



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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International Meeting of Services Value-Added in Exports

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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

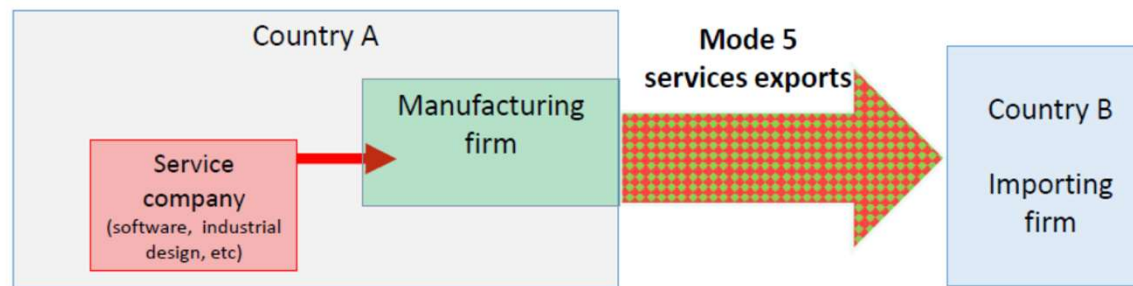
What is at stake?

- 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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