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Trade in Transition 2022



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**Sultan Ahmed
Bin Sulayem**

Group Chairman
and CEO, DP World

Foreword

by DP World

Supply chains never sleep and the events of the past year have seen them reconfigured around the world for almost everything we produce.

These uncertain times show that digital trade, speed of delivery and transparency for cargo owners are key to helping exporters and importers provide the goods we all need – on time and in the quantities we require.

We have seen many headlines recently about broken supply chains. Inflation, labour shortages and a lack of infrastructure development are all impacting the efficiency of cargo movement to regional and international markets.

While I remain mindful that this third year of covid-19, as well as intensifying geopolitical uncertainty, could continue to hinder the global economic recovery, I believe there are calmer shores ahead. I hold firm to my belief that global trade has lifted – and will continue to lift – large parts of the world out of poverty, creating better access to jobs, education and healthcare.

As a global logistics business, DP World will continue to help not only to rebuild, but to build back better, with the outlook for 2022 remaining encouraging, despite the dark clouds that commentators may see around us.

That is why it is so important to keep our fingers on the pulse of the logistics sector, so that supply-chain professionals and those in the frontline of these developments can view the key trends and issues at first hand, and see what is impacting the world of trade over time.

With our sponsorship of the global Trade in Transition survey, conducted by Economist Impact, we capture private-sector opinion on the issues facing international trade, which serves as an important barometer of sentiment.

I am proud to launch the second edition of *Trade in Transition*. We have uncovered a number of notable insights: 48% of senior executives are diversifying their supply-chain bases, and are changing their strategic outlook to help to ease inflationary pressures. “Just-in-time” delivery is being overtaken by “just-in-case” contingency planning, to deal with both expected and unexpected surges in demand and supply-chain shocks – with 27% of businesses now on average holding one- to three-month buffers of stock.

We are all reliant on key infrastructure along vital trade routes. To keep cargo flowing, we are working with governments and partners. Through infrastructure investment and improved customs procedures, we will keep striving to lower the cost of trade and enable the growth of business in whatever form.

I look forward to the rest of 2022 and beyond. Trade is indeed in a state of transition, but it always has been since the beginning of time – and it will continue to be for the foreseeable future.

**Sultan Ahmed Bin Sulayem,
Group Chairman and CEO**

DP World

About this research

Trade in Transition 2022 is an Economist Impact research programme, sponsored by DP World, which captures private-sector sentiment on international trade. In the inaugural programme, launched in 2021, we explored the impact of covid-19 on companies' trade operations. In the second year, we explore how companies are navigating the ups and downs of the global economic recovery against the backdrop of an ongoing pandemic.

This year's research is also based on a global survey of senior executives involved in their firms' day-to-day international trade decisions and transactions. The survey of 3,000 respondents was conducted between October and December 2021, capturing the perspectives of executives across six regions (North America, South America, Europe, Middle East, Africa and Asia-Pacific).

The survey findings were supplemented by in-depth interviews with trade experts and senior executives across regions and sectors. We would like to thank the following experts for their time and insight:

- **Lakshmanan Chidambaram**, president - Americas strategic verticals, Tech Mahindra
- **Deborah Elms**, executive director, Asian Trade Centre
- **Vanessa Erogbogbo**, chief - sustainable and inclusive value chains, International Trade Centre (ITC)
- **Simon Evenett**, professor, University of St Gallen and founder of Global Trade Alert
- **Jaime Granados**, division chief - trade and investment division, Inter-American Development Bank
- **Anderson Martins**, head of supply chain, Nestlé Philippines
- **Marc Mealy**, senior vice-president of policy, US-ASEAN Business Council
- **Mahender Nayak**, head of India, CIS, Middle East, Turkey and Africa, Takeda
- **Stephen Olson**, senior fellow, Hinrich Foundation
- **Tamara Oyarce**, national trade policy and research manager, Export Council of Australia
- **Sulaiman Pallak**, general manager - sales operations, General Motors Middle East
- **Ashish Thakkar**, board member, Mara Phones
- **Pakorn Thampimukvatana**, director - supply chain, Danone India and South-east Asia
- **Juliana Villegas**, vice president - exports, ProColombia
- **Michael White**, chief executive officer, GTD Solution (a division of A.P. Moller Maersk)

The report was produced by a team of researchers at Economist Impact, including:

- John Ferguson** – Project director
- Christopher Clague** – Project manager
- Melanie Noronha** – Project manager
- Ashish Niraula** – Analyst

Executive summary

The past two years have been turbulent for people, governments and companies across the world in ways that no one could have predicted. After the initial shock in 2020, demand has rebounded, companies have reconfigured and a few economies have even recovered. Indeed, a resurgence in demand had been expected after the sharp fall in 2020, but not at the pace observed in 2021. In October last year, the WTO revised its 2021 forecast for global trade growth to 10.8%, up from 8.0% estimated earlier in the year.¹ The Economist Intelligence Unit estimates that global trade growth grew by 9.9% year on year in 2021, following a 4.9% decline in 2020.

A closer look reveals an uneven recovery in different parts of the world and across different sectors. In this report, we examine the nuances in trade operations by region and sector, presenting corporate perspectives on engaging in international trade through the covid-19 storm.

The key findings of this report are:

Global demand recovered much faster than expected. Results from our survey show that 68% and 62% of respondents reported an expansion in exports and imports, respectively, compared with 42% and 48% in 2020. Growing demand was the top driver of export and import expansion in 2021, cited by 36% and 43% of respondents, respectively.

The surge in global demand, combined with supply shortages, is increasing inflationary pressures. New waves of covid-19 cases led to disruptions in business operations, as staff had to stay away from work to quarantine or recover, reducing output in some industries. In others, such as agricultural or microchip production, supply is relatively inelastic and producers cannot easily ramp up output to meet changes in demand. Together, these factors are resulting in supply shortages for critical raw materials from microchips to milk powder that are driving up prices. In response, companies have diversified their supplier bases, purchasing buffer inventories from suppliers that may be more expensive; some of this is being passed on to the consumer in the form of higher prices.

High transport costs are expected to be the top challenge in 2022. With sporadic lockdowns at ports, and increasing health and safety measures, there have been long delays at ports worldwide, creating a logistics challenge. In addition, with companies keen to maintain larger inventory buffers closer to their facilities (see below), warehouses have been in high demand. Thirty per cent of executives surveyed expect higher transport costs to be the top limitation for export growth in 2022, as planned expansion in port and logistics infrastructure will take months to complete.

¹ World Trade Organization, 'Global trade rebound beats expectations but marked by regional divergences', WTO press release, October 4th 2021. https://www.wto.org/english/news_e/pres21_e/pr889_e.htm

Just-in-time is dormant. One of the clearest trends during the pandemic has been the shift away from efficiency to resilience, from “just-in-time” to “just-in-case”. Only 14% of companies surveyed are using a “just-in-time” approach to supply-chain management. Instead, executives prefer to build inventory buffers. Twenty-seven per cent of executives, the highest share, stated that their companies are holding one-to-three-month buffers and 26% are holding two-to-four-week buffers. Given the redundancies this builds into a business, executives must seek efficiencies in other ways, such as using advanced technologies to streamline operations or implementing sustainability measures to reduce resource consumption.

Corporate supply-chain ESG initiatives focus on the ‘E’, strategies that are generating a clear return in the short to medium term.

The top two ESG strategies cited in our survey were reducing product waste (33%) and minimising use of resources, such as water and energy (31%). Working with suppliers that ensure fair labour practices and that are inclusive feature in the bottom half of the list of strategies. No wonder then, that executives expect a clear, positive financial return from their ESG initiatives: 47% of executives surveyed expect it within one to three years of implementation. Moreover, companies see ESG as a licence to operate, without which they will lose access to key markets and clients.

As companies reconfigure their supply chains, most are diversifying their supplier base regardless of location, rather than regionalising. Forty-eight per cent of respondents chose diversification regardless of location as their primary reconfiguration strategy, whereas only 12% of respondents were primarily regionalising and 5% were re-shoring. Meanwhile, 36% of respondents are choosing to work with fewer suppliers by reducing the number of tiers in their firms’ most critical supply chains.

Companies reconfigured their supply chains faster than expected and, overall, supply chains held up during the pandemic.

On average, executives reported that it took 7.9 months to reconfigure supply chains, compared with 8.5 months estimated in the 2020 survey. This is testament to the agility of private-sector companies as they navigated pandemic-related restrictions. Reconfiguration efforts were directed mainly towards improving sourcing of raw materials (24%), managing shipping lines and logistics (21%), and ensuring health and safety along the supply chain (20%). Surprisingly, only 7% of executives felt that introducing advanced technologies was the most critical part of their reconfiguration efforts.

But the use of advanced technologies will be an important source of efficiency in trade operations and can help to address non-tariff barriers.

Forty-three per cent of respondents cited new technologies as the top reason to be optimistic about international trade. Although over 60% of companies surveyed were already using digital platforms before 2021, last year companies increased their adoption of 5G technologies (36%), digital solutions to enable seamless movement through customs (34%) and advanced automation (33%). The highest share of respondents (22%) said that 3D printing was not applicable to their trade operations. However, there are some interesting examples of implementation in the industrial sector that have the potential to transform sourcing patterns in the coming years.

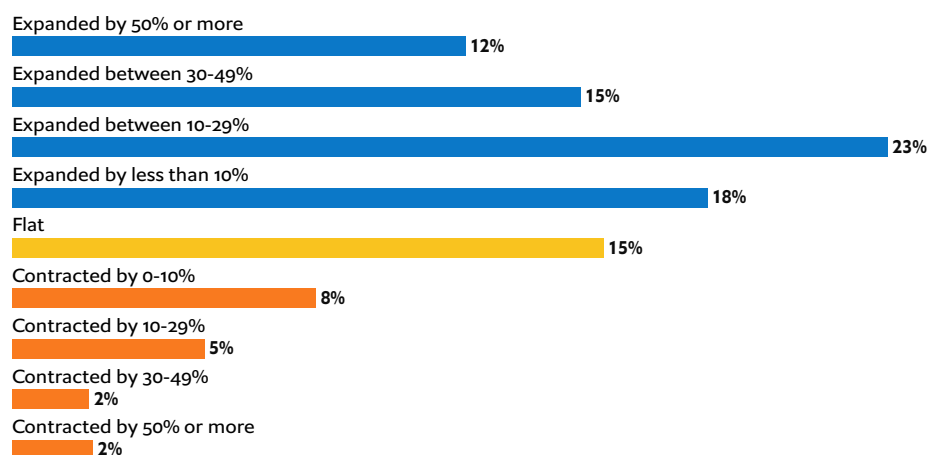
Executives surveyed are optimistic about trade growth in 2022. Seventy-four per cent of respondents expect exports to expand and 68% expect imports to expand this year. Although the survey was fielded prior to the Omicron surge, experts interviewed in January 2022 have said that although there may be some additional restrictions, these are likely to be temporary and are unlikely to impact the outlook for trade recovery for the year.

The global trade landscape: the great recovery?

After a disastrous 2020, global trade in goods appears to have experienced a robust recovery in 2021. According to figures from the UN Conference on Trade and Development (UNCTAD) released in early December 2021, goods trade was estimated to be 15% above the pre-pandemic level, although the report notes that the estimates were made prior to the spread of the Omicron variant.² This largely comports with the results of Economist Impact's

second annual Trade in Transition global survey of 3,000 executives, sponsored by DP World. Asked about their firms' international sales during the first three quarters of 2021, compared with the same period in 2020, more than 67% of respondents answered that sales had expanded, with just 17% reporting a contraction; 15% of respondents reported that sales had been flat. On average, companies covered by our survey grew exports by 16%.

Figure 1: Change in company-wide exports between 2020 and 2021 (Q1-Q3)



Source: Economist Impact

² United Nations Conference on Trade and Development, 'Global merchandise trade exceeds pre-COVID-19 level, but services recovery falls short', December 9th 2021. <https://unctad.org/news/global-merchandise-trade-exceeds-pre-covid-19-level-services-recovery-falls-short>

Three factors drove the recovery in exports, according to our survey. The primary driver was “growing demand in key markets”, cited by 36% of respondents as a cause of expansion in their international sales. This was followed closely by “expansion of operations into new markets”, at 35%, and “expansion of operations in existing markets”, at 25%. On the import side, 43% of executives also reported that growing demand and consequent increased production levels was a key driver behind the recovery, while 32% said – encouragingly, as this has long been a concern around the globe – that improved ports and logistics infrastructure was one of the main contributing factors.

By region, firms surveyed in South America reported the highest rate of growth in exports, at 25% on average. This again largely aligns with forecasts, including that of the Economic Commission for Latin America and the Caribbean, another UN agency, which also predicted a 25% rise in the value of exports, mainly – but not

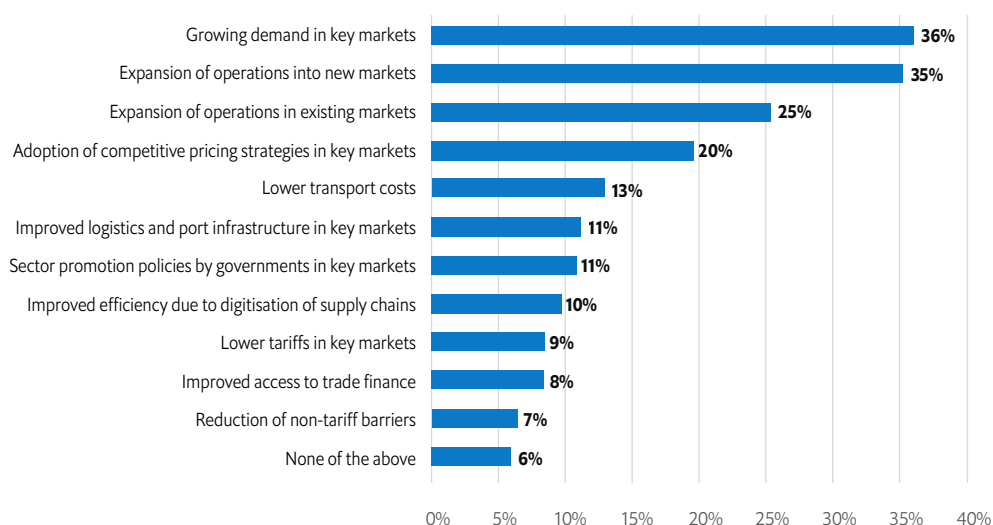
solely – because of the rise in commodities prices over the course of the year, particularly for energy and agricultural goods.³ At the other end of the spectrum, among firms surveyed in North America, the average export expansion was just 14%, a reflection in part of their ability to rely on domestic demand rather than overseas markets to drive sales. Firms in Africa and Asia-Pacific reported only slightly larger expansions on average, at 15%.

All the numbers for 2021 are nevertheless mostly encouraging. But that was to be expected, in the absence of a massive surge in covid-19 cases. “It was inevitable after the contraction in 2020,” says Simon Evenett, professor of international trade and economic development at the University of St Gallen in Switzerland and founder of Global Trade Alert, a monitor of global protectionism and commercial policy. “The question is how fast [it] would happen and how far it would go.”

The answer appears to be fairly fast and fairly far.

Figure 2: Growth drivers for exports and imports in 2021

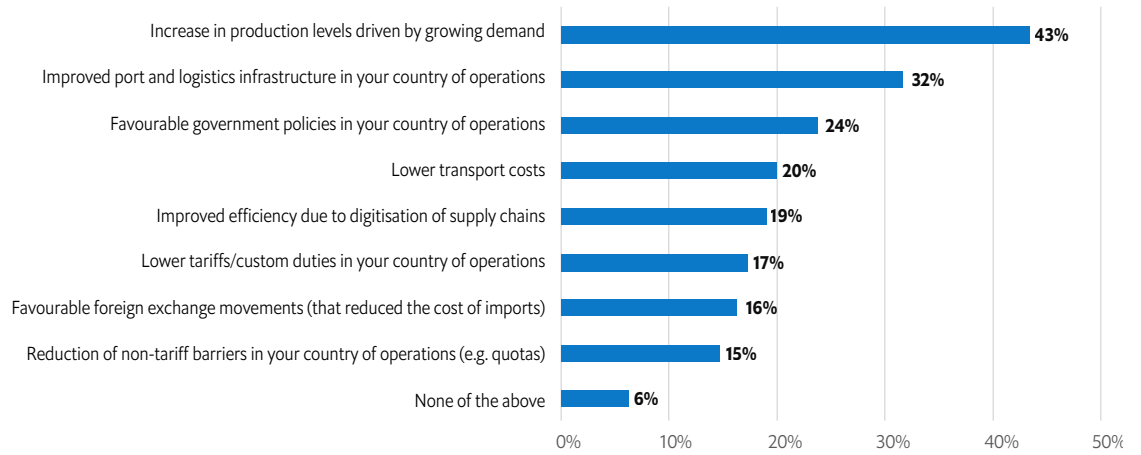
Drivers of export growth



Source: Economist Impact

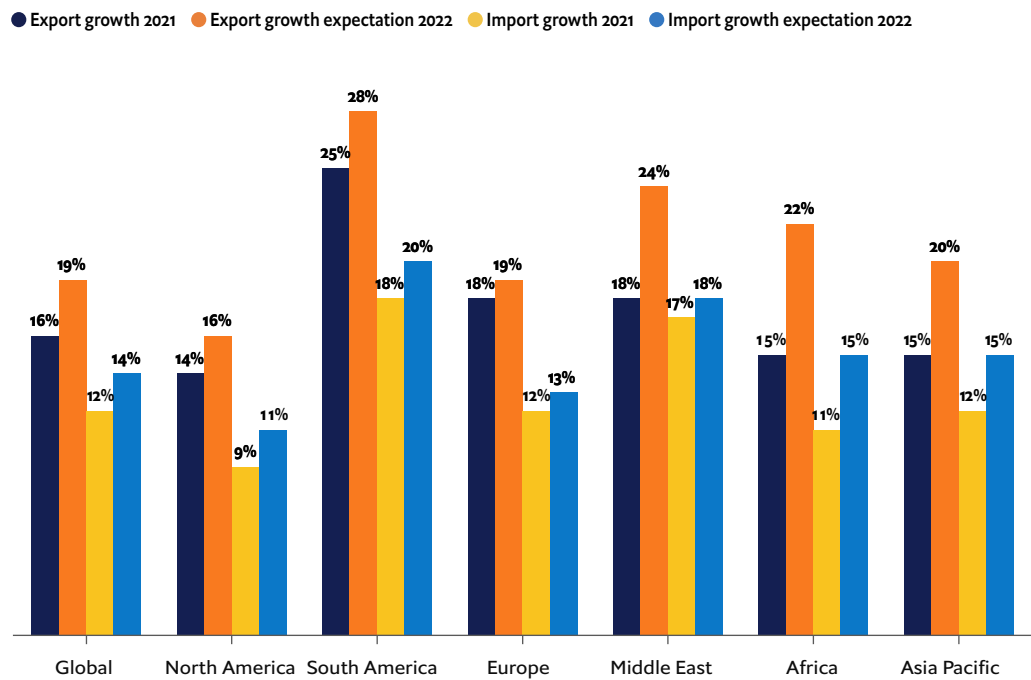
³ Economic Commission for Latin America and the Caribbean, ‘The region’s trade will increase significantly in 2021, but the recovery will be asymmetrical and heterogeneous in a context of uncertainty’, December 7th 2021. <https://www.cepal.org/en/pressreleases/regions-trade-will-increase-significantly-2021-recovery-will-be-asymmetrical-and>

Drivers of import growth



Source: Economist Impact

Figure 3: Average expansion in exports and imports, global and by region (2021 and expectations for 2022)



Source: Economist Impact

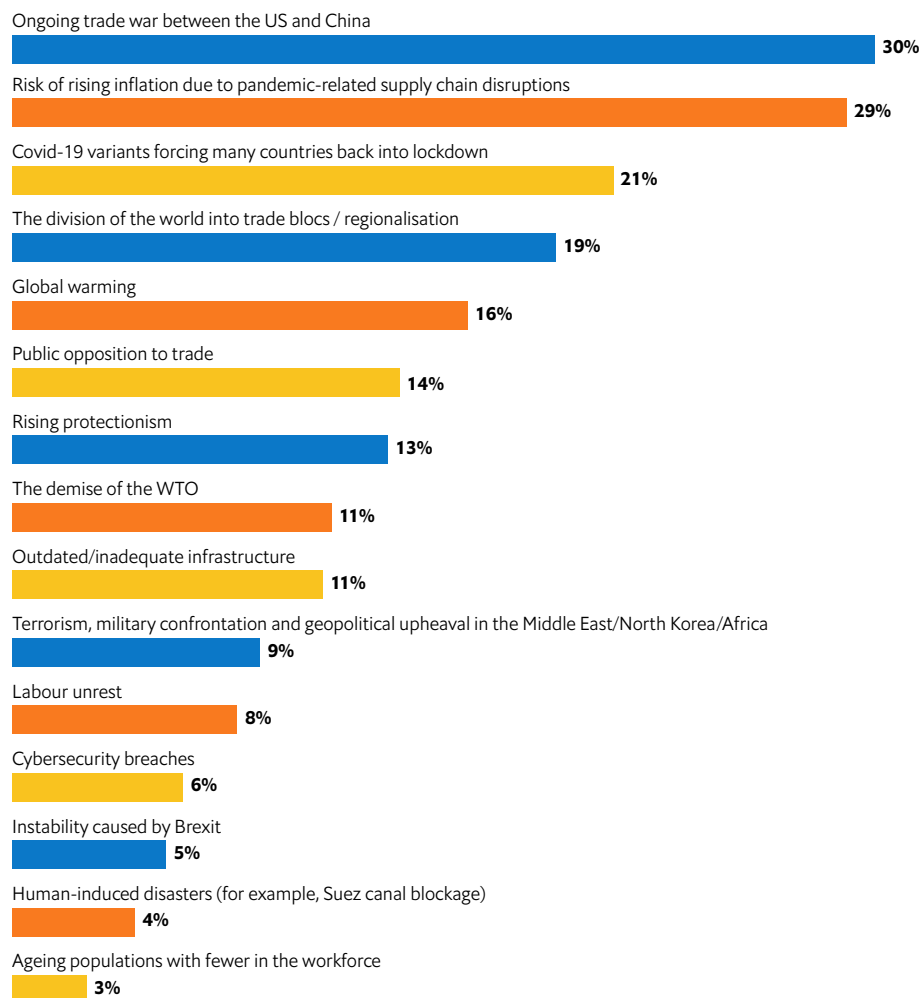
A rotation ahead

Will this recovery endure? Our survey results indicate widespread optimism among global executives that it will, although as with the UNCTAD report referenced above, the survey was conducted before the spread of the Omicron variant, which could – along with a host of other factors – inhibit output, the functioning of logistics and thus trade flows. Seventy-four per cent of respondents, however, expect exports to expand in 2022 and 68% expect the

same for imports (inputs). Both figures are higher than those for 2021. The overall global average expectation is for exports to expand by 19% over the coming year.

There is cause for caution, at least as far as trade in physical goods is concerned. For all the hand-wringing in the media and the myriad of consulting reports published, supply chains did continue to function during the peak of the pandemic and goods continued to flow around the globe. But the strong demand for goods is

Figure 4: Concerns with global trade over the next two years (2022-24)



Source: Economist Impact



likely to abate, says Ben Simpfordorfer, chief analyst at the Pacific Basin Economic Council, an advocacy organisation, and the author of *The New Silk Road*, which explored the emerging economic relations between the Middle East and a rising China. “We are going to get a rotation in consumer demand,” says Mr Simpfordorfer, “away from goods towards services as [consumers], rather than ordering products online at home, begin to move back out onto the streets, into bars, into restaurants and taking up other types of service activities.”

This would mark a resumption of one of the key trends in global trade already under way prior to the pandemic. Trade in services, although still smaller in value than trade in goods, was estimated to be experiencing much stronger growth and was forecast to continue to do so in the years ahead.⁴ The pandemic was certainly a massive disruption, but as most of the world returns to some semblance of normality, it is hard to doubt Mr Simpfordorfer’s assertion.

Risky business

More broadly, some very real problems have affected supply chains – and trade in general – over the past few years. There are persistent issues that could remain unresolved in the years ahead, or even permanently. Stephen Olson, a senior fellow at the Hinrich Foundation, a trade-focused non-profit organisation, and a former US trade negotiator, holds something akin to this view. “When I take a step back,” Mr Olson says, after considering the 2021 recovery in trade, “and I look more broadly at the trade landscape, I think things are going to get more contentious, more acrimonious. More challenging, not less challenging.”

The main source of acrimony – or reason for pessimism, as we phrased it in our survey – is

⁴ OECD Data, Trade in goods and services (indicator). doi: 10.1787/0fe445d9-en. <https://data.oecd.org/trade/trade-in-goods-and-services.htm#indicator-chart>

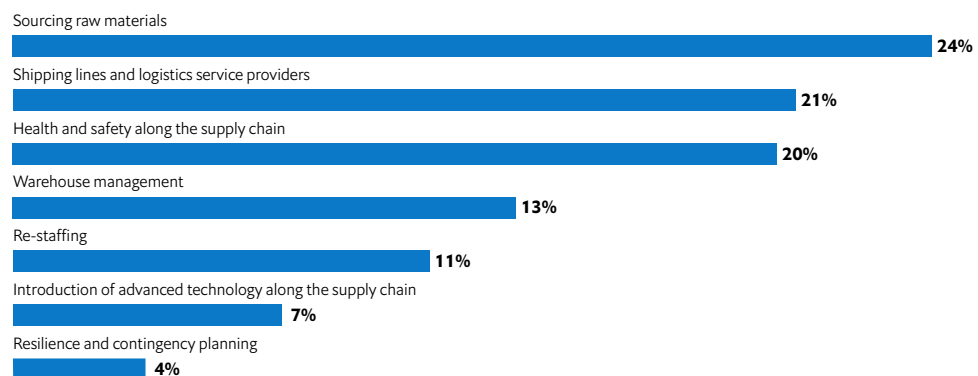
the US-China trade conflict. There was hope that the Biden administration might seek out an amicable resolution to the disputes that have long plagued the bilateral relationship, but trade is clearly not at the top of the administration's agenda and so little has changed from the Trump years; the tariffs and other barriers imposed during the Trump presidency largely remain in place and the prospects of them being lifted soon, if at all, appear dim.

That neglect, whether benign or malign, also applies to the WTO. It ranks in the middle of the list of concerns for the future of trade, and this should probably worry the executives who took part in the survey. There is a distinct lack of appreciation for the WTO's role in governing global trade in a reasonably fair manner over the past 25-plus years. Without a WTO or similar body, we may be entering into an era of what Mr Olson calls "the new realism", a more pragmatic, less doctrinaire approach to trade that is likely to be determined more by the rules of (geopolitical) power than the rule of law. That is going to prove a difficult environment for many firms in ways they have not yet imagined.

The risk of rising inflation as a result of the pandemic came second among concerns about the future of trade – just behind the US-China trade war – cited by 29% of respondents. The faster than expected surge in demand, combined with supply shortages, is creating an inflationary environment. Shortages in 2021 arose for two main reasons. First, new waves of covid-19 cases meant that employees were required to quarantine or recover, disrupting business operations, particularly at facilities that require staff on site. This led to lower levels of output, driving shortages. In other sectors, such as agriculture and microchips (see more details in "Sector deep dive", in the next chapter), supply tends to be relatively inelastic and so could not keep pace with the surge in demand.

Rising costs, which most firms absorbed during the pandemic to varying degrees, are now being passed on to consumers, most notably in the US. In January 2022 consumer prices rose by 7.5% from the year-earlier period, with food prices increasing by 7% and energy prices by 27%.⁵ Globally, the EIU forecasts higher inflation in 2022, at 6.2% overall, compared with 5.2% in 2021. Once supply adjusts during the course of this year, inflationary pressures will ease. The EIU forecasts global inflation of 4.3% in 2023.

Figure 5: Most crucial areas for supply-chain reconfiguration



Source: Economist Impact

⁵ U.S. Department of Labor, Bureau of Labor Statistics, Consumer price index – January 2022. <https://www.bls.gov/news.release/pdf/cpi.pdf>

The great reconfiguration

The complex trading environment and pandemic-related challenges are driving companies worldwide to reconfigure their supply chains. But even before the onset of covid, companies were thinking about making changes to their supply-chain networks. A mix of factors, including rising labour costs in China, protectionism sparked by the Trump administration’s trade policy, and countries pursuing more (and more ambitious) bilateral and “mega-regional” trade agreements were reported to be causing firms to reconfigure production networks to make them more robust and to take advantage of potential new opportunities. But this was harder than expected. Deborah Elms, founder and executive director of the Asian Trade Centre, a Singapore-based think-tank, maintains that there are a variety of explanations. “[Companies] hadn’t executed for a lot of reasons,” says Ms Elms. “It’s difficult, it’s complicated and it’s expensive. You can’t find the right staff and so on.”

However, pandemic-related supply-chain disruptions spurred increased action on this front.

In our September 2020 survey, 83% of executives surveyed around the world stated that their firms were in the process of reconfiguring their supply chains. Data from our survey in 2021 showed that, on average, executives reported that it took 7.9 months to reconfigure supply chains, compared with an estimate of 8.5 months estimated in the 2020 survey (although supply chains were stickier in some industries, such as food and agriculture, which rely heavily on some countries for certain ingredients).

Nevertheless, as of December 2021, 9% of respondents stated that their firms were still in the process of reconfiguring their supply chains. Ms Elms believes that if China, in particular, continues with its current, stringent policy to combat the spread of the Omicron variant, more firms are going to start executing their long-anticipated relocation strategies.

But what “reconfiguration” entails may vary from firm to firm. For those that have started to reconfigure their supply chains or have already done so, three considerations stand out. Chief among these was the sourcing of raw materials

Figure 6: Primary approach to supply-chain reconfiguration



Source: Economist Impact

during the pandemic, cited by 24% of survey respondents. This was followed in almost equal measure by shipping lines and logistics providers (which we take to mean the availability and cost of these services) and health and safety along the supply chain (in reference to the supply of labour in lockdowns and the ability of goods to move across certain borders).

As companies focus on sourcing raw materials, their primary approach has been to diversify their supplier base, regardless of their location, rather than regionalising (see Figure 6). Forty-eight per cent of respondents to our survey were diversifying their supplier base, compared with 12% of firms that were primarily regionalising and 5% that were re-shoring.

For companies in regions that are under-represented in global value chains, this is an opportunity to get involved. This includes countries ranging from Colombia and Ecuador in South America to Saudi Arabia in the Middle East and Vietnam in Asia. "It is definitely a very

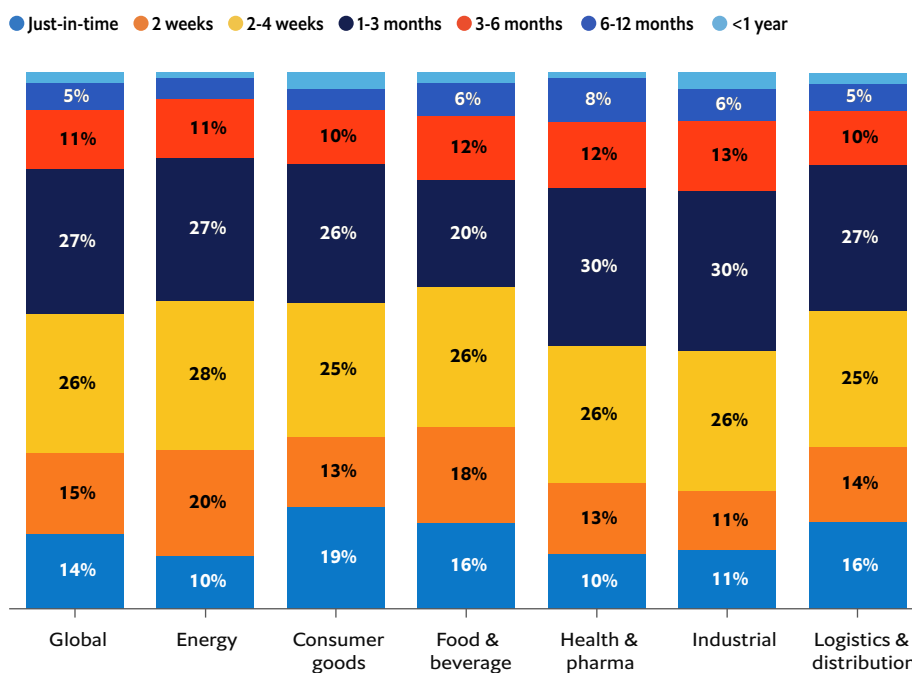
big opportunity for Colombia, that's why now we have a very strong strategy for 'friend-shoring'," says Juliana Villegas, vice president - exports at ProColombia, an export promotion agency in the country. "We have competitive advantages including cheaper freight by air, sea and land."

More broadly, the diversification strategy supports the shift from "just-in-time" to "just-in-case" that took place during the pandemic. Our survey results show that just 14% of companies globally are operating just-in-time (only respondents in Africa had a significantly higher share, at 22%). The highest share, 27%, are maintaining one- to three-month buffers, and 26% are maintaining two- to four-week buffers of inventory.

Trusting in tech

"Supply-chain management is about information management," says Pakorn Thampimukvatana, supply-chain director for India and South-east Asia at Danone, a multinational company focused on dairy, plant-based and nutrition

Figure 7: Building buffers in inventory



Source: Economist Impact

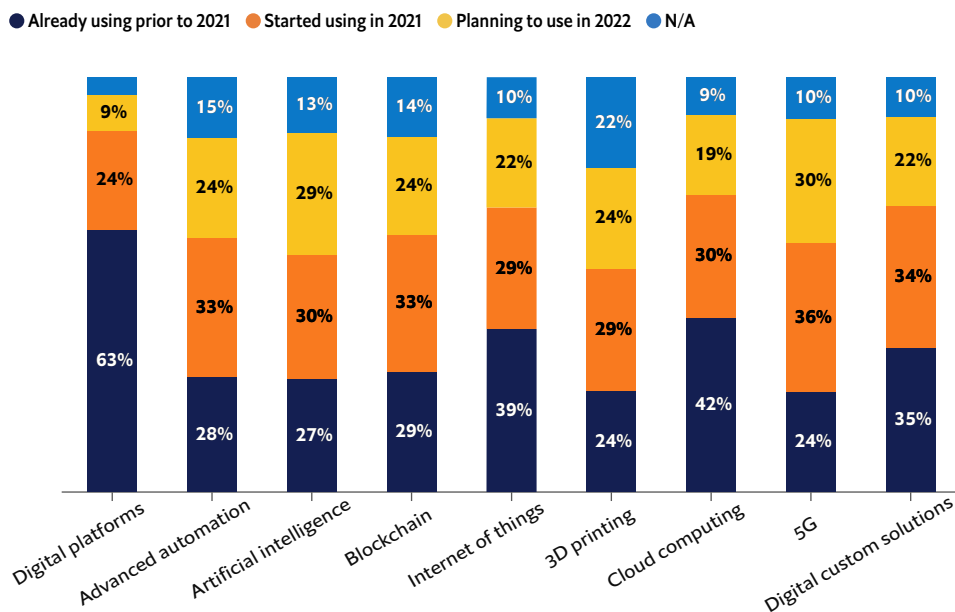
products. As companies navigate a risky trading environment, they are increasing their adoption of a suite of technologies, which together enable better information management and promise greater visibility, predictability and, perhaps most importantly, efficiency in trade operations. High inflationary pressures, some arising through the redundancies of carrying inventory buffers but also from shifting to more expensive suppliers in the short term, mean that companies must seek other sources of efficiency.

Examples abound of corporate success in using advanced technologies to identify areas for trimming waste and improving productivity (see the “Sector deep dive” section of this report). In terms of global trade, some of these technologies could help to reduce delays at ports arising from extensive customs procedures, thereby allowing traders to overcome some non-tariff barriers. In fact, new technologies improving the ability to monitor supply chains was the top reason for optimism about global trade over the next two years. “As we look to facilitate digitised trade, reducing the time that’s spent unnecessarily on manual tasks has a direct impact on reducing

truck waiting times and getting cargo cleared in advance, which helps to reduce queues,” says Michael White, chief executive officer of GTD Solution, a division of A.P. Moller Maersk which offers a blockchain-based digital platform for supply-chain management. “So we can actually help reduce waste in supply chains.”

Among the top technologies companies adopted in 2021, when supply challenges were most acute, were 5G for greater connectivity (36%), digital solutions for seamless movement through customs and border control (34%), and advanced automation and robotics (33%). But surprisingly, just 7% of respondents (the lowest share) cited the introduction of advanced technologies as the most critical part of the supply chain that needed reconfiguration during the pandemic; sourcing strategies and securing shipping lines required more urgent attention. This is not to say that digital transformation is not an important pillar; companies may just be building on technology integration strategies that were under way long before the pandemic started, which accelerated during the pandemic and are expected to continue long after the pandemic ends.

Figure 8: Advanced technology adoption for trade operations



Source: Economist Impact

ESG: licence to operate

“Companies that do not adopt [environmental, social and governance (ESG)] measures will be left on the sidelines,” says Vanessa Erogbogbo, chief of sustainable and inclusive value chains at the International Trade Centre (ITC). Ms Erogbogbo’s statement captures one of the biggest motivations for corporate action on sustainability, or ESG more broadly: access. With a slate of new regulations and corporate commitments to work with vendors that are sustainable or inclusive, companies that do not comply are at risk of losing access to key international clients and markets.

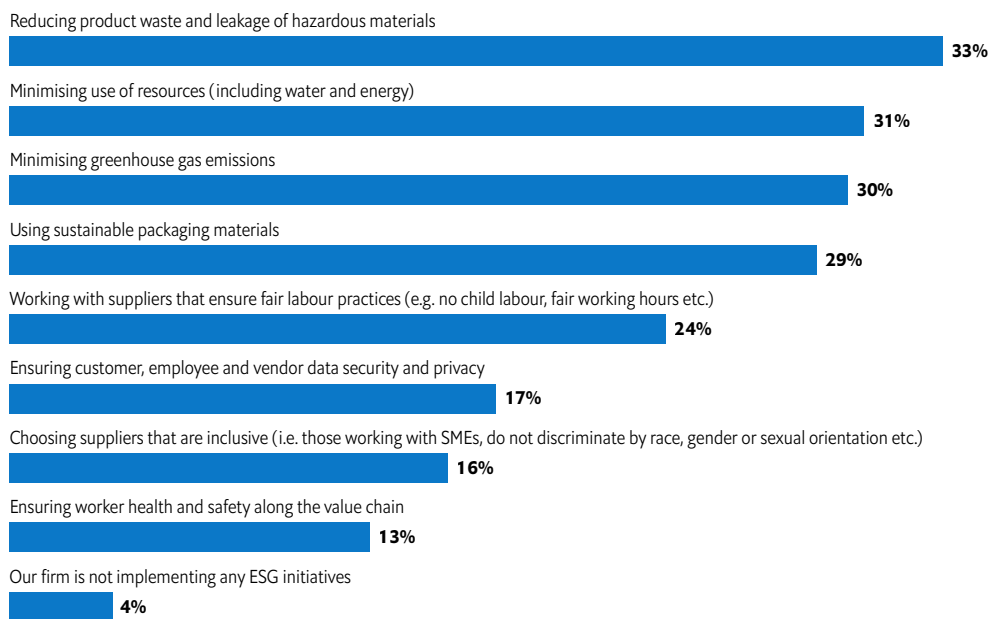
Indeed, companies perceive these measures as a route to improving profitability. According to results from our survey, 47% of executives around the world expect a clear, positive financial return within one to three years of implementing supply-chain-related ESG initiatives. Only 3% expect it to take more than ten years to generate a return and just under 5% are unsure

if these initiatives will ever generate a return. “Every nine out of ten ESG initiatives that we’ve implemented makes money, for us and for the customer,” says Lakshmanan Chidambaram, president - Americas at Tech Mahindra, an Indian multinational conglomerate operating across 90 countries, leveraging advanced technologies to enable end-to-end digital transformation for global customers. “And you can quantify the savings today.”

Companies have been focused on initiatives that will increase efficiency and drive profitability. The top two strategies cited in our survey were reducing product waste and minimising use of resources, such as water and energy (see Figure 9), both of which are likely to generate measurable cost savings within a short period.

But in the quest for access, companies may find certification challenging. “The cost can be prohibitive,” states Ms Erogbogbo. To comply with social, labour and environmental requirements

Figure 9: Priority strategies for environmental, social and governance initiatives



Source: Economist Impact

from different regulatory bodies, cover audit costs and monitor progress involves significant technical and financial resources. “You sometimes find that companies have adopted measures in practice, but are not yet certified,” she adds.

Harmonising requirements from the “alphabet soup” of ESG regulators will be an important step in simplifying the certification process, particularly for small and medium-sized enterprises that do not have sufficient resources to dedicate to this cumbersome task. Work is under way at multilateral organisations to identify areas where standards overlap and can be aligned towards common objectives. ITC’s standards map platform provides companies with comprehensive information and underpins their initiatives, including a pilot programme using pre-competitive information to consolidate audits and thus lower their cost for suppliers, says Ms Erogbogbo.

There is no doubt that regulation has been a driver of corporate action on environmental issues. Regulation on emissions standards and single-use plastic has been driving businesses’ environmental strategies. Regulation on making supply chains more inclusive, by considering “social” elements of a vendor’s profile such as gender diversity or fair

labour practices, is emerging but is not the primary focus. In our survey, executives prioritised strategies focused on environmental objectives rather than social ones (such as choosing suppliers that are inclusive or working with suppliers that ensure fair labour practices, see Figure 9). “At the moment, there just doesn’t seem to be the same attention to activism around inclusiveness and gender rights as there is around climate change,” says Ms Erogbogbo. There are steps being taken, though: at the WTO, an informal working group on trade and gender has been established, and through it WTO members are working towards a more gender-responsive multilateral trading system. But the need for acceleration is clear.

The problem, however, is that the WTO has long ceased to be a forum for advancing trade liberalisation, let alone achieving goals such as gender rights and climate change that it was not established to tackle in the first place and has not been given an updated mandate to address. Recent bilateral and regional trade agreements, such as RCEP and the CPTPP, have included some clauses, if not entire chapters, on these issues, but there are legitimate questions about adherence and enforceability among the signatories.

“Companies that do not adopt [environmental, social and governance (ESG)] measures will be left on the sidelines.”

Vanessa Erogbogbo, chief of sustainable and inclusive value chains, International Trade Centre (ITC)

Sector deep dive

Among the most noteworthy trends during the covid-19 pandemic was the uneven impact that restrictions had on different sectors. The automotive, entertainment and energy sectors struggled, mainly because of falling demand amid lockdowns. Conversely, technology and the retail food sector thrived – the former because of an increased reliance on digital technologies for remote working and contactless operations, and the latter as people stockpiled food to prepare for the worst. Needless to say, activity in the healthcare sector spiked, as people sought treatment for covid-19 and vaccine development was under way.

Two years on from the start of the pandemic, the uneven performance persists. Many sectors have had to reconfigure the way they operate, to adjust to pandemic-related restrictions. Some of these strategies are expected to remain in place long after the pandemic is over.

For trade operations, perhaps the most important change has been the shift from efficiency to resilience. “Just-in-time is dead,” says Anderson Martins, head of supply chain at Nestlé Philippines. “Inventories used to be considered

‘bad cholesterol’. But the reality today is that having inventories is a competitive advantage.” Some automotive firms are bringing microchip manufacturing in-house to reduce reliance on external suppliers amid a worldwide shortage. Others, such as food and beverage companies, are building buffers of essential ingredients closer to home.

But in their quest for resilience, companies across sectors are rethinking their approach to efficiency and growth. Companies are entering new markets and diversifying their product segments, to offset the fall in demand for other products in their portfolios. Executives from the food and beverage sector and the industrial sector prioritised expanding into new markets the most (40% in each sector, compared with just 28% of executives in energy and natural resources, and 30% in logistics and distribution).

As companies diversify their supplier bases, they face higher prices, which are forcing them to rethink how they drive efficiency in their organisations. Companies are optimising trade operations by relying on a suite of advanced

“Just-in-time is dead. Inventories used to be considered ‘bad cholesterol’. But the reality today is that having inventories is a competitive advantage.”

Anderson Martins, head of supply chain, Nestlé Philippines

technologies, from predictive analytics to blockchain. Executives in the energy sector reported using advanced technologies the most: 40% said they started using artificial intelligence in 2021, compared with just 26% in consumer goods, and 28% in logistics and distribution.

In this section, we explore some of the nuances in trade operations in three sectors – consumer goods (including food and beverages), health and pharmaceuticals, and industrial (with a focus on the automotive sector) – as well as their perspectives on tomorrow’s supply challenges and inflationary pressures.

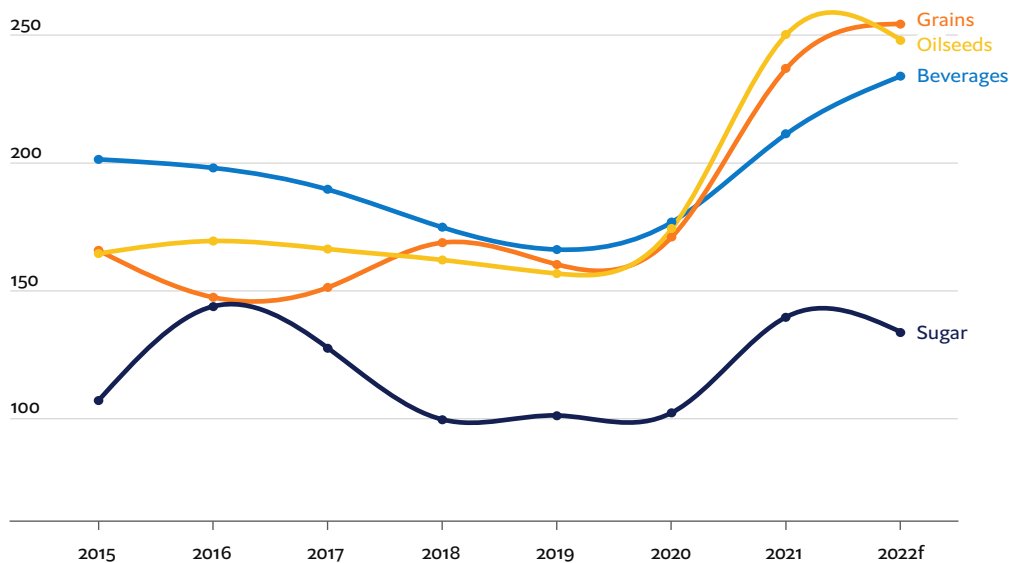
Balancing agility with efficiency: fast-moving consumer goods

While panic buying of food and other essential consumer goods defined the FMCG sector in 2020, the year 2021 was dominated by supply shortages. In our survey, the higher cost of transport is cited by consumer goods and retail executives as the main constraint on increasing

exports and imports in 2021. “Moving containers from the US to the Philippines now costs five or six times more,” explains Mr Martins. This is expected to persist in 2022. “I think that the first half [of the year] will continue to be very hard. Hopefully, in the second half, we should start to see more stability on the supply side and on the global shipping crisis.”

Higher freight costs have contributed to inflationary pressures in the sector. Executives we interviewed point to sharp increases in prices of a host of commodities, from grains to coffee (see Figure 10). Current shortages in the FMCG sector stem from two main factors. The first is disruptions to operations from absences as employees quarantine or recover from covid-19. The second has been a sharp recovery in demand. Growing demand was cited as the top reason for growth in exports and imports in 2021 by executives at consumer goods, food and retail firms, cited by 36% of respondents. Procter & Gamble (P&G), a multinational consumer goods company offering beauty, home care and baby

Figure 10: Commodity prices index, 2019-22



Source: EIU

products, reported a 7% year-on-year increase in revenue in 2021, following a 5% increase in 2020.

In response to supply shortages, consumer goods and retail companies have been building buffers in their inventory. “What we have on site in our plants remains more or less the same; the difference is that we have more inventories in transit, because it takes much longer to transport them,” explains Mr Martins.

As with firms across sectors, supply-chain reconfiguration efforts have been focused on sourcing raw materials, cited by 29% of executives in the sector. Executives have also preferred to diversify their supplier bases, regardless of location, rather than switching to suppliers closer to home, or regionalising. But they are keen to store inventories closer to home. Mr Thampimukvatana, of Danone, highlights the need to outsource warehousing because of insufficient space on site to store the desired levels of inventory.

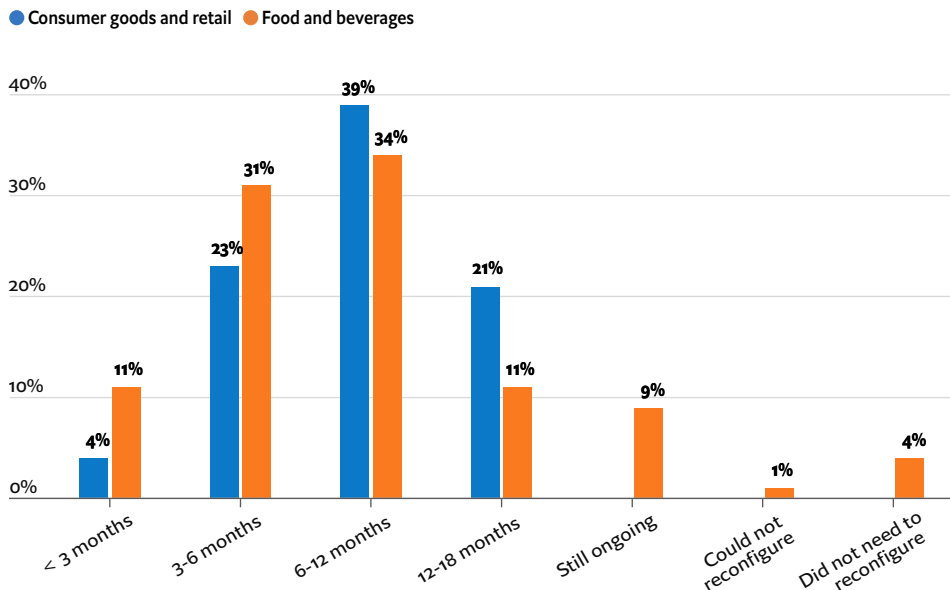
Although regionalising or near-shoring as a reconfiguration strategy was cited by just 13% of

executives in consumer goods, food and retail, it is a key consideration, constrained perhaps by the limited number of suppliers for certain ingredients. For dairy products, the US Europe and New Zealand are the three main markets for sourcing, explains Mr Thampimukvatana. “We may not [always find a supplier] in our region, but at least one with a transit time of less than two or three months, somewhere that is closer,” he says.

Overall, reconfiguring supply chains is a more difficult endeavour in the food and beverage sector in particular. Our survey shows that food and beverage companies took longer than expected to reconfigure their supply chains (on average, 7.4 months, compared with expectations of 6.7 months stated in our 2020 survey). This is understandable, given more stringent requirements for quality and testing, and also the limited number of suppliers for certain ingredients.

But supplier diversification comes at a cost. “We don’t necessarily get the same price across the different regions,” says Mr Thampimukvatana.

Figure 11: Time to reconfigure supply chains in the consumer goods and food sectors: expectation vs reality



Source: Economist Impact



Some consumer goods companies are passing the price increase on to their consumers. Even in a price-sensitive market like India, the Consumer Electronics and Appliances Manufacturers Association expected an increase of 5-7% between January and March this year.⁶ But companies that want to avoid passing on price increases to the consumer must search for other sources of efficiency.

P&G has been using price derivatives to manage the price risk on its principal ingredients, including grains (oats, wheat and corn), oils (principally soybean), dairy products, natural gas and diesel fuel.⁷ Beyond financial instruments, consumer goods are driving efficiencies through the increasing use of advanced technologies, not just in their supply chains but across the business. P&G has restructured its supply planning team: from 1,300 planners five years ago, it has consolidated the team into a single control tower, eliminating most of the manual work and requiring only 500 planners today.⁸ Using advanced data analytics, General Mills, a US-headquartered manufacturer of brands including Betty Crocker, Nature Valley and Cheerios, was able to identify and reduce over 130,000 under-utilised transportation miles.

In addition, the sector will continue to seek growth by expanding into new markets or product segments, cited by 40% of executives as the top driver of exports in 2022. Companies have also fast-tracked the launch of products in high demand. In 2021 Danone launched Protinex in Thailand to address active healthy ageing and launched AptaGrow, a health drink for children, in India. Unilever in China sped up the launch of Domestos bleach. Indeed, during the pandemic, consumer goods and retail firms have discovered a higher gear for agility in this fast-moving sector.

⁶ 'Consumer durables prices to go up 5-10% amid rising input costs', Business Standard, January 10th 2022. https://www.business-standard.com/article/economy-policy/consumer-durables-prices-to-go-up-5-10-amid-rising-input-costs-122010900375_1.html

⁷ Procter & Gamble, 2021 Annual Report, 2022. <https://us.pg.com/annualreport2021>

⁸ Steve Banker, 'Procter & Gamble embraces continuous planning and execution', Forbes, November 5th 2019. <https://www.forbes.com/sites/stevebanker/2019/11/05/procter--gamble-embraces-continuous-planning-and-execution>

No time to waste: health and pharma

Amid a surge in demand for their products and services, the healthcare and pharmaceutical industry shifted primarily to working closely with fewer suppliers to overcome supply and logistical challenges. In our survey, 44% of executives from the sector cited this as their primary approach to supply-chain reconfiguration during the pandemic, higher than the global average of 36%.

This is unsurprising, given the degree of concentration for some critical materials. It is estimated that China supplies 40% of the world's pharmaceutical ingredients.⁹ In addition, four suppliers in Asia account for 86% of the total export market for medical-use gloves, with Malaysia alone accounting for 54%.¹⁰ In such cases, the choice of alternative suppliers in other parts of the world is limited and working more closely with key suppliers to gain visibility on possible supply disruptions is the most viable option.

Where possible, however, for more generic products such as lab or other medical equipment, healthcare and pharmaceutical companies were diversifying their supplier base, by increasing the number of suppliers they were working with regardless of their location (cited by 43% of respondents in the sector). For instance, Roche, a Swiss multinational healthcare company, boosted its global supplier base in the midst of the pandemic, reducing the time taken by a typical process by about 50%.¹¹ Similarly, a Belgium-based biosupplier, Univercells Technologies, adopted an active supplier management approach, regularly reassessing the selection of potential suppliers for key components.¹² Relying on more than one supply source for highly critical items enabled the company to de-risk procurement. "Because we

have regional distribution hubs, we can minimise lead times in critical cases," says Mahender Nayak, head of India, CIS, Middle East, Turkey and Africa at Japanese pharmaceutical firm Takeda. "At the same time, when required, we can build higher inventories to support market needs."

Overall, the healthcare and pharmaceutical sector reconfigured its supply chain faster than expected, according to our survey results. On average, the sector's executives expected to take 8.6 months to reconfigure their supply chains in 2020, but managed to complete reconfiguration within 7.9 months on average, according to respondents in the 2021 survey. This may be because their reconfiguration efforts were significantly more focused on putting in place safeguards for health and hygiene along the supply chain, compared with finding alternative suppliers, which can be more time-consuming in an industry with such stringent guidelines for quality, testing and certification. Thirty-two per cent of respondents cited health and safety as the most critical part of their supply chain that needed reconfiguration during the pandemic, compared with just 20% globally.

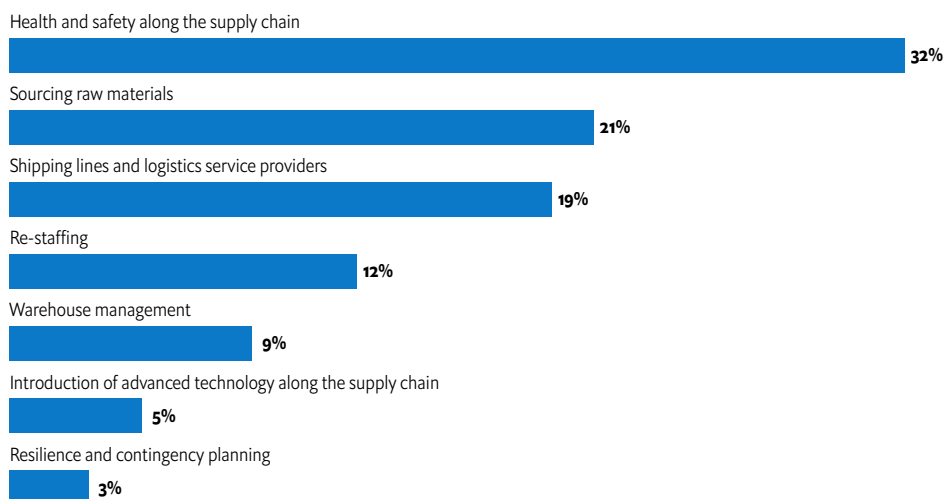
Since the initial surge and supply crunch on essentials from personal protective equipment to ventilators, shortages have reduced, and hospitals and clinics have managed to stockpile such items. The current trade-related challenges in the sector are on two main fronts: vaccine production and distribution, and combating illicit trade in counterfeits.

For vaccine production and distribution, as with other industries, the higher cost of transport is the top challenge, cited by about one-third of respondents. On imports in particular, non-tariff barriers were a greater concern, cited by 23% of healthcare and pharma

⁹ Medicines and Healthcare products Regulatory Agency, International Strategy 2017. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/609425/Item_10__2017-OB-05__International_Strategy.pdf

¹⁰ World Trade Organization, Trade in Medical Goods in the Context of Tackling COVID-19: Developments in the First Half of 2021. Information Note, December 14th 2021.

Figure 12: Most crucial areas for supply-chain reconfiguration in the healthcare and pharmaceutical sector



Source: Economist Impact

executives, compared with 18% of executives across all sectors. Some vaccine inputs (particularly ancillary products to vaccines, such as syringes) do not benefit from simplified transit procedures, which delays customs clearance.¹³ Imports of new equipment may also be subject to lengthy procedures.¹⁴ For distribution, the lack of cold-chain storage facilities, particularly in developing countries, is impeding vaccine exports. Facing similar challenges, most African countries missed its end-2021 vaccination rate target of 40%.¹⁵

Furthermore, illicit trade has been rife during the pandemic, particularly in regions where supply of medication and vaccines have fallen short. In August 2021 an investigation across Southern Africa supported by Interpol led to the seizure of US\$3.5m worth of illicit health products, including vaccines, face masks and covid-19 certificates.¹⁶ There are similar stories in India, Mexico and China, among others.¹⁷ Without adequate distribution channels in place, the opportunity for illicit trade in the sector is likely to remain.

¹¹ Dale Buss, 'How Roche Diagnostics' CEO tackled a Covid-crash supply chain overhaul', Chief Executive, September 21st 2021. <https://chiefexecutive.net/how-roche-diagnostics-ceo-tackled-a-covid-crash-supply-chain-overhaul/>

¹² Ayesha Siddiqui, 'Can supply chains turn pandemic-proof?', BioSpectrum, January 6th 2022. <https://www.biospectrumasia.com/opinion/29/19551/can-supply-chains-turn-pandemic-proof.html>

¹³ World Trade Organization, Indicative List of Trade-related Bottlenecks and Trade-facilitating Measures on Critical Products to Combat COVID-19. Information Note, October 8th 2021. https://www.wto.org/english/tratop_e/covid19_e/bottlenecks_update_oct21_e.pdf

¹⁴ World Trade Organization, Indicative List of Trade-related Bottlenecks and Trade-facilitating Measures on Critical Products to Combat COVID-19. Information Note, October 8th 2021. https://www.wto.org/english/tratop_e/covid19_e/bottlenecks_update_oct21_e.pdf

¹⁵ Peter Mwai, 'Covid-19 vaccinations: African countries miss WHO target', BBC News, December 31st 2021. <https://www.bbc.com/news/56100076>

¹⁶ Crackdown on illicit health and counterfeit products identifies 179 suspects in Southern Africa', Interpol, August 5th 2021. <https://www.interpol.int/en/News-and-Events/News/2021/Crackdown-on-illicit-health-and-counterfeit-products-identifies-179-suspects-in-Southern-Africa>

¹⁷ Kanchan Srivastava, 'Fake covid vaccines boost the black market for counterfeit medicines', British Medical Journal, Vol. 375, No. 8317, December 4th 2021. <https://www.bmj.com/content/375/bmj.n2754>

Despite these challenges, in 2022 executives in the healthcare and pharmaceutical sector expect growing demand to bolster exports and imports (as production levels increase). Improved port and logistics infrastructure (32%) and favourable government policies (28%) are expected to ease imports and support growth. But to truly deliver growth in the sector, efforts to address inefficiencies along the supply chain, particularly around customs clearance, must accelerate; especially during the pandemic, the global economic recovery depends on it.

Need for foresight: industrial sector

Nowhere has the demand shock been more apparent than in the industrial sector, which in our study covers automotive, defence, manufacturing¹⁸ and technology firms. Based on performance reported by executives we surveyed, the industrial sector saw some of the highest rates of export expansion in 2021 (19% on average, although 15% of executives surveyed stated that their exports had expanded by more than 50%).

The faster than expected recovery in demand has overwhelmed the industrial sector, driving shortages of critical raw materials. Supply shortages were among the top two limitations industrial executives faced in 2021, according to our survey, cited by nearly 30% of respondents. Uncertainty surrounding the pandemic, such as unpredictable lockdown policies or the emergence of new variants that would further disrupt operations, complicated business planning and is leaving firms unprepared for the demand surge. The most infamous has been the semiconductor/microchip shortage, which has crippled the automotive sector. When automotive demand collapsed early in the pandemic, chip

manufacturers redirected supplies to meet rising demand for laptops and other consumer electronics. These new segments proved to be more profitable for chip manufacturers, leaving the automotive industry with insufficient supplies when it restarted operations. At one point in January 2022, manufacturers in the US said they had only five days' worth of chip inventory left.¹⁹

In addition, "producing microchips takes two to four years," explains Sulaiman Pallak, general manager - sales operations at General Motors, a US automotive firm with a presence worldwide. "There are plants that are being set up by microchip manufacturers. However, [increasing] supply takes time."

In response, industrial executives have been reconfiguring supply chains, focusing extensively on sourcing raw materials. Thirty per cent of executives we surveyed in the sector stated that sourcing was the most critical part of their supply chain that needed reconfiguration during the pandemic, compared with 17% who cited shipping lines.

Furthermore, almost half (48%) of the industrial firms we surveyed are diversifying their supplier base, regardless of their location, rather than regionalising. Only 13% of respondents were regionalising (switching to suppliers closer to production) and a mere 4% re-shoring (shifting manufacturing to the firm's home market).

But while these may not be primary strategies, they are important considerations for firms. General Motors offers one example: in the US, it is bringing its microchip manufacturing in-house and is setting up joint ventures with other suppliers, with investments in Michigan and other US states. This is also aligned with US government

¹⁸ Manufacturing of industrial equipment, not consumer goods.

¹⁹ Clare Duffy, 'Some manufacturers have less than 5 days' supply of computer chips, Commerce Department warns', CNN Business, January 25th 2022. <https://edition.cnn.com/2022/01/25/tech/chip-shortage-commerce-department-warning/index.html>

strategy, including Mr Biden's infrastructure bill to develop more facilities in the country, says Mr Pallak. This will have long-term benefits as firms move towards developing electric vehicles and increase their demand for microchips.

Similar to other industries, there appears to be a "near-shoring" of inventories rather than sourcing. "We are seeing a big movement across the board, even in India, to build near-shore inventory," says Mr Chidambaram of Tech Mahindra. "That means warehouses near the place of delivery are growing leaps and bounds globally."

But executives in the industrial sector expect logistics challenges to persist: higher transport costs are the top limitation for exports in 2022, cited by 27% of respondents in the sector. "The infrastructure, the ports, are still in development or expansion stages and not developed enough to overcome some of the bottlenecks," says Mr Pallak. "Speaking to global shipping companies, we hear that container capacity will ease in 2024 and port capacities will increase in 2025."

To ensure sufficient foresight along the supply chain, industrial firms are investing heavily in technological upgrades, many of which started even before the pandemic. Before 2021, 67% of executives we surveyed in the industrial sector were already using digital platforms for supply-

chain management. They were also using digital solutions for customs clearance, advanced automation and 3D printing to a greater degree than other sectors.

Among the technologies the sector started to use most in 2021 was advanced automation (37%) as well as blockchain (35%) (see Figure 13). Tech Mahindra has developed a blockchain-based real-time and touchless customs clearing system for the UK, much needed after Brexit.²⁰

The top two technologies the sector plans to start using in 2022 are predictive analytics (based on AI), cited by 33% of respondents and 5G for greater connectivity (30%). General Motors is working on "track and trace" technology, a GPS-enabled system with an organisation called FreightVerify. "[The system] is geo-fenced, where we are linked with certain satellite and technology companies, to map where the vehicle is at any stage," explains Mr Pallak.

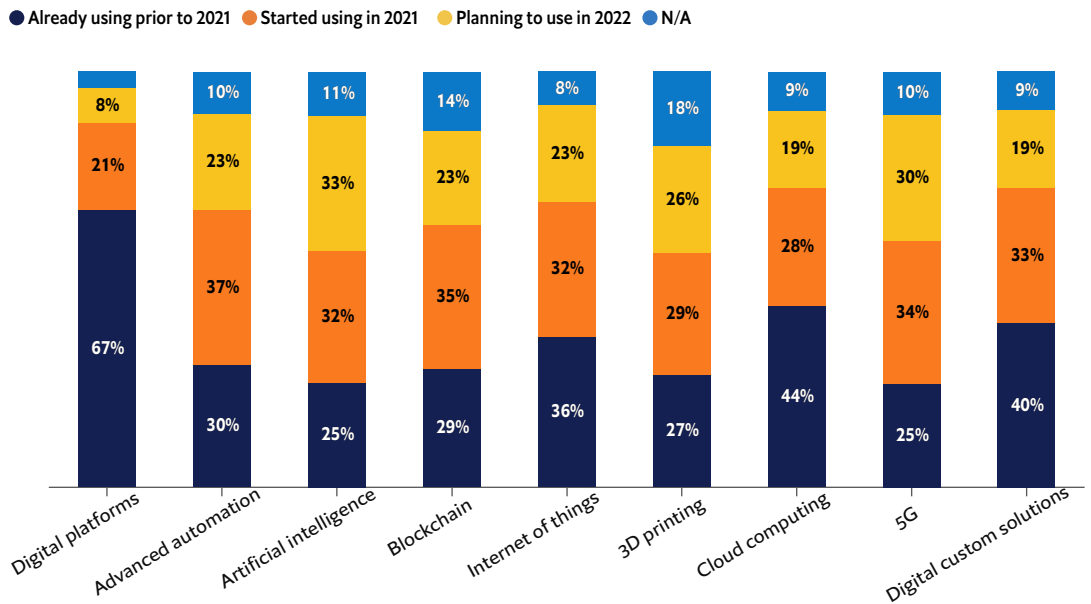
Trends in 3D printing will also define supply-chain management for industrial firms in the years to come. Fifty-six per cent of respondents in the industrial sector stated that they were already using or started using 3D printing in 2021 and an additional 26% plan to start using it in 2022. Mr Pallak explains that General Motors is already using the technology to build new car

“We are seeing a big movement across the board, even in India, to build near-shore inventory. That means warehouses near the place of delivery are growing leaps and bounds globally.”

Lakshmanan Chidambaram, president – Americas strategic verticals, Tech Mahindra

²⁰ Tech Mahindra, Brexit – Impact on Logistics Service Providers. Understanding Tech Mahindra's Brexit Toolkit, 2020. <https://files.techmahindra.com/static/img/pdf/brexit-pov.pdf>

Figure 13: Advanced technology adoption in the industrial sector



Source: Economist Impact

models, printing a range of parts including engines and transmissions. He expects it to be applied on a mass scale within two years. If achieved, this would be a game-changer for international trade, as companies' sourcing patterns would be completely transformed. At present, it is already having an impact on the speed of developing new models, Mr Pallak says. "[3D printing] allows us to condense the vehicle development time from five to two years, or even shorter, allowing us to bring products to market to the consumers faster."

Technology and data will be an integral component of the way industrial firms operate and manage their supply chains. German carmaker Volkswagen is a founding partner of Catena-X, an industry network which is developing uniform standards for the flow of data and information in the automotive value chain, from manufacturers to suppliers. Together, technology and data analytics have great potential to thrust the industrial sector forward by leaps and bounds, optimising trade operations in ways that were previously hard to conceive.

“[3D printing] allows us to condense the vehicle development time from five to two years, or even shorter, allowing us to bring products to market to the consumers faster.”

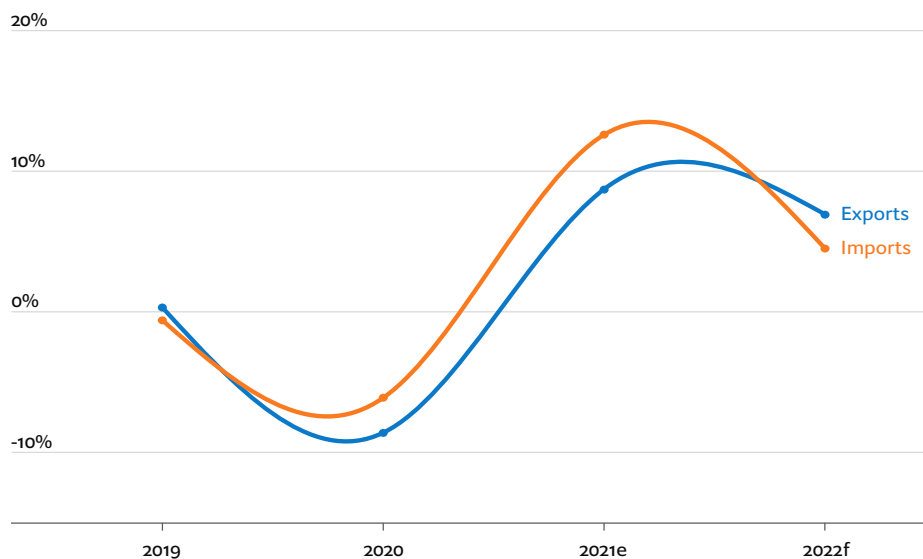
Sulaiman Pallak, general manager - sales operations, General Motors

Regional insights

North America

North American exports and imports posted a strong recovery in 2021, driven by a recovery in US trade. The value of US exports of oil nearly doubled in Q3 2021, compared with Q3 2020, in part because of the recovery in oil prices. But the region is mired in logistical challenges: bottlenecks at ports and the resulting spike in container prices made headlines. As a result, executives we surveyed are most concerned about the risk of rising inflation over the next two years.

Annual percentage change in merchandise trade volumes in North America²¹



Source: WTO

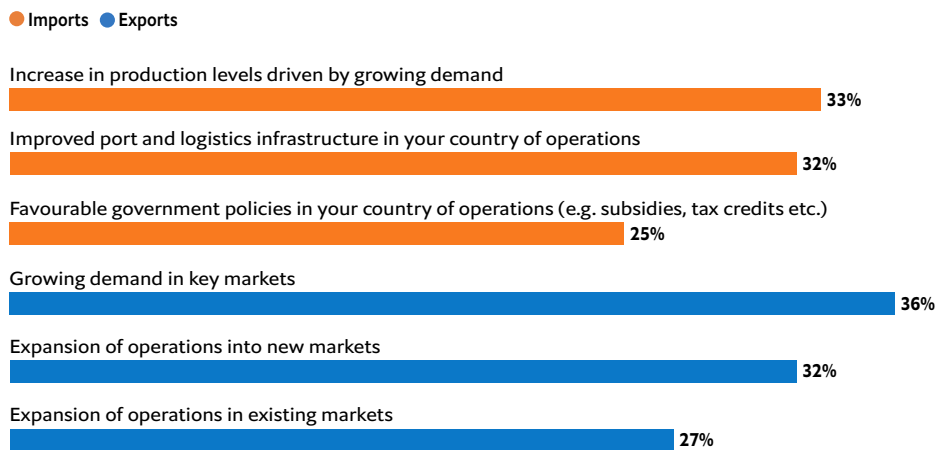
Within the North American region, growing demand in key markets and expansion of operations were the main drivers for exports. For 75% of executives in the region, other countries in North America were the primary destination for their exports, given strong trading ties between Mexico, the US and Canada under their free-trade agreement, USMCA.

²¹ World Trade Organization, 'Global trade rebound beats expectations but marked by regional divergences', WTO press release, October 4th 2021. https://www.wto.org/english/news_e/pres21_e/pr889_e.htm

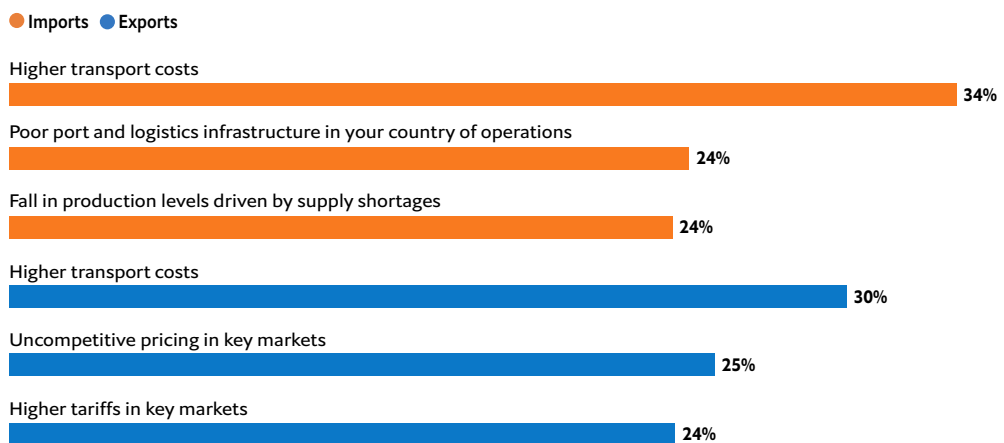
Although projects to rapidly expand port and logistics infrastructure are driving a degree of optimism, these benefits are likely to accrue only towards the end of 2022. Higher transport costs will therefore remain a top challenge as companies export their products or import raw

materials. Supply shortages will also continue to constrain production levels. The microchip shortage has attracted the most attention; at one point in January 2022, manufacturers in the US reported having only five days' worth of inventories remaining.²²

Top drivers for North American exports and imports in 2022



Top limitations for North American exports and imports in 2022



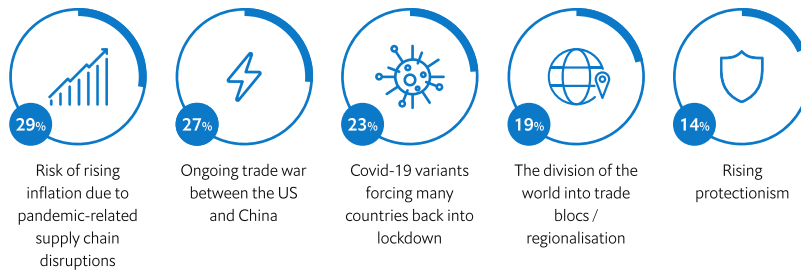
²² Clare Duffy, 'Some manufacturers have less than 5 days' supply of computer chips, Commerce Department warns', CNN Business, January 25th 2022. <https://edition.cnn.com/2022/01/25/tech/chip-shortage-commerce-department-warning/index.htm>

The concern around rising costs is reiterated in executives' top reasons for pessimism about global trade. In addition to prevailing inflationary pressures, geopolitical tensions between the US and China continue to worry executives in North America.

In response to ongoing disruptions, companies are reconfiguring their supply chains. Given the logistical challenges that are most acute in North

America, there has been a greater focus on securing more shipping lines and diversifying logistics service providers, whereas globally the top focus was sourcing raw materials. As with other parts of the world, North American executives are diversifying their supplier bases, regardless of their location and building buffers. Only 10% of executives stated they were operating just-in-time; 29% of executives stated they were maintaining at least two- to four-week buffers.

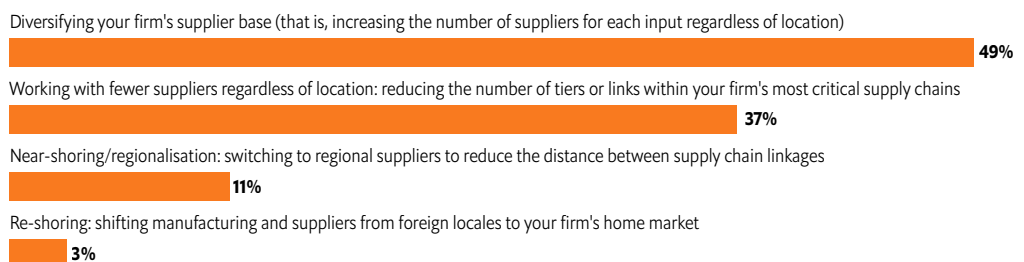
Top reasons for pessimism about global trade



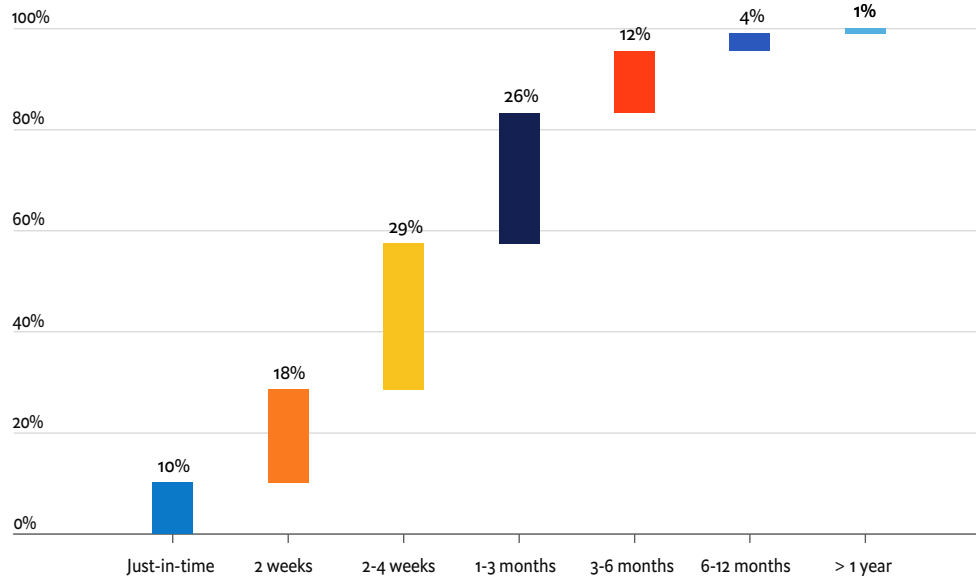
Top areas of supply chain that needed reconfiguration



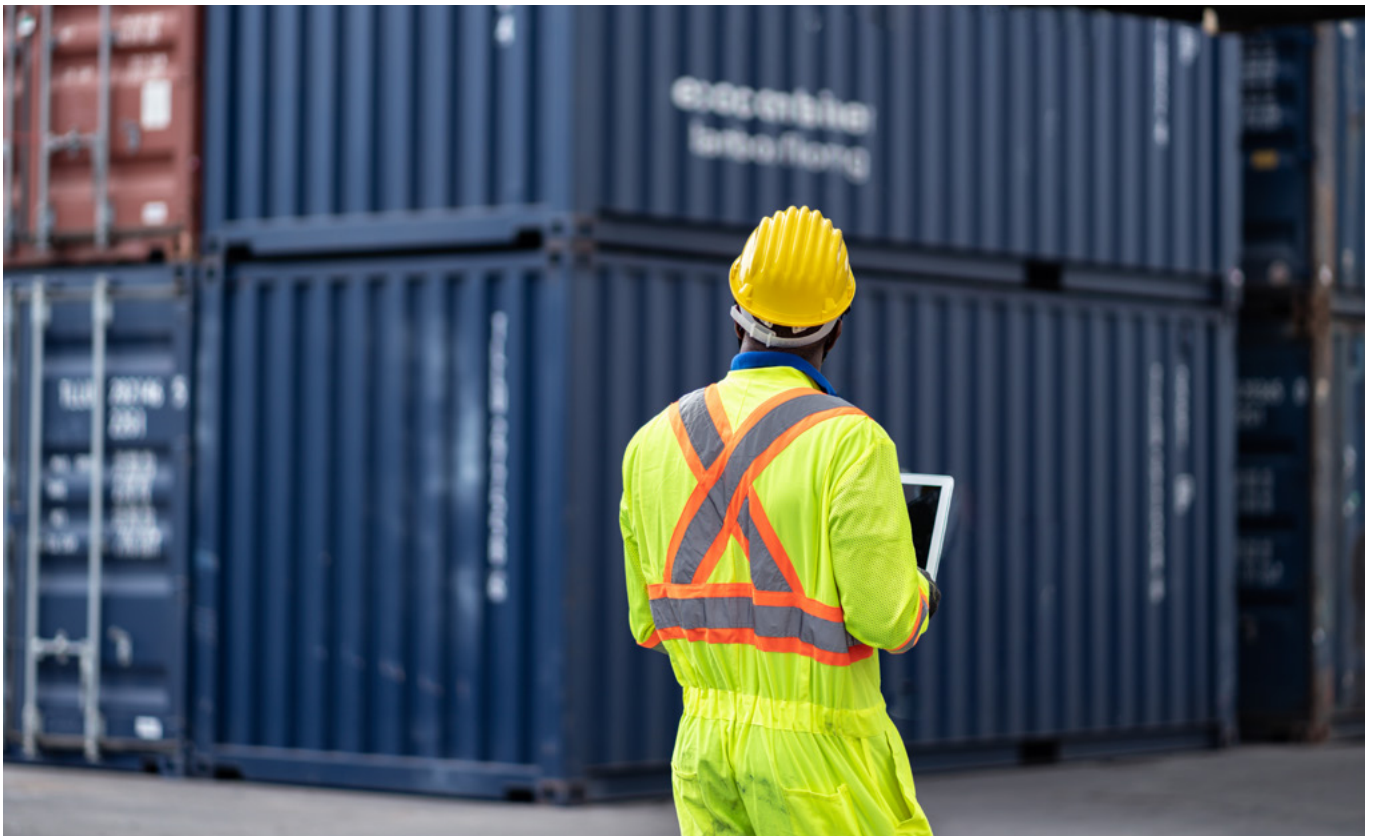
Approach to supply-chain reconfiguration



Building buffers in inventory



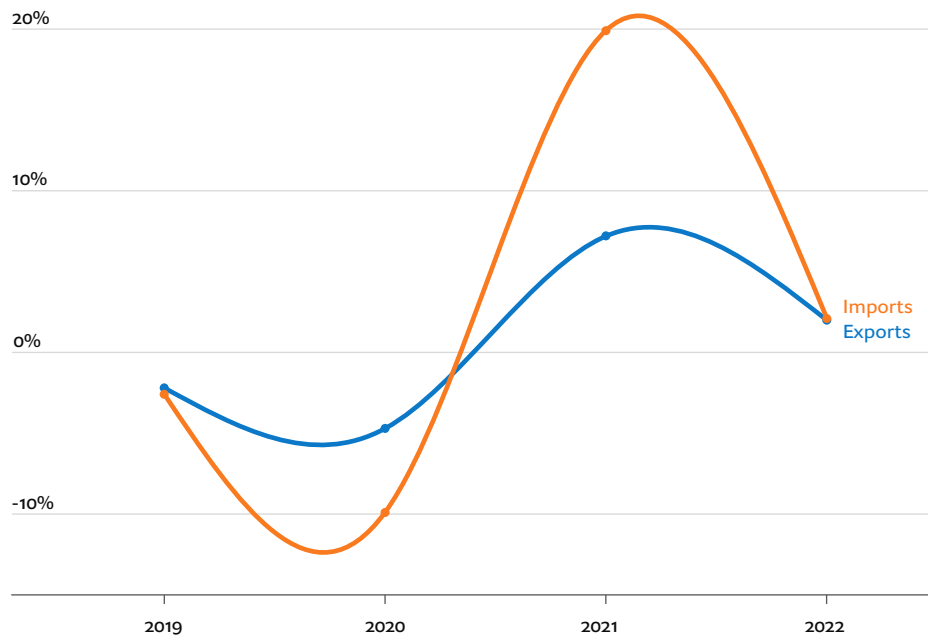
Sources: Economist Impact



South America

Trade volumes saw a sharp increase, particularly in imports, in 2021, after declining in 2020. Among the largest economies on the continent, Brazil and Argentina experienced a sharp increase in exports of soybeans. In terms of total value of exports, South American exporters saw a surge in part because of rising commodity prices in 2021, including for agricultural products and metals.²³ Inflationary pressures and geopolitical tensions between the US and China are top concerns for South American executives as they navigate the economic recovery in 2022.

Annual percentage change in merchandise trade volumes in South America



Source: WTO

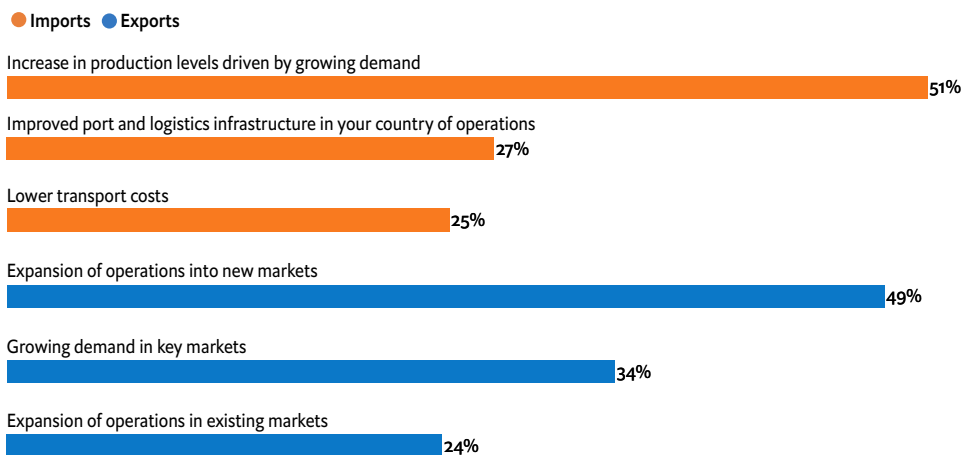
Amid a global economic recovery, there was growing demand for some of South America's key exports, including agricultural commodities from Brazil and Argentina and metals such as copper from Chile. Rising levels of production drove an increase in imports for over half of the respondents to our survey.

²³ World Bank, 'Soaring energy prices pose inflation risk as supply constraints persist', WB press release, October 21st 2021. <https://www.worldbank.org/en/news/press-release/2021/10/21/soaring-energy-prices-pose-inflation-risks-as-supply-constraints-persist>

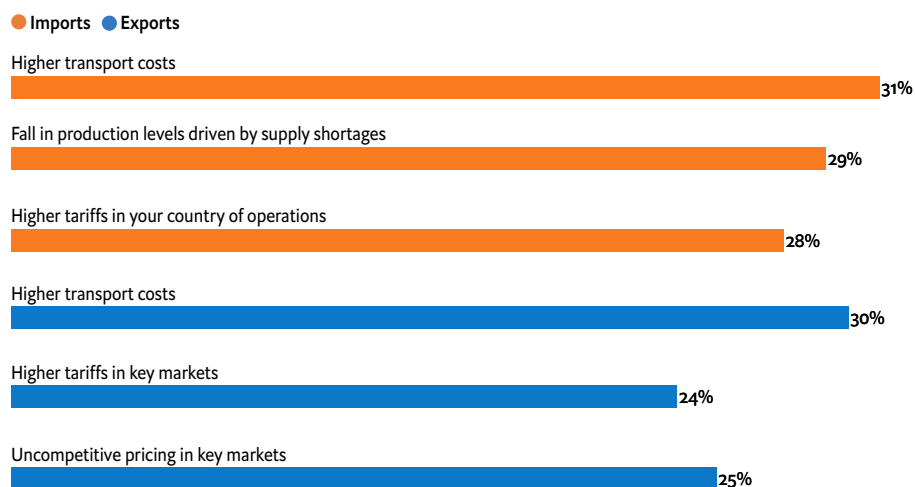
In addition to higher transport costs that traders worldwide are facing, there are distinct concerns over tariffs among South American executives surveyed, which apply to exports as well as imports. For instance, Argentina imposes a 31% export tax on soybean meal, with a consequent impact on Argentinian processing companies.²⁴ Private-sector executives point to the US-China trade war and the risk of inflation

as the top two reasons to be pessimistic about global trade. Executives in Brazil (36%) and Peru (33%) were more concerned about inflation (compared with 31% in South America and 29% globally). Executives in Chile were also significantly more concerned about new covid-19 variants driving fresh lockdown policies (cited by 32%, compared with 21% globally).

Top drivers for South American exports and imports in 2022



Top limitations for South American exports and imports in 2022

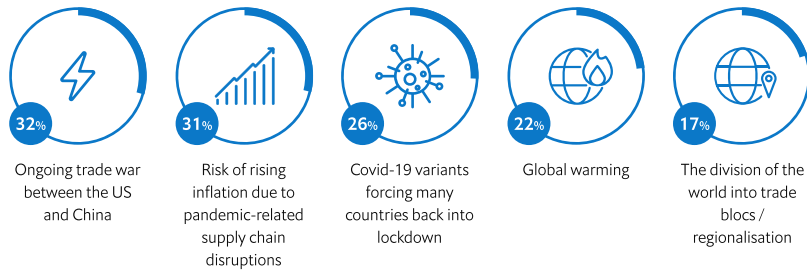


²⁴ 'Latin America soybean crush set to rise in 2022 despite headwinds', S&P Global, January 3rd 2022. <https://www.spglobal.com/platts/en/market-insights/latest-news/agriculture/010322-feature-latin-america-soybean-crush-set-to-rise-in-2022-despite-headwinds>

Securing shipping lines has been a particular challenge for South America as shipping companies have been keen to capitalise on East-West traffic, neglecting some routes in South America, according to experts interviewed.²⁵ Securing shipping lines has thus been among

the top areas of focus as South American firms have reconfigured their supply chains. In Brazil, re-staffing was more important: 20% of executives cited this as the most critical area for reconfiguration, compared with 11% globally.

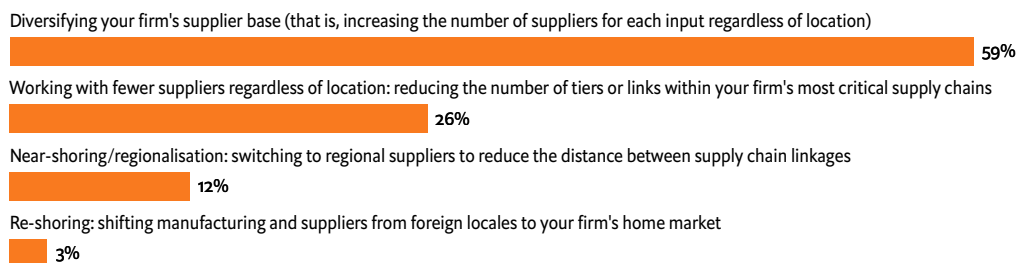
Top reasons for pessimism about global trade



Top areas of supply chain that needed reconfiguration

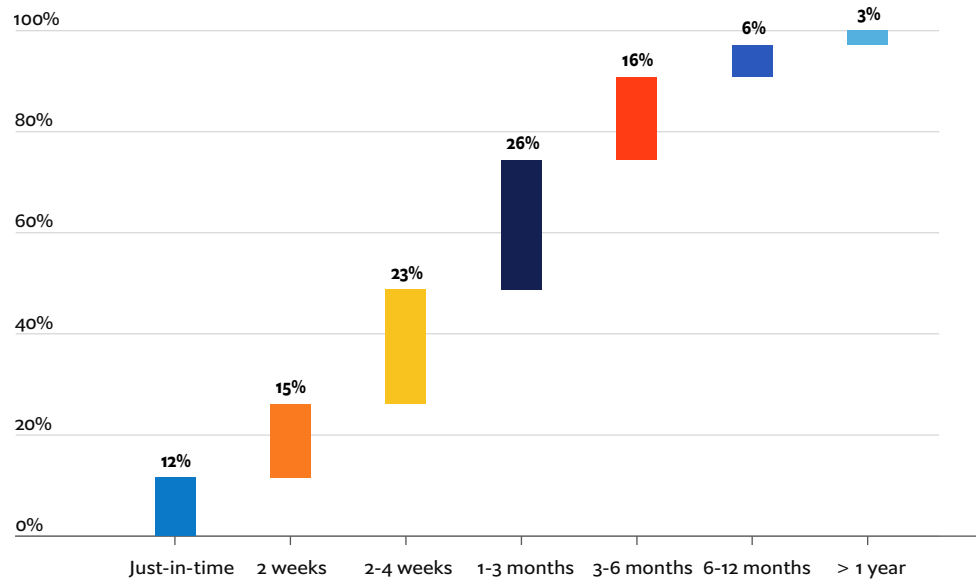


Approach to supply-chain reconfiguration



Source: WTO

²⁵ For example, Jaime Granados, IADB.

Building buffers in inventory

Sources: Economist Impact

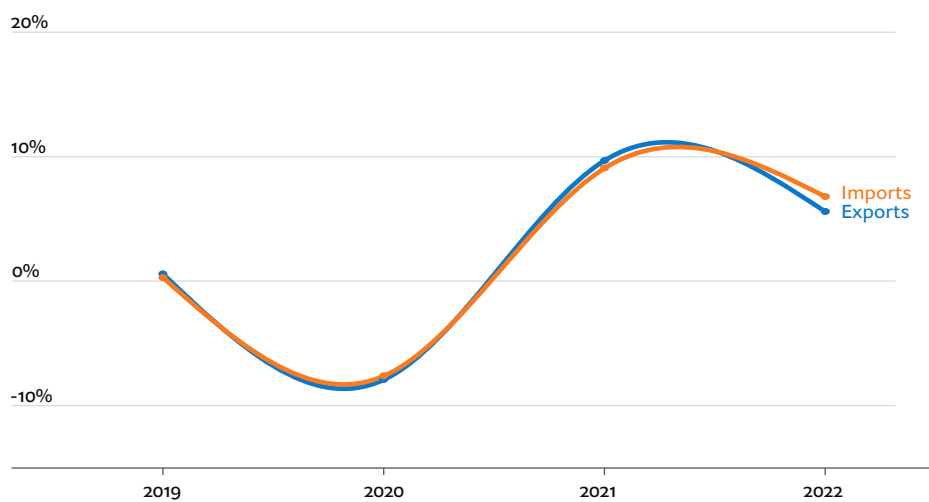
“We do not see a very strong retrenchment or an inward looking strategy, because [most] South American markets are relatively small. So, in essence, there’s a continuation towards taking advantage of the market worldwide. [South American companies] want to position themselves as suppliers to the region and to North America and Europe.”

Jaime Granados, division chief - trade and investment division,
Inter-American Development Bank

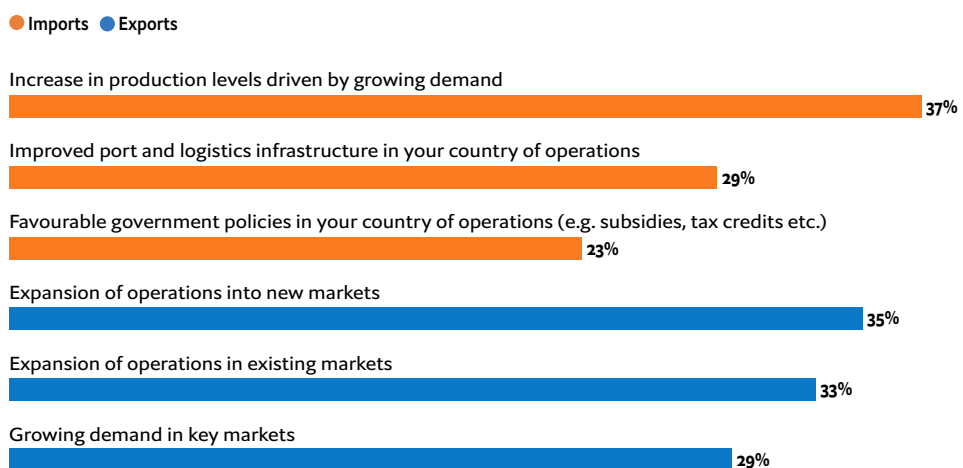
Europe

Demand growth from Europe was fairly anaemic, with real GDP in the euro area yet to return to pre-pandemic levels. Real GDP growth in the euro area was 5% in 2021 after a decline of 6.6% in 2020.²⁶ But trade volumes recovered, offsetting the declines in 2020 for exports and imports.

Annual percentage change in merchandise trade volumes in Europe



Top drivers for European exports and imports in 2022



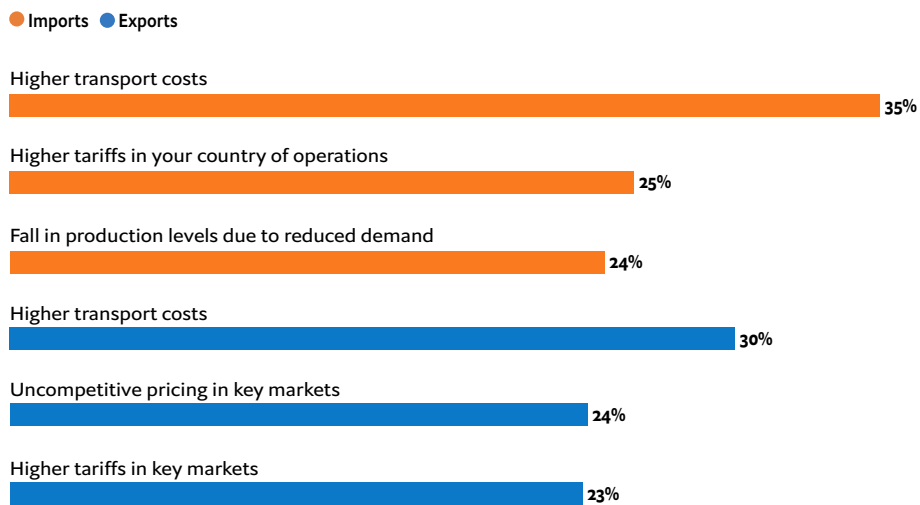
Higher transport costs for imports and exports were among the top limitations for further trade, according to respondents to our survey. Executives in the region focused heavily on finding alternative sources of raw materials, compared with other aspects of supply-chain reconfiguration.

²⁶ EIU.

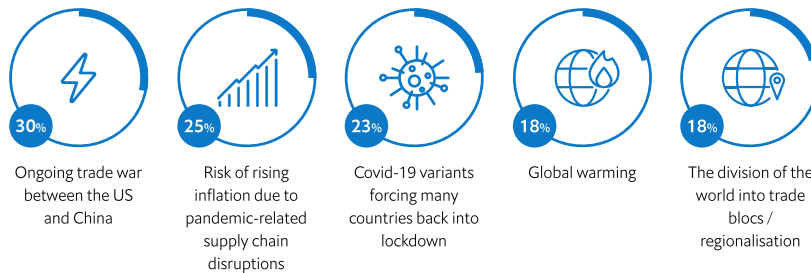
High transport costs, a challenge for executives worldwide, is expected to be the top limitation for expanding exports and imports in 2022 in Europe. Following Brexit, trade between the UK and the European Union will face significant barriers. Indeed, executives we surveyed in the UK are significantly more concerned about higher tariffs in the country as an impediment to expanding imports (36%, compared with 25% globally). Executives surveyed in Europe are less concerned about rising inflation and slightly more concerned about future lockdowns than their counterparts in other regions.

Supply-chain reconfiguration efforts in Europe have been far more focused on sourcing raw materials than other elements of the supply chain. Among the hardest hit have been automotive firms in Europe, owing to the microchip shortage, which resulted in a fall in vehicle exports in Germany and France in Q3 2021.²⁷ In the UK, however, the highest share of executives cited “shipping lines and logistics service providers” as the most critical aspect (31%, compared with 21% globally and 17% in Europe). In Belgium and the Netherlands, warehouse management was more important for executives (19%) than globally (13%).

Top limitations for European exports and imports in 2022

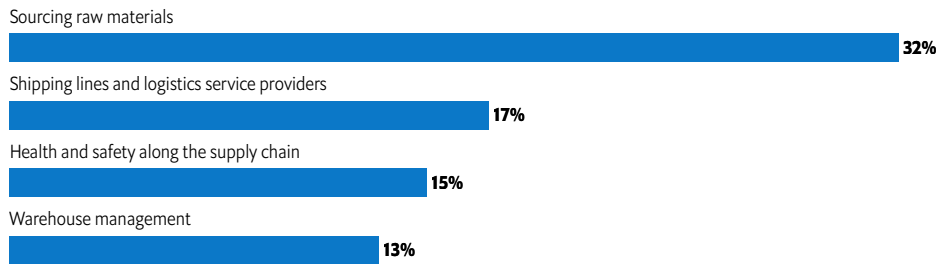


Top reasons for pessimism about global trade

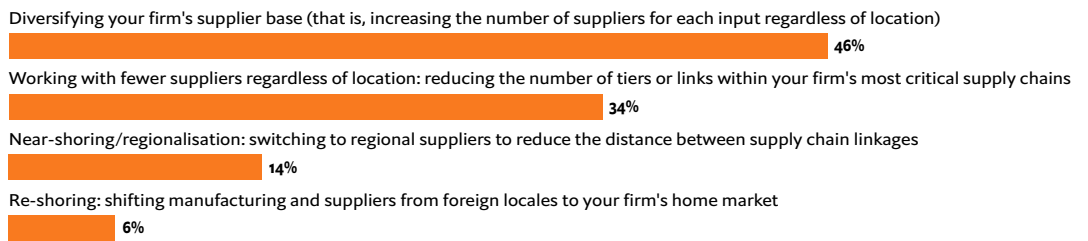


²⁷ International Trade Centre Trade Map

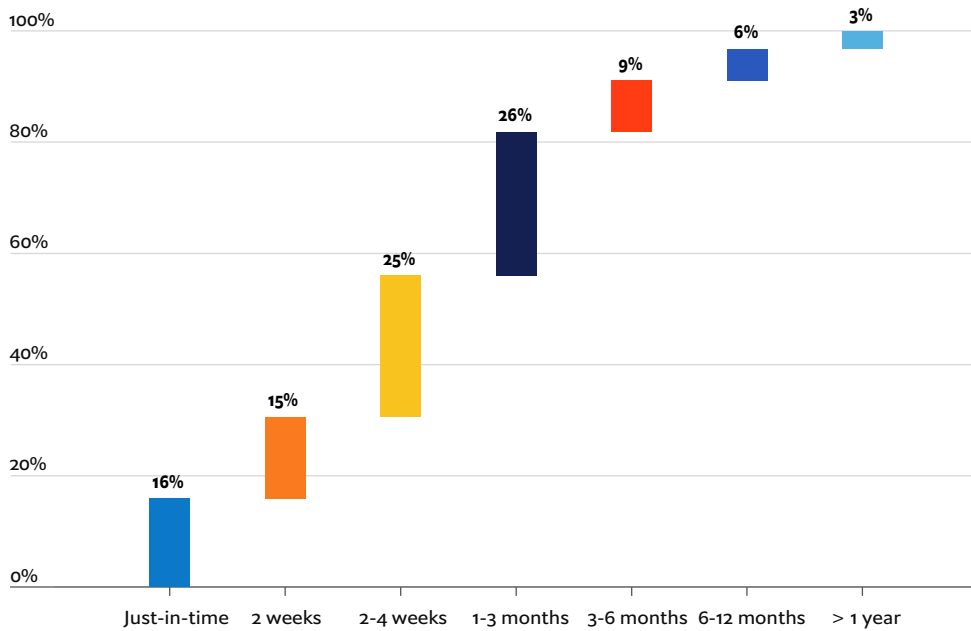
Top areas of supply chain that needed reconfiguration



Approach to supply-chain reconfiguration



Building buffers in inventory

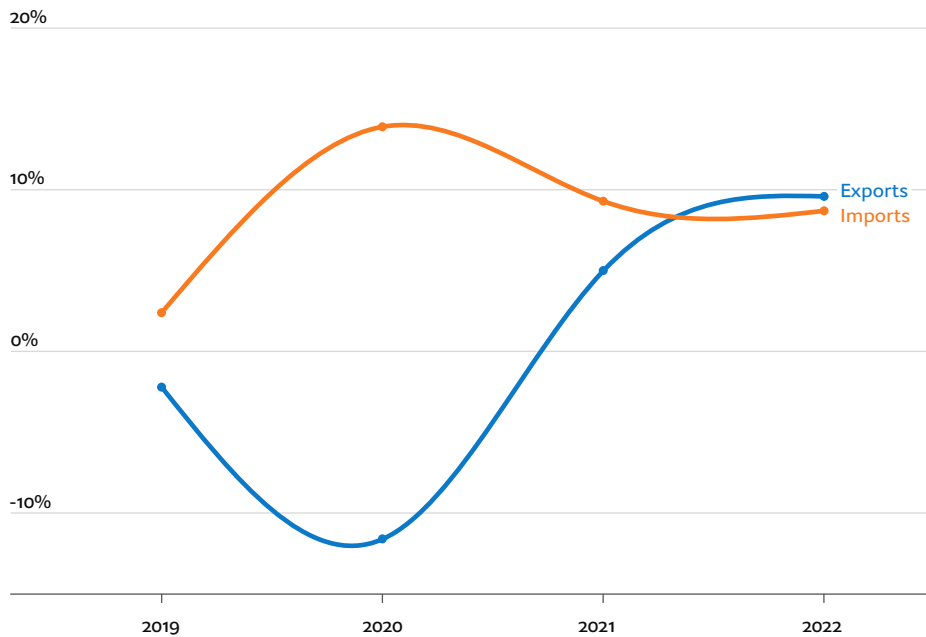


Sources: Economist Impact

Middle East

Given the rapid vaccine rollouts in some countries in the region, particularly Gulf states such as the UAE, governments have kept their economies relatively open despite threats posed by new covid-19 variants. The regional averages in export and import data mask the variances between the Middle Eastern countries, particularly in those where the response to combat the pandemic has been slower. In our survey of the Middle East, which covers the UAE and Saudi Arabia, growing demand worldwide spurred export growth and drove up production levels, particularly for the region’s most important export: oil and gas.

Annual percentage change in merchandise trade volumes in the Middle East

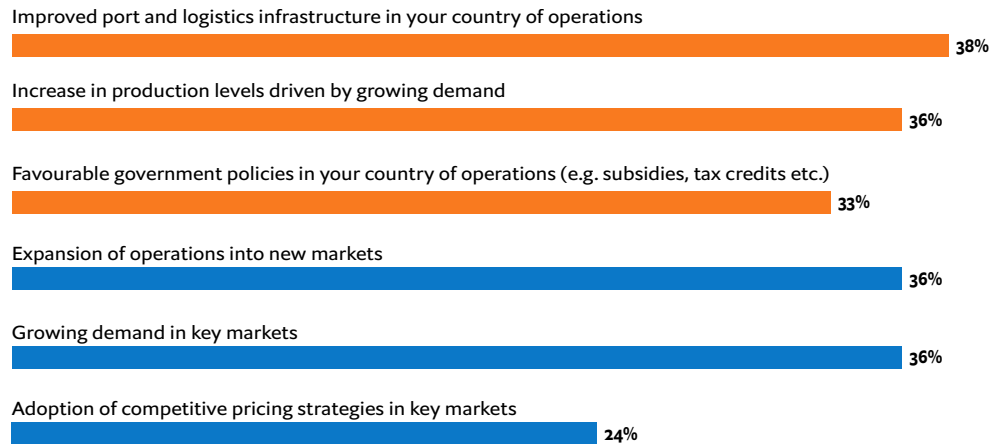


Source: WTO

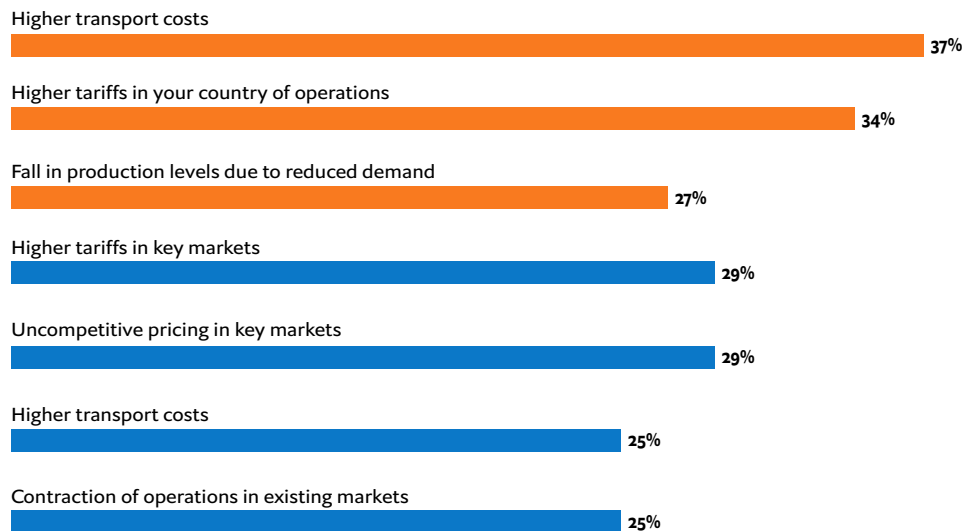
Although transport costs were less of a challenge for exports, the UAE and Saudi Arabia faced higher transport costs for imports. It is likely that the UAE and Saudi Arabia possess the necessary fleets to move out oil and gas products, whereas they are more reliant on international shipping lines to bring in key imports. This also emphasises the region’s reliance on imports of essentials such as agricultural products, prices of which sharply increased in 2021 amid supply disruptions. Executives in the region are most concerned about inflationary pressures over the next couple of years, perhaps in relation to the host of products that will need to be imported to support the local economy, from food to metals. Executives in the UAE are most concerned about the risk of inflation (29%) as well as, surprisingly, global warming (25%) and public opposition to trade (25%).

Top drivers for Middle East exports and imports in 2022

● Imports ● Exports

*Top limitations for Middle Eastern exports and imports in 2022*

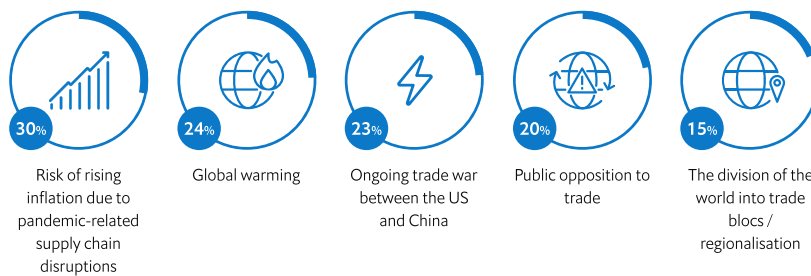
● Imports ● Exports



In response to supply disruptions, firms in the region have been diversifying their supplier bases, regardless of location, rather than regionalising, probably because there are fewer options for critical raw materials within the

broader Middle East region, given the smaller manufacturing base. The location of the Gulf countries, between the East and West, may provide more opportunity for supplier diversification.

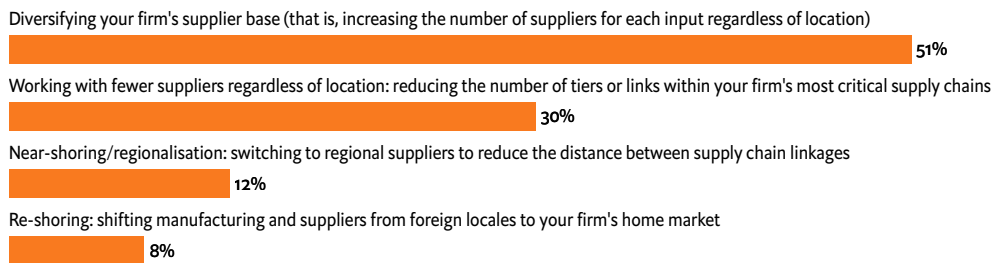
Top reasons for pessimism about global trade



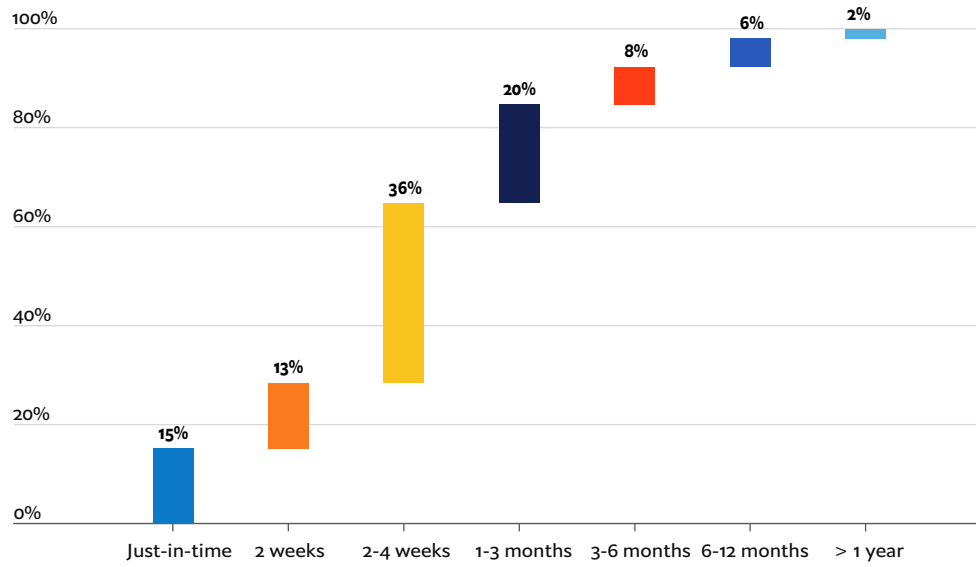
Top areas of supply chain that needed reconfiguration



Approach to supply-chain reconfiguration



Building buffers in inventory



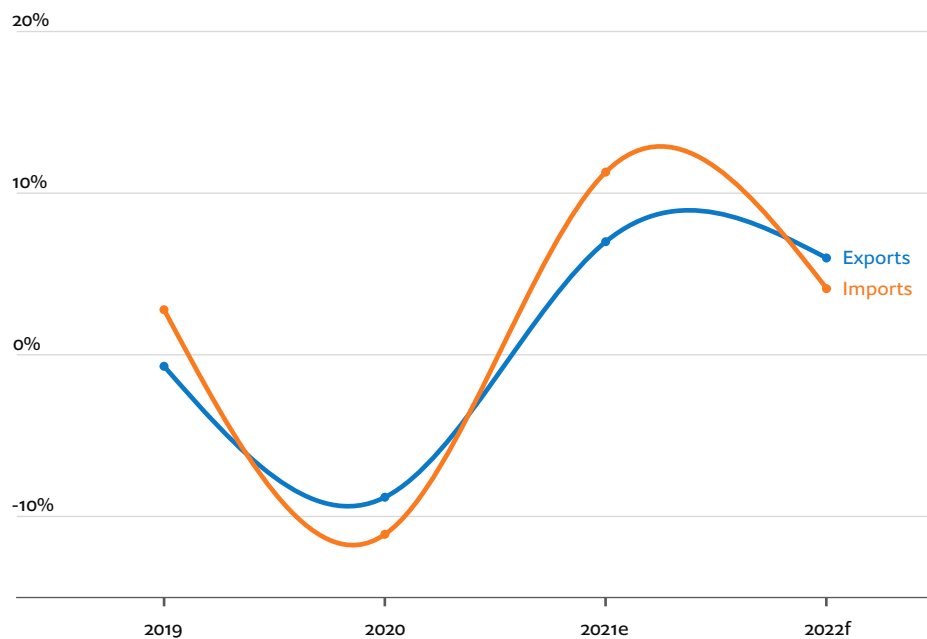
Sources: Economist Impact



Africa

The recovery in trade in Africa has been supported by rising commodity prices of energy, metals and food, which are among the continent's key exports. As companies – from tea to textile suppliers – in some countries struggled to secure shipping lines for exports, they have expanded into new regional markets.²⁸ This is expected to continue to be a driver of export growth in 2022, according to executives surveyed. Furthermore, the African Continental Free Trade Area (AfCFTA), which came into effect in January 2021, is expected to boost intra-African trade.

Annual percentage change in merchandise trade volumes in Africa



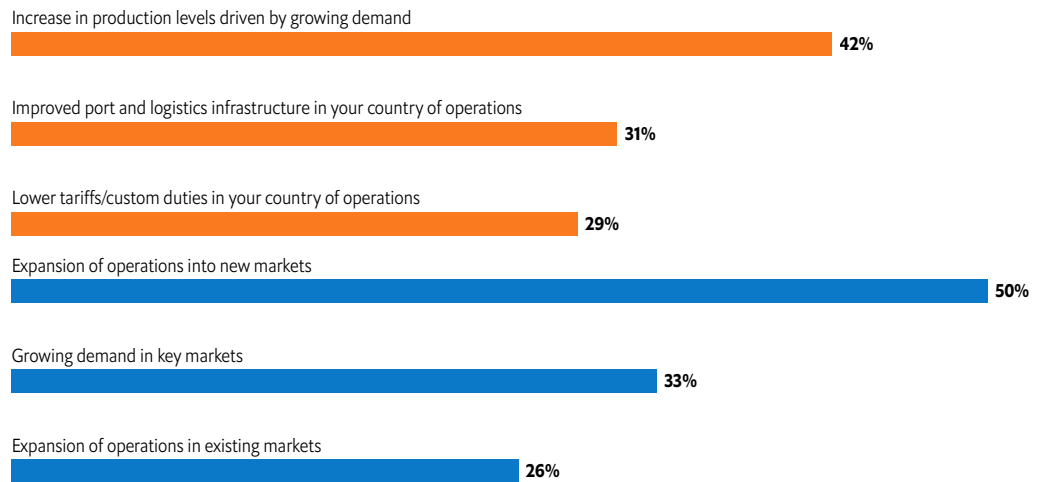
Source: WTO

The top challenge by far, limiting both exports and imports in Africa, was the higher cost of transport, as in other regions covered in this study. African executives' top concern with the global trade outlook is the ongoing trade war between the US and China (given the presence of entities from both countries on the continent, providing aid and support for infrastructure development, among other crucial support services).

²⁸ David J. Lynch & Neha Wadekar, "Last on the rung": Africa deals with fallout from a "Made in the USA" supply chain crisis', The Washington Post, December 16th 2021. <https://www.washingtonpost.com/business/2021/12/16/supply-chain-crisis-africa/>

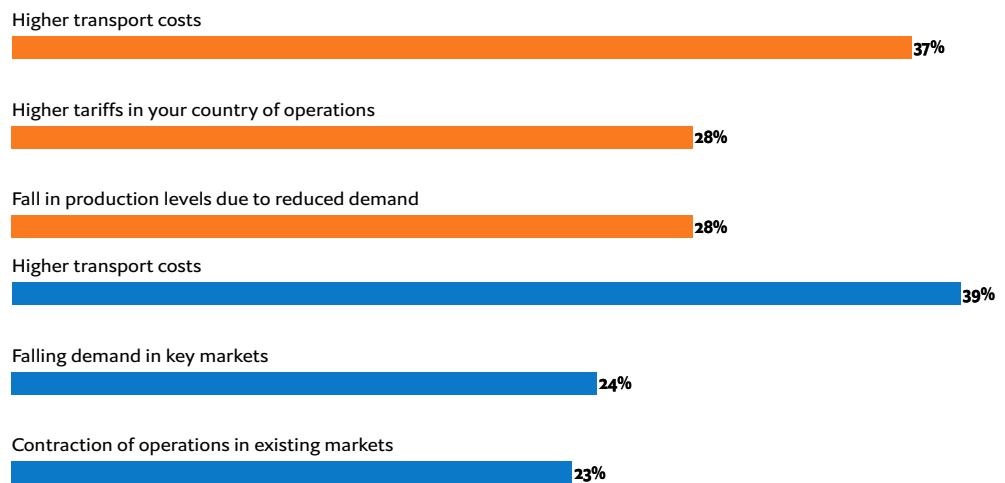
Top growth drivers for African exports and imports in 2022

● Imports ● Exports

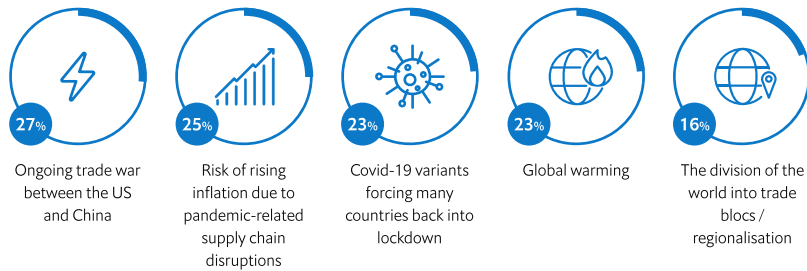


Top limitations for African exports and imports in 2022

● Imports ● Exports



Top reasons for pessimism about global trade

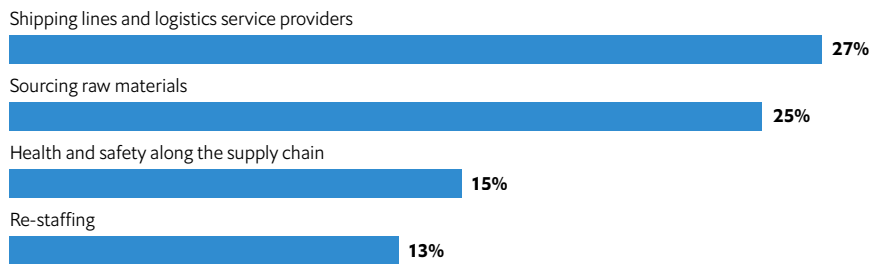


In response to disruptions, firms in Africa were reconfiguring their supply chains, focusing on securing shipping lines and alternative logistics providers (27%). In South Africa, the percentage focusing on shipping line reconfiguration was higher at 31% (against 21% globally).

Overall, companies surveyed in Africa are primarily diversifying their supplier bases regardless of location. But a higher share of respondents in Africa are regionalising than is the case in other regions

(19%, compared with 12% globally). “We expect the AfCFTA to be a strong catalyst for the emergence of a robust value chain and clusters in the ICT industry in Africa,” says Ashish Thakkar, board member at Mara Phones, a Rwandan smartphone manufacturer. “It’ll enable us to source components and raw materials from other African countries rather than outside the continent.” This may be one reason why a significantly higher share of companies we surveyed in Africa are continuing to operate just-in-time (22%, against only 14% globally).

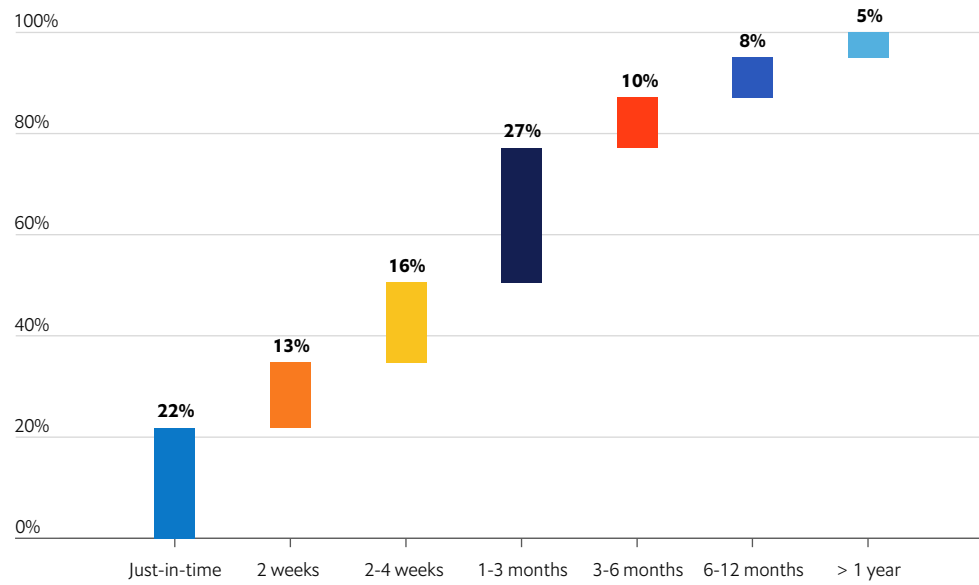
Top areas of supply chain that needed reconfiguration



Approach to supply-chain reconfiguration



Building buffers in inventory



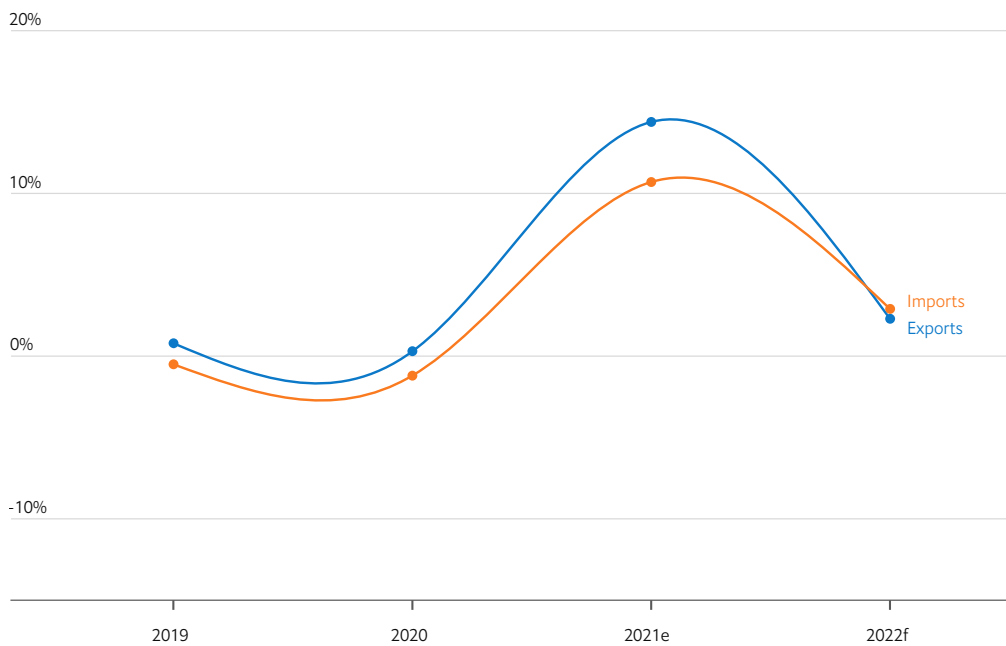
Sources: Economist Impact



Asia-Pacific

According to the EIU, Asia will continue to lead the recovery in global goods trade in 2022. Growing demand within Asia may spur intra-regional trade, facilitated by regional free-trade agreements. Moreover, as firms in the Americas and Europe explore opportunities to reduce their reliance on Chinese suppliers, there are greater prospects for export growth from smaller Asian countries that invest in improving their infrastructure and business environments, particularly from the Association of Southeast Asian Nations (ASEAN). Businesses from markets outside Asia, including the US, Canada and Europe, are also keen to export goods to South-east Asian markets, but may face even greater competition from companies within Asia given the emergence of regional preferential free-trade agreements like RCEP and the CPTPP, says Marc Mealy, senior vice-president of policy at the US-ASEAN Business Council.

Annual percentage change in merchandise trade volumes in Asia-Pacific



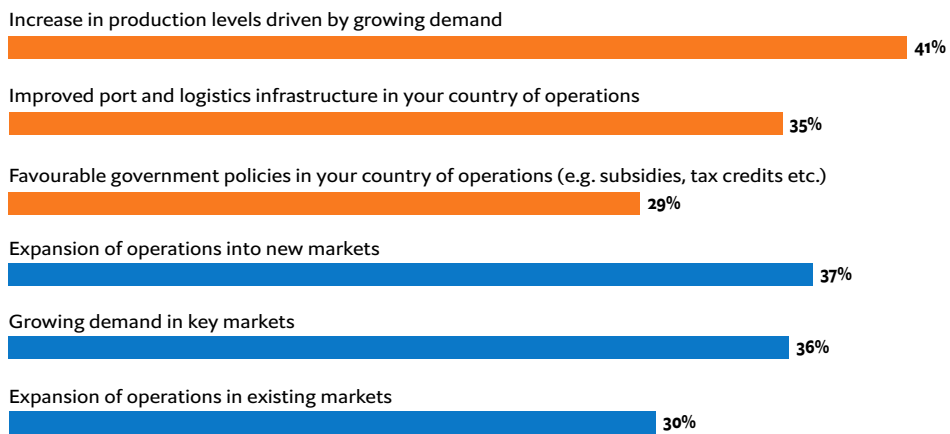
In addition to growing demand spurring import growth, improved port and logistics infrastructure is expected to drive import growth in Asia in 2022. In India and China, 46% and 39% of executives, respectively, cited this as a key driver.

Higher transport costs, as logistics challenges persist in 2022, are expected to be the top limitation to export and import growth among Asian firms. Further supply disruptions may arise owing to unexpected lockdowns in response to new variants (as with China’s “zero-covid”

approach to the Omicron variant, which led to sudden shutdowns of ports and regional transport networks). Executives are most concerned about the ongoing trade war between the US and China, particularly those in smaller Asian markets that may be forced to take sides.

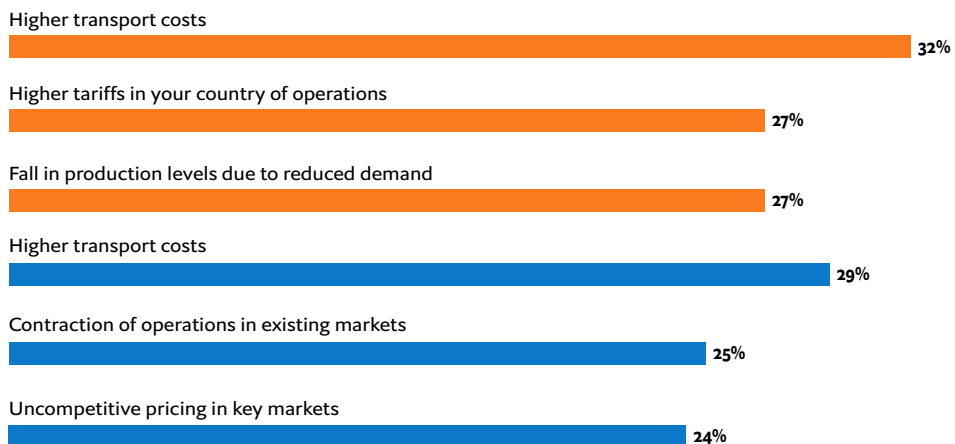
Top growth drivers for Asian exports and imports in 2022

● Imports ● Exports



Top limitations for Asian exports and imports in 2022

● Imports ● Exports

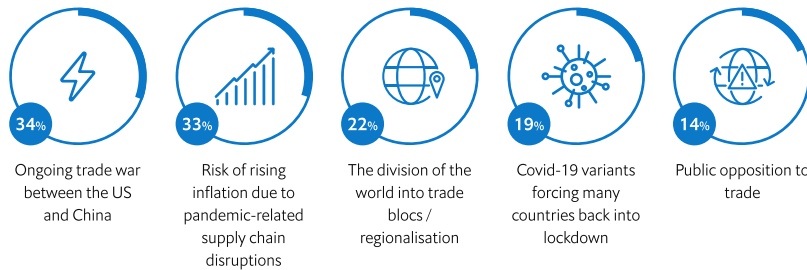


Surprisingly, despite the raft of regional trade agreements, such as RCEP or CPTPP, or even regional digital trade agreements, we are not yet seeing a greater degree of regionalisation in the data for Asia-Pacific. A plurality of respondents to our survey (46%) from Asia-Pacific chose diversifying their supplier base regardless of location as the primary approach to supply-chain reconfiguration. There is an interesting difference in approach between the two Asian giants: interestingly, Indian

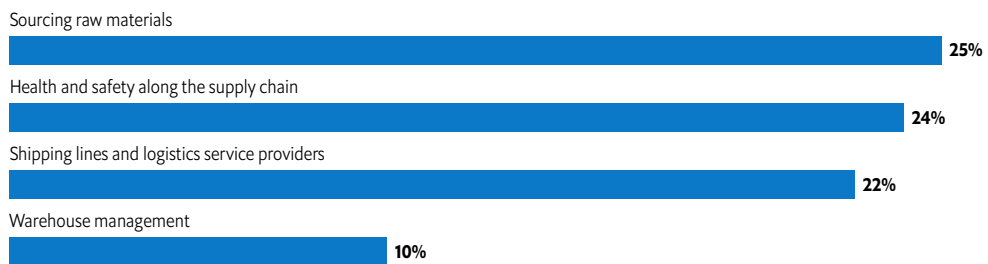
firms are choosing to work with fewer suppliers (i.e. reducing the number of tiers in the supply chain), cited by 67%, against 36% globally, rather than diversify their supplier base (23%, compared with 48% globally and 63% in China).

Overall, executives are focused on sourcing raw materials and ensuring that health and safety are in place along the supply chain as part of their reconfiguration efforts.

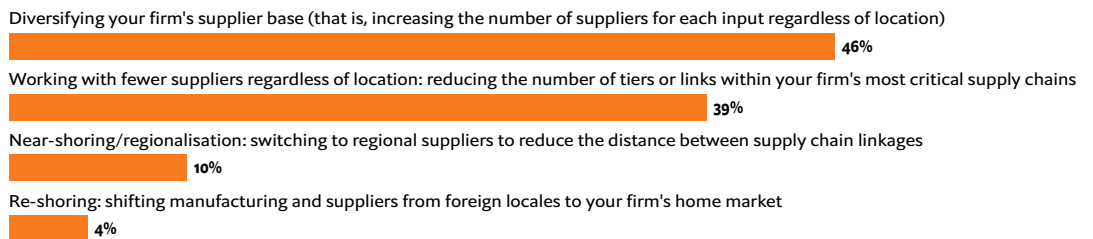
Top reasons for pessimism about global trade



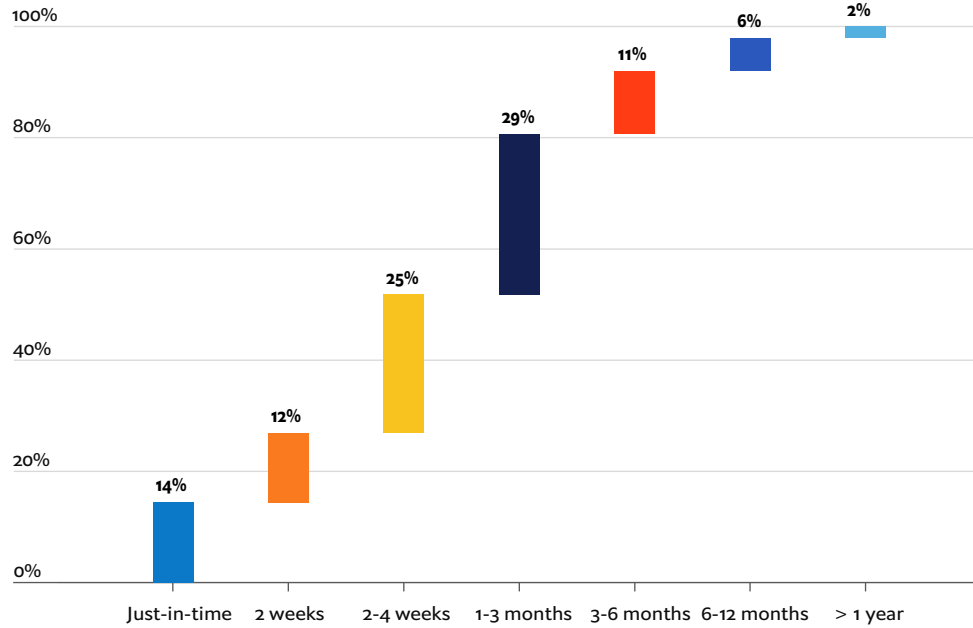
Top areas of supply chain that needed reconfiguration



Approach to supply-chain reconfiguration



Building buffers in inventory



Sources: Economist Impact

“Multinational firms who are looking to diversify their supply chain and sourcing related assets will not leave China. They’ll maintain assets in China to serve the 1.4bn people in China. But what they are going to do is add assets in competitive alternative locations like Vietnam, Thailand, Malaysia [among others] and use those assets to serve the global economy including the US market.”

Marc Mealy, senior vice-president of policy, US-ASEAN Business Council

Global trade's turbulent future

That supply chains adapted and that executives remain optimistic about the future of trade are two among many causes for cheer among supporters of trade and globalisation. As is the recovery in demand, which should prove durable in the short to medium term, despite the spread of the Omicron variant and inflation fears.

But trade – the structure, flows and origins thereof – is likely to change in the years ahead. Geopolitics is likely to be one of the most influential factors. The US and China, the two most important actors in this regard, have differences that are clearly unresolvable, leading both to pursue policies that are inimical to the long-term success of the global trade environment. In light of this, strengthening trade governance, led by the WTO, will be imperative. A weakening of the WTO would only increase uncertainty for firms worldwide.

Adoption of advanced technologies will certainly transform companies' trade operations and how they engage with customers and suppliers. Information from supply-chain management systems may allow firms to change routes, suppliers and rates more frequently. 3D printing, may also have the potential to dramatically alter sourcing patterns if essential parts are printed on site.

Beyond this, bilateral and regional trade agreements, which may continue to be the next-best option to big multilateral deals, may drive a degree of regionalisation in the future. Adherence to the terms of these agreements may become increasingly contentious, however, once again reinforcing the need for trade governance.

Despite disruptions, the economic rationale for global trade will endure. For almost all countries, it remains the only viable path to prosperity and the only means for procuring resources to keep their economies functioning. The private sector seems up for the challenge. Even if conditions in the macro-environment worsen, they feel far more prepared to navigate the challenges. "I personally don't think that the environment will be better soon," says Mr Thampimukvatana of Danone. "However, I'm optimistic about our operations. We have shifted our mindset, that we cannot rely on external factors improving, so we have to be more agile. I'm optimistic about what we can control." This increased agility is likely to prove necessary as companies steer into uncharted waters in global trade.

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