Media Coverage

Trade efficiencies through technology

The future of trade in Asia is digital, and it will bring efficiencies to both supply chains and payments.

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Singapore's move to recognise the way cloud computing is changing the way the financial sector and the global economy will work puts the country at the cutting edge of the world's most potent technological revolution to date.

While technology has been disrupting the way the world works since the invention of the wheel, today's technological revolution is taking place on a scale that means the likely impact on the global economy could be the biggest we've ever seen – particularly when it comes to international trade.

Cloud computing's potential to spur supply chain innovation and the potential boost to corporate profit margins it could bring is hard to ignore.

Academic research has described the evolution of trade in distinct waves: the first set off by the march of industrialisation and plummeting logistics and communications costs; the second by the globalisation of production triggered by the liberalisation of trade policy and the simplification of supply chains.

A digitally-driven third wave is now gathering momentum as the application of cheap, sophisticated, mobile technology accelerates the acquisition of affluence across the economies of Asia and the emerging markets of Africa and Latin America.

This third wave will likely create a long-term surge of trade that is forecast to boost global exports to US$68.5 trillion by 2050, of which Asia will have a 46 percent share, versus its current third.

Exporters around the world are vying for the attention of consumers in rising economies such as China and India – disrupting traditional supply chains and payment systems as they do so.

Instead of supplying goods to a largely homogenous consumer in the US or Europe, an exporter must deal with markets that are more heterogeneous in their needs, as well as their spending power.

The challenge will likely be met by gearing supply chains towards distribution, rather than efficiency of production.

Resilience and responsiveness of supply chains will become critical as differing tastes across markets will demand the flexibility to deliver customise products. All of this will feed into an already sizeable store of big data, which has the potential to bring greater efficiencies to product cycles.

As international trade embraces the best that technology has to offer, payments systems will inevitably evolve. The smooth digital payment operations enjoyed by individuals, who in markets such as China, are able to advance money to individuals and companies via their mobile phone, is just the start.

Some companies are already clearing transactions digitally along their supply chains, but it only amounts to a tiny fraction of the region's total payments.

For companies to truly go digital, it is not sufficient for the buyer and seller to agree to an online payment, but the entire ecosystem must also be on board – meaning that everyone from the shipping companies to the customs agencies must recognise the transaction method.

That tipping point could be fast approaching.

Blockchain, a database that stores an ever-expanding record of transactions, has garnered plenty of attention, both from banks and financial technology, or fintech, companies.

Meanwhile so-called smart contracts – which use technology to automatically check that all terms of a transaction have been completed before allowing payment to proceed – are replacing manual processing.

While it is too early to say which technologies will take off, it is already clear that in the future importers and exporters will transact with each other very differently to how they do today.

Outsourcing guidelines recently revised by the Monetary Authority of Singapore recognise that this will also impact the way banks interact with customers, who are increasingly turning to cloud-based treasury management solutions to improve visibility of cash and liquidity across international borders.

As more corporate treasurers in the region switch to this new technology, the gap between adoption rates in the Asia Pacific (at 25%) and North America (at 48%) will close – and rapidly.

For banks to stay relevant in this third wave of disruptive change, being responsive to changes along the supply chain is likely to be a crucial differentiator.

Very few fintech firms have the capital needed to step into any lending breach, nor do they serve the millions of customers that generate the data necessary to make the best decisions about shifts in trends.

But by investing in, and collaborating with fintech companies, forward-thinking banks will contribute to the innovative wave that is hitting the financial industry – and reshaping the global supply chain.

The changes that technology will bring to the trade dynamics in Asia promise a mixture of knowns and unknowns. What is clear is that the future of trade will be digital.