



# Risks in AGRIGULF's Agricultural Export Settlement Business and Its Management

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## **Author's contribution**

*The sole author designed, analyzed, interpreted and prepared the manuscript.*

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## **ABSTRACT**

This paper is primarily a case-based study. It takes Gulf Modern Agriculture Development Co., Ltd (hereinafter referred to as AGRIGULF) as the object of research, and adopts the case study method and field interview method to sort out the company's agricultural products export business and common settlement methods and so on. Through field visits and investigation, data collection, and collation, identify and analyze the risks of the company's agricultural export settlement business. Finally, corresponding risk management suggestions are put forward at four levels, namely, country risk, foreign exchange risk, product quality change risk, and credit risk, which are expected to provide certain references for the sustainable development of China's agricultural export enterprises

*Keywords: Agricultural trade; export settlement risk; risk management.*

## **1. INTRODUCTION**

With the steady progress of the structural reform of the agricultural supply side, the quality of

China's agricultural products continues to improve, the scale of the market continues to expand, the competitiveness of the international market continues to increase, and has become

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the world's second-largest agricultural products trading country [1]. However, the export settlement business related to agricultural trade is facing a severe test: on the one hand, due to the late entry of the international settlement business into the Chinese market and the complexity of the global economic environment, medium-sized enterprises are unable to escape from the constraints of the external macro environment, and there are many risks in the actual settlement process. On the other hand, some medium-sized enterprises are in a hurry to expand overseas markets, and they hastily carry out non-L/C settlement transactions with importers without a comprehensive understanding of their creditworthiness, trading rules, and trading habits, which leads to a disadvantageous position of export enterprises in competition. Therefore, it is urgent to improve the risk management level of medium-sized enterprises in export settlement.

Therefore, this paper takes a medium-sized enterprise specializing in the export trade of agricultural products - AGRIGULF Company as the research object, identifies and analyzes the risks it faces in the settlement business of agricultural products export and puts forward corresponding risk management suggestions, to provide certain references for the settlement risk management of the similarly medium-sized foreign trade enterprises in the future. It also puts forward corresponding risk management suggestions to provide certain references for similar medium-sized foreign trade enterprises in future settlement risk management, thus promoting the healthy development of agricultural export settlement of medium-sized enterprises in China.

## **2. METHODS**

### **2.1 International Settlement Risk and Its Classification**

The two parties involved in international trade in time, customs, laws and regulations, and geographical location have their particularities and differences, so it is difficult to avoid the settlement of this link will appear a variety of risks, thus affecting the success or failure of the entire trade activities. Settlement risk refers to the two sides of the trade according to the signed contract, a certain settlement mode, due to some sudden, accidental, unpredictable factors, on both sides of the trade or even the interests of the parties caused by certain losses or threats.

According to the different subjects involved, export settlement risks can be categorized into macro-risk level and micro-risk level. The subject of macro risk level is the country and the society, which is mainly influenced by some national policies, international political and economic environment and various activities in the society, exchange rate changes, etc., so it can be divided into country risk and foreign exchange risk. Country risk includes political risk, social risk, economic risk, foreign exchange risk including transaction risk, translation risk, and operational risk. The micro-risk level is mainly from within the enterprise, including the enterprise's business situation, business management policies and guidelines, the level of internal management personnel, and other influences, the micro-risk level can be divided into: credit risk and technology risk.

### **2.2 Research Methods**

In this paper, we have mainly used the literature research method, case study method, and field interview method. Through the collection of domestic and foreign literature related to the export settlement business, to understand the various types of risks faced by the international settlement business, to lay a certain theoretical foundation for the research of this paper. Subsequently, this paper takes AGRIGULF Company as the main research object, analyzes the trade cases experienced by the company in the past trade, and summarizes the export settlement risks encountered by the company and the lessons learned from it. In addition, to truly and accurately understand the settlement risk of AGRIGULF, this paper also visited the company and invited its general manager to have a face-to-face in-depth conversation.

## **3. LITERATURE REVIEW**

### **3.1 Mode of International Settlement and its Selective Aspects**

International settlement methods as the main research object of export trade, the most commonly used methods are remittance, collection, letter of credit, and so on. Chen Lilong (2011) compared the advantages and analyzed the risks of these three settlement methods, remittance and collection are more risky, letters of credit are more secure, but the procedures are complicated and the effectiveness is not strong [2]. Shi Yana (2021) through the study of China's

medium-sized import and export enterprises in the international settlement of the status quo, that each settlement method has its advantages and disadvantages, medium-sized import and export enterprises should be a variety of joint application of settlement methods, such as letters of credit and collection, not only to protect the safety of exporters' funds, but also reduce the amount of importer advances to the amount of funds for the rational use of idle funds; at the same time, the establishment of a sound regulatory mechanism At the same time, the establishment of a sound monitoring mechanism, with the assistance of credit management services to fully understand the other party's creditworthiness before proceeding with the transaction [3].

### **3.2 International Settlement Risk and its Prevention Aspects**

Yang Min (2020) that political factors, social factors with instability will affect the international trade environment, China's importers and exporters to pay for the supply of the two key links bring great risk, while the exchange rate and the market are directly related to commodity prices, commodity price fluctuations will bring different degrees of risk. In this regard, enterprises should establish a complete information management system to improve the information of the two sides of the transaction, strengthen the credit service industry, the develop the insurance industry, with good creditworthiness of customers to choose remittance, depending on the circumstances of the settlement of collection, with poor creditworthiness of customers need to choose a letter of credit to reduce the risk of the way to deal with [4].

Yang Shengli and Wang Weirong (2021) analyze the risks faced by China's international trade in agricultural products in the post-epidemic period against the background of the negative impacts brought by the new epidemic on international trade in agricultural products, including macroeconomic shocks, supply and demand tensions, and increased import and export restrictions. They believe that the impact of the new crown epidemic has a long period, the import and export of agricultural products must be well planned, to broaden the export channels and; at the same time, actively promote the opening up of agricultural trade to the outside world, as far as possible to make both sides in the trade

agreement, to promote the healthy development of international trade in agricultural products [5].

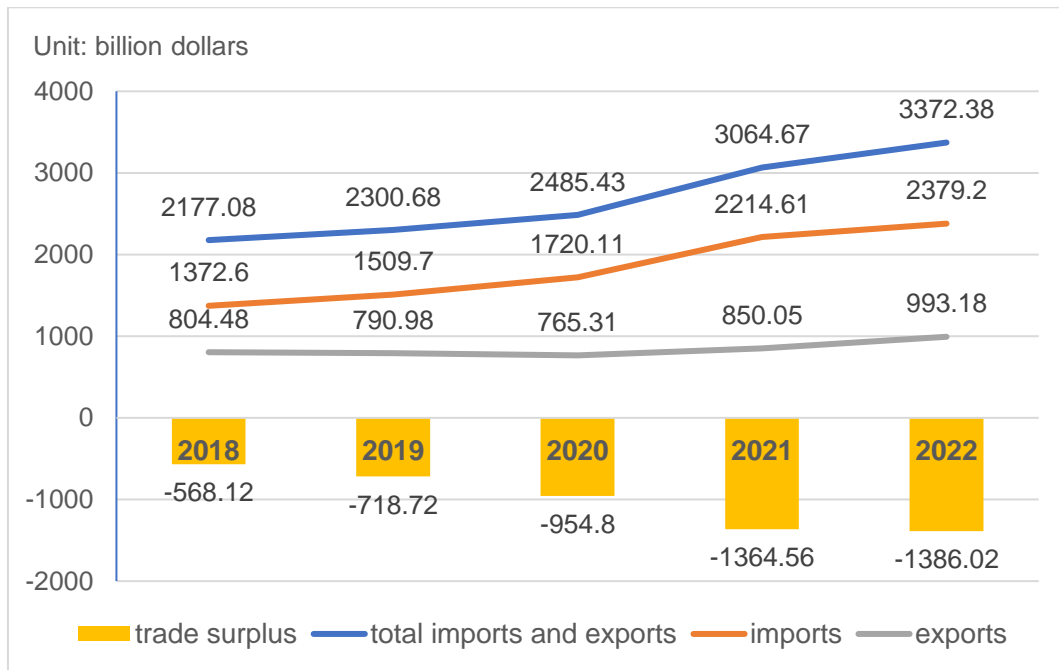
In addition, Chen Hui (2022) introduced the contribution of export credit insurance in China in protecting medium-sized foreign trade enterprises from the impact of the new crown epidemic and argued that the protection of medium-sized foreign trade enterprises can not only rely on the medium-sized enterprises themselves and the market but also need the participation of the government and the state to provide corresponding protection and certain preferential policies for medium-sized enterprises [6].

## **4. CURRENT SITUATION OF TRADE AND EXPORT SETTLEMENT OF AGRICULTURAL PRODUCTS IN CHINA**

### **4.1 International Trade in Agricultural Products Status**

With the advancement of agricultural modernization, China's cooperation with other countries in the global international trade market of agricultural products has become increasingly close, and the role played in the world trade in agricultural products has become more and more prominent, and the international trade in agricultural products mainly presents the following characteristics:

In terms of trade volume, the total amount of import and export of agricultural products has increased year by year; the dependence on the international market is high, and the trade in agricultural products continues to be in deficit and the deficit is expanding year by year. According to the data of the Ministry of Agriculture and Rural Development of the People's Republic of China, in 2018, China's total foreign trade in agricultural products amounted to 217,708 million U.S. dollars, of which imports amounted to 137,260 million U.S. dollars, exports amounted to 80,448 million U.S. dollars, and the trade deficit was 56,812 million U.S. dollars. In 2022, China's foreign trade in agricultural products will amount to 337,238 million U.S. dollars, of which imports amounted to 237,920 million U.S. dollars and exports of 99.318 billion U.S. dollars, the trade deficit widened to 138.603 billion U.S. dollars.



**Fig. 1. China's foreign trade in agricultural products**

Source: The Ministry of Agriculture and Rural Development of the People's Republic of China

## 4.2 Agricultural Export Settlement Current Status

### 4.2.1 Gradual decrease in the utilization rate of letters of credit

Letters of credit as one of the most important settlement methods in international trade, known as "the lifeline of international business", has always been favored by China's exporters, in the late twentieth century in China's export settlement, the use of letters of credit is more than 80%, to help China's exporters to collect foreign exchange safely, but also promote the rapid development of foreign trade [7]. The rapid development of foreign trade. However, due to the further deepening of economic globalization, the buyer's market has gradually formed, and the competitive situation of export enterprises has become more severe, it is difficult to meet the competitive demand only by the advantage of commodities, and it is also necessary to choose the settlement method which is beneficial to the buyer to enhance the competitiveness of their exports, therefore, the settlement method of telegraphic transfer based on commercial credit has gradually replaced the settlement method of letter of credit based on bank credit. However, the proportion of the use of letters of credit is still maintained at about 45% in developing countries such as Asia, and the letter of credit is still a

more important way of settling China's growing agricultural products and foreign trade enterprises, which is suitable for exporting to more distant regions and countries.

### 4.2.2 Multiple payments emerge

After the global financial crisis, the risk of international trade has continued to increase, and foreign trade enterprises seldom use a single settlement method in practice; multiple payments have come into being, and new types of settlement methods continue to emerge. Such as international factoring, bank guarantee, forfeiting, standby letters of credit, etc., which provide more choices for export enterprises. Enterprises can adopt a combination of multiple settlement methods in practice according to their actual needs. At present, China's agricultural export enterprises usually use a combination of settlement methods: letter of credit + remittance, letter of credit + collection, and collection + remittance three.

### 4.2.3 Electronic settlement pushes the envelope

With the wide application of information technology, cloud computing technology, and big data technology in the financial field, international settlement methods are developing deeply in the

direction of electrification. Since the 1970s, technologies such as CHIPS, SWIFT, and EDI have been widely used, accelerating the process of electronic international settlement and greatly improving settlement efficiency. On the road of electronic development, domestic banks actively explore and practice emerging computing in the field of international settlement document business, of which, the Bank of China electronic construction started the earliest, 1985 the first official opening of SWIFT communication, followed by other opening of the international settlement business of the banks have also joined one after another. At the same time, the field of international trade has appeared such as KDDI, BOLERO, ESSDOCS, and other more mature electronic document platforms, which can verify electronic documents and data for export enterprises to ensure the authenticity of the documents. This electronic settlement simplifies the settlement procedure, improves the security of international settlement, and promotes the development of China's agricultural export trade.

## 5. STATUS OF AGRIGULF's EXPORT SETTLEMENT AND ITS RISKS

### 5.1 Agricultural Products of AGRIGULF Export Business Introduction

AGRIGULF is a company specializing in the export of fresh vegetables and fruits, located in Lianyungang, on the east side of the Yellow Sea. Since its inception in 2007, it has generated significant profits, and as of 2022, the company has a registered capital of 5 million dollars. With the geographical advantage of Lianyungang being separated from South Korea, North Korea, and Japan by the sea, the company's main export destinations are Japan, South Korea, Southeast Asia, the Middle East, Africa, and other countries; the exported agricultural products include onions, garlic, potatoes and so on, which is a typical agricultural products export trade enterprise.

As shown in Table 1, the export business of preserved onions in 2021 and 2022, for example, is mainly exported to Japan, with the highest annual trade volume of 25,000 tons.

In 2017, the South Korean government tendered goods of 4,000 tons of onions, and the Korea Distribution Company (AT) selected AGRIGULF as the exporter and traded with a letter of credit, with a total transaction amount of up to US\$2.24 million, which is the company's current highest transaction value of an international settlement business.

AGRIGULF currently has more than 110 stable customers, including Germany and Russia in Europe and the United States, and Japan, South Korea, Bangladesh, and Indonesia, etc. in Asia, and its agricultural export business covers most of the countries that mainly import agricultural products, such as Indonesia, the world's largest importer of garlic. Among these 110 stable customers, the main cooperative companies are NANKYUCO LTD. and KOBE YOKO LTD. in Japan, and MS TRADE CO LTD. in South Korea. As a medium-sized enterprise, AGRIGULF is committed to improving the quality of its products to establish a good reputation in the industry and to seek a larger volume of transactions and higher visibility.

The following is about AGRIGULF's total export trade in the last three years, all in US dollars, as shown in Table 2. 2020 was at the peak of the epidemic, and under the conditions of the relevant export restrictive measures, the export value was 11.2 million US dollars; in 2021, due to the impact of the post-epidemic, the export value was still on a downward trend to 10.08 million US dollars; in 2022, with the improvement of the world economy, the In 2022, as the world economy improves, exports will gradually rebound to \$13.5 million.

**Table 1. AGRIGULF exports of onions, 2021-2022 (Unit: thousand tons)**

2021				2022			
Japanese	Southeast Asia	South Korea (Republic of Korea)	Australia	Japanese	Southeast Asia	South Korea (Republic of Korea)	Australia
20	8	2	1	25	10	8	2

Source: AGRIGULF internal documentation of business data

**Table 2. AGRIGULF's total export trade 2020-2022 (Unit: million dollars)**

particular year	2020	2021	2022
Total export trade	11.20	10.08	13.50

*Source: AGRIGULF internal documentation of business data*

## 5.2 Common Export Settlement Methods Used by AGRIGULF

In AGRIGULF's actual business, the common methods of export settlement are L/C and T/T, or a combination of both, depending on the importing country's trading habits and the actual condition of the goods.

### 5.2.1 Telegraphic Transfer (T/T) as the main methods

Because of the distance and shipment schedule, trade transactions with Japan, Korea, and Southeast Asian countries are often settled by telegraphic transfer (T/T) in the remittance business. Depending on the creditworthiness of the destination country, it is further subdivided into pre-T/T and post-T/T, i.e., prepayment and payment on delivery.

For countries with good credit, familiar customers, or well-known big companies, cash on delivery is usually used. At present, companies exporting fresh vegetables to Japan use cash on delivery, which guarantees the quality of vegetables and saves the handling fee at the same time. According to the situation of each company, the accounting period is divided into payment within one week of arrival, payment within one month of arrival, payment within two months of arrival, and so on. Most Japanese companies have good reputations, once the payment is reached, the transaction can be smooth, but it is inevitable meet the company's poor business bankruptcy and closure of the company, as the export company is prone to bad debts, so it is very important to understand the information of foreign customers through multiple channels.

For new customers or countries with low credit, we usually use relatively safe payment methods, prepayment or full L/C payment. The amount of prepayment also depends on the creditworthiness of the country, AGRIGULF uses 30% prepayment for trade with Middle Eastern countries, waiting for us to receive the prepayment before packing and shipping, and 70% of the balance by D/P; and with small companies

in South Korea, we use 50% prepayment for each other, and we will arrange for the release of the bill of lading by TT after the customer has finished the balance of the payment. With a Korean company, we use 50% prepayment, after the customer pays the balance, we arrange the TT bill of lading.

### 5.2.2 Documentary Letter of Credit (L/C)

Under the documentary letter of credit settlement mode, it takes at least 2-4 days from the loading of goods to the delivery of various original documents to the notifying bank, the notifying bank audits the authenticity and completeness of the documents and then forwards them to the issuing bank, which releases the money after receiving the documents, the whole process is a very long time cycle. For countries with short transportation distances, the container may have arrived at the port during this period, and if the customer can't pick up the goods in time and cause the goods to stay at the port, it will incur a lot of costs. Therefore, this settlement method of letter of credit in agricultural trade applies to more distant regions and countries, such as the Middle East, Europe, etc., generally using the letter of credit at sight (L/C AT SIGHT). Of course, because of the letter of credit settlement by the "Uniform Customs and Practice for Documentary Credits" (UCP600) constraints and bank credit participation, in the absence of knowledge of the creditworthiness of the importer, the letter of credit settlement is the best choice [8].

## 5.3 Risks to AGRIGULF's Export Settlements

To gain a deeper understanding of the main types of agricultural settlement risks of AGRIGULF, we adopt the interview method, go to the company's location, and invite its general manager to have a face-to-face conversation to understand the risks existing in the actual process of the company's agricultural settlement, and through the analysis of the main risks, we can provide a realistic basis for the selection of methods to reduce the settlement risks of agricultural products import and export enterprises. In the current form of international

trade, even if the risk can not be completely avoided, a comprehensive analysis of the causes of the risk of medium-sized enterprises still has a vital role in their development.

### **5.3.1 Country risk**

For enterprises engaged in the import and export of agricultural products, the country risk is mainly the risk of non-tariff barriers. Take the cabbage export deal between AGRIGULF and a South Korean company in August 2020 as an example, at that time, the price of cabbage in South Korea rose by a high margin, which was about 20~40 times higher than the domestic price in China, and South Korea was facing a "cabbage crisis". In the end, the export deal was not completed for the following reasons:

First, the Republic of Korea has been a serious agricultural trade protectionist since ancient times, often imposing large tariffs on imports to protect domestic farmers and balance supply and demand in the domestic market, but it is very difficult to achieve self-sufficiency in agricultural products by relying only on its small arable land. This risk of non-tariff barriers not only keeps the price of agricultural products high but also hinders inter-country trade.

Second, 2020 coincides with the peak of the new crown epidemic, as far as agricultural products are concerned, South Korea as an importing country takes more stringent transportation and logistics control measures when the exporter will be cabbage boxed rowing ship to the destination port, but was required by the importer to ship isolation and quarantine, and agricultural products with a strong seasonal, when the quarantine results have come out of the past one week, not only greatly reduce the freshness of the agricultural products, but also did not Catch up with the best selling time.

### **5.3.2 Foreign exchange risk**

Due to the irreplaceability of the US dollar in currency transactions, buyers and sellers generally agree to settle in US dollars. AGRIGULF's business at this stage mainly focuses on the Asia-Pacific region, where the level of economic development is relatively

weak compared with that of the Western developed countries, and most of the companies, to ensure the effective use of funds, will not settle the contract in one lump sum, but will mainly use forward settlements, and the currency exchange rate will change during the period of signing the contract and cash-on-delivery settlements. During the period of contract signing and cash-on-delivery settlement, the currency exchange rate will change, which will generate foreign exchange risk and bring difficulties to exporters in collecting payment for goods.

As shown in Table 3, on October 19, 2020, a South Korean importer imported 10 containers of onions to AGRIGULF, each container of about 20 tons, the day of the onion export price of 600 U.S. dollars/ton, the export amount of a total of 120,000 U.S. dollars. Considering that the South Korean importer has a good reputation and the other party in order not to prematurely occupy the funds, the settlement method of cash on delivery. When the goods arrived at the port of Busan, South Korea, the importer completed the inspection and was ready to pay, that is, October 21, 2020, coincided with the depreciation of the U.S. dollar, from 1 U.S. dollar to 6.701 yuan to 1 U.S. dollar to 6.6781 yuan, the importer will be due to exchange rate changes resulting in changes in the market price of the loss passed on to the exporter, the foreign exchange loss caused by the exporter a total of 2,748 The total foreign exchange loss to the exporter is 2,748 CNY.

The following year, May 25, 2021, as shown in Table 4. A Japanese importer imported 10 containers of peeled onions to AGRIGULF, about 20 tons per container, and the export price of peeled onions on that day was US\$1,650 per ton, with a total export amount of US\$330,000. As the importer was in urgent need of goods and was short of funds, it could not deliver the funds at the time of signing the contract, so it also adopted the settlement method of cash on delivery. on May 28, 2021, the goods arrived at the port of Kobe, Japan, when the exchange rate of USD to CNY had dropped from 6.4283 to 6.3858, bringing the loss of foreign exchange for a total of 14,025 CNY. The size of the foreign exchange loss depends on the exchange rate fluctuations and the size of the transaction amount.

**Table 3. AGRIGULF's foreign exchange losses in recent years' transactions 1**

shipment date	invoice date
October 19, 2020	October 21, 2020
exchange rates	exchange rates
USD 1 = CNY 6.701	USD 1 = CNY 6.6781
Foreign exchange losses: CNY 2,748	

*Source: AGRIGULF internal documentation of business data*

**Table 4. AGRIGULF's foreign exchange losses in recent years' transactions 2**

shipment date	invoice date
May 25, 2021	May 28, 2021
exchange rates	exchange rates
USD 1 = CNY 6.4283	USD1 = CNY 6.3858
Foreign exchange losses: CNY 14025	

*Source: AGRIGULF internal documentation of business data*

This risk of exchange loss due to changes in exchange rates is common in export trade, and the use of forward settlement often results in significant losses for exporters.

### 5.3.3 Risk of product quality change

Due to the short shelf life of agricultural products, easy to quality change (quality change may be affected by the weather, processing quality, container transportation process cabin or dock plugging improper management, goods to the destination port warehouse is not properly stored and other issues), and agricultural products quality standards can only be approximate, so in the international trade is prone to quality disputes. 2016, a Southeast Asian importer imported from the AGRIGULF Company A batch of onions was settled by prepayment of 50% of the purchase price, but due to the bad weather during the sea transportation which caused a delay of 3 days to arrive at the port of destination, the onion skin was soft and there were signs of rotting. In this regard, the importer believes that the goods do not match the description of the trade contract and refuses to pay the remaining payment. At this point, the exporter not only lost the transportation costs, and the balance of the goods but also missed the best time to sell, which may result in stagnation of the product, thus leading to heavy economic losses.

### 5.3.4 Export credit risk

In the process of international settlement, the exporter for the importer to provide commercial

credit, if the importer due to their factors or external force majeure factors leads to the inability to pay the payment on time and the possibility of loss to the exporter, this loss is manifested as export credit risk. In the international settlement of agricultural products, it is mainly manifested as importer credit risk, the risk of abandonment of goods at the port of destination, and the risk of irregular operation of the issuing bank.

#### 5.3.4.1 Importer credit risk

When trading with other countries, importer credit risk is the most prominent problem for medium-sized export enterprises due to information asymmetry, institutional and cultural differences, and imperfect credit risk prevention mechanisms. Overseas importers refuse to pay the delayed payment, credit, and other commercial credit deficiencies, resulting in exporters having to bear the credit risk brought about by a variety of adverse consequences, if repeated occurrences, enough to make medium-sized export companies bankrupt and close.

According to past transactions, most Japanese companies have good reputations, so AGRIGULF Company exports fresh vegetables to all Japanese companies using cash on delivery settlement, but there will be cases when Japanese companies go bankrupt and close down due to bad business. In 2019, the company entered into business dealings with Japanese LY company, and the business volume increased month by month. However, soon afterward, it was learned through a Japanese friend that LY Company was not operating normally, but was disrupting the market order by buying from



Chinese exporters at a high price and then selling in Japan at a low price, taking volume to grab customers. After noticing this situation, the company gradually reduced its business dealings with LY until the payment for the goods was completely settled and the cooperation was terminated. One year later, LY applied for bankruptcy and liquidation, and the two Chinese companies that supplied the company unfortunately had \$3.5 million in unrecovered payments, resulting in heavy losses.

#### *5.3.4.2 Risk of irregularities by issuing banks*

Most of the risks of irregular operation of issuing banks originate from Bangladesh. Due to the generally low creditworthiness of Bangladeshi banks, there are often irregularities in the operation of the issuing bank, and when Chinese companies conduct business transactions with Bangladeshi companies, they often encounter cases such as the issuing bank releasing the bill of lading and delaying the payment time for no reason when the importer has not made the payment.

In 2012, AGRIGULF had exported a batch of ginger to Bangladesh, which was settled by letter of credit, but the other bank released the bill of lading directly without the buyer's payment, which led to serious foreign exchange loss for the exporter, and the future transactions with Bangladesh refused to accept letter of credit, and instead, used the settlement of prepayment of the goods. ucp600 makes provisions for letter of credit business, and the vast majority of national banks are UCP600 provides for the letter of credit business, most of the national banks comply with this regulation, but some small banks in some specific countries still have the situation of not trading according to UCP600, and this phenomenon is especially common in the transaction with Bangladesh, ignoring the date specified in the letter of credit, and releasing the bill of lading to the buyer even after the expiration date, which belongs to the irregular operation of the issuing bank and the exporter's risk [9].

#### *5.3.4.3 Risk of abandonment at the importer's port of destination*

Abandonment of goods at the port of destination refers to the situation where the consignee loses contact with the goods or refuses to take delivery of the goods after they arrive at the port of arrival and the expiry of the contractual period. Currently, the provisions for a reasonable period vary from country to country. Article 30 of China's Customs Law makes it clear that an importer who fails to

declare to the Customs that he has not taken delivery of the goods for more than three months from the date of the declaration of entry of the means of transportation is considered to have abandoned the goods, which are to be withdrawn by the Customs and disposed of by the law; whereas in Latin America, where the economic system is relatively imperfect, Guatemala, for example, stipulates that goods that have not been declared to the Customs for taking delivery for more than 20 working days from the date of arrival of the goods are to be considered to be abandoned and that the goods to be abandoned will be auctioned off by the Customs.

Most of the losses caused by cargo abandonment at the port of destination are very heavy. In addition to the loss of freight, exporters also need to bear the loss of container rental and deal with the cooperative relationship with shipowners. For agricultural products, if the importer abandons the goods at the port of destination, the products may rot during this period or miss the best-selling period, the exporter not only needs to bear the loss of freight but also needs to bear the loss of goods, and it is difficult to ship back the agricultural products. Generally subject to the constraints of the letter of credit, as long as the documents are consistent with the issuer must pay, but the economic system is not perfect in Latin America, such as in 2010 AGRIGULF company exported garlic to Latin America importers designated the port of destination was abandoned, the long distance back to the goods is difficult to avoid the rotting of the garlic, resulting in huge losses.

## **6. RECOMMENDATIONS FOR AGRIGULF SETTLEMENT RISK MANAGEMENT**

### **6.1 National Risk Management**

#### **6.1.1 Taking out policy-based export credit insurance**

Policy-based export credit insurance is a non-profit insurance business launched by the State to promote the development of export trade, protect export enterprises, and reduce losses caused by political risks and credit risks in trade. After the enterprise has taken out the insurance, the insurance organization will investigate the transaction object, understand its creditworthiness, combine it with the economic and political situation and policy of the other country, carry out the risk assessment, and give us the relevant international settlement suggestions. It not only helps to reduce the probability of risk occurrence but also broadens

the channel of information understanding of trading partners, providing information support for both sides to carry out long-term trade cooperation and explore new markets.

For trade with a long cycle, there may be a situation in which the relevant policies of the other country change temporarily when the shipment of goods is completed. In the face of such policy changes, if we have taken out policy export credit insurance, we can get timely compensation and reduce economic losses.

### **6.1.2 Familiarization with trade policies and market sensitization**

Different countries have different macroeconomic policies and import and export policies for agricultural products, and exporters must understand the economic and political policies, cultural customs, religious beliefs, and other factors of the other country before trading with the other party, to take preventive measures in time. For example, in some Latin American countries, the law stipulates that do not accept forward D / P, if the national collection agency encounters forward D / P of the collection, is regarded as D / A disposal. Therefore, understanding the laws and regulations of the country where the trade object is located in advance will be of great help to the enterprise in avoiding national risk.

At the same time, the need to pay attention to the international market for similar products, and pay attention to price trends, if price fluctuations significantly, must be carefully considered, you can let the relevant personnel of the enterprise market research, collect data for analysis, a comprehensive comparison of risks and benefits, from a variety of aspects of the research and judgment of whether or not to carry out trade, to avoid eating a "dumb loss! ".

## **6.2 Foreign Exchange Risk Management**

### **6.2.1 Timely monitoring of exchange rate changes**

Changes in the exchange rate will directly affect the price of export products, which in turn affects revenue and costs. You need to pay attention to changes in the exchange rate promptly when formulating your export strategy, and minimize risks by paying attention to the economic reports of well-known institutions, such as Citibank and the Wall Street Journal, to predict the rise and fall

of the exchange rate, and by taking into account a variety of factors, such as supply and demand, market trends and so on.

### **6.2.2 Hedging to lock in exchange rates**

Exchange rate changes in international trade are inevitable, enterprises can lock the exchange rate in advance through several financial instruments and other measures, hedging operations to reduce the losses caused by exchange rate changes. Export enterprises can sign a foreign exchange forward contract with the bank, agreeing to a future moment of the exchange rate to the settlement of foreign exchange, due for delivery. In addition, there are foreign exchange options, futures, swaps, and other financial derivatives, that can help enterprises realize hedging. Generally, the transaction time is long, and the transaction amount is large in the trade will be used.

## **6.3 Risk Management of Product Qualitative Changes**

To cope with the risk of product deterioration, customized transportation is needed, i.e., choosing the appropriate mode of transportation according to the characteristics of the product. The vast majority of China's agricultural exports are transported by sea, but with the slow speed of shipping, and the voyage period being difficult to control, the agricultural products inevitably arrive at the port of decay, so it is critical to choose the appropriate mode of trade transportation. For products that are prone to deterioration during transportation, such as tomatoes and lettuce, air cold chain transportation should be chosen as much as possible to ensure their freshness. In the case of tomato exports, cold chain transportation is usually used to maintain a suitable temperature of 10-15°C and a suitable humidity of 60-80% throughout the transportation process, requiring the use of foam boxes for transportation and controlling the humidity by spraying water.

For agricultural products with long storage time, such as onions and garlic, sea and land transportation methods are available. As far as onion export is concerned, the two commonly used methods are sea freight and air freight, sea freight is the transportation method chosen by most medium-sized export companies at present, with low cost and long transportation time. To ensure the quality of goods, before shipment, we need to use pressure-resistant and moisture-

proof packaging materials, cover a layer of cling film on the skin of onions to avoid evaporation of water, and recommend the use of wooden crates for transportation to avoid extrusion and collision; we need to control the temperature during freight transportation, and it is best to keep the temperature at 0-5 degrees Celsius; when the goods arrive at the destination port, we need to arrange customs clearance promptly, and place the onions in a dry and ventilated warehouse.

## **6.4 Credit Risk Management**

### **6.4.1 Hierarchical management by customer creditworthiness**

Customer creditworthiness is a prerequisite for the entire trade activity and affects every aspect of trade. It is necessary to fully understand the creditworthiness of trading partners and establish a perfect customer credit management system. Too strict creditworthiness standards are not conducive to the long-term maintenance of customer relationships, while too loose creditworthiness standards will increase the credit risk in trade. Therefore, enterprises should take into account all aspects rate the creditworthiness of customers, and adopt different settlement methods for customers of different grades. For trade partners with good reputations and long-term cooperation, remittance can be chosen to save time and cost for both sides; for first-time cooperation or customers with unknown creditworthiness, the settlement method of collection and letter of credit is chosen. For customers with poor credit standing, it is recommended to choose to terminate the cooperation. If you insist on cooperation, you must choose the letter of credit, international factoring, or buy export credit insurance to transfer the risk and reduce the loss.

In the management of customers' credit status, we cannot simply divide customers' level by the region and country they are located in, but can start from the comprehensive consideration of customers' operation status, region and country they are located in, business scale, asset-liability ratio, ranking of the industry they are located in, the length of time they have cooperated with us and their evaluation, etc.; we cannot rely on experience only, and we should update the relevant information of the credit status of the customers promptly to avoid making wrong decisions due to asymmetry of the information. We should not only rely on experience but also update the information about the creditworthiness of customers in time to avoid

making wrong decisions due to asymmetric information. For customers who have lost their creditworthiness, a disciplinary mechanism can be set up to report their creditworthiness to banks and other credit organizations and add them to the blacklist to terminate the cooperation.

### **6.4.2 Careful selection of collecting and issuing banks**

In the collection, letter of credit settlement, and other banks involved in the settlement mode, be careful to choose the collection agency, or issuing bank. The collecting bank holds the link of releasing the order to the importer and should grasp the timing of releasing the order by the issuer's instruction, but some banks have a close relationship with the importer, and both sides collide with each other and may release the order in advance, or do not reflect the real situation promptly. Therefore, it is necessary to choose a long history, and excellent reputation of the big banks. If necessary, you can report to the head office of the issuing bank, the local national central bank, and the commercial office of the Chinese Embassy in the local country for help to safeguard your interests.

Most of the risks of issuer irregularities originate in Bangladesh. Since Bangladeshi banks generally have low creditworthiness and irregularities of issuing banks often occur, if it is unavoidable to choose these banks as issuing banks, it is necessary to keep close contact with them and supervise their business operations by international practices, so that even in case of defaults, losses can be stopped in time.

### **6.4.3 Combined use of multiple settlement methods**

For ordinary commodities, there is already a set of traditional international settlement methods to avoid risks. However, due to the special characteristics of agricultural products, coupled with the sudden changes in the international trade situation, the existing settlement methods can not well meet the needs of exporters to control risks. Whether to find a new road from the existing international settlement methods the agricultural export company should consider things, so the innovation of international settlement methods is very important. The combination of multiple settlement methods can effectively reduce transaction costs while controlling risks.

#### **6.4.4 Critical review of contract documents and establishment of exemption clauses**

When signing the contract, the amount, quantity, settlement method, trade terms, and other contents must be strictly examined; in the production of documents, it must be strictly compared with the trade contract to avoid disputes from the source. In this regard, it is necessary to strengthen the training of the relevant business personnel and enhance the professionalism of the staff to avoid the risk of staff operation. If necessary, with the consent of the customer, the contract and related documents can be sent to a professional organization for audit. If discrepancies are found after the audit, feedback must be given to the customer and the bank promptly.

As agricultural products are themselves characterized by perishability, it is important to set out in trade contracts exemptions from relevant risks, such as packaging conditions and warranty periods. When determining the date of shipment, emphasis should be placed on the local climate and weather, to avoid missing the best time to sell the goods due to damage caused by climatic factors during transportation and upon arrival at the port.

### **7. CONCLUSION**

The wave of economic globalization promotes the development of international trade, international settlement is a vital part of international trade, and flexible and diverse settlement methods are also a way to enhance the competitiveness of enterprises. The export settlement risk of foreign trade enterprises exists in all aspects of trade, enterprises are often based on the creditworthiness of the counterparty, trading habits, national policies, etc. will be divided into levels, for different levels of the counterparty to take different settlement methods to reduce the settlement risk. Therefore, strengthening risk management is a crucial task for export enterprises.

Compared with ordinary commodities, agricultural products due to their perishable, market price fluctuations, and other reasons, in the complex international trade is more likely to produce risk, export enterprises rely only on their own experience is difficult to identify. In the case of AGRIGULF company studied in this paper, this kind of medium-sized foreign trade enterprises need to combine their actual situation to choose

the settlement method, not only to pay attention to their cost control but also to focus on the prevention of risk. To see the big picture, through the company's case to provide a reference for all agricultural export enterprise risk management. Agricultural export enterprises should strengthen the construction of an internal risk culture, assess the creditworthiness of importers in the early stage of trade; pay attention to the changes in their business conditions in the middle stage of trade, pay attention to the dynamic tracking of risk, and purchase export credit insurance to transfer the risk of overdue accounts receivable in the late stage of trade, to build a perfect risk management system. While guaranteeing the smooth progress of international trade, it also focuses on improving the scientific decision-making and risk management level of its enterprise, ensuring the enterprise's profitability and creating higher economic benefits in a win-win situation.

### **COMPETING INTERESTS**

Author has declared that no competing interests exist.

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