
Seminar 4: “Services in Global Value Chains”

Session 1: GVC perspective on Global Trade – The role of services in GVCs

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27 March 2015
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  – Services as inputs or enablers into manufacturing
  – Services as inputs in fragmented services production

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What are GVCs and why are they important?
Trade in intermediates are important

Imports of parts and components by country group, 1996-2012 (US$ billions)

Source: WTO World Trade Report 2014
iPhone – international production

- Toshiba, Murata
- Texas Instruments, Broadcom
- Infineon
- Samsung
- Quanta
- Foxconn
Cambodian T-shirt (30.75 $) – production stages

- Fabric, $3.40
- Quota, $1.40
- Duty, $1.20
- Importer (services), $4.35
- CMT - Cambodia, $2.00

Retail mark-up (design, retail services, marketing) $18.40
What is the role of services in GVCs?
Do balance of payments statistics accurately capture the importance of services for world trade?

Source: Lanz and Maurer (2015)
Take a holistic view on how services are traded

• Direct cross-border services trade (GATS mode 1)
• Movement of consumers (mode 2) and labour (mode 4)
  – Measured by balance of payments (BOP)

• Movement of capital (mode 3)
  – Measured by foreign affiliate statistics (FATS)

• Indirect services trade (embodied in goods)
  – Measured by trade in value added statistics (international input-output tables)
  – Domestic versus foreign value added content of exports
In value added terms, services double their share in world trade!

Services value added content of exports, 2008

Source: Lanz and Maurer (2015) based on OECD/WTO Trade in Value Added Database
What is the role of services in GVCs?

1. Services as inputs or enablers in manufacturing
   – “Thinking in a box – Mode 5” (services embodied in goods)
   – “Servicification of manufacturing”

2. Services as inputs in fragmented services production
   – Services value chains of services networks
Services inputs (value added) are vital to goods value chains

Source: OECD
Value added decomposition of manufacturing exports

- Services VA accounts for 32% of manuf. exports in developed countries and 26% in developing countries
- Foreign services content is similar in developed and developing countries
- Manufacturing exports in developing economies have a lower domestic services content

Source: Lanz and Maurer (2015) based on OECD/WTO Trade in Value Added Database
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Source: Lanz and Maurer (2015) based on OECD/WTO Trade in Value Added Database
Value added decomposition of manufacturing and services exports

- International fragmentation of services is less pronounced as compared to goods
- Mode 3 trade is included in domestic services value added

Source: Lanz and Maurer (2015) based on OECD/WTO Trade in Value Added Database
Direct and indirect exports of services value added

US$ billion

<table>
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<th>Year</th>
<th>Business services</th>
<th>Wholesale &amp; retail</th>
<th>Transport &amp; telecoms</th>
<th>Finance &amp; insurance</th>
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<td>3% 52% 14% 31%</td>
<td>3% 43% 5% 49%</td>
<td>3% 30% 7% 61%</td>
<td>4% 48% 15% 33% 50%</td>
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<tr>
<td>2008</td>
<td>3% 39% 14% 34%</td>
<td>3% 49% 5% 43%</td>
<td>3% 58% 7% 47%</td>
<td>4% 34% 12% 50%</td>
</tr>
</tbody>
</table>
Conclusions (I)

- Services are traded not only directly cross-border (m1) but also through the movement of people (m2, m4), capital (m3) and indirectly through goods.

- Services account for 20% of world trade in BOP terms, and 40% in value added terms.

- Services can enter value chains as inputs or “enablers” in manufacturing or as inputs in fragmented services production.
Conclusions (II)

• Services value added accounts for 32% of manufacturing exports in developed countries and 26% in developing countries.
  ➔ Importance of domestic and imported services for the productivity of manufacturing firms

• Developing countries add significantly less domestic services value.
  ➔ Support to domestic services sector, including attraction of foreign investment (commercial presence – mode 3)

• Opportunities in direct services exports: IT and business process offshoring
Thank you for your attention

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