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
Economic resilience and trade

Importance of economic resilience

Role of international trade

Role of international cooperation
Importance of economic resilience

Role of international trade

Role of international cooperation
Economy is increasingly exposed to risks and shocks causing significant economic impacts.

- Risks (Natural, Technological and operational, Socio-economic)
- Shocks (demand / supply / uncertainty)
- International trade
- Domestic economic activities
Trade impacts of shocks remain heterogenous
Trade policy responses are rarely fully trade restrictive.

- **(Temporary) trade protectionist measures**
  - Trade remedy
  - Local content
  - Import restriction
  - Customs procedures
  - Export restriction
  - …

- **Trade opening measures**
  - Customs procedures exemption
  - Digital customs procedures
  - VAT exemption
  - Tariff rebate and reduction
  - …

Number of COVID-19-related measures (mid-June 2021)
Economic resilience is a dynamic concept

- Preparing
- Coping
- Recovering

Economic activity

Shock
Economic resilience and trade

Importance of economic resilience

Role of international trade

Role of international cooperation
On the one hand, trade can contribute to the spread of shocks...

- Pandemics can spread through trade of live animals, travel, and tourism
  - Permanent restrictions to travel are costly though and illicit trade in livestock and wildlife cause most problems

- Volatility of trade costs such as swings in transport costs and trade policies can make trade a source of shocks
  - Stable and predictable trade policies crucial to limit the role of trade in spread of shocks

- Trade is responsible for a small share of greenhouse gas emissions through transportation, although trade is also part of the solution for climate change
  - Diffusion of green technologies
  - Trade facilitates the adaptation to climate change related shocks
But on the other hand, trade can also help to prepare for, cope with, and recover from shocks

• Trade’s role in preparing for shocks
  • Trade expands the resources available to prepare for shocks
  • Trade facilitates efficient supply of weather forecast services, insurance, telecommunications, logistics, health services

• Trade’s role in coping with shocks
  • Trade plays a critical role in the quick provision of essential goods during crises such as the pandemic
  • Trade promotes specialization and knowledge spillovers, speeding up development of products required during crises such as vaccines

• Trade’s role in recovering from shocks
  • Through trade countries can benefit from sustained foreign demand on the export side and the availability of intermediate inputs on the import side
Trade linkages help to accelerate GDP growth during the first year of the COVID-19 pandemic.
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
Trade diversification reduces macroeconomic volatility.
Product and geographical export diversification has increased in recent years.

**Product export diversification**

- **Diversification index, 2003**
  - High-income
  - Middle-income
  - Low-income

- **Diversification index, 2018**

**Geographical export diversification**

- **Diversification index, 2003**
  - High-income
  - Middle-income
  - Low-income

- **Diversification index, 2018**
Economic resilience and trade

Importance of economic resilience

Role of international trade

Role of international cooperation
More resilience requires more (trade) cooperation

Unilateral action(s)

Positive spillovers
- Suboptimal achievement

Negative spillovers
- Risk of cross-retaliation
- Income and welfare loss

Economic resilience
- Open markets
- Inclusiveness
- Predictability
- Recovery
- Coherence
- Transparency
- Coordination
- Coping

Cooperation

Preparation

Coping

Recovery

Coherence

Transparency

Prediction

Inclusiveness

Open markets

Economic resilience

Positive spillovers

Suboptimal achievement

Negative spillovers

Risk of cross-retaliation
Income and welfare loss

Coping
Natural disasters increasingly addressed in RTAs

Number of regional trade agreements (RTAs) with natural disasters provisions:

- Cooperation: 51
- Exemptions: 42
- Disaster management: 21
- Compensation losses: 5
- Emergency trade facilitation: 4
The WTO actively contributes to economic resilience...

- Trade barriers reduction
- Streamlined customs procedures
- Policy transparency and predictability
- Capacity building
- Collaboration with other international and regional organizations
... but the WTO could further enhance economic resilience

- Enhancing transparency mechanisms
- Clarifying appropriate use of export restrictions on critical products
- Greater coordination of public procurement policies for critical goods and services
- Advancing work e-commerce, MSMEs and women’s economic empowerment
- Strengthening existing cooperation with international and regional cooperation
https://www.wto.org/english/res_e/publications_e/wtr21_e.htm