

The future of trade and B2B payments

2028 market forecasts: emerging trends
and opportunities for businesses

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Executive summary

Global commerce resilient despite trade shocks



+24%

value of global cross border trade from 2019-22



\$30.3trn

value of global trade in 2022



+7%

volume of global trade 2019-22

Cross-border B2B services to accelerate post-pandemic growth



+44%

value of global services trade 2023-28



+\$3.2trn

value of global services trade 2023-28



42%

combined share of ICT and B2B services (other) by 2028 (share of total services)

Low-carbon transition will transform goods trade patterns



+30%

value in global goods trade 2023-28



+\$6.9trn

value of global goods trade 2023-28



+33%

value of capital goods sector trade 2023-28

Global commerce resilient despite trade shocks

Despite the global shocks of the pandemic, the war in Ukraine, and inflation, international business remained remarkably resilient. After the pandemic downturn in 2020, international trade rebounded strongly in 2021 and further increased during 2022. Trade also rose 7% in volume terms over this period.

Over the 2019-22 period, total trade increased by 24% in value terms (current prices), reflecting the inflationary environment economies have endured over the past two years. In particular, traded goods and services such as commodities and freight transport saw higher inflation than the wider economy.

Cross-border B2B services to accelerate post-pandemic growth

The post-GFC trend of services trade growing nearly twice as fast as goods trade should reassert itself, as accelerated digitalization and automation continue to increase tradability of business-related services globally. Services trade is forecast to grow by an average of 7.2% per year in value terms over the next five years, compared to 5.6% over the previous decade (2010-19).

When compared to 2019 levels, the growth of digitally deliverable services is expected to be superior to that of total services. Rapid growth in knowledge-intensive, ICT-enabled services categories will tend to favor those advanced economies with the digital infrastructure, innovation ecosystems and workforce skills necessary to succeed in this environment. The US is positioned to post the largest absolute increase in services exports by 2028, given its global leadership in many categories of professional services, as well as its investments in digital infrastructure and technological innovation.

Low-carbon transition will transform goods trade patterns

Goods trade is forecast to grow by 3.8% per year compared to 4.2% over the previous decade (in value terms). The global economy looks set for a sustained period of weakness through 2023-24, which will in turn weigh on the outlook for trade in goods. However, longer term prospects for global trade look brighter. There will be shifts in traditional patterns of trade driven by factors such as efforts to improve supply chain resilience and trade policies of governments becoming increasingly interconnected with other objectives, such as the low-carbon transition or national security.

As the global economy recovers in the medium-term (2025-28), labor markets in developed economies will likely remain tight. The limited spare capacity will mean firms need to accelerate business investment, which in turn will boost capital goods trade. The net zero transition will further boost capital and consumer goods trade due to increased demand for products like renewables components and electric vehicles. Capital goods trade is forecast to accelerate through the rest of this decade, growing by a third by 2028.

Raw materials trade is forecast to grow only modestly in value terms over the coming years. This is partly a price effect, as the price of some commodities eases off the highs seen in 2022, but also driven by plateauing (and in some cases declining) demand for commodities, particularly fossil fuels. These factors will tilt export growth in favor of economies producing capital and consumer goods such as China and Germany, with large raw materials producers like Australia seeing much slower growth. However, certain raw materials will remain in high demand, especially materials required for the energy transition (e.g., lithium, copper).

Over the 2019-22 period, traded goods and services such as commodities and freight transport saw higher inflation than the wider economy.

Government policies will re-shape commerce

- EU Carbon Border Adjustment Mechanism (CBAM)
- US Inflation Reduction Act
- EU Markets in Crypto Assets (MiCA)











Explicit alignment of trade policies to geopolitical ties, and climate/environmental goals, will also determine trade flow patterns going forward. Rivalries of Western governments around flows of technology and knowledge with China should boost other trade corridors in particular the emerging economies of Asia (e.g., South Korea) which have relatively low costs and increasingly sophisticated manufacturing capabilities. Equally, Asia is an increasingly important driver of growth in global demand due to its rising population and improving standards of living.

An alignment of trade policy with environmental and climate objectives may materialize in the form of explicit tariff-based measures such as the EU Carbon Border Adjustment Mechanism (CBAM). Further, industrial policies with trade implications such as the US's Inflation Reduction Act have various clauses on trade explicitly addressing sustainable development issues. These policies could pose a downside risk to certain traditional trade patterns (e.g., in fossil fuels trade) and potentially increase regionalized trade.

Across B2B international payments, global institutions continue to address demand from businesses for simplification and reduced friction when transacting across borders in foreign currency. Both the Financial Stability Board (FSB) and the Bank for International Settlements (BIS) are laying paths towards real-time business payments and potentially CBDCs. Meanwhile, the EU plans to launch its new Markets in Crypto Assets (MiCA) policy by 2024 to address the use of cryptocurrencies.

Capital goods and B2B services (other) trade look set to accelerate beyond pandemic

Table 1: 2028 global trade forecasts, nominal \$US trn, current prices

	2019	2022	2023	2028	2019-22	2023-28	2019-28
Total trade	24.5	30.3	29.8	39.8	24%	33%	62%
Total goods trade	18.2	23.6	22.7	29.5	29%	30%	62%
 Raw materials	2.2	3.5	3.2	3.6	62%	15%	67%
 Intermediate goods	7.5	10.1	9.6	12.3	35%	29%	64%
 Consumer goods	4.0	4.4	4.4	6.1	11%	40%	53%
 Capital goods	4.6	5.5	5.6	7.4	20%	33%	63%
Total services trade	6.3	6.8	7.1	10.3	8%	44%	64%
 Travel	1.5	1.1	1.3	2.7	-27%	105%	86%
 Transport	1.0	1.4	1.2	1.7	35%	37%	64%
 B2B services (other)	2.1	2.3	2.4	3.0	9%	27%	46%
 Financial services	0.7	0.8	0.8	1.0	14%	26%	54%
 ICT	0.7	0.9	1.0	1.3	33%	36%	90%
 Other services	0.3	0.3	0.4	0.4	4%	27%	42%

Source: Oxford Economics, Convera – April 2023

Has your need for cross-border payments increased post-pandemic?

Discover how Convera can help



Methodology

Methodology

This report offers insights into how global trade will evolve in the face of shifting geopolitical, economic and environmental realities. It builds on previous studies and provides a holistic view of trends across goods and services trade, as well as offering 2028 market forecasts. Whether diversifying physical and financial supply chains, or re-evaluating future business models and growth opportunities, the goal of this study is to provide business executives with forward-looking market insights. This may help inform the decisions they are making now which will re-shape their international operations over the next three to five years.

The report offers a global outlook as well as in-depth country-level forecasts for eight countries, namely Australia, Canada, China, France, Germany, Singapore, United Kingdom and United States. Collectively, the selected sample of countries made up 41% of total global exports in 2022 (40% of goods exports and 44% of services exports). Goods trade is defined by three broad categories (raw materials, intermediate goods and final goods, further disaggregated by capital and consumer goods) representing different stages of the value chain. Services trade is defined by six categories: ICT services, financial services, other B2B services, travel, transport and other services.

We have taken historical trade data on goods from the United Nations (UN Comtrade Database) and services from the World Trade Organization (balance of payments database). We have then used this historical data to model future forecasts for trade over the next five years. We then benchmarked our findings against GDP forecasts and other data sources to ensure consistency. This top-down macroeconomic forecasting approach is less prone to data inconsistencies than a bottom up (micro) approach. The latter is vulnerable to over or underestimation when based on a small sample of firm-level data.

The trade forecasts in this report relate to economic value being exchanged across borders, rather than total cross-border payment forecasts that include large volumes of P2P transactions. We've taken this approach to focus more attention on business transactions, with special attention on uncovering B2B trends.

The trade forecasts are reported in nominal USD terms, which will be affected by inflation and exchange rate movements. We have provided forecasts at an aggregate level in volume terms to account for these movements. We have considered assumptions on several themes from economic growth to inflation and the banking crisis. This means any forecasts are subject to material changes to these assumptions. However, we will refresh this study annually to provide updates.

The econometric forecasting uses statistical models based on historical data and was led by our partners Oxford Economics who provide forecasting expertise to governments and consultancy firms such as McKinsey. This report is further supplemented by unique trade and payments data and analysis from Convera's Market Insights team.

The goal of this study is to provide business executives with forward-looking market insights.

2019-22

post-pandemic review

Global commerce resilient despite trade shocks

International trade flows recover as value of cross-border trade hits record \$30.3trn in 2022

The structure of international trade has undergone seismic shifts over the past few years. This is due to the global shock triggered by the Covid-19 pandemic, as well as the subsequent uneven economic recovery due to the Russian invasion of Ukraine and high inflation.

Following a pandemic-related downturn in the value of global trade to \$22.1trn in 2020 (a 10% decline relative to 2019), international trade rebounded strongly to \$27.2trn in 2021. It increased again in 2022, reaching \$30.3trn (+11.4%). Our estimates indicate that the value of global trade in goods and services was 24% higher in 2022 than it was in 2019 and, when measured as a share of GDP, cross-border trade reached a post-global financial crisis high last year.

Value of cross border trade in 2022

\$30.3trn

In constant prices which adjust for inflation, world exports grew 7% between 2019 and 2022, at an average growth rate of 2.2% per year. This was slightly faster than average annual world GDP growth of 1.9%, underscoring the resilience of world trade despite various disruptions.

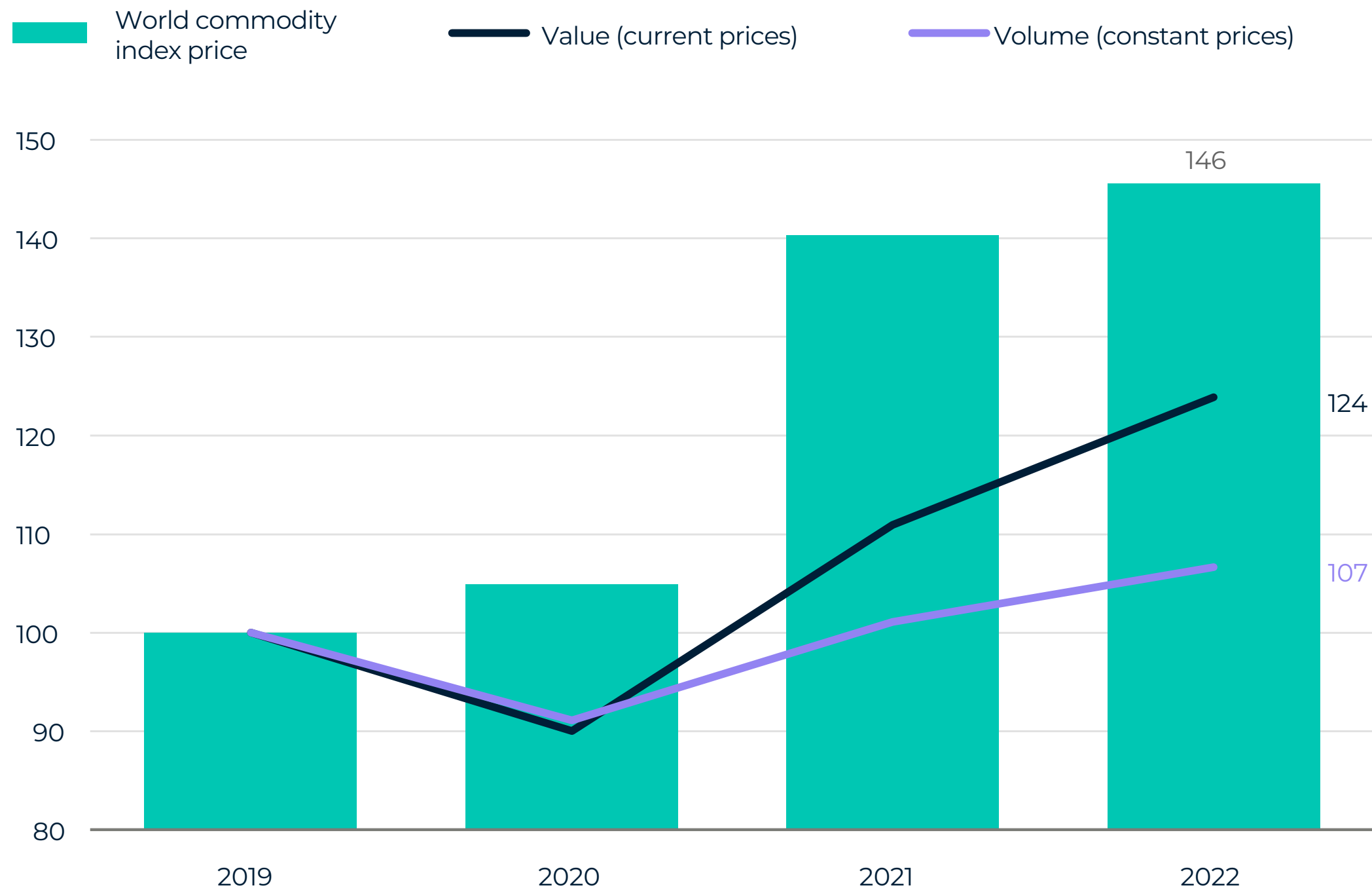
Prices of traded goods soared even faster than general inflation

The gap between growth in trade value (current prices), and trade volume (constant prices) is growing due to the high inflationary environment the global economy has faced since the Covid-19 outbreak. High inflation has materially amplified the value of trade data – aggregate trade in nominal terms exceeded inflation-adjusted trade volume by 10% in 2022.

In particular, the pricing of traded goods and services rose even faster than general inflation due to factors such as supply disruptions and soaring freight rates. Furthermore, we've all experienced rising energy and commodity prices fueled by the Russian invasion of Ukraine, Covid-19 related disruptions in China and labor shortages. Consequently, the value of trade in certain categories of goods and services was also boosted by price surges of the goods/services that make up key inputs.

The gap between growth in value and volume terms widened post-pandemic

Chart 1: World total trade value vs. volume and world commodity price index, excl. fuel, 2019 = 100



Source: Oxford Economics, WTO, UN Comtrade, Haver Analytics, Convera – April 2023

Both demand and inflation factors drove rapid growth in the value of global raw materials trade.

2019-22 goods trade driven by raw materials and intermediate goods

While total trade rose in both value and volume terms over the 2019-22 period, recent global disruptions have affected industries and economies in different ways. Firms toward the end of the production process, which produce consumer or capital goods (e.g., electronics), tend to be more impacted by supply chain disruptions than those producing intermediate goods, as they have longer chains and can be exposed to more potential sources of interruption. From a government policy perspective, sectors such as autos and steelmaking have been the most-frequent targets for new protectionist measures over recent years, according to Global Trade Alert.

As illustrated in Chart 2, after surging in 2021, trade in final or finished goods (capital and consumer goods) grew at a much more modest pace moving into 2022. Meanwhile both demand and inflation factors drove rapid growth in the value of global raw materials trade, which increased by 205% between 2020 and 2022.

Final goods trade has grown slower than raw materials and inputs

Chart 2: Global goods trade by sector, in US\$ trn, current prices



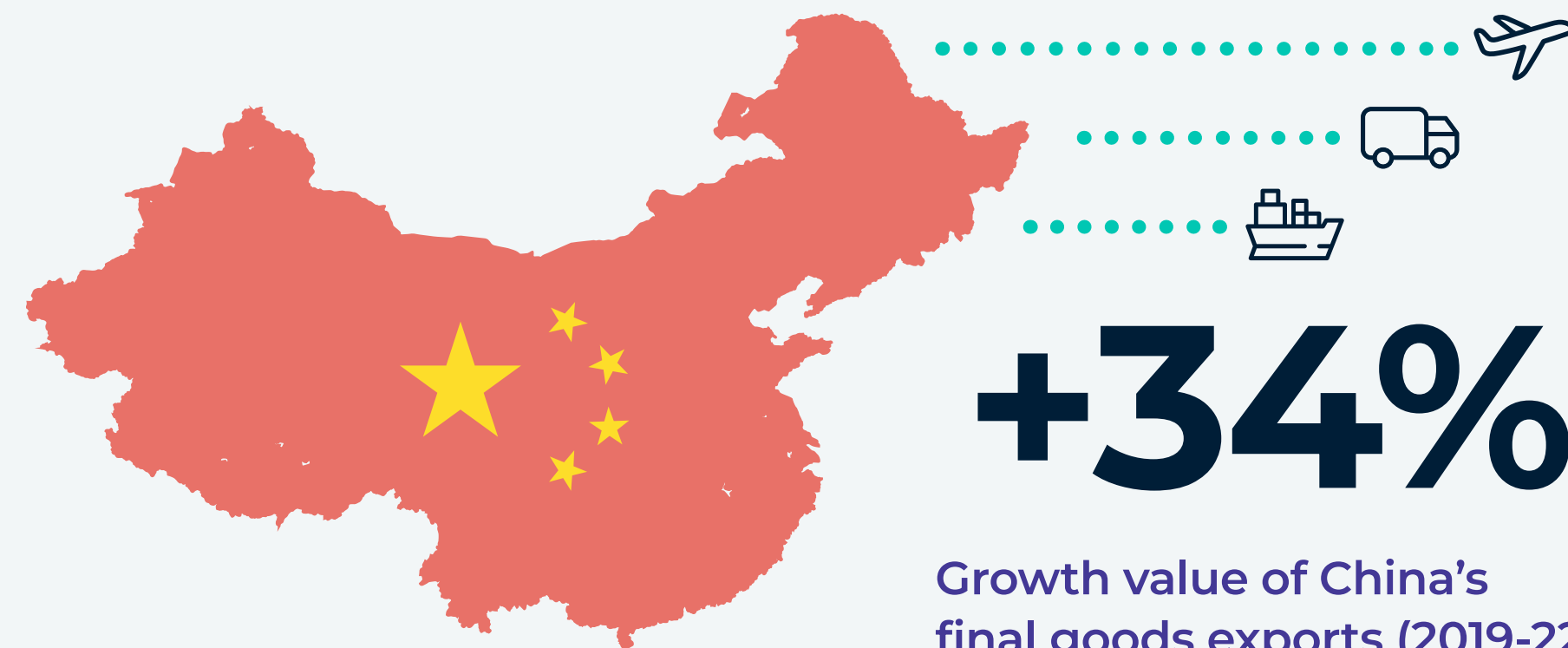
Source: Oxford Economics, Convera – April 2023

In goods trade, European economies have lagged Asia and North America

From a regional perspective, European economies have lagged Asia and North America recently due to a larger share of trade in final goods, which have greater reliance on global supply chains. In addition, European economies have a lower world share of exports in raw materials and fuels which have seen large price rises. Asian countries with a greater share of intermediate goods exports, and even more so raw materials exports, appear to have been less affected by global supply chain congestion. European countries like

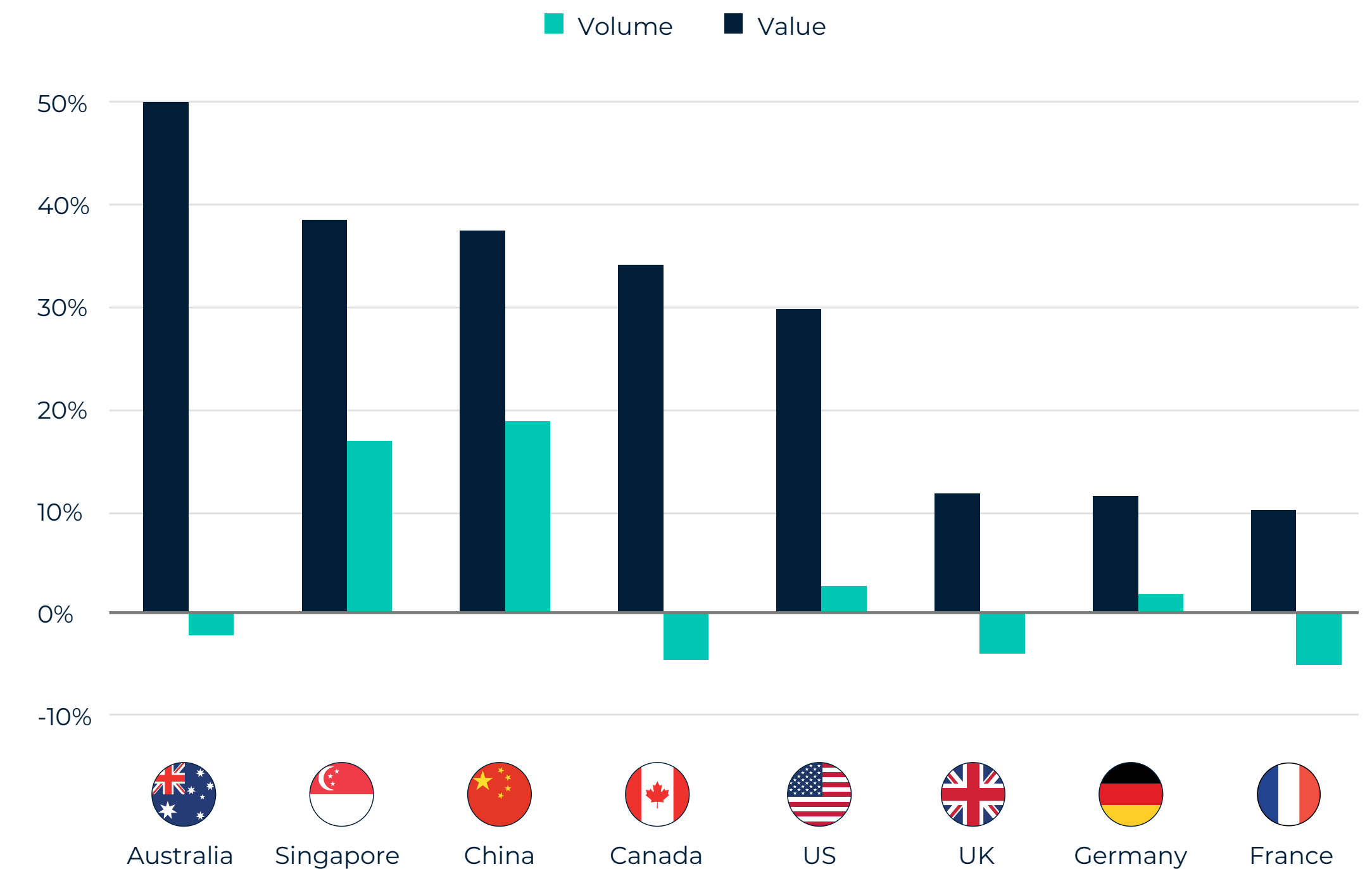
France and Germany have faced more supply chain disruption, as capital and consumer goods accounted for 60% of exports (by value in 2019) in those two European countries, compared to just 35% in Canada and 45% in the US.

China stands out for achieving substantial growth in its final goods sectors between 2019-22. This is likely because Chinese producers of final goods have easier access to the Chinese intermediate goods supply chain than producers in other economies, where port blockages and other issues have disrupted production. Also, demand for specific goods that China produces, such as consumer electronics and pharmaceuticals, soared during the pandemic.



European exporters have lagged Asia and Americas through pandemic era

Chart 3: % change in nominal US\$ exports by country, 2019 vs 2022



Source: Oxford Economics, Convera – April 2023

Transport and travel services sectors have faced very different recoveries

The value of transport services was 35% higher in 2022 compared to pre-crisis levels in 2019, reflecting a transitory boost to sea transport due to temporarily inflated shipping rates in the first half of the year. In contrast, the value of air transport services, largely covering passenger transport, remains well below pre-pandemic levels. Indeed, despite a strong rebound last year, the travel sector has not yet recovered from the steep declines caused by the pandemic.

As a result, the economies most reliant on international travel and tourism have taken the biggest hit to their exports. Within our forecast sample, Australia experienced the sharpest decline in the value of services exports, down 28% in 2022 compared to 2019 (Chart 4). Australia had a particularly high share (>50%) of travel and tourism in total services exports prior to the pandemic, and a large portion of this was driven by education. Strict Covid-19 restrictions and closed borders in Australia had a significant impact on international student-based travel flows.

Has technology increased the amount of business you conduct internationally?

Learn how Convera can help



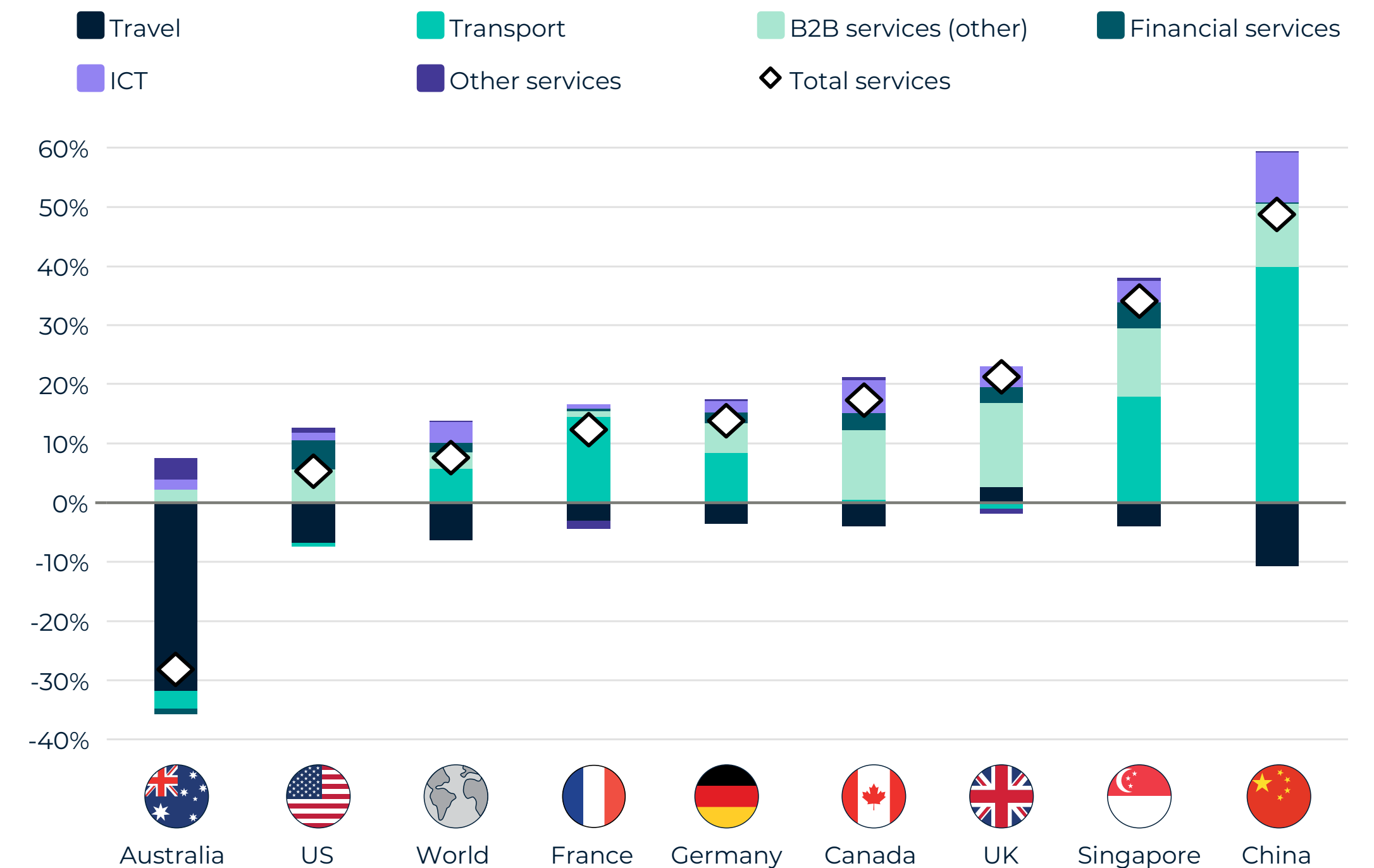
Services exports driven by rapid digitalization

If we overlook a likely transitory boost from inflated values of sea transport services, the best performing countries within our forecast sample over the past three years (namely Canada, UK, Singapore, and China) have been those that have benefitted from large exports of Financial, ICT and B2B services (other) - see Chart 4. This underscores the enduring benefits to these sectors from rapid digitalization over this period.

Services trade has been profoundly affected as the pandemic shifted attitudes towards more online business interactions, thus fast-tracking the digitalization of the economy. New data networks, digital tools and platforms have enabled digital services providers to expand their customer base beyond national boundaries.

Countries with large Transport, B2B and ICT services sectors outperform those reliant on travel

Chart 4: Services export growth by country and sector, 2022 vs 2019, % change in nominal US\$ value



Source: Oxford Economics, Haver Analytics, Convera – April 2023

2023-28 global trade forecasts

B2B, ICT, China to outperform others

Global economic downturn will initially weigh on trade in 2023-24

While some of the shocks that took a toll on the world economy over the past few years have eased, they have been replaced by new obstacles to growth. Most notably, fiscal and monetary policies combined look set to have a bigger negative impact on global growth this year than in 2022. Also, risks in the global banking system could lead to a tightening of financial conditions. And while high inflation rates appear to be moderating, inflation will remain above central bank targets this year. In fact, still-high policy interest rates and tight financial conditions look set to constrain an economic recovery in 2023-24, so the global economy looks set for a sustained period of weakness, which will in turn weigh on the outlook for global trade.

Forecasted value of cross border trade in 2028

\$39.8 trn

International businesses must navigate an increasingly complex geopolitical landscape

Although prospects from 2025 and beyond look brighter for the global economy and international trade, we are likely to see some shifts in trade relationships in coming years. This will reflect efforts by multinational corporations to diversify their supply chains to improve resilience and increase flexibility, often with partners from economically and politically aligned nations. As an example, tension between US and China over security is increasingly visible at a corporate level. Hikvision, a Chinese surveillance tech giant, is at the forefront in Western media over claims for illegally disguising its products sold to the US government to enable Chinese espionage. Meanwhile, US based Apple Inc. continues to diversify away its iPhone production from China to India.

The geography of international commerce will be shaped by trade policies of Western governments becoming increasingly interconnected with other objectives, such as the low-carbon transition or national security. US government policy has for some time now been directed toward promoting domestic manufacturing and encouraging diversification of supply chains, with recent examples including the Inflation Reduction Act as well as the CHIPS and Science Act. Many of these policies are effectively reducing US trade ties with China. Similarly, the EU's relationship with China is undergoing a transformation. The Diplomatic Service of the EU has raised concerns about China's countermeasures to EU sanctions on human rights, as well as China's position on the Russia-Ukraine war.

Global trade maps are being redrawn

Western trade with China is likely to slow in coming years due to this rivalry centered around flows of technology and knowledge. Oxford Economics' forecast models suggest that in the event of a technological decoupling (where international flows of high-tech products are restricted), economic costs fall disproportionately on China and Russia. As the world's largest exporter and manufacturer, China is highly dependent on global trade and a decoupling of the US-China technology supply chain could have significant economic repercussions for China.

However, this also means that other trade corridors are likely to strengthen, as Western trade is diverted towards other emerging economies of Asia such as South Korea – home to companies such as Samsung and LG who are among the most innovative technology companies in the world. These Asian economies have relatively low costs and increasingly sophisticated manufacturing capabilities, making them well placed to step into China's role as a supplier of manufactured goods to the West. Equally, the region is becoming an increasingly important driver of growth in global demand due to its rising population and improving standards of living.

The global economy looks set for a **sustained period of weakness**, which will in turn weigh on the outlook for global trade.

Global trade policies will be used to support national climate policies

In addition to using trade policy as a tool for navigating geopolitical relationships, countries are seeking to align their trade policies with national climate objectives. Recent examples include the EU Carbon Border Adjustment Mechanism and the US Inflation Reduction Act. New trade agreements are increasingly likely to explicitly address sustainable development and environmental issues. This is supported by an upward trend in environment-related trade policy notifications to the World Trade Organization (WTO) (2020 trade report). Geopolitics and the use of goods trade as part of global disputes are a key reason why we expect to see global services trade growth continue to outperform goods trade growth between 2023-28.

Services trade is forecast to grow faster than goods trade in 2028 vs 2023



Sectoral mix of global trade will resume its shift towards faster services growth

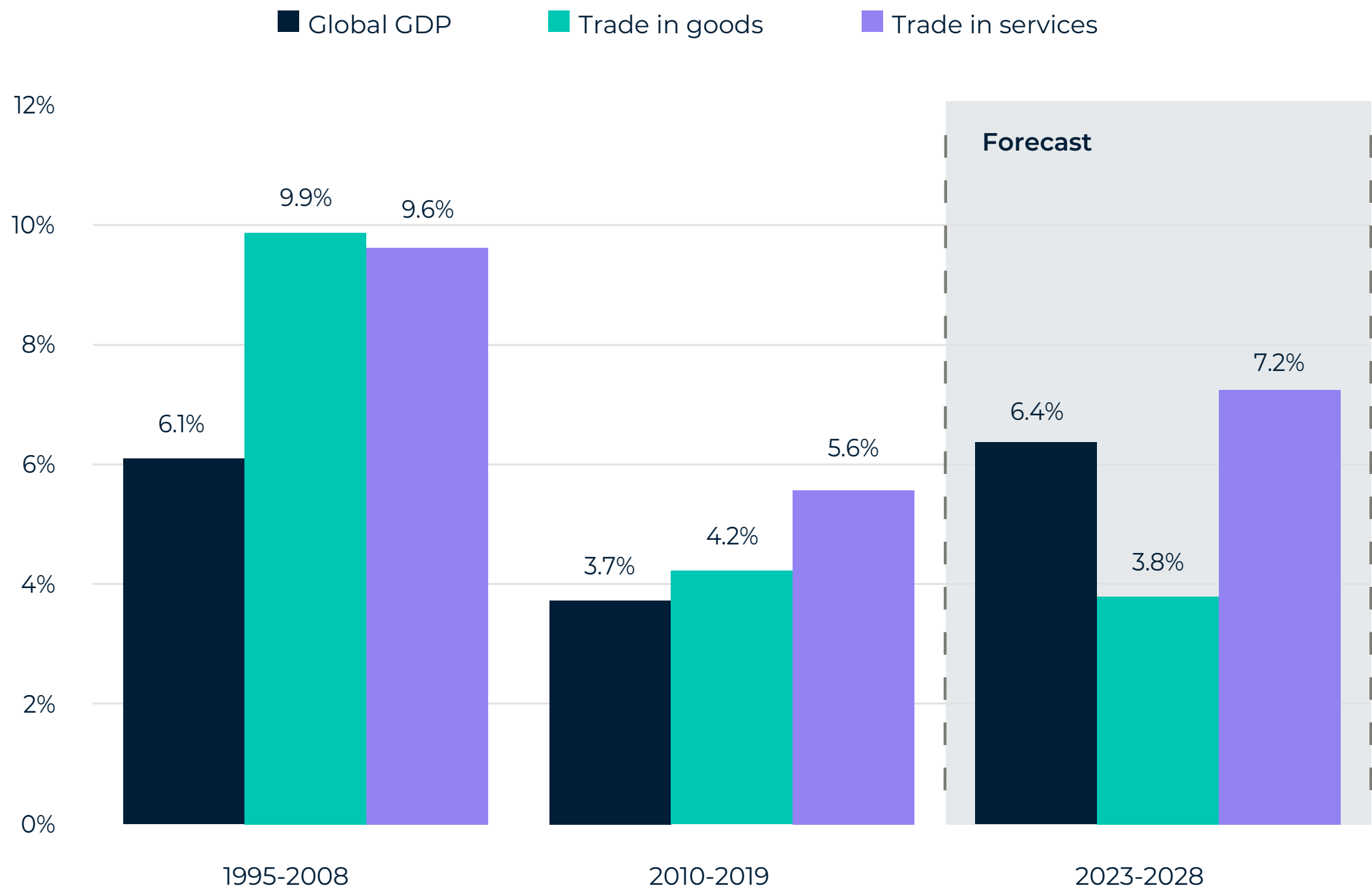
In the years following the Global Financial Crisis, services trade grew nearly twice as fast as goods trade, as digitization and automation increased tradability of business-related services globally, whilst travel services benefitted from improved air connectivity and lower air fares. We expect this trend of a rising share of services in global trade will reassert itself in coming years, as online business services continue to benefit from the tailwinds of accelerated digitalization of the economy during the pandemic. Demographic trends such as the expanding global middle class should also boost demand for services more broadly.

There will be some downside pressures on services trade growth. Diminishing product demand, falling consumer spending, and mean reversion of firms' valuations are among factors putting pressure on tech companies to cut costs and improve profitability.

By contrast, growth in the value of goods trade is likely to face several headwinds from shifting global value chains and more regional patterns of production. As Chart 5 shows, while both goods and services trade grew faster than world GDP in the 2010s, goods trade is forecast to lag world GDP growth over the next five years, while services trade will continue to outpace it.

Services trade to outpace goods amid global geopolitical issues

Chart 5: Global GDP and trade CAGR comparison



Source: Oxford Economics, Haver Analytics, WTO, Convera – April 2023

Net zero transition will influence the future composition of trade by sector

The net zero transition will bring major structural changes in the global economy as existing industries adjust or face decline. In turn, this will have implications for the volume and composition of international trade flows – mainly for goods, but also for services such as transport and travel. While the pathway to net zero remains uncertain, what is clear is that international cooperation is required for successful climate action, with international trade driving the exchange of environmental goods and the distribution of climate-friendly technologies.

Economic cycle and the net-zero transition will drive goods trade to 2028

Although the world economy is undergoing a period of weak growth in 2023-24, our view is that 2025 and beyond will see a rebound, as the impacts of price shocks in 2022 fade and monetary policy can start to ease. But unlike previous downturns, we expect labor markets in most economies will remain tight through 2023, meaning little spare capacity as the recovery starts. So, firms will need to accelerate capital investment to keep pace with demand. Six out of the eight economies in our study will see faster business investment growth through the coming five years than in the past five, and

in one of the remaining two (the US) the shortfall versus 2016-2022 is modest: 15% cumulative growth to 2028, compared to 20% between 2016-2022.

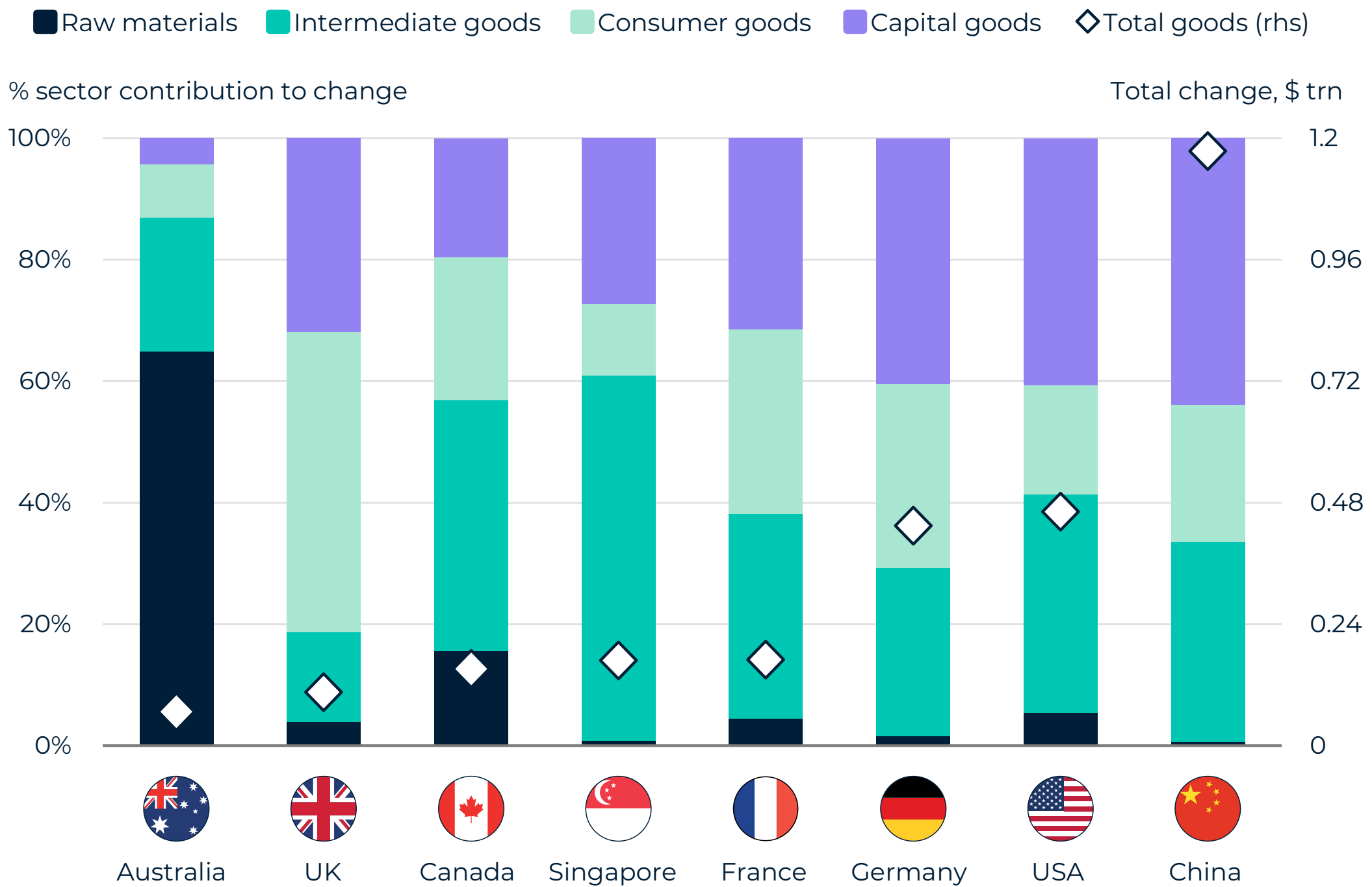
Renewables and electric vehicles a big opportunity for capital goods trade growth

The pace of capital spending will be further boosted by the transition towards net zero. The transition to renewables capacity will underpin faster trade in capital goods, as countries seek to build out both domestic production capacity in the sector, and in the immediate future source turbines and solar panels from countries where capacity already exists. We anticipate the buildout of renewable capacity to accelerate notably in China, the US, Germany, and the UK through the years ahead - adding 10-20 percentage points of total electricity generation capacity across these economies by 2028. In Germany's case (rising from 51% in 2022 to 72% by 2028) the renewables share will rise almost three times faster than between 2016 and 2022.

The net zero transition will also be felt in consumer goods trade, as motorists around the world switch to electric vehicles (EV). The switch to EV needs to gather pace rapidly in the coming years if net zero is to be achieved. The International Energy Agency (IEA) estimates 60% of light vehicles sales (including cars and light goods vehicles) need to be hybrid or all-electric powered by 2030, and 80% in the case of 2-3 wheelers in a net zero 2050 scenario.

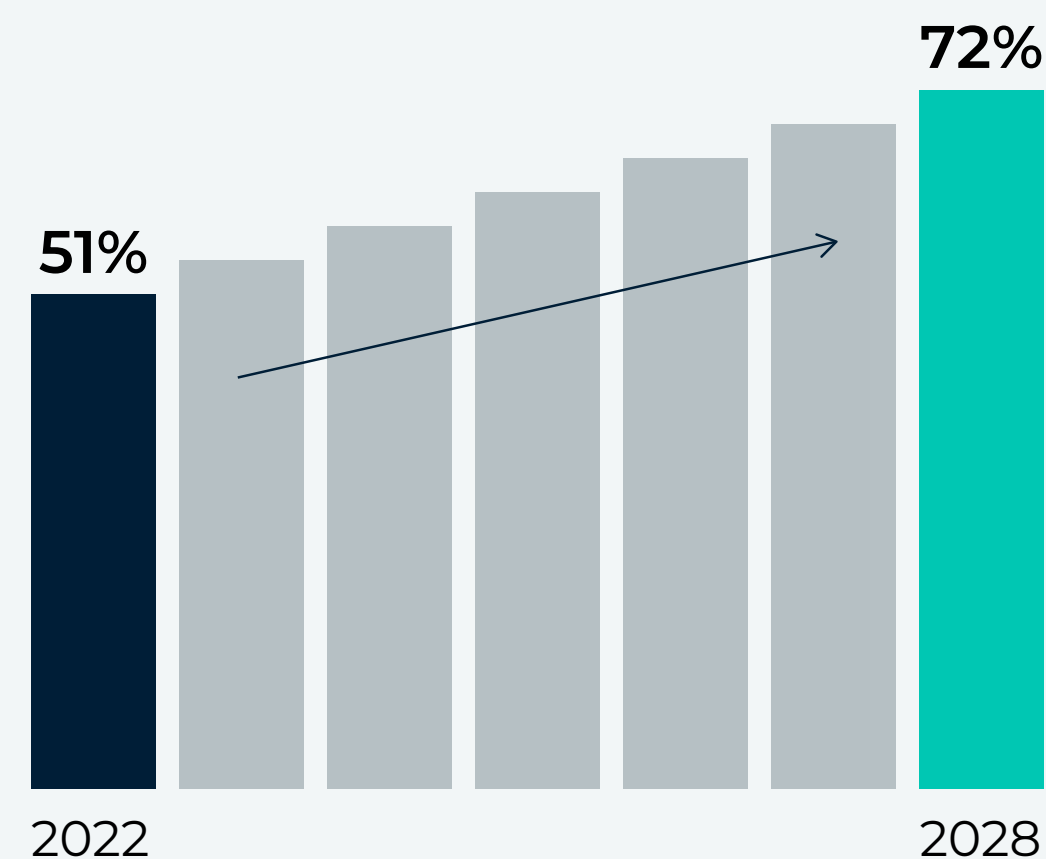
Capital and consumer goods will drive future trade growth

Chart 6: Predicted growth in goods' exports by country and sector contribution, 2023 vs 2028



Source: Oxford Economics, WTO, Convera – April 2023

Germany's renewables share to rise from 51% in 2022 to 72% by 2028



Countries with heavy raw materials export concentration face a slower trade outlook

China led fifty percent of the total gains in goods exports across our featured economies through 2016-2022, with the US accounting for a quarter of the total, and the remainder spread evenly across European economies producing a mix of final and intermediate goods, and commodity exporting economies. Looking ahead, global demand will tilt export growth in favor of economies producing capital and consumer goods, with raw material producers experiencing slower growth. Indeed, Australia's exports are projected to remain flat in value terms, reflecting the high share of raw materials (especially coal, gas and iron ore) in its exports, where global prices are expected to decline after sharp rises experienced in 2021-22.

Raw materials trade, which more than doubled from 2016-2022, is forecast for modest growth (+15%) in value terms between 2023-28. This is partly a price effect, as the price of some commodities eases off the highs seen in 2022, but also driven by plateauing (and in some cases declining) demand for commodities, particularly fossil fuels. Economies with the greatest export concentration in raw materials, and least integration to global manufacturing supply chains in growth and transition sectors, will face a slower trade outlook. Canada's trade outlook will be supported by its close integration to US manufacturing, but Australia is less integrated with Asia-Pacific industry, putting pressure on Australia's government to address goods export growth.

Net zero targets and EVs will boost capital goods trade

The transition to zero emissions in electricity and EV has substantial implications for the patterns of trade in our forecasts. Capital goods trade is forecast to accelerate through the rest of this decade, growing by a third in nominal terms by 2028 meaning B2B trade will see a big boost from capital goods trade over the coming decade. Consumer goods exports are forecast to grow 40%, while intermediate inputs, which underpin both sectors, are forecast to grow 30%.

In the auto sector, countries which are most successful in developing gigafactory capacity to produce batteries for electric vehicles will be best placed to assemble vehicles for their home market and export. Germany starts from a commanding position in Europe, with more gigafactory capacity existing or under construction than France, Italy, Spain, and the UK combined according to Battery Atlas. In the US, incentives in the Inflation Reduction Act drove a 35% increase in planned capacity in 2022.

China also has a strong position in the EV exports market. Chinese EV exports increased by 50.4% CAGR between 2017 and 2021, and the country also became the second largest global EV exporter as of 2021, accounting for 15.5% of global EV exports compared to just 1.3% in 2017. China dominates key parts of the global battery supply chain, and this important strategic advantage will contribute to growth in EV production and exports.

Raw materials trade, which more than doubled from 2016-2022, is forecast for modest growth (+15%) in value terms between 2023-28.

Renewable manufacturing capacity will boost export potential for capital goods

China starts from a strong position in the global energy transition – the IEA estimates China exceeds 80% of world capacity for all key manufacturing stages of solar panels (such as polysilicon, ingots, wafers, cells and modules). Capacity in the wind sector is more evenly spread, with several European economies hosting top-ten global players, led by Germany, Spain, and the UK. European economies (boosted by NextGen EU funding) are well-placed to gain from the renewables roll-out, while the Inflation Reduction Act in the US will support the expansion of renewables manufacturing capacity, and export potential in these sectors.

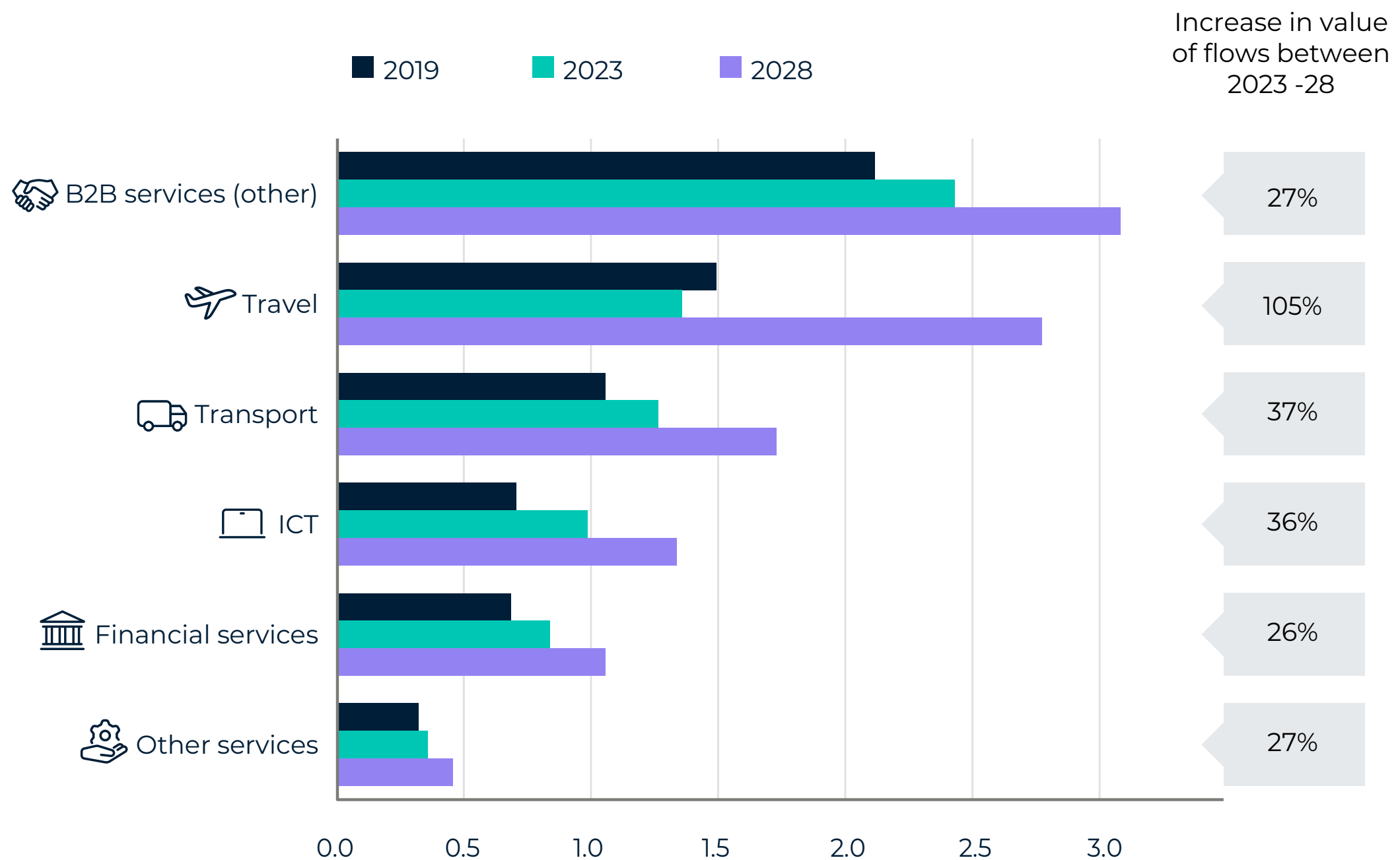
Cross-border B2B services (other) trade to hit \$3trn by 2028

Services trade growth is forecast to be strongest in the travel sector over the next five years, reflecting the delayed recovery of international tourism after the pandemic (Chart 7). Some of this will also be impacted by fare inflation. For example, US air travel costs increased by 42.9% y/y in 2022 according to the US Bureau of Labor Statistics.

However, when compared to 2019, and overlooking the pandemic-related disruption, we expect ICT services to be one of the strongest categories of services trade between 2023-28, and this will enable continued growth in cross-border B2B services trade. We expect the B2B services (other) sector to grow by 27% between 2023-2028 to reach a total global value of \$3trn flows.

B2B services (other) set to breach \$3trn by 2028 and remain largest services sector

Chart 7: Total value of services trade by sector, US\$ bln, current prices



Source: Oxford Economics, Haver Analytics, WTO, Convera – April 2023

Travel sector forecast growth by 2028 vs 2023

+105%



The US will post the largest overall increase in services exports during the forecast period.

Benefits of services trade growth will be harnessed by digitally competitive countries

Rapid growth in knowledge-intensive, ICT-enabled service categories will tend to favor those advanced economies with the digital infrastructure, innovation ecosystems and workforce skills necessary to succeed in this environment. Many of these countries also host companies with very strong market positions in certain digital services. As shown in Chart 8, the US will post the largest overall increase in services exports during the forecast period, the result of its global leadership in many categories of professional services, as well as its investments in digital infrastructure and technological innovation.

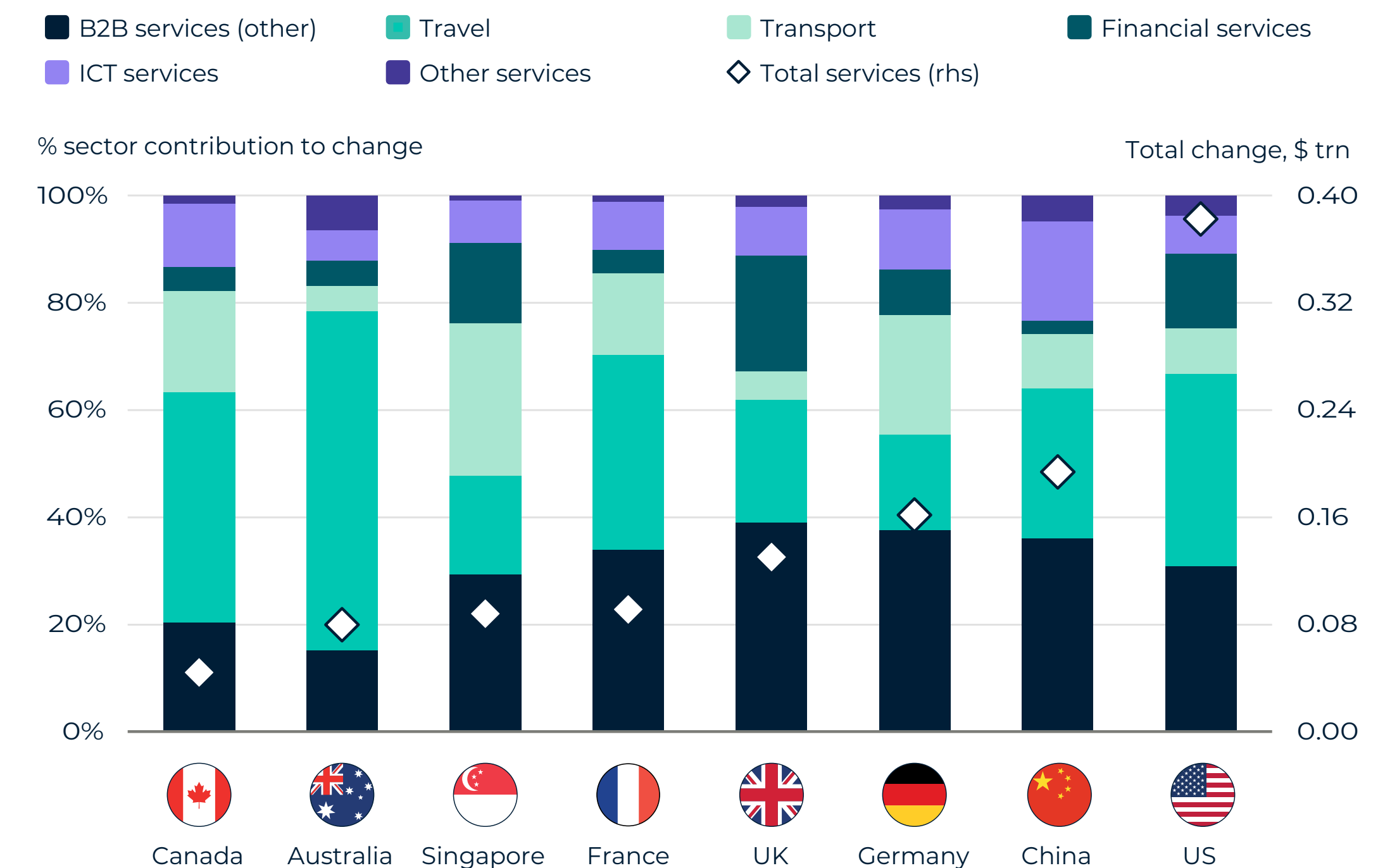
Other countries in our study such as China and Germany are also expected to post strong gains, however, with services increasing as a share of overall trade. For most countries, other B2B services will be the main driver of export growth in coming years, in countries with traditionally strong financial sectors such as the US, UK and Singapore, financial services will boost growth.

Are geopolitical issues impacting costs associated with international operations?

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UK, Germany and China will benefit from growth in other business services

Chart 8: Predicted growth in services' exports by country and sector contribution, 2023 vs 2028



Source: Oxford Economics, WTO, Convera – April 2023

B2B payments trends

Enabling simplification and reducing cross-border frictions

Businesses shift towards faster, more automated global payment solutions

As international trade and cross-border business continues to grow, it is critically important for global institutions to develop solutions that address frictions in cross-border payments. Enabling faster, more secure, and cost-effective payments is an area where businesses continue to focus attention, as legacy manual processes hold firms back from the scale and efficiencies they need to grow. Whilst the global payments industry addresses the need to transition towards solutions like real-time international payments, many businesses are still adopting more efficient cross-border payment methods available today.

At Convera, we have seen demand for automated payment solutions increase over the past five years. The share of payment volumes we've processed via automated payment methods (e.g., API) increased globally from 36.8% in 2019 to 49.1% by 2023. Regionally, this growth was driven by North America and APAC. In North America, we've seen an increase in the share of processed automated payment volumes increase from 58.0% in 2019 to 73.4% in 2023.

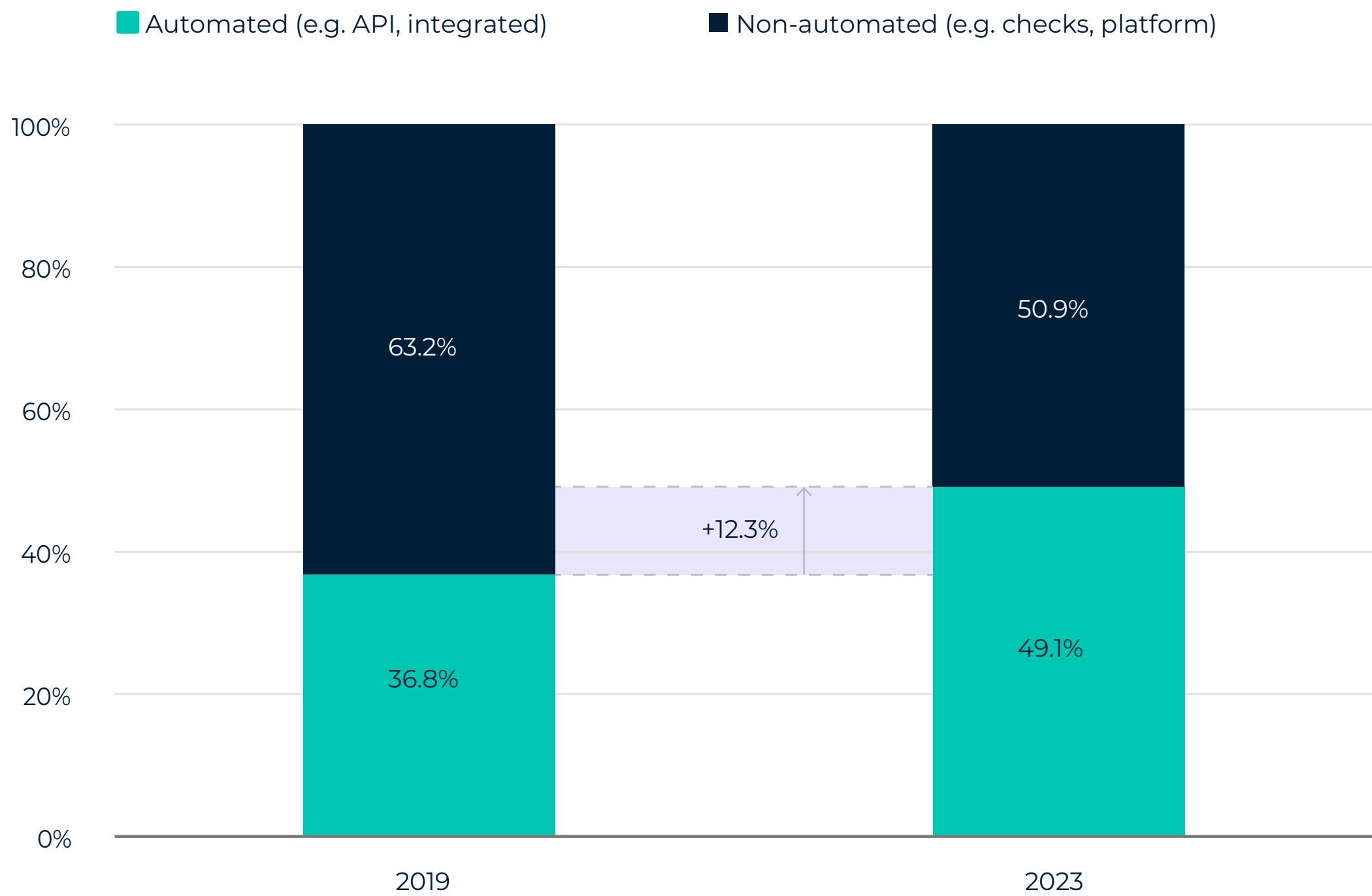
SWIFT gpi another step towards real-time cross-border payments

Improvements in cross-border payment solutions have been further bolstered in recent years by SWIFT's global payments innovation (gpi) which was launched in 2017. The initiative improves interoperability by providing an enhanced common standard for cross-border payments. It has helped boost transparency, enable faster payments, and improve integration across payment systems and networks. This helps to facilitate interoperable payments between different banks and payment systems, making it easier and more efficient for businesses to transact overseas. To help reduce friction in global trade, SWIFT gpi has cut the median processing time of cross-border payments to less than two hours and has been adopted across sixty market infrastructures and 4,000 financial institutions.

SWIFT gpi also uses the latest ISO 20022 payment messaging standards, enabling its end-to-end international payments tracking feature which helps businesses track payments and fees across intermediary banks. However, as the US prepares to launch its domestic real-time payments initiative, FedNow, like the EU's Single Euro Payments Area (SEPA), business demand for more innovation in international payments is still outpacing the global regulatory framework which supports complex processing of compliance checks. Consumer payment methods, such as mobile wallets, have raised expectations businesses have for international payment experiences.

Automated payment solutions gain 12% processing share

Chart 9: Convera's global payment transaction volumes by share of payment solution, 2019 vs 2023



Source: Convera – April 2023

Anticipating this, global institutions such as the Financial Stability Board (FSB) and the Bank for International Settlements (BIS) are actively engaged in promoting the development of real-time payments for international transactions. Furthermore, nine central banks globally are developing their own Central Bank Digital Currencies (CBDCs), according to analysis by the Atlantic Council. These nine countries account for over 95% of world GDP. The People's Bank of China has developed a digital yuan, known as its Digital Currency Electronic Payment (DCEP), which is currently being piloted in several cities and is set to expand in 2023. The European Central Bank has been investigating the optimal design for a digital euro since 2018.

Consequently, SWIFT is already developing a way to connect CBDCs that will likely be based on different technologies and standards. Multilateral interoperability will be needed to connect CBDCs and existing payment systems globally, to allow digital currency transactions to move instantly across borders with little friction. To assess CBDC interoperability, SWIFT's development work already involves 18 organizations including central banks and is based on leveraging distributive ledger technology as well as its current ISO 20022 payment messaging standards.

Is Cryptocurrency a sustainable business solution?

Many small business owners are already leveraging cryptocurrency and blockchain as a solution for real-time payments. However, cryptocurrency is decentralized, meaning it operates independently of banks and financial institutions. While this can make cross-border payments faster and cheaper, not all cryptocurrency exchanges are compliant with regulations. To address some of the challenges around regulatory requirements, fraud, and money laundering, the Markets in Crypto Assets (MiCA) regulation was proposed by the European Commission in September 2020 with the aim of having the regulation in place by 2024. In Asia, countries like Japan have also established legal frameworks for crypto assets, while China outright banned the use of cryptocurrencies for international payments as it develops its own digital yuan.

The regulatory framework governing international payments remains critical and is a driver for secure international business, and therefore growth. For example, sanctions already affected over 7% of global trade in 2015 (KIEL Institute for the World Economy) while the number of sanctions globally have increased by more than 270% between 2017 and 2022, following escalatory factors like the Russia-Ukraine war (Refinitiv, Global Sanctions Index).

Blockchain and distributive ledger technology (DLT) more broadly could provide material solutions to improve regulatory compliance. For example, DLT can help protect CBDCs from counterfeiting, hacking, and other forms of fraud by leveraging cryptographic security measures such as digital signatures and data encryption.

Business interoperability remains a key challenge as businesses often need to work with multiple banks and payments systems, in different countries and currencies. These global processes and connections can be very complex and also lead to unexpected risks – whether at the front end with customers, in the middle with compliance operations, or at the back end with regulators.

Companies increase hedging to future proof payments amid FX risk

Global uncertainty about exchange rates has increased in the past two years as central banks globally raised interest rates to counter high inflation. In 2022, 39 of the world's major central banks raised interest rates 219 times – the highest number of rate hikes over a one-year period since 2001. This has

The regulatory framework governing international payments remains critical and is a driver for secure international business, and therefore growth.

represented a complete shift from the 102 interest rate cuts that were delivered by central banks to support economies through the pandemic (Chart 10). Future interest rate expectations remain a critical driver in the value of exchange rates.

This has meant that businesses dependent on foreign currency exchange in payments have experienced a high level of disruption from volatile conversion rates over the past 12 months. For example, in 2022 the euro/US dollar exchange rate collapsed to below parity (20-year low) as the Russia-Ukraine war triggered a European energy crisis. Furthermore, the EUR/USD exchange rate also fluctuated in a 21% price range from high to low – the type of movements we last saw back in 2009. The EUR/USD currency pair is the world’s most traded, and volatility in this exchange rate has significant spillover effects on the value of other important exchange rates such as USD/JPY or GBP/USD.

Consequently, we have seen customers at Convera seek more support to mitigate currency risk, and future-proof their payments and profit margins. Convera’s hedging transaction volumes increased by 53.5% between 2019 and 2022 with the largest rise occurring between 2021 and 2022 (+29.4% y/y). The surge in demand for risk management and hedging solutions coincided with the start of what’s now known as the fastest global monetary policy tightening cycle (interest rate hikes) on record.

Economic slowdowns and banking turmoil now top of mind

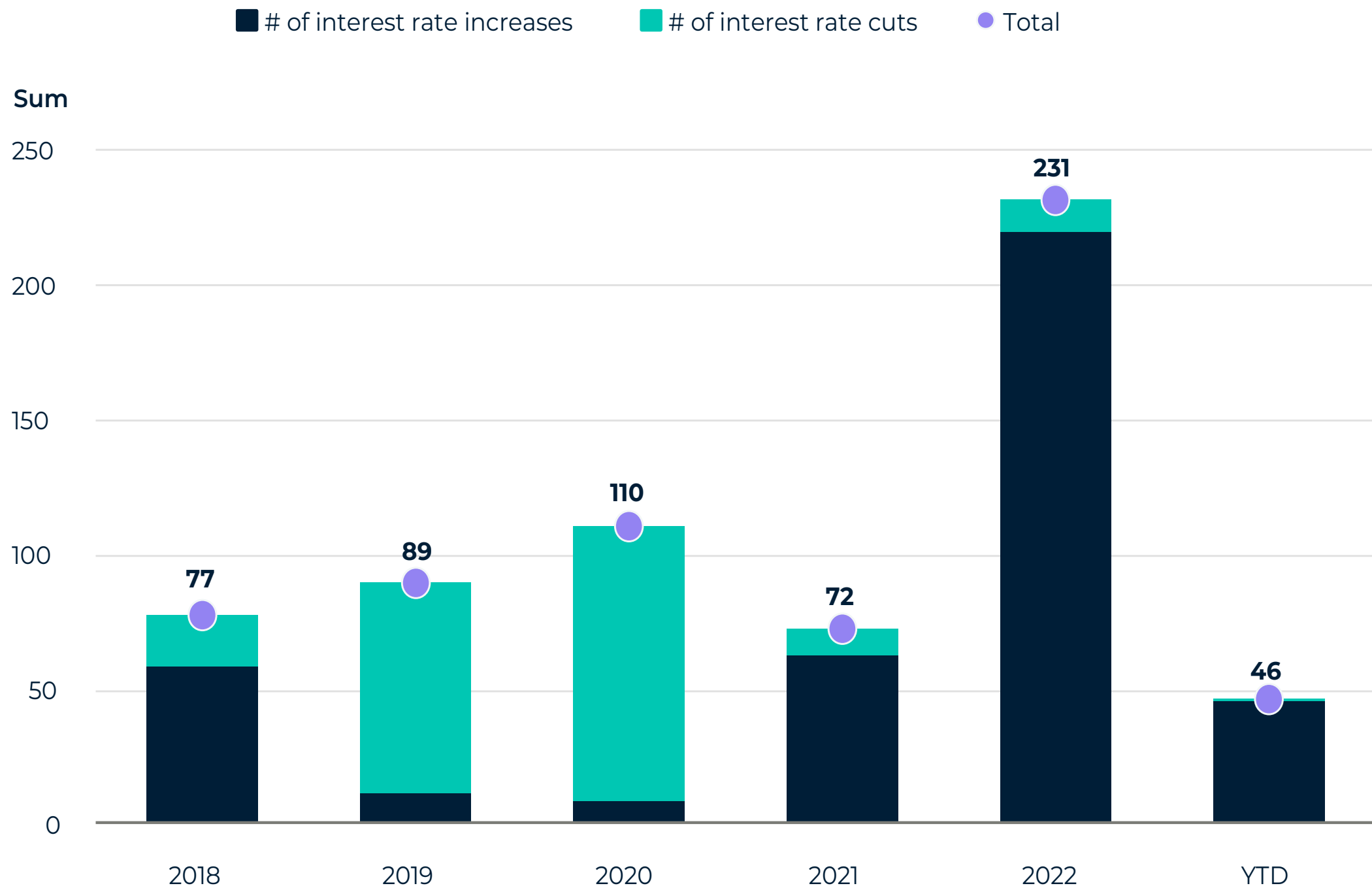
Many firms remain highly exposed to sudden shifts in exchange rates and the variable costs of doing business globally. There still needs to be more awareness of the practical solutions available to businesses – especially SMEs – to help them protect their finances from sudden market fluctuations, such as forward contracts for currency.

This is an important consideration for business growth given the outlook for markets in 2023-24. According to the International Monetary Fund’s (IMF) April 2023 forecasts, it expects advanced economies collectively to see a pronounced economic growth slowdown, from 2.7% in 2022 to just 1.3% in 2023. In addition, the IMF’s alternative forecast scenario suggests that with further financial sector stress following on from the collapse of Silicon Valley Bank and the Credit Suisse rescue, advanced economy growth could even fall below 1% in 2023 amid recessions.

The potential for economic recessions leading to yet another turnaround in interest rates – this time rate cuts – to stimulate growth, could pose ongoing challenges for international businesses. On one hand currency volatility can present opportunities for businesses to achieve their objectives by taking advantage of fluctuations in exchange rates. On the other hand, fluctuations can cause unpredictable swings in the value of assets and liabilities denominated in foreign currencies, or costs of inputs which can make it difficult to forecast and set profit margins.

2022: highest number of interest rate changes since 2001

Chart 10: Interest rate changes made by 39 major central banks



Source: BIS, Convera – April 2023

Conclusion and considerations

Global opportunities and risks to factor into business planning

Opportunities

Business digitalization and ICT innovation.

Net-zero low-carbon economy transition.

Automation and simplification of international payments.

Growing middle class in emerging economies like Asia.

Risks

Trade policies used in geopolitical issues.

Reshoring/regionalization of supply chains to increase speed or adapt to geopolitics.

US-China technological decoupling

Net-zero transition impact on raw materials and decarbonization of supply chains.

Policies

Environmental trade policies (e.g., CBAM) will hit imports of carbon intensive products

Nationalistic industrial policies (e.g., US Inflation Reduction Act, CHIPS Act, Made in China 2025)

China's 2025 Five-Year Plan – pivot focus away from exports to consumer spending

Global trade landscape to be disrupted by multiple factors, creating business opportunity

Global trade has remained remarkably resilient in recent years despite significant disruptions from the pandemic, war, and a shifting geopolitical landscape. Going forward, trade will remain an engine of global economic growth, however, there will be a reconfiguration of the global trade landscape to adapt to emerging geopolitical, economic, and environmental realities.

Most global trade transactions occur between businesses which are either final users or intermediaries using or repackaging the goods and services traded. B2B relationships are, and will continue to be, a critical component of global trade growth, supported by enablers such as currency exchange. Government policies will be key in this area. However, any products and technologies that help to simplify and reduce cross-border frictions will also play a pivotal role in driving healthy global trade.

Business considerations



Many post-pandemic government objectives include supply-chain resilience, re-aligning trade relationships with geopolitical relationships, and emphasis on national industrial policy for self-reliance and net zero targets. In the wake of the Russia-Ukraine war, Germany is set to replace all Russian energy imports by mid-2024, while the US continues to push its 'Made in America' narrative to reduce reliance on foreign supply chains.

Companies that have had a high historical reliance on goods trade sectors such as raw materials may need to re-think diversification as well as the opportunities in high growth goods sectors such as capital goods and consumer goods.



The growth of digitally deliverable services is expected to be superior to that of total services, with Financial Services, B2B services (other) and ICT services some of the sectors set to benefit most from technological innovation. Companies that can become an integral part of the value chains in these growth sectors could help accelerate and improve the sequence of activities that a company will perform to create value for its customers.

The opportunity to add value in these sectors may be through offering digital infrastructures, innovation ecosystems, global payments, as well as knowledge and skills be necessary to help them meet their growth ambitions.



Geopolitical issues such as trade conflicts, economic sanctions, and political instability could create significant disruptions in global trade and payments, affecting both the volume and pattern of trade flows as well as currency exchange. Brexit is one recent example of how trade policies can have significant consequences for international companies across trade, investment, currency, and labor supply.

Companies must anticipate these factors on a more frequent basis, and project their potential impact on their own global operations as well as their customers through regular scenario analysis.

Access a payment solution that is
seamless, sophisticated and global.

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convera
SMART MONEY MOVES

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Convera is one of the largest non-bank B2B cross-border payments company in the world. Leveraging decades of industry expertise and technology-led payment solutions we deliver smarter money movements to our customers — helping them capture more value with every transaction.

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