

JOINT UNCTAD-UNECA PROJECT ON

SERVICES TRADE IN AFRICA

# WHY THIS SEMINAR?



**Junior Davis**

Chief, Africa Section

Division for Africa, LDCs and Special Programmes

UNCTAD



# WHY THIS NATIONAL SEMINAR

- The national seminar is part of *UNCTAD-UNECA capacity building project on Services Trade in Africa*

Objective of the project: Measure and analyze **services value chains** and design **services policies** aimed at enabling higher integration into global and regional value chains

- Partnership with Kenya: Focus on **transport services** and on **Northern corridor** in particular





# OBJECTIVES OF THE SEMINAR

Highlighting the **importance of value chains** and the **contribution of services** to value chains, international trade and better regional and global integration



Awareness raising and capacity building of measurement tools



Engagement with key stakeholders



# WHY SERVICES MATTER

Services are the "lubricant" that makes an economy work - regardless of the level of development - whether commodity dependent or manufacturing based - and are also critical for moving up global value chains (GVC).

- Nowadays, we classify services in GVCs as: standalone, embodied, and embedded.
  - **Standalone services** are those that are offered independently, or which constitute the main core of a productive structure. An example is a restaurant, which offers diners hospitality services.
  - **Embodied services**, refers to services inputs that are consumed as intermediates in the production of final goods or services. The most common example is transport services: a manufacturer uses domestic and international transport links to ship their goods to consumers, so the value of the transport services is "embodied" in the final product when it reaches the consumer.
  - **Embedded services** refer to, for example, apps that can be purchased and used on a mobile phone. These services are not standalone, in that they can only be used in conjunction with a manufactured good, and they are not embodied in that their value is not typically included in the value of the personal electronic device.
- Taking all three types of services together, it is clear that the modern world economy is in many ways a services economy.



# WHY SERVICES MATTER TO VALUE CHAINS

**Why study regional and global value chains (RVCs and GVCs) in Africa? And why look at services in particular?**

- Many developing countries in Asia and in Latin America have historically relied on export-led growth to help reduce poverty.
- As of the 1990s, the emphasis has been on participation in GVCs as an effective way for developing country suppliers to access global markets and improve their prospects of earning profits. **GVCs are characterized by production sharing across multiple locations, niche specialization, and trading in tasks.**
- This led to an increasing awareness of the importance of services, although services and manufacturing have long been intertwined.



# IMPORTANCE

## VALUE CHAINS

The rise of Asian Tigers and of GVCs led to a body of research on GVCs, including Richard Baldwin's work on "Second Unbundling":

- First unbundling (1820s – 1980s): Falling transport costs made it possible to geographically separate production and consumption.
- Second unbundling (1990s - ): Technological change, specifically the rise of ICTs, makes it possible to geographically separate production activities.



## How are the two types of development different?

- Narrower patterns of specialization and trade: comparative advantage is defined in terms of "tasks" rather than entire sectors
- Intensive trade in intermediate goods, which moves across borders numerous times during production...
- Aim is not development of the full chain, but "moving up" to higher value added activities within the chain
- Services play a larger role, beyond transport
  - Services imports are necessary to coordinate the value chain.
  - Logistics services can help reduce trade costs and move goods.
  - Technology is making it possible for services sectors to see both unbundlings at the same time.



# GLOBAL VALUE CHAINS & DEVELOPMENT: CHANGING PARADIGMS

## Shift from movement between sectors to movement within sectors

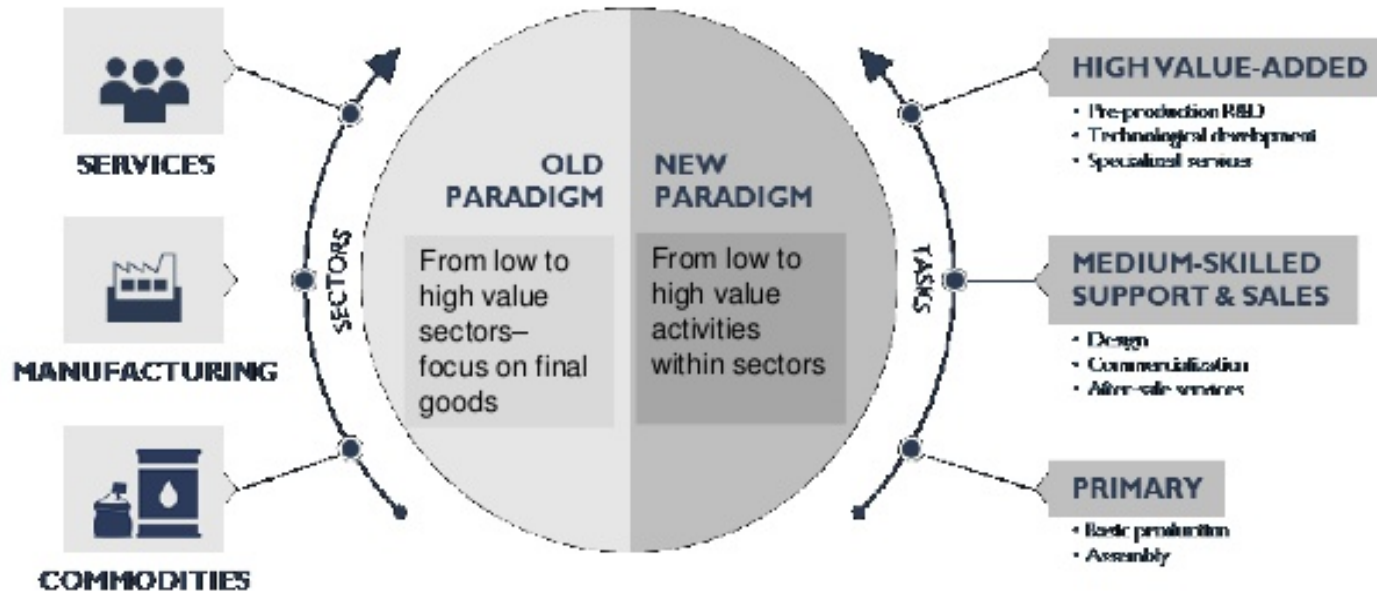


Image Source: Taglioni and Winkler. (2016). *Making Global Value Chains Work for Development*. Washington, DC: World Bank.





# SERVICES AND DEVELOPMENT

- **A word of warning:** Despite the rise of the increasing importance of the services sector in African economies, it should not be considered a panacea. ***There is no “One size fits all”***. Countries should make strategic choices based on their capabilities and target markets and identify where their competitive advantage lies before opting for a specialization into one particular sub-sector of services.
- Ideally, services should be an element of a carefully planned development strategy. China, for example, moved from a focus on low to medium tech, cheap labour manufacturing to high tech manufacturing as highlighted in the State driven “*Made in China 2025*” Plan. This latter stage is accompanied by a high growth services sector.
- The recent establishment of the African Continental Free Trade Area (AfCFTA) should offer opportunities for countries to identify specialization opportunities within RVCs and GVCs.



# SERVICES AND DEVELOPMENT

The **services economy is not incompatible** with the structural change required for sustained income growth

The “premature deindustrialization” literature (Dani Rodrik) asserts that developing countries are moving into services “too early”

- Only manufacturing can support rapid productivity growth.
- Only manufacturing can supply large numbers of “good” low-skilled jobs.

Reality appears to be more complex:

- Services much more productive than agriculture, so movement into services still promotes structural change;
- Very heterogeneous, so prospects for productivity growth vary markedly—as is the case for manufacturing; and
- “Factory Asia” often saw rates of productivity growth in goods and services that were comparable.



# IMPORTANCE OF SERVICES TRADE

The rise of ICTs, along with value chains themselves, makes services more important, and of trade flows (e.g. finance, transport & logistics, business services).

Unbundling means that services are increasingly being supplied on an RVC/GVC model in their own right.

Rise of the digital economy reinforces these tendencies, as firms use the internet to interact with customers and suppliers.

- *Magnitude of value chains*: Estimates that 70-80% of global trade happens through value chains (ITC, 2017).
- *GVCs versus RVCs*: RVCs > GVCs except in Africa and Oceania.



# EXAMPLE OF A VALUE CHAIN



## APPLE AROUND THE WORLD

Location and number of Apple suppliers per country



Source: <https://betanews.com/2014/09/23/the-global-supply-chain-behind-the-iphone-6/>



# IMPORTANCE OF SERVICES IN VALUE CHAINS

The economic impact of the services sector is mediated both through opportunities for trade in services (i.e tourism and financial services), and the supportive role that services play in ensuring participation and upgrading in GVCs. One aspect of this, is that services are increasingly sold bundled with goods.

Trade in value-added (TiVA) data shows that services account for a much bigger share of sales or exports when looking at flows in value-added terms.



# IMPORTANCE OF SERVICES IN VALUE CHAINS

China was the world's biggest exporter of electronic goods in 2009, but almost 40% of its \$467 billion-worth of exports was first imported: the exports required a lot of imports.

Traditional measures of trade record gross flows of goods and services between countries, not how much value a country adds in producing goods and services for export. According to the OECD and the WTO, the foreign content of electronics exports ranges from 11% (USA) to 61% (Mexico).

Origin of value added is a crucial piece of information:

- **Domestic:** value added supplied by producers located within a country (regardless of ownership)
- **Foreign:** value added supplied by producers located outside a country (regardless of ownership)



# IMPORTANCE OF SERVICES IN VALUE CHAINS

Globally, the general trend, has been a decline in the domestic value-added component of all exports—which suggests that markets are becoming more interdependent.

- Foreign value added, either goods or services, can be embodied in a country's gross exports and shipped elsewhere (import to export).
- Similarly, domestic value added can be shipped overseas to be combined with other inputs, then re-shipped elsewhere (export to re-export).
- Domestic and foreign value added are complements not substitutes.



# IMPORTANCE OF SERVICES TRADE

Service exports are an important emerging trend in global trade. A service export is simply, any service provided by a resident in one country to people or companies from another.

The breadth of service exports is enormous. Many services are “exported” but never cross any physical boundaries. For example, a foreign visitor booking hotels, tours, and a rental car while visiting Kenya.

Many traditional manufactured product exports increasingly contain technology that requires installation, troubleshooting, maintenance, and repairs.

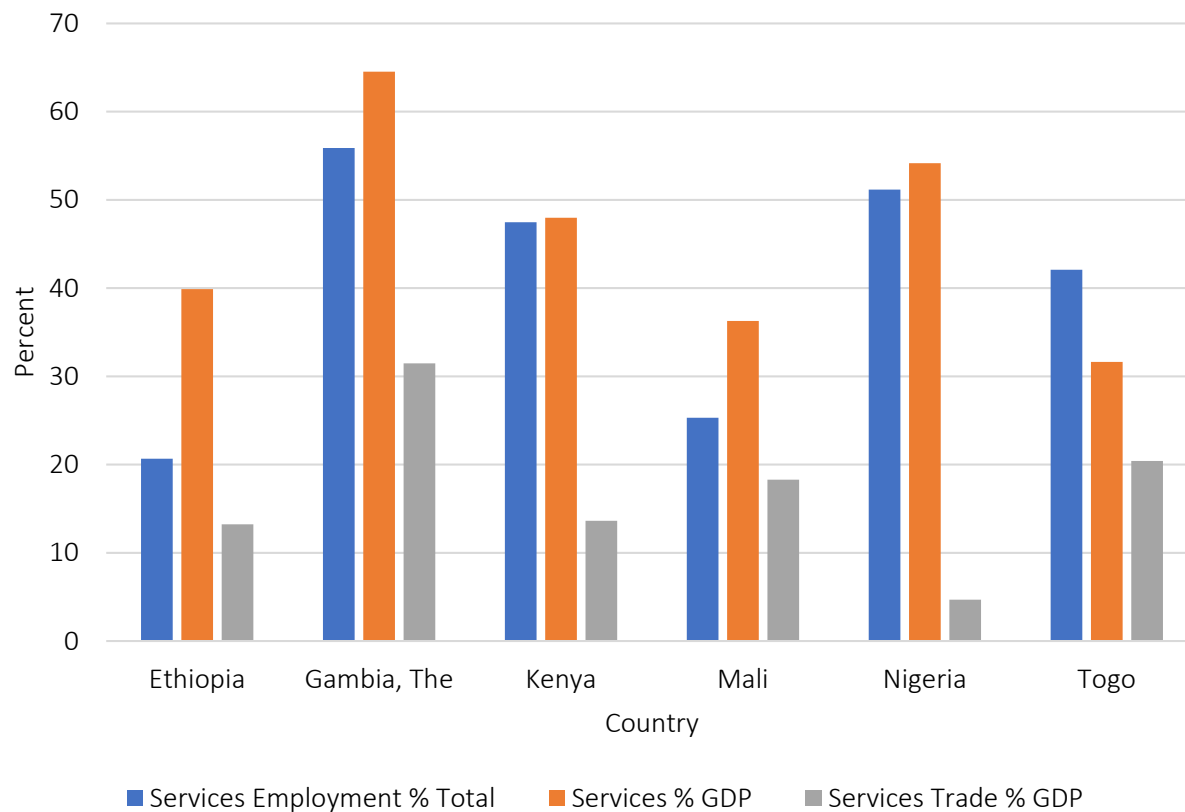
Development strategies mainly focus on manufacturing and commercial services

- Around one-third of the value of manufactured goods exports is in fact embodied services value added.
- Figure does not include services provided within the firm (i.e., no market transaction)





# IMPORTANCE SERVICES TRADE



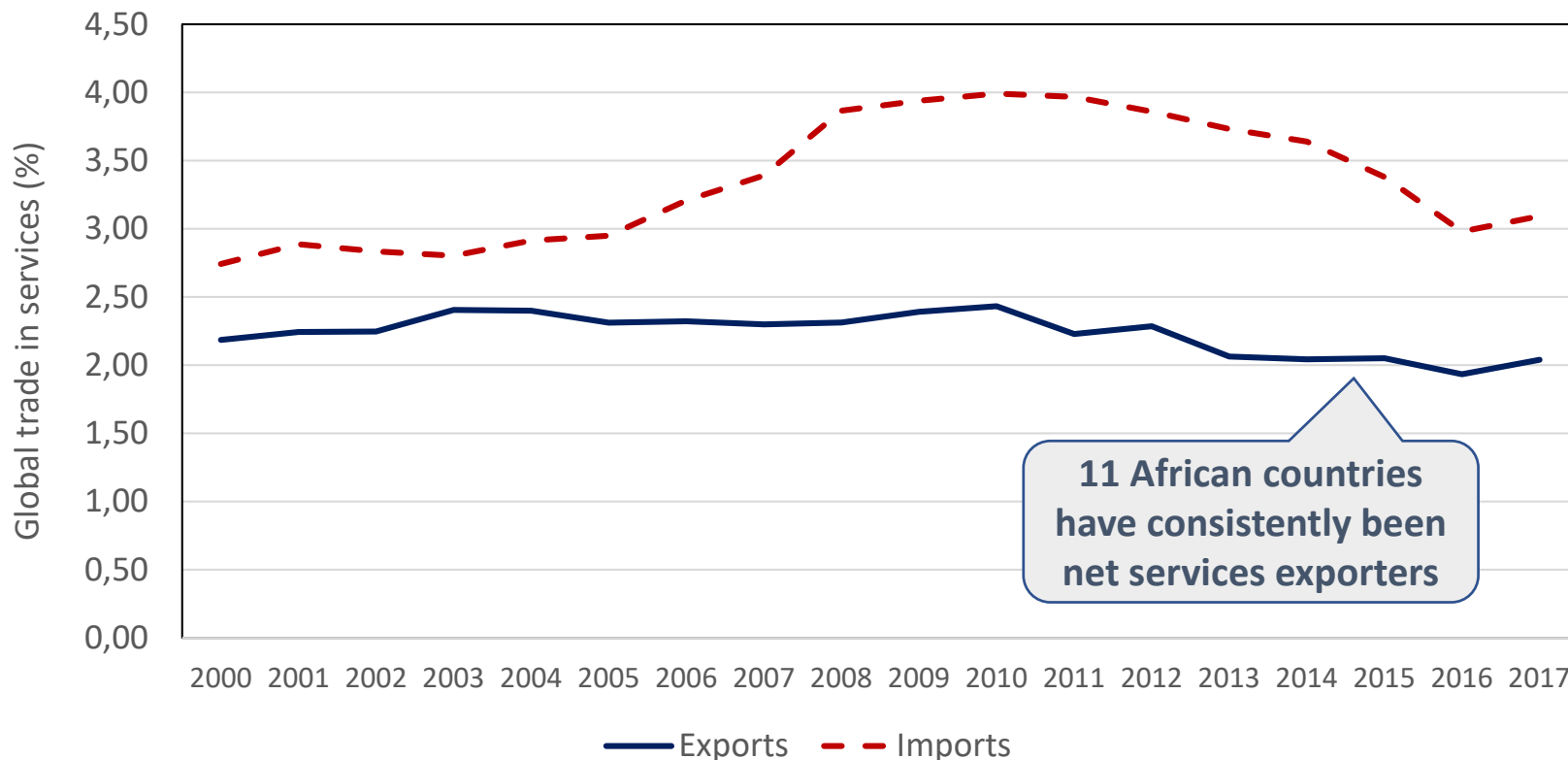
Africa's services sector propelled more than 50 per cent of real GDP growth in 30 out of 54 countries.

Source: World Development Indicators.



# IMPORTANCE SERVICES TRADE

Africa: Exports and imports of services, 2005-2017

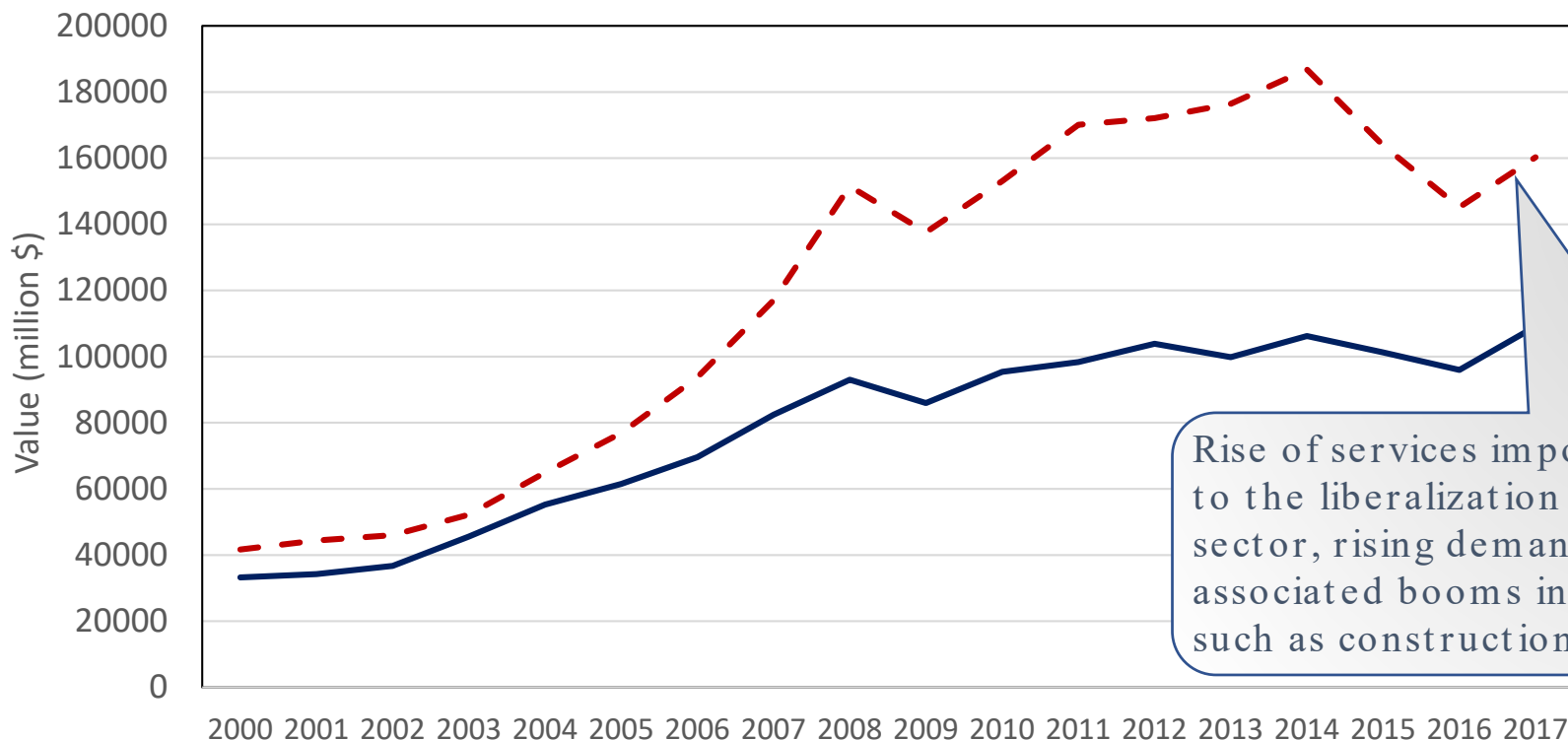


11 African countries have consistently been net services exporters



# IMPORTANCE SERVICES TRADE

Africa: Exports and imports of services, 2000-2017



Rise of services imports is due to the liberalization of the sector, rising demand and associated booms in sectors such as construction.

— Exports - - Imports

UNCTADSTAT: Services (BPM6): Exports and imports by service-category and by trade-partner, 2000-2017



# CHALLENGE

## MEASUREMENT RVC

Trade in RVCs/GVCs is characterized by the geographical unbundling of production activities (second) in addition to the geographical unbundling of production and consumption (first). Results in intensive trade in intermediates.

RVCs/GVCs offer a new development model: joining and moving up (Viet Nam) rather than constructing a whole supply chain from scratch (South Korea).

With the rise of trade through RVCs/GVCs, gross value trade data provide a less and less complete picture of the economic nature of the transactions that create trade.

This has created a rationale for trade in value added, which tracks the origin of value added in exports by origin country and sector.



# CHALLENGE

## MEASUREMENT RVC

Data on services exports only capture standalone services trade. But there is also:

- Embodied services trade: services used as inputs into the production of other goods and services.  
e.g.: transport, finance, legal services used by a firm producing processed food exports.
- Embedded services trade: services added to a good and complementary to it.  
e.g.: Apps added to a cell phone.

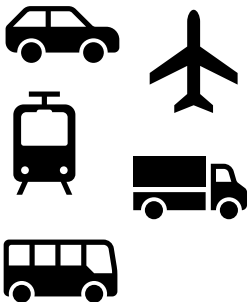
Trade in value added data help track some embodied services trade, but embedded services trade is very difficult to capture.

Analysis of RVCs and GVCs in Africa is in very early stages, in particular for services

# CONTRIBUTION PROJECT

Measuring the value added contribution of Kenya's transport sector to other industries and countries

Backward linkages: how much content is domestic and how much is foreign value added



## Demand for transport services, by selected domestic industries and exports

Agricult.	Construct.	Food products	Manufact.	Hotels & restau.	Exports
Dom. VA	Dom. VA	Dom. VA	Dom. VA	Dom. VA	Dom. VA
Foreign VA	Foreign VA	Foreign VA	Foreign VA	Foreign VA	Foreign VA

Examples: - Foreign lorry company transporting horticultures for exports

- Domestic airline transporting tourists to international destinations

Forward linkages: How much Kenyan transport services are exported to be re-exported



# STRUCTURE OF THE WORKSHOP Day One PM:

- **11:15 – 12:30:** Measuring value chains: Enterprise questionnaire and qualitative approaches (Mr. Christopher Onyango, KIPPRA)
  - *12h30 – 14h Lunch break*
- **14:00 – 14:45** Transport data and lessons learned from UNCTAD transport research (Mr. Vincent Valentine, UNCTAD)
- **14h45 - 15h15** Measuring value chains: Time/cost-distance methodology (Mr. Vincent Valentine, UNCTAD)
- **15h15 – 15h35** Estimating trade in value added in the tourism sector in Eastern Africa (Mr. Geoffrey Manyara, UNECA)
- **15h35 - 16h** Interactive discussion on measurement tools
  - *16h - 16h30 Coffee break*
- **16h30 - 17h** Process / next steps (Mr. Junior Davis & Mr. Christopher Onyango)
- **17h – 17h15** Closing remarks (Mr. Paul Akiwumi, Director, UNCTAD; Government)
- **17h15** Collect DSA payments.



# STRUCTURE OF THE WORKSHOP Day Two AM:

- **9h – 9h30** Recap of Day 1 (Mr. Junior Davis, UNCTAD)
- **9h30 - 11h** Measuring value chains – Use of input-output tables (Mr. Christopher Onyango, KIPPRA)
  - Overview of quantitative instrument based on input-output tables
  - Quality of data
  - Interactive discussion
  - *11h - 11h15 Coffee break*
- **11h15 - 12h15** Measuring value chains – Time/cost-distance methodology (Mr. Vincent Valentine, UNCTAD)
  - Interactive group exercise on its application
- **12h15 - 12h45** Interactive discussion
- **12h45 – 13h** Closing remarks (Chair, Government)
  - *13h Lunch*





# THANK YOU

