Trade Finance's Position in the Evolution of Globalization

Intro

If COVID and other disruptors in recent years taught us anything, it's the importance of resilience in the face of uncertainty. When the world experienced widespread shutdowns in specific regions, industries or operations, companies realized the critical importance of solutions that both inject stability and service a diversified supply chain. Companies could no longer subject themselves to a single point of failure via reliance on one or two suppliers - this led to near-shoring and diversification of supply chains.

But this shed light on a deeper issue: can trade finance fintech providers provide the coverage necessary to service a truly global supply chain? Can they handle the complex structures, currency, and regulatory requirements of a multinational supply chain? Companies are now seeking fintech partners who have the funding network and technical support to handle large-scale global supply chains - with room to grow and adapt alongside the business.

Past and Present: The History of Globalization in Supply Chains

Like any other industry, those working in supply chain management looked for newer, more cost efficient means of business. Off-shoring became very popular as companies sought cheaper manufacturing and more robust international shipping. Warehousing meant that companies no longer needed to keep large inventories on hand – another problem with the breakdown of global trade with COVID. “The explosion of international trade in the wake of World War II fueled the rise of global supply chains: the intricate, international sequence of steps to make and sell products,” says the Council on Foreign Relations. “This trend was accelerated in the 1980s by the proliferation of global trade agreements, which were designed to smooth cross-border trade.” It was during this time that consumers saw the shift from “Made in America” to “Made in China.”

Roughly 40 years later, COVID shined a light on the danger of relying on a single region to produce goods for distribution. Companies realized the importance of diversifying their supply chains in an effort to prevent a total breakdown if one region shuts down, a reality demonstrated when China’s COVID prevention policies essentially closed down its major cities and ports.

A fresh light has shown how effective a diversified supplier portfolio can be with mitigating risk and many companies are unwilling to return to that former state of vulnerability.

While sourcing within local markets will always have incentives, near-sourcing and fully global supply chains will continue, as local capacity is limited and new technologies enable better connection across supplier networks.

Underscoring the Need to Pivot Quickly and Efficiently

When the pandemic took hold of various regions at different times, buyers had to scramble to find available suppliers in other parts of the world that could satisfy their inventory requirements. It became clear that certain companies’ partners could handle the sudden changes and others could not. For example, automakers could get most of the necessary parts, except for the computer chips.

Financial technology must be able to pivot rapidly with a company and onboard new suppliers from various regions of the world quickly and efficiently. This ability was the make or break between companies that survived the pandemic and those that didn't.

Now, companies have recognized the advantages of using regionally diverse supplier mixes and are continuing to do so–meaning there is no longer just an onboarding consideration, but an ongoing management consideration as well. Best-in-class trade finance platforms have the experience and resources to support these suppliers in whatever time zone they are in.

Jurisdictional Requirements in an Increasingly Complex Supplier Network

Each region of the world has its own set of rules and regulations in terms of trade finance to navigate and abide by. For example, the European Late Payment Directive protects businesses, particularly SMEs, against late payments. There are a list of provisions in place to support the directive, such as a 60 day deadline for invoice payments and automatic entitlement to interest for late payments. Australia had new disclosure requirements added to international accounting standards in regards to supply chain financing.

These types of requirements and stipulations are common and often specific to each region's governance. FinTech partners must be up to date with the latest regulations in order to operate efficiently. They must also be agile and ready to implement programs with international regulatory requirements in mind.

Growing Alongside a Company

As a company continues to scale and expand its trade networks, it will need a partner that can add more suppliers in any region as needed. There are a lot of factors that go into supporting this though:

Qualifying Questions

- Does the provider have the technological ability to support customers from various countries?
- Does the provider have the capability to connect all data from various platforms so you can see past, present and future cash flow?
- How many languages does the platform support?
- Does the partner have a global footprint and the ability to service clients in their native language?

Funding Questions

- Does the provider have the funding network to support customers from various countries?
- Is the provider able to pull from their funding network to provide funding in the region with the currency needed?
- Is the provider willing and able to onboard new funders from around the world?

Growth & Expansion Questions

- Does the provider have the means to support future global expansion?
- Can the provider connect with any system?
- Can the provider create a streamlined and automated workflow to track payments and capture data to inform future transactions?

Outgrowing a partner or provider can be inefficient and costly in the long run. A company will need to find a new partner to source a larger network every time it reaches a new level of expansion, meaning they'll need to invest again and again.

Vetting out the growth capabilities of a trade finance partner can be all the difference in building a lasting, nurturing relationship as the supply chain develops and enduring unnecessary growing pains that can be stunted at any stage.

Conclusion

It is more important than ever to adapt alongside an increasingly complex global business environment. The risk of falling behind can mean never quite catching up again. Businesses today are working with trading partners from around the world to bolster their business efforts. And, if they don't have partners that can support global supply chains from a technical, functional, and financial perspective, their priority should be actively building those relationships.

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