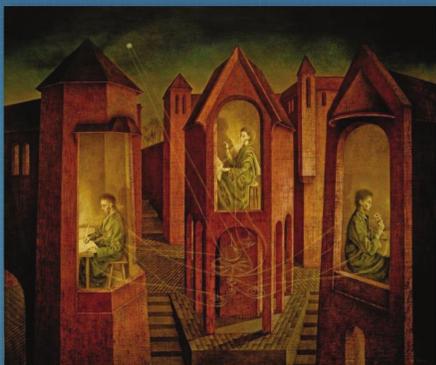




At Your Service?

The Promise of Services-Led Development



Gaurav Nayyar, Mary Hallward-Driemeier, and Elwyn Davies



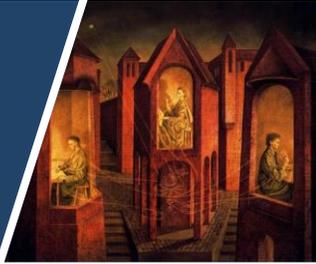
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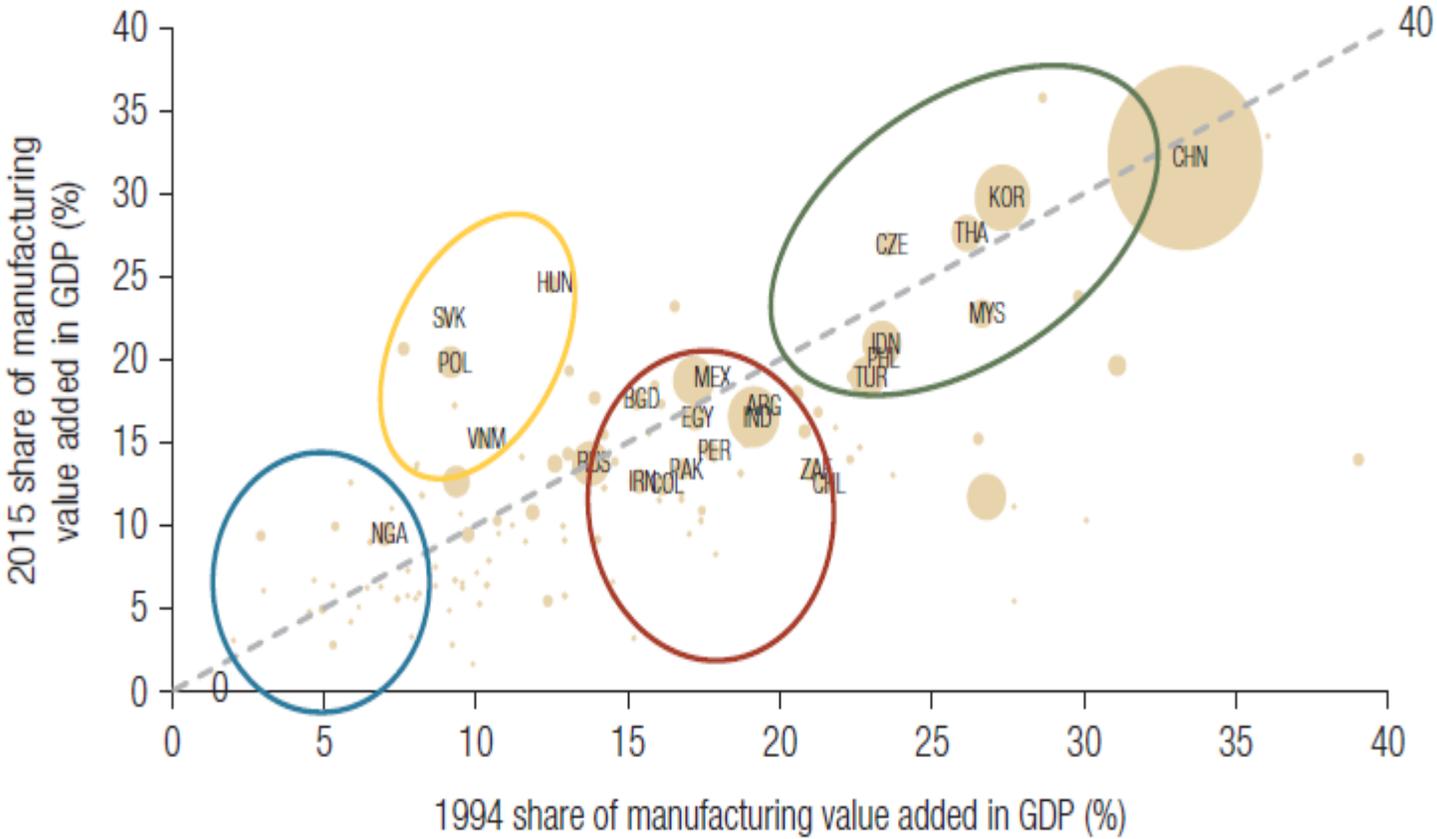
Gaurav Nayyar • Mary Hallward-Driemeier • Elwyn Davies

JICA-WB Seminar, December 3 2021

The export led manufacturing paradigm is exemplified by East Asia. But...



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

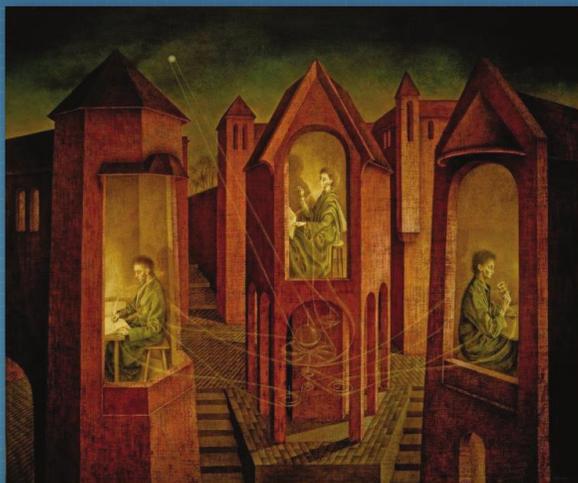


Why this BOOK?



At Your Service?

The Promise of Services-Led Development



Gaurav Nayyar, Mary Hallward-Driemeier, and Elwyn Davies



- **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.

#1

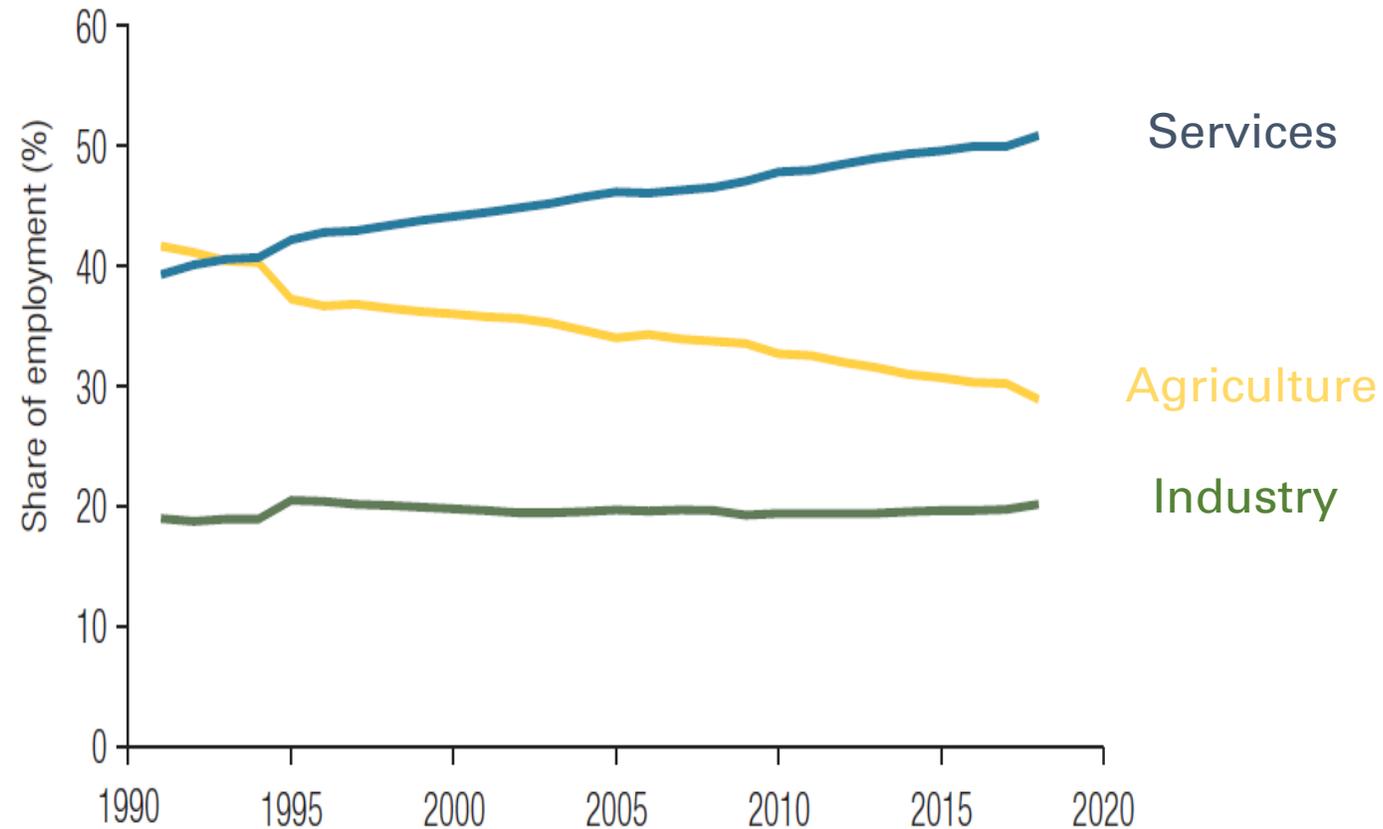
The services sector is increasingly driving economic transformation, despite policymakers' focus on manufacturing



Services, not industry, are driving structural transformation in LMICs



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

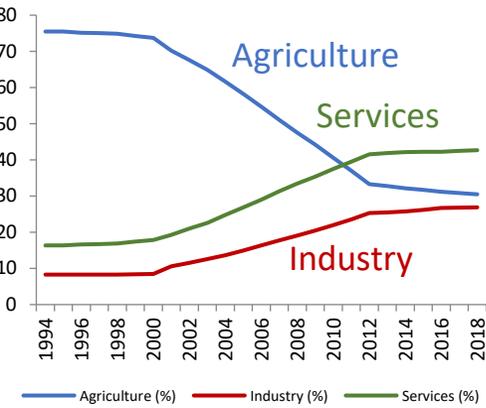


The rise of services is fairly widespread across countries

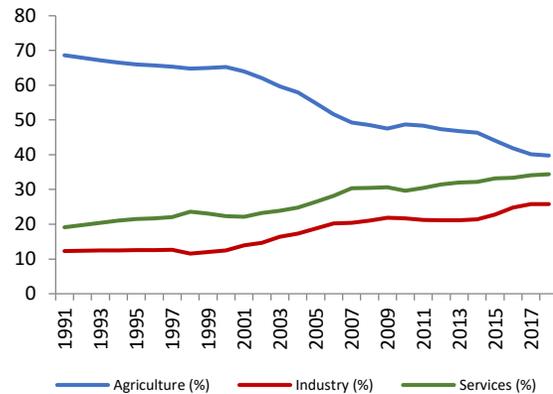


Share of employment (%)

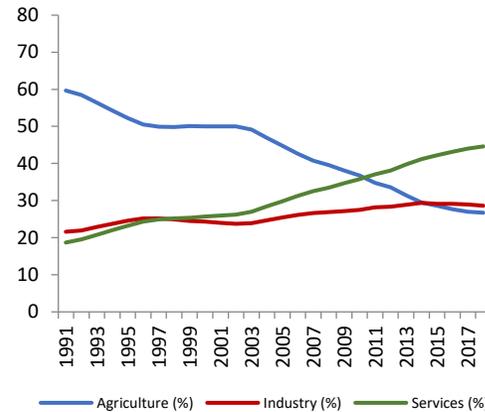
Cambodia



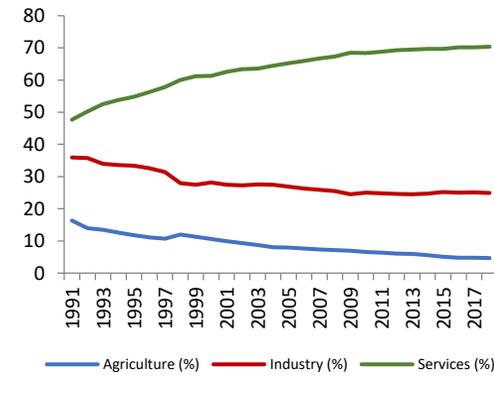
Vietnam



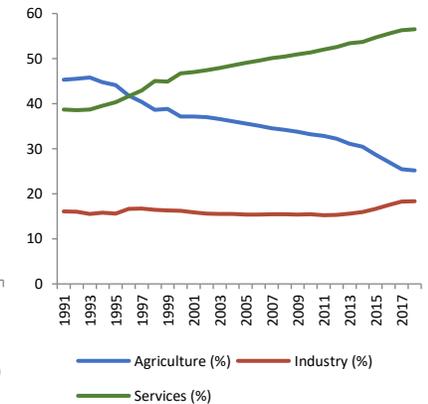
China



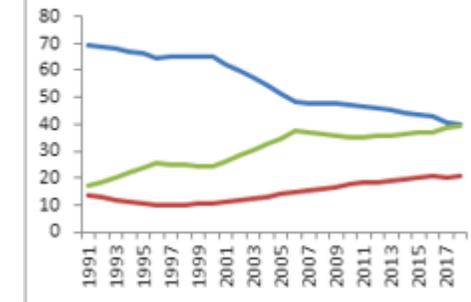
Korea, Rep.



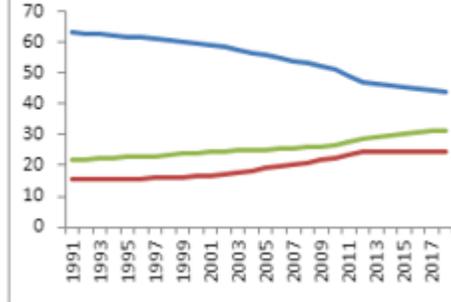
Philippines



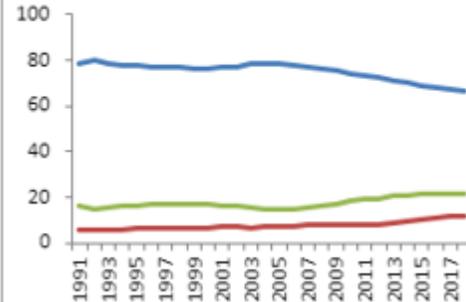
Bangladesh



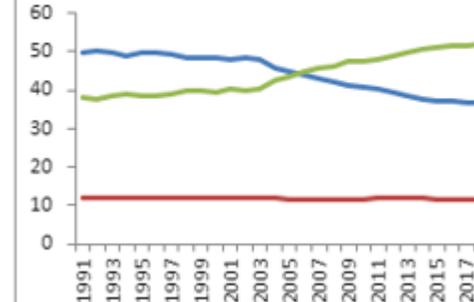
India



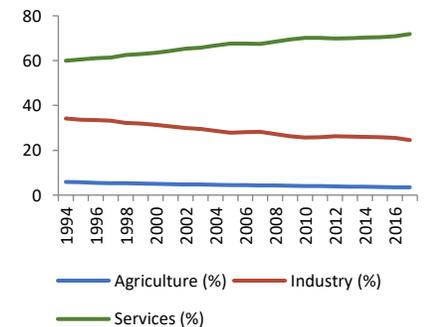
Ethiopia



Nigeria



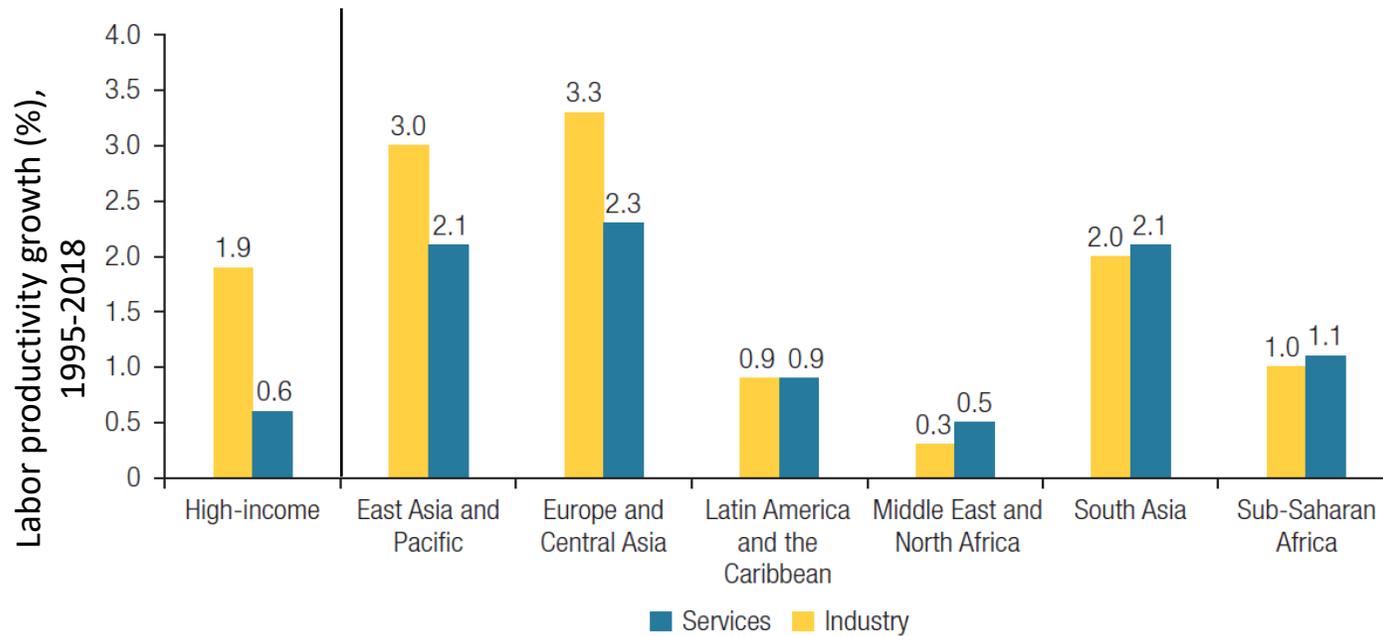
Japan



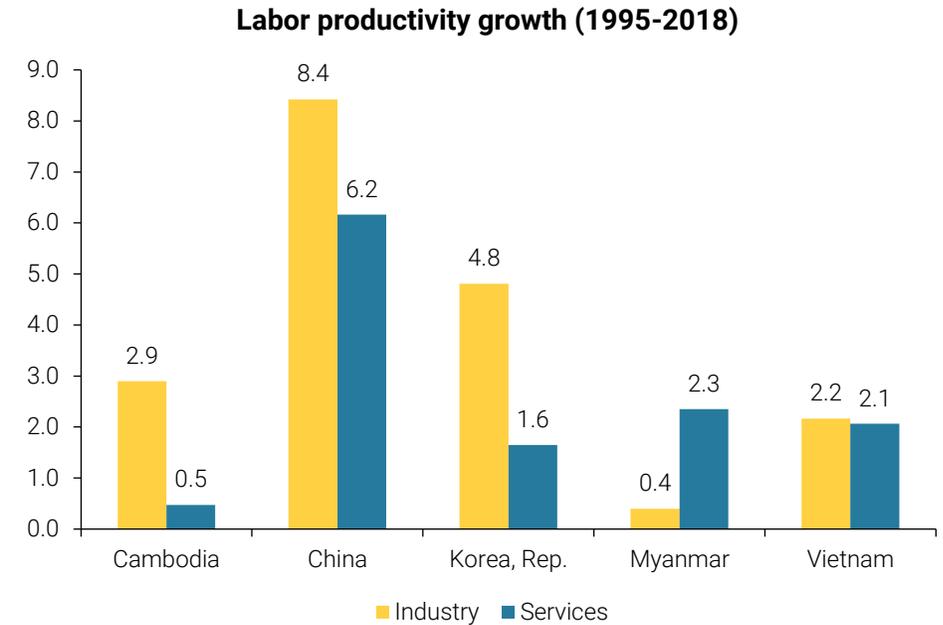
Labor productivity growth in services has been strong in LMICs



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

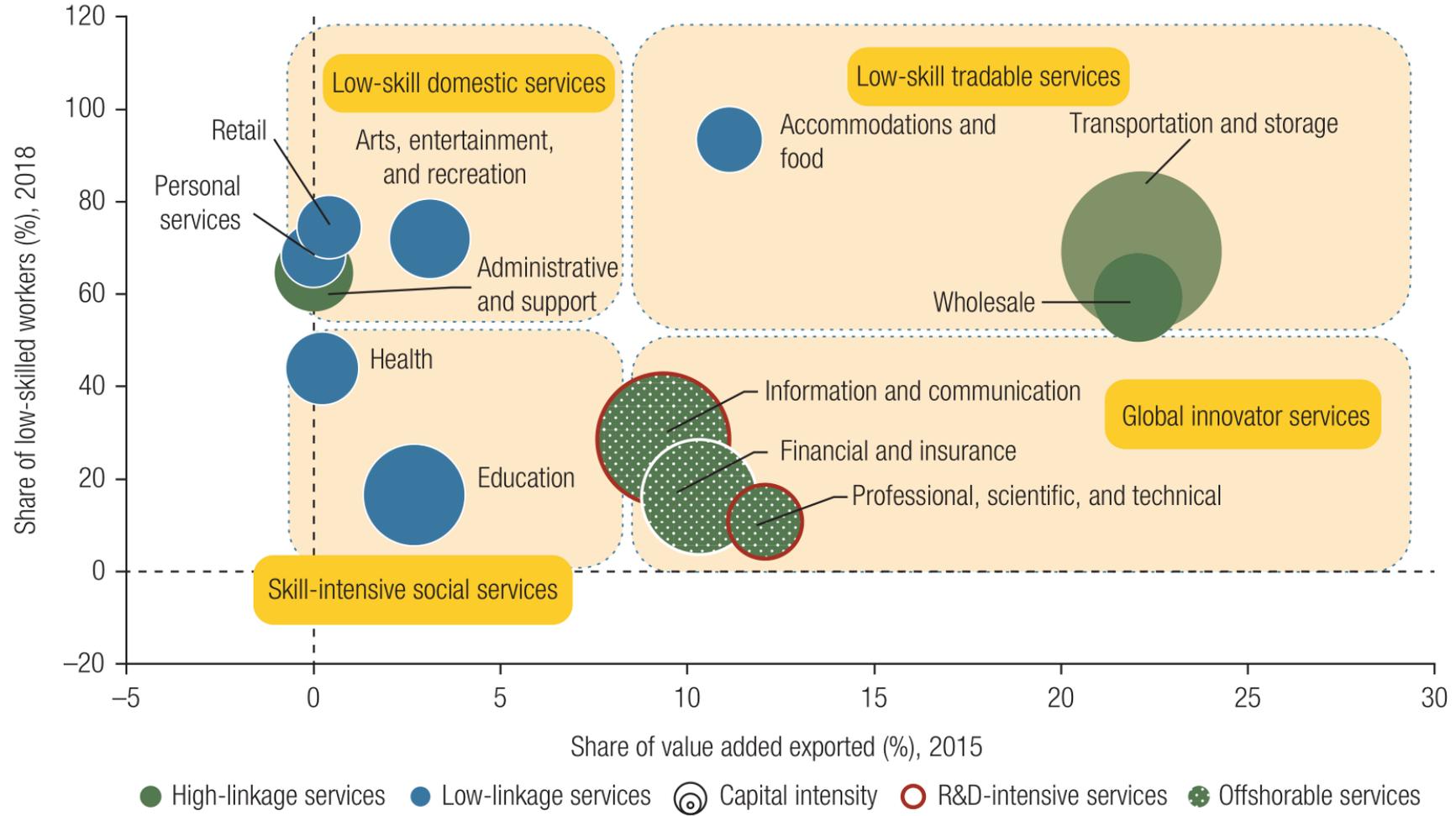


#2

The services sector is not monolithic



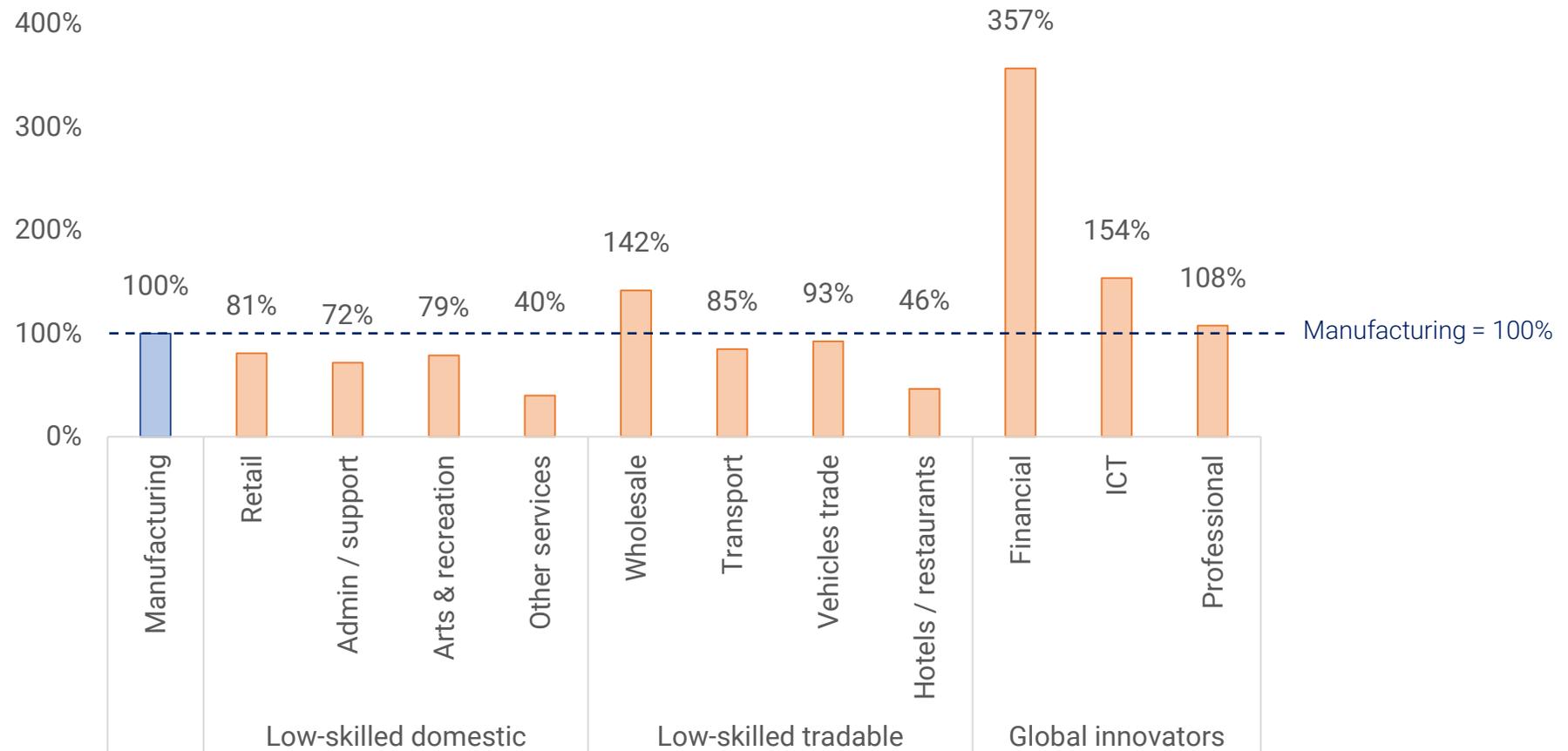
Services differ to the extent they are traded, their labor intensity, the skills they use, and whether they are linked to other sectors



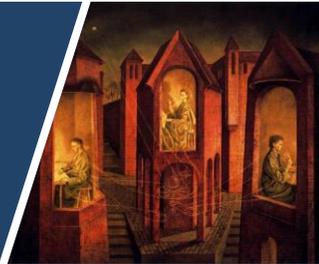
Not all services are equally (un)productive



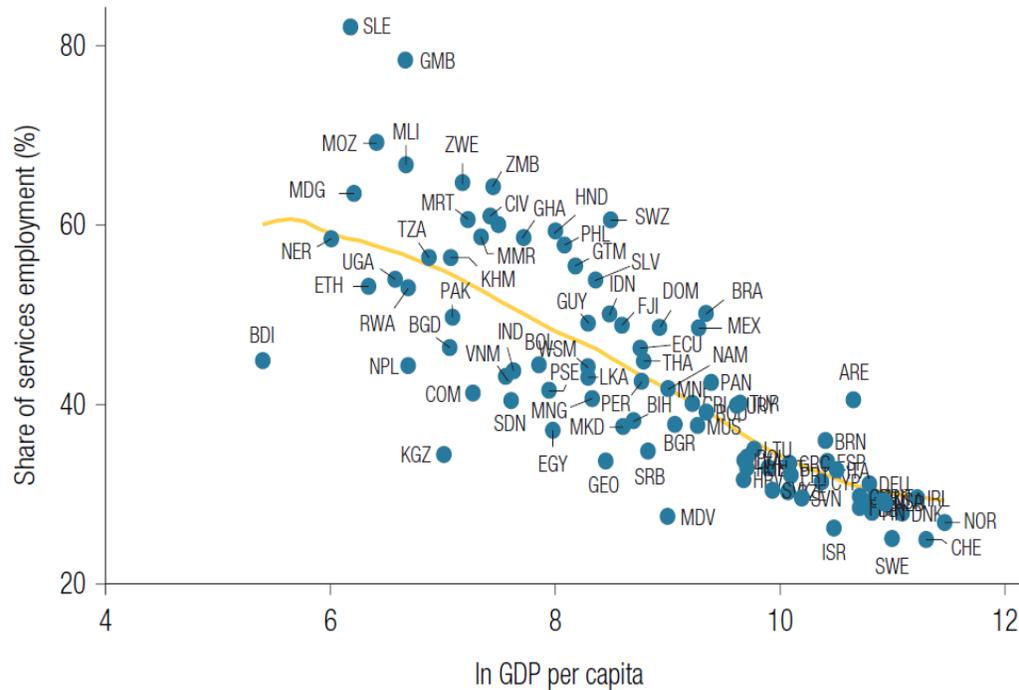
Total factor productivity (TFP), relative to manufacturing



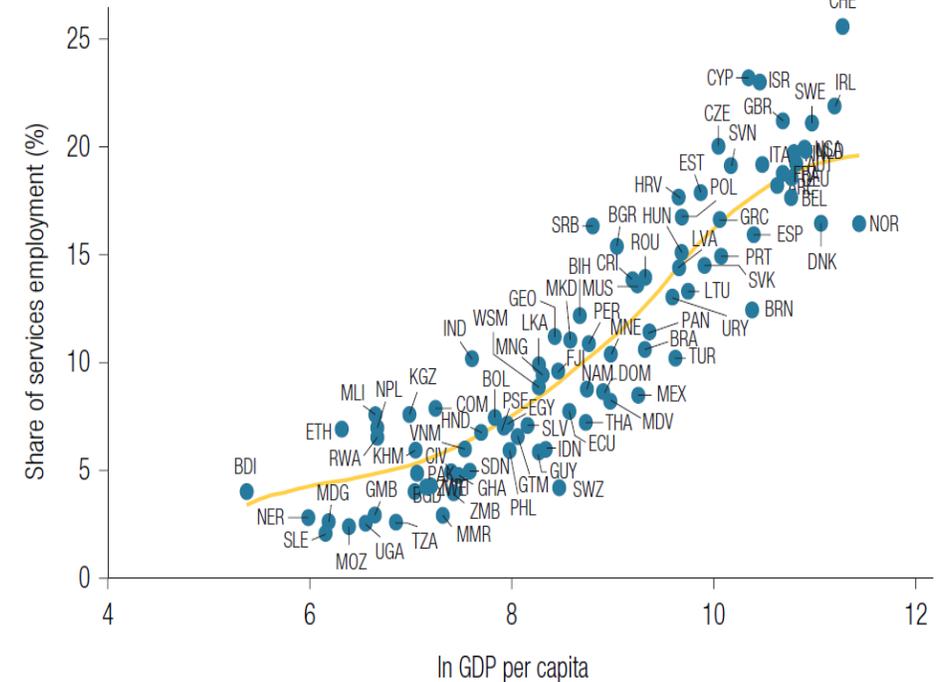
Services employment in developing economies may concentrate in less productive subsectors



Low-skill domestic services
(e.g., retail, personal services)



Global innovator services
(e.g., ICT, professional services)



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

#3

The services sector is characterized by new opportunities for scale, innovation and spillover effects — the characteristics that made manufacturing more productive in the past



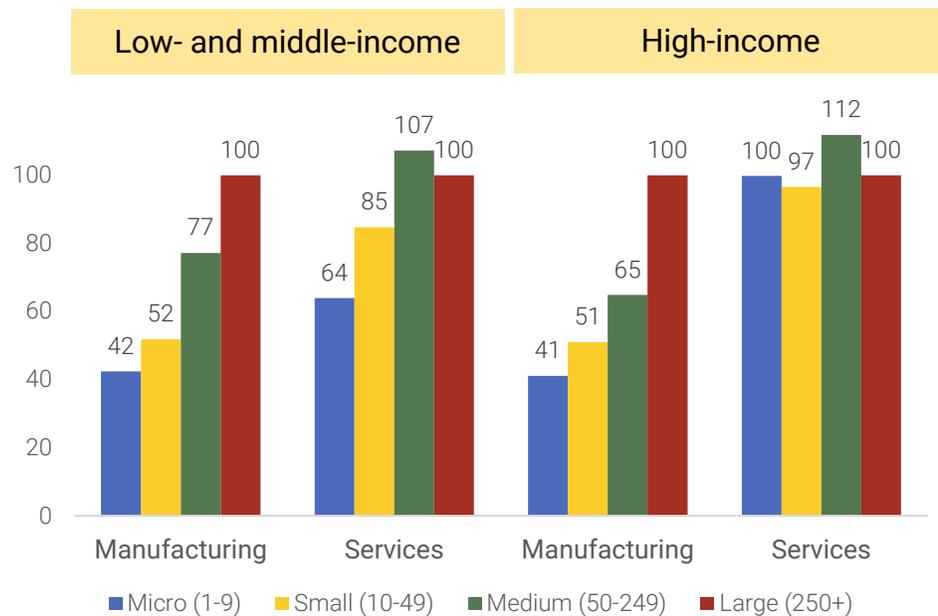
There are new opportunities for scale



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

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

Labor productivity, relative to large firms = 100



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



Digital technologies reduce the need for face-to-face and allow for more remote delivery of services

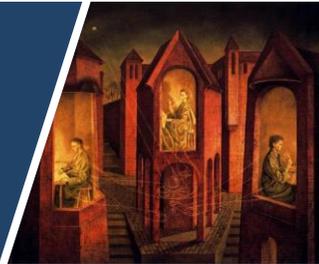


Multi-establishment firms such as chains, franchising, allowing to sell at multiple locations



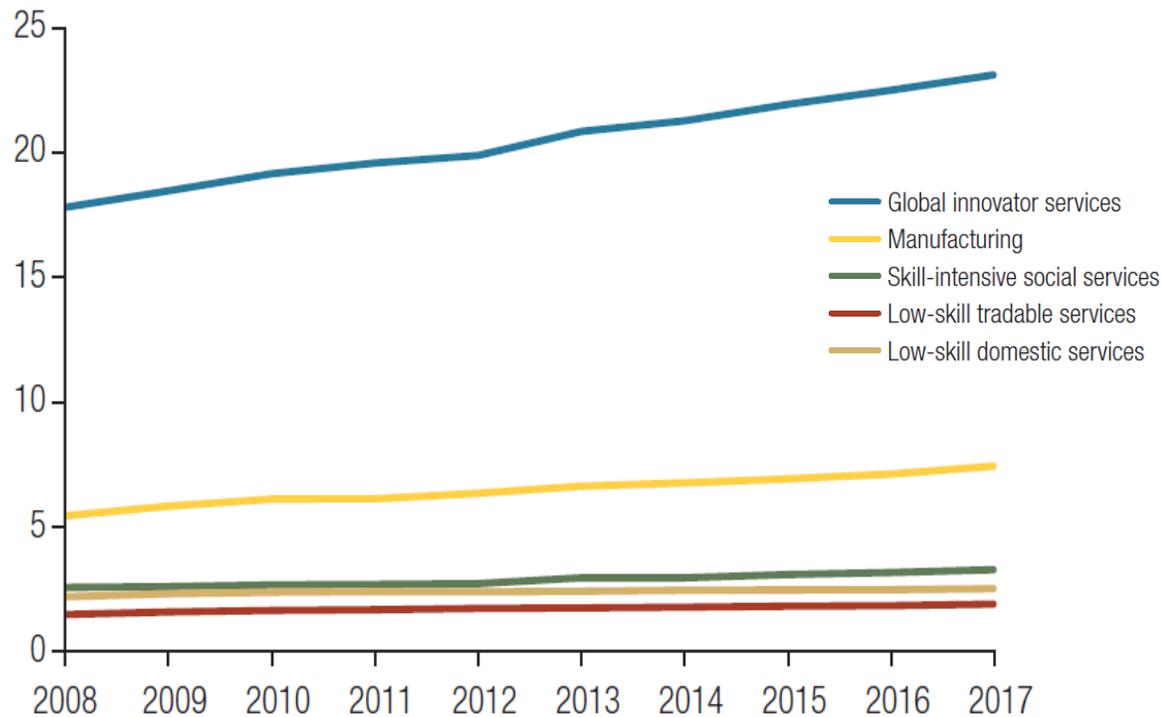
Quality of services is more heterogeneous but an important determinant of price and revenues

Intangible capital drives innovation



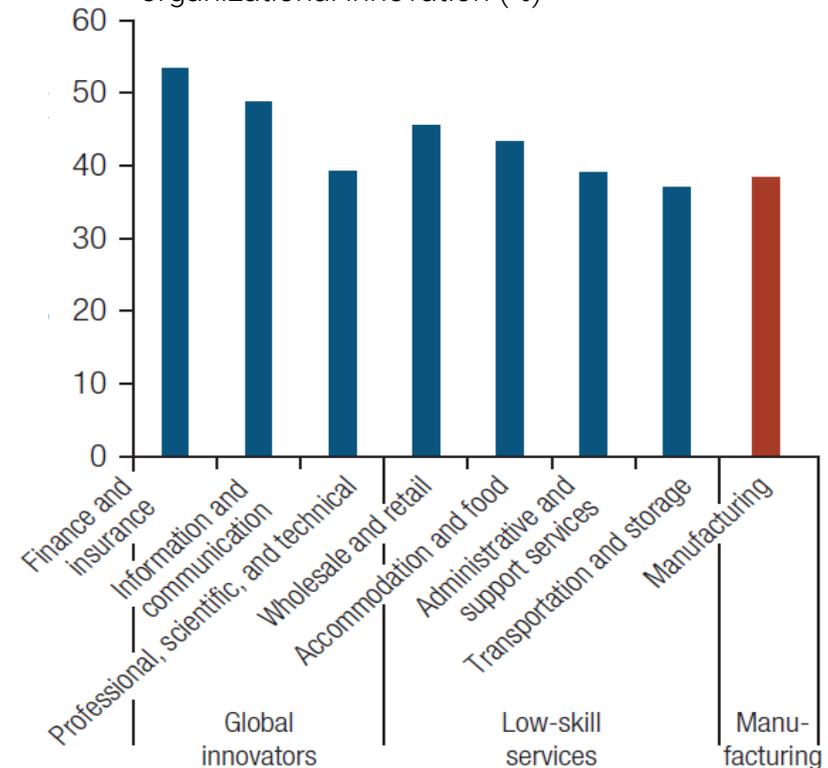
Investments in software and data increased the most among firms in global innovator services

Spending on software and data per worker (thousand euro)



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

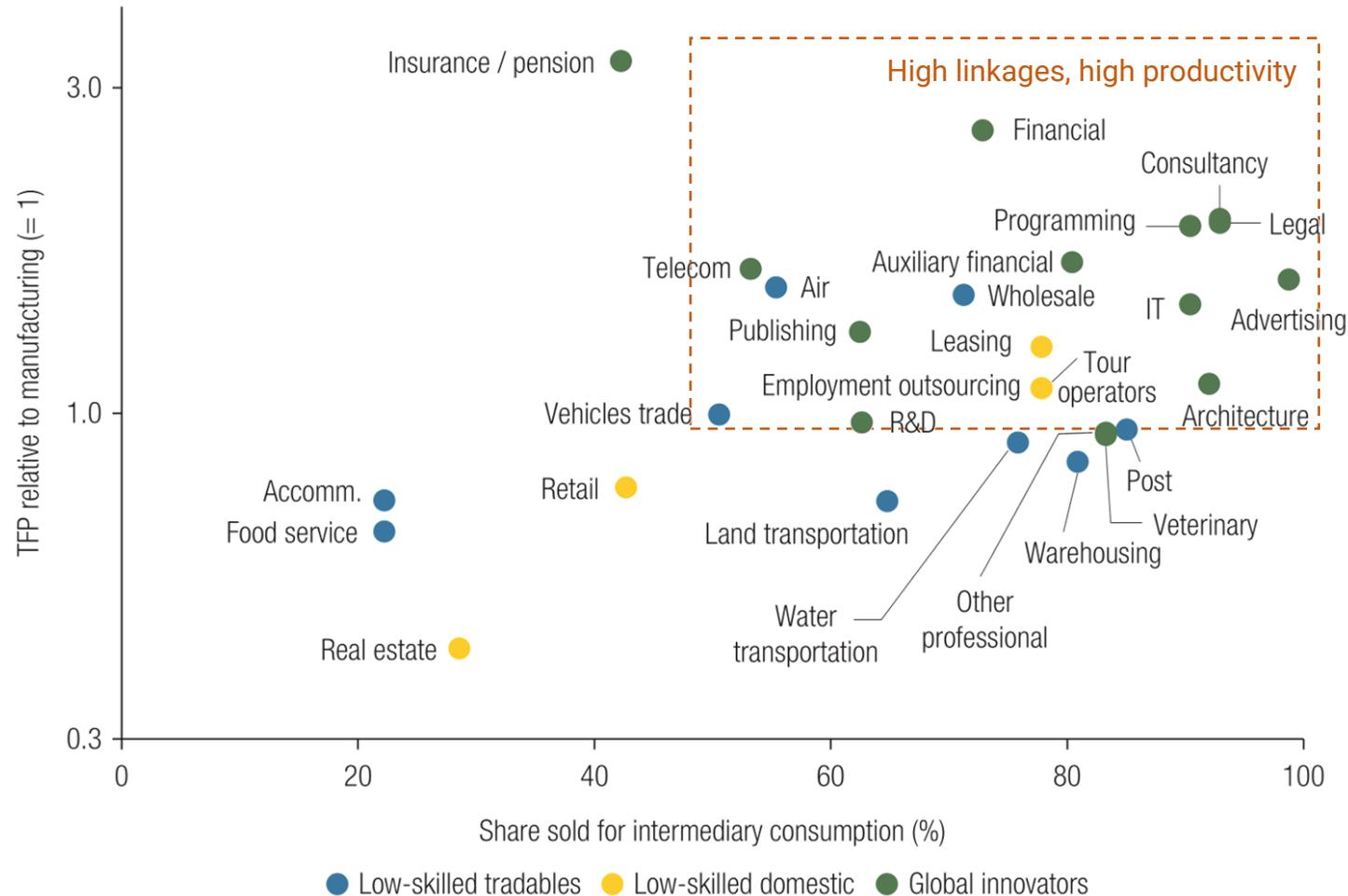
Share of firms investing in marketing / organizational innovation (%)



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)



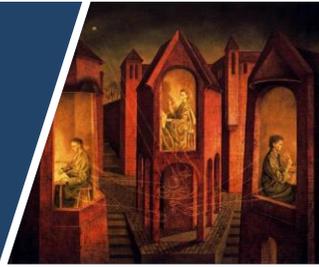
Source: Calculations based on OECD data and the World Input-Output Database

#4

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

#5

Countries can exploit these transformative opportunities from services, regardless of their level of industrialization

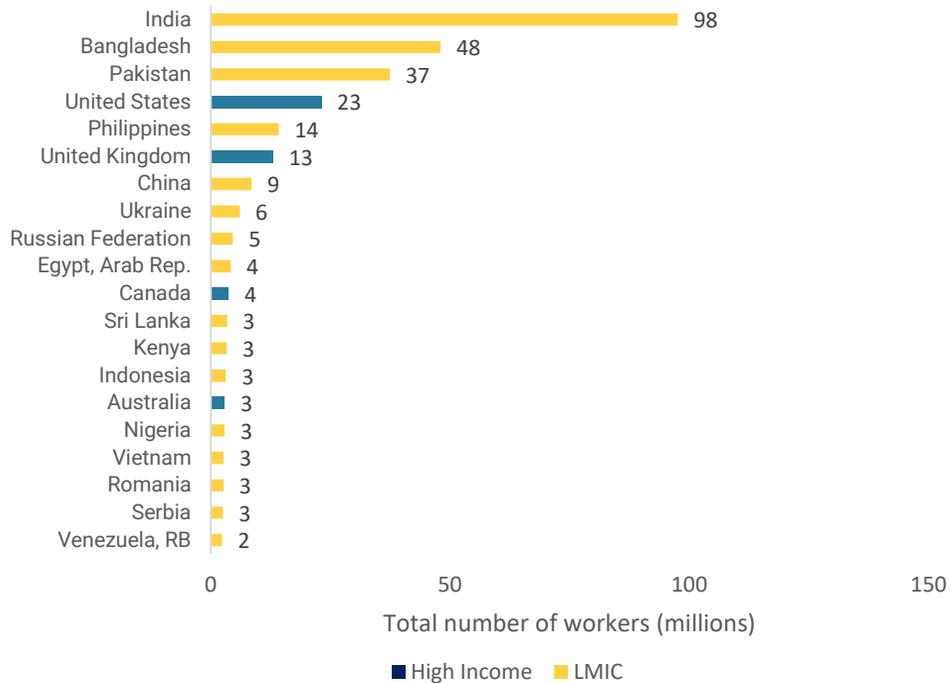


The emergence of services exports hubs



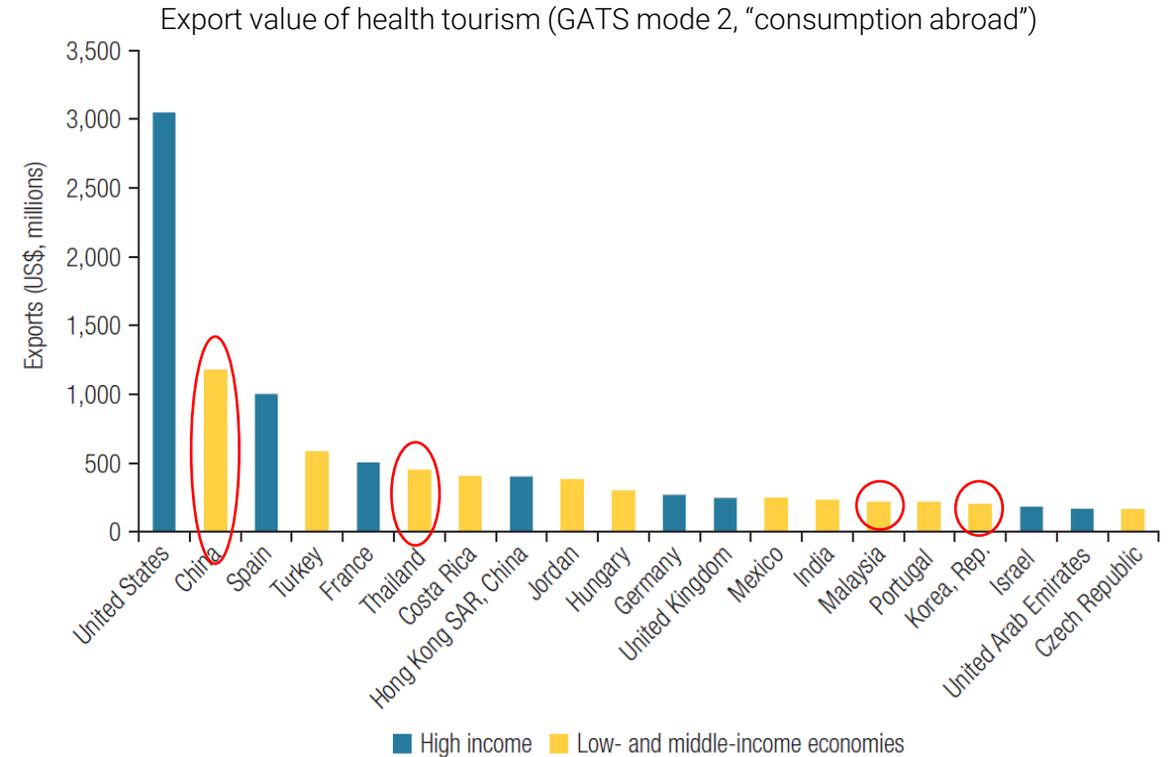
Two-thirds of online freelancers on large English-speaking platforms live in LMICs

Number of workers on five of the largest English-language online freelance platforms



Source: Oxford iLabour project

The top 20 health tourism destinations includes many LMICs

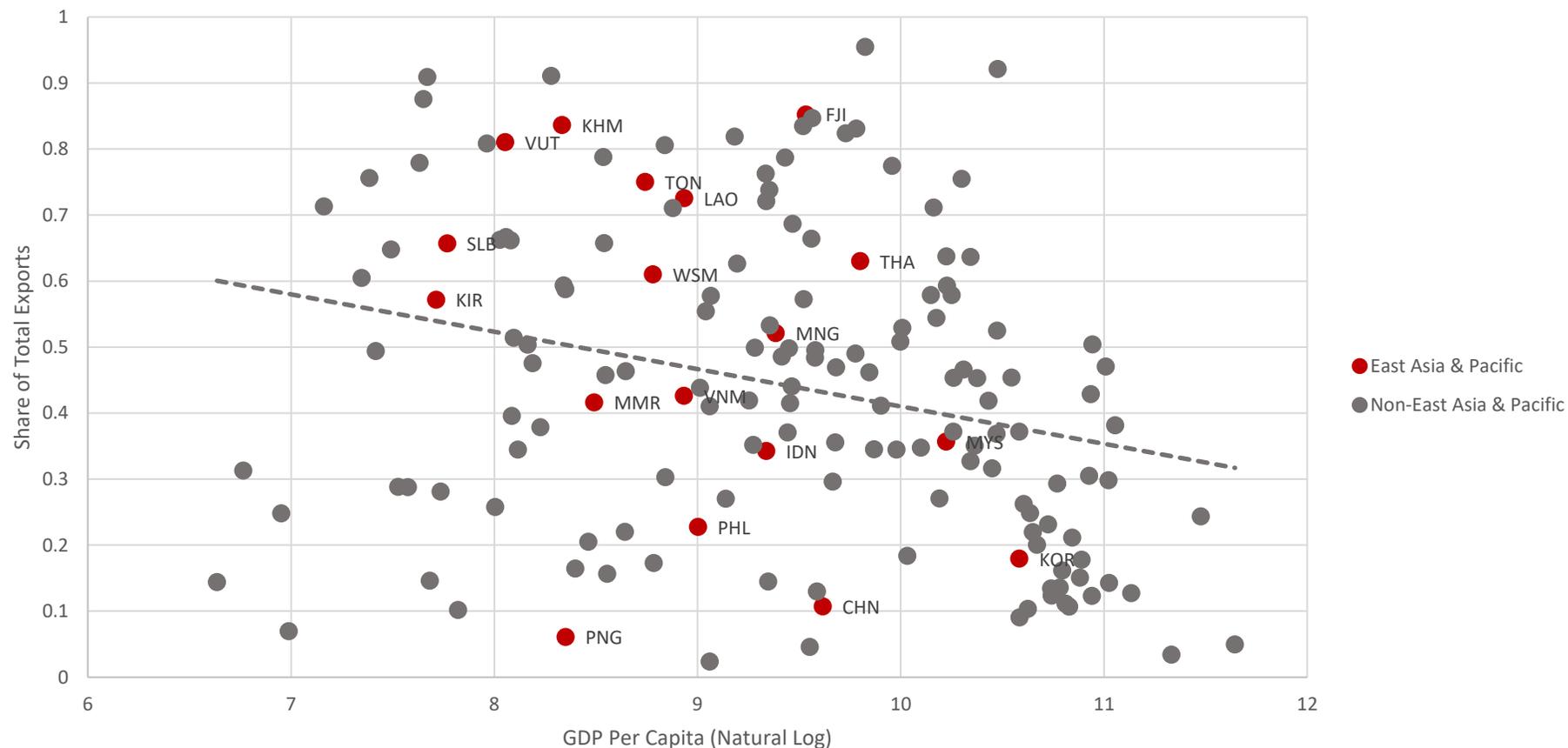


Source: WTO TiSMoS

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



#6

A strong services sector can benefit efforts to industrialize

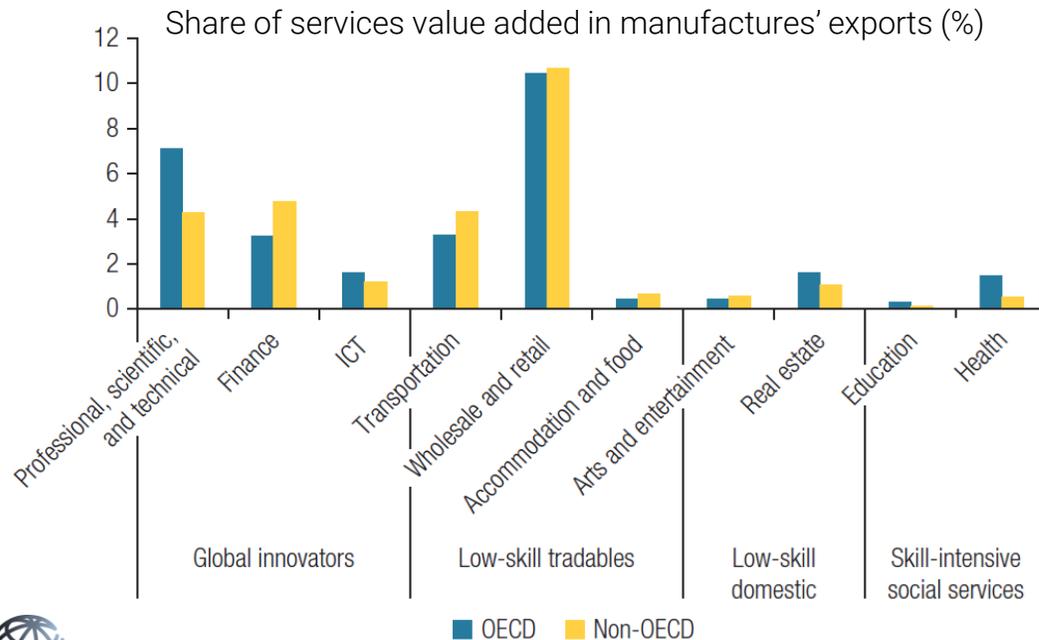


Services as an “upstream” enabler and a “downstream” complement



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:

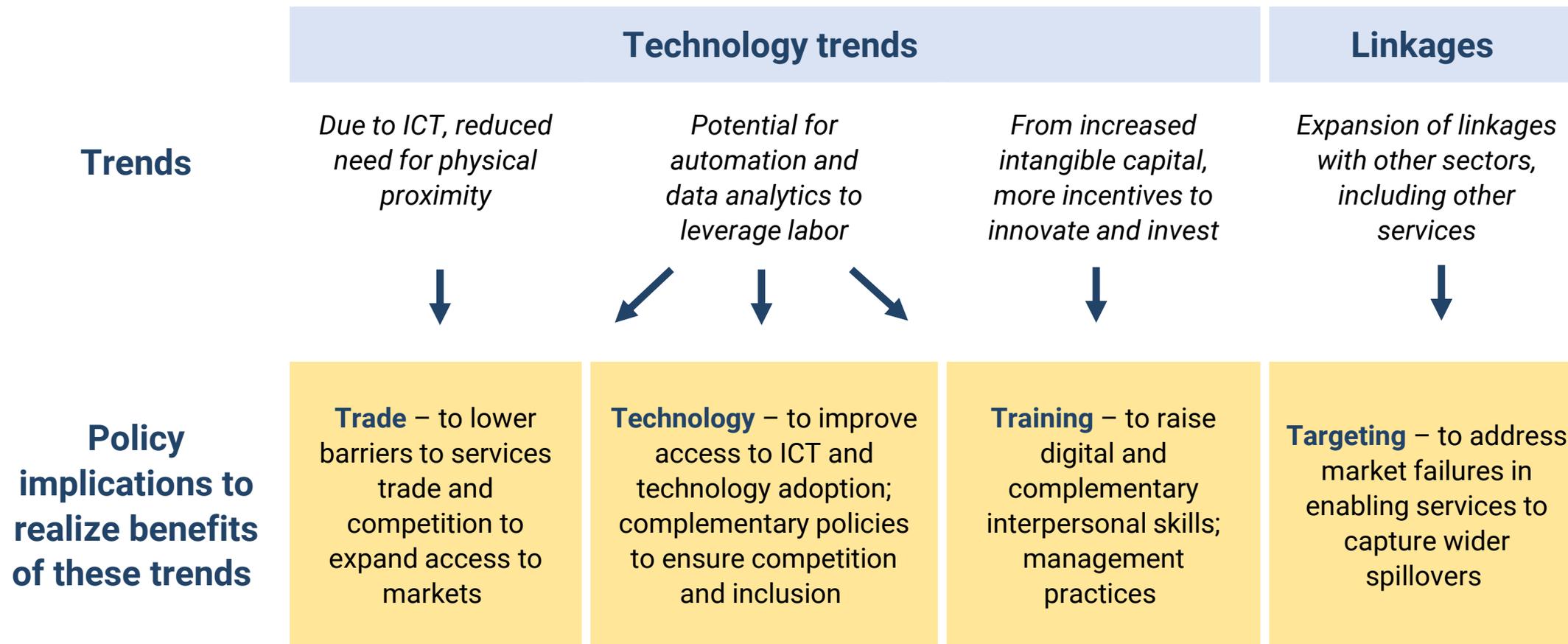
- The iPhone combined with audiovisual services (streaming music and movies) through iTunes
- Car manufacturers offering financial services through monthly installment payment plans
- After-sales services like document managing and consulting and equipment maintenance represent about 75 percent of Xerox’s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

#7

Trade, Technology, Training and Targeting (4Ts)
to leverage the potential of the services sector
for economic transformation



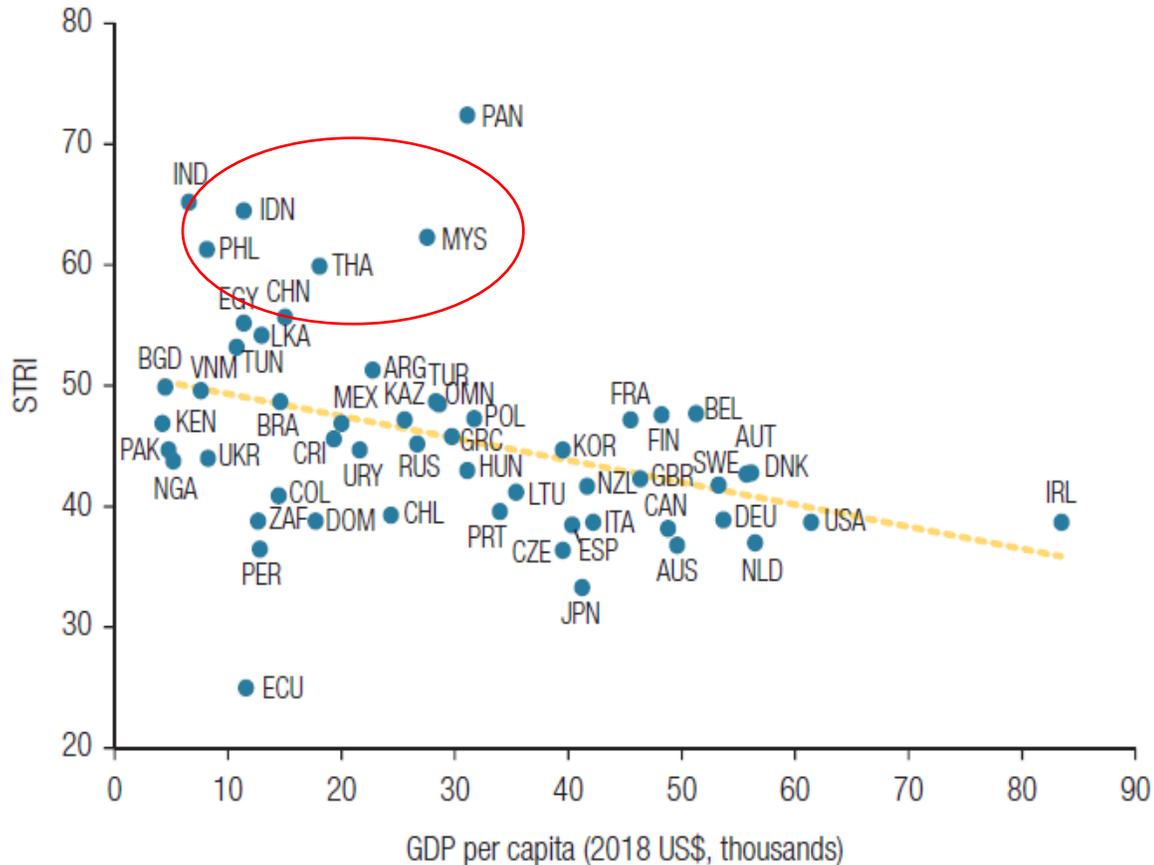
Policy responses (4Ts) to make most of forward-looking trends



Trade: Making what is tradable more traded



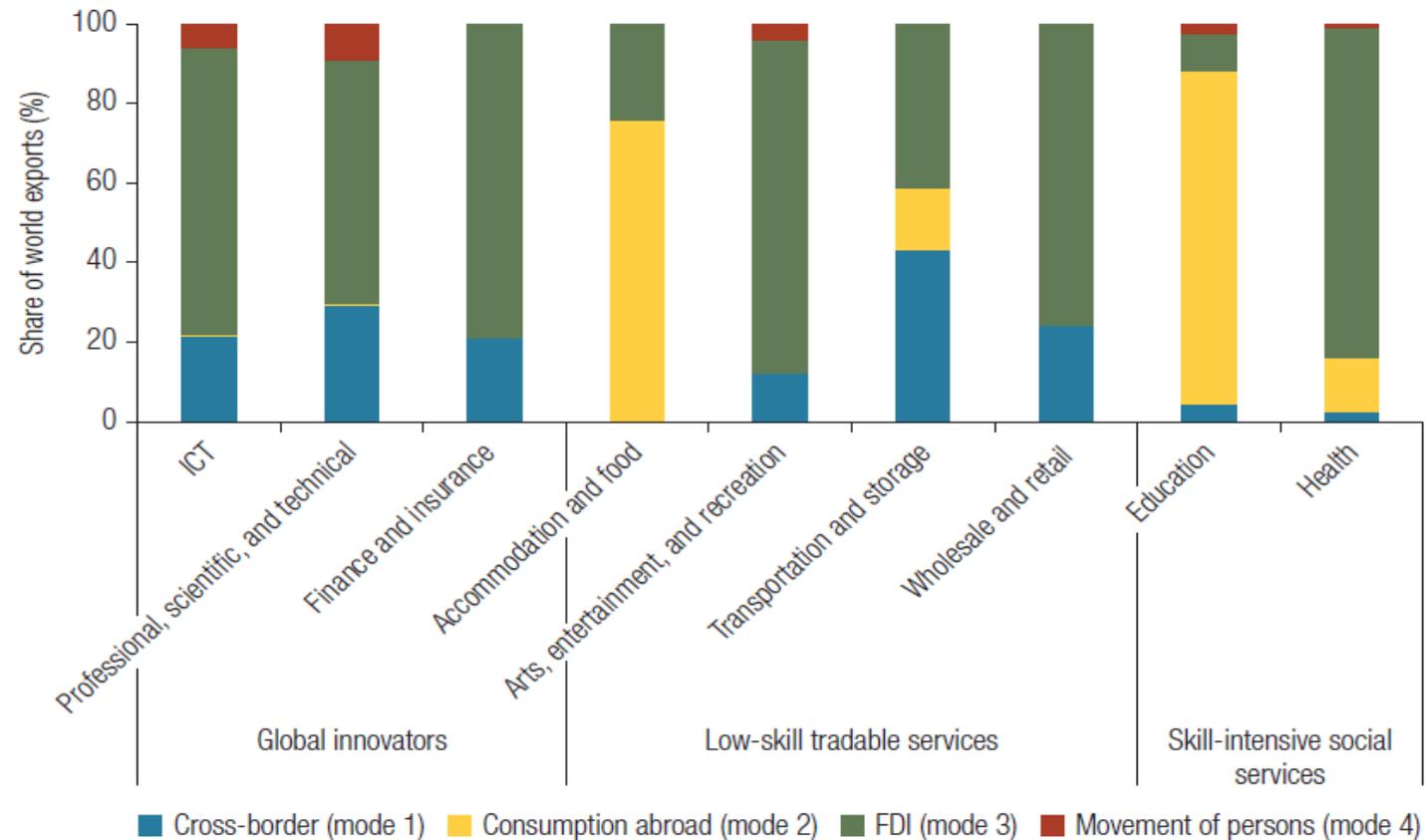
More LMICs Restrict Services Trade than HICs, 2016



The mode of trade also varies by services subsector



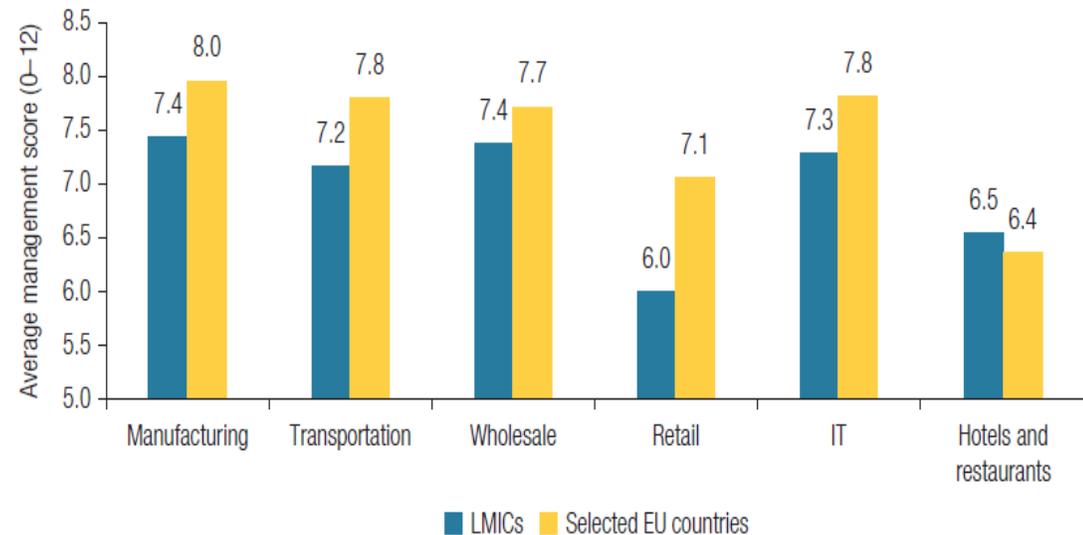
Share in services subsector's exports, 2017, by Mode of Supply



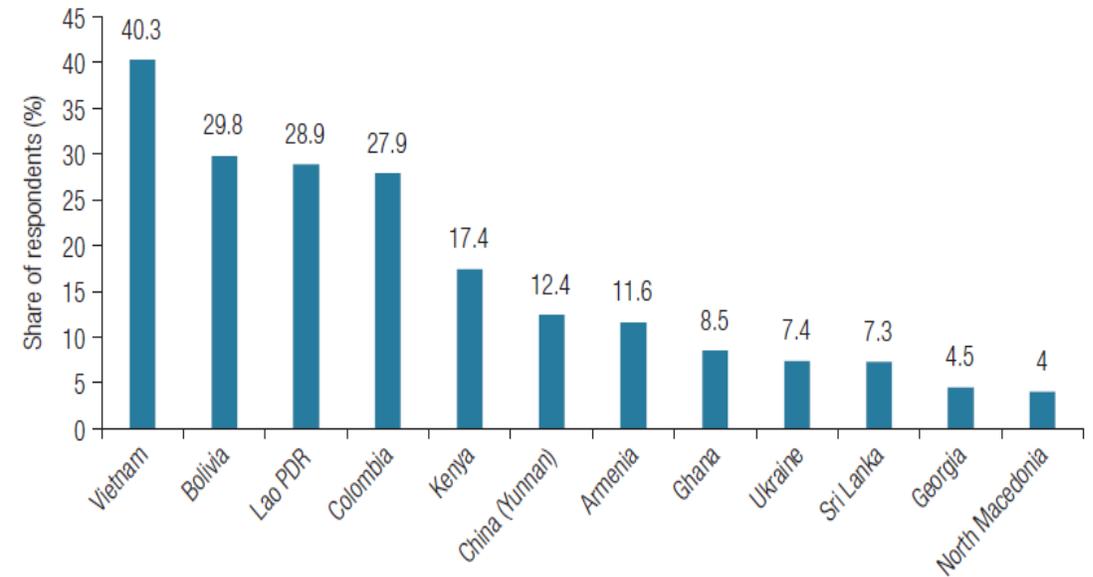
Technology and Training: Need to be considered together



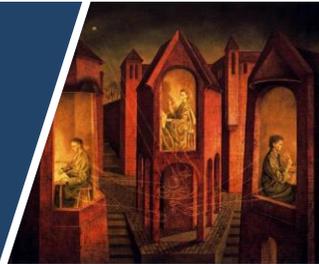
Transport, wholesale and IT see managerial practices at similar levels as manufacturing, while the adoption tends to be lower in retail, hospitality and motor vehicles trade



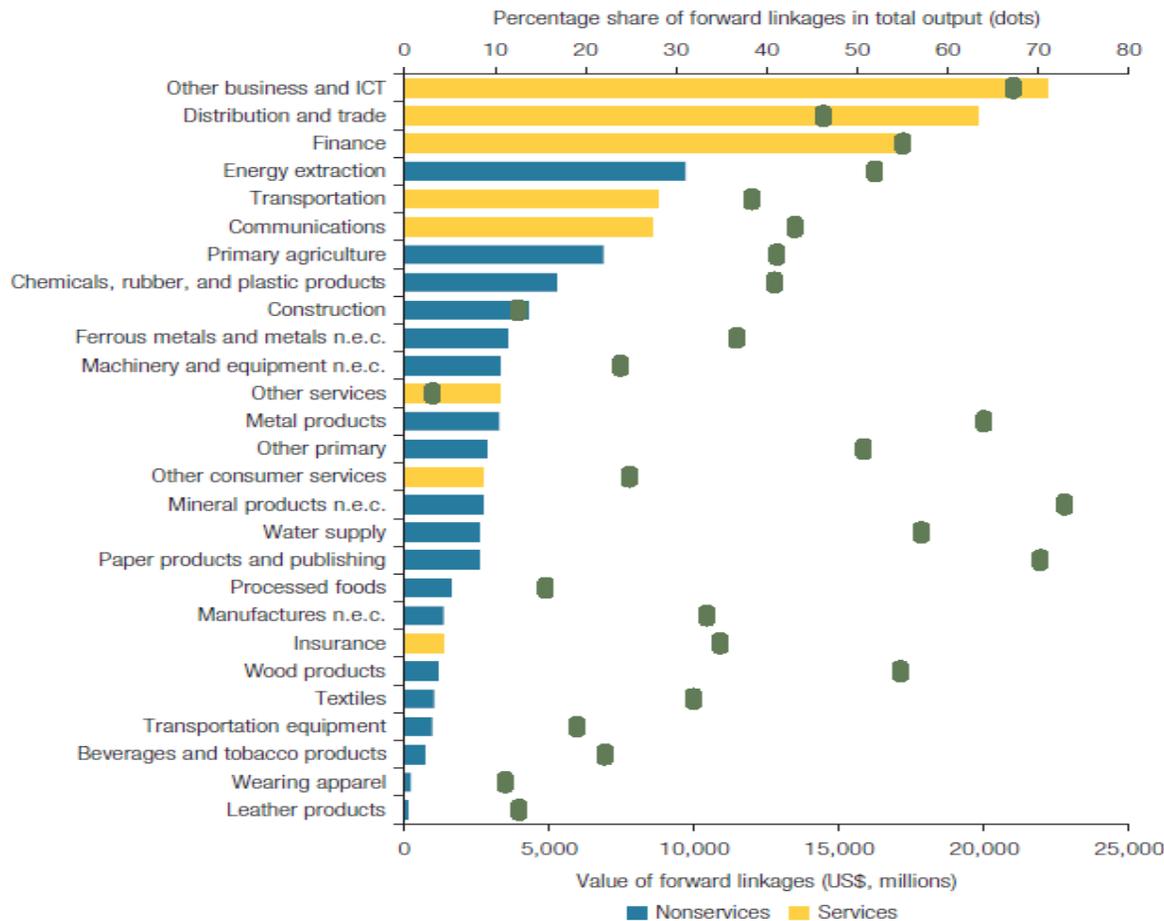
Workers report that their lack of ICT skills is a constraint to employment or higher earnings



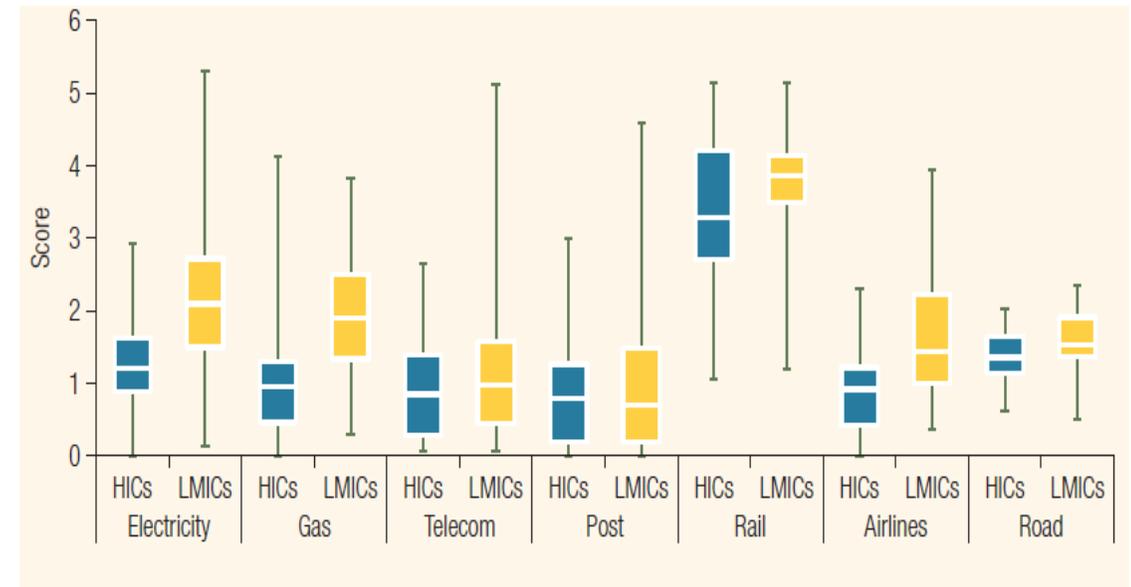
Targeting: Addressing market failures in enabling services



Domestic value added embodied as inputs in economywide production

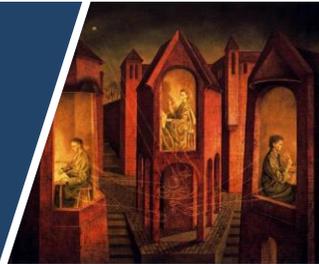


PMR scores in network services, HICs and LMICs, 2013–17



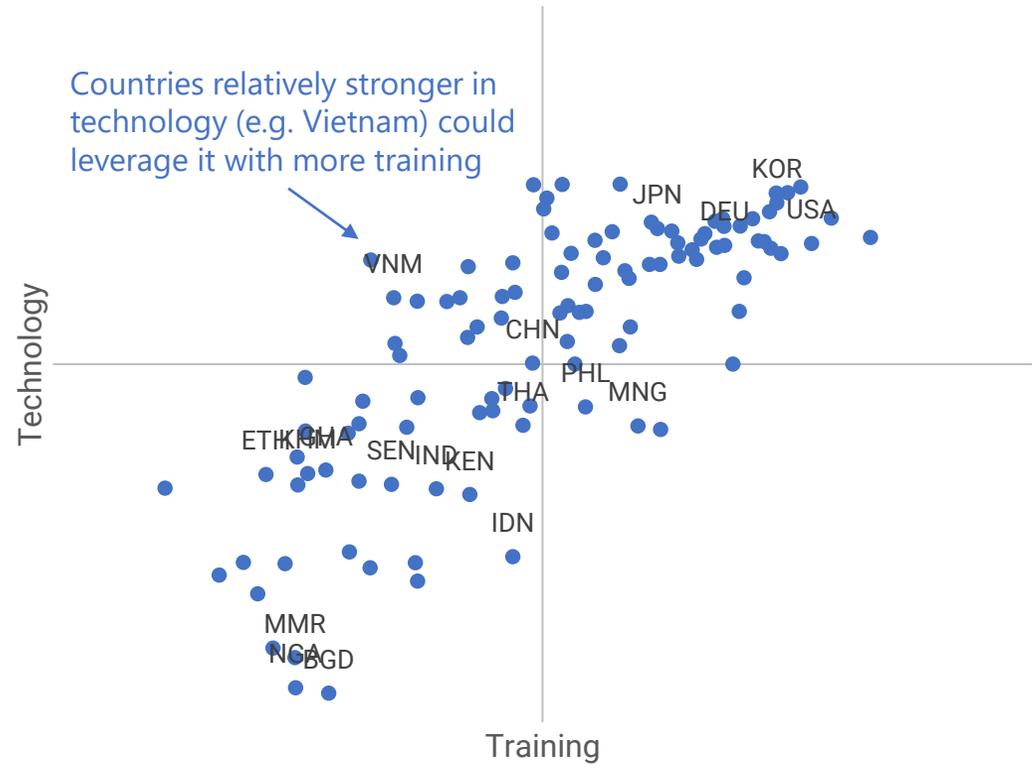
Calculations based on OECD PMR database and World Bank–OECD PMR database.

Country performance in the 4Ts helps identify reform priorities

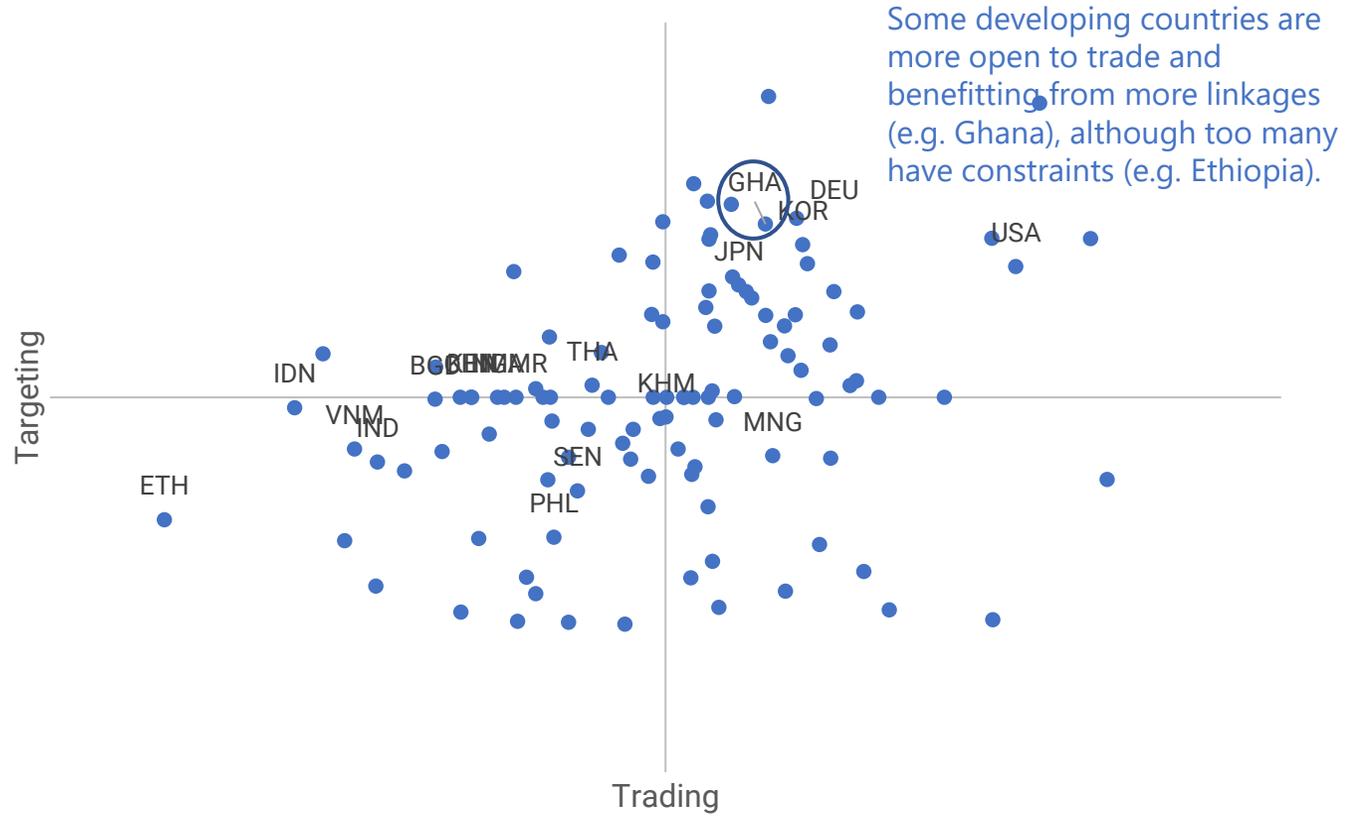


With the two strongest correlations among the 4Ts being between training and technology, and between trade and targeting, improving either complementary pair would likely have the biggest impact.

Training and technology

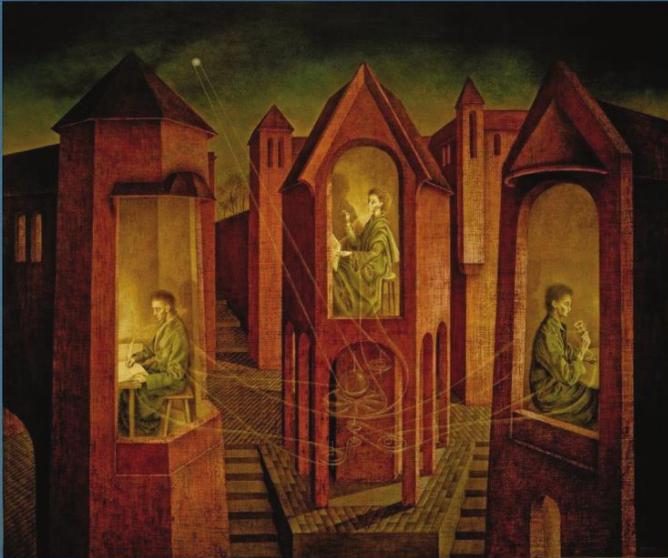


Trade and targeting



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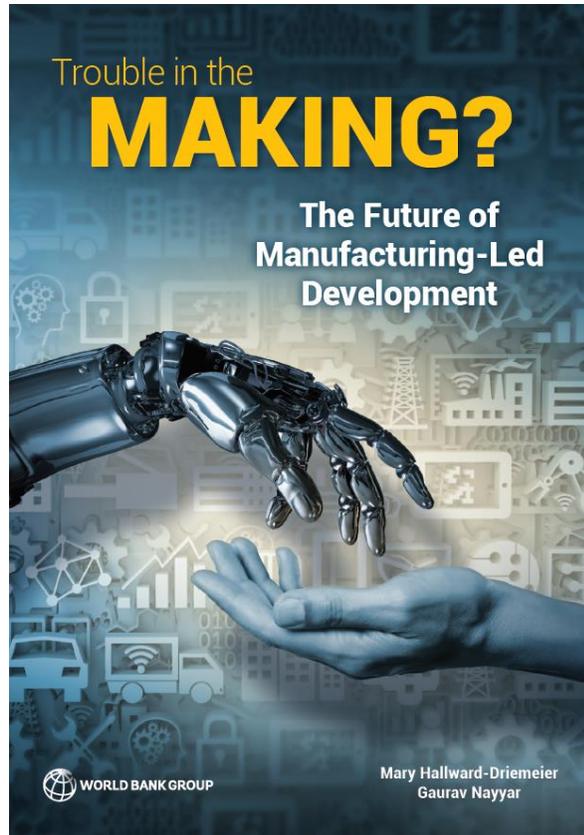
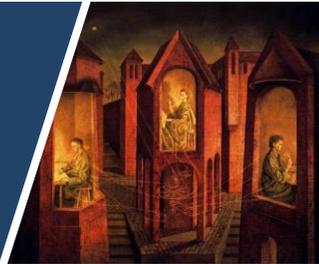


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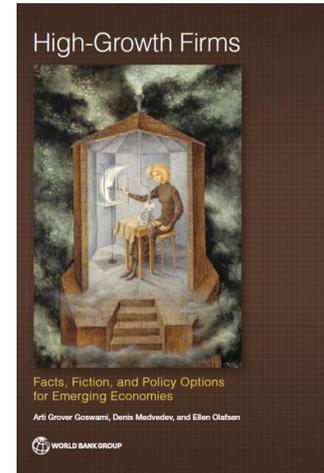
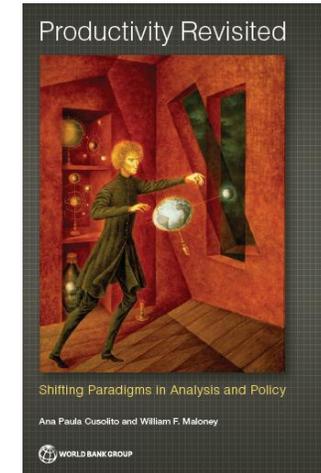
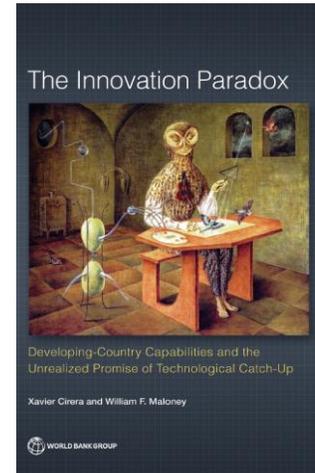


The book is available online at
www.worldbank.org/services-led-development

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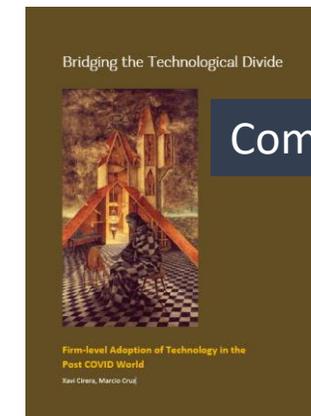
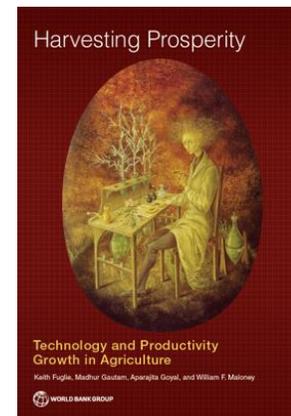


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