

Panel Discussion on "Evolution of Global Trade and Supply Chain Finance"

Ms Natalie Blyth, Group General Manager, Global Head of Global Trade and Receivables Finance, HSBC, chaired the discussion. She opened by pointing out that today's geopolitical challenges - whether trade tensions, an environmental crisis demanding urgent action, or protesting populations around the world - are impossible to ignore. "It is critical to understand how the world actually feels right now," she said, "and in a word, that is 'uneasy'." The benefits of trade must be more evenly shared, she said, so that people and populations are not left behind.

She then asked panellists and the audience for their outlook for global trade in 2020. A quarter were optimistic, 28 per cent were neutral and 47 per cent were pessimistic. Panellist Mr Bill Winters CBE, Group Chief Executive, Standard Chartered PLC, was optimistic, but pointed out that the 2019 base was low.

Dr William Fung, Group Chairman of Li & Fung Limited, placed himself in the weak-optimistic camp, given the rewiring of global trade flows, but admitted that there is still a lot of uncertainty.

Mr Salman Fazlur Rahman MP, Private Industry and Investment Adviser to the Prime Minister of Bangladesh; Chairman, IFIC Bank Limited, said he was very optimistic, particularly about Bangladesh, whose economy grew 8 per cent in 2019 and is expected to grow 8 per cent in 2020 as well. He agreed there are many challenges, but said there are many opportunities as well.

The supply-chain eco-system

Dr Fung said that before we can understand trade finance, we have to look at trade flows because there has been a complete rewiring of the supply chain. China has changed the flow of trade, including the supply chain and supply chain financing. For many consumer goods, the whole supply chain is in China, he explained, but some supply chains must move out of China, so labour-intensive production will continue to migrate to Southeast Asia, South Asia and even Africa, and China will become an upstream supplier of material inputs needed for production. This will result in a lot of opportunities for trade and trade finance.

Mr Rahman pointed out that Bangladesh exports are up 500 per cent and improved infrastructure includes a fibre-optic backbone throughout the country. He agrees that China will continue to be a major supplier for factories in Bangladesh.

Regarding the supply-chain eco-system, Mr Winters suggested that international buyers and sellers need hedges because the prospect of decoupling sector by sector, even if unlikely, must be considered as it would provide challenges to all parts of the supply chain. For global banks, creditworthiness affects several steps in the supply chain, so understanding partnerships is complicated but necessary.

Ms Blyth noted that corporates must work in partnership with their suppliers if they are to address their full financial, social and environmental impacts. With supportive policy frameworks, and increasing expectations among consumers,

"trade has a huge opportunity to be a force for good - in support of people, prosperity and our planet".

Corporate purpose and the benefits of international trade

Standard Chartered was built on globalisation, said Mr Winters, but there have been seismic shifts in the US and UK, resulting in growing inequality, and Standard Chartered has a responsibility to deal with this. Frictionless trade is a goal, but so is the quality of the environment and a focus on sustainability is critical. Industry in the local community is one way to promote equality, but the key is to identify and deal with the sources.

Over the last 18 months the purpose of companies has been intensely questioned and challenged. The fundamental question was identified by Ms Blyth: should a company's responsibility begin and end with shareholders, or extend to customers, communities, and the environment? As companies wrestle with getting the balance right, they must not just think about the company in isolation but the whole value equation, including their end-to-end supply chain.

The trade finance gap – what financial institutions can do

Mr Fung pointed out that commercial banks have changed the rules to make trade financing more difficult, and that as a result companies are paying a lot more for trade finance. In the 1990s, no financing was required because export products were sold on letters of credit. Now, however, exporters have to give 60 to 120-day terms, so buyers are using suppliers to finance their businesses. Some European banks are retreating from trade financing even though it is less risky than other short-term transnational financing.

Global trade is good, and banks should be more interested in supporting it. Trade finance helps promote inclusiveness, said Mr Rahman, which is extremely important and has helped Bangladesh reduce poverty from 56.7 to 21.8 per cent.

"Everyone must benefit from global trade," he said, and one way to do this is micro-finance, in which Bangladesh has been a pioneer. Using technology to move all transactions online has also helped Bangladesh reduce corruption.

Mr Rahman agreed with Mr Fung that buyers are using suppliers by demanding 60 to 90-day terms or even more, and that more trade finance options are needed for exporters. "Bankers should see this as a safe business if managed properly instead of being put off by one or two high-profile fraud cases."

Mr Winters explained that Basel 3 made it more expensive to carry trade financial assets. Some markets and asset classes are ignored, he said, and trade finance, listed as only seventh in importance, is not getting attention in Europe.

Ms Blyth picked up on this point, saying that a review of the Basel 3 rules would be beneficial and that she also sees opportunities to attract liquidity into trade finance by making it an investible asset class.

Digital supply chain and blockchain

Business in general is not ready to use AI, blockchain and other technology, said Mr Rahman, but this is changing. Children are learning coding in Bangladeshi primary schools under a recent government initiative. When tech infrastructure is in place, Bangladesh will benefit from supply chain localisation, but there needs to be more emphasis on trade finance.

Ms Blyth argued that 2020 is a pivotal year for the commercialisation of blockchain. The next step is to scale up collaboration across the trade ecosystem, including shipping companies, ports and logistics companies.

Barriers to global trade

Mr Fung said that geopolitics is creating a major barrier to cross-border commerce. "It is now descending into totalitarianism, which is bad for trade." To help countries like Bangladesh, impediments to trade must be removed. The trend now is for bilateral free trade agreements rather than multilateral trade agreements, making it hard for businesses to navigate. As a result, production goes to places it should not get duty-free access.

"I don't see it turning back to multilateral agreements," he said, admitting he was surprised at how quickly supply chains have been reconfigured.

Ms Blyth agreed that the multilateral trading system is facing challenges, adding that it is too important to give up on it. Our collective focus should be to encourage an open, transparent and supportive policy environment that will enable multilateralism to continue driving job creation and innovation.

The climate crisis

Mr Rahman said there has been a lot of talk but not much practical action from government and society to address the climate crisis, and that we have all created the marine plastic problem.

Mr Fung said that at the micro level, consumer behaviour must change and that this is happening as Gen Z is much more conscious of the problem than previous generations. At the macro level, it requires government leadership, he explained, but governments tend to work on a four-year cycle, so there is a policy mismatch.

Ms Blyth said the urgency and importance of the climate crisis means we should not be satisfied with doing just enough but do everything that needs to be done in order to build a sustainable future. HSBC is on course to meet a commitment of providing US\$100bn of sustainable financing by 2025 and ensuring that 100% of the electricity the group uses comes from renewable sources.

Mr Winters said Standard Chartered does its part too. For example, it finances big power users, power plants and cement companies, and helps clients pollute less, but it is often hard to persuade corporate clients. Only half take it seriously, he said, so banks have become enforcers.

The power of data

Tech will have a big impact on trade, said Mr Rahman, and will be disruptive but healthy to companies in the supply chain. Companies that take advantage of it will benefit.

Mr Fung agreed, but said so far digital technology is mostly changing at the consumer level. Most supply chains are still analogue and must be digitalised to take advantage of new technology, and the same applies to the banking industry.

Technology will be at the head of reducing delivery times and being efficient, said Mr Winters, but standardisation is important, and he used containerisation as an example of how standardisation has revolutionised the shipping industry.