Weekly Brief

January 30, 2023

Global Trade Is Changing Dramatically. Here's How.

To BCG's network around the world,

For the first time in decades, global trade will grow at a slower rate over the coming ten years than the world's GDP, according to a new BCG report.

Trade dynamics started shifting in 2017, with the impact of Brexit and changes in US-China trade relations. The pandemic spurred further disruptions starting in 2020, and now increasing geopolitical tensions, the war in Ukraine, and fast-growing ASEAN economies are beginning to reshape familiar patterns.

Three Ways Trade Is Changing

- The **Russia-West** fallout, resulting from the war in Ukraine, will dramatically affect future flows. For example, trade between the **EU and Russia** is forecast to decline sharply, shrinking by $262 billion through 2031—a result of sweeping sanctions and the future halting of energy exports from Russia to the EU. At the same time, the EU will increase its trade with the US by $338 billion as it replaces Russian pipeline gas with LNG from the US.

- Trade relations between **China and the US** have been tense since 2017, leading to a decrease in trade of $63 billion through 2031. Since early 2021, **China and the EU** have also been experiencing more difficult political and trade relations, as evidenced by the suspension of a breakthrough bilateral investment agreement last year. These challenges will lead to slower-than-average growth—just $72 billion—in the China-EU corridor. Policy shifts in Brussels and Washington will also result in changes in the value chains of sectors such as critical minerals and product categories like electric cars.

- The clear winners of this emerging map are the **ASEAN countries**, which will experience $1 trillion in new trade. Of this, trade between ASEAN countries and China is forecast to grow by $438 billion, the largest increase in any trade corridor. This is being driven by GDP growth greater than the global average for each trade partner, the shift away from low technology manufacturing in China, and an increase in "China +1" sourcing in many industries.

How to Create Supply Chain Resilience

This worldwide shift away from tightly knit supply networks means we need a new balance. Organizations must of course keep plugging away at their goals of efficiency and lower costs, but it's also important to remain acutely aware of—and ready to rapidly mitigate—global risks to steady supply.

Short-term moves:

- Understand value chain risks—including how changes in supplies of key commodities could affect operations—and build the resilience to withstand them.

- Reevaluate and optimize inventories of essential commodities, and be prepared to engage alternative suppliers.

- Make contingency plans—for example, directing R&D toward alternative components or building supplier relationships in new regions.

Long-term moves:

- Include geopolitical scenario planning in capital allocation and supply chain management.
- Make use of analytics, such as supply chain control towers and digital twins, to catch emerging shocks and disruptions early and understand contingencies.
- Incorporate ESG goals and metrics, which will increasingly affect global supply chains.

Like so much else in the current environment, the changing dynamics of global trade will offer challenges and opportunities—and some industries will feel the shifts more powerfully than others. Above all, it’s critical to keep diversifying business networks and taking steps to build resilience, becoming as ready as possible to adapt to our changing world.

Until next time,

Christoph Schweizer
Chief Executive Officer

Further Reading

Protectionism, Pandemic, War, and the Future of Trade

Risks associated with the Russia-Ukraine war and complications in China-US trade are encouraging a major reorientation toward ASEAN and other developing markets.

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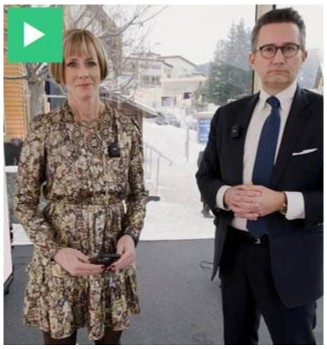

Trends in Global Trade for 2023

BCG's Nikolaus Lang describes three overarching shifts in global trade—what's driving them and what their impact will be—as we look ahead to a complex 2023.

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Why Your Company Needs a "Chief Trade Officer"

Sending and receiving goods across borders is becoming so complex—and the penalties for missteps so steep—that risk management in trade increasingly demands attention from the C-suite.

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