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The \$32 trillion goal of global trade will be realised after a ten-year delay



Before presenting my analysis on world trade, let me focus on the current state of the world population and its expected effects on the economy.

According to the recent projections by the United Nations, the world population will become increasingly urbanised. It is estimated that, in the year 2050, most of the population will be living in coastal areas.

This means that the areas characterised with heavy trade will also be densely populated areas. The global median age is also anticipated to increase gradually. The age of 65, which is the general retirement age today, will be included in the working age over the next 20-30 years.

Therefore, it will be necessary to consider this data with regard to both world trade and all economic activities, and to redesign production systems.

The reports issued by both the United Nations and the World Health Organisation indicate that today, of every 1,000 babies born, about 172 are born in India, 103 in China, 57 in Nigeria, 47 in Pakistan, 32 in the Democratic Republic of the Congo, 31 in Indonesia, 30 in the United States, 22 in Brazil and 22 in Bangladesh.

In other words, for every 1,000 babies that are born as of this very moment, about 511 enter the world in Asia, 326 in Africa and 106 in America, which roughly tells us the future population density by regions and which of them are ageing the fastest.

This data also allows us to predict where the goods and services circulating in the world markets will flow into according to their types.

Free Trade Suffers

The philosophy of trade, especially

international trade, contradicts today's government styles. According to research by Statista, the number of people governed by "electoral democracy" and "electoral autocracy" in the world rapidly increases as the number of people governed by liberal democracy gradually decreases.

In regimes where democratic institutions are imitative and stick to authoritarian practices; on the other hand, protectionism spreads widely, and even countries that relentlessly advocate free trade try to benefit from this protectionist trend.

Others, which should be trying to thrive in trade according to their absolute or comparative advantages, choose to remain unproductive in order to protect their own industries.

We could therefore conclude that the factors that prevent global trade from growing further are not only financial crises or pandemics, but also political regimes.

Accordingly, the Russian-Ukrainian war has been a serious impediment to trade progress. If a ceasefire or peace had been achieved, perhaps the world economy and international trade would not have been heavily affected, and it would still be able to hit a record of \$32 trillion in coming years.

But today, a new status quo has emerged from the Russian invasion of Ukraine, where the international community is regarding this conflict not as an acute situation, but rather as a Golan Heights situation.

However, if Russia attempts to fully invade Ukraine in the summer, a second cold war might be imminent.

In such a case, global trade would inevitably slow down or grow less than expected. In the meantime, the world must continue to stay alert against new pandemic waves as well.

It looks like taking precautions against epidemic diseases that might appear as

different variants in the coming years will be a major responsibility of governments.

The EU's Carbon Border Adjustment Mechanism (CBAM), designed to levy a tax on carbon-intensive products imported to the EU, as well as new regulations and strategies enacted by other governments to enable green growth and sustainable development will also be amongst actions that will directly affect international trade.

This carbon border tax, which Europe has not decided how to impose on foreign suppliers yet, will evidently increase the export costs of big trade partners of the European Union. However, it is estimated that these costs will drop to a tolerable level in the medium term.

Import Dependency Supply Chain Restructuring

Some countries which desperately import dependent raw materials, intermediate goods and investment goods to run their production activities, have no choice but to export high added value products.

However, this is not a goal that could be achieved without making the necessary efforts. The Marshall-Lerner condition tells us that a country with high elasticity of export demand and low elasticity of import demand cannot easily become competitive, and that exchange rate rises can be of limited help.

To put it simply, it is not easy for a country that is dependent on imported goods while whose exports are heavily exposed to foreign competition, to run a trade surplus.

Although the increase in exchange rates in such countries is helpful in the short run, in terms of generating export revenue, it creates serious problems in the medium term, considering the pass-through effect on

inflation.

Sadly, the competitive advantage of the goods supplied to the global markets by an export industry, which places its hopes in exchange rate rises, can only be in the form of offering cheaper prices compared to its rivals.

In the early 2000s, the determining factor in global trade was to supply goods rapidly that are cheaper and of appropriate quality, at the desired time and in the desired quantity from anywhere in the world.

But things have changed after the pandemic: supplying from within the country or from close neighbouring countries, domestic production of essential goods, and gradually moving away from dependence on suppliers became the "new paradigm".

Still, there is no consensus on how much of the habits we developed with the pandemic will be preserved, now the pandemic is over.

Companies engaged in global trade no longer want to lose their supply chain security

However, we know that companies engaged in global trade no longer want to lose their supply chain security.

The first indication of this was the stockpiling trend and swiftly rising commodity prices. However, the result was dissatisfactory. Therefore, a supply chain restructuring is expected to happen in the near future.

Accordingly, industries that need urgent restructuring are listed as follows in the August 2020 report by McKinsey: the pharmaceutical industry, ready-made garments, footwear, leather and the communications equipment Industry. Industries that need rapid supply chain restructuring are healthcare equipment,

furniture, textiles, and transportation equipment.

Obviously, the supply chains in other industries that contribute to global trade also need restructuring, but the above-mentioned ones need to review their situation and deal with their supply chains immediately.

Because today, close proximity to the marketplaces, availability of distribution, ease of supply are vital factors in international trade.

All analyses show that this target will be met in 2032, ten years later than the previous projection.

However, the diplomatic, political and economic events that will occur in the process might help either meet this target earlier than expected or it might cause further delay.

The \$32 trillion goal of global trade will be realised after a ten-year delay. But the long list of things that the world must do for free trade is obviously a different story that deserves another article.

Leading Industries and Realities

Today, various reports published by international institutions such as the World Trade Organisation, the World Bank and the IMF help us easily predict the leading industries of the future global trade.

The chemical industry is expected to be at the top of the list, reaching a volume of almost \$10 trillion in 2035, followed by electrical and electronics in second place with a volume amounting to \$8 trillion.

The automotive industry is in third place, with almost \$5 trillion worth production output. Interestingly, the jewellery industry takes fourth place with a volume of approximately \$3 trillion, respectively followed by industries generating over \$1 trillion: machinery and components, ferrous and non-ferrous metals, ores, cereals and pulses, oilseeds and oilseed products, defence and the aerospace industry.

Along with these industries, a total of 20 are projected to achieve a production volume of nearly \$40 trillion in 2035.

Another obvious fact is that the report I mentioned above, forecasting that the global trade will surge to \$32 trillion in 2023, is no longer valid.