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The Global Trade Map after Covid-19: Where to for Global Companies and Investors, and Policymakers?

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Introduction

In the wake of rising protectionism over the last half decade, the sudden economic stops wrought by COVID-19, the corollary disruptions of supply chain activity, and shocks to supply and demand, commentators from across the globe have trumpeted the 'end' of globalisation. Indeed, even predating the populist movements in the UK—culminating in the Brexit referendum—and in the US, resulting in the Trump era of tariffs and US withdrawal from trade agreements—some economists had forecasted a plateauing and eventual tapering of globalisation. With the shift from the old to the new economy—that is, growth in services activity and employment—experienced by many advanced economies (including the US, the UK, and the Netherlands), less goods—or volume of merchandise—are being moved around the world.

This carries with it certain implications, as the manufacturing and industrial eras associated with the production of goods have significantly boosted national incomes within domestic borders. Additionally, competitive export of these goods to foreign markets has further contributed to both domestic as well as global economic growth. Looking beyond goods, cross-border exchanges of services (such as travel, IT, and legal and professional services), as well as flows of finance, and exchanges of human capital have been integral components of the globalised business landscape, critical for building business, profit, and generating returns.

With the future of trade hanging in the balance, what's in store for corporate executives and investors? For many businesses—even those with a predominantly domestic sales base—have often relied upon the process of globalisation in order to create wealth, ultimately translating into boosting economic growth and employment. Will ongoing trade tensions—as well as reactions by governments to onshore production in the wake of the COVID-19 pandemic—actually prove to be the end of the multi-decade process of globalisation as we know it?

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As we shall see in Part I of this report, for companies and investors involved in the exchange, transmission, and sale of goods, services, technology and finance, globalisation endures. Granted, the landscape has dramatically shifted, and executives should be nimble and agile in navigating the new environment, which is currently in a state of flux. In Part II, we explore potential solutions for global cohesion, including the digital and green agendas, and the model of Asia. In terms of solutions, it is important to note that policymakers will also have to do their part, both by implementing domestic policies in order to address socio-economic imbalances within their borders, as well as by reforming the global trading architecture, and by fostering conduits of dialogue and collaboration at a regional and a global level. But before we progress to explore solutions and opportunities, how did we get here?

Globalisation and its 'Discontents': A Situation Report on Trade in Goods, Mobility, Services, Tech, and Finance

Globalisation is defined as the process by which technology and the information and communication technology (ICT) revolution of the 1990s—enabled faster transaction times and processes for exchanges of currency, capital flows, information, innovation, and goods and people around the world. These transmissions of commerce have been facilitated by norms, laws, regimes, and treaties governing trade—such as the World Trade Organization (WTO) at the global level, and regional agreements such as ASEAN (Association of Southeast Asian Nations). At a national level, the creation of free trade zones further facilitated the ease of trade: for example, a shipping container can move through a seamless logistics corridor in Jebel Ali port to Dubai airport within four hours.[1] Beyond the movement of goods, in financial services, hubs such as the City of London and latterly Singapore have attracted leading talent from across the globe in investment banking, trading, and asset and wealth management, with executives and their teams using these hubs to penetrate the 'spokes' of business in the greater EMEA and south/southeast Asian regions respectively.

Unfortunately, the very same global interconnectedness which facilitated wealth creation and economic opportunities also had a dark side, which manifested throughout the 1990s and 2000s. Global and transnational risks such as international terrorism (e.g., the attacks of 9/11); environmental degradation; cyber attacks; pandemics; human trafficking; and financial instability and financial crises ricocheted across the globe. Such risks might pop up in one jurisdiction, and—by the very same conduits which fostered the 'bright side' of globalisation—easily spread across geographies.

Now, we might say that we are dealing with a different shade of discontent within societies—particularly pronounced within advanced economies—for which the process of globalisation is often blamed: that of rising domestic income inequality. Whilst global trade has lifted billions of people out of poverty and sharply reduced inequality at a global level (such as that between China and the West, and southeast Asia and the West), income, wealth, and opportunity inequality have been steadily rising within countries such as the US, the UK, and Italy.[2] Clearly, the benefits of globalisation have not been shared by all—and yet, the globalisation of labour markets is but one contributing factor to rising inequality within these societies since the 1980s.[3]

Policymakers and business leaders within these countries have the option to enact domestic solutions to confront some of these societal challenges, which require a long-term mindset and horizon for implementation. And, as we shall see, these solutions might be shared with emerging market and developing economies (EMDEs) which have suffered adverse shocks to income as a result of the COVID-19 pandemic.

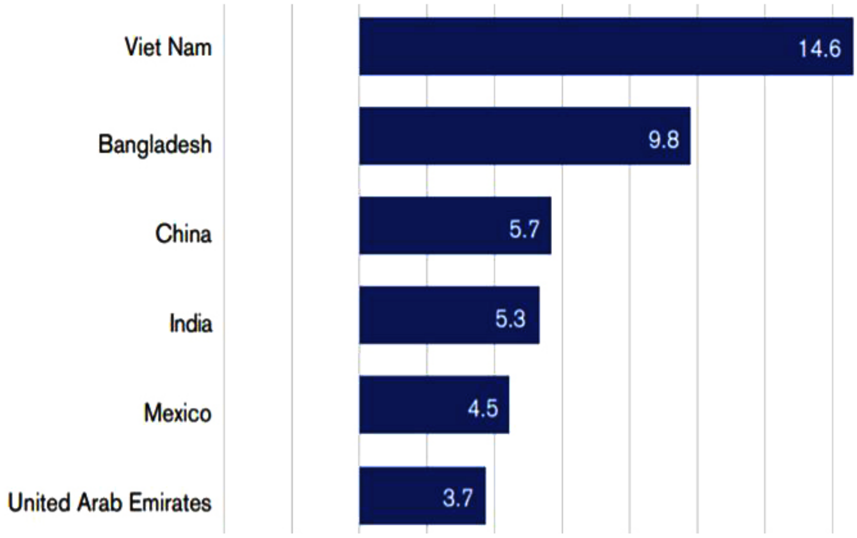
Nevertheless, despite the potential for domestic solutions, some leaders have found it both palatable as well as politically convenient to point the finger of blame at other countries. Rising income generation and economic advancement in Japan, for example, became a target of ire within certain circles in the US during the late 1980s and early 1990s.[4] More recently, within the US and across Europe, some activist politicians and commentators have often honed in on the economic gains made by certain groups (such as immigrant workers, or specific countries) as a clear causal factor for the erosion of the domestic middle class.

Insofar as some of these populist movements have steamrolled into electoral victories—such as in the US and in the UK—politicians have been able to act on some of their campaign trail promises. Moreover, somewhat ideologically flexible leaders hitherto in opposition have also found it convenient to backtrack on some pro-trade policies, in an effort to appeal to voters in increasingly polarised electorates. Rising economic nativism has taken various forms within the last few years, and has in some cases been accelerated in the wake of the COVID-19 pandemic. Again, regardless of the underlying causes of domestic inequality and social anxiety, politicians have acted out against trade in the following ways:

1. Ructions against goods. In recent years, some countries have rather narrowly zoned in on the balance—or rather, imbalance—of trade in goods. For the Trump administration, America's trade deficit in goods with countries such as China, Canada, Mexico, and the EU were a critical point of focus. Tariffs became the policy tool of choice as a way of addressing such imbalances, which, when implemented, have had mixed results.[5]

Supply chains became disrupted and fragmented as manufacturers sought to work around tariffs imposed on countries such as China. Supply chain diversification out of China—or perhaps still maintaining a foothold in China and then diversifying elsewhere, or the 'China plus one' strategy—has been a boon to highly productive countries such as Vietnam, and developing Asian countries such as Bangladesh (ref Figure 1).

Figure 1: Growth in merchandise exports, 2008-2018 (Average annual percentage change)



Source: World Trade Statistical Review 2019[6]

But while some countries have prospered from this disruption, others have been impaired. Indeed, the tensions of the US-China trade war, as well as between the US and Europe, rendered some major exporters on the brink of technical recession prior to the outbreak of COVID-19, including Germany and Japan.[7] Looking beyond nations, the imposition of tariffs also forced many companies within the US to contend with higher input costs, curtailing margins for manufacturers in industries such as steel, and also construction.

In the wake of the coronavirus pandemic, leaders from across the world—including France, Japan, India, and the US and the UK—have professed a desire to re-examine their supply chain resilience and to address potential vulnerabilities, which might include the reshoring of production of critical products, including personal protective equipment (PPE) and medical equipment, pharmaceuticals, and foodstuffs.[8] Additionally, in efforts to 'build back better', leaders in some countries—namely, the US under Biden—have professed a desire to catalyse a manufacturing renaissance across the wider industrial base.[9] This might even feature the imposition of a tax on US companies that create manufacturing jobs abroad.[10] And yet, it should be noted that these efforts to boost domestic production of goods and services comes at a cost: quite literally, for the government in its procurement; for companies, many of whose margins have been knocked as a result of the pandemic, and prior to that, the trade tensions; the consumer; and as some argue, ultimately, to economic growth.[11]

Moreover, fostering economic nativism with regard to goods can also backfire, in terms of spurring other countries to impose quid pro quo retaliatory measures. These could include non-tariff barriers to trade; increasing regulatory complexity and diminishing the ease of doing business on the ground for foreign companies; as well as imposing taxation in other arenas, such as a digital or a carbon tax at the border. Furthermore, the imposition of tariffs might carry with it unintended consequences, such as strengthening alliances elsewhere, underpinned by increasingly robust trade ties.

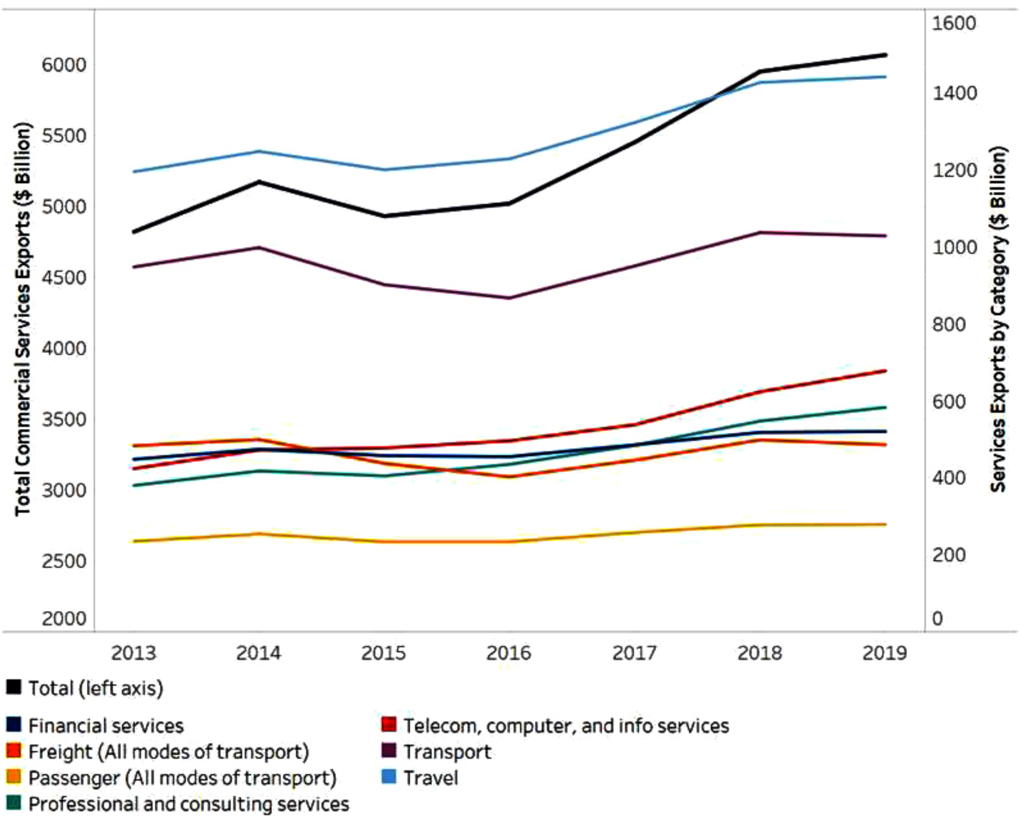
Nevertheless, some politicians find it all too alluring to hark back to the halcyon days of yore, thus appealing to the emotions of a voter base which has long felt disenfranchised by the globalisation of jobs, and the diminishing of economic opportunity, purchasing power, and a sense of purpose. This is not unique to the US: indeed, the romanticism associated with protecting agriculture is prevalent within French politics[12]—an undercurrent in economic thought dating back to the work of Francois Quesnay in the 18th century.

2. Restricting mobility. Emotional responses to the angst felt against global trade have not been limited to goods, or volume of merchandise. Some politicians have also looked to restrict immigration, vowing to "protect" domestic workers from a perceived disadvantage.[13] Certainly, in recent years, this has been a campaign trail promise of choice for some populist leaders, particularly on the right, whether in France, Italy, Germany, the UK, or the US. Additionally, throughout the COVID-19 pandemic—during which mobility has often been associated with morbidity—leaders have also sought to limit the movement of people across their borders. As of late January 2021, 101 countries were still restricting the movement of people to cross their national borders.[14]

Looking beyond the current health crisis, it is important to note that curtailing mobility also comes at a cost. In fact, during COVID-19, a sharp reduction in migrant agricultural workers within OECD countries has contributed to a sharp rise in food prices, which have reached a six year high.[15] Prior to the pandemic, restrictions on immigration also contributed to labour shortages in goods producing sectors in the US, including manufacturing, construction, and agriculture.[16] In the realm of services, restrictions on immigration also threatens the vitality of higher education in countries such as the US, where both public and private universities might heavily rely on foreign tuitions. And, in considering human capital within the digital economy, some countries face a critical skills gap of specialist workers, spurring governments such as Canada, China, Germany and Singapore to rethink policies on labor migration and ICT education.[17]

3. Trade in services. Despite mounting restrictions on material goods and physical bodies, global trade in services continues to steadily rise. As we can see in Figure 2, even in the wake of major populist events such as the Brexit referendum in the UK and the advent of the Trump administration in the US, services exports continue to grow on a robust trajectory at a global level. (It should also be noted that despite the politically sensitive topic of goods deficits, the US actually runs a surplus in trade in services with the rest of the world - and with its major trading partners, including China, Canada, and the European Union).[18]

Figure 2:
Value of world services exports by category (USD Billions)



Source: WTO

Such services include telecommunications, legal, business and professional services, and travel. In considering the latter, global air passenger traffic hit an all-time high in 2019 and in the pre-pandemic months of 2020.[19] Although COVID-19 severely disrupted the global travel industry, once multiple vaccines have been successfully disseminated, and passengers feel safe to travel again, tourism-related leisure travel (and one might even argue, the lion's share of pre-COVID19 business travel) is likely to continue its inexorable rise. Granted, the airline industry—and hospitality businesses dependent upon global travel—may continue to undergo consolidation amidst tepid demand, with the outlook potentially turning for global air travel passenger traffic around 2023 - 2024.[20]

Whilst many executives and businesses are held in a holding pattern, the working from home (WFH) phenomenon has led to a blossoming of the transmission of specific IT services across borders. Accordingly, some commentators have proclaimed the dawn of 'e-globalisation'. With growing demand for and use of artificial intelligence (AI), companies no longer need to flock to tech hubs such as Bangalore or Silicon Valley to access cutting-edge software: rather, they can do so from their own home via cloud computing.[21]

4. Tensions within trade in tech. Although countries, companies, and individuals are importing and exporting more services than ever before, a bifurcation has developed between the US and China with regard to certain aspects of trade in technology. Indeed, many commentators have referred to this as a possible 'technological Cold War' between the 'greatest two powers' in the world.[22] The tension is primarily rooted in diverging perceptions of the relationship between technology and national security.

If we divide technology into several categories, such as 5G and pipes and masts for telecoms; motherboards; semiconductor chips (high end and low end); software; AI and data—Beijing and Washington harbor conflicting views as to which of these elements are interwoven with their own national security. This has certainly muddled the commercial landscape not only for US and Chinese companies involved in these subsectors, but also for businesses domiciled in countries including Japan, Germany, and the Netherlands, as well as for countries including Colombia and Brazil.[23] Investors and companies with stakes in the ground in both the US and China are concerned about spillover effects—that these tensions might well complicate the landscape for fixed capital investments, or indeed targeting sales and a consumer base in the respective countries—or in the worst case scenario, lead to a 'full decoupling' between the two economies.[24]

Connected to this, the US and several other governments around the globe have stepped up the screening and restriction of foreign investment in their countries—ostensibly directed towards capital from China. Raising concerns about national security, some government officials have blocked, 'cleansed' or delisted Chinese entities from their domestic commercial landscapes.[25] Although some specific European countries have also passed legislation to restrict inbound investment in specific targets or sectors,[26] the EU-China Comprehensive Agreement on Investment (CAI)—signed at the end of 2020—was designed to improve laws and practices for mutual investment between China and the EU, at a federal level. While the agreement has now been shelved,[27] prior to the latest tensions, the negotiations did demonstrate a willingness for both sides to convene in order to potentially step up the level of investments between the two countries.

A bifurcation has developed between the US and China regarding aspects of trade in technology; the tension is rooted in diverging perceptions of the relationship between tech and national security.

5. Trade in financial services: from technology decoupling to financial honeymoon? While trade tensions have seeped into restricting investments in critical sectors within some countries, China has actually reduced its 'negative list' for foreign companies to invest in mainland China, within sectors including oil and gas, the automotive industry, and crucially for some US and European banks, financial services.[28]

Indeed, some US banks have invested billions of dollars in China throughout 2020, and have moved toward full ownership of their ventures on the ground in mainland China.[29] In the wealth management space, one French company has also taken majority ownership of its venture on the ground with a mainland Chinese business partner.[30] Given that mainland Chinese assets are set to quadruple in growth within the next decade, some of the world's most profitable companies find this increased market access too tantalising to resist.[31] In fact, one might argue that the tethering of US and European financial services to Chinese wealth might actually prevent the US and China from a full-scale decoupling.

It is also important to note that in thinking about the potential for trade in financial services across the globe, actors are not limited to the US and China. Singapore is one country which has magnetised both traditional as well as new players in banking and in fintech. By creating a regulatory sandbox in which companies can innovate within the parameters a safety net implemented by the regulators, banks, tech, and even ride share companies have used Singapore as a lab and a launchpad for growing businesses in fintech and financial inclusion.[32] Singapore has also professed its intention to become a hub of digital connectivity, effectively fostering digital corridors with other countries within Asia and Latin America, where their companies can engage in cross-border transactions within mutual understandings of data privacy and e-commerce regulations.[33]

What are the Solutions?

The digital realm

In the realm of digital markets, a multilateral legal framework to safeguard consumer interest has eluded consensus. This is primarily because large tech firms are often from the US, thus leaving a vacuum in the global community, and therefore a lack of geographical diversity and representation on the global stage. Even in the absence of a common international order, some clarity has started emerging on how to confirm that these firms operate to the advantage of host countries and their users.

The rapid digitisation of businesses over the last couple of decades has posed several policy challenges. Amongst them, a crucial challenge is the inequitable distribution of wealth within and across newly digitised value chains. Ideally, agents reap proportional incentives to the potential risks that they bear. This equation, however, does not hold good universally in the digital economy. For instance, much to the chagrin of press publishers the world over, their declining advertising revenues are increasingly captured by social media and search engine platforms. While these platforms use the content that publishers produce to capture user attention—and the concomitant data and advertising revenue— publishers can lose out on this revenue as users may not visit their webpages. A survey conducted by the University of Canberra showed that 62 percent of the users relied on social media and news aggregators for online news; a study by Reuters Institute found that only 18 percent of the surveyed Indians used direct publisher webpages to access news; a similar trend was also observed in France[34]. As a vibrant and healthy media is critical to the democratic order, several jurisdictions such as Germany, France, and Australia have mulled appropriate policy response to correct the lopsided incentive distribution.[35]

Most recently, Australia adopted the News Media and Digital Platforms Mandatory Bargaining Code that mandates negotiation between social media platforms and publishers to share advertising revenue.[36] In the wake of such global efforts, various organisations, from big tech to media networks, are supporting small and medium-sized news organisations producing original news for local communities that have been hard-hit by the COVID-19 pandemic.[37]

Another area where there seems to be more clarity on enforcement is antitrust actions against big tech. Previously, the EU, which has been at the forefront of antitrust action against big tech firms, has been accused of discriminating against the US firms. Last year, however, witnessed several US states filing complaints against big tech companies for antitrust violation.[38] In fact, these cases largely parallel the EU cases. Thus, a nascent consensus appears to be emerging on both sides of the Atlantic on how to draw the 'rules of the game' for tech firms.

Data protection and securing user privacy in the digitised world has also seen more concrete efforts. To this end, the EU General Data Protection 2018 has offered a common template that has even inspired California Consumer Privacy Act (CCPA).[39] A common template that at least serves as a starting point would go a long way in confirming ease of compliance and avoiding regulatory arbitrage.

This is not to say that all contentious issues have been resolved. A very complicated issue has been the taxation of advertisement-generated revenues. Hitherto, such revenues would escape the taxation as digital firms may not have a local presence. Although there has been an attempt by the OECD to devise a framework for digital taxation,[40] a multilateral solution has not evolved so far. Against this backdrop, the UK, France, India and Italy among other countries have started levying taxation on advertisement revenues.[41] A multilateral framework is, therefore, the need of the hour to avoid any more trade wars that the pandemic-stricken world economy cannot bear.[42] The fact that some early convergence has emerged on contentious issues is a positive dynamic, and suggests that even though an overarching framework governing the digital realm is elusive so far, consumer interest will be the guiding force in determining the nature of regulation. Thus, a uniform, multilateral approach towards digital multinationals across jurisdictions might avoid the balkanisation of digital governance. The regulatory clarity and certainty will help businesses to expand across borders, investors to fund digital startups, and policymakers to leverage the industry for post-Covid economic recovery.

The green piece: trade, climate, and the sustainability agenda

Climate action is the base on which economic policies of the 21st century are likely to be formulated – increasingly, at least in the developed world, 'going green' is the new industrial and growth strategy. In line with the backlash against globalisation, this agenda, too, might be more narrowly focused on domestic remits than launching truly global solutions.

For example, recent discussions on the EU's carbon border adjustment mechanism, essentially an emissions-related import tariff, are the first sign of movement towards a global "carbon club",[43] shutting out exports from countries which don't comply. This leaves some export oriented EMDEs with a range of limited and undesirable policy options. Integrating into the international emissions trading system implies taxing carbon at rates which would bring local economic activity to a standstill. Remaining outside the trading system implies being shut out of export markets, or paying the border tax, effectively a transfer of revenues from poor to rich countries. Squaring the circle on international carbon pricing will require creative solutions, and is likely to be the most important item on the 2021 United Nations Climate Change Conference (COP26) agenda in Glasgow.

Environmental safeguards in trade agreements are another point of contention. While the WTO has no specific agreement on safeguards, trade agreements are increasingly adopting measures aimed at protecting the environment. These provisions are controversial: on the one hand, green-eyed critics adopt the position that excluding environmental conditions (such as in the Regional Comprehensive Economic Partnership (RCEP) is a missed opportunity towards making trade more compatible with climate policy. For other critics, environmental provisions might represent an element of protectionism, aimed at excluding products from certain jurisdictions.

The greening of financial flows represents both opportunity and risk, and EMDEs have a long way to go in capturing their share of the burgeoning green and environmental, social and governance (ESG) markets. While asset managers in the West increasingly look to emerging markets in the hunt for yield, these investments can often be in the realm of 'fickle capital'—that is, in green bonds or ESG-related equities, rather than in 'sticky' or long-term investment capital in real assets such as infrastructure. Truly bridging the finance gap for the energy transition in EMDEs necessitates long-term thinking from regulators and asset managers, which would be supported well by risk sharing mechanisms from development finance institutions (such as MIGA within the World Bank), including blended finance.

Areas of friction notwithstanding, the current moment presents a historical opportunity for cooperation. As climate commitments strengthen across the globe, economies of scale have led to rapidly falling costs for green energy and technology, making the 1.5 centigrade target increasingly feasible. The possible pitfalls of climate action are similar to those of globalisation – unequal distributional outcomes—or negative externalities—which might lead to a domestic political backlash. Avoiding this will require supporting a just transition at the global level, not just within national borders.

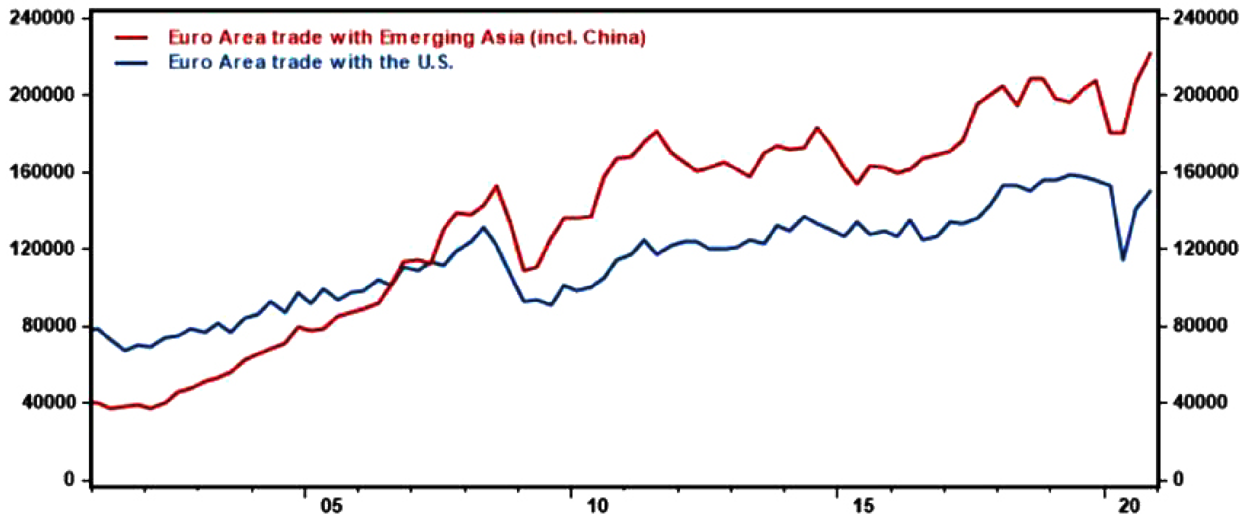
Therefore, what is required is for companies, investors, and policymakers to forge a common understanding of 'green recovery' and a global consensus on the approach for achieving it. It would be similar to the global coordination required in the wake of the GFC, which managed to reconcile the domestic needs for fiscal consolidation with the provision of growth-supporting credit, as well as to reinforce financial stability through increased capital requirements achieved via the implementation of Basel III regulations.

The future of globalisation: 'Asia in the cockpit'?[44]

While many Western countries have been contending with populist movements in the years leading up to COVID-19, and then resurgent strokes of economic nativism in the wake the pandemic, countries in Asia signed the largest trade agreement in history - the Regional Comprehensive Economic Partnership (RCEP) in November 2020. (Granted, the agreement may face some hurdles in moving from signing to ratification).[45] Effectively, RCEP incorporates some rich income Asian countries within the ASEAN community; and in a historic step, it is the first framework which includes China, Japan and South Korea together within a trade agreement.[46] While some commentators point out that RCEP is less comprehensive than other agreements such as the CPTPP,[47] the convening of RCEP signatories signals Asia's continued commitment to connect 'multiple factory floors' at a regional as well as a global level.

For, even despite setbacks from the trade tensions and the COVID-19 pandemic, Asia remains home to some of the fastest growing economies in the world, with highly productive labour forces, moving up the value chain in agriculture, textiles, manufacturing, services - and thriving domestic consumer markets. Accordingly, Europe continues to cement its stance in the region. As we can see in Figure 3, Europe's trade with emerging and developing Asia (including China) continues to eclipse that with the US. The EU has cemented an FTA with Vietnam (also with Japan); and individual European leaders are forging their own 'Indo-Pacific' strategies in order to deepen ties of commerce and cooperation across the region. Even the US's capital position within ASEAN is steadily growing: the latest data shows that US foreign direct investment (FDI) in ASEAN is nearly three times the level of US FDI in China. US FDI in India is also steadily increasing, in sectors including professional, scientific, and technical services, manufacturing, and wholesale trade.[48] This goes to show that in a world fraught with the implications of potential polarisation, foreign investment into some of the world's most dynamic economies does indeed continue to steadily mount.

Figure 3:
Euro Area merchandise trade with Emerging Asia and the U.S. (USD Millions)



Source: IMF, Haver Analytics

The cementing of RCEP—with the participation of some of the fastest growing economies in the world[49]—raises the question: do regional trade agreements help or hinder the global trading landscape? With variegated standards on data privacy, green and carbon, and with countries at various stages of economic growth and employment, an overwhelmingly global architecture might be elusive. In the wake of rising protectionism and the economic shocks of COVID-19, stalwart efforts are underway at reforming the global trading system.[50] At the same time, it can be argued that regional trading agreements—and even issue-based, bilateral agreements such as Singapore's digital corridors with Japan, Australia, New Zealand and Chile—are helpful in providing building blocks for greater cohesion between countries, companies, investors, and people—and ultimately, at paving a path for enhanced global cooperation on thorny issues such as mitigating climate change.

Conclusion: Reaping the Benefits of a Global Division of Labour and Capital

In sum, even though the global trading architecture has taken severe knocks from both populism as well as the pandemic, nearly one-third of the world's population and one-third of the global GDP have recently been incorporated in a historic trade agreement.[51] And even amidst the 'great lockdown' of 2020, the contraction of global trade in goods was less than half of that of the trough of 2009, in the wake of the global financial crisis.[52] Moreover, an asynchronous regional recovery from COVID-19 has meant that many companies have been able to make up for the loss demand in one region (such as Europe) by the growth in demand in another region (such as China). And uneven sectoral activity—such as the working from home (WFH) dynamic—continues to propel demand for critical goods such as semiconductor chips, propping up export markets for countries such as South Korea. The growth of the electric vehicle (EV) industry—and commitments by governments to 'build back greener'—is also contributing to cross-border flows of metals and materials.[53] As many countries confront successive waves of the virus, trade in services activity such as tourism and transport remains muted. And yet, as the world emerges from the pandemic, these travel-related services are likely to eventually blossom and thrive amidst pent-up demand.

Nevertheless, as policymakers set their priorities on rebuilding their societies, the lure—or mystique—of self-sufficiency remains strong. This includes within advanced economies such as the US and France, as well as emerging economies, including China and India. Indeed, the COVID-19 pandemic has caused severe losses to income for both advanced as well as emerging economies, with the latter experiencing a loss of 20 percent of income of 2019 levels, and 11 percent within advanced economies.[54] And yet, the way out of economic desolation is not via isolation, or constructing a fortress nation.

Certainly, within advanced economies such as the US, associated relief packages from COVID-19 have catalysed the implementation of meaningful policy changes to combat systemic income inequality within domestic societies, including changes to housing policy to address the affordability crisis, and significant investments in childcare.[55] And yet, as America transitions from relief to recovery, and policymakers weigh up prospects for 'American jobs', it goes without saying that demand for many jobs within tradeable services is implicitly connected with the viability of export markets. Thus, America's ability to underpin and renew export ties with dialogue—such as that recently conducted with the EU[56]—is critical and integral to sustainable domestic growth. The virtuous circle works in both directions: the US stimulus package, focused on creating jobs and domestic demand, is likely to have positive spillover effects for America's largest trading partners. Additionally, in the realm of non-tradable services, creative policies to incentivise corporate and private investment in reskilling, upskilling, and learning for working are absolutely critical. Stepping up America's competitiveness and improving productivity in both tradable and non-tradable sectors can also be immensely enhanced by an eventual infrastructure investment package.

Additionally, in terms of talent, as the US embarks upon investing in non-defence related R&D, in sectors such as biotech and the electrification of transport, innovation is implicitly tied to immigration. In America, this has been the case historically, throughout the 19th and 20th centuries,[57]as well as with the blossoming of cutting-edge technologies, and the growth of entrepreneurship related to such sectors.[58] Human capital vitality in the US is inherently cross-border, and reliant upon positive immigration. Recognising this is a vital component of any industrial, or rather, post-industrial policy.

And within EMDEs, shrewd policymakers should strike a delicate balance between stemming the health crisis (still raging in India and in Brazil), shoring up their economies, and also 'looking outwards' to other countries and companies as a source of critical long-term investment. Even in the years prior to COVID-19, domestic income inequality has been steadily rising in emerging markets including China and India.[59] Although billions of people have been lifted out of poverty, the disparity between the richest of the rich—or top centile and top decile—and all below continues to widen—what economist Thomas Picketty calls the top of the elephant trunk. Just as with advanced economies, this has the potential to create social unrest, especially as populations emerge from pandemic-related lockdowns, with diminished economic opportunities and purchasing power. But the way out of rising inequality and a loss of income is not to sever ties with global pools of patient capital. For EMDEs, integration into regional and global supply chains, and deepening ties with trading partners across the globe (such as between Japan and Brazil) remain critical components of moving up the economic value chain. And as US investment in ASEAN countries clearly shows—or indeed European engagement in Asia—even though the world can be seen as polarised, American and European companies and investors continue to allocate capital to the world's fastest growing economies at a steady rate. Such investments can be crucial in laying the groundwork for increasing productivity via infrastructure development, including broadband, roads, ports, and logistics.

Nevertheless, investors and policymakers might face a tension between the 'E' and the 'S' components of ESG as we emerge from the pandemic. In EMDEs, 'soft' infrastructure such as investing in schools and healthcare might take precedence over immediate buildout of renewable energy. Investment committees and MDBs should balance these trade-offs in the short to medium term, with a tacit understanding that an immediate address of the 'S' components does not preclude the advent of a greener, brighter future, shared by all.

> "As policymakers rebuild their societies, the lure of self-sufficiency remains strong. Yet the way out of economic desolation is not via isolation."

ENDNOTES

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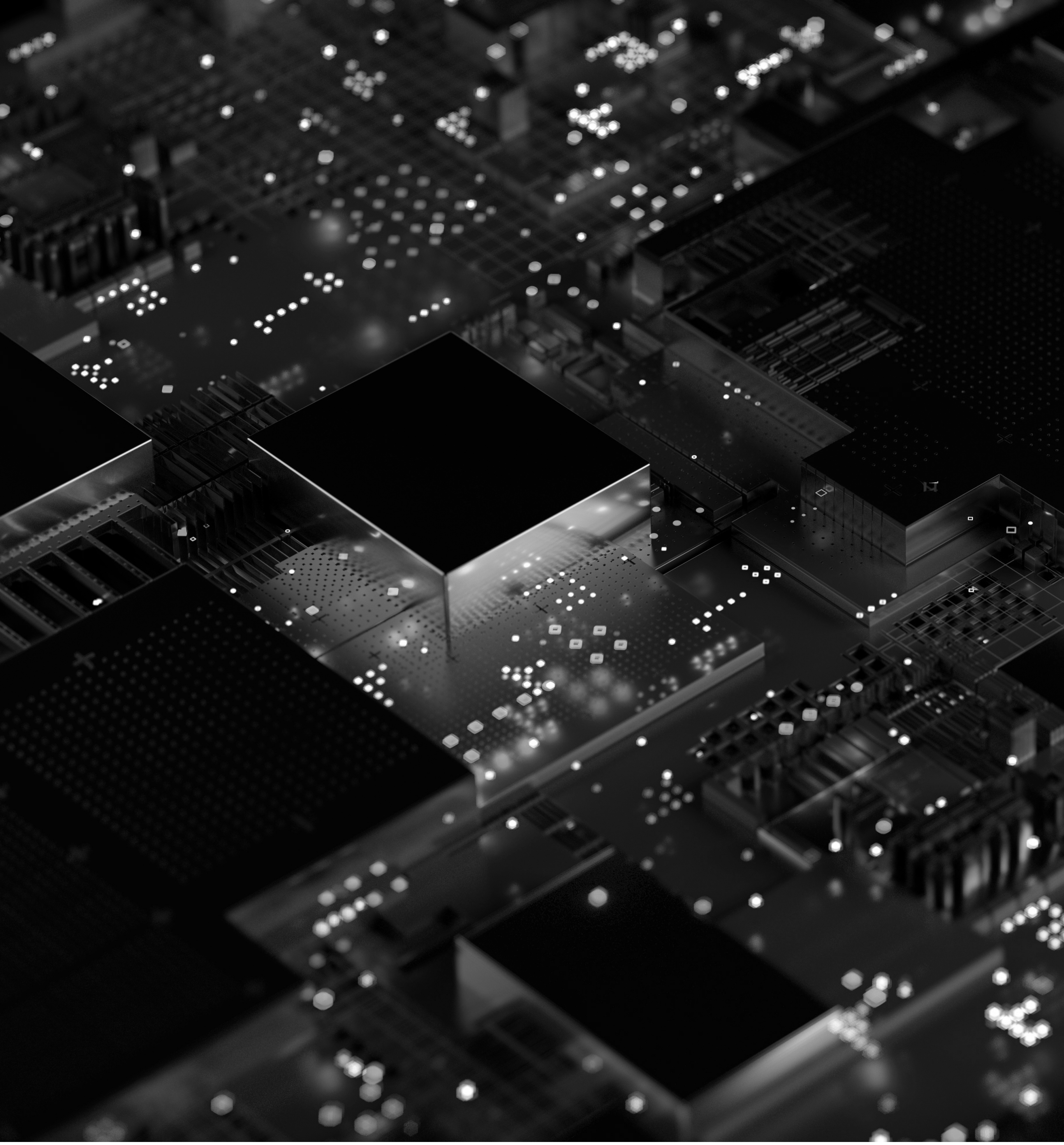

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