

PECC-ADB Conference: Services Trade: new approaches for the 21st Century

Session 1: Theme 1: Behind the Border: enhancing the competitiveness of services

“An exploratory framework for measuring services value-added”

Andreas Maurer and Ted Tschang

2 June 2011 – 09.30

Notes by Julian Arkell, the discussant

This paper has given us a “conceptual and statistical framework to measure the services value chain.” The end focus of the study is on the off-shoring of services.

It is a brave attempt. I imagine it is the first in the services context by the WTO Secretariat, of course having taken account of the extensive work done on goods trade measurement.

1 The measurement has to start with the BOP values recorded for transactions between residents and non-residents.

2 This throws up problems for the broad “Other commercial services” category of services (that excludes transport, travel and government services). The allocation of the transactions is to the countries which recorded and declared the exports, and the present situation faces us with the following problems, in that the:

- * data are gross transaction values
- * sector disaggregation may be minimal or absent
- * bilateral partner country disaggregation may be minimal or absent
- * intra-firm data may not be available
- * allocation to GATS Modes 1, 2 and 4 may not be available

3 The next level of problems includes:

- * allocating the value added to the correct supplier by nationality
 - the rules of origin for services may not be clear as to the definition of ownership, control, substantial business operations and a requirement for incorporation (for financial services, for example)
- * the classification of intermediate services has not been settled for the estimations
 - their share is typically over 50% and up to 75% of total services in the GDP and supplied to all sectors in the economy
- * for small economies, even if obtained, the data may not be published in full detail due to the need to suppress some in order to maintain confidentiality of the suppliers.

This is all perhaps conceptually clear, if in practice the required data are difficult and expensive to obtain.

4 However, if the data are to be used by policy makers and analysts for comparing sectoral productivity for services, the conceptual problems are of a fundamental nature. For many services, especially the higher value-added and knowledge-intensive intermediate services, there is no accepted basis for defining the **units** of services supply (and hence their quantities), nor the **quality** of any such unit supplied and thus its correct price. Innovation is continually affecting the quality of service products and the internal processes of the suppliers. This situation calls for a Noble prize-winning level of attention to make any progress.

Nowadays the pricing of services will include provisions for the expected future period of supply (the performance over time), the various commercial risks to be managed and a margin for general unpredictable uncertainty, or vulnerability. The extended just-in-time international supply chains are more vulnerable to exogenous shocks.

Even where total factor productivity for a whole economy has been calculated, the corrections made for price levels and foreign exchange conversions can include distortions that are not evident, particularly if different services groups or clusters are also to be compared.

This situation can also to a certain extent affect the usual general equilibrium and gravity econometric modelling techniques used to identify the impact of possible services trade liberalisation commitments made, or to be made. I have read an academic calling for the interaction of the inputs of science, social sciences and economics to significantly improve such models that attempt to deal with the services part of an economy in full.

My thanks to the presenters, the chairman, the organisers and PECC and ADBI for funding this event.