WORLD TRADE CAN STILL DRIVE PROSPERITY

But the international architecture must adapt to a fast-changing world

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Rising from the ashes of three disastrous decades of deglobalization, extremism, and world war, our two institutions were built on the idea that thriving international trade goes hand in hand with global prosperity and stability. On balance, the post–World War II record has been impressive. Today fewer than 1 in 10 of the world's people are poor, a fourfold reduction since 1990, as low- and middle-income countries have doubled their share of global trade. Pivotal to this leap in global income is a twentyfold increase in international trade since 1960.

Yet the tide is turning against economic interdependence and international trade. Trade restrictions and subsidies increased after the global financial crisis, and tensions escalated further as governments responded to the pandemic and Russia's war in Ukraine by scrambling to secure strategic supply chains and rushing into trade-distorting policies. Taken too far, these measures may open the door to alliance-oriented policies that reduce economic efficiency and fragment the global trading system. They could backfire if short supply chains end up more vulnerable to localized shocks. Foreign direct investment is already increasingly concentrated among geopolitically aligned countries.

Should we abandon the idea of trade as a transformative force for good? Our answer is a resounding "No!" Despite all the talk, trade has continued to deliver even during recent crises. It has great potential to keep contributing to higher living standards and greater economic opportunities for decades to come.

There are at least three reasons international trade is crucial for global prosperity. First, it increases productivity by expanding the international division of labor. Second, it enables export-led economic growth by providing access to foreign markets. And third, it bolsters economic security by giving firms and households valuable outside options when negative shocks hit.

During the pandemic, trade and supply chains became vital to ramping up production and distribution of medical supplies, including vaccines. The power of international trade as a source of resilience has become evident again during the war in Ukraine. Deep and diversified international markets for grain enabled economies traditionally reliant on imports from Ukraine and Russia to make up shortfalls. Ethiopia, for example, lost all its wheat imports from Ukraine but now sources 20 percent of its wheat shipments from Argentina—a country from which it had not imported any wheat before.

Fragmentation's costs

In this context, fragmentation could be costly for the global economy. A scenario in which the world divides into two separate trading blocs could lead to a 5 percent drop in global GDP, World Trade Organization (WTO) research shows. The IMF, meanwhile, reckons global losses from trade fragmentation could range from 0.2 to 7 percent of GDP. The costs may be higher when accounting for technological decoupling. Emerging market economies and low-income countries would be most at risk due to the loss of knowledge transfer.

Reinforcing the trading system to safeguard the benefits and prevent losses is important. But there is also an exciting forward-looking trade policy agenda that responds to the future of international trade, which we envision to be inclusive, green, and increasingly digitally and services driven.

Trade has done a lot to reduce poverty and inequality between countries. Yet we must acknowledge that it has left too many people behind—people in rich countries have been hurt by import competition, and people in poor countries have been unable to tap into global value chains and are often on the front line of environmental degradation and conflict over resources. As we told Group of Twenty officials in a joint paper our institutions wrote with the World Bank, it need not be this way. With the right domestic policies, countries can benefit from free trade's great opportunities and lift those that have been left behind.

Addressing these underlying causes of discontent would solve people's problems more effectively than the trade interventions we see today. Well-designed social safety nets, greater investment in training, and policies in areas like credit, housing, and infrastructure that help, not hinder, workers to move across industries, occupations, and companies could all play a part.

The current push toward more diversified supply chains presents great opportunities for countries and communities that have struggled to integrate into global value chains: bringing more of them into production networks—what we call "re-globalization"—would be good for supply resilience, growth, and development.

Many of today's most pressing global problems will not be solved without international trade. We cannot overcome the climate crisis and get to net zero greenhouse gas emissions without trade. We need trade to get low-carbon technology and services to everywhere they are needed. Open and predictable trade lowers the cost of decarbonization by expanding market size, enabling scale economies, and learning by doing.

To provide one example, the price of solar power has fallen by almost 90 percent since 2010. Forty percent of this decline has come from scale economies made possible partly by trade and cross-border value chains, the WTO has estimated.

Cooperation's possibilities

By updating global trade rules, governments can help trade thrive in new areas that would expand opportunities, for emerging market economies especially. Even as goods trade stalls, trade in services continues to expand rapidly. Global exports of digital services such as consulting delivered by video calls reached $3.8 trillion in 2022, or 54 percent of total services exports.

Some efforts are already underway. A group of nearly 90 WTO members, including China, the EU, and the US, are currently negotiating basic rules on digital trade. Shared rules would make trade more predictable, reduce duplication, and cut the compliance costs that typically weigh heaviest on the smallest businesses.

ART: IMF

Similarly, multilateral cooperation and common standards could speed the green transition while preventing market fragmentation and minimizing negative policy spillovers to other countries. Bringing more small and women-owned businesses into global production networks—digital and otherwise—would spread the gains from trade more broadly across societies.

Despite geopolitical tensions, meaningful cooperation on trade remains possible. We saw this last June when all WTO members came together to deliver agreements on curbing harmful fisheries subsidies, removing barriers to food aid, and enhancing access to the intellectual property behind COVID vaccines. Governments can build on those successes at the WTO's next ministerial meeting in February 2024. And recent work by our institutions points to a way to defuse tensions in sensitive areas such as subsidies through data, analysis, and common perspectives on policy design.

Navigating trade policies through the current turbulent period is challenging. But keeping trade open and looking for new opportunities for closer cooperation will be essential to build on existing gains and to help deliver solutions to climate change and other global challenges.

The IMF, WTO, and other leading international institutions have a critical role in charting a way forward that is in the collective interest. We must cooperate tirelessly to strengthen the multilateral trading system and demonstrate that our own institutions can adapt to a fast-changing world. The IMF has a mandate to support the balanced growth of international trade. The WTO remains the only forum that brings all economies together to advance trade reform. We cannot afford to stand still. FD

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