INTERNATIONAL MEETING ON SERVICES VALUE-ADDED IN EXPORTS

Services and trade policies for diversification and upgrading
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SERVICES MODE 5: TRADE POLICY MEETS INDUSTRIAL POLICY - COMMENTS WITH A FOCUS ON EMERGING ECONOMIES

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Services Mode 5: Trade Policy Meets Industrial Policy
Comments with a Focus on Emerging Economies

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Disclaimer: opinions are my own and do not necessarily represent those of CAF and its board of directors.
What is at stake?

• Services – major determinant factor for economic growth, jobs creation, productivity, international competitiveness, and investments in the 21st Century

• Services bundled and embedded in manufacturing, commodities and other goods – goods and services largely and increasingly interdependent

• Major change -- services increasingly tradable
What is at stake?

• Services – large and increasing share of value addition in GVC and RVC

• Services – increasing share even in commodity

• Service firms – main sources of innovation and technology development, new business models, data economy
  • Fortune 500 companies
What is at stake?

• Service sector exports: largely and increasingly dominated by developed economies – both value and cost services; at least 70% of total
  • Emerging countries service exports – largely back office, some cost services, tourism, etc

• New business models, consolidation of the service sector, technical standards, certifications, protocols, platforms, big techs, and public policy support -- likely to increase the developed economies dominance in global service markets
What is at stake?

• Services -- main source of tension and explanation for the contemporary trade wars and investment protectionism

• Service sector -- industrial policy of the 21st Century
Mode 5 services

• Services exports as part of a good -- ´service in a box´

• Proposal of EC: extend cuts on tariffs and other policies linked to service´s content shares and service´s trade facilitation -- equivalent of removal of important trade frictions
What is Mode 5?
An illustrative example

**Basic definition:** Mode 5 = services exported *as part* of a good

Source: Cernat (2019)
Mode 5 services

• Benefits of the proposal:
  • Cheaper consumer, inputs and capital goods
  • The higher the service contribution to value addition, the higher the tax cut (ex. iPhone)
  • May help increase competitiveness, productivity and well-being in the short term
Mode 5 services

• Some concerns:
  • Unclear net impact on competitiveness due to decreasing returns
  • New technologies of production and management (AI, robots, IoT, big data, 3D printers, lean, etc) and RVC -- labor cost arbitration losing relevance as an international competitiveness determinant
  • Low elasticity of demand of commodities and semi-manufactured goods
  • Asymmetric impacts on labor market and on competition
Mode 5 services – some fair questions for emerging economies

• How will affect international competitiveness?
• How will affect value addition?
• How will affect participation in GVC and RVC?
• How will affect technological development?
• How will affect economic complexity and economic diversification?
Mode 5 services – some fair questions for emerging economies

• How will affect competition?
• How will affect fiscal accounts?
• How will affect external accounts?
• How will affect labor division among countries?
• How will affect labor market?
The case of labor market

- ‘Skilled tradable services’ – main source of jobs creation and pay rise in the US (Eckert et al 2019; FED Minneapolis) -- bundled and embedded services, platforms economy and data economy – became the propulsive force in the US economy; help to explain the recent vigor of the American labor market
  - Include professional services, management of companies, finance, insurance, and information sectors
- Net service importers – likely to face increasing labor market challenges
The way ahead

• Should emerging economies want to grow faster and to catch up, they will have to pay a lot more attention to the service sector

• Before going forward, emerging economies will need to look for responses to the questions above

• Likewise developed economies, emerging economies will probably need to develop their own industrial policies for the service sector

• To be effective, they will have to combine service and other policies, including R&D, human capital and international partnerships
The way ahead

• Latin American economies: some promising bets in cost and value services development may include:
  • Comparative advantage sectors – agriculture, mining, etc
  • Water management
  • Forestry
  • Startups and fintechs
  • Public services
  • Smart cities
Thank You

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