New directions in global trade: what will recovery look like?

Covid-19 and the trade tensions that preceded it have seen world trade decline dramatically. Businesses of all sizes are feeling the strain on their balance sheets, and millions of people have been pushed into financial hardship.

So when will global trade recover? How are people, firms and global organisations responding and adapting? Will collaborative technologies and regional trade hubs keep the economic engine running, or will protectionist policies and fear impede a swift recovery?

These were the issues debated at a panel event held at the World Trade Webinar 2020, part of the World Trade Symposium. Chaired by Christopher Clague, managing editor, Asia and global editorial lead, trade and globalisation, The Economist Intelligence Unit, the panel included Dr William Fung Kwok Lun, Group Chairman of Li & Fung Limited and past Chairman of the Hong Kong General Chamber of Commerce; and Jinny Yan, Director & Chief China Economist, ICBC Standard Bank.

Covid-19: not the only factor affecting global trade

Clague began by asking what impact Covid-19 has had on international trade. Dr Fung said he believed the biggest disruption has been technology, which has changed the face of work in importing countries and served to export jobs overseas on a permanent basis.

"Globalisation has been blamed for employment disruption, but technology is a greater force for change," he said. "We have seen further disruption over the past two or three years for geopolitical reasons. And the third factor is Covid-19, which has impacted travel and the supply side of trade. While countries like China and Vietnam have contained the disease and recovered relatively quickly, the demand side in the US and Europe has been hit hard. However, Covid-19 will only have a short-term impact, assuming vaccines and remedies are made available."

Recovery from the pandemic will take time for the whole world, added Dr Fung. While 2020 will be a year of losses, 2021 will be a transition year and we will return to some sort of normality by 2022/2023.

Yan added that the International Monetary Fund (IMF) had predicted a contraction in global trade this year with a recovery in 2021. The IMF also said in The World Economic Outlook published in October 2020 that the recovery will be 'long, uneven, and uncertain'.

It further stated that: "the crisis will lead to a worsening of living standards compared to pre-crisis projections for many countries. The adverse impact on low-income people will be particularly acute, imperilling the significant progress made in reducing extreme poverty in the world since the 1990s."

Will there be another China-style success story?

The next question was whether there could ever be another China in world trade, as a single country or an aggregate of nations. Yan said that there had already been a gradual shift in the global supply chain since the financial crisis because of the lower cost of labour in other Asian countries, which has led to a shift in production of some commodities. But China remains at the centre of supply and demand so continues to play a crucial role, notwithstanding the geopolitical situation with the US.

"Domestic demand in China has already been unleashed. Now China is preparing for the next phase, which is to import lower cost components to re-export as higher value goods," she explained. "China is finding new markets and a growing demand for products in developing economies."
There is little doubt that this strategy will continue in the near future. Trade flows from China to countries in the APAC region will increase and slow towards the USA, particularly if tensions grow still further between the USA and China.

Dr Fung said that an ongoing power struggle and security fears have contributed to these tensions. One solution to the US/China conflict would be to bifurcate the technology products sold between the two countries into two separate categories: technology that relates to military use and technology that will never be part of wars or conflicts.

“There is a power and a technology rivalry between the US and China,” he explained. “There is no silver bullet to bring that to an end, but with rational discussions there could be ways to trade with different rules for different products, so that trading for goods such as medicines and food were freed up while others continue to be restricted. This would lead to the best prices and the most efficient trading processes for the world.”

**What’s next for global trade?**

The world economy, already sluggish before the coronavirus outbreak, is now likely to suffer a long and painful recession, which will continue to have an impact on global trade. But what are the forces that are reshaping global trade today, and what are the critical dynamics that will underpin change in the near future?

These were just some of the questions discussed in the World Trade Webinar 2020, chaired by Christopher Clague, managing editor, Asia and global editorial lead, trade and globalisation, The Economist Intelligence Unit.

Clague began by saying that on the negative side of the ledger, there is some pessimism about the future, with the WTO forecasting that as much as 30% of global trade could be lost because of the pandemic, and that nobody knows for sure when the pandemic will end.

However, there are reasons for optimism, according to Greg Hands MP, UK Minister of State for Trade Policy. While trade deal negotiations between the UK and other countries are still ongoing, the government is hopeful that free trade agreements based on similar terms to those that exist with the EU can be agreed.

“The UK has already agreed a deal with Japan based on the existing EU agreement,” said Hands. “In some ways it is based around even better conditions on elements such as rules of origin and mutual recognition of professional services.”

The UK may be in a unique position as it negotiates new deals. But Hands agreed that it would be in everyone’s interests to get the importance of the rules-based approach of the WTO better understood, and to ensure that judgements made under those rules are adhered to.

Project Defend, the UK’s government’s strategy to diversify the supply chain used to source goods such as pharmaceuticals and personal protection equipment (PPE), will add resilience by including other exporting countries in Asia such as Vietnam and Taiwan, Hands added.

**Global trade for good**

Kevin Rudd, President of the Asia Society Policy Institute and 26th Prime Minister of Australia, said that protectionism as well as the pandemic has reversed progress in global trade. This is a negative outcome for working families, who benefit from the lower prices that multilateral commerce tends to lead to. Yet the way ahead is not completely full of doom and gloom.

“Covid-19 has retarded normal trading and there have been disruptions,” he said. “But the rumours of the death of global trade have been greatly exaggerated.”
The real problem is that the benefits of globalisation have not filtered down to the world’s stakeholders, and there has been an unequal distribution of wealth, Rudd explained. Without mindful intervention, capitalism and international trade can lead to extreme system failures, as we saw with the most recent recession.

“This is a question for governments,” Rudd added. “The problem is that the aim of wealth trickling down doesn’t happen fast enough, which means that people become unhappy and rebel. Capitalism needs rational allocation of funds to ensure there is adequate investment in drivers of equality, such as health, education and social care.”

There is no single silver bullet for how governments can get global trade back on track, said Rudd. But there are a series of bronze bullets that will help.

One is for governments to start investing in regional innovation projects, anchored to universities and research parks, that can start new ventures that rely on imported components, or can make products for export. A second would be to establish job retraining agencies, whether in the public or the private sector, to make sure that those losing out in sectors no longer relevant to global trade can switch to alternative careers.

Rudd agreed with Hands that the biggest improvement the WTO could achieve would be the ability to enforce decisions made according to its rules. He could also see the benefits of adopting a plurilateral approach, where the majority of countries would agree on a decision and outliers would be invited to participate – rather than waiting for 100% of countries to align their thinking.

Finding ways to work together

Doctor Ngozi Okonjo-Iweala is an economist and international development expert, and is expected to be elected as the next director general of the WTO. The WTO’s rulemaking system is critical to world trade, she said, because it underpins multilateral trade deals. The key to getting countries to co-operate is to demonstrate where they are already working together successfully to their mutual benefit.

“For example, the US and China are already sitting round the table talking about fishing subsidiaries,” Doctor Okonjo-Iweala pointed out. “We should also be listening more to countries to see what we can do to bring them back into discussions.”

She sees next year’s trade ministers meeting as an event that will be critical in taking the WTO and its members forward, not just with a resolution of fishing subsidiaries negotiations but also to discuss issues at the intersection of health and trade, such as how poorer countries accessed therapeutics and pharmaceuticals during the pandemic and how this should evolve.

Two other areas of focus will be the agricultural agenda and restrictions on food, the work program for women in trade, and how WTO rules will need to be advanced in the future green and digital economy. “The sooner we can change the rules, the better,” she said.

A return to fairness

Simon Paris, CEO of Finastra, concluded the webinar by saying that there will be life after Covid-19, and that it is time to refresh the arguments for open, sustainable, fair, inclusive trade, in which products are sourced responsibly and transparently.

“Trade and trade finance are the fastest and most productive ways to improve prosperity and reduce poverty,” he said. “We have to get back to multilateral global trade, which delivers benefits for everybody.”