Support Economic Transformation: Services and Economic Transformation

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.

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INTRODUCTION AND OVERVIEW

• Services used to be regarded as a laggard sector not being able to drive economic transformation, but new empirical evidence leads to a new view.

• Currently three services-led transformation models:
  – Services as result of premature deindustrialisation
  – Maximise services exports and growth (escalator services)
  – Services at the service of the economy as a whole

• New evidence corroborating these models

• Conclusions and implications: services can play important role in ET and job creation but requires active approach
LARGE RELATIVE LABOUR PRODUCTIVITY DIFFERENCES AT LOW INCOME LEVELS SUGGEST LARGE TRANSFORMATION OPPORTUNITIES

Source: Balchin et al. (2016) using UN and ILO data for 150+ countries 1991-2013
“Role and scope of services in GDP, employment, exports and value chains is growing: creating quality services linkages for agriculture & manufacturing is crucial”
ROLE OF SERVICES IN ECONOMIC TRANSFORMATION IS CHANGING

Share of services in value added 1960-2013

Share of services in employment (pre/post 2005)

High growth services least employment intensive (Kenya)

Change in share in GDP (2013-2009)

Level of income

Source: World Development Indicators, Kenya Statistical Abstract 2014

Note: Change in GDP share (2013-2009), percentage point, and employment intensity (2009) as wage employment divided by value added.
ANNUAL GROWTH IN GOODS / SERVICES EXPORTS
1998–2012

Annualised growth rate of goods exports
Annualised growth rate of services exports

-5% 0% 5% 10% 15% 20% 25% 30% 35% 40%

Developed • LDC/LIC • Rest
A DIFFERENT LOOK AT SERVICES REQUIRED
CONTRIBUTION OF SERVICES TO VALUE ADDED IN
EXPORTS (2000 AND 2011) (E.G. VALUE CHAINS)

Source: SET data analysis using EORA input-output database
CONTRIBUTION OF DIFFERENT SECTORS TO PRODUCTIVITY CHANGE, BY LEVEL OF INCOME

CONTRIBUTION SERVICES TO ANNUAL LABOUR PRODUCTIVITY GROWTH, BY COUNTRY, 1991–2013
Balchin et al (2016) explores the link between services and economic transformation in a range of developing country cases in five services sectors:

- financial services in Kenya and Nigeria;
- hydropower transmission services in Lesotho and Nepal;
- information and communication technology (ICT) services in India, Mauritius and Senegal;
- tourism services in Mauritius and Tanzania and
- trade in air transport services in Ethiopia and Kenya (comparing the performance of Ethiopian and Kenyan airlines).

The sectors illustrate the wide variety of impacts of trade in services on economic transformation, but each example is successful in its own way: direct (ICT exports), indirect (e.g. tourism) and second order (finance, power, transport, ICT etc)
• Need to update our empirical base on role of services

• Very different services-led transformation models; trade is an important aspect.

• Needs active approach to get the most out of the services sector (this includes trade policies)
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