Five Trends in International Trade To Watch in 2017

By Anushka Wijesinha

As 2016 draws to a close and businesses look to 2017, there are some interesting trends likely to pan out in 2017 that are important to look out for.

1. Trade Slowdown in Asia: Rebound or a New Normal?

Alongside the global slowdown in international trade that we highlighted in a previous column, trade in Asia-Pacific in particular has shown concerning signs. According to the latest Asia Pacific Trade and Investment Report (APTIR) 2016, the volume of trade in the region in 2016 is expected to grow feebly by 0.7%for exports and 0.1% for imports. This is a remarkable difference from the 7% plus rates seen prior to the global downturn. Sluggish global economic growth, a secular decline in commodity prices, adverse movements of exchange rates, capital flow volatility, are some of the factors being blamed for this. For 2017, the expectations are that exports and imports are likely to bounce back with a 4.5% growth and 6.1% growth respectively. The forecast is driven by an expected increase in commodity prices and real growth picking up in key developed economies. According to the APTIR, export and import price indices are expected to grow by 3% and 2.3%, respectively, while export and import volumes are projected to increase by 1.5% and 3.8%, respectively. The APTIR argues that the ongoing "long and uninterrupted trade slowdown is unprecedented, and is a cause for concern that a 'new normal' of weaker trade growth is being reached".

2. Fighting Non-tariff Barriers

Meanwhile, amidst rising protectionist measures among G20 countries (as noted in a previous TIPS column), Asia-Pacific economies have not been any different. The region has introduced, on average, 6.6 trade restrictive measures per month since 2014, and most of these measures are non-tariff barriers (NTBs). The UNESCAP notes that these have led to "decreasing transparency in trade policy of countries and thus contributing even more to trade costs". The organization also notes that preferential trade agreements (PTAs) in the region "have not shown a strong potency in dealing with such non-tariff barriers to trade". This is an important consideration for Sri Lanka, as it embarks on several new (or expanded) PTAs. Dealing with NTBs must be front and centre in our trade negotiations, as they are often more harmful and costly for our businesses than tariff barriers.

3. Implementation of TFA

A key development in the trade arena likely in the first quarter of 2017 is the WTO Trade Facilitation Agreement (TFA) coming into force. Currently 102 members have ratified the agreement, including Sri Lanka. It is only once 110 (two-thirds of WTO membership) ratify it does it come in to force. As soon as it does, Sri Lanka needs to implement its Category A commitments. This will have implications for Sri Lankan businesses, as customs procedures, documentation, and coordination constraints become gradually resolved. The business community must play a strong role in advocating for accelerated implementation of Category A commitments, and partner with the government in getting it done. Part of the TFA's implementation is that it offers funding for undertaking reforms, introducing new procedures, modernization, new infrastructure, etc. This is an area that Sri Lanka must leverage on. The WTO's Trade Facilitation Agreement Facility, the World Bank's Trade Facilitation Support Programme, and the Global Alliance on Trade Facilitation are the three key channels for Sri Lanka – both government and business – to obtain support, both financial and technical.

4. Shipping Slowdown Leading to Consolidation?

With the global trade slowdown and the decline in freight volumes, the shipping industry is going through some flux, as we wrote in an earlier TIPS column following the collapse of Hanjin Shipping. In an analysis of the shipping industry's survival, Fitch Ratings expects more defaults among shipping lines. Moving in to 2017, it is conceivable that there will be some consolidation of the industry. Already, Hamburg Süd, a large 140-year old German shipper, has just been bought over by Maersk Line, the world's largest shipping line. Sri Lanka needs to watch what happens with shipping rates, alongside such consolidation. The Global Shippers Forum, a trade association for shippers, noted with caution that less competition between lines can increase shipping rates. "This could drive up the price of imported goods on our shelves and make our exports less competitive in the global market", it noted.

5. Blockchain Revolution in Trade Finance

Technology giant IBM predicts that by the end of 2017, 15% of top global banks will be running solutions built on blockchain and blockchain technology (also known as 'distributed ledge technology') is headed for mainstream adoption by next year. While blockchain's potential in many sectors is being touted (digital identity, banking, securities, etc.), the immediate area of interest seems to be trade finance. Trade finance is often fraught with inefficiencies and open to fraud. Bills of lading and letters of credit can be regarded as 'old-world methods' of managing the shipping of goods and services, and the potential to replace these paper processes with digitised operations via blockchain is now gaining a lot of traction.

Pilots of blockchain-powered transactions are already underway around the world, from a cotton trade between US and China, to a wheat trade in Australia. Earlier this year, Barclays Bank and an Israeli tech start-up conducted the world's first blockchain-powered trade finance transaction, cutting a process that normally takes ten days to less than four hours. Given the superior software development capabilities of Sri Lankan tech firms, and their proven track record in developing cutting edge products for the financial sector, this could be a big opportunity for Sri Lankan tech companies, to develop block chain technologies for Sri Lankan, regional and global banks. Meanwhile, Sri Lankan banks in 2017 must begin developing internal blockchain capabilities, in order to keep up with the developments on the trade finance horizon.

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