

A Perspective on the “New Normal”

A vision for trade, how it is financed and regulated

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Introduction

- What is the “New Normal”?
- The Great Financial Crisis and its impacts
- Beyond 2008. A crisis or a change of course?
- New paradigm?

Old Economic Order

- Post WWII reconstruction dynamics amid developed economies
- Late 20th century, relay was taken over by developing economies
- From developing countries to emerging markets
- From North-South trade to South-South trade
- Trade steadily growing faster than GDP
- Wealth spreading across longer and more sophisticated supply chains
- Towards a truly global economy
- Middle classes and Urbanisation

A New Disorder

- With emerging markets being the engine of growth, the positive transformation took mainly place in the “South”, less so in the “North”
- 2008 marked a major inflexion point
- Middle classes in the “North” stagnating economies got increasingly frustrated
- From frustration to populist votes
- From “happy globalisation” to “fear of globalisation”
- The virtuous circle is broken
- A tense geopolitical environment

Trade: More Global or More Local?

- Notwithstanding the ripple effects of the 2008 crisis trade will be affected by three major technology breakthrough:
 - 3 D printing. Less manufacturing, more consumer centric production
 - Robotics. From offshore processing centres to onshore 24/7 factories
 - Internet of Things. Transparency on the “what”, “where” and “how”
- A significant re-onshoring of trade is about to be triggered
- Shorter supply chains. Increasingly more regional or local
- Long supply chains will remain, where necessary: commodities for instance
- Less opportunity for Low Income countries in the future than in the 1990's

The New Disorder Will Accelerate The Relocalisation of Trade

- What technology allows, inward looking politics will accelerate
- Borders vs openness
- Protectionism
- The pattern of trade flows will change:
 - World supply chains will shorten
 - The local component of supply chains will increase
 - What is construed as international trade today might not tomorrow

If Trade Changes, Financing Trade Should Also

- Trade Finance is about cross border trade flows. What about growing local flows in large developed countries?
- Less trade finance, more receivable financing?
- More competition on local trade by non-banks?
- Towards a strategy focussing on large consumer clusters
- Knowledge lowers risk and should ease counter-party risk taking and simplify financing tools
 - Less LC's
 - More open account
 - Upstream financing

Banks and Trade Finance

- What is under way could radically change trade finance:
 - The waning of traditional trade finance will accelerate
 - New competition will appear
 - The regulatory framework is not ready
- Meanwhile the focus remains by and large on traditional trade finance
 - More and more difficult to optimize
 - large back offices (costs and operational risk)
 - financial crime focus
 - Off balance sheet trade is a shrinking fraction of what potentially trade finance is
 - Capital requirements ever higher
- De-risking is therefore the name of the game: 1.6 Tn\$ trade finance gap.
And growing?

Unintended Consequences of Global Regulation

- Basel 3+ is a complex corpus of rules and guidance
- Post GFC, it was reinforced to prevent any systemic risk to affect the financial sector.
- Post crisis, the pro-cyclicality of Basel 3+ is stronger than ever
 - More lending when the environment gets safer. Is it getting any safer?
- The banking industry is safe but the world recovery is too slow
- Have we gone too far? Probably.
- The pendulum has to swing back.

Conclusion

- Major tectonic shifts are jolting economy, politics and geopolitics
- No “New Normal” for now but more uncertainty to expect
- No return-ticket to the old order
- This will accelerate the changes affecting trade:
 - Relocalisation around consumer clusters
 - Shorter supply chains
 - More constraints around circulation of goods and services
- Banks should be aware and build capabilities to support these changes
 - New technology
 - New forms of financing
- The regulatory framework should become more adaptive to facilitate trade rather than impair it. This is not the time.