

July 1, 2022

Globotics – the future of services?



This week played host to the ECB's annual central banking forum in Sintra, Portugal. The umbrella-theme of this year's gathering was 'challenges for monetary policy in a rapidly changing world'. While markets watched attentively for clues about the ECB's near-term monetary policy intentions, for those looking for insights as to the long-term thinking of central banks and secular trends that might drive long-term investment themes, the <u>agenda</u> was quite fruitful. One of the key discussion topics was the state of globalisation and the automation of jobs, particularly in the service sector.

For some time, talk of peak globalisation has been circulating. After the period of "hyperglobalisation" that spanned from the mid-1980s to the mid-2000s, international trade has stagnated, something which was referred to as "slowbalisation" at the 2021 Sintra forum, rather than all-out de-globalisation. It was also posited that the development of new technology will continue to foster trade by increasing demand for traded goods (such as machines or IT parts) and that the high sunk costs of establishing global supply chains make them resilient to temporary shocks.

1

The material for the 2022 forum gave rise to the idea that while we may have reached peak globalisation for goods, this is not the case for services. The accompanying paper to the discussions by Richard Baldwin, a Professor at the Graduate Institute Geneva, argues that the future of trade is in services – especially trade in intermediate services – and that digital technology is rapidly exposing services that were previously non-tradeable to the opportunities and challenges of globalisation. Simultaneously, new technologies are leading to the robotisation of service jobs. He refers to the two in one catch-all phrase: **Globotics**.

GLOBALISATION OF SERVICES

While the global value of trade in goods has stagnated, trade in services has continued to boom. Even during the pandemic, while trade in transport and travel services tanked, other types of services trade continued to accelerate as a new form of globalisation is emerges: telemigration. This refers to workers who sit in one country but habitually work in offices and remote teams in another.

The International Labour Organisation's flagship report in 2021, titled *The role of digital labour platforms in transforming the world of work*, points out that the growing trend towards platforms that host workers from around the world, enabling businesses to complete their tasks more efficiently and economically than if the tasks were performed on site. In many cases, the work is outsourced by businesses in the northern hemisphere and performed by workers in the global South.

As digitalization continues to bridge the physical distance between us, it is easier to loop remote workers into workflows in high-wage nations from almost anywhere with a good connection. While advanced economies still account for the lion's share of service exports worldwide, the role of emerging economies is fast gaining pace. The key emerging market service exporters are China, India (with 5% of the world total each), South Korea, Poland, the Philippines, and Brazil.

With technological advancements decreasing the barriers to trade in intermediate services and few capacity constraints relative to physical goods, this trend is expected to garner momentum.

ROBOTISATION OF SERVICES

Simultaneously, digitech is enabling the automation of services that were previously nonautomatable. "White-collar robots" are fast becoming our colleagues whether in the form of Robotic Process Automation (RPA) tools, virtual assistants, chatbots, and so on... Last year, for example, Goldman Sachs unveiled plans to automate data-crunching previously tasked to junior bankers. In the healthcare sector, robo-surgery is fast gaining credence (though more so in the US than Europe - 15% of all surgical procedures that take place in the state of Michigan now involve robotics, for example). In the logistics field, robots will soon be able to do the often stressful, high-pressure work of warehouse staff with Walmart currently automating all of its US

warehouses.

With labour shortages abound after the "Great Resignation" and wages on an upward trajectory (Eurozone wage growth is expected to double to 4% this year), demand for the robotization of services is expected to keep rising.

IMPLICATIONS FOR MONETARY POLICY

For central banks, if the Globotics trend takes hold in the service sector, it will have implications for policy as it is likely to affect prices, wages, employment, and growth. It would create and displace job and potentially raise productivity and quality while lowering costs. It could also spark a wave of upskilling as people are freed from repetitive/ precarious work to focus their attention elsewhere. However, it could also wear down the link between local labour market conditions and wage formation by creating substitutes for local labour, or, in a darker scenario, it may create a new form of unemployment.

CONSIDERATIONS FOR INVESTORS

If Globotics takes hold in the service sector, it would create new opportunities for firms that can adapt, allowing them to better protect margins, access a global talent pool, and potentially boost productivity.

A prerequisite to this model is of course connectivity. 5G, the next iteration of wireless technology extends mobile connectivity beyond traditional mobile devices, like cell phones and tablets, paving the way for a connected world – one in which people can collaborate with each other, no matter their location, enabling features like machine-to-machine communication, smart technology, the internet of things (IoT) and artificial intelligence (AI). Companies in this space deserve to be on the radar of investors for the coming years.

Cloud services companies would also stand to benefit from Globotics, with machine learning requiring the storage and processing of massive datasets needed to train algorithms. At the same time, data needs to be accessed from various locations meaning that it cannot be stored locally, rather in the cloud.

Naturally, this data has to be kept secure and the cybersecurity industry would likely receive a strong boost from Globotics, tasked with securing data not only close to home but all over the world. As we saw during the pandemic, the sudden switch to home working created ripe conditions for cyber criminals who were presented with a more widely and thinly spread workforce to attack. The globalisation of services will rely heavily on airtight cyber defense systems.

Sources

https://www.ecb.europa.eu/pub/sintra/html/ecb.forumcentbank.Takeaways.202105~940bc7c44 e.en.html

https://www.ecb.europa.eu/pub/conferences/ecbforum/shared/pdf/2022/Baldwin_paper.pdf

Disclaimer

All financial data and/or economic information released by this Publication (the "Publication"); (the "Data" or the "Financial data and/or economic information"), are provided for information purposes only, without warranty of any kind, including without limitation the warranties of merchantability, fitness for a particular purpose or warranties and non-infringement of any patent, intellectual property or proprietary rights of any party, and are not intended for trading purposes. Banque Internationale à Luxembourg SA (the "Bank") does not guarantee expressly or impliedly, the sequence, accuracy, adequacy, legality, completeness, reliability, usefulness or timeless of any Data. All Financial data and/or economic information provided may be delayed or may contain errors or be incomplete. This disclaimer applies to both isolated and aggregate uses of the Data. All Data is provided on an "as is" basis. None of the Financial data and/or economic information contained on this Publication constitutes a solicitation, offer, opinion, or recommendation, a guarantee of results, nor a solicitation by the Bank of an offer to buy or sell any security, products and services mentioned into it or to make investments. Moreover, none of the Financial data and/or economic information contained on this Publication provides legal, tax accounting, financial or investment advice or services regarding the profitability or suitability of any security or investment. This Publication has not been prepared with the aim to take an investor's particular investment objectives, financial position or needs into account. It is up to the investor himself to consider whether the Data contained herein this Publication is appropriate to his needs, financial position and objectives or to seek professional independent advice before making an investment decision based upon the Data. No investment decision whatsoever may result from solely reading this document. In order to read and understand the Financial data and/or economic information included in this document, you will need to have knowledge and experience of financial markets. If this is not the case, please contact your relationship manager. This Publication is prepared by the Bank and is based on data available to the public and upon information from sources believed to be reliable and accurate, taken from stock exchanges and third parties. The Bank, including its parent, - subsidiary or affiliate entities, agents, directors, officers, employees, representatives or suppliers, shall not, directly or indirectly, be liable, in any way, for any: inaccuracies or errors in or omissions from the Financial data and/or economic information, including but not limited to financial data regardless of the cause of such or for any investment decision made, action taken, or action not taken of whatever nature in reliance upon any Data provided herein, nor for any loss or damage, direct or indirect, special or consequential, arising from any use of this Publication or of its content. This Publication is only valid at the moment of its editing, unless otherwise specified, All Financial data and/or economic information contained herein can also quickly become out-of- date. All Data is subject to change without notice and may not be incorporated in any new version of this Publication. The Bank has no obligation to update this Publication upon the availability of new data, the occurrence of new events and/or other evolutions. Before making an investment decision, the investor must read carefully the terms and conditions of the documentation relating to the specific products or services. Past performance is no guarantee of future performance. Products or services described in this Publication may not be available in all countries and may be subject to restrictions in some persons or in some countries. No part of this Publication may be reproduced, distributed, modified, linked to or used for any public or commercial purpose without the prior written consent of the Bank. In any case, all Financial data and/or economic information provided on this Publication are not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law and/or regulation. If you have obtained this Publication from a source other than the Bank website, be aware that electronic documentation can be altered subsequent to original distribution.

As economic conditions are subject to change, the information and opinions presented in this outlook are current only as of the date indicated in the matrix or the publication date. This publication is based on data available to the public and upon information that is considered as reliable. Even if particular attention has been paid to its content, no guarantee, warranty or representation is given to the accuracy or completeness thereof. Banque Internationale à Luxembourg cannot be held liable or responsible with respect to the information expressed herein. This document has been prepared only for information purposes and does not constitute an offer or invitation to make investments. It is up to investors themselves to consider whether the information contained herein is appropriate to their needs and objectives or to seek advice before making an investment decision based upon this information. Banque Internationale à Luxembourg accepts no liability whatsoever for any investment decisions of whatever nature by the user of this publication, which are in any way based on this publication, nor for any loss or damage arising from any use of this publication or its content. This publication, prepared by Banque Internationale à Luxembourg (BIL), may not be copied or duplicated in any form whatsoever or redistributed without the prior written consent of BIL 69, route d'Esch I L-2953 Luxembourg I RCS Luxembourg B-6307 I Tel. +352 4590 6699 I www.bil.com.

