

RESEARCH SUMMARY

Blockchain and Cross-Border Transactions: How New Technology Can Improve the Way the US Does Trade

Blockchain was originally developed to enable transactions using the digital currency Bitcoin. The underlying technology, however, can also help transform international trade: it can make cross-border transactions faster, more efficient, and more transparent. So argue Christine McDaniel and Hanna C. Norberg in “[Can Blockchain Technology Facilitate International Trade?](#)”

A blockchain is a digital ledger built on a network where distributed recordkeepers hold copies of the ledger and every new entry is validated by consensus throughout the network. Transactions between two parties recorded in this ledger no longer need a trusted third party to act as recordkeeper. The authors examine three applications of blockchain technology across the trade landscape.

TRADE AND FINANCE

- Blockchain could reduce the expense and time required to facilitate trade that depends on third-party lending or insurance. Such trade accounts for about 80 percent of global trade.
- This reduction of expense and time will be especially important for small and medium-sized enterprises that may face restrictions to accessing credit or for firms in countries with less developed finance markets.

CUSTOMS PROCEDURES

- The technology could reduce costs associated with obtaining import and export licenses, creating and verifying the accuracy of cargo and shipping documents, and making customs declarations.
- Blockchain could make a positive contribution to expediting customs procedures. The total impact of those procedures on global trade volumes and economic output is estimated to be greater than that of tariffs.

TRACKING THE ORIGIN OF GOODS

- Blockchain could improve how producers and retailers manage their supply chains by providing real-time information on the movement and origin of goods.
- Blockchain designed for trade should disallow anonymity. If such a design were to be widely adopted, it might improve detection of illicit trade flows and help deter illegitimate efforts to circumvent trade rules. A design without anonymity could aid customs and law enforcement while easing the flow of legitimate trade.

Numerous private- and public-sector efforts are underway to explore the benefits of blockchain technology:

- Financial institutions are experimenting with blockchain to increase access and decrease the costs of trade finance.
- The shipping industry is working with those along the supply chain and with customs officials to see how a distributed digital ledger can facilitate the transparent movement of goods across borders and seas.
- Companies and retailers are exploring ways to track their own supply chains so they can communicate tracking and origin information to consumers who increasingly demand such information.

Blockchain is still in its infancy. This new technology will mature only under an adequate policy environment that balances tolerance for experimentation and innovation while emphasizing compliance with the laws governing international trade.