E. Conclusion

The health and economic crisis caused by the COVID-19 pandemic has highlighted both the vulnerabilities and the strengths of the interconnected global economy, which has at its core the multilateral trading system. This report has examined the resilience of the global economy to crises, how trade plays a pivotal role in developing resilience, and in what ways the global trade system can be improved to allow countries to prepare for, cope with and recover from crises.

The frequency, intensity, scale and duration of natural disasters, including pandemics, and incidences of technological and operational risks, in particular cyber-attacks, have been increasing and are likely to continue to do so. Social inequalities, the fragility of economic growth, political uncertainties and geopolitical tensions are all growing, foretelling a rise in socio-economic risks.

All types of shocks can have significant economic and welfare losses, ranging from the monetary cost of damages to injuries, diseases and deaths. Although the economic effects of shocks may differ according to the country, sector or household affected, certain vulnerable groups continue to be disproportionately affected.

Building and supporting economic resilience have become key strategies to reduce business interruptions and economic losses caused by shocks. Although there is no consensus on its definition, "economic resilience" is defined in this report as the ability of firms, households and governments to prepare for, cope with and recover from shocks.

Individual firms and households can adopt a broad range of tactics and strategies in order to build and support economic resilience, such as input substitution, production equipment redundancy, and expanding and diversifying wholesale and retail trade networks. Pooling resources can contribute to economic resilience at the industry level. And governments can support economic resilience through relevant and well-designed infrastructure, fiscal, monetary, social, environmental and health policies, with the policy choice depending on the channel through which a shock hits the economy. Trade policy is another key policy area that can help countries to prevent risks and to confront and recover from shocks. Although governments may have incentives to adopt temporary protectionist trade measures in response to shocks, trade policy responses are rarely either fully trade-restrictive or fully trade-liberalizing when a shock hits.

It is true that trade can increase countries' vulnerabilities and be a spreader of shocks, because it can expose countries to risks and hazards, and can facilitate the transmission of these risks and hazards through economic, financial, travel, transport and digital linkages. For example, the trade-related mobility of both people and livestock can be a vector for disease transmissions. Trade can also indirectly contribute to deforestation and climate change, spurring natural risks. And trade-driven interdependence, such as global value chains, can also increase countries' vulnerability to crises, because the impact of a shock to one "link" in the chain can affect numerous other "links" by temporarily blocking or disrupting production and distribution networks. Shocks can impact trade through different channels by increasing trade costs and/or impacting the demand and/or supply of exports and imports. Some sectors and types of trade, such as trade in agricultural products, services and time-sensitive products, tend to be more vulnerable to different types of shocks.

On the other hand, trade can also better equip countries to deal with shocks. As a source of economic growth and productivity, it gives countries the technical, institutional and financial means to prepare for shocks. It also can help to ensure that critical services, such as weather forecasting, insurance, telecommunications, transportation, logistics and health services, as well as critical goods, are available in a timely manner before and after a shock hits. It can also enable countries to switch from domestic to external suppliers in case of domestic shortages, thereby making it possible to import essential goods quickly and more easily cope with shocks. In addition, trade contributes to economic recovery from shocks by improving allocative efficiency and unlocking scale effects, enabling the creation of export-related jobs and the importation of affordable necessary inputs, ultimately leading to better incomes and increased productivity and innovation. Although significant barriers to physical infrastructure and human capital development still exist, digital trade can be an important vector for the economic recovery of all segments of the economy, including MSMEs, disadvantaged groups and LDCs, by providing new market opportunities.

Empirical evidence shows that the historical reduction in trade costs has decreased the volatility of GDP in most regions. In addition, more diversified economies can better cope with specific shocks, because if exports are concentrated in a few products, price volatility is likely to translate into large fluctuations in export revenues, increasing aggregate volatility. Similarly, if exports are concentrated in a few export destinations, destination-specific shocks can have a large impact on export revenues. Although it can be challenging to diversify suppliers, customers and trade routes, such diversification can mitigate the impact of supply chain disruptions, thereby increasing resilience to shocks. Conversely, policies aimed at increasing economic resilience by re-shoring productions, promoting self-sufficiency and unwinding trade integration can often have the opposite effect, actually reducing economic resilience.

International cooperation to increase economic resilience can play a dual role in helping countries to prepare for, cope with and recover from shocks. It can amplify the positive cross-border spillover effects of individual policy actions taken to promote economic resilience, and it can mitigate possible negative cross-border spillovers from individual policy actions that can hinder the economic resilience strategies of other countries.

Although the term "resilience" does not appear in the WTO agreements, the WTO framework supports the conditions underpinning economic resilience by reducing trade barriers, streamlining customs procedures, encouraging transparency, building trade capacity in poorer countries, and collaborating with other international organizations to strengthen the global economy and make it more secure. International trade cooperation can further help to achieve more open markets and more inclusive, stable and predictable trade, promoting the diversification of economies and trade relations, so that countries are less reliant on single exports and suppliers when crises hit.

The WTO could make an even greater contribution to increasing economic resilience. WTO members' trade policies can be made more transparent by ensuring existing transparency mechanisms – particularly monitoring and notification requirements – provide timely access to relevant information. Encouraging information-sharing by WTO members with reference to the production, trade and consumption of vaccines and other essential products can also contribute to enhancing economic resilience by helping countries to better assess production capacities, avoid bottlenecks, manage inventories and prevent excessive stockpiling. Other important trade-related areas that could benefit from greater cooperation and coordination among WTO members include export restrictions, national procurement policies for critical goods and services, and trade measures concerning the temporary movement of people, subsidies, and e-commerce.

This report has underlined how broad the spectrum of risks and shocks to the economy is, as well as the cross-cutting nature of economic resilience. By strengthening cooperation between the WTO and the international and regional organizations specialized in key aspects of economic resilience, such as risk prevention, disaster relief, public health, climate change, environmental protection and financial stability, efforts to improve economic resilience can be made more coherent and coordinated.