

FOREWORD BY THE WTO DIRECTOR-GENERAL



The post-1945 international economic order was built on the idea that interdependence among nations through increased trade and economic ties would foster peace and shared prosperity. For most of the past 75 years, this idea guided policymakers, and helped lay the foundation for an unprecedented era of growth, higher living standards and poverty reduction. Today this vision is under threat, as is the future of an open and predictable global economy.

The “polycrisis” in geopolitics, public health, the environment and the economy has led many to argue that globalization exposes countries to excessive risks. They contend that greater economic *independence* – rather than interdependence – would better serve the well-being of their constituencies.

Such views have begun to shape trade policy. At the WTO we observe a sharp increase in the number of unilateral trade measures. If unchecked, this trend could ultimately fragment the world economy. Meanwhile, opponents of fragmentation argue that it would be extremely costly in economic terms, offers dubious benefits in terms of security, and would unwind the growth and development benefits that economic integration has delivered for people around globe. Even worse, far-reaching fragmentation would make it harder, possibly impossible, for the international community to address challenges of the global commons.

The *World Trade Report 2023: Re-globalization for a secure, inclusive and sustainable future* reviews the evidence in these debates. It asks whether members’ objectives would be better served by fragmentation of the world economy or a renewed drive towards a broader and more inclusive integration – what we at the WTO have termed “re-globalization”. The report also examines some of the most contentious issues currently shaping trade policy: how globalization relates to security, the extent to which it has enhanced economic inequality, and how it interplays with environmental sustainability.

With security considerations an increasingly influential factor in trade policy, the report finds that some reshuffling of current trading relationships may result from today’s tensions, but warns that taking this too far would be counterproductive. The long-term evidence suggests that trade has contributed positively to peace among nations. With regard to economic security, recent experiences with the COVID-19 pandemic, extreme weather events and the war in Ukraine have demonstrated how deep and diversified international markets help countries cope with unanticipated shortages by securing supplies from alternative sources. A strong and effective multilateral trading system that constrains unjustifiable trade barriers and offers peaceful dispute settlement provides the necessary underpinning for deep and liquid international markets with relatively low barriers to entry and diversification. Economic integration gives all members a stake in managing, containing and preventing bilateral or wider tensions, while institutions like the WTO offer fora in which to engage to those ends.

A second set of critiques of globalization deal with concerns about increased inequality and exclusion. The overall evidence is overwhelming that closer economic integration has led to a massive reduction in the share of the global population living in extreme poverty and deprivation. Inequality between rich and poor countries, and across the global population as a whole, declined starting in the 1990s for the first time since the Industrial Revolution two centuries ago, although integration and income convergence have been much slower in some developing economies, particularly in Africa. Within countries, the inequality picture is more mixed. Several economies have experienced adjustment challenges from rapid and pronounced shifts in global trade flows, notably those linked to China’s rapid ascent as a major trading power following its 2001 accession to the WTO. Outcomes have varied considerably across countries otherwise comparably exposed to trade and technological change. While in some

members increased trade came along with increased within-country inequality, in others, more trade came with increased economic inclusion. In fact, countries with higher trade openness frequently have lower levels of income inequality, especially after taxes and transfers are factored into the equation, underscoring the importance of domestic social and economic policies to cushion adverse impacts and expand opportunities related to trade. The report warns that a retreat from economic integration would roll back recent development gains, make it harder for countries to grow their way out of poverty, and harm future economic prospects for the poorest people the most.

Fragmentation in global trade would also make it harder to meet environmental challenges, the final focus area of the report. Many of the biggest such challenges can only be effectively solved through global cooperation. Climate change knows no boundaries; biodiversity cuts across borders. Open global trade is indispensable for getting to net-zero greenhouse gas emissions: both to diffuse green goods and services around the world, and to enable the increased scale and competition that encourage innovation and drive down the cost of decarbonization. WTO economists estimate that 40 per cent of the dramatic cost decline for solar panels over the past three decades was due to scale economies made possible in part by international trade and value chains. In contrast, fragmentation could make renewable energy more expensive than it otherwise would have been, disincentivizing the replacement of fossil fuels and slowing down the low-carbon transition.

Narratives matter in economics and in policy. The currently ascendant narratives around trade may contribute to a gradual erosion of the trading system and the WTO. Taken together, the analysis in this World Trade Report suggests that we should be wary of such an outcome: it could result in a world that is less secure, in which supplies are more vulnerable to shocks instead of more resilient to them; poorer, with more people and places shut out of economic progress; and less sustainable, with effective action on environmental protection harder to achieve.

Re-globalization offers a better path forward. Bringing more countries and communities from the margins of the global economy to the mainstream would make for deeper, more diversified markets that are more resilient to shocks. Less concentrated trading relationships would make interdependence harder for any single country to weaponize. A prime concern must be to make sure that the gains from trade are shared more equally within and across countries. Even as the traditional model of export-led industrialization has lost some of its job-creating power as manufacturing becomes less labour-intensive, the report highlights the exciting possibilities for trade to drive growth, employment and greater environmental sustainability.

For example, advances in information and communication technologies have made trade in services, particularly digital services, much easier, enabling the participation in global trade of hitherto underrepresented economies, as well as

groups such as women and micro, small and medium-sized enterprises. Exports of digitally delivered services have more than tripled since 2005, far outpacing trade in goods and other services. Trade in environmental goods has almost quadrupled since 2000. Research described in this report suggests that, once countries take environmental policy action, say, to correctly price water use or greenhouse gas emissions, trade is a powerful force multiplier for unlocking environmental gains: just as countries can reap economic gains by specializing in what they are relatively good at, the world can reap environmental gains if countries specialize in activities that they are relatively green at.

However, making the most of these opportunities requires international cooperation. The WTO's ongoing work on services domestic regulation, investment facilitation, and e-commerce promises to reduce services trade costs and enhance integration. Realizing environmental comparative advantages requires international coordination on environment and trade policies to ensure that one does not become the other's collateral damage.

Re-globalization must also address longstanding issues on the WTO agenda, particularly agriculture, which accounts for a large share of employment in many members. The report shows that trade costs in agriculture exceed those in manufacturing by 50 per cent, penalizing poorer segments in society that rely on this sector. The WTO is already making a difference here – recent research finds that the Trade Facilitation Agreement has had disproportionately positive effects on agricultural trade since its entry into force in 2017, with LDCs registering a 17 per cent increase in agricultural exports as a result.

The WTO is not perfect – far from it. But the case for strengthening the trading system is far stronger than the case for walking away from it. WTO members are already acting to reinvigorate the organization, as demonstrated by their collective success at the 12th Ministerial Conference in June 2022. Today's complex challenges requires more, not less, international cooperation, and WTO members are actively looking at how to update and upgrade the WTO rulebook so that trade can contribute fully to effective responses. The alternative to rules-based integration is power-based fragmentation and a world of greater uncertainty, increased socioeconomic exclusion and heightened environmental decline. This report makes the case that “re-globalization” is a far more attractive alternative. I hope readers – and policymakers in particular – will find it useful in shaping the future of trade for peace, people and the planet.



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