Hong Kong Needs to Quicken its Pace in Trade Modernization

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19 April 2023

Many countries have attempted to drive the modernization of trade through digitalization since the 1990s. However, with the blessing of a relatively stable geopolitical and highly globalized environment for more than two decades, trade digitalization has not received enough attention. During the coronavirus pandemic, global supply chains sustained negative impacts on multiple fronts, resulting in successive chaos in shipping, port, and customs operations. After the alarming experience, national governments have come to realize that digital technology can provide a flexible and effective way to deal with disruption in trading chains and hence they have all been stepping up trade digitalization efforts.

Trade digitalization is a massive project. Not only does it involve digitalizing the public and private sectors related to trade but it also calls for the prompt formulation of rules and regulations governing digital trade, industry standards, process guidelines, and the grooming of requisite talent.

Global rankings in trade modernization

In view of this, I recently led a team from the Asia Global Institute (AGI) to join hands with the ICC Digital Standards Initiative and the Milken Institute to compile an alpha version of the Global Trade Modernization Index (GTMI) so as to assist the Government and various sectors in evaluating their progress in trade digitalization.

The GTMI features the progress of 64 economies in the following five categories: paperless trade, regulatory, business readiness, human capital, and trade openness. Ranked on the basis of average score, the top five economies with the highest degree of trade digitalization are Singapore, Hong Kong, Netherlands, Germany, and the United States (see Table). With the exception of Singapore, which is relatively balanced across all categories, even the top 10 economies are generally faced with the problem of unbalanced development. For instance, while being way ahead in other categories, Germany shows lacklustre performance in paperless trade. Take, for another example, the United States. Despite having the world's most advanced digital trade regulatory system, it lacks the requisite talent.

Therefore, we hope that the GTMI will not only help the Government and the general public to have a better understanding of the development situation of the world's digital trade but will also point the way forward for future planning and input. The current alpha version of the GTMI mainly reveals public data and raw data and will provide analysis of the raw data in the next phase. The upcoming version is expected to be released in the second half of the year, which will include a more comprehensive comparison of the data. Interested readers may like to visit the AGI website nearer the time for details.

Global Trade Modernization Index (selective countries)

		Paperless trade	**Regulatory**	**Business readiness**	**Human capital**	**Trade openness**	**Total**
	weighting	**30%**	**25%**	**25%**	**10%**	**10%**	**100%**
1	Singapore	100.0	89.6	91.1	100.0	95.9	94.8
2	Hong Kong	87.5	84.8	93.9	91.6	85.8	88.7
3	Netherlands	75.0	90.0	100.0	77.9	97.4	87.5
4	Germany	68.8	89.7	97.0	85.7	97.4	85.6
5	United States	75.0	100.0	89.5	70.1	80.2	84.9
6	Switzerland	81.3	83.9	88.0	81.5	92.7	84.8
7	Taiwan	93.8	77.1	77.4	86.6	71.3	82.6
8	Denmark	68.8	85.2	90.5	79.7	100.0	82.5
9	Austria	81.3	81.1	79.7	76.5	100.0	82.2
10	Japan	81.3	73.0	93.7	67.3	83.4	81.1

Source: https://www.asiaglobalinstitute.hku.hk/apec-study-center/global-trade-modernization-index-alpha-version

Slow progress in paperless trade less than ideal

As for the specific data and method of calculation, since they are already available on the AGI website, there is no need to go into detail here. The focus below will be on two salient points of the ranking table.

The most crucial step in trade digitalization is cross-border paperless trade. Paperless trade means that all trade procedures are completed online. To traders, paperless trade translate into lower costs and higher efficiency. To countries and governments, paperless trade is conducive to reducing both manpower costs and error rates. Furthermore, paperless trade can minimize waste of paper, thus enhancing economic sustainability. In this day and age, when humans can effortlessly send messages to Mars and artworks created by AI can be passed off as human creations, paperless trade should have been a piece of cake. What is surprising, nevertheless, is that so far no country has truly achieved paperless cross-border trade.

Given the maturity of technology, why is international trade still unable to go paperless? As a matter of fact, the hurdle lies not so much in technology but in policy. On the one hand, different countries adopt different standards. A trade lifecycle involves coordination among various areas including port customs, taxation, bank payments, legal terms, etc. Each country, in turn, has its own stipulations and requirements for each of these areas. Hence, even if any two countries take the initiative to build a set of mutually-compatible standards, the negotiation between them will often take a few years.

To overcome this hurdle, many international organizations have come up with various agreement framework templates so as to establish a unified or mutually-approved set of digital standards as soon as possible. However, the templates have not been well received, particularly among sizeable economies, which tend to have scepticism or reservations about new standards. In 2017, the United Nations adopted the Model Law on Electronic Transferable Records, providing a legal blueprint for the recognition of electronic documentation. Unfortunately, it has only been adopted by seven countries. Back in 2011, the World Trade Organization already requested all its member states to facilitate trade through a single window, i.e. a one-stop online platform designated for all trade procedures. So far this has been fully implemented by only less than one-third of the member states.

On the other hand, concerns about data safety have also caused various countries to drag their feet when it comes to going paperless. Paperless trade relies on data flows and data extraction on a colossal scale that will involve personal data, business information, and other sensitive data. That's why a substantial number of countries are taking a wait-and-see approach to paperless trade. China, the US, the UK, India, and various EU countries have even introduced data restriction rules to limit the outflow of data.

Digitalization has lowered trade costs and entry threshold, giving smaller companies the equal chance to access the global market.

As physical trade is being transformed into digital trade, a golden opportunity for "corner overtaking" has no doubt presented itself for emerging markets to catch up with developed countries. Contrary to expectations, emerging economies do not seem to have taken this advantage. In general, the performance of developing economies in the GTMI pales in comparison with that of developed economies. Only one developing country, i.e. Malaysia, ranks among the top 25 in the Index.

Failure of emerging economies to secure the advantage

In terms of infrastructure in information and communications technology as well as logistics, many developing countries can actually hold their own with developed countries. Rather, what causes concern are the lagging policy and regulation. Without a sound legal system, emerging economies seem even more backward in face of a new form of trade. Furthermore, a report of the European Centre for International Political Economy shows that more policy restrictions have been imposed by emerging economies on digital trade, with a few Asian trade powers such as China, India, Indonesia, Vietnam, etc. among the most restrictive countries in this regard. Too many restrictions have led to a drag on developing countries' pace of digitalization, especially in recent years when technology has taken a leap forward. It looks quite likely for these countries to miss out on the golden opportunity for digitalization.

Taking a leaf out of Singapore's book

What catches the attention of Hong Kong people about the GTMI are naturally the rankings of Singapore (number 1) and Hong Kong (number 2). In the ongoing competition between the two countries in recent years, Singapore seems to have gained the upper hand once again. In which area does the country excel? Excluding "trade openness", the category in which Hong Kong's performance is outshone due to fewer free-trade agreements, the most significant gaps between Hong Kong and Singapore would be rules and framework for paperless trade.

Singapore is the only one among major economies that has adopted the Model Law on Electronic Transferable Records. On the basis of this international standard, the country concluded the world's first fully paperless cross-border trade using blockchain technology on 30 March 2023. Meanwhile, since proactively reaching out to other states and introducing the first Digital Economy Partnership Agreement (DEPA) in 2019, Singapore has entered into the agreement with key trading partners including Australia, the UK, and South Korea to build a comprehensive technical, policy, and legal environment for conducting digital-trade transactions with high efficiency.

While Hong Kong is ahead of the world in digital-trade finance and cross-border payments, its progress on the paperless issue is simply too slow. Only by 2026 will the final phase of the Hong Kong Trade Single Window kicked off in 2018 be fully implemented. Importers and exporters are still required to lodge customs declarations and file documents, e.g. Certificate of Origin, with different departments. Formulation of government policies, standards, and laws related to paperless trade is still far from being finalized.

Paperless trade is the result of successful collaboration by multiple parties. Only with joint and concerted efforts by trade partners and mutually compatible technical and regulatory standards can paperless trade become a reality. Hence, Hong Kong should not regard Singapore as its adversary on the issue of trade digitalization. Instead, the SAR should take the initiative to connect and cooperate with the country as well as strive to join the ranks of paperless trade countries by meeting the related system requirements as soon as possible. Provided that the SAR Government and sectors concerned go one step further to become leaders and rule-makers in digital trade, Hong Kong will stand to benefit even more from the world's new wave of digital trade.