TXF Global Trade Report 2022

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The wintry dance of global trade digitisation in 2022: Missing the magic?

By Katharine Morton, Head of Trade, Treasury & Risk, TXF

There have been steps forward, sideways and back in trade digitisation in 2022. Here we reflect on some of the developments in what has been a choppy year for certain blockchain-based solutions, and a more positive one for digital trade regulation. While comprehensive approaches have been important, there remains no magic switch to make global trade digital, and a challenge of building better mousetraps.

First the good news. International regulation that enables the digitisation of commercial trade finance is making progress. As the UK's Electronic Trade Documents Bill continues its march into law, it's time to reflect on what has been an important year for trade digitisation, at least in terms of the regulation that is a necessary condition for change. Although change won't happen overnight, a large proportion of international trade is regulated under English law.

Digital trade in the US also took a leap on 13 July when the Uniform Law Commission (ULC) passed several amendments to the Uniform Commercial Code (UCC) addressing digital assets, terminology to account for digital records, electronic signatures, and distributed ledger technology, providing rules for electronic negotiable instruments, and clarifying the rules for UCC applicability to hybrid transactions involving both goods and services. The measures still need to be taken up by state legislatures, but the exciting news was that it is a federal solution. The problem in the US had been that there has never been a federal solution to the handling of commercial trade documents in digital form. The UCC in the US already permits electronic documents of title, but promissory notes and bills of exchange must be in written form. The 2022 amendments would effectively allow electronic promissory notes and electronic bills of exchange and also give effect to a governing law clause in the electronic promissory note or electronic bill of exchange.

As Chris Southworth, co-chair of the Legal Reform Advisory Board of the ICC Digital Standards Initiative (DSI) told TXF in July, "The breakthrough is that the US government has now identified a solution which is the UCC and is now actively progressing on reforming the law to enable those documents to be handled across state boundaries."

"Digitisation is the only way forward in trade finance and it is exciting to see such strong momentum behind this in the US," says Carl Wegner, CEO of Contour.

And, as ITFA publishes its Uniform Rules for Transferable Electronic Payment Obligations (URTEPO) – on 5 December, a development that is explored in more depth in this report – the framework for trade digitisation continues to firm up.

The United Nations Commission on International Trade Law (UNCITRAL) produced the Model Law for Electronic Transferable Records (MLETR) in late 2017 and that became the reference point for how the industry could solve the legal framework problem. Its adoption is still slow. To date seven countries have formally adopted MLETR, and multiple other countries are either considering it or have similar legal frameworks under consideration. Though they have made high level commitments, none of the G7 countries is fully up to speed in using MLETR in their legislative frameworks. However, legislative progress in Germany and France is likely to be significant.

TradeLens at sea – a wider issue of scale

The year has certainly not been plain sailing for trade digitisation for what had been held up as the biggest potential disruptor to trade – blockchain. When AP Moller-Maersk and IBM announced on 29 November that they were scuppering TradeLens, the blockchain-enabled trade platform that first set sail in 2018, it has marked the end of a choppy year for the progress of trade digitisation, at least from the perspective of blockchain-based solutions (and also highlights the ongoing challenges of scaling the use of electronic bills of lading).

"Unfortunately, while we successfully developed a viable platform, the need for full global industry collaboration has not been achieved, says Rotem Hershko, head of business platforms at AP Moller-Maersk in a statement. "As a result, TradeLens has not reached the level of commercial viability necessary to continue work and meet the financial expectations as an independent business."

This is despite a McKinsey analysis of the opportunity at stake. Digitalising the bill of lading (McKinsey estimates this accounts

for 10-30% of trade documentation costs) could unlock more than $15.5 billion in direct benefit to the shipping ecosystem and up to $40 billion in increased trade. At SIBOS Amsterdam in September, the dismal statistics regarding the uptake of electronic bills of lading (eBL, a product, it was pointed out that has been around in one form or another for nearly a quarter of a century) were laid out. A sobering 1-2% of cargoes use eBL.

"We should stop looking at each other to go first," said one shipping association head on stage at SIBOS. "Technology is not a hurdle, and legal is not a hurdle, standards are great, but they need to be adopted." Even so, when asked from the floor whether BIMCO and Digital Container Shipping Association (DCSA) and other shipping associations should embrace mandatory standards/use standardised rulebooks to accelerate the use of electronic solutions, at least one of the associations' answer was "mandatory would be a disaster" as it would not be commercially attractive.

Winter was coming (for closed-end blockchain) for a long time

The challenges for eBL aside, back in June, We.trade, a bank-owned consortium shut up shop (as did HSBC's own Serai). We.trade was joint-venture company, owned by 12 banks (licensed by 16) and IBM and was one of the first enterprise blockchain consortiums to offer trade finance. We.trade itself evolved from a project called Digital Trade Chain (which merged with parts of the Batavia Consortium). Digital Trade Chain started with nine banks in 2017 and was rebranded as We.trade in October 2017. In 2019 it became operational with deals run through a digital trade platform based on the Linux Foundation's Hyperledger Fabric and IBM blockchain platform.

The fact that We.trade didn't amend flows before putting them on the blockchain is important to remember. That lift and shift came almost straight out of the failed Bank Payment Obligations (BPO) playbook. Indeed, the 'closed' membership group-style model that required users to sign up to We.trade's rulebook and use its contracts was criticised as being anachronistic and another inefficiency that deterred smaller users who prefer single bank interfaces (often with their main bank) rather than having to run parallel systems. The combination of a smart-contract-based product with its own proprietary blockchain solution created a closed-loop system and impeded interoperability.

At the time, others had a similar sense of déjà vu about the technology. "You've got to start with the customer experience and work backward for the technology." That quote from Apple founder Steve Jobs [which I received as a meme in relation to the story] is apposite given the recurrent issue of solutions looking for problems.

That 'walled garden' approach has been challenged [see CGI's Patrick DeVilbiss's analysis in this report]. In the summer, industry wagons circled, particularly with the better funded solutions, and some distanced themselves from the perception that their strategies were purely blockchain-based.

Marco Polo Network reportedly also stepped back from its blockchain payment commitment offering. Scaling, collaboration and long term funding all remain challenges.

Blockchain platform Contour asserted its strength and bought the We.trade rulebook in September. Contour had announced a collaboration with the (now defunct) TradeLens back in May. Wegner tells TXF, "TradeLens had a good team of people who shared in the company's bold vision of making trade more efficient, but this news [of the platform's closure] exposes the challenges of collaboration between big corporations and the industry. We remain hopeful for more widespread adoption of the eBL in the future, as digital innovation must be embraced in order to move forward."

Consolidation and positive pockets of development

Other trade bankers remain positive for trade finance products as a whole. "All this blockchain noise is a bit of a red herring," say one. "Winter is coming? Winter is not always winter for trade finance – winter equals risk, and risk mitigation is what we're here for – the combination of rates, inflation, uncertainty, mean trade finance looks attractive."

On 1 December, Swiss-based Komgo, originally purely a blockchain-based platform for commodity trade finance, announced it has bought GTC, a Canada domiciled trade finance platform, to create what it describes as 'the world's largest platform for digitalisation of trade finance'. That consolidation has been widely welcomed. The companies assert that together they provide trade finance digitisation solutions to more than 120 multinationals and (in excess of) 11,000 subsidiaries, while GTC offers multibank trade finance solutions for corporates. "Solutions offered by both companies are complementary and cover the complete range of payment instruments used in international trade, starting from detection of fraudulent invoices to automation and management of letters of credit, bank guarantees, documentary collections, integrated with a trade finance marketplace," GTC's chairman of the board, Jacob Katsman said in a statement.

Meanwhile, MonetaGo has underlined its focus on digitisation outside the realm of blockchain-based solutions. It scored a win as the first (and so far, only) trade finance API on SWIFT, announced in late October. On 2 December its Trade Financing Validation Service was launched into production to the more than 11,000 institutions on the SWIFT network. The anti-duplicate financing system is designed to be interoperable across markets, companies and platforms and aims to reduce trade finance fraud.

Build it/build a better mousetrap, but will they come?

"I think we have to be realistic in understanding that trade digitisation won't be achieved with the flick of a magic switch: it is a long and complex process," Luca Castellani, legal officer at UNCITRAL cautioned in the summer. "MLETR removed one major stumbling block but we need a lot of other components, including a robust ecosystem and onboarding regulators. At the same time, Article 7 UCC and its underlying notions shared with MLETR such as control have significantly influenced other new Articles of the UCC (for example on digital assets), and UNCITRAL is starting work on a new project, on a legal instrument on negotiable multimodal transport documents, that will build significantly on MLETR. In short, the impact of MLETR on trade digitisation may be deeper than it seems, but at the same time may also be less immediate and apparent than one may wish."

The passing of UK Electronic Trade Documents Bill is scheduled to come into force by the middle of 2023 on current plans. In anticipation of the changes, the priority now is to inform the market and support companies to get ready to go digital. With the Commonwealth countries using the same pieces of foundational law, the Bills of Exchange Act and Carriage of Goods by Sea Act, they should, theoretically be able to adopt the new bill wholesale or with minor changes. The potential is there to accelerate legal reform faster than any other global network.

Hopes remain that with the facts that the US dollar, and (to a lesser extent) sterling, have outsized importance in international commerce and settlement, and that US and English law has outsized importance as a basis for contractual trading terms, the regulatory developments will be a springboard.

With better frameworks in place, standards evolving and laws changing, industry will need to take the next steps to adopt. Needless to say, there will have to be a big push, and if the pandemic didn't galvanise corporates to go digital on cross border trade, then what will?

Fintechs are holding out that the logic of the opportunity for trade finance digitisation remains very compelling. "Fintechs can automate a lot of trade finance processes and reduce cost, as the centre for trade finance is expensive to manage. There's an opportunity not only to delight the customer with better service, but offer new products in the future," says Wegner.

The difficulty remains that if anyone thinks 'build it they will come' – attributed to Kevin Costner in the film 'Field of Dreams', or 'build a better mousetrap and they will beat a path to your door' –attributed to Ralph Waldo Emerson – applies to trade finance digitisation, they must learn from many decades of experience, and, in the recent cases of closed-end blockchain digitisation, the real risk of getting nipped by the high-falutin' mousetrap.

Connecting the dots: How data can supercharge sustainable trade

Sustainability in trade has become a topic of crucial importance for all stakeholders, from financiers and multinational corporations to SME suppliers in emerging markets. New developments are enabling a greater understanding of the environmental, social and governance risks in the world's supply chains. But translating this into action means harnessing data in new – and better – ways, says Enno-Burghard Weitzel, senior vice-president of strategy and business development at Surecomp.

Enno-Burghard Weitzel

Global trade encompasses an annual $28.5 trillion of transactions across a complex web of suppliers and buyers. From agricultural exports to textiles, metals and minerals to manufactured goods, the supply chains that span the planet are an enormously important driver of economic growth and development, lifting more than one billion people out of poverty since 1990.

However, important environmental, social and governance (ESG) challenges remain in ensuring trade meets its full potential as a force for good, such as tropical deforestation linked to exports of key commodities, the generation of greenhouse gas emissions through the transportation of traded goods, and human rights violations in supply chains.

Getting trade right

It is in everyone's interest to get trade right, but because of its complex, global and interconnected nature, it's often difficult to identify how. Many corporates only have a connection to their direct suppliers, meaning they don't know much about their suppliers' suppliers. These limitations make it impossible to fully understand just how sustainable their activities truly are. Meanwhile, financiers, who are increasingly attempting to support their clients along their sustainability journey with ESG-linked trade finance, often find themselves relying on patchy, self-reported data with only narrow metrics to measure against.

Stakeholders across the trade ecosystem want to do better on ESG, and everyone wants to have the ability to provide transparency about their activities. The problem is, you might be doing well, but you really can't prove it, which leaves you open to low ESG scores though in reality your score might be very high.

Fixing this and generating real, measurable sustainability improvements in trade isn't just a nice-to-have. For society at large, it means securing prosperity and decent jobs while delivering on the United Nations' Sustainable Development Goals (SDGs) and meeting the objectives of the Paris Agreement.

ESG factors have been found to be positively correlated with business performance, and with supply chains accounting for about 41% of a company's ESG impact, according to research by ratings firm Scope Group, it's becoming increasingly important for business leaders to demonstrate how their suppliers are performing too.

Meanwhile, financiers from banks to export credit agencies are looking to mobilise increased levels of finance for the low and net zero emissions economy and need credible insights into where their funding can make the most impact.

Harnessing the data

All of this information is already available, in the shape of the vast oceans of data created by trade activities every second of every day. The Internet of Things, with its networks of cameras and sensors on millions of devices, feeds a constant stream of data on shipping routes, storage methods, and their attendant carbon emissions. Satellite data provides visibility of deforestation and water resource use. Blockchain technology is utilised to ensure the transparency and traceability of minerals. In terms of reporting, the main recognised ambition today is based on Science-based targets (SBTi), an organisation leading the way in providing companies with a clearly defined pathway to reduce their greenhouse gas (GHG) emissions. They set 'science-based' targets based on what the latest climate science deems necessary to meet the goals of the Paris Agreement.

But trade data doesn't have to involve cutting-edge technology. It's also the information entered into invoices, contracts, and bills of lading at ports, factories and

production facilities each day, and the codes used by customs officials to classify goods.

Across the length and breadth of supply chains there's a lot of data that needs to be brought together. However, data is just data unless it's analysed and acted upon. The first thing is to identify how to consume that data so that something worthwhile can be done with it, and since it may not be formatted consistently, you need to find a way to ensure everyone is communicating in the same way.

This can be achieved via API standards, which will help to ensure that any information being shared is in a uniform format that can be easily used and validated by others. Surecomp's new RIVO platform, a digital hub that provides open API access to importers, exporters, banks, insurers, shipping companies and solution providers, is one example of this concept in action. RIVO is essentially about bringing all that data in and processing it to be something usable.

Creating a framework for change

Simply collecting and structuring data is only half of the story. Turning data into useful insights means measuring it against globally accepted ESG metrics, and herein lies the challenge. There are currently hundreds of different assessment techniques for different types of goods and different aspects of ESG, and each framework has its own scoring methodology. Not only does this make it extremely challenging to benchmark corporate ESG performance in trade, it also places a disproportionate burden on small suppliers, who often find themselves having to align to numerous standards depending on their buyers' requirements – leaving them at risk of being shut out of sustainability-linked financing as a result.

What's needed are the right standards to measure data against in a repeatable, transparent, consistent way. Work is currently underway to achieve this. Last year, the International Chamber of Commerce (ICC) began a consultation process with the aim of creating an overarching sustainable trade and trade finance framework, and has recently commenced a pilot with banks, corporates, and technology companies to test the applicability and feasibility of determining whether the different elements of a trade transaction are sustainable.

With this initiative, we will have a meta framework that standardises all of these disparate ways of looking at ESG in trade. If everyone agrees on the ICC framework, we can combine this with the structured, standardised data to provide unparalleled transparency. This is a huge step forward, and will give the industry an evidence base to work from.

To create this evidence base, Surecomp has piloted new functionality on RIVO that maps datasets and methodologies from numerous ESG data providers to the ICC's proposed framework, and then uses a scoring algorithm to combine trade transaction inputs to provide a single rating according to pre-defined criteria.

By making ESG measurement simple, buyers can demonstrate their commitment to better outcomes for the environment and society, suppliers can gain better access to favourable financing conditions, and banks can better target their advisory services to help their clients do better on sustainability goals.

What's more, the insights gained can contribute to the fine-tuning of future sustainability frameworks. On an academic level, the ICC framework is feasible, and with RIVO we are demonstrating that it is also feasible at a technical level. We have tested it on a dataset of more than 1,000 transactions across numerous trade routes, and our findings can be leveraged to help define the framework going forwards, as well as give insights to policymakers around the true picture of sustainability in trade.

Collaborating for scale

However, harnessing the billions of gigabytes of trade data being produced every day to drive sustainability at a global scale will require cross-industry collaboration. We need better data quality across the board. Issues such as unstructured or poor descriptions of goods on invoices or purchase orders, or ambiguous naming conventions for companies are holding back the industry's ability to use data to its fullest potential.

This isn't an insurmountable problem. The World Trade Organization-ICC Standards Toolkit for Cross-Border Paperless Trade, released early this year, outlines close to 100 available standards, frameworks and initiatives that offer the potential to enable all parties in global supply chains to speak the same, universal language using a core set of standardised trade-related document and data formats.

With the adoption of the tools set out in the toolkit, such as the Legal Entity Identifier (LEI) and standards for naming products, packages, persons, entities, carriers and containers, we will be able to seamlessly assess suppliers, products and sectors at scale, saving time and money and enabling even the smallest participants in global trade to measure, monitor and improve their sustainability impact.

For now, though, as the sustainability imperative in trade grows ever more urgent, taking the data that's available and enabling it to be utilised to take real action now is an important first step. Sustainable global trade promotes growth and improves people's lives. The better the world trades, the better society. The technology and tools are now available to analyse and drive real-time decision making like never before to make a real difference. All we have to do is start.

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Africa trade outlook: Three buzzwords for trade in 2023

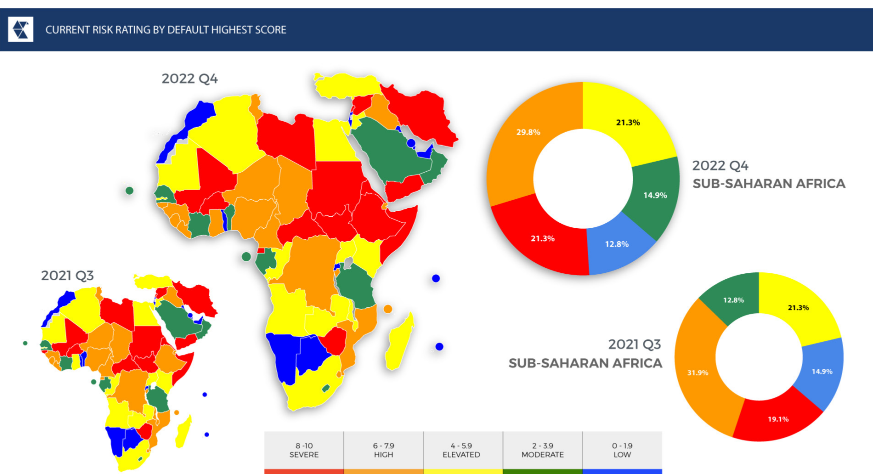
Robert Besseling, CEO of Pangea-Risk, says that elections, food, and natural gas will be the words to watch for Africa trade in 2023.

In 2023, Pangea-Risk foresees sporadic disruption to trade and business activities around elections in Nigeria and other large export markets such as DRC, while food insecurity poses a more protracted threat well into next year. Diversified economies will perform better than commodity-dependent markets, although nascent gas producers will soon outpace all others. Sovereigns struggling to control soaring inflation and stabilise depreciating local currencies will have to urgently consider a restructuring of their unaffordable debt to avoid default scenarios from 2024 onwards.

Africa's trade outlook will improve in 2023 following the volatility of 2022, as demand for African exports increases and the continental free trade agreement is gradually implemented. This is good news for soft and hard commodity producers across the board, although natural gas exporters will feel the greatest benefit. Yet, Africa's largest export and consumer markets will remain depressed in 2023 for a variety of reasons, such as soaring inflation, structural weaknesses, or political factors.

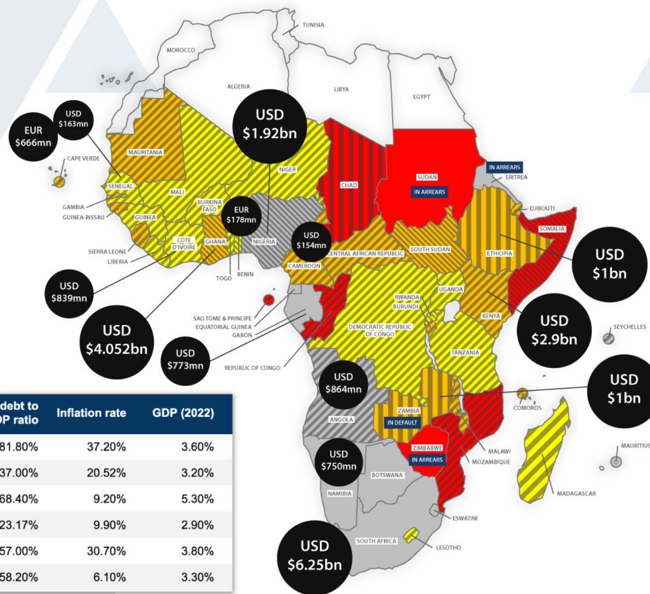
Following the example of developed markets, central banks in Africa are raising interest rates. Yet few central banks expect that higher borrowing costs will lower inflation rates in their countries. Instead, the raising of interest rates is aimed at avoiding the depletion of foreign exchange reserves that have been used to fund increasingly costly import bills and loan servicing costs. As a result, Africa's economic growth is slowing.

The IMF and World Bank have both revised downwards their economic growth forecast for sub-Saharan Africa. The IMF now projects 3.7% GDP growth in 2023, just above the 2022 projection, compared to 2021's more robust 4.7% growth rate. Slow economic growth and high inflation ring alarm bells for many African states facing a parallel crisis of debt sustainability and food insecurity. Food-import bills are surging fastest for poor countries that are already in debt distress or at high risk of it, according to the World Bank.



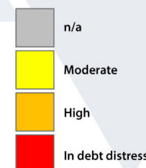
MAJOR SUB-SAHARAN AFRICAN SOVEREIGNS MOST LIKELY TO RESTRUCTURE DEBT

Debt restructuring will become more urgent by 2024 when the risk of sovereign defaults will significantly increase.



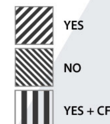
	Debt service ratio	Public debt to GDP ratio	Inflation rate	GDP (2022)
GHANA	45.00%	81.80%	37.20%	3.60%
NIGERIA	102.30%	37.00%	20.52%	3.20%
KENYA	27.80%	68.40%	9.20%	5.30%
ZAMBIA	70.00%	123.17%	9.90%	2.90%
ETHIOPIA	25.80%	57.00%	30.70%	3.80%
CHAD	7.30%	58.20%	6.10%	3.30%

IMF DEBT DISTRESS OVERALL RATING
Reflects published DSA ratings as of 30 April 2022 (IMF)



n/a
Moderate
High
In debt distress

DSSI / COMMON FRAMEWORK PARTICIPANT
Debt Service Suspension Initiative (DSSI) participants and applicants to the Common Framework (CF) for Debt Treatments. Data derived from IMF/World Bank.



YES
NO
YES + CF

EUROBOND 5-YEAR MATURITY
Amount of Eurobond repayments due in five-year outlook (May 2022 to May 2027). Data derived from Bloomberg.

© PANGEA-RISK

Elections and food insecurity

At the start of 2023, all eyes will be on Nigeria, as several candidates vie to succeed the presidency of Africa's largest economy. Nigeria may lose that top ranking if it is forced to devalue its currency soon after those elections in February and March. The important vote comes at a time of rising inflation and slowing economic growth, while all-important oil production stagnates – once Africa's top oil producer, Nigeria slipped into third place in late 2022.

Important national elections will also take place in distressed countries such as Sierra Leone, Liberia, Madagascar, and Zimbabwe, where food prices are some of the highest in the world. According to a United Nations report, food costs are now higher than in 2007 and 2008, when then-record prices led to protests and riots in 48 countries. The UN has shortlisted 60 countries where food-related unrest is likely to break out, in a resemblance to the 2007/8 unrest. Many of these UN-shortlisted countries are in Africa, which depend on Russian and Ukrainian commercial grain imports, or on UN food aid that is also sourced from the Black Sea region. As many as 25 African economies, including several of the poorest, import at least one-third of their wheat from Russia and Ukraine. For 15 of them the proportion is greater than 50%.

By the end of 2023, elections are due in Africa's largest copper producer and one of its fastest growing economies, the Democratic Republic of Congo (DRC). Trade flows and business activities will undoubtedly be disrupted by the volatile political processes of DRC, particularly as multiple insurgencies rage in some of its most important mineral-producing provinces. Throughout Africa, political and socio-economic grievances will pose threats of disruption to trade and economic activity. Food riots and political unrest will be another reason why.

Nevertheless, there are several outliers in terms of economic performance growth this year, with impressive growth expected in island economies such as Seychelles and Mauritius that are witnessing a recovery of their tourism sectors after a three-year hiatus. Metals and crude oil producers such Niger, DRC, and South Sudan lead the pack in terms of economic expansion, all well above 6% GDP growth. Next year, nascent liquefied natural gas (LNG) exporter Senegal will join Niger and DRC in outpacing economic performance in more diversified markets such as Rwanda and Côte d'Ivoire. Generally, Africa's fossil fuel sector will continue to outstrip other industries, even while major producers such as Nigeria and Equatorial Guinea continue a long term decline due to depleting reserves and structural weaknesses.

More debt restructuring expected by 2024

At its autumn meetings, the IMF did not add any countries to its list of debt distressed countries, or those at risk of falling into debt distress. The World Bank warned that the fiscal space to mount effective responses to economic and food crises is gone because of high levels of debt across Sub-Saharan African countries, rising borrowing costs, and depleted public savings. The World Bank also says that support for international debt restructuring might be required.

In fact, Pangea-Risk assesses that at least six African countries are likely to restructure their debt by 2024. Ghana may prioritise restructuring of its domestic debt, although this prospect has raised serious concerns over local banking sector liquidity. Ghana's commercial banks held about 30% of domestic debt and 31% of total banking sector assets in 2021. Thus, any attempt to restructure domestic debt without a compensating policy action could leave the banking sector highly vulnerable to further distress.

Even while Nigeria's Debt Management Office has rejected previous statements by the country's finance minister that a debt restructuring may be on the cards, the cost of servicing Nigeria's loans is likely to be unsustainable. The cost of servicing that debt surpassed revenue in the first four months of this year, while many of the country's bonds trade in distressed territory below 70 cents in the dollar. Meanwhile, Kenya's new President William Ruto has rowed back on a pre-election pledge not to restructure East Africa's largest economy's debt. A restructuring may be needed before 2024 when a $2 billion Eurobond is set to mature, which poses a significant risk both for Kenyan government finances and external financing requirements.

The three other countries that are attempting to restructure their public debt fall under the G20 Common Framework for debt relief – Zambia, Ethiopia, and Chad. The latter just completed a successful reprofiling of its debt to commercial creditors such as commodity traders and banks. However, discussions between Zambia's creditors have been tense, as western countries have ratcheted up their criticism of China, Zambia's largest bilateral creditor, as the main obstacle to moving ahead with debt restructuring agreements. Without a deal in Zambia, the Common Framework may be ditched in favour of bilateral restructurings such as those in Angola and DRC in recent years.

Meanwhile, Ethiopia's Common Framework process could resume following a peace deal to end a two-year civil war. Unless Ethiopia restructures its debt, with dwindling foreign exchange reserves, the country will face a default scenario in the short to medium term. While the prospect of a new IMF programme could improve confidence among creditors and potentially accelerate debt restructuring efforts, it remains unclear whether Ethiopia will fulfil the preconditions.

Trade finance gets new rules for electronic payment obligations

The International Trade and Forfaiting Association (ITFA) has unveiled a new set of industry rules that cover the transfer of electronic payment obligations, which can be used to support the finance of international trade. ITFA outlines how the rules prepare the market for the practicalities of the digital world.

As the digitalisation of trade finance gathers pace, thanks in part to changes in legislation, digital instruments such as payment obligations are likely to continue to be created in a variety of forms – some electronic equivalents of existing instruments, others completely new and innovative.

ITFA's Uniform Rules for Transferable Electronic Payment Obligations (URTEPO), launched in early December, ready the secondary market for the introduction of these new instruments, so that they may be transferred – repeatedly if necessary – through the various digital platforms and operating systems that are being developed across the industry.

With these rules, ITFA is providing industry participants with a framework that they can begin to incorporate into their transactions as the traditional forfaiting market becomes increasingly modernised.

Combined with ITFA's work under the auspices of its Digital Negotiable Instruments Initiative (DNI Initiative), which counts the launch of the Electronic Payment Undertaking template wording and the dDOC specifications among its successes, ITFA now offers an end-to-end journey for trade-related financial instruments.

"New legislation is paving the way for innovation in the world of trade finance. The law is facilitative, it makes a whole lot of different approaches possible, but that's not the end of the story – those new approaches need to be implemented," says Sarah Green, commercial and common law commissioner for England and Wales.

"ITFA's new rules provide a benchmark for the community for how to go about transferring the new digital instruments that many jurisdictions have started acknowledging as having the same legal standing as their paper-based counterparts. There's a real symbiosis of legal and technical change and initiatives like this go a long way in creating certainty in the commercial sphere."

Paul Coles, ITFA board member and chair of its Market Practice Committee, and Geoff Wynne, partner at Sullivan & Worcester, who led the ITFA working group that drafted the new rules, provide an overview of what the framework means in the context of the digital trade landscape.

What do these new rules cover, and why has ITFA produced them?

Paul Coles (PC): The advent of new technology as well as legislative changes, including UNCITRAL's Model Law on Electronic Transferable Records (MLETR) and the UK's Electronic Trade Documents Bill, are driving new ways to create and transfer traditional trade instruments in digital form.

The URTEPO, being a set of rules that cover the end-to-end transfer of electronic payment obligations, are an evolution of the Uniform Rules for Forfaiting (URF), which govern physical negotiable instruments and were produced by ITFA and the International Chamber of Commerce in 2013. Given the progress being made in the digitalisation of trade, it was a logical step for ITFA to now look at bringing these rules up to date in a digital context.

That being said, we're aware that for many financial institutions, the switch to fully digital trade cannot happen overnight. So while the supporting documentation to an electronic transfer is likely to be a mix of data and physical documents, as long as the payment obligation itself is already in digital form then it can be transferred using the URTEPO. If the payment obligation ex-

ists in paper, then the URF will apply. The two sets of rules are separate.

Geoff Wynne (GW): Instead of simply amending the URF, we saw this as a golden opportunity to widen what we might do to reflect the new market of electronic payment obligations by drafting rules for the transfer of these obligations. Note that the rules do not detail the technical requirements for the creation of the payment obligation itself.

Are the rules contingent on any legislation or specific technology?

GW: The rules were written with a view to reflecting how MLETR might be adopted around the world and how the framework might interact with the UK's Electronic Trade Documents Bill. They use the same terminology. But the rules can be used in a contract now, even in jurisdictions where these laws have not yet been adopted.
As long as you have created an electronic payment obligation, you can transfer it by a contract incorporating these rules.

The rules are designed to be technology neutral. We recognise that as technology develops, and we potentially see the introduction of better negotiable instruments, rather than just payment obligations, then these rules will continue to work. In theory, they transcend what happens next.

PC: The rules are there to clarify parties' roles and responsibilities, working in tandem with the legal system in each jurisdiction which dictates how the transfer of ownership of the instrument is tackled.

How does URTEPO differ from the Uniform Rules for Digital Trade Transactions (URDTT), launched in 2021?

GW: The URDTT provide an overarching framework for digital trade transactions. They serve to address uncertainty around how buyers and suppliers can reflect their underlying sale and purchase by electronic records, and how electronic data relating to digital trade transactions must match.
For example, if you had a transaction that is reflected by the URDTT, you can then transfer payment for that transaction using URTEPO. The URDTT provide a way of getting that electronic payment obligation, which can then be transferred. They sit together, they don't rival or contradict each other in any way. The drafting of the URTEPO had the URDTT in mind throughout but without specifically referencing it.

What are the major benefits of these new rules for industry participants?

PC: If they so wish, institutions can use the URTEPO to sell payment obligations in a different way – it opens up a new set of possibilities.

For example, traditionally, no one would consider transferring short term instruments. By the time you try and get the recognition of assignment for each and every invoice that's being transferred from one party to the other, the instrument is likely to have matured. The admin leading up to it would be a huge burden and you'd drown in paperwork.

Electronic instruments and the URTEPO can enable financial institutions to use a platform or electronic system to effect a transfer to the investor almost instantaneously if they agree on the data points.

It's worth noting that the URTEPO can be used for both short term trade receivables and longer term payments under export contracts.

How will this initiative pave the way for future developments in digital trade?

PC: The digital trade ecosystem has many different components that all address various elements – and they all need to work together. There's never going to be one single set of rules that will capture everything end to end. The URTEPO are one of the components that ITFA identified as being an area where we can add value, given our involvement in producing the URF and our leading role in serving the needs of institutions involved in trade risk and asset origination and distribution.

The rules are part of the process of creating a new digital landscape – they facilitate a framework so that institutions can start thinking about and understanding their roles and responsibilities. They contribute towards greater clarity and aim to provide market players with more confidence about what will happen in the future if they choose to adopt the rules.

A pause for thought: Trade architecture for a multichannel world

What is the current state of how corporates are interacting with banks and fintech platforms? Patrick DeVilbiss, Senior Offering Manager, Trade and Supply Chain Solutions, and Frank Tezzi, Vice President of Trade and Supply Chain, at CGI discuss what's changed in 2022 and where the industry is heading. Where next for blockchain consortiums, API connectivity and omnichannel platforms? The days of walled gardens are over.

"It's been a fascinating year," says **Patrick DeVilbiss**, Senior Offering Manager, Trade and Supply Chain Solutions at CGI. "One of the biggest issues to jump out is the changes at blockchain consortia over the summer which created a bit of reverberation through the market, and some cause for pause."

In particular, the closures of one consortium (we.trade) and a bank blockchain-based platform (Serai) in June 2022, took some of the air out of enthusiasm and expectations for distributed ledger technologies (DLT) and blockchain for trade. DeVilbiss says, "The belief was that there was going to be an ecosystem view for world trade and that there were new technologies being deployed that were going to solve some of the age-old challenges. A lot of platforms have already had more than five years of runway to get established and the closures have made everyone take a step back."

While the majority of banks have not led in the blockchain space, nor had they necessarily invested in a particular platform, they did want to understand the way platforms are developing and how they could participate in the future. "That creates a rebalancing for banks looking at what the future holds and what the ecosystem play is," DeVilbiss says.

Is the blockchain/DLT landscape still vulnerable for trade? Certainly, the market is still in transition. "Recent events have put a lot of pressure on existing players," says DeVilbiss.

It's not all negative, though. In early September there was good news for market development as blockchain provider Contour acquired the rulebook and other associated legal documents from the we.trade Innovation DAC. "At least that means all that learning is not lost to the industry," says DeVilbiss.

Capital needs – but still positive for a broad ecosystem approach

Nonetheless, the surprise changes in the summer have created a degree of unease about blockchain platform providers. Capital is not cheap, and is getting more expensive and there may be further consolidation on the 12 to 24-month horizon. "If free money isn't out there or flowing as well as it may have been before, there is cost pressure. Platforms may not be able to go back for additional rounds of funding as they have to demonstrate their long-term value proposition and achieving ROIs," DeVilbiss notes.

The flip side of this is that capital concerns are not simply an issue for DLT-based companies and networks, while banks will continue to be cautious, they will want to partner and continue to develop wider ecosystems.

No more building 'walled gardens'

"Recent events will not lead to a change in the broad ecosystem approach," says DeVilbiss. "And at the core of this is how banks need to be thinking strategically about their engagement with corporate partners in a multichannel world."

"Five or 10 years ago, banks were asking 'how do I create my own little walled garden, my proprietary channel that stands up my own front office system, so that I can interact with my corporates?'" says DeVilbiss. That can no longer be the case. There is no room anymore for the mentality of 'build it and they will come.'

That is because there is a much more complicated landscape as bank proprietary channels also need to provide corporate customers with a seamless user experience. Proprietary channels need to offer not only, potentially, trade, but also other transaction banking products to make it easy for corporate customers.

Where is the market headed? Think potential channel opportunities

Expectations will continue to climb from corporates in terms of how seamlessly interaction with banks can be pulled into their transactions (such as embedded finance, and ESG scoring).

Banks must also cater to customer needs by partnering through other channels as well. Customers want to be able to interact with multiple platforms from bank providers and fintechs, and may have particular platforms they like. And those platforms need to be able to change too.

"You should be thinking about how you can incorporate that customer request into a broader offering that you have and know the positives/negatives of any potential platform," says DeVilbiss. "In addition, think about how you can get additional origination business. Certain platforms may offer things today that you cannot, or reach potential corporates that you do not yet interact with. A potential channel opportunity, such as an efficiency play or new product or some combination that eases processing or that makes things simpler could be better for you and your customer, or open you to a whole new product suite to offer."

For instance, some of the new digital players that exist or other digital-first products could appeal to banks. "Fundamentally, you need to be thinking about where you want to be in five years' time from a channel perspective and know that it's critical to deliver to your customers on any number of those channels and that you need to be strategically partnering and investing from a technology standpoint, otherwise you're eventually going to be left behind," cautions DeVilbiss.

Efficiency and product growth will be the two critical factors in the adoption of connectivity approaches for banks and corporates.

APIs are still the main building blocks – as the new HTS shows

Banks are showing increased interest in Application Programming Interface (APIs) and using APIs and system connectivity to deliver value-added services will continue to foster the main areas of growth. The API space will be the core of how entities connect.

Indeed, on 6 October, HSBC announced the launch of HSBC Trade Solutions (HTS) to UK and Hong Kong customers. This is a new platform developed with CGI which lets clients in HSBC's two biggest markets originate and manage all their trade finance products online. HTS uses an API-native, modular design and flexible tech-stack that will form the core of HSBC's trade offering – and will ultimately be underpinning $800 billion of global trade annually. There will be a higher level of straight through processing for clients and risk management and monitoring will be strengthened through fully integrated Anti-Money Laundering (AML), sanctions, fraud, and credit risk controls.

"All the heavy lifting has been done for the clients across HSBC's two largest markets and HSBC is now switching to the roll-out phase for the next 40 to 50 countries," explains **Frank Tezzi**, Vice President of Trade and Supply Chain at CGI. "We are very proud of the collective teams' accomplishments on this complex, transformational project and to have CGI technology – CGI Trade360 supporting the HSBC global business."

The project itself was crafted throughout the challenges of the pandemic using strict governance metrics, processes and methodologies across teams dispersed around the globe. "To be successful it was critical that our teams didn't skip a beat delivering transparency, visibility and clear communication," Tezzi says.

Interoperability was key for HSBC, he adds. "From an institution that typically built its own systems, why build when you can take CGI's core which already has the architecture stack and technology they want?"

From disparate legacy solutions, HSBC and CGI went live with the initial products in nine months. "HSBC is very KPI driven. We say to all of our bank customers that this is a transformational platform that will drive benefits. And they should be measuring that to understand the project success and ROI. Customer satisfaction is a KPI that has already gone way up," Tezzi says.

In other projects, CGI has been integrating ESG scores from suppliers and buyers as a KPI for a sustainable supply chain finance/carbon zero solution using the API architecture. "There are a variety of use cases, particularly in trade, because trade is extremely important in the ESG space. There are many examples of carrots and sticks as incentives/disincentives to help achieve ESG goals. But it fundamentally may come down more to KYC issues when ESG is concerned," says DeVilbiss. ESG standards will also be important going forward.

Development of common standards key to ease integration efforts

For the trade and transaction banking industry as a whole, transitioning from today to the future requires many things to be in place. The back-office capabilities and architecture that fits today's interconnected world, a multi-channel approach that focuses strategy on partnerships with fintechs and channels that work for the market segment and customers and a focus on delivery of real value from technology providers. All of these are key. But one element that still remains lacking is the common standards to help with the integration of all these.

"The development of standards will be critical over the next few years for trade APIs," says DeVilbiss. "We've seen some good initiatives out of this. The DCSA, for instance, has done a good job on electronic bills of lading and is really pushing API standards. The Digital Standards Initiative out of the ICC is pushing APIs and standardisation as well. SWIFT is also looking to launch a guarantee standard in the near future.

"We're hoping to see this continue to evolve as it will promote deeper understanding and uptake within the market around those standards, because it will create a benchmark for trade technology partners."

This will be important for interoperability going forward.

But get your house in order first

In the meantime, the message for banks today is to get their own houses in order from a technology standpoint before they start pursuing channel partners at the front end. Banks need to have a strong back-office solution at the core of their ecosystem with a hub approach, so that they can interact with a variety of different partners and digital channels. "It's really important for banks to be thinking about the changes needed today so that they can pivot into the future," says DeVilbiss.

Sponsored article

Financial inclusion in trade: How to improve accountability

We're building bridges for digital trade and trade finance. But where is the map to hold us accountable? By Michael Vrontamitis, deputy chair and member of the board of World Trade Board, and lead industry principal, lending at Finastra.

Developing a global roadmap to drive collective action

The trade finance gap has been extensively documented, with the figure hitting an eye-watering high of $1.7 trillion last year. This topic has filled a lot of print space, yet the gap has continued to rise. The industry has pledged its allegiance over and over to reduce the gap. So why has this figure not reduced?

Last year, I compared the digitisation of trade to the construction of bridges to 'digital islands' – disparate aspects of trade that lock out MSMEs because of the volume and variety of frontends to navigate through and integrate with. In such an environment, we can either continue to let the many processes – customs, insurance, financing – serve to effectively lock out MSMEs from trade, or we can take hold of a collective opportunity to create interconnectivity and build bridges that all can use.

The past year has seen much action on trade finance gap – certainly there is more attention on the issue – but progress is fragmented. There is no lack of knowledge. Many companies and industry papers have proposed some excellent solutions, from high-level infrastructural and legal changes to tackling specific processes with technology. Each discussion inevitably brings insight, ingenuity and innovation. The paper is published and celebrated, incremental ideas generated and discussed further, and so on, and so forth.

If we want to see genuine change, it's time to stop celebrating individual ideas. It's time we put these ideas and movements into collective action.

Foundations for individual bridges are being built

A major legal barrier when it comes to trade finance is paper-based processes. Specifically, we've lacked legal certainty around the acceptance of processes that support digital trade – a crucial development to increase access to finance for MSMEs. While digitising an industry that has mandated reliance on paper documents is no easy undertaking, there has been some great recent developments in this area.

The UK government recently overhauled the legal requirement to use paper for trade documents, by introducing The Electronic Trade Documents Bill into parliament. The bill sets out to make digital trade documents (eDocs) legally recognised, making it easier and cheaper for UK firms to buy and sell internationally. The International Chamber of Commerce (ICC) estimates that digitising trade could provide MSMEs with a 13% increase in international business. Faster, more efficient exchanging of documents will also increase the rate at which banks offer finance.

However, there is still legal uncertainty in many other countries about the use of eDocs. The ultimate goal is a universal handling of eDocs across all government departments. Of course, this is no easy feat. Getting the ICC Digital Trade Roadmap , which led to the adoption of the Model Law on Transferable Electronic Records (MLETR) published and on the G7 agenda, was not a simple process. But the action taken, not just the ideology behind it, was what led to its rollout across many trade hubs – the UK, Singapore, Abu Dhabi being just three.

Agency is not tied solely to constitutional changes. The tech and fintech industries also have a big role to play in digitising the flow of information in trade, particularly when it comes to processes that create impossible barriers for accessing finance such as compliance with increasingly stringent regulations. Their role in bringing new technologies to market is critical.

For example, many MSMEs have their credit applications rejected at the Know Your Customer (KYC) or anti-money laundering (AML) stages, because they lack the robust credentials required of businesses. This is especially prevalent in emerging markets. The use of digital identities is subsequently increasing around the world, which can significantly reduce the turnaround times and costs associated with compliance. Technologies such as AI and increased access to data mean that banks can also improve the way they make credit decisions, by utilising alternative datasets and automating the credit decision process to increase the speed at which decisions are made.

Technology is supporting connectivity

If we take this up to an infrastructural level, technology is not just solving individual process challenges. Tech and fintech companies have the power to orchestrate whole ecosystems which prioritise access to finance. For example, Finastra is collaborating with the ICC to pilot a financing marketplace, ICC Tradecomm, which gives MSMEs access to broader alternative financing resources. It will allow investors to finance trade transactions against title documents and equip SMEs with a broader set of solutions to mitigate perceived risk, the burden of compliance, and enhance access to finance.

Similarly, by orchestrating open and embedded finance ecosystems, these companies are creating an environment which improves access to finance by matching supply and demand via single connectivity. For example, a business could apply for a loan within its existing Enterprise Resource Planning (ERP) system and access multiple financing options within that same platform. With the wealth of data acquired by the ERP company, these loans can be tailored for specific business needs.

But how are we mapping all these journeys to drive genuine change?

We can see that foundations are being built to create bridges that connect some digital islands. But how can we create a map to design and build this infrastructure in a way that ensures trade finance and working capital becomes more inclusive?

To answer this, we need to think about what turns ideas into action. In my experience, it is only ever achievable through collaboration, which is why I'm extremely optimistic about the work that we are doing as part of an industry task force.

The World Trade Board was set up with the aim to improve people's lives by connecting trade, finance and technology, to enable long-term growth and prosperity. We've recognised that we already have strong recommendations and solutions brought forward by the industry to increase inclusivity of trade finance, and that progress is being made. We are now pulling these recommendations together in a roadmap that aligns diverse stakeholders towards a common vision, with clear lines of responsibility in a results-driven approach, focused on tangible actions that can be or are being taken to address the gap.

It brings together lawmakers and policymakers, international organisations, standard setting bodies and industry experts from all trade sectors, to collaborate and deliver actions across trade policy, finance and business technology. It will encourage action through pilots, policy and practices. It's an opportunity for financial institutions to capture this market while driving genuine change.

We've recognised that while technology is important, legal and regulatory infrastructure are equally important for inclusion. For example, the use of electronic invoicing, the creation of receivable exchanges and ensuring laws enable the ability to factor receivables with clear rules around assignment, while protecting small businesses from harmful practices such as bans on assignment.

The first draft of the roadmap will be available early in 2023. We invite you all to get involved by sharing your feedback and challenging our proposals. After all, we're all here for one common goal: for the hope that, one day, we will read a headline that declares a decrease in the trade finance gap. Then we'll know that we played a role in building a digitally connected world, with no islands, which allows digital and inclusive trade to flourish for all businesses.

Opinion: Sustaining sustainability in global trade

The sustainability and ESG agenda addresses existential risks. It is itself however, at serious risk. We are at a crossroads, and trade can influence the direction we take. Alexander Malaket, president at OPUS Advisory Services, looks at the challenges and the state of play.

The sustainability and ESG agenda has evolved significantly over recent years, beyond the now mature climate conversation, to encompass other critical considerations such as social impact and biodiversity loss among others. A range of stakeholders, now including consumers, investors and regulatory authorities are clearly bringing long-ignored matters into sharp focus.

The international trade community, rightly challenged on its role in exacerbating greenhouse gas emissions and other adverse consequences, is taking steps to become part of the solution, considering sustainable sourcing, fair trade practices, evolutions in transport and logistics, as well as the development of sustainable trade financing solutions.

At the same time as the reality of an existential crisis is clearly understood in some parts of our global community, other parts of it raise a range of questions – some legitimate and necessary, others clearly devoid of serious thought and rooted in ideology or politics, in the mode of 'fiddling while Rome burns'.

Science has long raised the alarm, but progress – as viewed and described by authorities in the conservation space and elsewhere, for example – has been dishearteningly limited at best, and alarmingly inadequate at worst.

Calls for urgent action coupled with messages of collective responsibility are problematic: they allow for the passing of that responsibility to 'someone else', and regrettably, reflect the imbalance of wealth, power and influence in the global system and community. There is little serious consideration of some form of proportionality or practicality in terms of realities 'on the ground' versus the push for contributions to solve the global problem. Climate and environmental issues look very different relative to social issues or even issues of governance, depending where one is in the world, or what lens one takes to view these issues.

Prioritisation is needed

Starting from agreed goals, common principles and standards, as well as shared definitions and understandings is useful, but arriving at these takes years that we arguably do not have. Applying uniform and at times absolute targets and metrics across the board is impractical and ill conceived. Some element of prioritisation is missing from efforts to turn ESG and sustainability aspirations into reality – and into meaningful, practical solutions that demonstrably help solve the collection of existential issues we face together.

Sustainability, including ESG and its inevitable variations, must continue to shift to the heart of discourse, political and regulatory priority as well as consumer and capital market choices and influence. At the same time, and perhaps even in support of that shift, it is true that realities must be acknowledged.

Facing the realities

Solving the emissions problem across Africa contributes little to the global challenge, while imposing the need to address that issue on a continent that faces urgent energy needs without scalable renewable options. This contributes, unjustly, to adverse social impact and inequity. Concretely, the demands from those providing multilateral and other development funding around the cessation of use of non-renewable energy rings hollow, when the biggest offenders have access to viable options, technology and funding, yet make such lamentable progress.

In addition to the dysfunctional notion of collective responsibility, there is a clear

misalignment of incentive versus priority and timing. Immediate issues, such as solving a war-triggered energy crisis and addressing the demands of investors for robust returns, compete with a generally acknowledged existential threat that somehow – despite many visible crises and disasters – remains 'in the distance' and thus subject to lower priority, political dithering and corporate protestations.

Similarly, investment and asset managers making decisions that move trillions in liquidity are increasingly taking ESG and sustainability into serious account. However, the long-familiar mandate to optimise returns enshrined in 'fiduciary responsibility' presents another instance of incentives in misalignment with the urgent need of the day. Yes, this is a 'reality on the ground', but should it remain this way? Or more precisely, can we afford for it to remain as is, sending signals that directly drive behaviours more likely to exacerbate sustainability issues, than address them? And all this in an environment where public and private sector pension plans are so underfunded as to urgently need viable investment options.

While there is now evidence in some jurisdictions of political opposition to ESG-aligned investment decisions, there is also clear regulatory momentum in support of sustainable commercial and investment activity, including in sourcing and procurement. Regulatory authorities at national and international level are advancing on multiple fronts, including expectations for corporates to demonstrate respect for labour and safety standards, building on greenhouse gas emissions metrics and reporting through Scope 3.

The sustainability and ESG agenda faces threats from multiple fronts, now including misdeeds or overreach in making claims and promises related to sustainable behaviour and ESG-related aspirations. Variations of misrepresentation are attracting increasingly negative attention – and enforcement action – from regulatory and enforcement entities.

A way forward?

There are important steps that can be taken to help sustain sustainability. Helping align incentives with aspirations and intentions and keeping the urgency of the sustainability challenge at the forefront requires some courageous decision-making and principled action.

The fiduciary duty of investment and asset managers can be reviewed and redefined to consider success metrics beyond maximisation of returns – beyond the voluntary redefinitions already initiated by individual firms. Adding the support of regulatory authorities to this shift can further align the flow of pools of capital to the sustainability agenda. From this perspective, trade can help by advancing the development of trade finance assets linked to sustainable trade flows, into an attractive, ESG-alignment investment option.

Further meaningful progress can be envisioned by advancing sustainable sourcing, procurement and trade – including decisive reductions in carbon emissions linked to complex global supply chains. Beyond the climate dimension, trade flows, reimagined, can advance the social dimension of ESG by embedding social, labour and other safety standards in trade. This includes actively fighting human slavery as well as combatting money laundering and the related predicate crimes. Promising developments are in evidence, with regulations beginning to require demonstrably sustainable and ESG-aligned trade activity as a condition to maintaining export market access.

Reduction of carbon emissions ought to be seen from the perspective of impact and priority. Where will the greatest impact be achieved, and thus where should resources, advocacy and energy be focused to generate the greatest progress, quickly? Trade, again, can contribute by embracing and mandating progressive bilateral agreements which incorporate positive environmental and social impact, or working with authorities to drastically reduce trade-based money laundering and the predicate crimes that contribute unconscionably to social horrors like human slavery and life-threatening labour conditions. Each of us who buy food, technology and clothing can count multiple cases of human slavery in our own personal supply chains – and the decisions we make at point of sale to support products that are demonstrably ESG and sustainability-aligned will compound to make a significant difference.

Sustainability can be sustained amid the torrent of countering pressures. Perhaps the biggest shift that is needed today is to move from a defensive, responsive and mitigation model (reducing emissions, reversing biodiversity loss, etc) to an offensive, proactive and problem-solving approach. Our runway for mitigation is too short, and the political, financial and investment 'collective will' – including that of the global trade and trade finance community needs to move decisively to a new place from which we can solve an old and far too persistent existential problem.

Cleaning up trade finance

By Clara Amorim

The early stages of a project by the Asian Development Bank (ADB) to target money laundering within trade and trade finance has already begun to show results. Catherine Daza-Estrada, senior investment officer at the ADB's Trade and Supply Chain Finance Program (TSCFP), outlines the progress of TSCFP in tackling suspicious transactions.

ADB's Trade and Supply Chain Finance Program (TSCFP) has been working with banks, regulators, industry groups, and international organisations over the last three years to advance the capture and use of trade-related data in suspicious transaction reports (STRs), which banks must file when they encounter transactions that may be related to financial crimes such as money laundering or the financing of terrorism. The goal is to both increase the value of information contained in the STRs, leading to better enforcement, and decrease the amount of rote form-filling that produces little data of value.

TSCFP has developed a pilot project in five developing member countries – Bangladesh, Mongolia, Nepal, Pakistan and Sri Lanka – to promote the use of trade-relevant data in STRs. Trade transactions offer the opportunity to enrich STRs with significant amounts of transaction data captured in trade documents, detail that is not available in other transactions.

The pilot phase of the project is designed to demonstrate the ability of bankers to identify and capture additional data and to demonstrate the investigative and intelligence value of STRs. The pilot will concurrently advance industry practice in the reporting of STRs, potentially resulting in an expansion of trade-related data elements that will enrich STRs in future. The United Nations Office of Drugs and Crime (UNODC) is a key partner in the effort, specifically the developers of the global anti-money-laundering software platform goAML. That platform is already used by 63 UN member states and using it as a means to capture and use trade-related data in STR filings was a natural fit. It was also an easy approach to engage multiple goAML user jurisdictions in the pilot.

"The tangible and operational results that goAML brings to member states in fighting financial crime is the core of our motivation in our work, and this ADB initiative served just that," said Antoine Karam, Chief Software Products for Member States Information Technology Service, UNODC.

TSCFP organised multiple planning and coaching calls with the participating jurisdictions in collaboration with the goAML team in preparing for the pilot project.

TSCFP also enlisted the support of the Asian chapter of the Wolfsberg Group for a three-part webinar series that attracted over 1,500 participants, with global experts from top-tier international banks explaining how to spot trade-based money laundering, how to identify red flags, and why public-private partnerships are important for the process. That expertise was shared with financial intelligence units from developing member countries, along with law enforcement and local banks.

The webinar series led to requests to ADB to help provide further training to law enforcement agencies, the third player in investigation, supervision and compliance along with banks and regulators. That brought sharply into focus the need for credible, practical training across the region and suggested that similar opportunities to advance the fight against trade-based money laundering TBML might exist in other parts of the world.

A half-day workshop held recently in Singapore showed just how far the effort has come. Senior officials from five financial intelligence units witnessed a presentation by UNODC on the strategic direction of the goAML solution, as well as a detailed, technical question-and-answer session that addressed goAML deployment, implementation and customisation queries.

Representatives from each of the financial intelligence units presented an update on system setup and data collection efforts for the STR pilot. Those presentations were supplemented with case study content that highlighted the importance of capturing intelligence-rich trade data in STRs.

The meeting confirmed that an important benefit of the pilot project has been the relationships built up between officials of the various financial intelligence units, as well as UNODC and ADB. In addition, participating jurisdictions have noted the intention to increase engagement with customs authorities.

There are already indications based upon status updates provided through the project that reporting has increased identification of suspected trade-based money laundering transactions. This early finding aligns with expectations that volumes are currently underestimated, because trade-based money laundering is not being fully recognised by banks.

Although the pilot project is being conducted in Asia, its success can be easily replicated given the use of the goAML platform and its global reach. The principles and practices underlying the pilot, as well the objective to enhance the intelligence value of STRs can be further extended to non-goAML jurisdictions.

"Now that the trade-based money laundering features are developed and being deployed, we find it is actually the beginning of the road rather than the objective," said UNODC's Karam. "There is much more potential to unleash in these partnerships and we look forward to it."

Expert opinion: Nuclear options, what Russia is telling us about modern warfare

Trade, finance and economics have been brought directly into the domain of warfare in 2022. Dr Rebecca Harding, independent economist, discusses the literal weaponisation of trade.

At the start of the Russia-Ukraine crisis, President Putin put Russia's nuclear forces on high alert. This did two things: it made NATO and its allies aware, if they were not before, that Russia would take a 'hair trigger' approach to nuclear deterrence – a nuclear response would be justified if there is a non-nuclear or even a non-military attack on Russian interests.

The second thing was to bring trade, trade finance and economics directly into conflict as a domain of warfare. The other domains of warfare, for example, maritime, land and air, space, information and cyber are acknowledged components of 'multi-domain warfare'. Trade and economics, have always implicitly been aspects of conflict. Actions by the Allies to impose sanctions and exclude Russia from the SWIFT payments system were the explicit use of economic weapons directly to constraint the actions of another state. Putin's reaction escalated their use into an existential threat.

It is almost trite to say that this is seismic shift in the post-war structures that have guaranteed peace for more than 70 years now. The fact that Germany has committed to spending more than 2% of its GDP on military and has agreed to send weapons to Ukraine is the ultimate testimony to how it views its role in Europe's future now that its role as a civilian rather than a strategic power can no longer be sustained.

What this does is demonstrate just how the nature of modern warfare has changed and has been changing since the Global Financial Crisis. On the one hand, from a Russian perspective, the current war in Ukraine is pure geopolitics: strategic access to resources and reuniting cultural and linguistic ties that are misrepresented by current borders. This is an old industrial war and currently being fought as such.

On the other hand, and from the perspective of the rest of the world, it is a war being fought in a multitude of domains, from the world of football sponsorship through military and traditional 'industrial war' to global trade and finance. Its endgame is control of the 21st Century economically, militarily, politically and culturally. The weapon of choice is the trade, investment and trade finance system.

Within this, the economic domain becomes one where the core weapon is to contain threats by shutting off the trade and the finance that enables technology to move into military contexts, that allows finance to be raised to buffer the effects of enforced financial isolation, or by limiting capital flows and investments to make sure that there is no Western money supporting the Russian economy.

The aim of course has been to starve Russia of cash, create a run on Russian banks and rouble liquidity, and thereby to cause the collapse of the Russian economy. Financial markets – currencies in the short term but over longer term, investments as well – are being used as the 'nuclear option' to constrain the actions of its political leaders.

The new paradigm

This is a new paradigm. It is a world in which peace and war can coexist. It resembles a game of 'Go' where strategic encirclement is the goal rather than a zero-sum absolute victory.

In short, the West can no longer ignore the economic domain because the thinly veiled nuclear threats point out exactly how Russia might react to anything it does not like. This is not a game that can be won – it is a strategic game where all the outcomes are suboptimal. If we exclude Russia entirely from the SWIFT system, then there is a likelihood, not just that Russia switches off oil and gas supplies to Europe, but also that Russia accelerates the expansion of its own payments system. This is an economic nuclear option – two separate electronic financial systems built on separate technologies and internets with banks in the front line as they fight to implement ever-changing exclusions, sanctions and regulations. Dollar hegemony will be consigned to the history of lost empires.

During the era of US president Donald Trump, it became very clear that no one won from a trade war. However, it was equally clear that trade weaponisation ran the risk of escalation into full blown conflict between ever more nationalistic countries. The risk has always been that economic nationalism would break down international structures of the post-war era and rebalance political power from the global era.

No one can win in the current conflict. The EU, the US, NATO and the UK will hold Russia to account so that its actions in Ukraine are seen as a "strategic failure" so its reputation is damaged. China will not overtly come to its aid because it cannot win from explicit involvement at this stage. The Allies cannot win because if they get involved militarily, there are unimaginable consequences. Everyone's best plan is to know and understand the behaviours, beliefs and strategic cultures of their opponents. We have to hope that all sides realise that a strategic game is one which lasts for a long time, even forever, and where power ebbs and flows between strategic competitors because the alternative is Mutually Assured Destruction.

Unintended consequences – particularly inflation

But what also defines this modern era of conflict is its unintended consequences. As the Russia-Ukraine crisis moves along, it is possible to look at the collateral damage that the economic measures themselves have had, in the same way that analysts would assess the effect of military weapons.

Here, the results are ambiguous. For sure, it will be very hard to reintegrate Russia back into the global financial system in the same way as it was integrated before the crisis. There has undoubtedly also been an impact on the way in which daily business is done in the country – lack of data and statistics mean that it is hard to be precise about the impact that externally imposed sanctions have had. But we do know that the rouble has remained remarkably strong, and that Russia's sales of oil outside of the EU have remained robust, meaning that its exports have not been damaged to the extent that may initially have been expected.

More worrying is the impact of the crisis, and the subsequent sanctions and trade restrictions, on inflation in the EU, the UK and the US. Between February and March 2022 alone, trade values rose by an unprecedented 51% with some components, such as base metals, rising by 92%, copper and nickel by over 70%, oil seed by 76%, and clothing and footwear both by more than 70%. Oil and gas trade values rose by 53%. The trickle through into prices in shops is being seen now.

Foreign policy began to filter through into trade via US tariffs on iron and steel in 2018 as a means of constraining Chinese economic influence. US restrictions on technology businesses working with or in China deepened the use of trade in national strategy and has been followed by sanctions and embargoes by the EU, the US, the UK and allies restricting global trade with Russia to constrain its military power using economic means. However, the unintended consequence of the use of trade in foreign policy has been to create an inflationary backlash which affects people on the ground all around the world.

Trade, in that it has been used strategically in foreign policy, has been weaponised. Inflation is the result and this affects everyone.