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Trade finance in a pandemic: The shortcomings of a paper-based trade system

01 May, 2020 Ouida Taaffe

In the first of a series of articles by editor of Financial World Ouida Taaffe, we look at some of the critical challenges for trade finance around the world.

Shutting down whole economies to try to prevent the spread of COVID-19 has hit global trade hard. The WTO estimated in early April that the crisis could shrink global merchandise trade by between 13% and 32% in 2020. It added that where the global economy finally lands “could easily be outside of this range, either on the upside or the downside”. The final impact will depend on how big the shock is and how soon recovery can begin.

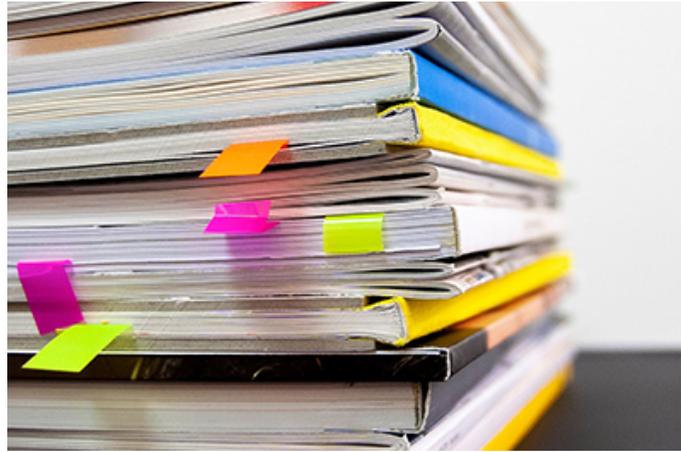
“These numbers are ugly – there is no getting around that. But a rapid, vigorous rebound is possible,” WTO Director-General Roberto Azevêdo said in a statement. “Trade will be an important ingredient here, along with fiscal and monetary policy. Keeping



markets open and predictable, as well as fostering a more generally favourable business environment, will be critical.... And if countries work together, we will see a much faster recovery than if each country acts alone."

Is this the beginning of the end for paper-based documentation?

The ICC has called on governments to immediately void the legal requirement for paper-based documentation in trade finance, and to adopt the UNCITRAL Model Law on Electronic Transferable Records.



Banks have seen the courier systems that normally deliver trade documentation closed down in many jurisdictions to implement social distancing.

Banks have been using workarounds, including accepting faxes, emails or scans in the place of original documents with “wet signatures” – provided that another bank can confirm they are holding the originals. However, in a survey, only around 29% of institutions have told the ICC that local regulators are supporting ongoing trade. That could prove problematic given that, for example, electronic bills of lading are not recognised in most jurisdictions.

Accelerating the shift to digital

The trade finance industry has been discussing the difficulties of moving to digital documentation for many years. It seems that the pandemic has tipped the balance in favour of real change.

“From a trade finance point of view, one of the lasting outcomes of this crisis will be the opportunity to accelerate digitisation and to eliminate paper from the value chain. That will ease access to

working capital and reduce the costs of doing business,” says Michael Vrontamitis, head of trade, Europe and Americas at Standard Chartered Bank.

However, the shift will not be immediate. “We are still in the midst of the storm, not in the “new normal”, says Jean-François Lambert, an industry consultant, formerly at HSBC. “Digital services that are not ready for use now, will still not be ready tomorrow.”

But there is optimism. “In my role as Chair of the ‘Digitalisation of Trade Finance’ working group at the ICC, I’ve been talking to the UK government around changing the current law on needing an original, paper bill of lading, because it gives title to goods, to allow the use of an electronic document,” says Vrontamitis.

Significant shifts to digitalisation

“As a lot of international trade contracts are written under English law, that will enable trade conducted under English law to be digital. The technology solutions are already pretty much there, and the further discussions on changes in law are likely to start taking place in the main trade countries. All of that means that we could see significant shifts in the digitalisation of trade in the next three to five years. Pre-crisis, a shift in ten years was seen as optimistic,” says Vrontamitis.

One of the main hurdles to digitalisation is the difficulty that some emerging market economies will have making the move. If nothing else, some employ a lot of people to stamp physical documents. Vrontamitis and Lambert are not convinced that emerging markets will necessarily lag.

“Digitalisation is not necessarily harder in emerging markets,” says Lambert. If you look at telephony, they leapfrogged straight to mobile networks and to the widespread use of mobile money.” As one example Vrontamitis points out that Kenya Ports Authority has gone digital during the crisis.

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