



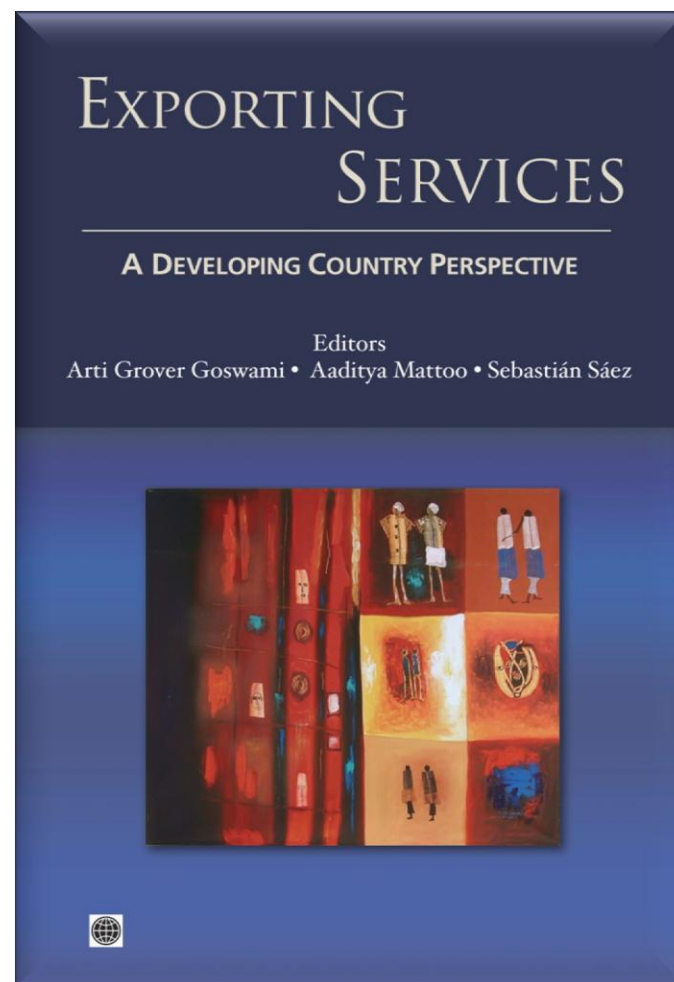
Services Trade Competitiveness Analysis

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SERVICES TRADE COMPETITIVENESS

- Why it matters?
- What we are doing?
- How we are doing it?



WHAT IS TRADE IN SERVICES?

Presence of supplier	Other criteria	Mode
Service supplier is <u>not present</u> in the territory of Member.	Service supplied <u>in</u> territory of one Member from the territory of any other Member.	CROSS-BORDER SUPPLY
	Service supplied to a consumer of Member <u>outside</u> his territory, in the territory of any other Member.	CONSUMPTION ABROAD
Service supplier is <u>present</u> in the territory of Member.	Service supplied in territory of one Member, through commercial presence of supplier of other Member.	COMMERCIAL PRESENCE
	Service supplied <u>in</u> territory of Member and supplier from other Member is present in the form of a <u>natural</u> person.	MOVEMENT OF NATURAL PERSON

SERVICES TRADE COMPETITIVENESS

- Services play a strategic role in developing countries' competitiveness
 - Positive [correlation with GDP per capita](#)
 - Next stage of countries export diversification, [sophistication and value addition](#)
 - [Strategic input](#) to many manufacturing processes
- Governments want to improve their understanding of size, scope and potential of services exports as well as the obstacles that need to be removed to unlock the competitiveness of their countries' services sector.
- The questions they ask include:
 - How can we assess domestic vs. trade performance of services sector and their importance?
 - How can we assess the role of services as inputs in the traded sector of an economy?
 - What are the determinants of services trade performance?
 - What is the relative importance of these determinants for different services?
 - How do policies influence the efficiency of these determinants and of services exports?
 - What are the main policy constraints for trade in services growth and development?

WHY IT MATTERS

SERVICES TRADE COMPETITIVENESS

WHAT ARE WE DOING?

- A framework for analysis covering three dimensions:
 - Outcomes: scope and coverage of services export sector
 - Potential for services exports: tradability, and services content of downstream goods exports
 - Enabling factors and obstacles

HOW / WHERE ARE WE DOING IT?

- Gathering new data (trade in [value added](#); [bilateral](#) flows, and [firm level](#))
- Value added and bilateral data will be made available online by end of FY13.
- Focus on determinants: policies as well as supply-side factors (HK, Infrastructure, others)
- Pilot countries: Malaysia (full analysis), Cambodia and Kazakhstan (partial analysis), Ghana (spillovers to the manufacturing sector)

SERVICES COMPETITIVENESS ANALYSIS

A three-dimensions analysis:

- Outcomes: services and scope of the export sector
- Potential for services export: tradability and services content of exported goods
- Enabling factors and obstacles

Note: This analysis depends on availability and access to data

DIMENSION 1:

SERVICES TRADE OUTCOMES ANALYSIS

– Size of trade

- Aggregate data (→ compare indicators to highly developed countries and peer countries)
- Firm level data analysis to assess characteristics of trading firms(*)

– Scope of trade

- Diversification
- Export survival and growth
- Sophistication and value addition

(*) Note: This analysis depends on availability and access to data

DIMENSION 2: POTENTIAL FOR SERVICES EXPORT

- Services content of exported goods and services
- Assessing tradability(*)
- Potential vs. actual outcomes in export performance
- Services complementarity with goods

Note(*): This analysis depends on availability and access to data

DRIVERS OF SERVICES GROWTH

Economic Fundamentals

- Human capital
- Infrastructure
- Access to technology

Policy Ecosystem

- Policies affecting trade, investment, and labor mobility in services
- Competition environment
- Licenses and 'behind the border' regulations

Active Promotion Policies

- Export promotion policies
- Fiscal and other incentives

DIMENSION 3: TRADE DIAGNOSTICS

- Trade diagnostic
 - Foreign barriers: Market access
 - Domestic barriers: services institutions
 - Domestic barriers: Business environment for FDI
 - Domestic barriers: Labor skills
 - Domestic barriers: Trade related infrastructure
- Policy Recommendations

Note: This analysis depends on availability and access to data

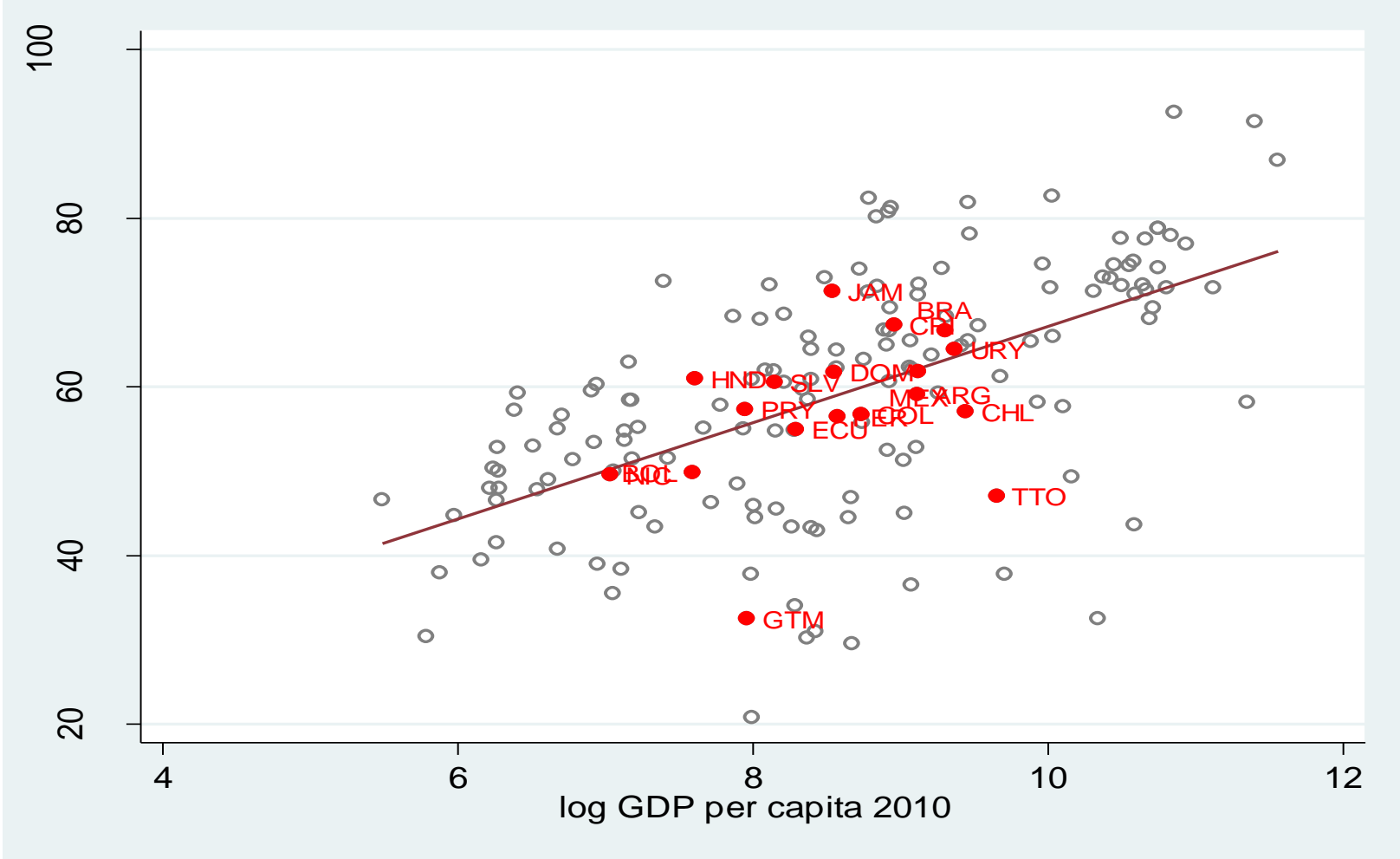
SERVICES TRADE OUTCOME ANALYSIS: SIZE AND SCOPE OF THE SERVICES TRADED SECTOR.

- Trade in services as a percentage of GDP and comparison with services value added as a percentage of GDP.
- Services exports relative to services value added (measure of tradability).
- Export growth: compared to goods and to peer countries.
- Measures of revealed comparative advantage (RCA) following Balassa (1965).
- Measures of evolution of exports and world demand investigating if specialization observed in a country is moving into the most dynamic sectors of world demand.

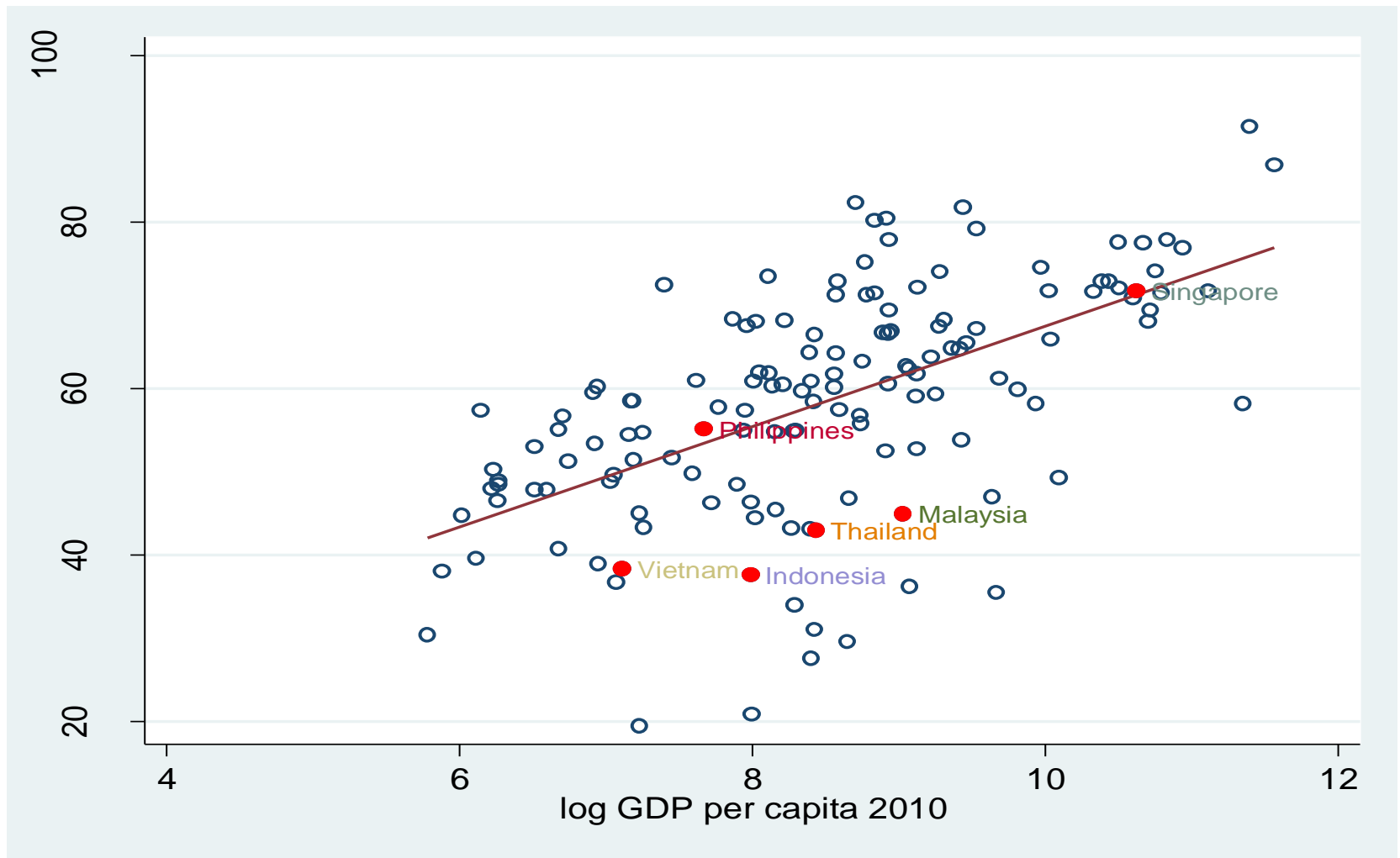
Measuring the size of the sector comparing with a country's development level or region

- Trade in services as a percentage of GDP and comparison with services value added as a percentage of GDP.
- Measure of untapped potential
- In general based on cross-border transactions

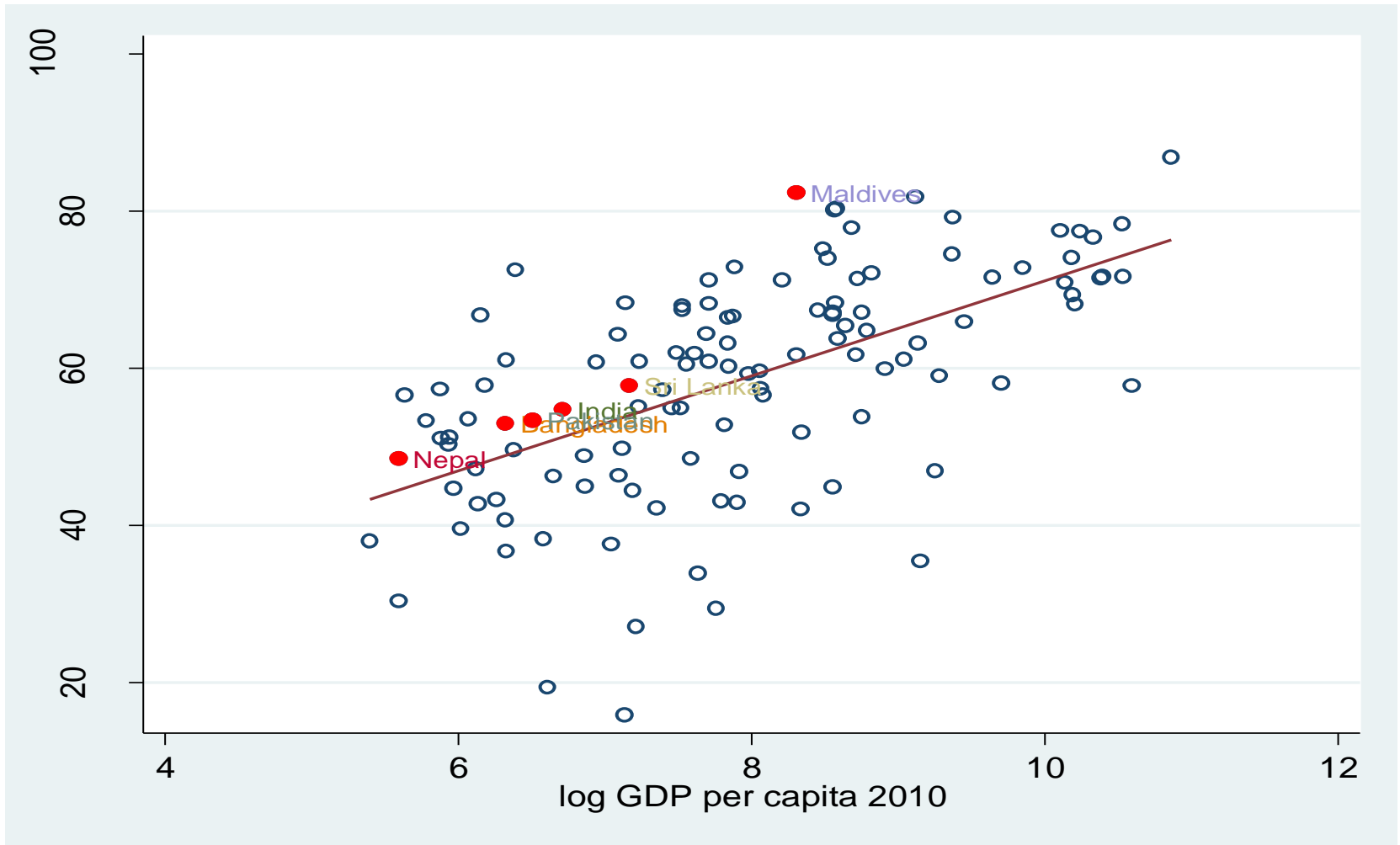
Services Valued Added to GDP: LAC, 2010



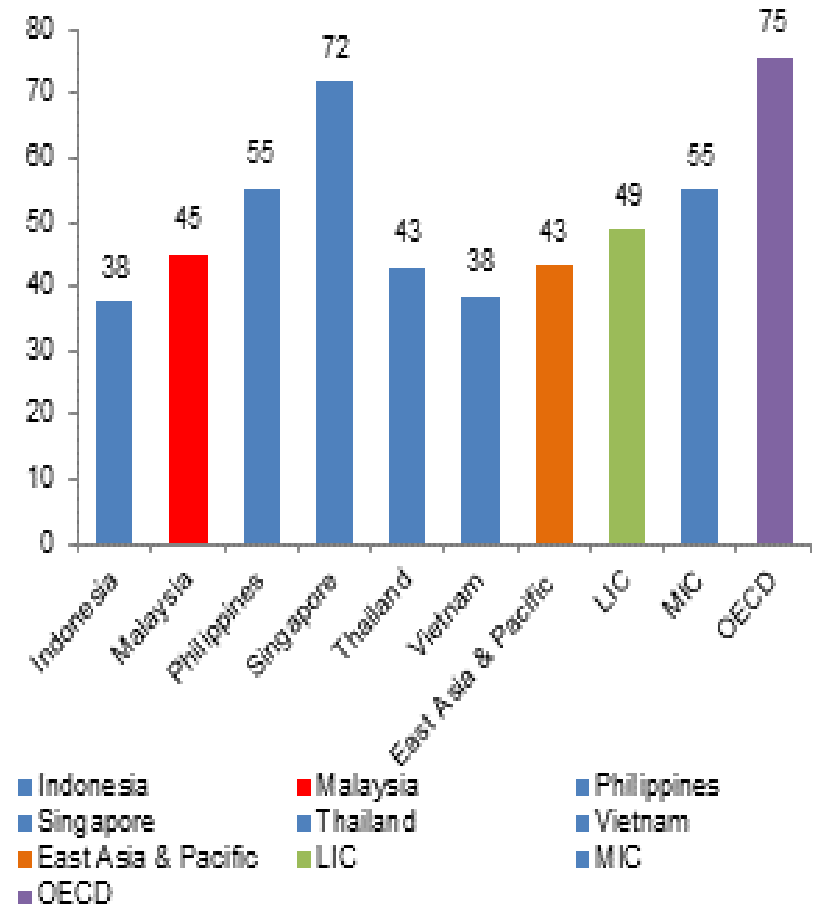
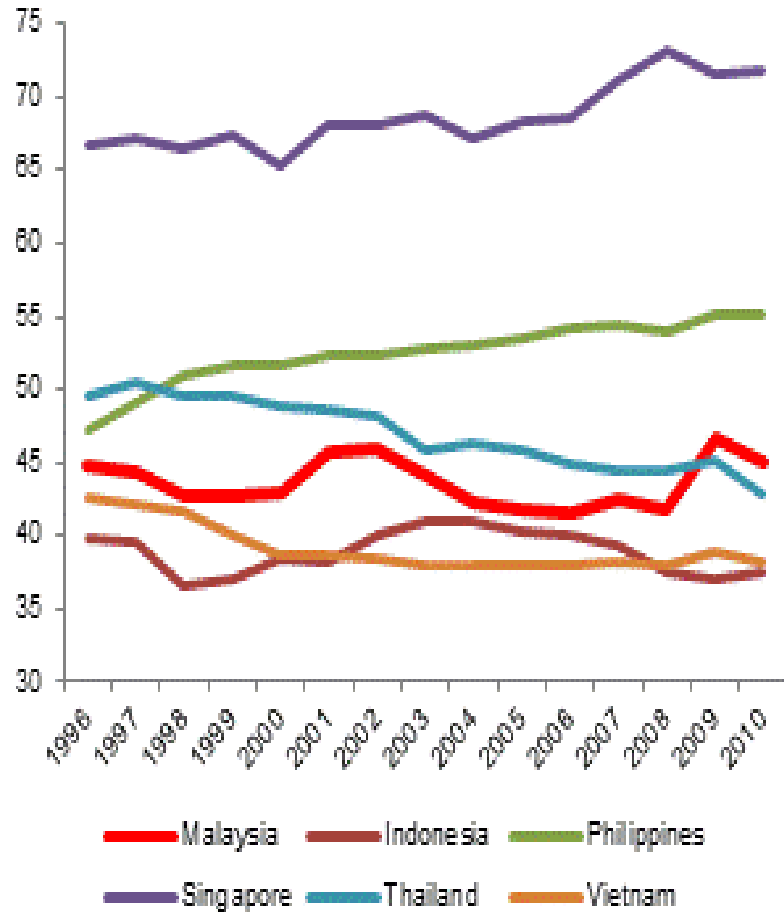
Services Valued Added to GDP: EAPR, 2010



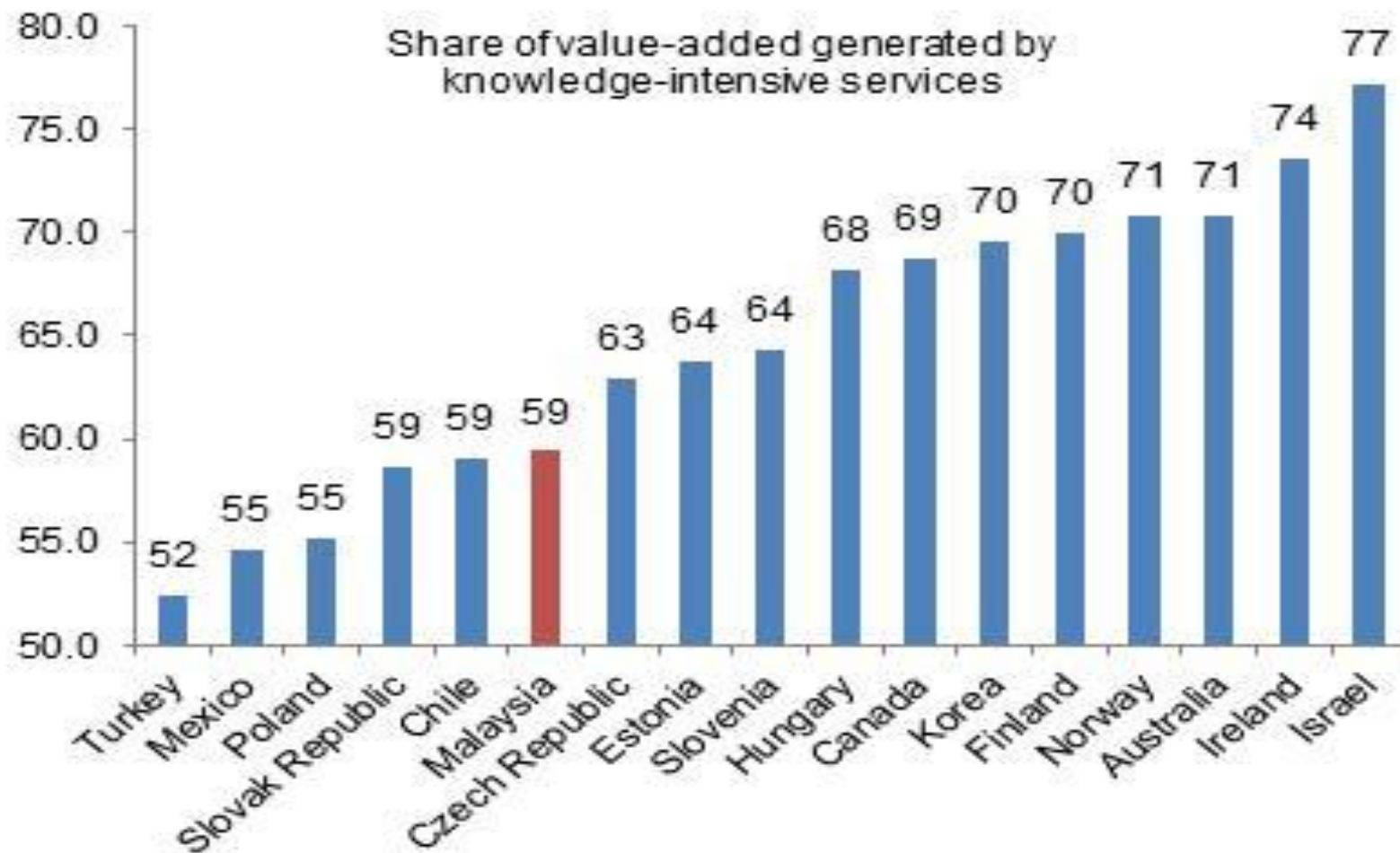
Services Valued Added to GDP: SA, 2010



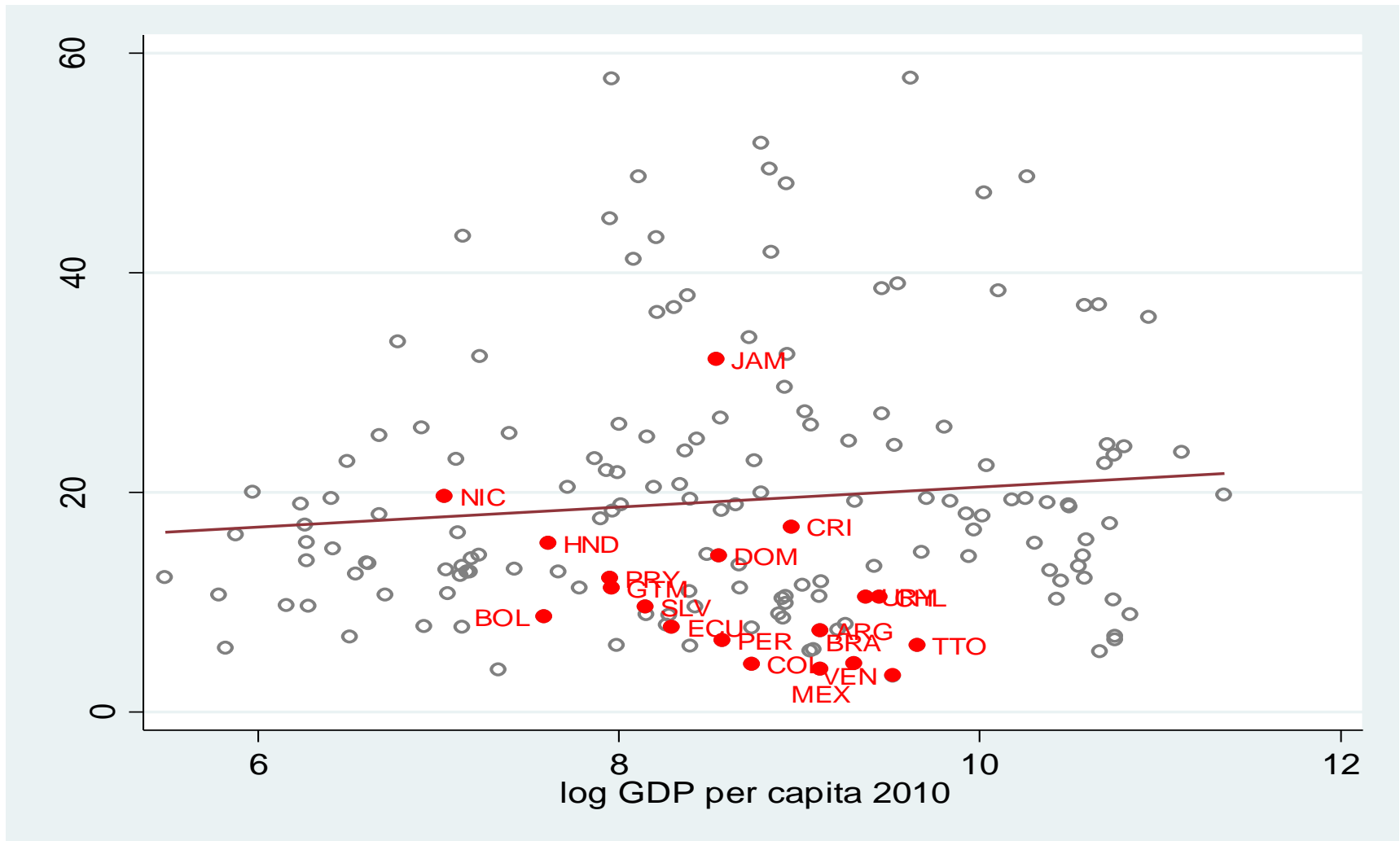
ANOTHER ANGLE: COUNTRIES AND REGIONS



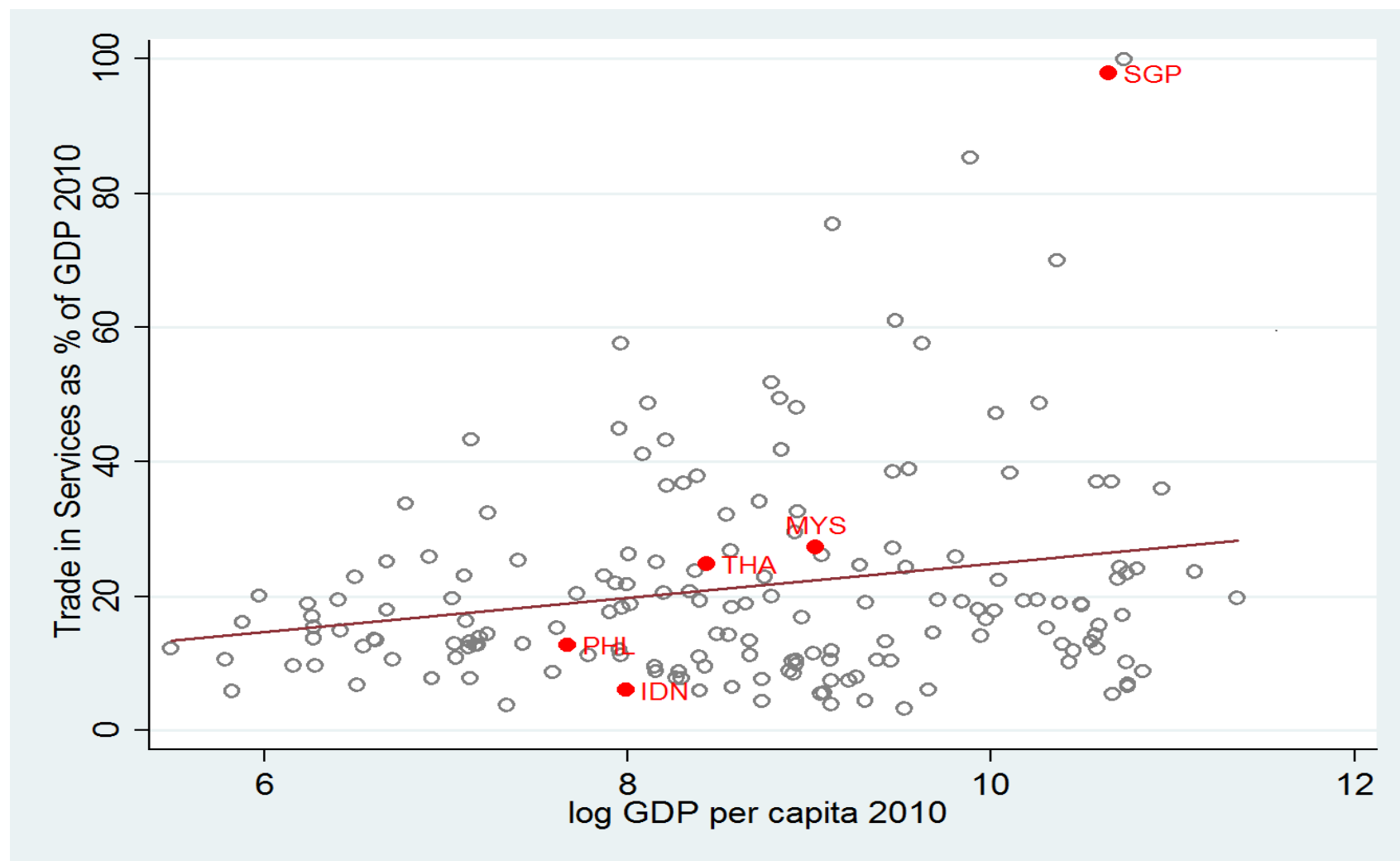
DOES COMPOSITION MATTER?



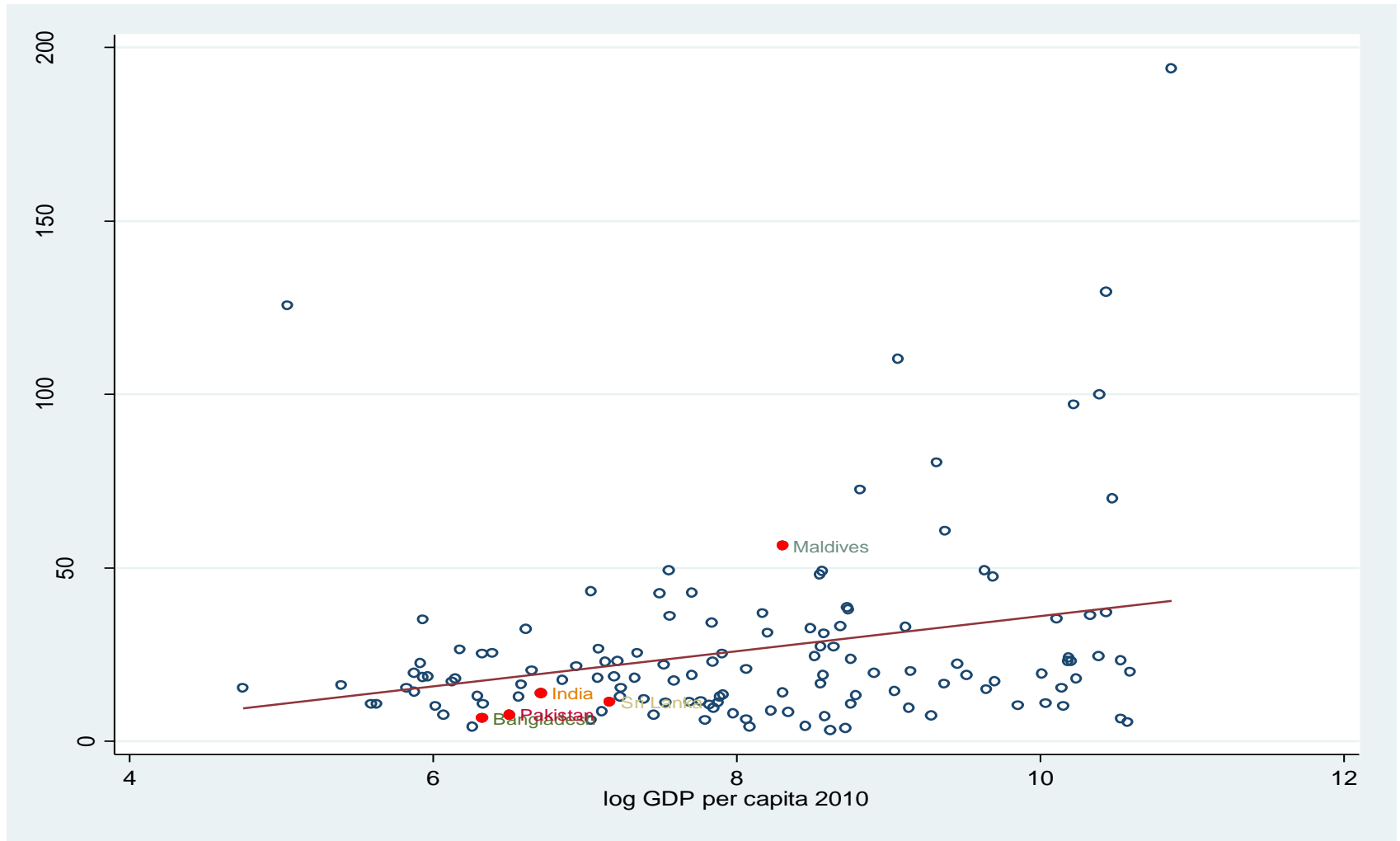
SERVICES TRADE TO GDP: LAC, 2010



SERVICES TRADE TO GDP: EAR, 2010



SERVICES TRADE TO GDP: SA, 2010

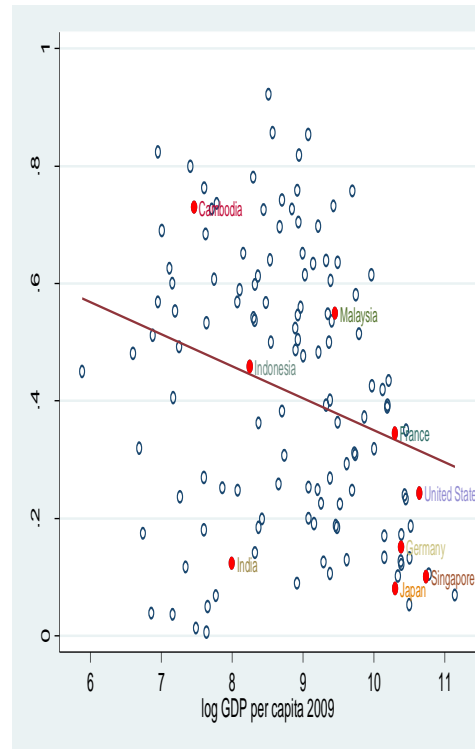


SERVICES COMPOSITION AND GDP:2010

a. Transport services exports are below expectations



b. Tourism services perform above expectations

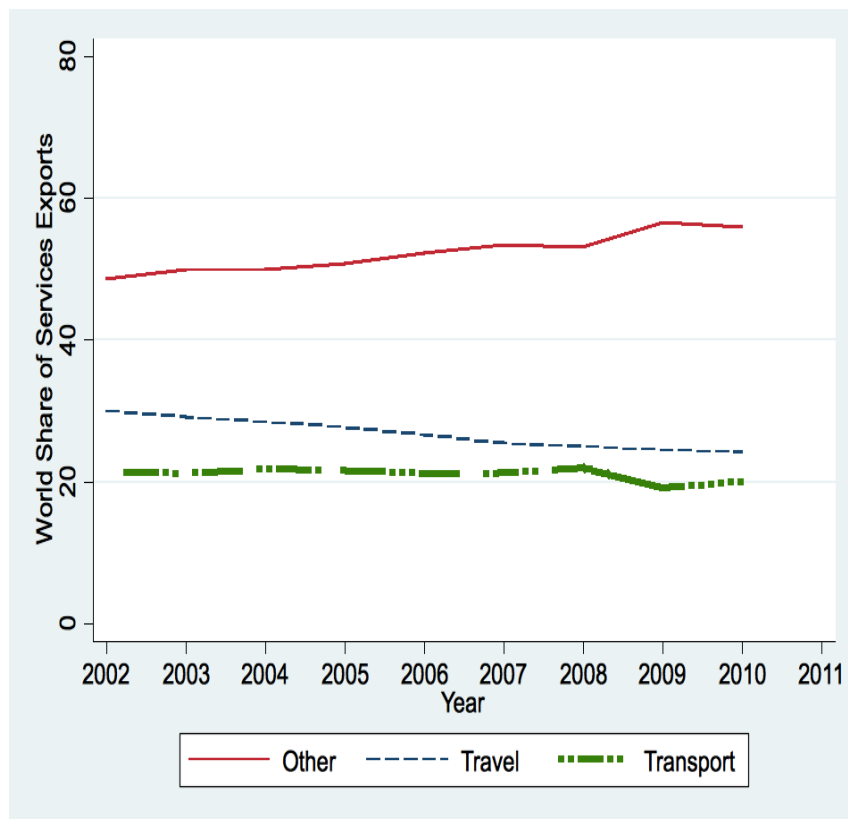


c. Other commercial services exports lower than expected

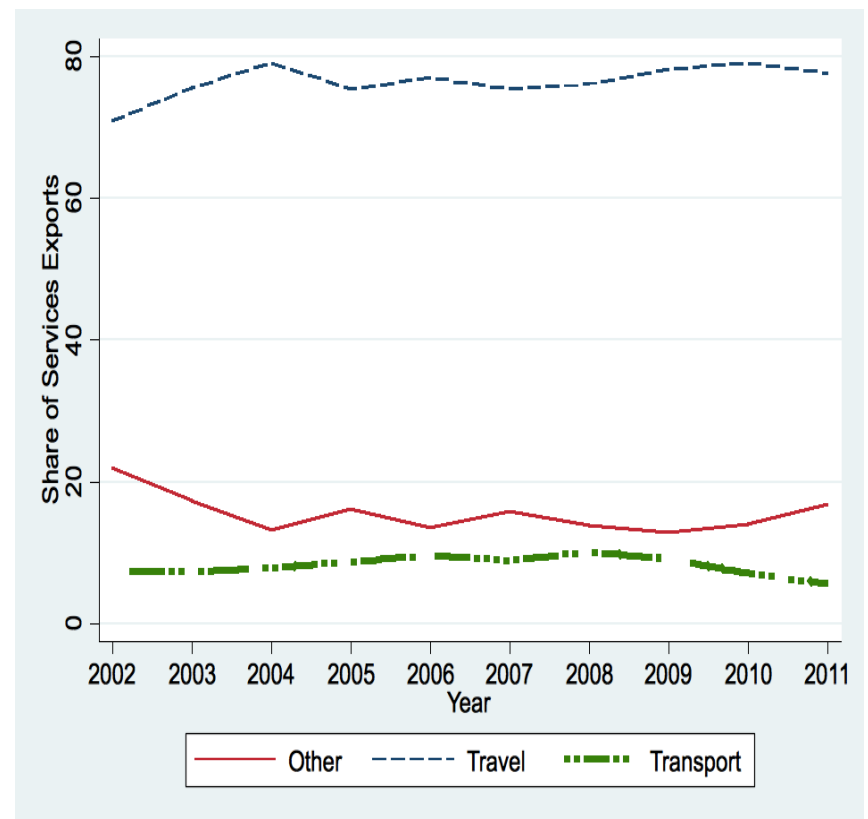


COMPOSITION AND GROWTH: MEXICO

WORLD EXPORTS

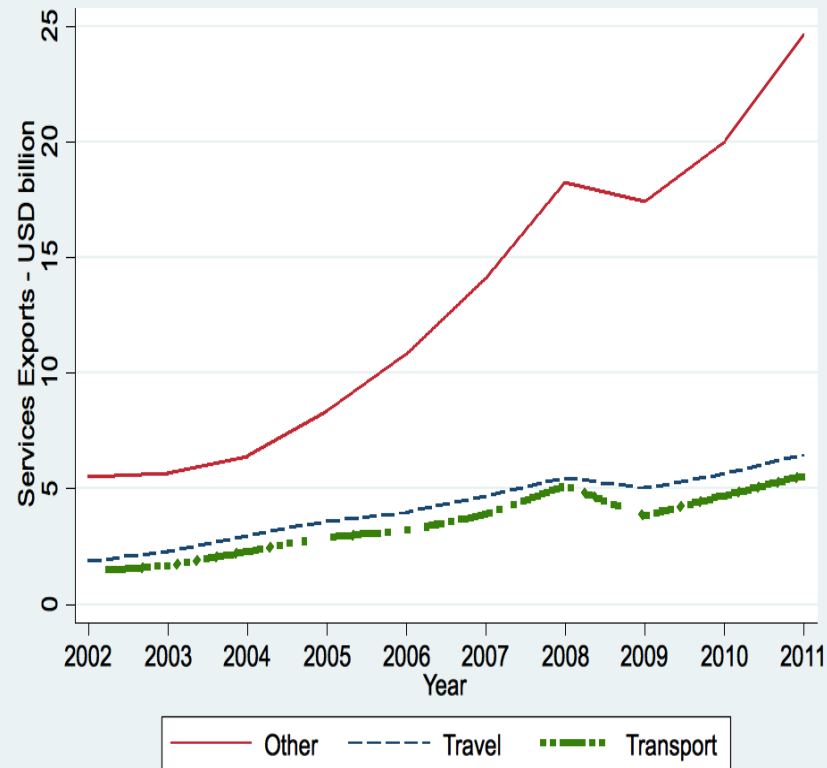


MEXICO'S EXPORTS

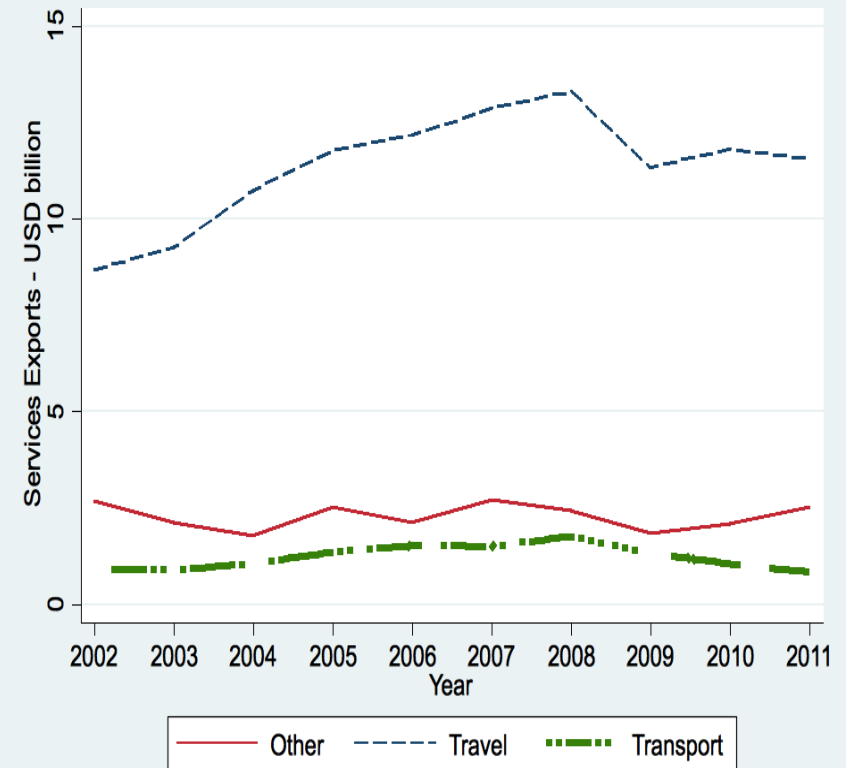


COMPOSITION AND GROWTH:

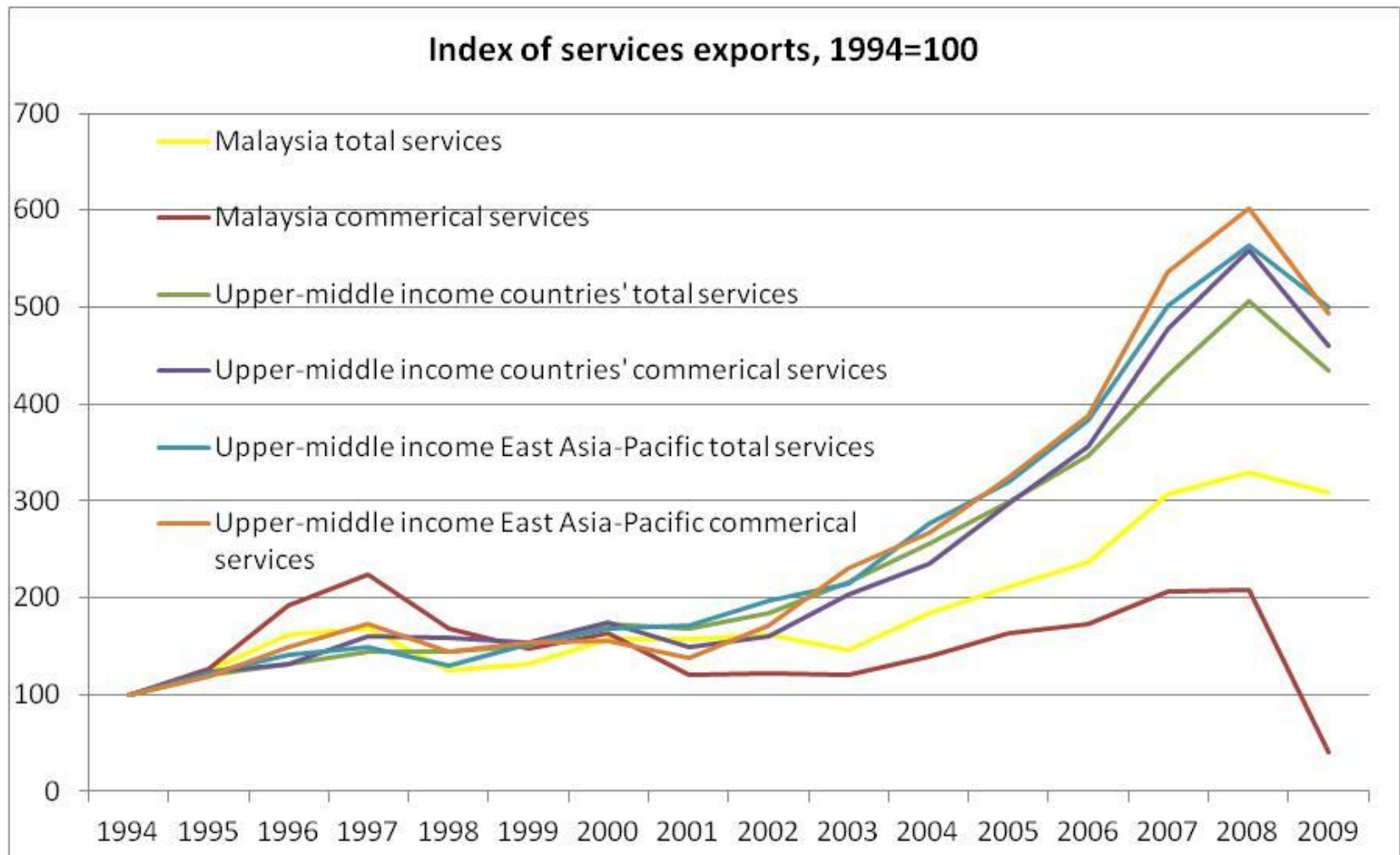
BRAZIL'S EXPORTS GROWTH



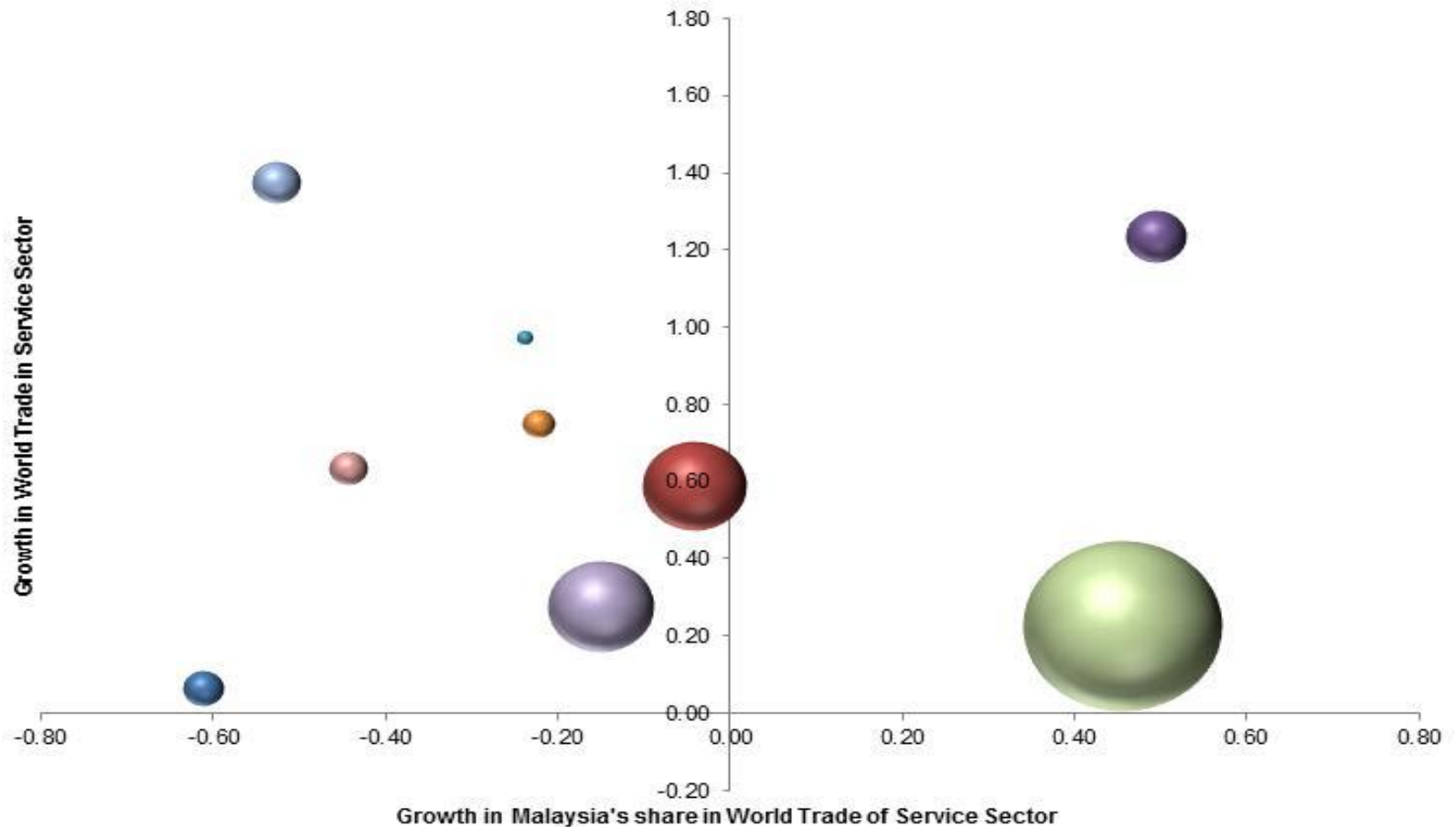
MEXICO'S EXPORTS GROWTH



COMPOSITION ANOTHER ANGLE: MALAYSIA



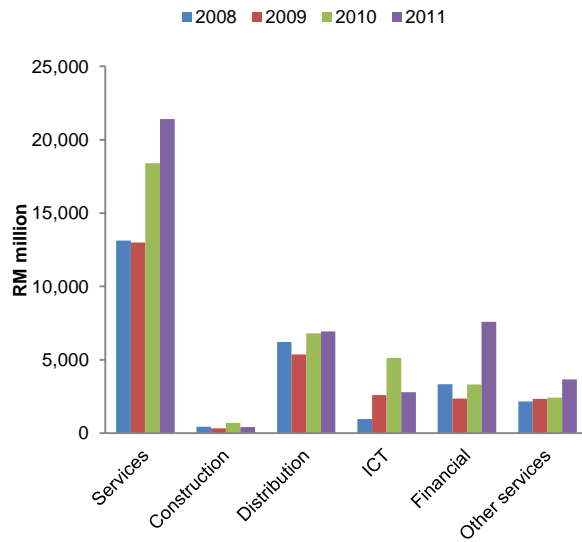
MEASURES OF EVOLUTION OF EXPORTS AND WORLD DEMAND



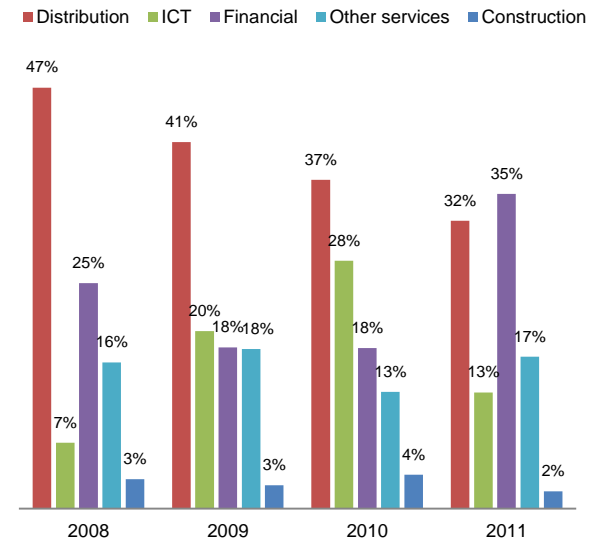
- Personal, Cultural, and Recreational Services
- Financial Services, Credit
- Communications Services, Credit
- Other Business Services, Credit
- Insurance Services, Credit
- Travel, Credit
- Computer and Information Services, Credit
- Construction Services, Credit
- Transportation, Credit

DOES THIS DATA TELL US THE WHOLE STORY: NO, MODES OF SUPPLY

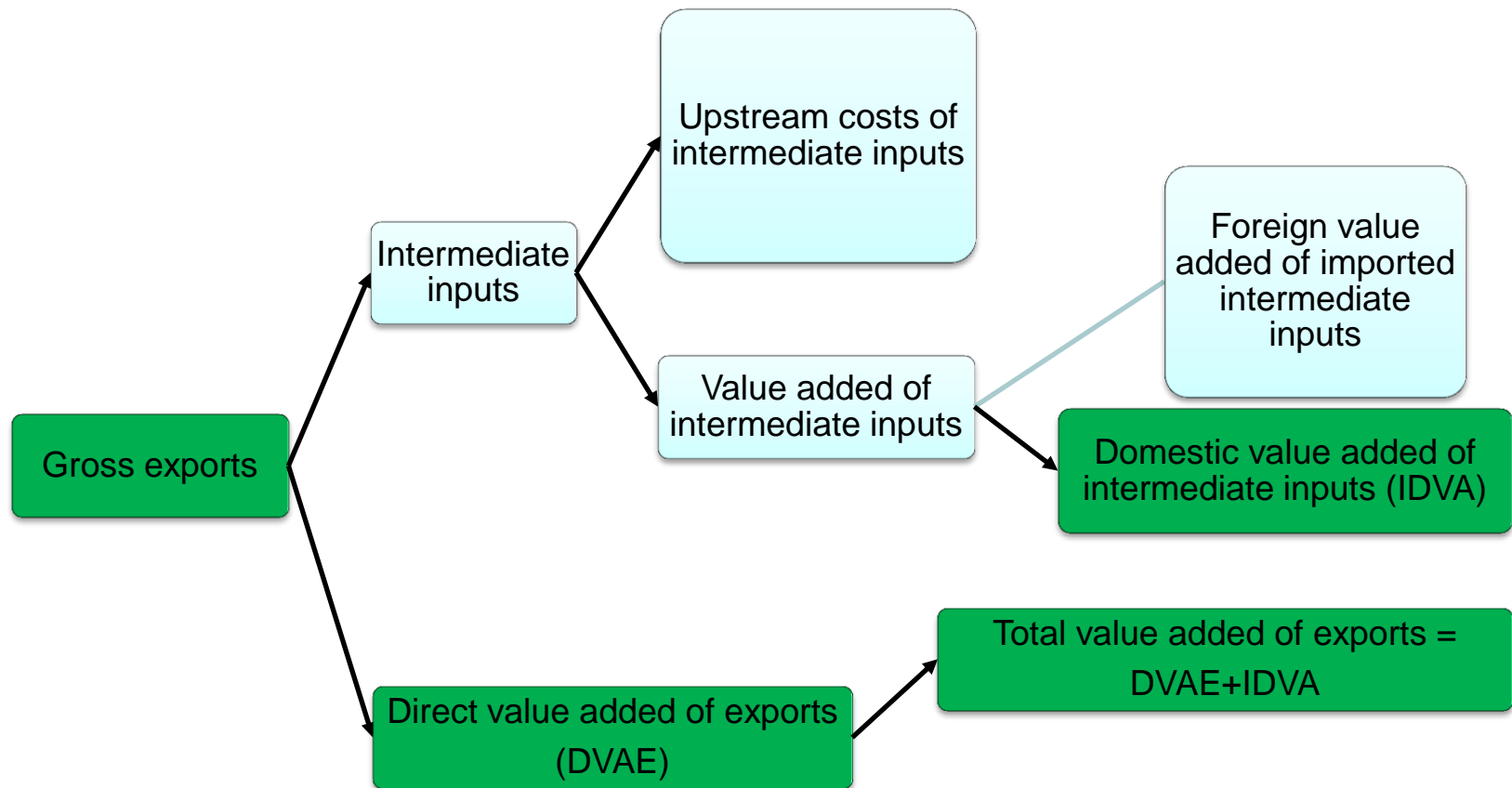
Malaysian Investment in Services Is Increasing



Distribution and Financial Services Main Malaysian FDI Destinations

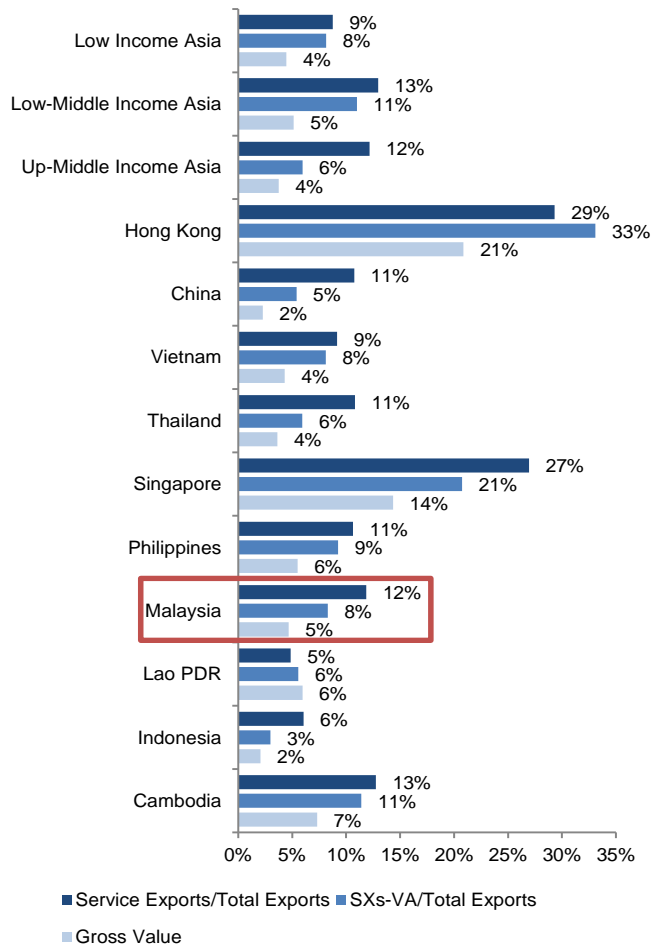


ANOTHER ANGLE TRADE ON VALUE ADDED BASIS

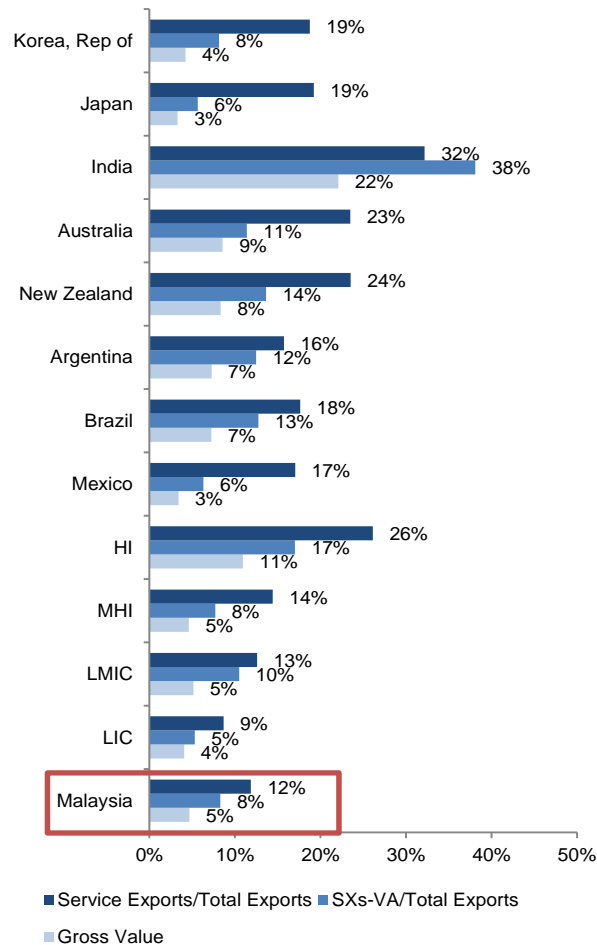


OTHER COMMERCIAL SERVICES

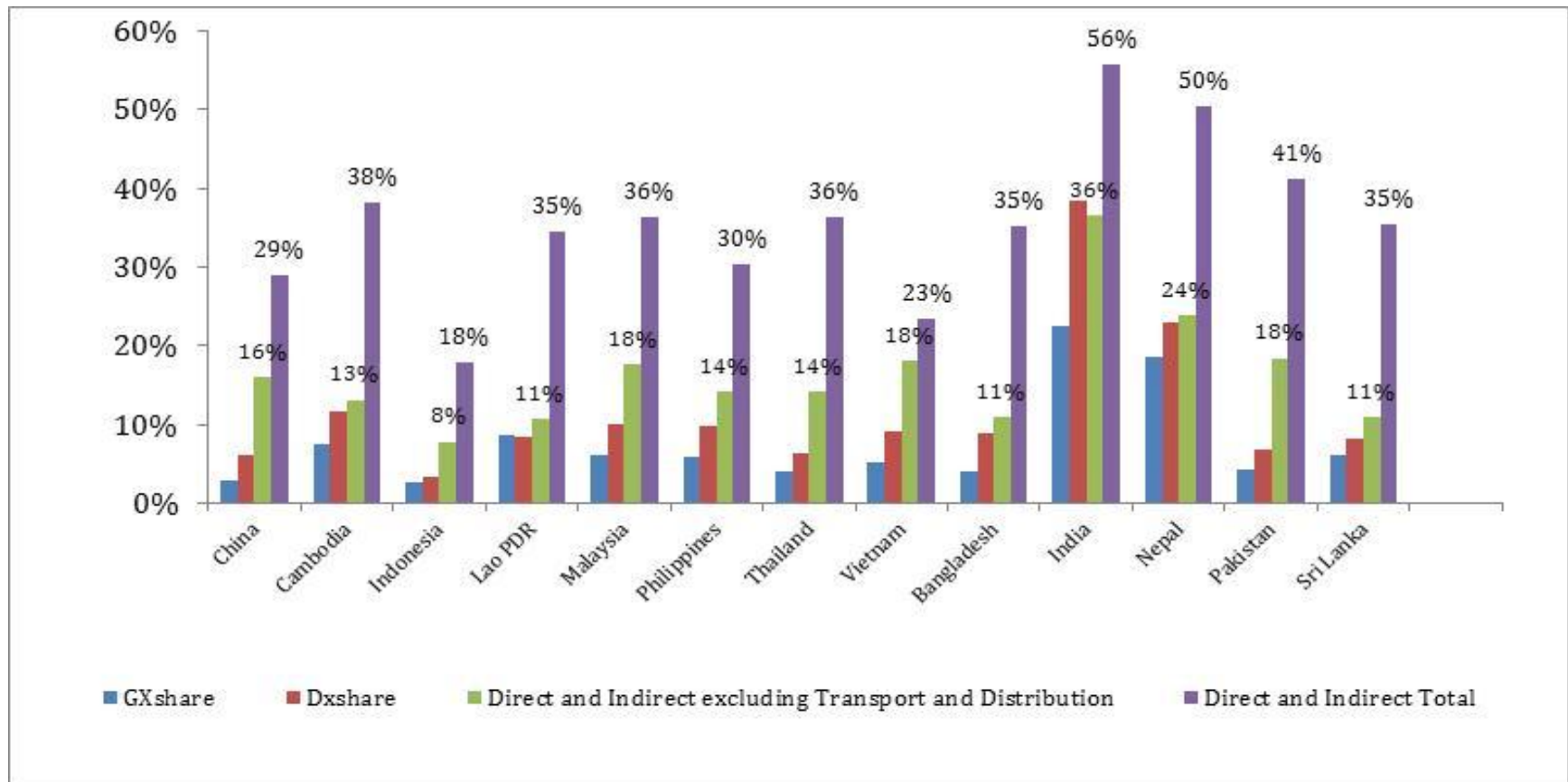
a. Malaysia in the Asia region



b. Malaysia globally



SERVICE EXPORTS CONTRIBUTION TO TOTAL EXPORTS 2007, VALUE-ADDED MEASURES



SERVICES TRADE OUTCOME ANALYSIS: SIZE AND SCOPE OF THE SERVICES TRADED SECTOR.

- Firm level measures of exports and imports of services, for those countries where this information is available.
- Firm level measures from census and balance sheet data. These measures will include, for those countries where this information is available:
 - share of firms exporting, exports over domestic sales distribution, size, TFP, value added, skill and earnings, inputs per worker, average wage, and average R&D investment of exporting vs. non-exporting firms, share of firms exporting. Comparison of these statistics for manufacturing vs. services exporters will allow inferring indirectly some aspects of the performance of the service sector compared to the manufacturing sector, for which a wider and more complete set of statistical information is available.

SCOPE OF THE SERVICES SECTOR

- Conditional on data availability, the scope of the services sector can be quantified by looking separately at three dimensions:
 - a) Diversification: services and markets;
 - b) Survival and growth; and
 - c) Sophistication and value addition.

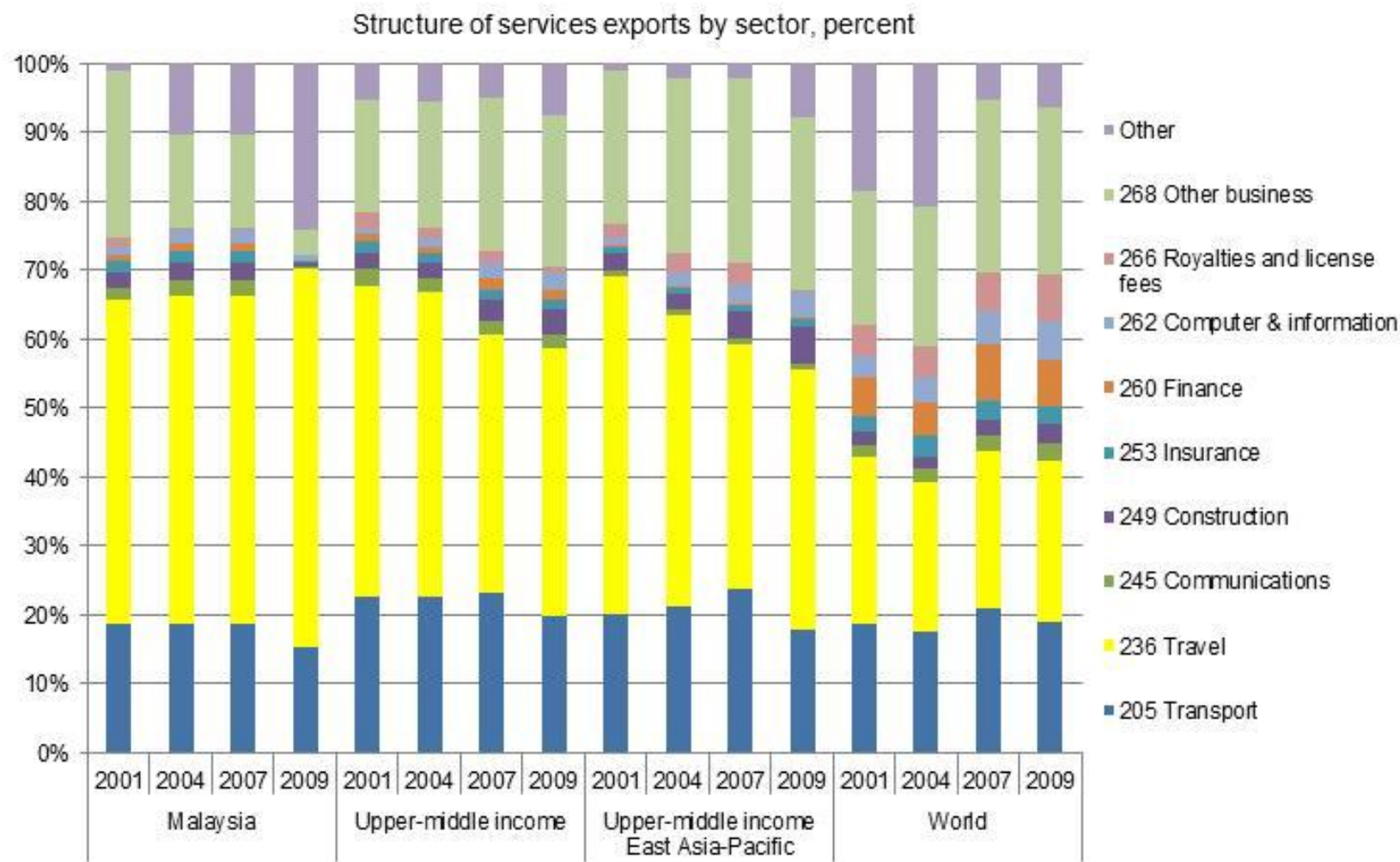
The first two dimensions will allow us to assess the changes in services trade composition and to what extent they are similar to world services trade evolution.

The third dimension, will allow us to assess whether the composition of services is consistent with the level of development of the country.

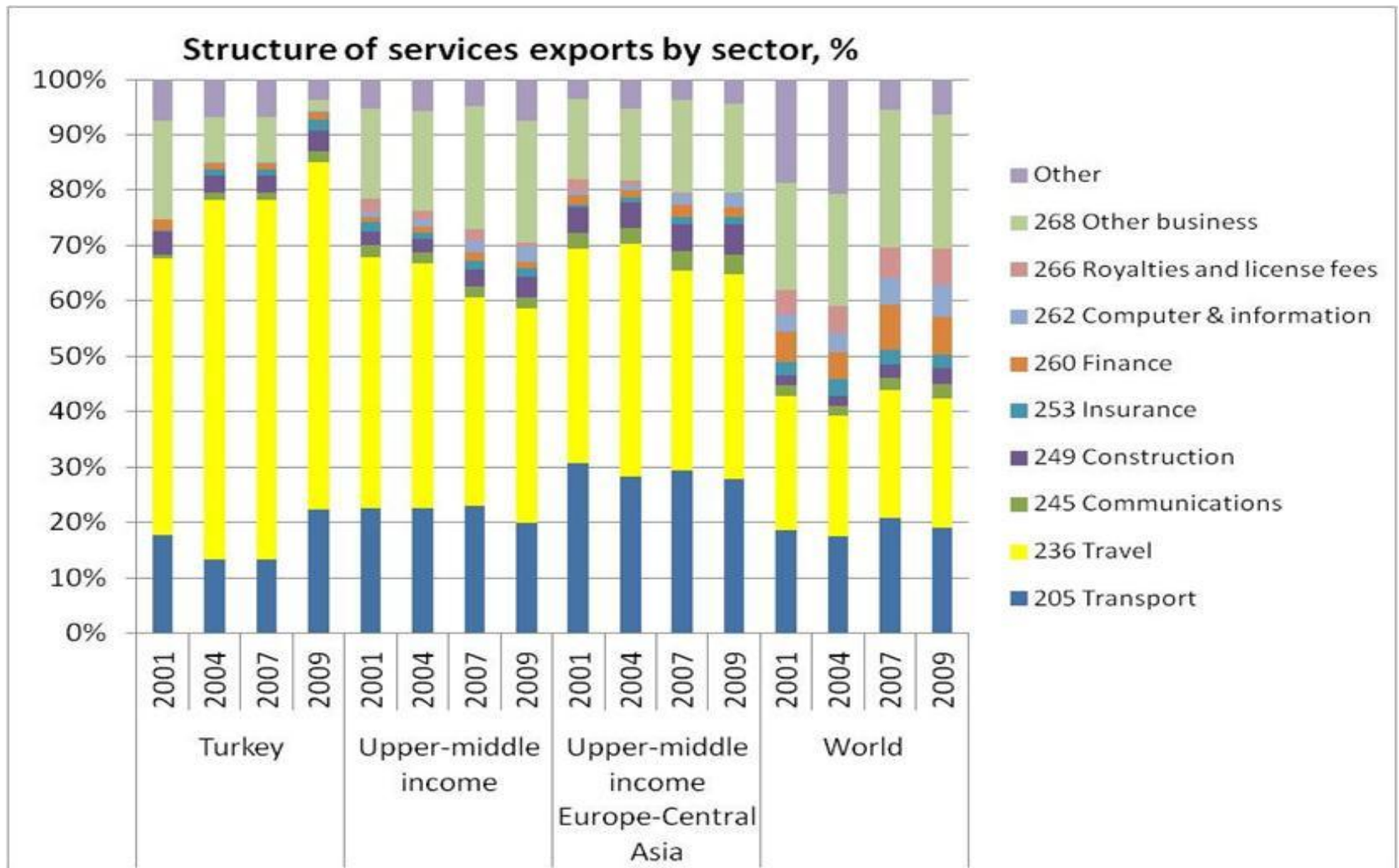
INDICATORS

- Export structure: Composition of country's imports and exports (across goods and services and within services) using sectoral data.
- Export diversification using firm level data: measures of concentration of exports; Gini coefficients, Pareto distribution of firms.
 - Diversification across modes of supply (including Herfindahl index).
- Indicators of export survival and growth will include:
 - Firm level survival rates for exports using firm-level data (if available)
 - Growth decomposition of firm export growth. Comparisons with manufacturing.
- Indicators of sophistication and value addition will include:
 - Analysis on the sophistication of service exports
 - Firm level measures of services export sophistication, including (weighted) averages, medians and standard deviations of value added, sales and employment, wage comparisons for firms in business services and in personal services with firms in manufacturing. Detail for subsectors of services and personal services.

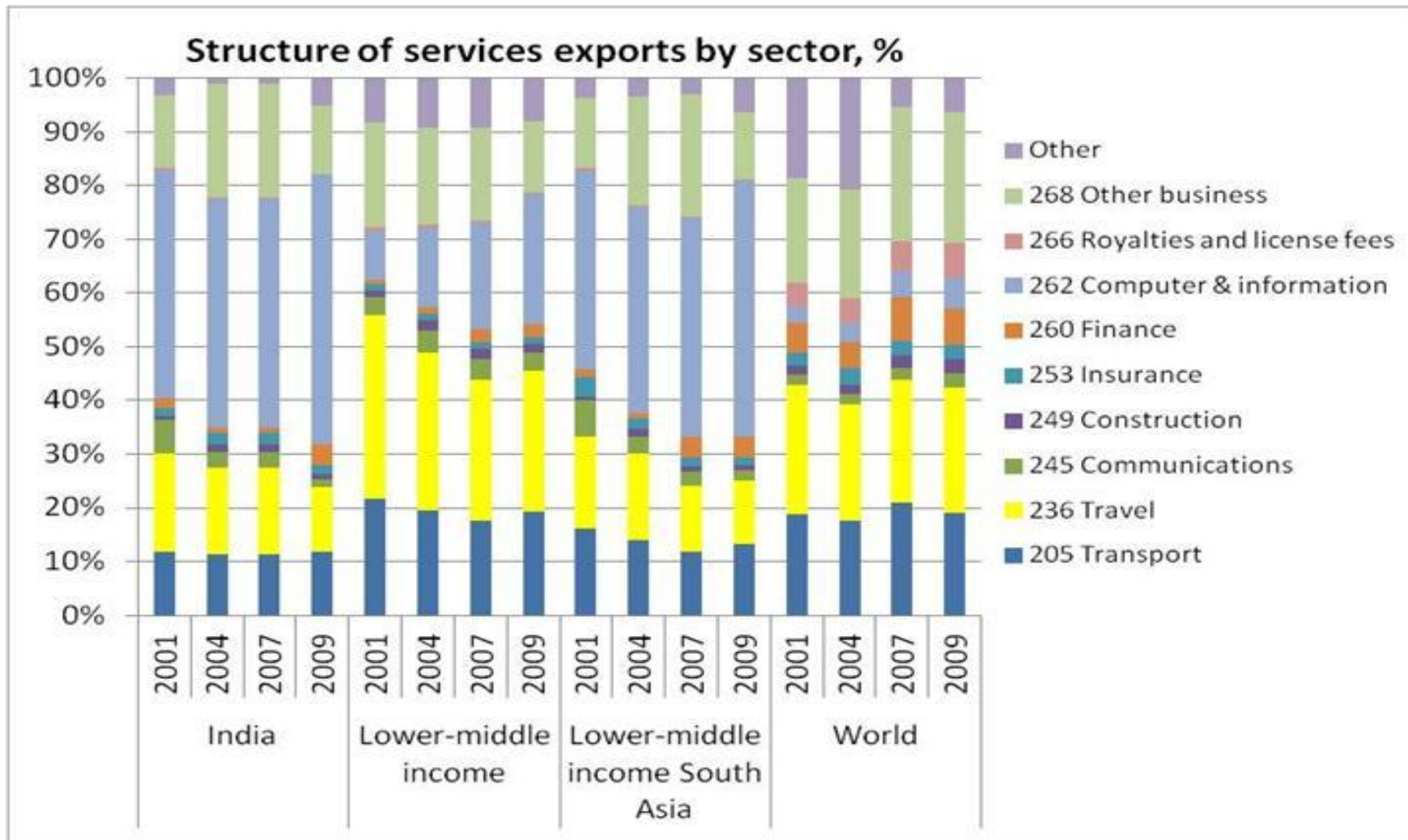
EXPORT DIVERSIFICATION: MALAYSIA



EXPORT DIVERSIFICATION: TURKEY



EXPORT DIVERSIFICATION: INDIA

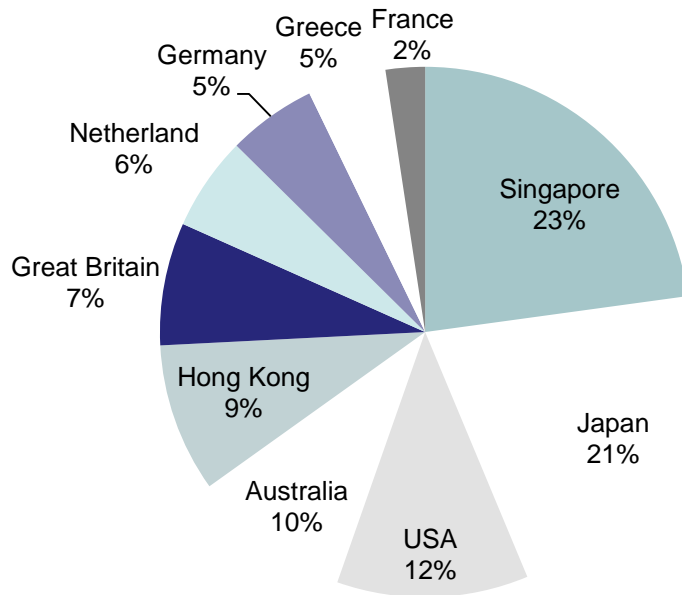


MARKERT DIVERSIFICATION LIMITED DATA AVAILABILITY: MALAYSIA MIRROR DATA

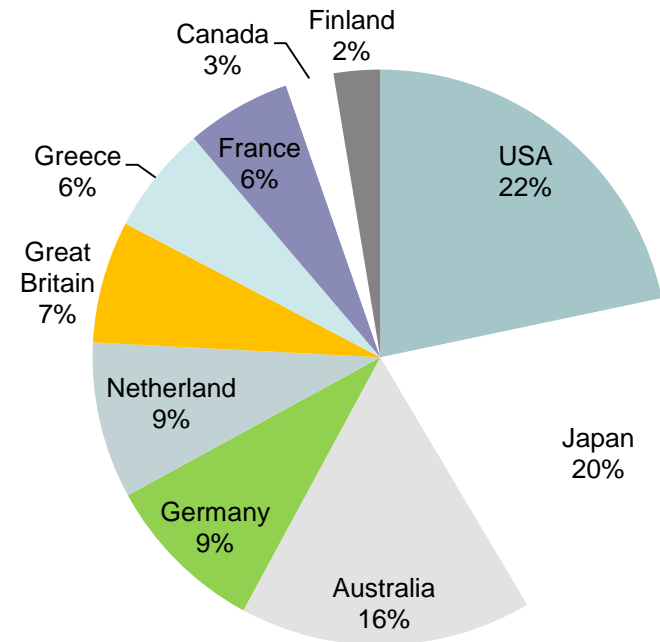
Export: Top 10 share in total exports is 42%

Imports: Top 10 Share in total imports is 23%

Top 10 Trading Partners: 2007



Top 10 Trading Partners: 2007



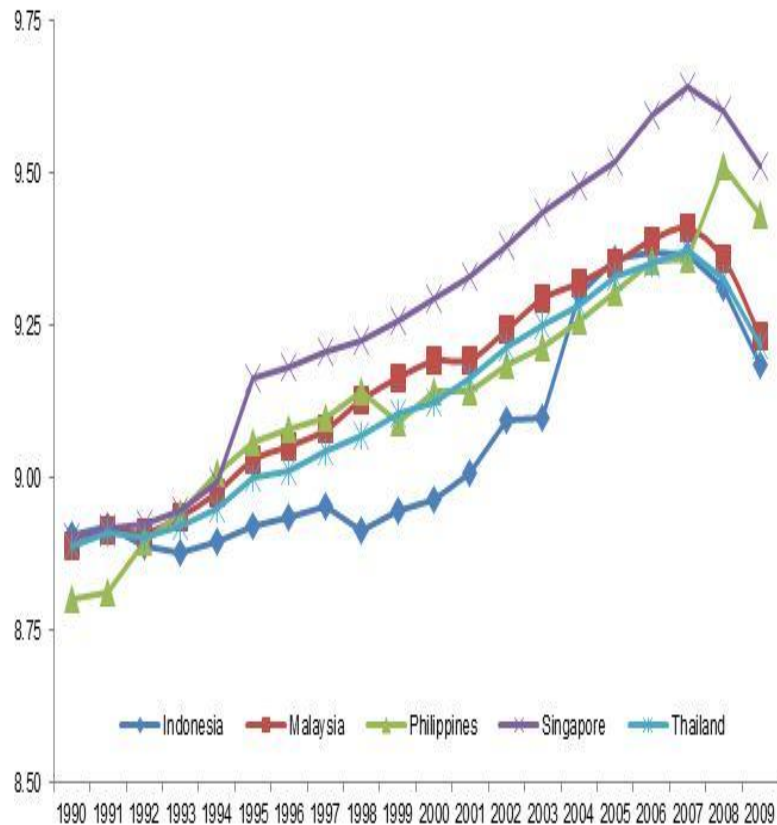
Source: World Bank database on bilateral services flows

SOPHISTICATION: WHAT IS IT?

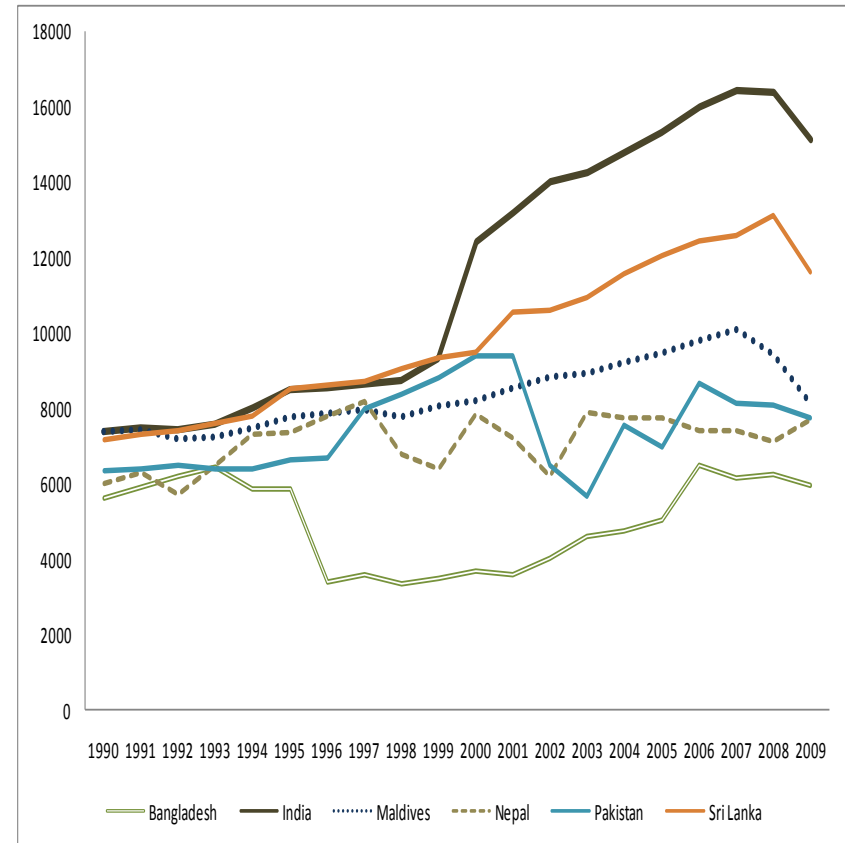
- Aim moving up the value chain through modern services that are embedded inherently with higher productivity levels.
- Measure of the sophistication of exports of manufactures and now also services (see Mishra et al 2011, based on the measure developed in Hausmann, Hwang and Rodrik, 2007, for goods alone).
- This measure can be thought of as representing the “quality” of a country’s export basket.
- Intuitively, the measure captures whether any given country’s export basket consists primarily of services typically exported by high-income economies (and viewed as relatively sophisticated) or by low-income economies.
- Not a value judgement with regard to more “traditional” services such as tourism, transportation, or others.

SOPHISTICATION: 2010

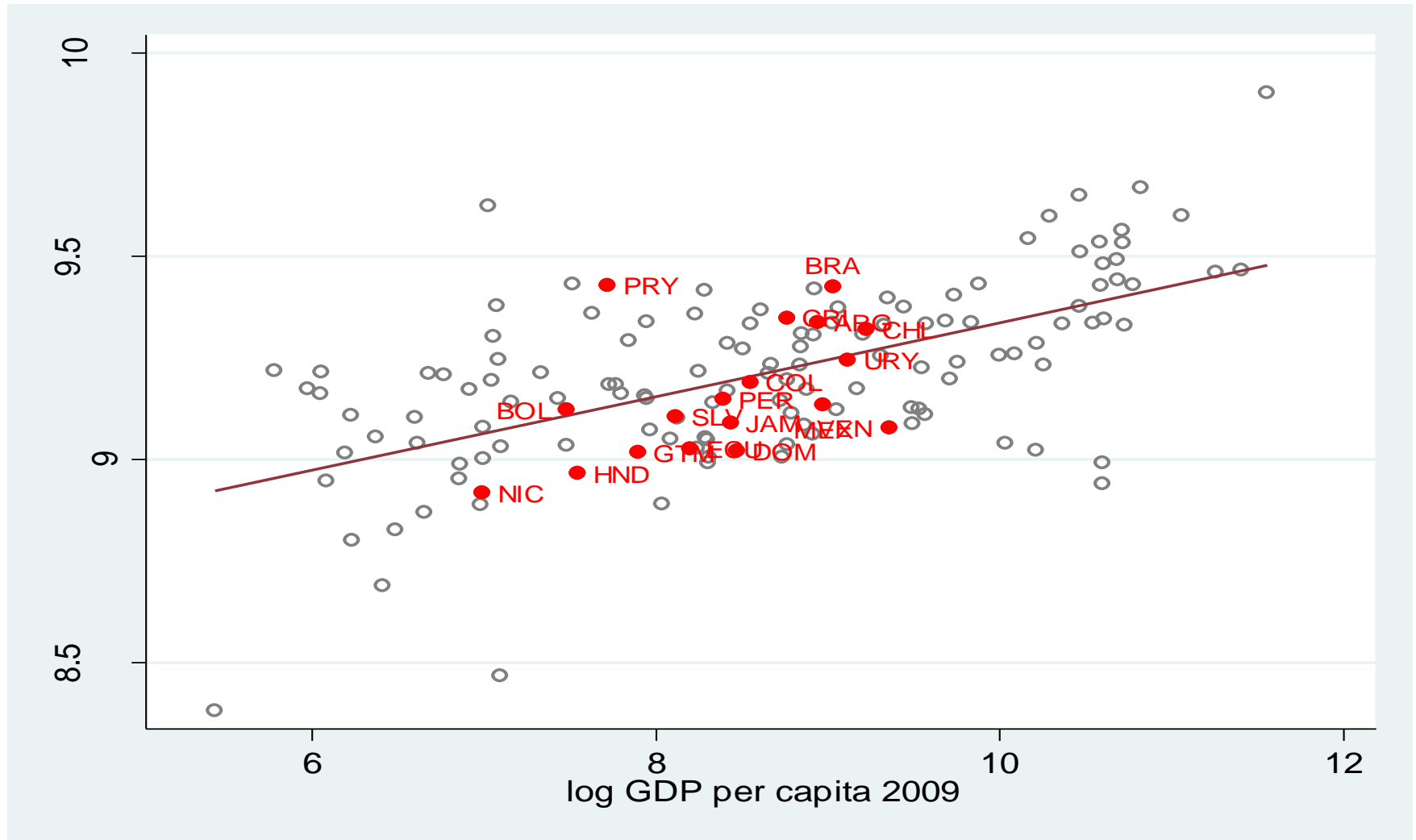
East Asia (Y axis log)



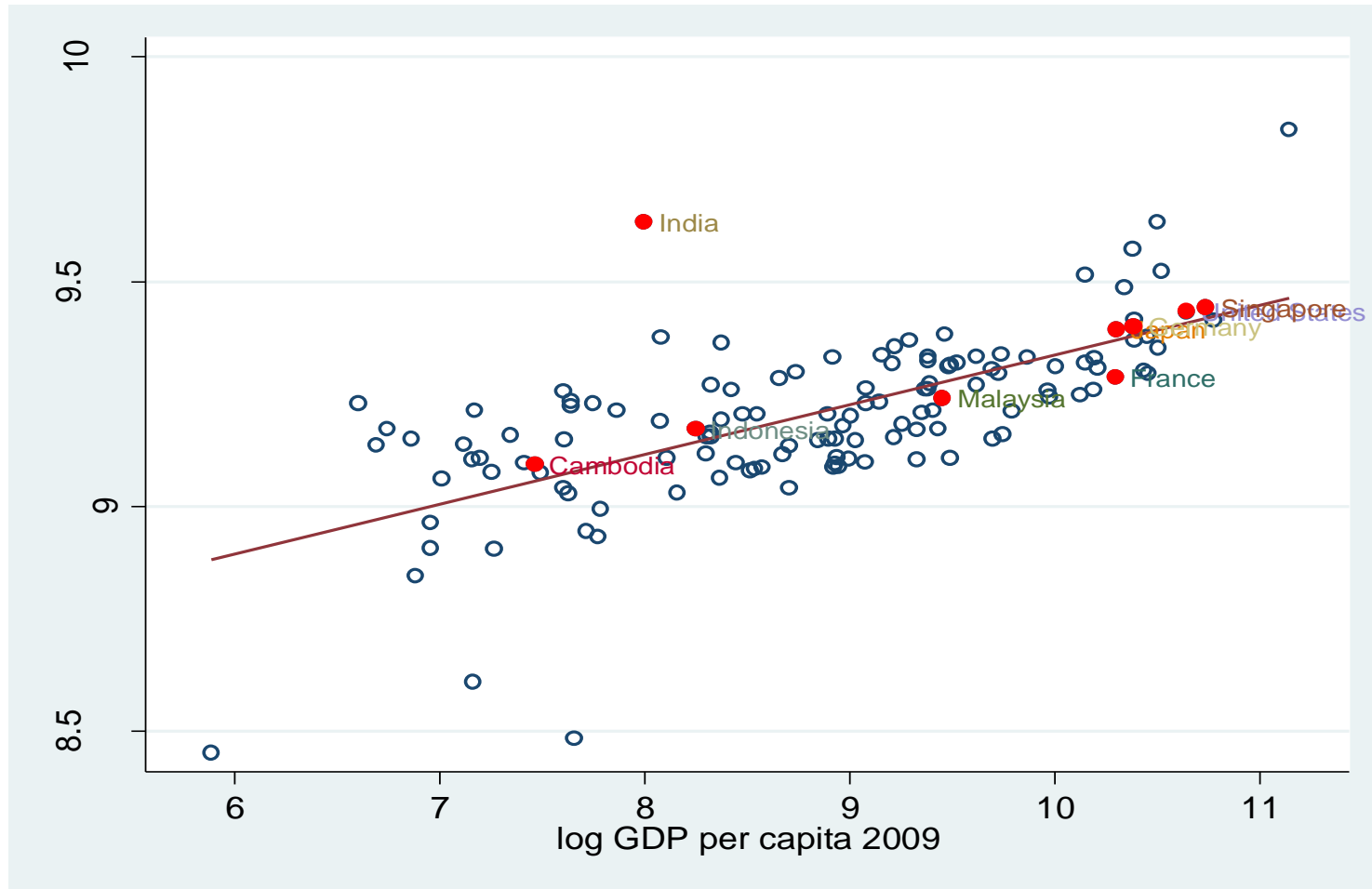
South Asia (note Y axis scale are different)



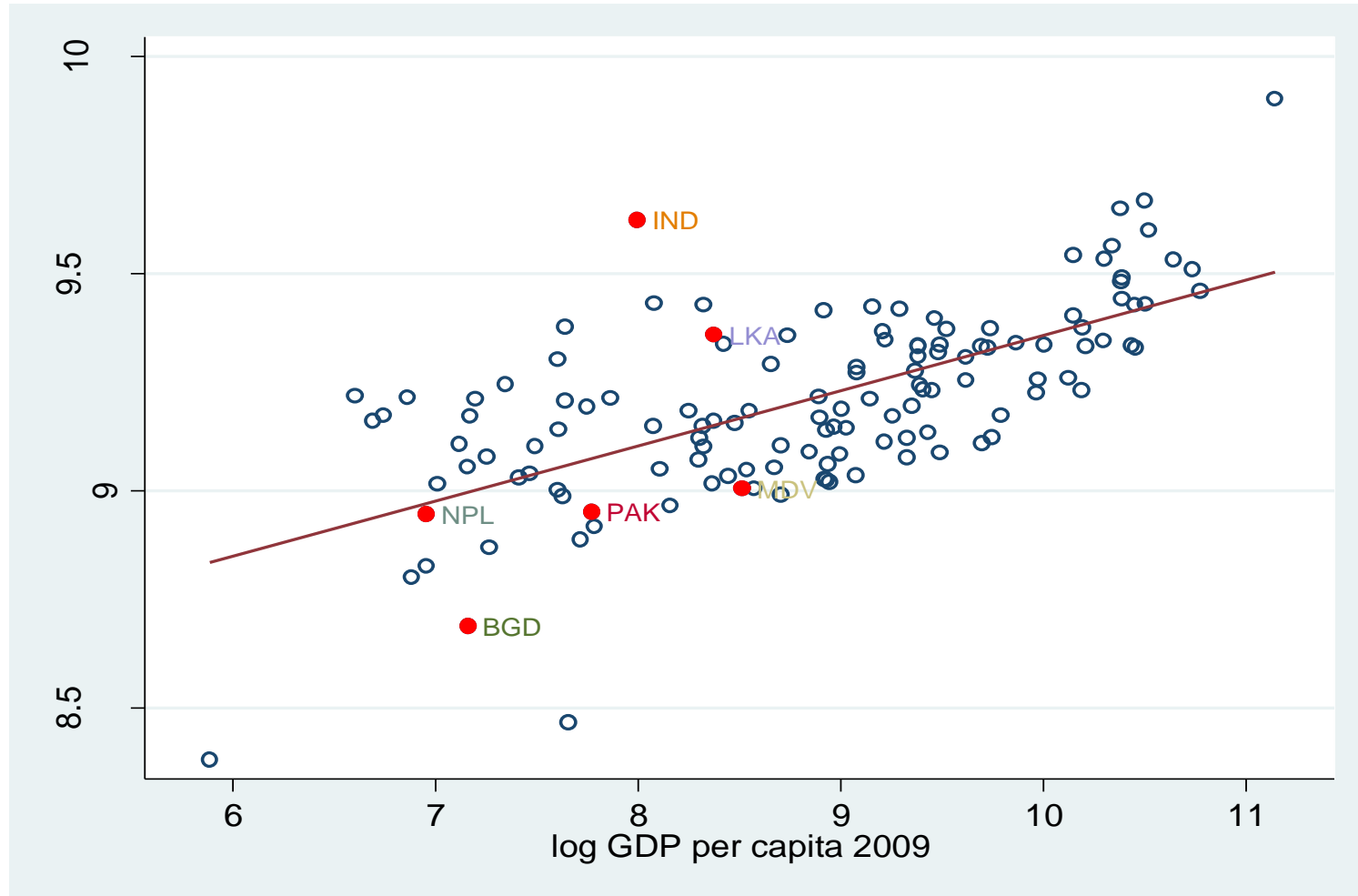
SOPHISTICATION: LAC 2010



SOPHISTICATION: EAPR, 2010



SOPHISTICATION: SOUTH ASIA, 2010





DETERMINANTS OF SERVICES PERFORMANCE: DIAGNOSTICS

DRIVERS OF SERVICES GROWTH

Economic Fundamentals

- Human capital
- Infrastructure
- Access to technology

Policy Ecosystem

- Policies affecting trade, investment, and labor mobility in services
- Competition environment
- Licenses and 'behind the border' regulations

Active Promotion Policies

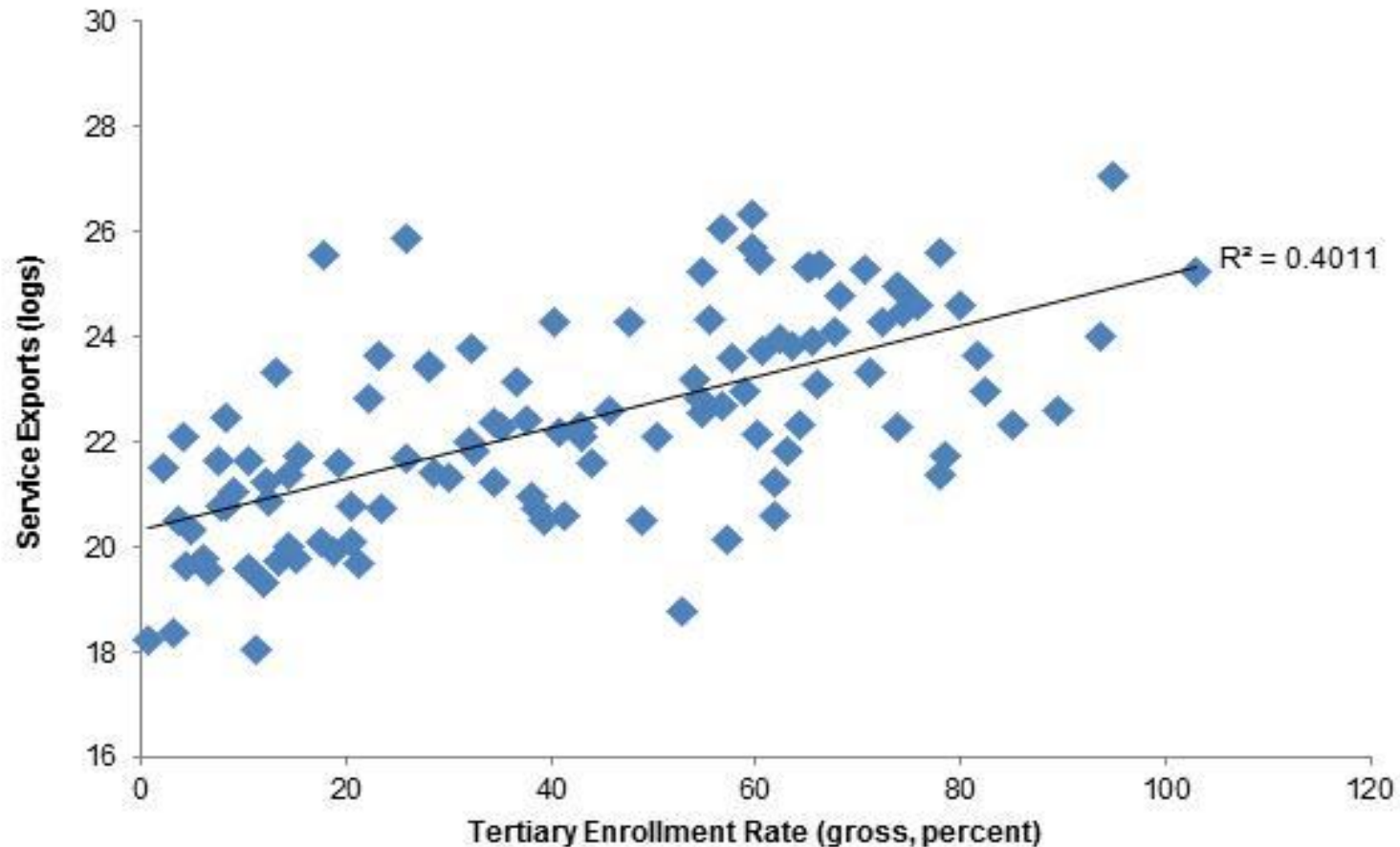
- Export promotion policies
- Fiscal and other incentives



Fundamentals

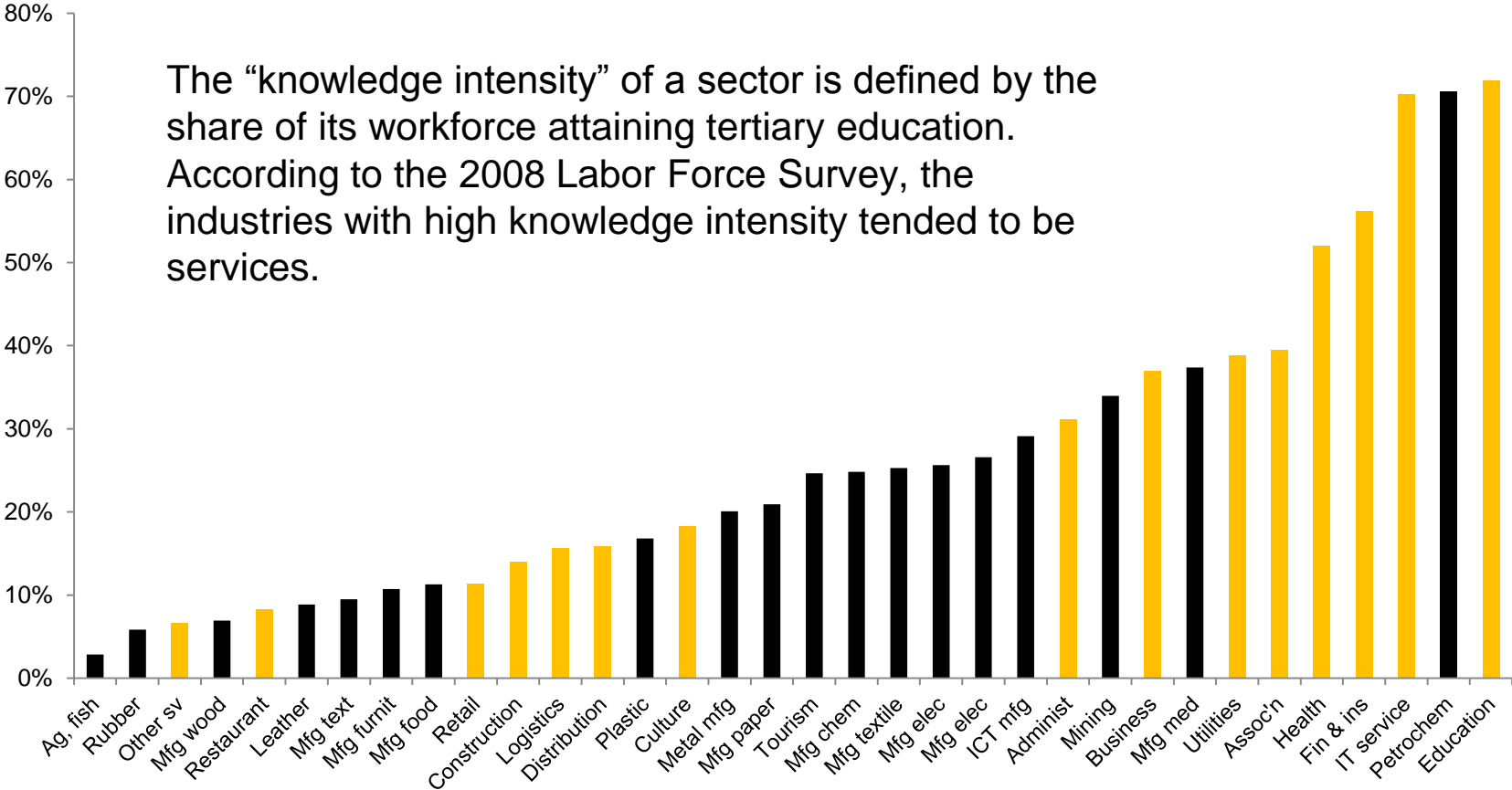
Relatively given in the short-term can be improved over time

Human Capital and Cross-Border Services

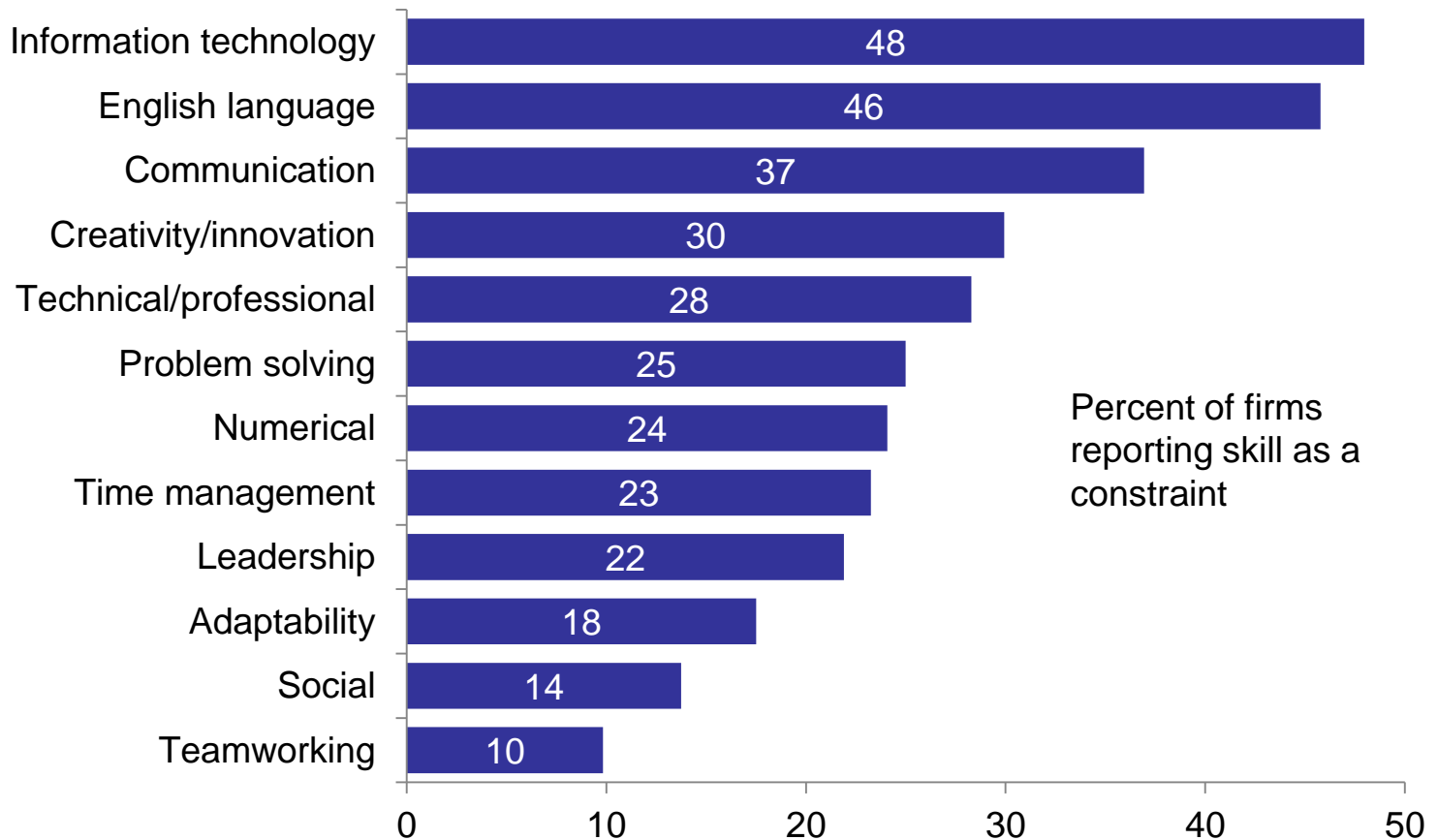


Malaysia: Knowledge Intensive Sectors

The “knowledge intensity” of a sector is defined by the share of its workforce attaining tertiary education. According to the 2008 Labor Force Survey, the industries with high knowledge intensity tended to be services.

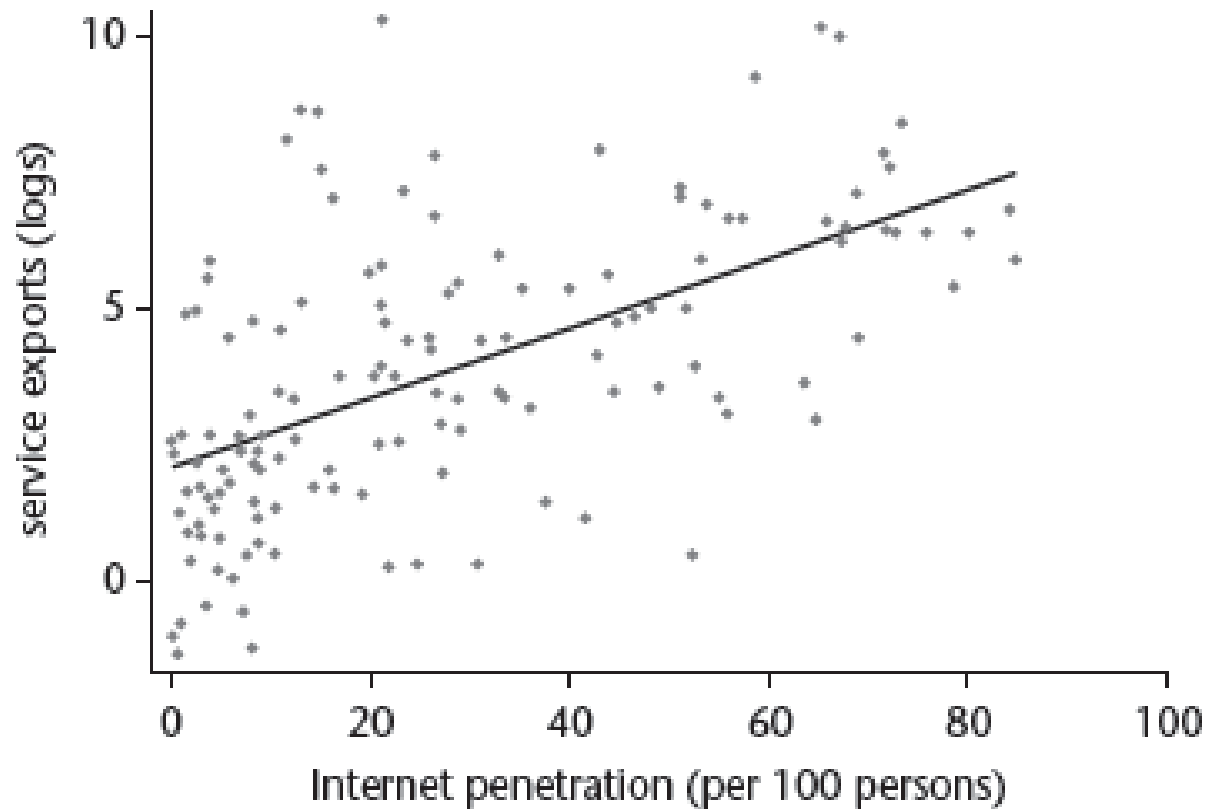


How to identify Skills Gap?



Electronic Infrastructure: Important but....

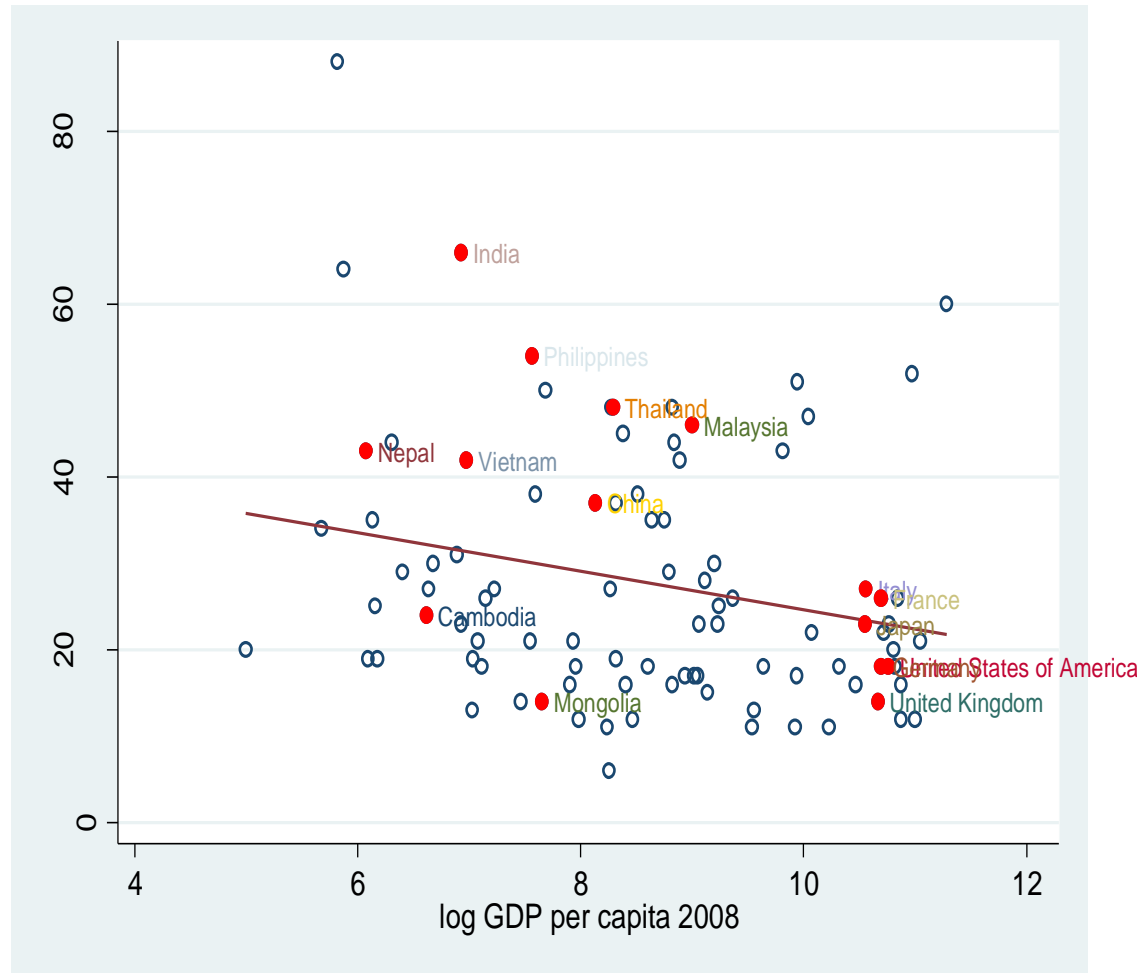
b. Electronic infrastructure and service exports





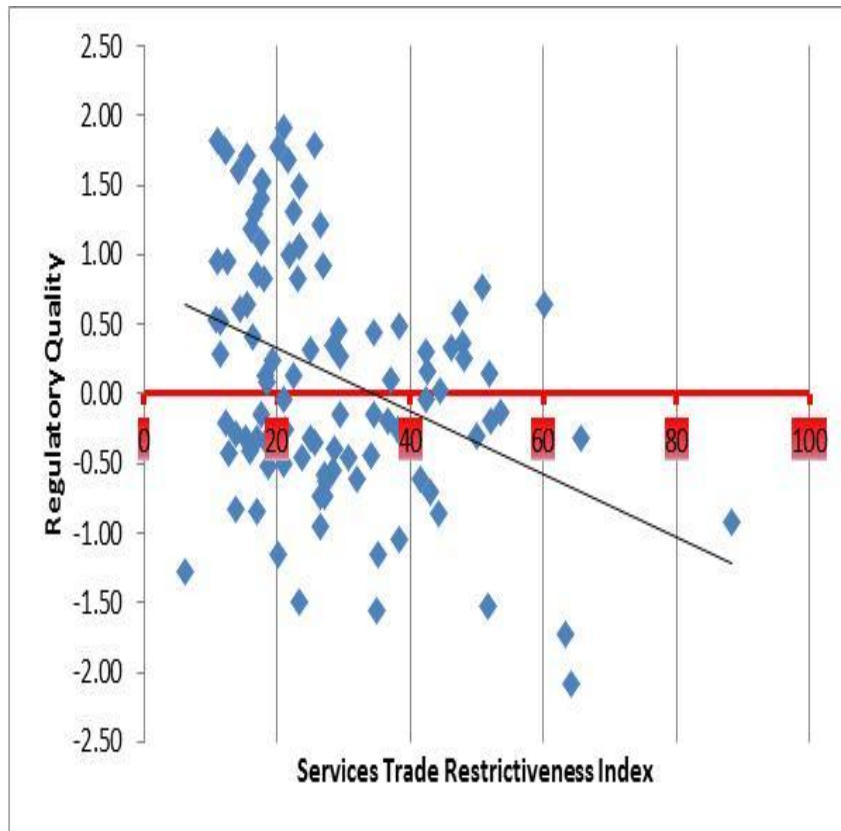
**Policies:
investment,
migration, and
regulations**

How restrictive are policies? STRI and Tariff Equivalent

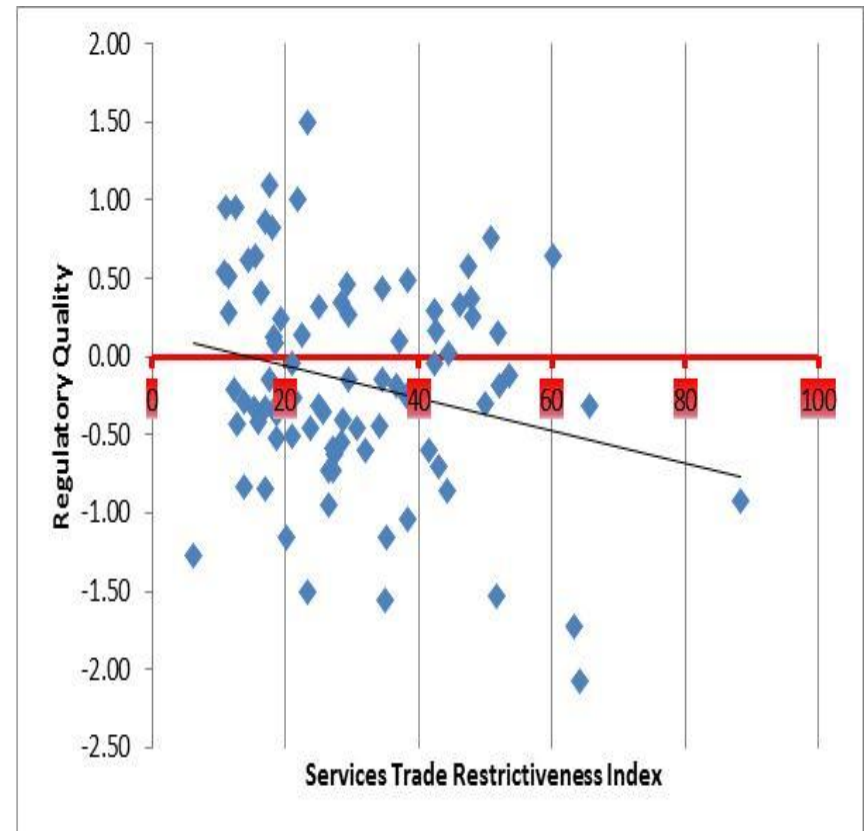


Policies: Restrictiveness and Regulatory Governance

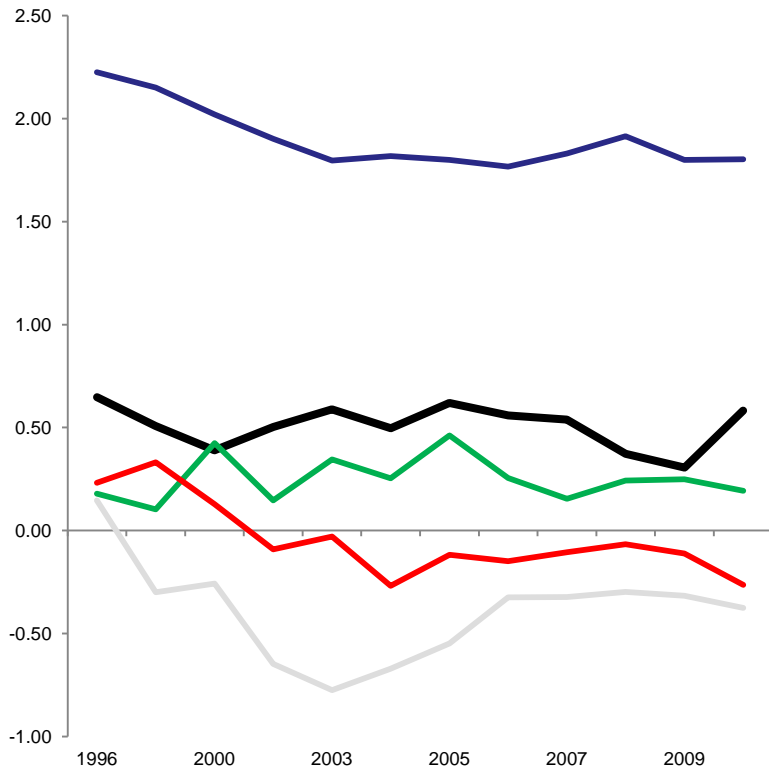
All Countries in the Sample



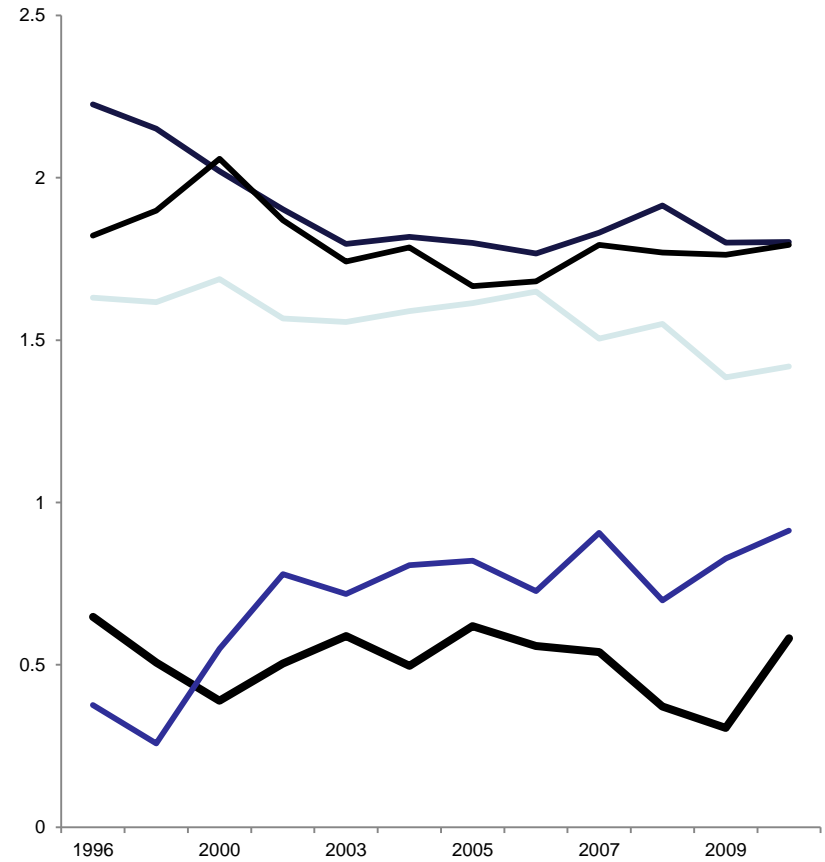
Developing Countries



Regulatory Indicators



— MALAYSIA — SINGAPORE — INDONESIA — THAILAND — PHILIPPINES



— MALAYSIA — KOREA, Rep. of — SINGAPORE
 — NETHERLANDS — UNITED STATES



THE ROLE OF pro-active POLICIES

Government policies in specific sectors

Targeted policies to support exports

- Aim at creating enabling business environment with better infrastructure, more streamlined regulatory framework, and incentives
- Weaken broad resistance to reform by focusing on a sector that can easily win support from business community (e.g., IC services)
- Provides demonstration effect to motivate more significant reforms by showing the benefits to investors of a more transparent and predictable regulatory environment

But

- It is hard to establish a causal link
- There are examples of pro-active policies that did not work as well Pro-active policies pose risks and must be carefully designed

The role of private sector

- Cooperation by firms through an industry association can favorably influence policy at home and its image abroad
- India's association for software services (NASSCOM) gave Indian IT companies unified voice, played role in policy-making process, built brand image of India as premier global sourcing destination, and started assessment and certification process
- The Business Processing Association of the Philippines (BPAP) developed a blueprint to help bolster competitiveness of Filipino BPO firms, played role in industry policy-making (data protection Act), and produced a scorecard to assess readiness and develop working capacities

Basic Data sources

- World Development Indicators
- International Monetary Fund
- Knowledge Assessment Methodology
- World Bank Governance Indicators

- Country information:
 - National Accounts Statistics
 - Employment Statistics
 - Balance of Payments
 - FDI
- International Trade Department Statistics
 - Trade on Value-Added basis
 - Bilateral Trade Flows

- Sectoral data available for Financial sector, IT and IT related services, transport data. Less so for other sectors.



— THE WORLD BANK —



Thanks!