An uncertain landscape: Five trade finance trends for 2023

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As uncertainty remains in global supply chains and trade finance, the International Trade and Forfaiting Association's (ITFA) Lynn Galkoski, Director, Trade Product & Portfolio Management with BNY Mellon Treasury Services shares her insights on trends that may arise this year.

At its core, trade finance supports one of the most fundamental economic concepts: countries need to import and export goods and services based on their own resources, or lack thereof.

This dynamic places trade finance at the centre of the international economy and also carries ramifications for the wider political community. Without it, the provision of vital goods and services would grind to a halt – or, at the very least, come with an uncomfortable delay.

Yet, for the past few years, global trade has been marked by unprecedented uncertainty. The COVID-19 pandemic revealed what many already knew to be true about global commerce: businesses that can anticipate, react and adjust to market fluctuations will succeed, whereas others fall behind.

As the impact of the pandemic recedes, new challenges are emerging. The growing focus on Environmental, Social and Governance (ESG) is forcing businesses to contend with climate-friendly and ethical social practices,

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alongside a move to reduce the trade financing gap for small and medium-sized enterprises (SMEs). At the same time, global headwinds continue to apply external pressure – meaning this could be a make-or-break moment for supply chains and their financing.

Amid geopolitical shocks, issues with inflation, a diminished workforce and evolving regulatory requirements, a key question remains: how can businesses not only survive, but thrive, in a fragmented trade finance ecosystem? To meet these challenges head-on, there are several fronts on which the trade finance industry can transform to keep pace:

1. Risk and resiliency

Risk is central to trade finance. Each transaction is only as good as the documentation that supports it – and, in this way, we are all risk managers. This includes traditional Know-Your-Customer (KYC) checks, but also having a deep understanding of geographical risks and other factors, such that every eventuality can be assessed and addressed – no matter how unlikely.

By helping us to prepare for the unexpected, risk management comes hand in hand with business continuity and resiliency. Recent events, such as COVID-19 and the conflict in Ukraine, have shown that even the unlikeliest eventualities can happen – and the corporates and banks that can adjust to these market risks are the ones that will eventually come out on top.

Additionally, companies that build, diversify, and strengthen their network of third-party providers, such as suppliers, freight forwarders, transport logistics providers, and technology providers, stand the best chance of absorbing future shocks.

2. Transparency and visibility

As ESG continues to grow in prominence, consumers are expecting an increasing level of transparency in supply chains. Increased visibility in sourcing, production, logistics, costs, and accounting will have a multitude of benefits, but, to achieve this, companies at all stages of the supply chain must assess and adjust their own processes.

Improving visibility in supply chains, and manufacturing more generally, could also increase resource efficiency. Transparency, for example, will create more apparent connections between surplus materials and by-products in one supply chain that may be an invaluable resource in another – minimising waste.

Whether an established player or a new market entrant, companies that can streamline and automate their practices – and leverage technology and platforms to do so – will prevail.

3. Data-driven analysis

Business globalisation has increased competition in almost every industry. To keep pace, leaders and management teams should not only embrace data but use it strategically to drive results. Gaining efficiencies and digitisation will be key forces to transform the industry as well. For example, data analytics, and other technological improvements, can be leveraged by businesses to move away from a reactive, crisis-driven model and into a more strategic, proactive model. The application of this approach in the global trade landscape will be a key trend in the coming years.

4. Workforce stabilisation and optimisation

In a post-pandemic world, labour shortages have persisted and continue to hinder the economic recovery. This has particularly been the case in jobs related to supply chains and logistics. For example, physical roles, such as truck drivers and inventory managers, have been among the most affected.

The problem penetrates more deeply than just on-the-ground personnel. There are also shortages in processing and analytics roles, meaning that corporates must outsource procurement and other back-office roles to other countries. And as Generation Z enters the workforce, roles in trade finance and supply chains must be adequately incentivised, or the industry risks a further widening of this labour gap.

Additionally, Diversity, Equity & Inclusion (DEI) goals hope to level set and optimise the workforce. For example, one DEI initiative includes more women-led businesses and managers to help bring the need for a more diverse mindset to the forefront.

5. Environmental and social focus

Ethical sourcing, climate-smart supply chain planning, eco-friendly warehousing, clean energy, and green logistics are fast becoming an important part of the trade equation. They are not only a good way to improve a company's environmental footprint, but also an increasingly important factor in meeting changing consumer demands. Green consumerism, for example, is a growing trend – with research finding that two-thirds of consumers say they will pay more for sustainable products.

This focus is here to stay, and trade finance can play a key role in encouraging more climate-conscious supply chains in the future by, for example, offering modifications in pricing for those engaging in environmental best practices.

Looking to the years ahead

Uncertainties and disruptions, whether caused by global market shocks, labour fluctuations, or changing regulations, have had a profound impact on supply chains in recent years – and this is likely to continue for some time to come.

To remain abreast of these challenges, businesses must remain nimble and flexible enough to adjust to new and unexpected scenarios – and technology will be a key enabler in this respect.

As this transformation sweeps across the trade industry, it is the role of banks and other trade finance bodies, such as the ITFA, to support suppliers and logistics managers in the transition.