

REGIONAL WORKSHOP ON LEAST DEVELOPED COUNTRIES AND LEVERAGING TRADE AS A MEANS OF IMPLEMENTATION FOR THE 2030 AGENDA

Session 8

Economic transformation, services and GVCs

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Economic transformation, services, GVCs

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Agenda

- **Concepts: Economic transformation and GVCs**
- **Roles of services**
- **Policy implications**

ECONOMIC TRANSFORMATION

What is economic transformation (ET)?

- The moving factors of production (labour, capital and land) from lower to higher productivity activities.
 - Moving resources between sectors (ex. from agriculture to manufacturing). This is called “Structural Change”.
 - Improving productivity (value added) within sectors (ex. from subsistence agriculture to high-value crops).
- Indicators of ET
 - **Productivity** growth
 - **Diversification** of production and export structure
 - Higher domestic **value added** in output and trade

Why does trade matter for economic diversification and transformation of LDCs?

- **Market-size issues**
 - Domestic market is not big enough to provide the required size and diversification of demand:
- **Competition issues**
 - Domestic market does not have enough competition which is a required condition for the provision of efficient and cost effective products and inputs

Process of ET

- **Reallocation of resources from low to high productive units**
- Reallocation **within** sector (to achieve productivity growth):
 - the exit of low productive units,
 - the entry of new more productive firms,
 - the upgrading of the existing firms.
- Reallocation **across** sectors:
 - Evidence suggests that structural change plays a key role in the productivity catch-up with developed countries.
 - In poor country: does labour productivity in agricultural sector is lower than manufacturing and services sectors?

GLOBAL VALUE CHAINS

What do we mean by Global Value Chain?

A **Value Chain** can be defined as the “*full range of activities that firms undertake to bring a product or a service from its conception to its end use by final consumers*” (Gereffi and Fernandez-Stark, 2011).

Figure 2. Fruit and Vegetables Global Value Chain Segments



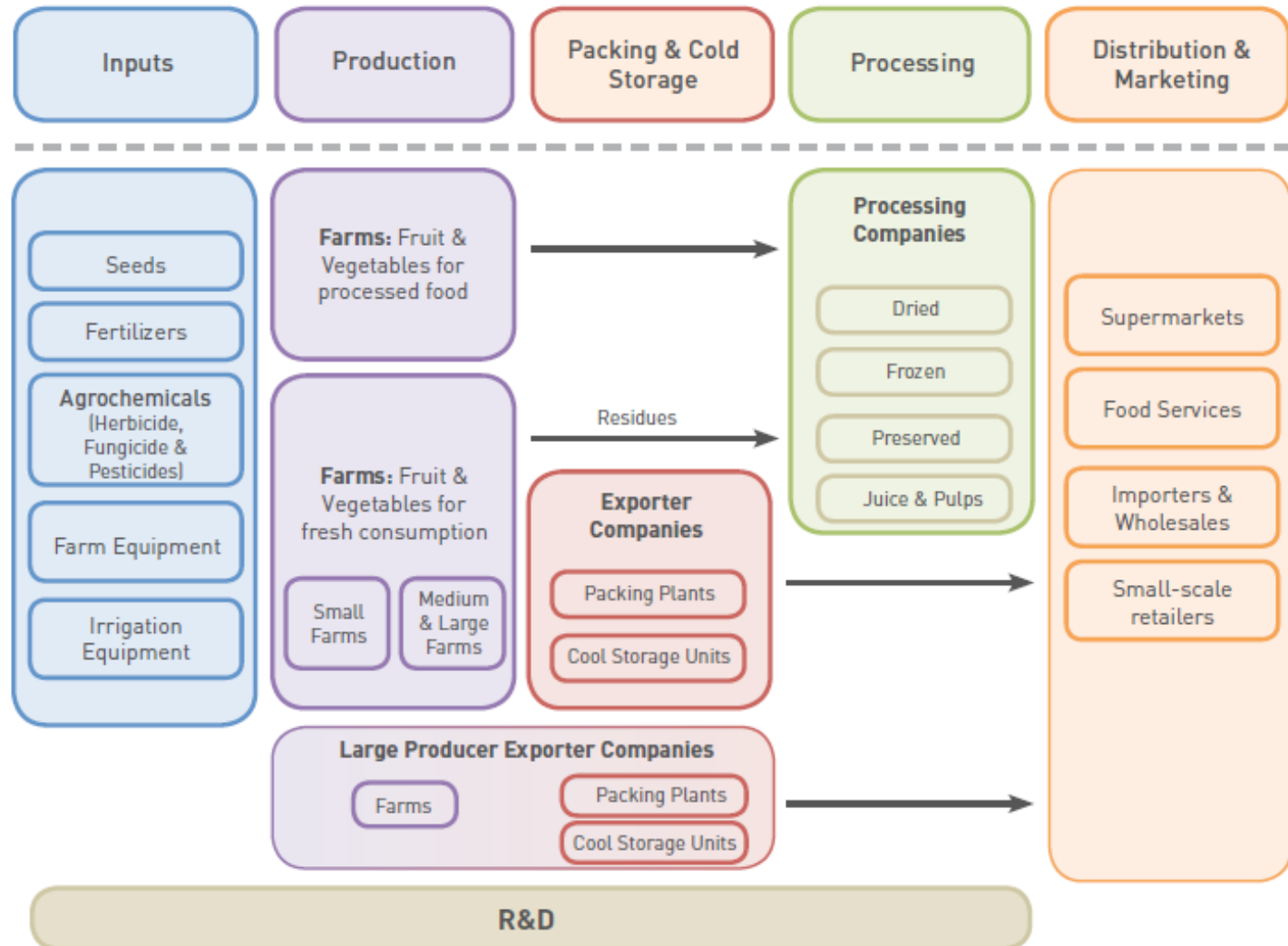
Source: Fernandez-Stark et al., 2011d.

Source: UNESCAP (2015), APTIR 2015, Ch.7

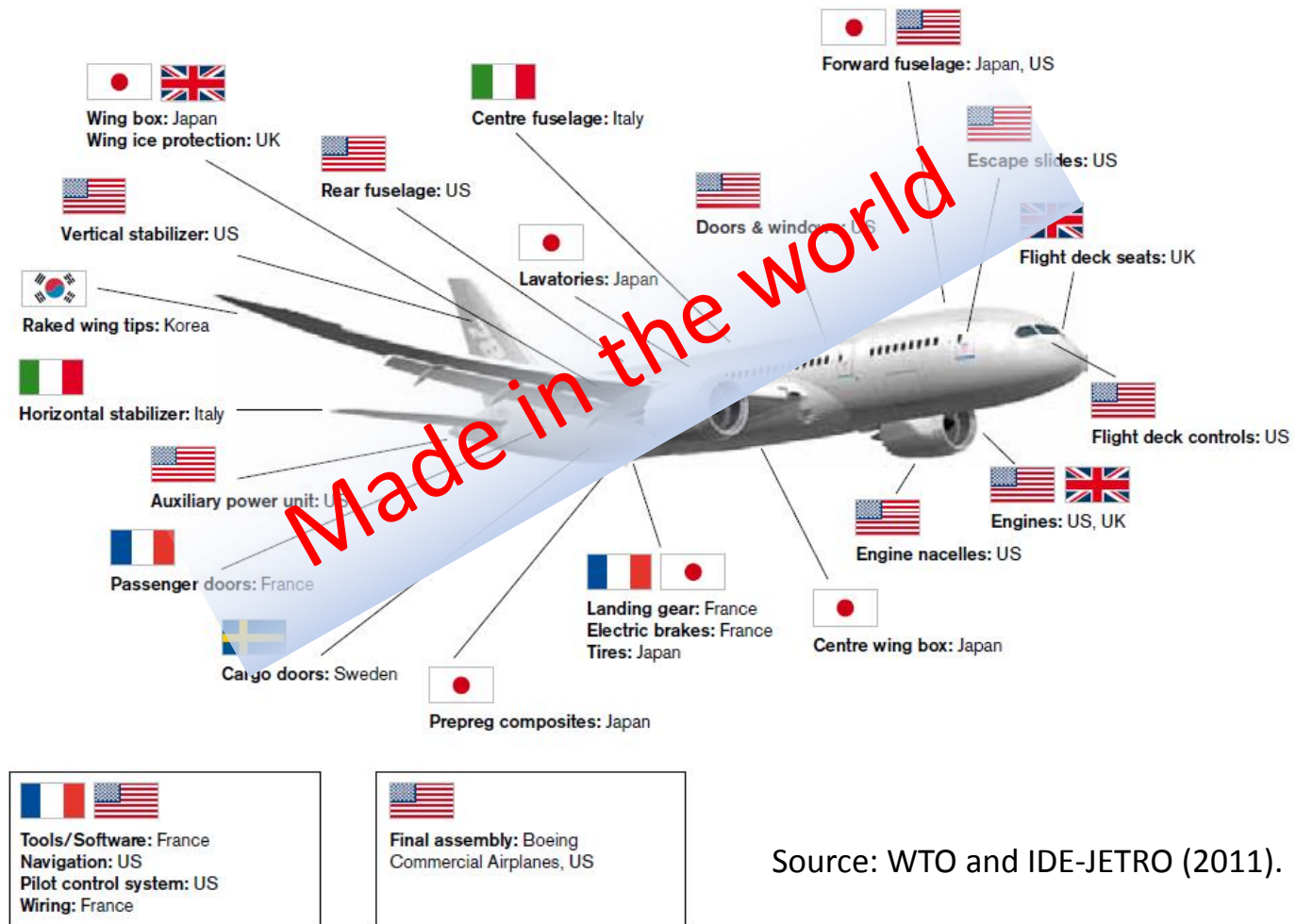
These activities can be performed within the same firm or divided among different firms. The fact that they are increasingly spread over several countries explains why the value chain is regarded as “**Global**”.

Tasks and stakeholders in a value chain

Figure 3. Fruit and Vegetables Global Value Chain



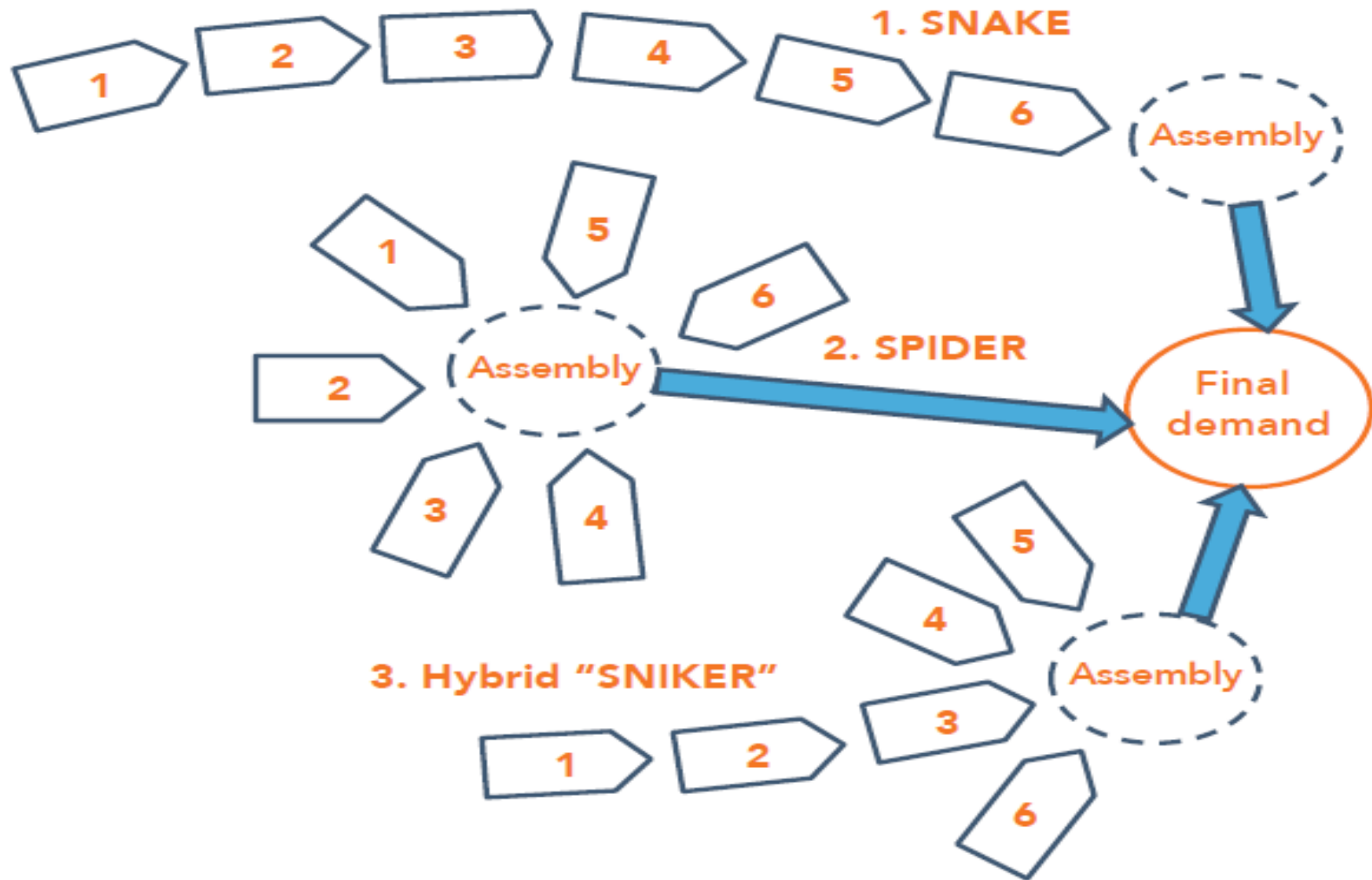
GVC: Boeing 787 Dreamliner



Source: WTO and IDE-JETRO (2011).

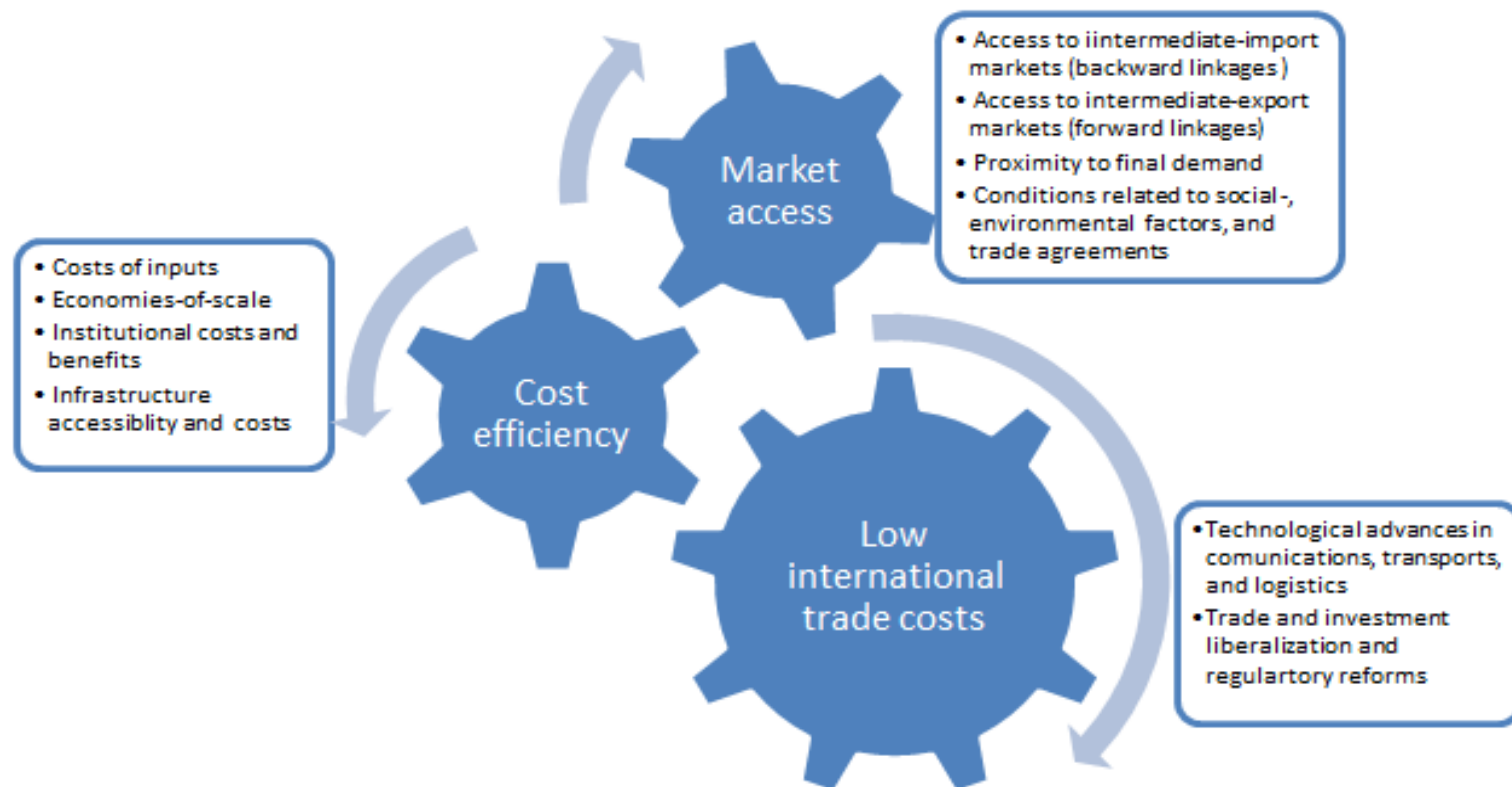
Formats of GVCs

FIGURE 4.2 The global value chain zoo: spiders, snakes, and hybrid “snikers”





Main factors behind GVCs

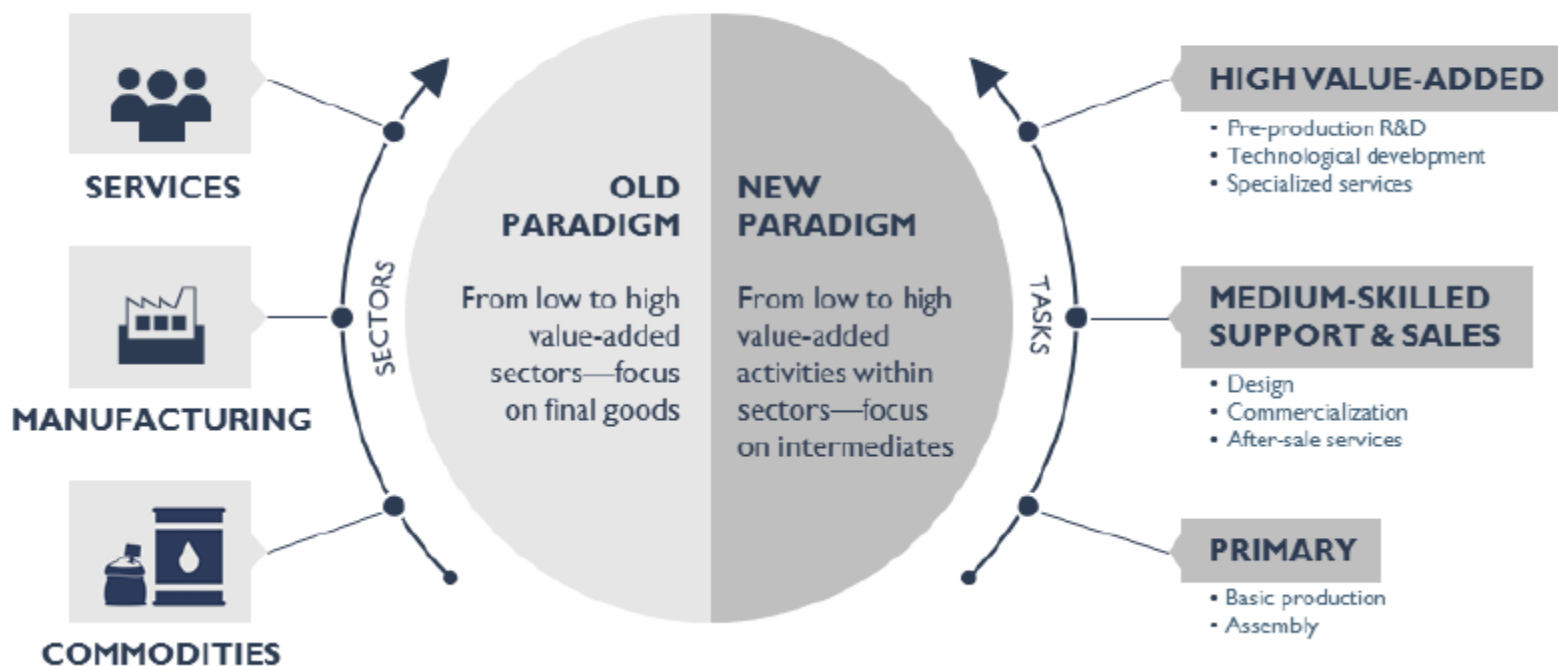


Source: UNESCAP (2015), APTIR 2015, Ch.7

Economic Transformation and GVCs

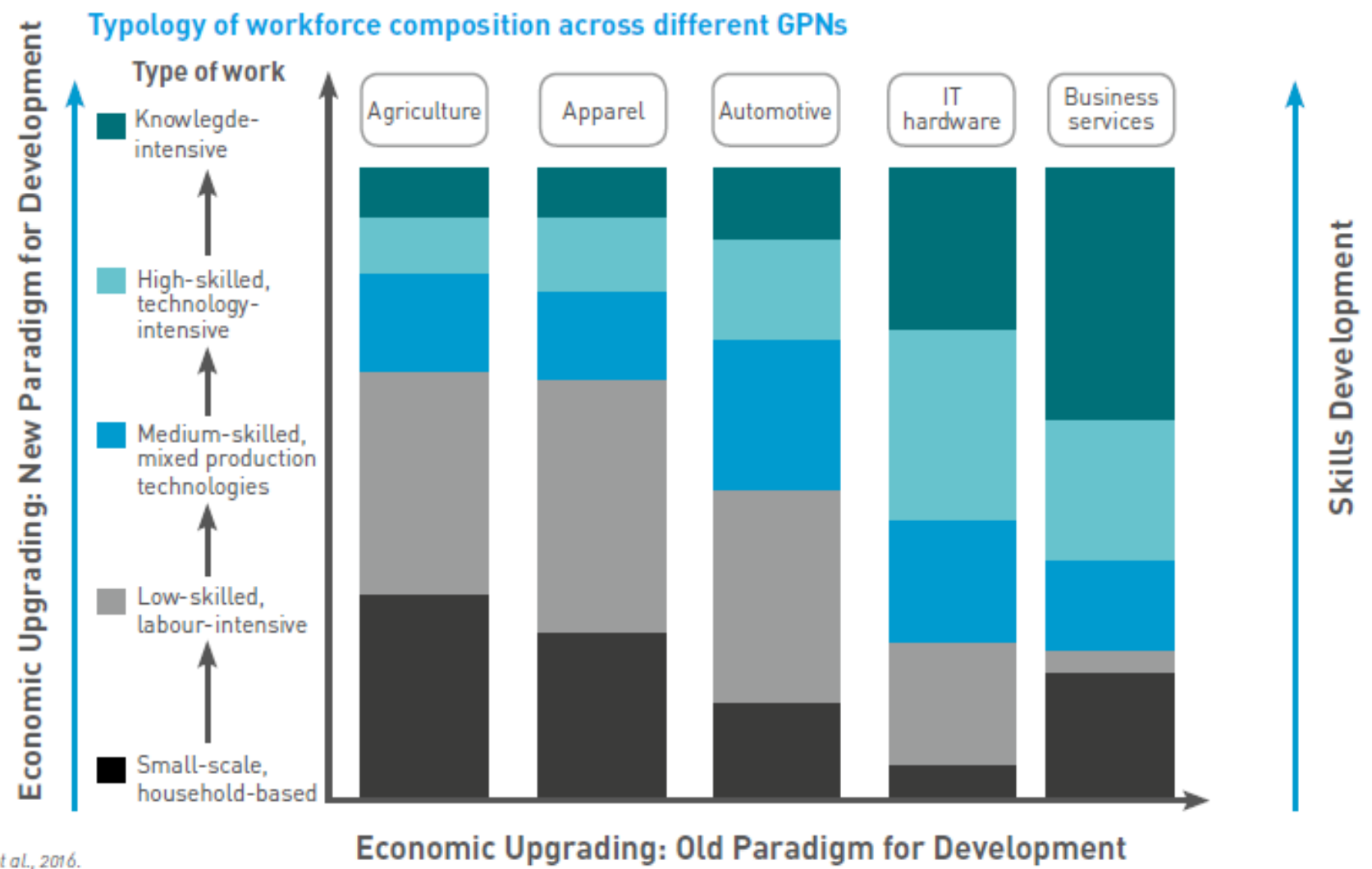
FIGURE I.7

From sectoral to functional upgrading



Source: Taglioni and Winkler (2015)

Figure 12. Workforce Composition Across Different GVCs

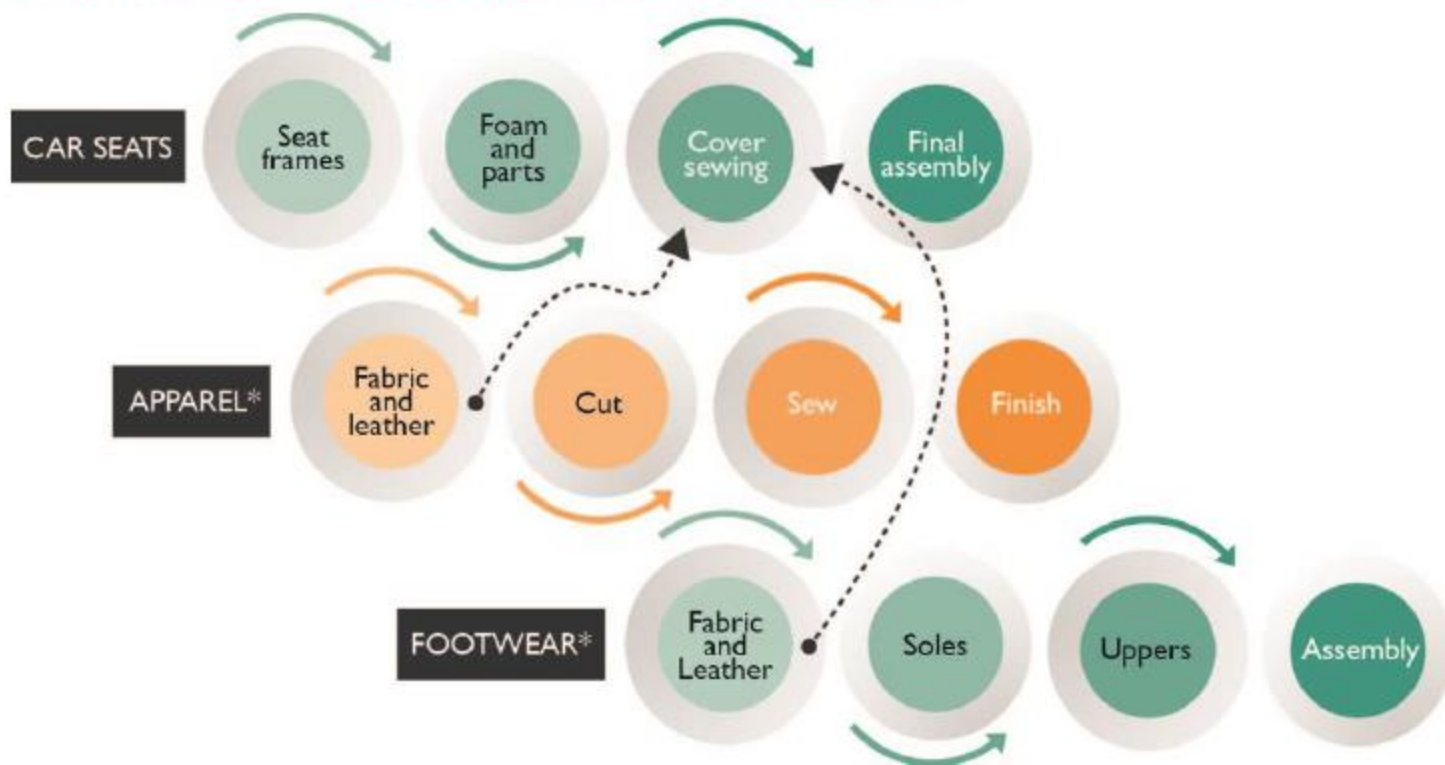


Source: Gereffi et al., 2016.

Greater scope for diversification

FIGURE 8.1

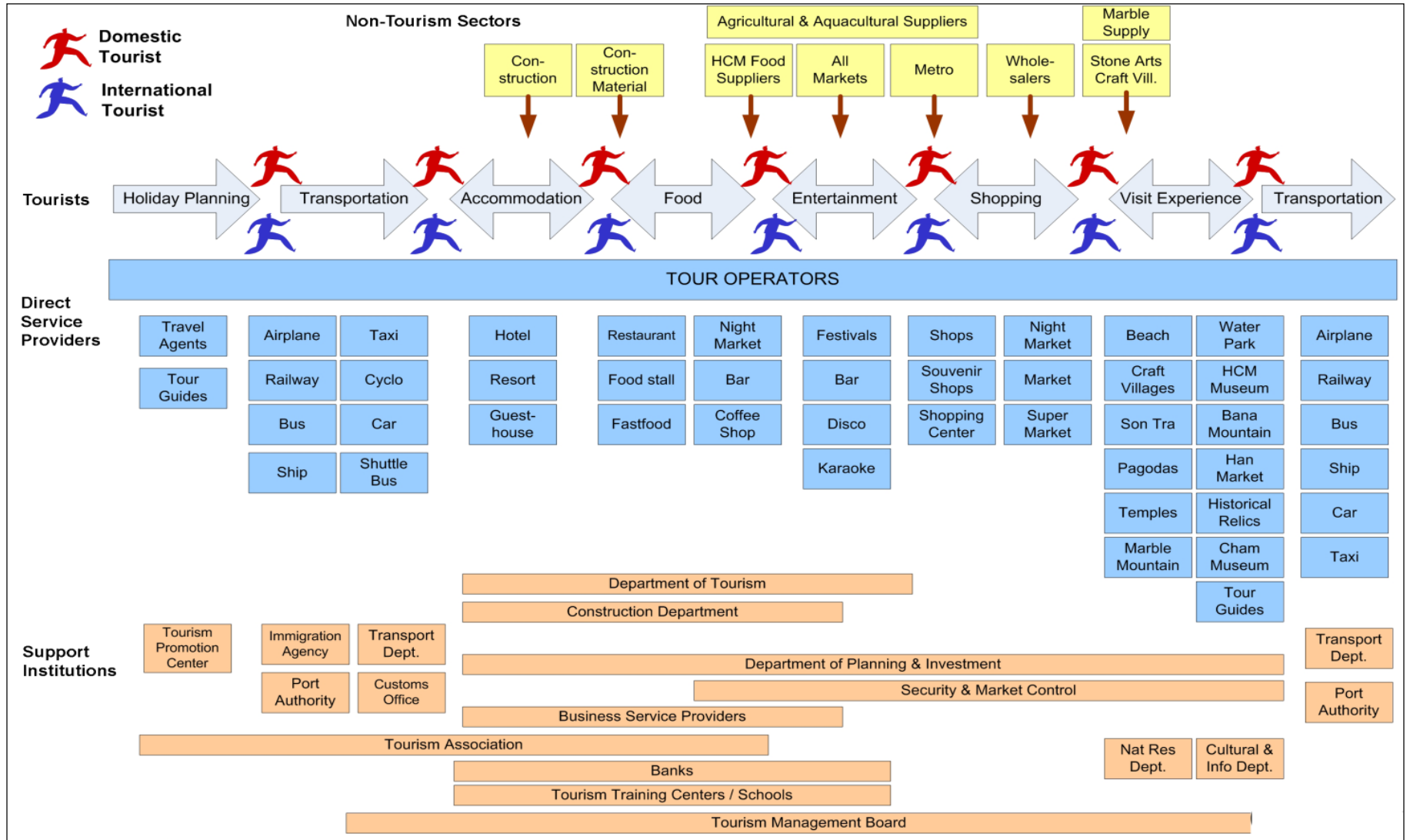
Example for possible intersectoral upgrading in Nicaragua



Source: Sturgeon and Zylberberg (2012).

* Industry value chains that are currently active in Nicaragua.

Tourism GVCs

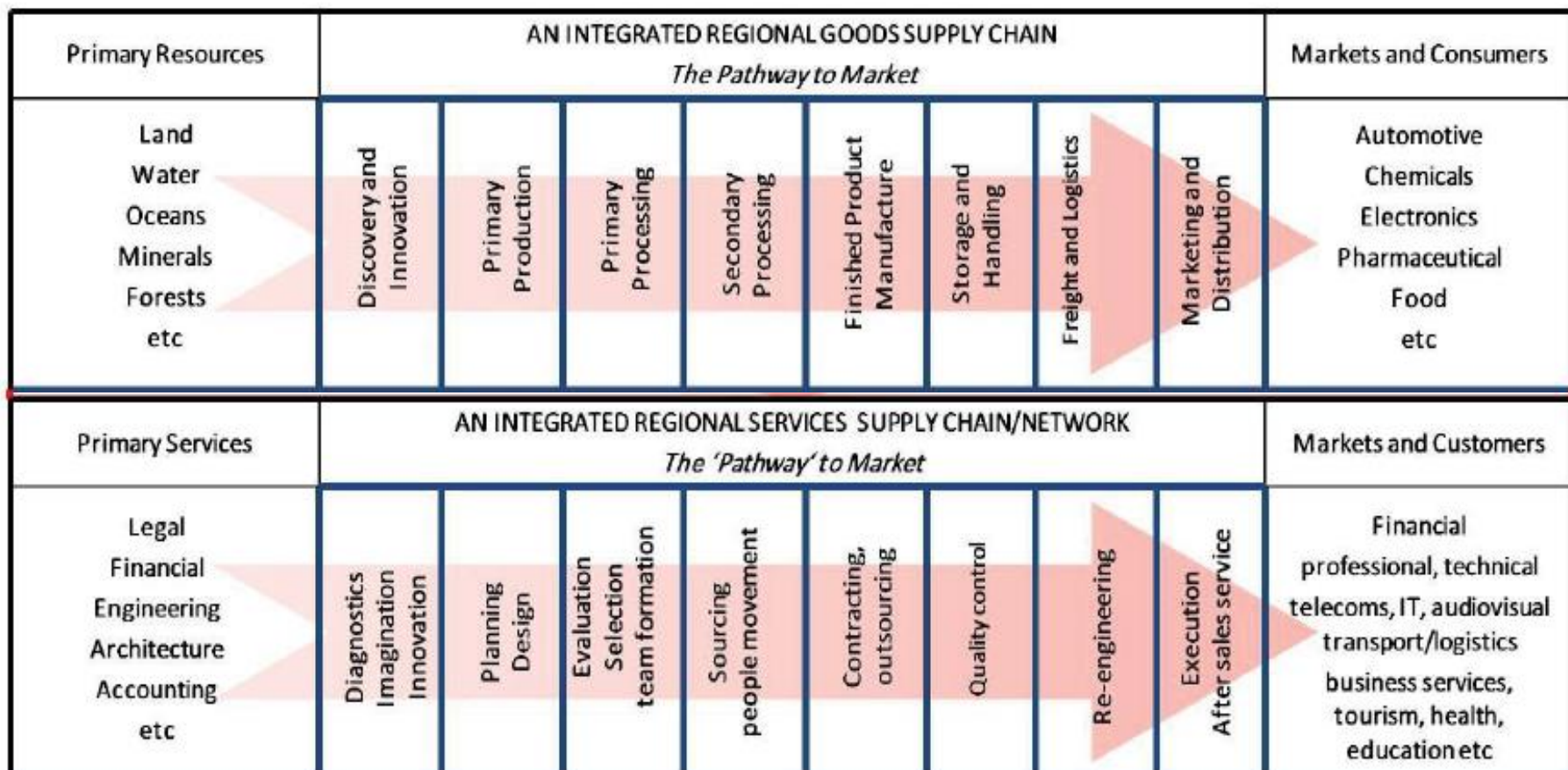


ROLES OF SERVICES



Services in GVCs

Services as inputs and final products

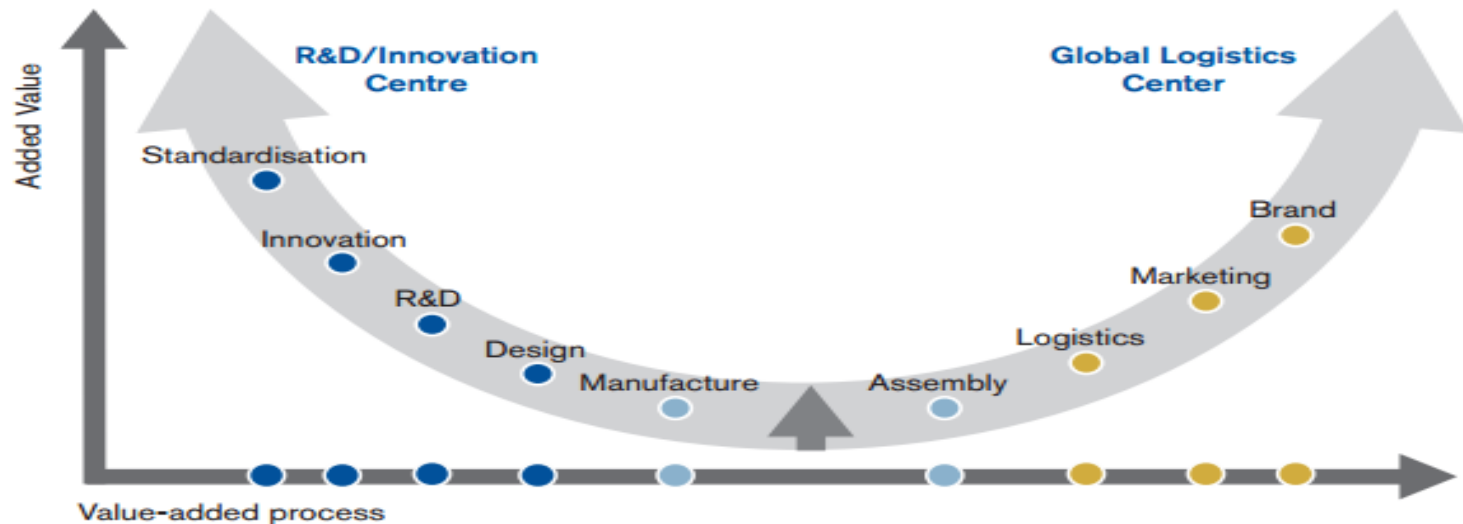


Source: Adapted from ABAC (2011)

Services matter for value added

- Efficiency and availability of services is an important factor for competitiveness and the opportunity to enter to GVCs
 - Communications, insurance, finance, logistics, etc.
 - GVCs increase the demand for “coordination services”
- Services tasks are often the links in GVCs that create high value-added.
 - A path for upgrading GVC participation

Figure 5: “Smiley Face”: Conceptual model of a value chain

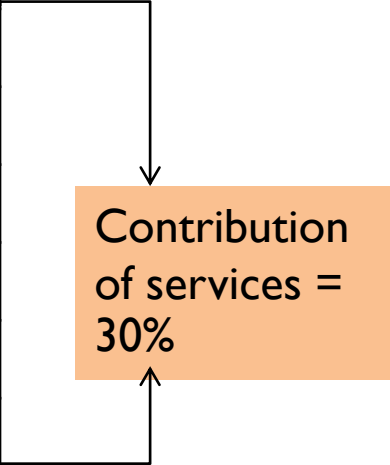


Hidden service exports

- Service exports can be invisible since many services are sold in a package with a good – thereby regarded as a good in trade statistics

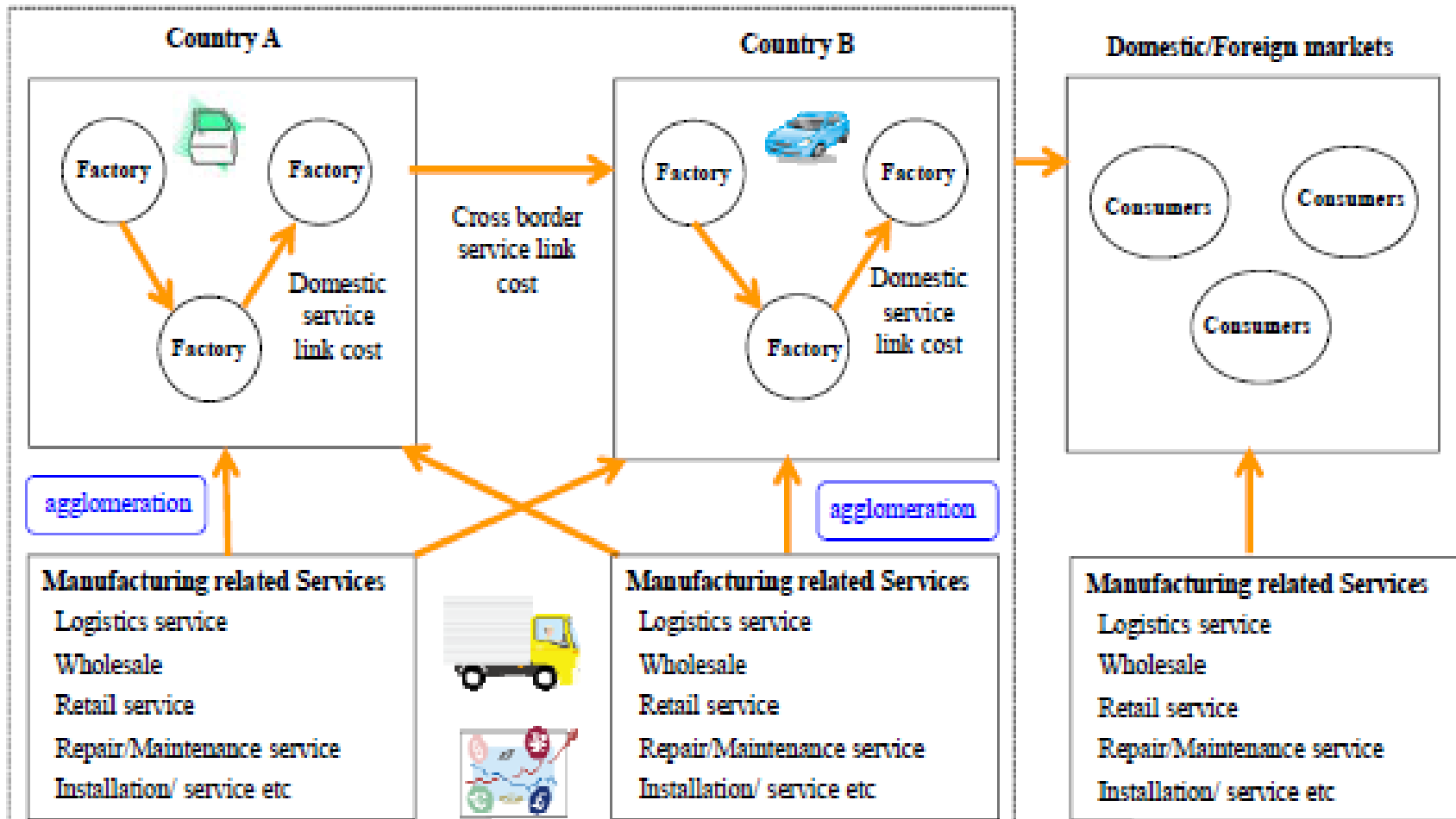
Ex1. Automotive GVCs

Value added of a typical US car (services are highlighted)

1. R&D (Japan)	17.5%	 Contribution of services = 30%
2. Design (US)	about 3%	
3. Assembly (ROK)	30%	
4. Assembly (US)	37%	
5. Supply of minor parts (TW)	4%	
6. Advertising & marketing (UK)	2.5%	
7. Data processing (Ireland & Barbados)	2%	
8. Transport and insurance (US)	about 4%	

Services matter for trade competitiveness

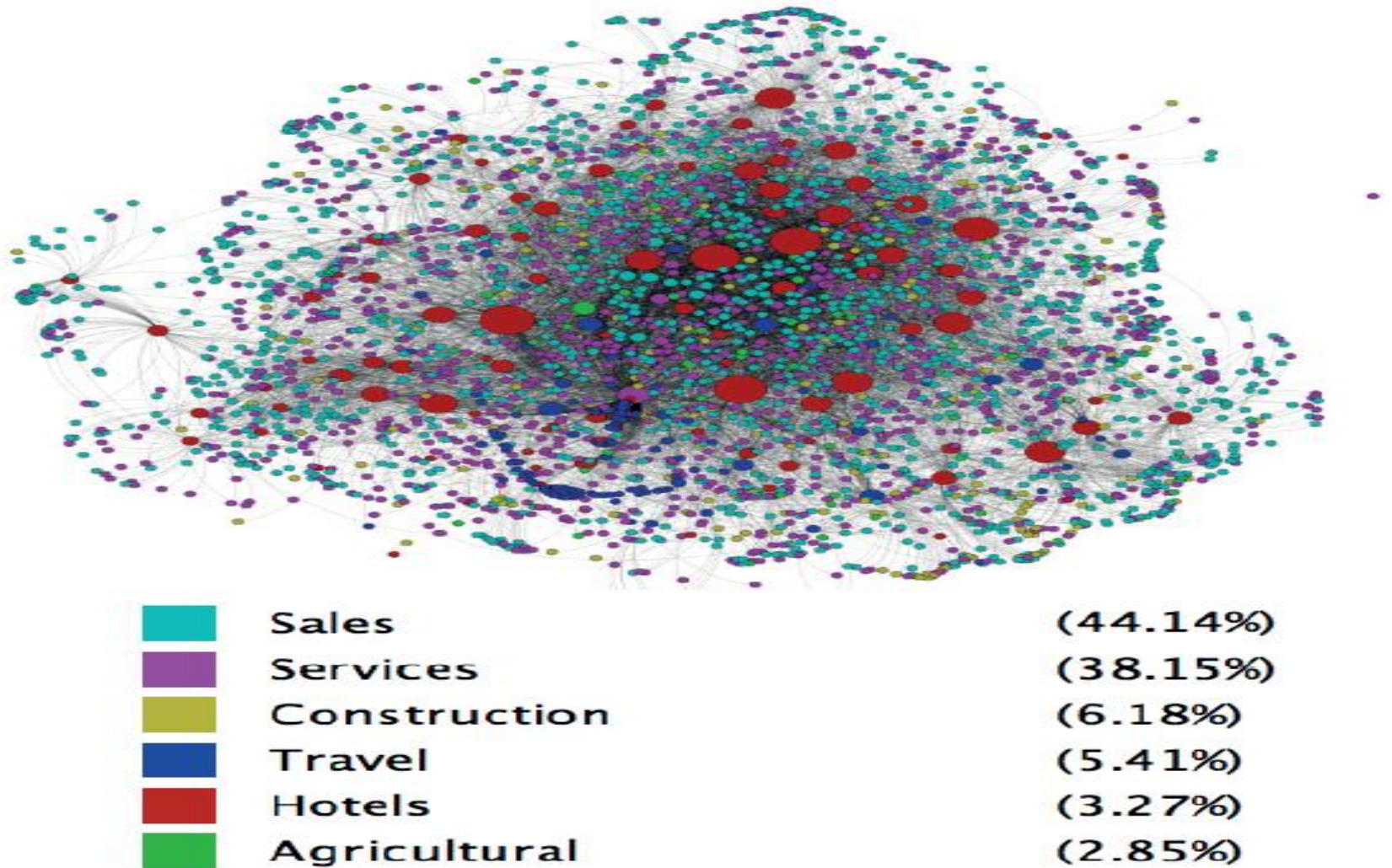
Fragmented production network



Services and GVCs: LDCs perspective

- Efficiency of service inputs affect trade competitiveness of LDCs
 - Transport, ICT, financial services.
- Services exports: tourism services
 - Will exporting of tourism help LDCs achieving economic transformation?

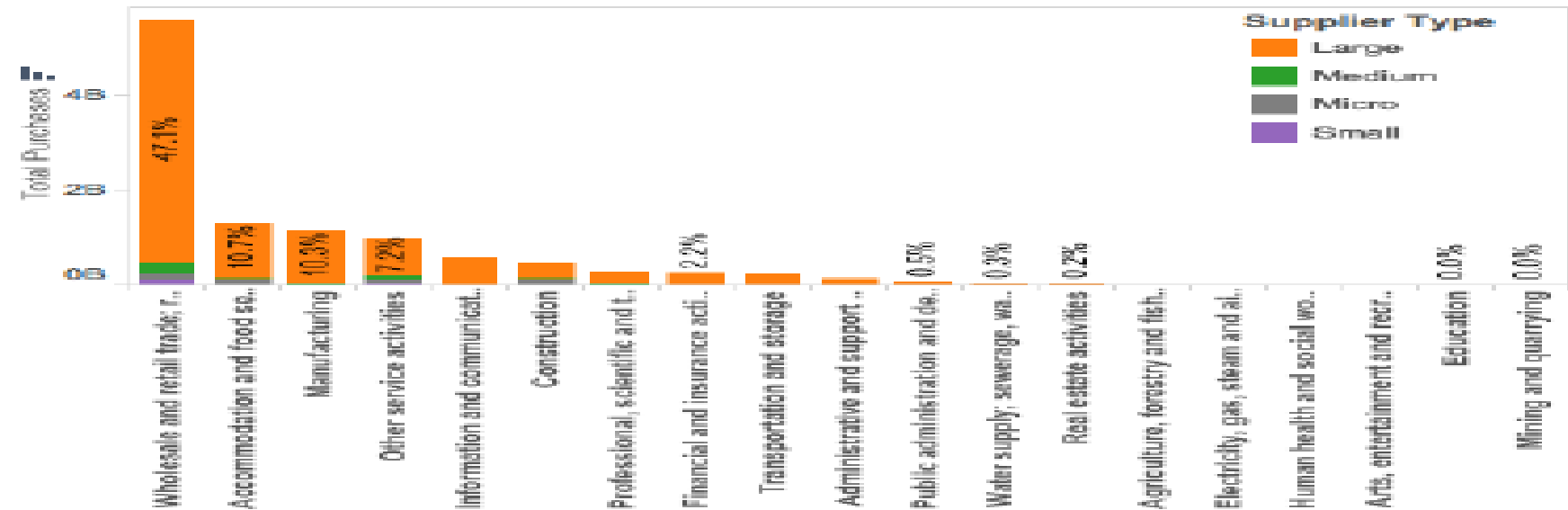
Tourism services link to the wider economy



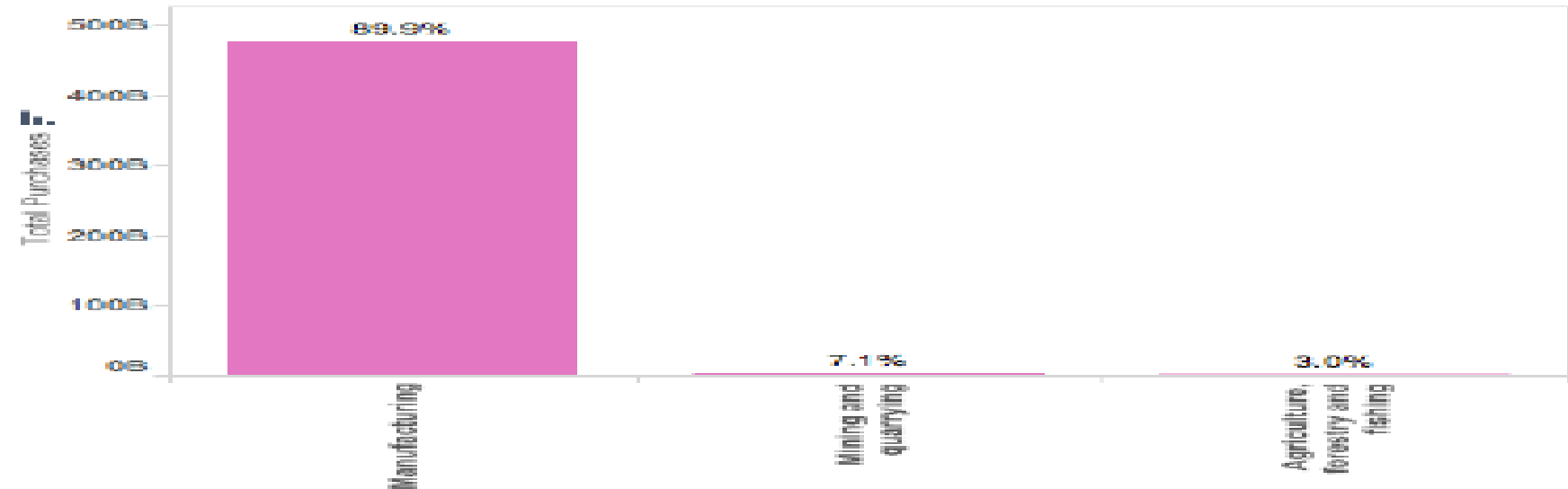
Source: Spray and Agarwal (2016).

Tourism services require efficient inputs

Which sectors does the "Tourism" sector buy from?



Which sectors does the "Tourism" sector import from?



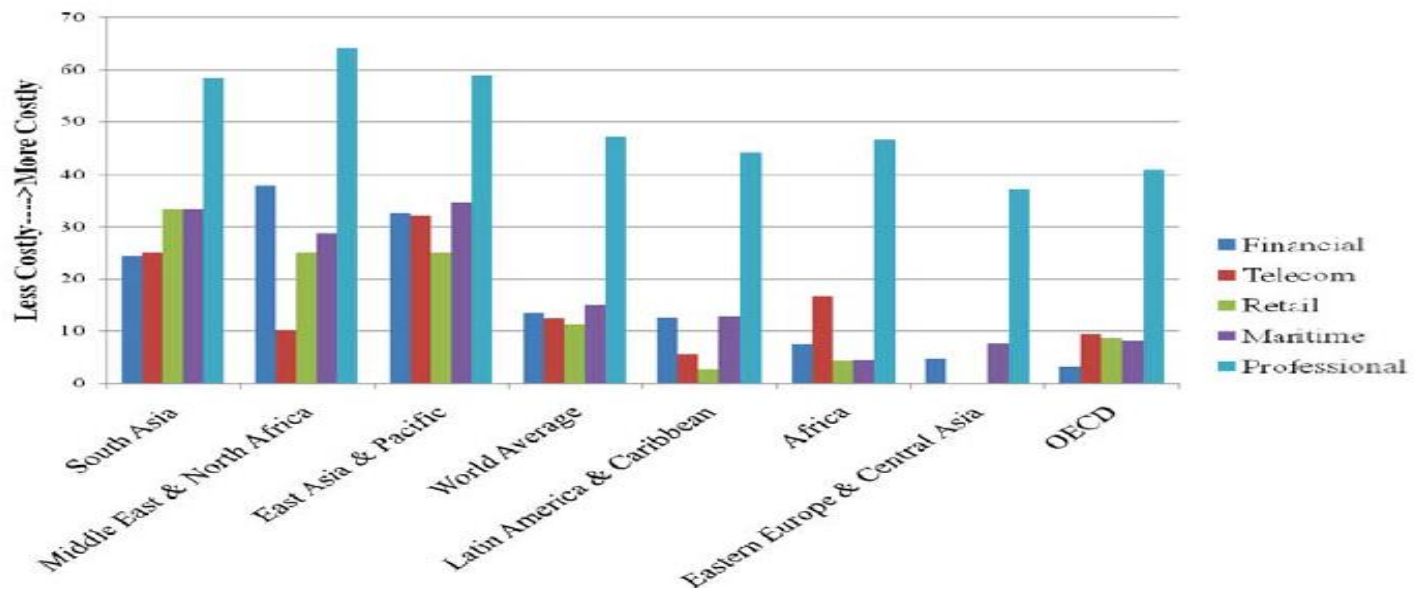
Services trade policy

- Services are very protected (more than agriculture) around the world, specially in LDCs.
- Financial regulations is blocking the expansion of mobile financial services.
- Services provided under mode 4 remain mostly restricted (only 0.5% of US imports of services are mode 4)

Barriers to trade in services are difficult to quantify

- “At the border”: restrictions on commercial presence or FDI (mode 3), visa restrictions on inwards movement of natural persons (mode 4)
- Much of the barriers occur “behind the border” in the form of regulatory:
 - Overregulation
 - Absence of (transparent) regulation
 - Discretionary authority.
 - Major departure from the commonly accepted international practice

Figure 23: World Bank trade policy indices by sector.



Source: Gootiiz and Mattoo (2009)

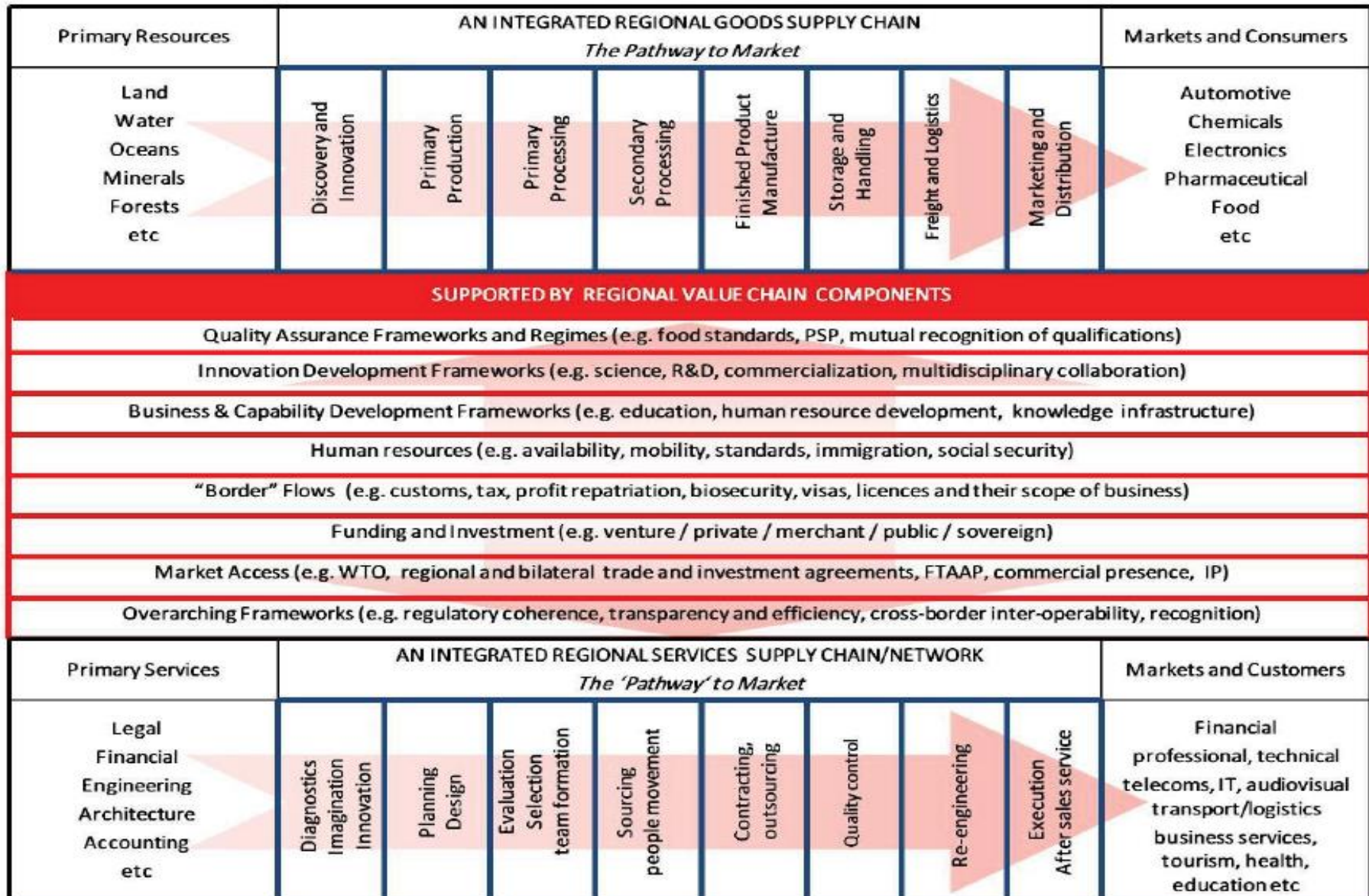
Service Trade Restrictiveness Index

	Financial	Professional	Retail	Telecom	Transportation
Bangladesh	46.3	35	25	62.5	62.9
Cambodia	5.8	60	0	25	35.5
China	34.8	66	25	50	19.3
India	48.1	87.5	75	50	62.4
Nepal	23.2	76	25	50	56
Pakistan	48.7	48	0	12.5	25.3
Sri Lanka	24.4	57	25	50	45.6
Thailand	49.4	74	25	50	47.1
Viet Nam	40.8	31.5	50	50	38.6

World Bank STRI (2012)

POLICY IMPLICATIONS

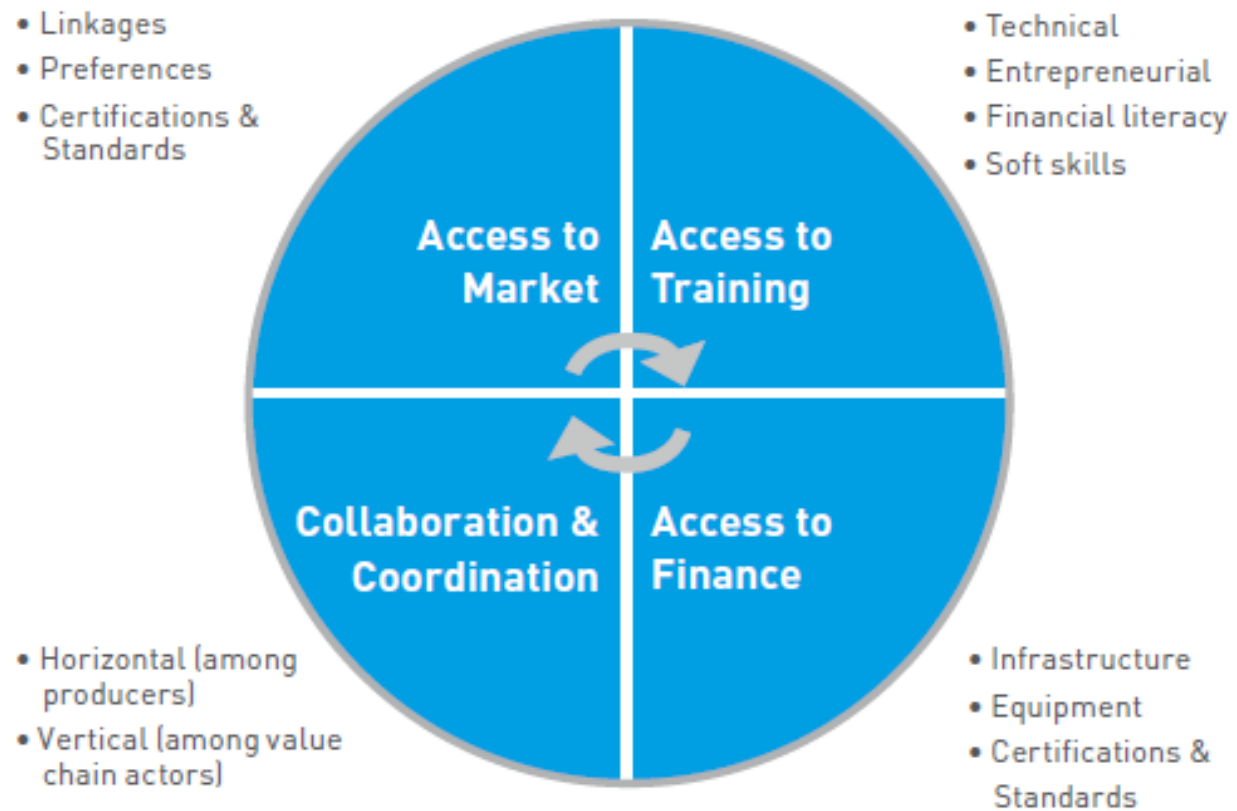
Holistic approach is required



Source: ABAC (2011)

Enhancing inclusive GVCs

Figure 9. Four Pillars Model for SMEs participation in GVCs



Will participating in GVCs/ET help achieving SDGs? Complementary social and environmental policies are required.

Employment
growth

Wages growth

Labor share
growth

Formal
employment

Gender
equality of
wages

Improved
labor
standards

Job safety

Child labor

Forced labor

Thank you!

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