Introduction

The COVID-19 pandemic highlights a paradox: globalization has created a world that is both more vulnerable and more resilient to crises. On the one hand, economic integration makes us more dependent on far-flung trade networks and more exposed to cascading risks and shocks. On the other hand, economic integration also allows us to diversify suppliers, pool resources, and share information and expertise. The same features that make the global economy susceptible to crises – openness, interdependence, networked technologies – also make it adaptable, innovative, and better able to withstand crises when they hit. Strengthening trade, by making it more diversified, inclusive and cooperative, is also central to making the global economy more resilient to current and future crises, from pandemics to climate change.
Contents

1. Vulnerability and resilience: two sides of the same globalization coin 14

2. More resilience requires more, not less, global economic cooperation 18
The 2021 World Trade Report examines why resilience matters, how trade plays a pivotal role, and where the trade system could be improved to further support economic resilience.

1. Vulnerability and resilience: two sides of the same globalization coin

The world economy has faced various crises in recent years, but perhaps none has been as truly global in terms of reach, impact and visibility as COVID-19. More than ever before in living memory, all of humanity is focused on the same global threat, and all of humanity is dependent on the same global solutions: vaccines, social distancing and the necessity of maintaining an open world economy. The reality that “no one is safe until everyone is safe” is now true on a planetary scale (WTO, 2021a).

Today’s highly interconnected global economy is part of the problem, by making it easier for shocks like COVID-19 to reverberate and amplify around the world; but it is also potentially part of the solution, by making it easier to mobilize the economic and technological resources the world needs in order to respond to shocks when they occur.

That globalization – the growing transborder movement of people, goods, services, capital and ideas – has made the world increasingly complex, integrated and interdependent, is self-evident. The downside of this interdependence is that crises in one part of the world, such as epidemics, financial shocks or environmental catastrophes, can quickly snowball into global crises.

This phenomenon is not entirely new. In the mid-14th century, countries were sufficiently interconnected by trade and travel to allow a bubonic plague pandemic to devastate much of Eurasia and Africa. By the early 20th century, countries’ even greater interconnection allowed the great influenza pandemic of 1918 to kill millions on every continent.

What is different today is the sheer scale, scope, depth and speed of global interactions, as well as the pervasiveness of the integrating technologies that enable and drive them (Goldin and Mariathasan, 2014). The new super-highways of the global economy – air travel, supply chains, the internet – are also the new super-spreaders of shocks (see Figure A.1) (Shrestha et al., 2020). This widening and deepening of global interdependence goes a long way toward explaining how subprime defaults in the US Midwest in 2007 could have triggered a global economic crisis; how an earthquake off the coast of Tōhoku, Japan in 2011 could have sent shockwaves through global production networks; and how an outbreak of a novel coronavirus in Wuhan, China in late 2019 could rapidly have metamorphosed into today’s global COVID-19 pandemic.

Source: Authors’ calculations, based on data from Ritchie et al. (2021) and OpenFlights (2019).
Note: COVID-19 cases per million by economy by March 2020; total number of international flight routes by economy.
Yet, at the same time, today’s interdependent global economy has turned out to be remarkably resilient to these shocks, and possibly more resilient than many would have expected. This is not to underestimate the massive economic devastation that has been caused by COVID-19, including widespread unemployment, mass shutdowns of businesses, and the sharpest economic contraction since the Great Depression nor to overlook how the crisis has disproportionately harmed certain groups and countries, especially the poorest and most vulnerable, which were already the most exposed to economic downturns and the least protected or cushioned from shocks.

However, the fact remains that even a crisis as devastating and unprecedented as COVID-19 has not resulted in the wholesale unravelling of trade and integration, let alone the full-scale systemic collapse, that many had initially predicted and feared (Foreign Policy, 2020). In fact, after contracting sharply at the beginning of the pandemic – as countries scrambled to contain the virus’s spread with lockdowns, border closures and travel bans – trade flows have bounced back, supply chains are adapting, and the world economy is beginning to recover, although this recovery is taking place at widely varying and unequal speeds (see Figure A.2).

While the unexpectedly sharp rebound in demand in many countries – propelled by pent-up consumer spending and fiscal and monetary stimuli – may have strained shipping capacity and supply chains, the trade recovery has rapidly gathered pace. Following a drop of 5.3 per cent in 2020, it is estimated that merchandise trade will rise by 10.8 per cent in 2021 – which would, in fact, result in a higher volume of world trade than before the pandemic. Even services trade, which was disproportionately devastated by COVID-19, is showing tentative signs of recovery.

The fact that world trade flows exhibited a similar accordion-like “bust and boom” pattern after the 2008-09 financial crisis suggests that the system’s resilience in the face of COVID-19 is not simply a one-off lucky break, unlikely to be repeated, but rather is an inherent feature of today’s globally integrated economy (see Figure A.3).

One reason for the system’s resilience is that networked economies are better placed than isolated ones to pool resources, share expertise and diversify their sources of supply. The early stages of the pandemic exposed how reliant many countries had become on relatively few global producers of critical medical supplies, such as face masks or ventilators, prompting widespread calls for greater supply chain diversification. But what became clear over subsequent months was not only how quickly supply chains adapted and new producers emerged, but how the key to greater diversification lay in expanding and facilitating trade with other partners, not restricting or reshoring it.

This is especially true in advanced sectors, where not even the largest economy has all the critical components, sophisticated materials and technological know-how needed to be self-sufficient.

---

**Figure A.2: World merchandise trade volume, 2015Q1-2022Q4**

![Graph showing world merchandise trade volume from 2015Q1 to 2022Q4](image)

*Source: WTO and UNCTAD for trade volume data, WTO for forecasts, WTO (2021a).*
For example, even a vast and highly diversified economic union like the European Union needed to import 40 per cent of its COVID-19 test kits and diagnostic reagents during the pandemic. Likewise, one major US vaccine manufacturer depends on sourcing 280 components from 19 different countries to manufacture the final product (Pfizer, 2021). This explains why many countries, after initially imposing export restrictions to preserve domestic supplies and promote “made-at-home” solutions, ended up reversing them: they soon realized that imposition of export restrictions by everyone would result in everyone facing import shortages, effectively paralysing everyone’s integrated production networks. This also explains why most countries went on to open, not close, their markets during the pandemic, both by lowering tariffs and by amending regulations to facilitate imports (see Figure A.4). According to the WTO’s monitoring reports, a majority of COVID-19-related trade measures recorded since the outbreak of the pandemic were trade-facilitating. Even in the heavily impacted services sector, most COVID-19-related measures were trade-facilitating.

Another of the main reasons for the global trading system’s resilience is the adaptability and efficiency of open markets. Faced with the sudden disappearance of old business opportunities and the advent of new ones, many industries – and the supply chains supporting them – have proved remarkably nimble and innovative in adjusting to a new COVID-19-shaped economic landscape (Borino et al., 2021). For example, within weeks of the pandemic’s spread, garment-makers in India, Malaysia and Sri Lanka had transformed themselves into personal protective equipment (PPE) manufacturers, taking advantage of surging global demand for face masks, rubber gloves and protective gowns (Mezzadri and Ruwanpura, 2020). Within months, major airlines had converted many of their passenger jets into air cargo planes, responding to the simultaneous collapse of tourism and business travel and the surge in online shopping and express delivery (IATA, 2020b).

Accelerating digitalization and automation have also helped to facilitate and underpin this Schumpeterian process of “creative destruction”. Container shipping, rail transport and global supply-chain management were already increasingly automated and contactless before COVID-19, and have become even more since its appearance, allowing food, raw materials and consumer goods to continue moving across borders even when people could not. Technology has been just as critical to helping many services sectors to adapt, as remote work and teleconferencing took the place (at least temporarily) of locked-down offices and paralysed business travel. Nothing better exemplifies technology’s role in re-inventing and “COVID-19-proofing” many aspects of global trade during the pandemic than the explosion of e-commerce (see Figure A.5). With stores closing and people staying indoors, consumers have embraced online shopping on a massive scale in almost every region, further

Figure A.3: Global trade has been more resilient during the COVID-19 pandemic than during the 2008-09 global financial crisis

Source: Authors’ calculations, based on WTO trade data (https://data.wto.org).
Note: The figure displays the evolution of non-seasonally adjusted quarterly world trade volume for countries that reported both merchandise and commercial services trade flows.
reinforcing and entrenching the internet's role as the indispensable infrastructure of modern economies.

Even more fundamentally, globalization – and the increasingly open, integrated world trading system that underpins it – have played a critical role in rendering economies more prosperous, more advanced and better equipped economically and socially to withstand crises when they hit. Advances in science and technology, in particular, have had a profound impact on humanity’s ability to cope with the pandemic, starting with the successful development of vaccines, but including the increasing mechanization of essential food and goods production, the expanded delivery of healthcare and hospital services, the application of artificial intelligence (AI) and Big Data to pandemic mitigation policies, and the massive shift of global economic activity online. Globalization has been indispensable to these advances in productivity, technology and standards of living.
The core problem is that the benefits of globalization are not shared widely or equally enough, and this leaves the world economy less resilient than it could be. Developed economies have been able to respond to the COVID-19 crisis with massive fiscal stimuli and far-reaching income support, far more ambitious in scale and coverage than during the 2008-09 global financial crisis, and these have played a key role in sustaining domestic demand, avoiding financial contagion and collapse, and providing a critical safety net for many (though certainly not all) vulnerable workers and households.

However, these same shock absorbers and safety nets are simply unavailable to most poorer countries. While advanced economies have deployed fiscal and monetary support equivalent to about 25 per cent of their GDP since the beginning of 2020, in low-income countries the equivalent figure is under 3 per cent of a much lower GDP (IMF, 2020b). Nothing underlines the extent to which globalization's benefits are inequitably shared than the stark imbalance in access to COVID-19 vaccines. Developing countries in Africa, for example, had received just 3.2 vaccine doses per 100 people, compared to 75 doses per 100 for people in developed countries, as of June 2021. Lack of access to vaccines has prevented certain economies from getting COVID-19 under control, which has, in turn, held back their economic recovery. As a result, advanced economies are bouncing back and developing Asian economies are surging, but many other developing and least-developed economies are falling further behind (World Bank, 2021e).

In reality, the pandemic has revealed the persistence of two global economies: one that is more technologically advanced, more economically integrated, and thus more resilient to crises when they hit; and another that is less advanced, less integrated, and thus more vulnerable. These same disparities also seem destined to emerge in response to other crises, such as climate change, which could well pose an even greater and more profound shock to the global system than COVID-19. Here again, advanced countries seem better equipped to marshal the financial resources, advanced technologies and trade networks needed to adapt to a warming world and to transition to a low-carbon economy, while too many developing and least-developed countries will struggle – in some cases literally – just to stay afloat. That poorer countries have obviously found it harder to cope with COVID-19 than richer countries, that they are recovering more slowly and tentatively from its aftershocks, and that they remain just as exposed to climate change and other crises, underscores that more, not less globalization, is needed, and that the growth, development and technological opportunities that come with globalization need to be expanded further (OECD, 2021f).

2. More resilience requires more, not less, global economic cooperation

At the beginning of the COVID-19 pandemic – as borders closed, trade fell, and shortages of critical medical and other supplies spiked – many concluded that today's open, complex and interconnected global economy was part of the problem, not the solution. They argued that globalization had gone too far, that economies had grown over-reliant on foreign suppliers, and that economic efficiency had been achieved at the expense of economic resilience – that "just in case" had been sacrificed for "just in time" (Lamy and Fabry, 2020). To protect against future shocks, and to make economies more robust and resilient, these critics suggested that global integration should be re-visited and rolled back, supply chains should be near-shored or re-shored, and domestic productive capacity should be rebuilt and made more self-sufficient (Shih, 2020).

But a year later, the conclusions that can be drawn from the crisis look different. Trade, far from being an economic liability, turned out to be an economic lifeline, as it ensured that, even when countries were paralysed by the pandemic, critical goods, services and medical supplies continued to flow. Conversely, measures to restrict trade, hoard domestic supplies, and reinforce national self-sufficiency, far from reducing economic insecurity, served to increase it, by disrupting supply chains, slowing production and sowing economic uncertainty. In fact, the biggest policy failure of the pandemic so far has been the uneven rollout and distribution of vaccines, and this is partly a result of too much economic nationalism and too little coordinated global action (El-Erian, 2021). Likewise, the biggest threat to global resilience in the future will not just be the arrival of new and unforeseen shocks, but the inability of national governments to respond in a coordinated and cooperative way, as a result of rising geopolitical tensions between key powers, growing trade protectionism and a fragmenting global economy (Financial Times, 2020; Goldin, 2020).

This year’s World Trade Report explores why economic resilience has moved to the top of the global agenda, where trade fits in, and how the world trading system can be improved. Its core conclusion is that no country is an island in today’s hyper-interconnected world, that global crises require global responses, and that strengthening resilience requires more global trade and economic cooperation, not less.
Section B looks at how past natural and man-made disasters and the prospect of increasingly frequent and more intense shocks have led firms and policymakers to consider economic resilience as a key strategy not only to avoid and mitigate risks, but also to prepare for, cope with and recover quickly from shocks. The ability to anticipate, evaluate and manage risks and understand economic challenges and opportunities, including in the context of international trade, is key to building and supporting economic resilience.

Section C examines the role of trade in economic resilience. Trade can, on the one hand, be a potential spreader of shocks, for example in pandemics, or through volatility of trade costs. On the other hand, trade can help countries to better prepare for, cope with, and recover from shocks. Trade is indispensable for the quick availability of essential goods during crises. It can help countries to recover faster after a shock, by enabling them to benefit from sustained foreign demand, and it offers benefits such as specialization, scale effects and technology spillovers.

Section D explores how greater international cooperation can leverage synergies to promote economic resilience. International cooperation is essential to prevent economies from becoming isolated and thereby being deprived of the benefits of a globalized economy when dealing with shocks. The existing WTO framework supports the conditions underpinning economic resilience by contributing to more open and predictable international markets, through more transparent and predictable trade policies. However, the WTO could still make an even greater contribution to greater economic resilience.