A Turning Tide for Trade

By **Eleanor Hill**, Editor

Ebru Pakcan has recently been appointed Global Head of Trade, Treasury and Trade Solutions, Citi. In this candid interview, she speaks about the impact of the coronavirus pandemic on trade, and airs her views on the digitisation of trade – from the milestones already reached to the areas still requiring improvement. She also shares her best advice for treasurers when preparing for a return to 'normal'.

Eleanor Hill (EH): We can't ignore the impact of Covid-19 on trade. What have been the major knock-on effects to supply chains, in your view?

Ebru Pakcan (EP): The situation is very dynamic but, broadly speaking, we see a three-stage impact. The first phase was the immediate shock to the global system. In the early part of 2020, Asia was significantly impacted by the virus. Financial markets then began experiencing volatility as questions arose over manufacturing capabilities in Asia and the robustness of global supply chains. The situation intensified as Covid-19 spread across the Middle East, Europe and US and companies grappled to ensure they had sufficient access to liquidity, and solid supplier relationships.

The second stage saw organisations focus on the creditworthiness of customers, and the impact of the crisis on global demand. As such, companies have been carefully reassessing credit limits for their clients and rethinking risk solutions. They have also been modelling the potential knock-on effect to demand and attempting to forecast their receivables as reliably as possible.

The third phase is adapting to the new normal as best as possible. Now that companies have assessed the potential impact on suppliers and buyers, they need to determine how much demand they are willing to supply in the months ahead – and what is realistic, factoring in a potential second wave of the virus. This is by no means an exact science, but companies would do well to start planning with six to 12 month horizons in mind.

EH: You mentioned that companies are rethinking their risk mitigation tools. Could you expand on that? Which types of trade finance products are proving popular?

EP: In general, we are seeing a move back to basics. Over the last few years open account trade has rendered many 'traditional' trade finance products more or less obsolete. But in this heightened risk environment companies are being more cautious. Where new supplier relationships are being put in place as a result of disruption to existing supply chains, it is not possible to perform due diligence through physical site visits. Buying organisations are therefore reliant on digital due diligence, but this isn't quite the same – so they are looking for added risk mitigation too. As a result, we are seeing traditional tools such as guarantees come back into favour.

We are also seeing creative approaches to supply chain finance, ranging from leveraging government liquidity schemes to dynamic discounting. Buyers are trying to keep their supply chains stable and assist suppliers through the crisis in any way they can.

EH: Looking slightly longer term, how do you think the trade landscape and international sourcing might change as a result of Covid-19? Will we see supply chains shortening, for example? And will just-in-time models still be popular?

EP: There is no doubt in my mind that we are going to see a long-term impact. Even before Covid-19, the challenging trade relationship between the US and China was driving certain industries and markets to reconsider international sourcing in the context of supply chain resilience.

The pandemic has heightened this re-examination of existing set-ups, and there is likely to be an uptick in domestic manufacturing in geographies such as the US as a result. But companies also have to take into account the cost of sourcing closer to home, where labour and parts are often more expensive. At a time when economic growth is already under significant pressure, margins will be squeezed, so the cost of manufacturing will be under close scrutiny.

Another behavioural change I expect to see over the longer term is the shift towards digitising supply chains. E-commerce was already growing at 15-20% annually, and now that countries across the globe are in lockdown, virtual shopping is accelerating. Organisations that did not previously interact with their customers through digital channels are swiftly realising the benefits of doing so. Businesses and consumers are becoming much more familiar with buying goods and services online. It is reasonable to expect that digital demand will continue post-crisis, so companies will likely be re-assessing their sales and distribution strategies as a result.

EH: How is the digitisation of trade progressing? Where is there still room for improvement?

EP: Trade is an enormous ecosystem, with so many different players – from port and customs authorities to corporates, banks and insurers. Aligning all of those stakeholders in a digital world is incredibly tough when trade has been paper-based for eons. Digitisation is a long journey that no single institution is in charge of.

Our approach is to focus on the parts that Citi can directly influence. As such, we've made significant improvements in our back-office processing to improve data management and data mining, as well as deploying optical character recognition (OCR) and artificial intelligence (AI) capabilities. This means that, once documents or instructions make their way into the bank, they are more or less 99% digital from that point.

With our own operations digitised, the next step is to determine how to digitise the interface between Citi and the rest of the ecosystem. This is a complex task, but we have made great progress in terms of improving the digital interface between the bank and our clients, via electronic banking channels, SWIFT FileAct and application programming interfaces (APIs). We expect to see greater uptake of these digital solutions going forward, which will help to further the digital agenda.

The hardest part of the journey involves the rest of the ecosystem – which is out of individual institutions' control. There are a number of consortiums that are driving progress in a collaborative way, however. These bodies have impressive visions for the future of trade, but execution of those goals is tough, given the scale of the task in hand. More work is certainly needed in this collaborative space to help achieve a truly digital trade ecosystem.

"Trade is an enormous ecosystem, with so many different players – from port and customs authorities to corporates, banks and insurers."

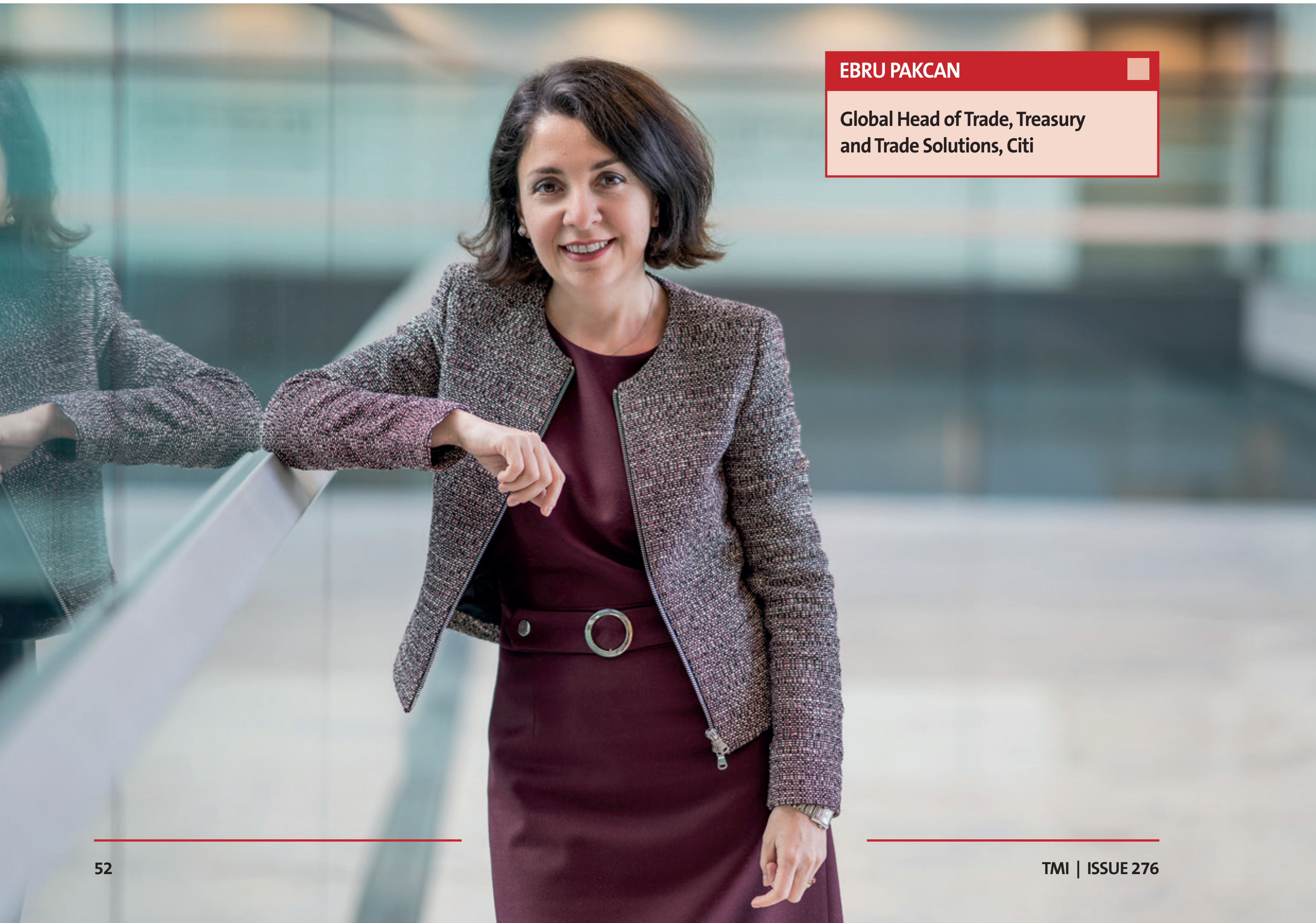
Finally, I see a need for a review of trade rules and standards to ensure they match the digital environment. The International Chamber of Commerce (ICC) and World Trade Organisation (WTO) have been proactively engaging with the trade banks, coming up with practical suggestions and ideas – especially in reaction to the Covid-19 crisis. But I would like to see a playbook being created for the industry that details the digital future of trade, and also outlines appropriate actions in times of disruption, such as the pandemic.

***EH:* Finally, if there was one trade development you would urge corporate treasurers to keep an eye on, what would that be and why?**

EP: Putting aside Covid-19 for a moment, I would say that there is room for treasurers to work more closely with their banks to support more growth in their business by ensuring they have integrated digital solutions in place to enhance their cash forecasting as well as their cash collection and reconciliation processes. Effective receivables financing solutions will also be critical, and I believe there are more options that banks and treasurers can explore here.

Returning to the Covid-19 world though, I believe treasurers should also keep an eye on the long-term future. However long this crisis goes on and whatever the new normal looks like, there will be a return to a 'true normal' at some point. Corporates need to plan for that because, when demand and supply rapidly increase again, coping with that will be an interesting challenge. Inventories will not necessarily be there, suppliers might be crippled, and the workforce may not be at the same levels of productivity as before. So, the question is: how do you adapt to returning to the true normal – and what do you need to think about right now to make sure you're prepared for that? It's a good problem to have – a swift return to growth – but it's important to plan for that early on.

> *"It's a good problem to have – a swift return to growth – but it's important to plan for that early on."*



EBRU PAKCAN

Global Head of Trade, Treasury and Trade Solutions, Citi