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New Iron Laws of Globalization

Kati Suominen

Founder and CEO, Nextrade Group

dec
4

11:00 a.m. CST

womenentrepreneursgrowglobal.org

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Thought Leadership Series

20
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New Iron Laws of World Trade



Dr. Kati Suominen
Nextrade Group
WEGG, 4 December 2019

Think Where We Will Be in 2029 When....

Next 60 seconds:

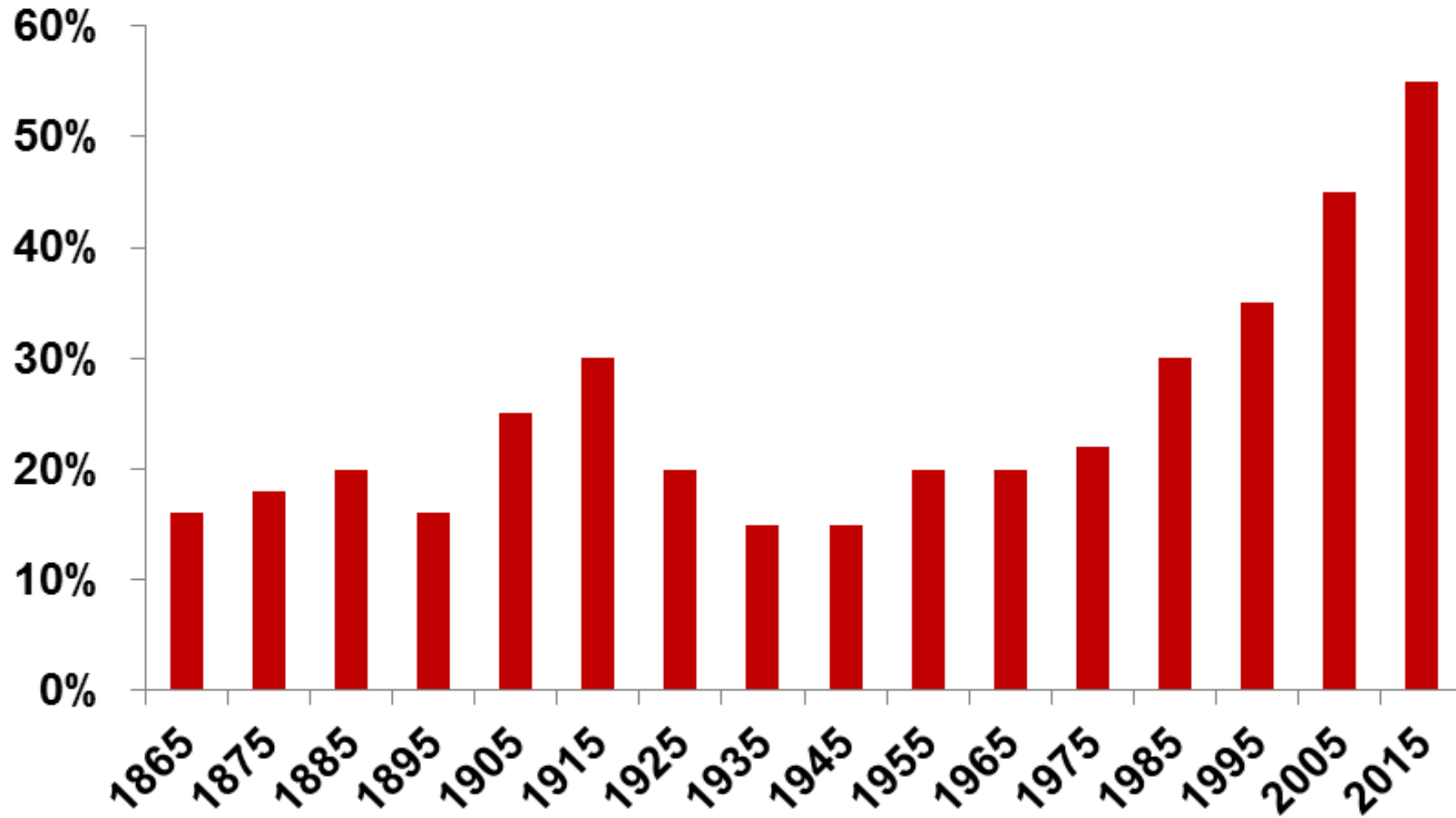
- ✓ 17,200 parcels ordered and shipped in Europe
- ✓ 190 new users register on Alibaba
- ✓ 380 people get their first Smartphone –i.e., access to the global shopping mall
- ✓ There are 350,000 Tweets
- ✓ Ebay and Amazon Sellers gross \$485,000
- ✓ So much video is downloaded it would take you 23 years to watch it

Drivers of these trends were only starting a decade years ago, in 2008:

- ✓ Twitter was turning 2
 - ✓ YouTube was a 3-year old
 - ✓ Alibaba had 4 million users, when today it has 600 million
 - ✓ First iPhone had come to market 10 months ago
-
- Technologies transform trade the way Mike went bankrupt in Hemingway's book *The Sun also Rises*: "First gradually, then suddenly"
 - Technologies will revolutionize players, patterns, and possibilities of world trade – for the better

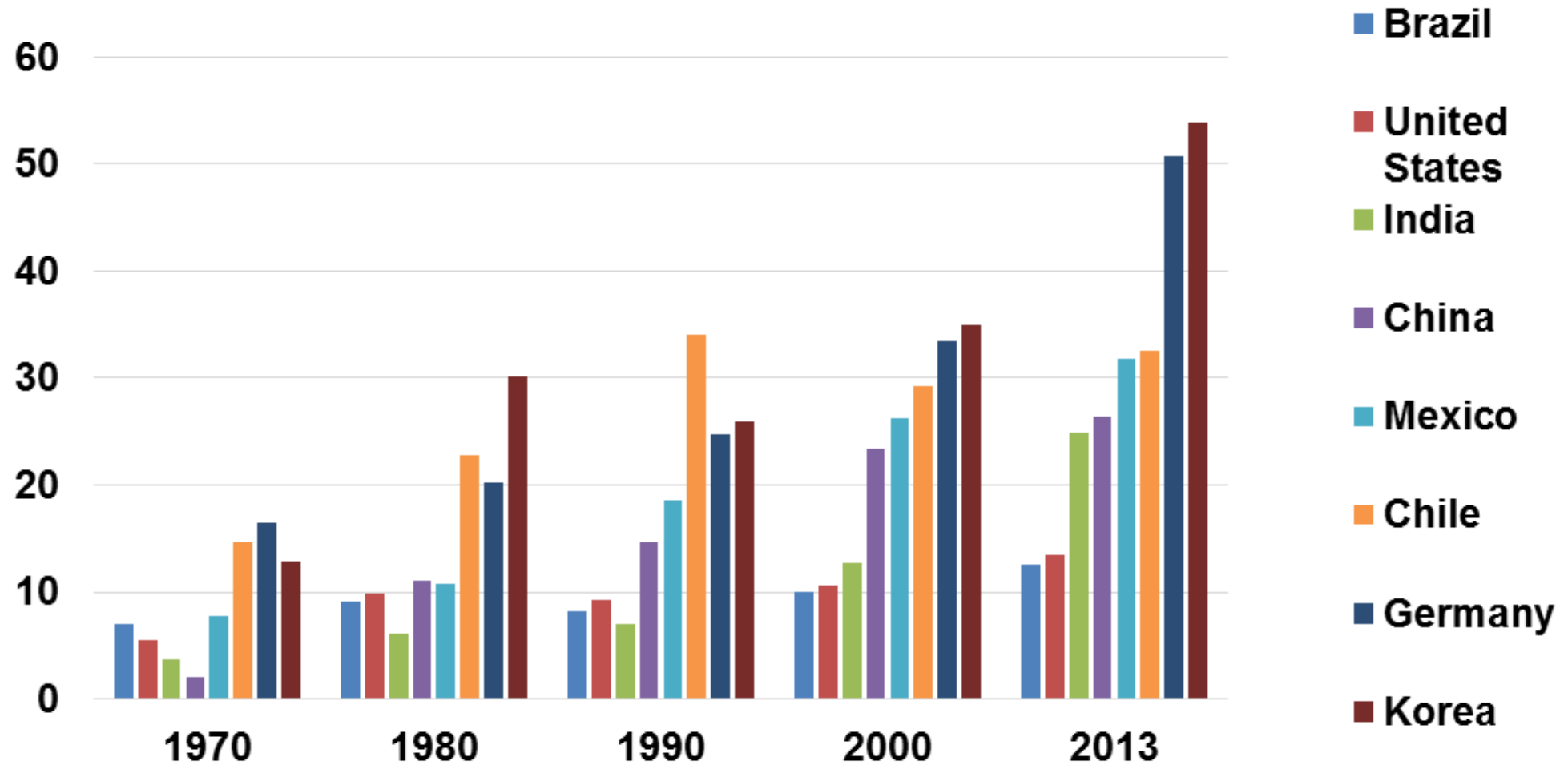
The Rise, Fall, and Rise of International Trade Since 1860s

Trade as % of Global GDP

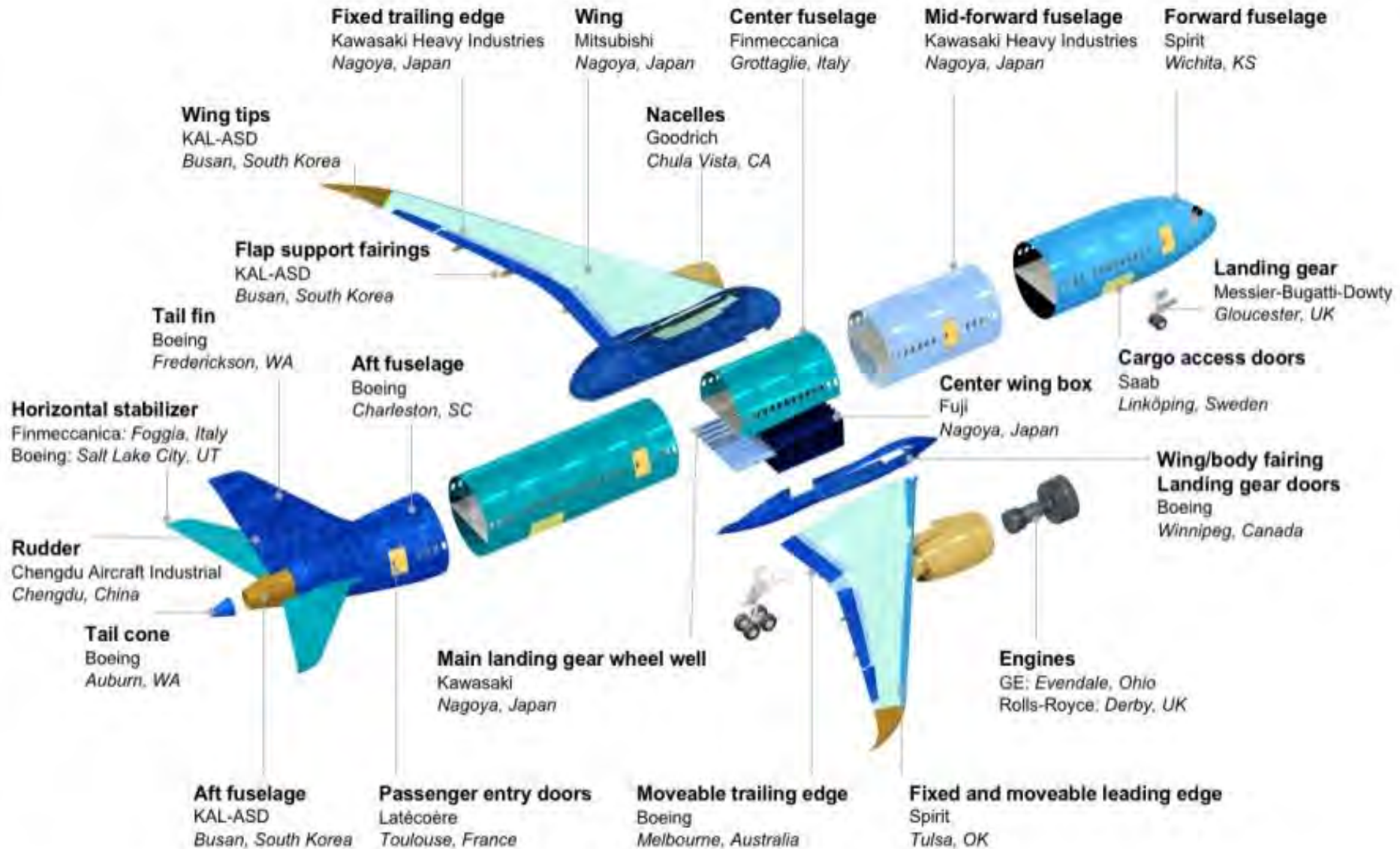


Trade more relevant in national economies

Exports as % of National GDPs



Old Globalization: “Made in the World”



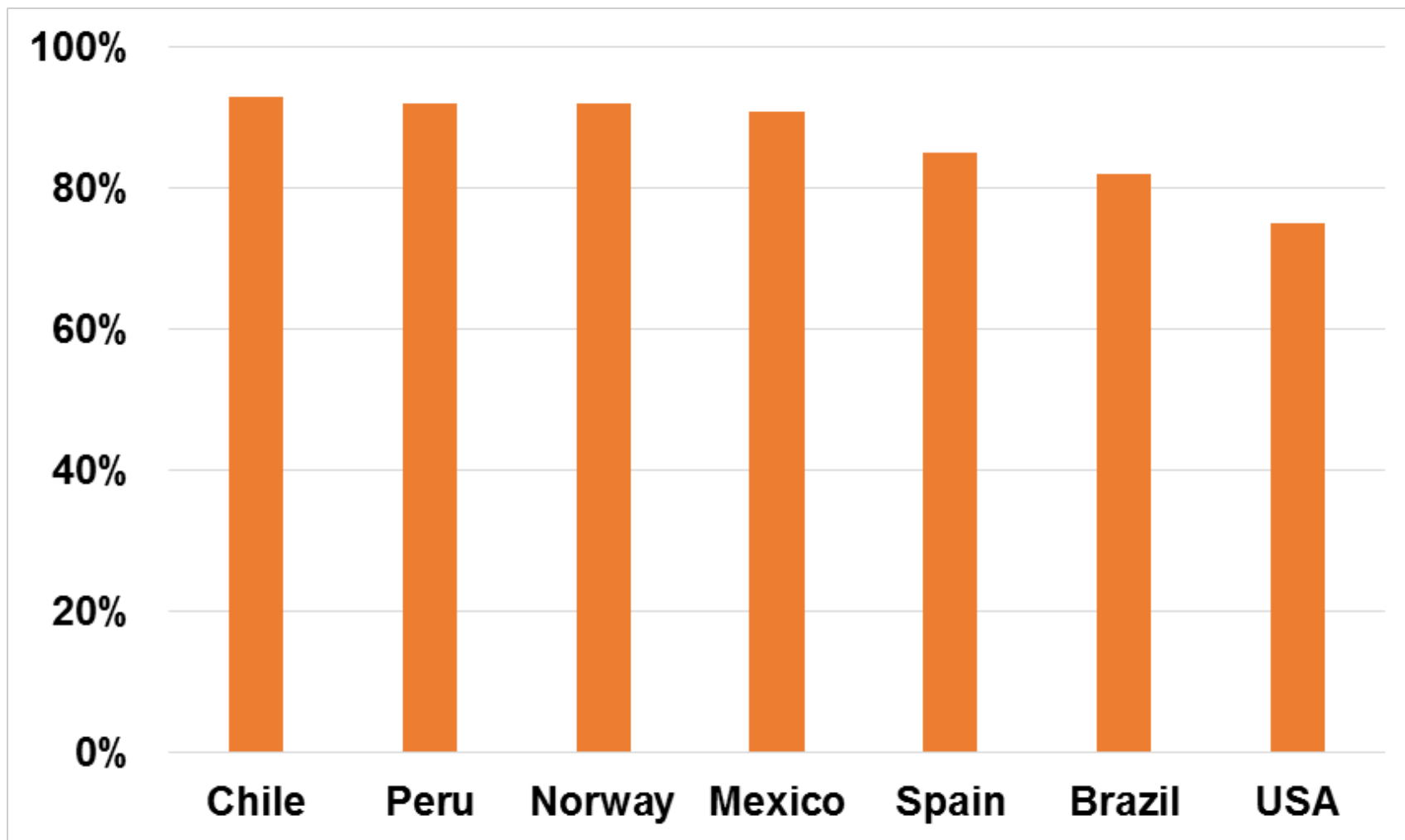
Not much of iPhone is “Made in China”

Manufacturer	Component	Cost
Toshiba (Japan)	Flash Memory	US\$24.00
	Display Module	US\$19.25
	Touch Screen	US\$16.00
Samsung (Korea)	Application Processor	US\$14.46
	SDRAM-Mobile DDR	US\$8.50
Infineon (Germany)	Baseband	US\$13.00
	Camera Module	US\$9.55
	RF Transceiver	US\$2.80
	GPS Receiver	US\$2.25
	Power IC RF Function	US\$1.25
Broadcom (US)	Bluetooth/FM/WLAN	US\$5.95
Numonyx (US)	Memory MCP	US\$3.65
Murata (Japan)	FEM	US\$1.35
Dialog Semiconductor (Germany_)	Power IC Application Processor Function	US\$1.30
Cirrus Logic (US)	Audio Codec	US\$1.15
Rest of Bill of Materials		US\$48.00
Total Bill of Materials		US\$172.46
Manufacturing costs		US\$6.50
Grand Total		US\$178.96

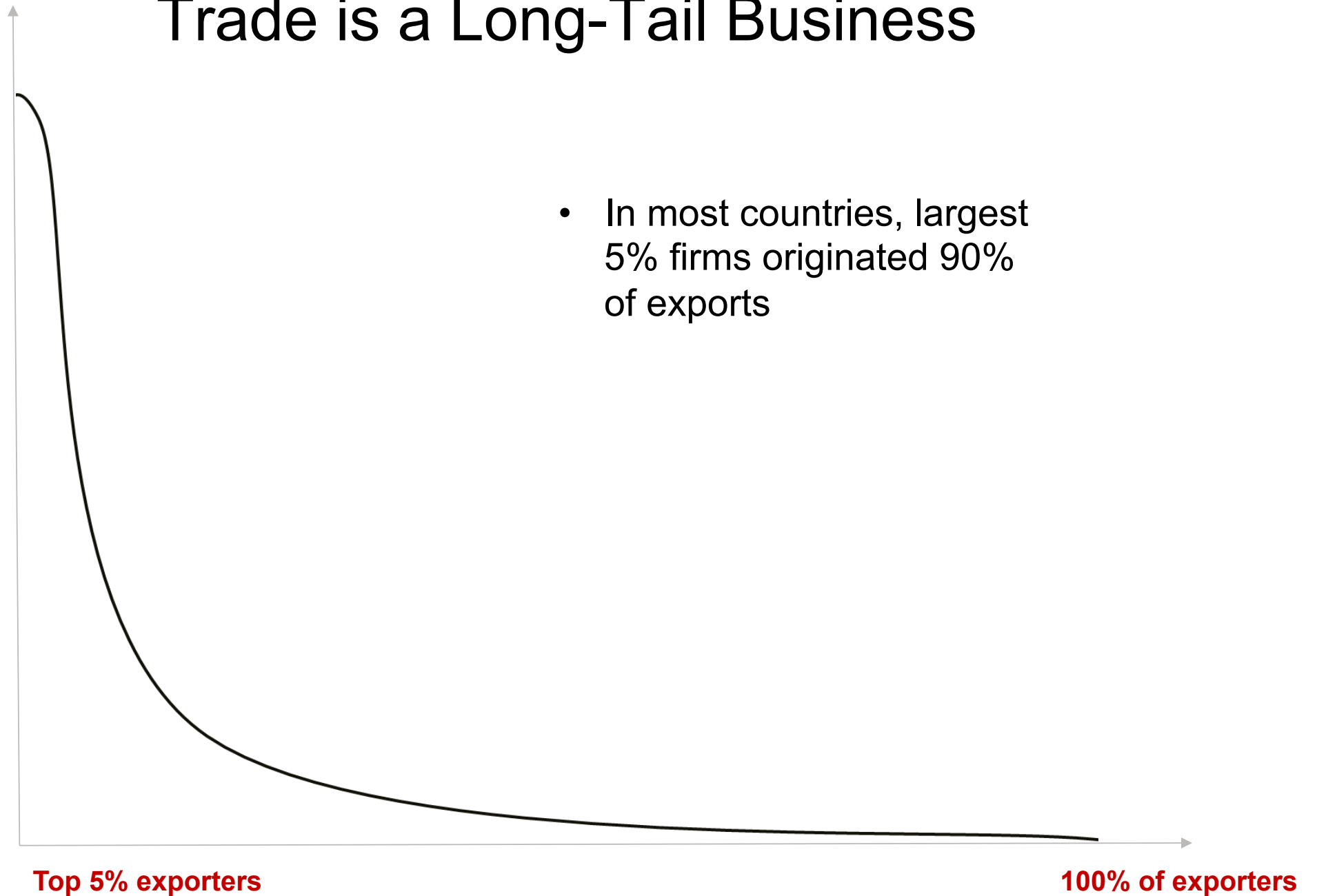
Source: Rassweiler (2009).

90% of trade is generated by big business, in any country

Concentration of export sales in top-5% largest of exporters

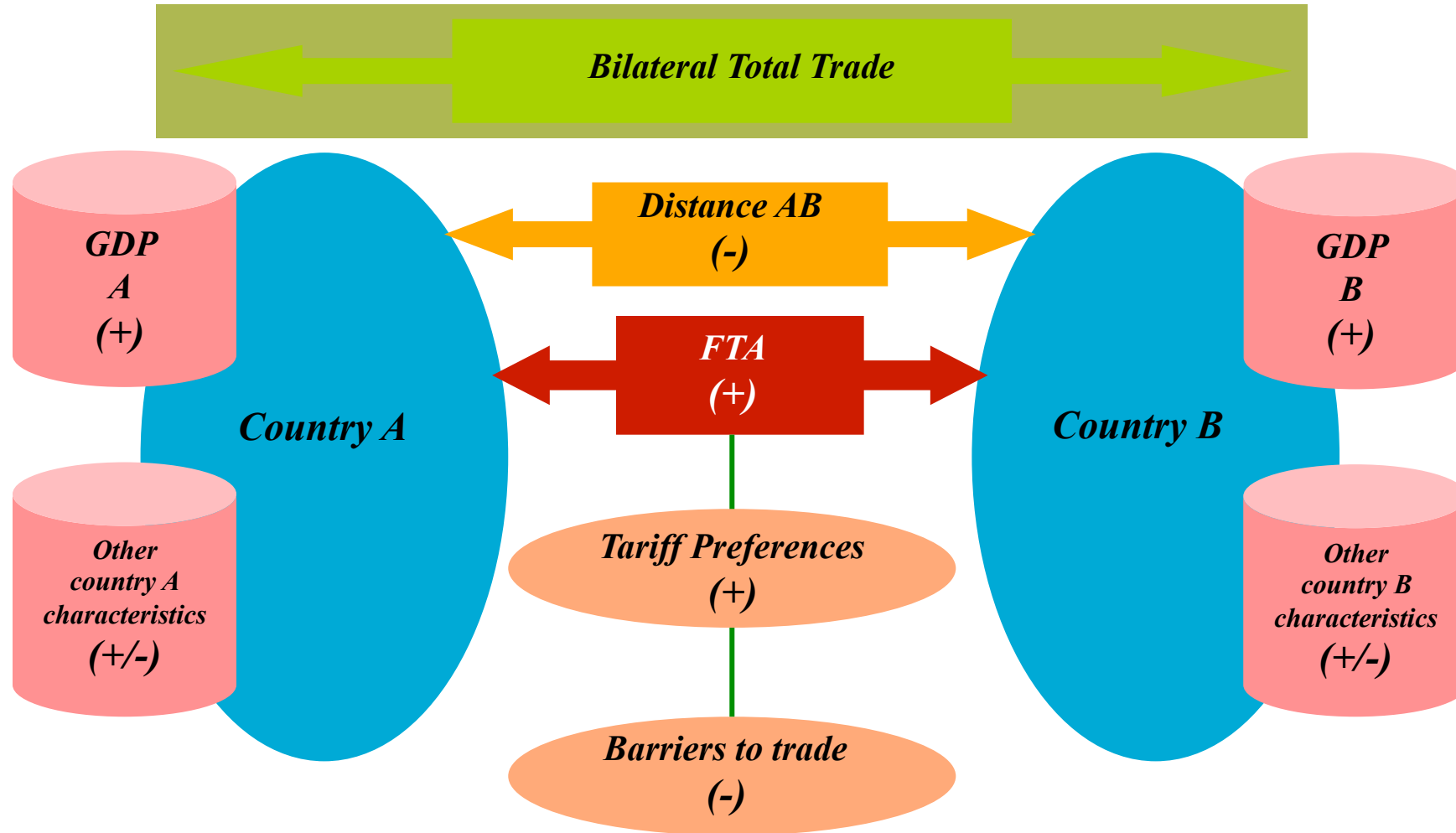


Trade is a Long-Tail Business

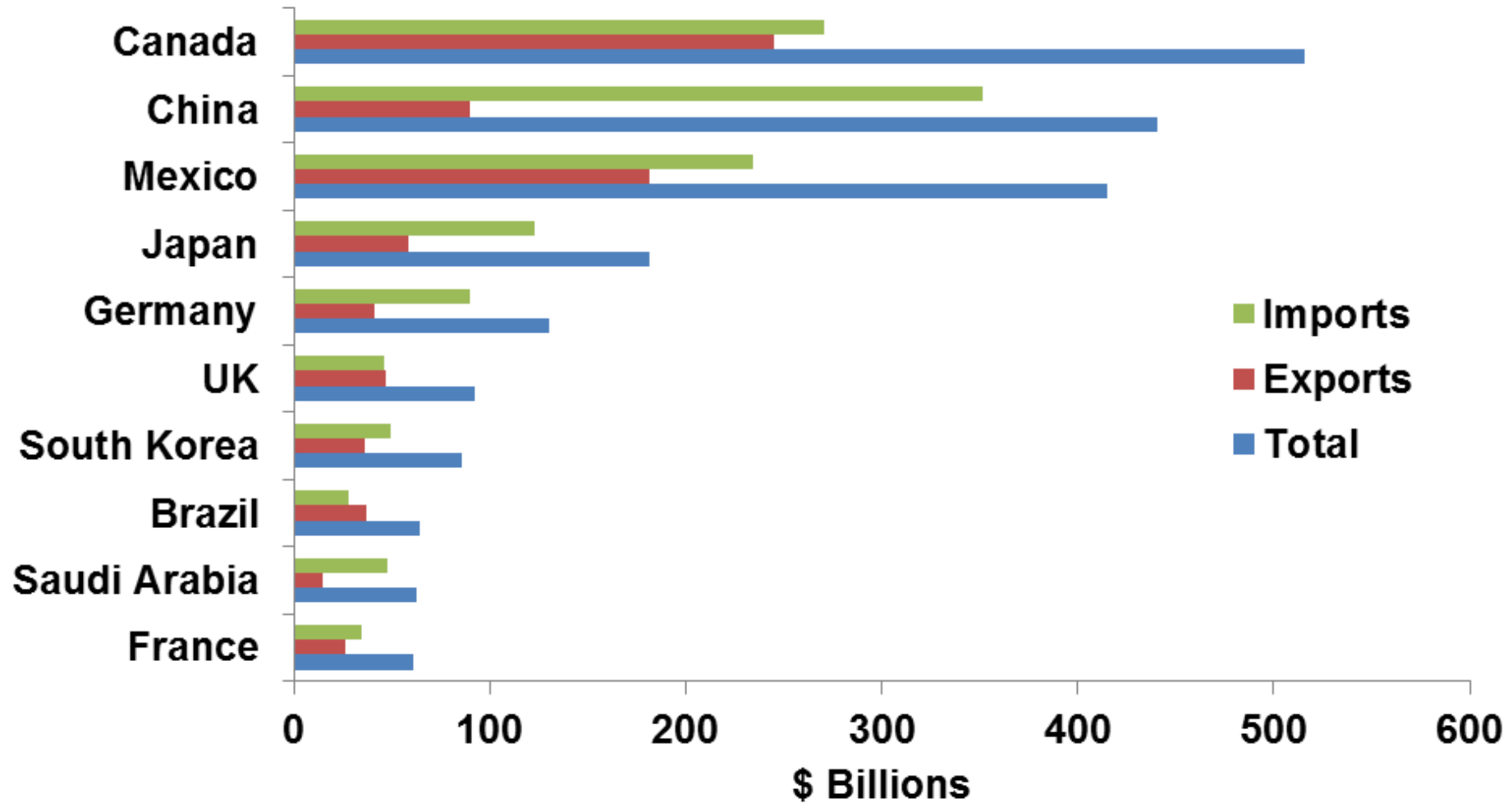


Most of direction of global trade could be explained by

The Gravity Model



U.S. Trade Partners



Trade in Globalization 3.0 has been...

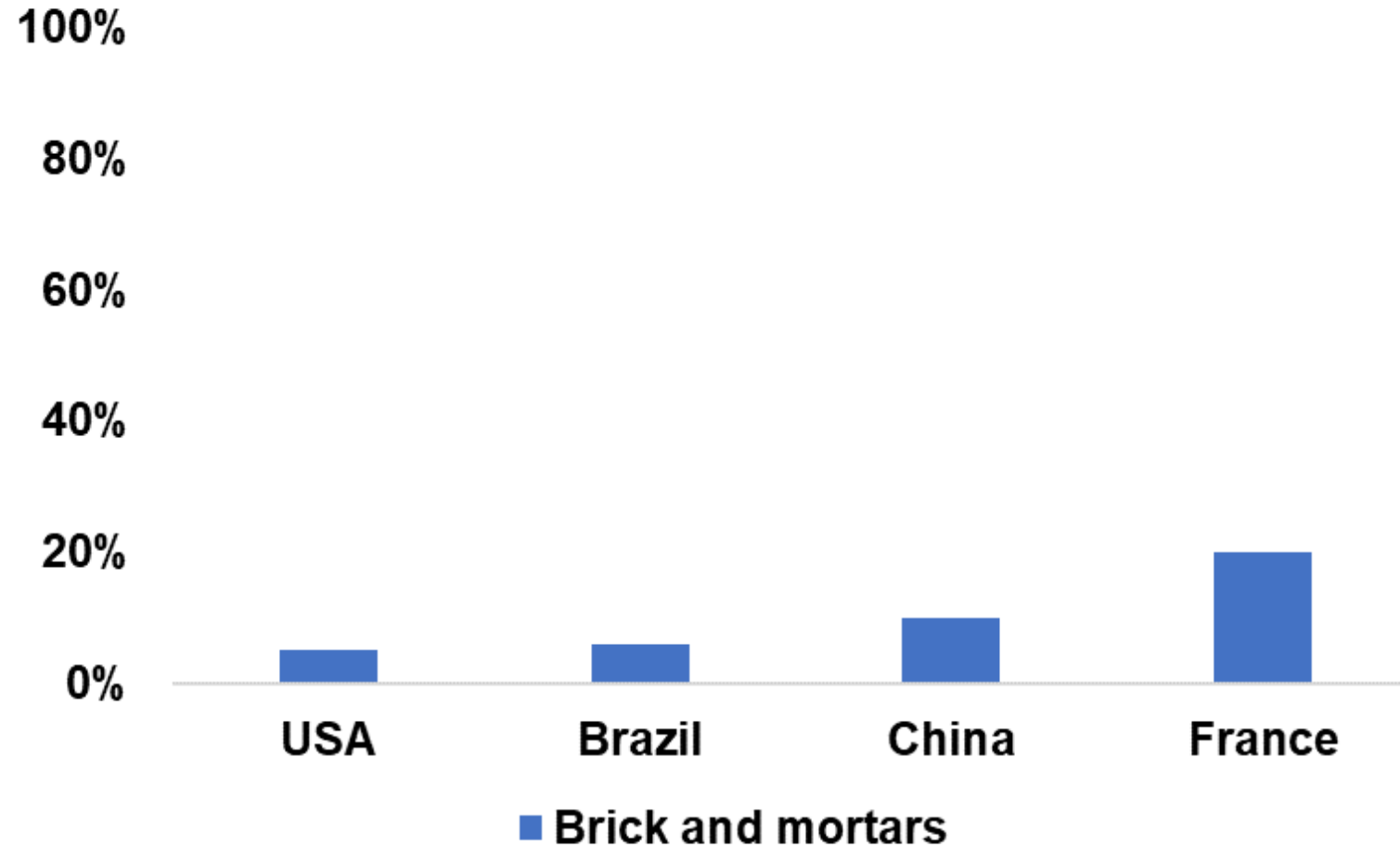
- Mostly about products “Made in the World”
- Assembly in low-wage nations
- Supply chain-based
- Run by large companies
- Intra-firm
- Among large countries
- Inefficient



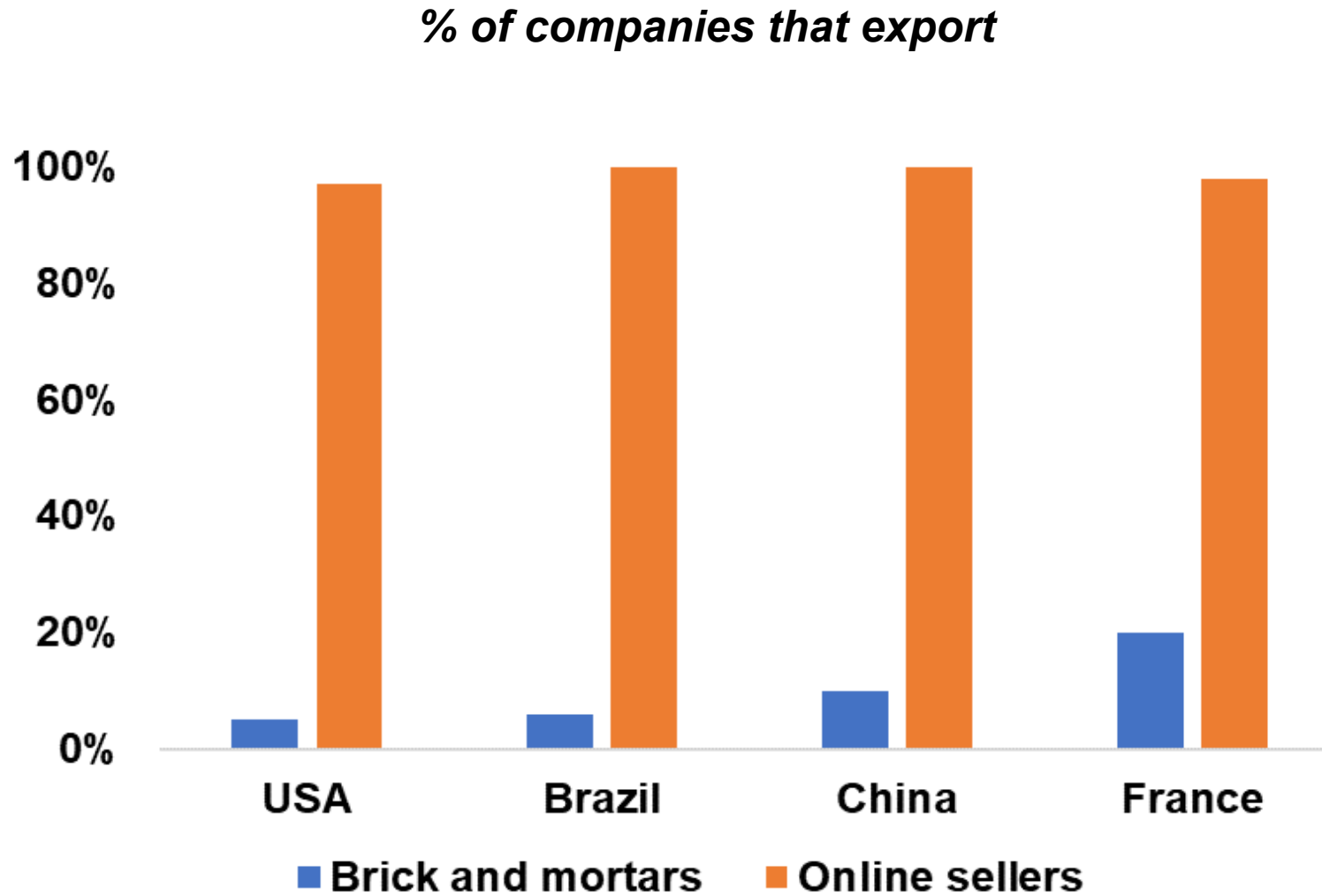
New players, patterns, possibilities

Who Exports? Almost No-One

% of companies that export

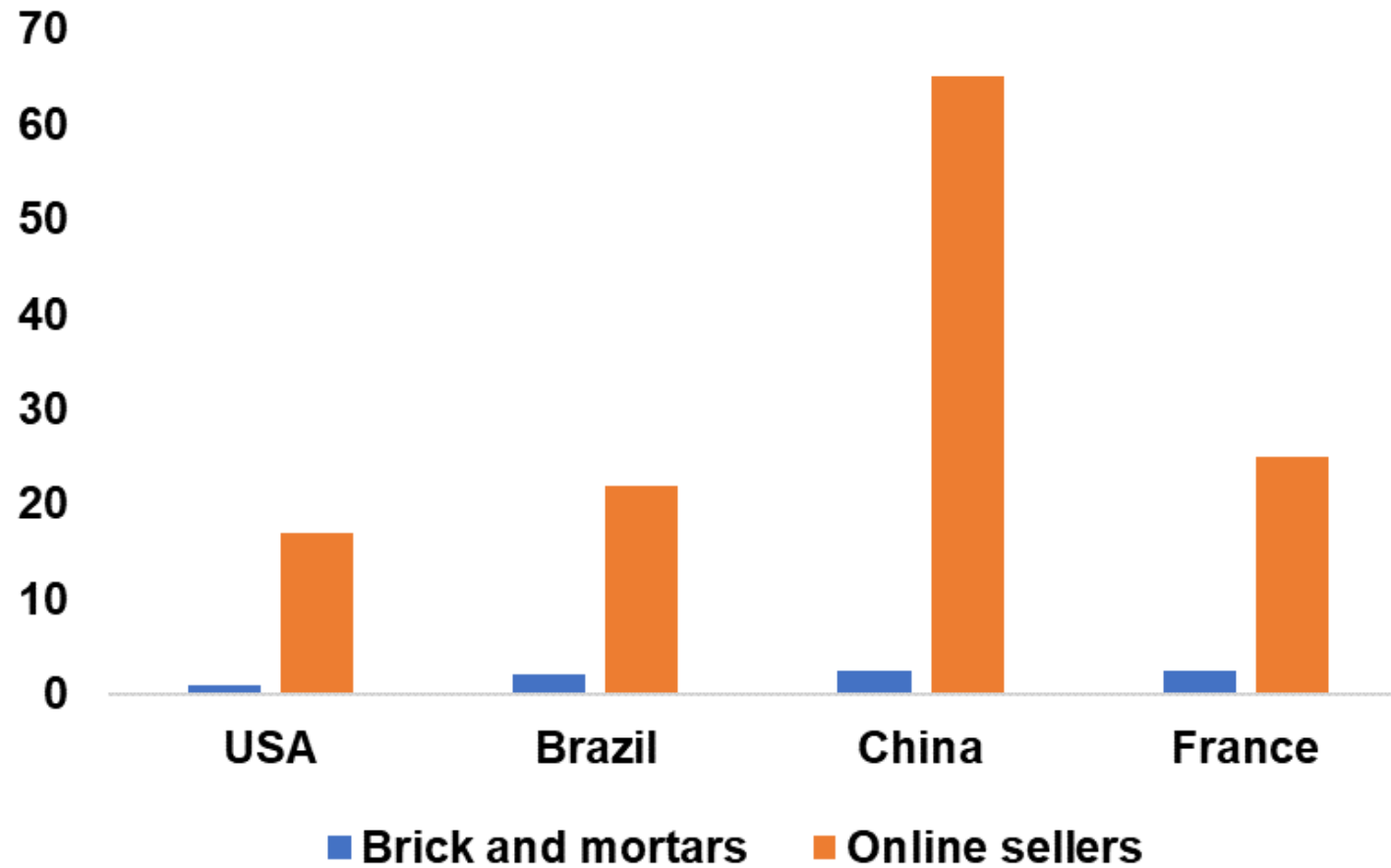


Ecommerce Is Killer App for World Trade



Ecommerce Sellers Export Everywhere

Number of export markets



Ecommerce Alchemy

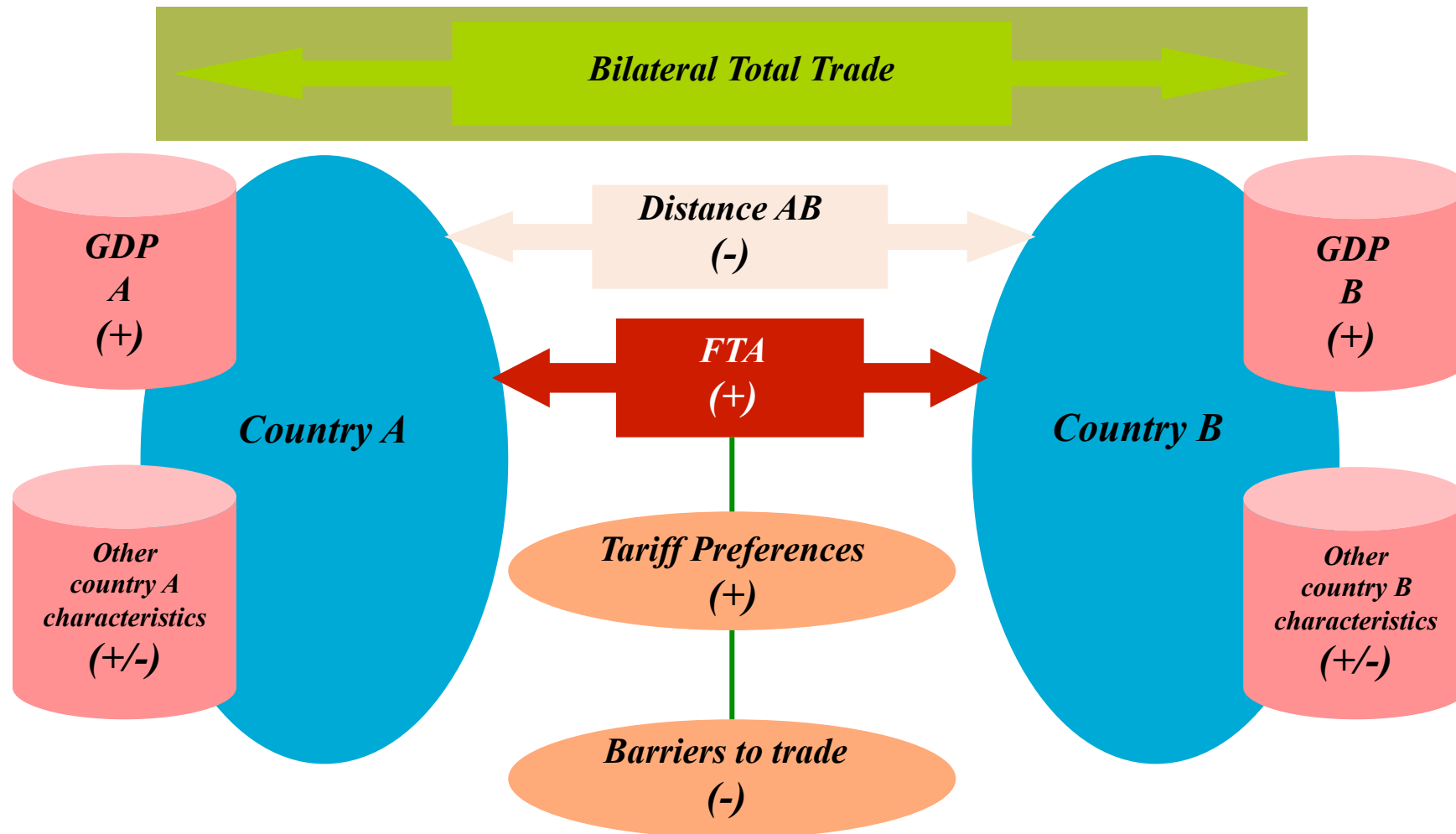
% of companies that export



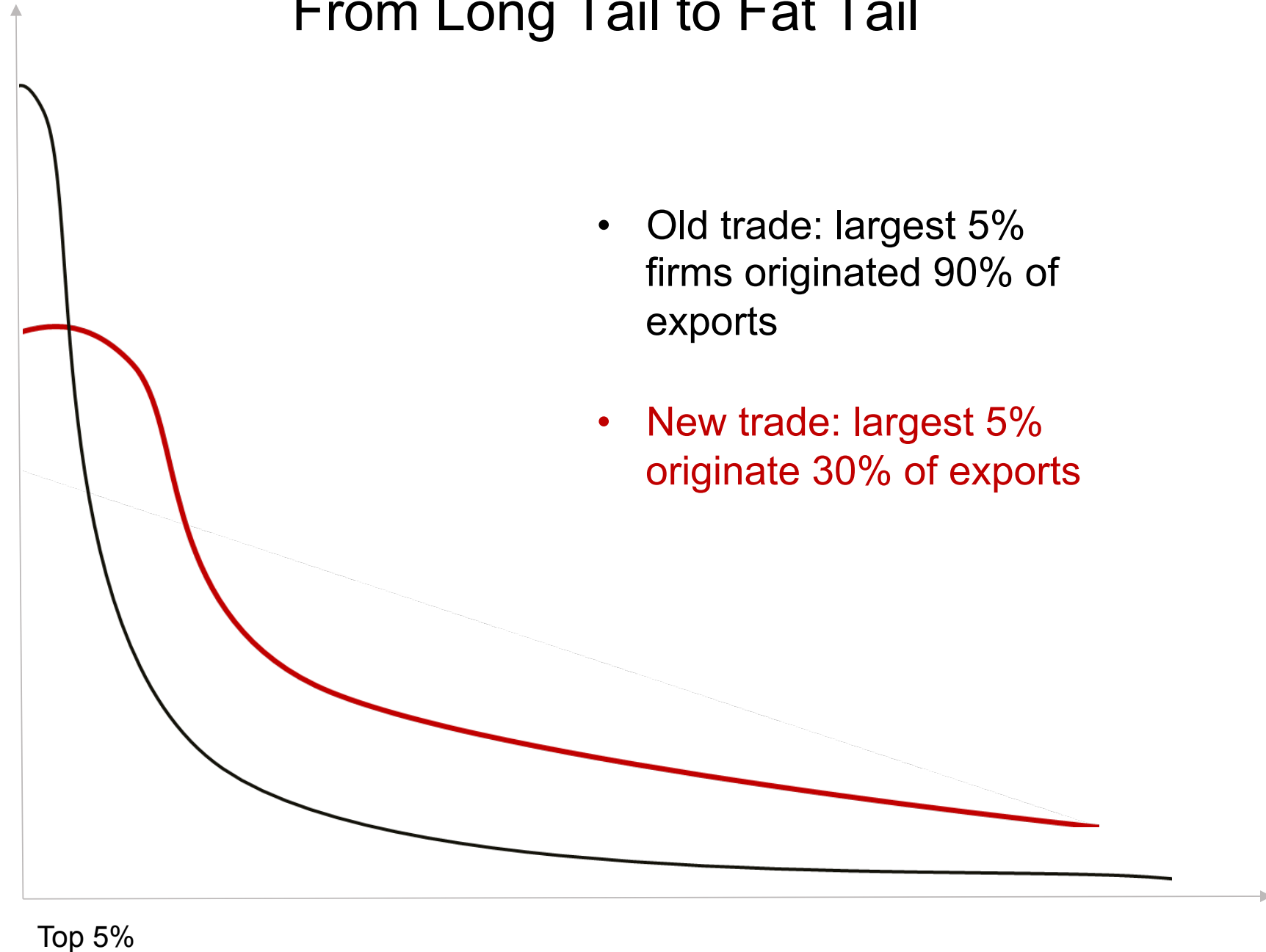
New Shoppers – Globalization Globalizes



Ecommerce trade flows don't obey gravity model (as much)



From Long Tail to Fat Tail



Mass-production vs. mass-customization

Standardization and economies of scale

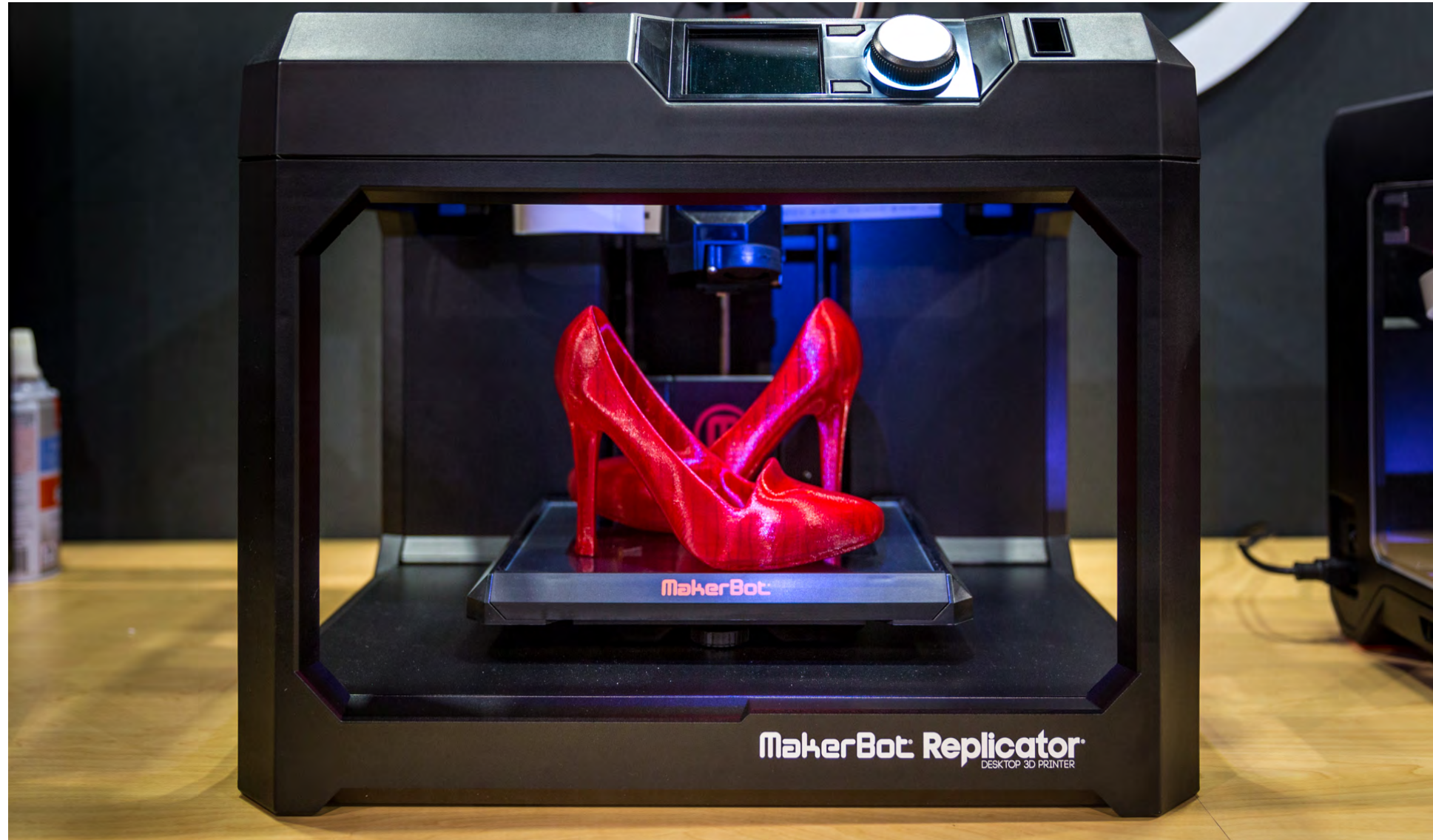


Customization and economies of scope



- By 2027: entirely possible to run a cost-effective manufacturing operation with runs that are 98% less than traditional manufacturing scale = customized goods

New Globalization



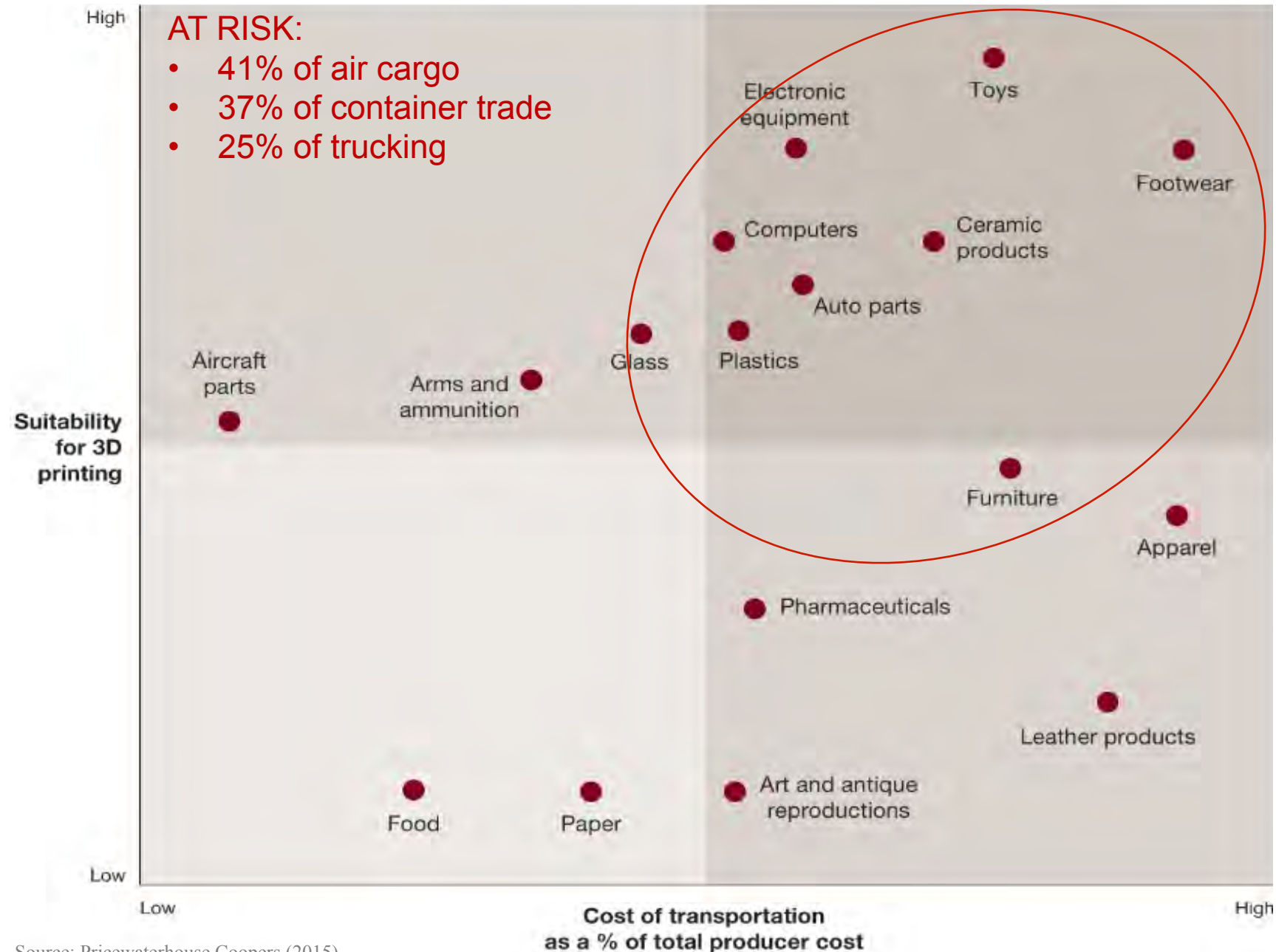
- Lower production, inventory, & shipping costs: savings conservatively 50%

Mass production too is changing

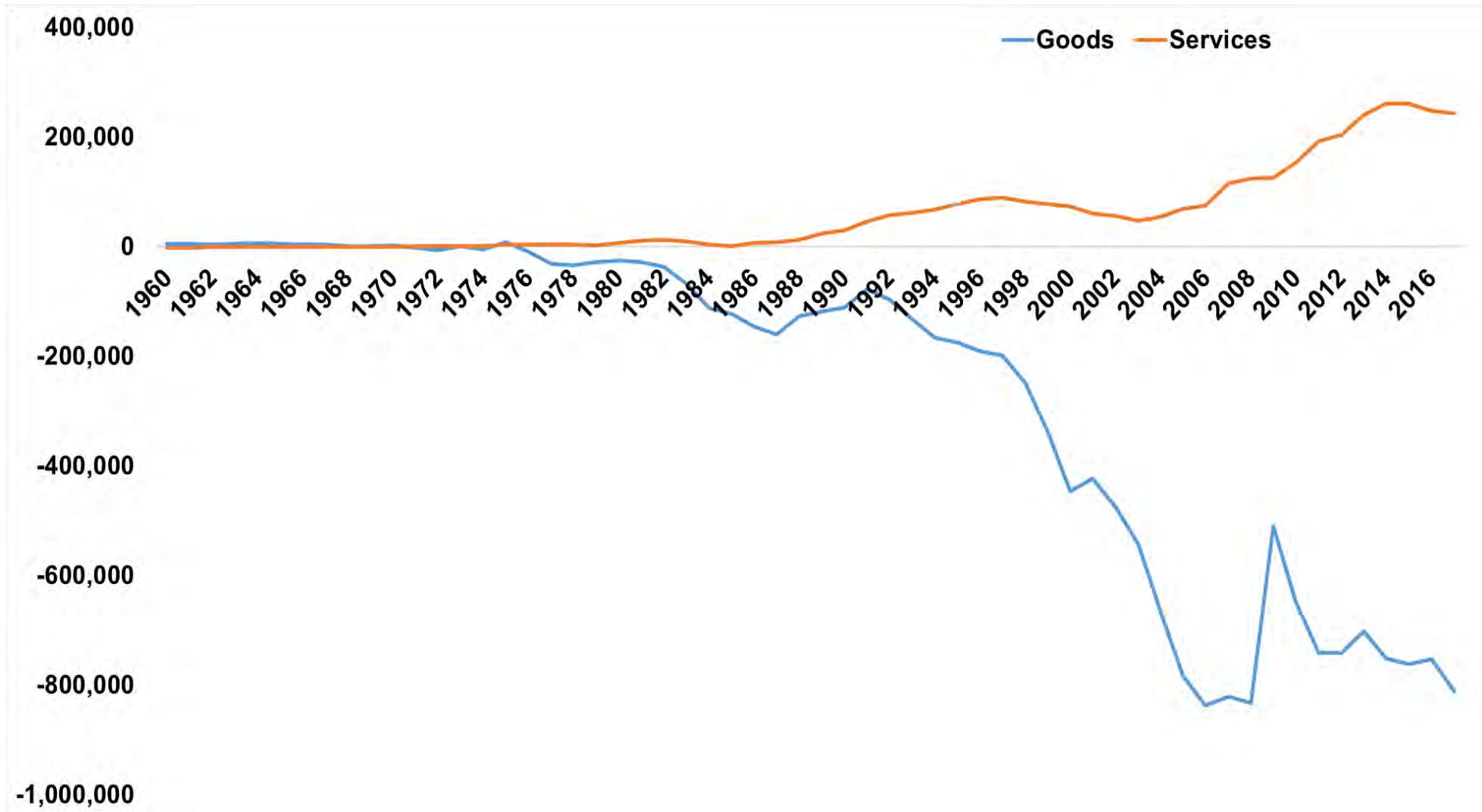


- Volvo engines: time to manufacture down from 36 days to 2 days, 94% gain
- Supplier base and labor cost considerations melt: geography of production no longer dictates production location, geography of consumption does

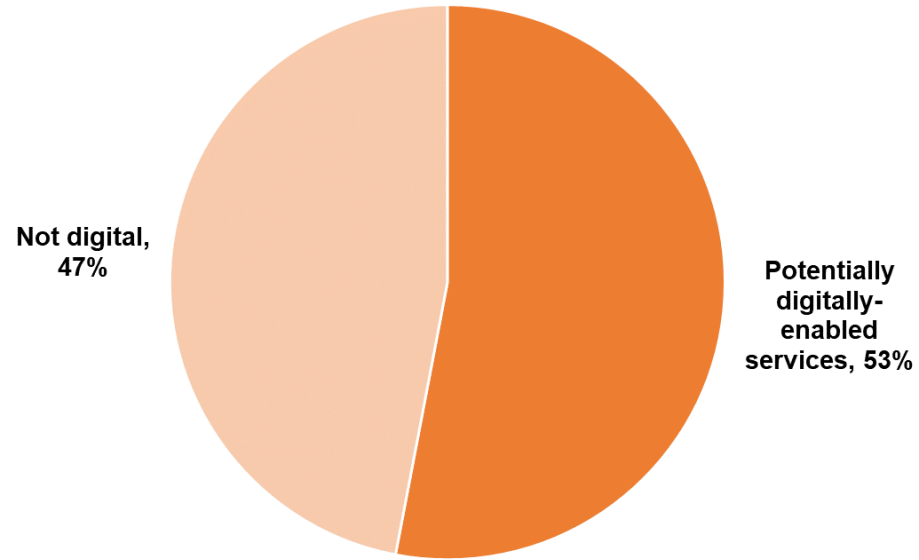
~~Global~~ Local Supply Chains



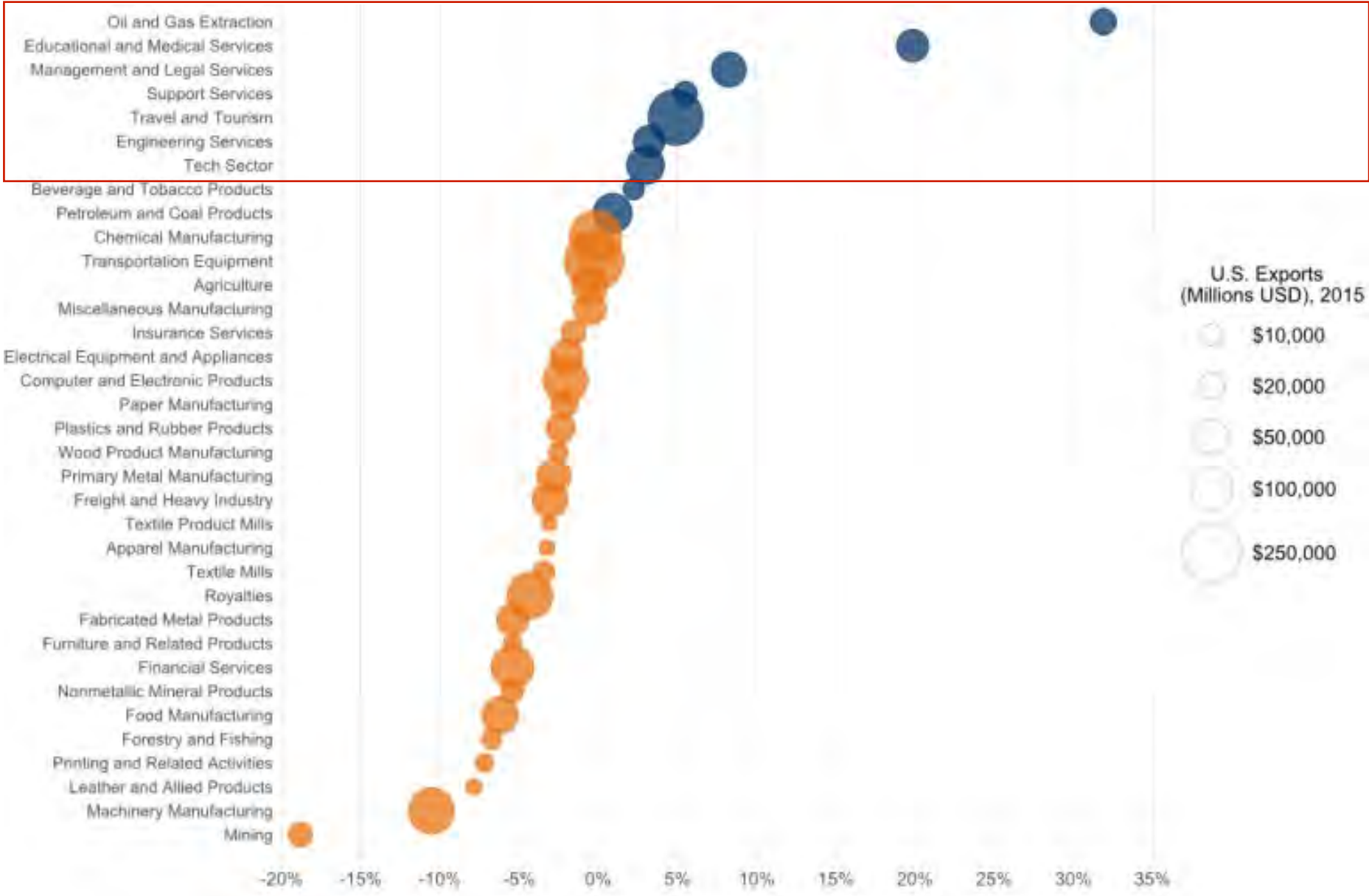
Services trade growing 60% faster than trade in goods - and America's services trade surplus is growing



> 50% of U.S. service exports are digitally-deliverable



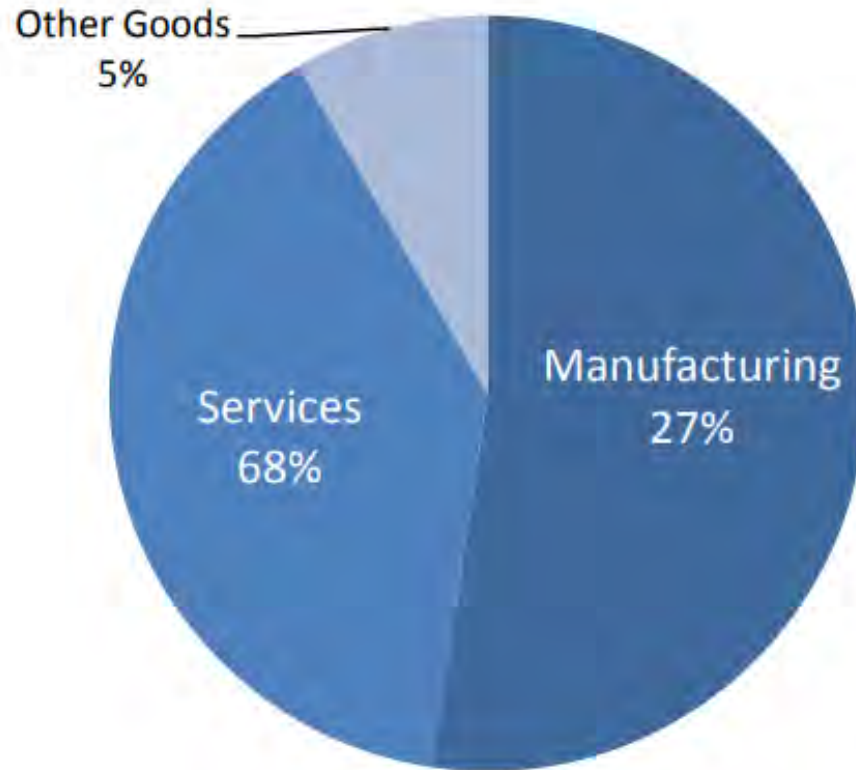
Services Drive Exports Growth



Source: Brookings Institution.

> 2/3 of U.S. Export-Related Jobs Are in Services

U.S. jobs supported by exports - % of total



Top-5 AZ Jobs supported by exports



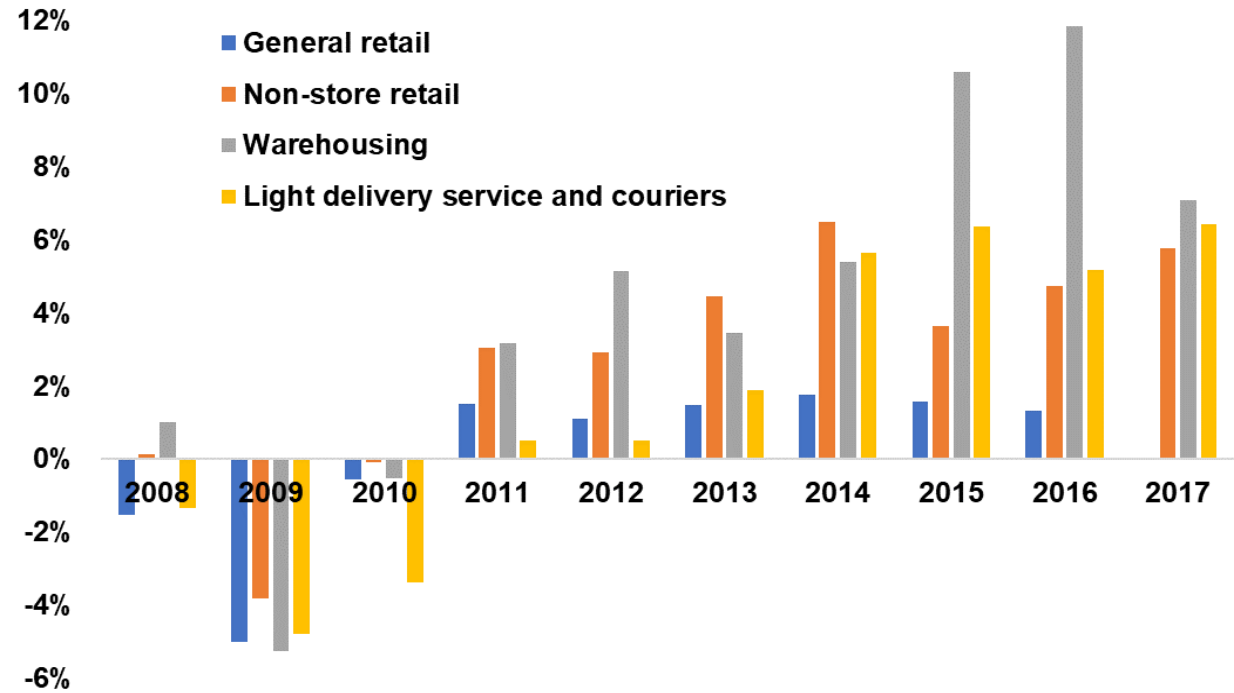
Ecommerce is on fire and creating services jobs

% year-on-year change in market growth



Source: eMarketer.

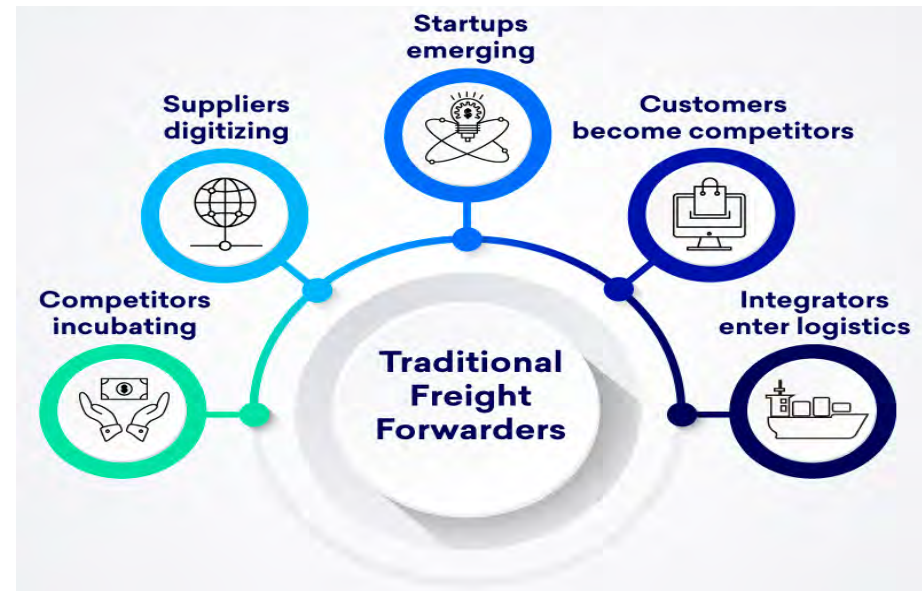
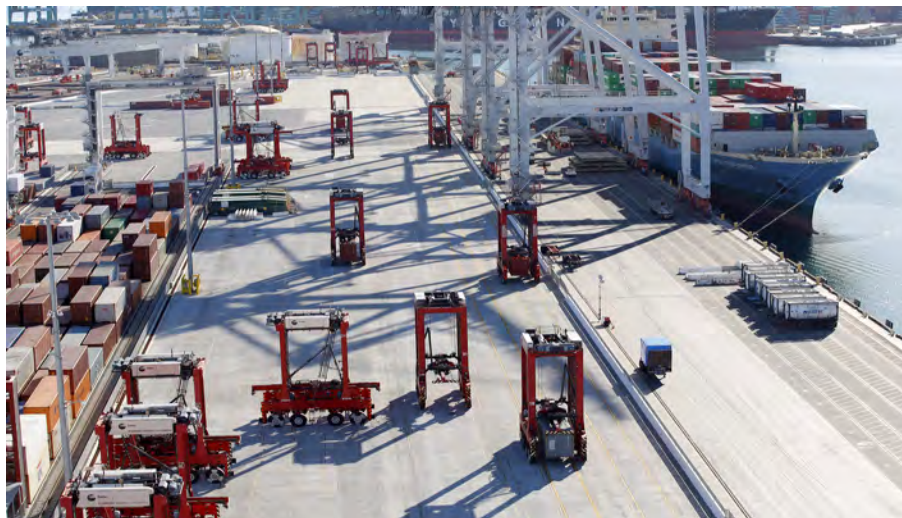
% year-on-year change in employment



Source: Bureau of Labor Statistics.

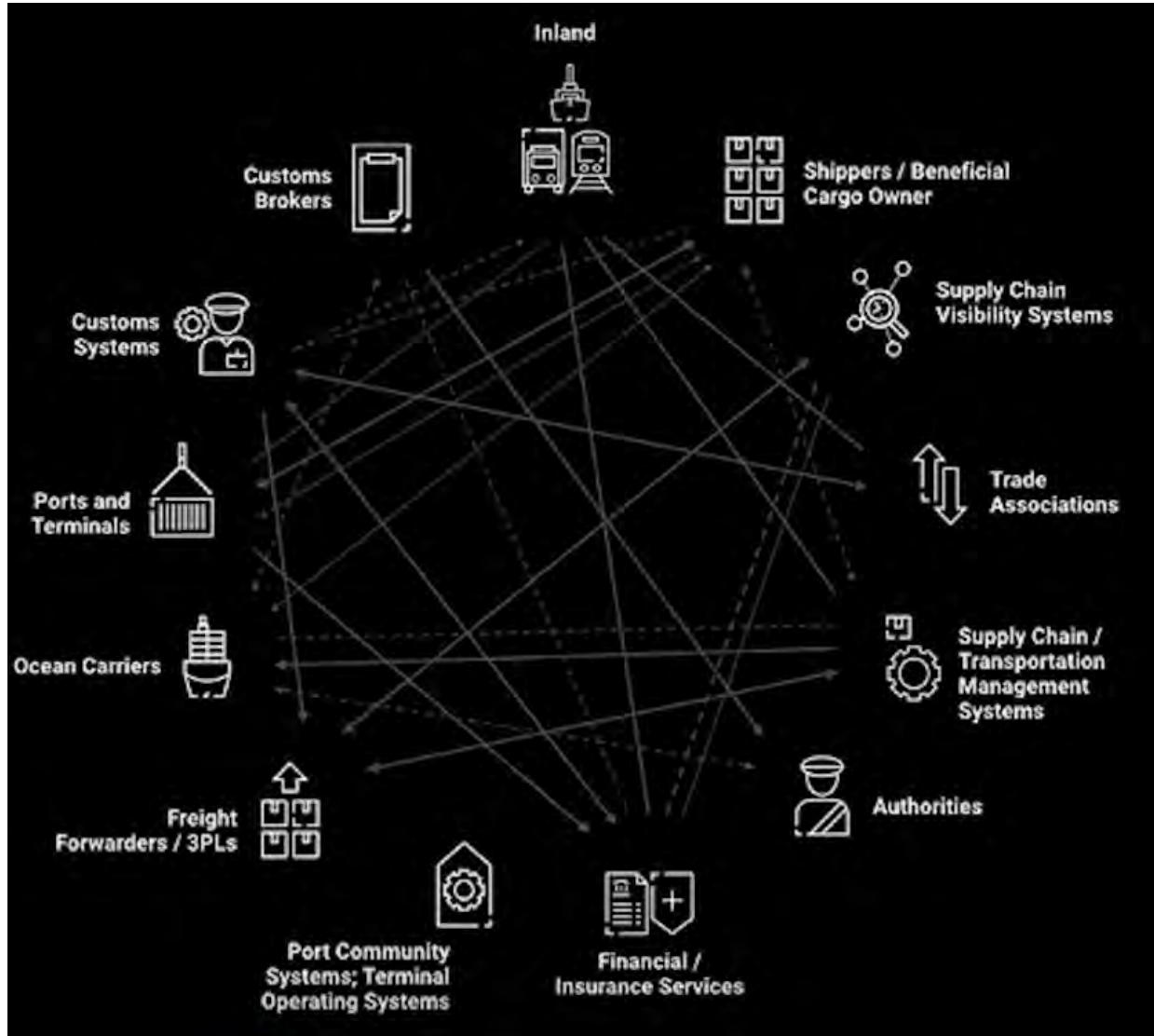


All parts of trade ecosystem are digitizing and becoming automated



Digital islands vs. digital ecosystems

Siloed transactions



Interoperable systems

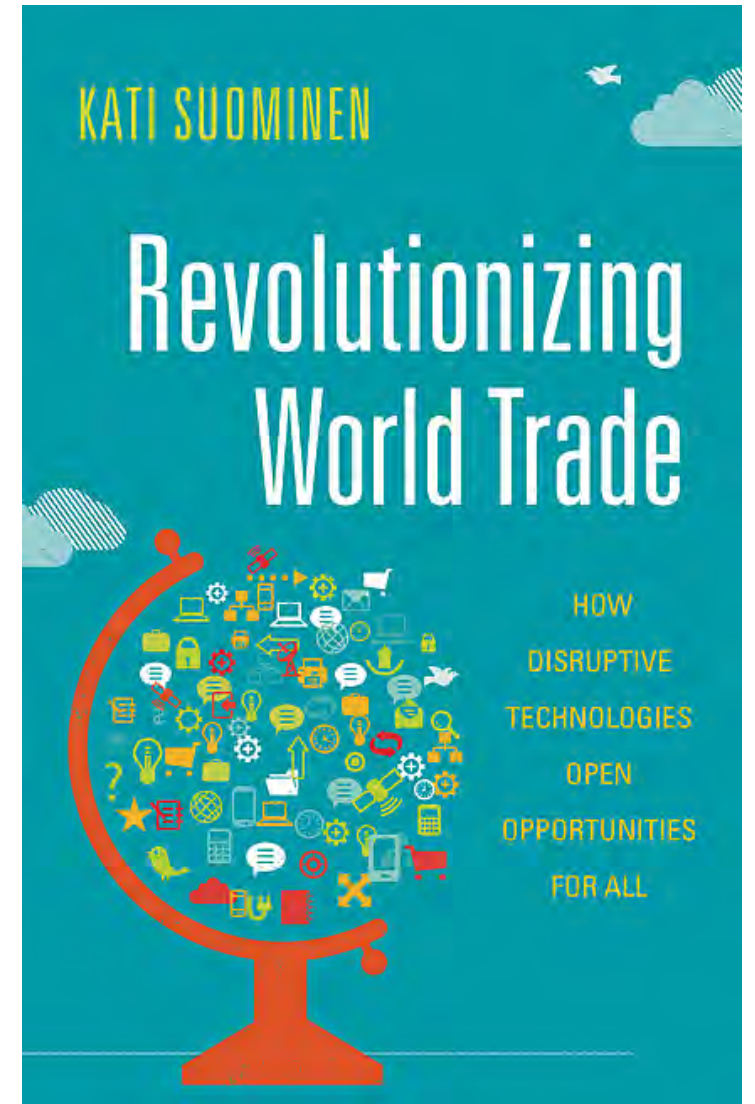


The entire trade cycles in transforming



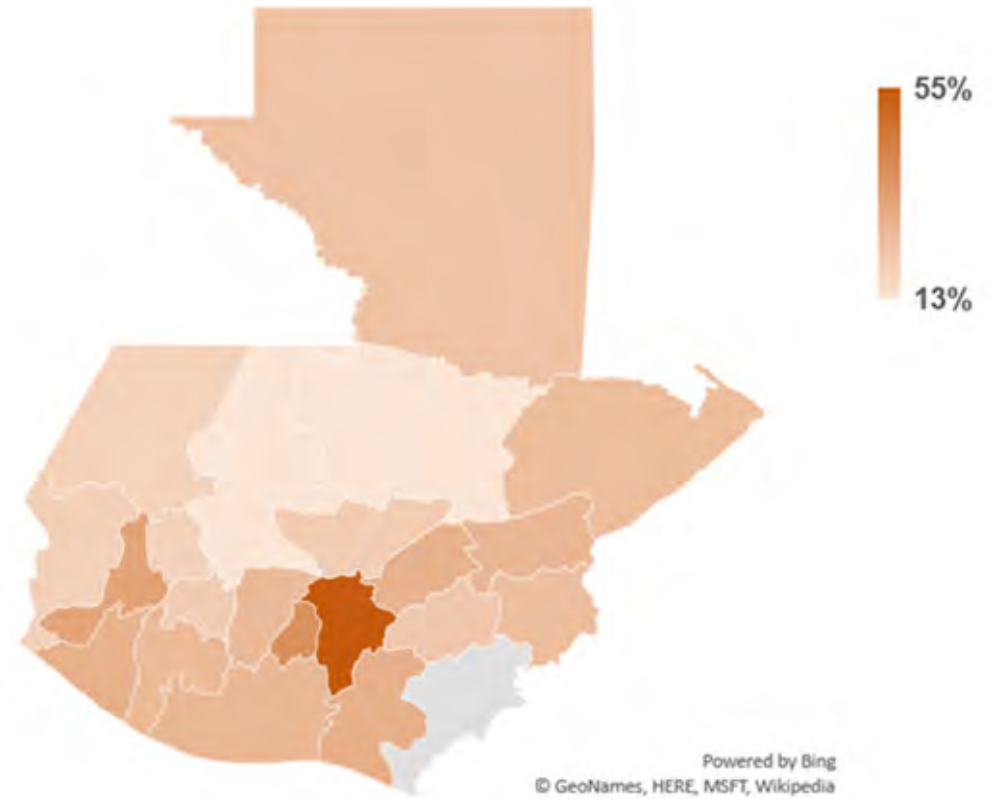
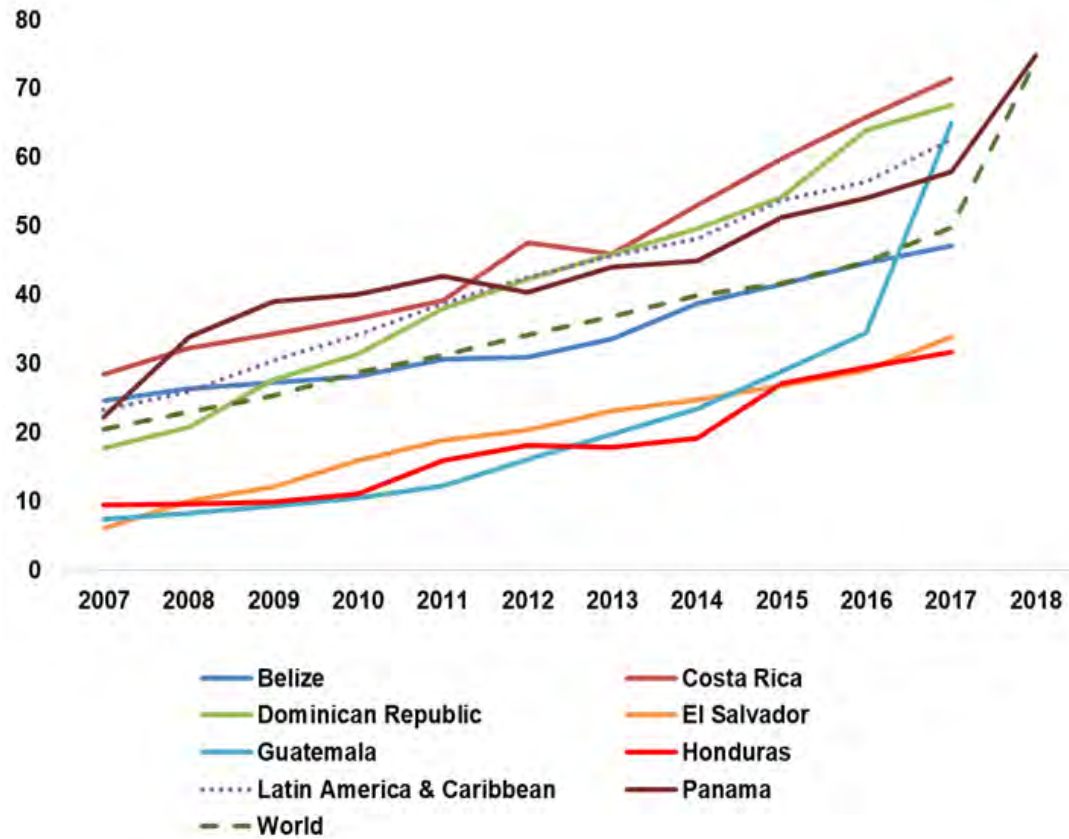
Trade in Globalization 4.0 will be...

- Run by small business and individual shoppers
- Platform-based
- Differentiated products and intra-industry
- Digital – designs, content, services
- Digitized and automated
- Creating new digital jobs

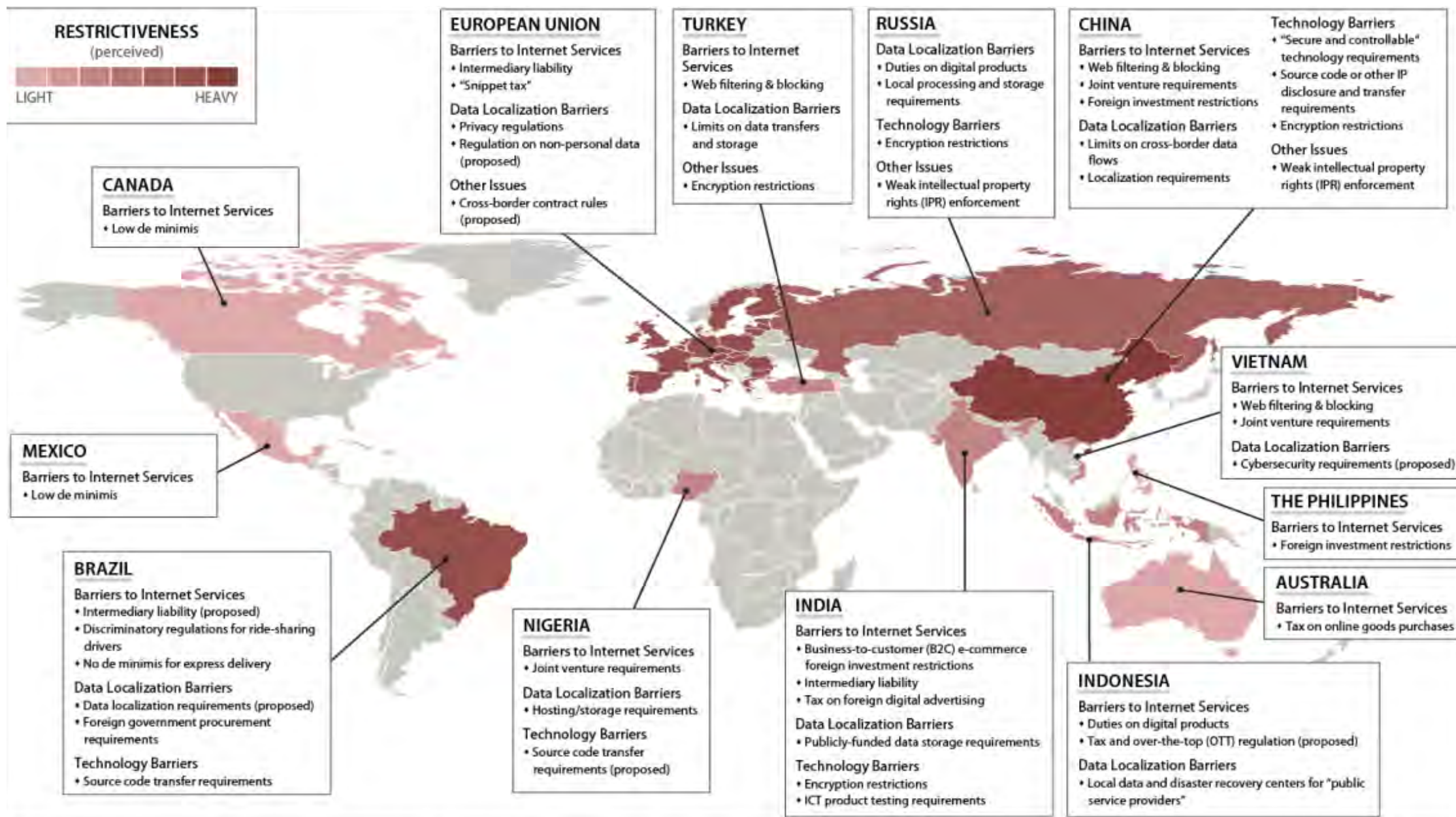


Challenges

Global vs. Local Internet Connectivity

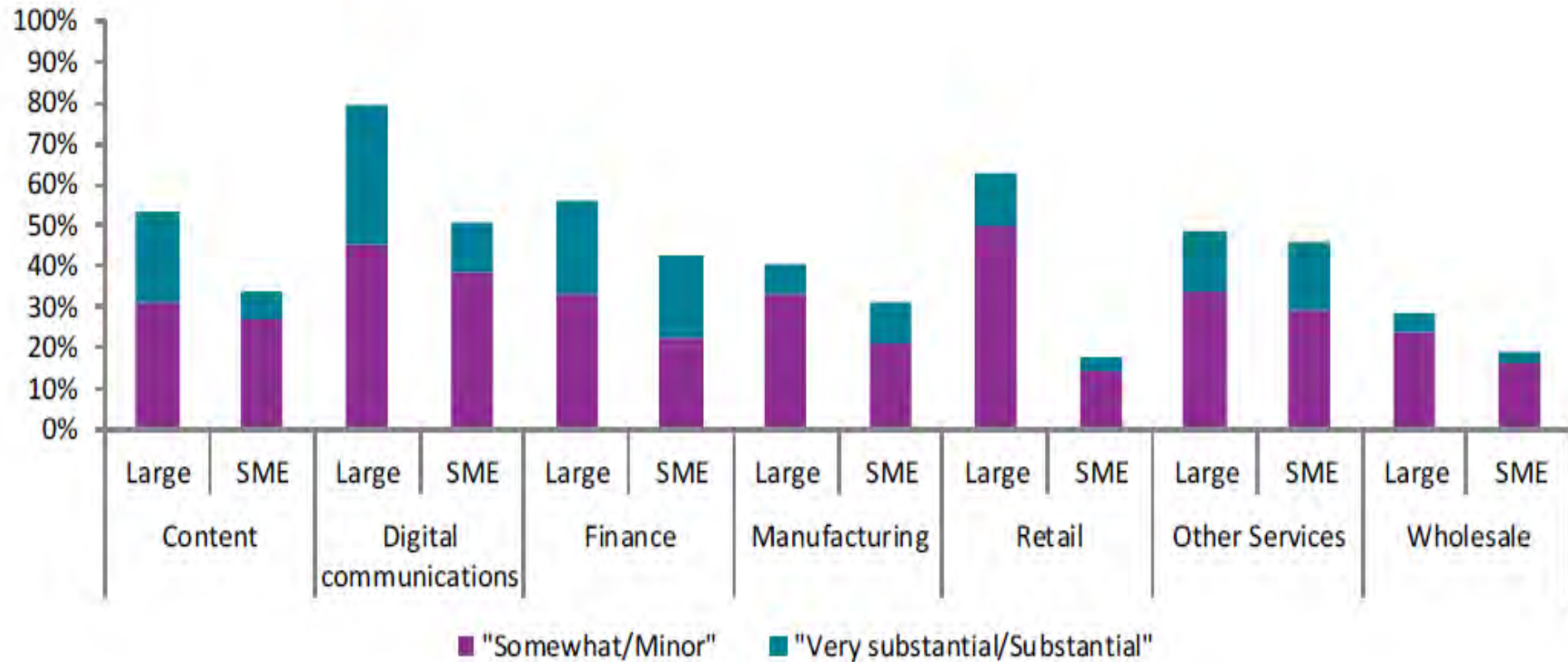


Regulatory fragmentation vs. global rules of the game

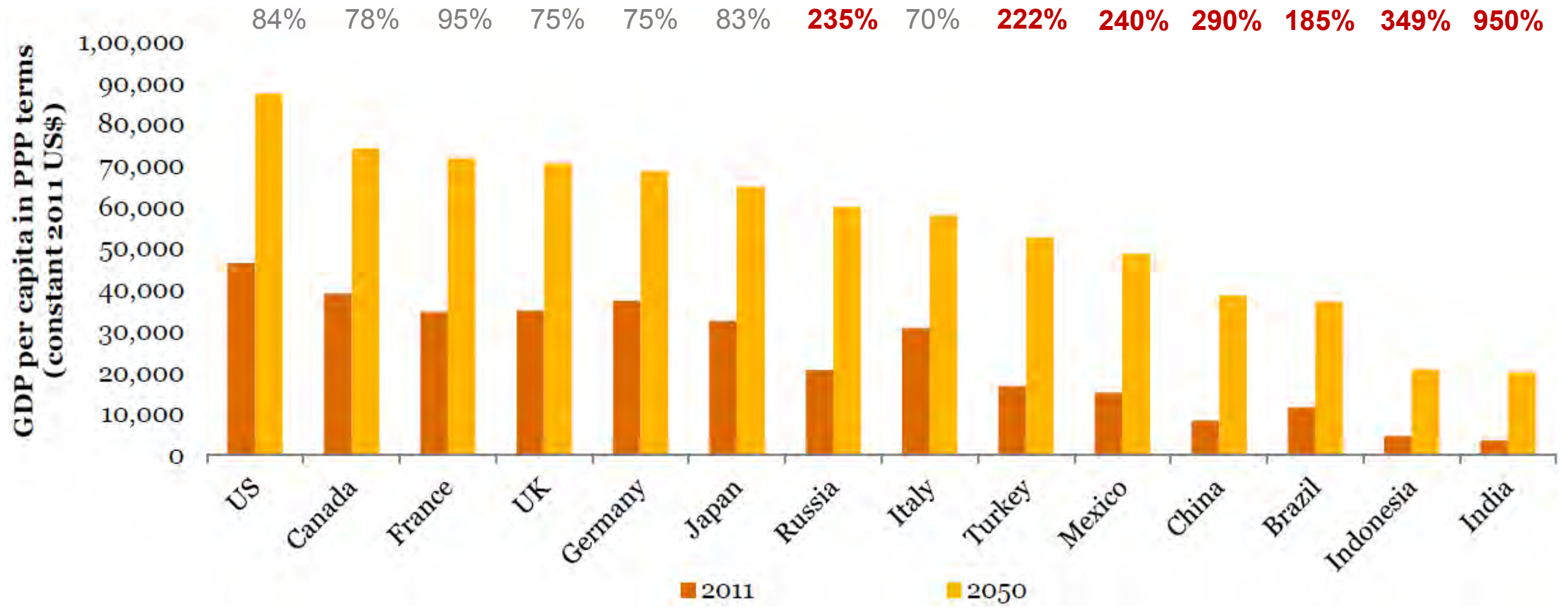


Splinternet

% U.S. companies saying foreign data privacy rules are a problem



Great Divergence vs. Great Convergence – will developing countries continue fast growth (by using technology) and converge?



Source: Pricewaterhouse Coopers.

How to Forecast Growth? Components of Long-Term Growth

