APEC Senior Officials Public-Private Dialogue on Services
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Development Trajectory towards Services

Figure 03: Services Sector Growth (% of GDP) through Economic Evolution

Source: World Bank (2011)
same story per capita

- % Agriculture value added
- % Industry value added
- % Services value added

Expon. (% Agriculture value added)
Expon. (% Industry value added)
Expon. (% Services value added)
Services are driving development

- Source: World Bank (2009), *The Service Revolution in South Asia*, Figure 1.3-4, p. 41
Services growth is alleviating poverty
High services shares of employment are associated with high female participation.

Source: Ghani and Kharas 2010.
Services: What do we need to know?

Services are human resource and skills intensive and deeply inter-relational

Services were traditionally thought of as low value-added and largely non-traded, even if contributing significantly to employment and income

Today services are recognised as high value, knowledge-intensive activities contributing big productivity gains across all of our economies.

Remarkably, during this transition, services activities have retained their human resource intensity and continue to generate the bulk of job growth in most of our economies.

Services are also now recognised as highly traded – in fact contributing nearly 50% of global exports if measured by the latest trade in value-added data.
New Trade in Value-Added data: Services double in importance

Structure of world exports in gross terms, 2008

Structure of world exports in value added terms, 2008

Source: Escaith (2013)
The Services Content in APEC Exports Trebles

Services value added in APEC exports is 38%, compared with the global average of 45%, the OECD average of 48%, the BRICS average of 47% and the ASEAN average of 34%. The redline is the global average BOP figure.
Services: What else do we need to know?

This transition in the public perception from the “Cinderella” sector to the “Intelligent” sector, took place because of advances in technology.

Traditionally, services providers were constrained by their inability to capture, store and possess the value of the intangible. There were few opportunities to create step by step “pathways” to market as services tend to be delivered and consumed simultaneously.

Information Technology now enables services information to be captured, owned and packaged or “commoditised” into digital units: stored, scaled up and traded across the border, through the internet.

This is one way in which services are traded.
Services: What else do we need to know?

Services are also traded directly in other ways.

• Services providers often get on planes and travel to wherever the client is resident.
• Sometimes services clients/customers do the travelling
• Sometimes the best way to reach a foreign market is to establish a “commercial presence” via a direct investment in the host economy.

So trade in services is about the movement of information, people and capital.
Services are also traded indirectly, as inputs to goods exports.

Statistical measurement of all of these flows has been poor; there is much we do not know. But we do know that “knowledge-intensive business services” is the fast growing component of world trade today. The growth of these activities reflects growing demand for knowledge to deal with change – both technological and social.
As we get better at measuring, we learn more.

At the end of 2014, the Chinese Ministry of Commerce released the final report of the 3-year interagency study on the value-added measurement of China’s foreign trade.

The study reveals that in 2012, every $1,000 of services exports generated $848 domestic value-added, compared with $621 for goods exports.

Every $1 million of services exports generated 104.8 jobs, while the equivalent value of goods exports generated only 59.

In terms of domestic value addition, the top 3 services export sectors are insurance and financial services, computer and information services and communication services.

Amongst the top services export sectors for domestic job creation are royalties and license fees, insurance and financial services and personal, cultural and entertainment services.
New development models; Leapfrog via Services Exports

Services-led growth, based on the explosion of business services outsourcing (trebling in value 2005-2010) offers new development and income opportunities.

Countries are shifting towards services sooner, at a lower per capita GDP than in the traditional development trajectory.

Services exports provide an additional or alternative engine for development, enabling some latecomers to ‘leapfrog’.
This is possible because B2B trade in intermediates is so important.

Production of goods and increasingly of services involves a combination of intermediate inputs, including services, to make up a finished output for the final consumer market.

Any business function can become a core competence, or be outsourced. Most can also be off-shored, bringing new competitive opportunities for firm level specialization within a global value chain.
This is especially relevant for services SMEs

The purchasing and investment decisions of lead multinational corporations have been driving this phenomenon but it has also been good for SMEs. The services value chain story is mainly about SMEs. Firm size and production scale tend to matter less in services markets than “nimbleness” and project by project flexibility, meaning there are more opportunities for smaller firms. OECD evidence is that since 1997, there have been nearly 4 times as many services SMEs involved in international alliances than manufacturing SMEs. SMEs need no longer do everything: they can specialize in a particular niche “task”.

Benefits have not been evenly spread. Trade barriers and regulatory cost burdens impact particularly heavily on small firms; they have fewer internal financing resources and find it harder to identify investment partners, process international payments and meet qualifications, licensing & technical standards and procedures.
What do Services Value Chains look like?

Knowledge-intensity

Front Office
Customised Problem solving

Middle Office Innovation Lab

Back office Business, Knowledge, Data Processing

Middle Office Product Design

Front Office Client Relationships & Diagnostics

Tasks along the Pathway to Market

Non linear system

Feedback loops
Indirect services exports are so important that efficiency in services affects overall national competitiveness.
“servicification” of the economy

Picture 1: Services needed for effective supply chain and delivery of goods

- Legal services
- Accounting, book-keeping etc.
- Taxation services
- Medical services
- Computer services
- Research and development
- Rental/Leasing
- Advertising
- Market research
- Services incidental to manufacturing
- Placement of personnel
- Maintenance and repair
- Convention services
- Security services
- Packaging
- Printing, publishing
- Design
- Building-cleaning services
- Photographic services
- Courier services
- Logistic services
- Postal services
- Telecommunications
- Audio-Visual services
- Educational services
- Environmental services
- Banking services
- Insurances
- Health related services
- Hotels and restaurants
- Travel agency services
- Maritime transport - freight
- Inland waterways - freight
- Air transport - freight/passenger
- Road transport - freight/passenger
- Cargo-handling services
- Storage and warehouse services
- Freight transport agency service
- Feeder services
- Energy services
Services Imports grow Goods & Services Exports (protection prejudices export performance)

Source: Yose Rizal Damuri, CSIS, 2014
The "Smiley Face": Role of *Services in the economy*

"Servicification": Everyone is in services
Enabling Factors for Services Competitiveness
(largely exogenous ie policy driven)

1. **Human Capital** (access to talent, education, skills, ideas, culture of customer focus)
   For services firms, human capital costs can be 70-80 % of total costs- everything to do with recruiting, training and deploying people is critical

2. **Investment in Intangible Assets** (corporate IP including business methodologies) & supportive environment for collaborative services **Innovation**

3. (Two way) Access to **Digital** and other knowledge-economy **Infrastructure**

4. **Quality of Institutions** (complexity, rigidity, independence) & **Efficiency of Domestic Regulation** (reduce compliance costs & allow firms flexibility to adapt to change)

5. **Global and Regional Connectivity** with the market (trade & investment reform, ability to move people, ideas and data, standards, technical inter-operability, mutual recognition, seamlessness of regulation, export promotion)

6. **Deliberate Policy Focus** (statistics, inter-agency coordination, competitiveness roadmaps)

7. **Organised Services Business Advocacy** and Public-Private **Stakeholder Consultation**
• Today is the first in a series of regional services stakeholder dialogues during 2015, designed to help shape, from the ground-up, in a highly inclusive manner, a new APEC cooperation framework on services.
• This comes in direct response to repeated calls from both ABAC and PECC stakeholders for a big services initiative.
• 2015 is the year in which this can happen.
• This meeting is a genuine opportunity for services businesses to contribute their thinking on the steps APEC can take to deliver more impactful progress on services.
• The International Trade Centre is happy to work with ABAC and to work with PECC to get this process right, to help unleash the potential of the regional services economy.
Now Did You Know?