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TRADE IN SERVICES AND JOBS



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SERVICES AND ECONOMIC TRANSFORMATION

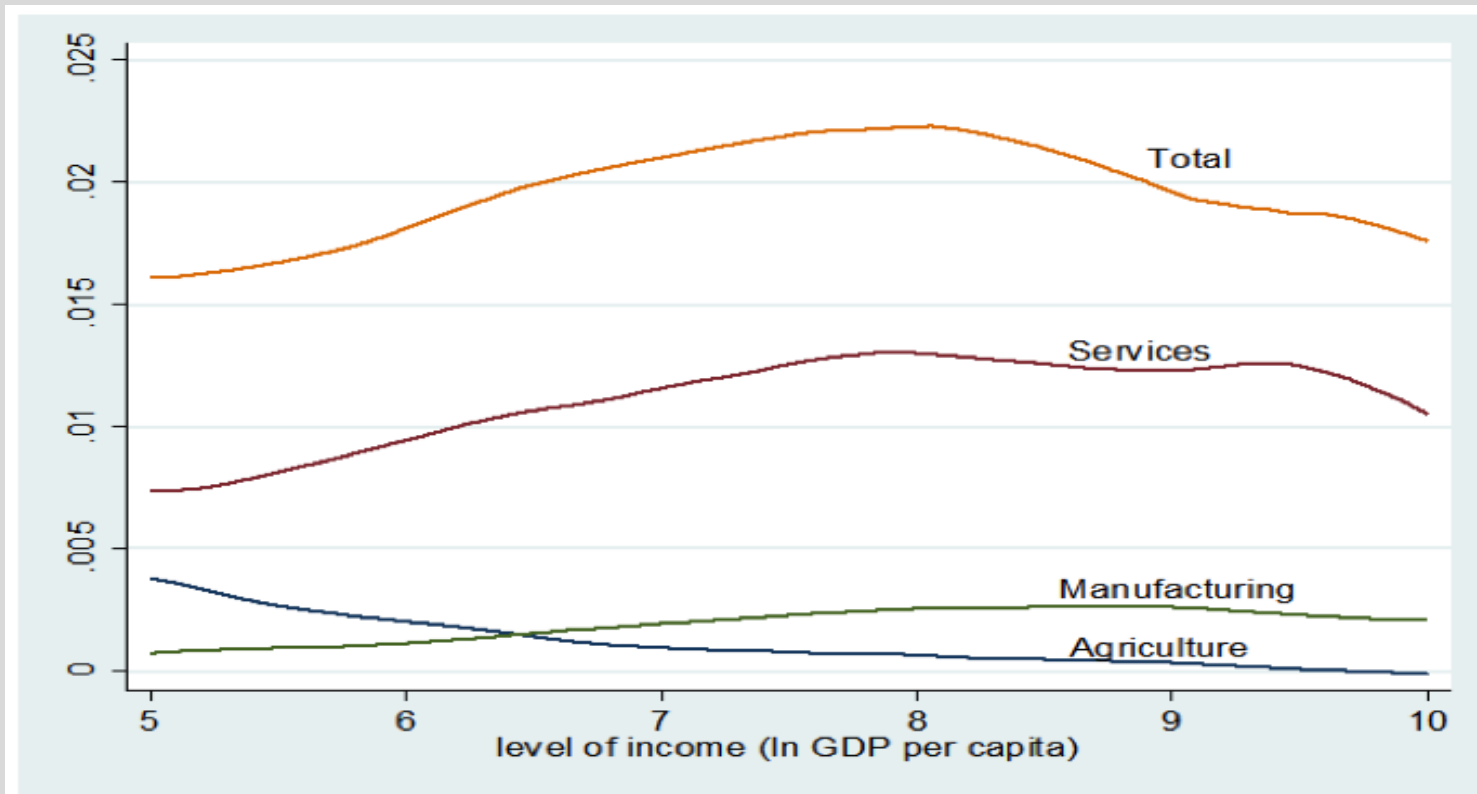
- Services share in employment and output growing in all countries.
 - In SE Asia/Latin America is the reversion of a previous more or less successful industrialisation process.
 - Modern services tend to dominate the transformational process
 - In Africa, there is a movement of resources from agriculture into services.
 - Traditional services predominantly absorb labour, but modern services are also present.
- Pessimistic view of the role of services: Movement of resources from agriculture to services keep resources in low productivity activities.
- However, recent evidence indicates 3 pathways of services into productivity.
 - Services have been a major driver of productivity growth in the last decades
 - Exported services are particularly relevant in driving productivity and trade
 - Services value added is increasingly embedded in other product exports
- Nevertheless, services are very protected (more than agriculture) around the world, especially in LDCs.
 - Financial regulations are blocking the expansion of mobile financial services in the EAC.
 - Services provided under mode 4 remain mostly restricted (only 0.5% of US imports of services are mode 4)

PATHWAYS BETWEEN SERVICES AND ECONOMIC TRANSFORMATION

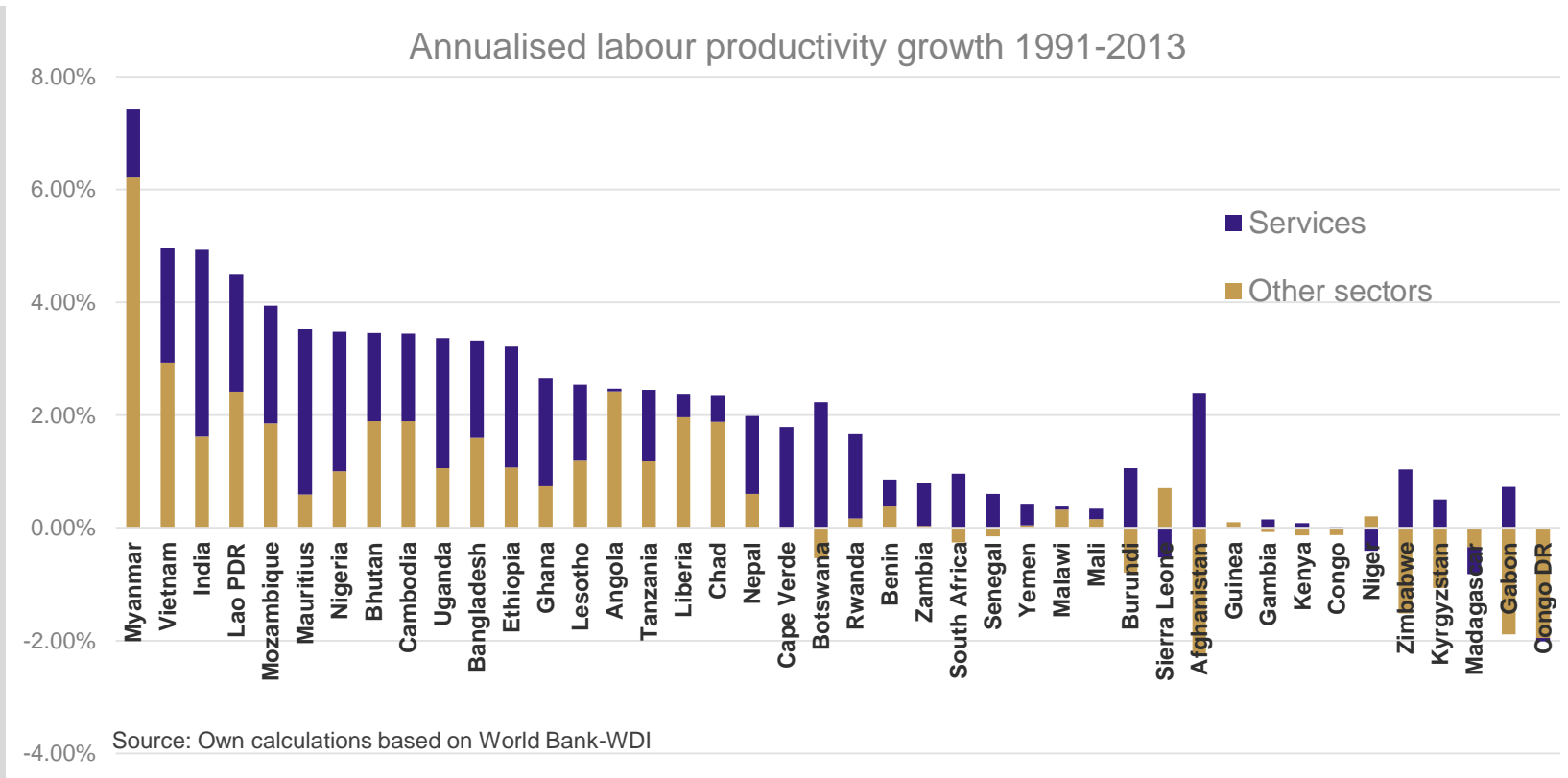
- 1. Services have been a major driver of productivity growth in the last decades**
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AS INCOME INCREASES, SERVICES BECOME A MAJOR FACTOR IN PRODUCTIVITY GROWTH

Contribution of different sectors to labour productivity change, 1991–2013



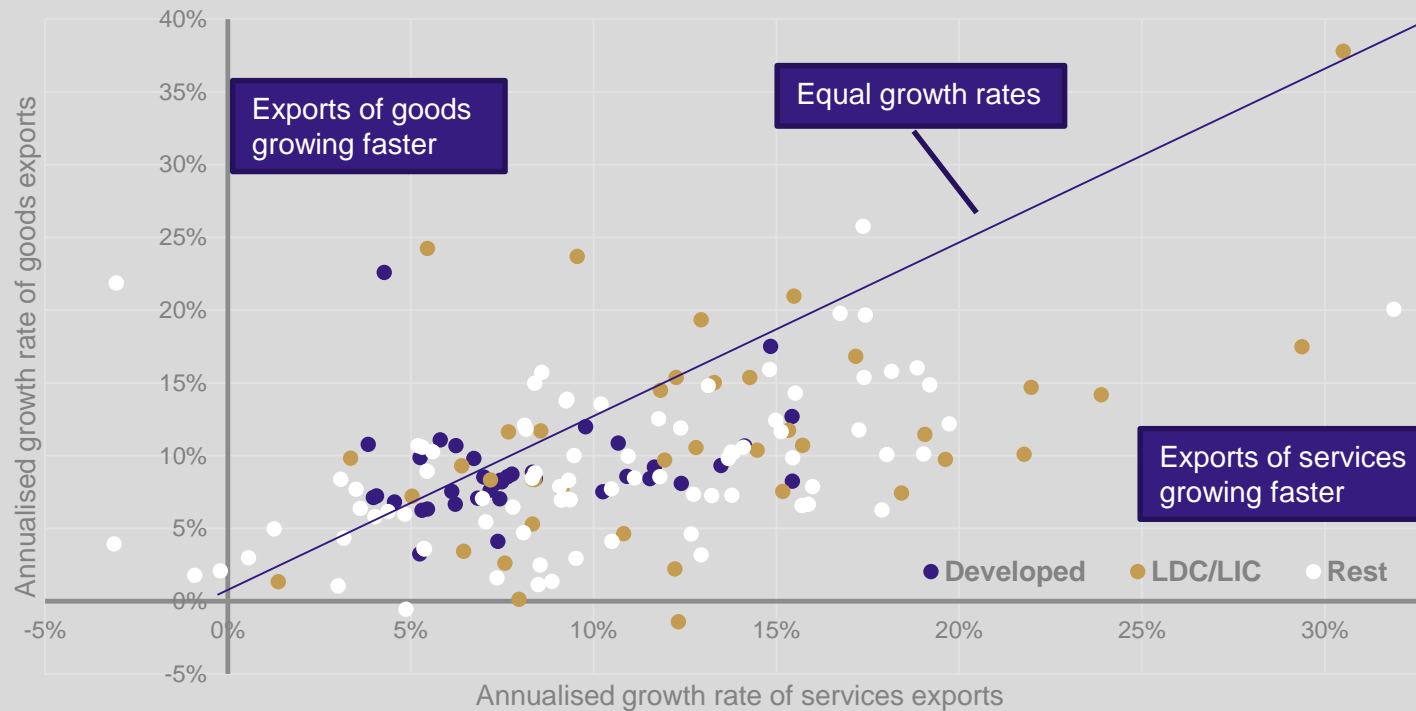
SERVICES EXPLAIN MUCH OF THE PRODUCTIVITY GROWTH IN DEVELOPING COUNTRIES



PATHWAYS BETWEEN SERVICES AND ECONOMIC TRANSFORMATION

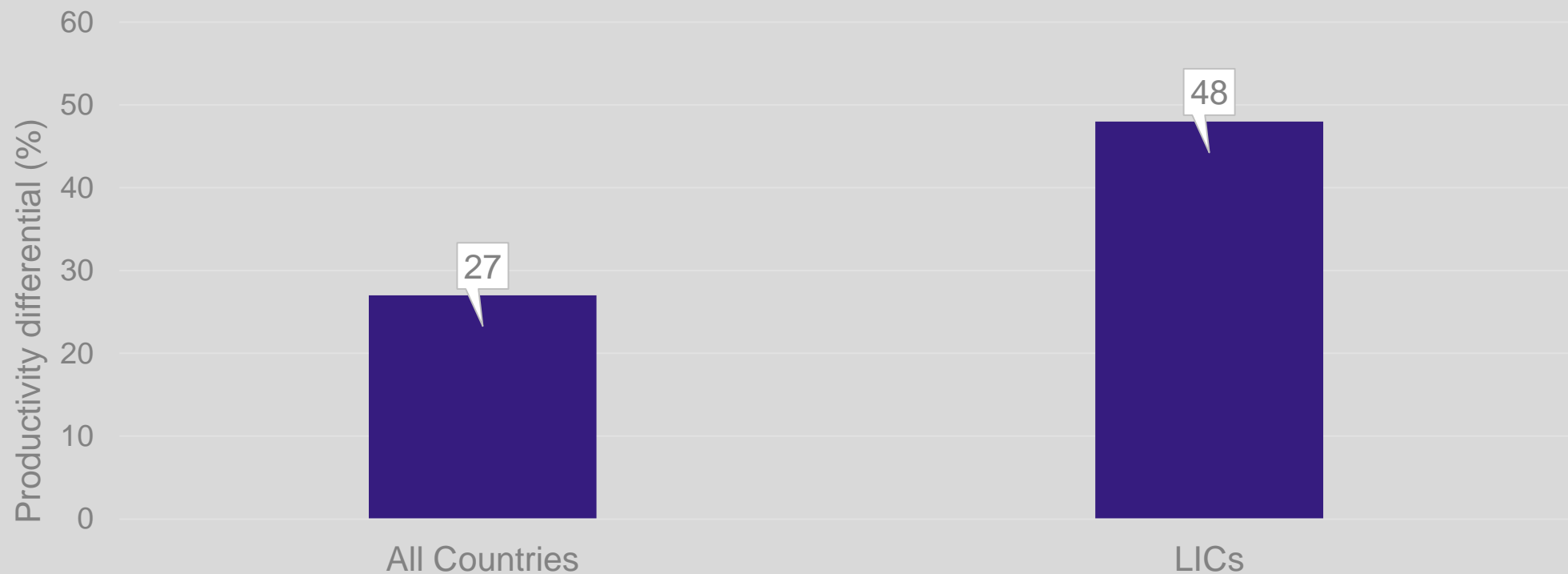
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IN MANY LDCs, EXPORTS OF SERVICES HAVE GROWN FASTER THAN TRADE IN GOODS



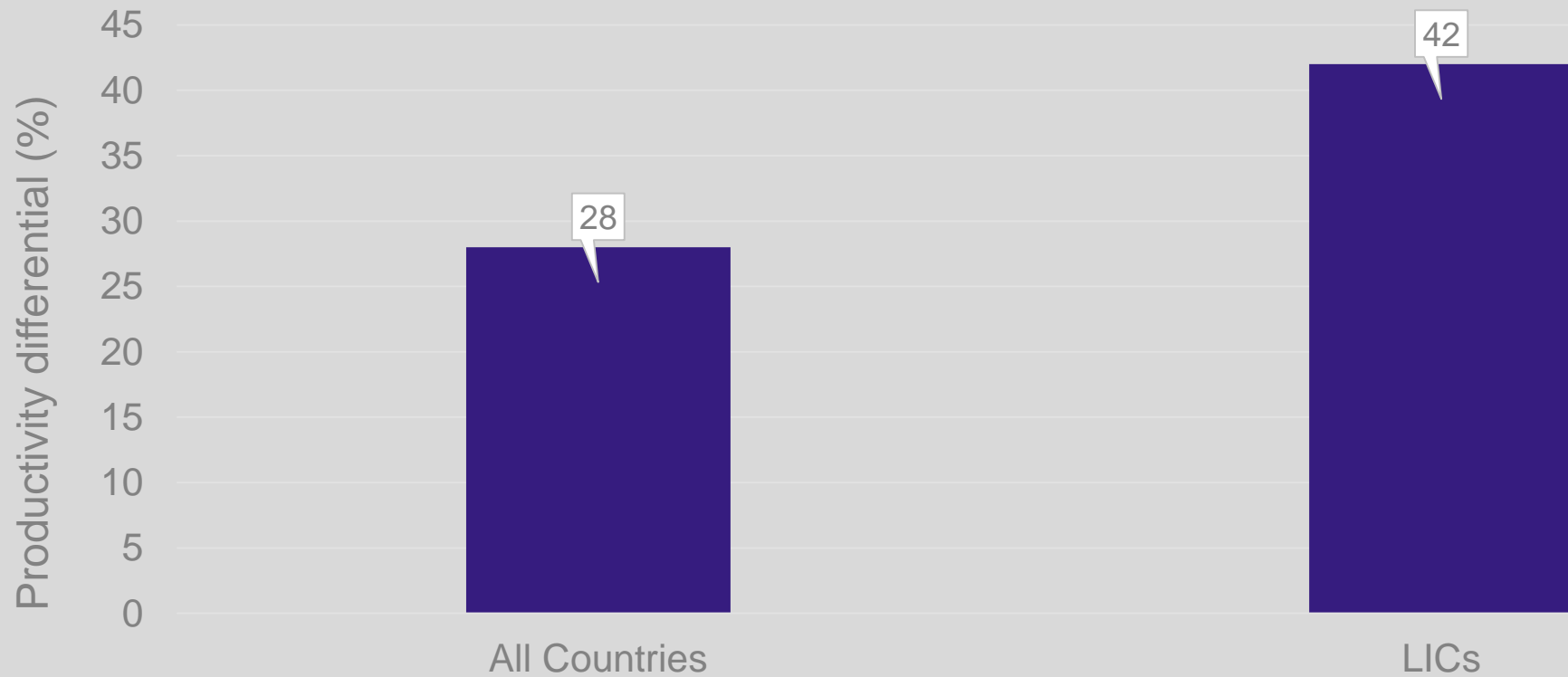
Source: Own calculations based on UNCTAD

LARGER PRODUCTIVITY GAP BETWEEN EXPORTING AND NON-EXPORTING SERVICE FIRMS IN LICs THAN IN THE REST OF THE WORLD



Source: Own estimations based on World Bank Enterprise Survey

AMONG THE EXPORTING FIRMS, SERVICES FIRMS ARE MORE PRODUCTIVE IN LICs

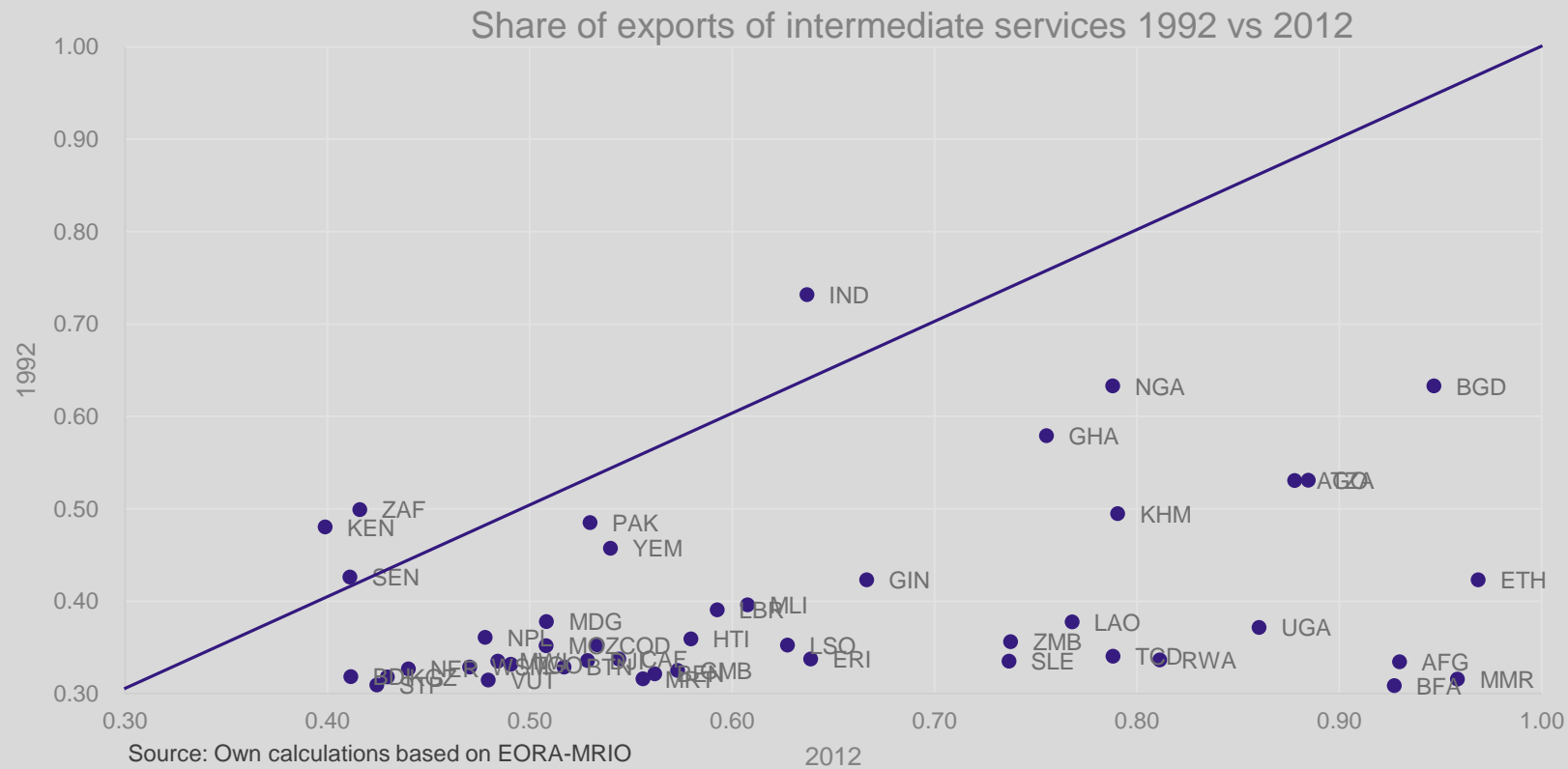


Source: World Bank Enterprise Survey

PATHWAYS BETWEEN SERVICES AND ECONOMIC TRANSFORMATION

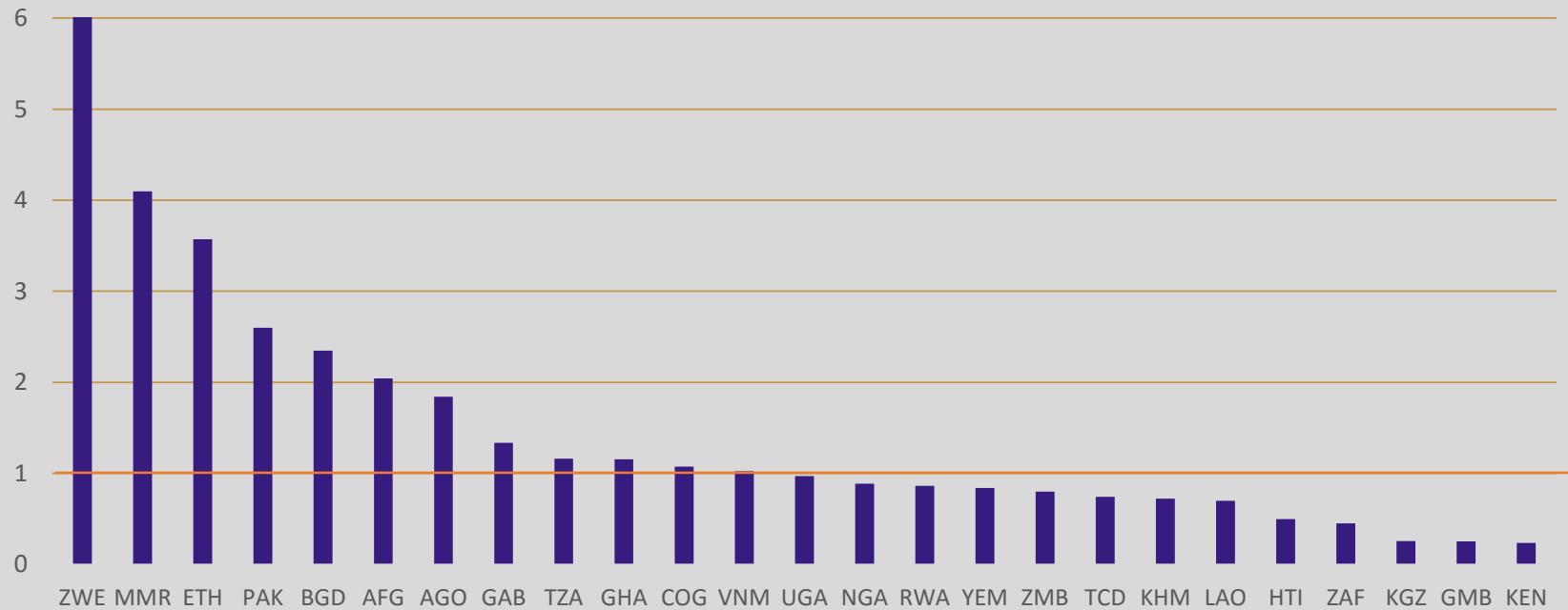
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SERVICES EXPORTED FROM DEVELOPING COUNTRIES INCREASINGLY PART OF VALUE CHAINS IN OTHER COUNTRIES



VALUE ADDED FROM SERVICES GREATER THAN EXPORTS OF SERVICES IN SOME DEVELOPING COUNTRIES

Services value added in exports and exports of services (ratio) 2012



Source: Own calculations based on EORA-MRIO

SERVICES SECTOR DEVELOPMENT AND JOBS EFFECTS

Sector	Direct effects		Indirect effects (static and dynamic)		Induced/ productivity effects
	Jobs (skilled, medium or low-skilled workers)	Exports	GDP		
Accommodation and restaurants	Low and Medium skilled	+	++	+++	+
Education	Medium skilled	+	++	Temporary	+++
Finance and insurance	Skilled	+++	++	Forward linkages	++
Health	Medium skilled (nurses)	+	+	Temporary	+++
Information and communication	Skilled	+++	++	Forward linkages	+++
Professional and support services	Skilled	+++	+	-	+++
Public administration	Low and medium skilled	-	++	++	+
Real estate	Medium skilled	-	+++	+++	+
Transport and storage	Medium skilled	++	+++	+	+++
Wholesale and retail	Low and medium skilled	+	+++	+++	+

CASE STUDIES OF THE CONTRIBUTION OF SERVICES SECTORS TO ECONOMIC TRANSFORMATION

- Use five case studies to identify ways in which different services sectors contribute to ET
 - Financial services (Kenya and Nigeria), hydropower transmission services (Lesotho and Nepal), ICT (India, Mauritius and Senegal), tourism (Mauritius and Tanzania), air transport services (Ethiopia and Kenya)
- Some are more useful as employment creators and there is heterogeneity in labour and skill intensities
 - Financial, ICT and hydropower transmission services employ mostly skilled workers; tourism is less skill- and more labour-intensive
- Some are important revenue and foreign exchange earners (e.g. hydropower, tourism, ICT), others have more prominent linkages with the rest of the economy (e.g. tourism), and some are key for supporting productivity/trade in other sectors (e.g. ICT, financial services)
- Developing these services sectors can have positive effects on ET in developing countries

EXPLAINING SUCCESS IN TRADE IN SERVICES SECTORS

- Presence of certain **basic structural factors** is key to success in some services sectors (e.g. natural resources for hydropower or tourism; geographical location for air transport services)
- Quality of infrastructure and skills influence **domestic productive capabilities** and can generate significant differences in the performance of services exports (e.g. hydropower infrastructure in Lesotho vs. Nepal; ICT infrastructure in India or Mauritius vs. Senegal)
- **An appropriate domestic regulatory framework** is important to promote competition and improve efficiency, especially in utility services (e.g. financial, energy or transport services with oligopolistic producers). Liberalisation can help to improve competitiveness (e.g. telecommunications in Mauritius and Senegal)
- **Trade policy** has been a key driver of success in all five sectors
 - e.g. regional integration boosting Kenya's financial services exports; bilateral agreements with neighbouring countries for hydropower exports; mode 1 and mode 4 access for ICT exports
- **Iterative, adaptive and flexible approaches** have been successful in setting up mechanisms to coordinate investment in certain services sectors (e.g. hydropower in Nepal)

FINAL COMMENTS

- Services have been a major driver of productivity growth in the last 20 years
- The combination of trade and services is particularly powerful in boosting firm productivity in LICs
 - Services exporters firms present higher productivity
 - Among exporters, services firms present higher productivity in LICs
- The potential for ET and trade in services is particularly strong when seen under the light of trade in value added.
 - Services contribute to the productivity growth of the whole economy.
- Services provide jobs opportunities across all skilled levels, through both direct and indirect channels
- Case studies suggest that the success of trade in services is explained by
 - The presence of basic structural factors
 - The existence of domestic productive capabilities
 - An appropriate domestic regulatory framework
 - Trade policy, particularly through regional trade agreements

SET SUPPORTING ECONOMIC TRANSFORMATION

The Supporting Economic Transformation (SET) is an ODI programme funded by UK DFID to support countries in their quest for economic transformation through data and policy analysis and covention. The views expressed are those of the researchers and do not necessarily represent the views of ODI or DFID.

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