

Lonnie Frisby: Welcome back to Navigating Business. I'm Lonnie Frisby, and in this episode I'm joined by Ajay Sharma, HSBC's Regional Head of Global Trade and Receivables Finance in Asia Pacific.

Today, we're looking at how the pandemic has accelerated emerging technologies and sectors, and who is benefiting from the recent restrictions imposed and around the world. To discuss how this will shape the future of trade, I'm really pleased to welcome back, Ajay.

Ajay, thanks for joining us.

Ajay Sharma: Thank you.

Lonnie Frisby: Now Ajay, the pandemic has revealed that emerging technologies are not just tools but they're essential to the functioning of our society and the economy. So what are you seeing as the main trends to emerge?

Ajay Sharma: If this had happened five years ago, all our customers and banks could have struggled to cope. So that's been the big change over the last five years, digitisation has been a key theme. This will accelerate and really change the face of how trade and trade finance takes place.

The other big theme for us has been the adoption of digital channels. So we've always had channels available, people are very comfortable with paper-based. In fact, trade handles a hundred million pieces of paper every year but the option of digital channels, and therefore sending us information in a digital format for us has gone up 88% that's a big change. It's only because of that and we are now able to meet the same service level agreement that we had with a client last year as we have through this pandemic.

But in a way this is an inflection point. We have to capture all the benefits and then look forward. And there are emerging technologies whether it's blockchain, which can reduce the letter of credit from five to ten days to 24 hours and give an unparalleled level of visibility to all the parties in terms of where the trade transaction is or whether it's just looking at platforms and making sure the information comes to an exchange in a digital format.

All the technology is now available. It is now for us as an industry and as customers to pick it up and move forward. In fact, the latest 2020 navigator survey, our customers have very clearly said the digitisation of trade processes will become standard practice.

Lonnie Frisby: So Ajay, what do these trends mean specifically for trade and finance?

Ajay Sharma: So for us, I think digitisation is irreversible so that's a big trend. What does it mean? It reduces the paper and hopefully eventually eliminates it. So that'll reduce the friction and trade as we call it. It provides unprecedented level of transparency so everyone can see where the transaction is, where the paper is, where the ship is, where the goods are. And that's only going to be a huge benefit in

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terms of banks getting comfortable in extending greater amount into the trade finance business.

And I think the big prize in terms of just trade and world economy is the 1.5 trillion financing needs which are not met for the small and medium enterprises. This is a report which came out from ADB. That amount is only going to grow unless we can find new solutions for that segment of the economy.

Lonnie Frisby: I want to come specifically to the services industry, which has been hard hit due to physical distancing and lockdown measures. How long will trade in services take to recover? And what do you see as being the knock-on effects?

Ajay Sharma: There's quite a bit of impact right. If you look at the traditional services industries, retail, tourism, hospitality, those have been very hard hit. And a lot of them will really depend on government policies, especially tourism as to when governments allowed people from cross border to come into their countries and that may take time.

But there's the other element of services industry which has actually done very well. So if you look at e-commerce, the US online retailers have had 68% growth in demand. So it's replaced what was traditionally being sold through brick-and-mortar retail outlets. We've had some very high profile companies suggesting that they will reduce the number quite significantly over the next few years. Netflix added 16 million subscribers in the first quarter, 23% more.

This is just going to drive, I think greater adoption of 5G. It's going to drive e-commerce, business-to-business digital sales and all of that has really opened up a very different way for banks to look at financing and providing solutions into an industry which has traditionally been a bit away from the banking system. Banks tend to finance goods rather than services. But services I think is a bigger piece of the pie, it's a bigger part of the GDP of most countries.

Lonnie Frisby: You mentioned that services are a major component of economies, are we seeing a fundamental shift in trade solutions?

Ajay Sharma: Yes, we are. I think, not only is services are a large portion of GDP but also the fastest-growing piece of the GDP in most economies. Now banks have been very good and traditionally have been very comfortable lending against goods it's the services which requires a fundamental change in thinking.

To give you examples I mean how do you finance a receivable for advertising services? There's no underlying goods that you can feel and touch, so that's always a challenge or logistic payments. So that is one area of big focus for banks because then you can really extend and expand the remit of what you normally do. The fastest-growing piece and we've talked about that is e-commerce.

And again solutions there as you go through multiple levels of suppliers who are really sitting on the platforms selling goods needing funding against inventory, especially when there are the big events. Is another big opportunity so services trade will be a significantly larger portion of future trade business than any bank does?

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Lonnie Frisby: Ajay, we've spoken today about digitisation, but if we take a step back, and perhaps spend a moment future-gazing in next four, five years. Where do you think trade and trade finance will be?

Ajay Sharma: So the world of trade is rapidly changing and traditionally companies worried about, where do you manufacture? Where do you sell? But now the additional question is what channels do you need to use? Are you making it very simple for people to interact with you? Banks have to change too and keep pace with our customers.

So the products and solutions of yesterday letters of credit, trade loans have already been replaced by receivables financing and supply chain financing and structured solutions. We're already dabbling with services trade, but the future will also lie in if banks can provide platforms and solutions, far beyond just banking.

It's going to be very exciting.

Lonnie Frisby: Thank you, Ajay. Thanks for joining us today.

Ajay Sharma: Thank you.

Lonnie Frisby: We'll be back soon In the meantime, for more insights from HSBC or to listen to this series, visit business.hsbc.com. Thank you for listening.