

AI, innovation and inclusive growth

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AI has the potential to foster significant economic growth by automating tasks in goods and services production, and in the generation of ideas, improving technological innovation. That, in turn, accelerates creative destruction – new technologies replacing old ones.

While automation may reduce the incentive to outsource some tasks, developing economies can still benefit from AI by leapfrogging in technology adoption and improving education delivery, much like mobile technology did in the past.

However, access to data and infrastructure is critical. Developing economies need support in building capabilities, such as access to data and computing power. Global cooperation is essential to ensure inclusive access to AI's inputs, as highlighted by the AI Summit in Paris earlier this year.³⁸ Sound competition policy is also essential, as dominant firms may use AI to entrench market power. Automation may reduce outsourcing incentives and displace jobs, but productivity gains can boost demand and employment. Education and labour market policies are key to helping workers adapt.

As to whether AI may drive more outsourcing from developed to developing economies, or rather a trend toward reshoring, this is complex. Automation could reduce the need to outsource, particularly for tasks that can now be done more cheaply at home, potentially slowing the convergence process for developing economies. However, I don't believe AI will completely upend the existing division of labour in global value chains.

For example, ChatGPT and similar technologies mainly affect services. Over the short to medium term, I expect existing trade patterns – where emerging countries focus on manufacturing and advanced economies on services – to persist. But we need to monitor this closely.

Concerning the kinds of policies needed to ensure that AI promotes employment and reduces inequality in both developed and developing economies, the most important starting point is education. A strong, inclusive education system ensures that more people can benefit from AI rather than be replaced by it. More educated workers are more likely to be complemented by AI, not substituted.

Beyond education, active labour market policies are crucial. I'm a strong advocate of the Danish "flexicurity" model, where workers receive generous support and retraining if they lose their jobs. This combination of flexibility for firms and security for workers helps economies adapt to technological change. Elements of this approach can be scaled regionally in larger countries.

The growing concentration of AI capabilities among a few dominant firms and countries is a serious issue. As with the IT revolution, AI is currently dominated by a few big tech firms – especially those that control the cloud infrastructure. To counterbalance this, we need robust competition policy.

I support open-source models and caution against excessive regulation, which established firms can navigate more easily than new entrants. Governments also have a role to play in subsidizing access to data and computing power for smaller firms to ensure a level playing field.

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