F. Conclusions

This report has examined the forces that will shape the future of world trade. These forces are complex and numerous. They interact with trade itself and with each other, as well as being influenced by government policy. One thing seems clear: the landscape and nature of world trade are changing fast. As trade evolves, new policy challenges will arise. If properly managed, international trade will further increase prosperity around the globe. What are the main issues, therefore, that policy-makers need to take into account?

First of all, a country's position in international trade is in constant flux. New players continue to emerge. In certain respects, the so-called "emerging economies" are similar to industrialized countries. In other ways, they still confront developing country challenges, especially in certain sectors. Others, sometimes called the "Next-11", are pushing from behind and have the potential to become leading players in the 21st century. At the same time, a range of poor countries risk being further marginalized. Competitiveness depends on a range of factors, some of which can be more easily influenced by policy than others.

China has been the major success story of recent times. In a matter of decades, the country has catapulted itself to the top for merchandise exports. However, a declining and ageing population over the next decades means that a major source of China's dynamism will disappear. At the same time, as it rapidly accumulates capital and upgrades its technology, the source of its comparative advantage could move in the direction of more capital-intensive and higher-value exports. By contrast, India, countries in the Middle East and Sub-Saharan Africa and others will enjoy favourable demographics over the next decades and could become the fastest-growing parts of the world economy. For these labour-abundant developing economies, education policy will play a key role in determining workers' skill sets, their chances of integrating into the labour force and their capacity to absorb new technology.

Improvements in public institutions will influence investment decisions and the rise of new centres of innovation in the developing world. For natural resource-rich economies, diversification offers the possibility of reducing dependence on commodity exports and of diminishing the threat of exhaustion of resources, increased extraction costs, environmental pressures and substitution of resources. In order to increase their participation in world trade, however, many of these developing countries, especially in Sub-Saharan Africa, need to "move closer" to international markets by reducing transportation costs and delivery times.

Industrialized countries need to rekindle a new dynamic of their own. A declining and rapidly ageing population already poses a challenge to Japan and many European countries. Technological advances and the influx of workers from other countries offer them a chance to escape a potentially stagnant future. The United States does not face a similar demographic challenge and remains more open to worker migration than other developed nations. It is also unparalleled as an incubator of innovation. Furthermore, the shale gas revolution promises reductions in energy dependency and may give industrial activities in the country a competitive boost.

Secondly, policy-makers need to take into account the changing nature and composition of trade. The spread of global supply chains has facilitated a more extensive participation in international trade, allowing for the separation of production into specialized tasks delivered competitively from multiple locations as well as increased technology transfers and spillovers. As a result, countries have become more diversified across sectors and export to an increasing number of destinations. Although a large part of this trade is within firms, with large firms accounting for the majority of exports, global supply chains can improve the trade prospects for small and medium-sized enterprises (SMEs), particularly for those located within a sound institutional environment.

With parts and components crossing multiple borders – and the cost of imports increasingly determining export competitiveness – anti-protectionist tendencies have dominated. Regulatory cooperation has intensified, leading to deeper integration at the regional level. The fragmentation of production has also given new emphasis to the role of services in international trade, such as "manufacturing" services, sales of services alongside goods or international transport and logistics. Measuring trade in value-added terms reveals more clearly the importance of trade in services but their true contribution is still under-estimated. Moreover, services have become an important engine of growth in many economies, with knowledge-intensive business services being characterized by increasingly high rates of research and development (R&D) activity.

These developments in the nature and composition of trade have been good news for many countries and firms. An important factor in determining if they will last is the evolution of transport costs. Higher fuel prices, due to geopolitical uncertainties for example, may favour the geographical proximity of suppliers. Other trade costs, relating for instance to contractual and regulatory uncertainty in trading partners, may lead to "on-shoring" or "re-shoring". Furthermore, a reduction in income variation across countries will continue to reduce the wage advantage of developing economies that has led to many offshoring decisions. This may not necessarily reduce the reach of international supply chains but their nature may change from vertical, labour-driven relationships to horizontal supply chains based on learning-by-doing and scale economies realized by highly specialized firms.

Rising incomes may result in a concentration of economic activities in dynamic regions. Proximity advantages may be further strengthened, with technological spillovers being largely regionalized. Moreover, the concentration of R&D activity (and consequent knowledge spillovers) in certain manufacturing sectors may intensify existing political pressures in advanced economies to retain domestic manufacturing activity and jobs.

Technological progress in production and coordination will play a role. Technological advances, such as 3D printing and robotics, may further reduce the relative importance of locational advantages, while improvements in coordination and logistics technology could facilitate the continued proliferation of supply chains. The extent to which countries will adjust to change and take advantage of trading opportunities depends in no small part on government policy. In many areas, action needs to be taken at the national level in areas such as education policy, infrastructure investment, innovation incentives, legal certainty or social protection. In other areas, joint action at the international level is required in order to coordinate regulatory approaches, mobilize political support and develop resources.

Finally, in a rapidly changing international trade environment, policy-makers may re-think current models of trade cooperation. This relates both to form and content. The reality of current practices has overtaken the way trade negotiation agendas have traditionally been set. In today's world, it is increasingly hard to separate goods from services, and trade from investment. Barriers to merchandise trade, be they tariffs or non-tariff measures (NTMs), frustrate the delivery of a "package" by "servicified" manufacturing firms and vice versa. Barriers to investment as well as differences and weaknesses in regulatory regimes affect location decisions of production facilities, trade within a firm and the flow of technology. Thus far, governments have addressed these issues through the negotiation of "deep" preferential trade agreements (PTAs). This is despite the fact that many of these developments call for multilateral disciplines in order to avoid duplication and divergence, to ensure fairness and balance and to create a level playing field. However, WTO agenda-setting and negotiations have proven cumbersome – too slow for business and those countries heavily involved in complex trade transactions. Other models of trade cooperation – sectoral or issue-specific agreements, for instance – may gain support, with uncertain outcomes for those excluded.

Inertia within WTO trade negotiations is becoming an increasing burden for a large number of countries. What needs to be done? First, governments need to move forward on the existing agenda addressing market access conditions for both goods and services with equal determination as well as other trade costs covered by the talks on trade facilitation.

Secondly, other sources of uneven competition and limitations on the open flow of trade need to be addressed at the global rather than regional level. Analysing the information provided under the WTO's PTA transparency mechanism and further strengthening the WTO's other transparency and monitoring functions may help to identify issues of concern that are already addressed in one way or another at the WTO, such as various types of NTMs. Additionally, new issues are likely to emerge, such as investment and competition policy, where multilateral action may be beneficial.

Thirdly, areas for international action that will shape the future of trade but reach beyond the mandate of the WTO must be addressed, including in terms of their impact on trade cooperation. Climate change and macroeconomic policies are two examples. Further reflection and discussion is needed on the role of the WTO in the institutional framework of global governance in order to ensure policy coherence and fruitful working relationships.