

Using technology for trade

COVID-19 has had a drastic effect on global trade.
Graham Bright discusses how technology can
boost the recovery

Over the past 8 months, we have become all too aware of the effects of COVID-19 with continued clouds of recession, unprecedented economic disruption, excessive levels of debt and threats to basic normality of private and public life, employment and wealth creation.

Despite the gloom, trade is essential to every economy and must continue, even if volumes are expected to temporarily fall by between 13% and 32% in 2020. This reduction is not exactly a surprise, principally due to long standing trade tensions between the US and China affecting general economic slowdown.

Today, the rebuilding of supply chains, and getting trade re-energised with effective and cost-competitive flow of goods may only be work through international co-operation.

Whilst a number of free trade agreements are in place, there should be confidence in the supply and movement of ethically sourced, fit for purpose goods, without sanction.

However, the continued threat of trade barriers, isolationism and a constantly changing superpower stance on tariffs could seriously derail the efforts of emerging countries and all those fighting to protect their citizens and industries from economic wellbeing and future sustainability.

Competing nations need to put aggressive competitiveness on hold at least in the short term, as industries switch to production of health-related PPE. Buyers have radically changed buying habits, with home workers more concerned about food delivery than the latest fashion.

The travel industry, in particular air transport has been hard hit. With the Government forced into daily updates, u-turns and draconian health measures 'following scientific advice' regarding safe air corridors, isolating on

return, lockdowns and fear have reduced passenger numbers at Heathrow by 88%. Some airlines are withdrawing completely from strategic sites and regional hubs. With less planes comes less cargo space, with the price of air cargo and hence delivery of cost-effective goods rising on some routes up to 60%, especially affecting demand and availability of health-related items.

Marine traffic, the other lifeblood of trade has also been heavily impacted. Rather than free movement of goods, additional measures such as quarantine and closures have added significant documentation requirements. Containers and ships are in the wrong place, staff to handle them are on furlough, or required to wear expensive protection with new health measures, all adding cost and time.

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Expensive goods are languishing at warehouses, with no demand, taking up expensive storage space. And lockdowns and social distancing have severely restricted the effectiveness of those inspecting and certifying goods to those checking the seaworthiness of vessels.

Massive cruise ships are at a standstill, empty, dormant dead assets, with only the prospect of a return to safe activity in 2021. What is clear is that joint coordinated activity, collaboratively between government and private enterprise, assisting importers with reduced tariffs and helping exporters through the minefield of trade documents and process to underpin a return to previous operating levels.

And now is the perfect time to push aside isolationism, nationalism, protectionism, tariffs and tax barriers. With this background, how are technology and innovation going to resolve the issues of re-establishing confidence, maintain supply flows, ease any export restrictions and serve customers without vested interests? Can blockchain and AI enabled solutions satisfy the immediate and long term demands of the industry.

Let us immediately dispel the myth that technology and innovation are the universal panacea. Technology for technology sake will not miraculously re-energise the trade industry, boost confidence, bring back footfall to the failing retail sector and spark an international trade boom.

However, there are specific sectors where technology and innovation can make a significant difference. With such diversity, the first challenge to which technology is suited is in combatting fraud.

Unlike the world of payments, with standard information of payer, payee, bank account numbers, credit or debit and amount, the ecosystem of international commerce covers a complex, expansive, non-standard group of companies, activities, legalities and challenges.

Losses due to fraud in the trade sector are projected to exceed \$3.5 trillion each year, and, as criminals exploit and develop more inventive methods, companies are spending more to ensure they can quickly and effectively identify manage and mitigate risks. And yet recent press reports stated that compliance will be reduces in the coming year buy up to 25% due to cost and overhead.

Trade fraud is sophisticated, well planned and with heavy financial consequences, but in no way a new phenomenon. Records show trade fraud as far back as 300 BC, when a fatal bid to sink a barge of corn and claim insurance failed. Since then a litany of inventive schemes have become enshrined in history with the latest scams being COVID-19 antibody testing, and more alarmingly substandard, or non-delivered masks and medical supplies.

Domestically, COVID-19 has seen individuals working remotely spending time online, and more cases reported of phishing, credit card scams, online shopping fraud, investment scams, counterfeit goods, and identity theft.

The pace of fraud continues unabated with fraudsters using even greater sophistication, data breaches, duplicate invoices, card and identity theft involving hundreds of millions of customers. Despite all assertions to the contrary, it is not a case of 'if' security will be breached, but when.

A recent Hong Kong case saw the illegal simultaneous sale of the same non-existent goods to different international parties, backed by forged documents. The buyers, supported by experienced commodity banks, and following formidable due diligence, were duped. It appears that no matter how many checks are done, fraud can still take place.

This time, four major banks and creditors were out of pocket to the tune of \$3.5 billion, leaving a trail of recrimination, huge financial loss and loss of confidence in future business.

The immediate impact is that banks are even more cautious to support new projects, revising their investment and support criteria. Through this bad experience, additional pressure has been placed on financing and support of smaller companies, now financially disadvantaged and left uncompetitive.

But whilst banks have been hit financially in this case, they are not immune from reproach for their own poor performance and in some cases criminal behaviour. The UK markets watchdog, the Financial Conduct Authority levied £4.3 billion in penalties for industry misconduct such as the Libor scandal (2.5 billion), with the US authorities fining banks over \$75 billion.

Recently touted technologies such as blockchain and artificial intelligence technologies are well suited to be employed as part of KYC, openness, speedy implementation exchange, risk reduction and transparency, as key components in systems and processes fighting cybercrime and fraud.

Would these have stopped the Hong Kong case? For example, would technology have saved the investors from misplacing trust in Madoff or Ponzi cases in what investors perceived as stable, sustainable, trusted schemes? And would they have provided early warnings of misrepresentation, alerted the regulators and mitigated the risks?

Probably not, as intent and means to pay, especially when large sums are involved, are not always guaranteed. Technology may have assisted in communicating immutable documents speedily, transparently and economically to all parties, but not immediately identifying possibility of criminal activity.

The value of technology comes in providing a common base for example in timelines, audit trail and supporting evidence for forthcoming legal proceedings.

Implementing the technology

Recognised for our international awards and technology capabilities, our institution has always looked at use and integration of automated exception processes and how they may be enhanced, easily maintained and kept relevant.

We took early steps implementing blockchain capabilities inside our trade platform with a standard Hyperledger approach, leading to participation with Ripple with their secure, frictionless distributed ledger capabilities with xCurrent, to their inspired On-Demand Liquidity services. This uses XRP digital assets rather than costly fiat currency in the exchange process between local currencies.

The complexity of the ecosystem, the parties involved and differentiation of automation levels (ie. between shippers, banks, insurers, inspection agencies etc) have meant us investing in document digitalisation, which provides the solid foundation for information exchange with speed, standardisation, re-useability and rationalisation.

The challenge of implementing this type of technology in the worlds' importers and exporters is immense. Globally, there are almost 150 million micro, small and medium businesses, where small and medium sized enterprises accounted for 99% of the number of importing enterprises and 98% of exporting enterprises. One can only speculate at the level of automation and readiness in these firms.

With this market perspective, care and investment is imperative in delivering the right service, in accord with compliance, due diligence, governance, regulatory adherence, treating customers fairly, sanctions, PEP lists, FATF and with knowledge of ever changing legislation such as International Emergency Economic Powers Act (IEEPA) and the Trading with the Enemy Act (TWEA).

In our day-to-day operations our growing sales teams in over 24 countries are armed with real-time systems in their quest for new business, liaising with companies anxious to control cashflow through appropriate collateral to trade competitively and efficiently cross border.

We continue to be surprised at the diversity, volumes and types of goods we see today, with evidence of US Dollars being used less in international trade as nations find alternative financial instruments to conclude their trades due to availability and cost of using the currency. First out of the blocks come Russia and China, actively reducing their dependency of dollars for bilateral trades, and opting for euro and local currency.

Euro Exim Bank are well ahead in systems innovation with our blockchain and AI integration and usage, but there is another technology making a profound impact on manufacturing, bringing economies of scale, innovation, low cost and almost unlimited potential across the globe, namely 3D printing.

The technology is already nearly 40 years old, but its commercial large-scale availability and reduced costs now make it exciting, multifunctional and economically viable.

For emerging markets, complete factories might be constructed on-site this way, with no imported or complex building process to navigate, and no heavy carbon emissions associated with use of concrete. And, creating and supplying new product of almost any size may be as easy as receiving an email with a computerised design, uploading to a large-scale machine, and there are the goods, locally produced and managed.

By radically changing the source and content of goods, the cost model for effective international trade using cheap, affordable, sustainable 3D printed housing could be a game changer for emerging markets to increase wealth and wellbeing.

Using technology for trade

By re-engineering business processes through document digitising, improvements in ecosystem interoperability, faster goods certifications and linked insurance, quicker customs clearance without human intervention, less delay in ports, technology would be providing a helping hand to kick start to remove inherent inefficiencies and ease flow of goods again.

Key technology already in place in our institution is enabling connectivity of all parties, with integration of e-contracts, electronic signatures on application and indemnity forms, and use of electronic payments. This is especially of value as we operate across multiple territories, enabling client anywhere to correspond and settle electronically throughout the lifecycle of the transaction.

Confidence

This is the key to a return to a new normal. More people are venturing out, high-street activity is increasing, although the demand for previous luxury goods and services will be different.

Many countries are analysing their supply chains, looking at points of origin, costs of transport, and bottom-line costs to do business. India, for example, are looking at more domestic providers, rebuilding the economy with home manufactured goods rather than the time-honoured reliance on China.

And this trend is being repeated across Africa and Europe. Britain is also looking to rebuild manufacturing and tourism and look at specialist service industries keeping income within national boundaries.

Conclusion

International trade has been going since pre-historic times and often it feels like nothing has changed. But in the past few years, communications have dramatically enhanced, with mature supply chains and emerging market opportunities, and electronic means to exchange value.

Despite recent shortcomings of fraud, cybercrime and instrument complexity, and of course the uncertainty and dramatic economic effects of pandemics, we firmly believe that trade will continue and flourish, and we stand ready to support all initiatives and participants in its continuance.

Technology, especially with blockchain, has not yet reached the extent of its possible application. Document digitalisation will be the first major milestone and once all players across the entire global ecosystem are fully apprised, ready and able to use the technology, it has the benefit and capability to reduce the inefficiencies, inaccuracies, time and level of proprietary information requiring human intervention and cost so prevalent in trade today. ■

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