Trade in Value Added Analysis and the Role of Services: Cambodia Case Study

Seminar 4: “Services in Global Value Chains”


WTO Building, Room B
27 March 2015
A. Overview: Developing country participation in GVCs

- There is wide variation among developing countries:
  - In levels of participation
  - In type of participation

- **Services** have become more important through GVCs.

Source: WTO World Trade Report 2014, based on OECD-WTO TiVA
Services are key inputs in all production stages.
Services are also more globalized

- Thus, they may hold development opportunities for remote countries or those with deficient physical infrastructure.
B. The Example of Cambodia

**TiVA data for Cambodia**

- **Source:** OECD/WTO TiVA Database

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**Figure 1: Services content of gross exports, 2009**

- In 2009, services VA content of gross Cambodian exports stood at 41%, 8% higher than in 1995
- OECD total services VA content of gross exports average is 48%
- ASEAN average is 34%

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**Source:** OECD/WTO TiVA Database
The growth in the services share of gross exports is a result of relatively rapid growth of direct services exports, which grew over the period by 10 percentage points.
As % of total VA from exports, direct services exports account for 33%

Cambodia stands out. **Direct (pure) services industry exports** VA are growing and growth is particularly high relative to other AMS.
Figure 5: Sectoral breakdown of Direct domestic services industry value added in exports,
TiVA data for Cambodia

- Wholesale and retail, hotels and restaurants (51%) and Transport and Storage, Post and telecommunications (35%) account for the lion's share of direct services VA exports.

- Financial intermediation and Business services have grown hugely but still account for a small fraction of direct services exports VA (fig. 5).
Services Content embodied in Goods Exports: Cambodian garments case study

Sources of Value Added: men’s woven cotton t-shirt (retail US$ 30.65)

Cambodia supplies low-value “Cut, Make, Trim” (CMT) services

Source: Adapted from UNCTAD (2013)
TiVA data for Cambodia

Figure 4: Direct services value added of gross exports, 1995-2009 US$(millions)

- Financial intermediation and Business services grown several-fold but still account for a small fraction of total Direct services exports VA (fig. 4)
While there has been some slight increase in the foreign services content of agricultural, food and wood product exports, there has been a downwards trend overall in the share of services VA in Cambodia’s goods exports; this suggests an increasing degree of specialization in manufacturing activities with low services intensity, e.g. assembly.
Indirect domestic services content in goods exports

- 1995
- 2009

<table>
<thead>
<tr>
<th>Category</th>
<th>1995</th>
<th>2009</th>
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</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>Agriculture</td>
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<td>Mining</td>
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<td>Food products</td>
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<td>10%</td>
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<td>Textiles</td>
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<td>Wood, paper</td>
<td>14%</td>
<td>16%</td>
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<td>Chemicals &amp; Minerals</td>
<td>12%</td>
<td>14%</td>
</tr>
<tr>
<td>Basic metals</td>
<td>10%</td>
<td>12%</td>
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<tr>
<td>Machinery</td>
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<td>10%</td>
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<tr>
<td>Electrical equipment</td>
<td>6%</td>
<td>8%</td>
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<tr>
<td>Transport equipment</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td>2%</td>
<td>4%</td>
</tr>
</tbody>
</table>
Services content of gross goods exports, 2009

- Agriculture
- Mining
- Food products
- Textiles
- Wood, paper
- Chemicals & Minerals
- Basic metals
- Machinery
- Electrical equipment
- Transport equipment
- Other manufacturing

- Domestic content
- Foreign content
- 1995 Total

- Agriculture: 10%
- Mining: 20%
- Food products: 10%
- Textiles: 40%
- Wood, paper: 20%
- Chemicals & Minerals: 50%
- Basic metals: 10%
- Machinery: 30%
- Electrical equipment: 10%
- Transport equipment: 60%
- Other manufacturing: 10%
Summary of Key Findings

- In value added terms, services accounted for 41% of Cambodia’s gross exports in 2009, 8 percentage points higher than in 1995. (OECD average is 48%; ASEAN average is 34%)
- This increase is chiefly due to a rapid increase in pure services exports, whose share of gross exports grew over the period by 10 percentage points compared with 1995.
- In 2009 Cambodia’s direct services exports constituted more than one third of Cambodia’s total gross export value added (fig 2).
- This is a standout performance within ASEAN (fig 3).
- The aggregated set of services which includes wholesale and retail, hotels and restaurants and the aggregated set of transport and storage, post and telecommunications saw exports grow 10 fold over the period and account for 86% of services export content; (pie chart)
- While there has been some slight increase in the foreign services content of agricultural, food and wood product exports, there has been a downwards trend overall in the share of services VA in Cambodia’s goods exports; this suggests an increasing degree of specialization in manufacturing activities with low services intensity, e.g. assembly.
Implications for Competitiveness

◆ The increasing share of foreign services content in two of Cambodia’s largest resource based goods exports indicates an increasing degree of participation in GVCs; but there are also clear alerts in the data that there may be growing deficiencies in the ability of local Cambodian firms to provide similar services.

◆ The decreasing share of overall services intensity (both foreign and domestic) in goods exports suggests an increasing trend to specialize in low services value-added activities: this is another red flag – greater focus on the efficiency of the local services sector would improve the prospects for Cambodian manufacturers to start to climb up rather than edge down the value added chain.