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

## Seminar 4: Drivers of services competitiveness

WTO Building, Room B  
27 March 2015



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Whole-of-services development (and export) strategies

# 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)

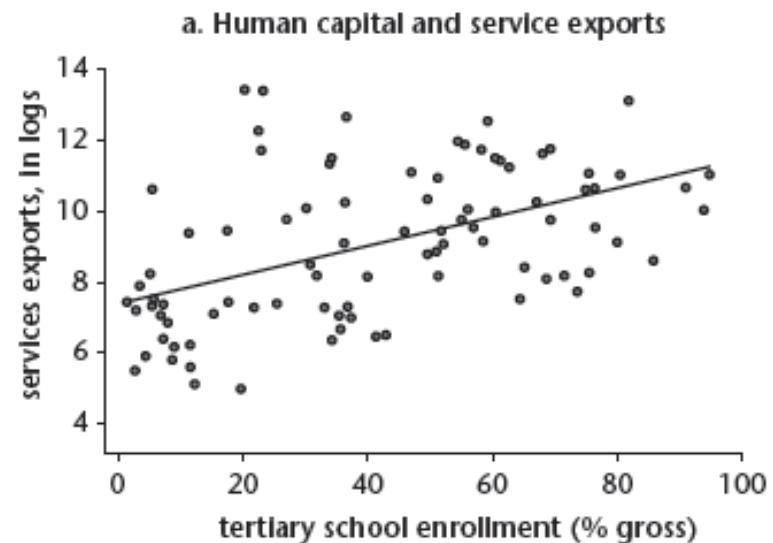
6. Organised **Services Business Advocacy** and public/private **Stakeholder Consultation**

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.

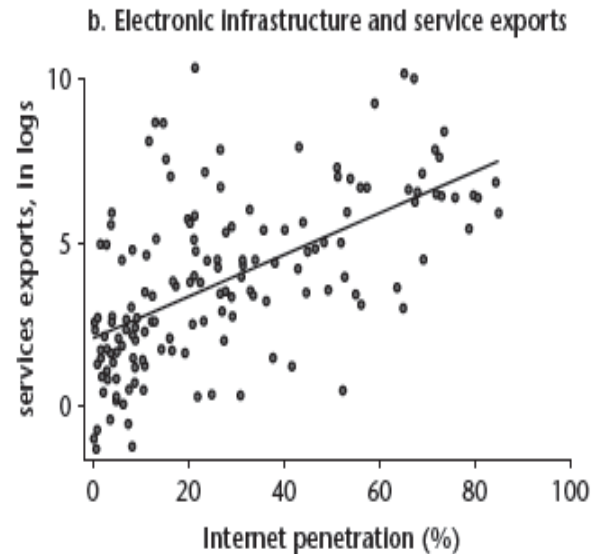


## 2. Investment in intangible assets

- 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.

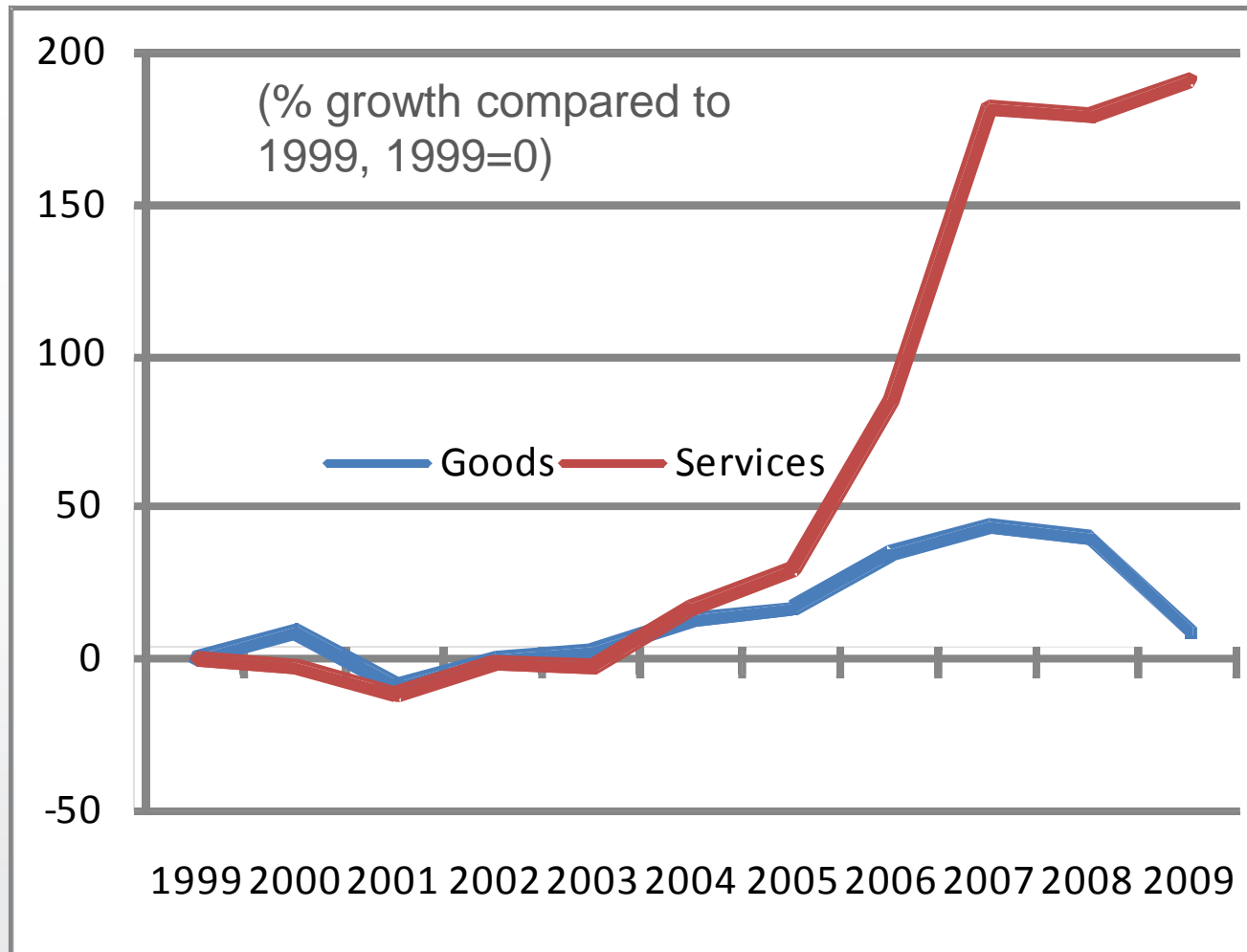


Source: World Development Indicators (database), World Bank, Washington, DC. <http://data.worldbank.org/data-catalog/world-development-indicators>.

## 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



Source: Yi 2011

## 5. Connectedness to International Markets

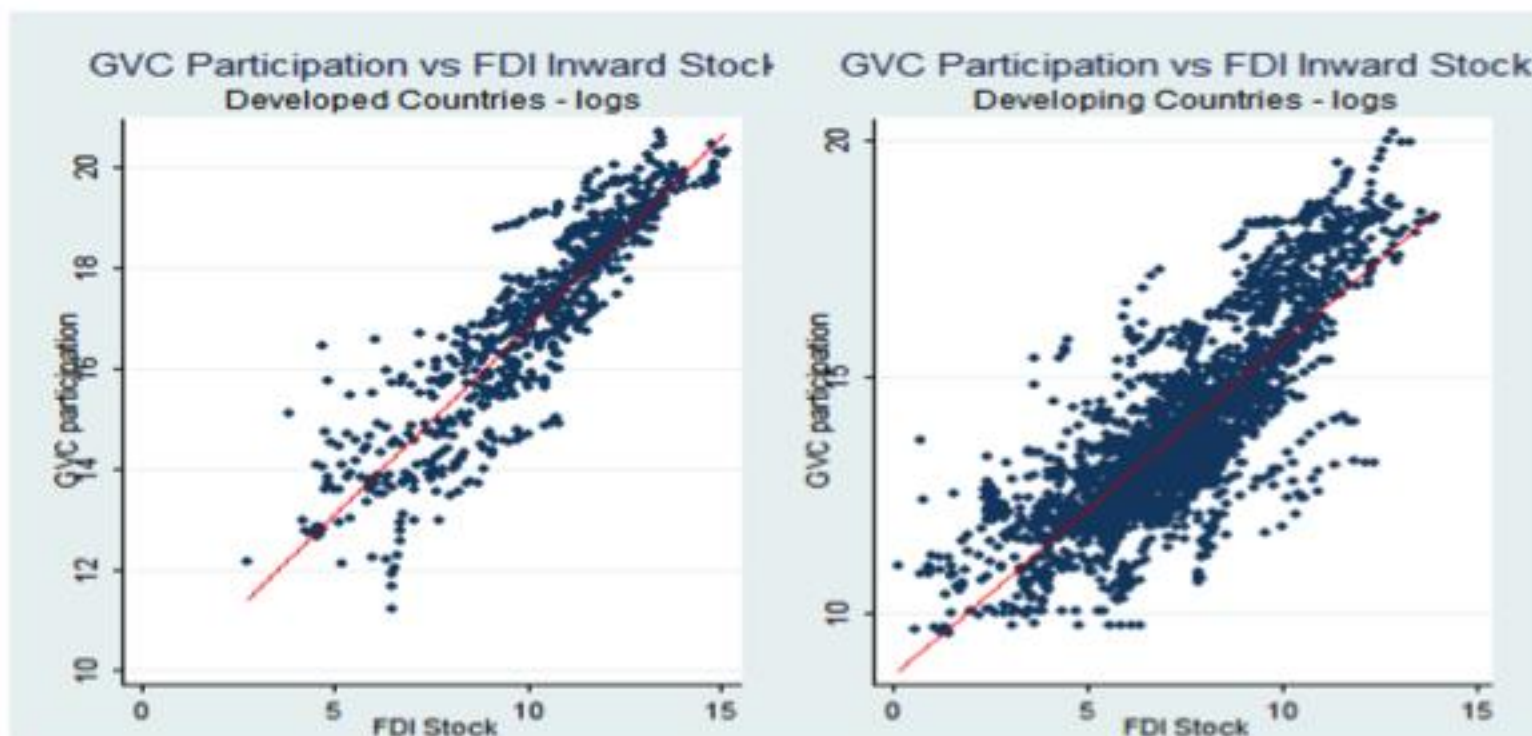
- Openness in two-way trade and investment is vital
- The quality of services export promotion efforts and development of appropriate promotional tool kits and opportunities to connect with supply chains
- The need for mutual recognition and interoperability of standards
- Firms are increasingly concerned 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





## 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)

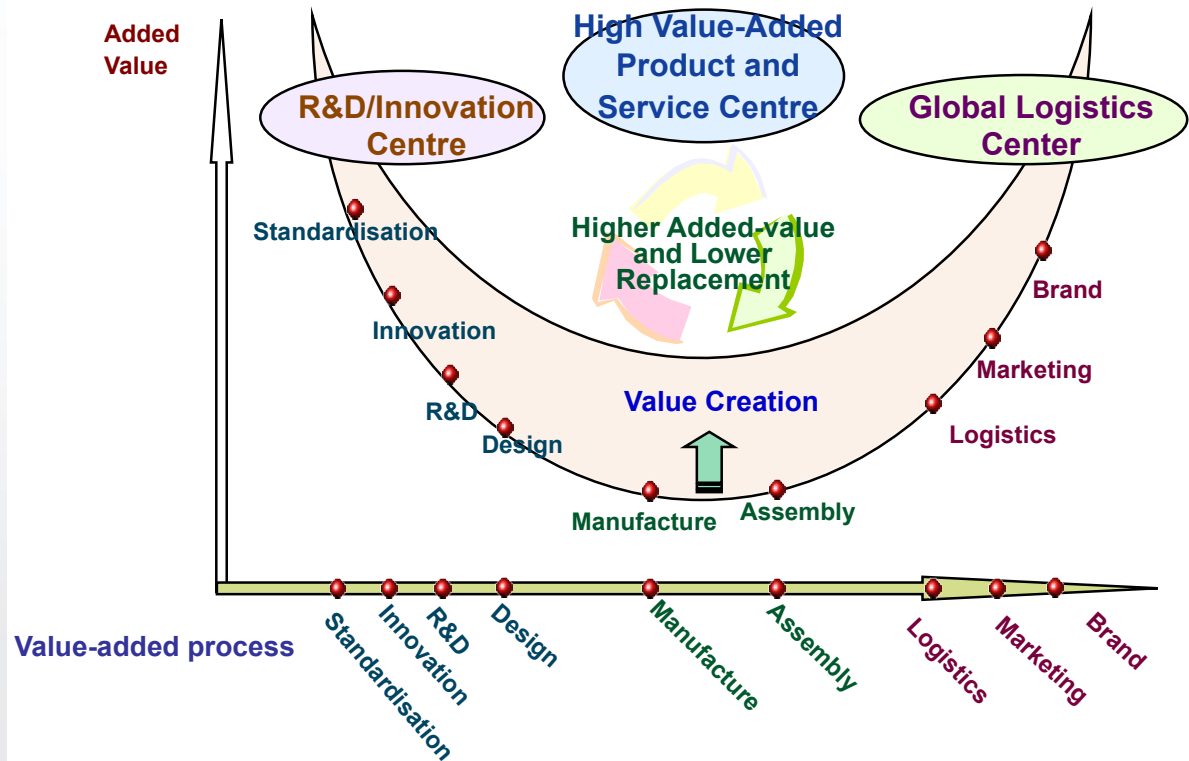
- Development of human capital, training
- Inward direct investment including in Special Economic Zones
- Trade finance needs
- Regulatory reforms; one stop shops
- Connectedness with the international market (openness to imports)
- Connectivity of standards
- Provision of digital infrastructure
- Facilitating 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

*“Smiley Face”: conceptual model of the shift to a high value added, globally integrated, services economy*



# 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