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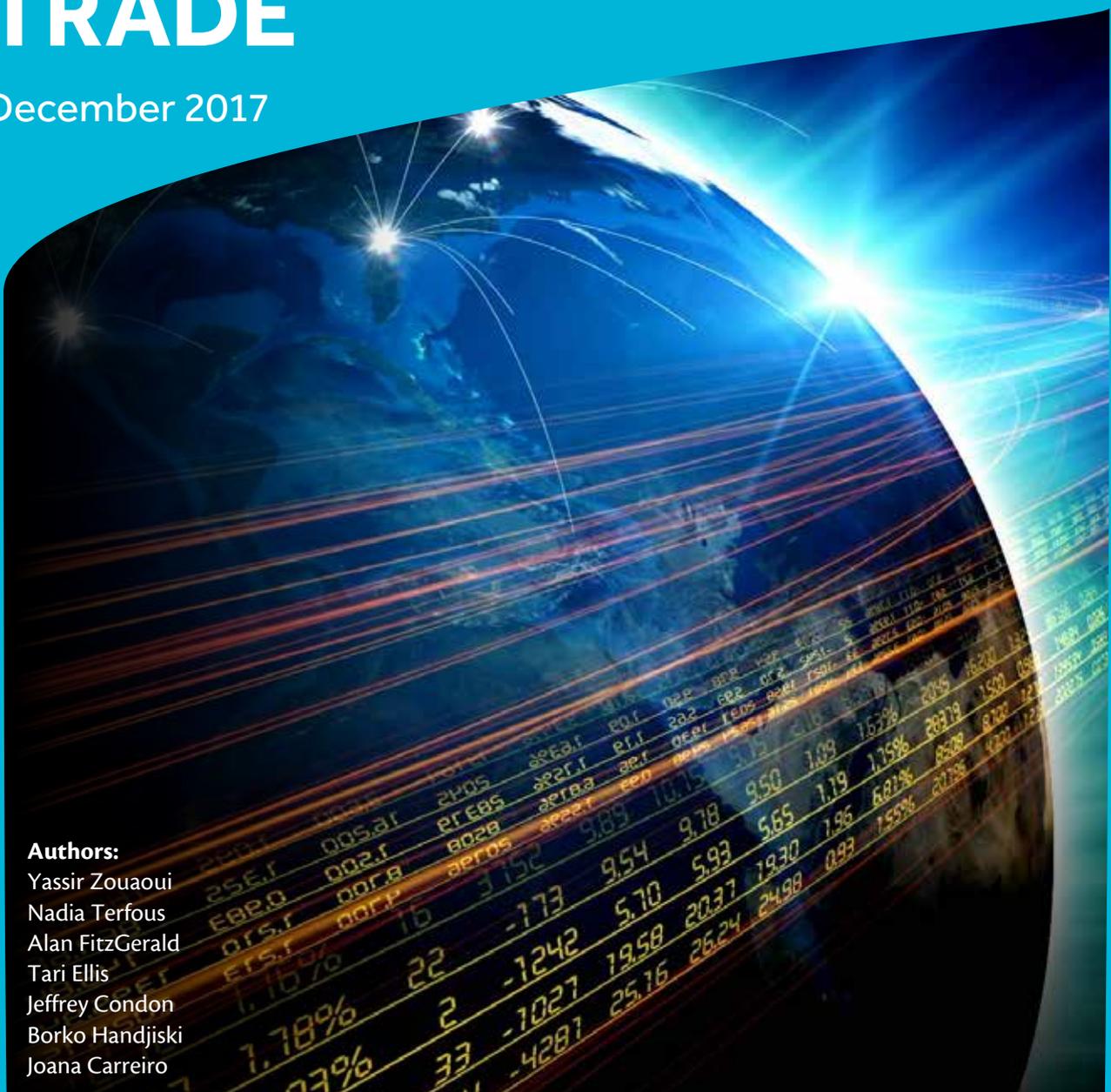
McKinsey & Company

NAVIGATING THE NEW REALITIES OF GLOBAL TRADE

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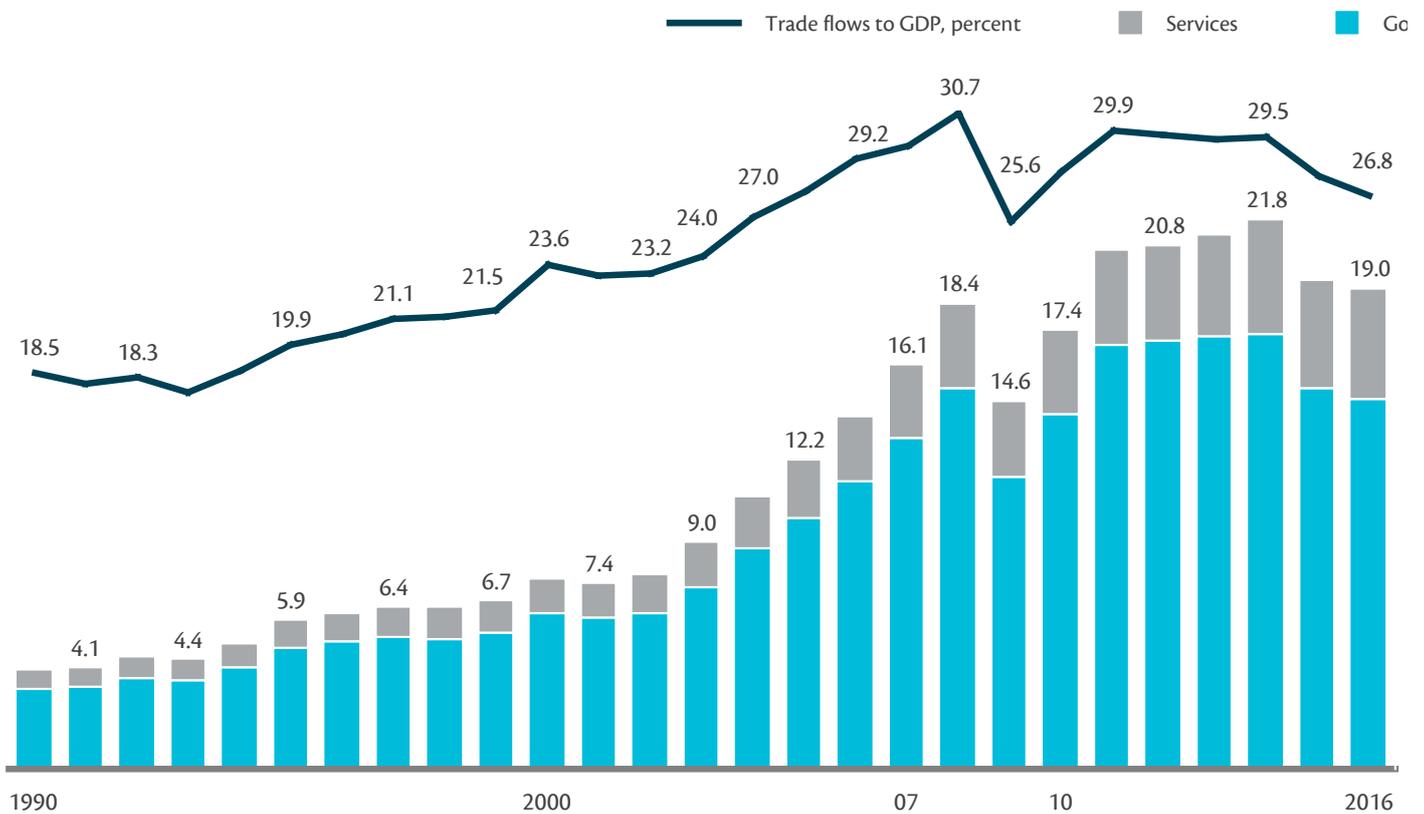
INTRODUCTION

During the two decades before the 2008 global financial crisis, the world economy seemed to be on an irreversible course of ever-deepening globalization. Global trade expanded nearly eight-fold in the 1990s and 2000s, and doubled as a share of global gross domestic product (GDP).¹ However, governments and firms around the world are now facing new uncertainties concerning the future growth of trade. While the volume and throughput of goods and services trade have continued to grow in the aftermath of the crisis (reaching historic highs in 2017), the value of these flows has declined over the last two years. As a share

of GDP, trade has fallen from ~30 percent in 2009 to 2014 to ~27 percent in 2016, and is not expected to grow in the coming years based on the forecast from the World Trade Organization. These trends and forecasts are raising questions about the future role of trade as an engine of global economic growth.²

MEASURED IN VALUE AND AS A SHARE OF GDP, GROWTH IN GLOBAL TRADE FLOWS FLATTENED AFTER THE CRISIS

Global trade flows, USD trillions, nominal



SOURCE: UNCTAD; IMF Balance of Payments; McKinsey Global Institute analysis

1 Oxford Economics; The Maddison-Project, <http://www.ggd.net/maddison/maddison-project/home.htm>, 2013 version

2 IMF; UNCTADstat

Two trends shaping the future of trade: transforming technologies and policy shifts

The long-term future of trade will be shaped by great global changes, including rapid urbanization, the rise of a consuming middle class in emerging economies, geopolitical complexities, and the evolution of international financial flows. However, two trends stand out in terms of the degree of uncertainty surrounding their future impact—these include ongoing technological shifts, and a changing international trade policy climate.

Changing technologies will continue to have a profound effect on the pace and composition of trade growth. At the moment, while established technologies, such as bar codes and containerization, may have already achieved most of their amplifying potential, a range of relatively new technologies, including 3-D printing, automation, and e-commerce platforms are beginning to come online and promise to have equal, if not greater, transformative effects on trade.

Another key source of uncertainty is the evolving global policy environment. With the Brexit referendum in the UK and similar dampening of popular sentiment toward globalization in other Western countries, a clear horizon of ever-growing international integration seems now behind us. Meanwhile, the enthusiasm for deeper trade ties is accelerat-

ing in many emerging economies. China and other emerging market countries are looking to drive ambitious new trade cooperation initiatives that could “carry the torch” even if the pace of West-driven liberalization efforts decelerates.



How will regions be affected?

This paper outlines these trends, assesses their potential impact on trade, and highlights how they can potentially be leveraged for competitive advantage. In the first section, we examine the impact of technological trends, including the maturation of existing technologies and the potential disruptions of new innovations. In the second section, we turn to policy uncertainties. Here, we describe four stylized scenarios for the evolution of regional trade policy liberalization, with analyses of the impact of policy changes at a global and regional level for each of them. The final section explores the potential cross-cutting measures and strategies governments can apply to navigate the changing global trade context.

TECHNOLOGICAL TRENDS SHAPING THE FUTURE OF TRADE

The outlook for trade at both a global and regional level will be shaped by a wide range of technological trends. We have isolated the following four trends as having the greatest transformation potential for global trade:

1. Technologies enabling trade
2. Technologies leading to shortening supply chains
3. Digitization and the rise of digital flows
4. Technologies enabling the diffusion of knowledge.

The following section highlights these trends, and develops preliminary hypotheses on how these technological shifts are likely to re-shape the global trade environment.

1. Technologies enabling trade

For many decades, containerization and bar codes revolutionized global trade, amplifying growth significantly. Advancements in shipbuilding technology, energy efficiency, and the liquefaction of natural gas have all further enabled transport of larger volumes at lower cost. Many key technological drivers of the precrisis trade boom have by now been implemented throughout the core logistics hubs and top firms in the global shipping industry. While some potential may still be realized through expanding containerization, bar code usage, and other productivity boosters to secondary trade hubs and smaller logistics sector firms (particularly in less developed markets), the future impact of these drivers is unlikely to match what we have seen in the past. These innovations will probably play a diminishing role in magnifying future productivity growth in shipping and logistics, and reducing transport time and costs.

At the same time, new technologies are coming into play. Some of these, including new digital platforms such as e-commerce and social media, offer opportunities for new growth. E-commerce and service marketplace platforms are already boosting trade growth, enabling unprecedented numbers of new buyers and sellers—including institutions,

³ See Daniel M. Bernhofen, “Estimating the effects of the container revolution on world trade.” *Journal of International Economics* 98 (Jan 2016): 36-50

governments, companies, and individuals—to engage directly in international commerce through an ever-growing range of websites and apps. These range from major social media sites such as Facebook, Instagram, and Baidu, to e-commerce giants such as Amazon, Ebay, Alibaba, and Etsy, to mobile-focused platforms such as the iTunes and Android app stores, as well as to a proliferating ecosystem of niche sites and single-brand online shops. The diverse and growing spectrum of users on these platforms are contributing to a dramatic expansion in the range of products and services being traded.

While trade on digital platforms still represents a very small share of overall economic activity in most countries, the growth potential is high. As global penetration deepens, trade based on digital platforms is likely to grow faster than global GDP. International e-commerce is just beginning to penetrate a number of regions with growing consumer classes, such as Latin America, Africa, and the Middle East—here the room for future growth is extensive.⁴

In addition to having a positive impact on trade, these platforms will likely continue to increase the diversity of actors participating directly in international trade, as small and medium-sized enterprises (SMEs) as well as individuals take advantage of new opportunities to offer products and services to international markets. The impact of these platforms

in expanding the inclusiveness of international trade is already impressive—over 60 million SMEs are currently active on Facebook, with over 10 million on Alibaba alone. As they expand, these platforms will present new potential sources of income and jobs for populations in a wide range of economies. They could encourage the emergence of new informal sectors, including freelance craftwork and service provision encompassing both low- and high-skilled activities.

⁴ See the latest UNCTAD Information Economy Report, 2017

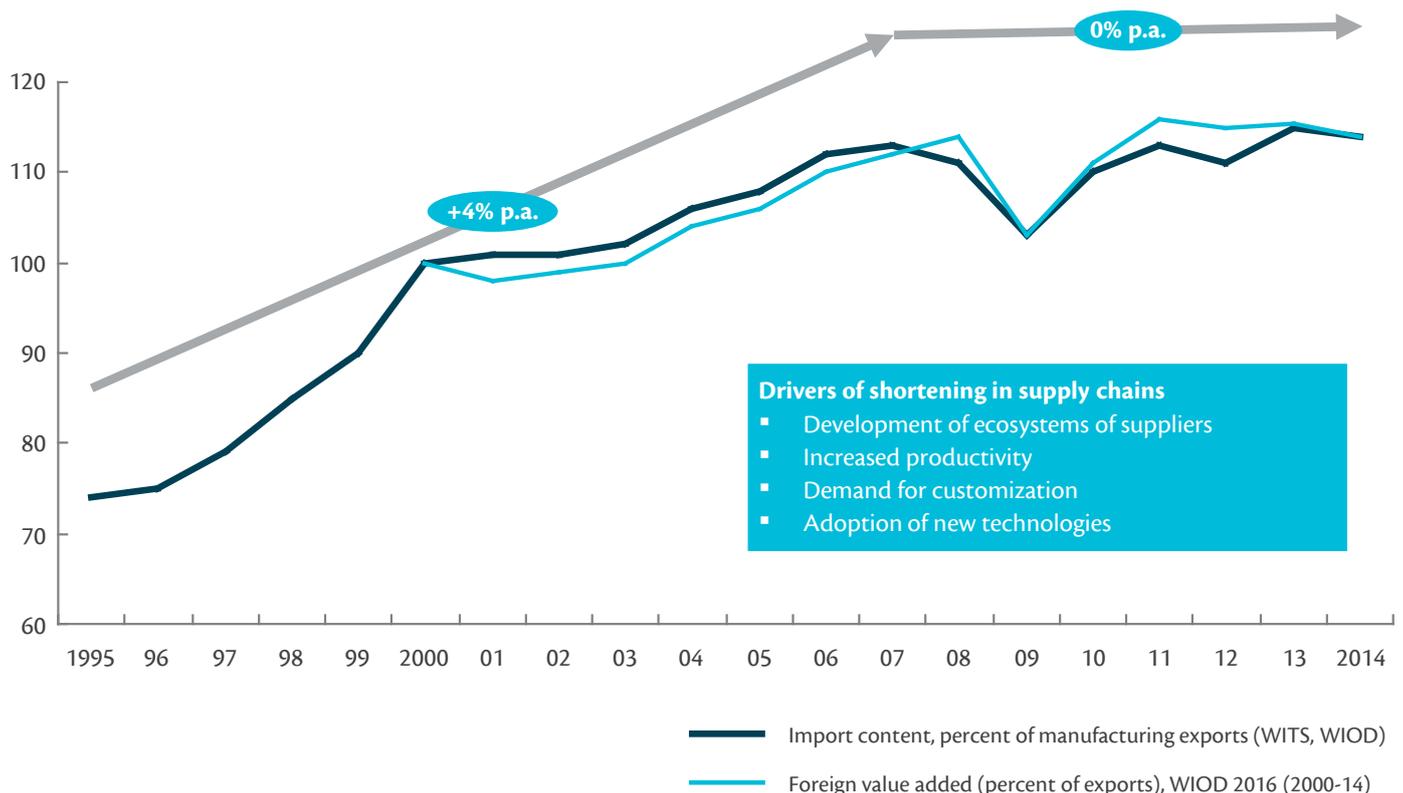
2. Technologies leading to shortening supply chains

Some emerging technologies are challenging the original cost-saving premise of globalized production of goods, and may drive continued shortening of supply chains. This trend could contribute to a decline in the growth rate for the trade in goods. The trend toward shorter supply chains emerged even before the financial crisis of 2009 (Exhibit 2). Increasing automation in manufacturing is reducing cost advantages associated with offshore production, while increasing the importance of access to highly skilled local talent. This dynamic

is making it possible for some companies to shorten their supply chains and re-shore some operations. 3-D printing could also reduce the importance of labor-cost savings, while increasing the attractiveness of locating production close to the end customer in order to take advantage of rapid prototyping, testing, and customization. The effects of such shifts would be compounded by falling wage differentials between developed countries and leading manufacturing hubs, especially China, which are also reducing incentives for Western firms to outsource production.

GLOBAL SUPPLY CHAINS ARE SHORTENING

Measures of world vertical specialization, 1995-2014



SOURCE: World Bank - Trade Developments in 2016

3. Digitization and the rise of digital flows

In addition to providing new platforms for trade, the internet and digital technology are transforming some physical flows into digital flows. While digital flows such as e-mail, file sharing, and digital news and entertainment consumption are not well captured in trade data, they have the potential to replace a growing share of physical trade flows.⁵ A large share of digital communications sharing and media consumption is domestic, yet the international segment is growing rapidly. For example, international Netflix subscriptions have nearly doubled since the beginning of 2016, with total international subscribers now surpassing domestic subscribers.⁶ 3-D printing has the potential to further enable this digitization of physical flows, replacing flows in tangible intermediate goods with data flows encoding design specifications.

The trends toward digitization flows suggest that trade in services will continue to grow as a share of overall trade. Rapid growth in the services trade is not new. Prior to the global financial crisis, global trade in services was growing at a rate of 13 percent annually, outpacing trade in goods. Since 2000, the value of global trade in services tripled and its share of total world trade grew from 19 to 22 percent.⁷

Governments around the world have already begun to recognize the significance of this trend, with more than 100 free trade agreements (FTAs) with stipulations for services provision signed since 2000. However, we are likely to see a continuation and intensification of this shift in the coming years.

5 McKinsey Global Institute, 2014, "Global Flows in a Digital Age: How trade, finance, people, and data connect the world economy".

6 Netflix, 2017 Q3 report, accessed from <https://ir.netflix.com/index.cfm>.

7 WTO; as reported in "Digital Globalization: The new era of global flows" (McKinsey Global Institute, 2016), global data flows were 45 times greater in 2014 than in 2005; WTO

4. Technologies enabling the diffusion of knowledge

A further factor affecting trade growth concerns the diffusion of knowledge and technological advancement across emerging economies. The rate and extent of this diffusion will be a key driver of global economic development and trade growth—yet there are both new opportunities and new challenges in this area.

The digital revolution has certainly enabled greater transfer of knowledge and technology across borders. The rise of open-source software and online learning platforms present opportunities for individuals in emerging economies to cultivate cutting-edge skills. Details concerning a wide variety of industries are accessible online. Even some global benchmarks and best practices on operations and management are available, as well as information on potential international suppliers and customers. Private-sector firms in less mature markets can use this information to boost competitiveness and growth.

However, in some industries emerging economies face new and complex challenges in acquiring the latest advances. In the tech sector, for example, we have seen increases in intellectual property protection and the power of network and ecosystem effects that make it harder for new firms to compete with incum-

bent tech players—which are largely, though not exclusively, concentrated in developed economies. Aggressive patenting strategies, including acquisition of overlapping patents to cover a wide area of activity and potential downstream innovations—otherwise known as “patent fencing”—can effectively close off areas of future research. Network effects enjoyed by leading global digital firms likewise pose significant challenges to new entrants looking to compete with leading platforms (such as Google or Baidu) and products (such as the iPhone). More traditional incumbent advantages, such as economies of scale and market power, provide an additional competitive edge, particularly for retail platforms such as Amazon and Alibaba.

⁸ WTO; as reported in “Digital Globalization: The new era of global flows” (McKinsey Global Institute, 2016), global data flows were 45 times greater in 2014 than in 2005; WTO

POLICY SHIFTS AND SCENARIOS FOR GLOBALIZATION: EAST VERSUS WEST?

In addition to technological change, the evolution of trade will be determined by the policy choices of government decision-makers around the world. Here, too, the outlook is highly uncertain. Popular pressures to reconsider liberal trade cooperation regimes—arising from complex socioeconomic disruptions (partly, but far from exclusively driven by globalization)—are rising and coalescing into political movements in multiple countries. However, it is impossible to definitively foresee what concrete policy changes will result from these movements.

An eastward shift?

The center of gravity in global trade volumes has been shifting East over the last two decades, and the geographical epicentre of future policy liberalization may follow. The relative weight of developed Western economies versus emerging markets as sources of trade growth has changed. For example, flows among developed Western markets declined as a share of total global trade from 57 in 1990 to 30 percent in 2016, while flows among Asian, Middle Eastern-North African, and Latin American markets grew from 6 to 28 percent in the same period.⁹ In light of this trend, as well as the evolving policy environment, it is not clear which global power—or powers—will take the lead in driving further trade liberalization.

The United States has historically been a key proponent of free trade—as an original signatory of the General Agreement on Trade and Tariffs (GATT), an influential member of the WTO, and the driving force behind the North American Free Trade Agreement (NAFTA). However, in the last year the US has withdrawn from talks on the Trans-Pacific Partnership (TPP) agreement, and a potential US exit from NAFTA has been put on the table. At the same time, China may be moving to the vanguard of globalization. China has expanded its role in shaping the rules of global exchange, driving ambitious initiatives including the Regional Comprehensive Economic Partnership (RCEP) agreement as well as the One Belt, One Road (OBOR) initiative. These actions could establish the East as the new hub of global economic cooperation.

To what extent does this potential transition matter, in terms of concrete impact on global or regional economic outcomes? Would a shift from East-driven globalization to West-driven globalization have significant implications for global or regional GDP, trade levels, or other indicators, or does the notion of East-led vs. West-led globalization set up a false dichotomy?

Four policy scenarios

To gain visibility on what is at stake in the uncertainties surrounding future trade cooperation, this paper analyzes a series of stylized policy scenarios modeling four alternate visions of the future of trade policy liberalization. They include: a baseline scenario, in which no trade liberalization measures are implemented; a scenario in which an “East” bloc leads future trade liberalization; a scenario in which a “West” bloc leads, and a “multipolar” scenario in which both East and West drive aggressive intraregional liberalization.

For the purposes of scenario development, four groups of countries have been defined: “West” includes potential TPP and TTIP signatory countries;¹⁰ “East” includes potential RCEP signatories as well as the rest of Asia-Pacific;¹¹ “both” includes potential signatories to TPP and/or TTIP as well as RCEP;¹² and “neither” includes regions uninvolved in East-led or West-led trade agreements.¹³

Scenario 1: baseline

No regional group implements major new trade cooperation agreements. Global trade grows at a multiplier of 1.0 relative to GDP, which we (conservatively) assume grows at a CAGR of 2.8 percent from 2016 to 2026 in real terms.

Scenario 2: East-led

East-centric free trade policies are implemented from 2020 to 2023. The West does not implement major new intraregional trade agreements.

Eastern intraregional tariffs are reduced by 90 percent of current levels, and actionable non-tariff barriers (NTBs) by 33%, each over three years. Western and other intraregional trade barriers remain unchanged.

Scenario 3: West-led

West-centric free trade policies are implemented from 2020 to 2023. The East does not implement major new intraregional trade agreements.

Western intraregional tariffs are reduced by 90 percent of current levels, and actionable NTBs by 33 percent, over three years. Eastern and other intraregional trade barriers remain unchanged.

Scenario 4: multipolar

East- and West-centric free trade policies are implemented from 2020 to 2023.

Both Eastern and Western intraregional tariffs are reduced by 90 percent of current levels, and actionable NTBs by 33 percent, over three years. Intraregional trade barriers in other regions remain unchanged.

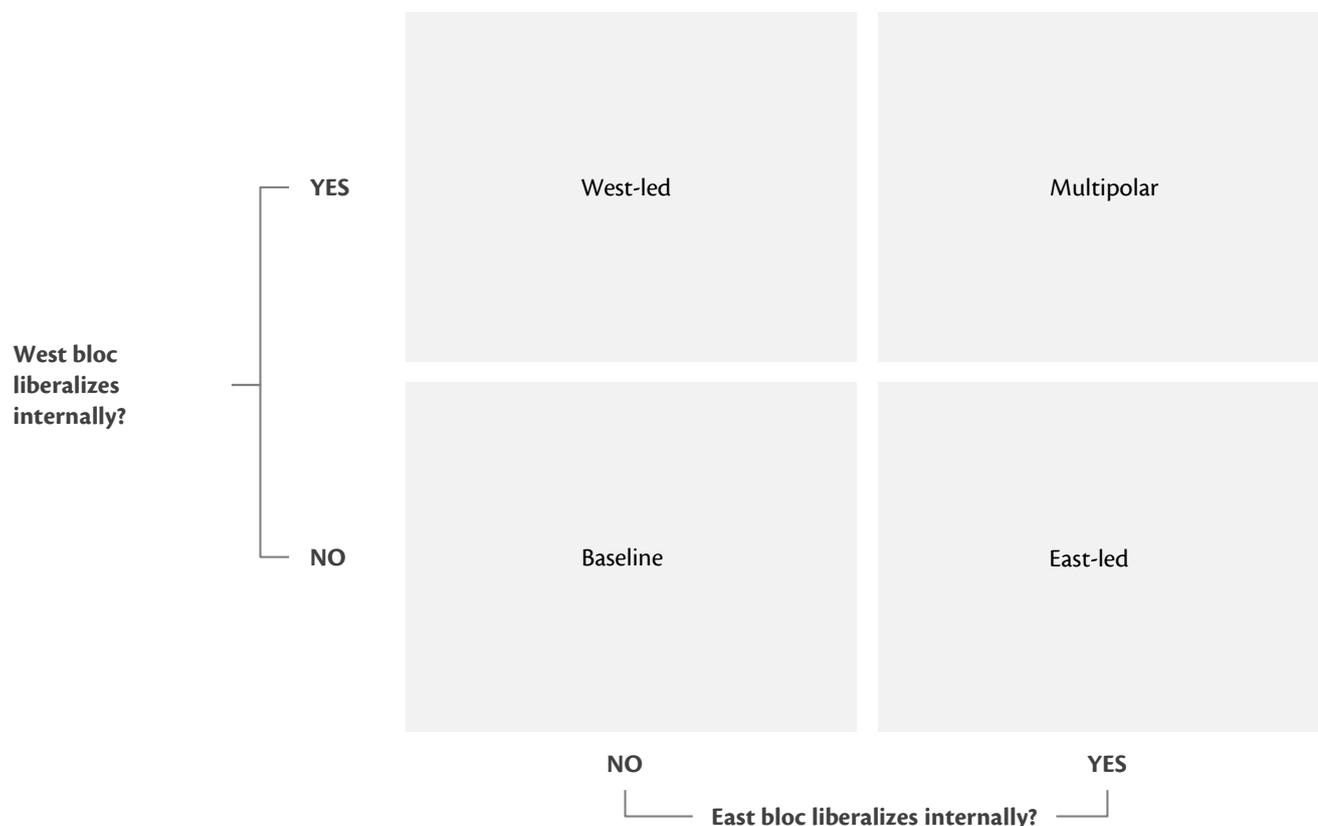
10 “West” includes Canada, France, Germany, Italy, Mexico, Spain, UK, US, and other aggregated regions in Europe. Subgroupings are based on existing GTAP segmentation structure

11 “East” includes China, India, Indonesia, and other aggregated regions in Asia. Subgroupings are based on existing GTAP segmentation structure

12 “Both” includes Australia, Japan, New Zealand, and Turkey

13 “Neither” includes Latin America (including Chile and Peru—potential TTP signatories—due to limitations of GTAP country segmentation), the Caribbean, Russia, other Eastern European countries, other Central Asia countries, the Middle East and North Africa (not Turkey), and all of sub-Saharan Africa

4 SCENARIOS ON FUTURE INTRA-REGIONAL TRADE INTEGRATION



We modeled the outcomes of these scenarios using a recursive, dynamic version of the Global Trade Analysis Project (GTAP) computable general equilibrium (CGE) model and data base.¹⁴

Key findings

In terms of aggregate global growth outcomes, “more liberalization is better,” but the question of “who leads” has little impact.

At the level of global GDP, there is little outcome variation across the scenarios. The world is best-off in terms of GDP in the Multipolar sce-

nario (which entails the highest overall degree of liberalization), albeit only by a margin of 1.6 percent relative to the baseline GDP outcome. Meanwhile, the East-led and West-led scenarios have nearly identical GDP impact, generating 0.7 and 0.8 percent improvements in global GDP relative to the baseline, respectively.

The variation in outcomes on total global exports is also relatively modest. The Multipolar scenario leads to a 6.2% higher outcome on total global trade relative to the baseline, while the East- and West-led scenarios again generate slightly lower, and very similar improve-

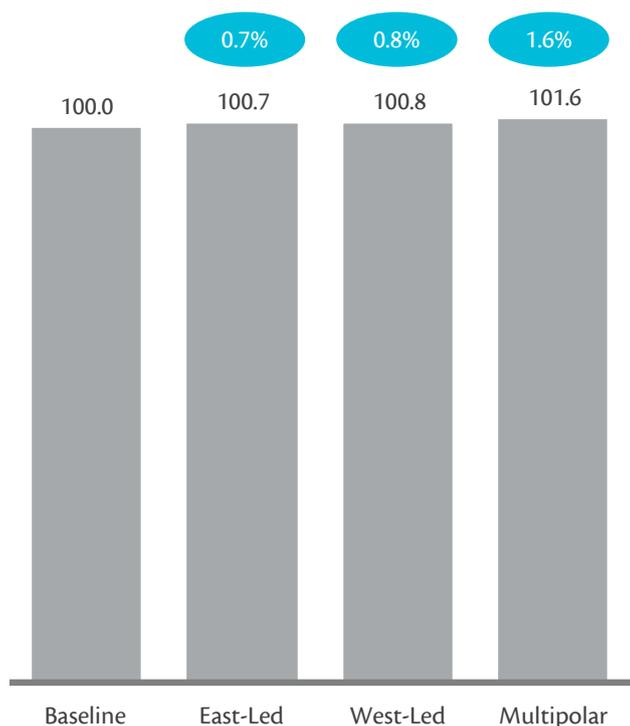
¹⁴ The model adapted for this study is a multiregion, multisector global model used for global-scale assessment of international trade policies, as well as other economic policies and shocks.

ments–2.9 and 2.8 percent respectively. The scenarios we modeled relied on many simplifying assumptions, and do not capture the full range of variables that could potentially be affected depending on how trade policy evolves, and the roles various countries and regions play in shaping future liberalization. However, as preliminary insights, these

findings support the broad perspective that “more liberalization is better”, while suggesting the politically-charged question of “who leads” may not have significant concrete impact—at least in terms of aggregate outcomes in global GDP growth and trade.

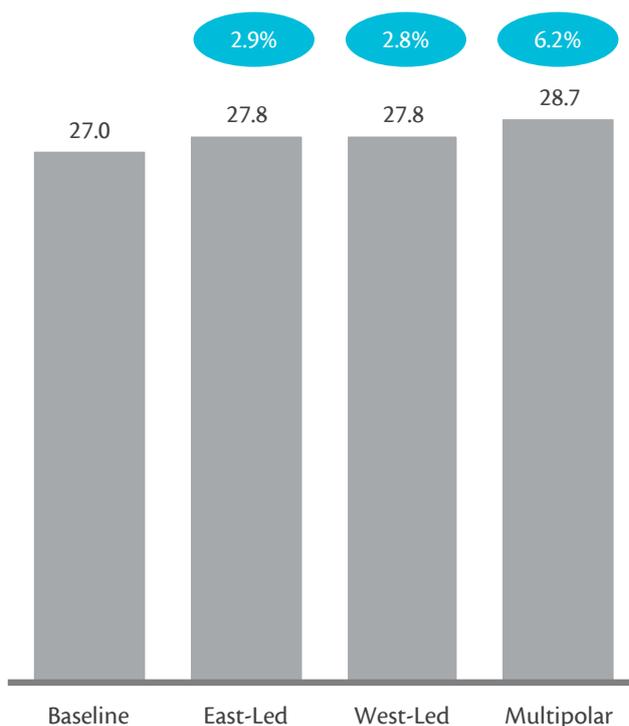
2026 GLOBAL GDP

2011 USD trillions



2026 GLOBAL EXPORTS

2011 USD trillions



X% Increase over baseline

SOURCE: McKinsey Global Trade Flows Model, GTAP, Oxford Economics

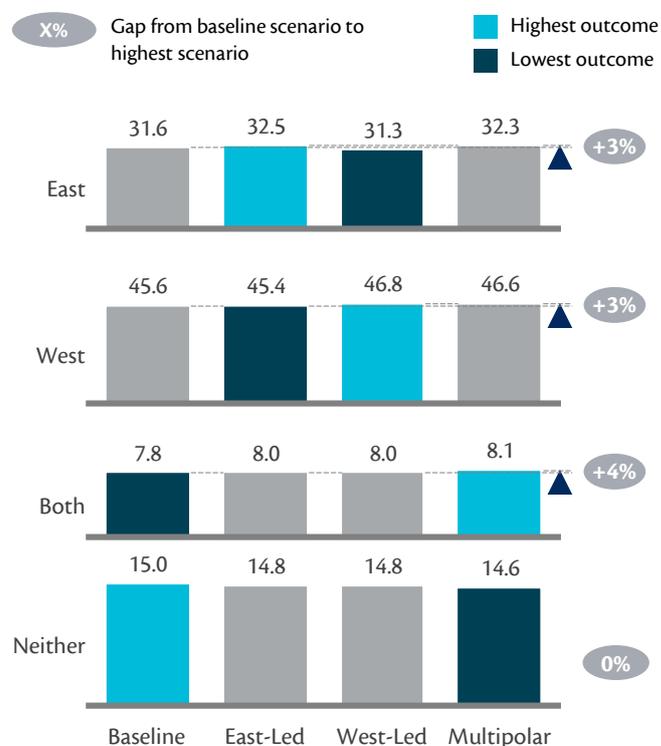
At a regional level, GDP growth, consumption, and trade outcomes will vary by scenario, with the East group standing to gain (or lose) slightly more than the West.

All regions are best off when driving intraregional trade liberalization, particularly when the other regions do nothing. The East and West regions are each best-off, in terms of GDP and consumption, in the scenario where they drive intraregional liberalization while the other does nothing—and worst-off in the scenario when the other region leads. For the East, GDP and private consumption are both ~3 percent higher in the East-led vs. the baseline scenario. Outcomes for the West are a mirror image: GDP and consumption are both ~3 percent higher in the West-led vs. the baseline scenario. The both group is, unsurprisingly, best-off in the multipolar scenario and worst-off in the baseline scenario (where no liberalization is taking place), with ~2 percent higher GDP and ~5 percent higher consumption compared with the baseline. Neither, on the other hand, is best-off in the baseline scenario, and worst off in the Multipolar scenario, with baseline providing ~3 percent higher GDP and consumption than multipolar.

However, while both East and West benefit most from leading liberalization on a unipolar basis, the East has slightly more at stake than the West—suggesting the East faces even stronger economic incentives to push liberalization. The downside risk implied by a scenario

REGION-LEVEL GDP IN 2026 ACROSS 4 SCENARIOS

2011 USD trillions



SOURCE: McKinsey Global Trade Flows Model, GTAP, Oxford Economics

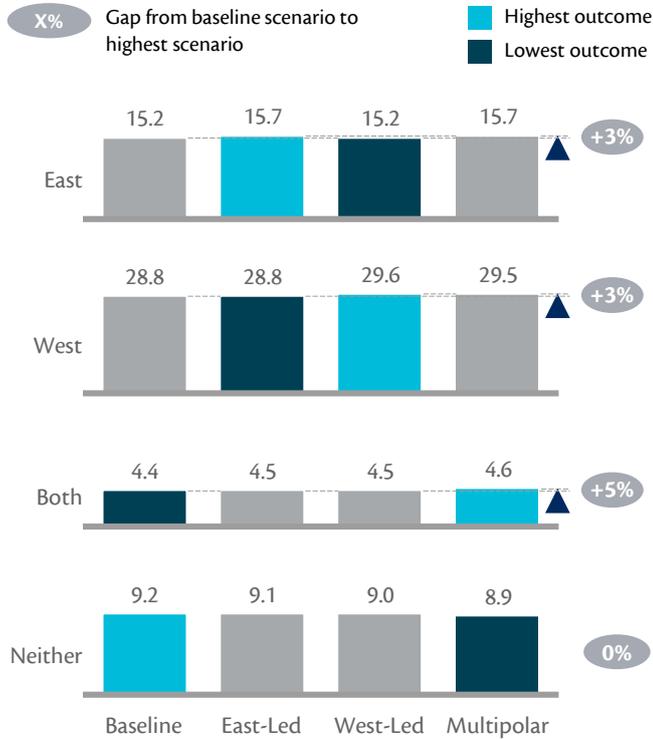
in which the other region leads is higher for the East than for the West. For the East, GDP and consumption are 3.4 percent lower in the West-led vs. the East-led scenario, while the West loses 2.9 percent of GDP and consumption in the East-led vs. the West-led scenario.

For both East and West, the preferred strategy in this scenario context should be to lead intraregional liberalization, regardless of what others are doing—despite the fact that liberalizing internally tends to hurt a region’s extra-regional trade balance.

As illustrated above, all regions are worst-off when they do nothing while other regions are

REGION-LEVEL PRIVATE CONSUMPTION IN 2026 ACROSS 4 SCENARIOS

2011 USD trillions



SOURCE: McKinsey Global Trade Flows Model, GTAP, Oxford Economics

liberalizing. The negative outcomes are the result of falling interregional trade. For example, if the West does nothing while the East liberalizes (East-led scenario) Western intraregional trade essentially stays at the same level as in the baseline scenario—as does the West’s trade with the neither group. However, the East and both groups import significantly less from the West in this scenario compared with the baseline scenario, even as total East trade with the world—and world trade overall—are both growing. Similarly, the neither group experiences reduced trade with the East and both groups.

The same fundamental dynamics apply in a West-led scenario—trade among the East and neither groups holds steady compared with baseline outcomes, but trade between the East and neither groups on one hand, and the West and both groups on the other, declines.

EAST-LED SCENARIO

2026 Percent change in the value of trade flows from baseline, percent

		Importing region				Grand total
		East	Both	West	Neither	
Exporting region	East	30%	18%	-5%	-3%	14%
	Both	29%	18%	-4%	1%	13%
	West	-12%	-19%	1%	3%	-2%
	Neither	-13%	-15%	0%	2%	-5%
	Grand total	8%	3%	0%	0%	3%

SOURCE: McKinsey Global Trade Flows Model, GTAP, Oxford Economics

In a multipolar scenario, intraregional trade among all groups increases (with the sole exception of both-both trade), while interregional trade among East, West, and neither groups declines.

WEST-LED SCENARIO

2026 Percent change in the value of trade flows from baseline, percent

 Regions implementing FTA

		Importing region				Grand total
		East	Both	West	Neither	
Exporting region	East	1%	-14%	-12%	3%	-3%
	Both	-8%	54%	36%	-19%	9%
	West	-1%	38%	12%	-3%	8%
	Neither	2%	-15%	-13%	3%	-6%
	Grand total	0%	4%	6%	-1%	3%

SOURCE: McKinsey Global Trade Flows Model, GTAP, Oxford Economics

This decoupling effect in interregional trade, under conditions where one or more regions liberalized internally, gives rise to a consistent incentive for both East and West to drive intraregional liberalization, independent of the other region's behaviour.

This incentive applies in spite of the fact that leading intraregional liberalization tends to have a negative effect on trade balances. Across the board, the regions achieve their strongest trade balances in their worst-off GDP and consumption scenarios, and weakest trade balances in their best-off scenarios on these indicators. The East's trade balance

MULTIPOLAR SCENARIO

2026 Percent change in the value of trade flows from baseline, percent

 Regions implementing FTA

		Importing region				Grand total
		East	Both	West	Neither	
Exporting region	East	35%	14%	-19%	-2%	12%
	Both	24%	-1%	32%	-10%	20%
	West	-13%	16%	13%	-1%	6%
	Neither	-9%	-24%	-12%	4%	-10%
	Grand total	10%	8%	5%	-1%	6%

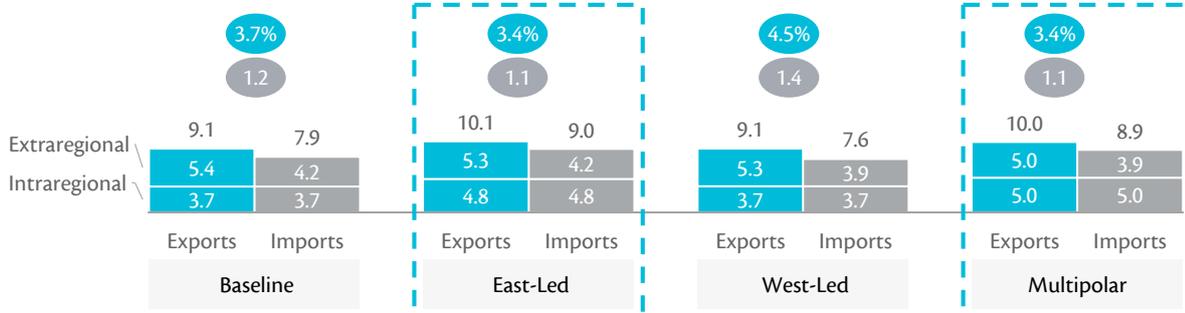
SOURCE: McKinsey Global Trade Flows Model, GTAP, Oxford Economics

in either an East-led or a multipolar scenario is USD 1.1 trillion (3.4 percent of GDP), compared with a more favourable outcome of USD 1.2 trillion (3.7 percent of GDP) in the Baseline scenario, and a maximum outcome of \$1.4 trillion (4.5 percent of GDP) in a West-led scenario. The trade-offs are directionally similar for the West, as well as the both group (which reaches its most favourable trade balance in the baseline scenario). Conversely, the neither group achieves its strongest possible trade balance in the multipolar scenario, and its least favorable balance in the baseline scenario.

EAST REGION – INTRA/EXTRAREGIONAL TRADE

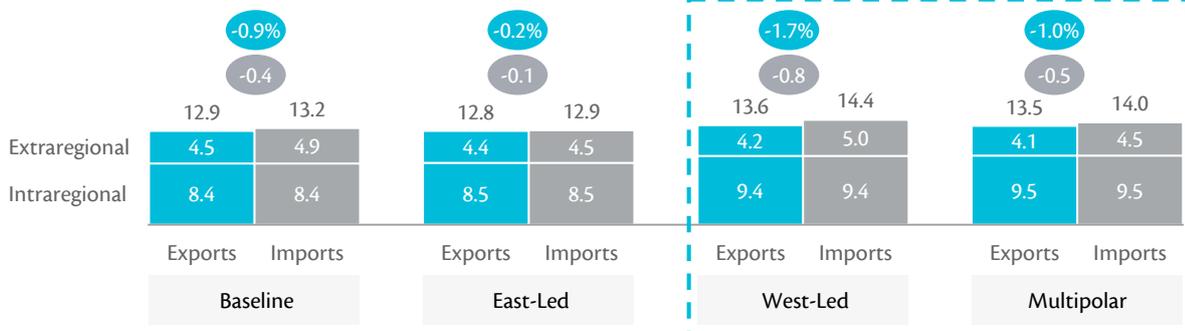
2011 USD trillions

X% Regional trade balance as a percent of GDP
X Regional trade balance



WEST REGION – INTRA/EXTRAREGIONAL TRADE

2011 USD trillions



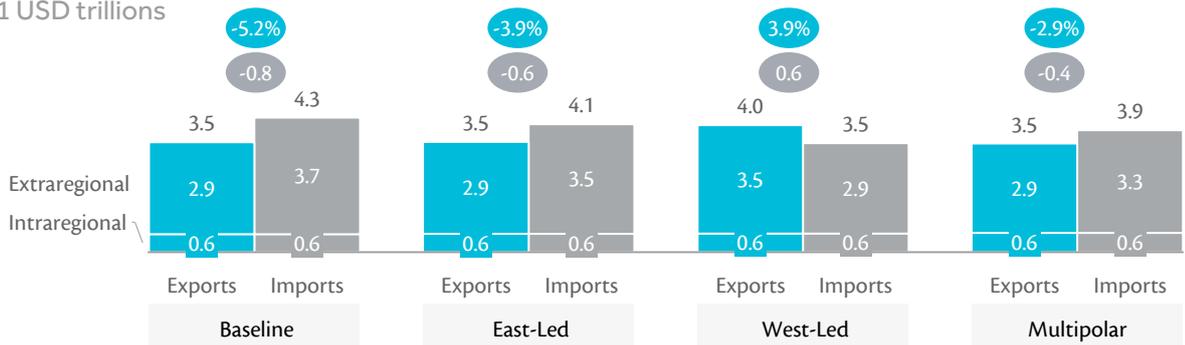
BOTH REGIONS – INTRA/EXTRAREGIONAL TRADE

2011 USD trillions



NEITHER REGION – INTRA/EXTRAREGIONAL TRADE

2011 USD trillions



These outcomes reflect that optimizing for trade balance would lead to suboptimal outcomes on GDP and private consumption, suggesting that a trade-balance-oriented approach to formulating trade policy could reduce the average standard of living for regional households.

Although based on simple, stylized scenarios, the findings outlined above highlight a number of nuances often missing from political rhetoric on who will lead future globalization. All groups benefit from driving intraregional trade liberalization, and benefit the most when they lead FTA activity on a unipolar basis, although the size of the prize (and conversely, the downside risk) differs across groups. The economic incentives to drive intragroup trade cooperation apply despite negative implications for extraregional trade balances. With respect to both GDP and consumption, it is in the best interests of each group to liberalize, and this incentive only increases when the other group liberalizes. Thus, a rational observer would expect the multipolar scenario to be the most likely outcome result, as this scenario reflects the Nash equilibrium. In reality, governments weigh a variety of considerations in making trade policy decisions, including political and social factors as well as economic impact. However, taken alone, the economic incentives outlined above would predict a trend toward more liberalization.

The uncertainties and trends—both technological and political in nature—outlined in the preceding sections pose a range of new questions and challenges for both policymakers and firms. In the final section of this paper, we present an initial perspective on the priorities governments will need to focus on in this evolving context, and the levers available to address risks and negative externalities as well as emerging opportunities.



NAVIGATING AN EVOLVING CONTEXT

In the context of uncertainties on the future scale, composition, and geographical organization of trade growth, policymakers must strengthen their toolkits to shape both the future trajectory of trade and its impact on local economies. The complex, evolving dynamics of global trade, and their effects on local economies, require tailored strategies that take account of diverging regional and country contexts. We have developed several preliminary cross-cutting recommendations for policymakers, which relate to three categories of government levers: 1) measures to mitigate the short- to medium-term downside risks related to trade liberalization, 2) strategies to shape longer-term economic transformations to take advantage of opportunities linked to trade, and 3) proactive approaches to driving future trade cooperation.

Priority areas for government action

1. Given the potential disruptions and socio-economic externalities posed by the uncertain outlook on trade, governments will need to include adjustment mitigation measures in their approaches to navigating the future of trade.

Governments across multiple regions and a broad spectrum of economic profiles are likely to face some externalities from trade

and related structural economic adjustments, e.g., job losses linked to decelerating growth in goods trade and the reorganization of global value chains. As reflected in recent global political events such as the Brexit referendum, governments cannot afford to ignore the economic disruptions associated with globalization and related technological trends outlined above. When facing these disruptions, countries can consider implementing a range of trade adjustment mitigation policies, including both passive (e.g., unemployment benefits) and active (e.g., job placement support) measures. However, the best practices in designing these measures are still being defined. While some preliminary insights have been synthesized, e.g., in a recent joint publication by the IMF, World Bank, and WTO,¹⁵ policymakers around the world will need to experiment with various approaches and interventions, and develop evidence-based learning around what works.

At a high level, some categories of measures—such as improving the access, affordability, and quality of healthcare services for all population segments, including the un- and under-employed as well as those working in insecure or informal sectors—are important priorities for all countries (though the specific interventions needed will vary). Yet other categories of support may be more relevant in some regions and countries than in others. In the UK, USA

¹⁵ IMF, World Bank, and WTO, 2017. "Making Trade an Engine of Growth for All: The Case for Trade and for Policies to Facilitate Adjustment." Accessed from: https://www.wto.org/english/news_e/news17_e/wto_imf_report_07042017.pdf

and other advanced economies in which automation and the fragmentation of global value chains have led to job losses in key sectors, top priority interventions may focus on “softening the blow” for displaced skilled workers and enabling them to find employment in new sectors. Along these lines, many Western countries are experimenting with new short-term retraining programs, job counseling and placement programs, wage subsidies, and/or reemployment bonuses. Middle income countries may have a greater need to focus on incentivizing or mandating household savings, and introducing national unemployment insurance schemes. In contrast, low income economies will likely need to first focus on developing the basic fabric of a social safety net, including piloting food access programs, social housing, and rural service provision models. Governments from diverse global contexts can contribute to defining regional or economic profile-based policy agendas in this sphere.

To develop the required insights, countries will need to implement rigorous data collection and evaluation. Adjustment mitigation measures often involve complex trade-offs and potential negative externalities, and can thus have unpredictable results in practice. As an illustrative example, some countries make unemployment benefits contingent on participation in programs—in theory, this stipulation reduces the risk that recipients of benefits become “rent seekers,” failing to prepare for and seek out new employment opportunities.

However, the policy also risks hindering highly motivated participants from finding more suitable or desirable opportunities through independent skill development and job searching. Advancing our knowledge on the best approaches to mitigation thus requires piloting a range of programs, and closely tracking the outcomes. When experimenting with these policies, governments should proactively analyze potential risks and trade-offs, design and implement rigorous data collection processes, evaluate policy outcomes and externalities on an ongoing basis, and codify and share relevant learning.

2. In parallel with these measures, countries should also develop tailored long-term strategies to adapt to the changing landscape of opportunities and challenges driven by trends such as growth in tradable services, and the digital revolution, and emergence of new digital trade platforms.

Identifying sustainable sources of competitiveness in a rapidly changing environment, and investing in key enablers for these activities and/or sectors (e.g., modernizing infrastructure) should be perennial priorities for governments everywhere. In a trade context characterized by rising trade in services, for example, emerging economies will need to explore pathways beyond a purely manufacturing-for-export growth model, finding and capitalizing on complementary opportunities in services.

In addition to more traditional economic development strategies and plans, governments are increasingly developing strategies to drive narrower priorities such as R&D, innovation, digitization, and/or adoption of specific technologies at the level of the national economy. For example, the United Arab Emirates (UAE) has published a UAE National Innovation Strategy, a UAE Artificial Intelligence Strategy, and a UAE “Future Strategy” with specific priorities identified to enhance the country’s competitiveness and the technological sophistication of local industry. Due to private sector transformation, governments will also need to critically examine national education system and develop strategies to transform approaches, focus areas, and outcomes across all levels of education.

As with mitigation measures, national strategies must be customized to regional and national contexts. While a national Artificial Intelligence Strategy such as the UAE’s can make sense for relatively developed and technologically sophisticated governments and economies, most less developed countries are likely to achieve more impact through prioritizing development of national infrastructure development strategies, primary education transformation strategies, and other fundamental enablers. Meanwhile, expanding digital access and literacy could be particularly critical for countries with relatively small or uncompetitive industrial sectors, including both higher- and lower-income economies. By increasing the use of digital platforms

and expanding e-commerce, these governments could complement standard growth promotion in traditional manufacturing, and enable a new generation of entrepreneurs and SMEs.

In addition to national-level strategies, policymakers can also explore new approaches to shaping the economic and social development of specific regions and cities, some of which have been particularly profoundly affected by trade liberalization and technological change. In advanced economies, the “local flavor” of these strategies may include a focus on economic revitalization of declining industrial cities and regions—for example, Buffalo, New York was able to transform its economic performance through a revitalization strategy that incorporated levers to boost the youth population of the city and attract entrepreneurs. In contrast, less-developed economies may focus instead on driving economic inclusion of rural areas, e.g., through mobile payments/finance and expanding ICT access and other infrastructure and services.

Similarly, refreshing urban planning and development strategies (as well as subnational regulatory environments) may also be necessary to adapt to changing local industrial structures. For example, booming tech cities like San Francisco may need to rethink transport infrastructure and relaxing restrictions on housing development to mitigate spikes in real-estate prices. In all contexts, however, such approaches should focus on enabling to resilient, growing

industries where the location in question has potential to be truly competitive. Developing effective, procompetitive economic strategies will require extensive communication and joint problem-solving between policymakers, private sector firms and institutions, and social sector leaders to ensure policy and public investment priorities are oriented toward the top challenges constraining private sector growth and affecting the well-being of citizens.

3. Finally, in the context of the evolving trade policy climate, many countries should consider taking a more proactive and strategic approach to trade cooperation than in the past.

Moving beyond reactive postures, which entail depending largely on leading global and regional powers to set trade policy agendas, policymakers in all countries need to develop independent perspectives on their objectives and approaches in boosting trade. Governments should identify, target, and drive opportunities to deepen cooperation at both multilateral and bilateral levels. Developing a national trade development strategy and plan, with clear objectives and cooperation agendas with key regional and global partners, can be a useful first step to define a vision and align efforts among diverse relevant stakeholders. As in the case of economic development strategies, this type of effort requires close partnership between public, private, and social sector stakeholders.

Governments should also endeavor to lead popular discourse away from simplistic “pro- vs.

anti-globalization” debates on trade, toward a more nuanced outlook and a “portfolio mindset” when it comes to trade agreements. In contexts where trade liberalization is a politically charged issue (at the level of popular constituencies and/or vested business interests), there may be short-term political gains associated with taking clear pro- or anti- stances on trade liberalization. However, delivering long-term economic and social welfare depends on a carefully considered, and contextually sensitive approach to trade cooperation, rooted in a fact-based understanding of the potential benefits, trade-offs, and risks linked to specific cooperation arenas and partners.

For some governments, this proactive policy approach will require developing or deepening capacity and capabilities in economic modeling and analysis, as well as diplomacy and negotiation skills. Taking a proactive stance in the arena of trade cooperation requires strong intelligence on domestic and international economic dynamics, evolving trends, and promising opportunities for cooperation, as well as the diplomatic talent to act on these insights. Governments should focus on ensuring the required talent and institutional infrastructure is in place, as well as pushing the envelope to generate new insights, e.g., through leveraging emerging analytics approaches such as machine learning and predictive modeling.

Required enablers

A common theme cutting across these three areas is the need to develop more rigorous fact bases, analytical capabilities, and policy-making processes—a need which applies to all regions and countries, and at a global level. Driving progress on this core priority requires (a) improving government data collection and analysis capabilities and capacity, (b) developing new approaches to leveraging existing big data sources, and (c) reforming legislative and regulatory processes to strengthen evidence-based policymaking. There are a wide range of potential approaches to pursuing these goals. Some governments may have existing agencies that could be logical “owners” of this drive, others may need to develop new functions, institutions, and/or governance structures and processes, while still others may choose to work with external partners to provide analytical and strategic support.

One potential (and highly adaptable) approach is to embed “Decision Support Centers” in key government entities—centers of excellence providing data and analytical support to decision-makers. These can be created in institutions with a macroeconomic scope and mandate, such as Ministries of Trade and/or Economic Planning, or in narrower institutions such as sector-level or subnational agencies. The model—illustrated by examples such as Singapore’s Center for Strategic Futures, and Data Studios being piloted in multiple GCC

government contexts—involves setting up a multidisciplinary team to define key use cases and analytical approaches to support evidence-based policy making. In relatively data-rich, high-capability government contexts, this could mean a team of data scientists, advanced analytics experts, and data visualization experts, and “translators” or communication experts working together to develop insights from big data analytics, and help policymakers digest and embed the lessons learned from policy decisions. In less mature institutional environments, a similar concept can be implemented with a more basic capability profile, focusing on strengthening transparency on and responsiveness to traditional macroeconomic, social, and policy analysis.

In addition, many governments could benefit from setting up institutional platforms for ongoing dialogue and cooperation between private and public sector stakeholders. While there is no single correct model for this collaboration, setting up advisory councils to ministries or committees responsible for economic and/or trade strategy development could be an option in some contexts. In others, a multi-sector task force might be formed to drive the effort. Examples such as Canada’s private-sector-led Advisory Council on Economic Growth, the public-private organization Fundación Chile, the multisector New South Wales (Australia) Innovation and Productivity Council, and/or the Itasca Project could serve as high-level models for these partnerships.



Global trade flows are reaching historically high volumes, and are a long way from significant decline. Nevertheless, low commodity prices have caused values to wobble, the trade multiplier has weakened significantly, and an anti-globalization backlash appears to be reversing some of the progress made on free trade. If countries and companies are to

overcome these challenges to foster continued trade growth and capture the opportunities that come along with it, they need to explore new strategic models, levers, and partnerships, and develop new capabilities to ensure policy decisions are grounded in rigorous, data-based analysis.

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