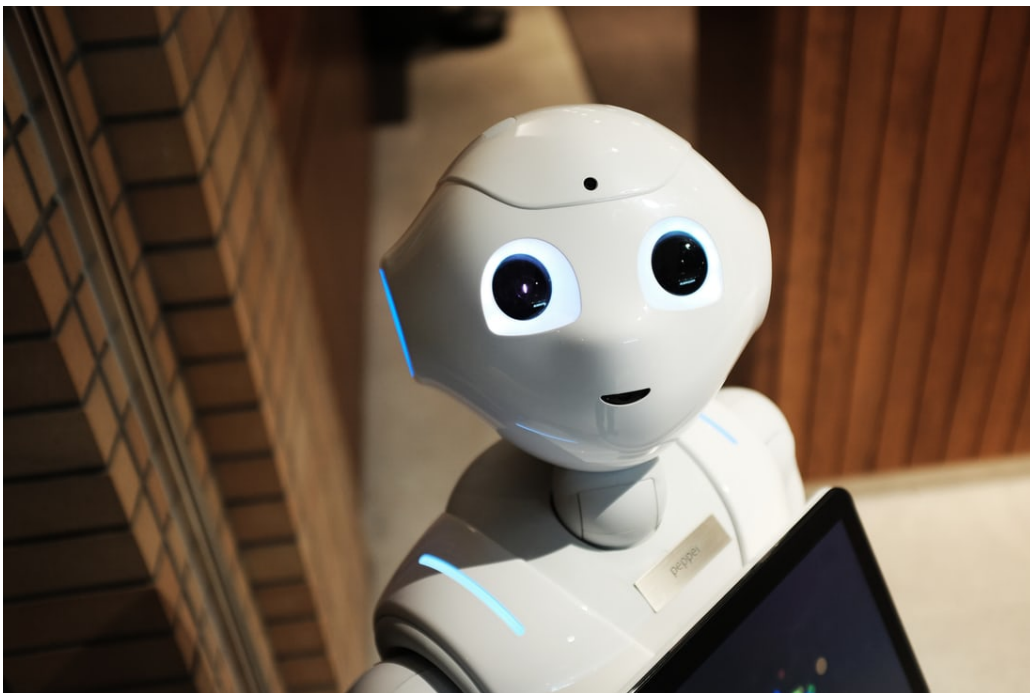


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Globotics – the future of services?



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 [agenda](#) 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.

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 emerging: 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 non-automatable. "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

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