The Commonwealth

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Blockchain – A New Opportunity for Strengthening Trade in the Commonwealth

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1. Introduction

Digital technologies are emerging as a general purpose technology supporting fundamental breakthroughs in business efficiency, service delivery and customer satisfaction. Within fervent discussion on the potential of digital innovations, blockchain technologies are increasingly a central plank, with far-reaching potential for disruption, transformation and widespread benefits realisation. It is forecast that blockchain use will grow substantially in practice (over 40 per cent annually; Netscribes, 2018) and revolutionise the global trade system.

Yet it is rarely easy to convert technological innovation into transformational economic change. Blockchain technology remains largely in the pilot stage at the vast majority of first-mover firms and governments. Considerable further maturation of the business case, practical learning and market testing is needed. At the vanguard of practice are blockchain-enabled digital currencies that have grown spectacularly in use and value, albeit fuelled by speculation, which has led to volatility, notably with Bitcoin. Yet more than a decade's practice is yielding enabling policy, regulatory and institutional integration, with attendant drop in risk, highlighted by increasing interest in digital currencies by institutional investors, which provides a signal to the market of verifiable stability, trust and security.

What is certain is that blockchain technologies have captured the imaginations of many. During 2018, pilot projects were conducted across almost all economic sectors, including energy, finance, insurance, legal, marketing, media, pharmaceutical, retail, tourism, transport and travel. Many first-movers are in heavily regulated industries and those seeking to manage large flows of data. Examples include financial transactions, trading energy in Scotland, online Vickrey auctions of flowers in Rotterdam, conservation and peer-to-peer donations. Across the Commonwealth, firms and governments are piloting applications in supply chains and land registrations, among others. However, because this technology is nascent, impacts from its widespread adoption are not expected immediately (Sinrod, 2018).

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This issue of the *Commonwealth Trade Hot Topics* provides a brief overview of some of these blockchain technologies, seeking to separate the hype from the reality for Commonwealth member countries and clarify the risks and opportunities to consider when making decisions over trade and development policies and attendant infrastructure investments.

2. What is blockchain?

Blockchain technology leverages digital innovations – such as the internet, cloud computing, digital cryptography, algorithms and widespread ownership of computers – to craft inscrutable 'informational hallmarks' that enable construction of new data streams on existing products and services that are a transparent, encrypted and secure form of 'information value chain' or 'digital ledger'. These information value chains are powerful catalysts for change because they replace costly intermediaries – such as banks, lawyers and auditors – by being transparent and reducing risks that call for third-party 'trust intermediaries'. For the producer, buyer and trader, blockchain technology therefore promises reduced cost and time, and in theory expands the market for the product or service.

The innovation of blockchain technology came during the global financial crisis in 2008. An open-source virtual currency, Bitcoin, was launched to enable trades without banks as intermediaries. Bitcoin pioneered cryptography to encode these 'informational hallmarks' – called 'bitcoin mining' – and 'distributed ledger technology', which uses widespread ownership of computers to track and allow transparent assessment of all bitcoin transactions. This means no central agency controls Bitcoin and its operation; rather, the evidential information is distributed across computer platforms around the world. By using cryptography to keep exchanges secure, blockchain provides a decentralised database, or 'digital ledger', of transactions visible to everyone on the network. This network is essentially a chain of computers that must all approve an exchange before it can be verified and recorded. The network of computers is the 'chain' and the verified transaction is referred to as the 'block'. Once verified, the block transaction is added permanently and cannot be altered.

Blockchain technology simply provides certainty that a recorded piece of information happened at a specific time. Once information is validated and encrypted in a 'block', it cannot be changed. Yet, when operationalised, this 'information value chain' can unleash considerable benefits along supply chains for business and consumers:

- *Cost savings* occur owing to lower transactions costs, faster transactions and uncomplicated monitoring. For example, the World Bank indicated that over US$43 billion could be saved through the use of digital currencies.
- *Trust* is enhanced through transparent access to the details of a product's progress along a supply chain, simplifying trade, and the inscrutability of the information generates trust among participants.
- *Intermediation* is reduced *and* shorter supply chains with fewer third parties speed up trade and reduce bottlenecks. For instance, when coupled with other technology such as 'smart contracts' – or stage-gate-enabled financial payments when the terms of a contract have been met – there is less need for the services of lawyers or accountants. For example, typical money transfer companies charge over 8 per cent per transaction, whereas it is estimated that digital currencies will cost nearer 1 per cent.

The foundational technology underpinning Bitcoin was quickly recognised as valuable beyond digital currency development. In theory, any data can be posted on a blockchain: votes, land registers, supply chains, blood types and food standards.

3. The potential of blockchain in international trade

At a theoretical level, blockchain technologies offer efficiency savings that appear enticingly valuable to business and trade, with some commentators even contemplating the potential to become a fresh gold standard for international trade (Mcwaters and Lehmacher, 2017).

The operation of international trade has changed little since the innovation of the shipping container in 1956 transformed the sector. Currently, the flow of information is inefficient: data are often buried in institutional silos in multiple companies and continents, and progressing requires multiple intermediaries, physical paper trails and a permanent risk of delay. At a supply chain level, there is no single point of entry for information, which is distributed.

Furthermore, blockchain technology is seen as both complementary to existing positive incentives within well-functioning supply chains and strengthening these supply chains. For instance, supply chains for food have been shown to have cooperative

tendencies between adjacent stakeholders along the chain, and often further, as finance, private voluntary standards and provenance are being tracked (Borot et al., 2008). Blockchain technology can increase accountability and transparency among the multiple suppliers, middlemen and retailers. It is also hoped blockchain and associated technologies can support general public goods to ensure supply chains are free from illegal practices – such as child labour – and favourable practices are rewarded – such as Fair Trade and animal welfare (Matthews, 2018).

Elements of blockchain technology are practised already in a large number of supply chains, particularly those for high-value commodities and time-pressured fresh produce. These supply chains, from planting to supermarkets, have been digitised, monitored and governed for over 20 years. Considerable best practice and standards adherence experience have created seamless certainty in these supply chains, which benefit producers and consumers. Blockchain technologies harbour the potential to transfer this learning into many other commodities.

3.1. Efficiency

International supply chains are long, complex, multi-agency, costly and administratively intensive. Chief costs and risks of delay result from transactions costs among participants (e.g. exporters, insurers, banks, port authorities, freight companies, freight forwarders, customs, shippers, ground transporters, importers), the maze of regulations, lack of transparency over documents (e.g. bills of lading, letters of credit, phyto-sanitary certificates, customs approvals) and finance (specifically money transfers). All these increase costs and time and introduce multiple inefficiencies.

Blockchain technology offers complementary mechanisms that would be contained in an online distributed ledger and could streamline administration and automate all transactions, driving efficiencies in payments, settlements and transactions processes. It also promises fewer errors and less re-entering of information, swifter approval of shipments from exporting countries and enhanced availability of trade data on products (e.g. chemical content, product quality, customs duties).

For example, it is reported that each shipment of roses from Kenya to Rotterdam results in a stack of paper 25 cm high. Plus, manual handling of paper-based documents is labour-intensive and expensive to courier by express transport and frustrates communication among supply chain participants often using incompatible legacy IT systems. This is compared with a blockchain technology-enabled trade that digitises workflow and tracking shipments end-to-end, that updates in real time and that can process and settle transactions in minutes without the need for third-party verification.

3.2. Trust

Blockchain technology time-stamps data in a way that cannot be tampered with or altered. This helps maintain the validity of an application state. Participants can trust that whatever information exists for a transaction or supply chain has been secured through a process that is known to the supply chain participants. Furthermore, this transparency engenders trust within supply chains by reducing the opportunity for fraud and ensuring that contracts struck between trading partners and along the supply chain are adhered to.

Additionally, blockchain technology is 'fault-tolerant' – that is, many computers can fail across the distributed network but the 'information value chain' is not disrupted. This is key step-change for international trade, as integrated blockchain technology can safeguard progress of products along a supply chain, particularly where stakeholders are operating diverse systems, with some carrying greater security risk or being off-line.

3.3. Simplifying participation

International trade supply chains include participants (such as shipping companies, recipient banks, port authorities) and stakeholders (watchdogs, tax and customs, banks). Blockchain technology will *neutralise power dynamics* that exist through asymmetry of information, and ensure efficiency benefits are common to all stakeholders. Furthermore, *cheaper, clearer compliance* will be possible on ownership, provenance and prices. This should reduce the cost of compliance, including adherence to laws and regulations, and expand the potential for private voluntary standards, voluntary standards and fulfilment of all terms, principles and coda. For example, consumers and consumer protection organisations will have a nearly-definitive accessible database of each product's journey from production to retail, and be able to block or not.

The forecast impact for the global economy of blockchain technology in international trade includes a range of subjective predictions:

Table 1: Predictions of impact from adoption of blockchain technology.

Sector	Positives	Risks
Global economy and trade	Higher global gross domestic product, trade volumes – World Trade Organization estimates by 5% and 15% respectively (Ganne, 2018).	Disruption of gains means winners and losers owing to changing comparative advantages, which may fall disproportionately on poorer, smaller or distant countries. Legacy organisations are large employers and significant entities, and typically last to innovate.
Environmental	Seamless integration of sustainability attributes of products – e.g. CO_2 footprints, plastic content – leading to lower waste, better value realisation, higher investment in compliance.	Increasing costs and technical barriers to market entry, higher unit retail prices, lower food security owing to new business models. Trade-offs among social and environmental factors in data capture and analysis remains challenging.
Global supply chains	Efficiency savings from disintermediation mean higher returns for producers (small- and large-scale), less waste, lower prices for many traditional products and commodities. Greater supply of cheaper food enhances choice and food security	Disintermediation will entail new costs being borne. For instance, eradicating financial middlemen is attractive until tax policy is considered, meaning new international taxation rules will be needed for future distributed businesses.
Trade bodies	Stronger, better-informed trade institutions in all countries: greater access to data, standards information and traded products profile will serve to refocus trade on producing quality goods at competitive prices.	Exponential increase in the number and associated costs of watchdog organisations.
IT sector	New entrants with a focus on tailoring local solutions for countries and markets will localise digital economic benefits.	Vigorous competition among new entrants will be counterproductive, resulting in excessive redundancy. E.g. competitive hosting platforms for blockchain technologies is currently limiting scalability – Corda, Hyperledger's Fabric, Ethereum DAO.

4. Key blockchain considerations for Commonwealth members

4.1. Why is it important for Commonwealth members?

Blockchain technology offers considerable advantages to grow value and volume in international trade. Yet there are clearly some disruptive risks, which need to be identified, quantified and mitigated. International trade is a cornerstone of all Commonwealth members' economies. Appropriate considerations will be different among broad groups of Commonwealth members, but some key considerations include the following:

Industrial profile: Some industrial sectors will present higher opportunities or face greater risks from the deployment of blockchain technologies. Research needs to be collated and, where necessary, conducted on blockchain technology impacts in key industrial sectors. This must occur alongside engagement to understand risks and opportunities to existing business, and some 'blue-sky' thinking on the potential to grow and attract new businesses.

Regulation: There is a considerable gap in all countries between exercisable regulation on the digital economy and its technologies. An example of this is the 'regulatory sandbox' (Shen, 2018) system employed by the UK government to test propositions relating to cryptoassets to see whether consumer value can be realised while understanding and managing the attendant risks. On the other hand, in 2017, Bangladesh Bank, the

country's central bank, deemed digital currencies illegal under its Money Laundering Laws.

Private sector needs: There is a clear need for officials to speak with their existing trading companies and their partners overseas to understand the willingness and appetite for introducing blockchain technologies. Then there is a need to work with companies to understand the sort of support, infrastructure and regulation that will be required to maximise the positive impact.

Skills and incubation: The examples of incubators in Kenya, Nigeria and Rwanda show the importance of creating space for commercial innovation, enabling it to both flourish and fail.

Standards-setting: All parties in a supply chain will be bound by common protocols and data formats. Ports, banks and commodities companies must also standardise protocols so they can share files and transact on the same platforms. In some cases, this requires regulatory changes to permit, for example, electronic bills of landing or letters of credit.

4.2. Examples of blockchain technologies across the Commonwealth

Agriculture: The Satoshi Center, Botswana's blockchain hub, is incubating a programme deploying blockchain technology in the small-scale agriculture sector. PLAAS (Afrikaans for 'farm') is a full-spectrum farm management system and a robust e-commerce system to enable marketing but also to manage, record and transparently communicate daily agricultural production and stock for individual farmers and cooperatives (PLAAS, 2018).

Voting: During the March 2018 general elections in Sierra Leone, Swiss technology company, Agora, used its technology to test whether the blockchain could contribute to the transparency of national elections and ensure a fair count of electoral votes. The results indicated that blockchain could mitigate election problems, and that the technology could improve the current voting system (and, ideally, ensure transparent and trustworthy elections).

Land: Rwanda's land registry will be digitised using blockchain technology in partnership with WiseKey, a cybersecurity and Internet of Things solutions firm based in Switzerland, and Microsoft. Similar pilots are being trialled by ChromaWay for India and Bitland for Ghana. The UK Land Registry is piloting blockchain technology to make the process of buying property easier, faster, cheaper and more transparent.

Identity: ID2020 is a public–private partnership of UN agencies, companies such as Microsoft and Accenture and foundations aiming to officially recognise the identity of 1.1 billion people who do not have an official identity. This lack of identity limits people's access to education, health care, voting, banking and housing. ID2020 aims to tackle these challenges by providing these individuals with an identity through a platform based on blockchain and built on open standards and an interoperable application programme interface, using fingerprints and iris scans.

Banking: Blockchain is topical in the financial sector in South Africa, thanks to completion of a blockchain trial for the banking sector undertaken by the South African Reserve Bank with start-up ConsenSys. This determined that about 70,000 transactions processed through the automated settlement system could be completed within two hours at an average of two seconds.

Political: The Kenyan government launched a blockchain task force to accelerate deployment of blockchain technologies for societal impact in a wide array of applications. An example is a partnership between Twiga Foods and IBM to grant microcredit loans to retailers by leveraging blockchain technology to track specific metrics.

Supply chain transparency: Several initiatives have employed blockchain technologies to track the providence, quality and supply chain transactions of commodities to both enhance value of compliant goods and prevent unethically sourced goods entering global supply chains. Specifically, Rwanda's mining authorities in the Ministry of the Environment are tracking the mineral tantalum, a central component for many electronic devices, in cooperation with Circulor, a British blockchain company, and tantalum miners Power Resources Group, whose product is a component in mobile phones. This application of blockchain technology leverages the success of pilot schemes by both De Beers, to ensure diamonds are not from conflict zones and did not employ child labour, and BMW, to ensure cobalt used in their electric vehicle batteries is ethically sourced (Lewis, 2018).

Food traceability: For many countries, imported food is integral to food security. The UK imports half of total food consumed domestically, highlighting the potential for greater security and higher efficiency through digital technology to make a

material difference across the supply chain. For consumers, mobile phone apps that supply details of traceability for selected retailed food items have been available for over a decade. Producers and retailers concerned with ensuring food safety, are looking to develop trust and security through blockchain technology (Banker, 2018), in the hope of quicker recalls in the event of contamination, and the widespread sharing of inspections, certification and standards compliance (Lucas, 2018). In the USA, Walmart has piloted blockchain technology, dramatically reducing product tracking time for mangoes from farm to store from two weeks to two seconds, and seeks to extend this initiative to all its leafy vegetable producers during 2018. Similar initiatives are being piloted by Carrefour, Albert Heijn, the IBM Food Trust programme and Subway.

Incubators: BitHub Africa, based in Kenya, is a blockchain accelerator for local start-ups providing consultancy services for organisations interested in deploying blockchain solutions across Africa and the Middle East, as well as establishing micro-lending start-ups based on blockchain technology. Also, Nigeria's blockchain community has experienced considerable growth over the past two years. We have seen the launch of a number of new blockchain start-ups, including SureRemit and the CDIN initiative, which aims to inform and educate Nigerians about the potential benefits of blockchain and cryptocurrencies. In Rwanda this year, the Blockchain Hub, part of the Smart Africa Initiative, was installed. Activities will include exploring the wider applications of the technology and will form the basis on which a roadmap to adopt blockchain technology in Africa will be created.

Travel: Several airlines, including British Airways and Air France, are trialling blockchain technology to address inefficiencies, high costs and slow transactions to improve flight status information by reducing the number of intermediaries (Cocco, 2018).

4.3. Examples of blockchain technologies in international trade finance

The greatest investments in market trials of blockchain technologies in international trade are in trade finance. These trials aim to lance inefficiencies of bureaucracy, trust and speed owing to a process that cuts intermediaries and that generates trust efficiently via blockchain's distributed ledger networks. A leading example is trade finance venture Komgo, funded by 15 of the world's largest institutions – including international banks, trading companies and oil companies. Komgo is aiming to optimise trade flows of physical commodities. It is the product of successful pilots, including the first full agricultural commodity transaction using a blockchain platform of soybeans from USA to China, which reduced processing time by a factor of five (ING, 2018). But it is in the North Sea – the benchmark-setting for much of the world's crude trading – that it is seeking to scale up (FinExtra, 2017). Specifically, Komgo is pioneering products essential to blockchain functionality and scale-up, including supply chain-wide compliance process and digital letters of credit.

Similar initiatives include Bay Area Trade Finance Blockchain Platform, consisting of five banks targeting Guangdong, Hong Kong and Macau, with a primary focus on greater trade finance transparency among small and medium enterprises and banks. This blockchain initiative is seeking more precise credit risk calculations, reduced approval times for financing decisions and to cut interest rates by 15–25 per cent (Morris, 2018).

5. Recommendations and way forward

Is blockchain a priority for the Commonwealth members? It remains nascent, untested and complex but already some Commonwealth members are seeing tangible benefits from its application to key industries. It is clearly worthy of consideration when taking decisions over technology, economic, and social investments.

The conceptual case for blockchain technologies is compelling, but also raw. What is certain is that it is rarely easy to convert technological innovation into transformational inclusive economic change. Considerable media discussion does not eclipse the paucity of successful pilots or scalable examples. Indeed, many commentators are predicting five to ten years' maturation of blockchain technologies before widespread adoption results from emerging practice and pilots.

It is worth restating the complexity of blockchain technology, being not a unitary innovation but several that build upon, integrate and complement one another. Each economic sector will require bespoke development, deployment and learning associated with elements of blockchain technology.

However, there are signs that blockchain technologies will disrupt many economic sectors during the next decade. For Commonwealth member countries, it is key is to improve knowledge of their business and population needs, to

determine how and what to invest in to ensure the gains from the looming disruption are maximised and the risks mitigated. Some considerations are suggested below:

- *Don't wait and see*: The potential behind blockchain technologies is large enough to prompt immediate action by public and private sectors. Timing, rather than change itself, is the great unknown. Commonwealth member countries should be considering how to develop capability, ensure organisations are blockchain technology-ready and integrate the new set of risks and opportunities into decision-making today. Indeed, blockchain has been lauded as a potential route to economic development; for example, South African President Cyril Ramaphosa is promoting the leveraging of skills and capability demonstrated by mobile phone developments to embrace digital technology, including blockchain, 'in the fullest way' to help reduce unemployment (WEF, 2019).
- *Collaboration*: Among public and private decision-makers, it is crucial to catalyse efforts to move existing supply chains towards blockchain-enabled supply chains. A collective vision from both each country and every economic sector on the potential for this technology is a great starting point.
- *Management of disruption*: Changes to industrial structures, economics of industries and transactions are going to emerge for many sectors. Commonwealth member countries should consider establishing a 'national digital taskforce' to identify and recommend policy investments and focus, and drafting a 'digital economy roadmap' with regular monitoring and updates to capture and manage change in real time. Experience shows that large employers such as legacy organisations and the public sector are typically innovation-shy, magnifying the need to manage for disruption, future-proof employment and nurture innovation.
- *Balancing regulation and innovation*: During their economic maturation, all new technologies require legal oversight, policy development and regulation by national bodies. Such decisions require a careful assessment of the potential benefits from innovation in almost any industrial sector, and of the perceived costs from misappropriation, to preserve the emerging strengths of the digital ecosystem.
- *Technological 'leapfrogging'*: Cross-Commonwealth initiatives can leverage support for inclusive economic development and positive technological change – such as incubators (see experience in Botswana and Kenya), piloting and other appropriate ways of transferring practice and policy. Indeed, at the January 2019 World Economic Forum annual meeting in Davos, blockchain was repeatedly seen as a technological leapfrogging method for emerging and developing countries, to help them learn quickly from the mistakes of technological leaders.
- *Fail fast*: Embedding the notion of 'failing fast' within the thinking, approach and enabling institutions is essential to leverage growth in the digital economy for Commonwealth members. Plainly put, many digital-focused innovations and start-up businesses fail for a variety of institutional, systemic and market reasons that have strong elements of context specificity. Creating an enabling policy and institutional environment that allows this will further enable development. Examples are reducing the barriers to opening new business ventures and enabling financing that expects and integrates these risks.

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International Trade Policy Section at the Commonwealth Secretariat

This Trade Hot Topic is brought out by the International Trade Policy (ITP) Section of the Trade Division of the Commonwealth Secretariat, which is the main intergovernmental agency of the Commonwealth – an association of 53 independent countries, comprising large and small, developed and developing, landlocked and island economies – facilitating consultation and co-operation among member governments and countries in the common interest of their peoples and in the promotion of international consensus-building.

ITP is entrusted with the responsibilities of undertaking policy-oriented research and advocacy on trade and development issues and providing informed inputs into the related discourses involving Commonwealth members. The ITP approach is to scan the trade and development landscape for areas where orthodox approaches are ineffective or where there are public policy failures or gaps, and to seek heterodox approaches to address those. Its work plan is flexible to enable quick response to emerging issues in the international trading environment that impact particularly on highly vulnerable Commonwealth constituencies – least developed countries (LDCs), small states and sub-Saharan Africa.

Scope of ITP Work

ITP undertakes activities principally in three broad areas:

- It supports Commonwealth developing members in their negotiation of multilateral and regional trade agreements that promote development friendly outcomes, notably their economic growth through expanded trade.
- It conducts policy research, consultations and advocacy to increase understanding of the changing international trading environment and of policy options for successful adaptation.
- It contributes to the processes involving the multilateral and bilateral trade regimes that advance more beneficial participation of Commonwealth developing country members, particularly, small states and LDCs and sub-Saharan Africa.

ITP Recent Activities

ITPs activities focus on assisting member countries in their negotiations under the WTO's Doha Round and various regional trading arrangements, undertaking analytical research on a range of trade policy, emerging traderelated development issues, and supporting workshops/ dialogues for facilitating exchange of ideas, disseminating informed inputs, and consensus-building on issues of interest to Commonwealth members.

Selected Recent Meetings/Workshops Supported by ITP

4 April 2019: The Digital Economy: The Case of the Music Industry held in Geneva, Switzerland in collaboration with UNCTAD and the Government of Indonesia.

15–16 November 2018: Commonwealth Regional Consultation on Multilateral, Regional and Emerging Trade Issues for Africa held in Mahe, Seychelles.

14 November 2018: Commonwealth African Trade Negotiators Network Meeting held in Mahe, Seychelles.

30–31 October 2018: Commonwealth Consultation on Multilateral, Regional and Emerging Trade Issues for the Caribbean held in Georgetown, Guyana in collaboration with the CARICOM Secretariat.

4 October 2018: Sustainable Technology-enabled Trade and a More Inclusive Trading System – Small State, ACP States, LDC and SSA perspective (WTO Public Forum) held in Geneva, Switzerland, in collaboration with ACP Geneva office and DiploFoundation.

5–6 June 2018: Commonwealth-CII Regional Consultation on Multilateral, Regional and Emerging Trade Issues for Asia held in New Delhi, India.

24 May 2018: Presentation of the Commonwealth Trade Review held in Geneva, Switzerland.

11 April 2018: The Commonwealth Prosperity Agenda: Towards a Common Future held in London, United Kingdom.

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