Inclusive trade, investment and mobility

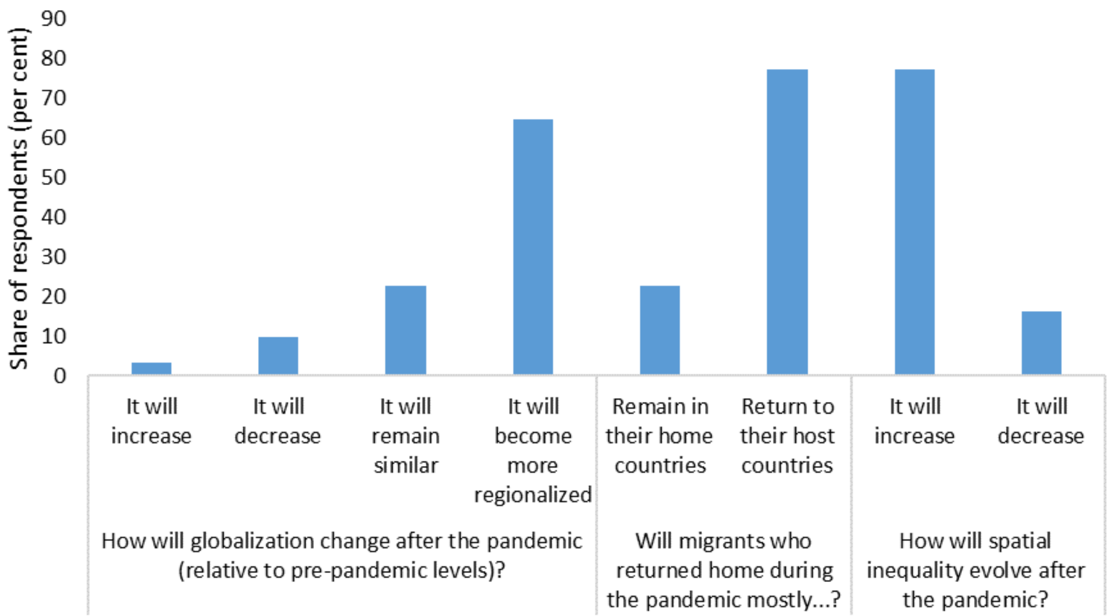
Webinar, 20th of April 2021

The webinar zoomed in on the effects of cross-border trade, foreign investment and migration/remittances on inequality in emerging markets and developing economies. While these forces brought tremendous benefits to these economies, boosting growth, increasing productivity and, perhaps most importantly, supporting countries' structural transformations, such changes also have distributional implications. While these have received a lot of attention in advanced economies, much less is known about them in emerging markets and developing countries.

The presentation highlighted that globalisation created jobs (including lower skilled and in smaller cities), increased wages and helped transform emerging economies. The Covid-19 pandemic, however, resulted in sharp drops in trade and foreign direct investment and limited international mobility at least temporarily.

Most webinar participants believed that globalization will become more regionalized after the pandemic, based on responses from a live poll conducted during the webinar. The majority expected migration flows to normalize, with most migrants who returned to their home countries during the pandemic going back to host countries. Spatial disparities within economies—across urban and rural areas, cities of different sizes or booming and lagging regions—much-discussed during the first webinar, were also generally expected to continue to increase.

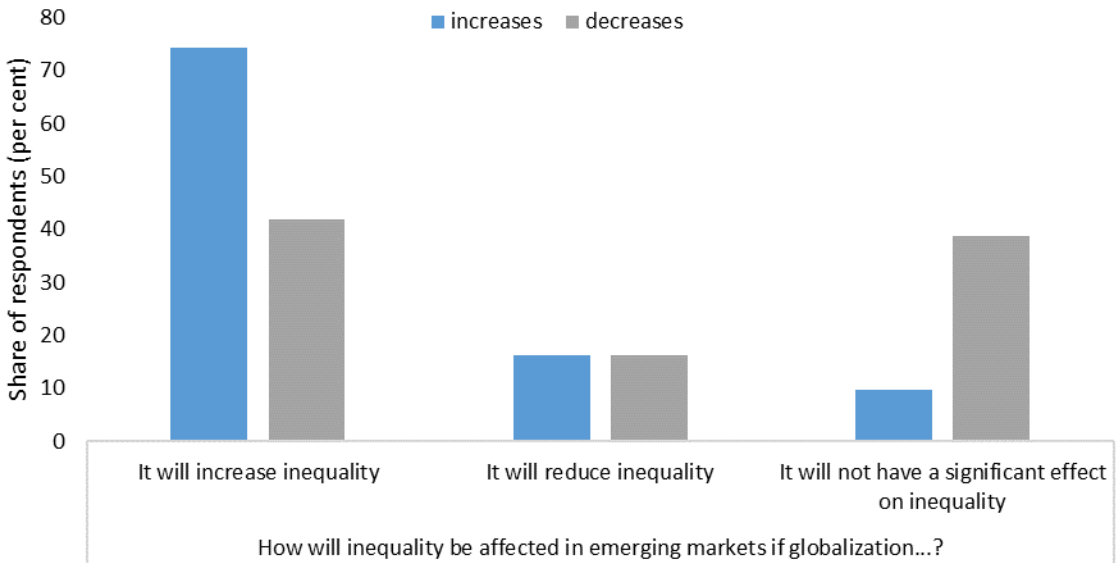
Poll results: The world after Covid-19



Notes: Based on 31 responses, roughly three-quarters of participants.

Strikingly, participants expected inequality to increase whether globalization increases or decreases. As globalization continues and emerging markets move up value chains and their exports and foreign investments become more capital- and skill-intensive, policies will be needed to address such 'inclusion externalities' to ensure that the gains from globalisation are broadly shared, and to proactively avoid the backlash seen across many advanced economies. A less globalized economy would, however, bring the worst of both worlds: lower growth, but without reducing inequality.

Poll results: Hypothetical scenarios



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Going forward, continued integration in global value chains and openness to investment remain crucial for development – generating the gains that can then be used to address its effects on inequality. Participants raised questions about possible policies that can lean against rising inequality, and widening spatial disparities. Public sector involvement will continue to be needed to create the preconditions for the private sector to increase capacity and enter/move up value chains: supporting education, including vocational training, investing in infrastructure and supportive services such as logistics. Bolstering social safety nets can help reduce the short-term costs of reallocation, however, more targeted and active policies may also be needed, for instance in the form of (local) industrial policy, such as anchor investments to help address widening gaps between booming and lagging regions.