

Service-export-led development & the future of trade

RICHARD BALDWIN

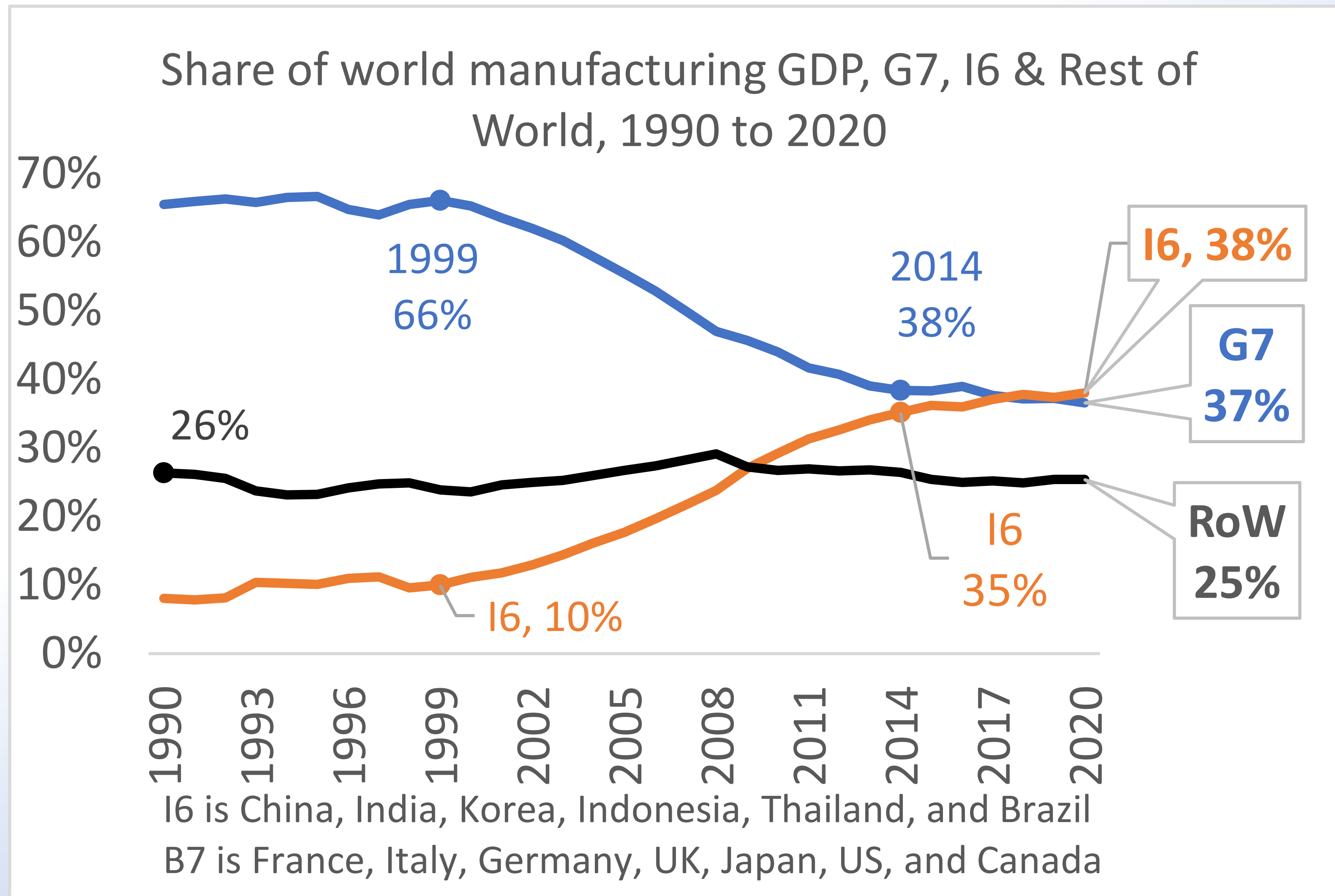
PROFESSOR OF INTERNATIONAL ECONOMICS

Outline of argument

1. The old manufacturing-export-led pathway is closing or closed
2. The Service-export pathway is open, and widening fast
3. Need for new theory and pragmatic empirical techniques

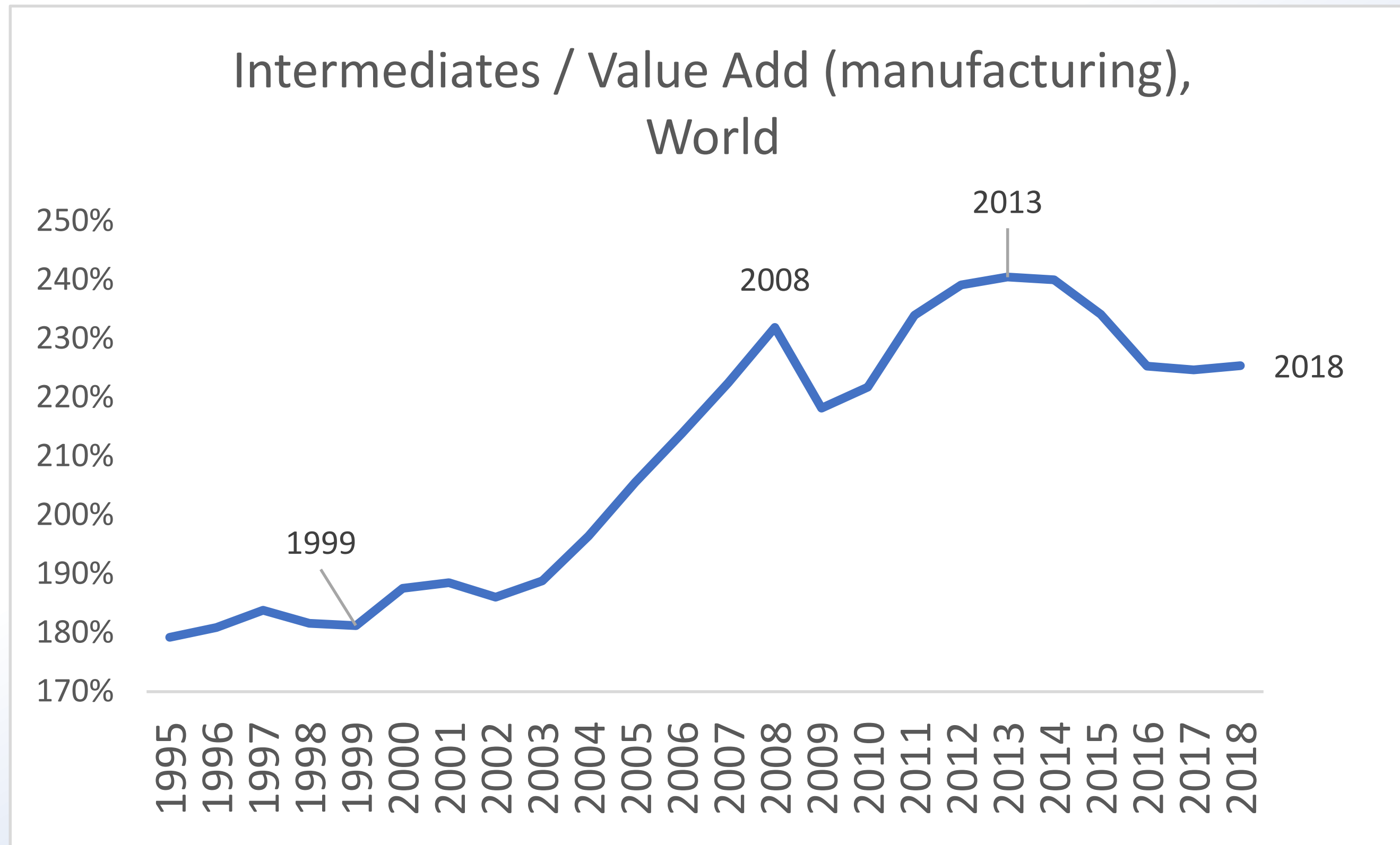
**Old manufacturing
pathway is closing or
already closed**

Offshoring-expansion phase has ended



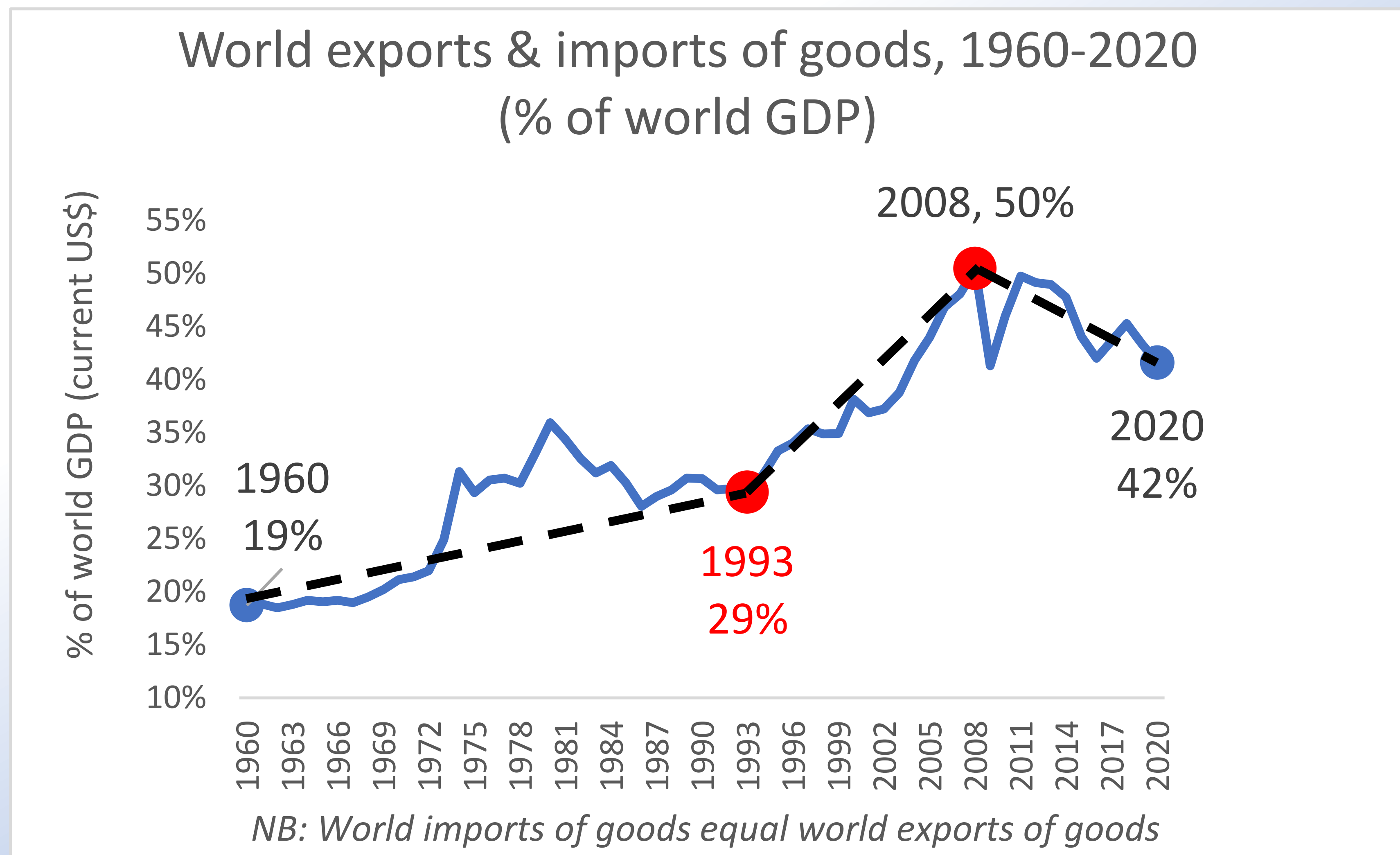
- 2nd Unbundling
- Manuf offshoring accelerated industrialisation of handful of EMs
- But transition is almost finished

Supply chains: shorter domestically & internationally

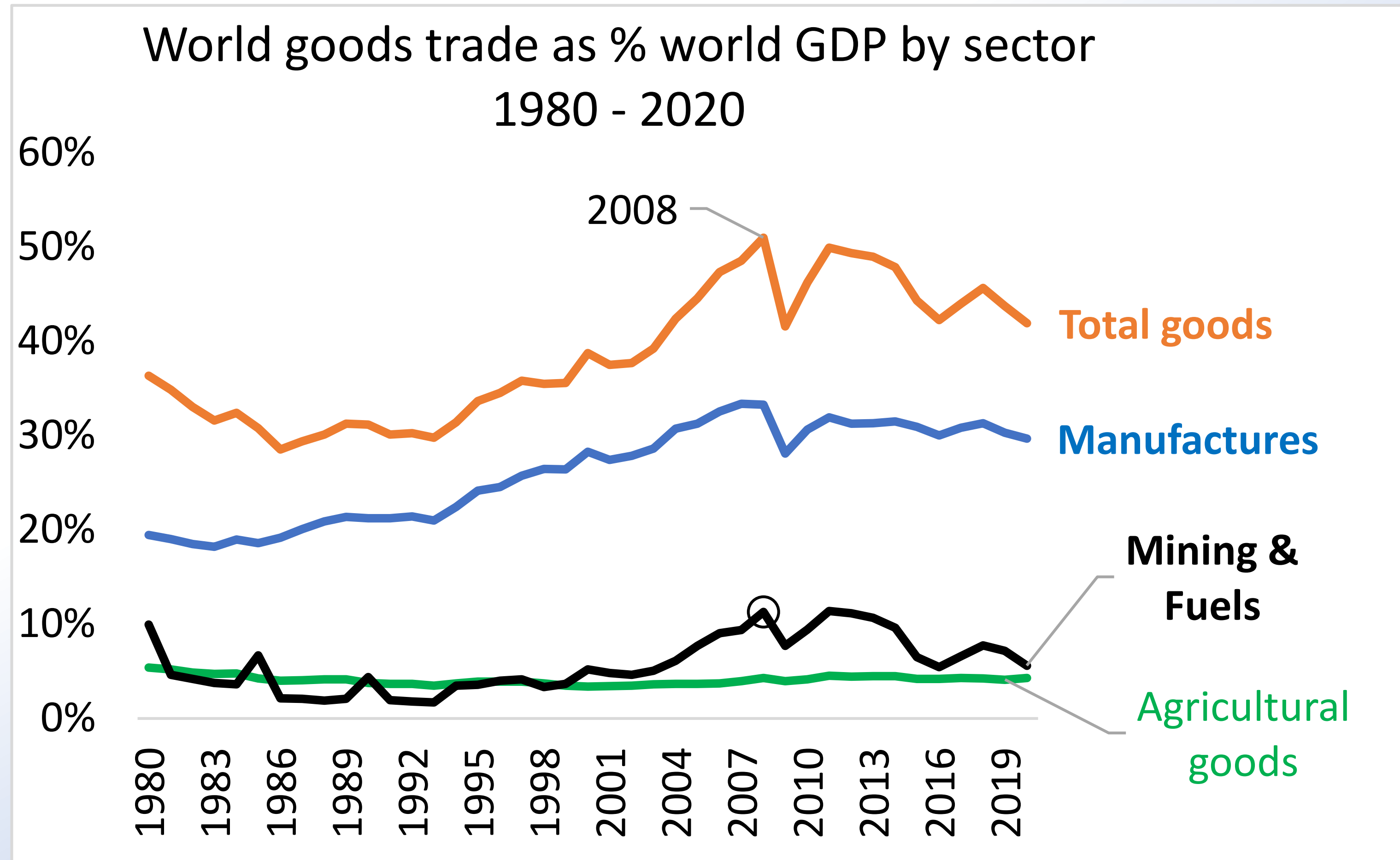


- Ratio of value of world intermediates to world GDP in manufactures falling since 2013
- Evidence of unwinding supply chains
 - Domestically & internationally

World goods trade to GDP peaked in 2008



World goods trade to world GDP ratio, by sector, 1980 – 2020



- .
- About 60% of the drop in the trade ratio was due to mining and fuels,
- Rest by manufactures

**Why goods trade ratio falling
since 2008? (before
Trump/Brexit, Geoeconomic tensions,
supply chain issues)**

Technology: Automation lowers labour cost-share
and thus reduces incentives to produce abroad

NB: Comparative advantage can't come from freely trade inputs

Bold conjecture #1

-Manufactured goods are becoming nontraded & jobless

The Service-export pathway is
open, and widening fast

Tele-migration

Definition:

- People sitting in one nation & working in offices in another
- Cross-border “telework”

Driving force:

- Digitech makes it possible
- Enormous wages gaps make it profitable

Modes of telemigration

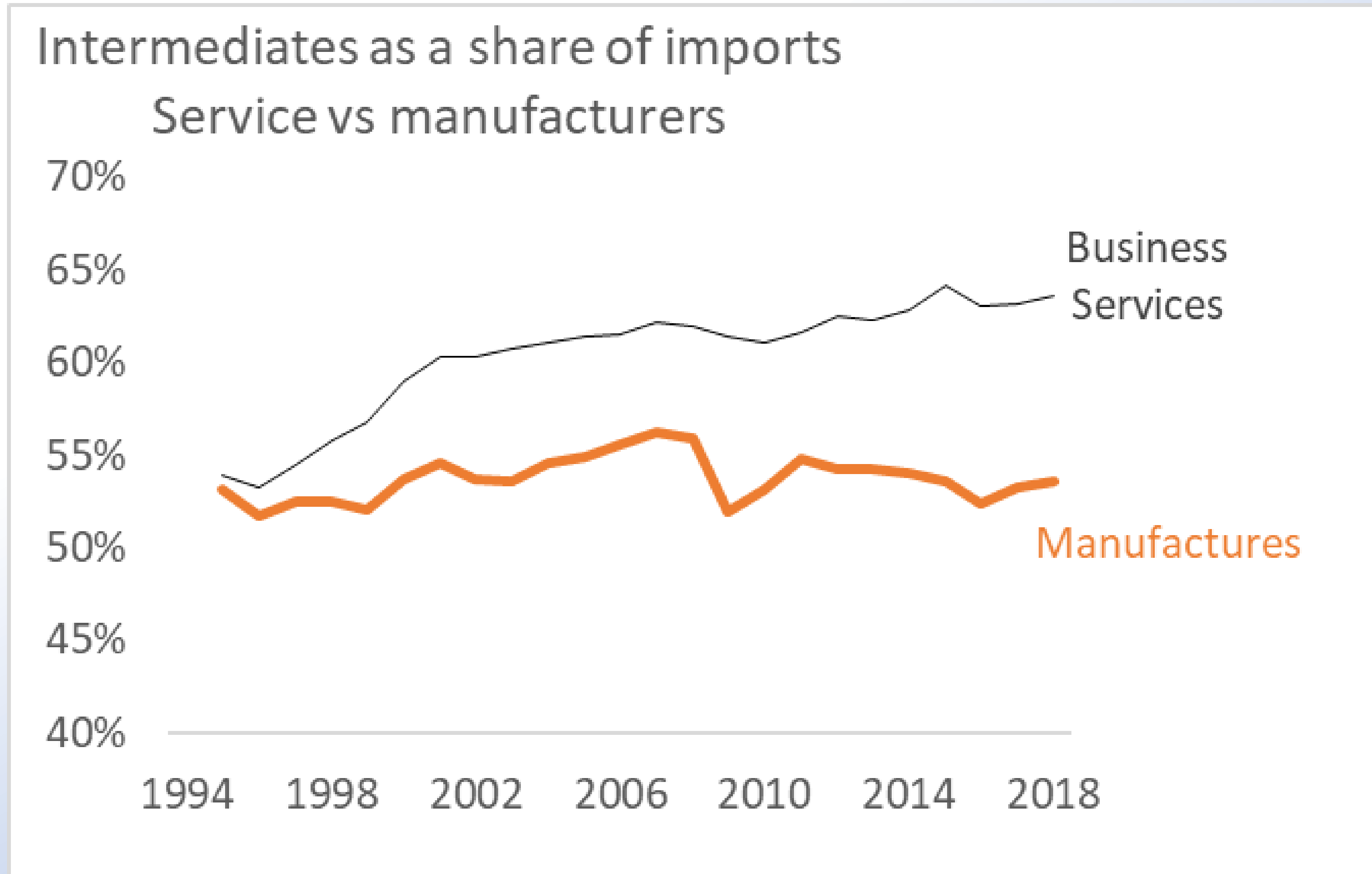
- Freelancing

- BPO/KPO

- Call centres

- Shared Service Centres

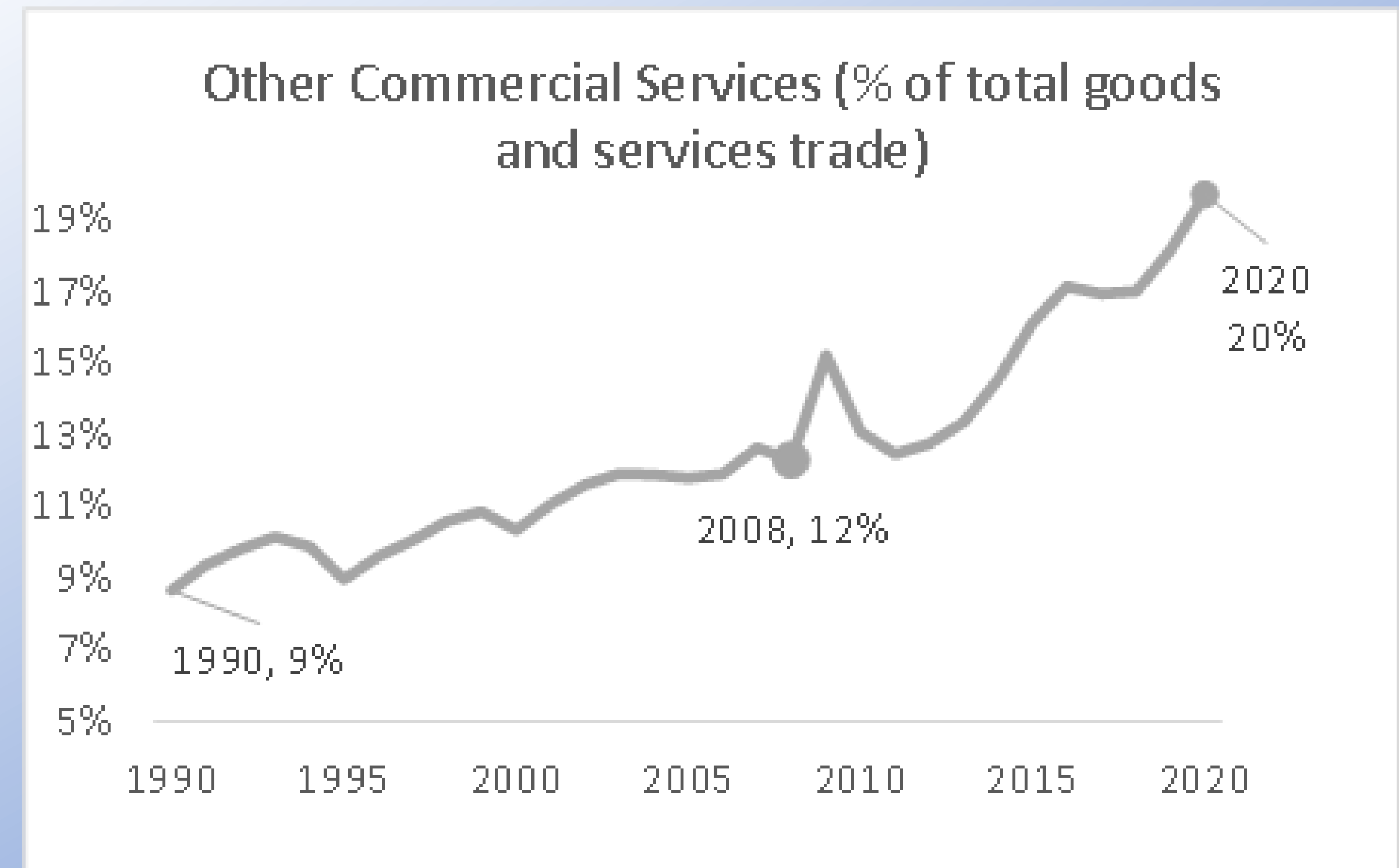
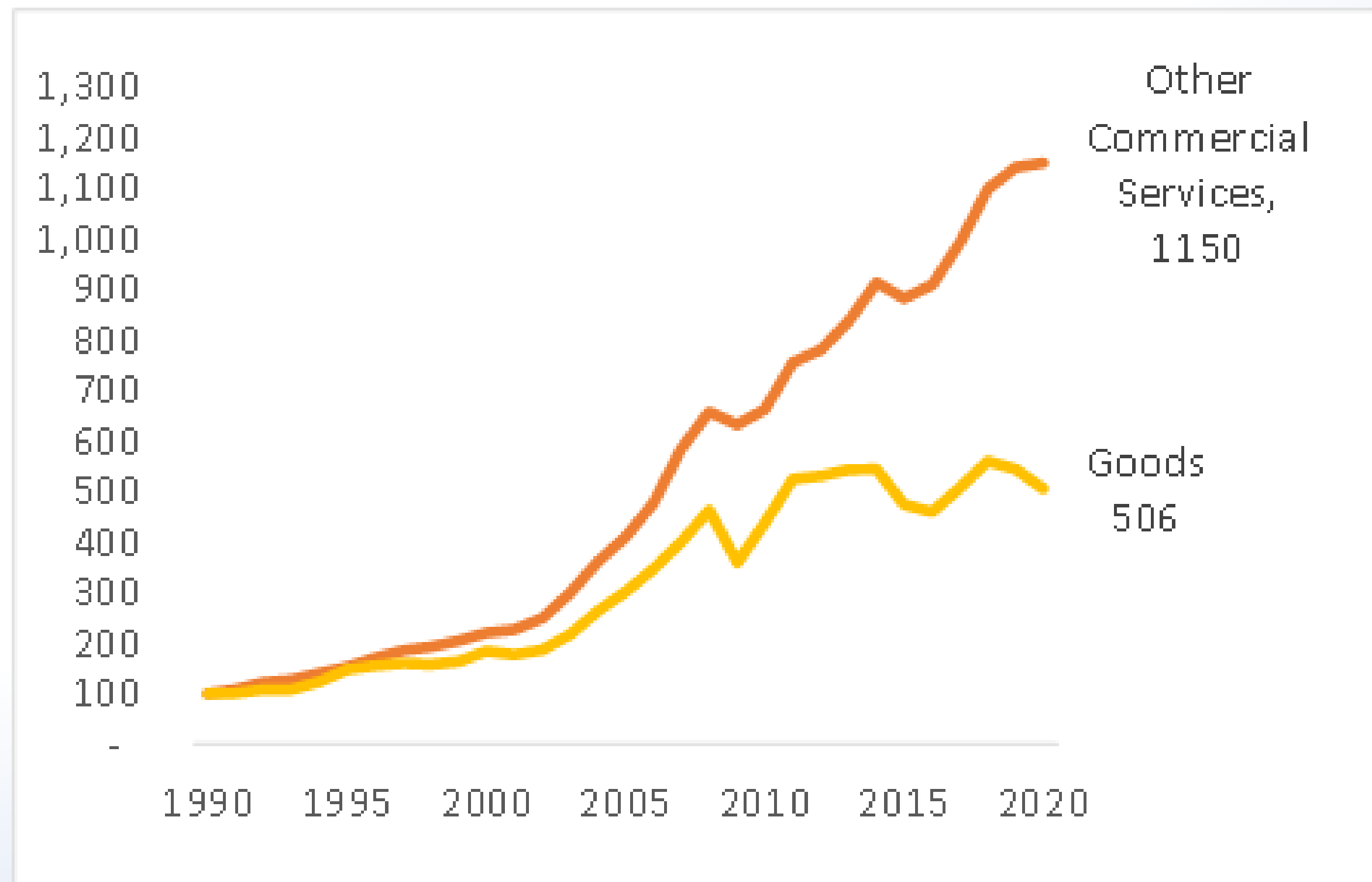
FACT: Intermediate inputs are more important in services imports than manufactures imports



FACT: Service intermediates are 3x more important than manufacturing intermediates in overall economy

<i>Column sector's inputs into row sector (gross output) 2018</i>	Service intermediate inputs	Manufactures intermediate inputs	Sector share of total gross output
Service sector	32%	5%	68%
Manufacturing sector	24%	25%	26%
Total economy	30%	11%	100%

FACT: Trade in 'other commercial services' (OCS) has growth twice as fast as goods trade since 1990, now 20% of all international commerce



#2: 4 facts and a conclusion

1. Barriers to services trade are much higher than barriers to goods trade
2. Most barriers to trade in intermediate services are technology-linked, not policy linked
3. Digitech is lowering barriers to intermediate services at an explosive pace (+ Covid forced adjustment)
4. Demand is huge in rich nations; Capacity is huge in emerging markets

ERGO: Intermediate services trade will grow much faster than goods trade for foreseeable future

Argument:

Baldwin & Forslid (2019), “Globoitics and development”

Bold conjecture #2

Trade in intermediate services will
dominant future trade

Service-led development

Service-led development is happening

At Your Service?

The Promise of Services-Led Development



Gaurav Nayyar, Mary Hallward-Driemeier, and Elwyn Davies

FIGURE 1.1 Much of the Decline in Agriculture's Share of Employment and GDP in LMICs since the 1990s Has Been Offset by Services

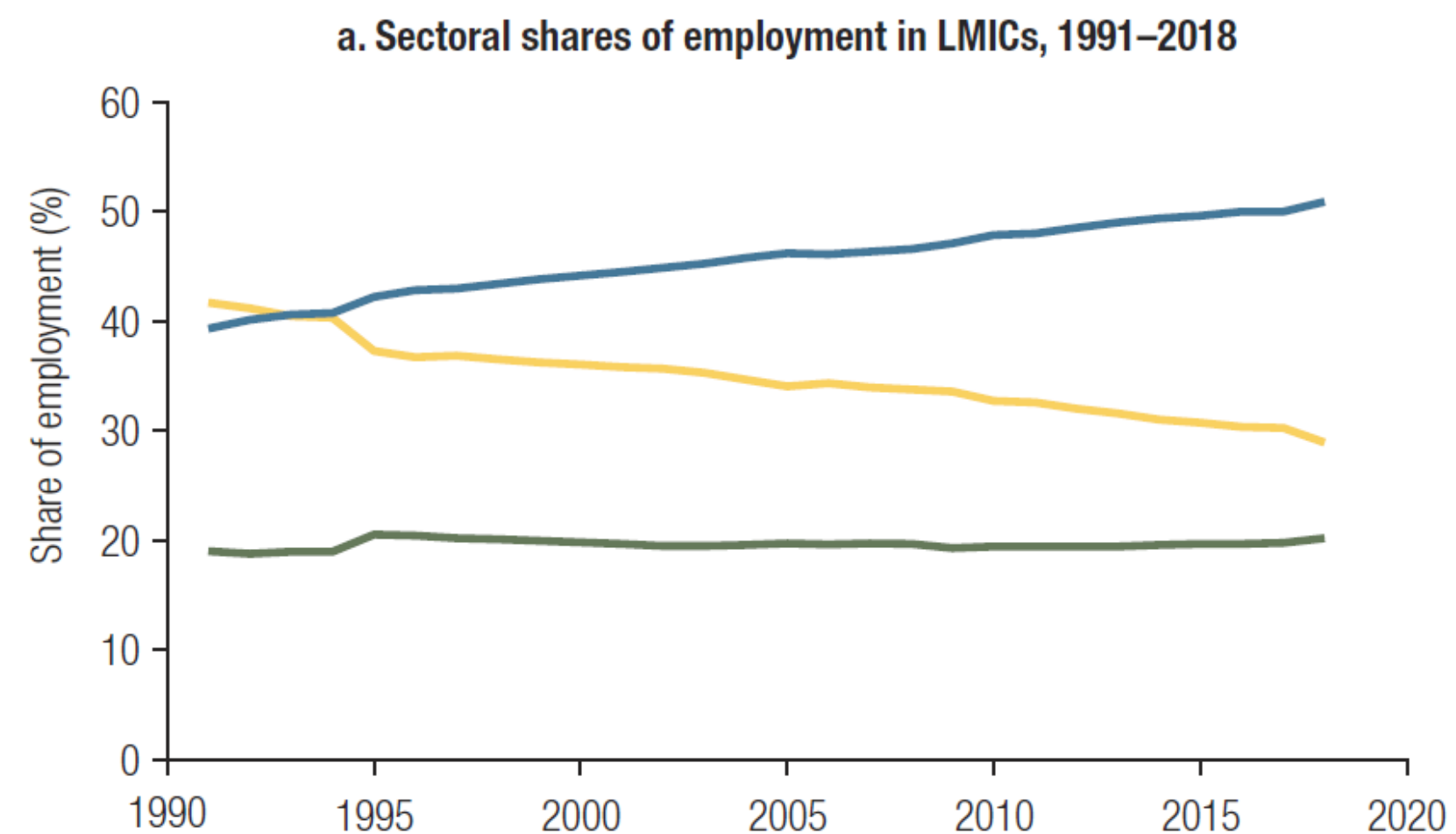
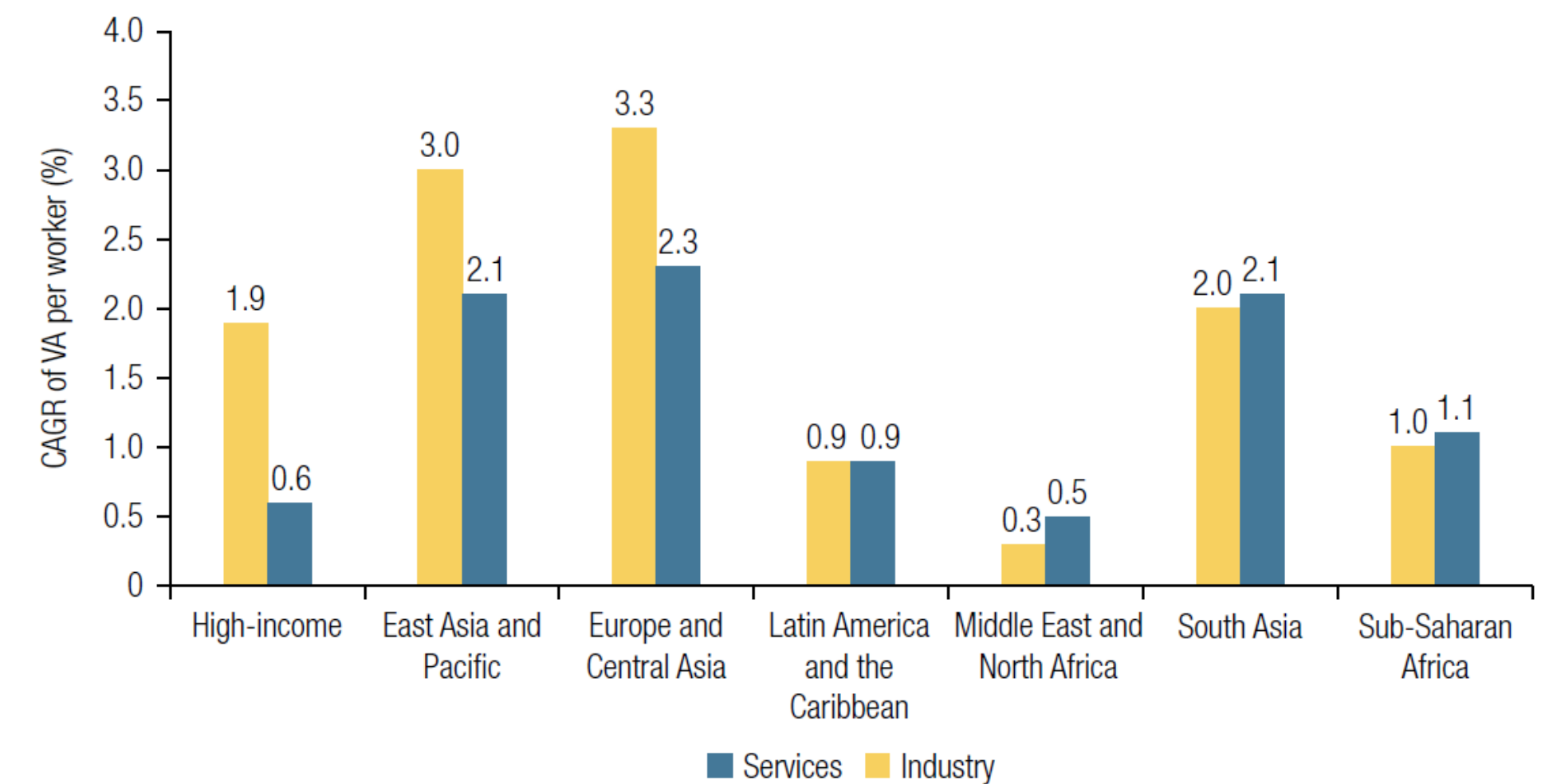


FIGURE 1.4 Labor Productivity Growth in Services Has Matched That in Industry across LMICs in Many Regions since the 1990s, Typically Exceeding That of HICs

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.

Policy

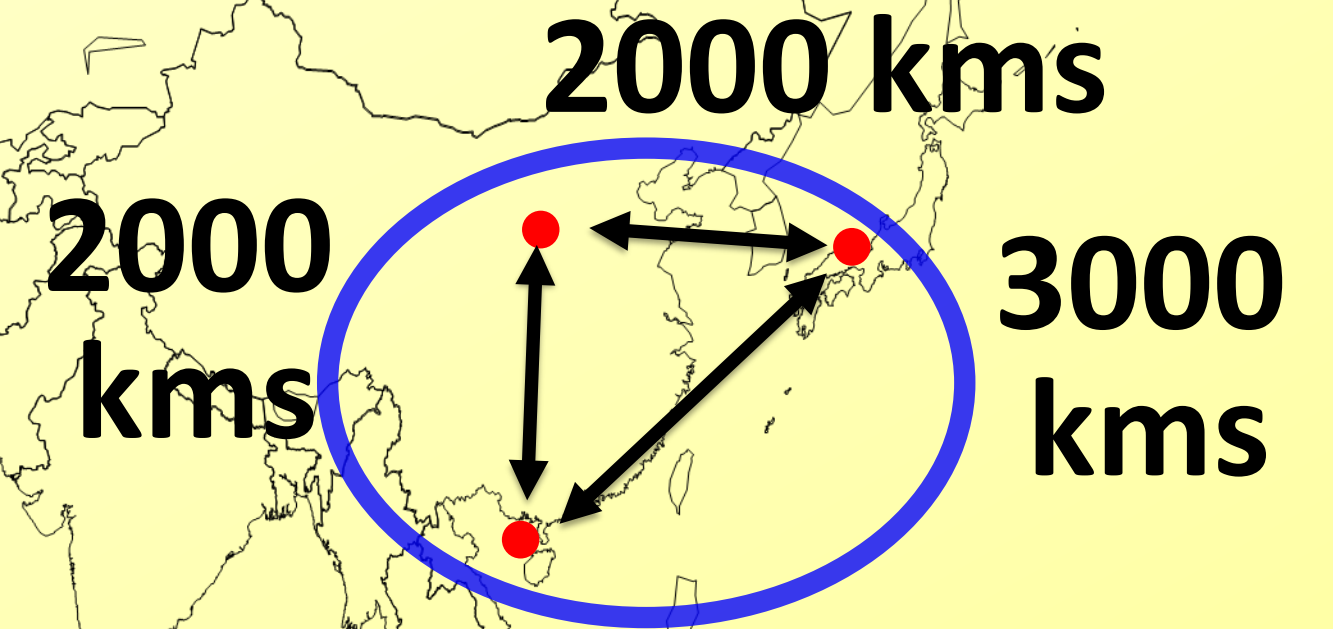
conjectures

Geography is too hard to overcome in manufacturing

Factory N.Amer.
(19%)

Factory Europe
(20%)

Factory N.E. Asia
(38%)



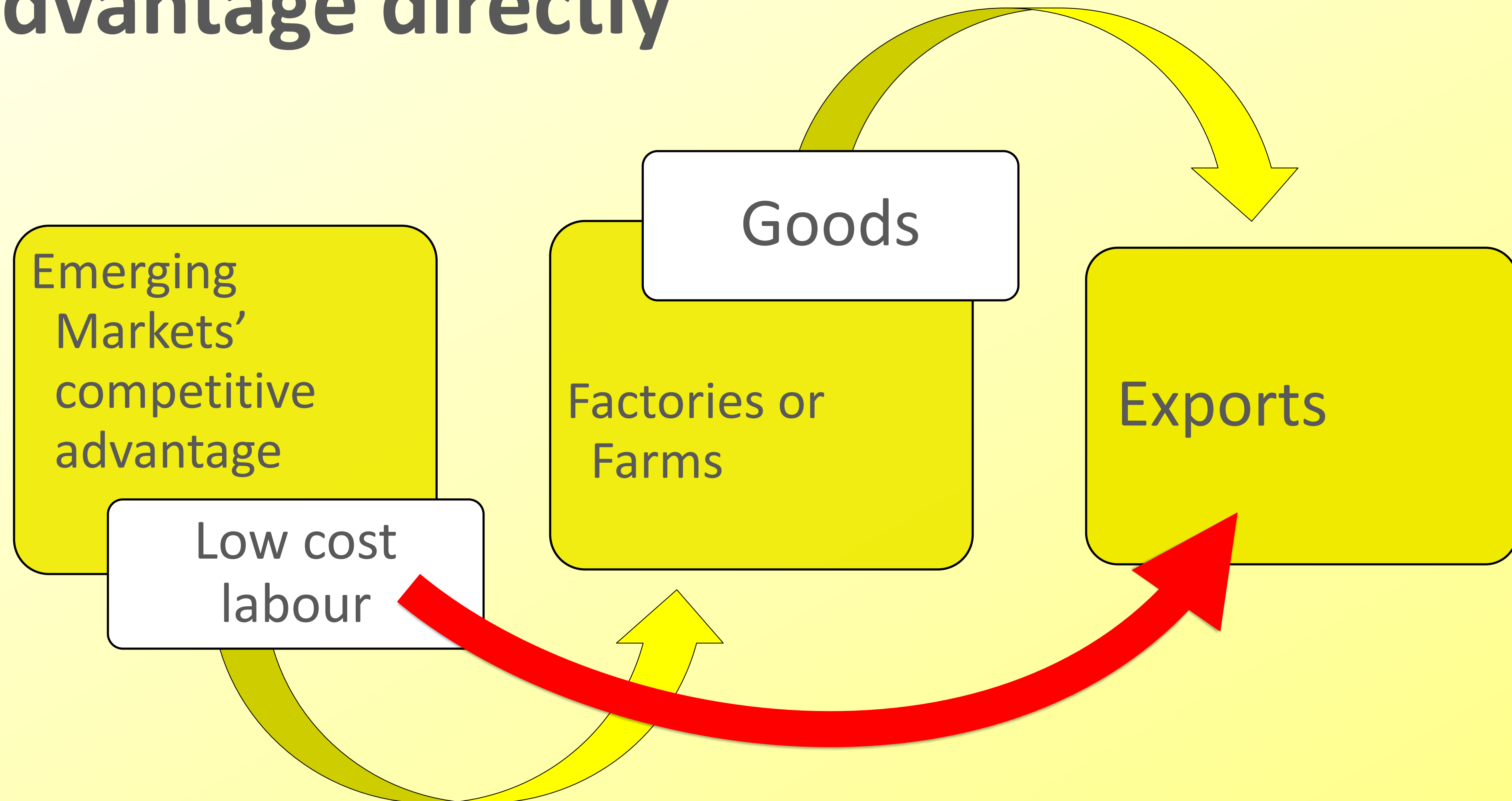
NB: Services are easier

- 1. Lower scale economies**
- 2. Capacity is less of an issue**
- 3. Geographic distance matters less**
- 4. Big demand in N, big supply in S**

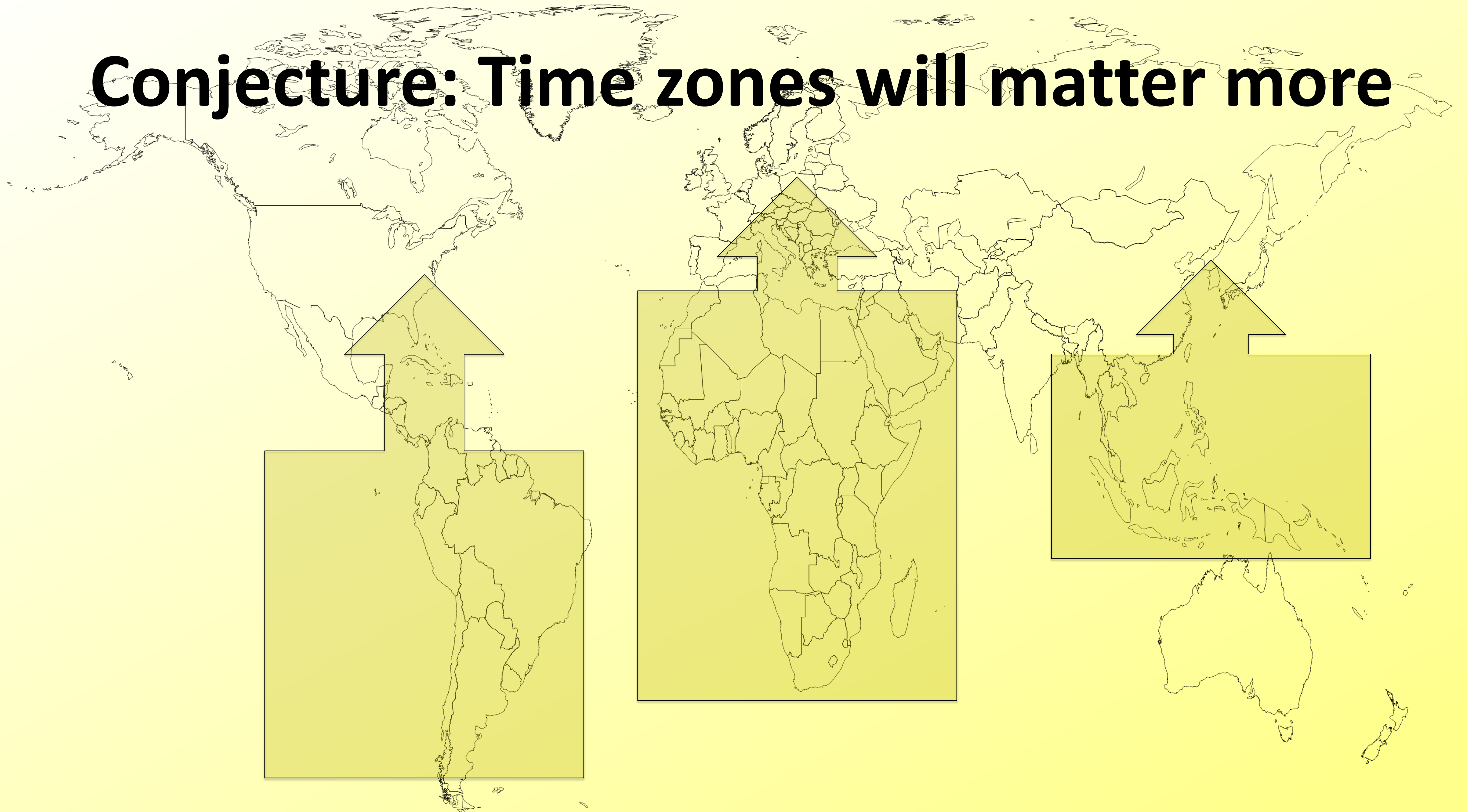
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**The Emerging Market miracle
will continue and spread but
this time based on services**

Same comparative advantage: telemigration allows Emerging Markets to export their advantage directly



Conjecture: Time zones will matter more



Different structural transformation

- “Service-led” development, not “manufacturing-led” development
- Think India, not China
- Think “Service Value Chains”, not GVCs

New Development Strategies Needed

Think cities, services, and training

**Not factories, industrial equipment,
and technology**

**New development theory
needed**

**Probably will be an extension of urban
growth theory, like Hoyt model**

New diagnostics needed

**Service wage differences in
teleworkable sectors adjusted by
productivity differences**

(Productivity = service GDP per worker???)

4

**Telemigration will foster a new
backlash against globalisation
in advanced economies**

Thanks for
listening!

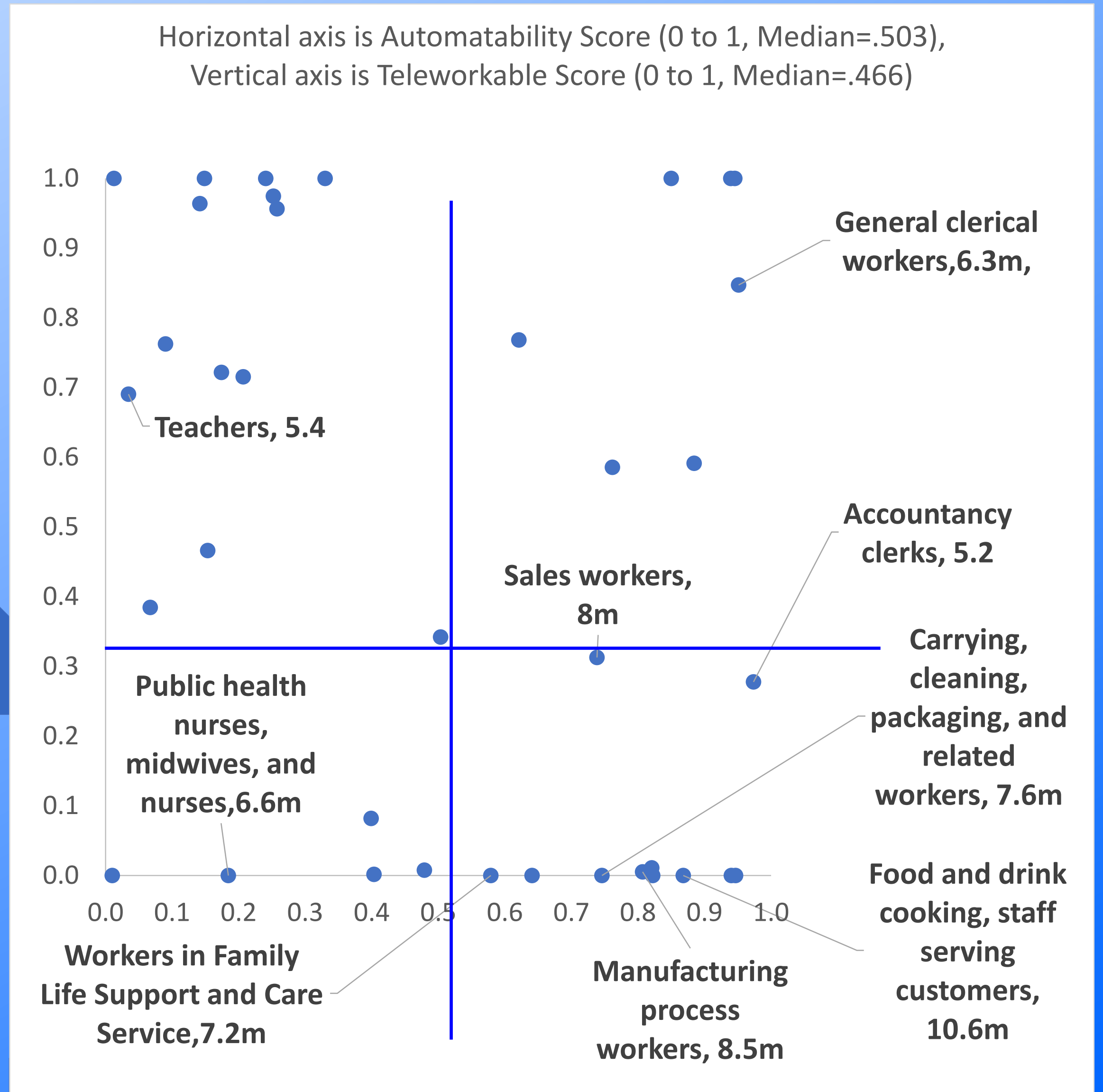
Slides for Q&A

'globotics quadrant'

Susceptibility by occupation

x-axis = automation

y-axis = globalisation

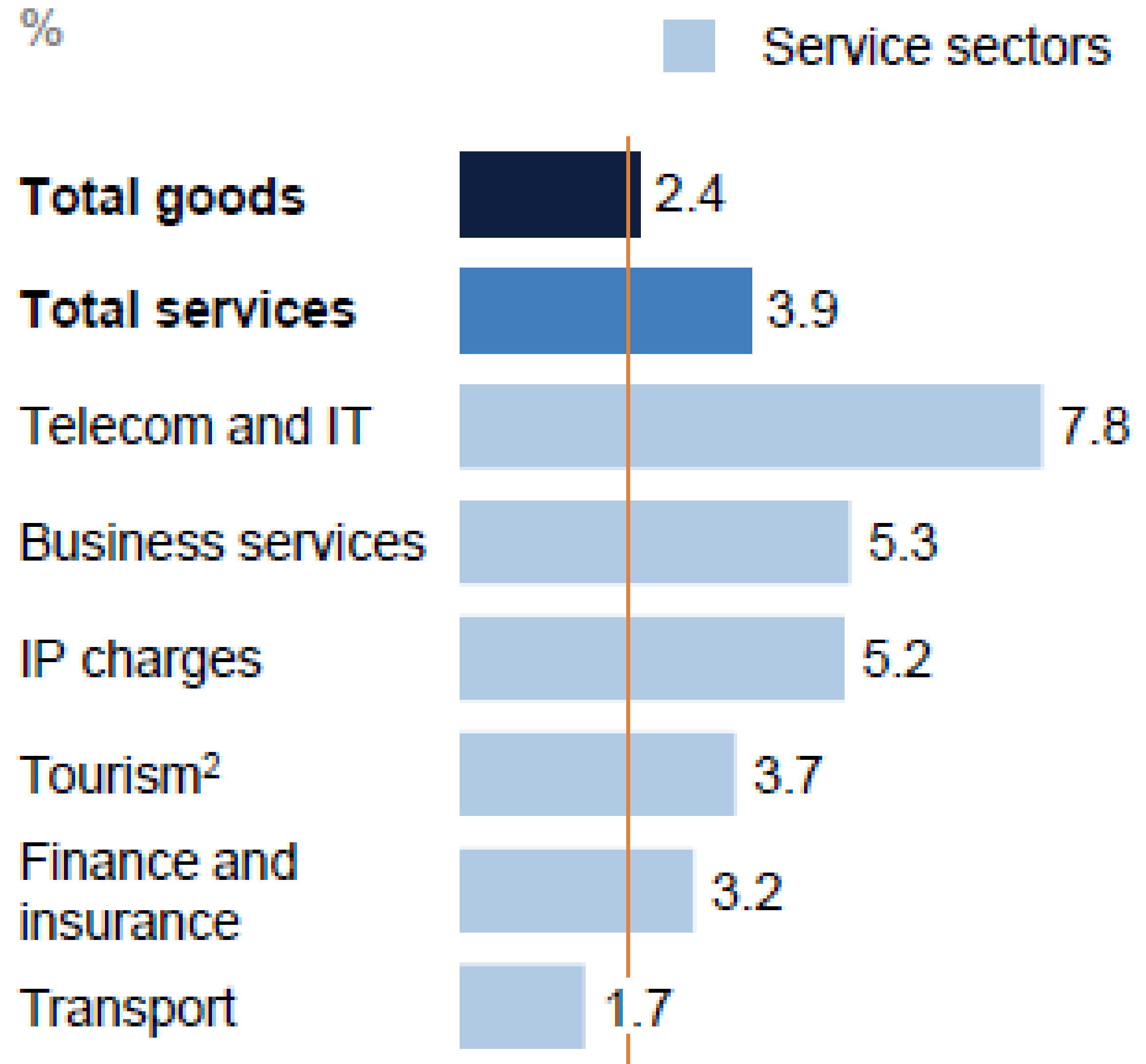


Million jobs per quadrant: NW = 57, NE = 11, SW = 16, SE = 20

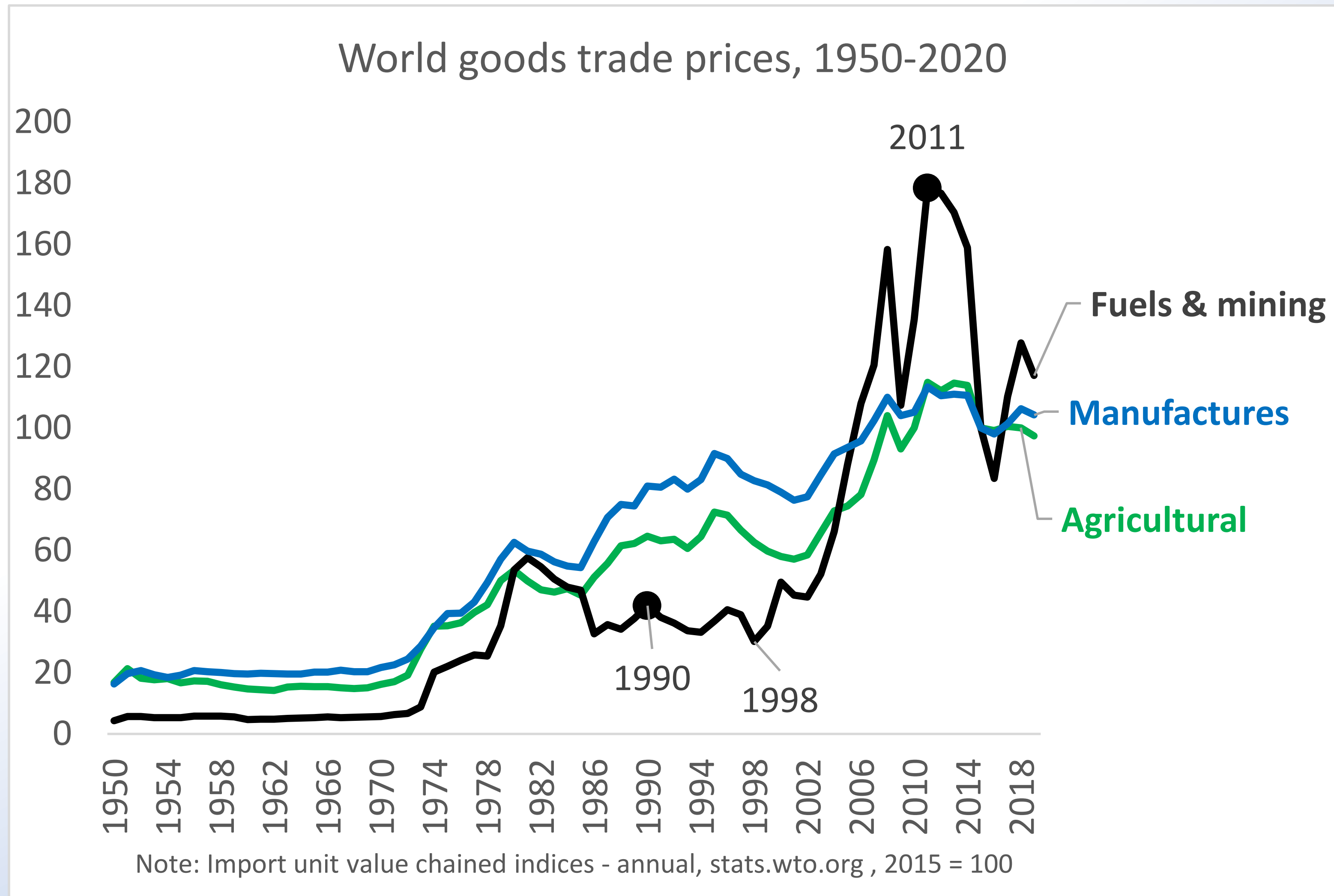
Fact: Service trade growing faster than goods

“Telemigration services” growing 2-3 times faster

Global compound annual growth rate, 2007–17

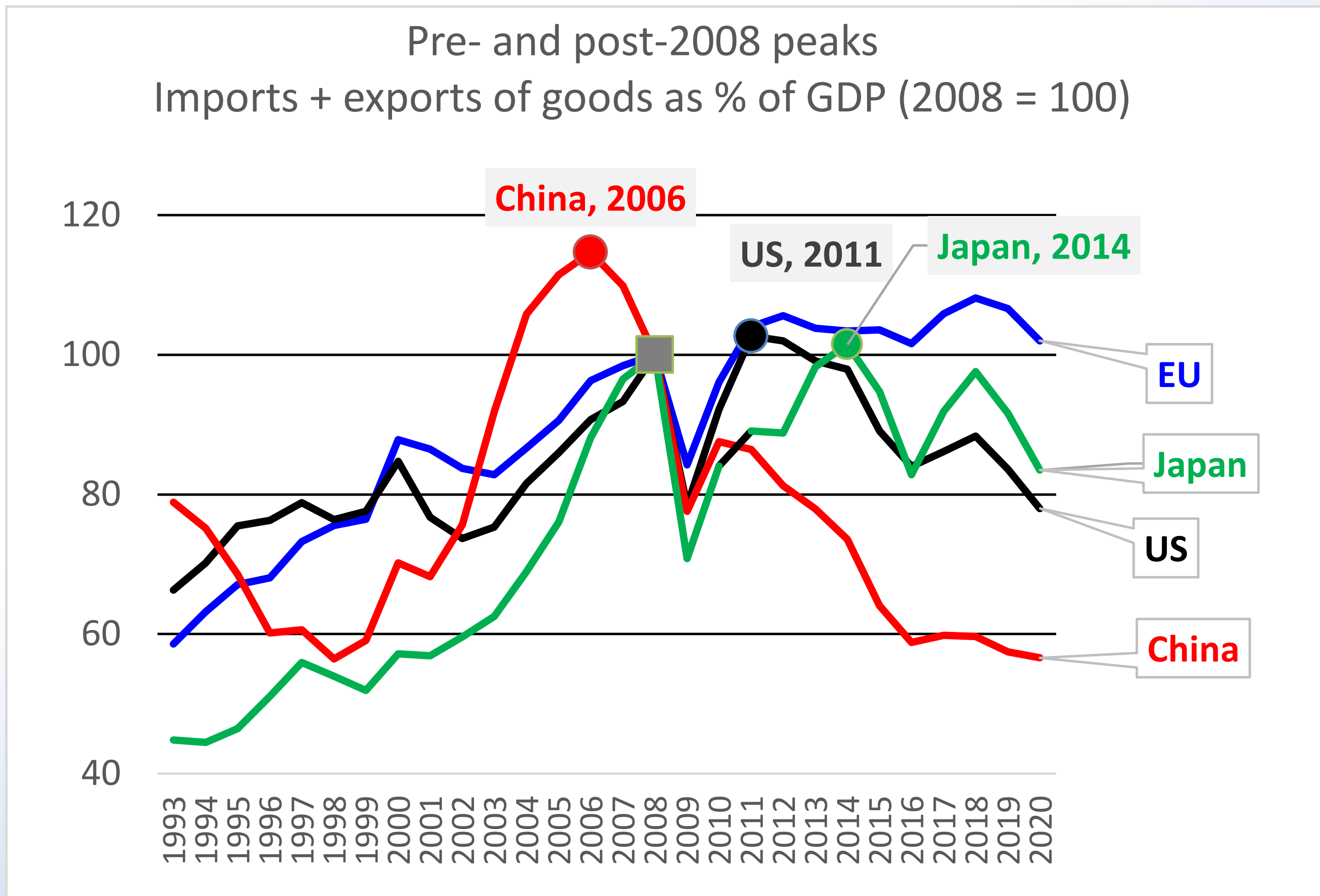


Commodity super cycle & manuf & mining



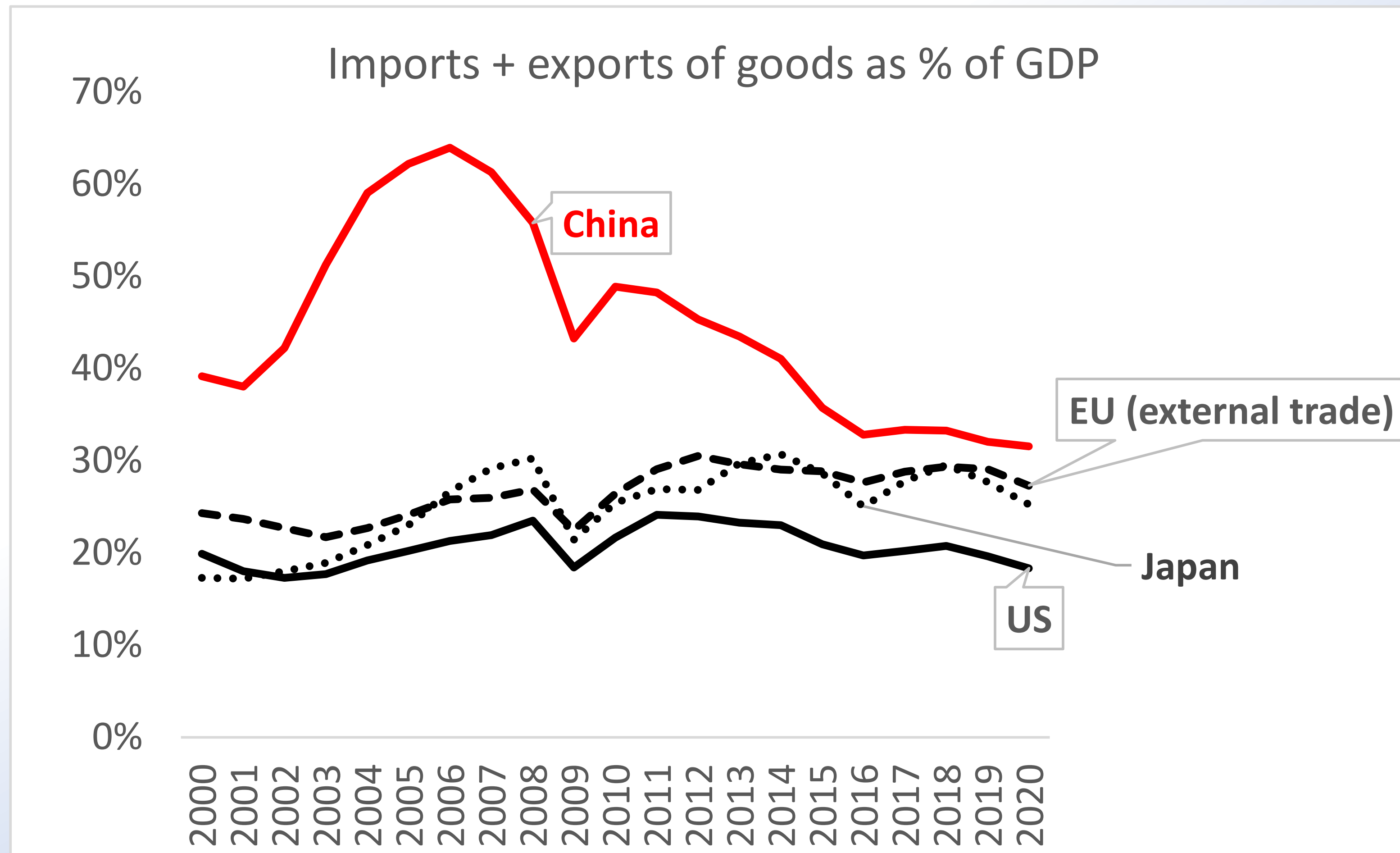
- Prices of all 3 categories of goods fell from 2010, or so
- Until recently

2008 is a false peak: National ratios peaked before or after or not



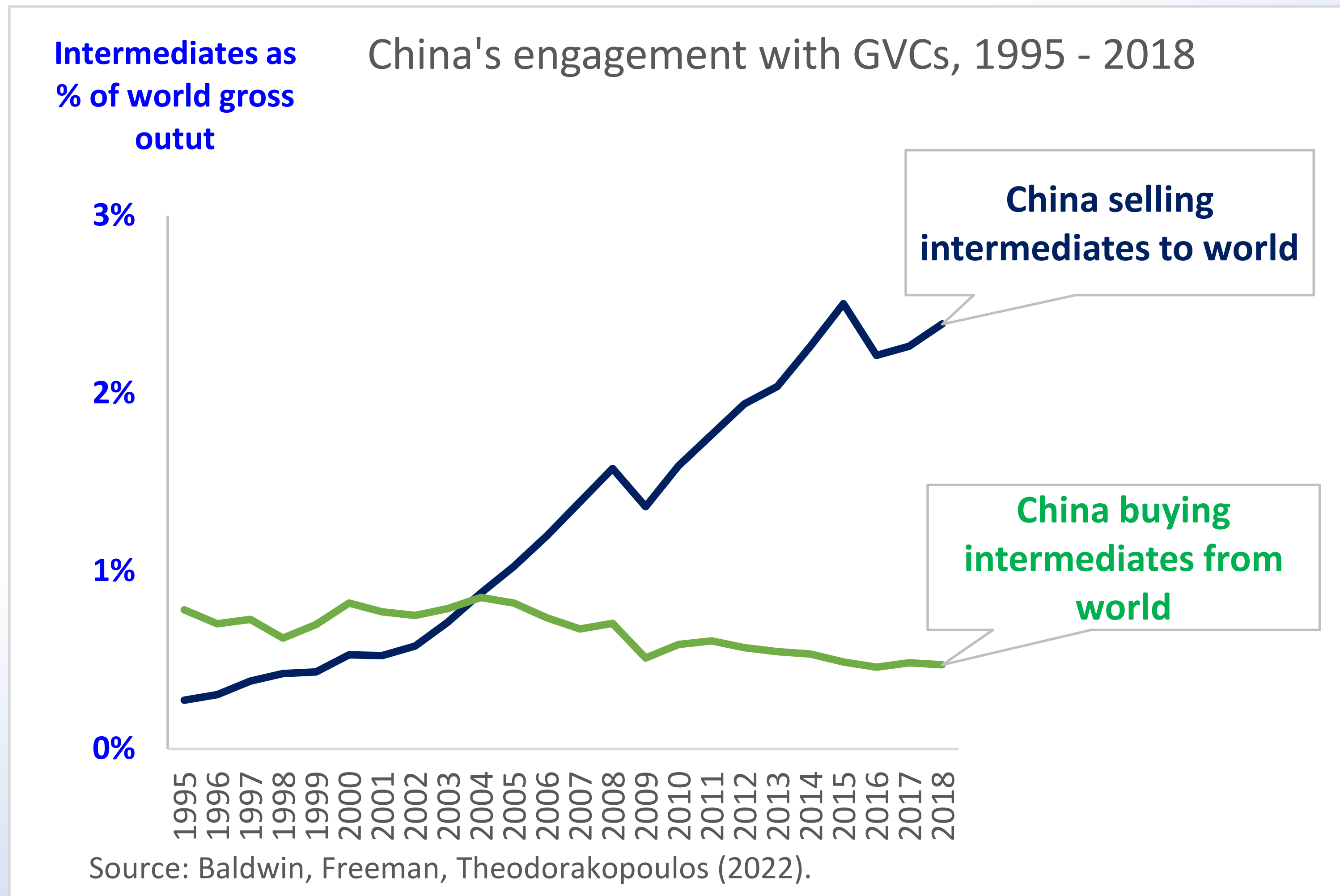
- China peaked 2006
- US peaked 2011
- Japan peaked 2014
- EU has stagnated not peaked (mixed trends)

China is converging to openness of a normal mega-economy



- Mega economies are rather closed (trade/GDP)
- China is normalising

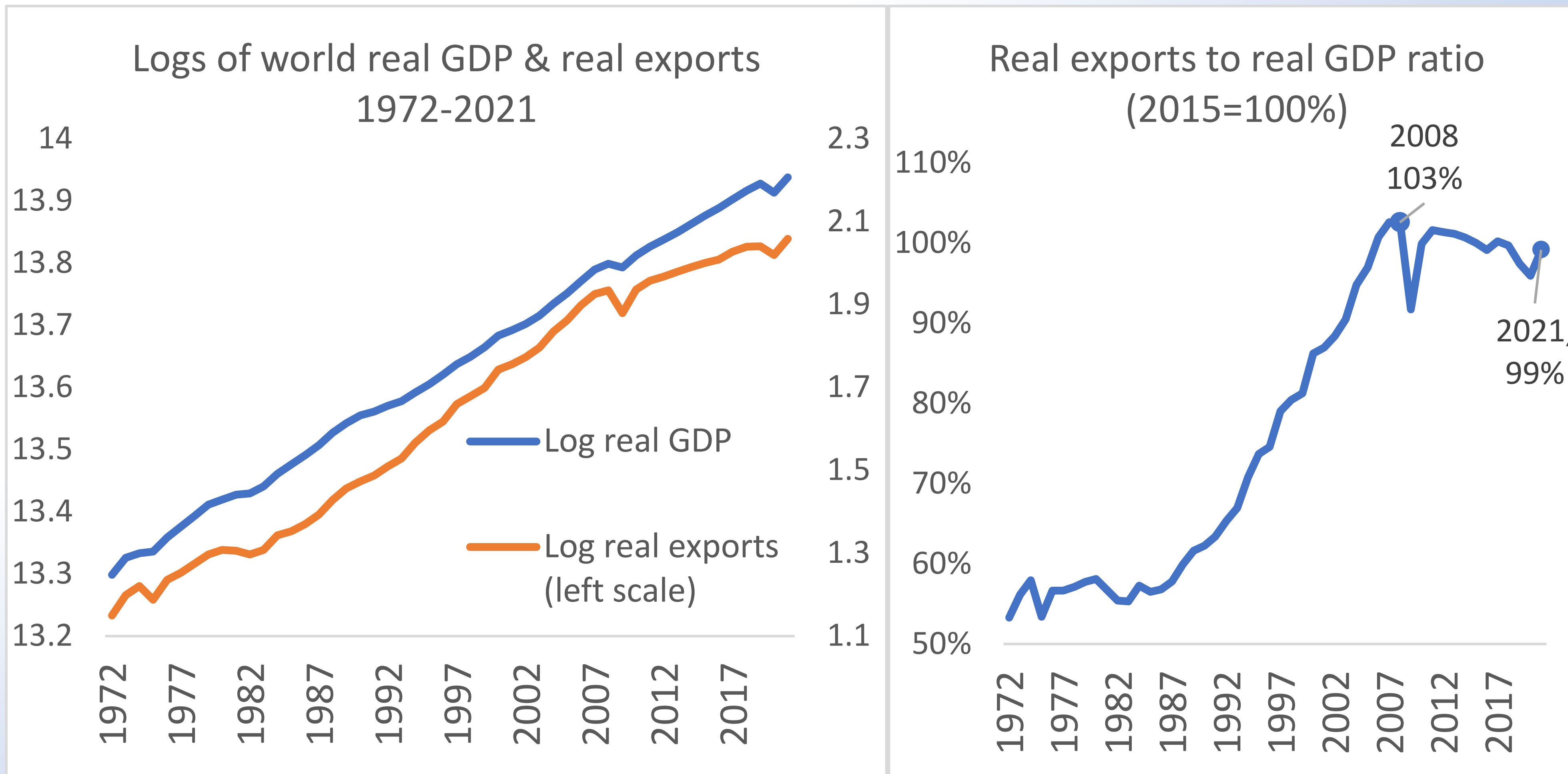
China's very asymmetric engagement with global value chains



- What is unusual is China's asymmetric engagement in Global Supply Chains
- Growing on sales side
- Shrinking on sourcing side

Getting real

Goods trade isn't falling; GDP rising faster



Wage gap: How competitive would Colombian workers be in US?

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

How digitech makes it possible:

- Domestic remote work
- Freelancing platforms
- Advanced telecomms
- Machine translation
- Unbundles 'service value chain' (next)

Point #2: 4 facts and a conclusion

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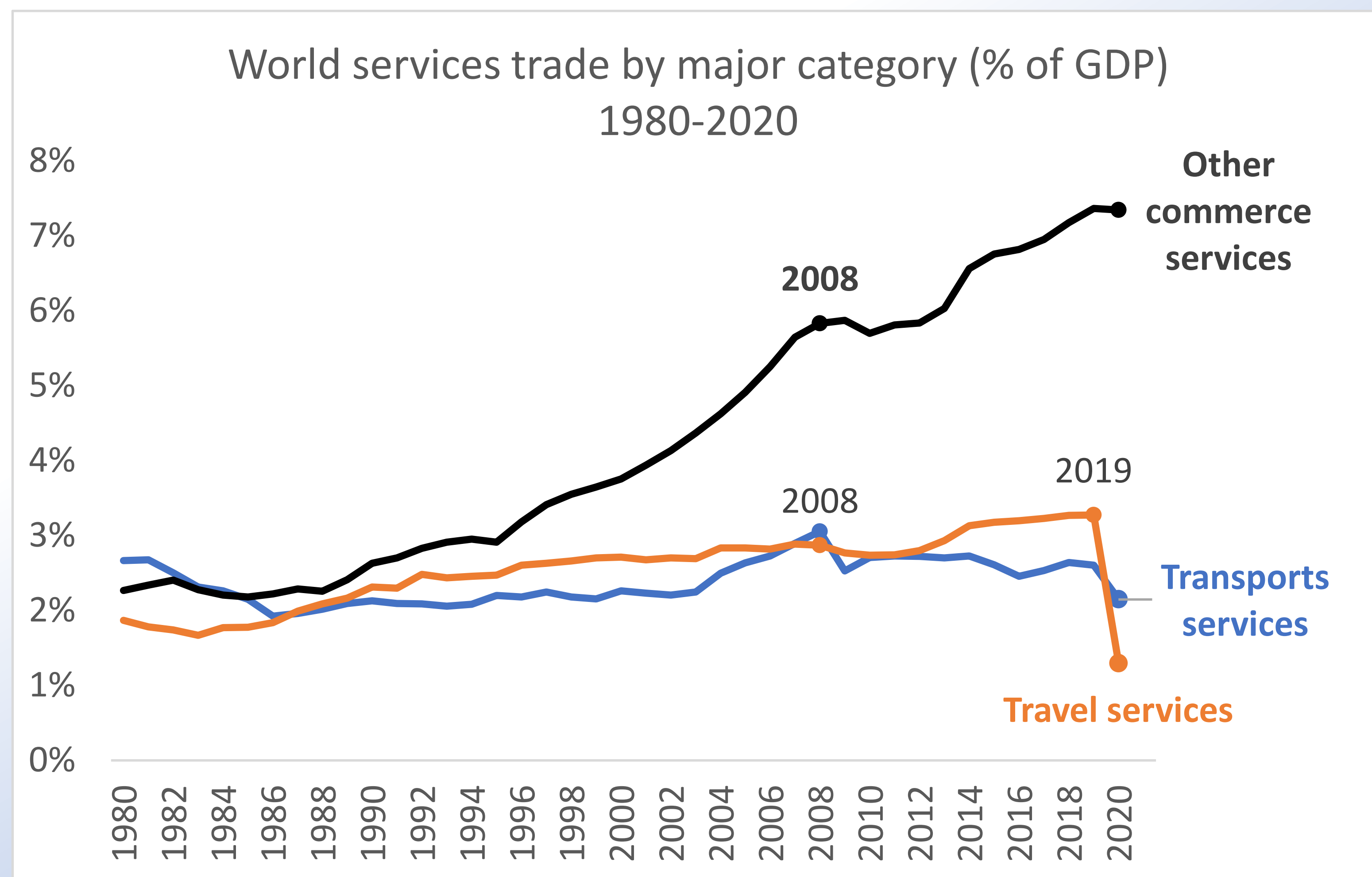
What are intermediate services?

- All the service tasks done in service sector, manufacturing sector, and primary sector that are not sold directly to customers.

- For example:

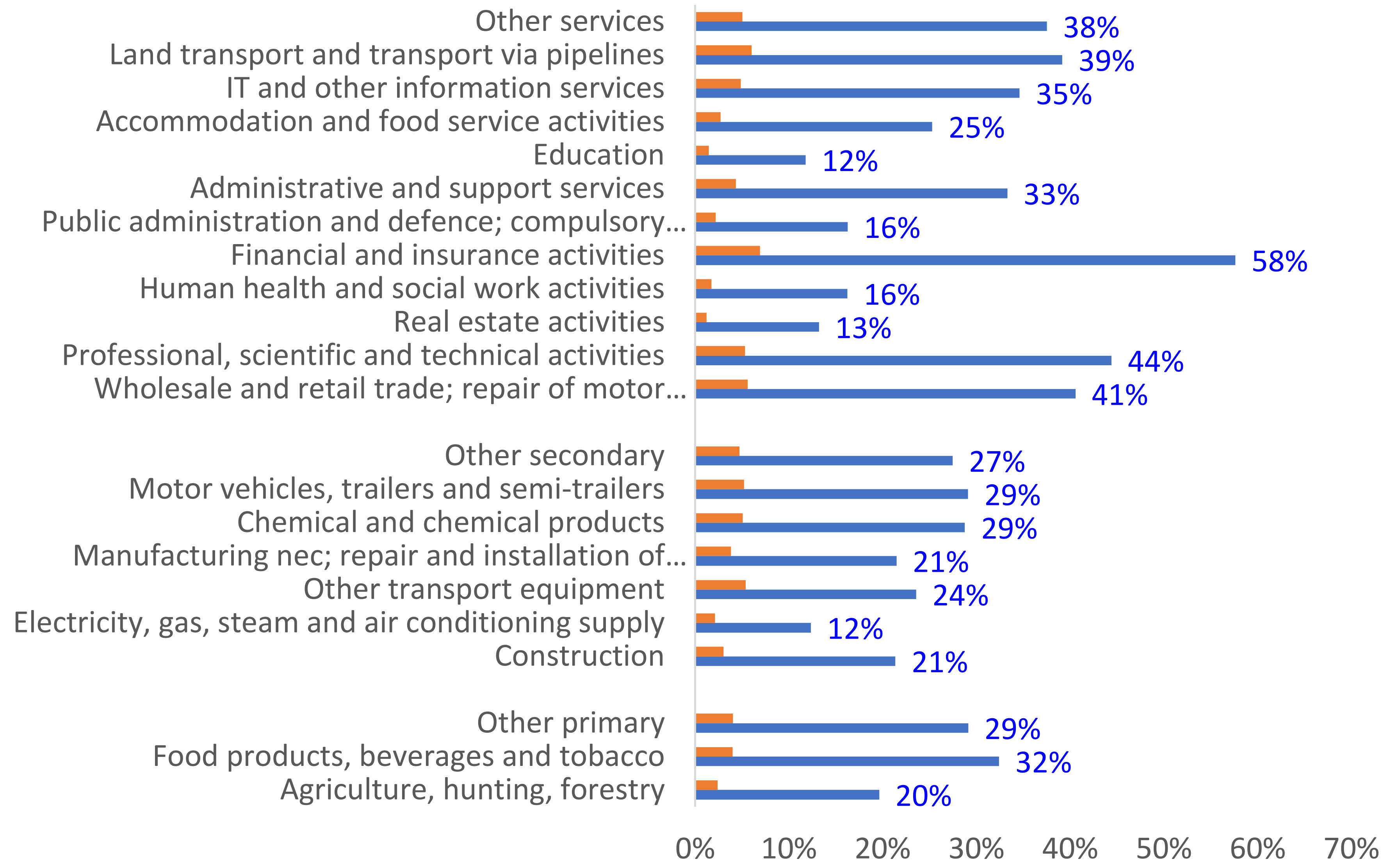
tasks done by occupations like bookkeepers, forensic accountants, CV screeners, administrative assistants, online client help staff, graphic designers, copyeditors, personal assistants, corporate travel agents, software engineers, lawyers checking contracts, financial analysts writing reports, etc.

Traditional versus digitally enabled services

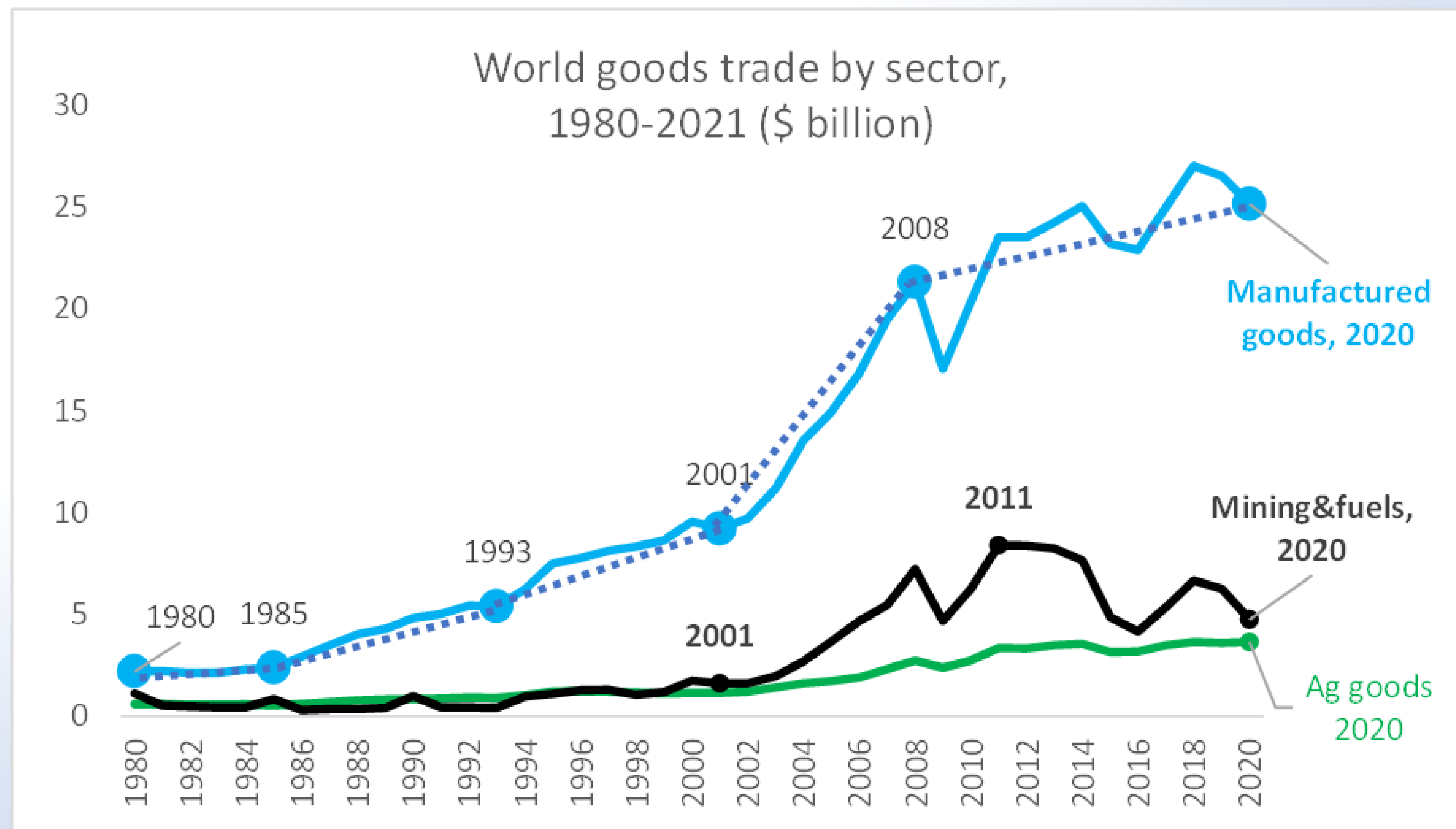


Every sector uses service intermediates

Service intermediates as share of sector's output



Value of world goods trade by sector



Breaking down the commodity super cycle into prices & volumes

