At Your Service?
The Promise of Services-Led Development

Gaurav Nayyar • Mary Hallward-Driemeier • Elwyn Davies

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www.worldbank.org/services-led-development
The export led manufacturing paradigm is exemplified by East Asia. But...

Manufacturing value added as a share of GDP, 1994 relative to 2015

Source: Calculations based on World Development Indicators and United Nations Industrial Development Organization (UNIDO) Manufacturing Value Added (MVA) databases
Why this BOOK?

• What’s common?
  – To respond to worries about ‘premature de-industrialization’ with renewed calls for lower income countries to expand manufacturing.

• What’s overlooked?
  – To analyze how the services sector can raise productivity and create jobs in countries that are less industrialized.

• What we contribute:

  1. Provide a framework that links the services sector’s expanding contribution to development to greater opportunities for scale, innovation and spillovers.

  2. Uncover new evidence on how services compare with manufacturing, but also on how performance compares across sub-sectors within services.

  3. Identify policy priorities that draw on diverse country experiences.
The services sector is increasingly driving economic transformation, despite policymakers’ focus on manufacturing
Almost all of the decline in agriculture’s share of total employment in low- and middle-income countries since the 1990s was offset by services.
The rise of services is fairly widespread across countries

Share of employment (%)
Labor productivity growth in services has been strong in LMICs

Labor productivity growth in services has matched that in industry across LMICs in many regions since the 1990s, typically exceeding that of high-income countries.

In many EAP countries, services productivity growth has not matched that of industry.

Source: Calculations based on World Development Indicators database.
The services sector is not monolithic
Services differ to the extent they are traded, their labor intensity, the skills they use, and whether they are linked to other sectors.
Not all services are equally (un)productive

Total factor productivity (TFP), relative to manufacturing

Source: Calculations based on firm-level data from 20 countries analyzed for this book, supplemented with OECD/Eurostat data.
Services employment in developing economies may concentrate in less productive subsectors

If LMICs had the same employment composition in services as HICs, their productivity would rise by a third.

Source: Calculations based on International Labour Organization (ILO) and World Development Indicators data
The services sector is characterized by new opportunities for scale, innovation and spillover effects — the characteristics that made manufacturing more productive in the past.
There are new opportunities for scale

Scale applies differently to services: small firms can be as productive as larger ones

Labor productivity, relative to large firms = 100

But services offer new opportunities for scaling up and growing revenues:

- **Digital technologies** reduce the need for face-to-face and allow for more remote delivery of services
- **Multi-establishment firms** such as chains, franchising, allowing to sell at multiple locations
- **Quality** of services is more heterogeneous but an important determinant of price and revenues

Source: Calculations based on firm-level data from 20 countries analyzed for this book, supplemented with OECD/Eurostat data
Intangible capital drives innovation

Investments in software and data increased the most among firms in global innovator services.

Investments in marketing and organizational innovation are more widespread across many services subsectors than in manufacturing.

Source: Calculations based on OECD data.
Services linked to other sectors tend to be more productive – expanding opportunities for spillovers

Share sold to other sectors (horizontal) and total factor productivity (vertical)

Source: Calculations based on OECD data and the World Input-Output Database
As a result, the productivity-jobs dichotomy within a services subsector is narrowing
Low-skill services are becoming more productive

• Scaling up based on digital platforms and intangible capital
  – Restaurants can scale up through e-commerce platforms and investments in intangible capital that enable franchising or branching.

• Efficiency gains from ICT-based automation
  – Small retailers can innovate through digital apps that automate skill-intensive tasks such as inventory management and accounting.

• Indirect exports
  – Wholesale trade and warehousing services can be indirectly exported through forward linkages with goods-producing sectors.
Productive services are expanding opportunities for low-skilled workers through linkages with other sectors.

The contribution of low-skilled labor to exports in the Philippines’ business services sector is close to that in the Bangladeshi garment industry.

A key difference is that a larger share of this contribution to exports is indirect exports, through other sectors, rather than direct exports.

Source: World Bank Labor Content of Exports (LACEX)
Countries can exploit these transformative opportunities from services, regardless of their level of industrialization.
The share of global innovators in total services exports rises with income – but many LMICs are successful exporters

Share of global innovator services in total services exports and log of GDP per capita, 2017

Source: WTO TiSMOS and World Development Indicators
The emergence of services exports hubs

Two-thirds of online freelancers on large English-speaking platforms live in LMICs

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Workers (Millions)</th>
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<tr>
<td>India</td>
<td>98</td>
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<tr>
<td>Bangladesh</td>
<td>48</td>
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<tr>
<td>Pakistan</td>
<td>37</td>
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<td>United States</td>
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<td>Philippines</td>
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<td>United Kingdom</td>
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<td>China</td>
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<td>Ukraine</td>
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<td>Russian Federation</td>
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<td>Egypt, Arab Rep.</td>
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<td>Canada</td>
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<td>Brazil</td>
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<td>Sri Lanka</td>
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<td>Indonesia</td>
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<td>Serbia</td>
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<td>Venezuela, RB</td>
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Source: Oxford iLabour project

The top 20 health tourism destinations includes many LMICs

Export value of health tourism (GATS mode 2, "consumption abroad")

Source: WTO TISMoS
Tourism-related services make up larger shares of total services exports in lower-income countries than in high-income countries.

Share of low-skill tradable services in total services exports and log of GDP per capita, 2017

Source: WTO TISIOMS and World Development Indicators
A strong services sector can benefit efforts to industrialize
Services as an “upstream” enabler and a “downstream” complement

**As upstream enabler**
Services as inputs for manufacturing

About one-third of the value of manufactures’ exports is attributable to services inputs:

**As downstream complement**
The “bundling” of goods and services

Examples:
- The iPhone combined with audiovisual services (streaming music and movies) through iTunes
- Car manufacturers offering financial services through monthly installment payment plans
- After-sales services like document managing and consulting and equipment maintenance represent about 75 percent of Xerox’s total revenues

Source: Calculations based on the OECD Trade in Value Added (TiVA) database
Trade, Technology, Training and Targeting (4Ts) to leverage the potential of the services sector for economic transformation
Policy responses (4Ts) to make most of forward-looking trends

<table>
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<tr>
<th>Trends</th>
<th>Technology trends</th>
<th>Linkages</th>
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<tbody>
<tr>
<td>Due to ICT, reduced need for physical proximity</td>
<td>Potential for automation and data analytics to leverage labor</td>
<td>From increased intangible capital, more incentives to innovate and invest</td>
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</tbody>
</table>

Policy implications to realize benefits of these trends:

- **Trade** – to lower barriers to services trade and competition to expand access to markets
- **Technology** – to improve access to ICT and technology adoption; complementary policies to ensure competition and inclusion
- **Training** – to raise digital and complementary interpersonal skills; management practices
- **Targeting** – to address market failures in enabling services to capture wider spillovers
Trade: Making what is tradable more traded

More LMICs Restrict Services Trade than HICs, 2016

Source: World Bank Services Trade Restrictiveness Index (STRI) database
The mode of trade also varies by services subsector

Share in services subsector's exports, 2017, by Mode of Supply

Source: WTO TISMOS
Technology and Training: Need to be considered together

Transport, wholesale and IT see managerial practices at similar levels as manufacturing, while the adoption tends to be lower in retail, hospitality and motor vehicles trade.

Workers report that their lack of ICT skills is a constraint to employment or higher earnings.

Calculations based on World Bank Enterprise Survey data

Calculations based on World Bank STEP Surveys
Targeting: Addressing market failures in enabling services

Domestic value added embodied as inputs in economywide production

PMR scores in network services, HICs and LMICs, 2013–17

Calculations based on OECD PMR database and World Bank–OECD PMR database.
Country performance in the 4Ts helps identify reform priorities

With the two strongest correlations among the 4Ts being between training and technology, and between trade and targeting, improving either complementary pair would likely have the biggest impact.

**Training and technology**
- Countries relatively stronger in technology (e.g. Vietnam) could leverage it with more training.

**Trade and targeting**
- Some developing countries are more open to trade and benefiting from more linkages (e.g. Ghana), although too many have constraints (e.g. Ethiopia).
The book is available online at www.worldbank.org/services-led-development
Related works

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