



Australian Government

Department of Foreign Affairs and Trade



LDC Services: Geneva Practitioners Seminar Series: “Making Sense of GATS and Applying Good Practices in Services Negotiations”

Seminar 4: “Services in Global Value Chains”

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

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WTO Building, Room B
27 March 2015



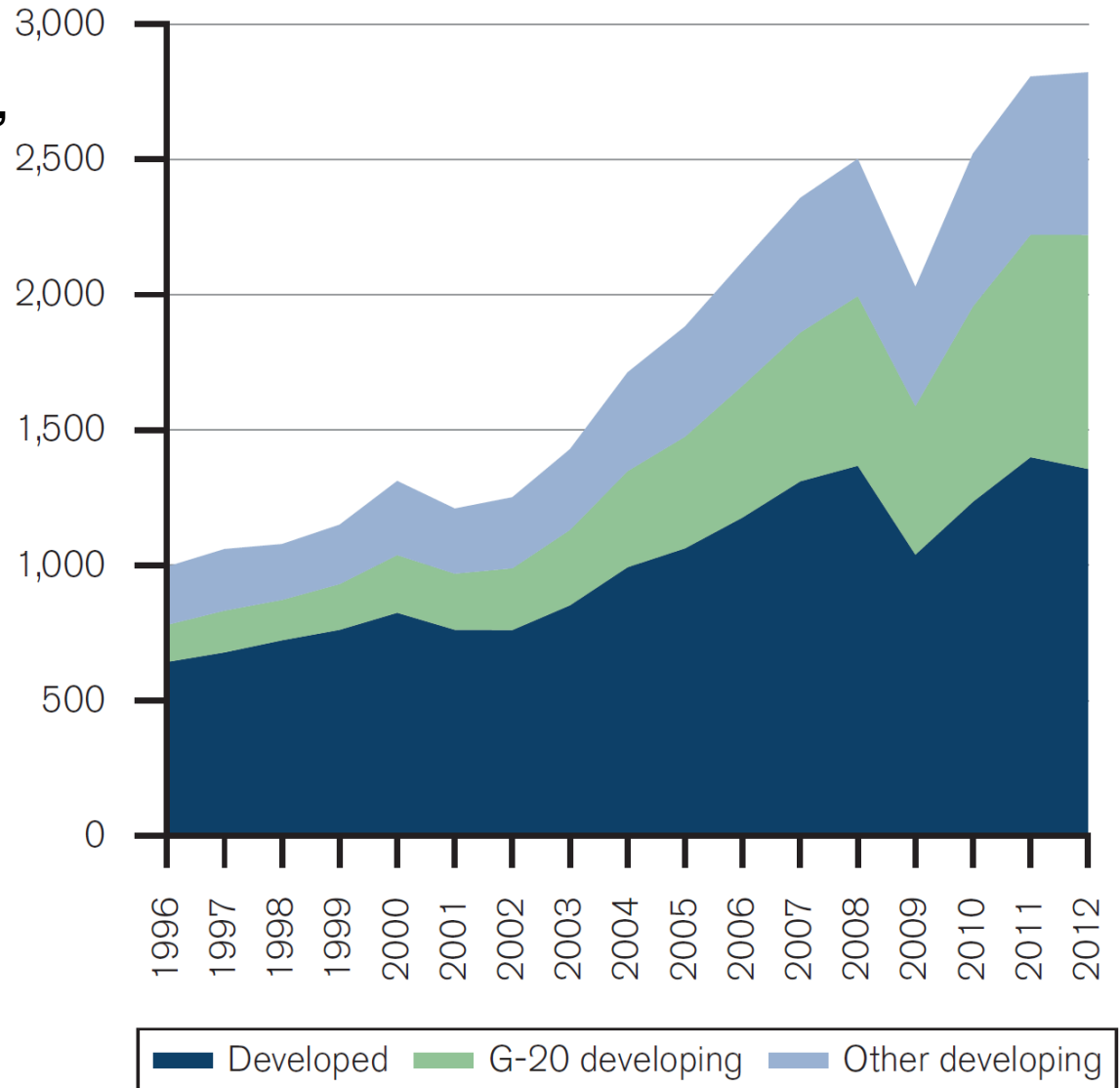
Contents

- What are GVCs and why are they important?
- What is the role of services in GVCs?
 - How are services traded and measured?
 - Services as inputs or enablers into manufacturing
 - Services as inputs in fragmented services production
- Conclusions

What are GVCs and why are they important?

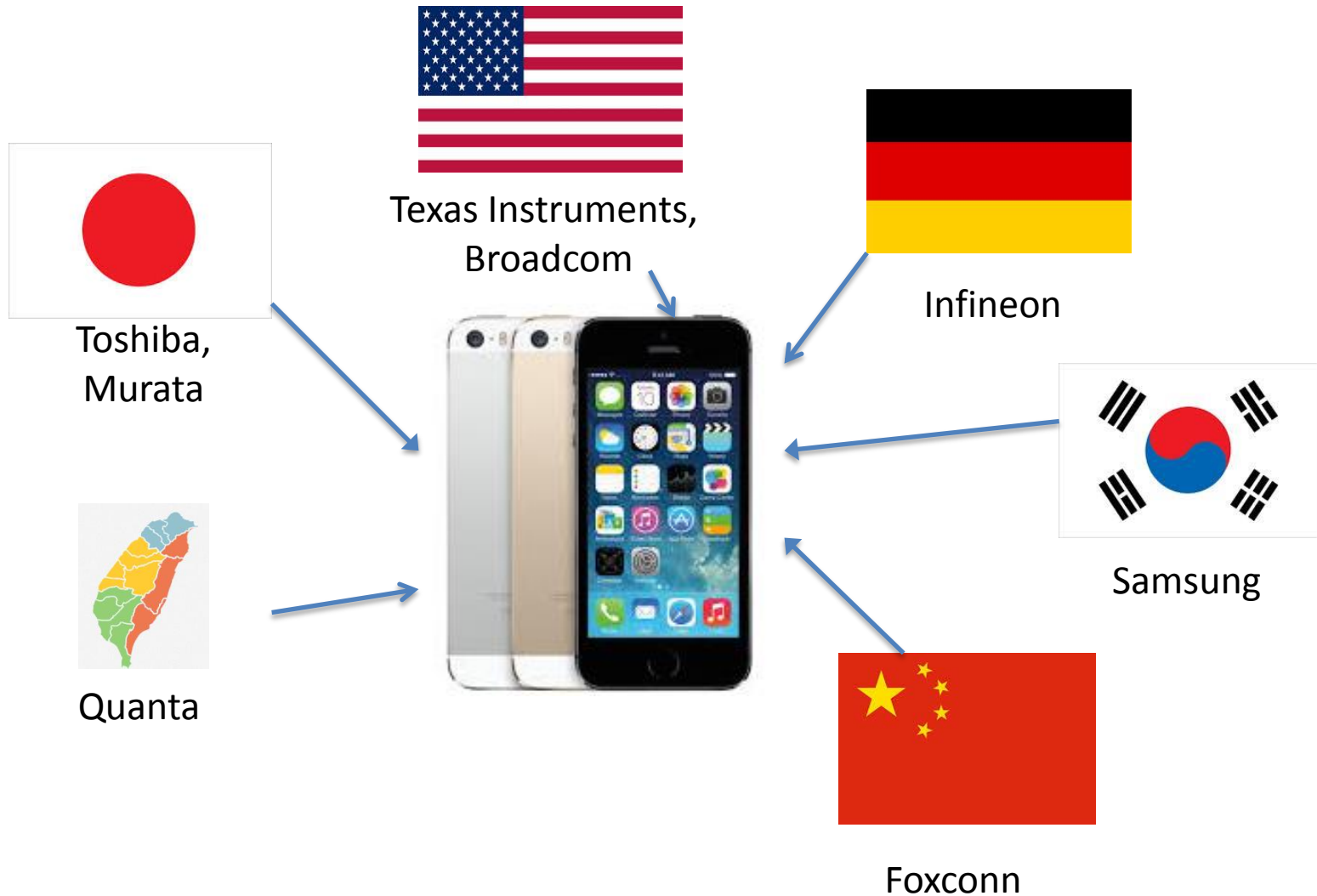
Trade in intermediates are important

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

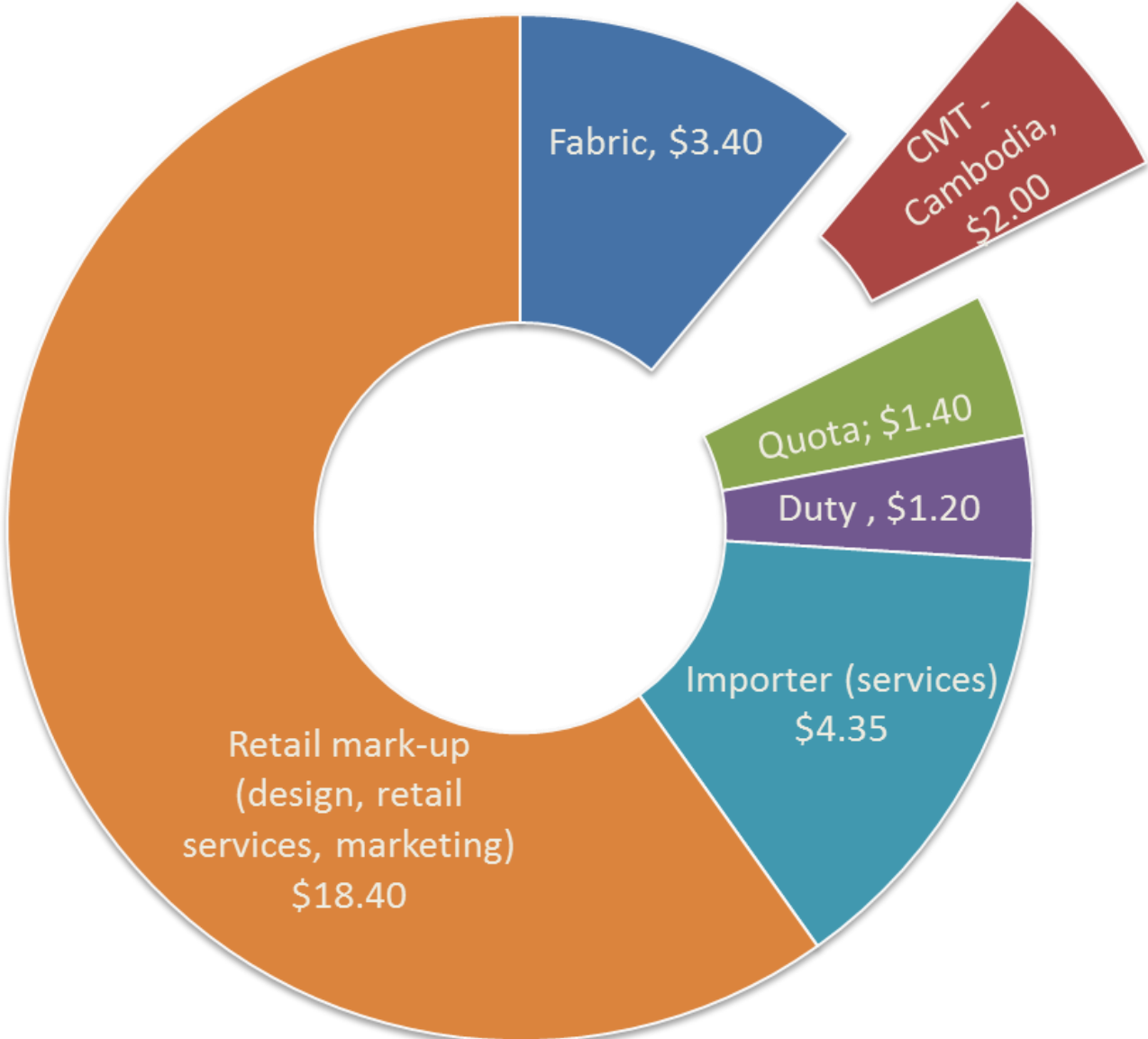


Source: WTO World Trade Report 2014

iPhone – international production

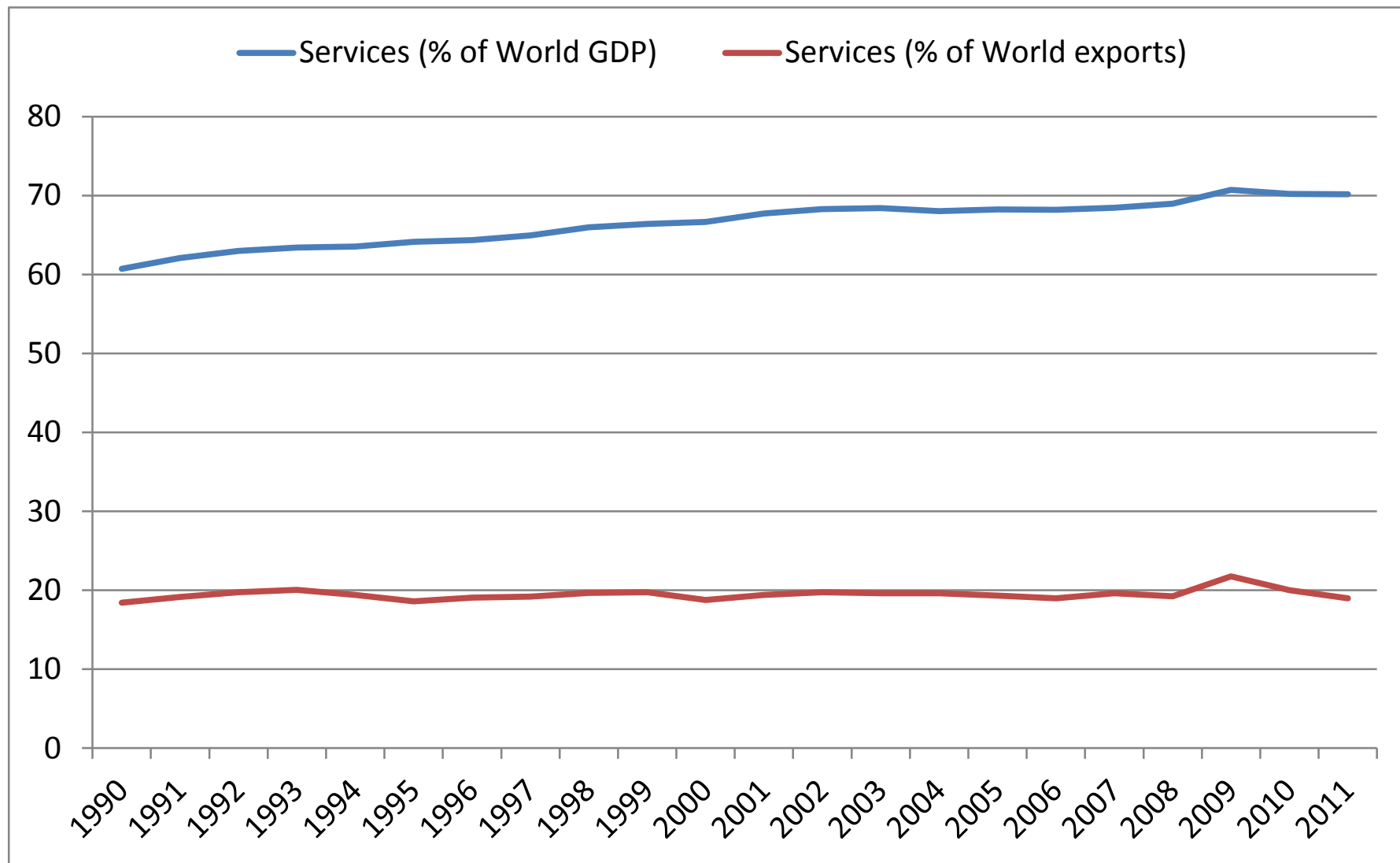


Cambodian T-shirt (30.75 \$) – production stages



What is the role of services in GVCs?

Do balance of payments statistics accurately capture the importance of services for world trade?



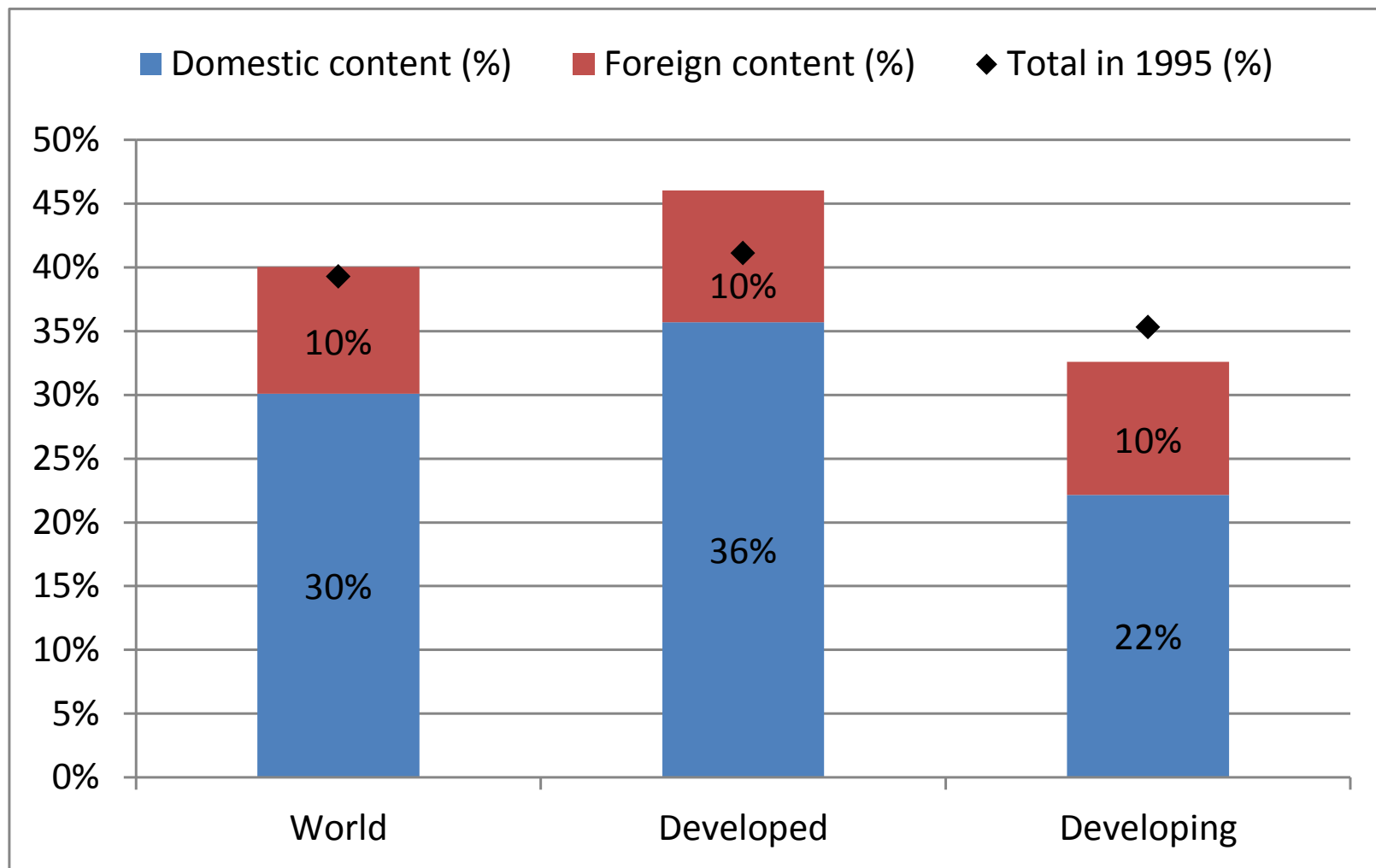
Source: Lanz and Maurer (2015)

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!

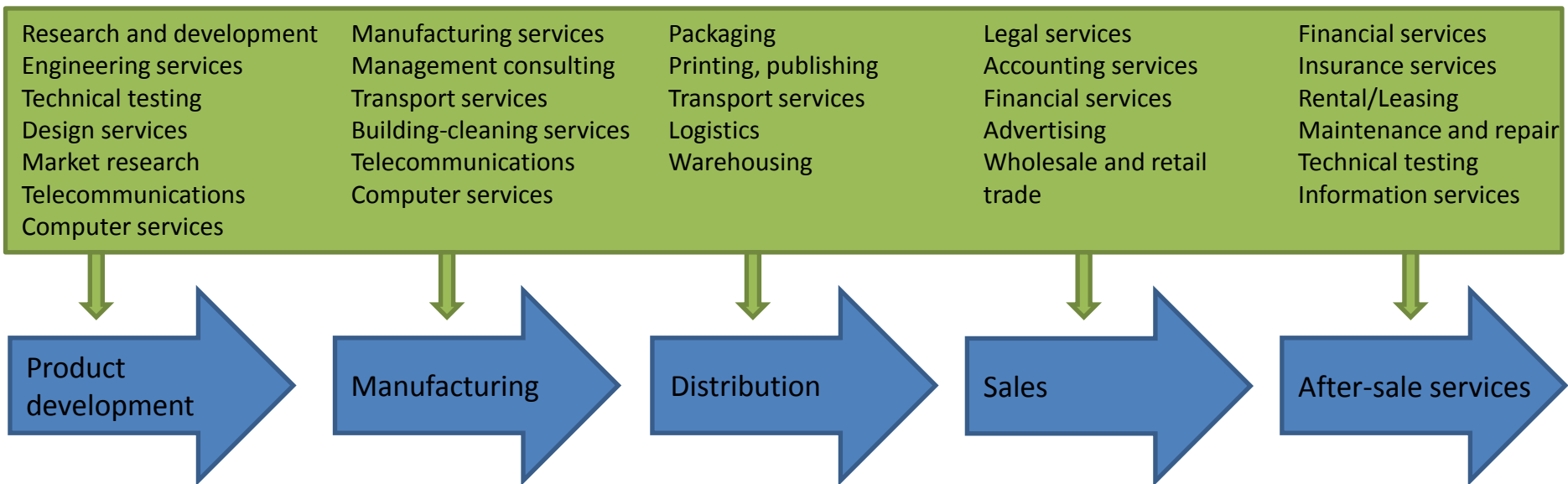
Services value added content of exports, 2008



Source: Lanz and Maurer (2015) based on OECD/WTO Trade in Value Added Database

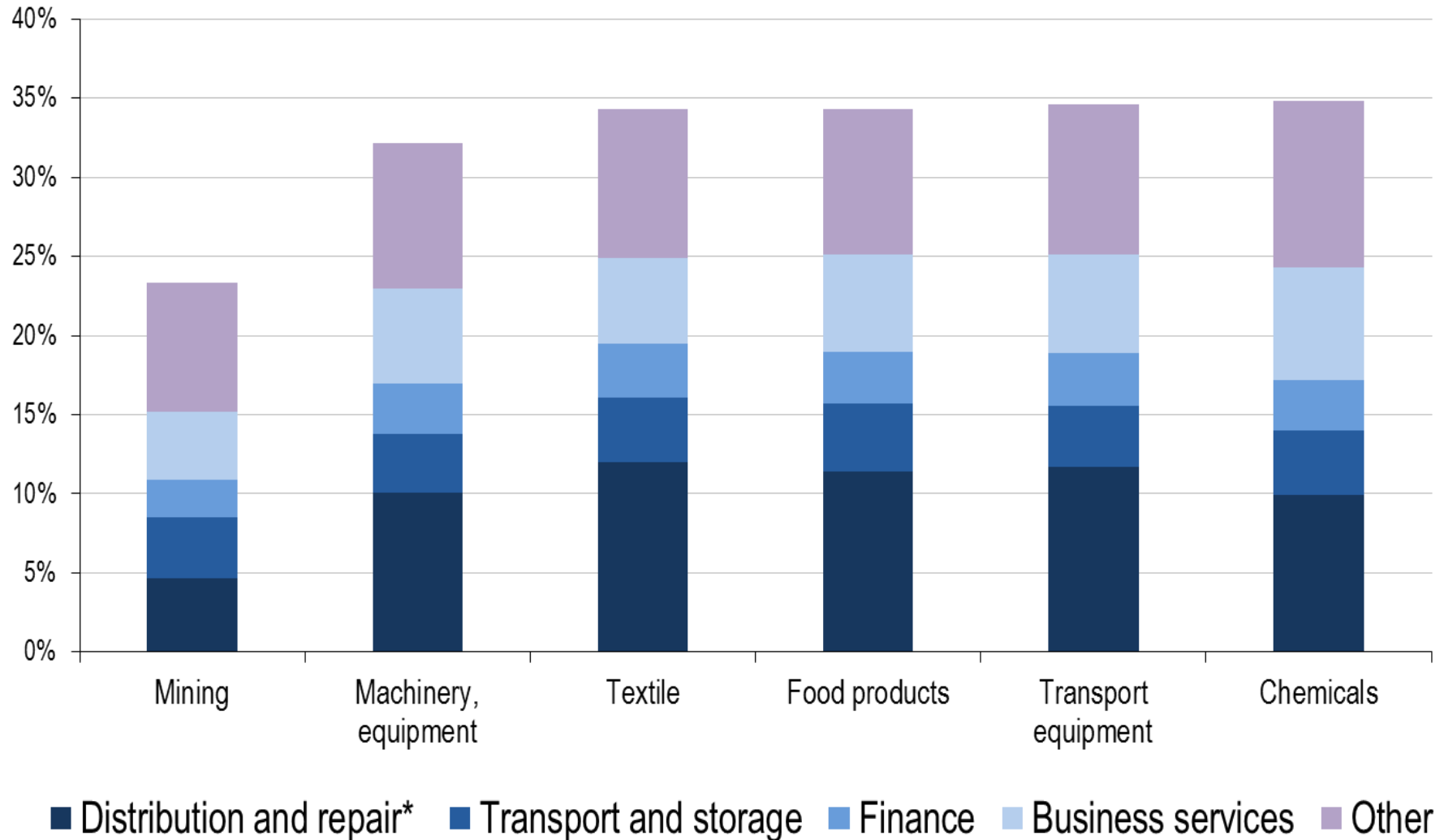
What is the role of services in GVCs?

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



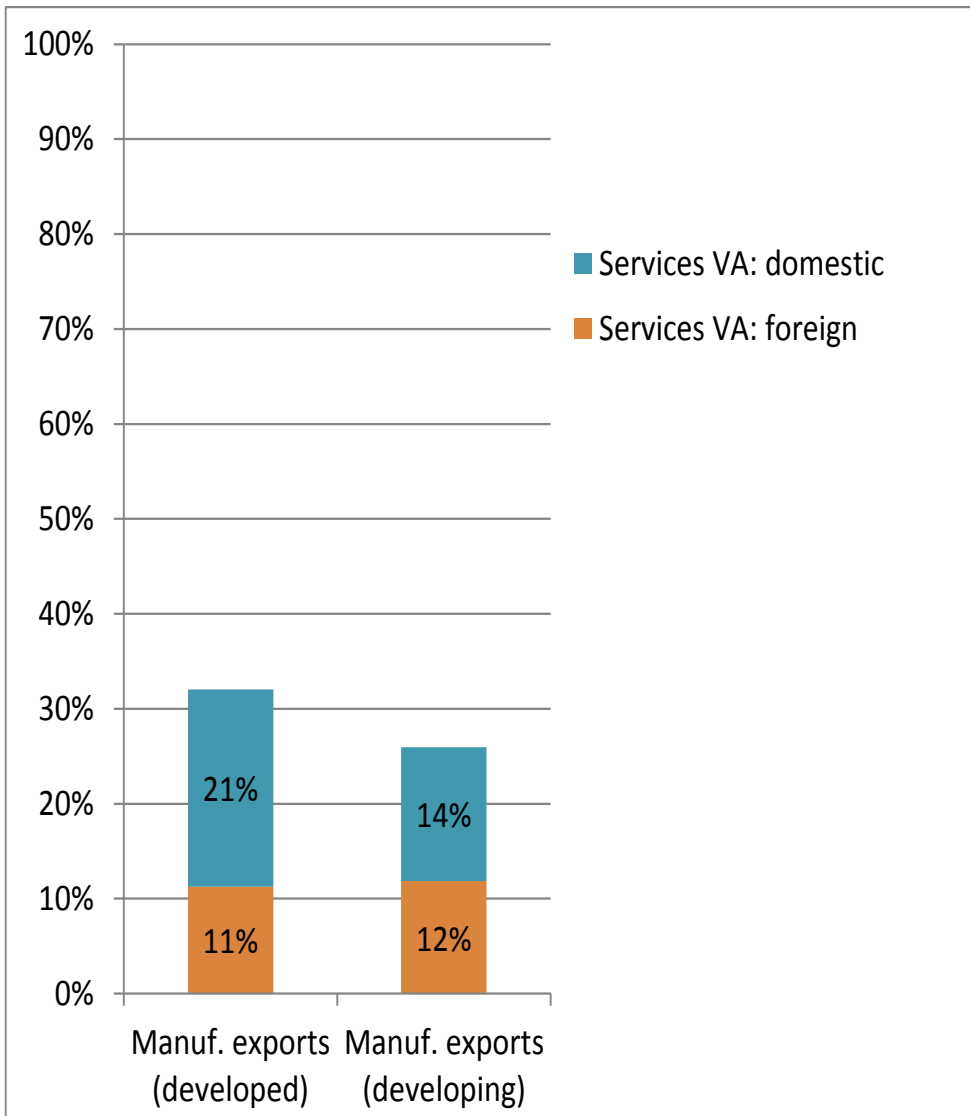
2. Services as inputs in fragmented services production
 - Services value chains of services networks

Services inputs (value added) are vital to goods value chains



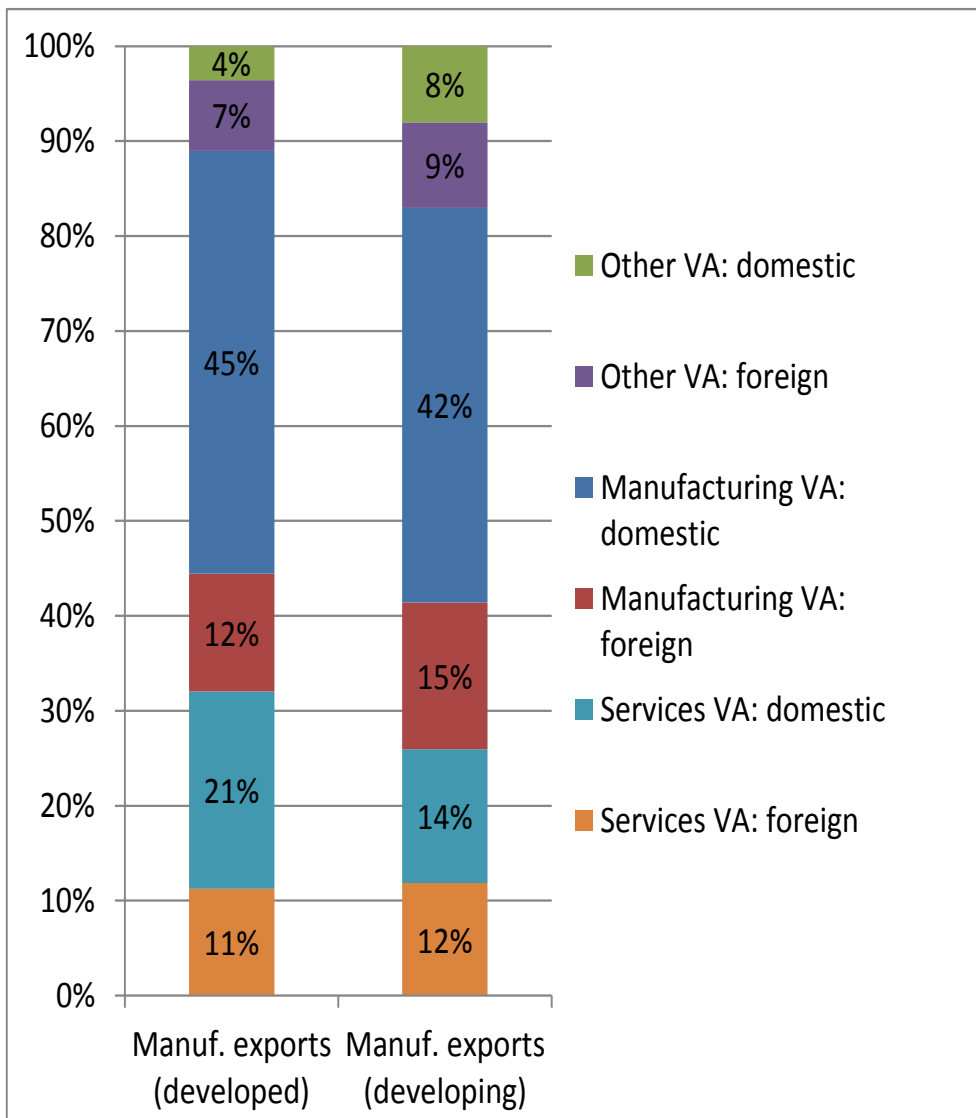
Source: OECD

Value added decomposition of manufacturing exports



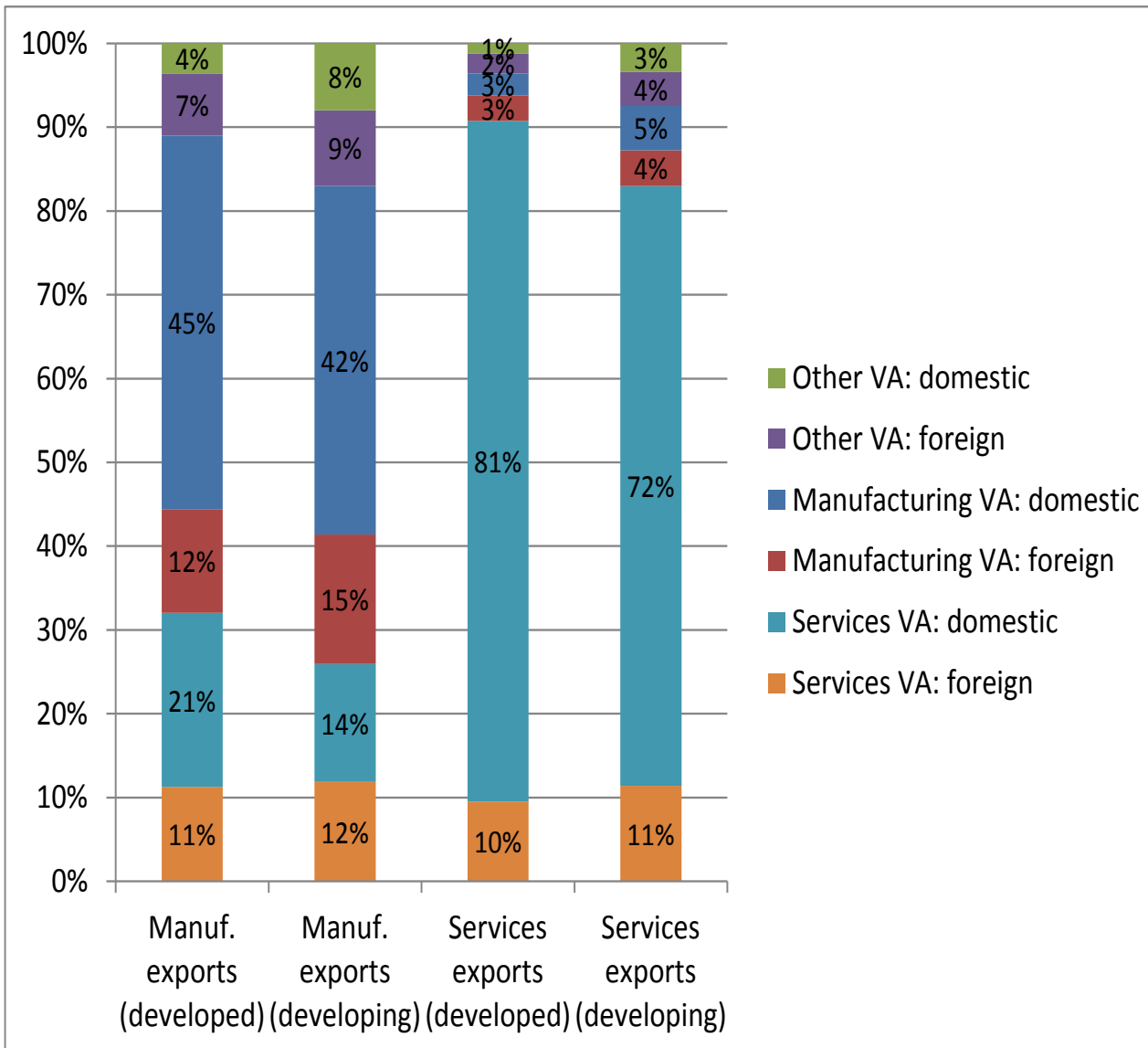
- Services VA accounts for 32% of manuf. exports in developed countries and 26% in developing countries
- Foreign services content is similar in developed and developing countries
- Manufacturing exports in developing economies have a lower domestic services content

Value added decomposition of manufacturing exports



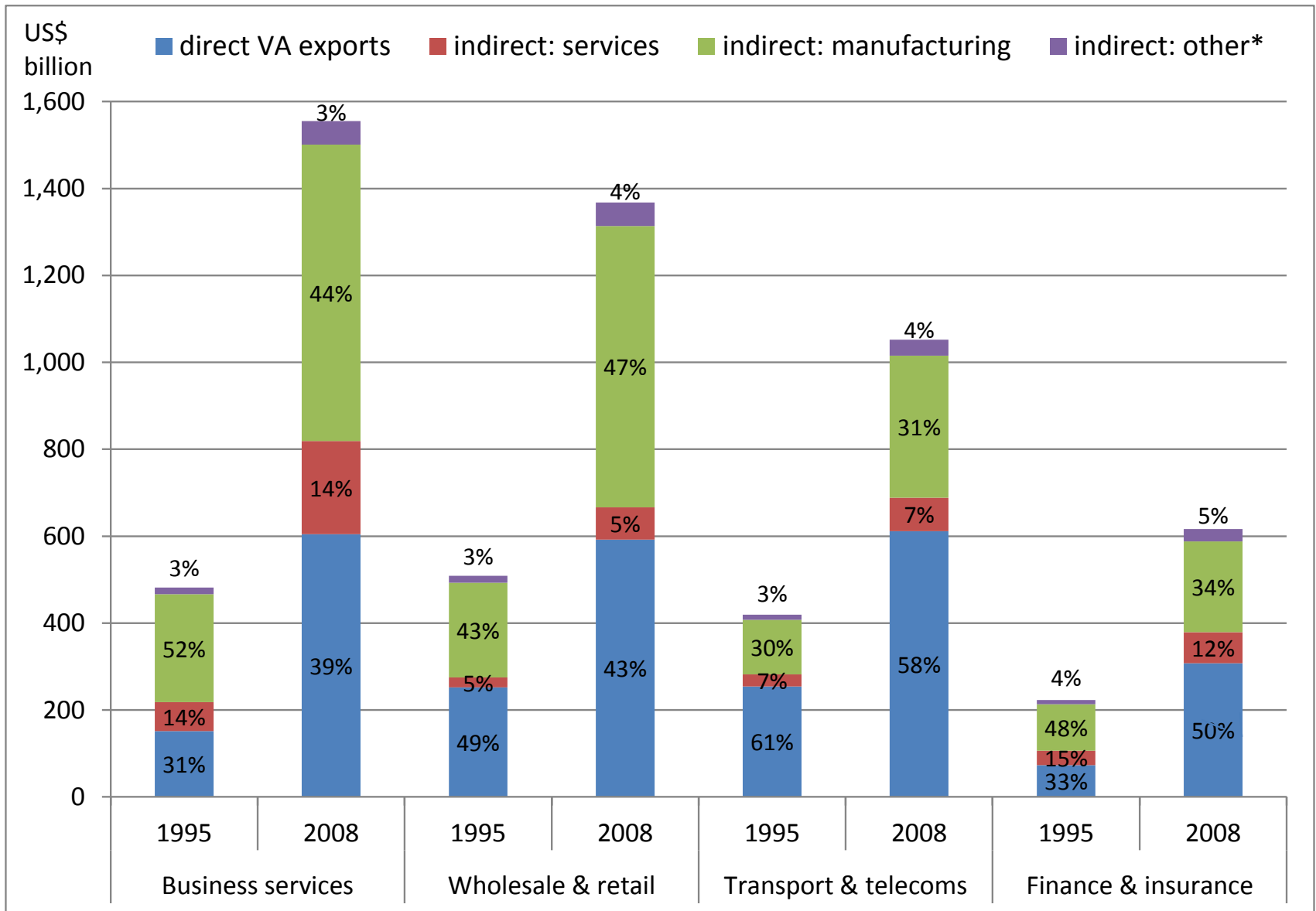
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Value added decomposition of manufacturing and services exports



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

Direct and indirect exports of services value added



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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