A More Connected Global Economy Is a Double-Edged Sword, Says WTO

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In its annual report on the status of global trade, the World Trade Organization finds that the increasing interconnectedness of the world's economies is a double-edged sword.

While this globalization makes individual countries more vulnerable to short-term shocks, the WTO says, it also allows them to recover far more quickly than they would have in the past.

The report finds, among other things, that global trade in merchandise, after plummeting sharply in the early months of the coronavirus pandemic, has already rebounded to above pre-pandemic levels. By the middle of 2022, trade volumes will have caught up with the pre-pandemic trend, meaning that the amount of goods being bought and sold internationally will be at the same level that economists would have predicted if there had been no pandemic at all.

In a foreword to the report, WTO Director-General Dr. Ngozi Okonjo-Iweala said the global response to the COVID-19 pandemic is an example of both the challenges and the benefits of increased globalization.

"The deep interconnections of travel, trade and financial flows that characterize our era allowed the novel coronavirus and its associated economic shocks to spread around the world in a matter of weeks. Earlier pandemics took months, even years, to go global," she wrote.

"Yet, globalization was also at the heart of why this virus was met with vaccines in record time. Scientists were able to share ideas and technology across borders, backed by public and private funding for research and development," she wrote. "As the new vaccines proved to be safe and effective, supply chains cutting across hundreds of sites in a dozen or more countries came together to provide the specialized inputs and capital goods needed for vaccine production on a large scale — all within a year."

Shortages in the US

Scott Lincicome, a senior fellow in economic studies at the Cato Institute and a frequent writer on trade issues, told VOA that the WTO's analysis holds up to scrutiny.

"We've seen this play out during the pandemic," Lincicome said. "Companies that were more domestically oriented really didn't end up better off than more globally diversified companies."

In the United States, he said, some of the most significant shortages and price increases involved goods the United States largely produces on its own, like pickup trucks and food.

"Pickup trucks were in higher shortage last year than sedans, and we import more sedans," he said. "If you look at food production this year, most of our food production is domestic. But some of the biggest shortages and price hikes we're seeing are on food."

Interconnectedness tied to stability

The report also found that the more diversified a country's trading relationships were with the rest of the world, the less likely they were to experience significant economic volatility.

Drawing on data collected by the International Monetary Fund, the authors established that countries with high levels of trade diversification in 2008 were likely to suffer far less volatility, measured as deviation from average annual Gross Domestic Product, over the 10-year period ending in 2018.

"Trade allows a country to diversify its sources of demand and supply, thereby reducing the country's exposure to country-specific demand and supply shocks," the report finds. "For example, when a country has multiple trading partners, a domestic recession or a recession in any one of its trading partners translates into a smaller demand shock for its producers than when trade is more limited."

'Reshoring' production may not be helpful

The report also warns against the temptation of "reshoring," that is, the effort some countries are making to become self-sufficient in key industries.

Especially in the early months of the pandemic, there were calls in many countries, including the United States, to reduce reliance on foreign suppliers for critical medical equipment, personal protective gear and vaccine components.

In another example, former President Donald Trump placed tariffs on foreign-made steel in an effort to force the return of steel production to the United States, saying it was necessary for national security to be self-sufficient in the production of the metal.

Trump's effort was ultimately unsuccessful, and if the report is correct, that may be reason for U.S. companies that use steel to be grateful.

"Restricting trade and promoting national self-sufficiency almost inevitably render national economies less efficient in the long run, as such policies ultimately drive up prices of goods and services and restrict access to products, components and technologies," the report warns.

Lincicome said the ultimate goal of the WTO in dissuading countries from reshoring production is to maintain healthy economic ties across borders.

"The WTO is responding to a pretty significant threat from certain policymakers, whose knee-jerk response to the pandemic is to employ more protectionism," he said. "In terms of economics, that's a bad idea. But also, I think in terms of geopolitics, the more that countries turn inward, the more likelihood there is for there to be some sort of future tensions."