



# The factors that will shape world trade: a CBI peer group perspective

This CBI Discussion Note provides an overview of the key issues that affect international trade, which were raised during the peer group sessions that CBI has organised this year. The note serves as CBI's contribution to the WTO's World Trade Report 2013, which focuses on the factors that will shape world trade.

## Introduction: CBI peer groups

Since 1971, the Centre for the Promotion of Import from developing countries (CBI), an agency of the Ministry of Foreign Affairs of the Netherlands, aims to stimulate sustainable economic development in developing countries via the promotion of exports from these countries to the European market. In its strife to meet this aim, the CBI provides technical support to SME exporters in developing countries to enhance their export capabilities and competencies. One of the means of support that CBI offers to its target group is market intelligence, which aims to give clear and concrete insights into the dynamics that shape international trade from developing countries to the European market.

In order to gain first-hand qualitative insights into these market dynamics, the CBI has initiated so-called annual peer groups. These are discussion groups that bring together representatives from the European private sector (i.e. importers, wholesalers, retailers, etc.), trade associations, research institutions, and sector experts to share views, opinions and experiences on key market and trade trends and developments. Moreover, future expectations of these dynamics are also explored during these roundtable discussion sessions. Hence, the peer groups enable the CBI not only to collaborate with the European private sector in a structural manner, but also enhance its level of service provision towards its target group.

## Methodology and scope

The CBI peer groups are organised on a sector level, which implies that each peer group consists of a number of European private sector representatives from a specific trade sector. In total, the CBI provides market intelligence for 23 different sectors, ranging from seafood to apparel to automotive components (see table 1 for a complete overview).



Table 1: Overview of CBI sectors (2012)

<i>Agriculture</i>	<i>Consumer products</i>	<i>Industrial products</i>	<i>Services</i>
<ul style="list-style-type: none"> <li>- Coffee, tea and cocoa</li> <li>- Cut flowers and foliage</li> <li>- Fresh fruit and vegetables</li> <li>- Natural colours, flavours and thickeners</li> <li>- Natural ingredients for cosmetics</li> <li>- Natural ingredients for pharmaceuticals</li> <li>- Preserved fruit and vegetables</li> <li>- Seafood</li> <li>- Spices and herbs</li> <li>- Timber and timber products</li> <li>- Vegetable oils and oilseeds</li> <li>- Wine</li> </ul>	<ul style="list-style-type: none"> <li>- Apparel</li> <li>- Home decoration</li> <li>- Home textiles</li> </ul>	<ul style="list-style-type: none"> <li>- Automotive parts and components</li> <li>- Metal parts and components</li> <li>- Electronics and electrical components</li> <li>- Motion, drives, control and automation</li> <li>- Pipes and process equipment</li> </ul>	<ul style="list-style-type: none"> <li>- Business process outsourcing (BPO)</li> <li>- Information technology outsourcing (ITO)</li> <li>- Tourism</li> </ul>

For this discussion note, the key findings from the various sector peer group sessions have been further discussed, structured and analysed during an overarching discussion session<sup>1</sup> in order to identify the cross-cutting issues (factors) that shape global trade. In order to align these factors as much as possible with the structure of the WTO’s World Trade Report 2013, the factors have been categorized into five key categories: social factors, technological factors, economic factors, environmental factors and political (regulatory) factors. Furthermore, the discussion session also touched upon the impacts these factors may have on global trade in general –and exports from developing countries to the European market for a specific sector in particular.

**Scope of the CBI peer groups and this paper**

Before diving into the factors that shape global trade as identified by the CBI, it is important to make a note on the scope and range of these factors. As indicated above, the CBI peer groups that have served as the basis for these factors had a clear focus in terms of economic activity (sector) and economic geography (exports from SMEs in developing countries to the European market). Hence, it is important to keep in mind that this context serves as the basis for the factors discussed below.

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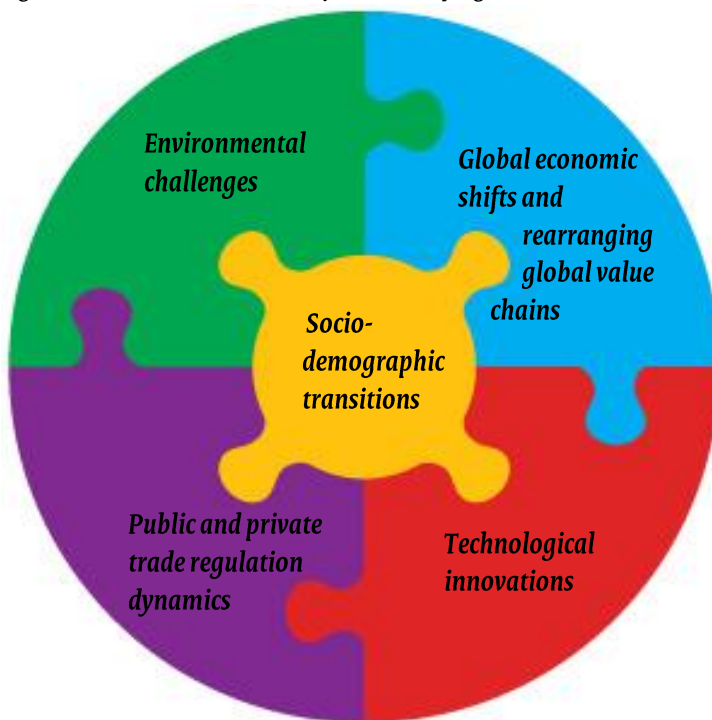
<sup>1</sup> The overarching peer group session was attended by senior market researchers who were also involved in organising the sector peer group sessions: Ms. Deborah Tappi (GIA); Mr. Bert-Jan Ottens (ProFound); Mr. Michiel van Galen (LEI); Mr. Victor de Lange (CREM); and Mr. Warner Uiterwijk (FFF).



### The factors that will shape world trade: insights from CBI peer groups

This section will discuss the key factors that will shape world trade, based on the key findings from the peer group sessions that the CBI has organised in 2012. To provide you with a clear overview, the five factors are discussed separately, zooming in on their underlying drivers and how these affect global trade in general. Furthermore, concrete examples of how these factors (will) impact international trade in various sectors are outlined in text boxes.

Figure 1: schematic overview of key factors shaping world trade



Source: CBI peer groups 2012

#### Socio-demographic transitions

The growing world population will have a major influence on future world trade. Apart from the sheer numbers (an estimated world population of 8.2 billion people in 2030<sup>2</sup>), the composition of this future world population will be a factor of major importance to world trade. There are various demographic transitions that will shape this future composition:

- Urbanization;
- Varying household compositions;
- Ageing population.

#### Impact on global trade

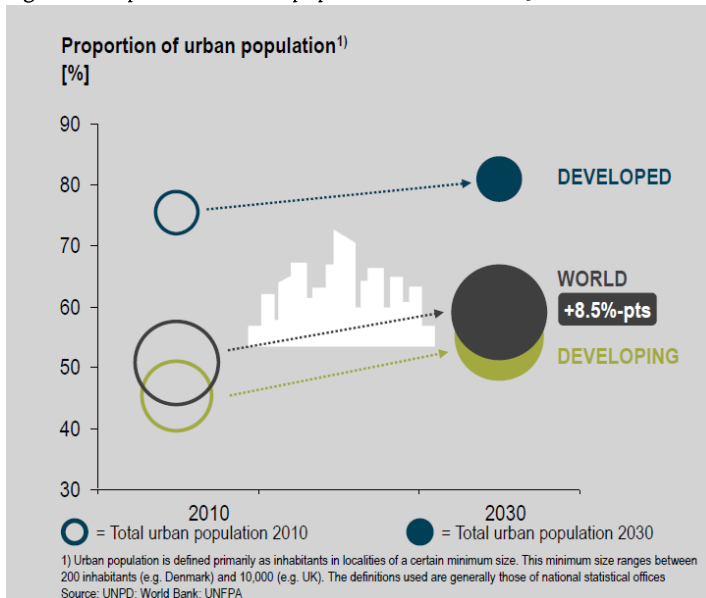
The ongoing process of **urbanization** (by 2030, 6 out of every 10 people will live in a city<sup>3</sup>, see also figure 2) will not only lead to the further emergence of so-called megacities with over 10 million inhabitants, but it will also lead to a **growing diversification of population groups** such as households and families (e.g. multi-generational or single person households, transnational families).

<sup>2</sup> Source: OECD (2008) Environmental Outlook to 2030.

<sup>3</sup> Source: WHO (2012) Global Health Observatory.



Figure 2: Proportion of urban population, 2010 and 2030



Source: Roland Berger 2011

Furthermore, increased *ageing of the world population* will also contribute to this future world population constellation: it is expected that global population will become 5.1 years older, with the median age moving up to 34 years in 2030. Measured in median age, people in developed countries will be 12 years older than people in developing countries<sup>4</sup>.

The demographic transitions depicted above will create a more diverse spectrum of consumer groups. Nevertheless, an important commonality among these different consumer groups is that they all will consist of more *'global consumers'*, meaning that consumers will increasingly broaden their market perspective and awareness towards a global level. This does not necessarily have to result in an increase in global purchasing, as the growing awareness on the impact of global trade (e.g. on the environment) may spur consumers to go *'back to local'*.

It is expected that significant spatial and non-spatial shifts in consumer markets will occur as a result of the socio-demographic transitions discussed above. The growing urban population, predominantly in the South, will lead to a spatial shift in economic activity and flows of trade. These will focus more on major urban population areas. At the same time, the diversification of consumer groups will spur a wide range of product and service innovations that are tailored to the specific needs and preferences of these groups (niche markets). Additionally, specialised marketing channels to target these groups will emerge.

<sup>4</sup> Source: Roland Berger Strategy Consultants (2011) Trend Compendium 2030.



**Box 1: Impact of socio-demographic transitions on global trade, sector examples**

- **Coffee:** European consumers are increasingly 'buying global', as they gain interest in lesser known varieties and new origins. This changing consumer interest increases the importance of traceability, as the unique product characteristics have to be verifiable;
- **Spices and herbs:** the growing presence and rooting of immigrants in Europe (will) bring new eating habits to the continent, particularly in urban areas where cultural integration increasingly takes place. As an effect, an overall increase in demand for exotic and traditional spices and herbs can be noticed;
- **Electronics:** the ageing population creates new growth markets for electronic devices and applications that relate to health- and homecare in Europe.
- **Tourism:** travel agencies are increasingly targeting the 'senior market' in Europe (65+ years of age, retirees) as a unique consumer group for tailored long haul tourism-related activities (e.g. wellness holidays and medical tourism trips) in low-cost destinations.
- **ITO:** the next decades will continue to be marked by the emergence of new high-tech innovations, which will require new IT skills that are not widely available in Europe. The expected high-skilled labour shortage is caused by a decreasing interest in technical academic education in combination with the ageing European population. As the labour shortage will force European companies to look for additional service providers outside Europe, this will create opportunities for developing countries with a young and increasingly educated workforce near Europe (nearshoring) as well as more distant countries (offshoring) with these socio-demographic characteristics.

### **Technological innovations**

There are various technological innovations that will have a profound impact in the way international trade will be structured and organised in the future. The most important innovations that were identified in the CBI peer groups are related to the following technological areas:

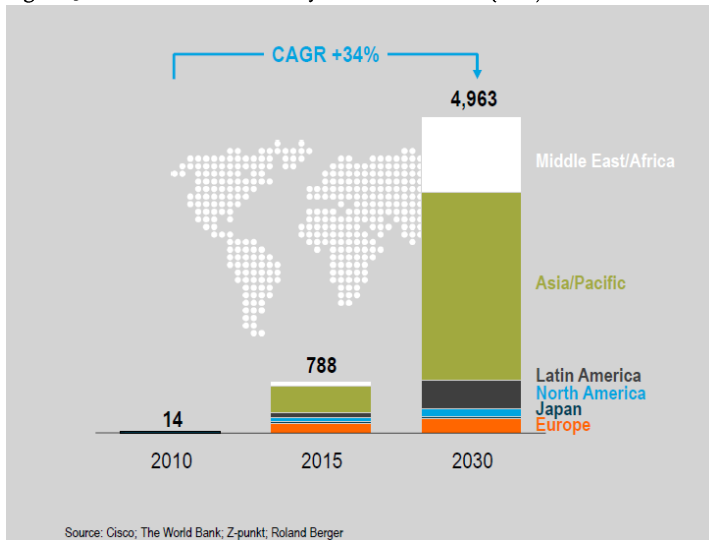
- Information and communication technology (ICT);
- Production innovations;
- Logistics.

#### *Impact on global trade*

Driven by ongoing economic globalisation that will give further rise to a complex global marketplace, **online interconnectivity** will become an ever more important competitive business asset. Direct contact with suppliers and clients, access to real time market information and online trading will only gain in importance in the decades to come (see also figure 3). This will result in a further development and effective usage of enterprise social applications that enable smooth video conferencing, online meetings and real time collaborative work. The Internet will also further develop into an online marketplace that will create new trade channels and means for marketing. E-business, in particular for business-to-consumer trade, will continue to grow and offer new opportunities to exporters from developing countries. They can gain easier and more direct access to consumers in distant markets and promote their goods and services on a global level via their company website.



Figure 3: Number of mobile-only broadband users (mln)



Source: Roland Berger 2011

An important new **production innovation** that is predicted to have a major impact on international trade of manufactured goods is three-dimensional printing. This technological innovation will stimulate new global manufacturing concepts as it will enable full Just-In-Time (JIT) manufacturing. Furthermore, it will reduce transportation costs as goods will be produced in local ‘micro-manufacturing plants’. This type of dispersed ‘additive manufacturing’ will replace the traditional concentrated ‘subtractive manufacturing’ in the next decades. Additive manufacturing requires less raw material in comparison to traditional manufacturing.

Thirdly, technological innovations relating to **logistics** will not solely be aimed at reducing transportation costs. Rather, they also respond to other needs and concerns. The growing need among European? consumers to know where products are coming from will spur the development and implementation of ICT enabled tracking and tracing systems. These systems will not only allow consumers to trace back a product to its origin, but also to gain insights into how this product has been produced. Hence, it will lead to a growing transparency of the value chain. Furthermore, in their effort to reduce the carbon footprint of transportation, innovative means of more environmentally friendly transport will gain ground.



**Box 2: Impact of technological innovations on global trade, sector examples**

- **Cut flowers:** a fitting example of how the usage of ICT can lead to changes in patterns of global trade is already noticeable in the trade of cut flowers from African growers to the European market. In this sector, the emergence of distant buying, enabled by online video auction systems, leads to significant shifts in international trade flows as it spurs direct trade (no longer via brick and mortar auction halls where flowers are collected and showcased for buyers) between suppliers and buyers. Clearly, this virtualisation of the trade channel is only possible when the information shared between actors in the chain is easy accessible, transparent and trustworthy;
- **Fresh fruit:** traditionally, many fresh fruits are transported by air to the European market in order to safeguard their freshness and quality. However, there is an increasing interest in shipping fruits over sea in climate controlled containers to reduce transportation costs and greenhouse gas emissions;
- **Manufacturing:** 3D printing is already used for the production of single pieces (e.g as an alternative for rapid prototyping and as an alternative for expensive tools). However, it is expected that in the years to come all sorts of goods, from shoes to notebooks, car and aircraft parts, medical implants and batteries can be 'printed out';
- **Tourism:** due to the emergence of the Internet as a marketing channel, European customers are increasingly looking for local tour operators in the South to do business with, sometimes surpassing European tour operators. The expected emergence of 'digital experience centers' about travel destinations to be used in marketing will serve as an 'appetizer' to attract new tourists;
- **Food ingredients:** new processing technologies relating to sustainability and health are increasingly being used for product innovations, to alternate the specifications of natural ingredients. Enzymatic processing, for instance, allows for the production of oils with a healthier fat profile (away from trans fats) and for the exclusion of chemical catalysts (healthier diets and lower environmental impact). Fractionation is another technology, emerging from the increasing demand for healthier, more liquid, oils as opposed to solid fats.
- **Cut flowers:** European supermarkets are increasingly demanding information from their suppliers on where products are coming from. A wide range of traceability solutions and tools are available. Barcodes are frequently used to integrate information from the grower and wholesaler of cut flowers. Often the article code, selling price and other details imposed by the supermarkets are already printed on labels and barcode by the grower. The trend towards tracking and tracing is partly integrated with an increasing demand for certification schemes.

### Global economic shifts and rearranging global value chains

As the title already hints, there are two major global economic forces that will impact global trade in the upcoming decades:

- Global shift of markets;
- Changing composition of global value chains.

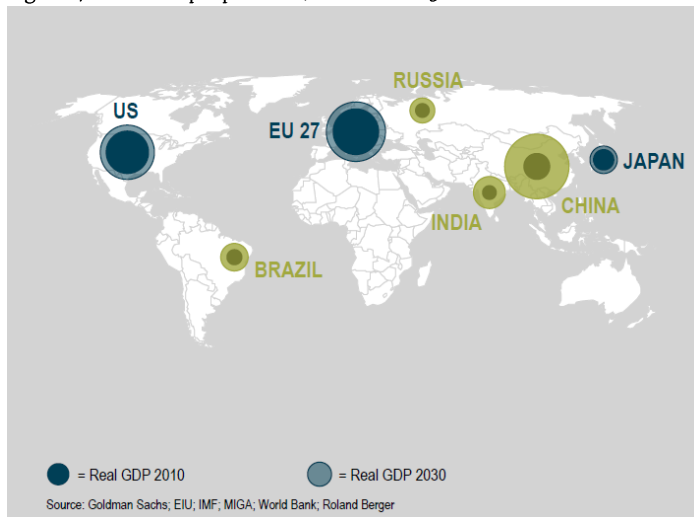
#### Impact on global trade

The global economic pre-eminence of the West will be balanced out as **emerging economies** (e.g. BRICS) will become more important players on the global marketplace in terms of production, consumption, trade and investment (see figure 4). As these economies will further grow and develop, they will become more



important centres of economic activity (production and consumption), attracting flows of goods, financial investments and human capital. As an effect, trade between these emerging economies will grow, leading to a rerouting of major flows of trade on the global market. A further growth in South to South trade or regional trade (e.g. within Asia or Africa) could be expected as depictions of such rerouting.

Figure 4: Real GDP proportions, 2010 and 2030



Source: Roland Berger 2011

The emergence of new markets will go hand in hand with a change in the composition of *global value chains*, as an increasing global competition on sourcing is expected. This is particularly true for many natural resources, whose supplies are becoming more scarce (and costly) due to a growing global demand. In order for traditional lead firms (such as Western multinationals) to cope with this new reality and find a way to secure supplies in the long run, a further vertical integration within global value chains is expected. This integration will either take form via partnerships within the supply chain or via business take-overs that will enable lead firms to surpass upstream intermediaries and become involved in direct sourcing or even invest in primary production facilities.

**Box 3: Impact of global economic shifts and rearranging GVCs on global trade, sector examples**

- **Natural ingredients:** due to recent crises and increasing global competition on sourcing, European importers are securing their supply chains by building stronger relationships with their suppliers and improve their supply chains in aspects of efficiency, value-addition, product innovations and formulations, sustainability and fairness;
- **Home textiles:** Chinese wholesalers are increasingly exporting to Europe and forming partnerships with other developing country exporters, resulting in increased global competition;
- **Electronics:** outsourcing of electronics production in developing countries is no longer limited to the setting up of a standardized production line by a lead firm. Rather, it increasingly entails a deeper form of cooperation between firms that is better described as co-production;
- **Coffee, tea and cocoa:** due to the rise in global demand and growing pressure on supply and prices, European importers are increasingly seeking ways to cooperate with farmers in the South to enhance their productivity.





### Environmental challenges

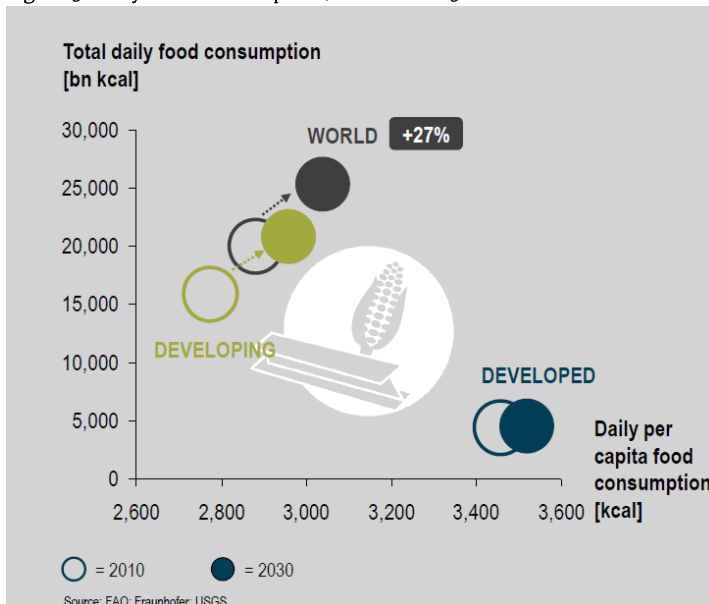
The growing world population and increased consumption will raise some major environmental challenges that will impact world trade in the years to come:

- Pressure on natural resources;
- Climate change.

#### Impact on global trade

The growing **pressure on natural resources** will put a strain on the local ecosystems that supply us with these resources. This pressure stems from various (competing) forces of demand. These can be related to the growing world population and rise of emerging markets, but also to the changing usage of agricultural land and how this is cultivated. This last pressure is clearly noticeable in the shift of agricultural cultivation from food crops to cash crops for biofuels, which may put pressure on food security (see figure 5).

Figure 5: Daily food consumption, 2010 and 2030



Source: Roland Berger 2011

At the same time, these ecosystems will also be faced by the ever more visible effects of **climate change**, which may lead to drastic alternations of their own systematic settings. As an effect, the current geographical pattern of (agricultural) production and trade will change, as production systems will shift from ‘traditional production areas’ to ‘new’ production areas due to changing natural conditions. Furthermore, a declining biodiversity will lead to a reduction in the availability of natural resources in terms of species.

The above depicted environmental challenges will have a decisive impact on the future shape of world trade, as it will force trading firms to redesign their business operations into sustainable practices. On the short run, Corporate Social Responsibility (CSR) and certification of products and services in terms of sustainability will become ever more important requirements within international trade. On the long run, ‘the environment’ will become an integrated aspect of new sustainable business models that will incorporate the environmental costs of production into the price of their products or services. These new models take into account the negative externalities of a good during its entire product life cycle, not only those related to its production stage. As such, they will meet the needs of a growing group of conscious ‘global consumers’ who are aware of -and concerned about- the environmental challenges and want to act upon these challenges by changing their consumer behaviour (e.g. by purchasing organic, local for local, or



ethical products). Furthermore, the growing need for more sustainable means of production and trade will spur the development of a 'green economy' that seeks innovative answers to the environmental challenges.

**Box 4: Impact of environmental challenges on global trade, sector examples**

- **Vegetable oils:** the strong rise in the global demand for biofuels has increased the pressure on the availability of vegetable oils for the food industry, contributing to a considerable upward pressure on prices. The biofuel market will continue to grow strongly in the next decade, but the increasing use of 'food as fuel' may be rejected by consumers in the long run, especially in light of growing food security concerns;
- **Cocoa:** various large global players in the cocoa value chain have already committed themselves to source 100% sustainable cocoa within the next ten years. In order to achieve these commitments, these private sector actors are establishing strategic partnerships with other players in the value chain (ICCO 2012). The required compliance and transparency on backward linkages to meet these commitments will create some significant challenges for SMEs in the supply chain;
- **Cut flowers:** demonstrating that growers comply with standards related to quality, environmental and social issues will become more and more important. Various European retailers are already expanding private certification schemes. As a result, various national industry codes have been developed. GlobalGAP and related schemes are becoming a must for growers in developing countries. At the market end, the consumer label Fair Flowers Fair Plants (FFP) has been developed and is increasingly being implemented by growers in developing countries;
- **Garments:** conscious consumption of garments in Europe is developing from a small activist market into a more mainstream market. As such, European retailers and their suppliers in developing countries will increasingly have to prove that their garments are produced in a sustainable manner, which entails a range of CSR-related issues (e.g. environmentally friendly production, fair trade principles and decent labour conditions, etc.).

### Public and private trade regulation dynamics

While ongoing global trade liberalization will continue to dismantle certain barriers to international trade, other forms of regulation will emerge that will impact world trade in a different manner:

- More strict market access requirements (non-tariff barriers).

#### Impact on global trade

The growing need of the 'global consumer' for goods and services that meet specific criteria will lead to an increasing importance of more and **more strict non-tariff barriers to trade**. More specifically, key issues of focus for governments will be on health and safety aspects of products, in particular food. Important to note is that these strict legal requirements may be surpassed by even more demanding standards set by the private sector. These private standards and certification schemes represent a new meta-governance system for international trade, which focus on qualitative aspects of goods and services that are generally not covered by public legislation (e.g. within the field of sustainability). Often set at the importing end by lead firms in the value chain, these voluntary standards will impose serious challenges for firms positioned in the supply chains of these lead firms. These challenges may be overcome via strategic cooperation within the value chain such as the formation of partnerships between suppliers and buyers.



**Box 5: Impact of public trade regulation dynamics on global trade, sector examples**

- **Seafood:** in 2013 the new Common Fishery Policy (CFP) will be introduced. The aim is to create a level playing field between fisheries inside and outside the EU and to contribute to the sustainable management of the world's fish stocks. While sustainability is currently still mostly a private buyer requirement, in the future through the CFP it will become a legal requirement. This will put more pressure on governments and private sector players outside the EU to adopt stricter regulations, on traceability and quotas, and improving the management of the fisheries sector. If fishery and aquaculture sectors are not sustainably managed this might lead to EU sanctions and market exclusion;
- **Fresh fruit and vegetables:** EU countries have strict rules for approval of genetically modified organisms or foods (GMOs) on the market. Currently genetically modified fruit and vegetables are not allowed on the market. All food products containing more than 0.9% GM products must be labelled and follow strict traceability rules. The fierce debate over the allowance of GMOs on the European market is expected to continue in the future, which may lead to policy shifts;
- **Vegetable oils:** EU parliamentarians are preparing a proposal to reduce and ultimately ban the use of trans-fatty acids in food. It is yet unclear when this proposal will be submitted, but this would have large consequences for the food industry and its distributors;
- **Timber products:** in March 2013 the EU will implement a new Timber Regulation to combat trade in illegally harvested timber. This is one of a number of actions under the 2003 EU Action Plan on Forest Law Enforcement Governance and Trade (FLEGT). The new regulation will prohibit the placing of illegally harvested timber and products derived from such timber on the EU market. In order to achieve this, it requires EU traders who place timber products on the EU market for the first time to exercise 'due diligence'. For SME exporters of tropical timber products in the South this will imply that they also need to have a clear sight on their backward linkages and the traceability of their timber supplies.

**The full picture: different, yet interdependent key factors**

The different key factors in this paper are discussed in a categorized manner, which may seem as if each factor changes world trade in its own, isolated way. However, the opposite is true: the factors are interconnected and influence each other. The interesting aspect of this interdependency is that one factor may provide the solution to a problem that relates to another factor. For instance, in response to environmental challenges, which can be related to a growing world population and consumption, technological innovations and public and private regulations are increasingly geared towards more sustainable trade practices that may reduce the pressure on natural resources. Hence, as depicted in figure 1, the factors could be seen as pieces of a 'future world trade puzzle', which can only be solved by putting the pieces together in the proper order. In order to achieve this puzzle solving, a collaborative joint effort by stakeholders from private sector, government and civil society at various levels of scale will be essential.