

INCLUSIVE TRADE FINANCE THROUGH DIGITALIZATION

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GDD 2023: E-COMMERCE FOR DIGITAL TRADE AND ECONOMIC DIVERSIFICATION
8 June 2023

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

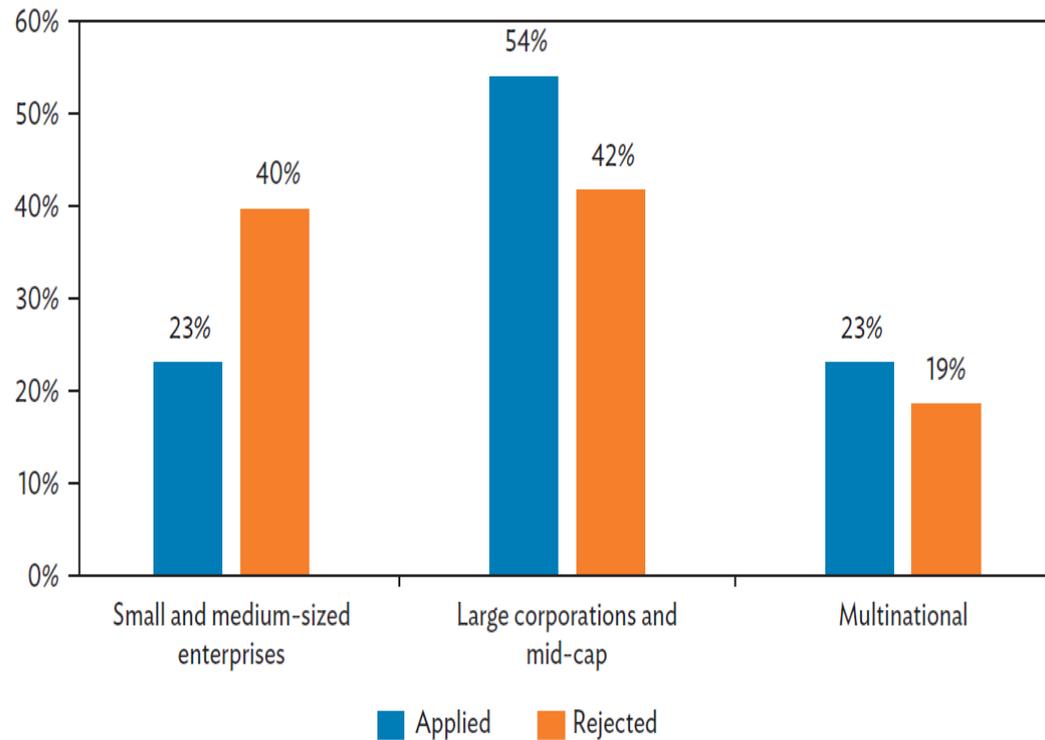


Information asymmetry

- High risk premiums charged to small firms
- Difficult for SMEs to meet collateral, guarantee requirements

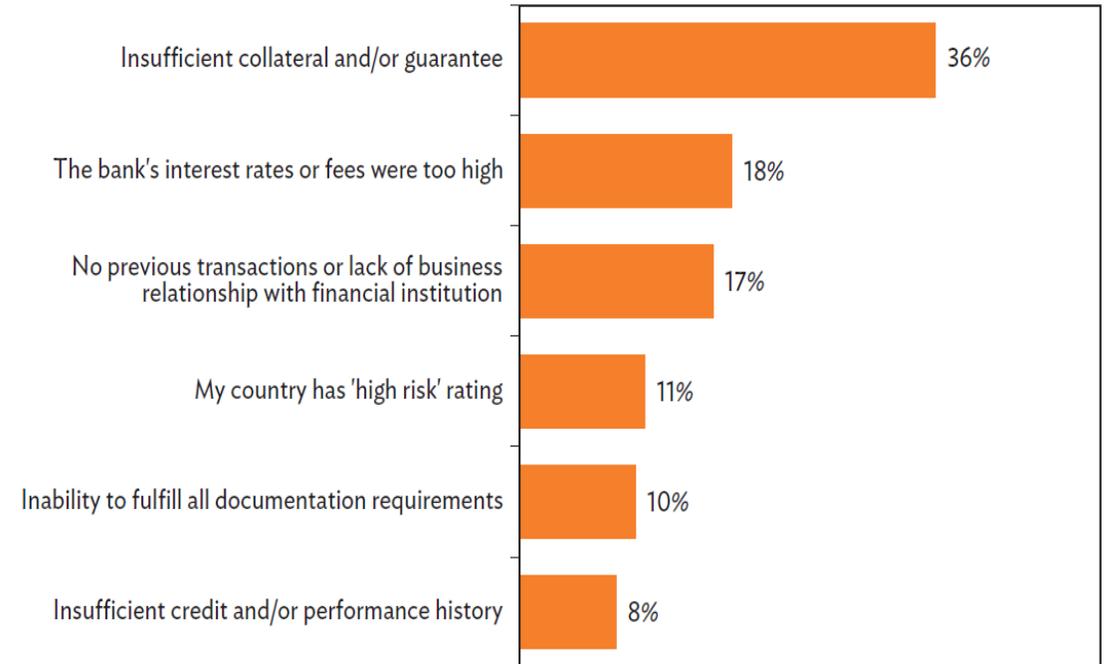
SMEs continue to face high trade financing costs relative to large firms

Share of Rejections in Trade Finance, by Firm Size



Source: ADB. 2021. Trade Finance Gaps, Growth and Jobs Survey. ADB Briefs No. 192.

Firm's Perception of Reasons for Rejection

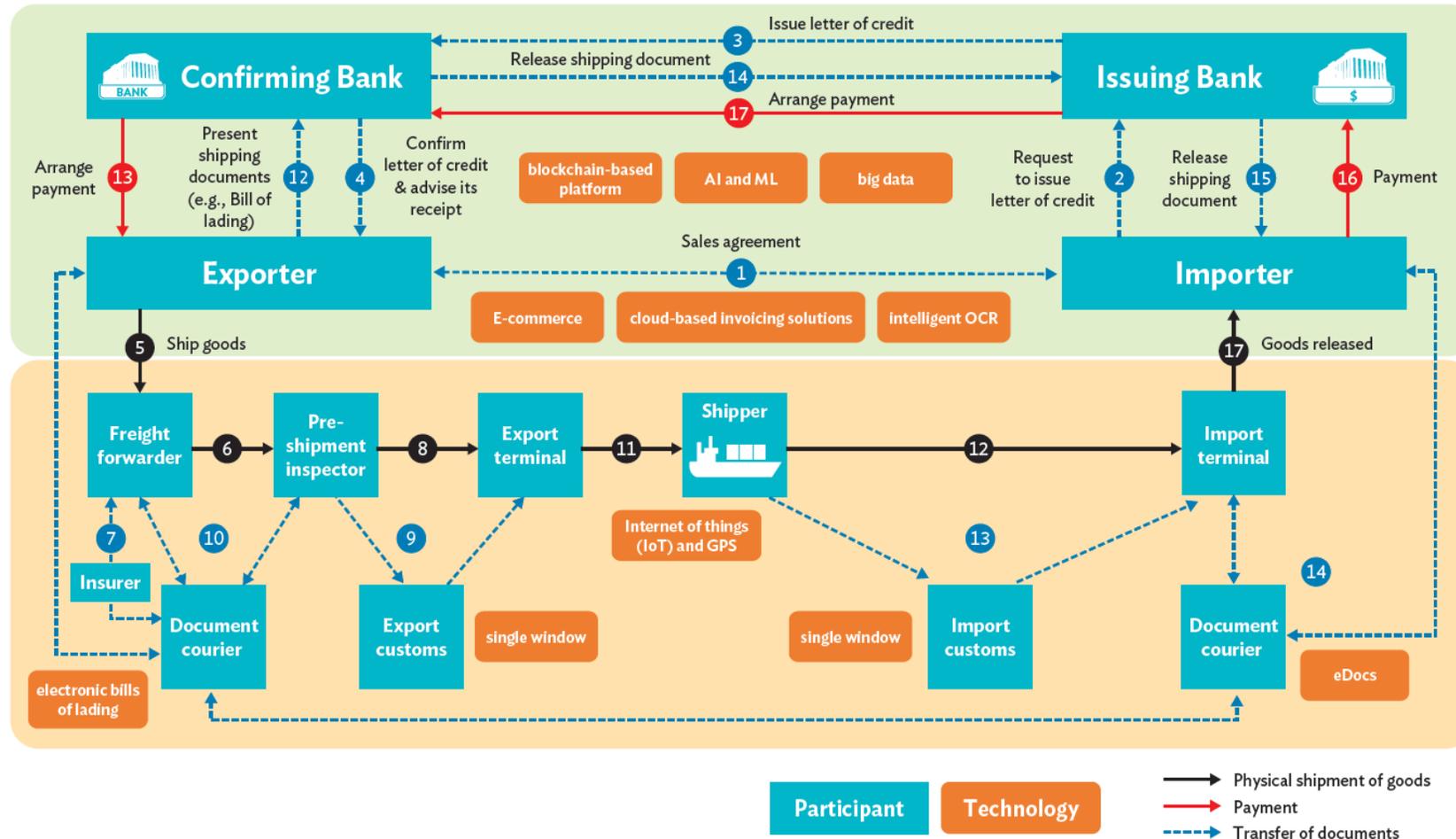


Source: ADB. 2022. Toward Inclusive Access to Trade Finance: Lessons from the Trade Finance Gaps, Growths, and Jobs Survey. Manila.



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

Flows of Trade & Trade Finance and Technology



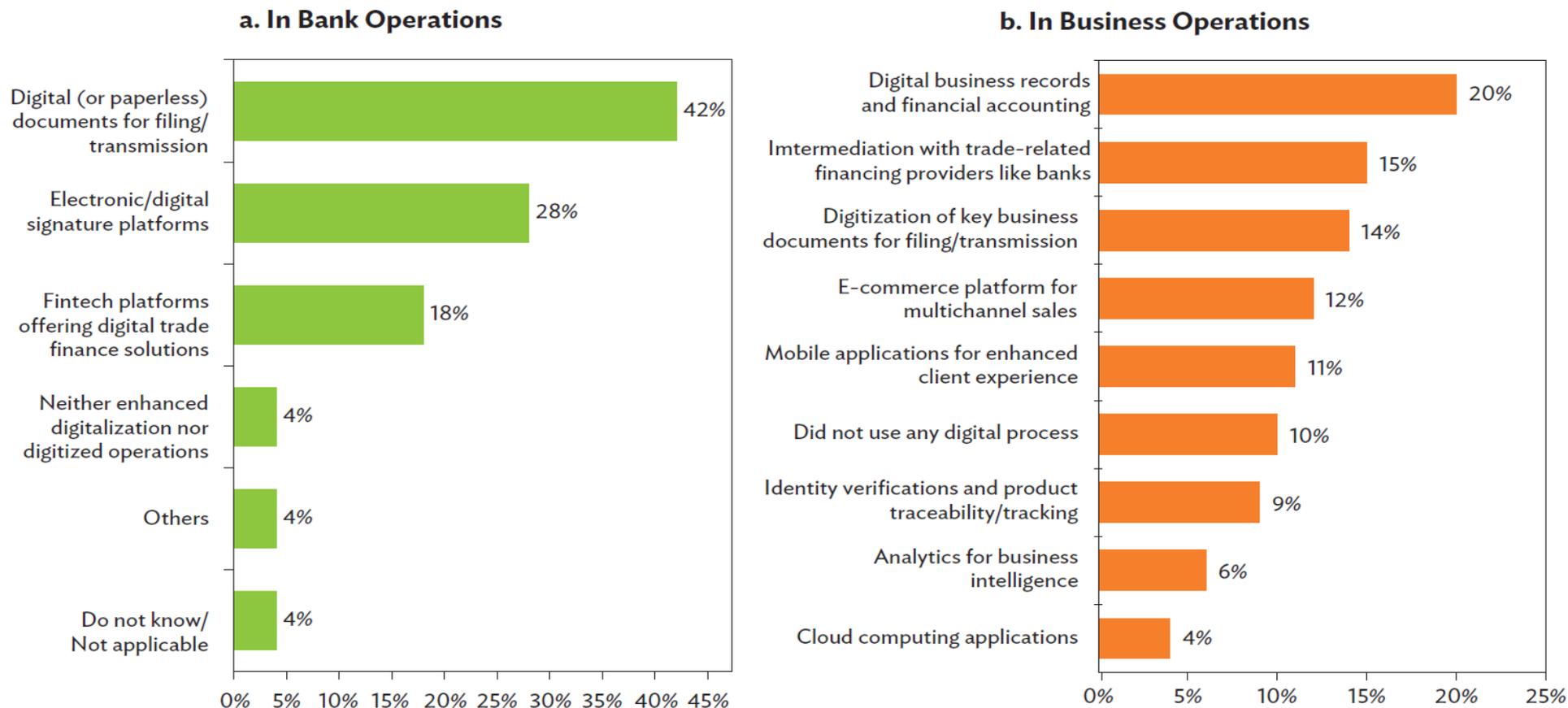
Digitalization

- 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

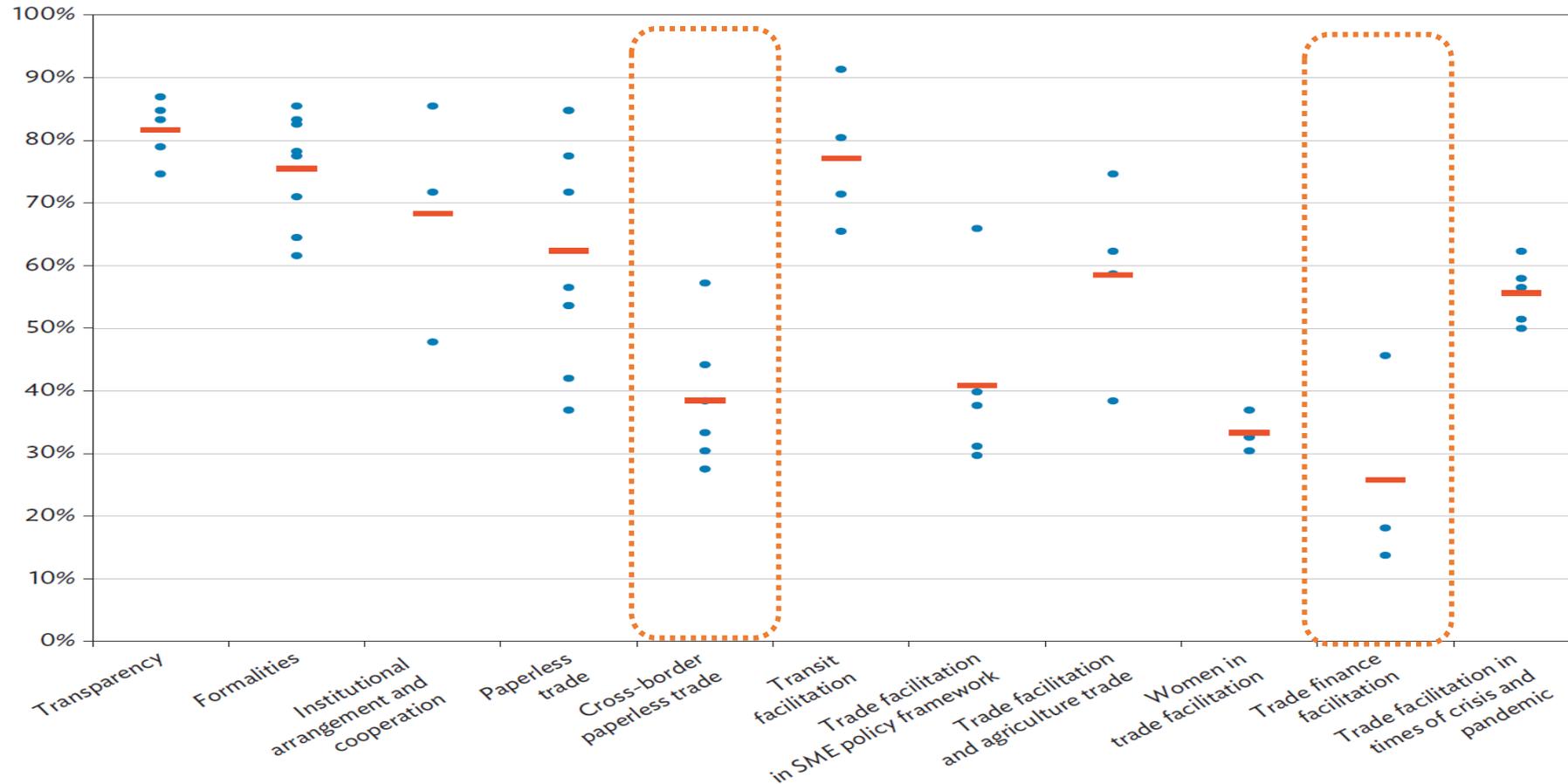
Areas of Operations Where Digital Solutions Are Utilized



Source: ADB. 2021. Trade Finance Gaps, Growth and Jobs Survey. ADB Briefs No. 192.

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.

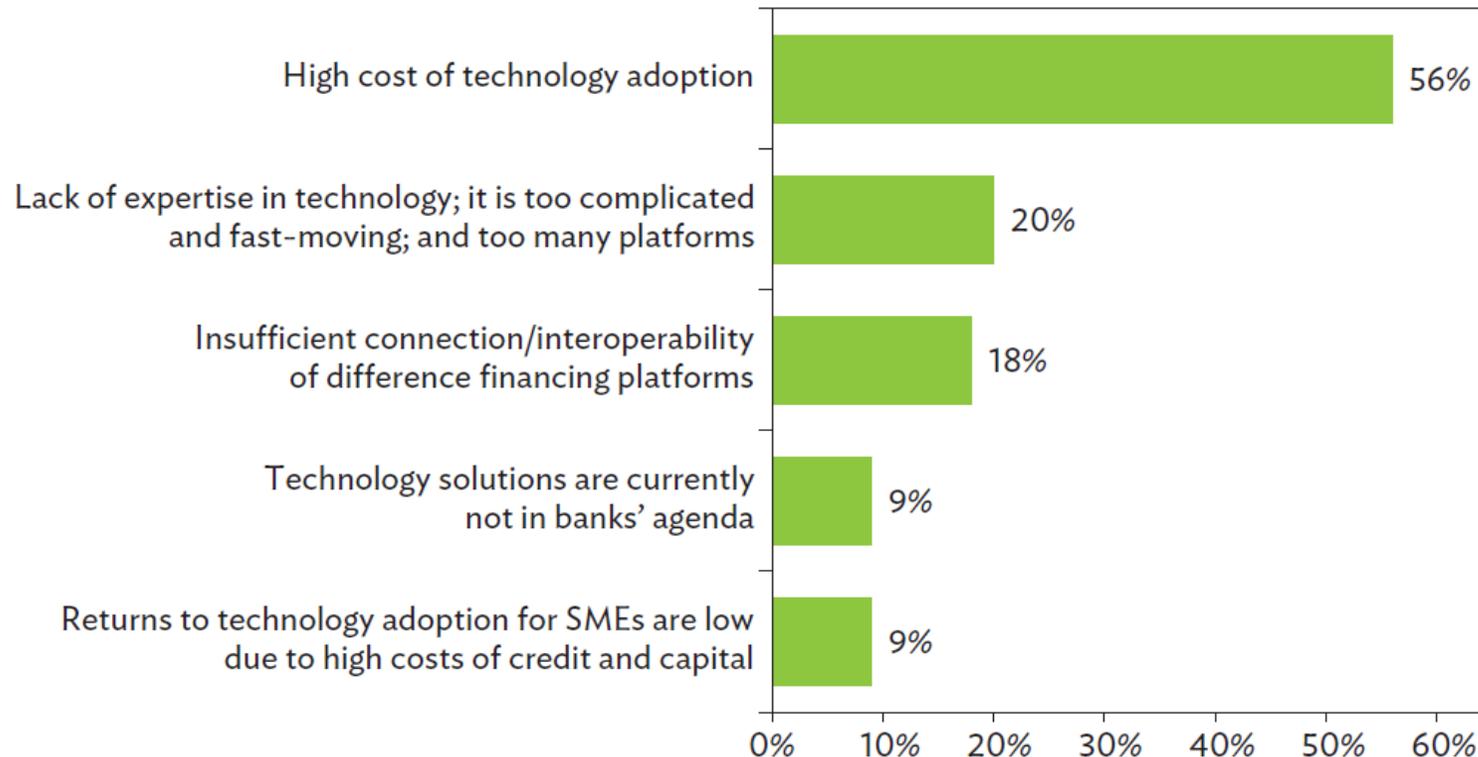
Note: Blue dots represent country scores (100% = full implementation); red lines are group averages.

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

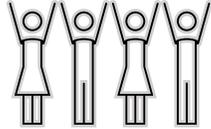


- Only 7 jurisdictions have adopted UN Model Law on Electronic Transferable Records
- Developing economies and SMEs lack digital infrastructure and knowhow

SME = small and medium-sized enterprise.

Source: ADB. 2021. Trade Finance Gaps, Growth and Jobs Survey. ADB Briefs No. 192.

WAY FORWARD



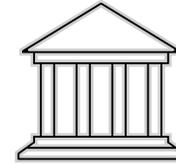
Digital divide

- Support SMEs and developing economies to acquire skills, technology, hardware



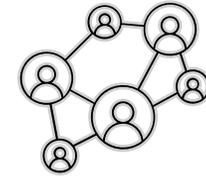
Green and inclusive trade

- Create accessible incentives and sustainable financing tools
- ESG implementation



Legislation

- Adopt Model Law on Electronic Transferable Records or equivalent legislation



Interoperability

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

Thank you

