From Export Promotion to Internationalization

New Toolkits for Growing Services Exports

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Services: A Journey of Discovery

Then:
• Historical neglect
  • Western classical theory of value
  • Data and measurement
• No faith in services productivity
• Under-appreciation of contribution to value

Now:
• Services a dominant source of value in production, trade and consumption
• Multifunctional
  • Intrinsic source of value
  • ‘Glue’ for the value chain
  • Economy-wide enabler
• Measuring trade in value-added
Services: A Dominant Source of Value

- Between 50-70 per cent in the GDP of most economies – frequently an under-estimate
- Some 45 per cent of merchandise trade – certainly an under-estimate
- Services in consumption: from classic retailing and associated services to clicks and bricks (e-commerce)
Value-Added: What Are We Measuring?

- Trade measured in terms of flows in value-added is to be contrasted with gross trade flows.
- The value-added calculation captures what happens at each stage in a production process.
- It tracks inputs into the production process all the way down the line until the final product emerges.
Measuring Trade Like GDP

**Figure 1. Value added trade: how it works**

<table>
<thead>
<tr>
<th>Participating countries</th>
<th>Value chain</th>
<th>Gross exports</th>
<th>Domestic Value Added</th>
<th>Double-counting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country A</td>
<td></td>
<td>2</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Country B</td>
<td></td>
<td>26</td>
<td>24</td>
<td>2</td>
</tr>
<tr>
<td>Country C</td>
<td></td>
<td>72</td>
<td>46</td>
<td>26</td>
</tr>
<tr>
<td>Country D</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total: 100 72 28

Source: UNCTAD.
Value-Added Trade Data

• The import content of trade is rising globally (50% - 65% of trade is intermediate goods)

• Single products are produced in multiple countries

• The last country of production is but a link in the chain, one among several contributions to value-added

• This has profound implications for how we think about trade and interdependency

• It carries significant policy implications
### Overview

#### The role of services in GVCs

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<th>Limited knowledge of the role of Intangibles along supply chains</th>
<th>Growing prominence of services – “servicification”</th>
<th>Trade in tasks and services – more than just a nomenclature challenge</th>
<th>Bundling</th>
<th>Outsourcing</th>
<th>Services as a source of innovation – mostly process innovation</th>
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- **Limited knowledge of the role of Intangibles along supply chains**
- **Growing prominence of services – “servicification”**
- **Trade in tasks and services – more than just a nomenclature challenge**
- **Bundling**
- **Outsourcing**
- **Services as a source of innovation – mostly process innovation**
Servicification: what is it?

- Services are becoming increasingly important in all economies

**On the consumption side**

- Typically services consumption rises with income levels
- Services offer more variety and product choice than goods
- Services are more customized than goods

**On the production side**

- Globalization, or the internationalized economy, has increased demand for services, especially along GVCs
- As output expands, there is a more than proportionate demand, across every activity in the economy, for certain kinds of services – telecoms, ICT, finance, insurance, energy, transport etc.
**Bundling**

**Definition**
- Bundling is when different goods and/or services are combined in a single product offering.

**Where is bundling?**
- Bundling is quite frequently seen in outsourced offerings, and at the beginning and end of whatever GVC is being examined.

**Functions of bundling**
- Differentiate products and accrue more value addition
- Facilitate cost-minimizing mixes where scale of component supply a factor
- Confer tradability on otherwise non-tradable services

**Innovation and bundling may well go together**
Outsourcing

How frequent is outsourcing on GVCs?

Reasons for outsourcing

- Standard cost (competitiveness) considerations
- External scale advantages – various forms of networks, networking associated with skill sets (e.g., security services, recruitment, customs agents)
- Some internal economy of scale considerations (e.g. fixed costs, market size, and desire to maintain market share or product variety)

Reasons for not outsourcing are not always cost-driven

- Protection of proprietary information, pivotal pieces of the GVC, and other risk management factors

Not just a matter of cost minimisation—cost and efficiency not always the same thing
Case Study – Bread Value Chain

1. Port in Shenzhen

2. Manufacturing Plant in industrial park in Shenzhen

3. Cross-border transport for bread

4. Warehouse in Kowloon, Hong Kong

5. Local delivery from warehouse to over 90 retail outlets

1. Imported Ingredients from South Korea (sugar), Taiwan (margarine) and Australia (salted butter)

1. Ingredients procured in China
Case Study – Bread Value Chain

• Key findings

- Number of different services identified in the value chain: 30
- Value of the product contributed by services: 72%
- Proportion of the services partially or fully outsourced to external suppliers: 18 out of 30
Direct Exports of Services

• We have been looking at indirect exports of services

• But from a TPO standpoint direct exports are important too

• So for TPOs to take care of services, attention to:
  • Sources of value-added along goods and services value chains
  • Final services output sold directly in export markets
Thank you!