Trade dimension of economic resilience

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OVERVIEW

Resilience of trade

Resilience through trade

Resilient trade agreements

Resilience through trade agreements
Resilience and/or robustness

- Resilience including robustness [e.g. Briguglio et Al. (2009)]
  - Economic resilience = “the policy-induced ability of an economy to withstand or recover from the effects of [such] shocks”

- Resilience ≠ robustness [e.g. Miroudot (2020)]
  - Resilience = “the ability to return to normal operations over an acceptable period of time, post-disruption.”
  - Robustness = “the ability to maintain operations during a crisis”
## Overview

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The COVID-19 recession is the deepest recession since the end of the Second World War. For example, the GDP of OECD countries contracted by a staggering 2.2% during the COVID-19 recession between the fourth quarter of 2019 and the second quarter of 2020 (the two quarters preceding the trough). As a point of comparison, the GDP of OECD countries contracted by a much smaller -4.6% during the Great Recession of 2008-09 between the second quarter of 2008 and the first quarter of 2009 (the three quarters preceding the trough).

Yet, international trade has been surprisingly resilient in 2020. The export volumes of OECD countries fell by 24% during the first two quarters of 2020 but were already back to 95% of their pre-crisis level at the end of the third quarter of 2020. During the Great Recession, in contrast, the export volumes of OECD countries fell by 32% over the same time span (two quarters - 2008-Q4 and 2009-Q1) and took more than two years to recover (in 2010-Q1, so almost a year after the trough of the recession, export volumes were still only at 85% of their pre-crisis level).

Note: This figure displays the quarterly evolution of GDP and merchandise trade in OECD countries during the Great Recession and the COVID-19 crisis so far. Data: OECD
Resilience of trade [Le Moigne and Ossa (2021)]

- International trade has proved surprisingly resilient
  - Fast recovery of global supply
    - Rebound of Chinese economy
  - Return to lower trade costs
    - Removal of export restrictions
    - Drop in fuel prices
  - Recovery of global demand for tradable goods
    - Increased demand for durable goods (e.g. electronics)
    - Increased demand for medical goods (e.g. PPE)
    - Boom of online shopping

- BUT recession in services
  - Impossibility to consume in-person services
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Trade as a propagator of shocks

- The COVID-19 pandemic has exposed the vulnerabilities of production networks
  - Complexity of global value chains (GVCs)
  - Reliance on China as a main supplier

- Méjean et Al. (2020) estimate that an average 10% reduction in the production of Chinese firms decreases approximately by 0.5% the real GDP in European countries

⇒ calls for re-thinking of GVCs
Importance of diversification and cooperation

Reshoring and self-reliance not the answer - trade as an attenuator of shocks!

- Miroudot (2020): Bad luck can happen anywhere (even at home) → diversify for robustness
  - “No current evidence that complex supply chains are more impacted by COVID-19”
  - Most affected: industries that rely on movement of people
  - Diversification and international cooperation needed to respond to surges in demand in times of crisis

- Antràs et Al. (2020): Globalisation can either increase or decrease the risk of a pandemic occurring
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SELF-ENFORCING TRADE AGREEMENTS

Trade agreements need to be self-enforcing

▷ Safety valves
  ▷ The case of export restrictions …

▷ Dispute settlement system
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**Overview**

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Resilience through trade agreements
INCREASED NEED FOR INTERNATIONAL COOPERATION

- Role to play in guaranteeing equitable access to vaccines, medicines, PPE…
  - Cooperation between organisations (WTO, WHO…)

- Importance of transparency/information sharing
  - Policy monitoring
  - Help businesses reduce bottlenecks in GVCs

- Development of best practices
**REFERENCES**


