

Trade and (Un)even Development

Main Takeaways from the Conference

World Bank

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September 13, 2024

Big Picture

- While trade can promote equality, it can also deepen inequalities by favoring firms, sectors and regions better integrated into global markets.
- Trade, technology diffusion, infrastructure development, labor market structures, and firm dynamics interact in diverse ways.
- The nature of these interactions plays a significant role in shaping the trajectory of structural transformation and economic development, leading to varied outcomes in terms of inclusiveness, trade-induced growth, and reallocation across sectors, geographies, and social groups.

Trade and Inequality: Six Main Takeaways

① Some Unexpected Equalizing Impacts of Trade

- Mitra, Pham, and Ural-Marchand: Trade boosts inter-generational mobility, enhancing equality for future generations beyond immediate income gains.
- Medina, Sotelo, and Velasquez: Lower appliance prices from trade increase women's labor market participation in Peru.
- De Vrijes, Kruse, Mensah, Vigdobena, and Yi: Trade integration transmits productivity gains, even when direct impacts on development are small.
- Benguria, Saffie, and Zhang: Spatial linkages distribute commodity boom benefits in Brazil, highlighting infrastructure's role in growth.
- Bastos, Stapleton, Taglioni, and Wei: GVC firm linkages enable technology diffusion, reducing inequality between firms and countries.

Trade and Inequality: Six Main Takeaways

2 Pre-existing Inequalities Can Temper Trade's Equalizing Effects

- Bastos, Stapleton, Taglioni, and Wei: Unequal access to firm linkages affects technology diffusion.
- Le Moigne, Lepot, Ritel, and Simon: MNC spillovers are limited by capability constraints of domestic firms.
- Benguria, Saffie, and Zhang: Spatial linkages in Brazil reduced commodity boom inequality but also tempered its equalizing effects.

Trade and Inequality: Six Main Takeaways

- ③ **Trade's Impact on Firm Dynamics Can Drive Inequality Through Structural Transformation**
 - Lin, Lan, Peng, Wang: African countries importing decommissioned Chinese machinery enjoy output gains but face a trade-off between immediate need of lifting access to capital constraints and longer term environmental sustainability of their firms' growth model.
 - Kaboski, Lu, Qian, and Ren: Lower trade costs concentrate firms, worsening regional inequality without small business support.
 - De Vrijes, Kruse, Mensah, Vigdobena, and Yi: Trade costs and productivity shocks can cause de-industrialization, limiting trade's potential to reduce inequality through structural transformation.

Trade and Inequality: Six Main Takeaways

- ④ **Trade Affects Labor Supply, Intergenerational Mobility, and Gender Roles in the Labor Market.**
 - Bonilla, Munoz-Morales, and Zarate: Foreign inputs liberalization creates sectoral heterogeneity, with employment effects mediated by the degree of substitutability between labor and intermediate inputs.
 - Medina et al.: Sectoral biases and gender norms affect women's opportunities.
 - Mitra et al.: Trade-induced mobility varies by gender, impacting long-term gender equality.

Trade and Inequality: Six Main Takeaways

- 5 **Infrastructure's Effects are Uneven and Can Exacerbate Domestic Inequalities**
 - Baragwanath, Hanson, Khandelwal, Liu, and Park: Infrastructure investments must be tailored to local contexts due to uneven effects.
 - Kaboski et al.: trade cost reductions from infrastructure projects in China and India disproportionately benefit large firms, with smaller businesses often being pushed out of the market.
 - Both studies suggest that without policy interventions, infrastructure investments could further increase inequality within countries.

6 Coordinated Climate Policies to Account for Spillovers

- Le Moigne et al.: Global coordination is needed for fair carbon pricing, especially for LMICs.
- Baragwanath et al.: Coordination is also key for effective (welfare maximizing) infrastructure policies. In addition, as increased pollution emerges as a negative externality of infrastructure investment, there is a need to incorporate environmental considerations into infrastructure and development planning.

New Questions, Further Exploration

Trade's mixed effects on inequality prompt some broad questions. For example:

- Can addressing inequality enhance long-term trade outcomes? How can inclusive policies for marginalized groups drive development?
- Could reducing inequality through coordinated trade and labor policies boost support for economic reforms?
- What role does human capital investment play in reducing inequality and fostering trade-induced productivity gains?
- How can trade policies balance productivity gains with reducing inequality across firms, industries, regions, and social groups?

New Questions, Further Exploration

On the interactions of trade and inequality with other economic forces:

① **Structural Transformation, Productivity Gains:**

- What mechanisms drive productivity gains from trade to development? How can countries optimize these gains to ensure trade integration directly impacts broader development and structural transformation?
- How does sectoral TFP growth shape structural transformation in sub-Saharan Africa? Specifically, how does TFP growth interact with sectoral reallocation across agriculture, services, and manufacturing?
- What are the long-term effects of capital constraints and labor-augmenting technical change on employment and productivity? How can developing countries manage these while enhancing long-term productivity?

New Questions, Further Exploration

2 Labor Markets:

- How does the degree of substitutability or complementarity between labor and foreign inputs vary across sectors, and how does this affect long-term employment and wage inequality within and between sectors?
- How do social norms and wage discrimination affect labor market participation of different genders?
- Are new female entrants concentrated in low-skill sectors, and how can they transition to high-skilled industries?
- How do gender dynamics shape the long-term intergenerational mobility effects of trade? Are women equally benefiting from upward mobility, or are there barriers limiting their gains compared to men?

New Questions, Further Exploration

3 Technology Diffusion:

- What challenges hinder technology diffusion in countries with fewer multinational linkages?
- What are the trade-offs in diffusing low-carbon technologies for green transitions in developing countries?

4 Infrastructure, Regional Integration, and Development:

- How can spatial linkages and infrastructure development be better leveraged to ensure regional integration and more equitable distribution of trade-induced benefits, particularly in uneven economic landscapes?
- How do the localized effects of infrastructure projects exacerbate or reduce regional inequalities within countries?

New Questions, Further Exploration

- How effective are current methods for measuring infrastructure impacts, especially in rural areas?

5 **Environmental Sustainability and Trade-Offs:**

- How can countries balance the short-term benefits of importing decommissioned machinery from advanced economies with the long-term environmental costs associated with lower standards?
- What role can policy coordination play in mitigating environmental risks while maximizing development?

Some Clear Policy Implications From the Conference

- Need for data-driven policies, especially in infrastructure planning.
- Trade agreements in combination with targeted domestic policies key for strengthening technology diffusion.
- Supporting gender parity and smoothing out of spatial differences essential in the labor market.
- Balancing industrial growth with environmental goals needs to be made explicit in policy decisions.

Thank you for a fantastic
conference!