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

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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: 23%
- Manufacturing: 12%
- Services: 65%

**Structure of world exports in value added terms, 2008**
- Primary products: 18%
- Manufacturing: 37%
- Services: 45%

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

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

Sources: UN Comtrade Database and WTO estimates
Within Commercial Services: Business and ICT Services most important components

Composition of US service exports

- Travel: 22%
- Transport: 19%
- Business and ICT: 24%
- Communication: 3%
- Personal, cultural, recreational: 5%
- Construction: 2%
- Insurance: 4%
- Finance: 5%
- Distribution: 9%

What composes “Commercial Services”?
- Business services, ICT
- Communication
- Distribution
- Construction
- Financial
- Insurance
- Personal, cultural

Most of these are PRODUCER SERVICES

Source: US BEA from Francois 2011
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%

Source: Al-Yrkko, J et al (2011)
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

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%)
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

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

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.
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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