# Globalisation & Geopolitics The Future of Export-Led Develop in LatAm.

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#### IND / Real learning Real impact



#### Two questions:

- Are services the future of trade and development?
- How will GenAl impact trade and development in LatAm?

# Are services the future of trade and development?

Globalisation pivots to services: circa 2008.



FACT:

Goods trade ratio peaked, Services didn't.

- Why goods peaked?
- Near-shoring
- Defragmentation.



sources: WTO database (https://stats.wto.org/), World Bank (https://databank.worldbank.org/source/worlddevelopment-indicators#)

# Why is manufacturing localising?



Cost competitiveness depends on nontrade inputs

>Especially labour





Digitech automates labour out of manufacturing.

International cost differences shrink.

Manufacturing localizes. (more output sold locally). Manufacturing becomes jobless & non-traded



# Why are services globalising?



Digitech made international telework feasible; vast wage differences made it profitable. International telework booms.



#### Labour services flow from low-wage nations to servicesector teams in Advanced Economies. "Service-sector off shoring (SOS)."



IMD

Conjecture 1: The future of trade is services (FoTiS) (especially intermediate services).



#### Extrapolation:

Goods trade ratio peaked, Services didn't, if this continues, the future of trade is services.



sources: WTO database (https://stats.wto.org/), World Bank (https://databank.worldbank.org/source/worlddevelopment-indicators#)

## Argument: The trends will continue.

- 1. Barriers to services exports are MUCH higher.
- 2. Barriers to intermediate service exports are technology-linked, not policy linked.
- 3. Digital tech is lowering service export barriers exponentially (including simultaneous translation).
- 4. Service exports are much easier to expand:
  - a) workers already trained,
  - b) lower scale & agglomeration economies,
  - c) distance matters less.
  - d) Geopolitical & sustainability headwinds are less strong.

**Conjecture 2: LatAm Emerging Economy** intermediate service exports will expand especially fast.



## Digitally-enable service exports: **Emerging Economy share low but growing faster.**



Emerging Economy export growth edge: especially large in intermediate services.



# Will this trend continue?

- Demand for intermediate services is huge in Advanced Economies.
  - About 30% of all spending.
- Supply of trained Emerging Economy workers is huge.
- Wage gap is huge.

US vs Colombian wages in teleworkable occupations.						
ISCO Title	Wage ratio					
Managers	14.6					
Professionals	9.4					
Technicians and associate professionals	13.9					
Clerks	11.8					
Service workers and shop and market sales workers	12.9					
Craft and related trades workers	12.6					
Primary industries	11.6					
Weighted average (ISCO 1D level)	11.8					
Median	17.6					

Telemigration and digitally enabled service exports: opportunities for Colombia Baldwin, Richard E; Cárdenas, Jeison; Fernández, Cristina, 2021.

# Simultaneous machine speech translation will reduce language barriers to service-sector offshoring.



#### SimulST: Simultaneous Speech Translation

- Instant AI-driven simultaneous speech-tospeech translation
- Allows more natural conversation.
- Getting better fast.
- Will be widespread soon.

#### 'Timekettle WT2 Edge' is close to simultaneous



#### Google Meet's "Speech Translation" feature.

- Real-time translation of spoken words within a meeting.
- It uses AI to translate a speaker's voice into another language while preserving their tone and intonation, leading to a more natural-sounding conversation.
- As a speaker talks, their voice is translated and presented in the target language.

<u>https://www.youtube.com/watch?v=hyXq</u>
 csWOONo



Expect a global tidal wave of talent.



Conjecture 3: The future of export-led development is intermediate services.



#### What is export-led growth? Empirical definition.

Growth of domestic value-added embodied in exports (%).



Growth of domestic GDP (%). Number of Emerging Economies with service- vs industryexport-led growth.



Source: OECD Tiva 2023. NB: Export-led, defined as value-added exports growing faster than GDP. ICT-Enabled = Information and communication, Financial and insurance activities & Other business sector services

## NB: Different structural transformation.

- 1. Think "Service-export-led", not "Industry-export-led" development.
- 2. Think India, not China. "Bangalores galore."
- 3. Think cities, services, and training, not factories, industrial equipment, and technology.
- 4. New development theory needed.
- a) Probably will be an extension of urban growth theory, like Myrdal model of cumulative causality.

#### Impact on emerging market economies.

- Service-led development will supplant industry-led development.
- Except in Emerging Economies near US, China, Japan, Germany.
- Emerging Market miracle will continue & spread geographically.
- Africa & South America beyond commodities.



# How will GenAl impact trade and development?

Please rethink GenAl & Large Language Models (LLMs) like ChatGPT!

- GenAl isn't like having 20% more workers of the same type.
- It's like having the same workers with 20% more skills.



# ChatGPT levels up skills.

- ChatGPT boosted speed & quality for all
- But gave the biggest boost to least skilled.



#### Think of ChatGPT as Matrix-like "Instant Skills Diffusion



#### LLMs: "Trained on the Best; Given to the Rest."



#### LLMs make skill-diffusion feasible; vast wage differences make it profitable. LLM downloads & usage boom worldwide.



## Impact?

#### Four conjectures:

- 1. Future of Trade is Services (FoTiS).
- 2. Future of development is Service-Export-Led Development.
- 3. Emerging Economy miracle will continue & spread geographically to include Africa and S. America.
- 4. GenAI and simultaneous translation will be "The Great Equaliser."

# End. Thank you for listening.

# GenAl will boost relative competitiveness of foreign teleworkers by levelling up skills. Online experiment: US vs South African teleworkers, with & without GenAI usage.

ZA without

ChatGPT

ZA with

ChatGPT

Baldwin, Wade and Wade, (HBS.org).

US without

ChatGPT

US with

ChatGPT

Control

Treatment

# 'globotics quadrant'

Susceptibility by occupation x-axis = automation y-axis = globalisation



#### Occupations by quadrant with number of jobs.

NW quad	Million jobs	NE quad	Million jobs	SW quad	Million jobs	SE quad	Million jobs
Food and drink cooking, staff serving customers	10.6	General clerical workers	6.4	Public health nurses, midwives, and nurses	6.6	Workers in religion	0.1
Manufacturing process workers	8.6	Management, finance and insurance professionals	1.6	Security workers	2.8	Authors, journalists, editors	0.2
Sales workers	7.9	Sales clerks	1.3	Medical Technology and Healthcare Professionals	1.8	Artists, designers, photographers, film operators	0.6
Carrying, cleaning, packaging, and related workers	7.6	Transport and post clerical workers	0.5	Occupational health and hygiene service workers	1.8	Architects, civil engineers and surveyor	0.6
Workers in Family Life Support and Care Service	7.2	Outdoor service workers	0.4	Professional social welfare workers	1.7	Legal Professionals	0.8
Accountancy clerks	5.2	Manager of residential facilities and buildings	0.4	Doctors, dentists, veterinarians, and pharmacists	0.9	Researchers	1.0
Transport and machine operation workers	3.8	Office appliance operators	0.2			Other specialist professionals	1.1
Construction and mining workers	3.4					Manufacturing engineers	1.4
Production-related clerical workers	1.1					Management and business consultants	1.4
Other service workers	1.0					Administrative and managerial workers	2.5
Agriculture, forestry and fishery workers	0.5					Data processing and communication engineers	4.6
Agriculture, forestry, and fishery engineers	0.0					Teachers	5.4
	57.0		10.7		15.6		19.8

# Service-led development is happening

Fact: LMIC workers are leaving the farm for service jobs, not manufacturing jobs



a. Sectoral shares of employment in LMICs, 1991-2018

At Your Service?

The Promise of Services-Led Development

Naygar, Hallward-Driemeier & Davies (2021)

Fact: Service jobs have higher TFP growth than industry in in most LMIC economies

*Growth in value added per worker in LMICs, by broad sector and relative to high-income countries, 1995–2018* 



Source: Calculations based on World Development Indicators database.

*Note:* Value-added (VA) data are in constant prices. "Low- and middle-income countries" (LMICs), by World Bank income group classifications, had 1994 gross national income (GNI) of less than US\$8,955. "High-income countries" (HICs) had GNI exceeding US\$8,955 in 1994. Data for the "industry" sector include not only manufacturing but also mining, utilities, and construction. CAGR = compound annual growth rate.

#### Results: US & ZA teleworkers with & without.



- 1. ZA worker scores lower without.
- GenAl levelled up scores.
  Red gap, smaller than the rose gap.

### 2<sup>nd</sup> stage experiment:

- 1. We took the 600 answers (4 groups, 3 tasks).
- 2. Paid US online professionals to classify the answers as output of US or non-US workers.
- a) Without GenAI: 60% correct classification.
- b) With GenAI: 50% correct.

GenAl usage made domestic & foreign workers' output statistically indistinguishable.

