Economic Resilience and trade

ORGANIZATION

Structure of the report

A. Introduction

B. Why economic resilience matters

C. The role of trade in economic resilience

D. The role of international cooperation in building economic resilience

E. Conclusion

External contributions

Opinion pieces

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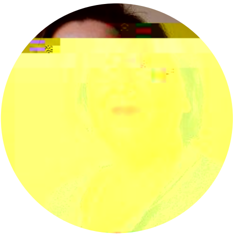

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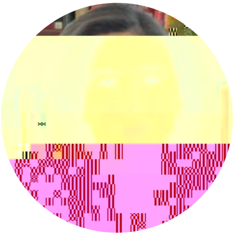

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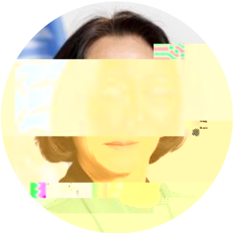

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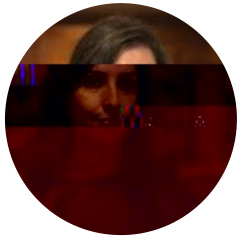
Boxes



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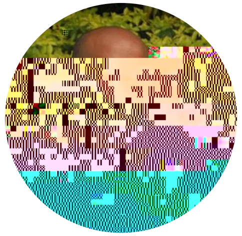

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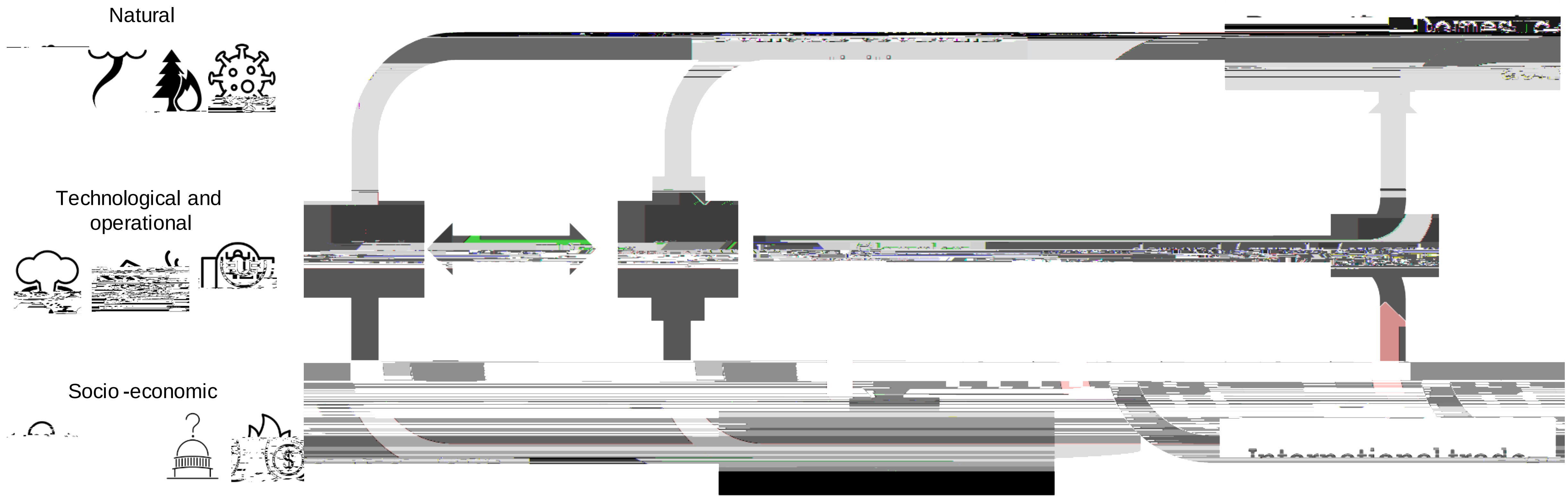
Economic resilience and trade

B.Why economic resilience matters?

Economy is increasingly exposed to risks and shocks causing significant economic impacts



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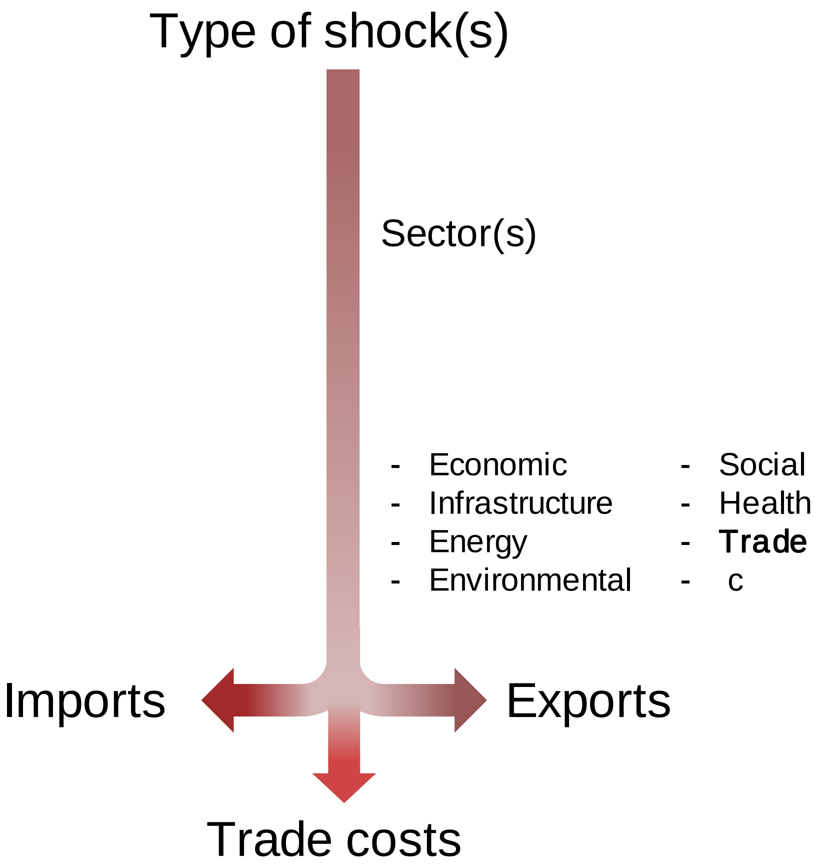
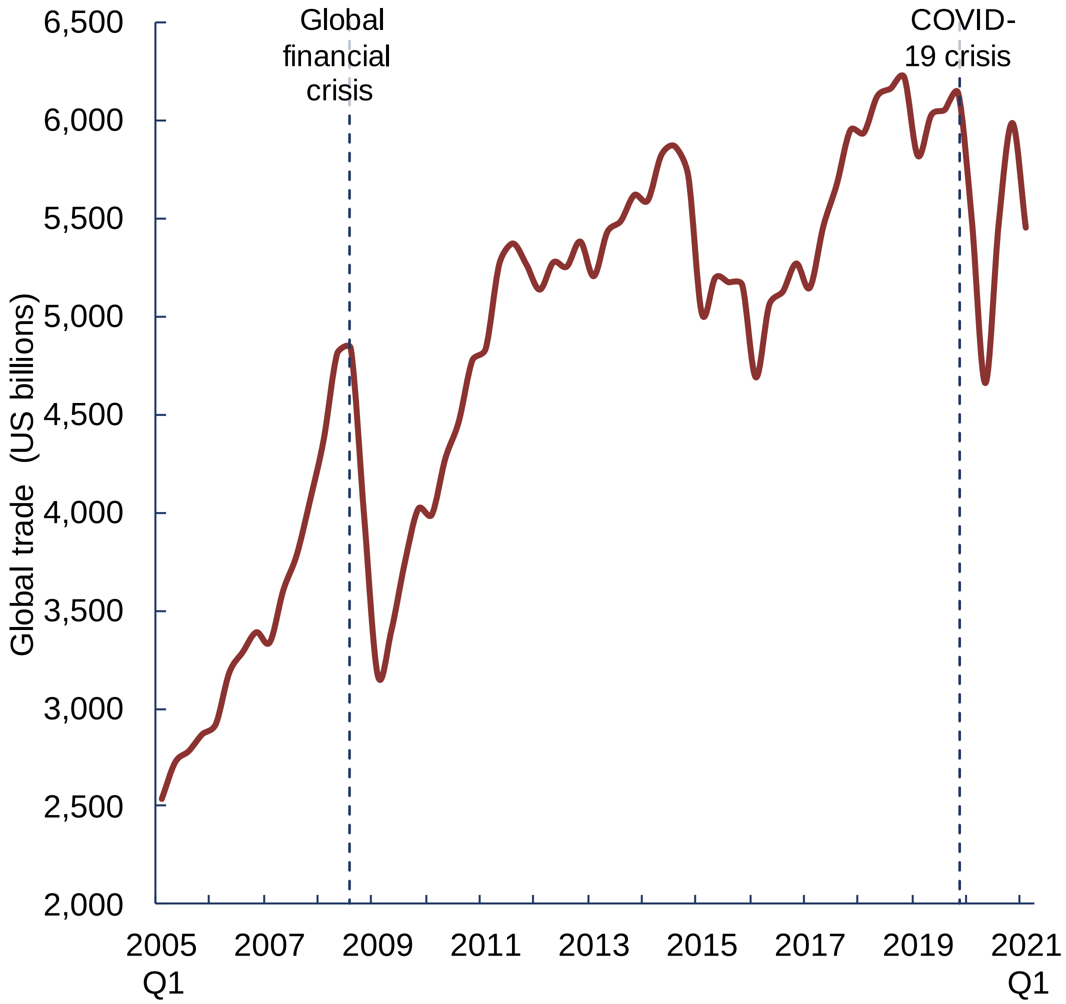
Trade impacts of shocks remain heterogenous





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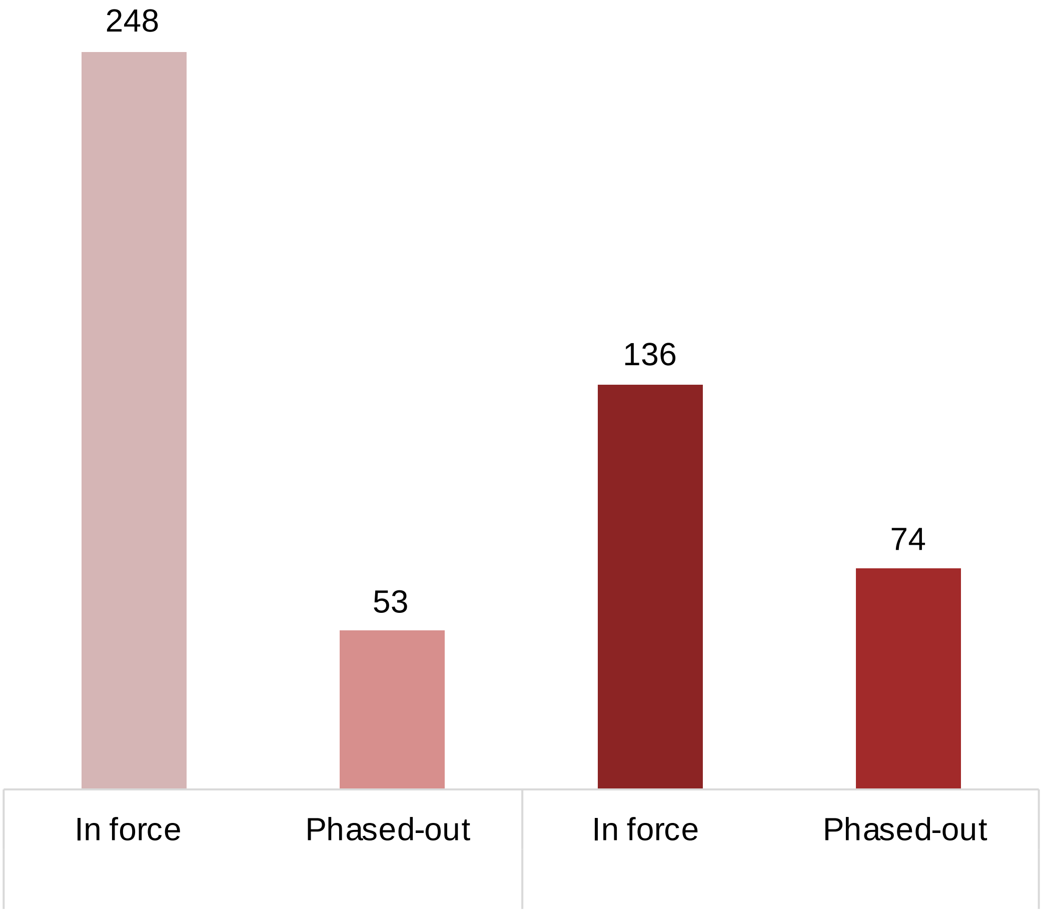
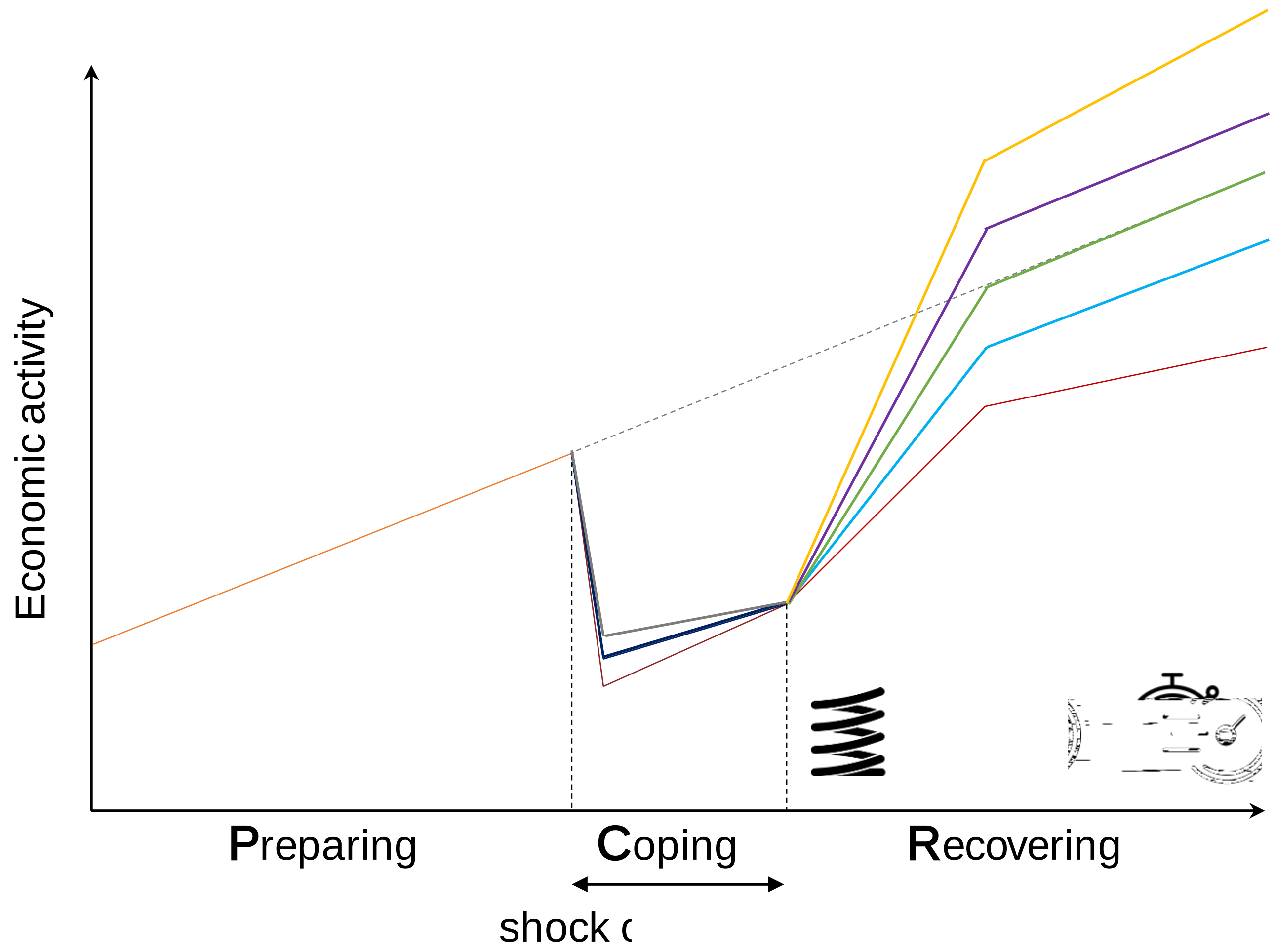
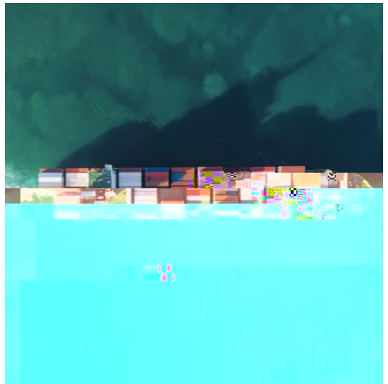
Trade policy responses are rarely fully trade restrictive



Economic resilience is a dynamic concept



Economic resilience and trade



Role of
international trade

On the one hand, trade can contribute to the spread P G T I P D L T c

‡

[redacted]

Trade linkages help to accelerate GDP growth during the first year of the COVID -

The role of trade in economic resilience

- Empirical research suggests that beneficial coping effect dominates harmful spreading effect of trade as measured by macroeconomic stability:
  - Increase in trade openness in the last 50 years has reduced macroeconomic volatility in most countries
- Crucial role of diversification
  - Trade allows countries to diversify sources of supply and demand, thereby reducing exposure to country-specific shocks
  - Diversification is associated with reduced volatility
- Diversification has increased in the past decades, but change is slow

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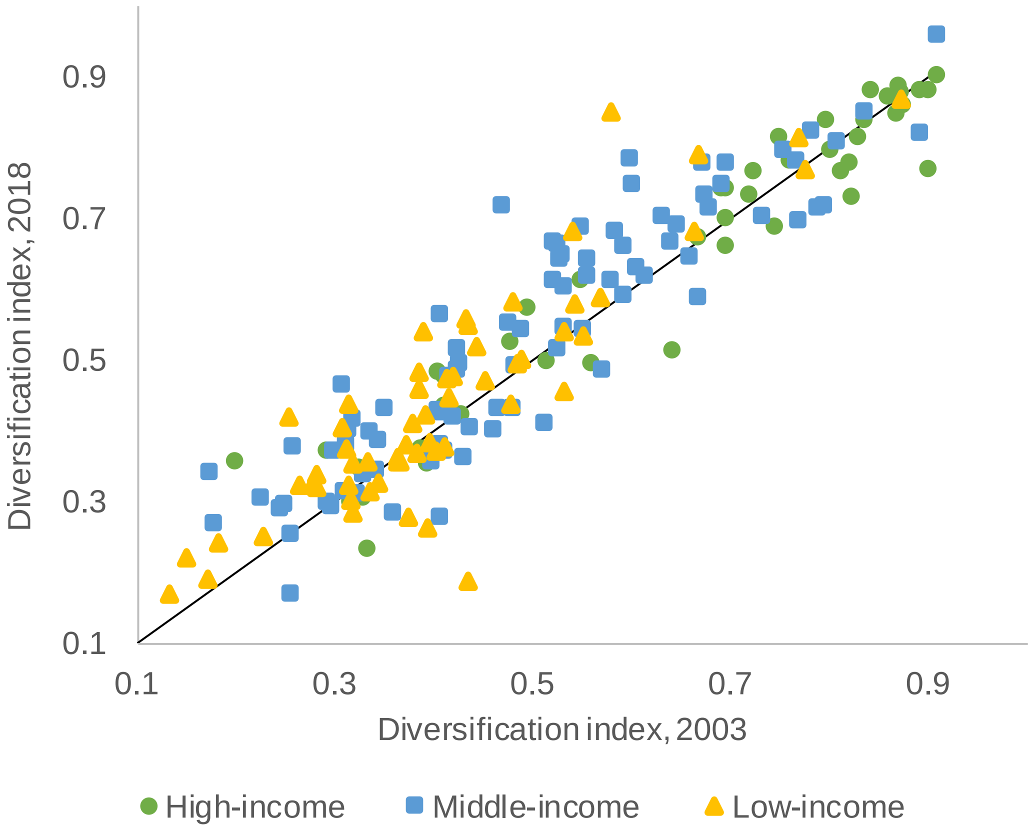
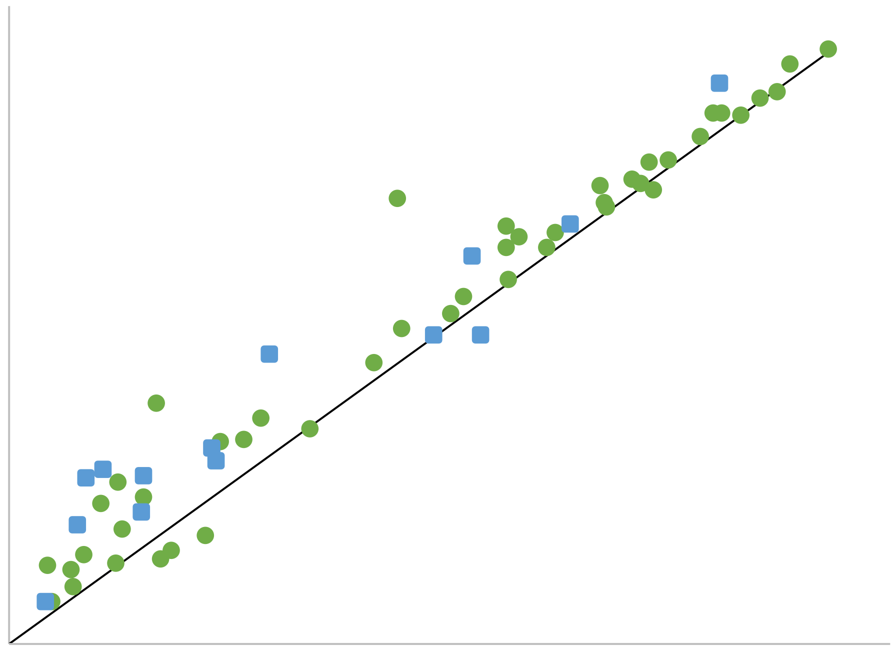
Product and geographical export diversification has increased in recent years

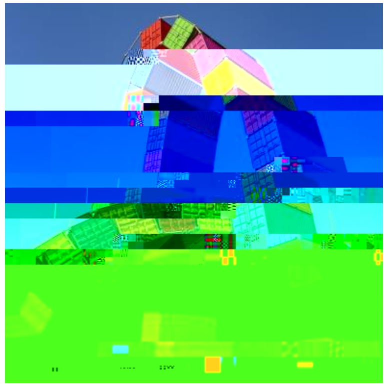
Product export diversification



Geographical export diversification



Economic resilience and trade



D. Role of international cooperation in building economic resilience

Section D:The role of international cooperation in building economic resilience

‡Why does intaa eep21(ain)123aima-785t-785t-785inoe3en10(o)12(emi

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More resilience requires more (trade) cooperation

Unilateral action(s)

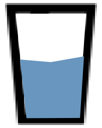
Positive spillovers

Suboptimal achievement

Negative spillovers

Risk of cross -retaliation

Income and welfare loss



- In the absence of cooperation, governments do not take into account the international spillovers of their policies.
- Cooperation between governments can help them adopt more measures that generate positive international spillovers
- And less measures that generate negative international spillovers

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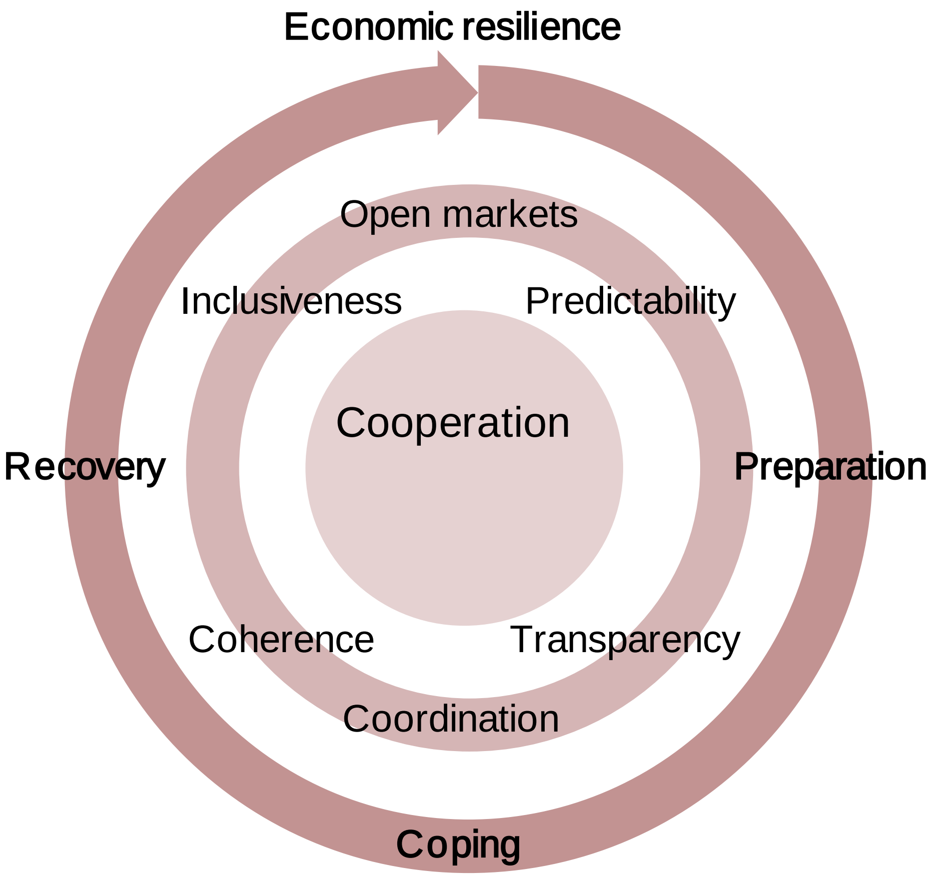
More resilience requires more (trade) cooperation



‡ The benefits of globalization are not shared widely or equally enough, and this leaves the world economy less resilient than it could be.

‡ Trade cooperation can help achieve more open markets and more inclusive, stable and predictable trade that promotes diversification of products, suppliers and markets, thus improving resilience to shocks.

‡ Cooperation can also promote greater transparency, information sharing, and predictability in the global marketplace helping countries to better assess production capacities, avoid bottlenecks, manage inventories and prevent excessive stockpiling.

‡ International cooperation on trade takes place at the multilateral, plurilateral and regional level.

International cooperation on non-trade policies complements trade cooperation

- Maintaining coherence in financial, economic and trade policies through international cooperation is crucial to ensure that trade contributes to recovery processes after crises.26(e)12(c)-4(o)12(n)10(d

International cooperation on trade policies can reduce risk and vulnerabilities

- The WTO reduces trade policy volatility that can result from shocks and/or that can itself be a source of shocks or a propagator of existing shocks.
  - The WTO does this through disciplines limiting Members' discretion to adopt policies causing negative cross-border spillovers while supporting policies creating or expanding positive spillovers.
- The WTO enables import and export diversification Á Z] Z Œ µ • } µ v š Œ] • [Æ ‰ } • µ Œ specific demand- and supply shocks
  - Transparent, predictable and open markets support diversification
  - Transparency provisions, lower tariffs, trade facilitation, e-commerce, aid-for-trade, initiatives on trade finance all play a role
  - Initiatives on investment facilitation and e-commerce could also contribute
- The WTO helps strengthening the resilience of global value chains, in particular for essential goods
  - Disciplining reshoring policies
  - Collecting and sharing information on value chains
  - Facilitating trade and collaborating on standards
  - Assessing and managing risks of bottlenecks or chokepoints
- The WTO helps enhancing emergency preparedness and limiting the propagation of shocks
  - Enhancing government procurement practices
  - Preparing for disruptions by improving the availability of critical services
  - Limiting the propagation of diseases through trade and trade-related mobility

International cooperation on trade policies can help cope with shocks

- The WTO can help ensure access to essential goods during a crisis
  - Discouraging the adoption of export restrictions on essential goods
  -

International cooperation on trade policies can help recover after shocks

- The WTO can contribute to accelerating economic recovery through improved market access can help

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https://www.wto.org/english/res_e/publications_e/wtr21_e.htm