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Two key finance trends in the Asia Pacific region

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In early 2021, we are still emerging from the economic wreckage caused by the outbreak of the COVID-19 pandemic, which caused the worst economic performance and biggest decline in international trade since the Great Depression. Against this backdrop, merchandise trade in Asia Pacific held up better than in the rest of the world.

The impact varied across the region's diverse economies, though with a greater contraction in trade for South and Southeast Asian. At the same time, North Asian economies such as Greater China, South Korea, and Japan were more resilient. In fact, China is even emerging stronger from this episode than was forecast before the pandemic, when analysts expected the trade war with the US to slow its foreign trade. If evidence of the resilience of international trade in Asia was needed, 15 countries in the region, with China as the pivot, signed the Regional Comprehensive Economic Partnership (RCEP) last December. RCEP is the world's largest trade deal, covering one third of its population and 29 percent of its gross domestic product.

The pandemic has already had a profound influence on international trade – but this is only just beginning. I believe it will also accelerate existing trends in trade finance, especially in connection with sustainability and digitalisation.

Moving towards more sustainable trade finance

Protecting the environment and limiting climate change is no longer a topic for specialists or activists alone. Across global societies, and economic and financial institutions, there is a clear and strong call for the financial system to support the transition to a more sustainable growth model. The development of green finance began in the mid-2010s, notably with the establishment of the Green Bond Principles by the International Capital Market Association. The greening of financial markets continued with the emergence of green and sustainability-linked loans as well as transition finance. Green trade solutions are the next frontier in the exploration of a more sustainable financial system.

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Asia requires enormous investment to build infrastructure for the transition to a more sustainable economy, especially through renewable energy projects. Indeed, we believe the region will offer some the most globally promising opportunities to invest in the energy transition over the coming decades. The energy transition in APAC is driven by the impact of demographic and economic growth on energy demand as well as government policies to accelerate decarbonisation in each country. According to ENEA Consulting, in 2019, APAC accounted for 45 percent of global investment in energy transition, and it should be 54 percent in the period between 2019 and 2040.

Moreover, green finance has strong policy support in the region: the Hong Kong Monetary Authority (HKMA) and the city's Securities and Futures Commission (SFC) established a green and sustainable finance steering group in 2020, while the Monetary Authority of Singapore (MAS) also announced the launch of its Green and Sustainability-Linked Loan Grant Scheme (GSLS) late last year.

We believe that companies need additional financial tools to tackle this transition challenge, particularly in the trade finance field. That is why our structured trade teams built a trade finance framework inspired by existing standards for bonds and loans and based on traditional products: letters of credit and guarantees. The framework covers underlying projects in four categories: renewable energy, waste management, clean transportation, and sustainable water. This innovation was very positively received by our Asian clients. For example, it was used for China Goldwind's first green guarantees last year, which were among the first batch of green trade finance instruments in Asia and supported the development of a wind turbine facility in Vietnam. Also, CGNPC Huasheng's green guarantees facility this year to support its wind farm project was a positive step forward.

Greater standardisation required

For green trade finance deals to become established in the market, the industry as a whole needs to move more quickly to define the standards that will govern these solutions. For our part, Societe Generale has been involved for many months in working groups organised by the International Chamber of Commerce (ICC) and the Asian Development Bank (ADB). But progress across the industry is slow and we regret the difficulties in developing common nomenclature and standards.

This is all the more necessary as regulatory authorities in markets including Hong Kong and Singapore are already focused on this topic and we believe it is important that the industry should have a consistent voice in response. If this does not happen, the risk is that we will see different jurisdictions taking quite different approaches.

Moreover, through a coordinated approach, our professional associations or multilateral bodies will be able to demonstrate that green trade finance products are not riskier than traditional ones. This will be vital in making the case that they deserve favourable regulatory treatment, including under the Basel Framework, in order to support the transition of our customers and economies towards net-zero emissions.

Sustainability and innovation in trade

Creating a more sustainable approach for our industry also means supporting economic growth in less developed parts of the world and promoting social inclusion. We believe that Asian trade finance players have a key role to play in this process. This is done through:

Promoting new trade finance solutions that embrace these challenges in their design, such as sustainability-linked trade guarantees and letters of credit. For instance, our teams worked along with our sustainability specialists in 2020 to develop a framework in which we integrate social and environmental objectives with trade finance instruments. With these instruments, the client can reduce their fees if they meet certain sustainability criteria.

Enabling African growth and development. Trade finance by nature builds bridges between continents and promotes exchanges. Today, almost half of Africa's imports come from Asia, with China being Africa's leading trade partner. As Asian trade finance players, we should facilitate financing for key infrastructure projects between Asia and Africa, as well as opening doors for African small and medium sized enterprises working with Asian companies.

The path towards digitalisation

Everyone in trade finance is keenly aware how paper-intensive our industry is. As we strive for more sustainable trade finance, we must also commit to further digitising our services, which should help to facilitate the faster settlement of cross border trade. In 2019, Societe Generale chose Asia to experiment with the execution of its first electronic presentation (based on eUCP) for a letter of credit with Reliance Industries in India.

In 2020, we also deployed a proprietary document checking tool powered by artificial intelligence and optical character recognition modules. This was rolled out across all our back-offices in Asia with the objective of achieving faster and more secure compliance checks for our trade finance transactions. But there is no escaping the hard fact that these technologies are very heavy consumers of energy and it is crucial to find ways to become more frugal. In this respect, Societe Generale published a charter for responsible energy use in information technology and called on our partners to join us in this journey.