

## OPPORTUNITY #50

WHAT IF ALL TRADE WAS DIGITAL?

# GLOBAL TRADE, LOCALLY MADE

Physical goods are provided anywhere in the world at the touch of a button, but never cross borders

### WHY IT MATTERS TODAY

Since the 1980s, globalisation has progressed through a rise in global trade flows.<sup>501</sup> But more recently it has also proliferated through ever-increasing data and information flows.

While protectionism could re-create physical borders through virtual boundaries,<sup>502</sup> proponents of market forces are likely to resist it. For example, the European Commission (EC) has calculated that a single market for the digital economy without regulatory restrictions can unlock just over \$500 billion per year in the European economy.<sup>503</sup>

Growth in digital trade and the digital economy is inevitable. An estimated 70% of new value created in the economy over the next decade is expected to be based on digitally enabled platform business models.<sup>504</sup>

The size of the digital economy in 2021 ranges, depending on definition, from 4.5% to 15.5% of world gross domestic product (GDP); an average of 18.4% of GDP in developed economies; 10% of GDP in developing economies; and 4% in the Middle East.<sup>505</sup> The global digital economy could grow to account for one-quarter of global GDP by 2025.<sup>506</sup>

### SECTORS

AGRICULTURE & FOOD · CHEMICALS & PETROCHEMICALS · CONSUMER GOODS · ENERGY, OIL & GAS  
· LOGISTICS, SHIPPING & FREIGHT · MANUFACTURING · METALS & MINING



The 'gig economy', though a sub-sector of the digital economy, is an increasingly important provider of transportation, asset sharing, handmade goods and professional services.<sup>507</sup> The gig economy is expected to grow by 17% a year from transactions to around \$455 billion by 2023 with an expected 80% increase in the number of workers participating in it.<sup>508</sup>

The United States, where most of the leading global companies in the gig economy were established, such as Uber, Airbnb, Upwork and Etsy,<sup>509</sup> is the current hub for flexible and temporary work, accounting for 44% of the jobs.

Another aspect to the move towards a digital economy is related to cost reductions that will become key to future competitiveness in the consumer packaged goods (CPG) sector.<sup>510</sup>

As a result of shifts in consumer spending<sup>511</sup> and preferences<sup>512</sup> including localisation,<sup>513</sup> businesses are seeking to reduce costs through flexibility, speed to market, access to tools, agility<sup>514</sup> and innovative ways to benefit from digital technologies. Beyond budgeting 2%–3% for inflation, it is expected that companies would need to reset their cost structures by 20%–30% to remain competitive.<sup>515</sup>

One route towards cost reductions in the CPG sector is to have goods and services produced and created in export markets or countries other than that where the provider is based. Globally, the outsourcing operations and shared services (OSS) reached around \$690 billion in 2018 and are expected to grow more than 7% per year to reach around \$970 billion by 2023. At this rate, the OSS industry will exceed \$1 trillion within the next 6 years.<sup>516</sup> Outsourcing reduces time to market by 20%–25% and improves costs and customer service by 18%–30%.<sup>517</sup>

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### THE OPPORTUNITY TOMORROW

As technologies enable highly decentralised manufacturing, 3D printing and new consumption models, more companies may seek to outsource more of their value chain, operating in a new business model where orders are received globally and produced through the push of a button, making trade flows increasingly intangible where not a single product crosses borders.

Data, intellectual property (IP) and know-how replace more tangible investment, trade and wealth creation. Fully digital trade relies on high interoperability, and economies collaborate on standards and protocols to prevent them from becoming non-tangible barriers to trade.

### BENEFITS

Invisible trade enabled by outsourcing is very mobile as digital flows can switch rapidly. Products no longer need to physically move across borders but can be manufactured close to markets, in line with traded IP and procedures for how to produce goods on demand and in an agile manner. The process is less environmentally damaging and promotes resilience.

### RISKS

The borderless nature of digital trade creates risks for primary and secondary sector economies and for people lacking relevant skills. The dislocation of business activity and labour markets is a risk to economic growth, income and social stability during transition periods. There are also risks of malicious attacks on critical digital infrastructure or accidental technical errors bringing large parts of economic activity to a standstill.

### UNINTENDED CONSEQUENCES

Those without access to technologies necessary to enable digital trade will not have access to globalised products and services.

