BANKING ON KNOWLEDGE

The future of trade finance is going to be digital

By Dr R Seetharaman

According to WTO, the global merchandise trade was at $17.43tn in 2017. The top 10 merchandise trader countries account for just over half of the world. Developing economies had a 44% share of world merchandise trade in 2017.

The global commercial services was at $5.19tn in 2017. The developing economies had 34% share of world commercial services trade in 2017. The top 10 commercial services trader countries account for just over half of the world. The Gulf trade with the globe was at $1.05tn in 2017.

The top 5 strategic partners of Gulf in 2017 are EU, China, Japan, India and USA. The ongoing US-China trade war will have no immediate effect on the Gulf countries as the region is not directly involved or implicated in the current rows.

The Gulf is basically an importing region with large trade deficits outside oil. So there are no reasons for other countries to impose tariffs on its exports and definitely the region does not have any interest in imposing tariffs on its imports. When global growth gets hit, the demand for oil decreases and so does the price.

Moreover, China and other Asian countries linked to it though supply chains are major oil importers and are expected to be affected the most by a trade war, putting further downward pressure on oil prices. Gulf countries import most of their goods and their currencies are pegged to the dollar, inflation will pass through.

If inflation in the US picks up on account of higher tariffs, the Fed will need to raise the policy rate at a faster pace. To keep the peg to the dollar, Gulf countries would need to raise their interest rates at least in tandem with the US. The world is currently witnessing capital outflows from emerging markets to mature markets, mainly the US due to higher interest rates and the strong dollar but also because of the uncertainty and risks triggered by trade disputes.

Although the Gulf has not been affected as much, some have already experienced capital outflows. In addition, the expected inflows of capital into the region as a result of the inclusion in emerging markets indices may be moderated by these uncertainties triggered by trade tensions. Countries are coming up with their digitised trade platforms and opportunities to collaborate now extend beyond the traditional trade finance players. We will we see emergence of multiple government driven trade platforms. Digital technologies will be responsible for the transformation of global trade in the foreseeable future.

As a result, traditional companies will face a more competitive environment as new technology giants enter their space. Banks and corporates are responding to these developments. Clients want new solutions in trade and look to established regional and global banks to address issues from cost-cutting to increasing efficiency. Banks are digitising their business helps reduce costs, increase efficiency and enhance scalability, not to mention prepare banks for the future.

The emergence of non-traditional players such as fintechs, which tend to solve very specific problems for clients. Regulators are pushing for the connected players within trade to digitise the process before stepping in to make it a requirement, which is a distinct possibility in the next five to ten years.

Trade finance is going digital in two main ways. The first is via corporate-to corporate collaborative platforms enabling buyers and sellers to trade digitally. The use of electronic bills of lading is gaining traction among large Corps looking to take paper out of trade processes. It involves maintaining an electronic record of the documents using a platform like DOCS or Bolero. The second way that trade finance is that while trade finance banks' processes are still manually-intensive, human intervention can be significantly reduced or eliminated by employing the right intelligent, digital technologies.

The expected outcome would be a near elimination of manual efforts to extract data from documents. Small-to-medium-sized enterprises (SMEs) are finding huge opportunities to access the trade finance market through digitisation. Many trade digitisation platforms have emerged offering innovative business models for supplying trade finance and liquidity, while optimising working capital, and enhancing processes for faster handling and cost saving. Block chain technology is expected to reduce the time and paperwork required to routine trade finance and supply chain finance transactions.

The system makes it easier to verify each step of the complicated process and confirm the credentials of the parties involved. Amidst global trade war the innovation though digital trade finance is going to remain. The importers and exporters have also need to realign themselves to the new digital ecosystem and to benefit from digital trade finance offerings. Hence the future of trade finance is going to be digital.

■ *Dr R Seetharaman is Group CEO of Doha Bank.*