

The Advent of Blockchain & New Technologies

By JEDTrade



For the past few years, growth in the volume of world trade has been sluggish with an annual growth averaged at around three per cent. Whereas GDP growth has been recovering from the Global Financial Crisis, one can hardly say the same for international trade. While factors, such as low investment, rebalancing in China and mounting protectionist pressure are certainly accountable for the trade slowdown, we should not ignore the long-standing problem of trade finance shortage, especially for small-and-medium enterprises (SMEs), which has become increasingly pronounced.

A need to tackle financial challenges

Following a tighter regulatory environment in the aftermath of the Global Financial Crisis, banks all over the world are forced to conform to a more stringent set of requirements. Although this has inevitably driven up financing costs for big and small firms alike, the impact is not uniform. Data and surveys conducted by ICC have shown that SMEs are hit the hardest and many have found it more challenging to access financing options from banks than do large conglomerates. In fact, 53 per cent of SMEs' trade finance proposals are rejected vis-à-vis a 79 per cent acceptance rate for large corporates.

Given that SMEs comprise 95 per cent of enterprises in the world and provide around 60 per cent of the jobs in the private sector, there is a sense of urgency to address this issue because global trade is integral to the alleviation of poverty and a pillar of long-term global economic growth. The financing gap is particularly wide in developing regions, such as Africa and Asia, where such financial products are needed the most. Like many other times in the past, unmet needs always give rise to new business opportunities. Fintech, the buzzword for the past year, has begun to show real potential in solving the challenges we face. With the advent of InsurTech, RegTech, blockchain and many more, the nascent industry has already enjoyed a vibrant scene with regulators and financial institutions alike looking into what promises the wave of financial innovation holds for us in the coming years.

The importance of building trust

The rapid progress in technological innovation has shrunken the world considerably. As we enter an era of unprecedented connectivity and efficiency, the flow of goods and capital has accelerated as well. Banks, with obsolete protocols, do need new technologies to stay relevant in new dynamics of trade finance. Of all the financial innovations, the idea about blockchain is a grand one and paints a nice picture of seamless integration between different parties. A prominent appeal of blockchain is the idea of 'trustlessness' – participants on the network do not have to fully trust each other before trade begins.

The use of a shared ledger, blockchain, in trade finance can establish three key parameters of a legitimate flow – underlying physical goods flow, trade data flow and financing/money flow. Various processes moving along the trade value chain include the event when the cargo is loaded, the title of goods is transferred, or an invoice has been financed. Third-party certifiers, shippers and customs are the key players in the trade finance cycle. Currently, the backend systems of different stakeholders are not integrated and therefore there is not a single point of truth, resulting in inefficiency in information exchange and difficulty in establishing the authenticity of documents. If all participants are on the same blockchain network, resulting trade flow and transparency will be achievable.

The value of using blockchain is not only about creating an immutable record of trade flow but also about establishing a digital identity for each stakeholder along the entire supply chain. It is the traceable digital identity that opens door to endless possibilities. For example, suppliers can selectively disclose the past transactions that he has had with buyers, establishing his credibility. With blockchain, buyers will be able to verify the veracity of those information. Such a record helps to unlock potential international trades where the difficulty in establishing trust with new partners has always been an insurmountable barrier for exploring new trade opportunities. In addition, having digital records of the actions performed by different parties demarks responsibility and therefore encourages accountability. Because updates of trades are pushed onto blockchain in real time, payments can also be triggered automatically by the event stream as opposed to the current manual presentation of documents. Similarly, with easily verifiable data, trade-related insurance products can be structured with dynamic pricing models considering clients' credit and trade history. With trading parties all on the same blockchain, KYC/AML checks can be less expensive because transactions can be monitored, and relevant parties can be determined with ease.

It is important to bear in mind that any Fintech solution must be rooted in inclusivity, serving the underserved and helping the underbanked. Helping SMEs be equipped with new knowledge, skillsets and adopt new technologies will enable them to stay ahead of the curve and thrive in this new digital economy. Because empowering SMEs is the only way to create the next momentum for our economies to forge ahead.

About JEDTrade

JEDTrade is a leading technology company that builds business solutions powered by blockchain technology. We believe that technology should be built around the business and its use cases.

As such, our blockchain advisory is centred on providing objective guidance and insights that are tailored to each client's industry and needs. We blend our blockchain knowledge with subject matter expertise in trade and supply chain finance to create tailored solutions for our clients.

At JEDTrade, we deem blockchain as the key to democratising power and resources with trust, fairness and accountability. Our blockchain project Jupiter Chain is a Smart Consentable Data Exchange platform that aims to create a privacy-preserving federated blockchain which enables the use of analytics.

JED Dynamic Discounting is our enterprise solution to help suppliers and buyers to optimise trade and cash flow by achieving a win-win outcome in terms advance cash flow and better yields. JEDTrade is an early supporter of the Networked Trade Platform by GovTech Singapore as a Value-Added Service (VAS) provider.

Please visit <https://jedtrade.com> to learn more about our services and blockchain project.