

## SERVICES AND INCLUSIVE GROWTH

APEC Public Private Dialogue on Services – SOM II

Boracay Island, The Philippines

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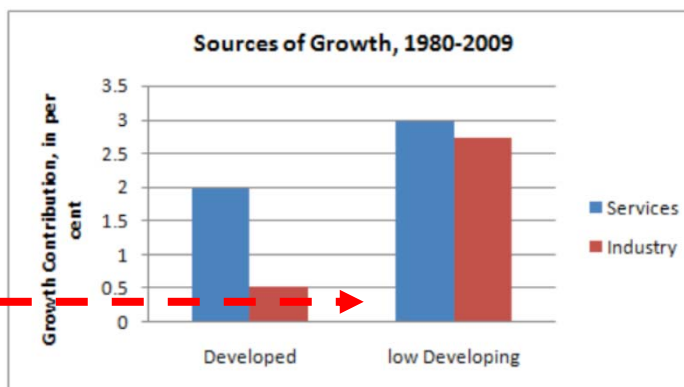
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## SERVICES ARE PRIMARY SOURCE OF GROWTH

**BUT IS THIS GROWTH  
INCLUSIVE?**

Question: Do **Services** contribute to reducing poverty, creating jobs, increasing contribution of all firms and segments of the population in economic activity & to connecting our economies?

Services are the dominant source of global growth (1980-2009)



Source: Ghani E., Goswami A.G., and Kharas H., (2011), *Services with a Smile: A New Growth Engine for Poor Countries*. Available at <http://www.voxeu.org/article/service-smile-new-growth-engine-poor-countries>



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## SERVICES CONTRIBUTE IN MAJOR WAYS TO INCLUSIVE GROWTH IN APEC ECONOMIES THROUGH THEIR ROLE IN THE FOLLOWING

1. INCREASING PRODUCTIVITY AND GROWTH, LEADING TO POVERTY REDUCTION
2. INCREASING EMPLOYMENT OPPORTUNITIES, PARTICULARLY FOR WOMEN
3. ENHANCING CONNECTIVITY OF THE APEC REGION THROUGH GVCs
4. OFFERING OPPORTUNITIES FOR PARTICIPATION OF SMEs IN INTERNATIONAL TRADE



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## 1. SERVICES are a MAJOR CONTRIBUTOR to PRODUCTIVITY GROWTH

Services are «**Force Multipliers**» for all other sectors.

**Competition** is required to ensure **efficiency gains** for producers and consumers

Regulatory reform

Services trade liberalization



**SOCIO-ECONOMIC  
BENEFITS  
FOR PRODUCERS  
AND CONSUMERS**

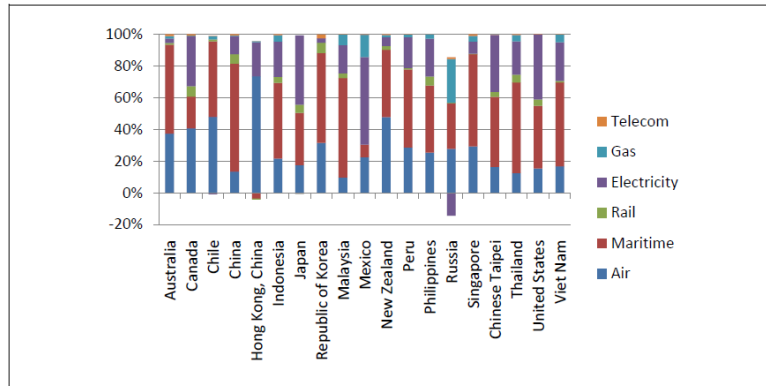


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APEC POLICY SUPPORT UNIT study showed that structural reforms in services bring “double” the gains in productivity compared with further merchandise liberalization of trade

**BIGGEST GAINS:**  
Transport (Air, Maritime), Telecoms and Electricity

Contribution to welfare from Structural Reforms in each sector (% of total)



Source: APEC Policy Support Unit (2011), prepared by Prof. Christopher Findlay, *The Impacts and Benefits of Structural Reforms in the Transport, Energy and Telecommunications Sectors in APEC Economies*.



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## CASE STUDY : INDONESIA

### SERVICES SECTOR REFORMS ENHANCES MANUFACTURING PRODUCTIVITY IN INDONESIA

(Duggan V., Rahardja S., and Varela G., World Bank, 2013)

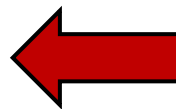
**10%** reduction in the restrictiveness index for Transport, Electricity & Gas

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**25%**

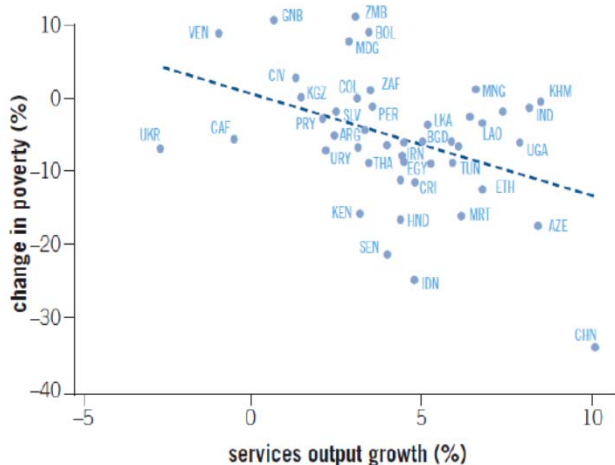
PRODUCTIVITY INCREASE

**Clear Linkage between  
Service-sector reform &  
Productivity Increase in  
Downstream Manufacturing**



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Services Growth and Poverty Reduction (1990-2005)



**THROUGH OUTPUT GROWTH, AND PRODUCTIVITY INCREASES, SERVICES CONTRIBUTE TO POVERTY REDUCTION AND BETTER QUALITY OF LIFE**

◆ Correlation between services output growth and poverty reduction



Source: Ghani E., and Kharas H., (2010), *The Services Revolution*, Economic Premise of the World Bank, Number 14



## THE ROLE OF SERVICES AND ITS CONTRIBUTION AT A LOCAL LEVEL

### CASE STUDY: PAPUA NEW GUINEA

#### MiCash Microfinance Products

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#### Mobile Wallet & Bank Account

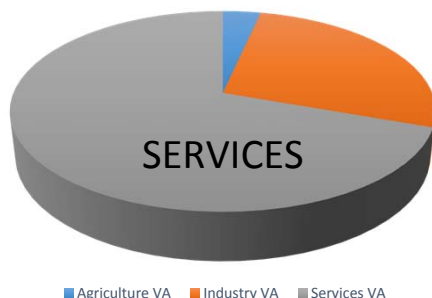
- **Functions:** buy goods and services, process bill payment, send money transfers, do a balance check, and deposit or withdraw cash.
- **Targets:** People from the village, those without permanent jobs and those working in the informal sector.

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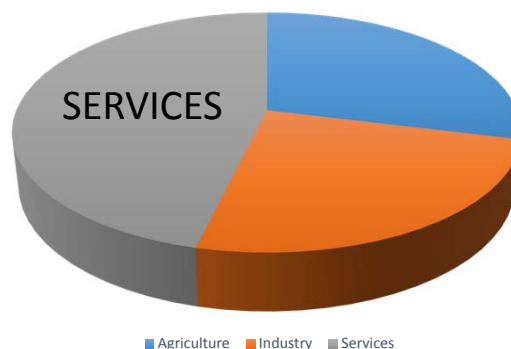


## 2. SERVICES OFFER MORE OPPORTUNITIES FOR EMPLOYMENT IN APEC

APEC GDP COMPOSITION, 2009



Total Employment, 2009



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## CASE STUDY: KOREA

### Investment in Services creates more Jobs

#### New Jobs created in Korea by sector

Category	2000	2003	2005	2006	2007
Manufacturing industry	8.8	8.6	7.2	6.9	6.6
Electricity, gas, water services	4.7	3.9	3.2	3.1	3.1
Construction	14.6	16.3	14.8	15.2	14.8
Service industry	13.7	13.7	12.6	12.6	12.6

**Source:** Tcha, M. (2011), *PECC-ADB I Draft Services Taskforce Report*, pg.6

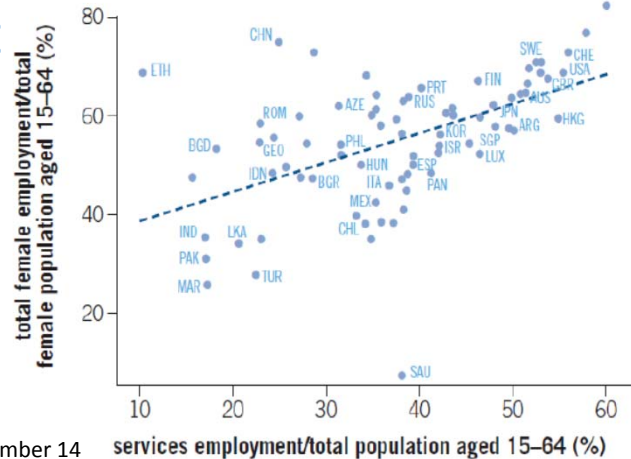
1 billion won of investment in services creates «**twice**» the number of jobs in services as compared to the same amount of investment in manufacturing.



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## SERVICES PROVIDE MORE OPPORTUNITIES FOR FEMALE EMPLOYMENT: ALSO CAN PLAY A ROLE IN REDUCING POVERTY AND MORE GENDER EQUALITY

Service Employment and Female Participation Rates (2005)



Source: Ghani E., and Kharas H., (2010), *The Services Revolution*, Economic Premise of the World Bank, Number 14



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## SERVICES, INCLUSIVE GROWTH AND WOMEN

- **Objectives** – to facilitate entrepreneurship in poor communities.
- **Core Concept** – a local small-business entrepreneur or Village Phone operator uses a microfinance loan to purchase a pre-packaged kit that includes a mobile phone and then re-sells the “airtime minutes” to neighbours.
- **Outcome** (as of March 2011) - an estimated **47%** of the **micro-entrepreneurs** who stayed in the portfolio for more than 4 months **moved above the poverty line** (World Bank defines as US\$2.50/day).
- More than **85%** of the businesses are owned by women.



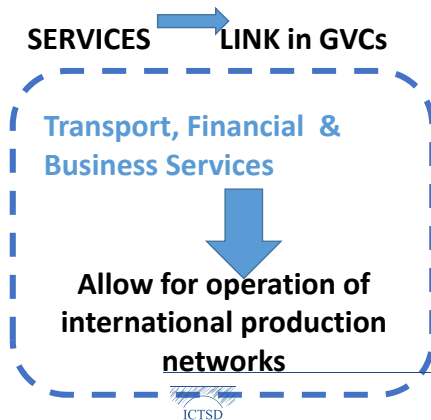
➤ **Village Phone Microfranchising Program and Application Laboratory” : INDONESIA**



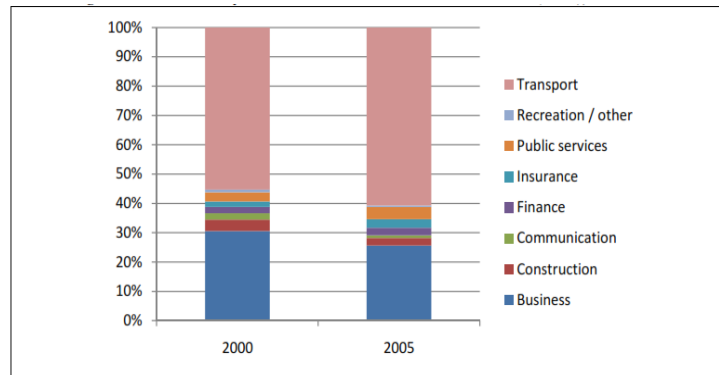
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### 3. SERVICES IMPROVE CONNECTIVITY IN APEC ECONOMIES THROUGH THEIR ROLE IN GVCs

#### «SOFT INFRASTRUCTURE»



**Breakdown by Service Sectors of intra-APEC Services Trade (Value) (2000-2005)**



Source: Trade in Services Database (Francois et al., 2009) and authors' calculations.

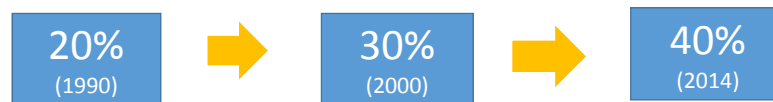
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### GVCs MAKE EXTENSIVE USE OF SERVICES

- ◆ Almost half (46%) of world trade on a value added basis is made up of services as all economic activities (manufacturing, agriculture, etc) require services for their production and export
- ◆ Fastest growing category in world trade is “OTHER COMMERCIAL SERVICES” which are those used in GVCs
- ◆ Much of the international production networks of TNCs are geared towards providing services inputs, as indicated by the structure of global FDI stock:
  - Services → more than 60% of global FDI
  - Manufacturing → 26%
  - Primary Sector → 7%

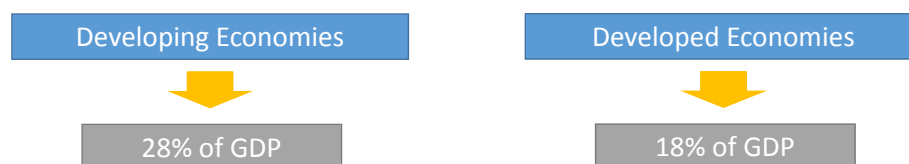
## DEVELOPING ECONOMIES HAVE INCREASED THEIR PARTICIPATION IN GVCs → NOW A MORE INCLUSIVE PHENOMENON

- Economies with higher presence of FDI tend to have higher levels of participation in GVCs and a greater share in global value-added trade compared to their share in global exports
- Evolution of developing economy share in global VA has increased



## GVC PARTICIPATION HELPS DEVELOPING ECONOMIES CREATE MORE DOMESTIC VALUE-ADDED AND GROW FASTER

Domestic value added created from GVC trade relative to the size of local economies is larger in Developing than in Developed Economies



- UNCTAD studies also show a positive correlation between participation in GVCs and GDP per capita growth rates. Developing economies with the fastest growing GVC participation have GDP per capita growth rates some 2 percentage points above the average



#### 4. SERVICES OFFER OPPORTUNITIES FOR SMEs to PARTICIPATE IN INTRA-APEC TRADE



Source: APEC SMEs Infographic

APEC Small and Medium Enterprises Working Group, (2004), Supporting APEC SME Service Exporters:  
A Handbook of Best Practices,

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#### SERVICES SMEs ARE HEAVILY ENGAGED IN GVCs

- OECD work shows that since 1997, more services SMEs have been involved in international alliances than manufacturing
- In 2000, there were nearly 4 times as many Services SMEs engaged in global networks than manufacturing SMEs.
- Why do services activities suit SMEs?
  - Less capital intensive activities and require less physical infrastructure than manufacturing activities
  - Allow for more flexibility on part of SMEs
  - Because production scale is smaller, SMEs can develop expertise in one specific task of a GVC
  - Trading services over the internet is basically cost free.

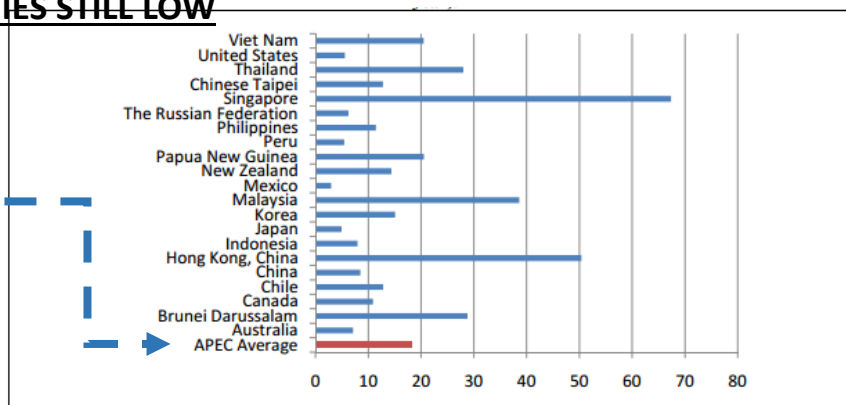
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## **SERVICES EXPORTS AS % OF VALUE ADDED IN APEC ECONOMIES STILL LOW**

**20% of Services VA is exported on average in APEC.**

**Much more room for growth, especially through participation of more SMEs.**



Source: World Development Indicators, WTO and authors' calculations.

Source: APEC Policy Support Unit, (2010), *Trade in Services in the APEC region: Patterns, Determinants, and Policy Implications*, prepared by Ben Shepherd and Erik Van Der Marel



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## **SOME CONCLUDING THOUGHTS**

- ◆ **Services offer the best path to inclusive growth in APEC economies in many and diverse ways.**
- ◆ **Services will continue to play key role in our future growth and trade.**
- ◆ **Focus on services within APEC is timely and needed.**



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# THANK YOU

Sherry Stephenson

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