Le dernier mot

The impact of technology and robotics in global trade could play into the hands of anti-globalisation and protectionist policies, says Jean-François Lambert

Trade is on the cusp of deep changes. And so too is trade finance as we know it. Interestingly, this major evolution is not raising many eyebrows and the world seems to be largely unconcerned. So many things are happening and we are still caught up in the ripple effects of the financial crisis of 2008.

As long as trade keeps growing all will be well, won't it? Maybe so, but make no mistake, deep changes are around the corner and how well prepared we are to tackle them could translate into more, or less, business tomorrow.

Three major technology breakthroughs will reshape industrial processes and shorten many supply chains:

- **3D printing**. Manufacturing as we know it, along with its long and convoluted supply chains will give way to a more customer centric process whereby many products will be printed. Most of this will happen closer to consumer clusters. More customisation will be possible and replacement of broken tools and products will be seamless.
- **Robotics**. Why would production remain offshore when 24/7 onshore processing can be developed? Assuming energy remains cheap, 're-onshoring' will accelerate as robots get cheaper, smarter and more robust.
- **The internet of things**. Goods in transit have always been a concern to supply chain managers but they won't be for much longer, thanks to technologies that will provide full transparency on where goods are, what shape or form they're in, therefore authorising safer transfer of ownership.

This is all well-known and, when seen out of context, looks like a long-term play. The context matters greatly, however, and is why we should pay a lot more attention to this and now more than ever.

The years of happy globalisation are over. Everywhere we hear talk of barriers, restrictions of circulation, and protectionism as a solution rather than a threat. As populism prospers, so too will the inward focus and desire of countries to control a fate that is perceived to be in the hands of others, especially when they have been the prime beneficiaries of globalisation.

Combined with the growing frustration of the middle classes in developed countries (which translates into angry votes) and what technology is now working towards, the picture will dawn on you – long supply chains, wherever they can be curtailed, will be replaced with onshore production, vindicating the growing pro-protectionist mood in many developed countries. In other words, what technology allows, inward looking politics will likely accelerate.

This is not say that all supply chains will be shortened. Commodity supply chains for instance are bound to remain largely unimpacted, as countries will always need to buy their strategic supplies where they are produced, whether that is energy, food staples or ores. Many other chains will be affected, however. Most notably semi-finished product components, which were largely the reason why trade grew faster than GDP between 1995 and 2007. A more local type of trade will gradually supersede large transcontinental trade flows – such could well be the result of politics supported by technology.

What is underway could radically change trade finance as we know it and banks would be well advised to embrace what is at stake here, as the waning of traditional trade will accelerate.

Trade as we know it will be increasingly more difficult to optimise, already challenged as it is by costs and driven by large back offices that are labour intensive and impervious to technological changes. There is also the ever more stringent regulatory focus around financial crime, and the fact that capital requirements have only been optimised for off-balance sheet items when they represent just a part of what trade finance is.

Re-onshoring of trade will completely overhaul business requirements. Counterparty risks will be easier to insure or finance, with an additional competition likely to come from non-banks as risk taking becomes easier. Financing tools will become simplified as fewer letters of credit are issued and more business is done on an open account basis, along with the potential for more upstream financing as clarity on the chain and products becomes greater.

Banks should react by mapping and building strategies around large consumer clusters, by changing their definition of trade finance to bring in local supply chain components, and by moving into new forms of supply chain financing.

The biggest challenge however is going to be explaining all this to the regulators and convincing them that now is the time to look ahead and embrace the new patterns of trade, all without seven years of compelling data to back them up. Trade finance will be needed more than ever, but in rather different shapes and forms. Challenging times indeed.

Jean-François Lambert runs his own consultancy, Lambert Commodities. He can be reached at jfl@lambertcommodities.com