
Seminar 4: Drivers of services competitiveness

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A few reminders and key messages
Services: a few reminders

• Skills intensive and deeply inter-relational

• Traditionally view: low value-added and largely non-traded, even if contributing significantly to employment and income

• Today’s view: high value, knowledge-intensive, contributing big productivity gains across all of our economies.

• Perception went from “Cinderella” to “Intelligent” because of advances in technology.

• Remarkably, during this transition, services continue to generate the bulk of jobs and job growth in most economies

• Services are also now recognized as highly traded – contributing nearly 50% of global in value-added terms.
A few key messages

Services is the critical ingredient for competitiveness in all sectors as well as for “upgrading in the value chain” via greater services intensity.

Competitiveness in services is less dependent on exogenous factors such as land, labor and capital and more responsive to but can be influenced by government policy and regulatory settings.

A country can become a centre of services excellence in spite of geographic disadvantages that hinder goods trade.
Drivers of services competitiveness
Drivers of Services Competitiveness

1. Human Capital (talent, education, skills, ideas, culture of customer focus)

2. Investment in Intangible Assets (corporate IP including business methodologies) and supportive environment for Innovation

3. Enabling Digital and other Infrastructure

4. Quality of Institutions & Efficiency of Domestic Regulation
Drivers of Services Competitiveness (cont)

5. **Connectedness** with the International Markets (trade & investment reform, standards, mutual recognition, promotion)

6. Organised **Services Business Advocacy** and public/private Stakeholder Consultation

7. Deliberate National **Policy Focus**
1. Human capital/skills

- Talented and highly educated workforce with skills in tasks that meet consumer needs
- Includes soft skills like customer service
- India and Costa Rica became global leaders for call centres and outsourcing because the labour force had a good knowledge of English.
2. Investment in intangible assets

- Analysis in the UK provides evidence of intangible capital deepening contributing the bulk of growth in labour productivity.

- Firms refer to the importance of a supportive environment for innovation, including business process innovation.

- The Knowledge Component of trade has dramatically increased and so protecting Intellectual Property rights is a fundamental enabler of trade.
3. Digital infrastructure

• Quality of the telecommunications network and Internet penetration

• Access to the Internet is crucial for the development of services value chains and for specialising in tasks

• Underdeveloped Internet provision or state level monopolies are less competitive at participating in services value chains.

4. Quality of Institutions and Efficiency of Regulations

• Overall: Economic freedom index, independent analysis of costs and benefits

• Complexity of the business environment should be reduced to create an environment giving firms flexibility to adjust to rapid change

• Rigidity or other inefficiencies in employment laws: in services, capital costs are 70-80% of total, laws and requirements on recruiting, training and deploying people are critical

• Strong international evidence of links between regulatory reform and productivity growth
The Philippines:
Growth took off after Telecoms Reforms

(% growth compared to 1999, 1999=0)

Source: Yi 2011
5. Connectedness to International Markets

- Openness in two-way trade and investment is vital
- The quality of services export promotion efforts and development of appropriate promotional tool kits and opportunities to connect with supply chains
- The need for mutual recognition and interoperability of standards
- Firms are increasingly concerned about seamlessness of regulation across markets
5. Connectedness: Services Export Promotion

- Inbound and outbound missions
- National branding efforts and thematic platforms
- Awards and Competitions
- Financing trade in Services
- Promoting clusters of services excellence
How does FDI affect countries’ GVC participation?

Correlation between levels of inward FDI stock and GVC participation

[Graph showing correlation between GVC participation and FDI stock for developed and developing countries]
6. Policy advocacy and public private platforms

• Services business groups (such as NASSCOM in India and BPAP in the Philippines) play a positive role

• Stakeholder consultation mechanisms, the development of coalitions of services industries mitigate this problem. There are currently 26 CSIs operating and many more are being developed

• This is core business for aid for trade in services by ITC
7. Deliberate National Policy Focus

- Better services statistics
- Inter-agency coordination
- A vision and roadmap for services is recommended
- Sub-sectoral targeting?
- Services Export Strategies
Governments have influence

Aid for trade in services focuses on creating tools and examples on:

- Growing and funding a services industry, or a hub of services excellence
- Training, attracting and retaining services skill sets
- Facilitating services innovation, collaboration and customer orientation.
- Best practice regulatory settings to ensure interoperability across the value chain
Broad ideas for improving competitiveness
Firm Level Competitiveness

Working with Services companies means linking support to how they do business differently:

- Solution orientation means building relationships and capacity to recognize and solve problems
- Client orientation rather than geographic orientation
- Big focus on trust given intangibility
- Project based
- Services are almost always tailored and require innovation
- Teams are project based rather than static
- Regulatory environment more often involves local presence which receives little recognition or support
Building services centres of excellence
(sectoral intervention versus economy-wide)

- Development of human capital, training
- Inward direct investment including in Special Economic Zones
- Trade finance needs
- Regulatory reforms; one stop shops
- Connectedness with the international market (openness to imports)
- Connectivity of standards
- Provision of digital infrastructure
- Facilitating collaboration for innovation
- Mechanisms for business stakeholder consultation, especially SMEs
- Inter-agency government coordination
- Export promotion
Overall Development Strategies

The «smiley face» shows the level of value added at different points in the value chain.

Challenge: How to move from the middle to the outer parts of the smiley face.
A final word on services SMEs

• Services is mainly about SMEs: Size and scale matter less in services than “nimbleness” and flexibility by project creating opportunities for smaller firms.

• OECD: nearly 4 times as many services SMEs involved in international alliances than manufacturing SMEs.

• Trade barriers and regulatory cost impact most heavily on small firms:
  • Less internal financing resources
  • Difficulty identifying investment partners and processing international payments and
  • Higher cost to meet qualifications, licensing & technical standards and procedures

• Again, this is core business for aid for trade in services