Trade and Natural Disasters: Insights from World Bank Operations

WTO Symposium on natural disasters and trade
Geneva, 29 November 2019
psauve@worldbank.org
Key messages

• Trade can only form part of the solution to natural disasters if and when markets are open. And trade openness matters for each of the three “Rs” – resilience, response and recovery.

• The trade policy response to natural disasters cuts both ways, requiring measures by both the disaster-affected country and its key trading partners.

• Timely access to competitively-priced imports is a critical element of resilience, response and recovery.
Key messages (2)

- Flexibility is needed in responding to a natural disaster, not in escaping trade obligations or commitments but in ensuring that what is needed by way of response is not impeded by restrictive measures, undue border delays, regulatory delays or corrupt procurement practices.

- A proper response requires a commitment to openness in trade facilitation, temporary tariff exemptions, urgent access to key services such as finance (payments and remittances), infrastructures, health, communications and distribution alongside least cost quality procurement.

- Impeding trade when productive capacity is destroyed or severely impaired is unlikely to help.

- Because natural disasters are spatially concentrated, providing enhanced terms of export access where productive capacity continues to exist can help generate needed resources for recovery.
Key messages (3)

• Natural disasters recall the need for policy coherence and for connecting many dots across the humanitarian, trade, finance and development spectrums.

• Flexibility is typically shown by multilateral and regional lenders, as natural disasters can have severely adverse BoP consequences triggering the early release of funds (e.g. via draw-down provisions in IMF and WB loan arrangements).

• Minimizing debt stress levels, especially in small and vulnerable economies, is also important.

• The financial community, both official lenders and the private sector, has developed many risk-mitigating instruments (sovereign disaster insurance schemes; weather indexed insurance, green bonds, etc.) whose deployment requires a measure of financial market openness, regulatory alignment and improved access to financial innovation.
Scaling-up resilience to everyday risks is also important – firms and households suffer not only from episodic large-scale natural disasters but also from more mundane and ordinary infrastructural shortcomings that lead to repeat flooding, energy shortages, clogged traffic, or soiled water.

Countries need to pay closer attention to the quality of their critical infrastructure – transport, telecoms, water and power - for purposes of scaled up resilience AND higher and more inclusive growth liable to fund further investments in resilience.

Small scale shocks that don’t make the news can be insidious over the long run. They result in high input costs that drag down competitiveness, including in export markets.
Key messages (5)

• Focusing on economic diversification is key. Portfolio diversification pays, as do sustainable investment practices.
• For landlocked countries, the vulnerability of neighbors may also matter, hampering their own competitiveness.
• A deepened commitment to regional integration and cooperation to support greater scale in production and diversification can help.
• Closer regional ties can also increase the supply of resilience-enhancing regional public goods, particularly of an infrastructural nature.
Natural Shocks

Infrastructure

Power
Water
Transport
Telecommunications

Firms
People
Damages and repair costs are significant...

$30 billion
Annual global damages to transport and power generation

$18 billion
Annual damages to low- and middle-income countries
... but repairs are only part of the problem

$391–$647 billion

The annual cost of infrastructure disruptions on households and firms in developing countries.

Firms
- Reduced utilization rates ($151 billion)
- Lost sales ($82 billion)
- Self-generation costs ($65 billion)
- Increased inventories
- More expensive localization choices
- Higher entry barriers for new firms
- Less competition and innovation

Households
- Willingness-to-pay ($90–$343 billion)
- Health expenditures ($3–$6 billion)
- Income impact and gender implications
Quality infrastructure

Resilience of infrastructure users
Resilient infrastructure makes people better able to cope with and recover from shocks

Resilience of infrastructure services
Resilient infrastructure provides more reliable services

Resilience of infrastructure assets
Resilient infrastructure is less costly to maintain and repair
Investing in resilience is sound, profitable, and urgent

<table>
<thead>
<tr>
<th>$4</th>
<th>$4.2 trillion</th>
<th>$100 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>In net benefits for each $1 invested in infrastructure resilience</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net benefits from building new infrastructure to higher resilience standards</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of delaying action by one year</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
LIFELINES
The Resilient Infrastructure Opportunity

WORLD BANK GROUP

GFDRR
Global Facility for Disaster Reduction and Recovery