





## The Future of Trade

### The Global Challenge

The exchange in physical goods, anything from raw materials, to food, to electrical items and luxury products has increased wealth, provided opportunity and improved quality of life around the world. Over 80% of everything we purchase travels by sea and, as a result, over the years shipping channels have been established, road and rail networks have been built, and ports and cities have prospered. The value of international commerce has grown almost tenfold in the past 30 years because more people have access to more products so, to

satisfy this demand, we are now transporting more raw materials around the world than we have ever done before. The shipping lanes are full. But change is in the air. After centuries of Western dominance the rules are being rewritten as new trading patterns between Asia, the Middle East and South America evolve. At the same time technology is revolutionising what we make and how we make it. The next decade will see transformational change as these new processes and markets develop.

#### A New Order?

We are witnessing the transition to a new order: New national interests, new trading routes, new products / services are all emerging. How to ensure the development of trade in this environment will be key to success context-led customisation of loyalty experiences.

### Options and Possibilities

Four elements are key to ensuring the smooth transfer of goods and services; availability of product and market; a functioning, safe infrastructure; effective governance and the application of technology.

**Availability of product and market** - Since the onset of the global financial crisis many would argue that emerging markets are now the drivers of global growth providing a willing workforce and a growing middle class with money to spend. In 1987 these countries made up just 16% of global GDP, but today they account for 31%. 2013 was the first year in which they accounted for more than half of

world GDP on the basis of purchasing power<sup>1</sup>. The opportunity this presents for trade is enormous, not only due to new and growing domestic markets, but also because many emerging economies, in Africa and South America for example, are richly blessed with the raw materials needed for growth and development - and so can export them to others, in particular China and India.

As a result of this, the next decade will see the post-war routes gradually being eclipsed by the power of the Indian Ocean region where new port construction and proposed railways stretching from China to Turkey and from coast-to-coast across Colombia indicate

#### New Trading Routes

The next decade will see the post-war routes eclipsed by the power of the Indian Ocean region with new port construction plus proposed railways from coast-to-coast across South America showing the shape of things to come.



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### Influence of Key Cities

As they grow cities become increasingly influential in their own right. Often centres for innovation, their reach stretches far beyond the confines of national boundaries as they position themselves as centres of excellence.

### Last Mile Efficiency

The benefits to be gained from bringing the same level of efficiency to the last mile as there is to the first thousand is attracting attention: There will be more focus on reducing inefficiencies around the final part of delivery.

### Automated Trucks

Autonomous and driverless trucks are now starting to have impact. The vision of long-distance platoons of trucks all running on intelligent highways without drivers has been a topic for some years... but the reality is not far away.

### Rising Cyber-crime

Cyberspace is about to undergo yet another massive change as the Internet of Things connects billions of new devices making cyber-crime even more challenging to prevent and control.

the shape of things to come. South-south trade, which has doubled in the decade from 2000 to 2010, is likely to account for over a third of global trade by 2025. And perhaps most significantly, now the world's largest trading economy with a growing middle-class China is set to challenge the US as the world's major economic power. Its influence is growing: It owns five of the world's top ten biggest container ports and is making huge investments in other developing markets, rich in natural resources. Boasting about a quarter of the world's container trade and as the largest foreign investor in Brazil, Laos, Myanmar, Iran, Mongolia and Afghanistan, China's commercial power is indisputable. How it integrates alongside other new and important markets into the global trading system is complex.

In addition to the trade routes, the kind of products that will be needed over the next decade will change and manufacturers will have to adapt to consumer demand. Generally speaking per capita income overall is still low so the goods and services that will be purchased will reflect this. For example, cars for the next billion consumers will be more functional and probably of lower spec. It is increasingly likely they will be produced in the countries where they are needed rather exported from expensive established factories. Over the next decade expect more local manufacturing, supported by more localised cross-border trades.

In addition to the change in political influence, globalisation has resulted in the biggest migration of people from rural areas to the towns that the world has ever known. New cities and a growing middle class have made markets more easily accessible for consumer products and services. The most rapid urbanisation will continue in Africa; the UN predicts that Kinshasa's population will double by 2030. But on top of this, nearly 9% of the world's population will live in just 41 megacities (those with more than 10m inhabitants).

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In addition cities are positioning themselves as centres of excellence. Cheonan in South Korea has been a trailblazer in digital displays, for example, and Tel Aviv and the surrounding 'Silicon Wadi' in Israel is a hub for wireless telecoms. As a result increasingly cities will compete with each other as centres for manufacturing and trading. But, as technology and supply chain efficiency makes it easy for producers to relocate their factories to cheaper centres, cities will have to depend on the quality of their infrastructure (especially international transport links), the flexibility of regulations and their ability to attract talent to remain competitive as trading centres in the long term.

The benefits to be gained from bringing the same level of efficiency to the last mile as there is to the first thousand are attracting much attention and innovation focus. As more people live in cities there will be an increasing need to reduce inefficiencies around the last mile delivery for many items. Whether the winners will be Amazon's proposals around drone delivery or the more pragmatic locally pooled collection points remains to be seen; many options are now being trialled. The much-hyped concept of autonomous and driverless trucks is starting to have impact. The vision of long-distance platoons of trucks all running on intelligent highways without drivers has been a topic for many over the years but, as shown by the recent licensing of Daimler's self driving trucks in Nevada, reality is not far away.

**Safe Infrastructure** - Trading flourishes in free and secure markets and so maintaining efficient, safe transportation is a perpetual challenge. This applies not only to transfer of physical goods but also to the provision of services where the protection of intellectual property and managing the threat of cyber crime that remain vital to the free flow of ideas. It's an increasingly expensive issue. The think tank The Centre for Strategic and International Studies (CSIS), puts the annual global cost at \$445 billion<sup>2</sup>. Looking ahead, cyberspace is about to undergo yet another massive change as the Internet of Things connects billions of new devices making cyber-crime even more complicated to

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prevent and control.

Unreliable shipping routes, potholed roads and missing rail links are a perennial problem, particularly for some developing economies where transport costs can make up 50-75% of the retail price of goods<sup>3</sup>. Africa in particular suffers from this and, as a result, intra-regional trade across the continent is just 13% of total commerce compared to Asia where it is 53%. Inadequate infrastructure bites particularly hard amongst the poor, if the transportation and transaction costs for subsistence farmers means that they receive less than 20% for their produce there is little incentive for them to grow more. These shortcomings have had a knock on impact on international trade; one reason why you don't see many foreign cars in Kampala compared to Dar es Salaam could be because, although the cost of shipping a car from China to a port in Tanzania is around \$4,000, transporting it cross-country to Uganda can cost another \$5,000<sup>4</sup>.

However, significant foreign investment and a desire for change is set to transform African trading routes; the first dependable road across the Sahara is under construction; a double-lane tarmac highway with its own border terminal will soon connect Aswan and Wadi Halfa; and a new 1,000km-long desert road will run south to Khartoum alongside the River Nile. Asia also has an almost inexhaustible appetite for investment in infrastructure. A study by the Asian Development Bank estimated that it would spend \$8 trillion between 2010 and 2020, of which 68% would be for new capacity. This includes high-speed railways linking Yunnan province to South-East Asia; new ports in Indonesia, Pakistan and Sri Lanka and the new 'Silk Road' across Central Asia to Europe.

Across the world, much still also needs to be done to reduce the impact of bribery and corruption on every level. The electronic free flow of ideas has created a new and profitable feeding ground for corporate hackers – costing companies billions of dollars to protect themselves - has made cyber-security a priority. Equally significant is the problem of defending physical goods in transit. Non-state actors, that have no

stake in the waterways, are more likely to be disruptive. Thanks to international naval cooperation, once menacing attacks from Somali pirates are now under reasonable control, but new threats may be emerging in other areas - such as from Islamist militants in Egypt's Sinai Peninsula. More prosaically, roadside checkpoints not only cause delays but in addition they are often collection points for bribes and "safety money". It's a mundane but endemic problem; a recent survey found 54% of Indians said they paid a bribe in the last year, compared with 44% in Nigeria and 36% in Indonesia.

**Effective Governance** – Managing the changes in global trade requires clear governance. The World Trade Organisation (WTO), the body responsible for global trade, is in a good position to lead in this area. WTO agreements, are negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments and aim to help producers of goods and services, exporters, and importers conduct their business. But, as it seeks to put in place global rather than bilateral agreements, the WTO faces tough challenges in its quest to reduce trade barriers. Member states, although bound by a common purpose have dramatically different requirements so that the ambition to seek agreement across multiple industries has proved difficult to negotiate and cumbersome to execute. The Doha round of global trade negotiations, deadlocked since 2008, is a case in point. Decisions about how best to secure transparency around global trade policies and enforce appropriate standards in labour laws and environmental standards will remain a priority. A key question for the next decade will be whether we will be able to achieve true global agreements or will bilateral trade agreements remain the way by which nations can better manage and control economic influence.

More specifically Special Economic Zones (SEZ), such as the DMCC, which offer tax and custom subsidies to foreign investors also help to reduce bureaucracy. Across the world approximately 68 million people now work in over 4,000 SEZs<sup>5</sup> which come in many forms, from basic "export processing zones" to "charter cities", urban zones that set their

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#### **Global vs. Bilateral Agreements**

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### Growth of Special Economic Zones

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own regulations in all sorts of areas that affect business. In China, for example, they were a useful way of testing reforms seen as too difficult to roll out nationwide. In Dubai, the DMCC attracts key players throughout the entire value chain of a wide range of commodities sectors, together with relevant support industries such as finance, logistics and insurance. As they extend across the world it will be important for SEZs to retain the quality of support and incentives they offer in order to attract and retain a diverse range of inward investment and although some see limits to their application, going forward Special Economic Zones are expected to play a continued major role in providing the facilities for accelerating change and improving trade efficiency.

**Efficient use of technology** - The falling cost of transport alongside powerful communication technology has allowed firms to co-ordinate production across great distances and separate manufacturing into component parts. Ideas first muted in Californian sunshine have become a reality as sophisticated supply chains have reached new labour markets scattered across the world. At the same time, the dramatic decline in the cost of technology has created opportunities for the provision of high-value services in seemingly unlikely places. Skilled programmers in India, Indonesia and Brazil, for example, now sell IT services around the world. All of this is contributing to the global market place.

However, other advances include eliminating the need for human labour. Take for example

the way that UPS has expanded its Worldport facilities in Kentucky: With over 250 miles of conveyors, 30,000 tilting trays and a thousand camera tunnels, it is the largest fully automated package handling facility in the world operating over 130 aircraft daily, and processing an average of 1.6m packages per day. Similar facilities around the world are making the supply chains of many companies ever more efficient without the cost of labour. Indeed such is the cost reduction, the use of robots is even attractive in India, despite the vast supply of low-cost labour. If the need for middle skilled workers continues to decline sharply across all markets while employment in high- and low-skilled occupations increases, over the next ten years the gap between the rich and poor will continue to increase.

Over the next ten years other technologies, such as 3D printing, have the potential to profoundly change the way we make and charge for products. On one level this will result in cheaper, faster and more versatile manufacturing, reducing the need to ship goods across the world. On another its use raises a number of challenges for IP. If, for a small fee, a digital file can be downloaded to make a spare part for a washing machine, manufacturers and consumers will both benefit as transportation costs will be reduced. If however manufacturers fail to control the IP and therefore are unable to charge for the download, as has happened most significantly in the music sector, then IP will become irrelevant and replacement parts will be made for no fee other than the material cost.

## ↕ Proposed way forward

### The Climate Change Challenge

Climate change can no longer be ignored. While many are now looking at improving the resilience of their facilities to more extreme weather, how many will also seek to adapt to the new world of 4C of global warming?

We are witnessing the transition to a new order. New national interests, new trading routes, new products and services are all emerging. How best to ensure the transfer of goods and the future development of trade in this environment will be key to our collective success. However several key questions remain as yet unanswered.

- Globalisation is lifting millions out of poverty but the cost to the environment has been huge and who knows the full impact?
- Climate change can no longer be ignored. Will the increasingly visible impacts cause countries and companies to really adopt new approaches? While many are now

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looking at improving the resilience of their facilities to more extreme weather, how many will also seek to pre-emptively adapt to the new world of 4C of global warming including rising sea levels, more variable weather and more extreme temperatures?

- Furthermore, as the global workforce becomes more mobile, how will organisations attract and retain top talent and how will governments ensure they provide them with the relevant education that will allow economies to thrive?
- Finally how can we nurture innovation and encourage the free flow of ideas and products in an increasingly interconnected world?

It is very difficult to predict what the future will hold – at best we can anticipate it. What we know however, is that no one body will be able to influence all the factors which contribute to free and open trade. But, for organisations that are committed to facilitating economic growth, creating an environment that can adapt to change and improve quality of life for the majority without undue damage to the planet has to be the objective.

<sup>1</sup> Source IMF

<sup>2</sup> The Economist

<sup>3</sup> WTO ref for Malawi, Rwanda and Uganda

<sup>4</sup> The Economist

<sup>5</sup> <http://www.economist.com/news/finance-and-economics/21647630>

#### The Talent Challenge

As the global workforce becomes more mobile, how will organisations attract and retain top talent and how will governments ensure they provide them with the relevant education that will allow economies to thrive?

## Lead Expert – Gautam Sashittal

### CEO, DMCC

*Lead expert on the Future of Trade.*

Gautam Sashittal was appointed as the Chief Executive Officer of DMCC in February 2014. DMCC is a government of Dubai Authority dedicated to establishing Dubai as the global gateway for commodity trade. Home to over 10,000 companies, the DMCC Free Zone is the largest and fastest growing Free Zone in the UAE. DMCC's stewardship has seen Dubai grow into the third largest diamond-trading centre in the world and a leading global bullion hub. In the short space of 12 years, DMCC has established a unique eco-system to support a range of commodity sectors, including a robust regulatory framework and innovative physical and financial infrastructure and services.

Mr. Sashittal brings more than 25 years of business experience across a range of industries. He spent a large part of his career in the oil and gas industry with Royal Dutch Shell plc, and prior to joining DMCC, was the

