

Comments on:

**ADVANCING DIVERSIFICATION IN CAREC COUNTRIES
BY DEVELOPING SERVICES ECONOMY**

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ADB

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LEVERAGING SERVICES FOR DEVELOPMENT

Prospects and Policies



Edited by Matthias Helble and Ben Shepherd

Can be downloaded for free:

<https://www.adb.org/sites/default/files/publication/506216/adb-leveraging-services-development-prospects-policies.pdf>

Background

Economies around the world are **shifting towards services**:

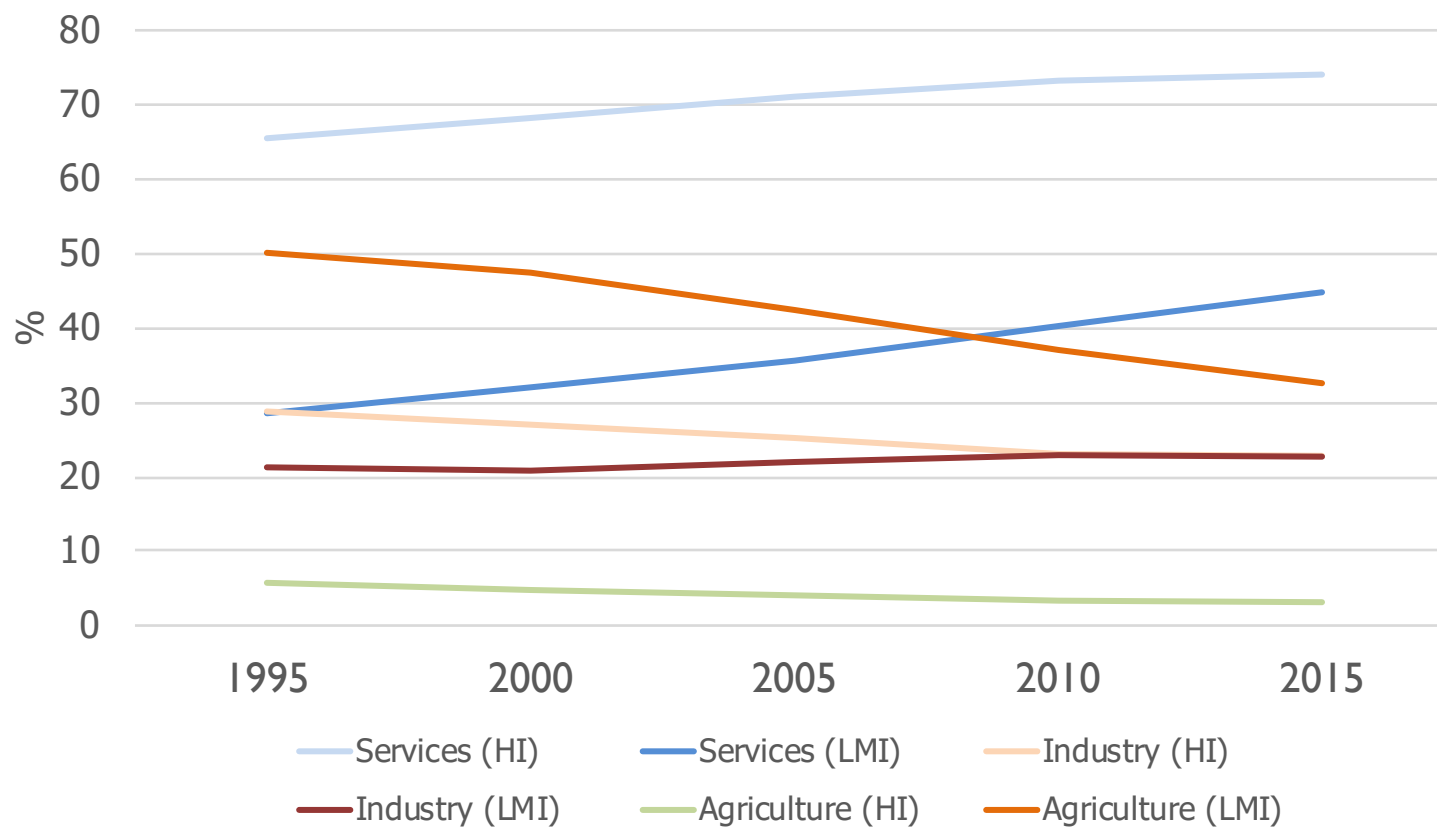
- ▶ In high-income countries share of services is increasing slowly.
- ▶ Low- and middle-income countries undergoing a rapid transformation towards services (from 48.5 % in 2007 to 54.3 % in 2017 (World Bank, WDI)).

Services also increasingly responsible for **jobs**:

- ▶ Today, about half of the world's work force are active in the services sector.
- ▶ The employment in services in low- and middle income countries increased from 28.5 % in 1995 to 44.8 % in 2015.

Background

Employment Shares of Macro Sectors (1995 to 2015)



Source: World Bank, WDI based on ILO estimates

Background

Traditional thinking:

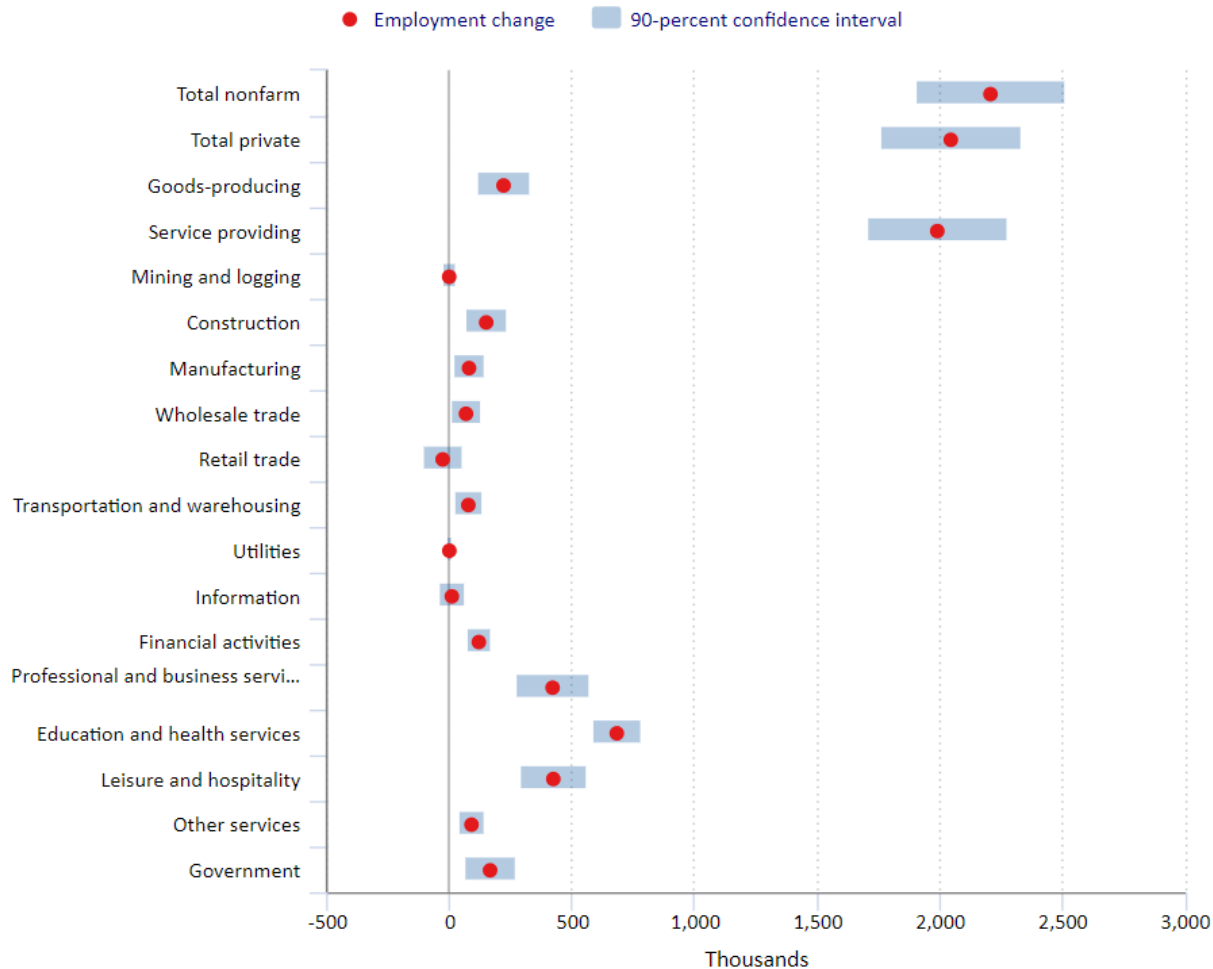
- ▶ **Services' pessimism:** Services perceived to offer limited growth prospects.
- ▶ Growth of manufacturing key to achieve high economic growth, while services are perceived as sector with low productivity (Kaldor, 1967).
- ▶ **"Premature Deindustrialization":** The peak in manufacturing employment share happens at lower-capita income and typically reaches lower levels compared to the historic experience of today's developed countries (Rodrik, 2015).

Latest policy examples:

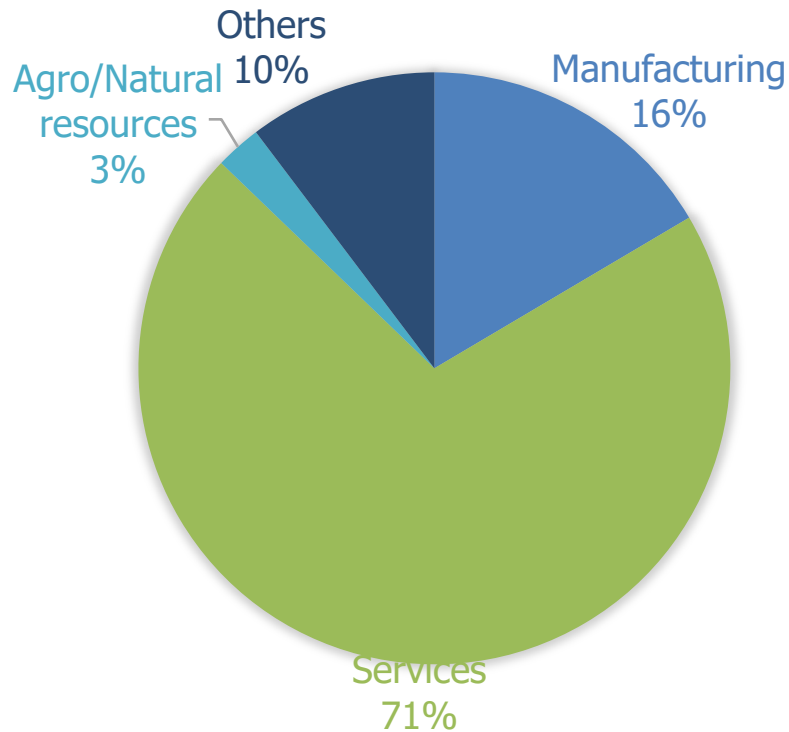
- ▶ United States' trade policy aims to bring back manufacturing jobs.
- ▶ PRC's "Made in China 2025" strategy with focus on upgrading and expanding the Chinese manufacturing sectors.
- ▶ India's 2014 "Make in India" initiative to transform India into a manufacturing hub.

Employment creation: US (Nov 2018-Nov 2019)

Employment change by industry with confidence intervals, November 2019, seasonally adjusted, in thousands, 12-month net change



Employment creation: India (2014-2018)



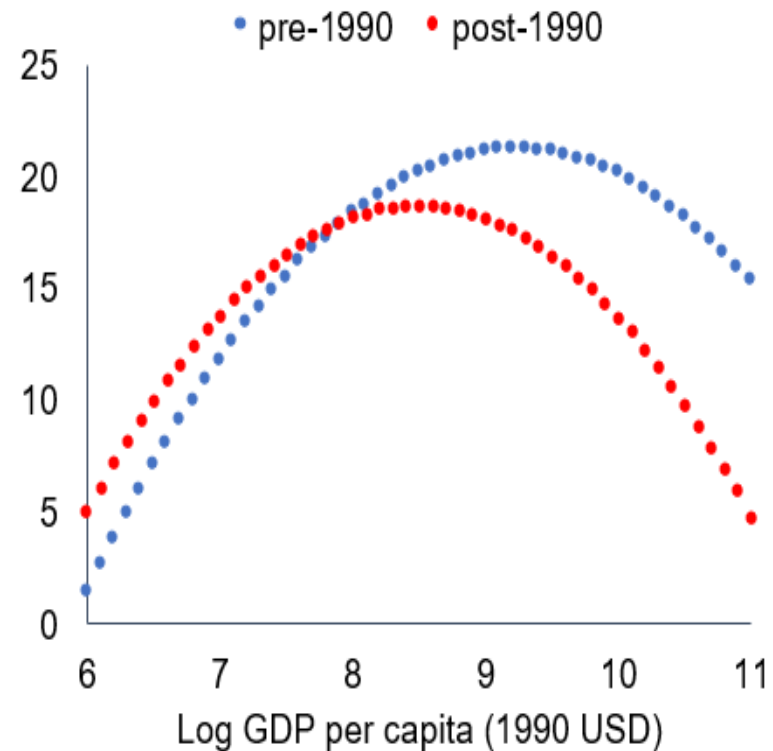
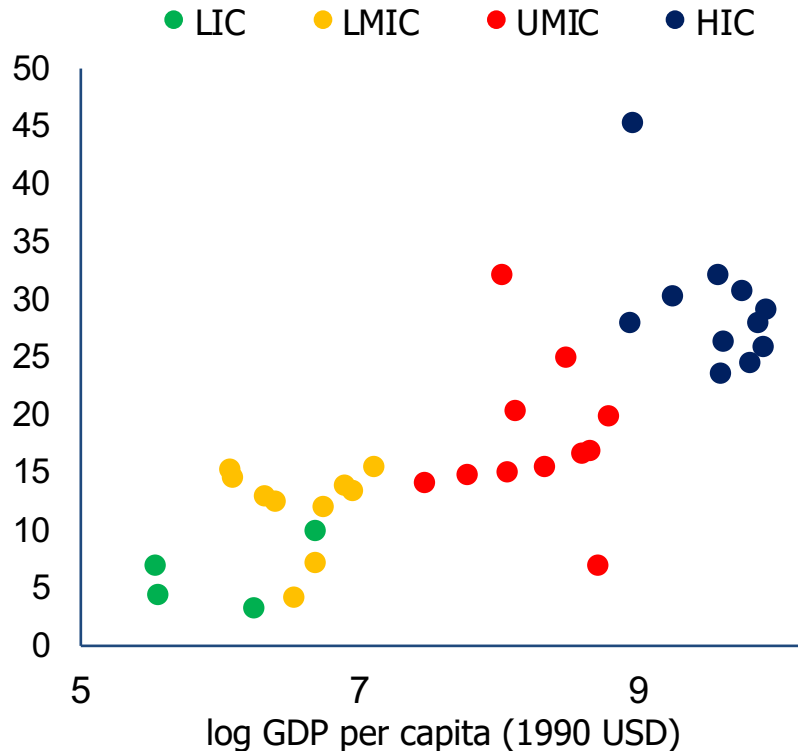
Sector	%
Banking	12.5
Education	12.1
IT	11.6
Others	10.3
Financial	6.7
Services	6
Media	4.2
Health	3.1
E-commerce	2.5
Tourism	2.5

Source: PHD Chamber India (2019)



Premature Deindustrialization

Peak of manufacturing share of employment



Note: Peak of manufacturing share of employment. The sample observations are from 42 different countries and period from 1950 to 2012

Note: Estimates of the relationship between share of manufacturing on employment and GDP per capita based on a quadratic specification with country fixed effects. The sample observations are from 42 different countries. For pre-1990 sample, dataset runs from 1950 through 1990 and for post-1990 sample, the dataset runs from 1991 through 2012.

Source: Nayyar (2018)

Structural Transformation

The shift of employment and value creation from agriculture towards manufacturing and more recently towards services driven by **demand** and **supply** factors:

- ▶ As economies develop **demand** first increases for manufactured goods and later for services, such as health and recreational services.
- ▶ In terms of **supply**, the manufacturing sector is becoming more capital and less labor intensive mainly due to technological progress.
- ▶ The **skill requirements** are increasing in the manufacturing sector.
- ▶ The services sector has become the one sector where the employment of today and tomorrow will be in.

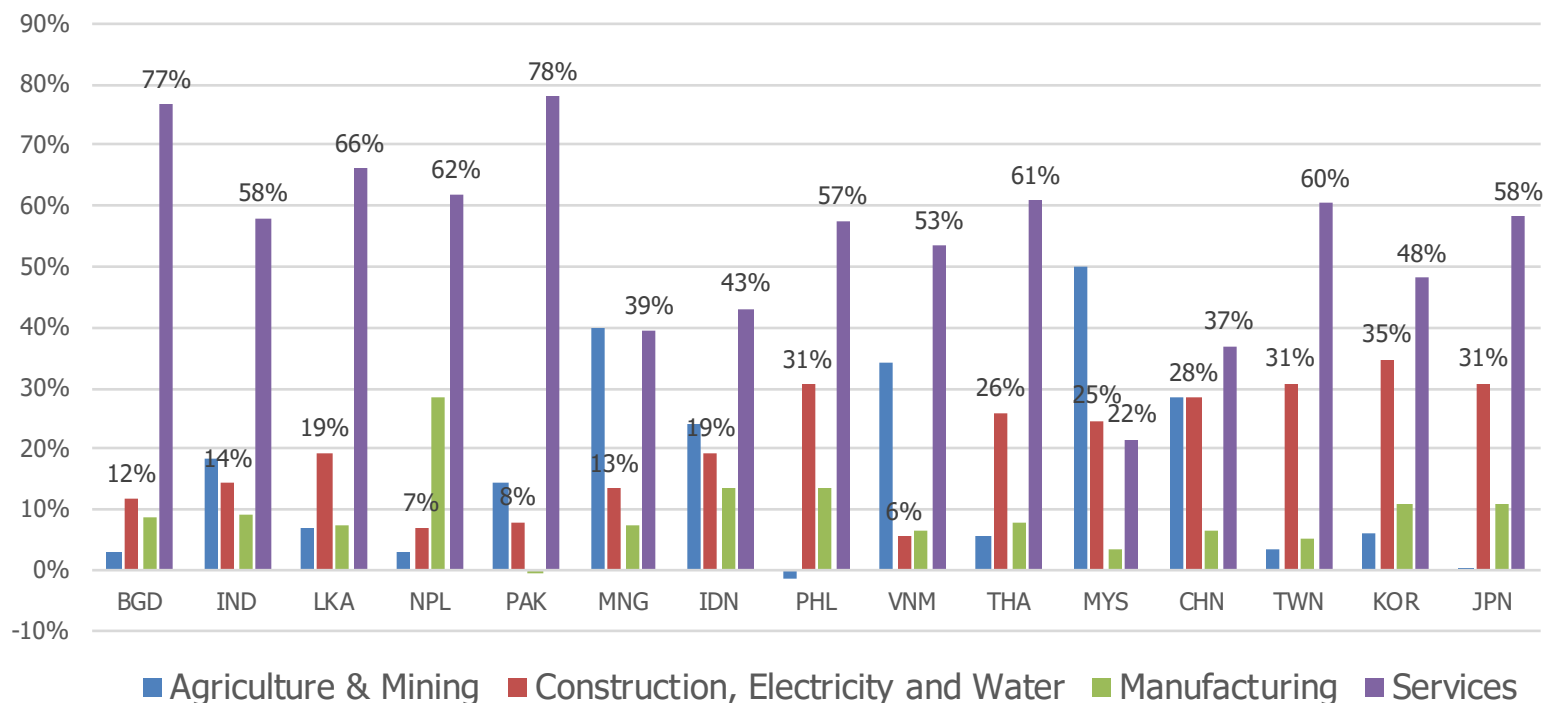
The policy challenge is not to reverse the long-term trends towards services, but to ensure that it delivers in terms of inclusive growth and sustainable development.



Finding 1: Increasing Productivity of Services

- ▶ Services' productivity has been increasing fast.
- ▶ Some services are more productive than manufacturing.
- ▶ Services with skilled workers tend to be most productive.

Figure 1: Sectoral contribution to aggregate labor productivity growth, Asia, 1990-2015

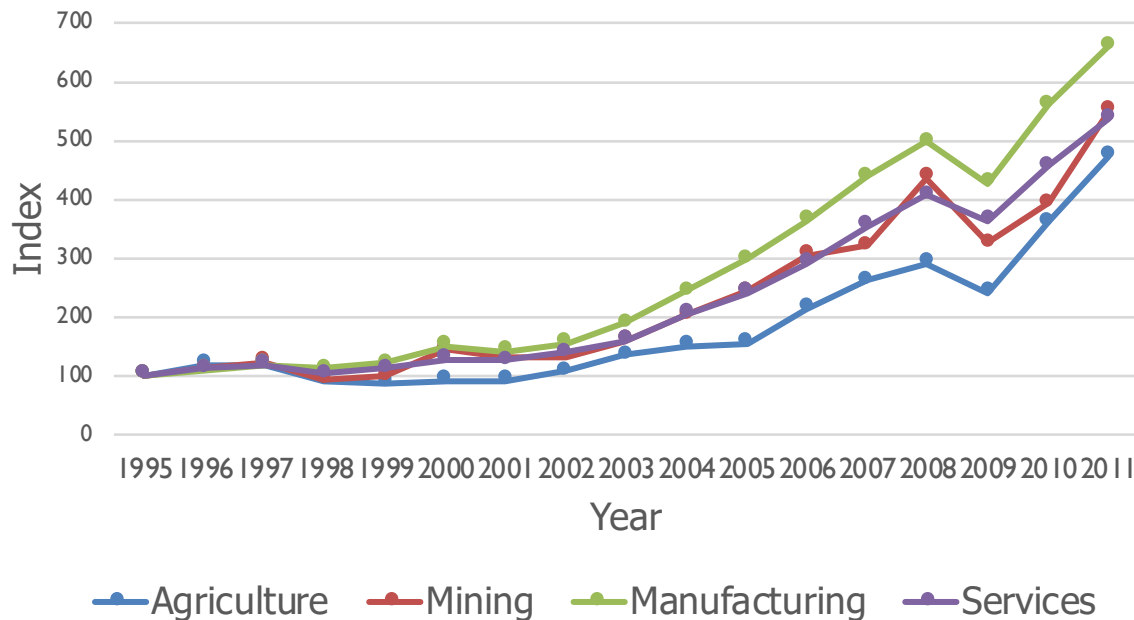


Source: Helble and Long (2018)

Finding 2: Increasing Services Trade

- ▶ Services are increasingly *tradable* thanks to new technologies.
- ▶ Services are increasingly *traded*, also among developing countries.

Figure 2: Exports by macro-sector, developing Asia, 1995=100.

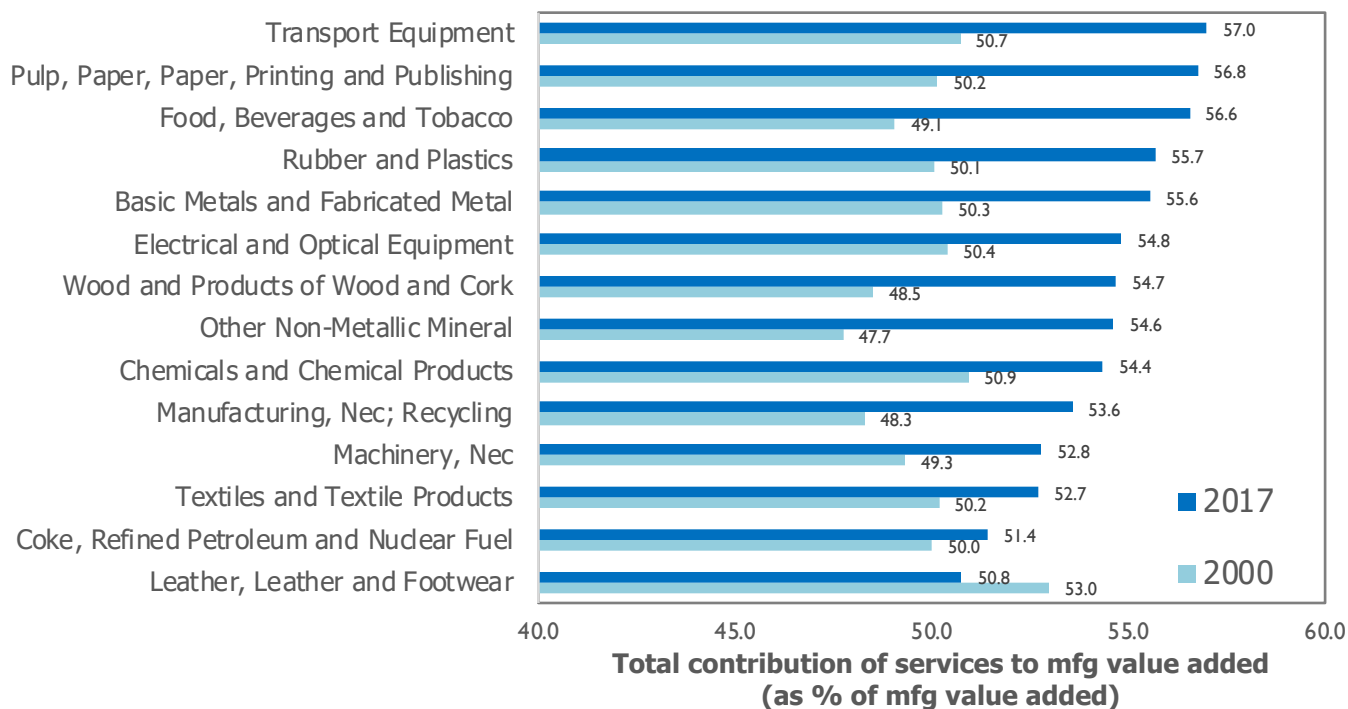


Source: Shepherd (2018)

Finding 3: Manufacturing and Services Intertwined

- ▶ Distinction between manufacturing and services firms difficult, as both are intertwined and often offer bundled products (Miroudot, 2018).
- ▶ Servicification of manufacturing (Mercer-Blackman and Ablaza, 2018).

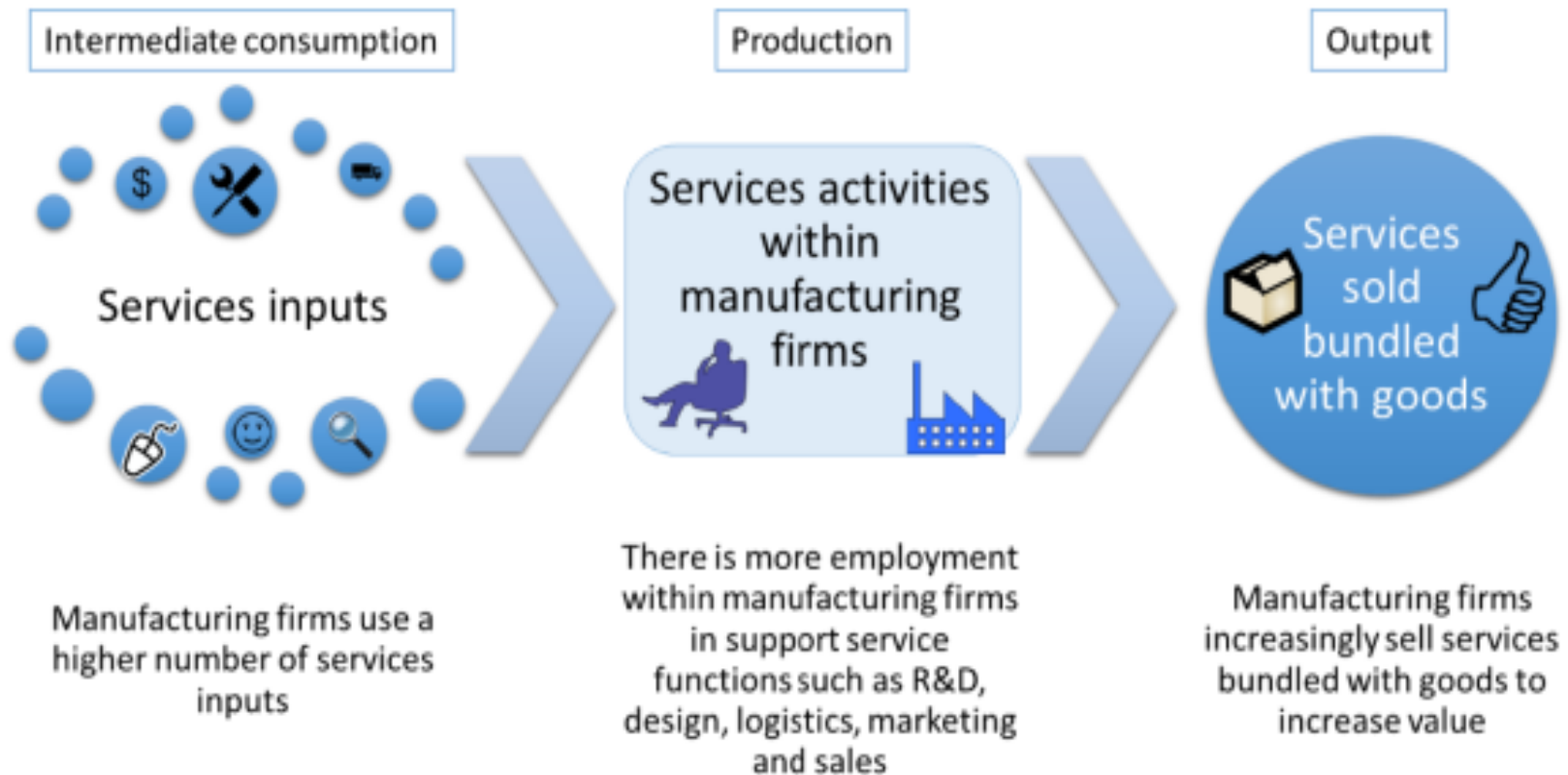
Figure 3: Total (direct and indirect) contribution of services to manufacturing value added by sector, Asia, (2000 and 2017)



Source: Mercer-Blackman and Ablaza (2018)

Increased Servicification

Servicification of manufacturing: Taxonomy of services activities in manufacturing GVCs



Source: Miroudot and Cadestin (2017)

Factory-less goods producers

- ▶ Manufacturers that outsource 100% of the production process.
- ▶ Debate on whether they should be part of the manufacturing sector.
- ▶ But most statistical offices are unable to identify them.



Source: Miroudot (2019)

Findings 4-8: More Services Trade Opening Needed

- ▶ Lower services trade restrictiveness **enhances the access** to services (Fiorini and Hoekman, 2018).
- ▶ Trade opening in services **increases positive spillovers** from services firms on productivity of manufacturing firms in developing countries (Winkler, 2018).
- ▶ **Less regulatory restrictions on data** (e.g. data localization) improve firm productivity, especially for IT intensive services firms (van de Marel, 2018).
- ▶ Services can offer **decent and healthy jobs**, especially for skilled workers (Khatiwada, 2018).
- ▶ Services jobs have **greater gender equality**, and most productive services firms are more likely to have a female manager (Lin and Shepherd, 2018).

Conclusion: Towards Services-led Development

- ▶ Manufacturing will not return as a source of jobs, but services will.
- ▶ Trade policy must shift from a focus on goods to a ***focus on services***.
- ▶ Strong arguments in favour of services' trade opening:
 - ***Increased productivity*** in services (directly contributing to economic growth).
 - ***More competitive manufacturing sector***.
 - ***More opportunities*** to participate in the ***digital economy***.
 - ***Contributes achieving the SDGs*** through better access to services (including to educational, health, and financial services) and decent jobs.
- ▶ Services trade opening will not be enough:
 - Additional investment in ***education*** and ***training*** needed.
 - Ensure ***level playing field*** (healthy and fair competition).
- ▶ It's high time to ***open up trade in services*** and make it a pillar of services-led development.

Thank you very much for your attention.

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