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10 REASONS TRADE IS GOOD FOR PEOPLE AND THE PLANET – AND HOW WE CAN MAKE IT EVEN BETTER

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Faculty and staff, dear students, friends.

I am delighted to be here at Bocconi for the opening of this academic year.

1. As an economist by training, it is particularly special to be here. This university is widely recognized within Italy, across Europe, and around the world as a top seat of learning in the social sciences, particularly in management and business administration.
2. But in economics, you take it to another level. Over my career, I have either met or had the occasion to see the work of many impressive Italian economists in academia, the private sector, and public service, from Oriana Bandiera at LSE, the late Alberto Alesina at Harvard, and Mariana Mazzucato at UCL, to Emma Marcegaglia, Vittorio Colao, Mario Draghi, and Professor Monti. Far more often than not, it turns out they either trained at Bocconi, teach here, or have some other affiliation.
3. I remember wondering, many years ago, "what is this Bocconi place that is churning out so many brilliant people?" So now that I have the honour to have finally

made it here, let me say: students, you have a lot to live up to. And I have every confidence you are going to do just that.

4. I am here today as Director-General of the World Trade Organization, so I want to talk about global trade and its role in the world both now, at the start of this academic year, and in the future.
5. As we all know, the reputation of international trade, and of economic globalization more broadly, has suffered some setbacks.
6. Both the COVID-19 pandemic and the war in Ukraine exposed genuine vulnerabilities in global supply chains. The consumption of imported goods is often blamed for fuelling climate change. Rising geopolitical tensions have bred anxiety about commercial ties with potential rivals.
7. In response to these shocks and challenges, a growing chorus of voices has argued that instead of the increased economic *interdependence* that has defined the three-quarters of a century since the end of the Second World War, countries' pursuit of objectives like security, prosperity, and sustainability would be better served by greater economic *independence*.
8. My message today is that we should not wish trade and globalization away.
9. In fact, I will give you 10 reasons why trade is good for people and the planet. And I will look at current opportunities, at the WTO and elsewhere, to make trade better – to make it an even stronger tool to advance growth, resilience, and sustainable development. These are opportunities that we must seize.
10. Before I get into my list, let's take a step back and think about trade's role in the global economy.

11. You don't need to look beyond the iPhone in your hand, or the shoes on your feet, to be reminded that almost every item we use throughout the day relies on international trade and supply chains. Close to 30% of world economic output is linked to trade. Italy is a big trading nation where exports and imports together are worth 62% of GDP.
12. And while trade often conjures up images of physical goods and shipping containers, services make up an ever-growing share of cross-border commerce – 22% of the \$31.4 trillion in global trade as of last year.
13. Big Italian services companies like Generali, Enel, Intensa Sanpaolo, and TIM have major international operations.
14. One of the fastest-growing areas in global trade is in services delivered across borders via digital networks – everything from the streaming videos and games you might use on your devices, to the consulting services you might one day deliver to remote clients via Zoom, or cross-border business by the increasing number of tech startups being created here in Italy, instead of by Italians living elsewhere.
15. And, of course, international tourism, which accounts for roughly one-quarter of global services trade, is extremely familiar to anyone living in Italy.
16. The purpose of the World Trade Organization is to ensure that trade among nations flows as smoothly, predictably and freely as possible. For all you might have heard about regional trade agreements, more than 75% of global merchandise trade continues to operate under the basic tariff terms that WTO members accord to one another.
17. Trade has been anchored in a system of multilateral rules since the late 1940s, when governments established the WTO's predecessor, the General Agreement on Tariffs and Trade. The officials who negotiated the GATT, as it was called, had lived through the Great Depression and the

protectionist breakdown of the global economy that preceded the war. They wanted international economic relations in the postwar world to be based on cooperation and rules rather than power and coercion. They hoped that increased trade and economic interdependence would foster prosperity and peace.

REASON 1: TRADE FOSTERS ECONOMIC GROWTH

18. This brings me to reason one why trade matters for people and the planet: trade fosters economic growth and prosperity. One recent study by James Feyrer at Dartmouth finds that every 1% increase in trade values raises incomes by about 0.5% (Feyrer, 2019). Another study, focusing on developing economies, finds that comprehensive trade opening increased economic growth by an average of 1.0 to 1.5 percentage points (Irwin, 2019) – which adds up to a sizeable boost to real incomes over time.
19. Why? In sum, because of specialization, scale, and the spread of technologies and knowhow. You see the impact of specialization in your own lives: by not having to grow your own food, or make your own clothing and shelter, you free up a lot of time to do something you do better: that is, study at this excellent university. In a broadly similar vein, countries can raise incomes by specializing in and exporting whatever they are relatively good at making, often referred to as their 'comparative advantage', and importing other goods and services.
20. Throughout history, trade has helped spread new productivity-enhancing technologies, from the automobile to computers to mRNA vaccines, from one place to another.
21. Without trade, all of us would be worse off, but economic prospects for poor countries with small home markets and a low technological base would be hit the hardest.

REASON 2: TRADE HELPS REDUCE POVERTY

22. This leads me to reason two, which is particularly important: the acceleration in growth stimulated by increased trade in recent decades has led to an unprecedented reduction in extreme poverty.
23. Between 1981 and 2019, lower- and middle-income economies increased their share in global exports from 19 to 29 per cent. Over that time, they reduced the share of their population subsisting on less than US\$ 2.15 per day from 55% to 10% (WTO, 2023a).
24. For the world as a whole, the extreme poverty rate fell from 44% to 9%, according to World Bank data.
25. Not only did trade help lift over a billion people out of poverty, income gaps between rich and poor countries started to narrow for the first time since the start of the Industrial Revolution – until the pandemic put a halt to that convergence.

REASON 3: TRADE CREATES BETTER JOBS

26. Reason three deals with one way trade reduces poverty: **by creating better, well-paying jobs.**
27. Studies find that workers in exporting firms earn substantially higher wages than comparable workers in non-export firms. The wage premium ranges from 10% to more than double the average wage (Distelhorst and Fu, 2017).

REASON 4: TRADE EXPANDS CONSUMER CHOICE

28. We are consumers as well as workers, which brings me to reason four, **trade expands and enriches consumer choice.** When buying a car in Italy, your options are not

limited to Fiats. Wine drinkers in Geneva can enjoy not just Swiss chasselas, but also Italian Chianti or French chardonnay.

29. A world without trade would be a much less interesting one for consumers.

REASON 5: TRADE IS DISINFLATIONARY

30. It would also be a less competitive world, which leads to reason five: **trade puts downward pressure on costs and prices**. Businesses facing competition from imports will think twice before raising prices, since it might cost them market share. Open trade lets companies source inputs from wherever they get the optimal balance between price and quality. A considerable body of economic research shows that the rise of modern supply chains has been disinflationary, and that openness to trade decreases average mark-ups.
31. The disinflationary impacts of open trade are particularly relevant now when inflation in many places remains stubbornly high, and central banks might have to keep interest rates higher for longer.

REASON 6: TRADE DIFFUSES GREEN TECH AND MAKES IT

CHEAPER

32. The benefits of trade extend well beyond the purely economic. Reason number six is about the key role trade plays in accelerating the low-carbon transition, by diffusing green goods and services throughout the world and by driving down the cost of decarbonization.
33. A particularly striking example comes from the cost of generating solar power. Over the past 40 years, prices of solar photovoltaic (PV) modules have fallen by over 99%.

WTO economists estimate that 40% of the cost decline came from scale economies made possible in part by global trade.

34. [One study estimates that domestic sourcing requirements would have raised solar installation prices in China, Germany, and the USA by between 54 and 107%. Higher prices would almost certainly have meant less uptake – and more greenhouse gas emissions (Helveston et al., 2022). It would be a mistake to forego similar gains for new decarbonisation solutions, like green hydrogen to replace fossil fuels in hard-to-abate sectors.
35. A related benefit is that export market pull from environmentally-conscious consumers can incentivize businesses to invest in greener production. A recent study of Chilean companies shows that a 10% increase in a firm's exports to high-income countries was associated with a 16% decline in that firm's pollution intensity (Blyde and Ramirez, 2022).]

REASON 7: TRADE IS ESSENTIAL FOR ACHIEVING GLOBAL FOOD SECURITY

36. Trade is indispensable for food security, which is reason seven.
37. About one in five calories consumed around the world is traded across an international border. Many countries import the majority of their food. Open and predictable trade is an essential mechanism for people to access affordable food.
38. And trade is only going to become more important for food security as our changing climate alters rainfall and weather patterns, turning today's breadbaskets into tomorrow's net importers, and possibly vice versa.

REASON 8: TRADE PROMOTES INTERDEPENDENCE AND MUTUAL UNDERSTANDING

39. My eighth reason goes back to the founding rationale for the multilateral trading system: that **trade fosters interdependence, mutual understanding, and peace.**
40. This might sound implausible in light of today's conflicts and geopolitical tensions. But the past seven decades of peace among great powers has been unusually long by historical standards – long enough that I fear we are taking it for granted.
41. There is a distinction between interdependence and overdependence that I will come back to, but do we really believe the world would be more tranquil today if major powers had few economic ties, and hence no material stake in each other's stability and prosperity?
42. The empirical evidence suggests that on balance, while trade certainly cannot prevent conflict altogether, it has contributed positively to peace among nations.
43. A rising share of trade in global economic output is strongly correlated with a lower probability of conflict. Some work on bilateral trade flows cited in our recent World Trade Report shows that doubling of trade between two economies reduces the probability of conflict between them by 20 per cent on average.

REASON 9: WHEN CRISES HIT, TRADE IS A SHOCK ABSORBER

- 44.** Reason number nine has touched all of our lives over the past three-and-a-half years: **Trade is a critical shock absorber in times of crisis.**

45. During the COVID-19 pandemic, trade and supply chains were vital for ramping up the production and distribution of medical supplies.
 - a. Once safe and effective vaccines were developed, inputs and components from as many as 19 countries went into manufacturing billions of doses at scale.
 - b. Without trade, shortages would have been more acute, and lasted longer.

46. Open global markets have been a lifeline for people and countries trying to cope with the impacts of the war in Ukraine.
 - a. For instance, when Ethiopia was cut off from imports of Ukrainian grain, it was able to source wheat from the US and Argentina.

47. In the wake of earthquakes and extreme weather events, trade allows affected people and areas to swiftly access essential goods and services, making it an important force for disaster resilience and climate adaptation.

48. On the flip side of the equation, recent experience has demonstrated that concentrating production at home can make supplies more shock-prone instead of less. The United States was making virtually all infant formula domestically, but the temporary shutdown of one major production facility led to severe and heart-rending shortages. It was imports, authorized on an emergency basis, that helped save the day.

REASON 10: TRADE IS A DRIVER OF SOCIOECONOMIC INCLUSION

49. Finally, my tenth and last reason is that **trade has been an ally of socioeconomic progress and inclusion.**

50. Women's economic empowerment is a case in point. Businesses involved in international trade employ more

women. In developing countries, women make up 33 percent of the workforce in firms that engage in trade, compared with just 24 percent in non-exporting firms. And jobs in sectors more integrated into global value chains are likelier to be formal, and to pay better. (WBG and WTO, 2020)

51. To sum all this up, turning away from trade would not be good for people or the planet. A more fragmented global economy would almost certainly produce a world that is poorer, with more people and places shut out of economic progress. A world in which supplies are more vulnerable to shocks instead of more resilient to them.
52. We live in a time where many of the biggest problems we face transcend borders, and the spillover effects of national policies are larger than they used to be. In these times, we need more international cooperation to deliver effective solutions.
53. Without cooperation on trade, getting to net zero, responding to other environmental problems, or preparing for future pandemics, will all become harder, and potentially impossible.
54. But make no mistake. Saying we shouldn't go backwards on trade is not the same as saying the status quo is fine, and we can afford to sit on our hands. We can – and we must - do better.
55. For all of the gains globalization has delivered, many were left out: poor countries that remained on the margins of the global division of labour. Communities in advanced economies where many workers lost jobs to import competition.
56. We also have to come to grips with the disruptions in global trade and supply chains provoked by the pandemic and the war in Ukraine. Those problems, to be clear, had

less to do with trade per se than with excessive concentration for a small number of products and supply relationships.

57. The smart response to these problems is not to concentrate production at home, or within a small group of friends. As we have seen, that comes with risks of its own.
58. The better way forward is what we at the WTO are calling 're-globalization'. The challenges facing global trade today should be reconceptualized as opportunities to diversify and deconcentrate global production networks. By drawing in countries and communities currently on the margins of supply chains – in Africa, Latin America and Asia, but also in struggling parts of richer countries – we can build a more resilient world economy. We can pre-emptively reduce the number of potential bottlenecks in future crises, while boosting growth and job creation in the places that need them most. We can enjoy the benefits of interdependence, without the overdependence that becomes easy for countries to weaponize.
59. Successful re-globalization requires an open and predictable global economy, anchored in a strong WTO.
60. WTO members have been moving in the right direction on sustainability. The agreement they reached last year on curbing harmful fisheries subsidies will help the recovery of depleted marine fish stocks, while freeing up billions of dollars' worth of tax revenue for better purposes.
61. There are many more exciting opportunities to improve trade to better serve both people and the planet – and ongoing efforts at the WTO are seeking to capitalize on these opportunities.
62. I mentioned earlier the rapid growth in services, particularly digitally-delivered services. Surveys in Africa suggest that micro, small, and medium-sized enterprises,

and particularly women-owned businesses, do better in online trade than in offline trade.

- a. At the WTO, members are working to lower regulatory obstacles to services trade, to facilitate investment, and to set out some basic global rules for digital trade.

63. At COP28 in Dubai next month, the WTO Secretariat will unveil a 'menu' of 10 ways governments can use trade policies to accelerate the pursuit of net zero. A few examples:

- a. By lowering their own tariffs on renewable energy products, governments can make them cheaper and incentivize uptake.
- b. The more than \$1 trillion in subsidies encouraging fossil fuel production consumption and production, and the over \$600 billion in subsidies to agricultural producers, could – like the \$22 billion in spending on harmful fisheries subsidies - be put to better use for climate finance.
- c. Government procurement is a \$13 trillion global market, accounting for about 13% of global emissions and output. Here, too, countries can shift public purchases of goods and services in a greener direction.

64. Ladies and gentlemen, let me conclude by coming back to where I started. We stand at a crossroads. One path forward is based on cooperation, rules, and continued integration. The other is uncertainty and fragmentation. We know which path is better, especially for students with full lives and careers ahead of them. Let's all work together to take it.

65. Thank you, and I wish you the very best for a fruitful and stimulating academic year.