

# EXECUTIVE SUMMARY

The multilateral trading system overseen by the World Trade Organization was created just over 75 years ago based on the vision that fostering interdependence among economies would play a crucial role in achieving peace and prosperity. This vision had emerged as a central lesson from three disastrous decades of deglobalization, marked by two world wars, the Great Depression, and political extremism. For three-quarters of a century it has guided policymakers as they laid the foundations for the integrated world we inhabit today.

However, this vision is currently being called into question. Recent crises, such as the COVID-19 pandemic and the war in Ukraine, have fed into perceptions that globalization exposes economies to excessive risks. Consequently, a trade-sceptic narrative has gained traction, suggesting that international trade is an obstacle to building a more secure, inclusive, and sustainable world. Viewing interdependence as a vice rather than a virtue, policymakers are now placing greater emphasis on economic independence.

Against this backdrop, the *World Trade Report 2023* critically examines the role of international trade in addressing some of the most pressing challenges of our time: maintaining peace and security, reducing poverty and inequality, and achieving a sustainable economy.

The primary conclusion of the Report is that international trade, anchored in a strengthened multilateral trading system, plays an indispensable role in creating a more secure, inclusive, and sustainable world. Building upon these findings, the Report makes the case that a better alternative to fragmentation is “re-globalization” – understood as extending trade integration to more people, economies and issues.

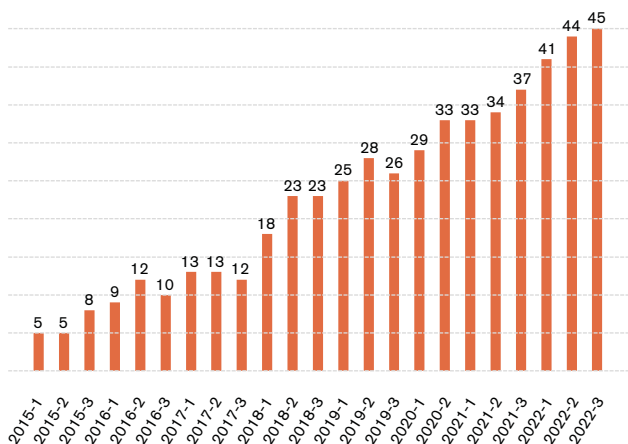
## Chapter B shows that global trade flows have been resilient despite difficulties in the global trade policy landscape.

To provide the context for this Report, Chapter B offers an empirical analysis of the current state of globalization and presents three key findings: first, the evolving narrative questioning international trade is increasingly manifesting itself as trade tensions. Second, these tensions are beginning to affect trade flows including in ways that point towards fragmentation. And third, despite these challenges, international trade continues to thrive in many ways, implying that talk of de-globalization is on balance still far from supported by the data.

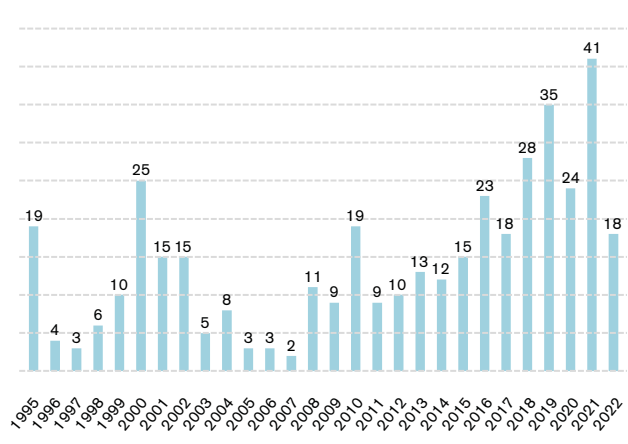
The chapter opens with a discussion of the proliferation of trade tensions. Scepticism towards international trade in global trade policymaking has been growing, leading to setbacks in regional trade integration efforts and a shift towards unilateral trade policies. This has resulted in tensions between 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 (see Figure 1(a)). 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 (see Figure 1(b)).

**Figure 1(a): Trade concerns raised in the Council for Trade in Goods by meeting, 2015-22**      **Figure 1(b): Number of newly imposed countervailing measures, 1995-22**

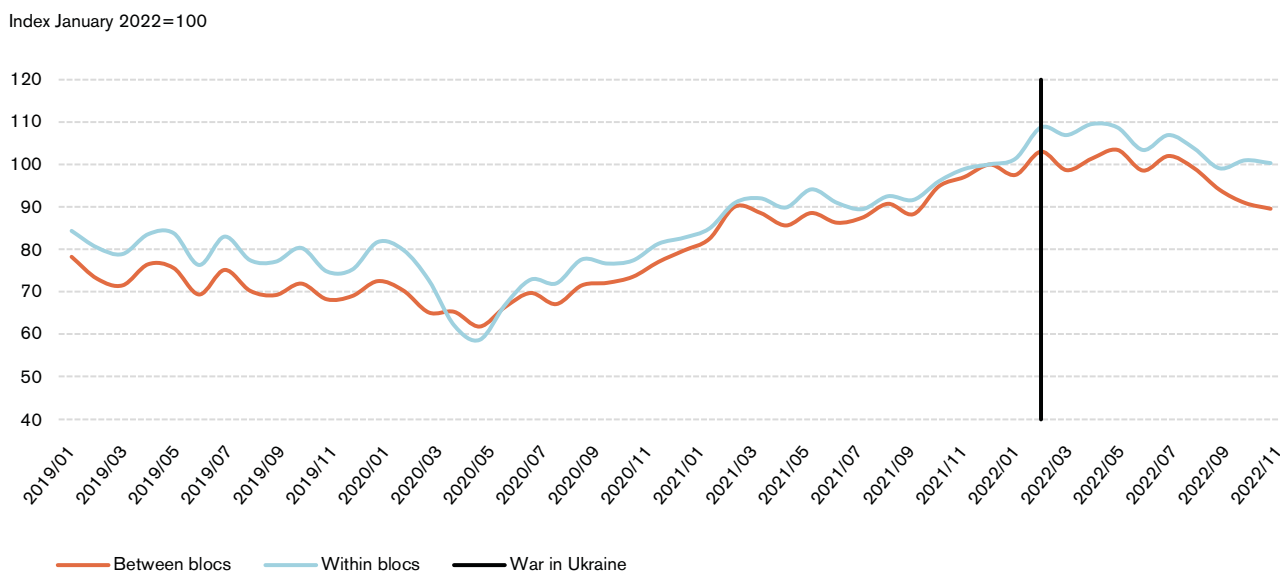


Source: WTO.



Source: WTO.

Figure 2: Trade within and between hypothetical geopolitical blocs, January 2019 to December 2022



Source: WTO Secretariat calculations based on Trade Data Monitor data.  
 Note: Seasonally adjusted series.

Chapter B also looks at the effects of trade tensions on international trade flows. It shows that the stagnation of the global trade-to-GDP ratio since the global financial crisis of 2008-09 does not seem to be driven by trade tensions as trade costs continued to fall after 2008-09. Instead, it reflects less policy-driven factors, such as the deceleration of production unbundling, as more components could be sourced from within countries instead of across borders.

The impact of rising trade tensions is, however, starting to become evident in current trade flows between China and the United States. While bilateral trade reached a record high in 2022, its composition underwent changes aligned with tariff measures, with trade slowing down sharply in some product categories such as semiconductors.

More broadly, Chapter B suggests that trade is gradually becoming reoriented along geopolitical lines. To illustrate this trend, the chapter looks at hypothetical “blocs” based on foreign policy similarity indices. Trade between these blocs has experienced a growth rate that is on average 4-6 per cent lower than trade within blocs since the onset of the war in Ukraine in February 2022 (see Figure 2).

Chapter B 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.

International trade has exhibited remarkable resilience, swiftly recovering from the COVID-19 pandemic and adapting to the war in Ukraine. Indeed, trade was crucial during the pandemic for scaling up the production of medical supplies and vaccines,

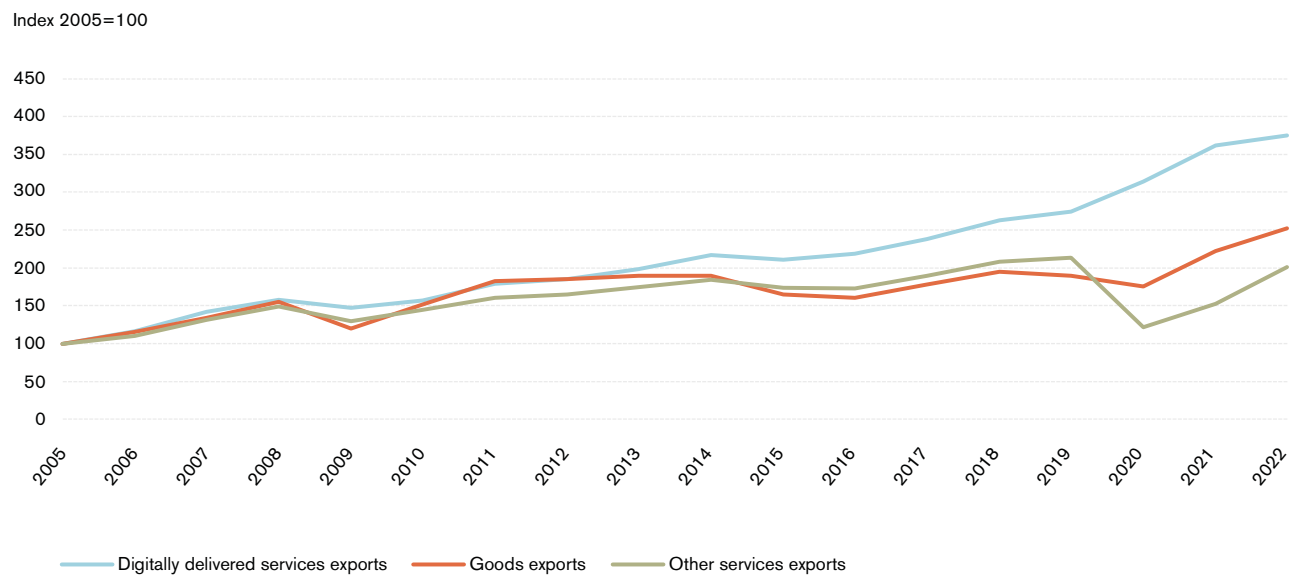
and for bringing them to where they were needed. Similarly, the open and predictable trading system helped mitigate supply shortages and price spikes related to the war in Ukraine because countries were able to source key supplies like wheat from alternative producers.

Trade has also become more digital, green and inclusive. The digital revolution has bolstered trade in digitally delivered services (see Figure 3) by sharply reducing the costs of trading these services. The value of global trade in environmental goods has increased rapidly, outpacing total goods trade. And global value chains (GVCs) have expanded to encompass more economies – for example, Cambodia, Romania and Viet Nam have seen a particularly rapid increase in their GVC participation.

Trade policy has also made significant progress, and the WTO has played an important role in this progress. Noteworthy examples include the WTO Agreement on Trade Facilitation, which entered into force in 2017, and the WTO Agreement on Fisheries Subsidies, adopted in June 2022, both at the multilateral level, and WTO negotiations among groups of members on services domestic regulation, investment facilitation and e-commerce. There have also been important regional agreements, such as the African Continental Free Trade Area (AfCFTA).

But more remains to be done. Trade costs in developing economies remain almost 30 per cent higher than in high-income economies, and trade costs in agriculture are 50 per cent higher than those in manufacturing. Trade costs in services also remain high, albeit with large variation across sectors, as technology and policy have contributed to significant declines in costs associated with trading digitally delivered services.

**Figure 3: Growth of digitally delivered services exports, 2005-22**



Source: WTO (2023b).

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.

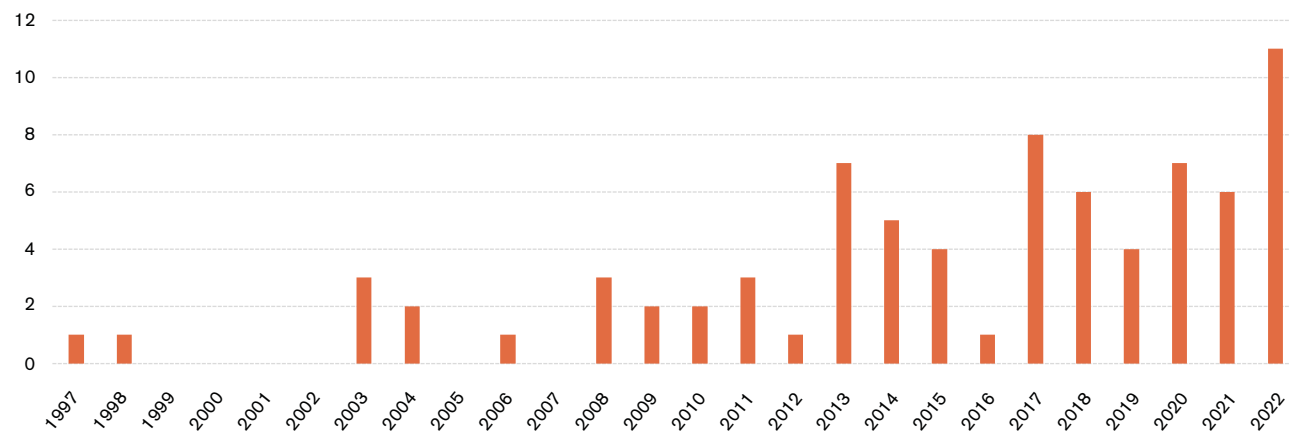
**Chapter C suggests that re-globalization can contribute more effectively than fragmentation to a more secure world.**

Chapter C looks at the role of international trade in maintaining peace and security. It starts with the observation that the notion of security invoked in a trade policy context has evolved to include economic aspects, such as access to critical goods and resilience to shocks. Based on this

observation, the chapter takes a broad view of security and makes three main points.

First, trade contributes to economic security by enabling risk diversification. It can also reduce conflicts, especially within a multilateral system of agreed rules. Second, fragmenting trade relationships tends to decrease economic security and increase conflict risks, implying that maintaining a diverse set of trading partners is likely to be

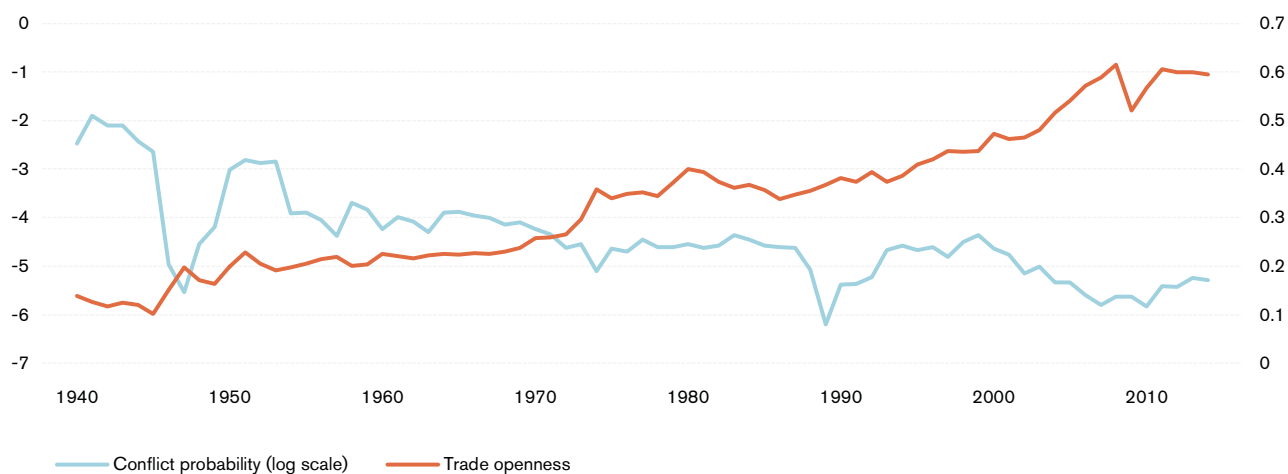
**Figure 4: National security-related trade concerns raised in WTO committees are rising**



Notes: Figure 4 depicts the number of specific trade concerns (STC) relating to national security between 1997 and 2022 raised in the Market Access, Import Licensing, SPS and TBT Committees. Trade concerns raised at the Council for Trade in Goods (CTG) are not reported in the STC Database.

Source: WTO STC Database. <https://tradeconcerns.wto.org/en>.

Figure 5: There is a strong negative correlation between trade openness and conflict probability



**Notes:** Trade openness is defined as the sum of world imports and exports divided by world GDP. Conflict probability is defined as the occurrence of militarized interstate disputes between two hostile parties, excluding threats to use force and lower levels of hostility, divided by the number of parties.

**Source:** Feenstra, Inklaar and Timmer (2015) and Klasing and Milionis (2014) for trade openness, and Maoz et al. (2019) and Correlates of War Project (2017) (<https://correlatesofwar.org/>) for conflict probability.

a safer strategy. Finally, re-globalization has the potential to enhance trade's contribution to security by reducing trade barriers and facilitating diversification, while the multilateral trading system aids peaceful dispute resolution and friction reduction.

Security considerations are playing a rapidly increasing role in trade policy. For example, the number of trade concerns about measures referring to "national security" has risen sharply in recent years (see Figure 4).

Chapter C suggests that open trade, supported by a robust multilateral trading system, serves as a key driver of economic security by enabling firms and households to access alternative options when faced with supply shortages. This conclusion is drawn from examining the response of trade to the COVID-19 pandemic and to the war in Ukraine, as well as reviewing the broader literature on international trade, supply chain resilience and macroeconomic volatility.

Although the relationship between trade and conflict is complex, the literature suggests that trade, particularly within the multilateral rules-based system, plays a conflict-reducing role (see Figure 5). One reason for this is the fact that in multilateral trade networks, third parties negatively affected by bilateral tensions have an interest in mediating these tensions. Moreover, international organizations contribute to consolidating peace by fostering stability in international relations. Even at a purely bilateral level, trade can reduce the likelihood of conflict by raising its opportunity costs. This is a particularly important point in today's world where intricately formed supply chains bind economies together in complex ways, maximizing the gains from trade but also the costs of severing trade relationships.

Chapter C also examines the potential consequences of fragmentation on global security. While acknowledging the inevitability of some decoupling due to geopolitical dynamics, it suggests that excessive fragmentation is inadvisable because it would adversely impact security. This argument aligns with the earlier analysis, emphasizing the significance of international trade in maintaining peace and security. In addition, geopolitical affiliations undergo significant changes over time. Geopolitical affiliations from about 40 years ago, as indicated by United Nations (UN) voting patterns, only explain about 40 per cent of affiliations in the more recent past. Thus, concepts like friend-shoring can face implementation risks if the geopolitical landscape is unstable, especially if there is a tendency toward political polarization.

The chapter concludes by exploring strategies to further enhance trade's contribution to security. The primary focus is on re-globalization, which promotes diversification in trading partners, enhances resilience, and mitigates the risk that economies might use trade policies against one another. One key opportunity lies in further opening up services trade, which currently still faces disproportionately high trade costs. Trade opening would, for example, enable economies to better respond to natural disasters or health crises by leveraging the expertise of foreign professionals in situations where they lack local expertise. Progress is already being made in this area, with a group of WTO members having successfully concluded negotiations on services domestic regulation, which aim to increase the transparency, predictability and efficiency of authorization procedures for foreign service providers.

In addition, integrating more countries into GVCs offers another opportunity to further enhance trade's contribution

to security. This would necessitate the removal of various trade barriers, such as by addressing the difficulties in obtaining trade finance encountered by many developing economies. Nevertheless, the most important measure to take is to strengthen the rules-based multilateral trading system, as it provides the necessary framework for resilient supply chains and peaceful dispute resolution.

**Chapter D analyses the role of trade in reducing poverty and inequality and highlights the potential for inclusive growth offered by a strengthened multilateral trading system.**

Chapter D delves into the role of international trade in reducing poverty and inequality and highlights three key points.

First, trade has proved itself to be a powerful driver of inclusiveness, fostering convergence of incomes among economies and contributing significantly to poverty reduction. While, in the absence of adequate domestic policies, trade may increase within-country inequalities, it also provides important opportunities to those hit by labour market shocks. In addition, trade can support informal workers, women and micro, small and medium-sized enterprises.

Second, fragmentation presents a major risk to the progress achieved in poverty and inequality reduction. While there might be some winners from a reorientation of global value chains, most developing economies stand to lose, and poorer households are likely to suffer more from rising trade costs, as they are more dependent on tradable goods and services.

Third, embracing a strengthened multilateral trading system could enable more inclusiveness, as poorer economies could benefit from greater participation in GVCs. This could be facilitated by reducing trade costs through agreements like the

WTO Trade Facilitation Agreement. There are also opportunities for services-led growth, particularly digitally delivered services, which can also be supported by WTO agreements.

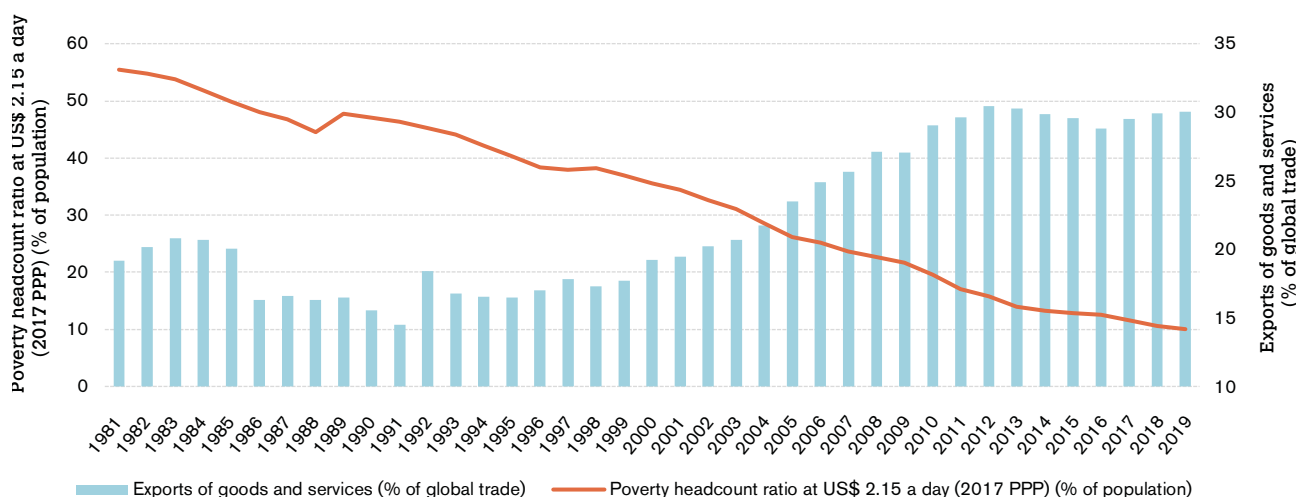
Chapter D highlights the pivotal role of trade in promoting global economic convergence and poverty reduction. Developing economies have significantly benefited from trade-driven growth, leading to income convergence with wealthier nations, facilitated by integration into global value chains and declining trade costs.

Trade has also contributed to an increase in inequality in some advanced economies by increasing the demand for skilled workers and shifting economic activity to urban centres. However, the evidence shows that trade openness can go hand in hand with economic inclusion, pointing to the importance of complementary domestic policies. Also, the latest research casts doubt on earlier findings that import competition has played a major role in the recent decline in manufacturing employment in some advanced economies.

The WTO has played a vital role in overseeing a reduction in tariffs and non-tariff measures, which facilitates trade expansion and fosters economic growth. Trade has acted as a catalyst for poverty reduction, which is illustrated by the increased export share and declining poverty rates in low- and middle-income economies (see Figure 6). Comprehensive trade-opening has effectively bolstered economic growth and improved real income, also for low-income and middle-class households. However, certain regions, such as sub-Saharan Africa, have encountered slower progress due to limited trade growth, in contrast to the successful export-led growth experienced in East Asia and Eastern Europe.

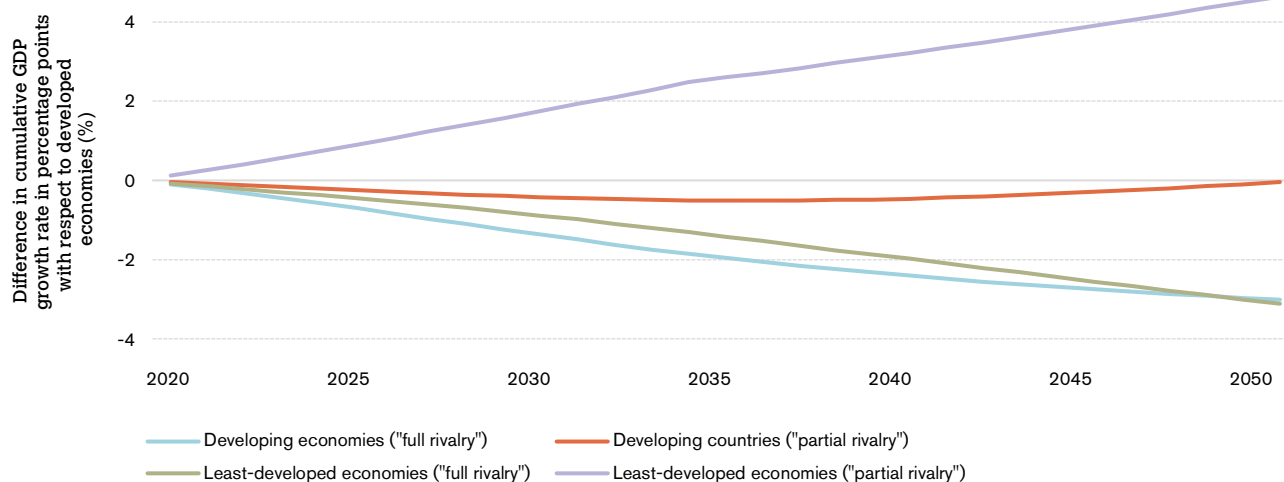
Chapter D also examines the potential effects of fragmentation on poverty and inequality and finds that fragmentation poses a significant risk to the progress

**Figure 6: International trade has contributed to reducing extreme poverty by three-quarters since the 1990s**



Source: Secretariat calculations, based on the World Bank's World Development Indicators.

Figure 7: Fragmentation may slow down or prevent economic convergence



Source: Métivier et al. (2023).

Note: The figure displays GDP growth rate difference in percentage points between developed economies and developing economies and between developed economies and LDCs under both a "full rivalry" and a "partial rivalry" scenario.

achieved in these areas. Studies indicate that fragmentation could potentially benefit a few countries, but that the majority would suffer losses.

Simulations demonstrate the considerable negative impact on developing and least-developed economies under a worst-case scenario of full geopolitical rivalry. Rather than GDP convergence, as witnessed over past decades, developing economies would suffer from increased divergence with the developed world (see Figure 7), facing higher absolute GDP losses, while the GDP gap would widen by 3.5 per cent. This is because vulnerable workers in export-dependent sectors would be particularly affected by labour market disruptions, while low-income households, which allocate a large proportion of their incomes to tradable goods and services, would face the burden of higher prices resulting from trade barriers.

Under this scenario, micro, small and medium-sized enterprises (MSMEs) would encounter challenges due to increased trade costs and reduced competitiveness in global markets. Women could also face additional barriers due to higher export costs and limited access to global trade, which would hinder their economic advancement. In addition, the foregone gains from trade associated with fragmentation can constrain the financial resources available for implementing measures aimed at addressing inequalities.

The chapter concludes by showing how a revival of multilateral cooperation could help reduce poverty and inequality (see Figure 8), including through the work of international organizations. The WTO promotes inclusive globalization by facilitating the participation of economies in the global trading system through binding commitments and coordinated trade rules. It also helps members to address non-tariff measures,

which currently represent around 14 per cent of total trade costs and hinder participation of more economies in GVCs.

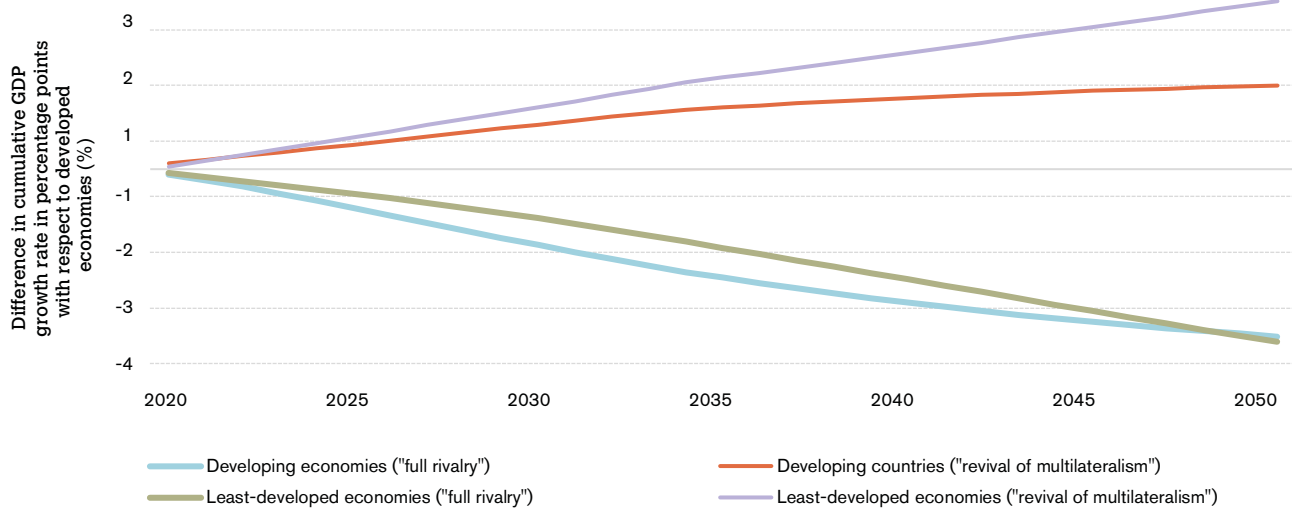
Further opening of trade in agriculture and in services, and continuing e-commerce negotiations, could also expand participation in international trade, with significant potential benefits for growth, poverty reduction and inclusiveness. The WTO also helps to support least-developed countries (LDCs) in building their capacity for international trade through programmes such as the Aid for Trade initiative.

**Chapter E explores the complex interplay between trade and environmental sustainability, emphasizing the environmental benefits of more coordinated trade and environmental governance.**

Chapter E explores the role of international trade in achieving a sustainable economy. Its first key finding is that the interplay between trade and environmental sustainability is complex because trade induces growth, a reallocation of production across firms and countries, and a change in production technology. Thus, while trade generates emissions as a result of production and transport, it can mitigate negative environmental impacts by increasing the availability of environmental goods and services.

Second, a fragmented approach to environmental sustainability is inefficient because global problems require global solutions, encompassing cohesive environmental policies to strengthen climate action, and maintaining an integrated global economy to facilitate technology diffusion. Third, re-globalization can offer environmental dividends by encouraging inherently greener trade methods, such as digitally delivered services, and by coordinating trade and environmental governance to unlock substantial environmental benefits.

**Figure 8: Greater international trade cooperation supports economic convergence**



Source: Source: Métivier et al. (2023).

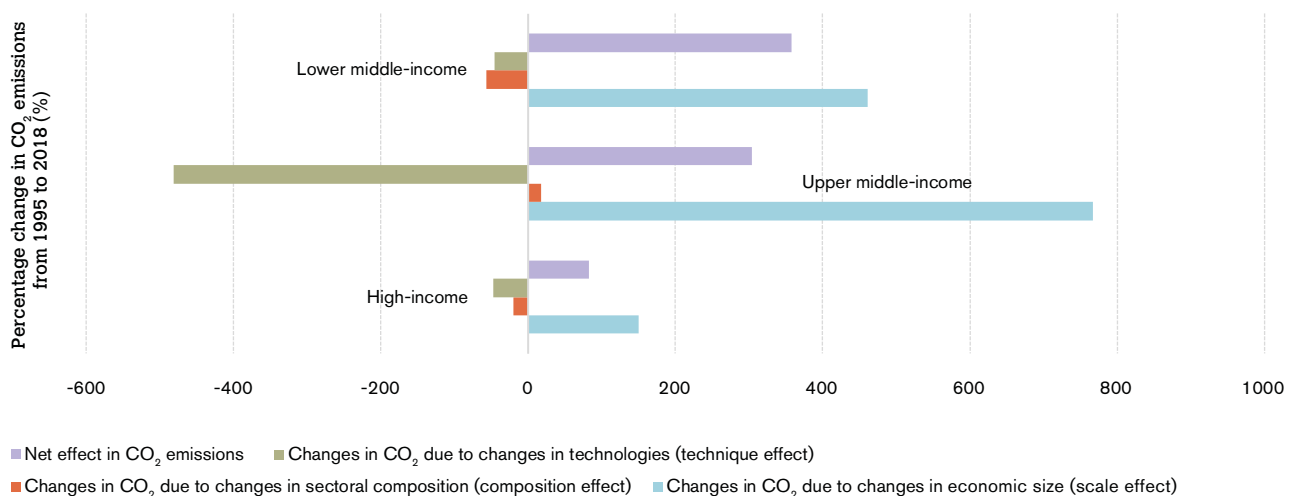
Note: The figure displays the GDP growth rate difference in percentage points between developed economies and developing economies and between developed economies and LDCs under both a "full rivalry" and a "revival of multilateralism" scenario.

Chapter E opens with an analysis of the link between international trade and greenhouse gas (GHG) emissions. It shows that 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 is generally offset by a positive technique effect

(see Figure 9), while the composition effect has a limited impact.

Since 1995, advanced economies have experienced only a modest increase in total carbon dioxide (CO<sub>2</sub>) emissions, as the technique effect offset most of the additional emissions stemming from higher output. Emerging economies have observed a larger increase in total emissions, primarily driven by

**Figure 9: Technology improvements had a strong impact in reducing CO<sub>2</sub> emissions between 1995 and 2018**

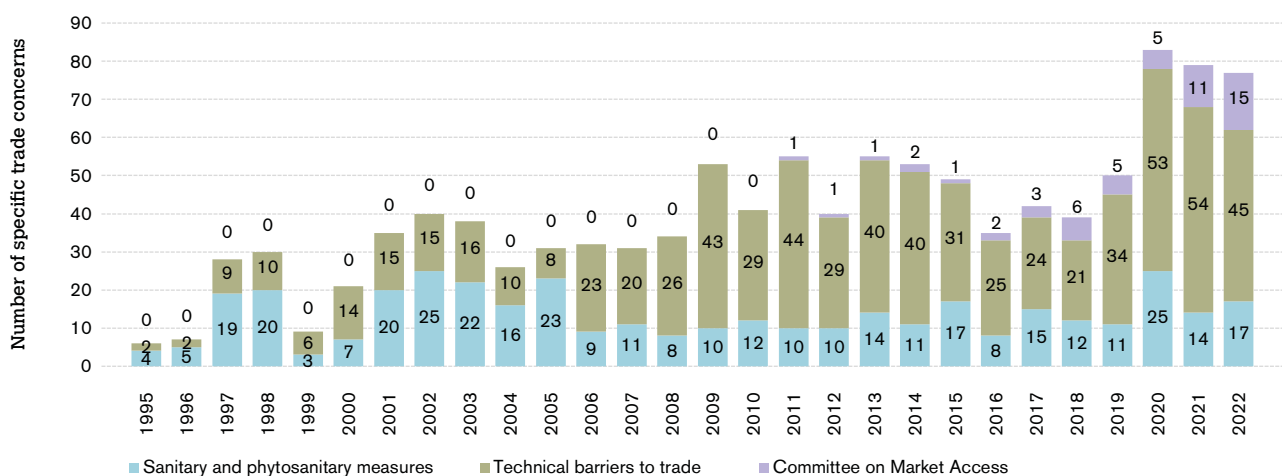


Source: Authors' calculation based on OECD Trade in value-added (TiVA) and CO<sub>2</sub> emissions embodied in international trade (TeCO<sub>2</sub>) databases.

Notes: Scale effect represents the change in total output between 1995 and 2018. Scale + composition effect is calculated assuming emission rates (tonnes of CO<sub>2</sub> directly emitted per dollar of value added) remain the same for each country\*sector in 2018 as it was in 1995. The net effect represents total change in emissions. Effects by countries are aggregated by World Bank income group, weighted by country GDP in 2018.



Figure 10: Some environmental measures have raised concerns in the WTO



Source: Authors' elaboration based on the WTO Trade Concerns Database (<https://tradeconcerns.wto.org/en>).

Note: The database covers trade concerns raised in the Committee on Market Access (CMA), Sanitary and Phytosanitary Measures (SPS) Committee and Technical Barriers to Trade (TBT) Committee. Other trade concerns discussed in the WTO, such as in the Council for Trade in Goods, are not reported. Environment-related concerns are identified by a list of environment-related keywords.

the scale effect, but also benefitted from improved technology. Research suggests that, although emissions would be slightly lower without international trade, the welfare benefits trade brings far outweigh the associated environmental costs.

Chapter E examines the implications of fragmentation for environmental sustainability, highlighting that fragmented environmental policies would weaken climate action and increase trade tensions. Signs of such tensions are already emerging, a case in point being the rising number of trade concerns related to environmental measures raised in WTO committees (see Figure 10).

Chapter E also discusses the adverse effects on environmental sustainability of a potential decoupling of the global economy, noting that looser trade relationships would impede the global spread of green technology. This diffusion of technology is vital for an effective response to climate change, as many economies still lack expertise in this domain.

Chapter E concludes by presenting the case for re-globalization in the context of environmental sustainability. Key to this is that 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.

While the economic gains from trade are driven by economies specializing in what they are relatively good at, the environmental gains from trade are driven by countries specializing in what they are relatively green at. Given that

the environmental damage caused by carbon emissions is not priced in the market equilibrium, the environmental gains from trade need to be unlocked by internationally coordinated environmental policies to ensure that trade can most effectively contribute to the fight against climate change.

**Chapter F discussed the need for more trade and more cooperation to address effectively the most pressing challenges of our time.**

Overall, the findings of the Report clearly show that 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. Pandemics, conflicts and GHG emissions do not stop at borders. Spillovers from domestic choices and policies are much larger than they used to be.

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.