Le dernier mot

Jean-Francois Lambert explains why trade is unlikely to grow faster than GDP in the 21st century

Over most of the past three decades, trade has grown at twice the rate of the world GDP. For the fifth consecutive year though, according to WTO statistics,[1] trade growth has been slower than each year's global GDP growth rate. Most savvy economists would tell you that this is a blip in an lasting trend and that, when the economic recovery from the 2008 global financial crisis is firmly on track, commodity prices having rebounded and US dollar retreating into a comfortable weaker stance, world trade will resume its pulling factor position and achieve 1.5 to two multiples over GDP growth again. In other words, back to the old normal… Well, I beg to differ.

Globalisation

We all know what has been responsible for this unprecedented economic growth and wealth for the past 35 years or so – globalisation. This was driven by trade and the need of developed country producers to optimise their manufacturing costs. Asia was the first beneficiary – remember how trade fostered Taiwan, Korea, China manufacturing, and then Vietnam and Indonesia? Think about Mexico and its maquiladoras – assembly lines for US consumables. This was a formidable engine of growth. Poverty has receded, middle class has boomed, many developing countries have emerged as new consuming markets. Is this over? Not quite, but and at least for four reasons, we are about to witness very different patterns taking shape.

Four disruptions

Global financial crisis

First and foremost, the biggest disruption appeared almost overnight with the great crisis of 2008. The dust has not settled and we are still struggling to fully recover from it. But the crisis is not longer a pure economic crisis. It has sparkled deep changes of behaviour such as protectionism, more focus on local interest, and populism. The building of a post-WW2 integrated world has given ground to critics and challenges where self-interest prevails (debate on trade in the US elections, Brexit and European crisis are but a few example, painfully reached bi-lateral trade agreements with the Doha round buried for quite some time are others). This is not so good for global trade – or is it?

Geopolitics

Linked to the first disruption, the geopolitical environment is deteriorating fast. Tensions in the South China Sea, the challenge of migrating populations towards unwelcoming 'safer' havens, and military budgets are on the rise all over the world. Have you thought about how many countries have disappeared from your favourite tourist destination in the space of ten years? The decision to delocalise production in emerging countries is a much more complicated one now than it used to be.

Technology

Against this backdrop where closer is safer, two major technological breakthroughs will change the landscape – and definitely shorten most of the global supply chains: 3D printing and robotics. Both technologies are emerging fast and have common features: they work on 24/7 and could be installed next door. Most of the trade flow explosion was led by multi shipments of semi-finished products all over the world (think about the iPhone supply chain). With 3D printing and robotics, why bother? One could object that cheap energy means very low transportation costs and that should still allow a lot of transcontinental flows of merchandises. Granted, but it should also lower considerably the cost of local automatised productions and make re-localisation more compelling.

Digital trade

Clearly, commodity flows will remain global. So will digital flows, which should flourish over the next century. Cross-border data flows have grown by a factor of 45 over the past decade[2] and are projected to grow nine-fold by 2020![3] Combine this with the four disrupting factors and you probably get quite a good picture of what is about to happen to trade and businesses: less global flow of semi-finished products, regionalisation of trade around large consuming clusters and all this facilitated by technology and information.

Regionalisation vs globalisation

Is this all good news? I am not so sure because it will also mean less scope for developing countries to emerge and less manufacturing employment in consuming countries. However, businesses should start focus hard on what it means for them: regionalisation versus globalisation, emergence of large urban consuming hubs, a growing role of smaller, nimbler local enterprises. Banks should pay attention to this clientele. They should build strong regional franchises when they can and support the technological push. Their role, after all, is to foster development. Isn't it?

References

1. See http://bit.ly/1qvpcAe at www.wto.org
2. See Harvard Business Review 2016 at http://bit.ly/1Riu0yk
3. Sources : McKinsey Quarterly 2016 at http://bit.ly/1oCUK5H