

THE TRAILBLAZER

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IMPACT OF COVID-19 OUTBREAK ON TRADE FINANCE

According to estimates, up to \$1 trillion worth of international trade may be lost due to lockdown, flights being cancelled, and businesses being shut down permanently.

It has already had a major impact on companies and traders around the world. Key contracts are being lost, tariffs are being re-negotiated, and compliance has become even more important. The United Nations Conference on Trade and Development (UNCTAD) has estimated that there could be major losses for exporters around the world in the upcoming months. The most prominent one being deteriorating demand for oil which is down by as much as 20%. The sectors that are likely to be the most affected include precision instruments, automotive and communication equipment, and machinery. The EU, the US, Japan, China, Korea, and Vietnam are expected to suffer the most from the epidemic. China is widely considered to be a hub of global trade, but its manufacturing capabilities are also suffering due to the spread of this pandemic. The UN has estimated that China's manufacturing indices are likely to decline by almost 25%. As the country's strategic priorities shift, exporters that are engaged in doing business with them will continue to face challenges.

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IMPACT ON INDIAN ECONOMY

The Covid-19 pandemic alongside slow-moving global trade, disturbed India's main export markets in the preceding fiscal year. In 2019-20, India's business transactions with South Asia, Asean (Association of Southeast Asian Nations), the Gulf nations, China, and North America diminished. According to the United Nations, the cumulative impact of the virus on the Indian trade industry could be as high as \$348 billion. Indian traders are already suffering major losses because of the lower demand from overseas markets. This situation is likely to worsen over the next few months, as the virus continues to spread to all parts of the world. The United Nations has also predicted that India will be among the top 15 hardest-hit economies in terms of international trade volumes. The key sectors that will suffer in India include chemicals, textiles, apparel, and automotive. In addition to these, sectors such as electrical machinery, leather, wood and metals are also likely to face the heat. The Indian trade industry was already suffering from a slowdown even before the spreading of the pandemic. This new challenge could prove to be unbearable for several exporters in the country. Indian trade authorities will have to alter their strategy in order to deal with this threat. One possible measure could be to make sure that credit flow improves.

IMPACT ON INDIAN BANKS AND IMPORTS

Strategic initiatives of Indian banks have been severely disrupted. Banks are facing fresh challenges in the form of debt collection and defaults and in discussions with the Reserve Bank of India (RBI) regarding the restructuring of their loan products. Banks are also looking to introduce new initiatives like easier financing for small and medium-sized enterprises. Major banks like Citibank have also announced that they are testing new contingency plans. Japanese lender MUFG has also issued travel advisories, banned large-scale gatherings, and minimised instances of physical meetings. According to experts, India's major imports of fuel and jewellery are relatively safe until now because of strong fundamentals and high demand. However, the importation sector could face major ordeals in the coming weeks, especially if the pandemic continues to spread further. Major types of imports that are being impacted by the crisis include electrical machinery, organic chemicals, mechanical appliances, optical & surgical instruments, and plastics. According to estimates, almost 85% of the total pharma imports coming into India are sourced from China. Various Chinese factories have been shut due to the pandemic, and this is piling on the pressure on Indian importers.



CHANGING FACE OF TRADE WITH TECHNOLOGY

The first technology that is improving the trade industry is the Internet of Things (IoT). This has a major influence on several aspects of the trade industry, including logistics and shipment. It is helping traders in reducing transaction and costs and enables traders to track their shipments in real-time. AI is another famous technology. It is helping the logistics aspects of trade by rerouting trucks based on the traffic conditions, processing documents in a quick and efficient manner, as well as reducing process times. AI is also helping traders in communicating with their partners. Modern-day AI technology has the ability to translate search queries and connect traders around the world. This technology is also proving to be useful in terms of making sure that the correct codes are being assigned to the products. Automated software takes care of aspects such as checking these codes and ascertaining that the accurate tariff is being paid. According to estimates, AI has the potential to add 16% to the global economic output by 2030. The third major technology that is influencing international trade is Blockchain. It is often called the technology of the future. Blockchain is helping several areas such as automated payments, quick audits, as well as tracking shipments on a real-time basis with its advanced capabilities of quick processing and complete transparency.



BANKING SECTOR TECHNOLOGY TRENDS IN 2020

Seamless Payments - We're likely to see new and innovative solutions achieved through greater integration of digital services with and increased interoperability between traditional payments systems and emerging payments systems and technologies, such as blockchain and crypto currencies.

Next-Gen Banks & Digital Only Banks - This will lead to greater efficiency, possibly lower transaction costs and enhanced security for customers. "Digital-Only" banks will likely be a major trend in the 2020s. The technology is finally capable enough and players have already emerged on the scene. Digital only banks and other "digital intermediaries" are now beginning to provide the same or even higher levels of service than traditional banks all with the huge advantage of time savings.

Big Data - Data helps service providers, including banks, serve customers better. Using big data, banks can anticipate customer needs better and allocate resources more efficiently.

Cybersecurity - Everyone from consumers to start-ups, multinational corporations and nation states are vulnerable today. Cybersecurity is going to be huge this coming decade and possibly for the rest of this century.

INTERNATIONAL TRADE AND GLOBAL ECONOMY

International trade has empowered us to raise the living standards of our people. It has generated a significant degree of employment, thereby ensuring that income levels also rise. Consumers around the world now have a greater degree of choice when it comes to purchasing goods and services. It has contributed to the global economy by promoting resource-sharing and knowledge transfer. It has also ensured that certain countries have taken advantage of their abundant natural resources to grow at a rapid pace. Nations such as South Africa and Australia have significant natural resources that are exported to other countries. The revenue being brought in by these exports is being used to develop these countries. Similarly, countries such as Japan have funded their growth based on value-added exports such as technology-based products. The export of these products has helped the country in becoming an economic powerhouse. Overall, international trade now plays a critical role in the global economy. It is a key driver of the Gross Domestic Product (GDP) of all nations. Many countries have also signed free trade agreements with each other, ensuring the unrestricted movement of goods and services. Such agreements have played a major role in shaping their economies helping them in making the most of their resources.



VIRTUAL DEBIT CARDS - AN INTRODUCTION

In order to make sure that such purchases can be made without any hurdles, businesses can use a range of payment mechanisms. One such mechanism is a virtual debit card, which allows them to buy from any country without any hassles. Virtual debit cards are created entirely online. These cards have been gaining popularity in recent years. According to 2019 estimates, the total value of digital transactions in the US stands around \$1 trillion per annum. Virtual debit cards are a part of this market. They comprise a 16-digit number, an expiry date, as well as a card verification number. Virtual debit cards are issued by leading card players such as MasterCard, American Express, and Visa. These cards are also widely accepted, thereby making sure that you can purchase from a wide range of vendors. These cards can be carried around in a phone, making them easier to use. At the same time, businesses must remember that these cards do have their limitations. For example, they cannot be used to withdraw cash from ATMs unlike regular debit cards. Despite this shortcoming, the popularity of these cards has been increasing due to the degree of convenience that they offer to the users.

FULLY BORDERLESS TRADE?

Fully borderless trade would be a dream for exporters and importers alike. In reality, there are many countries with growing economies, especially in Africa, which are supplying raw materials fuelling the manufacturing powerhouses of the Far East. They are ready, willing and able to trade successfully and securely, and we see growing interest from those countries for financial instruments facilitating bilateral trade. However, the non-exhaustive list of current barriers includes complex non-standard regulation and compliance, sanctions, protectionism, volatile commodity markets, disruption from Fintech companies and non-banks, capital and liquidity constraints, legacy technologies, shortage of skilled trade specialists, confidence and trust in particular jurisdictions, and shifts to new trade corridors. With these challenges, and in the current climate of uncertainty - not only with Brexit and growing sanctions, but also with the US-China trade wars - we do not see open, borderless trade in the immediate future.

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[Exim Bank -The New Smart Bank On the Block \(Access Full Article Here\)](#)
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