

SERVICES FOR TRADE COMPETITIVENESS: COUNTRY AND REGIONAL ASSESSMENTS OF SERVICES TRADE

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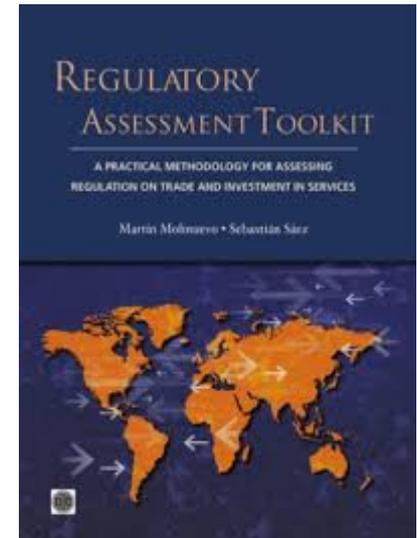
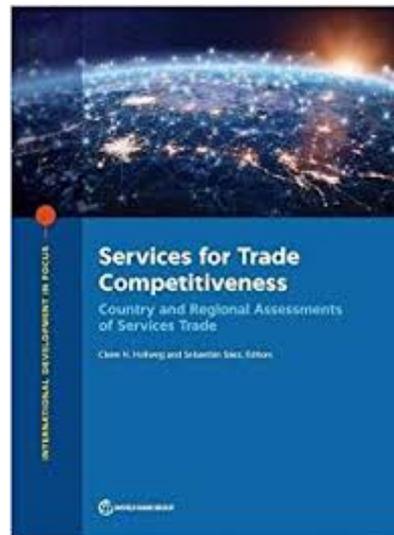
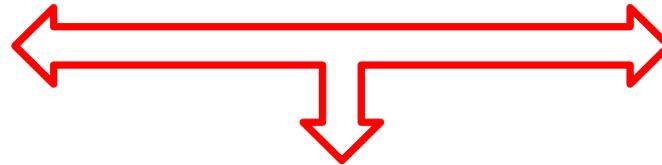
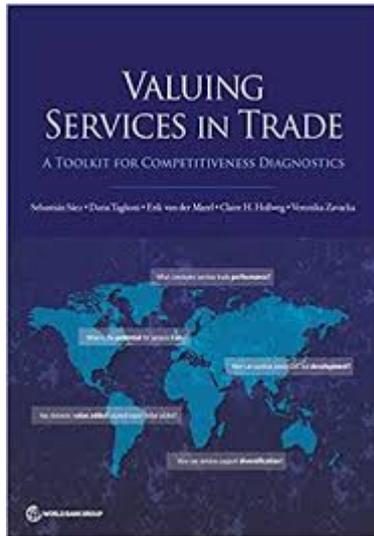
Why Trade in Services Matters

- The last quarter of the 20th century witnessed significant changes in trade patterns. Among the most important for developing countries were the rise of global value chains and the increasing tradability of services;
- Services sectors are critical source of labor productivity and total factor productivity (TFP) growth, as well as significant contributors to poverty and inequality reduction;
- Today much of the value in manufactured goods comes from inputs of services industries, which determines also countries relative position in the Global Value Chains (GVCs), and for upgrading and densification of GVCs;
- Moreover, the interdependence of goods and services markets matters for trade policy design which requires an integrated approach that factor in the unintended consequences of trade and regulatory policies in goods and services;

Why Trade in Services Matters

- Services trade plays a key role in increasing the productivity of services sectors, and therefore exerts a large impact on overall productivity and growth over time.
- Services are increasingly tradable: today services represent more than 20 percent of global trade. When measured in terms of value-added, direct and indirect exports of services represent almost 50 percent of total exports. Services have become a sources of trade diversification and growth.
- Some service sectors, such as health, education, and water and sanitation are directly linked to achieving social development objectives. Also in many countries, services sectors employ more women than other sectors of the economy.

Objective of This Volume

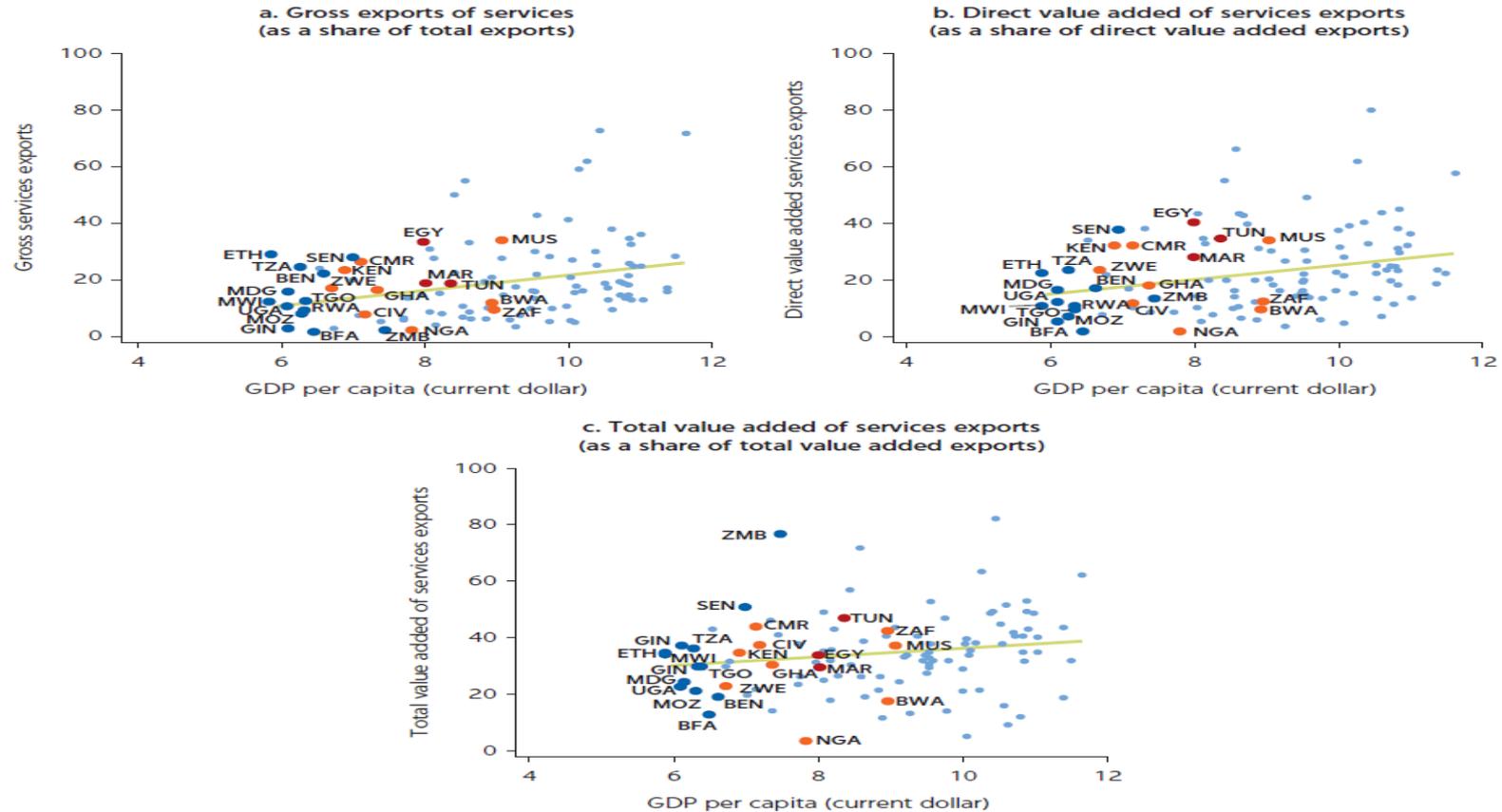


Objective of This Volume

- **World Bank Applications of Analytical Tools;**
- **Focus of the volume are countries which are under-researched;**
- **Audience:** The case studies in this book seek to help policymakers, experts, and private sector players understand where particular countries are located in the services competitiveness space and assess how policies can increase the role of services in their economies.
- They address seven policy questions:
 - How important are services for trade and diversification?
 - How important are services for regional integration?
 - How important are the linkages between services and other traded sectors?
 - How important is the performance of services for productivity?
 - How important are foreign providers for services performance?
 - What determines the performances of services trade, and what is the relative importance of these determinants for different services?

Importance of Services for Trade

Cross-country correlation between share of services in total exports and per capita GDP, 2011

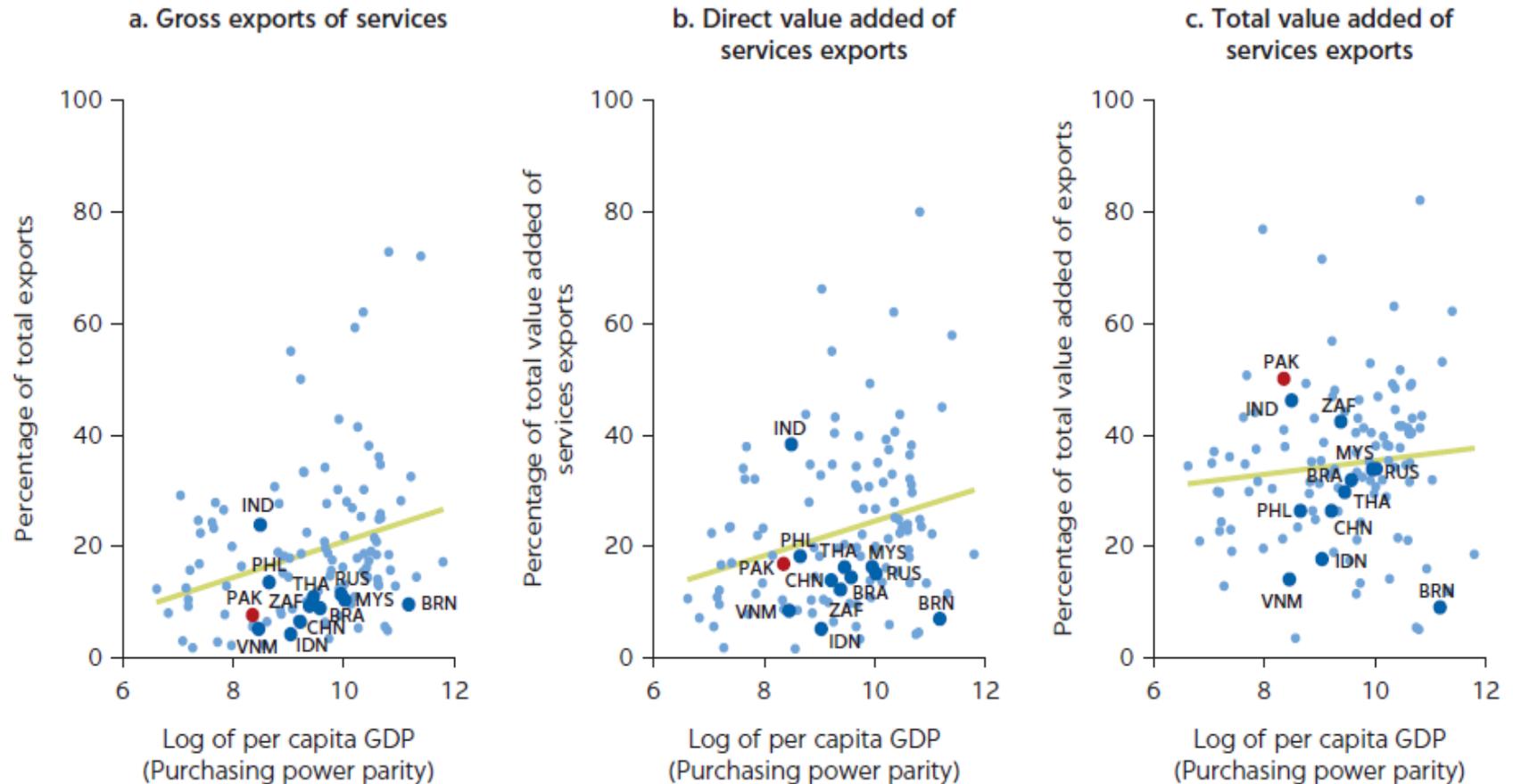


Source: World Bank Export of Value Added Database.

Note: GDP = gross domestic product. Dots represent countries. Countries labeled in purple are LDCs in Sub-Saharan Africa, in blue are other countries in Sub-Saharan Africa, and in red are countries in North Africa: BEN = Benin; BFA = Burkina Faso; BWA = Botswana; CIV = Côte d'Ivoire; CMR = Cameroon; EGY = Egypt, Arab Rep.; ETH = Ethiopia; GHA = Ghana; GIN = Guinea; KEN = Kenya; MAR = Morocco; MDG = Madagascar; MOZ = Mozambique; MUS = Mauritius; MWI = Malawi; NAM = Namibia; NGA = Nigeria; RWA = Rwanda; SEN = Senegal; TGO = Togo; TUN = Tunisia; TZA = Tanzania; UGA = Uganda; ZAF = South Africa; ZMB = Zambia; ZWE = Zimbabwe.

Importance of Services for Trade

Cross-country correlation between the share of services exports in total exports and per capita GDP, 2011

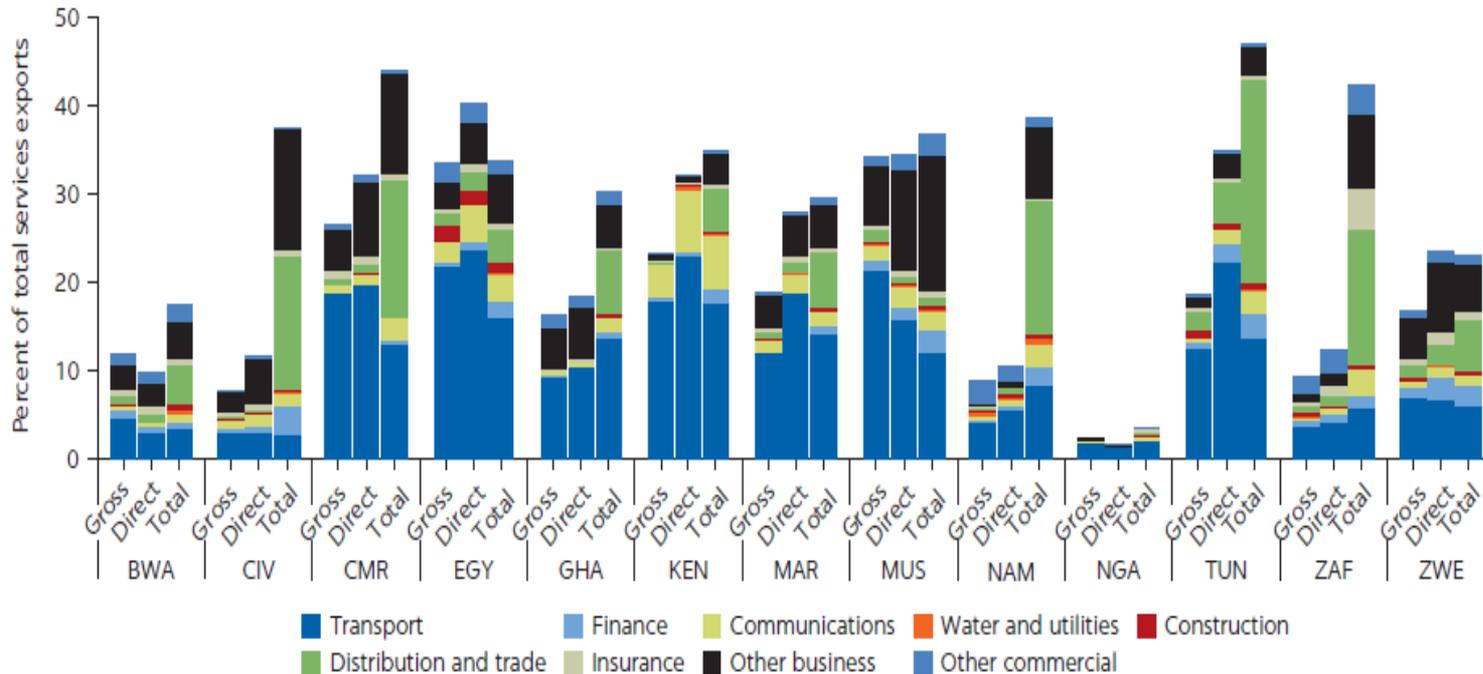


Source: World Bank Export of Value Added Database.

Note: GDP = gross domestic product. Dots represent countries: BRA = Brazil; BRN = Brunei; CHN = China; IDN = Indonesia; IND = India; MYS = Malaysia; PAK = Pakistan; PHL = Philippines; RUS = Russian Federation; THA = Thailand; VNM = Vietnam; ZAF = South Africa.

Importance of Services for Trade

Structure of services exports in selected other countries in Africa, 2011



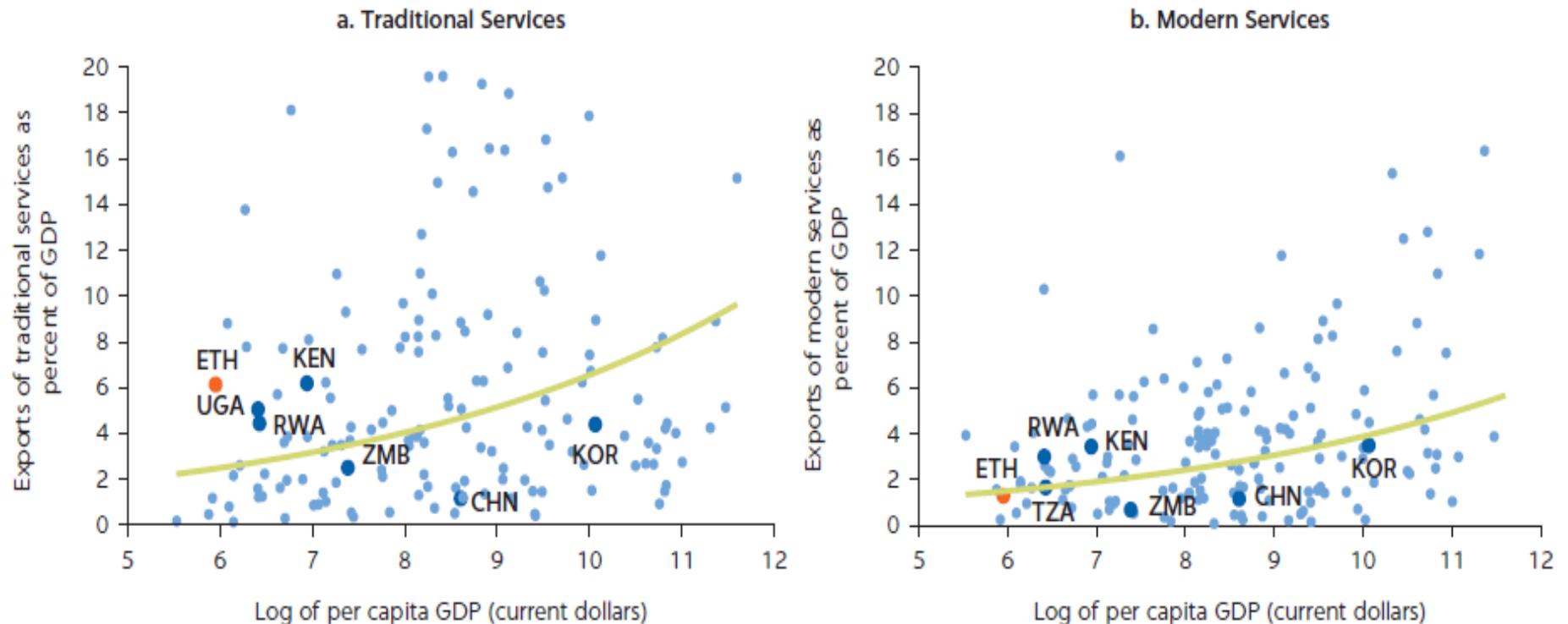
Source: World Bank Export of Value Added Database.

Note: BWA = Botswana; CIV = Côte d'Ivoire; CMR = Cameroon; EGY = Egypt, Arab Rep.; GHA = Ghana; KEN = Kenya; MAR = Morocco;

MUS = Mauritius; NAM = Namibia; NGA = Nigeria; TUN = Tunisia; ZAF = South Africa; ZWE = Zimbabwe.

Importance of Services for Trade

Relationship between traditional and modern services exports and per capita GDP, 2010-12

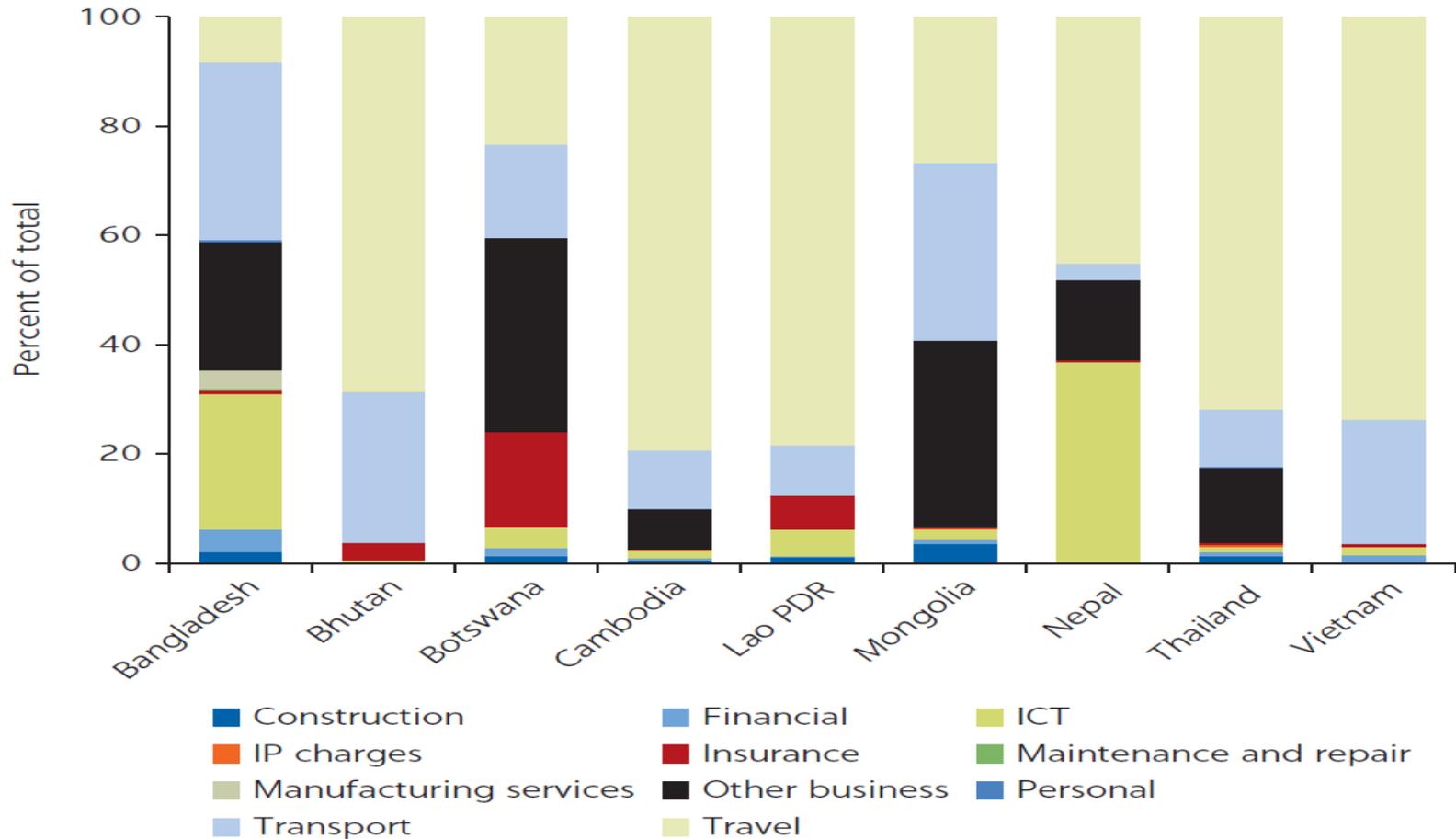


Source: World Bank World Development Indicators.

Note: GDP = gross domestic product. Each dot in the figure represents a country-year observation: CHN = China; ETH = Ethiopia; KEN = Kenya; KOR = Korea, Rep.; RWA = Rwanda; TZA = Tanzania; UGA = Uganda; ZMB = Zambia.

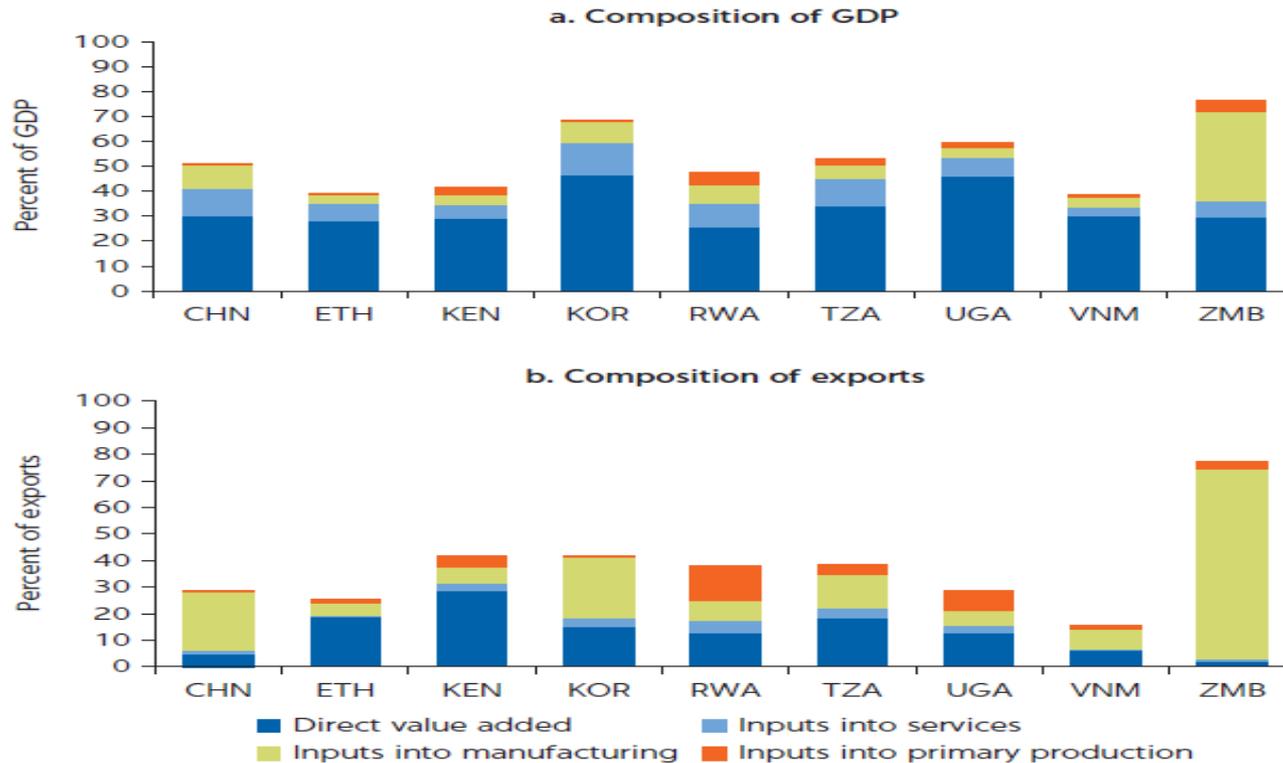
Importance of Services for Diversification

Sectoral composition of services exports by selected countries, 2013



Importance of Services for Diversification

Composition of services value added (forward linkages) in selected countries, 2011

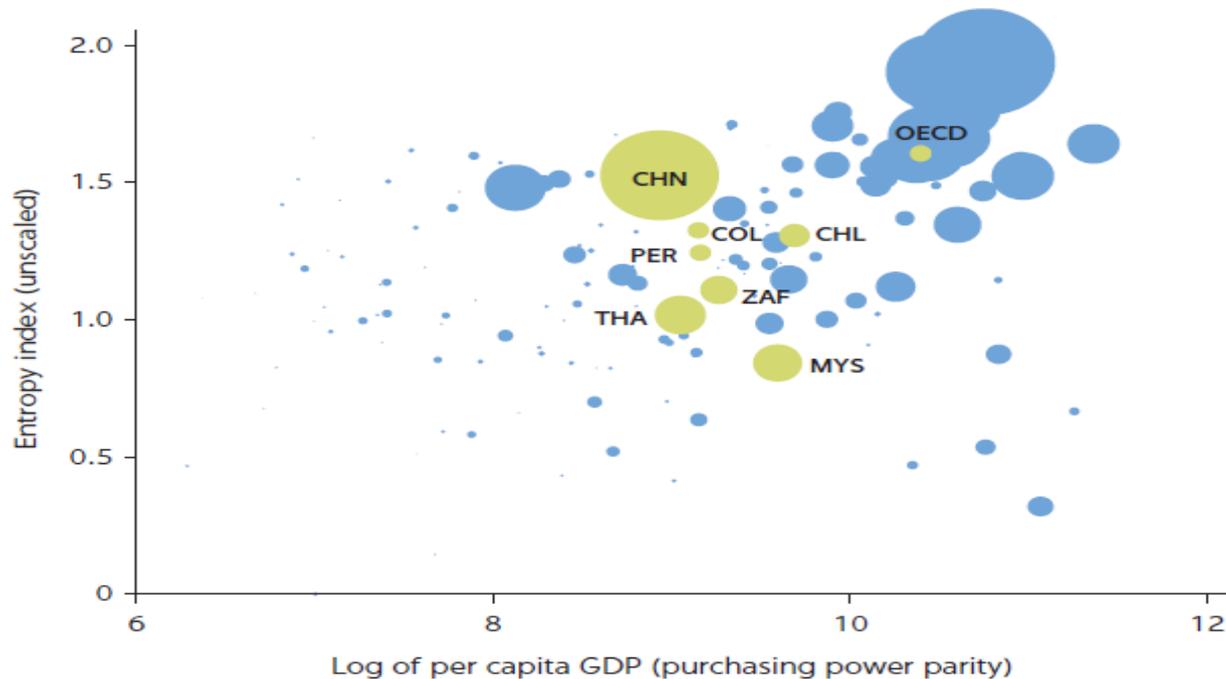


Sources: Based on input-output data from the Ministry of Finance and Economic Cooperation 2011 and World Bank Export of Value Added Database.

Note: GDP = gross domestic product. CHN = China; ETH = Ethiopia; KEN = Kenya; KOR = Korea, Rep.; RWA = Rwanda; TZA = Tanzania; UGA = Uganda; VNM = Vietnam; ZMB = Zambia.

Importance of Services for Diversification

Correlation between diversification of services exports and per capita GDP, 2009

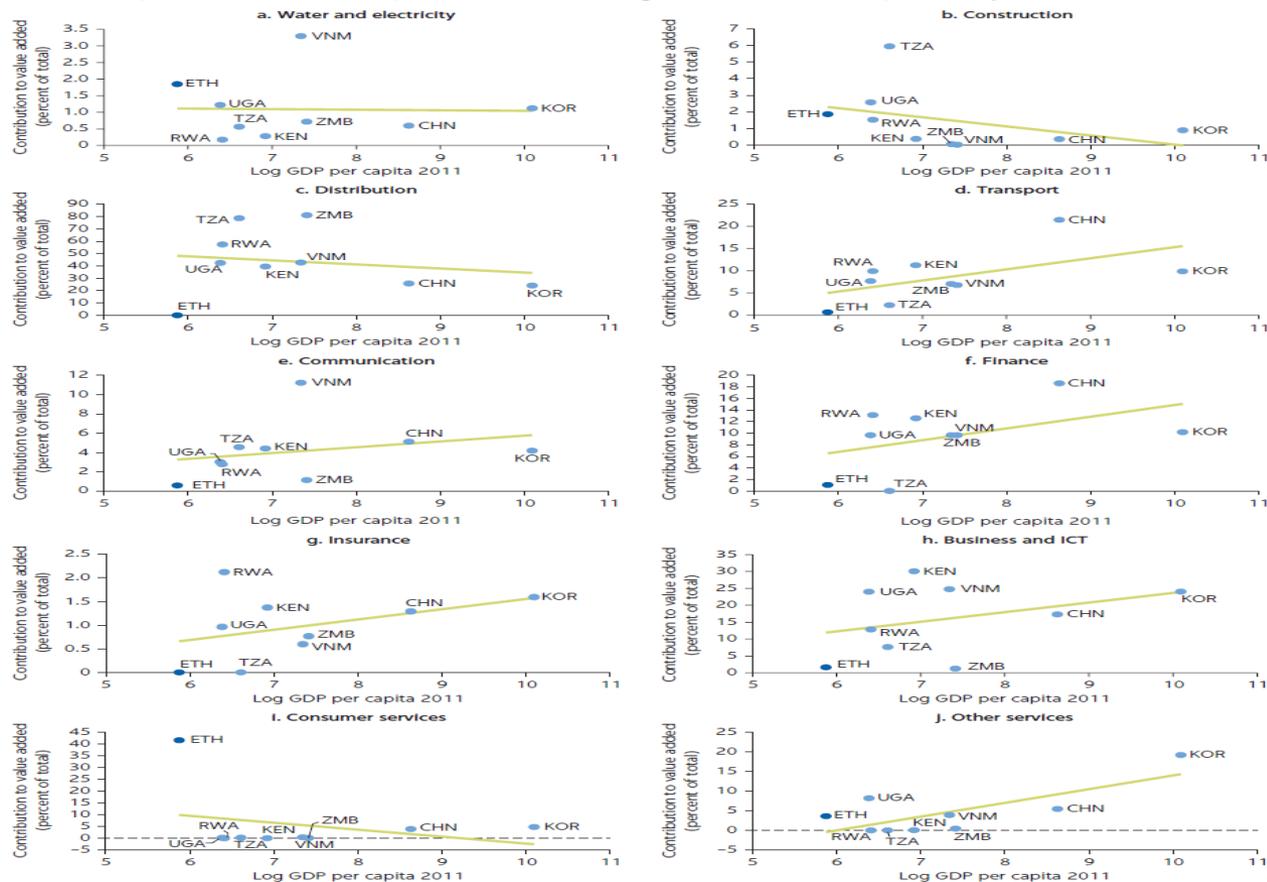


Sources: Data from the World Bank Trade in Services Database and World Bank World Development Indicators.

Note: The Entropy Index is a measure of concentration. A higher value indicates that a country has a more diversified export portfolio. Circles represent the volume of service exports. GDP = gross domestic product; OECD = Organisation of Economic Co-operation and Development. Dots represent countries: CHL = Chile; CHN = China; COL = Colombia; MYS = Malaysia; PER = Peru; THA = Thailand; ZAF = South Africa.

Importance of Services Linkages for Trade Performance

Relationship between services inputs in manufacturing and level of development, by subsector, 2011



Sources: Based on input-output data from the Ministry of Finance and Economic Cooperation 2011, World Bank Export of Value Added Database, and World Bank World Development Indicators.
 Note: GDP = gross domestic product. Each dot in the figure represents a country-year observation: CHN = China; ETH = Ethiopia; KEN = Kenya; KOR = Korea, Rep.; RWA = Rwanda; TZA = Tanzania; UGA = Uganda; VNM = Vietnam; ZMB = Zambia.

Importance of Services for Productivity

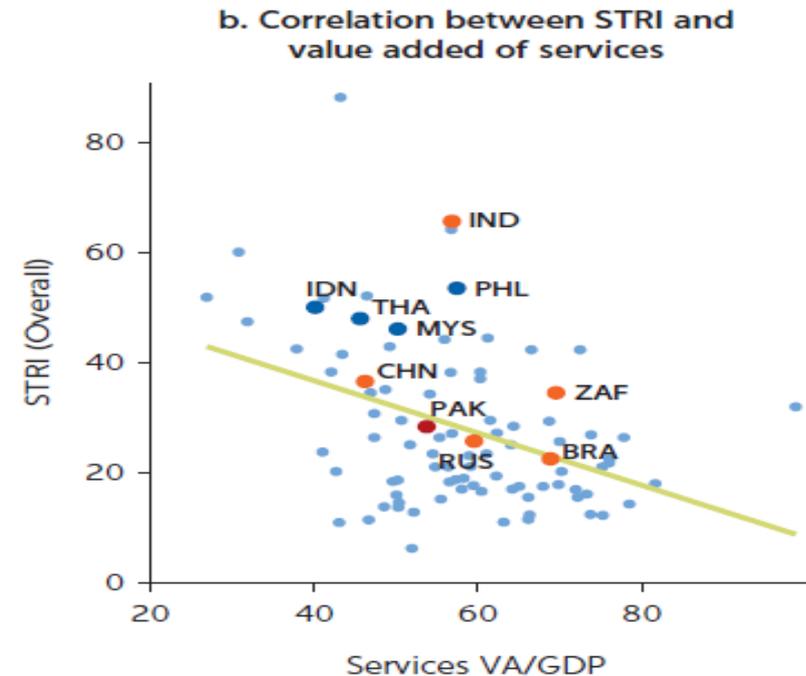
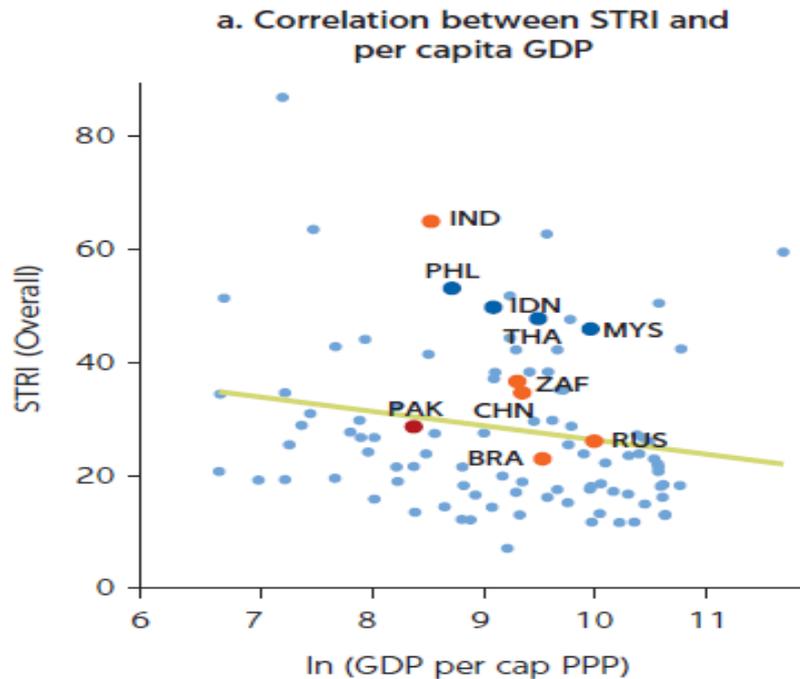
- In the Lao People's Democratic Republic, the linkages between services and manufacturing are weaker than in comparator countries.
- Services inputs represent only about 10 percent of the total value added of manufacturing—much less than the world average of about a third.
- The case study shows that difficulties procuring services inputs affects the performance of firms in Lao PDR, where the inadequate quality of services appears to be a stronger constraint than in other countries in the region.
- The quality of transportation services appears to have the strongest effect on firm productivity, followed by quality of electricity. Improvements in the quality of both services would have the largest effect on performance: A one standard deviation increase in firms' subjective rating of the quality of transportation is associated with a 15 percent increase in performance (measured as total factor productivity), and a one standard deviation decrease in the number of power outages experienced by a firm in a typical month would result in a 13 percent improvement in performance levels.

Importance of Foreign Services Providers

- The case study of Peru illustrates the role foreign providers may play as services exporters.
- Peru's experience shows that increasing foreign firm participation and enhancing competition in services markets have economy-wide effects on firms. Three-quarters of the firms in Peru that export services are owned by private foreign firms; they have above-average levels of productivity.
- The largest difference in productivity between foreign and domestic firms is in the professional services subsectors.
- Firms that receive more foreign investment (as well as firms that receive more domestic private capital) are more productive than firms that receive public capital.
- Firms that are exporters and have larger foreign capital shares are significantly more productive than average.

Importance of Services Policies

Cross-country correlation between Services Trade Restrictiveness Index (STRI) and per capita GDP and value added of services, 2013

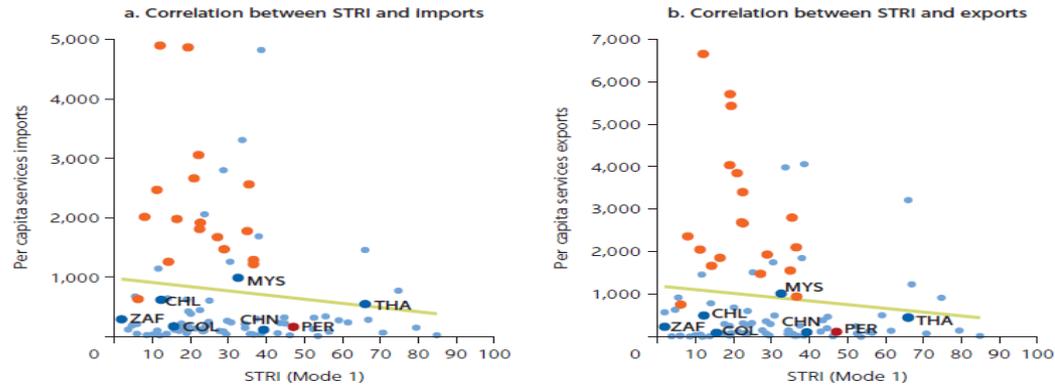


Sources: Data from the World Bank Services Trade Restrictiveness Index; World Bank World Development Indicators; and Borchert, Gootiiz, and Mattoo 2012a, 2012b.

Note: GDP = gross domestic product; PPP = purchasing power parity; STRI = Services Trade Restrictiveness Index; VA = value added. Dots represent countries: BRA = Brazil; CHN = China; IDN = Indonesia; IND = India; MYS = Malaysia; PAK = Pakistan; PHL = Philippines; RUS = Russian Federation; THA = Thailand; VNM = Vietnam; ZAF = South Africa.

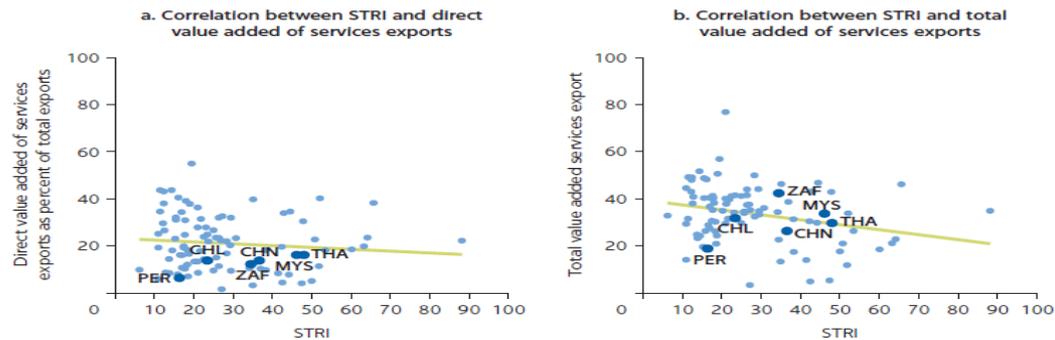
Importance of Services Policies

Correlation between Services Trade Restrictiveness Index (STRI) and per capita imports and exports of services, 2012



Sources: Data from World Bank World Development Indicators and Borchert, Gootilz, and Mattoo 2012.
 Note: STRI = Services Trade Restrictiveness Index. Dots represent countries; red dots indicate OECD countries; CHL = Chile; CHN = China; COL = Colombia; MYS = Malaysia; PER = Peru; THA = Thailand; ZAF = South Africa.

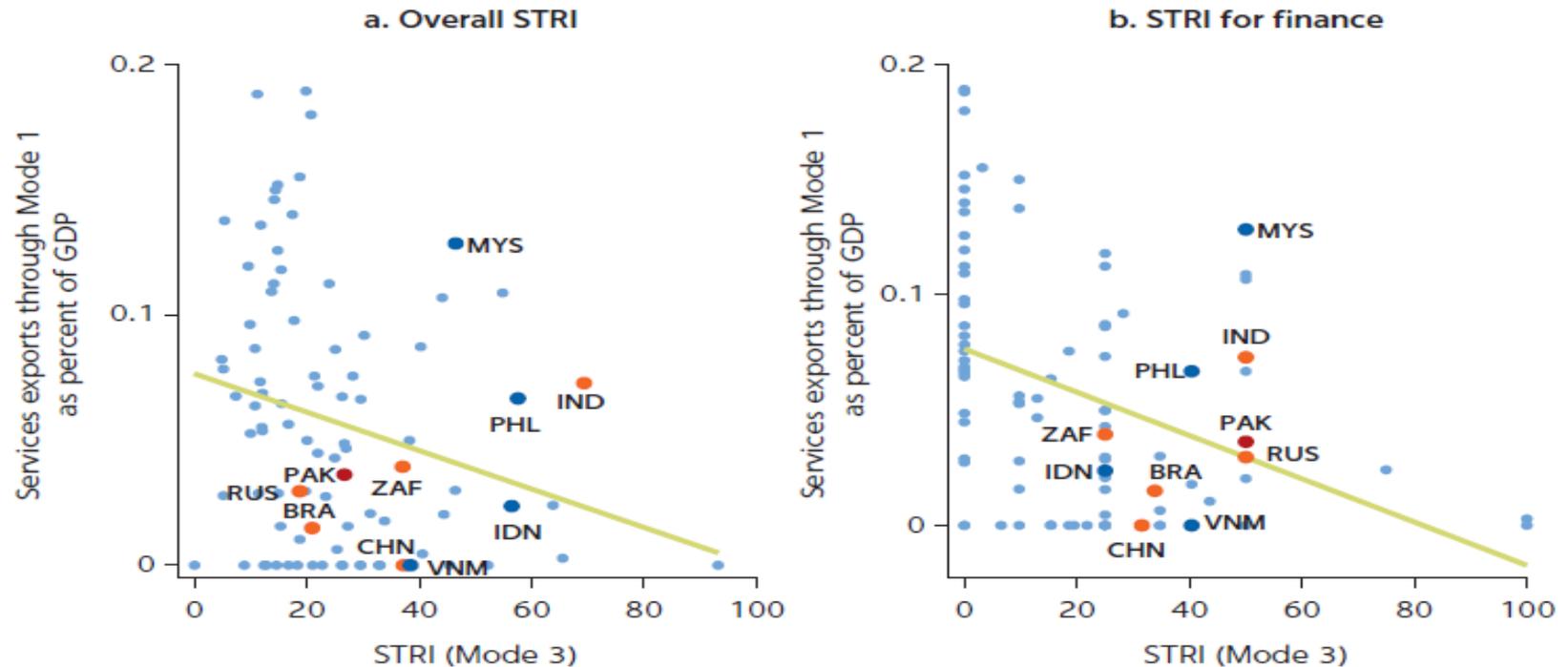
FIGURE 4.3
Correlation between Services Trade Restrictiveness Index (STRI) and value added of services exports, 2011



Source: Data from the World Bank Export of Value Added Database and Borchert, Gootilz, and Mattoo 2012.
 Note: STRI = Services Trade Restrictiveness Index. Dots represent countries; CHL = Chile; CHN = China; MYS = Malaysia; PER = Peru; THA = Thailand; ZAF = South Africa.

Importance of Services Policies

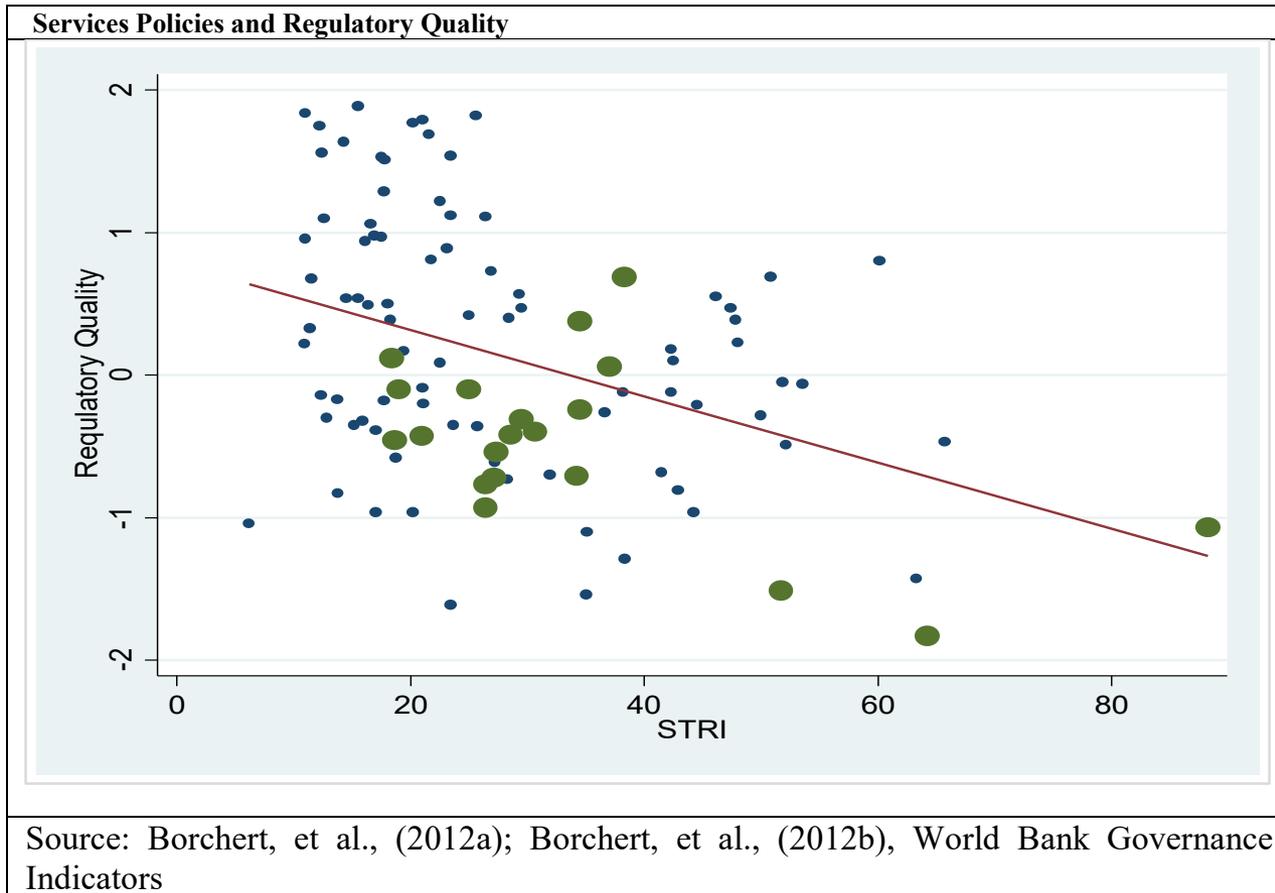
Cross-country correlation between services exports (mode 1) as percent of GDP and Services Trade Restrictiveness Index (STRI) for mode 3, 2010



Sources: Data from World Bank Development Indicators, World Bank Services Trade Restrictiveness Index, and Borchert, Gootiiz, and Mattoo 2012a, 2012b.

Note: GDP = gross domestic product; STRI = Services Trade Restrictiveness Index. Dots represent countries: BRA = Brazil; CHN = China; IDN = Indonesia; IND = India; MYS = Malaysia; PAK = Pakistan; PHL = Philippines; RUS = Russian Federation; VNM = Vietnam; ZAF = South Africa.

Importance of Governance and Institutions



Importance of Human Capital and Other Enablers

- Many services sectors are significantly more skill-intensive than goods industries. Endowments of human capital are thus a critical determinant of exports of modern services.
- The low levels of critical enablers of services exports hold back the sector. Electronic infrastructure also has a positive effect on services exports; telecommunication infrastructure, broadband access, and the digital economy more broadly are among the most powerful drivers of the modern services sector.
- The Nepal case study suggests that the government should support IT infrastructure, power supply, transport, and auxiliary services.
- Capacity building should be enhanced by forging stronger linkages between industry and educational institutions. Skills upgrading should include foreign language skills, managerial skills, and technical training programs. Improving the quality of domestic ICT programs would mitigate the need for students to travel overseas for education and not returning.

Conclusion

- There is untapped potential and scope for significant improvements;
- Notably, trade liberalization in services' policies remains a priority for many developing countries.
- In addition, in those countries where the policy regime is relatively open, policy reform should be complemented by institutional arrangements to strengthen governance;
- investment in skills upgrading and services-trade-specific infrastructure to fully reap the potential.
- There are also efforts needed by countries to invest in collecting services trade relevant data, including firm-level data, to improve their understanding of services trade performance.