

WORLD TRADE: POSSIBLE FUTURES



The current financial and economic crisis has seen a sudden and rapid contraction in world trade.

Will this situation correct itself when financial flows return to 'normal' levels? How will the rising cost of energy and the growing influence of emerging economies change trade patterns?

As part of the first UK World Trade Week, the UK Government's Trade Policy Unit (Department for International Development/Department for Business, Enterprise and Regulatory Reform) asked the Foresight Horizon Scanning Centre (Government Office for Science) to explore the possible future courses of world trade. The Centre has developed the four contrasting scenarios that are presented here, which illustrate how world trade might develop between now and 2020.

Scenarios are a commonly used method of 'futures analysis'. The technique seeks to identify and analyse the key 'drivers of future change' – factors that are present today or likely to emerge – and considers how they may evolve and interact. Scenario narratives are then developed, each one describing a possible future.

By illustrating a number of radically different but plausible outcomes, scenarios challenge the idea that an understanding of current trends is a sufficient basis for making useful forecasts. Scenarios provide policymakers with a powerful tool for testing their policies, helping to ensure that they are robust in different situations. Scenarios can also serve as a guide and inspiration for strategy development.

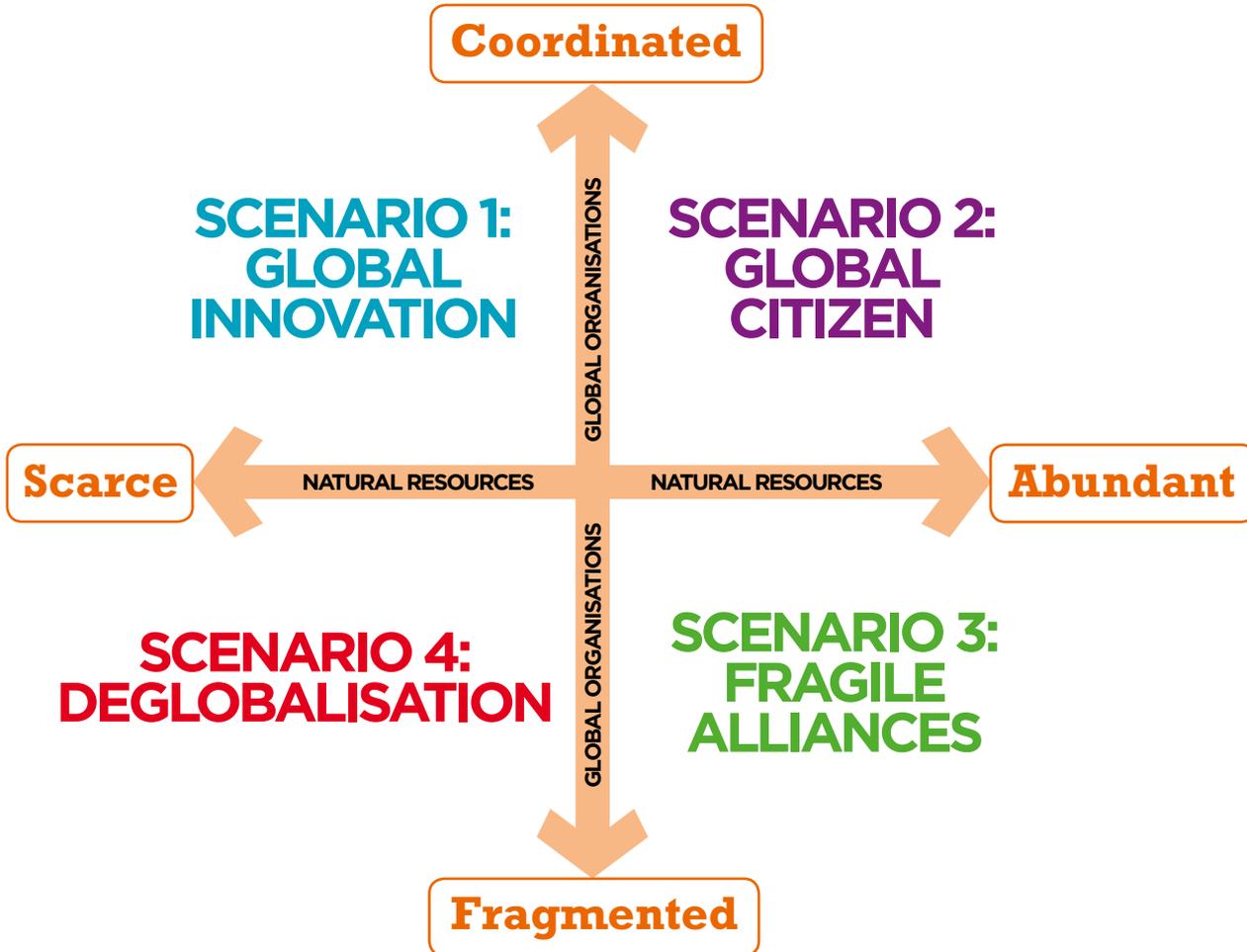


Some factors affecting trade can be expected to be relatively stable over the next decade. Climate change will still be a major priority in 2020. The global population will be increasing rapidly, dominated by growth in emerging and developing economies, in contrast to the ageing populations of most developed countries. Technological advances are likely to continue at a rapid pace. Other factors are much less certain. To what extent will the resources necessary for economic growth be available and affordable? Will international institutions play a greater role in global governance?

The structure for the scenarios was derived by identifying two factors that will clearly have a major influence on world trade over the next decade: the availability of natural resources, and the willingness of global organisations to coordinate their actions (see diagram). The first scenario ('Global innovation'), for example, considers the situation for trade in a world where resources are scarce, but where there is a high degree of coordination between international organisations; while in the third scenario ('Fragile alliances'), resource availability is high while global coordination is low.

The scenarios are intentionally vivid and provocative. They are designed to spark debate about the future of world trade among policymakers and the wider trade community. Beyond World Trade Week, they will be used to encourage Government departments to consider different possible futures when developing trade-related policy. They are not predictions of the future and do not represent UK Government policy, or the policy and positions of the organisations that contributed to them.

Members of the following organisations contributed to the development of the scenarios: Confederation of British Industry, London School of Economics, Oxfam, Standard Chartered Bank and the Centre for Economic Policy Research, along with a range of Government departments.



SCENARIO 1: GLOBAL INNOVATION

Coordination – scarcity



The world emerged slowly from the recession at the beginning of the decade.

Energy and mineral prices stayed high, despite subdued demand, owing to a dearth of new discoveries and low investment caused by uncertainty over long-term prices. The second half of the decade was different. The 'climate crisis' of 2015 provided a wake-up call to international collaboration, with a number of positive consequences.

At the start of the decade, though, slow recovery in developed economies held back developing countries, which were buffeted by high and volatile commodity prices. While this worked in favour of some commodity exporters, population growth, resource depletion and climate change slowed progress on poverty reduction, and levels of inequality remained high.

Oil and mineral-producing countries recycled some of their earnings into value-added manufacturing industries. Western firms benefited considerably by providing engineering and manufacturing consulting services and training to support these projects.

Despite the fact that the trade system remained open, only halting progress was made at the global level, and intercontinental trade was hit badly. Even though financing improved with the provision of international guarantees, volumes remained well below those of the early years of the century. High transport costs and weaker Western currencies slowed demand for goods from Asia.

Regional trade picked up to offset some of the shortfall. This was in part because high oil prices discouraged the shipping of goods over long distances, but another factor was the bigger role played by regional trading blocs, which also benefited from the increased development aid made available to support regional integration and trade facilitation.

Currency imbalances eased as the proportion of services versus goods traded increased. This was accompanied by diversification by Asian and major oil-producing countries into a wider range of currency assets alongside the US dollar.

Access to resources became a significant trade issue, and a number of countries responded by restricting exports. As a result, greater emphasis was placed on tackling this trend in international trade agreements, leading to modest progress in introducing multilateral rules.

At the beginning of the decade, then, low growth, high energy and commodity costs and rising food prices had not met with a concerted international response. By 2013, however, increasingly aggressive and coordinated negotiating stances by the major oil and gas exporters, together with the threat of a new gas cartel, led to renewed interest in researching and developing new energy technologies.

Then, in 2015, a series of severe weather incidents attributable to climate change struck at the same time across the world, causing failed harvests, severe flooding and major loss of life in several regions; governments suddenly found themselves under pressure to act more quickly and boldly.





Within a year, a coalition of countries and regions had agreed to allocate revenues raised by carbon taxes to a new international fund that would invest in low carbon technologies and make them available around the world. Thanks to investments from the fund, major breakthroughs have been achieved in solar and tidal technologies. Carbon capture and storage has increasingly been included in new coal-fired power stations. This technology rush has created a huge market, boosting businesses across the world.

A side-benefit of this movement has been a more active set of global institutions with growing popular support. Better global coordination has had a remarkable impact in developing countries, where investments from the technology fund have led to thriving new businesses, and where IT-enabled trade facilitation and improved access to developed markets have contributed to economic growth, which has in turn led to much lower levels of poverty and deprivation.

SCENARIO 2: GLOBAL CITIZEN

Coordination – abundance



The large-scale fiscal stimulus applied in 2009 worked.

The world experienced a very sharp but short-lived recession which ended in early 2010 thanks in part to the contribution of large emerging economies in helping to restore global demand.

Chastened by the crisis, countries have increased their collaboration, strengthening national and international regulatory regimes and monitoring systemic financial risk. This has restored confidence in international trade and capital flows – trade is forecast to continue to grow steadily. The reformed International Monetary Fund (IMF) has taken on a broader and stronger supervisory role.

Progress has been made on establishing the rule of law in international trade and improving its application in national jurisdictions. The World Trade Organization (WTO) has played an important role since the Doha Development Round was agreed in 2001, giving developing countries, particularly smaller ones, improved

access to world markets, and the Jakarta Round is now under way. Intellectual property rights are better protected, and this has led to cross-border investments in a range of new technologies.

The IMF has become a major bond issuer; its bonds have proved popular with newly-industrialising countries, which have increasingly preferred them to traditional sovereign bonds. One of the results of this has been a rebalancing of private savings, exchange rates, and budget deficits and surpluses across the globe.

The improved Intellectual Property Rights regime and a simplified global tax system have encouraged multinational companies to be more mobile. Manufacturing activity takes place closer to supplies of raw materials, and has provided an effective mechanism for raising standards of living. Efforts by civil society organisations around the world, and particularly in developing countries, have led to increased social protection.

There has been a gradual relinquishing of national sovereignty in favour of global institutions, and within these institutions the West's influence has declined. Although this has led to campaigns by nationalist parties in many countries, the 'global citizen' appears to have taken such changes in his or her stride. This was initially put down to relief at coming out of the 2008-09 crisis relatively unscathed, but recently there have been signs that the growing influence of global institutions is viewed as a positive development in its own right.

Western countries and companies no longer call the shots in this world, in which the newly industrialised economies have – gradually and carefully – established their influence. Manufacturing has become ever more skills-intensive and, despite increasing specialisation, some traditional exporters have found it hard to compete. Smaller countries have reacted by seeking closer trade ties with regional groupings.

Leading global firms, in particular the new breed of Asian multinationals, have forged ahead with innovations and design improvements in high-technology products. To compete in these fields, Western countries have sought to boost the number of science and technology graduates in order to increase the volume and quality of hi-tech skills among their workforce.

Western countries have maintained a lead in knowledge-based sectors such as legal and financial services and marketing, while some have specialised in training overseas R&D workers and exporting educational services (although there are constant concerns about a 'brain-drain'). In these cases, outward investment and a good awareness of local trading environments have proved crucial to success.



SCENARIO 3: FRAGILE ALLIANCES

Fragmentation – abundance



The quick return to growth after 2009 failed to provide the impetus for significant agreements on trade and climate change, or for radical international reform.

International trade balances improved, but global currency imbalances remained, and have threatened to destabilise world trade at various points during the decade.

Trade between human capital-rich and resource-rich countries has flourished, with powerful multinational lobbies taking the lead. But countries without the human capital or natural resources to participate in such exchanges have been left out. Rapidly industrialising developing countries have been on a constant, often frantic search for resource partners in order to maintain the growth necessary for their stability and development, and have been accused of making deals with oppressive regimes.

This has led to a 'spaghetti' formation of bilateral deals, broken up only by the activity of cartels of resource-producing countries, which have banded together to protect their interests and pool their negotiating efforts over resources from oil to rare minerals. These 'country cartels' engage in collective bargaining with global clients, who seek (often successfully) to pick apart these fragile alliances.

Trading blocs with discriminatory rules constantly form and disband; those that have lasted longer have often had a political agenda. Governments are eager to support their key industries with a mixture of subsidies and political incentives.

Although the earnings of resource exporters are spent on goods from industrialised countries, which therefore maintain a degree of prosperity, this trade generally takes place within the narrow framework of bilateral agreements and ad hoc trading blocs. The result has been huge inefficiencies and poor allocation of resources, resulting in a lack of innovation, low responsiveness to consumer demand and expensive and low-quality products.

Development aid has followed a similar pattern. Efforts to improve coordination have had little success, with aid being used more and more as a way of opening doors to support countries' trade interests rather than to alleviate poverty.

The citizen-consumer has in any case retrenched and lowered his or her expectations. The failure of the trade and climate change negotiations, and increasingly inward-looking behaviour, have seen a resurgence of nationalistic politics. Migration controls are tightened with few complaints.

The looming threat of severe climate impacts has been met by vigorous adaptation measures – which have had the advantage of mobilising the domestic workforce and providing employment.





Domestic energy production is favoured, and some coal-fired power stations have been reopened. National energy research programmes have been introduced to find solutions that will make countries less dependent on fickle trading partners. The lack of international collaboration means that new energy solutions are harder to find, and when they are found they are treated as a strategic asset and not shared. Carbon emissions have increased more rapidly than expected.

Energy policy has led to divisions between countries and within regions. Some developed countries with major industries and few domestic resources have signed long-term supply agreements with major oil and gas-producing countries, in exchange granting exclusive distribution rights in their territory. Nervous about losing control of their supplies, others have preferred to burn coal and wait for renewables and new nuclear build to come on-stream.

Corruption and organised crime are endemic in international commerce, and within many countries.

SCENARIO 4: DEGLOBALISATION

Fragmentation – scarcity



The global economy hasn't returned to growth.

Some blame a lack of coordination and the failure adequately to reform the international financial system. The result has been a downward spiral of global confidence. A recession lasting the best part of the decade has led to commodity price stagnation and a prolonged slump in trade and investment.

Countries have adopted different strategies to ride out the recession, including economic nationalism, bilateral deals and closer regional groupings. Weaker economies have sought shelter under regional umbrellas, while the capacity and willingness of stronger economies to support weaker countries have vanished. Public confidence in governments' ability to shift the world out of recession has hit rock bottom. A 'blame the West' narrative has gained traction in the large industrialising countries.

Conflict has flared up regularly throughout the decade: 'water wars', resource grabs and contested claims to Arctic deposits. But despite frequent provocations and occasional skirmishes, none of the major powers has been drawn into the conflicts so far.

Droughts and climate shocks have disrupted food production, leading to export restrictions and high and volatile food prices, not to mention famine in several countries. Net food importers have been particularly hard-hit, and the more powerful have purchased land abroad to grow supplies, though this policy has met with fierce local resistance.

Food and energy security are at the heart of regional as well as national policy. Support for interventionist agricultural policies has grown at national and regional levels.

The nationalist and 'regionalist' response to recession has brought back protectionism in many guises, and 'deglobalisation' is under way. Trade agreements have started to unravel, with some countries seeking to pull out of the WTO when they are sanctioned for breaking its rules. One impact of this has been the shortening of supply chains, both geographically (suppliers are more local) and in corporate terms, with vertical integration making a come-back. There are increasing restrictions on foreign investment, both from countries that want to limit a foreign presence in their economies, and from countries that have restricted their own companies from off-shoring and 'exporting jobs'.

In countries able to secure the necessary raw materials, some of the impact of the new protectionism has been perceived as positive, reviving low-value production and renewing a sense of national identity; there has been growth in associations, charities and volunteering. Innovation and wages have, however, fallen. Consumers are less spoilt for choice and face higher prices.

The main losers have been exporting countries, particularly single-commodity exporters and manufacturers of industrial goods where the local (or regional) market is unable to absorb the products that were previously traded internationally.





Where international trade does still continue, it is dominated by state-controlled multinationals, and corruption and links to organised crime are a common feature.

Developing countries experience ever-lower earnings from exports and sharply reduced levels of investment and remittances (migration controls are widespread and rigorously enforced). They are strongly reliant on help from the international financial institutions, whose resources are over-stretched. Inequalities between and within countries have increased sharply. Developing countries have also been hurt by increasing volatility in international food and commodity markets, due to the increased use of domestic subsidies and export restrictions.

Aid for poverty reduction has dropped down the agenda of Western countries, and where aid is still provided it is generally in an attempt to reduce migration pressures or to further strategic and security interests. Some effort is made to intervene in conflict situations where these are perceived to be a direct threat to a country's interests, but in many cases conflicts are left to fester, with only token provision of humanitarian aid.

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