OPINION PIECE

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The business case for trade, risk reduction and resilience

In 2015, United Nations member states adopted the Sendai Framework for Disaster Risk Reduction, the global blueprint to reduce disaster losses, and they made reducing economic losses one of its seven global targets to be achieved by 2030.

Another Sendai global target is to enhance international cooperation to developing countries to help them reduce their disaster losses.

In this age of global crisis and systemic risk, the resumption of trade after a disaster event is often key to a sustainable and long-term recovery. The WTO has been called upon to consider the trade dimensions of several crises. The trade preferences granted to Nepal in the aftermath of the 2015 earthquake, and the tariff preferences granted to Pakistan to help its recovery after the 2010 floods, are cases in point.

In the wake of the devastation wrought by the Atlantic hurricane season in 2017, Dominica and other Caribbean states made a declaration at the WTO's 11th Ministerial Conference affirming the need for special consideration and targeted assistance to be given to small, vulnerable economies. These countries cited Aid for Trade, trade and transfer of technology, trade facilitation, trade finance and development assistance as priorities for special consideration by the WTO.

The WTO has done much in recent times to highlight the links between economic resilience in disaster-prone countries, trade and international cooperation, and its members have shown good will in addressing the issues that disasters can create for members' trade and development.

This is all in keeping with the spirit of the UN Sustainable Development Goal 17, which stresses the importance of continued work for a fair, equitable, inclusive, transparent, non-discriminatory and rules-based multilateral trading system.

Whether they are triggered by natural, man-made, biological, environmental or technological hazards, financial and trade policy choices made in the coming years will shape our resilience to disasters for decades to come. The right policies can boost supply and demand, and can restore trade after a disaster, while the wrong measures can undermine recovery and have a disastrous impact on achieving sustainable development.

Encouragingly, a dialogue is opening. Faced with an increasingly tight fiscal space, political leaders discussing development finance in the era of COVID-19 have recognized the value of investing in anticipatory disaster risk reduction. There is a need to bridge short-term immediate demands with long-term resilience-building, whilst addressing climate change and ensuring environmental sustainability.

This is being accompanied by a rapidly changing regulatory landscape, as seen by the entry into force of the European Union taxonomy, the EU Sustainable Finance Disclosure Regulation (SFDR) and related work by the International Financial Reporting Standard (IFRS) Foundation and the Sustainability Standards Accounting Board (SASB) on climate and sustainability standards. Global standard-setters are working on climate and sustainability standards, and policy and business leaders are breaking new ground on the development of global risk data and analysis.

Aligned with this rapid progress, WTO members have shown their commitment to act on the Marrakesh Agreement and ensure that trade and economic endeavours are conducted "with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services, while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development" (Preamble to the Marrakesh Agreement Establishing the World Trade Organization).

There has been a welcome trend away from a reactive to a prevention-first approach as WTO members' understanding of the systemic nature of risk expands. However, despite these advances, we have some way to go to ensure a future-fit trade system that builds and enables resilience and sustainable development.

We must make sustainability and resilience a baseline requirement for every trade and investment decision. To do so, we must improve how we monitor and manage systemic risk.

Only what is measured can be managed. We need greater understanding of the complex and changing risk landscape and its socioeconomic effects, and more coherent definitions, standards, and tools to assess and manage risk.

This requires international cooperation and political support for building resilience to disasters into trade policy and linking it explicitly with disaster risk reduction, climate change adaptation, environmental protection and long-term sustainability.

Bold leadership is necessary. There is no time to lose in this era of climate emergency and pandemics.

economic resilience, and how international cooperation can play an important role. However, even without active policy coordination geared towards resilience, existing WTO rules and regional trade agreements already reduce the trade policy volatility that can result from shocks and/or that can be itself a source of shocks or a propagator of existing shocks.

(a) Reducing trade policy volatility

Trade policy volatility can be limited through trade policy cooperation, which can ensure that individual countries' trade policy changes, which would otherwise be discretionary, are bound by a multilateral framework. Ensuring that trade flows as smoothly, predictably and freely as possible is the WTO's main function, and this function, as recalled in the introduction to this section, is achieved through disciplines limiting members' discretion to adopt policies causing trade costs volatility and negative cross-border spillovers.

As shown in Section C2(d), trade can be a source of shocks if trade costs are volatile. While relatively little research has focused on the role of the WTO as a trade stabilizer, studies show that WTO membership reduces terms-of-trade volatility by influencing government behaviour (Cao and Flach, 2015; Mansfield and Reinhardt, 2008) and encourages authorities to resist pressure to resort to protectionist measures (Ruddy, 2010). Binding tariffs reduces the scope for their discretionary use (Bacchetta and Piermartini, 2011). In a counterfactual scenario in which WTO members can arbitrarily increase tariffs, states are 4.5 times more likely to do so than under current bindings (Jakubik and Piermartini, 2019). Compared to the GATT, the WTO also provides for a deeper level of multilateral cooperation on trade, establishing many different mutually reinforcing channels that can reduce vulnerabilities. This is particularly true for new members, which, in order to accede to the WTO, need to undertake commitments to ensure that their trade regime fully complies with the extensive WTO framework. Those commitments usually cover a wide range of topics and are enforceable through the WTO dispute settlement mechanism. The WTO legal system nevertheless leaves room for limited exceptions and derogations.

Thus, this system of rules and flexibilities reinforced by individual commitments helps to deliver a more stable and predictable trading environment by shaping WTO members' trade policy responses to import shocks. In addition, considering that private traders and investors prefer stability in relative prices, lower export volatility itself has also been found to increase the level of exports (Mansfield and Reinhardt, 2008).

For integrated global markets to contribute to stronger resilience, governments need to have confidence in them (OECD, 2021f). In some countries, citizens believe that the benefits from globalization are not shared widely enough, that competition in the global economy is unfair and that everyone is not playing