



INTERNATIONAL MEETING ON SERVICES VALUE-ADDED IN EXPORTS

Services and trade policies
for diversification and upgrading
Brasilia, Brazil, 22-23 October 2019

THE IMPORTANCE OF PROFESSIONAL SERVICES TO THE ECONOMY

Presentation by

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MINISTÉRIO DA
ECONOMIA



The importance of professional services to the economy

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International meeting on services value-added in exports: Services and trade policies for diversification and upgrading
Brasília, Brazil, October 23rd, 2019

Summary



Why services matter?



Which services matter most?



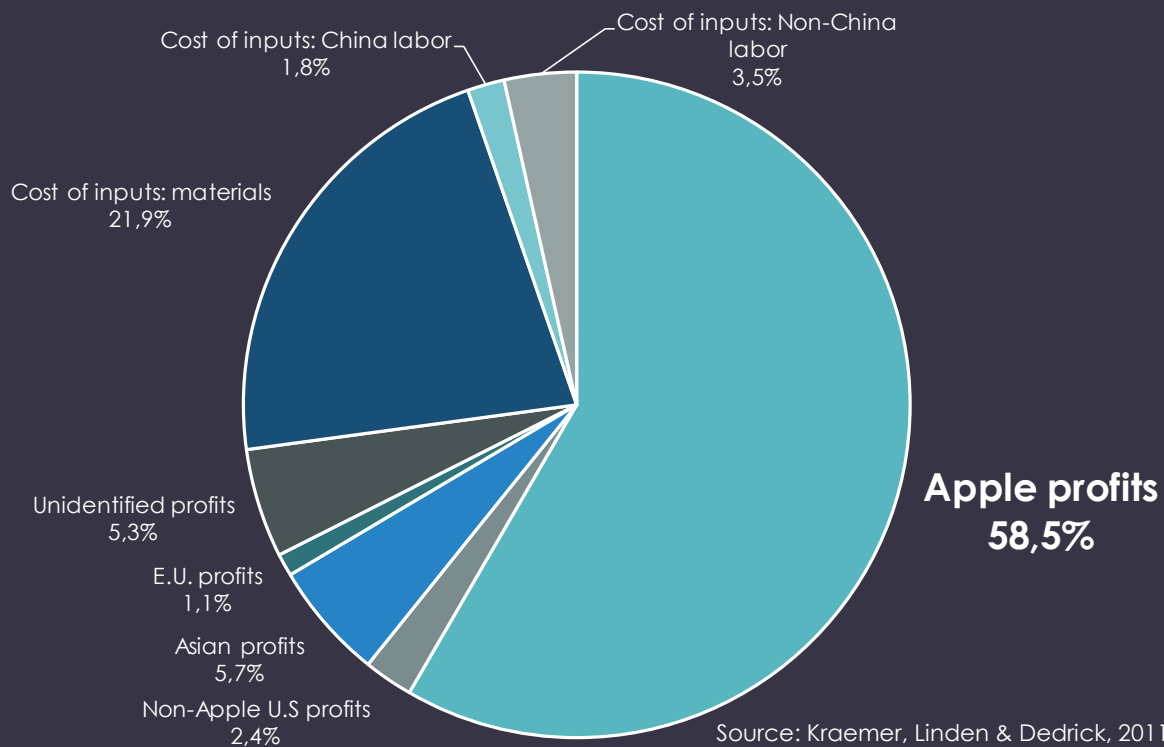
Services and development

Why services matter?

- New production technologies, production organization, changes in consumption patterns and in the nature of manufactured goods are bringing manufacturing and services closer together
- Goods and services are merging through an increasingly synergetic and symbiotic relationship to give rise to a third kind of product that is neither a traditional industrial good nor a conventional service

Why services matter?

Distribution of value for iPhone



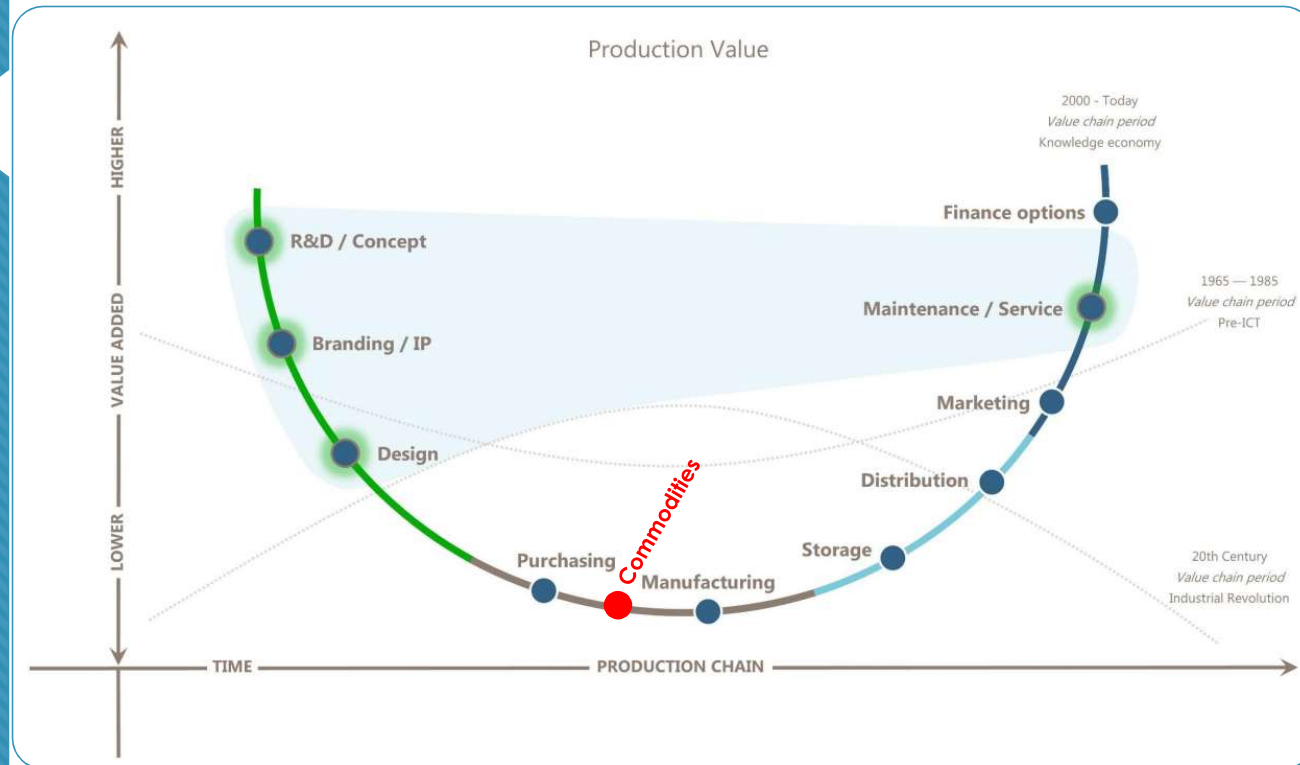
What does Apple actually do?

- P&D
- Design
- Software
- Marketing
- Branding
- Varejo



Why services matter?

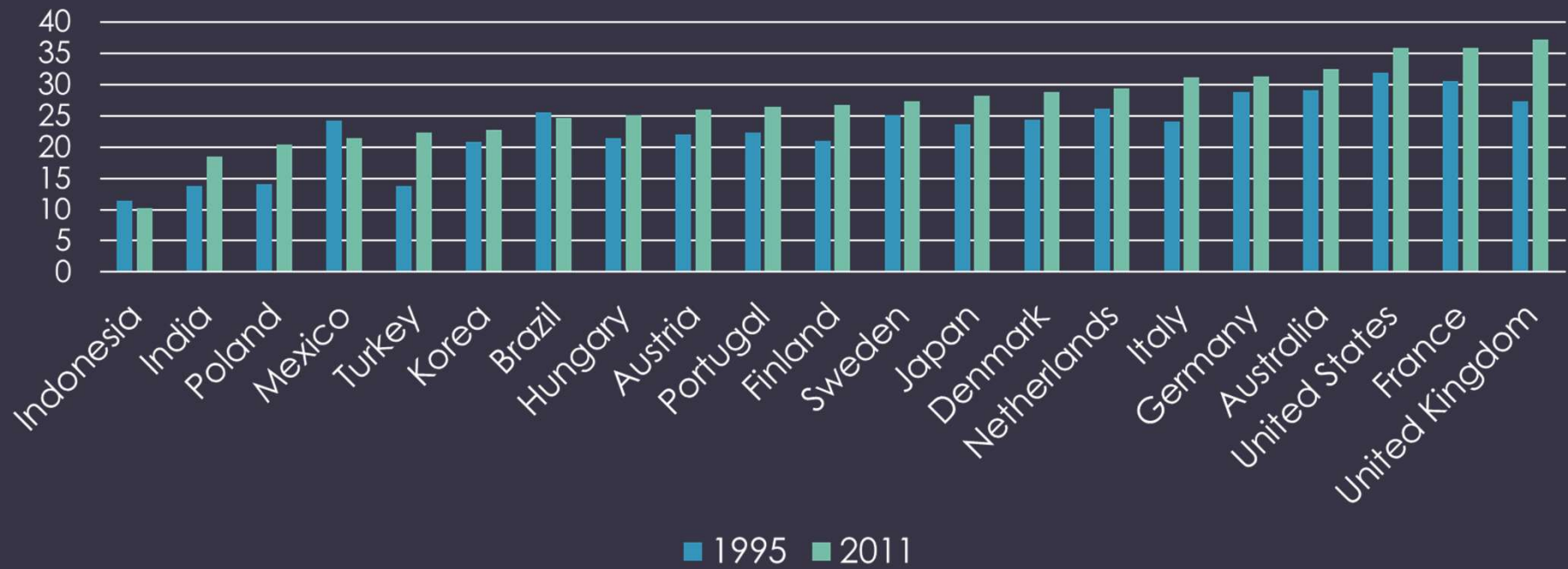
The Smiling curve



Source: Scheper.Co, based on Shih, 2012

Why services matter?

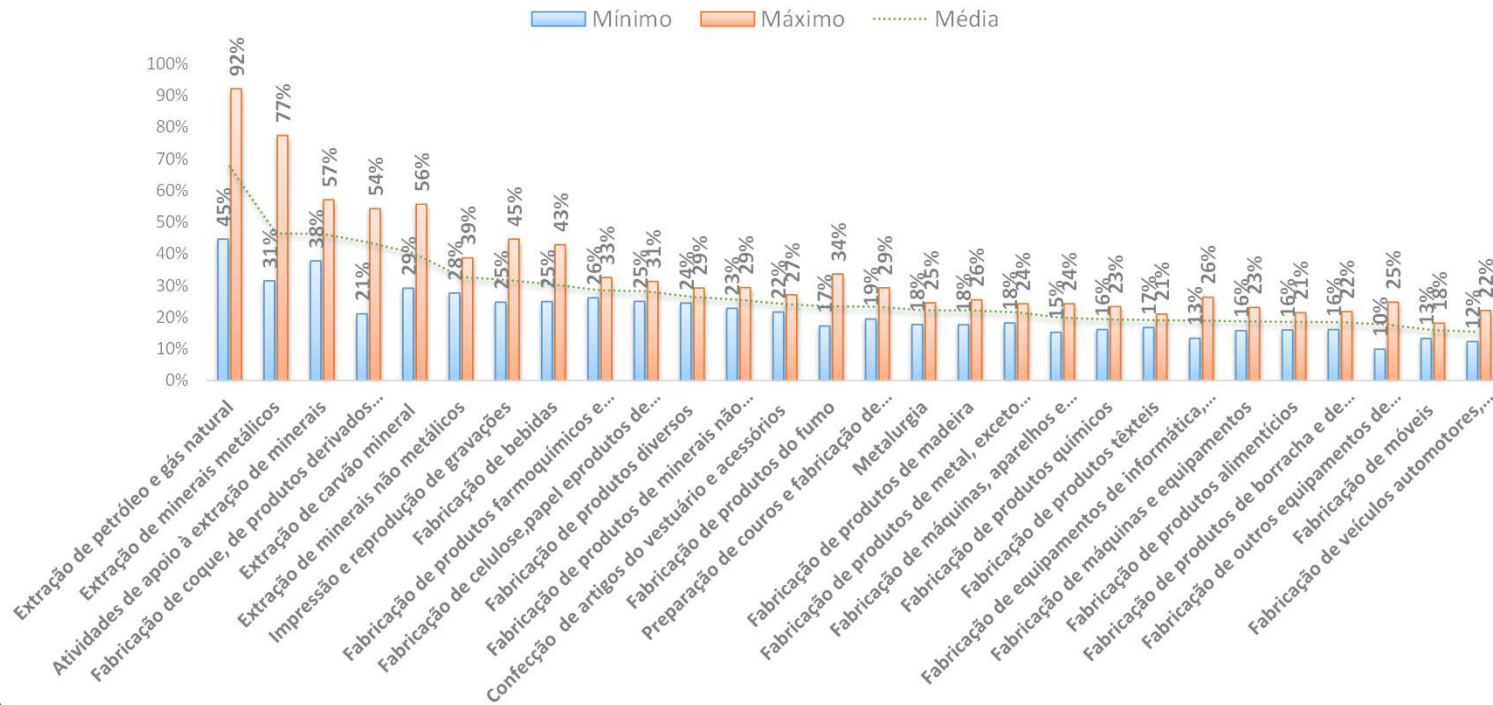
Business services on the rise (%) of GDP



Why services matter?

- From the developing countries' perspective, one important issue associated with premature servicification is whether and how it contributes to structural transformation
- For that to happen, productivity growth in services should be:
 - higher than that of other sectors → direct impact
 - a driver of competitiveness of other sectors (service inputs) → indirect impact

Participação dos serviços no consumo intermediário - mínima, média e máxima entre 1996 e 2013

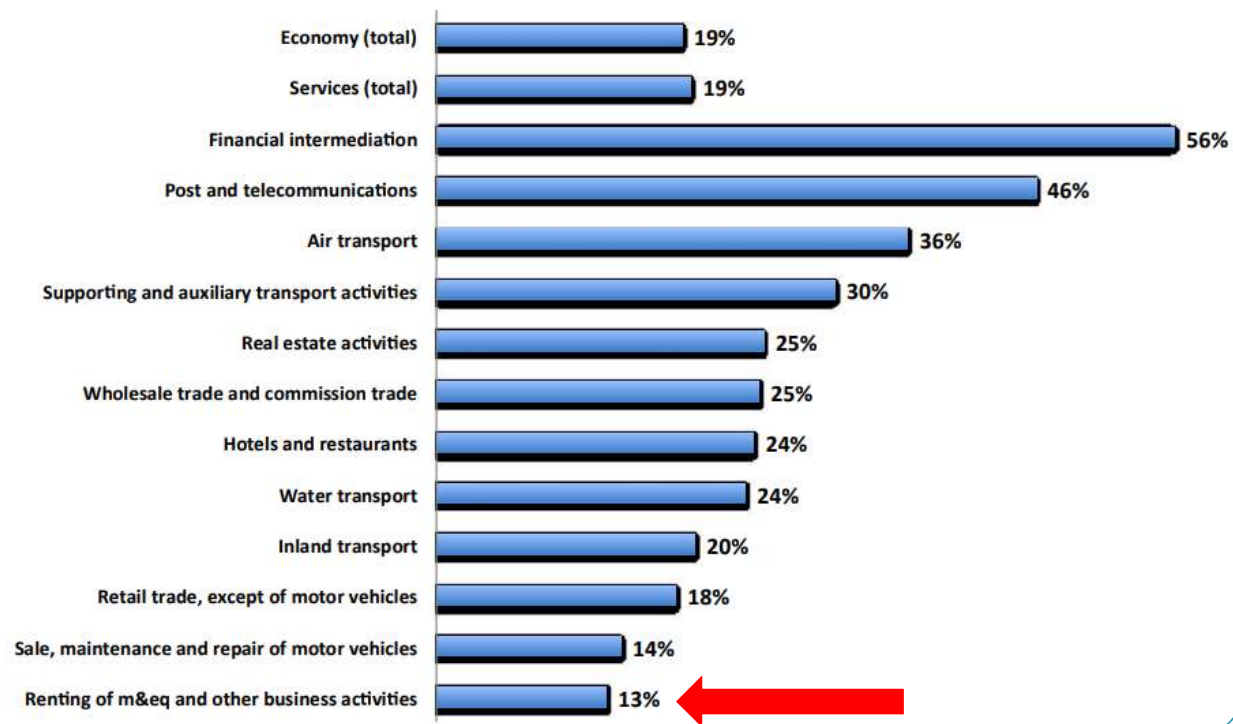


Why services matter?

Why services matter?



Labor productivity in Brazil in selected sectors relative to the United States', 2011 in US dollars.



Source: Moreira (2015), based on Timmer (2012)

Which services matter most?

By **destination**:

- B2C: services mostly consumed by families
- B2B: services mostly consumed by other companies

By **knowledge intensiveness**:

- Professional and Business Services (PBS): knowledge-intensive industries which provide specialized support to businesses
- Other services,

By **their role as inputs** (Arbache, 2014):

- Cost services: activities that affect production costs, including logistics and transportation, general infrastructure services, storage, repair and maintenance services, production outsourcing services in general, IT in general, credit and financial services, travel, accommodation, food products, distribution, etc.
- Value services: activities that contribute to adding value, differentiating and customizing products and raising their market price, including R&D, design, engineering and architecture projects, consulting services, software, specialized technical services, high-end IT services, branding, marketing, trading, etc.

Services and development

- All cases of productivity deacceleration, stagnation and decline in 29 countries since the 1950s can be mostly explained by the non-convergence of productivity in the service sector (Duarte and Restuccia, 2010)
- The consumption of value services by manufacturing sectors is associated with higher levels of labor productivity (Arbache and Moreira, 2015).
- The higher the consumption of services by exporting firms in their production process is associated with higher competitiveness in the global market (Berlingieri, 2013).
- Brazil's service sector is characterized by its low productivity and high cost, this is also true for professional services.
- Services and goods are virtually inseparable.

Services and development

- How can Brazil use its comparative advantages (agro, oil & gas, aerospace industry, etc) to foster value services?
- How can we put in practice an industrial policy that promote value services while minimizing allocation and price distortions?
- How can we stimulate value services in a scenario of deindustrialization, low productivity and low human capital?

Thank you!

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