

# Foreword by the WTO Director-General



The COVID-19 pandemic has neatly illustrated the multi-faceted ways in which globalization touches our lives. The deep interconnections of travel, trade and financial flows that characterize our era allowed the novel coronavirus and its associated economic shocks to spread around the world in a matter of weeks. Earlier pandemics took months, even years, to go global.

Yet, globalization was also at the heart of why this virus was met with vaccines in record time. Scientists were able to share ideas and technology across borders, backed by public and private funding for research and development. As the new vaccines proved to be safe and effective, supply chains cutting across hundreds of sites in a dozen or more countries came together to provide the specialized inputs and capital goods needed for vaccine production on a large scale – all within a year.

Nevertheless, access to COVID-19 vaccines remains highly inequitable. At the time of writing, vaccination rates in Africa and in low-income countries remain in the single digits, while in rich countries, and, increasingly, in upper middle-income economies, large shares of the eligible population are vaccinated, with individual hesitancy being the main obstacle to universal coverage.

Global production of COVID-19 vaccines is projected to reach 12.4 billion doses by the end of 2021 – a dramatic increase compared to the world's annual pre-pandemic production capacity of 5 billion doses for all vaccines – but this is still not enough, especially as evidence of waning immunity is leading more and more countries to pursue booster shots. Trade will continue to be central to getting the vaccine production and distribution we need, which are a prerequisite for a strong, inclusive and lasting economic recovery. Looking to the future, trade will also be at the heart of building a more decentralized and diversified production base for vaccines, therapeutics and diagnostics that would be more resilient in the face of future pandemics.

COVID-19 took us by surprise, despite many predictions that the world was overdue for a respiratory virus pandemic. Other risks are more firmly established on our radar screens, from climate change to natural disasters. Here too, trade can help us better prepare for, and respond to, the eventual shocks associated with those and other risks.

This year's *World Trade Report* reviews the role of trade, trade policy and international cooperation in building and supporting economic resilience in the face of natural and man-made disasters, including the COVID-19 pandemic. It finds that today's highly connected global economy is more exposed to risks and vulnerable to shocks, from supply chain cut-offs to infectious disease outbreaks, but that it is also more resilient to shocks when they do strike.

The report finds that trade cooperation is instrumental in improving resilience to shocks, because it promotes greater diversification of products, suppliers and markets. It points to ways in which trade can sustain economic resilience for households, firms and governments, particularly when supported by complementary domestic policies and effective global cooperation.

Anticipating, evaluating and managing risks is key to preparing for shocks. Diversifying supply sources and destination markets are two strategies for doing so, as is building inventory stocks of critical inputs. Other risk reduction and early warning strategies, such as weather forecasting, insurance, telecommunications and health services, can be enhanced by greater trade in services.

When a shock hits, trade can help to mitigate the impact by allowing households and businesses continued access to goods and services. During the COVID-19 crisis, despite some pandemic-related export restrictions, trade helped countries meet the skyrocketing demand for medical products. In 2020, even as the value of global trade declined by 7.6 per cent, trade in medical supplies grew by 16 per cent. Trade in personal protective equipment

increased by nearly 50 per cent – and by 480 per cent for the textile face masks that have become so familiar to all of us. Trade in agricultural products remained stable in 2020, preventing the health crisis from becoming a food crisis.

Once shocks begin to stabilize or dissipate, trade can accelerate economic recovery: on the import side, by facilitating access to competitively priced intermediate products and services; and on the export side, by enabling access to foreign demand. For poorer economies with limited fiscal space, trade is particularly important as a driver of economic growth.

The early stages of the pandemic were marked by concerns that global value chains (GVCs), especially those with high levels of dependency on particular nodes or countries, could break down and become a new source of cascading shocks. Although there were instances of factory closures in one part of the world forcing assembly lines elsewhere to stop operations temporarily, GVCs have thus far been generally resilient, and have helped to drive the current economic recovery. Merchandise trade has rebounded faster than gross domestic product, propelled by fiscal and monetary stimuli, along with governments' broad restraint in the use of trade protectionism.

However, coupled with investment cutbacks in early 2020 by businesses anticipating a prolonged downturn, the unexpectedly sharp rebound in demand, further ramped up by business inventory accumulation and a shift in spending from curtailed in-person services to consumer goods, has led to supply chain bottlenecks and disruptions. These have been exacerbated by extreme weather events, accidents like the ship that blocked the Suez Canal, and COVID-19-related shutdowns in important ports and production locations. In spite of all these factors, the resulting transport cost increases and delivery delays appear likely to prove transitory.

Trade, economic growth and risk management are mutually supportive at the country level as well. GDP recovery has been faster in economies with strong pre-pandemic trade ties to countries with fewer COVID-19 cases.

International trade can, however, under certain conditions, propagate shocks, such as financial crises, international transport disruptions, supply chain cut-offs and diseases. For example, trade-dependent, relatively undiversified economies have been hit particularly hard by the COVID-19 pandemic. Better access to COVID-19 vaccines is therefore essential to ensure a rapid economic recovery, highlighting that vaccine policy is trade policy, and vice versa.

Pandemic-related economic stresses have prompted calls in some countries to re-shore production, promote self-sufficiency, and unwind trade integration with the goal of building a more “resilient” economy. This report argues that such strategies are unlikely to be effective: national self-sufficiency would be expensive and inefficient, or even technically impossible in some sectors. Reduced exposure to shocks emanating from other countries would be replaced by increased vulnerability to domestic shocks – this time without the resilience mechanisms offered by international trade. Conversely, increased trade integration has been associated with decreased macroeconomic volatility.

While the WTO already contributes to economic resilience in important ways, it can and must do more, as we confront a future of increasing natural and man-made risks and disasters. As we have seen with pandemic-related trade measures, enhancing transparency and predictability is important to provide policymakers and businesses with the information they need to make informed decisions. Actions to keep key products moving freely around the world would foster resilience, as currently illustrated by the need for bottleneck-free supply chains for COVID-19 vaccines. Ongoing negotiations at the WTO on services, investment, agriculture, electronic commerce and micro, small, and medium-sized enterprises could create further opportunities for inclusive trade and diversification, making economies more resilient in the future. The WTO's upcoming 12<sup>th</sup> Ministerial Conference, from 30 November to 3 December 2021, offers an opportunity for members to advance on these fronts. Reinvigorated international cooperation, not a retreat into isolationism, is the more promising path to resilience.



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