

Insight

Future of Trade – Innovation, Disruption, & Winners



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Physical trade ecosystem players face unprecedented challenges in terms of supply chain uncertainty, adapting to digitalization and Industry 4.0 technologies, keeping up with ESG monitoring and reporting and rising energy costs.

At the same time, for financial institutions and insurers, the rise of fraud, heightened regulatory scrutiny and sanctions risks result in cutting/pulling back of banking lines and limits – further widening the financing gap for corporates and SMEs.

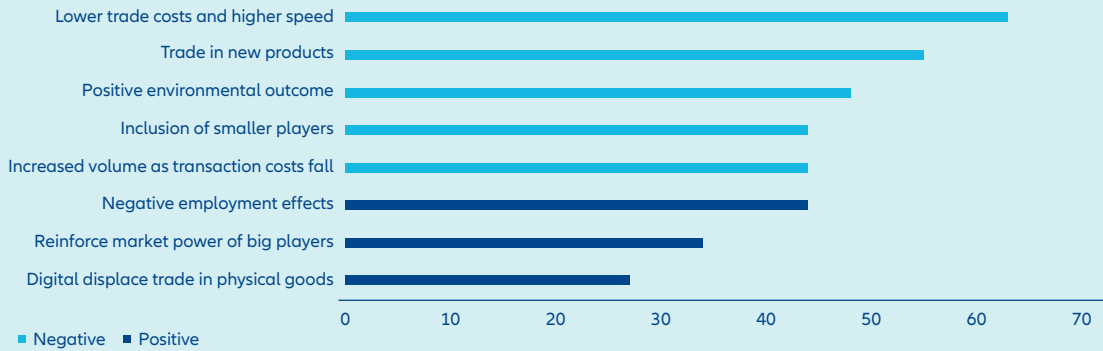
Opportunities remain bright across almost USD30trn of trade

Yes, trade and trade lenders face massive challenges ahead. However, the future of trade has never looked brighter. In 2021, global trade hit a record high of USD28.5trn in 2021². The emergence of central bank digital currencies and the onset of the Web 3.0 economy will generate incredible growth opportunities in the financial sector.

The rise of #tradetech (technologies adapted to solving pain points in trade, maritime, logistics) will undoubtedly accelerate transformation and digitalization in trade – unlocking massive gains in productivity and operational efficiency (see Table I).

Fintech innovation in trade lending and credit insurance – particularly those related to credit underwriting, risk mitigation and embedded and decentralized finance (DeFi) – will produce the banking unicorns of tomorrow, alongside the 250 or so digital and neo-banks globally today.

Percentage of companies projecting outcome from trade technology



Source: World Economic Forum



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Picking the winners

Yet, how do we spot the winners within such a broad opportunity landscape in trade?

Allow me to elaborate across three lenses/narratives:

(A) Where physical and financial trade meet and marry

The successful blending of standards and data across physical trade carriers and financial intermediaries will produce new products that will supercharge digital trade. For example, the age-old bill of lading, which came into existence during the 16th century, is finally going electronic as shipping industry bodies link up with SWIFT and the ICC³.

Meanwhile, freight forwarders, liners and logistics providers are leveraging their network and data to not only underwrite loans for their customers, further streamlining B2B commerce, but also working towards structuring their massive physical supply chain data pools into information that can be used to mitigate financing and insurance underwriting risks.

Amongst others, such data validates that an authentic trade flow has taken place, provides a benchmark to cross check against trade-based money laundering and also allows for traceability reports to be generated. The latter could be further extrapolated to enable ESG/sustainability reporting. In this, the companies to watch are NinjaVan (Singapore), Flexport (US) and Beacon (UK).

(B) Digital currencies for trade finance

According to the Bank of International Settlement (BIS) over 80% of central banks around the world are looking into central bank digital currencies (CBDC), either through pilots, studies or trial launches. It is not inconceivable that within three years, pilot loans and B2B trade contracts will be denominated in central bank digital currencies (CBDCs).

China is a clear front-runner on the digital yuan, and given the sheer volume and scale of China's trade with its neighbors, I would not be surprised to see the digital yuan displace the USD in some trade contracts – starting with contracts between China's Greater Bay Area and Hong Kong.

Besides China, other countries worth mentioning include South Korea (whose use-cases include international remittances) and Nigeria, whose eNaira could facilitate the convertibility of West African currencies and enhance intra Africa trade in West Africa. There's also Project Dunbar, led out of BIS' Singapore innovation hub, which seeks to enable international settlement using multi CBDCs.

Technology firms to watch are those that provide the underlying technology and protocol that underpin, amongst others, settlement and cross-border payment of CBDCs for trade. Examples of such blockchain technology include Klaytn, Corda and Quorum.

Stablecoins⁴ for trade finance are however not to be ruled out, as they can certainly co-exist with CBDCs, and provide other supporting "DeFI"-like transaction banking services .

(C) Trade corridor opportunities – supercharged by digital trade agreements

Digital trade agreements which govern and enable market access for digital service providers between countries, and which allow data to flow across harmonized and trusted standards – will unlock new opportunities in digital trade and trade finance.

For example, the recently signed UK and Singapore Digital Economy Agreement puts in place a legal framework for end-to-end digital end, encompassing e-payments, paperless trading, trusted cross border data flows and pilot projects around electronic bills of lading and mutual recognition of digital identities. Strategically located at the heart of Southeast Asia (whose digital economy will grow to USD1trn by 2030), Singapore has championed similar agreements with New Zealand, Australia and Chile.

² <https://unctad.org/news/global-trade-hits-record-high-285-trillion-2021-likely-be-subdued-2022>

³ <https://www.gtreview.com/news/fintech/shipping-industry-bodies-link-up-with-icc-and-swift-to-form-digitalisation-alliance/>

⁴ Stablecoins are a class of cryptocurrencies that aim to offer price stability by being backed by a reserve asset.