ISSN 2616-5902 Vol. 8, Issue 7: 27-34, DOI: 10.25236/AJBM.2026.080705

Blockchain Technology and the Digitalization of Trade Finance: A Theoretical Analysis of Letter of Credit Process Efficiency and Cost Reduction

Yihan Wang

Business School, University of Shanghai for Science and Technology, Shanghai, China

Abstract: *The global trade finance ecosystem has long been encumbered by paper-intensive, manually driven processes that generate substantial inefficiencies in processing time, operational costs, and systemic risk. The letter of credit (L/C), as the most widely used instrument in international trade finance, exemplifies these structural limitations. This paper presents a theoretical analysis of the application of blockchain technology to the letter of credit process, drawing upon simulation-based evidence to evaluate the comparative performance of three distinct operational paradigms: the traditional paper-based process, the Bank Payment Obligation (BPO) mechanism, and the blockchain-enabled digital process. Through a synthesis of distributed ledger theory, transaction cost economics, and process efficiency frameworks, this paper argues that blockchain technology represents not merely an incremental improvement but a fundamental architectural transformation of trade finance operations. Simulation results derived from the AnyLogic discrete event modeling platform, processing 600,000 letter of credit transactions per paradigm, demonstrate that blockchain adoption can improve process efficiency by 94%, compared with 74% under BPO adoption. The paper further examines the theoretical underpinnings of these gains, including reductions in labor costs, courier expenditures, and archival overhead, while situating these findings within the broader discourse on digital transformation, supply chain resilience, and financial technology innovation. The study concludes with implications for banks, corporations, and regulatory authorities, and identifies directions for future theoretical and empirical investigation.*

Keywords: *Trade Finance; Blockchain; Letter of Credit; Distributed Ledger Technology; Process Efficiency; Digital Transformation; Bank Payment Obligation; Supply Chain*

1. Introduction

International trade finance occupies a foundational position in the architecture of global commerce. It provides the financial instruments and institutional mechanisms through which buyers and sellers, separated by geography, jurisdiction, and mutual unfamiliarity, are able to transact with confidence. Among these instruments, the letter of credit stands as the most historically significant and operationally complex, serving as a conditional payment guarantee issued by a bank on behalf of a buyer to assure a seller of payment upon the presentation of conforming documents. Despite its centrality to global trade, the letter of credit process has remained remarkably resistant to modernization, continuing to rely on physical document circulation, manual verification procedures, and multi-party coordination that is both time-consuming and error-prone.

The emergence of blockchain technology, a form of distributed ledger technology characterized by decentralization, immutability, transparency, and cryptographic security, has introduced a compelling theoretical and practical alternative to the paper-based paradigm. Blockchain's capacity to create shared, tamper-resistant records across a network of participants without the need for a central intermediary aligns directly with the multi-party, trust-dependent nature of trade finance transactions. As a result, researchers, financial institutions, and fintech companies have increasingly explored the application of blockchain to trade finance as a means of eliminating documentary friction, reducing processing latency, and lowering operational costs.

The urgency of this transformation was dramatically amplified by the COVID-19 pandemic, which exposed the fragility of paper-dependent trade processes. The inability to physically circulate documents during lockdowns and travel restrictions caused significant disruptions to trade finance operations globally, accelerating the institutional appetite for digital alternatives. Governments, central banks, and

ISSN 2616-5902 Vol. 8, Issue 7: 27-34, DOI: 10.25236/AJBM.2026.080705

multilateral organizations responded by issuing digital transformation roadmaps and endorsing electronic documentation standards, signaling a structural shift in the regulatory and operational environment for trade finance.

This paper develops a theoretical framework for understanding the mechanisms through which blockchain technology generates efficiency gains in the letter of credit process. It draws upon three theoretical traditions: transaction cost economics, which illuminates the cost-reducing potential of disintermediation and automation; distributed ledger theory, which explains the trust and transparency properties of blockchain networks; and process simulation methodology, which provides a quantitative basis for comparing the performance of alternative process architectures. By integrating these perspectives, the paper aims to provide a theoretically grounded account of why blockchain adoption in trade finance is not merely a technological preference but an economic and institutional imperative.

The paper is structured as follows. Section 2 presents the theoretical framework. Section 3 reviews the relevant literature. Section 4 describes the structure and limitations of the current paper-based letter of credit process. Section 5 examines the theoretical properties of blockchain-based trade finance. Section 6 presents a comparative analysis of the three process paradigms. Section 7 discusses implications and future research directions. Section 8 concludes.

2. Theoretical Framework

The theoretical foundation for analyzing the inefficiencies of paper-based trade finance and the potential of blockchain technology is most productively located within the tradition of transaction cost economics (TCE), originally developed by Ronald Coase and subsequently elaborated by Oliver Williamson. TCE posits that economic actors incur costs not only in the production of goods and services but also in the process of transacting, including costs associated with searching for information, negotiating and drafting contracts, monitoring compliance, and enforcing agreements. These transaction costs are particularly significant in environments characterized by asset specificity, uncertainty, and bounded rationality.

The letter of credit process exhibits all three of these characteristics. The documents involved, including bills of lading, commercial invoices, certificates of origin, and inspection certificates, are highly specific to individual transactions and cannot be easily redeployed. The process is subject to considerable uncertainty, arising from the possibility of documentary discrepancies, delays in transit, and variations in the interpretation of terms. And the parties involved, including buyers, sellers, issuing banks, advising banks, and shipping companies, operate under conditions of bounded rationality, possessing incomplete information about each other's actions and intentions.

In this context, the paper-based letter of credit process generates transaction costs at multiple stages: the cost of preparing and verifying physical documents, the cost of courier services to circulate documents between parties, the cost of archiving and storing records, and the cost of resolving discrepancies and amendments. TCE predicts that institutional arrangements which reduce these costs, by increasing information transparency, reducing the need for intermediaries, or automating verification, will be adopted when the efficiency gains outweigh the costs of transition.

Blockchain technology addresses transaction costs in trade finance through several mechanisms. First, by creating a shared, immutable ledger accessible to all authorized parties, it eliminates the need for each party to maintain separate records and to reconcile them with counterparties, a process that is both time-consuming and error-prone. Second, by enabling smart contracts, which are self-executing code that automatically trigger payment or other actions upon the satisfaction of predefined conditions, it reduces the need for manual verification and approval at each stage of the process. Third, by providing end-to-end traceability of documents and transactions, it reduces the uncertainty and information asymmetries that generate discrepancies and disputes.

A second theoretical perspective relevant to this analysis is provided by the literature on distributed ledger technology (DLT) and its implications for trust in economic transactions. Trust is a fundamental prerequisite for trade, particularly international trade where parties lack the social and legal mechanisms that facilitate domestic exchange. The letter of credit was historically developed precisely as a trust mechanism, a way of substituting the creditworthiness of a bank for the unknown creditworthiness of a trading partner. However, the paper-based implementation of this trust mechanism introduces its own vulnerabilities: documents can be forged, lost, or delayed; banks can make errors in verification; and the opacity of the process makes it difficult for parties to monitor the status of their transactions in real time.

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Blockchain technology offers a theoretically distinct approach to trust generation in multi-party transactions. Rather than relying on a central intermediary such as a bank to vouch for the integrity of the process, blockchain distributes trust across the network through cryptographic consensus mechanisms. Each transaction is recorded as a block, linked to the preceding block through a cryptographic hash, and validated by multiple nodes in the network before being added to the chain. This architecture makes it computationally infeasible to alter past records without the consensus of the network, thereby providing a level of data integrity that paper-based systems cannot match.

The implications for trade finance are significant. A blockchain-based letter of credit platform enables all authorized parties, including buyer, seller, issuing bank, advising bank, and shipping company, to access the same real-time record of the transaction's status, eliminating the information asymmetries that generate delays and disputes. The automatic notification of status changes, enabled by smart contract logic, creates end-to-end traceability that transforms the letter of credit from an opaque, sequential process into a transparent, concurrent one.

The third theoretical pillar of this paper is the use of discrete event simulation (DES) as both a methodological tool and a theoretical lens for understanding process dynamics. DES models systems as sequences of discrete events occurring at specific points in time, with the system remaining unchanged between events [7]. This approach is particularly well-suited to the analysis of trade finance processes, which consist of a defined sequence of steps, including contract formation, L/C application, issuance, notification, document presentation, verification, and settlement, each of which consumes time and may trigger conditional branching based on the outcome of verification or approval decisions.

Simulation modeling offers several theoretical advantages over purely analytical approaches. It can accommodate the stochastic variability inherent in real-world processes, namely the fact that processing times are not fixed but distributed across a range, and it can model the compounding effects of amendments and resubmissions, which are a significant source of delay in the letter of credit process. By running simulations across large transaction volumes, in this case 600,000 transactions per process paradigm, it is possible to generate statistically robust estimates of average processing times and their distributions, providing a quantitative basis for comparing the efficiency of alternative process architectures.

3. Literature Review

The application of blockchain technology to supply chain and trade finance has attracted growing scholarly attention over the past decade. Paliwal, Chandra, and Sharma [1] conducted a systematic literature review of blockchain applications in sustainable supply chain management, identifying transparency, traceability, and smart contract automation as the primary mechanisms through which blockchain generates value in supply chain contexts. Their classification framework distinguishes between operational benefits, including reduced processing time and lower error rates, and strategic benefits, including enhanced trust and improved resilience, a distinction that is directly relevant to the trade finance context.

Kshetri [2] examined blockchain's roles in meeting key supply chain management objectives, arguing that blockchain technology is particularly effective in addressing four core supply chain challenges: enhancing information visibility, reducing counterfeiting and fraud, improving regulatory compliance, and facilitating financial transactions. In the context of trade finance, these properties translate directly into the reduction of documentary discrepancies, the elimination of document fraud, the streamlining of customs and regulatory clearance, and the acceleration of payment settlement.

Casino, Dasaklis, and Patsakis [3] conducted a comprehensive systematic literature review of blockchain-based applications across multiple domains, identifying trade finance and supply chain management as among the most mature and promising application areas. Their analysis highlights the importance of interoperability, the ability of different blockchain platforms to communicate and exchange data is a critical factor in the widespread adoption of blockchain in trade finance, given the multi-institutional nature of the letter of credit process.

Wu et al. [4] explored the use of distributed ledgers for supply chain physical distribution visibility, demonstrating through a prototype implementation that blockchain-based systems can significantly reduce the time and cost of document verification in logistics and trade contexts. Their findings provide empirical support for the theoretical predictions of TCE regarding the cost-reducing potential of distributed ledger technology.

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The Bank Payment Obligation (BPO), developed by SWIFT and the International Chamber of Commerce (ICC), represents an earlier attempt to digitalize trade finance that predates the widespread adoption of blockchain. The BPO replaces the physical exchange of documents with an electronic matching of data sets through the SWIFT Trade Services Utility (TSU), providing a conditional payment obligation that is analogous to the letter of credit but operates on a digital infrastructure. Research on the BPO has generally found that it offers significant efficiency gains over paper-based processes, particularly in terms of reduced document handling and faster payment cycles, but falls short of the full digitalization achievable through blockchain, primarily because it does not eliminate the need for original paper documents in all cases and does not provide the same level of end-to-end traceability.

Ahn [5] examined the adoption of blockchain technology in international trade payment, identifying regulatory uncertainty, lack of standardization, and interoperability challenges as the primary barriers to adoption. These findings are consistent with the broader literature on technology adoption in financial services, which emphasizes the importance of institutional and regulatory frameworks in shaping the pace and pattern of technological change.

Liu and Chen [6] analyzed the intersection of technology finance innovation and blockchain-based network security, highlighting the systemic assurance benefits of blockchain in financial applications. Their work underscores the importance of security and reliability as preconditions for the adoption of blockchain in high-stakes financial transactions such as letters of credit.

4. Trade Finance and the Letter of Credit Process

The letter of credit is a documentary credit instrument governed by the Uniform Customs and Practice for Documentary Credits (UCP 600), published by the International Chamber of Commerce. In its paper-based form, the L/C process involves a minimum of four principal parties, namely the beneficiary (seller), the applicant (buyer), the issuing bank (representing the buyer), and the advising bank (representing the seller), and typically requires between six and ten distinct operational steps to complete.

The process begins with the formation of a sales contract between buyer and seller, specifying the terms and conditions of the trade, including the requirement for payment via letter of credit. The buyer then applies to its bank, the issuing bank, to open a letter of credit in favor of the seller. The issuing bank, upon approving the application, issues the documentary credit and transmits it to the advising bank, which is typically located in the seller's country. The advising bank authenticates the credit and notifies the seller, who then ships the goods and presents the required documents, typically including a bill of lading, commercial invoice, packing list, certificate of origin, and inspection certificate, to the advising bank. The advising bank examines the documents against the terms of the credit and, if they comply, forwards them to the issuing bank. The issuing bank conducts its own examination and, if satisfied, reimburses the advising bank and releases the documents to the buyer, who uses them to take delivery of the goods.

The total processing time for this paper-based sequence, under normal conditions without amendments, ranges from 15 to 30.5 days. However, the process is highly susceptible to documentary discrepancies, which are deviations between the documents presented and the terms of the credit, and these discrepancies trigger amendment cycles that can add days or weeks to the total processing time. Under UCP 600, banks have up to five business days to examine documents and determine whether they comply with the credit, a provision that reflects the inherent complexity and time-intensity of manual document verification.

The inefficiencies of the paper-based letter of credit process are structural rather than incidental, as they are inherent in the architecture of the process itself. The sequential, document-intensive nature of the process means that each party must wait for the completion of the preceding party's actions before it can proceed, creating a linear dependency chain that amplifies delays at any single point. The physical circulation of documents between parties, typically via courier, introduces transit time that is entirely non-value-adding but unavoidable in a paper-based system.

The high rate of documentary discrepancies, estimated by the ICC to affect a significant proportion of first presentations, is a particularly significant source of inefficiency. Discrepancies arise from errors in document preparation, misinterpretations of credit terms, and the inherent difficulty of ensuring that multiple documents prepared by different parties are perfectly consistent with each other and with the terms of the credit. Each discrepancy triggers a cycle of rejection, amendment, and resubmission that consumes time and resources at every stage of the process.

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The archival requirements associated with paper-based trade finance add a further layer of cost and complexity. Banks and other parties are required to retain physical records of trade finance transactions for extended periods, typically ten years or more, necessitating significant investments in storage facilities, document management systems, and archival staff.

5. Blockchain Technology in Trade Finance

A blockchain-based letter of credit platform fundamentally reconfigures the architecture of the trade finance process by replacing the sequential, document-centric model with a concurrent, data-centric one. Rather than circulating physical documents between parties in a linear sequence, a blockchain platform creates a shared digital environment in which all authorized parties can simultaneously access, update, and verify the status of the transaction in real time.

The key theoretical properties of blockchain that enable this reconfiguration are decentralization, immutability, transparency, and programmability. Decentralization eliminates the need for a central intermediary to maintain the authoritative record of the transaction, distributing this function across the network and thereby eliminating a single point of failure. Immutability ensures that once a record has been added to the blockchain, it cannot be altered or deleted without the consensus of the network, providing a level of data integrity that paper-based systems cannot match. Transparency, within the constraints of permissioned access, ensures that all authorized parties have access to the same real-time information, eliminating the information asymmetries that generate discrepancies and disputes. Programmability, through smart contracts, enables the automation of conditional logic, such as the automatic release of payment upon the verified presentation of conforming documents, reducing the need for manual intervention and approval.

The Contour blockchain platform, which began as a network of 12 participants and has grown to include more than 50 banks and companies, provides a real-world empirical reference for the theoretical properties described above. Live pilot transactions conducted on the Contour platform, involving major banks such as HSBC, ING, BNP Paribas, and Bangkok Bank, and covering commodities ranging from soybeans and iron ore to polyethylene and consumer goods, have consistently demonstrated processing times of 24 hours or less, compared to the 5 to 10 days typical of paper-based processes.

These empirical results are consistent with the theoretical predictions of the transaction cost economics framework. By eliminating the need for physical document circulation, automating verification through smart contract logic, and providing real-time visibility to all parties, the blockchain platform dramatically reduces the transaction costs associated with the letter of credit process. The reduction in processing time from an average of 18.28 days (paper-based) to approximately 0.95 days (blockchain-based), a 94% improvement, represents a quantitatively significant validation of the theoretical framework.

The role of smart contracts in blockchain-based trade finance deserves particular theoretical attention. A smart contract is a self-executing program stored on the blockchain that automatically performs specified actions, such as releasing payment, notifying parties, or updating the status of a transaction, when predefined conditions are met. In the context of the letter of credit, smart contracts can be programmed to automatically verify the conformity of presented data against the terms of the credit, trigger payment upon successful verification, and notify all parties of the outcome in real time.

This automation of compliance verification is theoretically significant for several reasons. First, it reduces the scope for human error in document examination, which is a primary source of discrepancies in the paper-based process. Second, it eliminates the time delay associated with manual examination, which under UCP 600 can extend to five business days per bank. Third, it creates a transparent, auditable record of the verification process, reducing the potential for disputes about whether documents were examined correctly and in a timely manner. Al-Amaren et al. [8] further propose a comprehensive blockchain-based smart contract model for the entire L/C lifecycle, integrating IoT and oracle mechanisms to enhance transparency and reduce processing costs.

The integration of electronic bills of lading (eBL), which are digital equivalents of the paper bill of lading and the most critical document in the letter of credit process, further enhances the efficiency of blockchain-based trade finance. Platforms such as essDOCS enable the creation and transfer of eBLs that are legally equivalent to paper originals, eliminating the need for physical document production and courier transmission while maintaining the legal integrity of the instrument.

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6. Comparative Analysis: Paper-Based, BPO, and Blockchain Processes

The discrete event simulation conducted using AnyLogic software, processing 600,000 transactions under each of the three process paradigms, provides a robust quantitative basis for comparing their relative efficiency. The results are unambiguous in their direction and substantial in their magnitude.

Under the paper-based paradigm, the average processing time for a single letter of credit transaction is 18.28 days, with a minimum of 10.36 days and a maximum of 77.86 days. The wide range between minimum and maximum values reflects the compounding effect of amendment cycles. The 397,405 rewind events recorded across 600,000 transactions indicate that a significant proportion of transactions require one or more cycles of amendment and resubmission, each of which adds days to the total processing time. The total processing time for 600,000 paper-based transactions is approximately 10,968,000 days.

Under the blockchain paradigm, the average processing time for a single transaction is 1,377.26 minutes, approximately 0.95 days, with a minimum of 766.77 minutes and a maximum of 7,000.44 minutes. The total processing time for 600,000 blockchain transactions is approximately 573,858 days, a reduction of more than 94% compared to the paper-based baseline. The 591,106 rewind events recorded under the blockchain paradigm, a higher absolute number than under the paper-based paradigm, reflect the greater sensitivity of the blockchain process to data discrepancies, which must be resolved through re-entry and resubmission of electronic data rather than physical document amendment. However, because each rewind event consumes far less time in the blockchain environment than in the paper-based environment, the net effect is still a dramatic reduction in total processing time.These results are corroborated by an independent simulation study reporting a 96% reduction in processing time and a 93% reduction in per-transaction cost through blockchain adoption [9].

Under the BPO paradigm, the average processing time for a single transaction is 6,663.94 minutes, approximately 4.62 days, representing a 74% improvement over the paper-based baseline. The BPO achieves this improvement primarily through the automation of data matching and the elimination of some physical document handling, but it does not achieve the full efficiency of the blockchain paradigm because it does not eliminate the need for original paper documents in all cases and does not provide the same level of real-time visibility and smart contract automation.

The processing time efficiency gains generated by blockchain adoption translate directly into cost reductions across three primary cost categories: labor costs, courier costs, and archival costs.

Labor costs represent the most significant cost category. The 94% reduction in processing time implies a proportional reduction in the labor required to process a given volume of transactions. A bank processing 4,000 letters of credit per year under the paper-based paradigm might require 20 trade finance specialists; under the blockchain paradigm, the same volume could be processed by approximately two specialists. Assuming an annual cost of $50,000 per specialist, this represents an annual saving of $900,000 per bank. Aggregated across the global banking system, the labor cost savings from blockchain adoption in trade finance are potentially in the billions of dollars annually.

It is important to note, however, that the theoretical framework of TCE suggests that the efficiency gains from blockchain adoption need not be realized entirely as cost savings. Banks may choose to redeploy surplus labor toward higher-value activities, such as processing more complex transactions, expanding into new markets, or developing new financial products, thereby using the efficiency gains to increase revenue rather than reduce costs. This optionality is itself a significant theoretical benefit of blockchain adoption, as it expands the strategic possibilities available to banks and other participants in the trade finance ecosystem.

Courier costs represent a more straightforward cost saving. The paper-based letter of credit process requires physical documents to be couriered between parties at a minimum of three stages: from seller to advising bank, from advising bank to issuing bank, and from issuing bank to buyer. At an average cost of $50 per courier shipment, the total courier cost per letter of credit transaction is approximately $150. Multiplied by 1.8 million letters of credit processed globally per year, the total annual courier cost for the global letter of credit system is approximately $270 million. Blockchain adoption, by eliminating the need for physical document circulation entirely, would eliminate this cost in full.

Archival costs are more difficult to quantify precisely, but are nonetheless substantial. Banks are required to retain physical records of trade finance transactions for periods of ten years or more, necessitating investments in storage facilities, document management systems, and archival staff. Some major international banks have developed robotic archiving systems specifically to manage the volume

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of physical documents generated by trade finance operations, a significant capital investment that would be rendered unnecessary by the transition to digital documentation. The elimination of archival costs represents a further dimension of the cost-reduction potential of blockchain adoption, complementing the labor and courier savings described above.

Beyond the quantifiable efficiency and cost gains, blockchain technology offers a strategic benefit that is less easily measured but theoretically significant: end-to-end traceability. In the paper-based process, the status of a transaction is known only to the party currently in possession of the documents, creating information asymmetries that generate uncertainty and anxiety for all other parties. In the blockchain environment, all authorized parties have real-time visibility into the status of the transaction at every stage, from contract formation through document presentation to payment settlement.

This transparency has several theoretical implications. It reduces the scope for disputes about the status of transactions, since all parties share the same authoritative record. It enables more accurate cash flow forecasting for buyers and sellers, since payment timelines are more predictable. It facilitates regulatory oversight and compliance monitoring, since regulators can be granted access to the blockchain record without requiring the submission of separate reports. And it creates a foundation for the integration of other digital technologies, such as the Internet of Things (IoT), which can provide real-time data on the physical status of shipped goods, that can further enhance the efficiency and reliability of the trade finance process.

7. Implications and Future Directions

The findings of this theoretical analysis have significant implications for the strategic decisions of banks, corporations, and regulatory authorities. For banks, the analysis suggests that blockchain adoption in trade finance is not merely a technological upgrade but a strategic imperative. The 94% improvement in processing efficiency and the associated reductions in labor, courier, and archival costs represent a compelling business case for investment in blockchain platforms, particularly in the context of increasing competitive pressure from fintech companies and digital-native financial institutions.

For corporations, particularly those engaged in international trade as buyers or sellers, blockchain adoption offers the prospect of faster payment cycles, reduced documentary risk, and greater visibility into the status of their trade finance transactions. These benefits are particularly significant for small and medium-sized enterprises (SMEs), which are disproportionately affected by the delays and costs of paper-based trade finance and which have historically been underserved by traditional trade finance instruments.

For regulatory authorities, the analysis highlights the importance of developing legal and regulatory frameworks that support the use of electronic documentation in trade finance. The legal equivalence of electronic bills of lading and other electronic trade documents is a prerequisite for the full realization of blockchain's efficiency potential, and progress in this area has been uneven across jurisdictions.

This analysis is subject to several limitations that point toward important directions for future research. First, the simulation models consider only four of the six to ten parties typically involved in a letter of credit transaction, excluding shipping companies, customs authorities, insurance companies, and other stakeholders whose inclusion would provide a more complete picture of the efficiency gains achievable through blockchain adoption.

Second, the cost analysis focuses on labor, courier, and archival costs, leaving aside other cost categories, including paper and printing costs, administrative overhead, carbon emissions from document transportation, and the technology costs associated with implementing and maintaining blockchain platforms, that would be necessary for a comprehensive cost-benefit analysis.

Third, the analysis does not address the security and privacy implications of blockchain-based trade finance, which are significant given the commercially sensitive nature of trade finance data. Future research should examine the trade-offs between transparency and confidentiality in permissioned blockchain networks, and the mechanisms through which data security can be maintained while still delivering the efficiency benefits of shared ledger technology.

Fourth, the scope of the analysis is limited to the letter of credit. Future research should extend the simulation methodology to other trade finance instruments, including bank guarantees, documentary collections, and supply chain finance, to assess the generalizability of the findings.

ISSN 2616-5902 Vol. 8, Issue 7: 27-34, DOI: 10.25236/AJBM.2026.080705

8. Conclusion

This paper has developed a theoretical analysis of the application of blockchain technology to the letter of credit process in trade finance, integrating perspectives from transaction cost economics, distributed ledger theory, and process simulation methodology. The analysis demonstrates that blockchain technology offers a theoretically coherent and empirically supported solution to the structural inefficiencies of paper-based trade finance, generating efficiency gains of 94% in processing time and substantial reductions in labor, courier, and archival costs.

The theoretical framework developed in this paper suggests that these gains are not accidental but are the direct consequence of blockchain's core properties, namely decentralization, immutability, transparency, and programmability, which collectively address the transaction costs, information asymmetries, and trust deficits that have historically constrained the efficiency of the letter of credit process. The Bank Payment Obligation, while offering meaningful improvements over the paper-based paradigm, falls short of the full efficiency achievable through blockchain, primarily because it does not eliminate physical document handling or provide the same level of real-time visibility and smart contract automation.

The implications of these findings extend beyond the operational domain of trade finance to the broader discourse on digital transformation in financial services. Blockchain technology represents a paradigmatic shift in the architecture of financial transactions, from a model based on sequential, document-centric processes mediated by central intermediaries, to a model based on concurrent, data-centric processes mediated by distributed consensus. The realization of this shift in trade finance will require not only technological investment but also institutional innovation, including the development of legal frameworks, regulatory standards, and industry protocols that support the full digitalization of trade documentation and payment.

The standardization of blockchain technology for trade finance, through initiatives such as the ICC's Digital Standards Initiative and the development of interoperability standards for blockchain platforms, represents the critical next step toward the universal adoption of blockchain in trade finance. When this standardization is achieved, the efficiency gains demonstrated in this analysis will be available not only to the largest global banks but to the full spectrum of participants in the trade finance ecosystem, including the SMEs and emerging market institutions that stand to benefit most from the democratization of access to efficient, low-cost trade finance.

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