TRADE AND SPECIALISATION TOWARDS 2060: PATTERNS AND POLICY CHALLENGES
Introduction

• Gradual shift of the world’s economic centre of gravity from north to south, and west to east.

• This shift will imply policy challenges for:
  – Industrial specialisation,
  – Wage inequality,
  – Employment, Environment, etc. (not considered in our study)

• How can policies affect these trends and contribute to development?
  – Trade policy
  – Investment in Skills, improve access to finance, etc.
Order of the presentation

• Background

• Implications

• Scenarios

• Policies and issues not considered in the model

• Open questions
Background
‘Shift’ in the geographical distribution of trade

- Trade will shift towards Emerging Asia (China, India, Indonesia, other Asian countries etc.) and Africa, with trade within the OECD area declining from 50% of global trade in 2012 to 25% by 2060.

**Gross exports as a share of world exports, %**

*2012*
- Emerging Asia: 28%
- RoW: 16%
- Euro Area+UK: 24%
- Latin America: 5%
- North America: 17%
- Japan: 7%
- Africa: 3%
- RoW: 16%

*2060*
- Emerging Asia: 41%
- RoW: 12%
- Euro Area+UK: 15%
- North America: 13%
- Japan: 4%
- Africa: 10%
- RoW: 5%
- Latin America: 3%
A growing share of trade will be south-south (between non-OECD countries)

**2012**
- RoW-OECD: 20%
- OECD-RoW: 18%
- RoW-RoW: 15%
- OECD-OECD: 47%

Total: 12799 billion USD

**2060**
- RoW-OECD: 23%
- OECD-RoW: 19%
- RoW-RoW: 15%
- OECD-OECD: 25%

Total: 65381 billion USD
And specialisation patterns will change

Shares in world manufacturing exports, %

- 2012:
  - Euro Area+UK: 24%
  - North America: 17%
  - Emerging Asia: 28%
  - RoW: 17%
  - Japan: 9%
  - Latin America: 4%
  - Africa: 1%

- 2060:
  - Emerging Asia: 43%
  - RoW: 13%
  - Euro Area+UK: 14%
  - North America: 12%
  - Japan: 5%
  - Latin America: 4%
  - Africa: 3%

Shares in world services exports, %

- 2012:
  - Euro Area+UK: 32%
  - North America: 21%
  - Emerging Asia: 18%
  - RoW: 18%
  - Latin America: 19%
  - Japan: 4%
  - Africa: 3%

- 2060:
  - Emerging Asia: 33%
  - RoW: 14%
  - Euro Area+UK: 19%
  - North America: 12%
  - Japan: 2%
  - Latin America: 9%
  - Africa: 3%

Shares in world agricultural exports, %

- 2010:
  - RoW: 20%
  - Emerging Asia: 14%
  - North America: 23%
  - Latin America: 15%
  - Japan: 0%
  - Africa: 3%

- 2060:
  - RoW: 18%
  - Emerging Asia: 19%
  - North America: 31%
  - Latin America: 3%
  - Japan: 1%

Shares in world energy exports, %

- 2010:
  - RoW: 54%
  - Emerging Asia: 9%
  - North America: 9%
  - Latin America: 10%
  - Africa: 13%
  - Japan: 0%

- 2060:
  - RoW: 41%
  - Emerging Asia: 8%
  - North America: 19%
  - Latin America: 9%
  - Africa: 13%
Driven in part by changes in relative wage of skilled to unskilled labour across countries

Ratio of the change in the relative wage of skilled to unskilled labour to the change in the median country between 2010 and 2060.

In countries above the line, high-skilled labour is becoming relatively more expensive over 2010-2060 than in the median country.
Speed of up-skilling in emerging economies affects restructuring towards higher skilled activities

% change in volume of industrial exports as compared with the baseline in 2060

China

Indonesia
Trade scenarios

1. **Regional liberalisation scenario**: assumes regional integration among a set of OECD economies.

2. **Partial multilateral agreement scenario**: is global but assumes less extensive reductions of trade barriers than in the regional liberalisation.
Multilateral liberalisation would bring greater global benefits than regional agreements

% increase in real GDP from trade liberalisation relative to baseline by 2060: two scenarios

- Regional liberalisation creates trade diversion shifting production and trade away from non-members (with lower production costs) to member producer (with higher costs).

Full regional
Partial multilateral

Mexico
efta
South Korea
Euro Area
Canada
Japan
Australia
New Zealand
India
China
South Africa
United Kingdom
USA
Brazil
Chile
Indonesia
Turkey
Other Europe
Other Latin America
Middle East
Other ASEAN
North Africa
Caspian
Other Asia
Other Africa
WORLD
Increases in trade are unevenly distributed in liberalisation scenarios

% increase in gross exports as compared with the baseline by 2060, %
Trade, Skill-biased technological change and changes in consumption patterns affect relative demand for labour

Change in number of jobs due to technology, trade and consumption, 1995-2008 (thousands)

Note: Advanced economies include EU-15, the United Kingdom, The United States, Japan and Australia while emerging economies include India, Indonesia, Brazil and China.
Increase in the demand for high-skilled labour will put pressure on wage inequality, especially if not matched by a sufficiently rapid increase in the supply of skilled workers.

Impact of specialisation and supply of skills on wage gaps between skilled and unskilled labour, 1995-2009

% change in wage ratio

-20%  -10%  0%  10%  20%  30%  40%  50%  60%

-20%  -10%  0%  10%  20%

China  Ireland  Country average

- Effect of change in supply of high skill
- Effect of increased specialisation in high-skill industries
- Effect of increased specialisation in low-skill industries
- Effect of change in other variables
- Actual change in wage ratio
Open questions

• What are the geopolitical implications of these trends? (i.e. USA becoming a dominant supplier of energy and commodities)
• What are the implications for the environment? Will changes in specialisation affect emissions? Will changes in climate policies affect the trends in growth and trade?
• Will stronger skill-biased consumption in EMEs affect relative demand for labour and wage inequality?
• What other policies could governments follow to help societies better cope with the ‘Great Shift’?
• Is there a role for industrial policies? What kind?