

THE  
**FUTURE**  
OF **TRADE**  
SNAPSHOT



# THE FUTURE OF TRADE SNAPSHOT

## **New research predicts sweeping advances in tech and finance will fuel global trade over next decade.**

The research, commissioned by DMCC, highlights the emerging impact of digital transformation for importers and exporters, along with the ongoing shifts in global economic power.

According to the global research on the Future of Trade, technology could bridge the current \$1.5 trillion trade finance gap, unlocking new opportunities for trade across borders.

Blockchain is ripe for adoption - not just providing faster, more secure and effective ways to handle workflows in order to move goods across international borders - but also potentially helping reduce up to 20% of the actual physical paper costs associated with global trade, currently estimated at \$1.8 trillion.

Building on research conducted over the last 12 months The Future of Trade brings together the collective thinking of 250 global industry leaders, academics and experts across 6 leading commodity trade hubs, London, Zurich, Dubai, Singapore, Johannesburg and Hong Kong. In addition to comprehensive quantitative research by The Centre for Economics and Business Research, and a global leading management consulting firm.

Here are the key insights gained from these discussions and some of the conclusions that emerged.



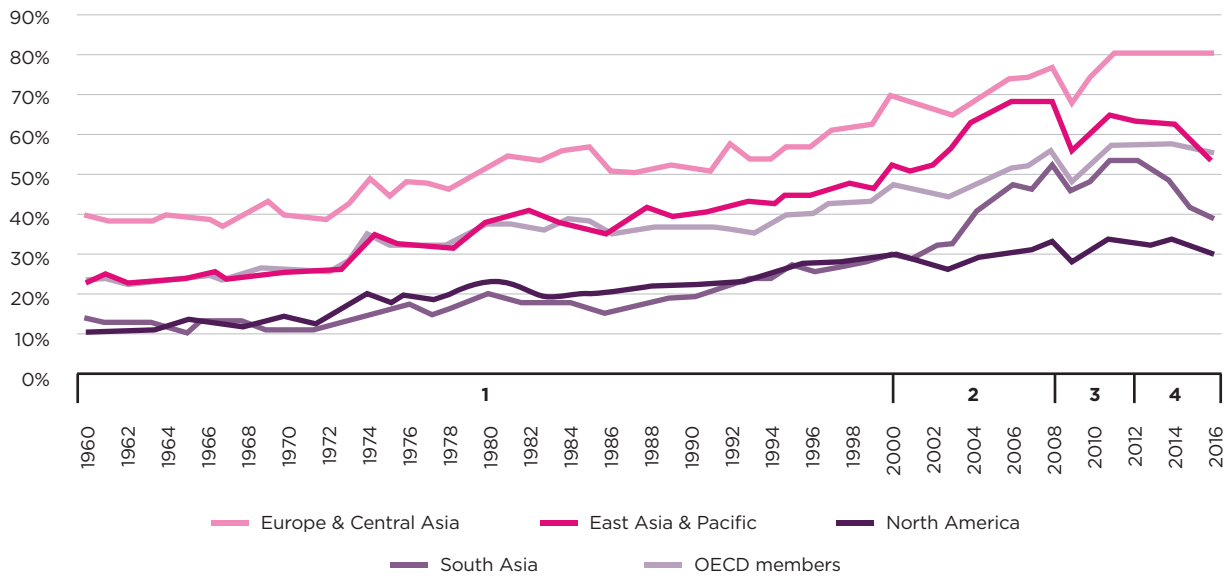
# THE CHANGING NATURE OF GLOBAL TRADE

**Are the rules of engagement for global trade changing in the wake of Brexit, trade tariff disagreements and protectionism?**

**China is expected to free up nearly 100 million labour intensive manufacturing jobs between 2016 and 2030. Will Africa be the next manufacturing hub?**



## Trade (average of imports and exports) and share of Gross Domestic Product in selected regions



Global trade and trade finance are at the cusp of a digital revolution driven by Fintech and Blockchain at the same time, the world's economic centre of gravity is shifting towards Asia with new manufacturing hubs emerging. Geopolitical factors continue to challenge traditional tradeflows and associated tariffs. From the US election, to the UK's Brexit through to China's Belt and Road mega project, change is definitely on the horizon.

- The world's economic centre of gravity is shifting towards Asia. China is seen as the emerging champion of globalisation. The Belt and Road initiative aims to connect markets across Asia, Africa, and Europe by expanding maritime, rail and road networks, and infrastructure. The initiative also includes energy corridors and telecommunications.
- Looking at trade in primary goods, the research introduces The Commodity Trade Index (CTI) which ranks ten key commodities trading hubs based on ten indicators within three groups. They are: commodity endowment, institutions, and location.
- New manufacturing hubs are emerging. As China's economy becomes more reliant on domestic consumption and technologically-led manufacturing, around 100 million labour-intensive manufacturing jobs will move to other low cost countries including Vietnam, Mexico, Myanmar, India, Indonesia, and Kenya.
- With the highest score in natural resource endowments, the UAE ranks as the number one global hub for commodity trade in 2018. The US and the UK come second and third, respectively, scoring highly among the institutional factors.

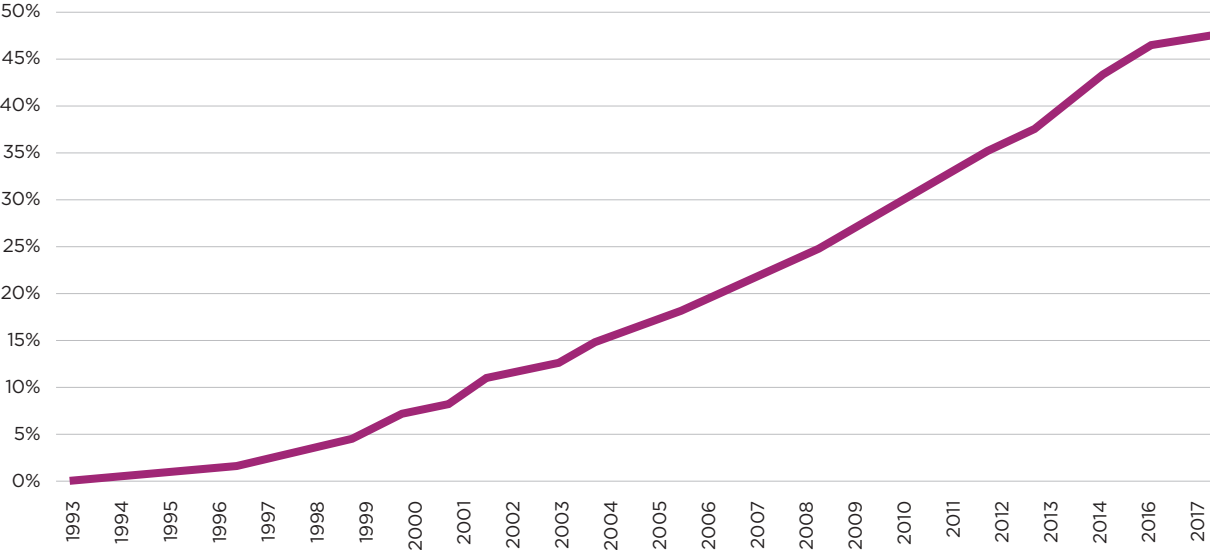
CHAPTER 2:

# THE IMPACT OF DIGITALISATION

**Cost of trade globally is \$1.8 trillion.  
20% of that cost is related to paperwork.  
Could Blockchain change the game?**



# Internet Users as Share of Population



Source: World Bank World Development Indicators, Cebr analysis

The development of Blockchain, advanced robotics, and the Internet of Things presents a profound shift for the future. Blockchain, while still not deployed at an industrialised scale, will begin to streamline business efficiency for global importers and exporters; reducing costs, increasing productivity, and driving economies over the next decade.

- Blockchain is seen as a game changer for the tracking of goods and shipment as well as improving trade finance. By providing a secure, decentralised record of transactions, a large degree of paper-based documentation would be eliminated resulting in simpler, automated workflows, smart contracts and cost reductions.
- Estimates indicate that supply chain improvements such as the cost and time savings offered by Blockchain, could increase global GDP by nearly 5%, and trade volumes by 15%.
- The spread of technology and data is having a significant impact on GDP. The Industry Digitalisation Index (IDI) benchmarks four separate functions of digitalisation: ‘Upstream supply chain’, ‘Production’, ‘Downstream supply chain’ and ‘Digital infrastructure’; tracking the digitalisation progress across business sectors.
- The 2018 edition of the IDI shows that the accommodation and food services industries have made the most progress in terms of digitalisation, enabled by online ordering and booking systems.

CHAPTER 3:

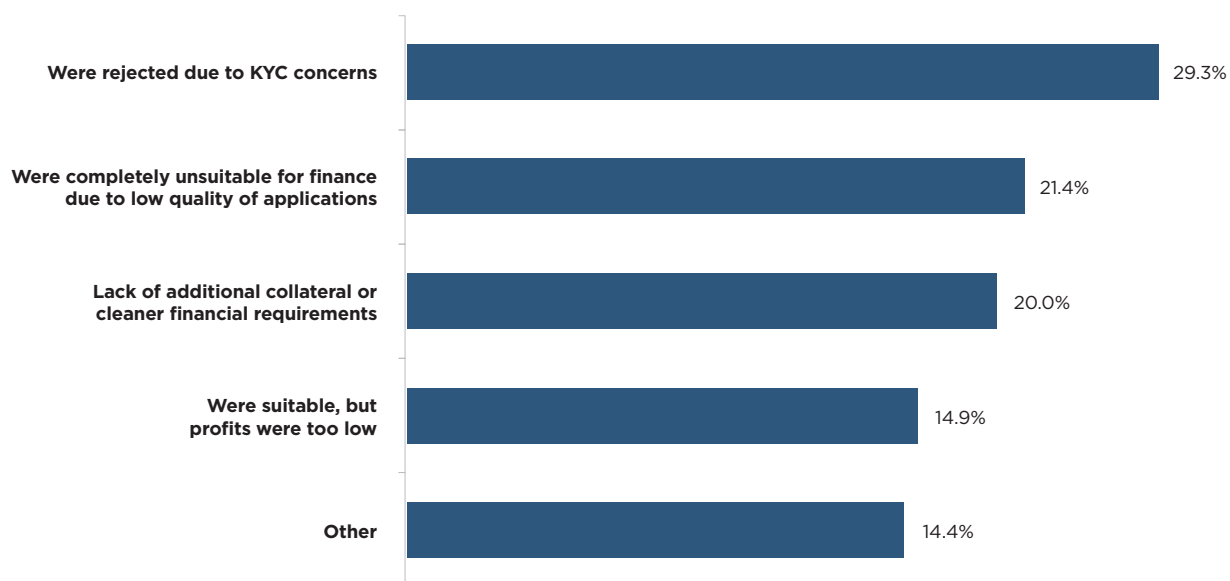
# BRIDGING THE GAP IN TRADE FINANCE

**50% of SME applications for funding are rejected. Could tech bridge the \$1.5tn trade finance gap?**





## Reasons for Rejecting Trade Finance Transactions



Source: ICC Banking Commission, 2017 Survey

Digital trade finance could revolutionise the future of trade. Technological advances are putting trade finance in the spotlight. Traditional debt finance - bank loans, overdrafts, Letter of Credits, export credit, and insurance - accounts for roughly 80% of financing for world trade. As digital trade finance becomes a sought-after alternative, start-ups and SMEs are no longer as reliant on banks as before. Fintechs are venturing into the trade finance space through digital lending platforms.

- Due to strict collateral needs and credit history checks, 50% of SME funding applications are rejected by banks. This has resulted in a \$1.5 trillion gap in trade finance. also potentially helping reduce up to 20% of the actual physical paper costs associated with global trade, currently estimated at \$1.8 trillion.
- There is consensus that Blockchain, supported by Fintech, is seen as the big disruptor and enabler for trade finance in the next decade and will help bridge the trade finance gap. Alternative trade finance solutions are becoming accessible to a much larger extent than previously.
- The total alternative finance market in Europe amounts to around \$73 billion, and \$35.2 billion across the US, Canada, Latin America and the Caribbean. The alternative finance market in the APAC region more than doubled between 2015 and 2016 to the total value of \$245.2 billion.
- Blockchain is ripe for adoption - not just providing faster, more secure and effective ways to handle workflows in order to move goods across international borders - but
- WTO is at the same time forecasting trade volumes to rise 3.2% by the end of 2018, and that trade finance volume is expected to rise at a CAGR of 3.7% between 2016 and 2020.

CHAPTER 4:

# SHAPING THE FUTURE OF SUSTAINABILITY IN TRADE

**Will reduce, reuse, recycle and return initiatives transform the Future of Trade?**

**Are consumers prepared to pay a premium for sustainable products?**



# 25%

**of the emissions from the industrial sector come from steel manufacturing**

# 18m

**households that could be powered per year by recycling steel**

With the decline of natural resources and the rise of social responsibility, consumers are increasingly demanding ethically sourced and environmentally friendly goods. Sustainable supply chains can reduce the impact on the environment as well as unlock opportunities to improve operational efficiencies. As governments around the world enforce energy and resource efficiency policies; sustainable business practices will have the competitive advantage in years to come.

- We are witnessing the most rapid expansion of the middle class the world has ever seen. Experts estimate that around 2020, the middle class will become a majority of the global population for the first time. This will drive a surge in consumer demand, many of whom are millennials prepared to spend more on sustainable products. Much of this new consumer demand will come from emerging urban clusters in Asia, particularly in China and India.
- Regulation and various legislative frameworks will require companies to trace their supply chains and be transparent about their environmental, social and governance initiatives.
- Digital technologies such as cloud-based warehouse management systems and Blockchain will help make the supply chain accurate, improve traceability, while reducing costs.
- Increase in consumer demand for green products, will see exponential increase in demand for sustainable packaging, a market forecasted to reach \$203 billion by 2021.
- Developing sustainable packaging solutions is predicted to be a top challenge for businesses by 2023.

