



Research Fund

Building Societal Resilience

The Role of Inclusion
in a Fragmented World

A collection of perspectives
by the AXA Research Fund
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About the AXA Research Fund

The AXA Research Fund was launched in 2008 to better address the major risks faced by our planet through science. AXA has committed a total of €250M to scientific funding and supported close to 700 research projects in the areas of health, climate and environment, and socioeconomics. The AXA Research Fund's mission is to support transformative scientific research and to help inform science-based decision-making in both the public and private sectors.



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axaresearchfund@axa.com

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Emilia Lamonaca
AXA Fellow, Università
degli Studi di Foggia

Trade Policy, Climate Change and Shifting Comparative Advantage

International trade is yet another area where resilience is being threatened by climate change. Indeed, for many countries, the ability to produce commodities that have been central to their comparative advantage is eroding. Adaptation policy is therefore necessary and a uniform approach to standard setting could be an essential step towards both trade security and climate change mitigation.

A bilateral relationship

The relationship between trade and climate change is bilateral. Trade affects the climate through CO₂ emissions resulting from the production, shifting and consumption of goods. On the other hand, long-term climate change can alter the comparative advantages of countries and shift trade patterns.

As an example, the wine sector is strategic for countries such as Italy and France, as well as for “new world” producers including the United States, Chile, Australia, and South Africa. Grape production requires a specific set of climate conditions currently present in some regions of these countries. However, climate change has the potential to expand these

favorable conditions to other countries. This could shape their comparative advantage and therefore alter trade patterns. By the same token, climate change may induce negative effects for current producer countries, who will need to adapt their production to be more resilient to these changing conditions and keep their comparative advantage.

Unequal terms of trade

From a trade perspective, a country can remain resilient in the face of climate change if it can produce a higher value of products as opposed to a higher volume of less-valued production. But this advantage tends to accrue to richer countries due to their starting point in development and knowledge.

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It is easier for richer countries to adapt to climate change because they are more focused on the processing part of the international supply chain. In comparison, many developing countries produce agricultural commodities, which are already strained by changing climate conditions.

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Simply put, it is easier for richer countries to adapt to climate change because they are more focused on the processing part of the international supply chain. In comparison, many developing countries produce agricultural commodities, which are already strained by changing climate conditions.

In theory, these countries should be taking steps to change their trade patterns by changing ways of production and planting crops that are

resilient to new climate conditions. However, this is a long-term process and adaptation of this nature is neither quick nor simple to achieve in practice.

How then can countries achieve a more advantageous trade architecture for building resilience, particularly in parts of the world where climate change will have a more dramatic effect?

A cooperative approach

The key is international cooperation through the existing trade architecture and institutions such as the World Trade Organization. There is already scope for international agreements that allow developing countries to receive not only support from developed countries to adjust to changing climate conditions but also knowledge on cleaner production techniques.

However, the international trade system is inherently unequal. Developed countries tend to outsource their most polluting activities to developing countries while retaining the high-value ones, such as services and value-added processing. Since the effects of climate change are international, this is not a viable long-term approach.

For the common good, cooperation must be achieved. However, multilateral cooperation is difficult and complex. Bilateral cooperation between regions is therefore more realistic. At this level, cooperation on cleaner standards would be an effective trade policy to mitigate climate change and build resilience.

Setting new standards

Harmonization of regulations is essential to achieve equilibrium between developed and developing countries. With international cooperation, developing countries could achieve trade resilience through homogeneous standards across countries. But what should this harmonization look like?

It should not simply consist of pricing mechanisms. Although tariffs are the most

common tool in trade, their effect is blunt and affects the price of goods rather than sets standards.

One important tool to consider is non-tariff measures, such as sanitary and phytosanitary measures in the agri-food sector. These are complex, because they increase the cost of production, and thus the costs of compliance. But they could be very useful as a tool to promote both resilient trade and climate change mitigation by setting standards for cleaner production.

The expansion of the agri-food trade in recent decades has boosted the market share of developing countries. This increase has taken place alongside the implementation of non-tariff measures, namely sanitary and phytosanitary measures. This suggests that such measures are indeed pro-trade and reduce the developed-developing divide by setting common standards and ultimately boosting the trade resilience of developing countries. There is clearly potential for non-tariff measures to yield further benefits.

Let's take the case of applying the same food safety standards in both developed and developing countries. More harmonization of standards provides security to developing countries since they know their goods can be traded internationally, creating scope to pursue a higher-value approach rather than simple commodity production. Adaptations like these can boost trade resilience in a time of climate change.

At the same time, this approach has the potential to set standards for cleaner production techniques to mitigate climate change, all while setting a path for cooperation on policies and standards to tackle climate change itself.

For such uniform adaptation of standards to work to their full potential, they need to be adopted internationally. We are a long way from that. But if embraced, they could be trade policy's key contribution to mitigating climate change and building resilience.

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Contributors



J. Peter Burgess
AXA Chair in the Geopolitics of Risk,
École Normale Supérieure

J. Peter Burgess is professor of philosophy and political science, and Director of the AXA Chair in Geopolitics of Risk at École Normale Supérieure, Paris. His research concerns the meeting place between culture, politics and technology, with an emphasis on questions of risk and uncertainty.



Lisanne Raderschall
Policy Analyst and Project
Manager, Regional and
Rural Policy Unit, OECD

Lisanne Raderschall is a Policy Analyst and Project Manager at the Regional Development and Multi-level Governance division of the Centre for Entrepreneurship, SMEs, Regions and Cities (CFE) where she focusses on a variety of policy issues including addressing climate change and enabling a just transition.



Michelle Marshalian
Economist, Regional and
Rural Policy Unit, OECD

Michelle Marshalian is an Economist at the Regional Development and Multi-level Governance division of the Centre for Entrepreneurship, SMEs, Regions and Cities (CFE) where she manages the OECD project on Enhancing Innovation in Rural Regions.



Philip O'Donnell
AXA Fellow,
Dublin City University

Philip O'Donnell is an AXA Fellow in Inclusive Growth at Dublin City University. His research focuses on finding secure and sustainable livelihoods in the urban informal economy.



Olivier Desbief
Head of AXA Group Foresight

Olivier Desbief is an Economist by training and explorer of the intersections of technology, social changes and public policy by passion. As Head of AXA Group Foresight, he scouts the horizon of emerging trends and weak signals to make sure short-term initiatives are grounded in longer-term perspectives.



Kirsty Leivers
AXA Global Head of Culture,
Inclusion and Diversity

Kirsty Leivers is Group Head of Culture, Inclusion and Diversity at AXA. Her work focuses on revisiting the relationships between people, their workplace and colleagues in order to support AXA's goal to be an inspiring place to work.



Tista Kundu
AXA Fellow,
Centre de Sciences Humaines
of New Delhi

Tista Kundu is an AXA Fellow in Inclusive Growth at the Centre de Sciences Humaines. Her research focuses on the role of predestined social backgrounds in measuring well-being in India.



Ursula Mello
AXA Fellow,
Barcelona School of Economics

Ursula Mello is an AXA Fellow in Inclusive Growth at the Barcelona School of Economics. Her research focuses on public policies for tackling educational and intergenerational inequality.



Tristan Dissaux
AXA Fellow,
Université Libre de Bruxelles

Tristan Dissaux is an AXA Fellow in Inclusive Growth at the Université Libre de Bruxelles. His research focuses on the digitalization of money and its impact on social cohesion, inclusion, and public trust in institutions.



Anne Boring
Head of the Sciences Po Women
in Business Chair

Dr. Anne Boring is the Head of the Women in Business Chair at Sciences Po (co-funded by the AXA Research Fund) and Assistant Professor at the Department of Economics at Erasmus University Rotterdam. Her research focuses on issues related to gender in higher education and the labor market.



Paola Profeta
Director of the AXA-Bocconi
Research Lab on Gender Equality

Dr. Paola Profeta is Professor of Public Economics at Università Bocconi, where she Directs the AXA-Bocconi Research Lab on Gender Equality. Her main research fields are policies to promote gender equality and women's empowerment, welfare state and redistribution.



Maria Lucia Villela Garcia
AXA Fellow,
University of Bristol

Maria Lucia "Malu" Villela Garcia is an AXA Fellow in inclusive growth at the University of Bristol. Her research focuses on regenerating places through inclusive and sustainable economies.



Vanesa Castán Broto
AXA Award Recipient,
University of Sheffield

Vanesa Castán Broto is an AXA Award Recipient and Professor of Climate Urbanism at the University of Sheffield. Her research focuses on responding to climate change while advancing social justice and reducing inequality in urban areas.





Mouez Fodha
**AXA-Paris School of Economics Chair
 for a Successful Energy Transition**



Fanny Henriet
**AXA-Paris School of Economics Chair
 for a Successful Energy Transition**



Katheline Schubert
**AXA-Paris School of Economics Chair
 for a Successful Energy Transition**

Led by Mouez Fodha, Fanny Henriet and Katheline Schubert, the AXA-Paris School of Economics Chair for a Successful Energy Transition aims to create a privileged forum for collaboration between investment experts, researchers and practitioners in order to further identify the conditions for an energy transition to a net-zero emissions world.



Emilia Lamonaca
**AXA Fellow,
 Università degli Studi di Foggia**

Emilia Lamonaca is an AXA Fellow at the Università degli Studi di Foggia in Italy. Her research focuses on climate change, trade, and inequalities in the economic growth between regions.



Garance Wattez-Richard
Head of AXA Emerging Customers

Garance Wattez-Richard heads AXA's Emerging Customers business, which aims at protecting low-to-middle income populations in Asia, Africa and Latin America to help them become the middle class of tomorrow in their country.



Eric Comte
**Director of the Geneva Health Forum,
 University of Geneva**

Eric Comte is a Medical Doctor with a specialty in public health. He has worked for 18 years in humanitarian medical organizations mainly in the Caucasus and Africa. He is currently the Director of the Geneva Health Forum at the Institute of Global Health in Geneva (University of Geneva).



Kai-Uwe Schanz
**Deputy Managing Director and
 Head of Research & Foresight,
 The Geneva Association**

Kai-Uwe Schanz is the Deputy Managing Director and Head of Research & Foresight at The Geneva Association, the think-tank and only global association of re/insurance CEOs.



Sandrine Coulange
**Chief Health Officer,
 AXA Europe and Latin America**

Sandrine Coulange is Chief Health Officer for AXA Europe & Latin America, where she drives transversal health priorities and initiatives across these markets.



Gilles Moëc
**AXA Group Chief Economist
 and AXA IM Head of Research**

Gilles Moëc is the AXA Group Chief Economist and Head of Research at AXA Investment Managers (AXA IM). He also oversees Responsible Investment activities pertaining to research, thought leadership, engagement and active ownership.

