DRIVING INCLUSIVE DIGITALIZATION IN TRADE AND TRADE FINANCE

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The pandemic accelerated digitalization, while an uncertain economic climate poses risks

Use of digital processes for sales and customer origination

Goods Trade and Real GDP, yoy%, World


Source: IMF WEO 2022; WTO 2022
Various international initiatives are gaining ground in driving digitalization

- All ASEAN member states are part of ASEAN Single Window
- Singapore has signed digital economy agreements with Chile, New Zealand, Australia, Republic of Korea, and UK
- G7 economies have approved declaration on Digital Trade Principles
- ROK adopted the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific
- UK has proposed an Electronic Trade Documents Bill
- US has enacted amendments to Uniform Commercial Code
Three major challenges in cross-border trade and trade finance transactions

**Paper-based transactions**
- Inefficient, expensive, prone to error
- Processing L/C involve 20 parties and over 100 pages of documentation

**Regulatory requirements**
- High costs of KYC/AML compliance for banks
- Regarded as biggest hindrance to trade finance provision

**Information asymmetry**
- High risk premiums charged to small firms
- Difficult for SMEs to meet collateral, guarantee requirements
SMEs continue to face high trade financing costs relative to large firms

Share of Rejections in Trade Finance, by Firm Size


Firm’s Perception of Reasons for Rejection

Current economic climate is compelling businesses to adopt digitalization due to large benefits

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- Reduces human error
- Enhances traceability in complex supply chains, enables ESG compliance
- Helps verify business identity and financial capacity
- Facilitates SME participation in trade

Despite benefits, the scope of digitalization remains limited

- Businesses use technology mainly for digital filing and transmission, record-keeping, and accounting

Areas of Operations Where Digital Solutions Are Utilized

Asia has made significant progress in trade facilitation, but cross-border paperless trade lags behind

Implementation of Trade Facilitation Measures, Asia and the Pacific

SME = small and medium-sized enterprise.
Note: Blue dots represent country scores (100% = full implementation); red lines are group averages.
Source: UN Global Survey on Digital and Sustainable Trade Facilitation. 2021.
Limited uptake arises from high cost of technology, lack of common standards and interoperability

Banks’ Major Areas of Concern on Technology

- Only 7 jurisdictions have adopted UN Model Law on Electronic Transfer of Records
- Developing economies and SMEs lack digital infrastructure and knowhow

SME = small and medium-sized enterprise.
POLICY CONSIDERATIONS

**Legislation**
- Adopt Model Law on Electronic Transferable Records or equivalent legislation

**Interoperability**
- Address digital island problem by adopting international standards
- Digital Standards Initiative (DSI)

**Green and inclusive trade**
- Create accessible incentives and sustainable financing tools
- ESG implementation

**Digital divide**
- Support developing economies to acquire skills, technology, hardware
Thank you