



Global Services Forum

Panel 2: From Services to Value-
Added: Trade Policy Implications

BEIJING, 28 MAY 2013

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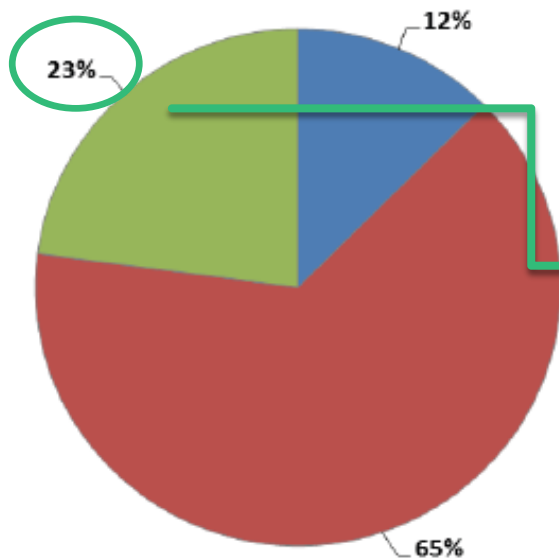
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21st Century is a Services Economy

- ▶ **Services Sector represents:**
 - ▶ **2/3 (66%) of World Production**
 - ▶ **2/3 (66%) of World Employment**
 - ▶ **Nearly 50% of World Trade (VA basis)**
 - ▶ **3/5 (60%) of Foreign Direct Investment**

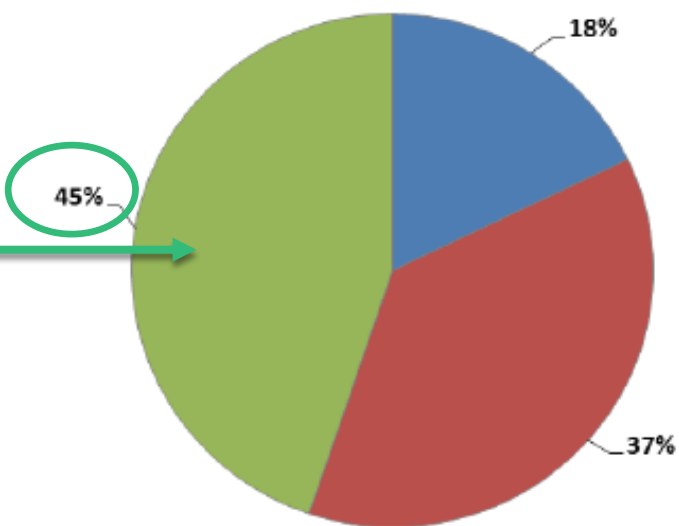
New OECD-WTO Value-Added Database: Services are 45% of World Trade

Structure of world exports in gross terms, 2008




■ Primary products ■ Manufacturing ■ Services

Structure of world exports in value added terms, 2008



■ Primary products ■ Manufacturing ■ Services

Difference → value added provided by EMBODIED SERVICES is taken into account



How services inputs in traded goods represent an opportunity for competitiveness and create comparative advantage?

SECTION I

New Structure of World Trade

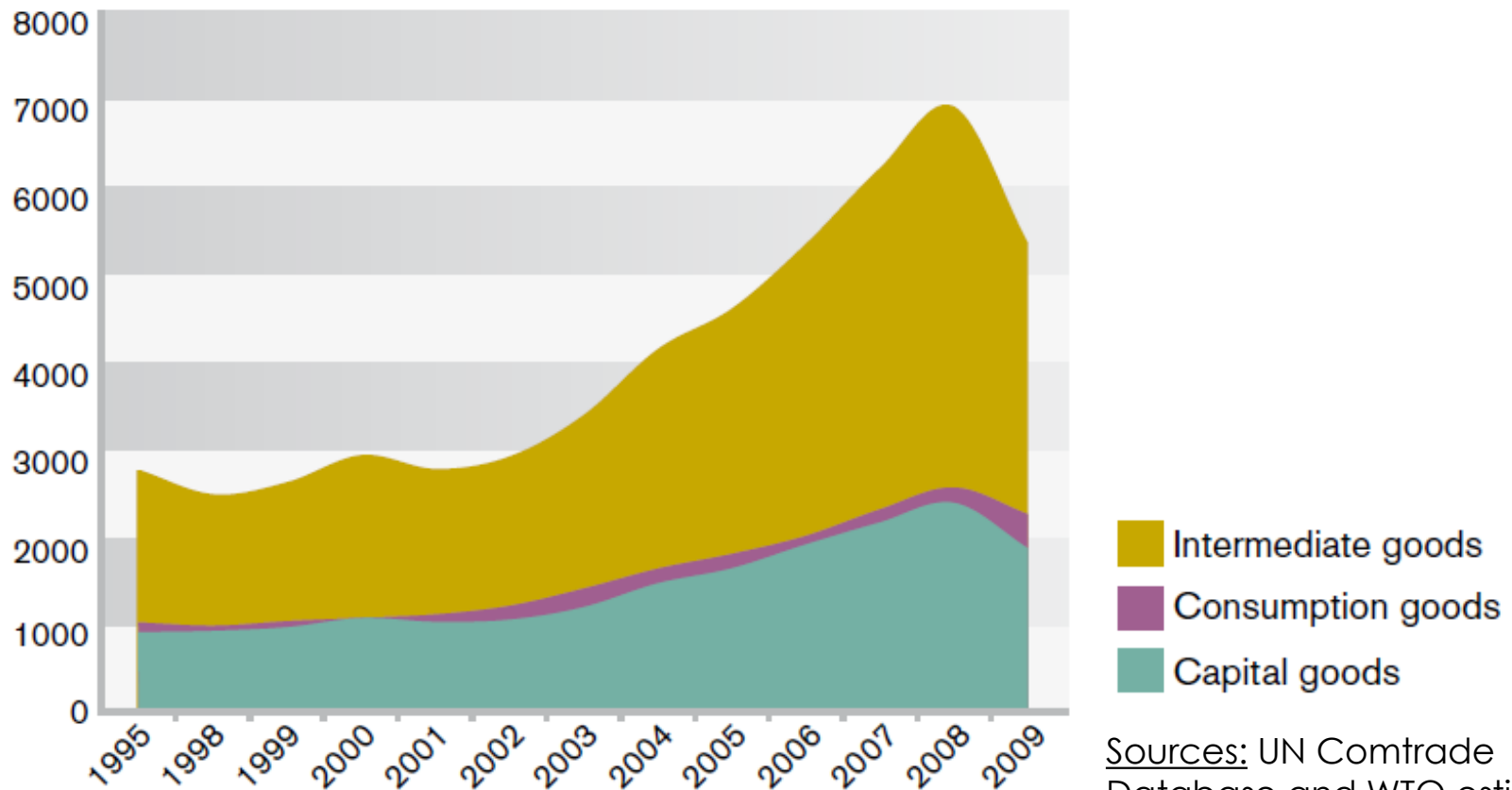
The new structure of World Trade :

- ▶ **Moving toward more trade in intermediates than final products**
- ▶ **Comparative advantage determined by “tasks” rather than by final products**
- ▶ **Services allow for this production fragmentation to take place**

Services play a key role in comparative advantage and explaining trade patterns

Growing prominence of Trade in Intermediates explains increase in Supply Chain operations

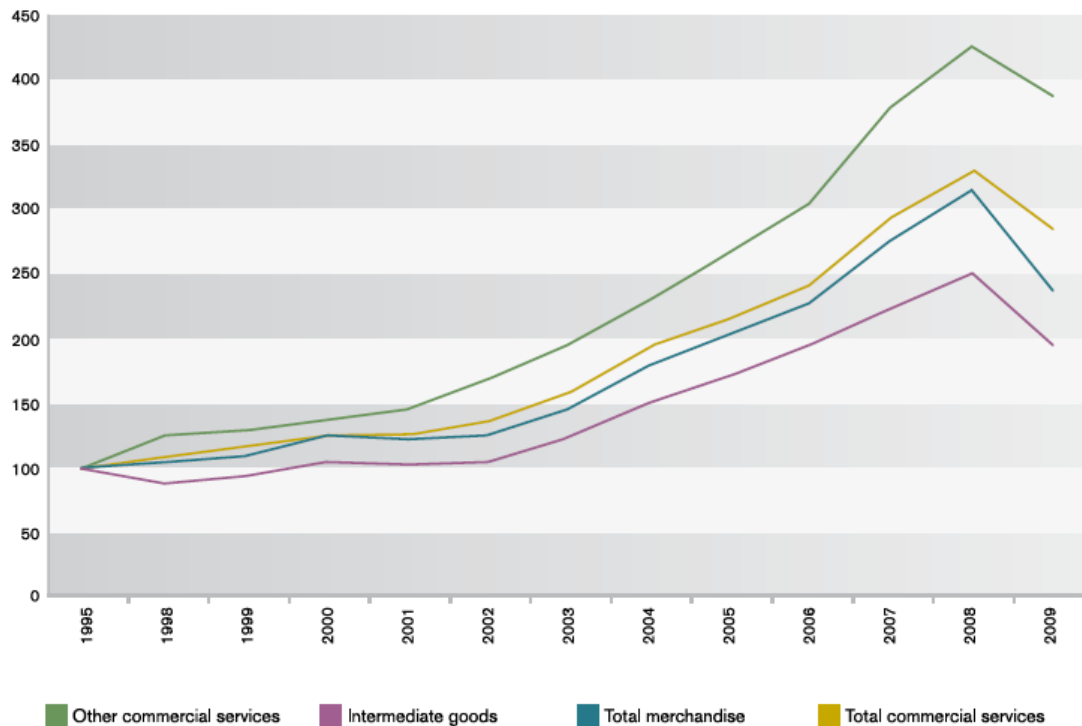
Growth of World Trade in Intermediate Goods, 1995-2009 (billions of USD)



Sources: UN Comtrade Database and WTO estimates

Commercial Services are Fastest Growing Component of World Trade and underpin Production Fragmentation & Intermediate Trade

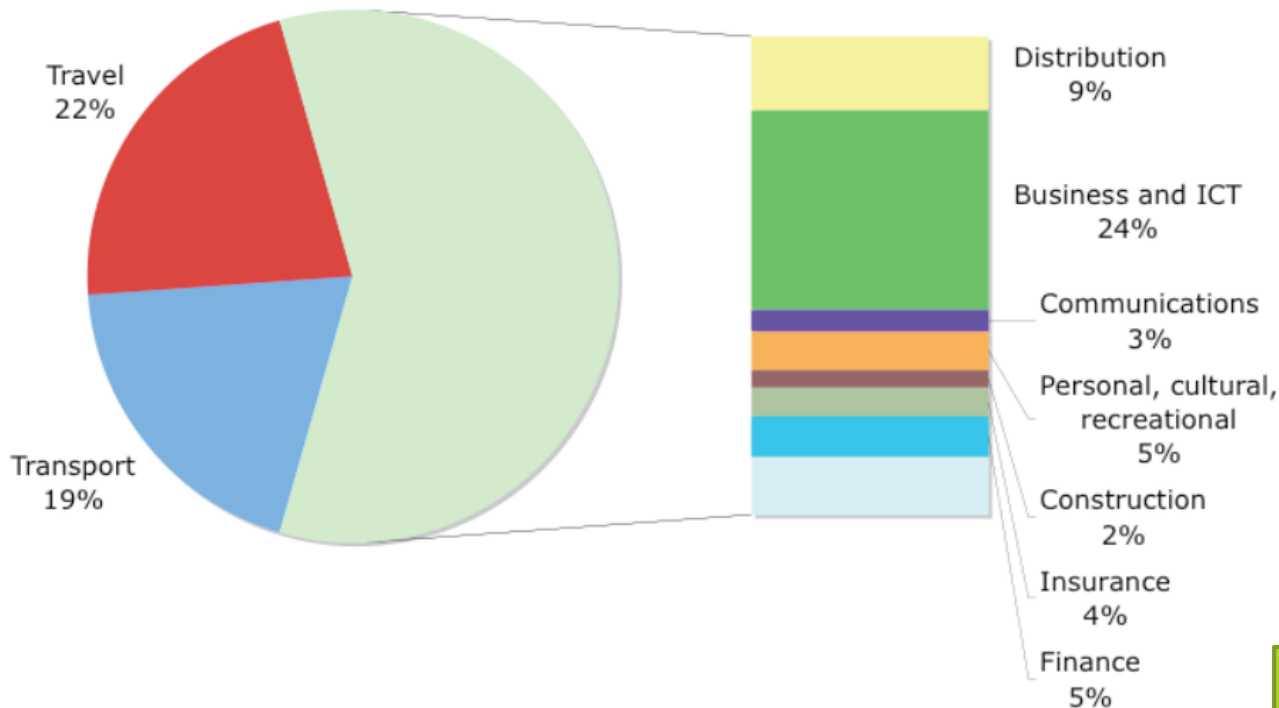
Trends in world trade in merchandise and commercial services, 1995-2009 (Index, 1995=100)



- Other Commercial Services (i.e. business support services) are the fastest growing component of world trade – much faster than Goods

Within Commercial Services: Business and ICT Services most important components

Composition of US service exports



► What composes
“Commercial Services”?

- Business services, ICT
- Communication
- Distribution
- Construction
- Financial
- Insurance
- Personal, cultural



Most of these are
PRODUCER SERVICES

Example: Embodied Services in the Nokia N95 – nearly 50%



- ▶ Integrated Circuits: 6%
- ▶ Camera: 3%
- ▶ Other parts: 11%
- ▶ Licences: 4%
- ▶ Value Added in Nokia's internal support functions: 31%
- ▶ Nokia Operating Profit: 16%
- ▶ Final Assembly: 2%
- ▶ Distribution: 4%
- ▶ Retailing: 11%



How do services provide an
opportunity for value-added
creation?

SECTION II

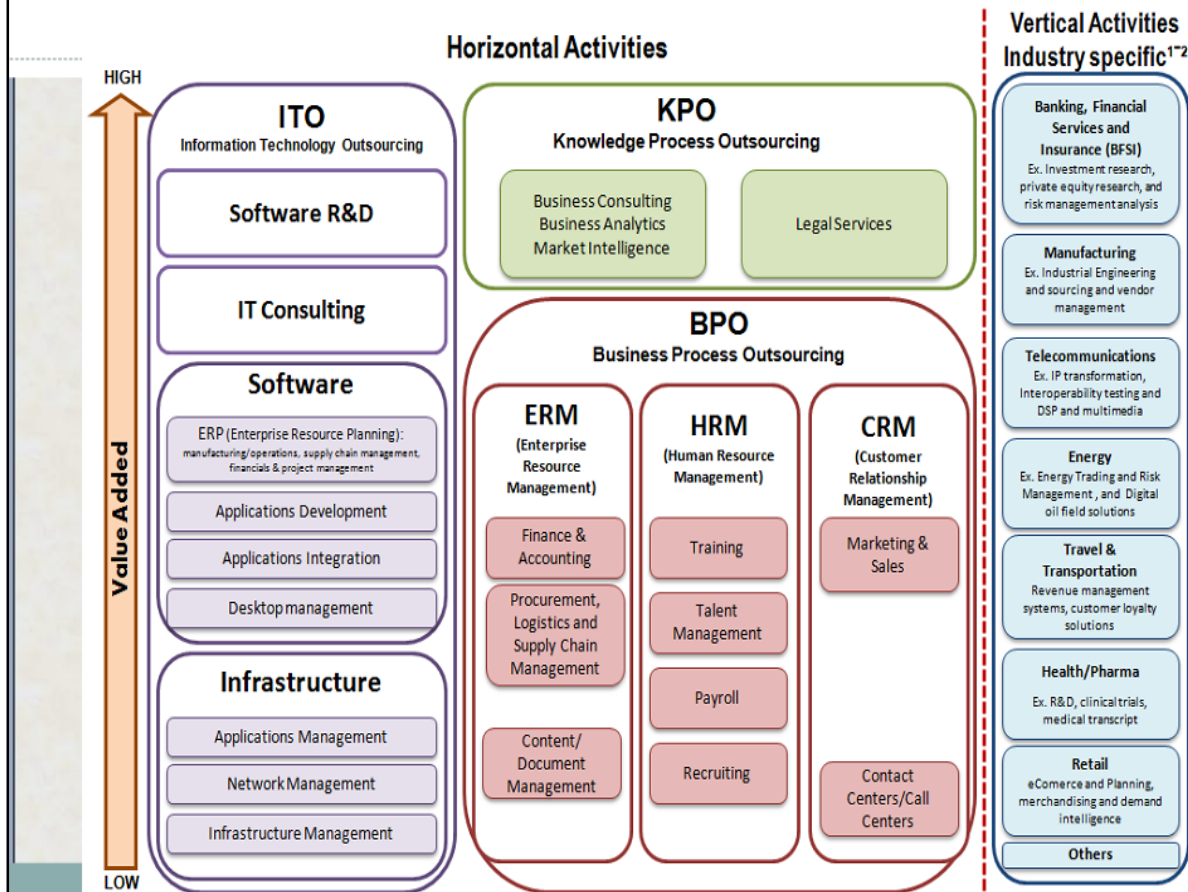
How do Services operate in Supply Chains?

- ▶ Through their role in the production process and in supply chains
- ▶ → two different roles:
 - ▶ Services act as “glue” among the different segments of fragmented production
 - ▶ Services constitute GVCs on their own

OFF-SHORING SERVICES MAKE SUPPLY CHAIN OPERATION POSSIBLE

Services Offshoring Activities going into Supply Chains

Offshore Services Value Chain



Source: Gary Gereffi (2010). "The Offshore Services Global Value Chains".

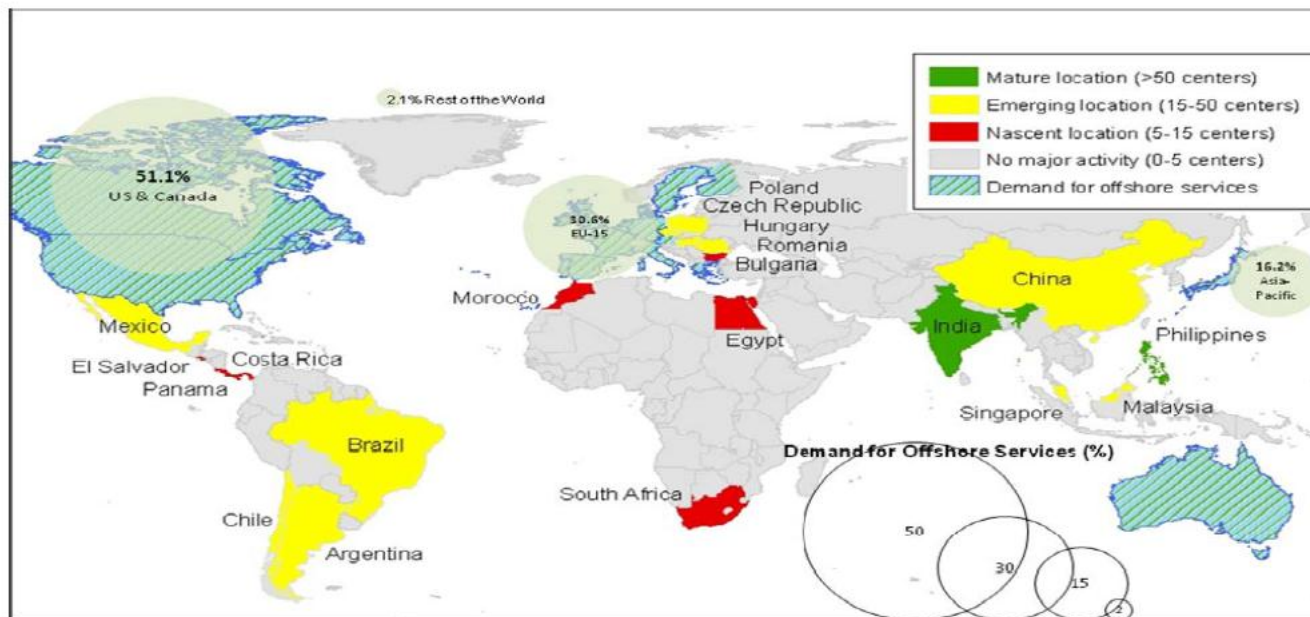
High Growth Rates of Services Offshoring Activities

- ▶ Estimated size of offshore services market - **\$252 billion in 2010**
- ▶ High annual growth rates
 - ▶ KPO segment – knowledge processing (58%)
 - ▶ ITO segment – information technology (26%)
 - ▶ BPO - business processing (25%)

Capturing an Offshore Services 'Task' in a Supply Chain


- ▶ Often easier to do in services than goods because **services require less capital intensive investments; the greatest investment is in human capital**
- ▶ Services are also suited to smaller economies of scale and especially to **SME operations**
- ▶ Some commonality in the business functions involved in any supply chain, but **the factors affecting competitiveness in supply chains for goods and for services are different**

Supply and Demand Centers for Offshore Services



Source: CGGC, Duke University based on data from Everest and Datamonitor.

Source: Gereffi, G; Fernandez-Stark, K. "The Offshore Services Value Chain: Developing Countries and the Crisis". Center of Globalization, Governance & Competitiveness. Duke University. The World Bank Development Research Group, Trade and Integration Team. 2010.

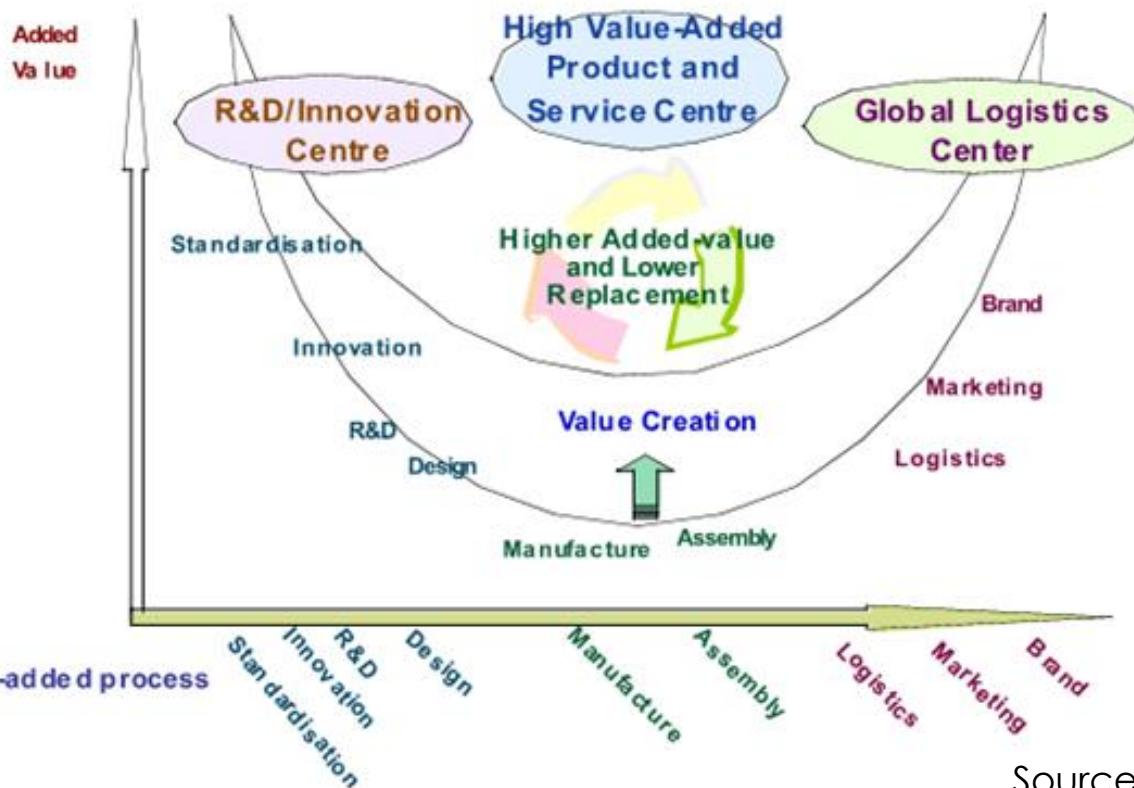


What are the policies necessary to maximize the benefits of the services components of trade and move into sectors with higher value added?

SECTION III

Services are what adds Value

"Smiley Face": conceptual model of the shift to a high value added, globally integrated, services economy



The challenge is to move up the value chain into higher value-added tasks while deciding which activity to outsource / offshore

Factors affecting Services Competitiveness in Supply Chains – mostly Domestic

- 1) Human Capital (talent, education, skills, ideas)
- 2) Cost considerations (financial attractiveness)
- 3) Enabling Digital Infrastructure – efficient telecoms
- 4) Investment in Intangible Assets (copyright, business methods, brands)
- 5) Quality of Institutions
- 6) Efficiency of Domestic Regulation
- 7) Policy Focus: Targeted Support for Specific Services

**THE GOVERNMENT CAN DO A LOT
TO IMPROVE SERVICES EFFICIENCY**

Targeted support policies can shape and even create 'comparative advantage' in specific services

■ EXAMPLES IN SERVICES :

- ▶ **INDIA: Exports of Information Technology Enabled Services**
- ▶ **EGYPT: Exports of Computer Software / programming Services**
- ▶ **MALAYSIA: Exports of Medical Tourism**
- ▶ **COSTA RICA: Exports of BPO and now ITC Offshoring Services**

❖ **Caution: In a world of intermediate goods and GVCs, with footloose producers, comparative advantage can be created but can also change quickly over time – very fluid. Must maintain the competitive edge**

Services and Supply Chains: How does Trade Policy play a Role?

- ▶ With trade in intermediates and services - **cost of protectionism is higher than is generally understood, so it is critical to maintain open borders for cross border trade and FDI (modes 1,2 and 3)**
- ▶ **Operation of supply chains shifts focus on trade barriers from tariffs to logistics:** recent WEF-World Bank report showed that improving logistics halfway to world best practice could increase world GDP 6 times more than removing tariffs
- ▶ Among the logistics barriers, **efficient services play a key role, especially telecoms and transport; regulatory reform and regulatory framework critical**



THANK YOU

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