher, the country may experience a decline in its economic growth. This international trade has policies governing import-export activities between each country. The policies that can be implemented by the government consist of free trade policies and protection trade policies. These two policies have various types of policies and also have advantages and disadvantages if they are implemented to regulate international trade activities. The application of this policy also requires various considerations before this policy is carried out. This policy also protects parties involved in international trade with a Letter of Credit, be it a direct or indirect party. So it can be concluded that this international trade has a policy that regulates and keeps international trade with this Letter of Credit running according to existing procedures. In addition, this policy also supervises and maintains parties related to international trade with letters of credit.

Research Limitations

Every study must have limitations in each of its studies. The limitations of this study are intended for researchers to conduct research with the limitations of themes that have been used and determined. In addition, this limitation also shows that the research carried out is focused on one study. The limitations of the research contained in this study are policies that regulate international trade and also parties involved in international trade with Letters of Credit.

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