EXECUTIVE SUMMARY

Open Trade In An Uncertain World
1. EXECUTIVE SUMMARY: OPEN TRADE IN AN UNCERTAIN WORLD

The fourth annual World Trade Symposium, hosted by Finastra and programmed by The Economist, landed in New York City on November 6th 2019 for two days of frank debate on the future of global trade against a backdrop of upheaval in trade policy, technology and services.

Simon Paris, chief executive, Finastra and chair of the World Trade Board, opened the event by asking whether policy, technology and innovation can boost trade and prosperity. He also challenged the audience to remain persistent in promoting trade, to focus on reducing the small and medium enterprise (SME) funding gap, and to continue to look at how technology can act as an enabler of inclusive and sustainable trade.

In her opening statement, Soumaya Keynes, trade and globalisation editor at The Economist and conference chair, remarked that growing geopolitical turbulence, in particular the relationship between the USA and China, left many in the business community longing for “a little less excitement in trade policy.” She noted that advances in technology and a greater shift towards trade in services meant that the “nature of trade is changing, as well as the framework within which it operates.” According to Ms Keynes, these changes afford new opportunities to tackle sustainability and illicit trade.

On the second day, the context shifted from the geopolitical and macro to the practicalities of using technology to tackle the inefficiencies, funding gaps and negative externalities associated with global trade. Over the past 18 months an array of industry consortia, blockchain platforms and infrastructures has emerged. Participants gathered in roundtables to discuss using blockchain to bridge the SME trade finance gap, and promoting standards for interoperability across platforms.

Critically important to the development, interoperability and adoption of digital platforms for trade (particularly by SMEs) is greater harmonisation of regulations governing cross-border data flows. Participants expressed concern that current geopolitical uncertainty and inflamed rhetoric could depress business investment and generate additional friction in cross-border flows.
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2. GEOPOLITICS, MULTILATERALISM AND TRADE

Peter Navarro, director of the US Office of Trade and Manufacturing Policy, opened the conference with an impassioned defence of the trade and industrial policies of President Donald Trump’s administration. “I stand here as an America-first nationalist who strongly supports tariffs as an essential tool to promote fair, balanced and reciprocal trade.” According to Mr Navarro, “levelling the playing field on trade” was one of the four points of the Trump administration’s policy compass for rejuvenating the US economy, along with “tax cuts, deregulation and cheap energy”.

Underpinning much of the administration’s policies on trade is the view that multilateral institutions like the World Trade Organisation (WTO) fundamentally disadvantage low-tariff countries like the US while benefiting high-tariff countries like China and India. Mr Navarro singled out the WTO’s Most Favoured Nation rule, which allows WTO members to systematically impose higher tariffs on trading partners, as long as they impose the same level of tariffs in a “non-discriminatory” way on all their trading partners.

Mr Navarro claimed that the West’s multi-decade policy of economic engagement and integration with China had completely failed to open the country up into a more democratic, market-driven economy. He praised President Trump for “standing up to China” and honouring his promises to crack down on “China’s seven deadly structural sins.” According to Mr Navarro, President Trump will “forever change the world’s understanding of China’s authoritarianism and mercantilism.”

Jennifer Hillman, a professor at the Georgetown University Law Centre, agreed that “most of everything that the United States has said about China is absolutely correct. She labelled the WTO’s biggest failing as “its inability to discipline China for its state-owned enterprises, forced technology-transfer issues and theft of intellectual property.”

However, Ms Hillman expressed uncertainty that the agreement that the US administration is negotiating will address any of those issues. “A unilateral, tariff-based, power-based system simply does not work in today’s system, in which almost nothing is made in one place and trades to another. All goods are practically produced in a global supply chain.”

The “seven deadly structural sins” of China

1. Currency manipulation
2. Forced technology transfer
3. Rampant intellectual property theft
4. State subsidies to the private sector
5. Proliferation of state-owned enterprises
6. State-sanctioned cyber intrusions
7. Role of Chinese fentanyl exports in fuelling the US opioid epidemic
Stephen Vaughn, an international-trade partner with King & Spalding, expressed support for the Trump administration’s policies on trade. “I think it’s going to prove impossible for any policymaker to go to American voters and say, ‘I understand you’re upset about outsourcing, I understand you’re upset about trade, but I can’t really do anything about that because the [WTO] appellate body won’t let me do anything about it.’ I don’t think that is politically sustainable,” Mr Vaughn said.

Responding to criticisms of the Chinese economic model, Huiyao Wang, founder and president of the Centre for China and Globalisation, remarked that “China is not perfect, China is still learning, China is a latecomer to the world economy and trade. Of course there are things that can be improved.” As an example of positive change, Mr Wang highlighted the new Foreign Investment Law passed in March 2019. “Unprecedented in that law is (that) it stipulated all the structural issues that the US is concerned about, like forbidding forced technology transfer, (and) IPR violations will be severely punished and all foreign companies should be treated equally.”

Chad Bown, a senior fellow at the Peterson Institute for International Economics, said that increased uncertainty created by the Trump administration’s trade policies was causing businesses to hold back on investment. “When you talk to businesses, they are really unclear of what the point of the Trump administration’s actions are. We don’t know if there is a strategy, because we don’t know what the end game is.” Mr Bown noted that during the trade war China has been pursuing a very different strategy from the US: “China has actually been reducing their trade barriers towards Europe, towards Canada, towards Japan, towards the other countries in the world, while the Trump administration has been threatening other countries with steel tariffs and, potentially, automobile tariffs.” While there appeared to be general agreement throughout the day on the need to reform the WTO’s governance frameworks and priorities, most felt it would be in the interest of all countries, including the US, to support a multilateral and rules-based order for global co-operation.

Participants questioned whether traditional multilateral frameworks and institutions, focused primarily on organising relations between nation states, were in the longer term suited to address fast-moving and complex digital-governance issues. Speakers made numerous references to “plurilateral models of governance” that might be better suited to the task. When asked what the world trade system might look like around 10-20 years from now, futurist Amy Zalman predicted that the sovereignty of the Westphalian state, and its role in trade governance, would continue to be impinged upon. Ms Zalman described this process as “the publicisation of the private sector”. She noted, “The private sector will continue to be pulled into governance roles. This may be of particular interest for multinationals and tech firms.”

Ulrik Vestergaard Knudsen, deputy secretary-general of the OECD, remarked that now was “exactly the wrong time for a crisis of global cooperation”. He noted, “We are facing colossal challenges in terms of climate change, trade friction, digital attacks, terrorism and migration. “There is one thing that these five challenges have in common: it is that no country—no US, no China, no EU—can face these challenges alone.”

Alan Wm. Wolff, WTO Deputy Director-General:

“The world is heading towards non-discrimination especially in western Democracies: No discrimination against women, no discrimination because of ethnicity, no discrimination because of race, and in trade it makes enormous sense.”
3. DIGITAL TRANSFORMATION OF GLOBAL TRADE

Global supply chains are some of the largest and most complex ecosystems in today’s business world, but they are hugely inefficient. As Kate Suominen, founder and CEO of Nextrade Group, explained, moving a container from one country to another involves multiple “manual, paper-based processes among the different players—freight forwarders, exporters, shippers, shipping lines, warehouses, ports, customs, terminal operators, and so forth.” Around 200 paper documents must be signed, stamped and moved among around 40 parties, using couriers, fax or, in some cases, email. An equal number of payment flows are often required, many physically settled in cash.

According to Ms Suominen, “the deadweight loss or waste in the system, just because parties don’t interoperate”, can account for 20% of world trade. Streamlining the processes and automating invoicing, payments and regulatory filings would save a lot of money, she said.

Meanwhile, seven of the ten most valuable companies in the world today are platform companies. Although tomorrow’s technology is already here in some ways, Michael Farlekas, president and CEO of E2open, pointed out that “even today, companies really struggle with a disconnect of data from where it begins and where they need it to be. How do you connect important data to third-party agencies that have a need to understand what’s happening? That is not just a technological challenge but also an organisational challenge.”

According to Shaul Kfir, CTO and co-founder of Digital Asset, the essence of blockchain technology is that it makes it possible to separate the business logic from the platform. “Here is a generic platform that all verticals can start using. At the edge of that they start innovating, they start putting both data and processes on that, and start transacting across borders. Those borders can be across people, across companies, or across global country borders,” Mr Kfir said.

Michael J. White, CEO of TradeLens Maersk Gtd Inc., is confident that blockchain technology affords a unique opportunity to transform global trade by helping to change the way companies interact and send sensitive commercial data across geographical and organisational boundaries. Mr White said that digitisation will improve workflow processes both up- and downstream: “Instead of one-to-one connections through sometimes 30 or 40 different members of a global supply chain, you connect one-to-many, where permissioned participants can see the data they need to see to ensure global trading moves much more fluidly than it did previously.”

According to Mike Bhaskaran, CTO of DP World, once data can easily be viewed, the flow of goods will accelerate. “Processes will significantly improve, balance sheets will significantly strengthen for a lot of companies,” he said.

It’s not just the private sector that will benefit from the application of blockchain and artificial intelligence in global trade. “Customs agency and related entities that are involved in end-to-end transportation have very similar issues to those that are in supply chains,” said Mr White. “They have ever increasing volumes, they have a fairly static workforce, they have limited investment that they can make in their systems, yet they have a need to get
better information further upstream so that they can make
gooder decisions and more efficiently inspect cargo without
impeding global trade."

**Agreeing common standards to interoperate**

According to Shaul Kfir of Digital Asset, “When it comes
to reducing friction to transact on digital goods and
information, blockchain is the next step in bringing 
the ability to agree on common data and the processes that we go
through.”

This will require adopting standardised digital schemas
for things like commercial invoices, packing lists, sea-way
bills and certificates of origin. Gerald Sun, vice-president at
Mastercard, said that standardising digital trade documents
has so far been challenging. “Most of the [standards]
their bodies that we find in trade operate vertically within their
industries,” he noted.

At least a dozen industry consortia are currently promoting
a range of digital platforms built on an array of non-
interoperable technology stacks. For Iain MacLennan,
vice-president for trade and supply-chain finance at
Finastra, the key question is, “How do you tie all the
networks together, and the interaction that you have, not
just at the financing level but also the logistical level?”

While standardisation is certainly important, given the
scale and end-to-end complexity of global supply chains,
interoperability of networks, protocols and instruments
would be essential. According to Gerald Sun of Mastercard,
“We’re not so much talking about setting new standards,
but agreeing on common standards to interoperate.”

When it comes to interoperability across blockchains,
“It’s really too early to talk about chain-to-chain
interoperability,” said Alisa DiCaprio, head of trade and
supply chain at R3. “It’s unclear what assets are being
transferred between which blockchains or what the
business case is for that.”

But Ms DiCaprio observed, “What we’re seeing today in the
market is really setting the standards, having the different
blockchain platforms work together to create standard
state objects that builds the infrastructure today to allow
for interoperability in the future.” Ms DiCaprio said that
banks, corporates and technology companies are now
working together on this challenge.

**Chad Bown, Senior Fellow, Peterson Institute for International Economics:**

“A lot of the costs, I think, of going down this path
have not been fully observed yet and it’s going to
take time to show up.”

“China’s strategy during the trade war has
actually been quite different than the American
strategy. China has actually been reducing their
trade barriers towards Europe, towards Canada,
towards Japan, towards the other countries in the
world, while the Trump administration has been
threatening other countries with steel tariffs and
potentially, automobile tariffs.”
Can digital platforms reduce the trade industry’s carbon footprint?

Mark Shayler of Do Lectures summarised the challenge well, “How do we make more money from less stuff and help those who are growing grow with less harm?”

The combination of sensors, analytics and the ability to transact on digital goods and information can transform the efficiency with which goods are moved in physical supply chains. For example, half-empty containers carried on half-empty vessels waste substantial amounts of energy. Sensors detecting unused space in shipping containers can feed the information to algorithms that can direct and automate packing and loading to maximise use. Smart contracts can take things a step further and automate price discovery and the efficient allocation of carbon-reduction incentives. This should allow an increase in the value and volume of goods transported, but with greater efficiency and lower carbon impact.

Political and business leaders should take careful note of the tectonic generational shift in the values of their constituents and customers when it comes to consumption and sustainability. Not only do the next generation of consumers see the world differently, but they have the tools to mobilise effectively and make their political and economic weight felt. According to a 2015 Nielsen global survey, 73% of millennial consumers would spend more on sustainable products.

According to Trisa Thompson, an advisory board member of Pledgeling, “there is an appetite from consumers to learn.” Ms Thompson described it as “a great moment that is really important to grab now, while they are interested.” According to Mr Shayler, investors should demand environmental sustainability in trade systems as preconditions for investment, including the adoption of relevant technologies, metrics and standards.

“China is the world’s largest producer of concrete by miles. Africa is going to double its population by 2050. The resource use implications are colossal. That’s our big challenge. How we make more money from less stuff and help those who are growing, grow with less harm.”

“If there is a story attached to the brand [consumers] change behavior. If I tell you the things in your magic black mirror are dug out of a hole in the ground in the Democratic Republic of Congo. If I tell you that those materials are guarded by young boys with guns, and those young boys with guns are guarded by young boys with whistles, you may want to upgrade your phone a little less early.

“We're in a position now where our brand assets are worth more than our physical assets. We [brands] are not what we say we are, we are what you [consumer] tell us we are.”
New models for risk distribution and SME trade finance

“Trade is essentially the interoperation of three verticals,” noted Gerald Sun, “the goods and services movement and logistics, information that’s floating around (invoicing, bills of lading, etc.) as well as financing that’s lubricating it and allows trade to happen.”

E-commerce has enabled greater participation of SMEs, sometimes referred to as micro-multinationals, in global value chains. However, with global supply chains penetrating further into less-developed markets like Vietnam and Indonesia, the World Economic Forum predicts that the global SME trade finance gap will jump from $1.5 trillion today to $2.5 trillion by 2025.

The convergence of blockchain, artificial intelligence and the internet of things will enable a better understanding of the relationship between data and physical movement and increase the efficiency of transit, clearing and compliance processes. Data can be processed by smart contracts to automate actions (like payment of an invoice) when triggered by certain events (confirmation of receipt of a good by a customer). By compressing end-to-end transit and payment cycles, SMEs can increase the efficiency of working capital and cash conversion.

While this is certainly positive for SMEs and the broader ecosystem, the convergence of blockchain and capital markets could also enable new models of risk distribution and financing. During the roundtable discussions, a participant noted that a few banks (via partnerships with fintechs) are already experimenting with securitising trade assets and using the bond market to attract institutional investors looking for low-risk, short-duration assets.

For trade assets to gain broader traction with investors, issuers will need to provide reliable financial information and relevant risk disclosures. This will require coordination and compliance with financial regulators and relevant public-sector authorities. Regional development banks are expected to play an important role in advising and funding public-sector capacity-building.

Aditya Menon, CEO of TallyX, noted that tokenisation could enable especially transformative use cases in trade: “Partial payments, partial shipments, fractional finance, syndication and securitisation: a token model actually provides a means to do all of that.” He added that such token models would need to be defined using APIs and standard state objects interoperable across blockchains.

Mr Menon acknowledged that first there would be a need to move buyers, sellers, funders, logistics providers and shippers from paper contracts to smart contracts, and that would require “necessary air cover in each legal jurisdiction to ensure enforceability.” He added that currently, “China is the only country which allows certain types of blockchain smart contract to be enforceable under the law.”

Participants agreed that an important element for securing legal enforceability of smart contracts was the ability to digitally verify and authenticate the identity of all relevant parties in the trade ecosystem. They expressed hope that the Global Legal Entity Identifier (GLEI) initiative would bring scale and transparency to global value chains.

Iain MacLennan, Vice President for Trade & Supply Chain Finance, Finastra

“Not just about data. It’s about how you tie all the networks together and the interaction you can have with that data, not just on the finance level but also logistics level.”

“Machine learning and AI in compliance checking can address 60% of the cost base for banks in regards to back office processing.”
Harmonisation, flexibility and clarity of digital regulations

Trust was highlighted as especially important for the global trading system in the digital age. According to Susan Aaronson, research professor and director of the Digital Trade and Data Governance Hub at George Washington University, “The most traded item, either as a good or service, is data. The sectors built around data in particular require trust, because you don’t know the person or entity that you’re interacting with.” Ms Aaronson added, “The internet by its very nature is global, and you can’t develop rules bilaterally.”

Concern was expressed regarding the potential fragmentation in digital regulations and policies and balkanisation of the internet. Kate Suominen of Nextrade Group highlighted the results of a global survey of SMEs showing that digital policy issues were foremost in businesses’ minds, given the cost and complexity of complying with fragmented regulations across markets.

According to Ms Suominen, the top three priorities for emerging market SMEs were related to digital regulations:

1. Clarity (where are digital regulations going?)
2. Flexibility (is there potential leeway for SMEs?)
3. Harmonisation (are different rules cropping up across jurisdictions around issues like data privacy, intermediary liability or digital taxes?)

Global harmonisation will require involving various industry associations, standards bodies and multilateral institutions. To increase transparency, trust and adoption of digital trade platforms, standardised digital trade documents and legal-entity identification systems would be a good start.

However, most governments around the world do not have the basic policy building blocks in place for digital regulations, data privacy, trade in transfer rules or even electronic signatures. There was an expectation among participants that development banks would play an important role in supporting legal and regulatory capacity development, particularly in less-developed countries. As Ziyang Fan, head of digital trade at the World Economic Forum, noted, “Before blockchain, before AI, countries need e-transaction or e-signature laws.”

To trade goods, services and data more efficiently across borders, platforms and organisations, a much broader plurality of stakeholders must be engaged to agree on common standards that will allow global trade systems to operate with one another more sustainably.

Conclusion

Wrapping up the event, Finastra and the World Trade Board’s Simon Paris highlighted Peter Navarro’s fascinating and controversial remarks, pushing back against some of the Trump administration official’s claims but noting that there might be validity in his comments about China’s trade policies. He noted the definition of protectionism cited during a panel discussion as “the lack of trust in markets”, and the discussion around the importance of reducing administration costs to drive trade. He concluded with a quote from Roberto Azevêdo, director-general of the WTO: “Trade is good. More trade is better.”
Gerald Sun, vice president, Mastercard

"Harmonization has been difficult because most of the [standards] bodies that we find in trade operate vertically within their industries."

"Trade is essentially the interoperation of three verticals: the goods and services movement and logistics, information that’s floating around (invoicing, bills of lading, etc.) as well as financing that’s lubricating it and allows trade to happen."

Shaul Kfir, CTO & Co-founder, Digital Asset

"How do we reduce friction in order to facilitate growth in the ability to transact on digital goods and transact on information. Blockchain is the next step in being able to agree on common data and the processes that we go through."

"The essence of what Blockchain actually is is around allowing us to separate between the business logic and the platform... a generic platform that all verticals can start using; at the edge of that they start innovating, they start putting both data and processes on that, and start transacting across borders. Those borders can be across people, across companies, or across global country borders."