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How the Platform Economy Is Reshaping Global Trade

Firms and even countries will need a strategy as the world moves from pipelines to platforms.

Two conflicting forces are shaping the future of global trade. On one hand, protectionism, largely exemplified by moves like Brexit and the United States' withdrawal from the Trans-Pacific Partnership (TPP), is constraining the free movement of global value flows. On the other hand, digital technologies are blurring national boundaries and fostering greater cross-country flows.

The shift from pipelines to platforms has been a **focus** of my work in recent years. Pipelines are the linear value-creation and delivery models that we've inherited from the industrial era. As the world becomes more connected, platform business models create a central infrastructure that enables interactions between producers and consumers. This more open, networked flow of value is affecting globalisation in three main ways.

The changing face of globalisation

First, the power of pipelines in driving global flows is reducing. Advanced digital manufacturing systems lower production costs, favouring locally concentrated supply chains. This is reshaping the trade flows that had emerged between the West and the East in the era of outsourcing. Adidas, for example, announced that it is moving some of its production from China back to Germany owing to the lower costs of robotic manufacturing in Germany. Firms around the world are considering multi-local manufacturing as an alternative to outsourcing.

On a similar note, increased consumption in emerging markets also drives a need for regional manufacturing. The East no longer merely supplies the West – another factor contracting supply chains and leading to the decline of the pipeline-based model of global trade.

Second, the mix of trade is changing in a digital world: Even as goods trade slows down, there is an increase in services trade and cross-border data flows. Digital technologies allow products-based business models to morph into services-based ones. For example, companies like GE and Siemens are increasingly switching from selling equipment to delivering data services, including predictive equipment maintenance and usage-based leasing.

Third, and most importantly, platforms enable much smaller enterprises to participate in global trade without investing in their own supply chains. Alibaba, for example, enables a significant portion of SME trade and has now moved to financing these SMEs in China. Amazon and WeChat have similar ambitions. As these platforms get bigger and benefit from winner-take-all scenarios, we may see control points over trade shifting from political countries to digital platforms.

These three factors together are driving the shift in global trade from pipeline-based globalisation to platform-based globalisation.

Why is this shift important?

First, platforms will become increasingly powerful. Platforms that control social or economic transactions capture data used for wider decision making. For example, data captured by commerce platforms like Alibaba now serves as a financial credit rating system. Data captured by Facebook and other social platforms already provision identity verification and access management capabilities on third-party platforms. Supply-chain actors across industries can use data captured by AI platforms like IBM's Watson and Salesforce' Einstein to make increasingly sophisticated decisions. Platforms that facilitate interactions and capture data will have an increasingly larger role to play in the future of global trade.

Second, every company operating a global supply chain today will need to develop a strategy for the platform economy. Which parts of the supply chain will get automated? Which ones will get opened up for external participation? With the rise of supplier management platforms like Tradeshift, the cost of managing external suppliers goes down, allowing firms to outsource more of their activities.

A related strategic question is: Will the digitisation of supply chain flows improve governance and sustainability? Digitisation allows firms to determine the quality and reputation of their suppliers. Platforms that manage supply chain transactions capture data about supplier reliability and performance, allowing firms to make better decisions. These platforms can also track and trace inputs across the supply chain and create more responsible and sustainable supply chains. These factors could very well determine the competitiveness of companies in a digital economy.

Third, platforms will directly impact, and even compete with, countries. For example, freelancing platforms that centralise revenue capture take away tax dollars from countries like Bangladesh and the Philippines with a high concentration of freelancers. But more importantly, platforms like Alibaba can drive SME growth and financial inclusion for a third-party country and have direct bearing on its development. This gives these platforms incredible negotiating power. It also raises geopolitical concerns, especially when the platforms are closely monitored by the home-country government.

Finally, countries themselves will have to think like platforms. I have previously outlined a platform-strategy **framework** for countries, taking Singapore as an example. Any country that wishes to participate in this new global trade order should think about attracting trade flows from around the world. Singapore is considering the merits of establishing a free data port for this purpose. India, similarly, has built the India Stack platform around the Aadhaar identity system and is considering taking this platform to other countries in a bid to attract data flows. In both cases, the bet is that participating countries will share their data flows to benefit from the unique IP these countries have built.

Make no mistake: The rise of platform-led trade is one of the defining shifts of our times.

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