Standard Bank

Technology steadily deepening international trade as global multilateral leadership shifts East

12 March 2019: Underscored by the United States' trade war with China, the continued fragmentation and shift of global soft power from the developed West to Asia tends to dominate global headlines. Closer to home emerging market debt looms large in financial media conversations. Less visible amongst these larger geopolitical concerns, however, are the far more significant technological disruptions reshaping world trade and, in fact, driving deeper global integration.

"New technologies that manage information and risk more effectively are quietly enabling the participation of a much broader set of players in global trade. These less visible developments point to the steady emergence of a much more integrated and multilaterally inclined global trading system than current headlines predict," says Vinod Madhavan, Head of Trade at Standard Bank.

At the macro level global growth is slowing. Having sustained growth at an average of 3.8% from 2010 to 2017, global growth dropped to 3.7% in 2018. This is expected to drop further, to 3.5%, in 2019, increasing to 3.6% in 2020. Over the same timeframe developing country growth dropped from an average of 5.3% between 2010 to 2017, and to 4.6% in 2018. Developing country growth is expected to average 4.5% in 2019, and 4.9% by 2020.

Brexit, United States-China, and trade talks between the United States and its traditional European Union allies get a lot of attention, pointing to a potential fragmentation of the post-World War II multilateral order. Other geopolitical shifts, like deeper integration in Africa, evidenced by 44 African countries signing of the African Continental Free Trade Area (AfCFTA) agreement in 2018, and the hosting of the ICC Banking Commission's centenary in Beijing in April this year, however, paint another narrative.

Despite the headlines, and growing division and unilateralism in the developed West, in the developing world, and especially in Africa, "integration is actually deepening - with China emerging as champion of multilateralism in a new global configuration," says Mr Madhavan.

Within these new shifts, new opportunities are emerging – especially for Africa.

"Every corporate and every country needs to be aware of changing geopolitical realities and the opportunities that these present for new partnerships and growth," says Mr Madhavan.

For example, the United States–China trade war has already seen China, the world's largest consumer of soya beans, halt imports from the United States. This presented a huge opportunity for countries like South Africa. While Australia, in the end, was the main beneficiary of this shift, other opportunities are likely to arise for Africa. Similar opportunities are also likely to emerge with both the United Kingdom and the European Union following Brexit. "African businesses and governments would do well to begin positioning themselves to leverage these opportunities," advises Mr Madhavan.

Viewed in this light, even emerging market credit stress presents opportunities. This is especially so for financial services organisations able to help corporates distribute risk across both their own balance sheets while also broadening distribution to other development and trade finance institutions. Standard Bank for example, uses its South African balance sheet as credit risk intermediary for trade across the continent. "Beyond its balance sheet the bank is also able to broaden distribution by working with multilaterals such as the African Export-

Import Bank, African Development Bank or the International Finance Corporation," explains Mr Madhavan.

Emerging market credit stress also presents an opportunity to re-configure lending and risk distribution relationships within the developing world. The signing of the AfCFTA agreement increases the opportunity for the continent to significantly increase intra-African lending and risk distribution. Botswana's recently announced USD 600 million Zimbabwe loan provides an example of how, post-AfCFTA, local African markets will more likely be even better positioned to understand and manage African debt and risk.

"When one overlays these developments with technology, even more of what we currently consider risks could, in fact, become opportunities," says Mr Madhavan.

Developments like blockchain, artificial intelligence and optical character recognition hold the potential to neutralise the effects of global fragmentation. These technologies also hold the potential to drive positive integration by making trade and other transactions more visible, quicker and less risky while also expanding the global reach and capability of previously marginalised countries and companies.

For example, Standard Bank in partnership with other banks is working with the Voltron consortium to put the letter of credit (LC) process on a blockchain. Once operational all the efficiency and risk management benefits from having LCs visible on a distributed ledger will become available for all participants to view and manage in real time, including all banking counterparties. "This will be transformational for trade in Africa and between Africa and the world," says Mr Madhavan.

Standard Bank is also working with the banking industry in South Africa, investigating how to put domestic guarantees on blockchain. Having large corporate guarantee beneficiaries, banks, and guarantee applicants on a distributed ledger with the appropriate data visible to all parties involved, "will not only speed up the process and reduce paperwork, but it will also eliminate the fraud often associated with the issuance of paper-based domestic guarantees," says Mr Madhavan.

Trade Club, operated by a consortium of 16 global banks in which Standard Bank is the only African member, is another technology effectively doing away with borders. The platform offers curated content covering over 200 000 businesses globally. This enables banks to assist their clients, whether buyers or sellers, for example, to find appropriate trade counterparts anywhere in the world. Trade Club also includes the ability to validate and asses the credentials, ability, probity and reputation of potential business partners globally.

Tiden is a similar platform that allows sellers in Africa, for example, to credit check potential buyers in China. Tiden has the added advantage of covering up to 50% of a users' losses in the event that a receiver - that Tiden has confirmed as valid - fails to pay.

Other developments, like Singapore-based fintech, **CCRM**, allows banks and investors to buy and sell trade assets and contingents digitally. This will increase the ability of banks to distribute risk as, instead of, for example, only being able to support trade for USD 1 billion in a market, CCRM's digital discovery mechanism allows the instant distribution of exposure. CCRM will enable banks to, potentially, support double the volumes of business. Importantly, all of this can be done more-or-less instantly, "without having to spend weeks or months researching and investigating potential risk takers, doing due diligence, or travelling or calling people around the world to negotiate terms," explains Mr Madhavan.

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While each of these developments are exciting in their own right, from a trade and banking perspective they also – cumulatively - increase the availability of information, "enabling transparency on an unprecedented scale," adds Mr Madhavan. This not only speeds up trade processes and makes them less costly, but it also dramatically reduces risk.

"At the global level these technological developments collectively drive integration and, more than ever, motivate and support the maintenance and extension of an integrated and mutually supportive multilateral international order," says Mr Madhavan.

From this perspective, "it is our belief that current headlines highlighting increasing bilateralism in the developed West are a regional and temporary phenomenon," says Mr Madhavan. Though global disintegration grabs headlines, technology is, in fact, relentlessly and ubiquitously driving global integration, by deepening pluri-lateralism. China, broader Asia and the developing world, including Africa's largely small emerging economies, recognise that maintaining and deepening global integration via an accessible, transparent and rules-based system is the only guarantor of general growth and increased prosperity. Fortunately for Africa, says Mr Madhavan, "the technology is upon us that will make greater global integration and coordination not a choice, but an historical inevitability."

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Notes to Editors

About Standard Bank Group

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Standard Bank has a 155-year history in South Africa and started building a franchise outside southern Africa in the early 1990s.

Our strategic position, which enables us to connect Africa to other select emerging markets as well as pools of capital in developed markets, and our balanced portfolio of businesses, provide significant opportunities for growth.

The group has more than 54 000 employees, approximately 1 200 branches and 9 000 ATMs on the African continent, which enable it to deliver a complete range of services across personal and business banking, corporate and investment banking and wealth management.

Headline earnings for 2017 were R26 billion (about USD2 billion) and total assets were R2 trillion (about USD165 billion). Standard Bank's market capitalisation at 31 December 2017 was R317 billion (USD28 billion).

The group's largest shareholder is the Industrial and Commercial Bank of China (ICBC), the world's largest bank, with a 20,1% shareholding. In addition, Standard Bank Group and ICBC share a strategic partnership that facilitates trade and deal flow between Africa, China and select emerging markets.

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