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Automation replaces cheap labour

All through almost four decades of globalization era starting from late 1980s many countries with cheap labour willingly turned into sweat shops for the rich markets and within a decade or two many of these countries, mostly in East Asia, graduated into leading export power houses and half a dozen or so worldwide became what are called emerging economies which, by the turn of the century, lifted millions out of povertyin their respective countries.

But a number of developing countries like Pakistan in their own misplaced national interests or perhaps because of their addiction to free lunches seemingly willingly let the era bypass them making no attempt to profit from the multifaceted benefits of globalization.

And now according to Susan Lund, James Manyika, and Michael Spence (The Global Economy's Next Winners – Foreign Affairs July/August 2019) in a world of increasing automation, the prospects for such low-income countries are growing more uncertain.

The authors, therefore, suggest that to make the old model of export-led manufacturing growth still work for them, countries (like Pakistan)will need to invest in roads, railways, airports, and other logistics infrastructure - and eventually in modern, high-tech factories that can compete with those in the rest of the world.

In the opinion of the authors, in the short term, however, export-led, labor-intensive manufacturing may still have room to grow in some low-wage countries. Bangladesh, India, and Vietnam, according to them, are achieving solid growth in labor-intensive manufacturing exports, taking advantage of China's rising wages and the country's emphasis on more sophisticated and profitable products. Here again Pakistan seems to be missing the bus, despite having been physically closest to the China's Western markets. However, the possibility of the work-in-progress on the China Pakistan Economic Corridor (CPEC) on completion would perhaps help Pakistan profit from its physical proximity with the expanding Western China market.

"Technology may enable some people in low-income economies to jump ahead in economic development without retracing the paths taken by those in advanced economies. Internet access allows workers everywhere to use online freelance platforms, such as UpWork, Fiverr, and Samasource, to earn supplemental income. A large share of the freelancers on these platforms are in developing countries. Khan Academy and Coursera teach languages and other skills. Google Translate is removing language barriers. Kiva and Kickstarter help aspiring entrepreneurs fund their start-ups. And telemedicine services make better health care available to people in remote places."

But, in view of the authors, using those services requires widespread access to affordable high-speed Internet. Countries need to invest in digital infrastructure and education if they are to succeed in a global digital economy. Although many countries have achieved near-universal primary schooling, getting students to complete secondary school and making sure they receive a high-quality education when there are the next hurdles.

"Trade has done more than almost anything else to cut global poverty. If developing countries shift strategies to take advantage of the next wave of globalization, trade can continue to lift people out of poverty and into the middle class."

Those responsible for planning for Pakistan's future economic growth and development, therefore, would do well to keep in mind the following new challenges (gleaned from the article being quoted) that confront low-income countries, especially in the technology sector:

The growth of new technologies, such as Internet connectivity and artificial intelligence (AI), are also changing trade patterns. The availability of cheap, fast digital communication has boosted trade. E-commerce platforms allow buyers and sellers to find each other more easily. The Internet of Things—everyday products with Internet connections—lets companies track shipments around the world and monitor their supply chains.

Factories have used robots for decades, but only for rote tasks. Now, technological advances, such as AI-powered vision, language comprehension, and fine motor skills, allow manufacturing robots to perform tasks that were once out of their reach. They can assemble intricate components and are starting to work with delicate materials, such as textiles.

The rise of automation means companies don't have to worry as much about the cost of labour when choosing where to invest. In recent decades, companies have sought out low-paid workers, even if that meant building long, complex supply chains. That is no longer the dominant model: today, only 18 percent of the overall trade in goods involves exports from a low-wage country to a high-wage one. Other factors, such as access to resources, the speed at which firms can get their products to consumers, and the skills available in the work force, are more important. Companies are building fully automated factories to make textiles, clothes, shoes, and toys—the labor-intensive goods that gave China and other developing countries their start in global manufacturing. Exports from low-wage countries to high-wage countries fell from 55 percent of all exports of those kinds of cheap, labor-intensive goods in 2007 to 43 percent in 2017.

Trade in some sectors, including telecommunications, information technology, business services, and intellectual property, is now growing two to three times as fast as trade in goods. Trade in services will take up an ever-greater share of the global economy as manufacturers and retailers introduce new ways of providing services, and not just goods, to consumers. Car and truck manufacturers, for example, are launching partnerships with companies that develop autonomous driving technologies, rent out vehicles, or provide ride-hailing services, as they anticipate a shift away from the traditional model of one-time vehicle purchases. Cloud computing has popularized pay-as-you-go and subscription models for storage and software, freeing users from making heavy investments in their own hardware. Ultrafast 5G wireless networks will give companies new ways to deliver services, such as surgery carried out by remotely operated robots and remote-control infrastructure maintenance made possible by virtual re-creations of the site in question.

A number of middle-income countries enjoy a fixed advantage: geographic proximity to major consumer markets in advanced economies. As automation makes labor costs less important, many multinational companies are choosing to build new factories not in countries with the lowest wages but in countries that are closer to their main consumer markets and that still offer lower wages than rich countries. Mexico fits the bill for the United States; Morocco, Turkey, and eastern European countries do the same for western European countries, as do Malaysia and Thailand for richer Asian countries, such as Japan and the wealthier parts of China.

A 2019 report by the Luohan Academy, a research group established by Alibaba, found that the benefits of the current digital revolution are likely to be more evenly distributed than those of previous technological revolutions. That's because digital technologies are no longer restricted to rich people in rich countries. Today's technologies have made it easier for people everywhere to start businesses, reach customers, and access financing. The report found that in China, digital technologies have accelerated growth in rural areas and inland provinces, places that have long lagged behind the coasts.