SERVICES AND GLOBALIZATION

Presentation by

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REUNIÃO INTERNACIONAL SOBRE VALOR ADICIONADO DE SERVIÇOS NAS EXPORTAÇÕES

MINISTÉRIO DA ECONOMIA, BRASIL/UNCTAD/EUROPEAN UNION

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The Services “Revolution”

Source: Primo Braga (1989)

Services at the core of wealth creation

- Vertical complexification (specialization) of productive structures requires more sophisticated support services (R&D, HR, sales, marketing,...);

- Increased demand for services from consumers (role of compacks that is products combined with services of maintenance, software, training, etc.);

- Key role of ICT in facilitating efficient management of information flows.

The meaning of a services-intensive economy...

...do modelo aqui apresentado podem sugerir, o mundo do futuro não será uma grande barbearia acoplada a um enorme McDonald’s. Pois ainda que o crescimento do emprego nas áreas de serviços de mão-de-obra de baixa qualificação e de serviços de consumo em massa possam chamar a atenção por sua dimensão quantitativa, não é nestas áreas que a Revolução dos Serviços terá seus impactos mais importantes. Serão os serviços de pessoas qualificadas (nas áreas de treinamento e educação), os serviços de apoio às atividades industriais e agrícolas (seguros, financiamento, serviços legais...), e os serviços de alta tecnologia (informática, telecomunicações, robótica...) que terão o papel mais dinâmico nas transformações que nos encaminham para a sociedade pós-industrial (ou a sociedade dos serviços).

Em síntese, a sociedade pós-industrial será uma sociedade de crescente complexidade onde a operação de redes (e de suas interações) aumentará a demanda por mão-de-obra qualificada e deslocará o cerne das atividades empresariais da produção de bens para a produção de “compacks”. Cabe por fim enfatizar que esta sociedade de serviços não surge como algo independente dos demais setores produtivos (agricultura e indústria). Uma de suas características centrais é exatamente a diluição das fronteiras inter-setoriais, na medida em que todas as atividades produtivas serão marcadas por uma crescente simbiose com serviços.
THE INTERNATIONAL TRADE OUTLOOK
SOURCE: WTO (2019)

Chart 1: World merchandise trade volume and real GDP growth, 2011-2020

Annual % change

Note: GDP is measured at market exchange rates. Data for 2019 and 2020 are projections. Source: WTO and UNCTAD for trade, consensus estimates for GDP.
PEAK TRADE?

Trade and GDP growth

![Trade and GDP growth chart](chart1.png)

**Figure 1** Average growth rates in trade and GDP

- **Total trade volume**
- **GDP in constant prices**

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Trade</th>
<th>GDP in Constant Prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-1985</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>1986-2000</td>
<td>5</td>
<td>4</td>
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<tr>
<td>2001-2014</td>
<td>3</td>
<td>2</td>
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<td>2012</td>
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<td>2013</td>
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<td>2014</td>
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*Note: Total trade is the sum of exports and imports of goods and services.*

*Source: BDE World Economic Outlook.*

Trade-income elasticity

![Trade-income elasticity chart](chart2.png)

**Figure 1** World trade-GDP ratio and trade-income elasticity, 1970-2015

- **Trade-income elasticity (left-hand scale)**
- **Exports/GDP ratio at 2015 prices (right-hand scale)**

*Note: Merchandise exports only; world GDP and trade at constant 2005 prices; dollar figures for GDP are converted from domestic currencies using official exchange rates. Long-term elasticity is based on 10-year rolling period from 1960-1970 to 2005-2015 (2015 is based on forecasts).*

*Source: WTO and authors' calculations.*
GLOBALIZATION: EVOLVING TRENDS
THE GROWTH OF COMMERCIAL SERVICES

SOURCE: WTO (2019)

The new driver of globalization

Commercial services by mode of delivery

**Figure A.1: Trade in goods has grown more slowly than trade in commercial services**

Growth of world trade in goods and commercial services

**Figure B.1: Commercial presence is the most important mode in trade in services**

World trade in commercial services by mode of supply, 2017

Source: WTO estimates (2019).

Note: World trade is calculated as the average of world exports and world imports.
THE IMPACT OF GENERAL PURPOSE TECHNOLOGIES (GPTS)
SOURCES: BOSTROM (2014); KISSINGER (2018); LEE (2018)

• Typewriters vs. computers;
• GPTs and technological revolutions:
  • Agricultural revolution, 10,000-5,000 BC (domestication of animals, cultivation of crops...)
  • Printing press, XV century (Gutenberg and the Age of Reason)
  • First industrial revolution, 1760s-1840s (steam engine; mass production of steel...)
  • Second industrial revolution, 1860s-1920s (electrification; internal combustion engine...)
  • ICT/Internet revolution, 1970s-ongoing
  • Artificial Intelligence (AI) revolution...
THE DIGITAL WORLD

SOURCES: WORLD BANK (2016); WORLD BANK (2020)

The evolving digital ecosystem

The increasing weight of digital companies
HAL VARIAN, CHIEF ECONOMIST, GOOGLE
(SPEAKING IN 2013)

A billion hours ago, modern Homo sapiens emerged.

A billion minutes ago, Christianity began.

A billion seconds ago, the IBM personal computer was launched.

A billion Google searches ago...was this morning.
AFFECTING THE WAY WE INTERACT...
THE WAY WE PLAY...
THE WAY WE ENGAGE IN POLITICS: FAKE NEWS...

Tennessee “GOP” fake account

Example of fake advertisement...
ATTITUDES FROM DIFFERENT GENERATIONS
EXPANDING ONLINE CONNECTIVITY
SOURCE: MGI (2019A)

Online connectivity—including a plethora of connected devices—is growing exponentially.
THE GROWTH OF E-COMMERCE WILL CONTINUE, BUT...

SOURCE: WORLD BANK (2020)

Top e-commerce platforms, 2019

Expect the unexpected
GVCs: SOME BASIC CONCEPTS

SOURCES: UNCTAD (2013); PRIMO BRAGA (2013C); WORLD BANK (2020)

GVCs: a definition

A global value chain breaks up the production process across countries. Firms specialize in a specific task and do not produce the whole product.

The economics of GVCs

- They are dominated by Northern transnational corporations (TNCs);
- They underscore the interdependence between trade and foreign-direct investment policies;
- Their dynamism is greatly influenced by a different array of trade policies involving logistics, trade facilitation, technical barriers to trade, rules of origin, and commercial services (e.g., transport and distribution services);
- Local disturbances can have global effects and they can exhibit “tipping-point” characteristics beyond which systemic dislocation can be orders of magnitude greater than the size of initial shocks.
GVCS AND COMPLEXITY: THE IMPORTANCE OF ICT AND LOGISTICS

SOURCES: EURASIA GROUP (2019), WORLD BANK (2020)

IPhone and tech globalization

Pedego Conveyor electric commuter bike produced in Vietnam
THE ICT REVOLUTION AND GVCs

SOURCE: WORLD BANK (2020)

a. ICT use, 1960–2017

b. Transport and communication costs, 1920–2015

Sources: WDR 2020 team, using data from ITU’s World Telecommunication/ICT Indicators database for panel a and based on Rodrigue, Comteis, and Slack (2017) for panel b.

Note: In panel a, data are available for over 200 countries. Mobile cellular subscriptions per 100 persons may be over 100 as some people may have several mobile phones. In panel b, for each indicator the cost is reported as 100 for the first year with data. ICT = information and communication technology.
THE EVOLVING MAP OF GVCs
SOURCES: CADESTIN, GOURDON, KOWALSKI (2016); WORLD BANK (2020)

A taxonomy of participation in GVCs

Backward GVC integration ratio: Share of foreign VA embodied in a country’s gross exports
SERVICES IN A GVC WORLD
SOURCES: CERNAT AND KUTILINA-DIMITROVA (2014); WORLD BANK (2020)

Considering “mode 5”

• The growing importance of indirect services value-added trade (“mode 5” of delivery);
• Different trade rules applying to mode 1 versus mode 5 (e.g., treatment of software);
• In a world where trade is increasingly transacted in the context of GVCs, this requires special attention.

GVCs and services
SOME POLICY CONSIDERATIONS
SERVICES TRADE REMAINS RESTRICTED
SOURCE: WORLD BANK (2020)
• Business as usual is not enough. In other words, to have proper fundamentals at macro level, reasonable infrastructure, a liberal trade policy, and a favorable investment and regulatory climate are necessary, but not sufficient conditions. Particularly with respect to GVC upgrading, the host country has to be able to offer an innovation eco-system that facilitates technology dissemination and skills upgrading. In this context, the quality of the intellectual property rights regime is a key variable;

• Not all GVCs are born equal in terms of their implications for industrial upgrading at country level. On the one hand, there is evidence that firms participating in GVCs associated with machinery and equipment tend to converge more rapidly to productivity patterns prevailing in industrialized countries than those associated with GVCs associated, for example, with textiles and clothing. On the other hand, targeting sectors with higher productivity pay-off will not necessarily bring sustainable development as these sectors may not generate enough job opportunities to unleash substantive structural transformation and economy-wide convergence;
GVCs do not respond well to piece-meal approaches to policy change. In other words, it is important to adopt a “whole of the supply chain” approach addressing, for example, border management constraints, technical barriers to trade, and transport and distribution services. Actually, one of the main levers for GVC upgrading can be a well-designed policy of services liberalization since GVCs are particular sensitive to the quality of commercial services available to its nodes;

GVCs can suffer from “bullwhip” effects (reflecting quicker adjustments in production and inventories), reacting faster to external demand shocks than is the case for arm’s length trade. As a consequence, disruption and recovery can occur at a much faster pace than usual and it is important not to overreact to these shocks;

GVCs greatly increase the premium on coherence of domestic policies. If trade and investment policies are not consistent, this will constrain the chances of expansion and upgrading.
## TRENDS IN TRADE POLICY OVER THE PAST 25 YEARS

**Source:** Adapted from Evenett (2019); Primo Braga (2017A)

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<td>The multilateral focus (WTO)</td>
<td>Euphoria after WTO created</td>
<td>DDA launch and first signs of an impasse (Cancun)</td>
<td>Limited progress</td>
<td>The USA-India confrontation (2008), DDA impasse, signs of hope in Bali (TFA)</td>
<td>“Death” of the DDA, US criticism intensifies, DSU under siege, No-consensus on WTO reform</td>
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<td>Coalitions of the willing</td>
<td>Free trade agreements grow in number; EU expansion; a new US strategy (NAFTA)</td>
<td>Mega Regionals pursued</td>
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<td>Death of TPP, TTIP in limbo, NAFTA reform (transition to managed trade, USMCA), renegotiation of KORUS</td>
</tr>
<tr>
<td>Going it alone (unilateral policy)</td>
<td>Unilateral liberalization (in particular in context of WTO accession or EU accession); liberalization fostered by conditionalities (IMF, WB...) became less relevant.</td>
<td></td>
<td>Creeping protectionism (particularly after 2009)</td>
<td></td>
<td>Blatant unilateralism (national security rationale, Sino-US confrontation, BREXIT)</td>
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CONCLUDING REMARKS

• Have we reached “peak globalization”? \textbf{YO} \\
• Danger ahead: a new protectionist wave driven by mercantilistic strategies (USA) and the unintended consequences of policy decisions driven by “globalization fears” (e.g., BREXIT); \\
• The Trump administration doesn’t support the USA playing the role of the “indispensable” nation to foster a stable global order; the danger of retrenchment driven by domestic politics and Trump’s skepticism about multilateral solutions/institutions is real...; \\
• Are we back to the “Kindleberger trap” (1930s)? No country willing/able to exert global leadership, danger of trade conflicts increases dramatically; growing gap in the provision of global public goods;
CONCLUDING REMARKS (CONT.)

• The multilateral trading system is showing signs of stress on several fronts: (1) the failure to conclude the DDA and lack of progress in critical areas such as services, agricultural subsidies, investment, GVCs, digital trade (e.g., how to classify a blueprint for use in a 3D printer delivered from abroad: a good or a service?); (2) the impasse over the appointment of Appellate Body members can bring the Dispute Settlement system to an existential crisis; and (3) lack of consensus on how to deal with national security protectionism, treatment of SOEs, theft of IPRs and forced technology transfer…;

• Some critical questions (Source: T20):
  • Can the WTO be reformed? Can plurilateral agreements with critical mass criteria and concessions to non-participants on an MFN basis be the way out of the negotiating paralysis?
  • Are the multilateral trade rules aligned with the needs of international trade in the XXI century (digital trade, GVCs...)?
  • Do current US trade policies characterize a new normal or a temporary “glitch”?
  • Can the WTO properly deal with state capitalism?

• Who will lead?
IMPORTANT TO REMEMBER...

“A LIBERAL INTERNATIONAL ECONOMY CANNOT COME IN EXISTENCE AND BE MAINTAINED UNLESS IT HAS BEHIND IT THE MOST POWERFUL STATE(S) IN THE SYSTEM.”

Robert Gilpin
“THEORY IS WHEN YOU UNDERSTAND EVERYTHING, BUT NOTHING WORKS. PRACTICE IS WHEN EVERYTHING WORKS, BUT NOBODY UNDERSTANDS WHY. AT THIS STATION, THEORY AND PRACTICE ARE UNITED, SO NOTHING WORKS AND NOBODY UNDERSTANDS WHY.”
SOURCE: FISHER (2011)
Thanks!

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