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Re-globalization for a secure, inclusive and sustainable future

Briefing on *WTO World Trade Report 2023, Global Trade Outlook and Statistics Update October 2023* and *Overview of Developments in the International Trading Environment, Annual Report by the Director-General (October 2023)*

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Your contact persons within
GFA Consulting Group GmbH are

Mr. Lukas Kudlimay (Project Director)
Mr. Douglas Aitkenhead (Team Leader)
Ms. Daniela Stratulativ (International Trade and Foreign Direct Investment Expert)

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Author:
Ms. Daniela Stratulativ, International Trade and Foreign Direct Investment Expert

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GFA Consulting Group GmbH
Eulenkrugstr. 82
D-22359 Hamburg
Germany Phone: +49 (40) 6 03 06 170
Fax: +49 (40) 6 03 06 159
E-mail: lukas.kudlimay@gfa-group.de

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1 Purpose

This briefing provides the findings of three *WTO reports published at the end of 2023: World Trade Report, Global Trade Outlook and Statistics* and *Overview of Developments in the International Trading Environment, Annual Report by the Director-General.*

The briefing provides the world trade forecast for 2024 and a view of the most recent changes in the deglobalization of trade. In addition, it discusses the impact of deglobalization on economic growth and provides policy recommendations for trade-enabled economic growth.

Since the global financial crisis of 2008-09, international trade has lost much of its momentum. Unilateral trade restrictive policies in selected sectors, often motivated by environmental, national security and geopolitical objectives, are on the rise, which in turn affects trade flows. Initial trends towards friend-shoring are visible in the data, as is increased concentration. Trade continues to grow and trade liberalization progresses. While supply disruptions did occur, the trading system has held up throughout past crises and has been able to adapt flexibly.

Despite the policy headwinds, global trade costs continued to decrease after the global financial crisis of 2008-2009, albeit at a slower pace. The stagnation of the trade-to-GDP ratio, the most common indicator of global trade openness, can be explained by compositional changes in the global economy and a slow-down in the structural forces that drove its expansion in the early 2000s, not by a reversal of trade liberalization.

Trade not only grows but it evolves in a direction that is more resilient, inclusive, and sustainable. Trade in digitally delivered services is expanding rapidly, enabled by advances in digital connectivity and technology. Low- and lower-middle-income economies' share of global exports increased from 17 per cent in 2001 to 31 per cent in 2021. GVCs are expanding too both in terms of the products and the economies involved and the digital revolution is enabling further specialization in business service activities and services offshoring.

The WTO World Trade Report 2023 looks at the current debate surrounding globalization and the world trading system underpinning it. It focuses on three major challenges facing today's global economic order – security and resilience, poverty and inclusiveness, and environmental sustainability – and asks whether global integration or fragmentation offers a better way forward. It also considers whether the solution to today's challenges is a process of re-globalization that reforms, improves and updates the current international trade and economic system. It examines the role of international trade in addressing some of the most pressing challenges facing the world economies today: maintaining peace and security, reducing poverty and inequality and achieving a sustainable economy.

Widening and deepening global economic growth is not the only condition for development, but it is a necessary condition – which explains why the modern globalization era has also been marked by unprecedented advances in health, education, gender equality and poverty reduction.

This briefing is structured as follows. Section 2 provides the trade forecast for 2024 and a discussion on deglobalization, including the current state and the challenges raised by globalization. Section 3 offers insights on trade as related to economic security and conflict. Section 4 discusses the environmental gains of re-globalization. Section 5 provides a number of policy recommendation for trade-enabled economic growth.

2 Global Trade Forecast and Deglobalization

This section provides the trade forecast for 2024, an overview of the current state of globalization and a discussion of challenges caused by globalization.

2.1 Trade forecast 2024

World merchandise trade volume growth is expected to grow to 3.3% in 2024. Merchandise trade exports volume for Europe are projected to increase by 2.2% and for the Middle East by 3.8%. Merchandise trade imports are forecasted to increase by 1.6% for Europe and 4.6% for the Middle Eastern countries.

Positive export and import volume growth should resume in 2024 in all regions except for the Commonwealth of Independent States (CIS), where imports are expected to decline after a strong rebound in 2023. If the forecast for 2024 is realised, Asia would be the fastest growing region on both the export and import sides, with 5.1 per cent growth in exports and 5.8 per cent in imports.

Between mid-October 2022 and mid-October 2023, WTO Members introduced more trade-facilitating than trade-restrictive measures on goods, unrelated to the pandemic. Most of the facilitation happened on the import side while most restrictions took place on the export side. In the area of services trade, the trend was also mostly towards further liberalization. New general economic support measures by governments, including various environmental impact reduction programmes, were also introduced

The number of export restrictions by WTO Members has risen significantly since 2020, first in the context of the pandemic and more recently because of the war in Ukraine and the food security crisis.

2.2 The current state of globalization

The evolving narrative questioning international trade is increasingly manifesting itself as trade tensions. These tensions are beginning to affect trade flows including in ways that point towards fragmentation. Despite these challenges, international trade continues to thrive in many ways, implying that talk of de-globalization is on balance still far from the view supported by the data.

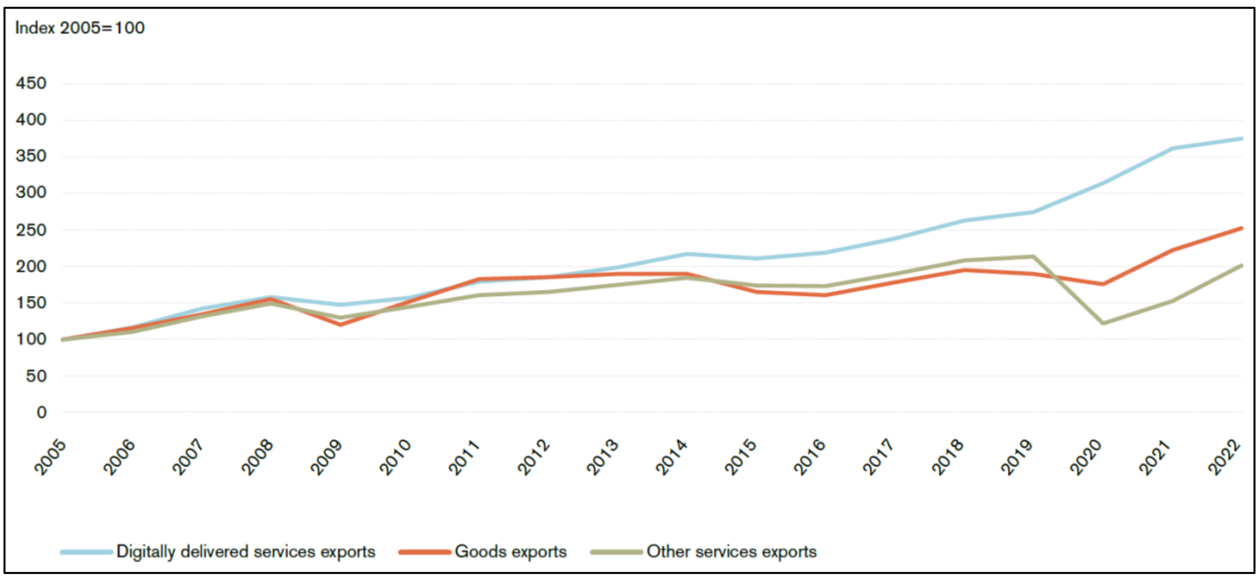
Scepticism towards international trade in global trade policymaking has been growing, leading to setbacks in regional trade integration efforts and a shift towards unilateral trade policies. This has resulted in tensions between some major traders, as unilateral trade measures and technical regulations have led to an increasing number of trade concerns raised by WTO members.

Analysis of the work of WTO committees reveals a surge in trade concerns at the technical level, particularly in the Committee on Technical Barriers to Trade (TBT) and the Committee on Market Access, with the latter registering a fourfold increase from 2015 to 2022. An increasing number of unresolved concerns is now being escalated to a more political level in the Council for Trade in Goods, where the number of trade concerns has increased ninefold from 2015 to 2022. The rising use of subsidies by governments has been another issue of concern, resulting in a sharp increase in the number of countervailing measures undertaken by WTO members.

WTO analysis finds that, despite these developments, claims of de-globalization are still greatly exaggerated. In fact, there are also clear signs of re-globalization and greater international cooperation.

Trade has also become more digital, green and inclusive. The digital revolution has bolstered trade in digitally delivered services (Figure 1) by sharply reducing the costs of trading these services.

Figure 1. Growth of digitally delivered services exports, 2005-2022



Source: WTO World Trade Report 2023
Note: Digitally delivered services include General Agreement on Trade in Services (GATS) mode 1 exports of financial, insurance, telecommunications, computer and information services, charges for the use of intellectual property, and most other business services and personal, cultural and recreational services in the balance of payments.

2.3 Challenges caused by globalization

The success of globalization has given rise to new challenges that are fuelling counter-pressures to reverse globalization, unwind interdependence and return to a more divided world of regional blocs:

1. A central challenge is the **environment**. Rapid economic growth, underpinned by deepening global integration, has resulted in more production, more consumption, and rising living standards for a fast-expanding global population. But economic growth and material progress are also placing unsustainable strains on the global environment, resulting in rising levels of greenhouse gas emissions, rapid biodiversity loss, the over-exploitation of natural resources and the spread of air, land and water pollution these environmental challenges require immediate solutions, not least to ensure that continued global economic progress, development and poverty reduction are not derailed or worse.

2. Another major challenge is **inequality**. Although globalization has helped reduce inequality between economies – as many fast-growing emerging economies catch up and converge with advanced economies – it has also contributed to increasing inequality within economies.

3. Complicating efforts to address these global challenges is the **diffusion and realignment of geopolitical power**. Globalization has helped turbo-charge development and fuel the emergence of powerful new economic actors. This is disrupting the old international order and shifting the global balance of power, unleashing enormous geopolitical and geo-economic shockwaves. Advanced economies remain key players, but they are no longer dominant. Fast-emerging economies in Asia, Africa and South America play a role in the system that was unimaginable just 20 years ago – while even smaller economies want a greater say in a system in which they have a greater interest.

The series of shocks over the last decade and a half – the 2008-2009 global financial crisis, the COVID-19 pandemic, and now the war in Ukraine – has raised concerns about how dependent countries have become on each other for critical supplies, resources, energy and technologies; how distant disruptions can now reverberate and amplify along complex and integrated supply chains; and how interconnectivity and interdependence seem to make countries less self-sufficient, more vulnerable to external shocks, and too exposed to a turbulent world economy. Growing geopolitical conflicts – highlighted by the war in Ukraine and rising United States-China tensions – are only amplifying these concerns about over-dependency on foreign suppliers and waning national self-sufficiency.

Why deglobalization is not the solution

A process of deglobalization will not solve the major challenges facing economies today – in fact, it will make them worse and more intractable. **Deglobalization would leave the world economy poorer, less efficient, less innovative and more resource-constrained**, thus reducing economies' ability to advance their social, environmental or security priorities – from strengthening social safety nets, to transitioning to clean technologies, to investing in the education, research and development and infrastructure that are now the key building blocks of economic competitiveness, technological leadership and national security and strength.

Because many of the gains from globalization are the result of economies specializing in what they do best, **these gains would be reversed** if economies focus instead on increasing self-sufficiency and reducing dependency on more efficient producers. Unwinding global openness and integration would also **limit competition, technological diffusion and the exchange of ideas that are critical drivers of innovation**. The WTO estimates that the cost of splitting the world trade system into separate trade blocs would be about 5 per cent of real income at the global level, with some developing economies facing double-digit losses.

A bigger danger is that attempts to reverse globalization and rebuild economic walls could descend into a vicious circle of quid-pro-quo retaliation, protectionism, escalating economic conflict and the unravelling of a rules-based trading system – **making it harder for the world to cooperate, not just on economic matters, but on the urgent environmental, social and security issues** it confronts. As was the case in the 1930s, declining global trust and rising insecurity could force economies to assert their own national interests, even at the expense of their collective interests, with the result that everyone is worse off. If globalization rested fundamentally on “positive sum” economic cooperation, deglobalization reflects and reinforces “zero-sum” economic nationalism and rivalry.

Since the outbreak of the pandemic, 458 **trade and trade-related measures in goods** have been implemented by WTO Members and Observers. Most of these were **trade-facilitating** (255 or 56%), while the rest could be considered **trade-restrictive** (203 or 44%). Members continued to phase out the pandemic-related measures, especially restrictive ones. As of mid-October 2023, 84.7% of the COVID-19-related trade restrictions had been repealed, leaving 20 export restrictions and 9 import restrictions in place. The **trade coverage of the pandemic-related trade restrictions still in place was estimated at USD 15.6 billion**. In the area of services, 156 COVID-19-related measures have been introduced since the beginning of the pandemic, most of which are still in place (22 have been terminated, and 3 partially).

Continued trade policy integration is necessary to deliver further progress, unlock productivity gains and accelerate innovation and technology diffusion. Food security – especially in developing economies – can benefit from deep international markets. Yet, trade costs in agriculture have barely changed in the past two decades, remaining almost 50 per cent higher than in manufacturing, and many LDCs still have difficulties in participating in the global trading system.

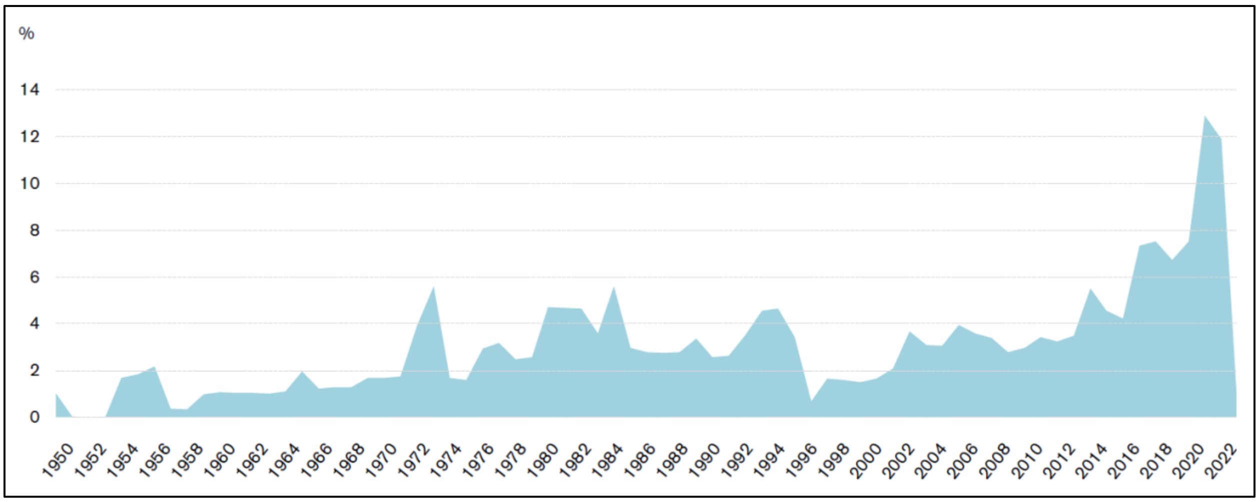
3 Trade, economic security and conflict

This section provides a view on the link between the shifts in regional trade policy, economic security and the risk of fragmentation for the global economy.

Trade policy reflects broader and increasing security concerns

Economic security captures issues such as access to and productive capacity for critical raw materials or other inputs to production The role of trade in reducing risk and volatility by enabling diversification has long been recognized. However, the positive role of trade for security is increasingly being overshadowed by concerns of overdependence on foreign suppliers. This has a visible impact on trade policy. The number of quantitative restrictions in force notified under Article XXI of GATT 1994, the Security Exceptions, and the number of trade concerns about measures referring to "national security", has risen sharply in recent years. This suggests that trade policy is more and more influenced by security concerns. Figure 2 shows that the share of trade affected by sanctions displays steep increases in recent years.

Figure 2. The share of trade affected by trade sanctions



Source: WTO Global Trade Outlook and Statistics, October 2023

Notes: The figure displays the share of trade affected by sanctions using the Global Sanction Database (GSD) which includes data on trade sanctions from one economy to another by year. There is only partial information on whether imports or exports are affected and the coverage of sanctions by product and. Providing an upper bound, all trade between two economies in a year is included when information on sectoral coverage is missing. All sanctions whose objectives are tagged "other" are dropped since the aim of the chart is to reflect the trend in sanctions volume from a security perspective. Source: Global Sanctions Database: http://globalsanctionsdatabase.com (Felbermayr et al., 2020) and IMF Direction of Trade Statistics.

Trade concerns in WTO committees show that GATT security exceptions are also increasingly invoked as justifications for the imposition of import restrictions. They also show that technical standards are another domain where national security concerns are growing. One example is the debate around the deployment of 5G mobile telephony services. Similarly, there has been an increase in sanctions and export controls, especially on advanced technologies.

A policy shift can also be observed in regional trade policies where new forms of cooperation do not systematically take the form of binding trade agreements. For instance, the European Union and the United States have established the US-EU Trade and Technology Council (TTC). The TTC is intended to foster transatlantic coordination on semiconductor and critical mineral supply chains, artificial intelligence, disinformation, technology misuse threatening security and human rights, export controls, and investment screening.

The evidence on trade and security

There are many indications that security, especially in its broader sense of economic security, plays an increasing role in trade policies, at the national, regional, and multilateral level. The involvement of security in trade policy can lead to higher trade barriers and there is a risk that this could lead to fragmentation in the global economy as economies resort to re-shoring and friend-shoring. However, fragmentation would reduce global welfare as economies would forego gains from trade based on comparative advantage, increased product variety, the sharing of fixed costs and the diffusion of ideas and technologies.

It is important to note that fragmentation would also fail to increase security. Trade interdependence, open trade policies, and cooperation among economies through international organizations can reduce the probability of conflict and raise economic security. Therefore, fragmentation is an ineffective answer to the security challenges the world is facing. Instead, re-globalization and thus geographical diversification, the expansion of trade to new areas, and continued and expanded multilateral trade cooperation can contribute to greater security.

4 Trade and environmental sustainability

This section provides an overview of the link between trade and GHG emissions and discusses the environmental gains from re-globalization.

Trade affects emissions by means of three effects: a scale effect, by causing economic growth; a composition effect, by changing patterns of specialization; and a technique effect, by inducing firms to adopt more efficient production technologies. Empirical evidence indicates that **the negative scale effect of trade on emissions is generally offset by a positive technique effect**.

Since 1995, international trade has undergone an unprecedented expansion, and during that time, **advanced economies have experienced a modest rise in total CO_2 emissions, while middle-income economies saw a larger net increase in their CO_2 emissions**. Although trade contributes to GHG emissions, it also improves the environment directly by boosting productivity and diffusing environmental technologies, and indirectly by raising income and the demand for a cleaner environment.

The period of October 2022 – October 2023 saw a significant increase in the number of new **general economic support measures** by WTO Members. These included environmental impact reduction programmes, renewable-energy production schemes, support for energy efficiency and decarbonization, as well as support for clean- and renewable-energy projects. Other measures included various support programmes for the agricultural sector, tourism, aviation and transport.

The environmental gains from re-globalization

1. **An increased share of digital and services trade could help reduce the environmental footprint of international trade.**

Many services that were traditionally considered as non-tradeable can now be delivered digitally. These services include information and communications technology (ICT), financial and insurance activities, business services, arts, entertainment and recreation. The carbon emission intensity of these services sectors, defined as the tonnes of CO2 emissions per US$ of output, is lower than for other services sectors, as well as for agriculture, mining and manufacturing. Even though the share of trade in digitally delivered services has increased in the past decades, the CO2 emissions embedded in the trade of these services have remained relatively stable, accounting for roughly 4 per cent of emissions embodied in trade.

Digital technologies can accelerate the low-carbon transition. Digital solutions in energy, manufacturing, agriculture and land use, buildings, services, transportation and traffic management could reduce global carbon emissions by up to 15 per cent. For instance, high-speed connectivity can enhance transportation optimization by enabling real-time data collection and analysis, leading to more efficient route planning, reduced congestion and lower emissions.

2. **Coordinated environmental policies are essential to ensure that trade contributes to solving global environmental challenges.**

Global environmental challenges, including climate change and biodiversity loss, necessitate collective action on a global scale to achieve effective solutions. When governments coordinate their climate policies, the costs of climate change are reflected in the prices of goods and service. Therefore, economies with relatively clean energy resources would have a comparative advantage in producing and exporting relatively energy-intensive goods and services, enabling trade to play a greater role in mitigating climate change.

Import tariffs and non-tariff barriers are substantially lower on products of carbon-intensive industries than on products of cleaner industries. This difference in trade policy creates a global implicit subsidy for CO2 emissions associated with internationally traded goods in the range of US$ 550 to US$ 800 billion annually.

3. **Re-globalization can contribute to the transition of developing economies to a more sustainable growth path, while respecting their needs for economic development.**

Re-globalization also means new trading opportunities in renewable energy for many developing economies, notably economies in Africa and the Middle East that have abundant solar power resources. To harness the potential of renewable energy, it is important for these economies to be able to access technologies, such as solar panels, through trade and transfer of technology.

Re-globalization, by advancing services trade and enabling a wider application of digital technologies, can lower the carbon intensity of trade. International cooperation on environmental policies could also enable economies to leverage their "green comparative advantages", further enhancing the role of trade in facilitating the green transition. Many developing economies stand to gain from this green transition as exporters of renewable energy and sustainable agricultural goods.

5 Policy actions

Today's world needs more trade and more cooperation, not less. The major issues that policymakers are facing the world over – from security to inclusiveness to climate change – transcend nation states. Therefore, solutions cannot be found unilaterally, in isolation of the actions of others. Globalization and cooperation need to be a part of the answer if the world is to solve its crises. But globalization itself needs to evolve and to be accompanied by appropriate policies in related areas.

Technological developments can provide new opportunities to expand trade to more people, sectors and economies, helping to contribute to addressing global environmental, social and security concerns. To reap these benefits, international cooperation needs to be strengthened – on trade as well as on a wide range of other issues. This can be achieved through "re-globalization", with a re-invigorated and reformed WTO playing a central role in this effort.

The diffusion of technology is vital for an effective response to climate change, as many economies still lack expertise in this domain open trade can be a powerful force multiplier for internationally coordinated climate policies. Research shows that coordinated environmental policies could unlock substantial environmental gains from trade by incentivizing economies to specialize according to their environmental comparative advantage.

More ambitious international trade cooperation could also help address the environmental challenges associated with global supply chains by promoting transparency and accountability in supply chain management, including through the development of standards and certification schemes that promote sustainable production and trade practices, as well as through the implementation of traceability systems that enable businesses to track the environmental impact of their operations. In addition, supporting efforts to establish equivalence and mutual recognition of specific environmental standards can facilitate environmental protection without creating unnecessary trade barriers.

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