Economic Growth in the New Global Context

Dani Rodrik

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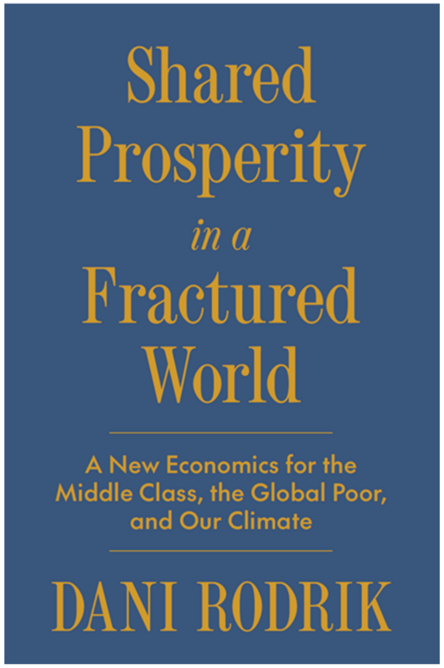
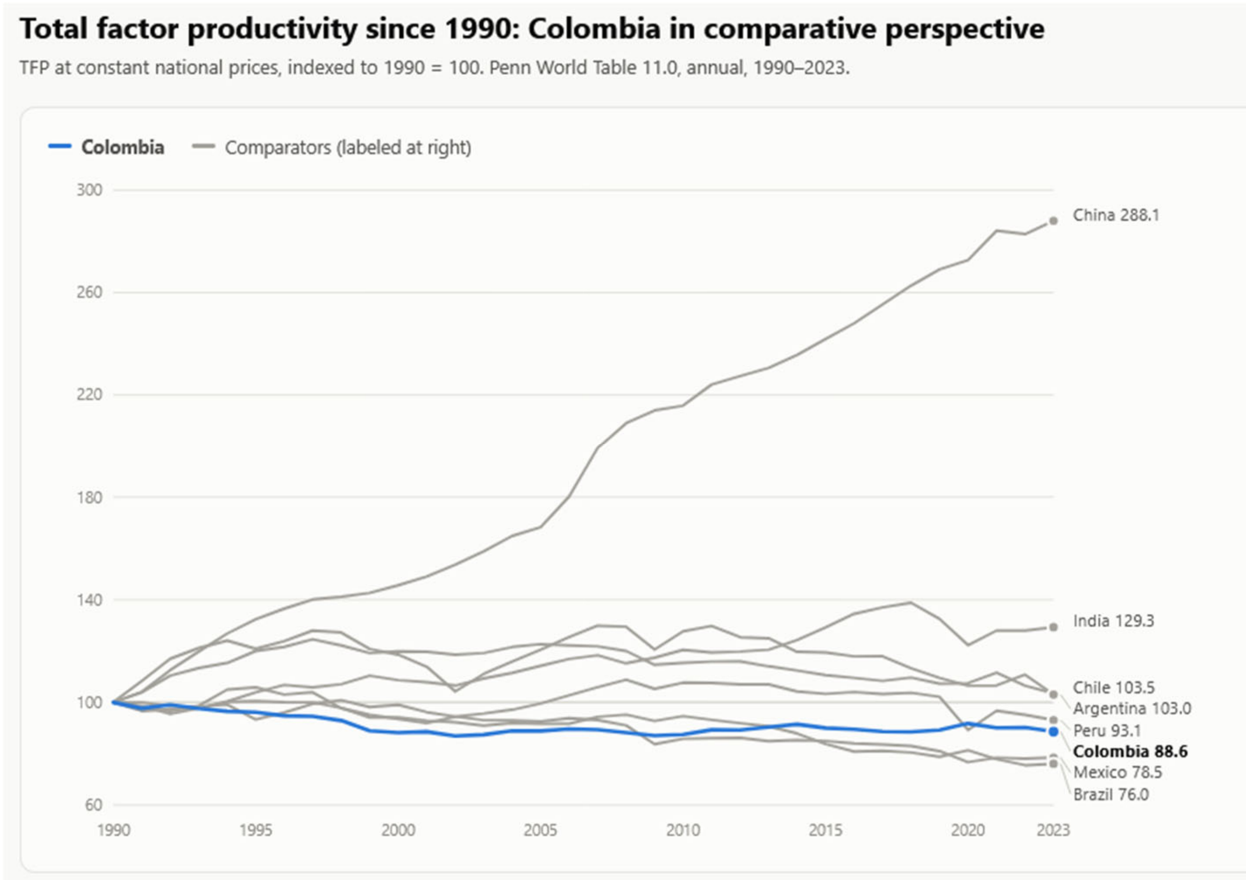
Key points

- Trump is a major shock to world economy
- But the need to update growth strategies predate Trump
- New problems require different strategies
  - the challenges of the green transition
  - the weakening of industrialization as growth strategy
- Labor-absorbing services as a productive opportunity
  - important for the middle class and for inclusive growth
- Requires new forms of public-private collaboration focused on productivity in services
  - provision of public inputs (training, tech, market-making, certification, standards, regulations, ...)
  - rather than subsidies
- While growth ceiling is now lower, inclusive and sustainable growth remains possible



Productivity in Colombia in comparative perspective



How China (and other Asian countries) succeeded

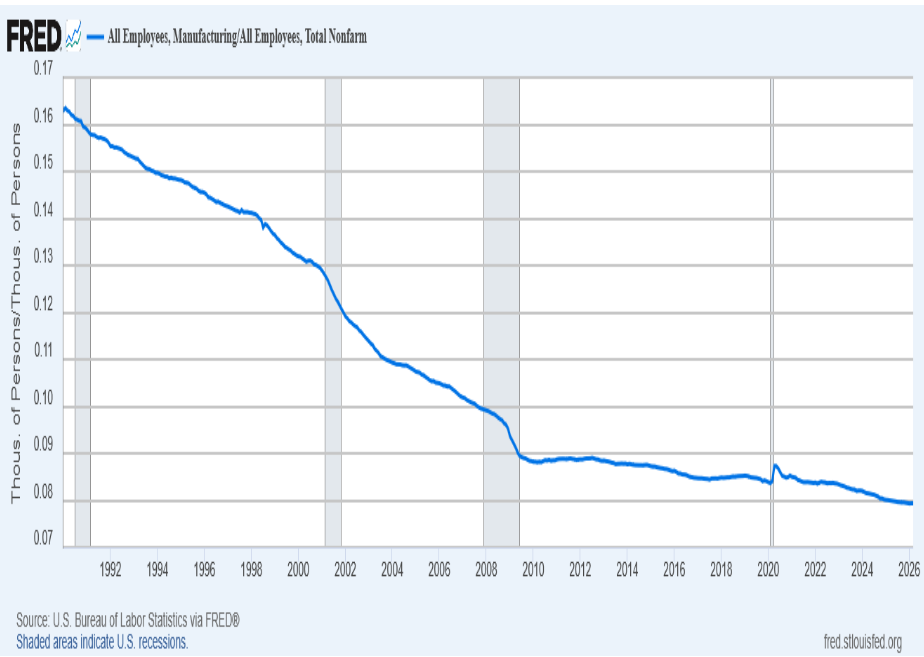
- A development-friendly global context
  - access to markets, capital and technologies of advanced countries
  - permissive rules on trade, currency. industrial policies in developing countries
- Investment in fundamentals
  - *reasonably* stable fiscal and monetary policies
  - *reasonably* business-friendly policy regimes
  - steady investment in human capital and institutions
- Pragmatic, often “unorthodox” government policies to promote industrialization
  - promotion of exports, managed currencies, local-content rules, development banking, special investment zones, protection of home market, … with specific form varying across contexts

Why manufacturing industries are no longer a reliable path to growth and development

- Global context: difficulty of competing with China and the new protectionism
- Labor-absorptive capacity of manufacturing significantly is now much lower
  - changes in technology (automation, rising capital- and skill-intensity)
  - quality and other capability requirements of competing successfully and joining GVCs; also limited domestic linkages with GVCs
- Manufacturing increasingly looks like an “enclave” sector, even where successful
  - where employment is increasing, now focused mostly on informal, less-productive modes of production

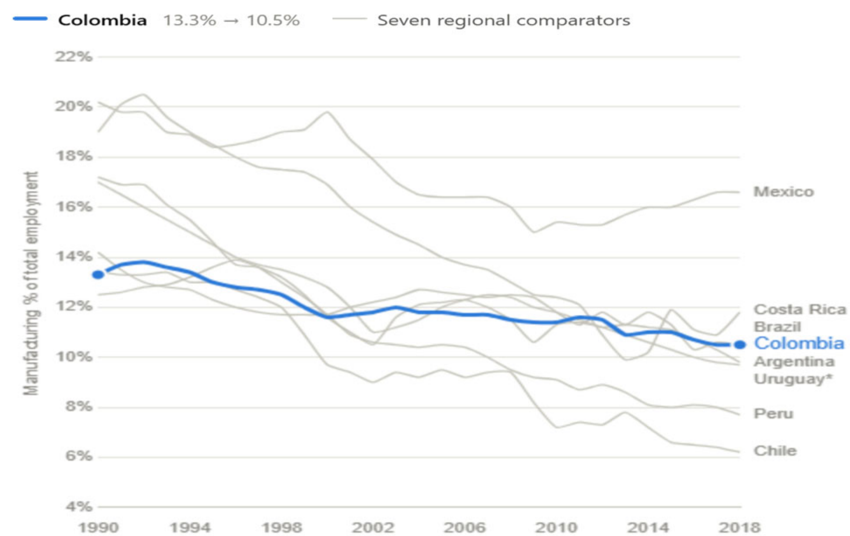
De-industrialization is a global phenomenon

The U.S.



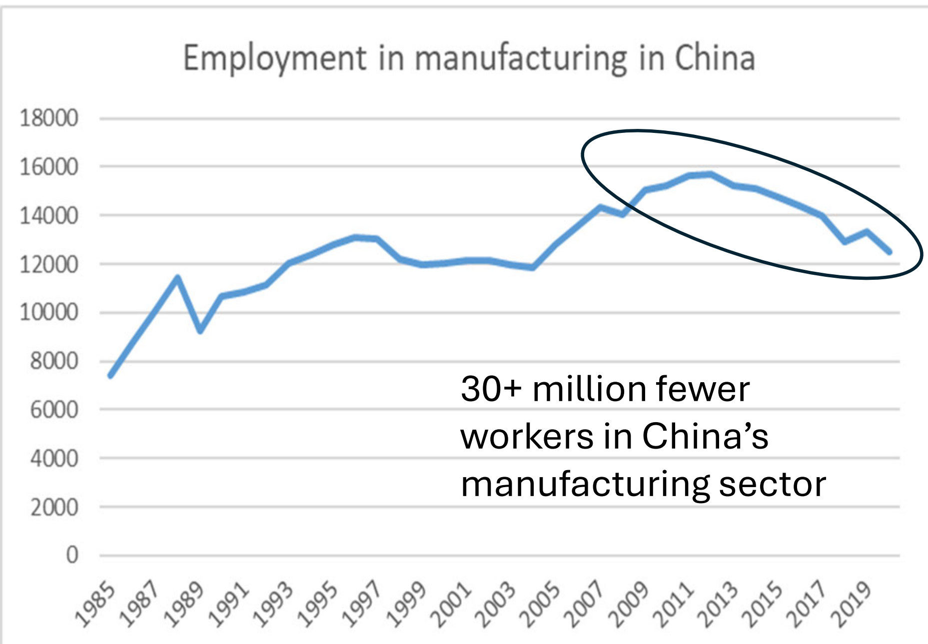
Colombia's manufacturing employment share in regional context

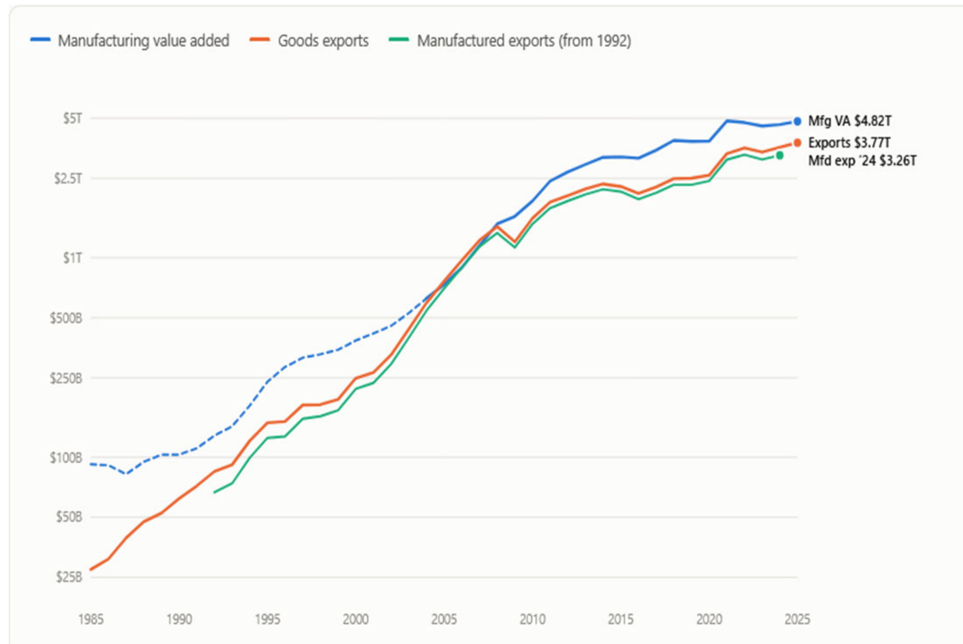
Manufacturing as % of total employment, 1990–2018. Colombia starts low and stays low — a shallow decline from an unimpressive base.



Sources: GGDC/UNU-WIDER Economic Transformation Database (2023 update) for Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Peru. *Uruguay: author's estimates from INE, ILO and ECLAC sources; Uruguay is not in the ETD and the series is approximate, particularly pre-2000.

Manufacturing is shedding labor in China as well, but that does not mean jobs will move elsewhere…





Continued increase in manufactures production and exports, despite large decline in employment…

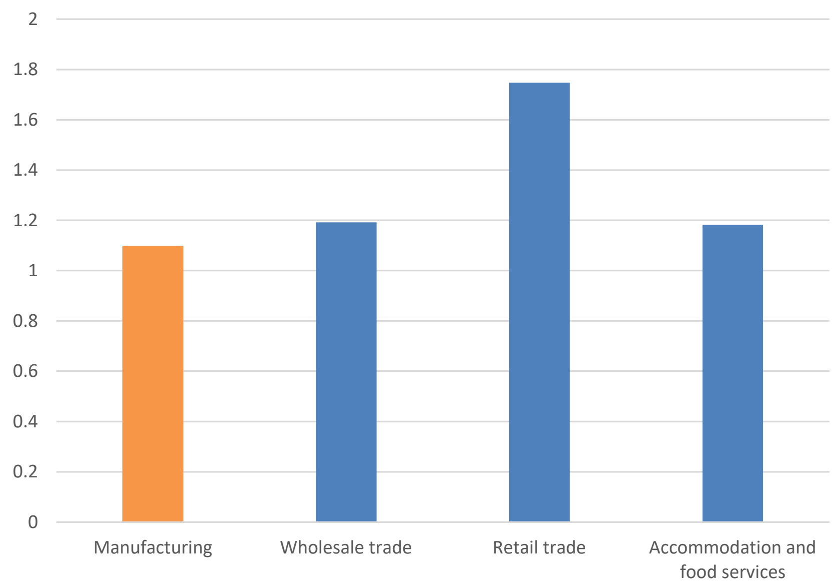
Where the jobs are (and will remain): Colombia's ten largest occupations in 2036 (projected)

Occupation (CUOC / ISCO-08 minor group)	Employment 2026	Employment 2036	Share, 2036	Change, 2026–36	Median earnings, COP 000s	Typical education for entry	Informal
Shop salespersons and retail assistants	1,390	1,440	5.4	3.6	1,750	Secondary (bachillerato)	48%
Car, van and motorcycle drivers (incl. app drivers, couriers)	720	900	3.4	25.0	1,700	None beyond licence	72%
Domestic workers and household helpers	760	830	3.1	9.2	1,300	No formal credential	78%
Construction laborers and bricklayers	720	810	3.1	12.5	1,900	No formal credential	70%
Agricultural workers	880	750	2.8	–14.8	1,300	No formal credential	86%
Street and market vendors	700	660	2.5	–5.7	1,100	No formal credential	96%
Retail shopkeepers, own-account (tenderos)	600	620	2.3	3.3	1,500	No formal credential	84%
Cooks and kitchen helpers	480	570	2.2	18.8	1,600	No formal credential	66%
Crop farmers, own-account	640	530	2.0	–17.2	1,100	No formal credential	92%
Security guards	420	480	1.8	14.3	1,900	Secondary + vigilancia course	22%

Neither trade/reshoring nor more schooling helps these jobs; only productivity will (i.e., organizational and technological innovation).

Produced with assistance from Claude AI. Estimates are illustrative and speculative.

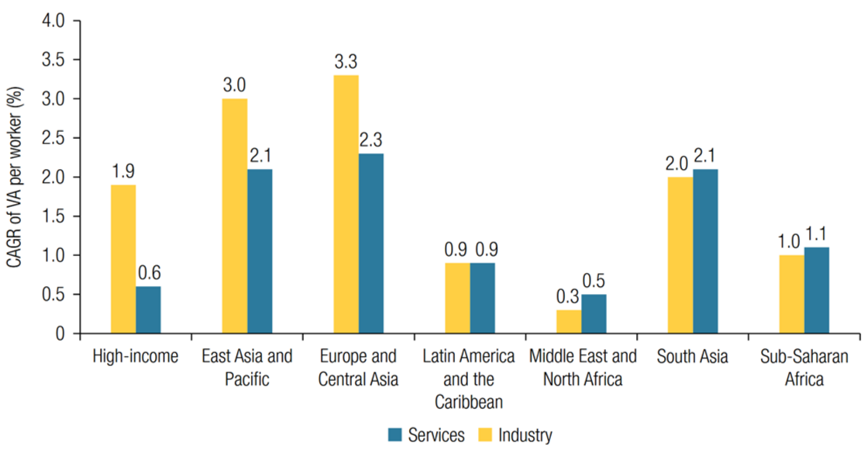
Good news: rapid productivity growth in services is possible



Source: BLS

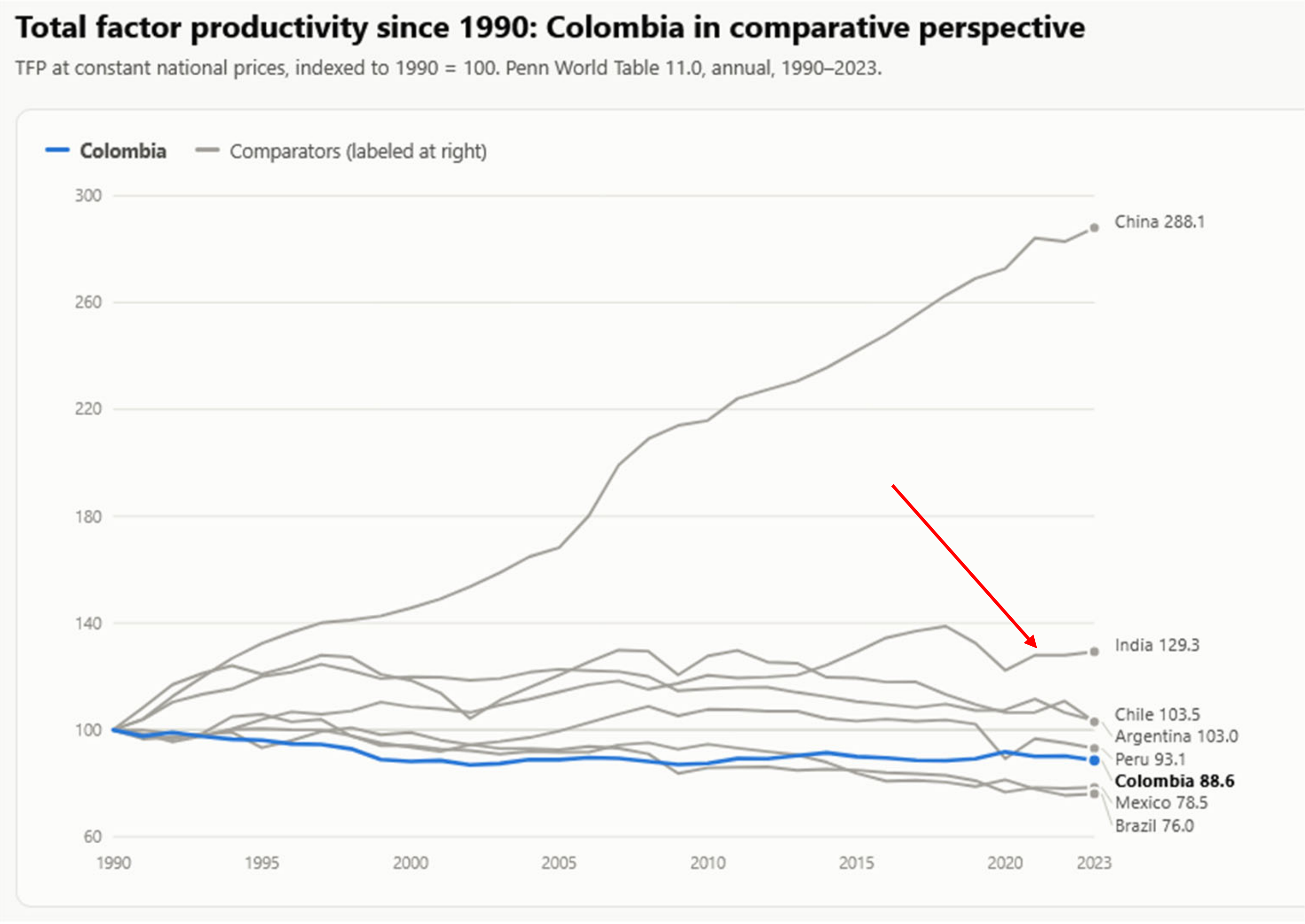
FIGURE 1.4 Labor Productivity Growth in Services Has Matched That in Industry across LMICs in Many Regions since the 1990s, Typically Exceeding That of HICs

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

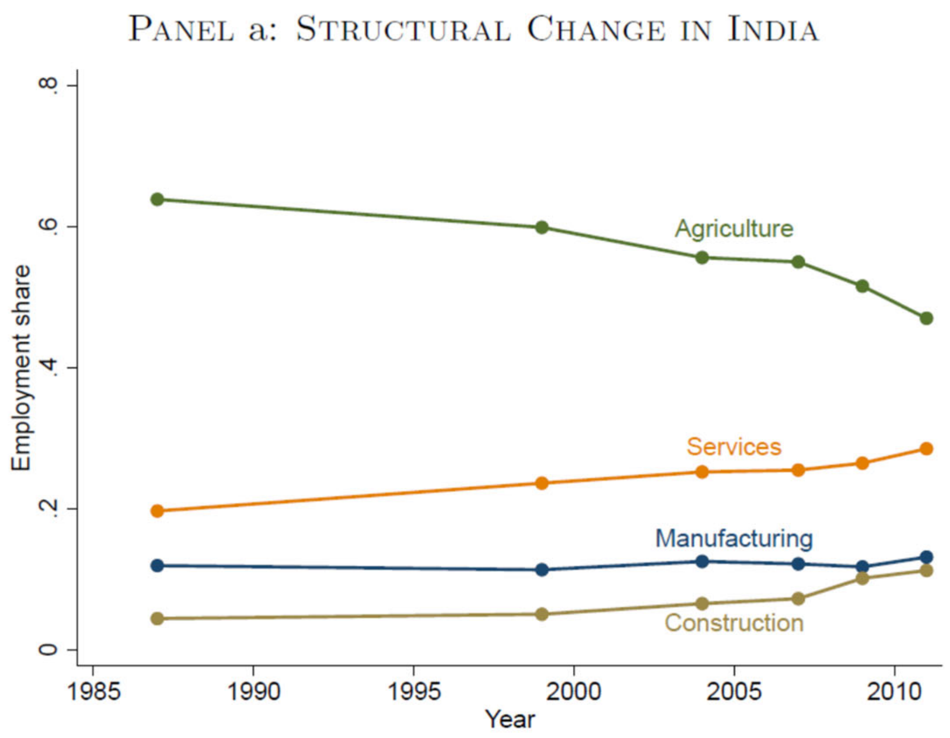


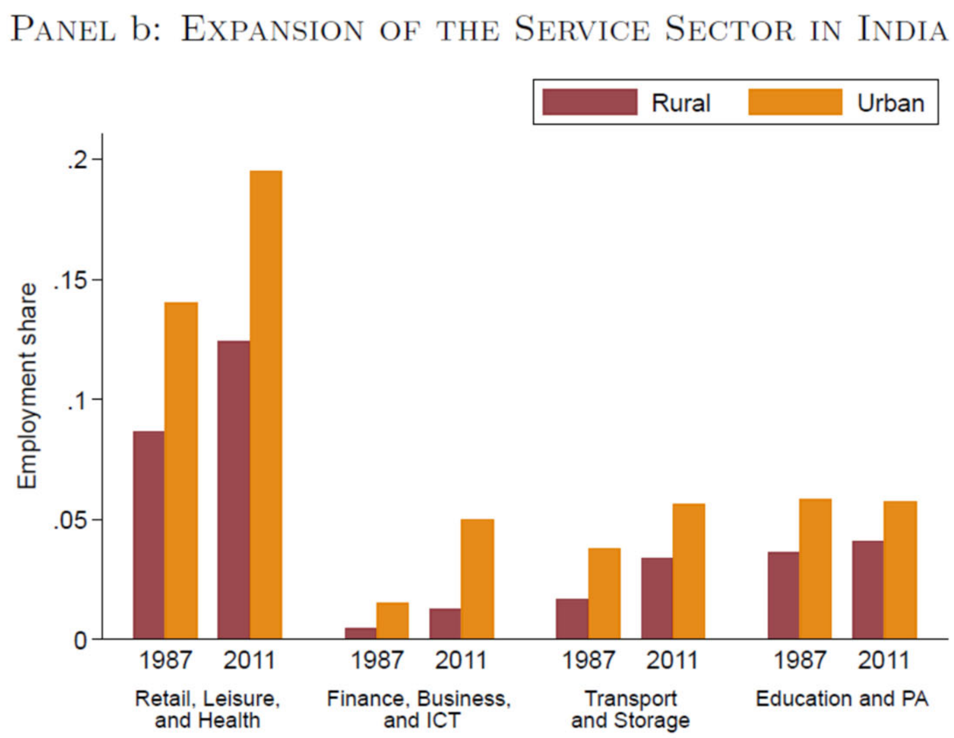
Source: World Bank (2021)

The Indian example



Services-led growth in India: employment growth mostly in non-traded services, not IT



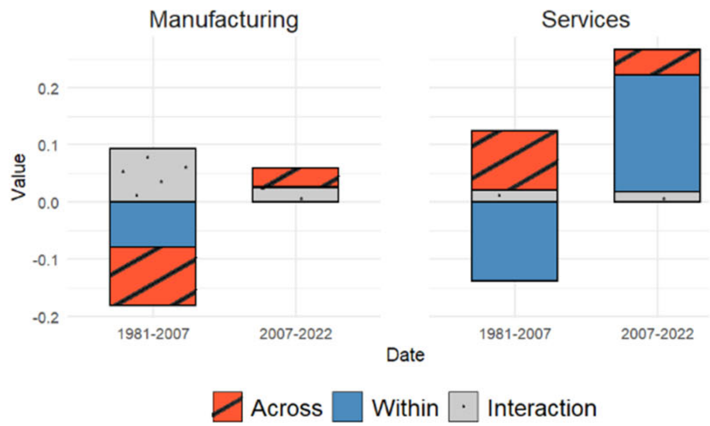


Source: Fan, Peters, and Zilibotti (2023)

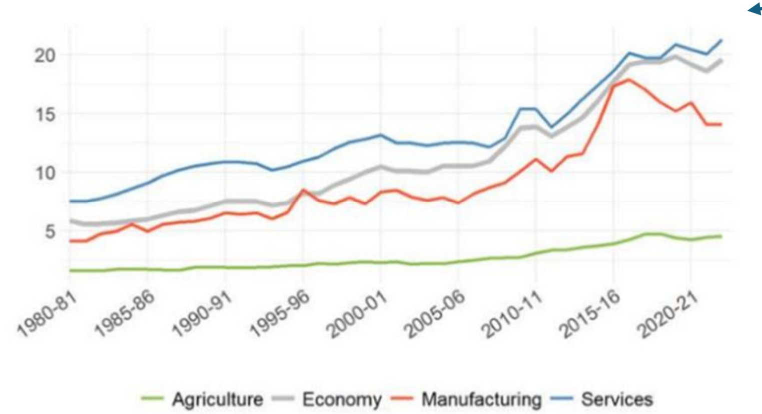
Services-led growth in India: productivity performance in services often exceeds that in manufacturing

Figure 2. India: TFP and Marginal Product of Labor by Sector

Decomposing the Change in Sector-level TFP
(In log difference)



Marginal Product of Labor
(In 10,000 of 2011-12 INR)

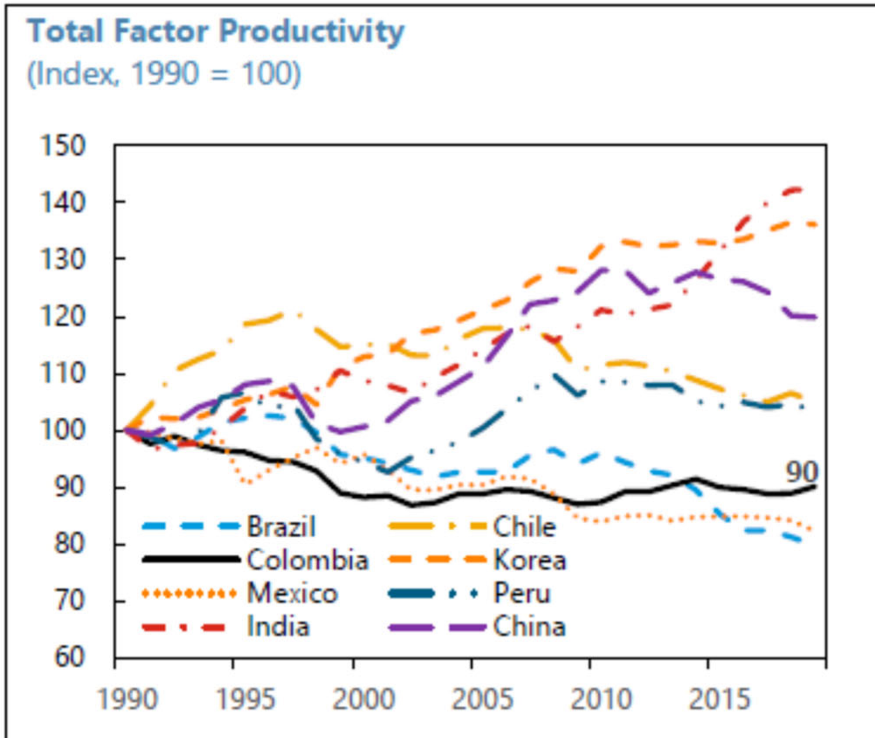


Marginal product of labor in services exceeds that in manufacturing!

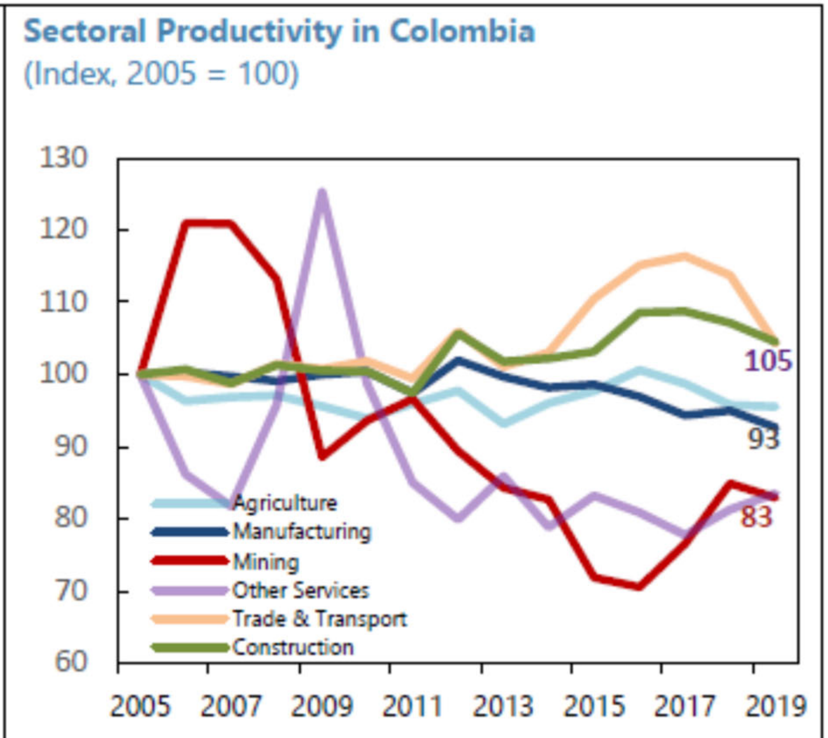
Sources: India KLEMS; and IMF staff calculations.
Notes: Taking advantage of the underlying constant-return-to-scale Cobb Douglas gross output production function, the marginal product of labor is measured by $MPL_i = \alpha_i \frac{Output_i}{Labor_i}$, where α_i is the labor share in output, output is in real terms, and labor input is the number of employees adjusted by the labor quality index.

Source: IMF Art IV report on India (2025)

What about Colombia? Some services are doing well…



Sources: Penn World Table and IMF staff elaborations.



Sources: Orbis and IMF staff calculations.

Source: IMF

There are many good examples in Colombia’s non-traded, labor-absorbing services

Domain	Cases that raised both productivity and formal employment	What the evidence shows
Food retail & food service	**Hard discounters (D1, Ara):** lean logistics and private label. D1 is now Colombia's largest retailer by revenue, with 26,000 formal jobs and predominantly domestic sourcing. Ara has 19,000 workers and almost exclusively domestic purchases. **Crepes & Waffles:** 5,000+ workers, profitable in six countries.	Store entry raises local formal employment in retail, manufacturing and agriculture hence produce domestic-sourcing spillovers. No statistical effect on informal employment. *Delgado-Prieto, Otero-Cortés & Calderón (2024)*
Platforms	**Rappi:** matching and utilization gains in last-mile delivery; 350,000 couriers region-wide. **Payments rails (Nequi, DaviPlata):** 27m users, 2.4m of them businesses; most loans go to borrowers with no credit history. **Micro-firm tools (Chiper, Treinta):** provide digital productivity tools (supplies, bookkeeping, e-commerce) to small shops.	Couriers are drawn largely from unemployment and informality; platform income is an on-ramp to financial inclusion, especially for women. Job-quality gaps now partly legislated (Ley 2466 de 2025). *IDB (2023)*
Personal services	**Hogaru:** cleaners are salaried employees above minimum wage with full social security. **Symplifica:** cuts the transaction cost of registering domestic workers legally; ~26,000 formalized.	The salaried model is commercially viable: turnover fell from 16% (2015) to 9% (2022), and retention and utilization gains offset the cost of formality. *World Bank / IFC Hogaru case study*
Care	**Manzanas del Cuidado (Bogotá):** co-located services release caregivers' time. 842,000 women attended 2021–25. **SENA certification:** credentials prior care experience, but still at pilot scale (206 certified in Bogotá, 2025–26).	Recognition of unpaid care achieved, and childcare and laundry reduce and redistribute it, but employability services fall short of economic autonomy. Wellbeing and training effects are clearer than labor-market effects. *Álvarez-Rivadulla et al., Territorios 54 (2026)*

What stands out is organizational innovation, not capital intensity or technology per se. The micro evidence is credible, but it does not yet aggregate up to service-sector TFP.

Produced with assistance from Claude AI.

Pay, linkages, and innovation in four kinds of sectors

Domain	Representative worker	Monthly pay	Linkages with other sectors	Innovation and technology use
Manufacturing	**Factory worker**. Formal contract.	COP 1.75–2.2m per month, plus shift premia, about 10,000 per hour.	The more productive branches plug into **GVCs, with few domestic linkages.**	**Capital-embodied technical change and the highest R&D intensity of the four. Offset by very wide plant-level dispersion, with employment growth concentrated in informal, low-productivity plants.**
Food retail & food service	**Store assistant at a hard discounter.** Formal contract, Sunday-to-Sunday rotating shifts.	COP 1.75–2.4m per month, about 10,500 per hour.	Strongest service-to-manufacturing link: **private label pulls demand into domestic SME food processors** (D1 88%, Ara 96% domestic sourcing). Store entry raises local formal employment in retail, manufacturing and agriculture.	**Process innovation rather than capital**: narrow SKU range, no promotions, own brands, high inventory turns, small-footprint stores, lean logistics.
Platforms	**Delivery courier.** Independent, 60–84 h/week.	COP 1.7m per month net of own costs, from ≈3.0m gross, about 5,500 per hour.	**Widens and deepens the market for small restaurants and tiendas**; backward links to motorcycles, fuel, telecoms and the payment rails couriers are paid through (Nequi, DaviPlata).	**Highest digital intensity: algorithmic matching, dynamic pricing, geolocation**. But the technology is embodied in the platform, not the worker — hence half the hourly return of the formal jobs.
Personal services	**Cleaner on a salaried contract.** Formal, six-day week, full social security.	COP 2.0–2.3m per month with bonuses, about 10,800 per hour.	Thin backward linkages; essentially supplies only. But important labor supply effects as it **releases household time and enables more women to work outside home.**	**Purely organisational: scheduling software, routing, training, quality standards, formal contracts**.

Wages converge on the minimum; the linkages, the innovation, and who captures it differ substantially. But picture of domestic services as creating few linkages and technologically stagnant is no longer accurate.

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Government has played a role in these sectors -- but could do more

Case	Actual role	Potential policy areas
Hard discounters	Mostly **permissive absence**: open entry and FDI (Ara), no incumbent protection, no subsidy. State's contribution was not blocking the format.	**Extension services linking smallholder suppliers into discounter chains; simplified municipal licensing. Competition rules in case of local concentration.**
Platforms & payments	**Tolerated gray zone** until 2025 (unlike ride-hailing). Ley 2466 art. 27 now obliges platforms to fund 60% of independent couriers' health and pension and 100% of occupational risk. **Public rails**: Banrep's Bre-B instant payments (fully interoperable Sept. 2025) and the simplified-deposit regime that Nequi and DaviPlata run on.	**Portable-benefits design that preserves flexibility; open-finance data sharing so platform records unlock micro-firm credits.**
Personal services	**Public rules** created the product space: mandatory social security plus the PILA e-payment system are what Hogaru and Symplifica sell compliance with. Ley 2466 (2025) now requires written contracts and PILA registration for domestic workers.	**Unified, pro-rated contributions for part-time multi-employer work; tax credits for formal household employment; lighter minimum-cost floor for low-hour jobs.**
Care	**Direct public provision**: Bogotá's District Care System (city budget with CONPES backing), SENA caregiver certification, and a national care-system push since 2023.	**Scale with demand-side subsidies; career ladders for certified caregivers; take SENA certification beyond pilot volumes; use evaluations to fix problems (usage frequency, employability design, household norms).**

Incentivize platforms and larger firms to disseminate capabilities; provide access to technology and training; use public procurement, certification for market-making; do not subsidize unconditionally or pick winners.

AI *can* be a big help

Automation and traditional computing

Task type	cognitive	manual
routine	**Codifiable / explicit knowledge** *(Polanyi: rule-based)* • Bookkeeping and payrolls • Clerical processing • Routine credit scoring under fixed rules	**Codifiable physical tasks** *(rule-based, repetitive)* • Repetitive assembly-line operations • Sorting, packaging • Automated warehouse picking
non-routine	**Analytical** *(tacit but pattern-based)* • Customer service (problem-solving) • Drafting reports, memos, summaries • Coding, debugging, data analysis • Medical image reading, legal research	**Embodied tacit knowledge** *(unstructured environments)* • In-home elder and childcare • Cleaning, food preparation, serving • Skilled trades, plumbing, repair
AI	**Interpersonal** *(tacit and social)* • Management, coaching, team leadership • Negotiation and persuasion • Complex client advising, therapy • Classroom teaching	Unlike automation which displaces workers, AI has potential to confer skills and experience to broader segment of workers

Based on Autor, Levy, and Murnane (2003) and Autor (2025)

Elements of successful government-business collaboration

	Traditional industrial policy	Modern productive development policy
Firms	Large, globally competitive firms	All sizes of firms, including SMEs
Assumptions about the government	Governments can identify market failures ex ante and is sufficiently insulated from capture	Knowledge about location and magnitude of market failures is widely dispersed; government faces substantial uncertainty; state capacity is endogenous
Types of incentives	Tax, credit subsidies	A portfolio of business services, including marketing, management & tech assistance, customized training, infrastructure, seed capital/loans for directed technologies
Application of incentives	Fixed schedule of incentives, except for incentive packages for large firms which may be negotiated	Customized to firms' needs and adapted to context
Selection criteria	Pre-specified	Voluntary buy-in and participation
Conditionality	Hard; rigid ex-ante criteria	Soft; provisional, open-ended and evolving
Relationship with recipients	Arms'-length	Collaborative, iterative; active project management

Conclusion: a convergence in growth and social agendas

- Sustained growth possible only by expanding productivity (and employment) in labor-absorbing sectors
- Inclusion/equity possible only through creation of productive jobs in sectors that can absorb low-educated workers
- Implications for growth strategy
  - from encouraging export diversification, manufactures, integration to GVCs, to
  - encouraging productivity growth in labor-absorbing, mostly non-tradable services
- Growth will be lower, but its quality might be higher
  - more inclusive and focused on building the middle class
  - and less dependent on global markets/conjuncture