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Trade in Transition

SUMMARY: The rules of global trade are up in the air, with growing uncertainty about whether the trend toward global trade harmonization will be maintained. The United Kingdom and the United States have begun renegotiation of once-settled trade policies that supported economic globalization, pushing the world trade system toward economic nationalism.

Forecasts

- Trade policy for the United States and the European Union will have a high degree of uncertainty through at least 2021. Trump administration tariffs on targeted industries, Brexit, and E.U. financial challenges all have the potential to destabilize established trade policies.
- Uncertainty also originates outside the trade arena as secondary effects of geopolitical conflict and domestic politics. Territorial disputes in the South China Sea, conflict in the Middle East, and Eastern Europe all add to global trade instability.
- With Brexit and the U.S. withdrawal from the Trans-Pacific Partnership, and the renegotiation of the NAFTA agreement, the world is likely entering a period that shifts trade agreements away from multilateral pacts and toward narrower bilateral trade agreements.
- China, India, and other rising economies will have greater influence and more rulemaking power in the future global trade system.

Key Uncertainties

Stability of the European Union

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Electoral outcomes in the United States and Europe

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Potential for bilateral trade wars

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Strength of populism and nationalism

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Impacts of tariffs

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Linkage of trade to strategic , environmental, or human rights issues

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Spillover effects from geopolitical conflict

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Supporting Trends

- **Headwinds for globalized trade.** Obstacles to the expansion of global trade are proliferating, with skepticism about globalism growing in both the United States and European Union.
- **Chinese economic power.** Rapid Chinese economic growth in recent decades has made China a major economic power.
- **China shifting to services.** China's economy is increasingly dominated by services.
- **E.U. in rough waters.** Expansion and strengthening of the European Union are faltering.
- **Oncoming instability.** A period of instability is under way in the international system, driven by assertive rising powers, regional crises, and political upheavals in the United States and European Union.
- **Diffusion of global power.** Power is becoming more dispersed in the global system. The world is becoming increasingly multipolar, with countries like China and India rising and nonstate actors growing in importance.
- **Isolationism.** Isolationism is rising in the developed world.
- **Growing middle classes in emerging markets.** The middle classes of emerging markets continue to grow, though at a slower pace than in recent decades.
- **Declining role for manufacturing in development.** Manufacturing is having less and less of an impact on developing economies in recent decades.

Related Drivers of Change

- Global Power Shifts
- The Productivity Paradox
- Standards Under Pressure

Notable Data Points

PUBLIC ATTITUDE TOWARD TRADE

2018 polling found

74% of U.S. adults believe that greater global trade integration is good for the country,

but only 56% believe that U.S free-trade agreements have been beneficial, 36% believe trade creates jobs, and 37% believe that trade lowers prices.

Source: Pew Research Center

FALLING INDICATORS

Trade made up 61% of world GDP in 2008

but has declined to 58%. Global profits for multinationals dropped from 33% in 2008 to 31% in 2019. Foreign direct investment was 3.5% of world GDP in 2008, and 1.3% in 2018.

Source: The Global List," The Economist, January 26, 2019, 19.

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Strategic Insights

- Association members are likely to have high uncertainty about the future of trade and how changes to the international trade system will affect them. Elevating efforts to monitor, report, and assess the impact on trade changes will be an increasingly valuable service for members.
- A changing trade landscape creates a more complex environment for association lobbying and advocacy. The new environment could involve more bilateral relationships and potentially reduced influence by centralized international trade groups (e.g., the World Trade Organization).
- International trade in services may face growing impediments, exposing new types of industries—and thus associations—to cross-border issues. Professionals providing services to foreign markets may be more interested in joining associations headquartered in those markets.
- An environment of declining interest in international cooperation, growing conflict, and increasing focus on national self-interest could impede efforts to grow membership across borders.

Timing

- **Stage:** Emergent, as trade may be entering a new era
- **Speed:** Fast, with accelerating policy changes

Potential Alternative Futures

- **Revitalized globalization:** After the slowdown of the 2010s, globalizing forces reassert themselves..
- **Trade bilateralism:** Shifts in U.S. trade policy and a fracturing of the European Union lead to a new era of bilateral trade agreements, which preserves many of the efficiencies of trade harmonization but elevates national economic interests.
- **Emerging market shift:** Emerging markets take on a dominant role in international trade negotiations, fueled by relatively strong growth in their economies and middle classes.

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Take Action

- **Do scenario planning for this period of uncertainty.** With no one able to anticipate the potential outcome of the Trump administration's shifts in trade policies and the impact of Brexit on the European Union, it's a good time to use scenario planning to develop alternative strategies for different outcomes.
- **Offer study missions and technical guidance to navigate the changing business environment.** Small and medium-sized businesses will turn to their associations to sort out this unsettled trade situation. Study missions build relationships and confidence to counter confusing laws and regulations.
- **Develop alliances with organizations with in-country expertise.** If multilateral agreements are replaced with a series of bilateral agreements, you will need the help of experts tracking these developments more closely than you can on a daily basis.
- **Pursue the growth of middle-class education opportunities.** While the future of globalization may be in question, the middle class continues to grow globally. This creates a market demand for global education and knowledge exchange. Trade and immigration policies could alter the attractiveness of pursuing these opportunities, but many technical and scientific fields appreciate the global nature of their work.
- **Manage the risks of trade in transition.** Financial markets respond to uncertainty, and this could depress returns on financial investments. You might experience broken links in a critical global supply chain for products and materials necessary to your members or your association. If you are a standard-setting organization or an accrediting organization, you may experience some blowback from restrictive trade policies and increasing nationalism.

Keyword Search

To continue researching this change driver, use combinations of these search terms:

globalization, protectionism, tariffs, border adjustment tax, multilateral trade agreements, Brexit, GATT, Transatlantic Trade and Investment Partnership, Trans-Pacific Partnership, Belt and Road Initiative, Trade in Services Agreement

Who Will Be Affected

Trade associations representing companies relying on global supply chains must help manage this change. Standard setting and accrediting organizations may also find any shift away from global harmonization unsettles their market. Associations holding global meetings could find it more difficult to operate in other countries or attract out-of-country registrants. Any association pursuing a global strategy will have to evaluate this driver of change.

About ASAE ForesightWorks

ASAE ForesightWorks is a deliberate, evidence-based research program and emerging line of products to provide association professionals with a *continual* stream of intelligence about the changes facing the association industry, including:

- regularly updated action briefs;
- tools for applying insights from the research in your association;
- guidance in performing environmental scans; and
- opportunities to engage with peers around the research.

Ultimately, the program's mission is to empower association leaders to create a culture of foresight in their associations and to lead their organizations confidently into the future.

Check **asaecenter.org/ForesightWorks** and follow **@ASAEfdn** on Twitter for updates on new findings and events.

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