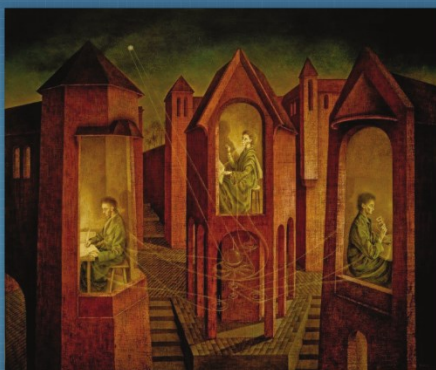


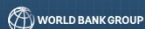


At Your Service?

The Promise of Services-Led Development



Gaurav Nayyar, Mary Hallward-Driemeier, and Elwyn Davies



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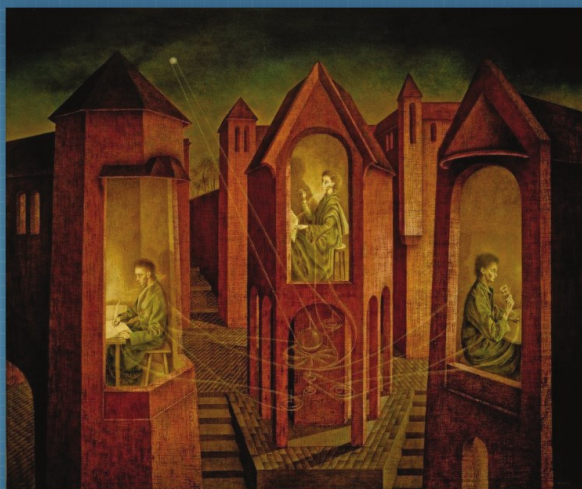
WTO “Simply Services” Series

Why this BOOK?



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www.worldbank.org/services-led-development

- **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 productivity and job creation compares across sub-sectors within services.
 3. Identify *policy priorities* that draw on diverse country experiences.

#1

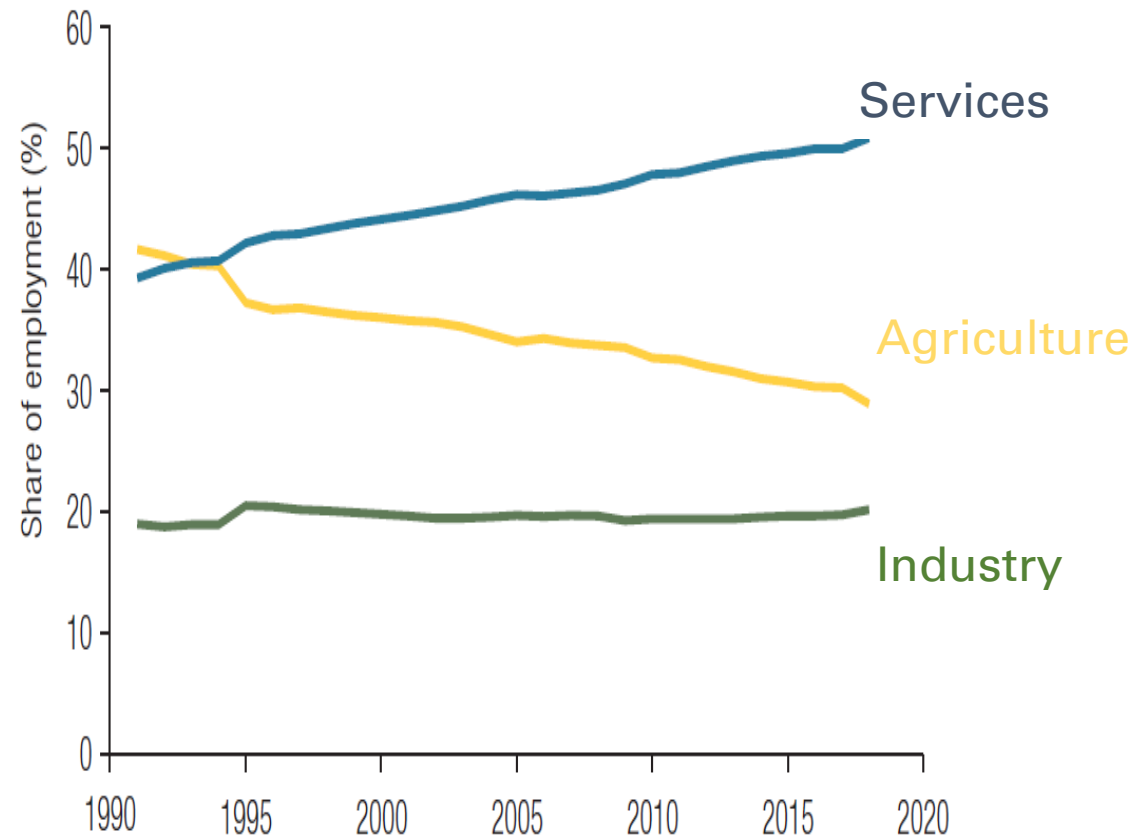
The services sector is increasingly driving economic transformation, despite policymakers' focus on manufacturing



Services, not industry, are driving structural transformation in LMICs



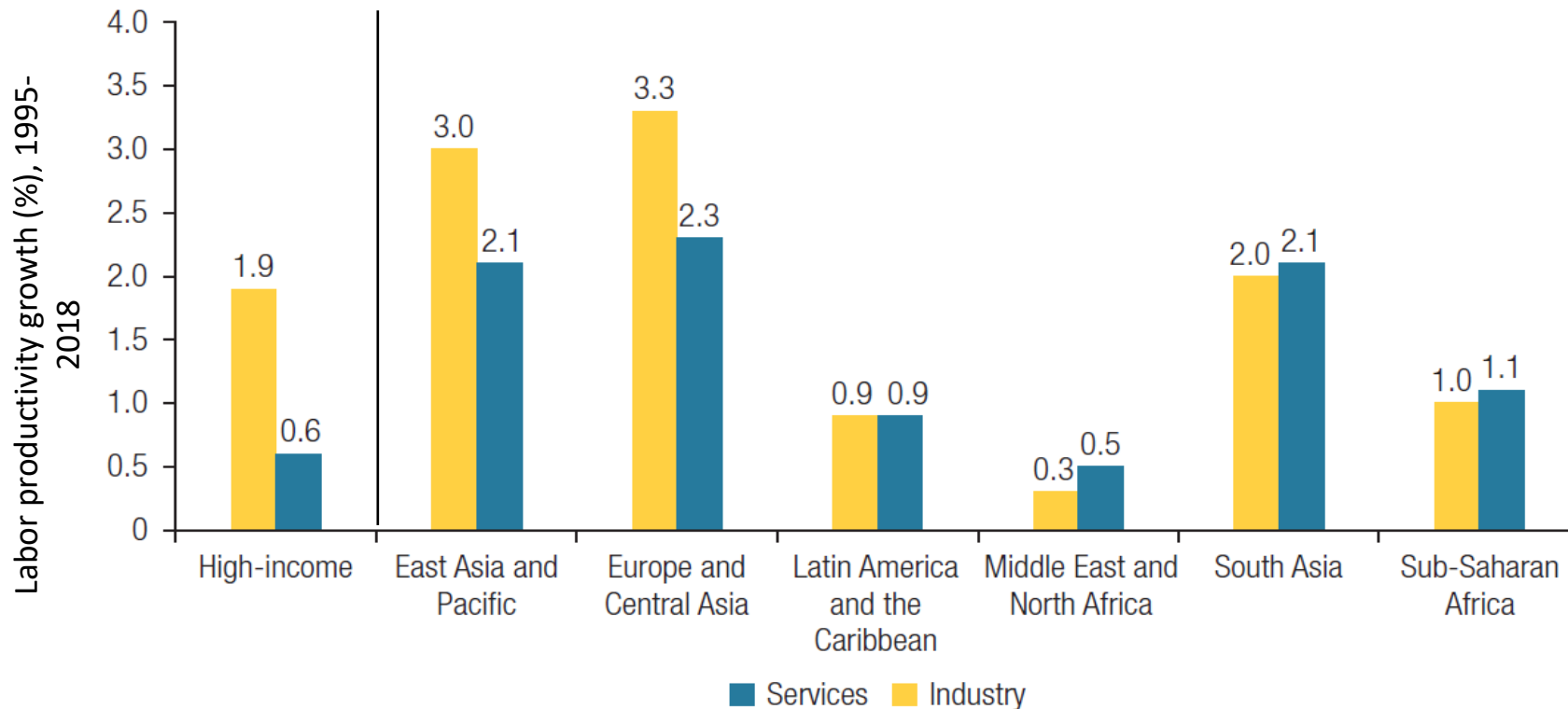
Almost all of the decline in agriculture's share of total employment in low- and middle-income countries since the 1990s was offset by services



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

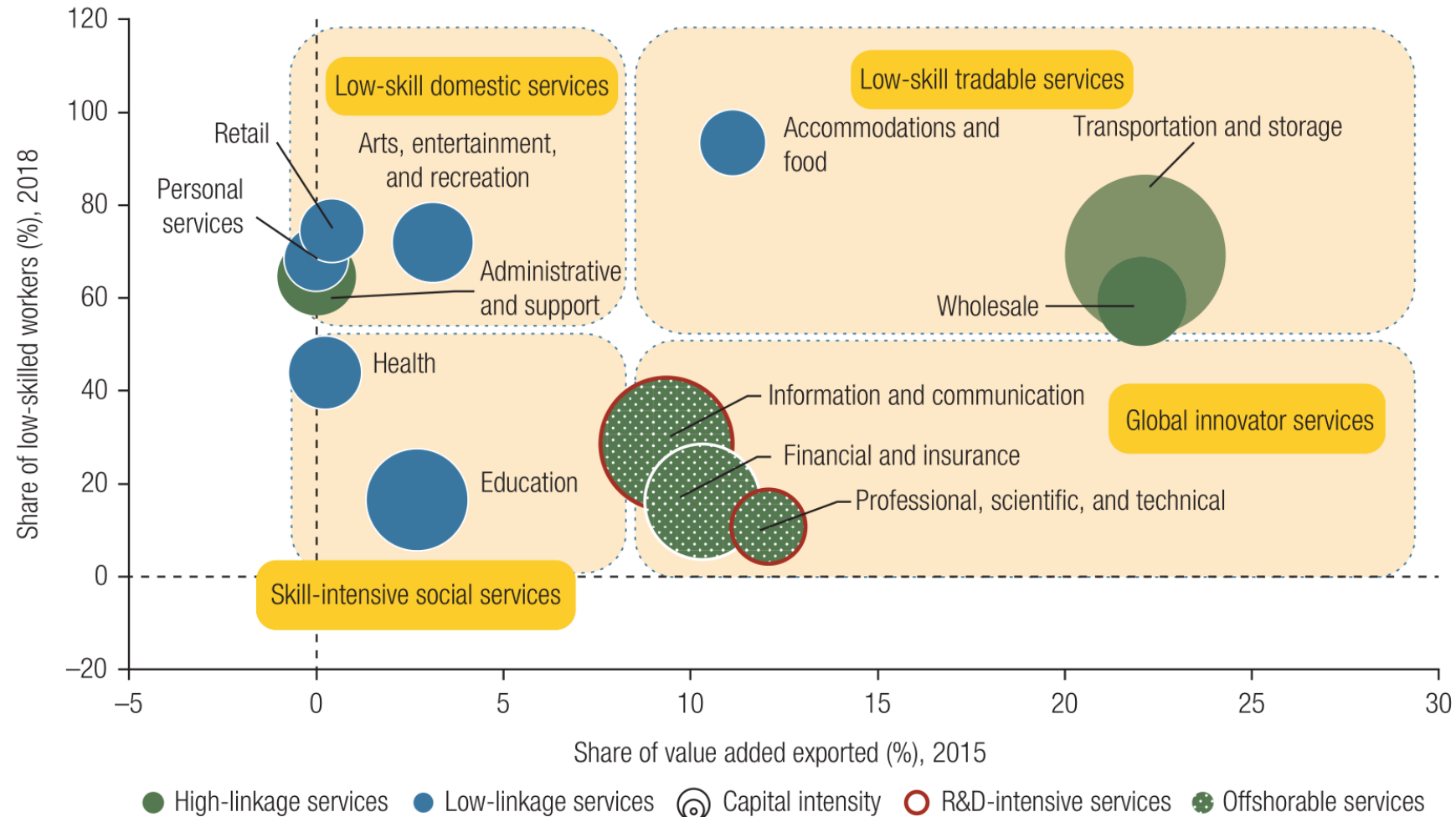


#2

The services sector is not monolithic



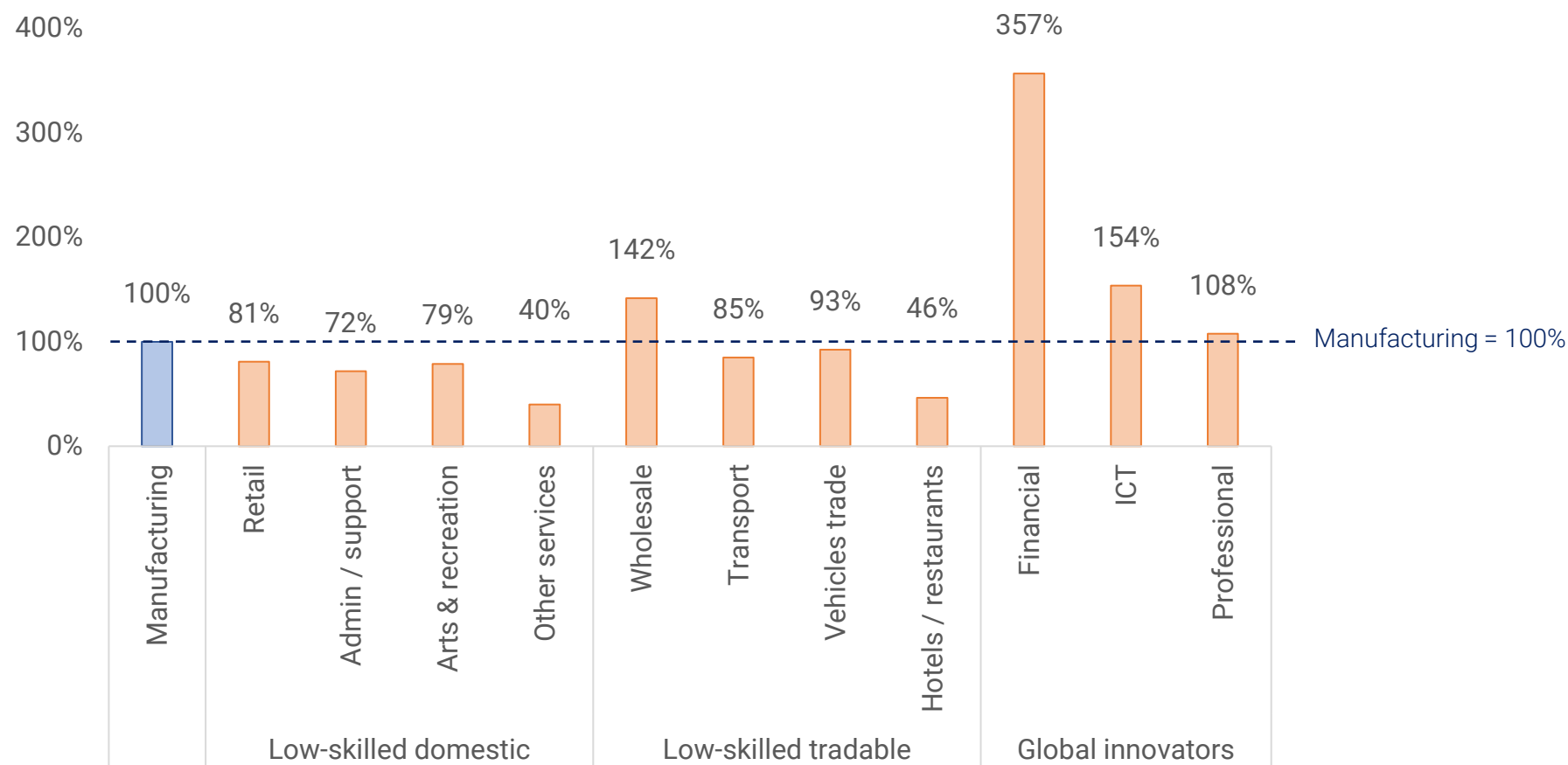
Services differ to the extent they are traded, their labor intensity, the skills they use, and whether they are linked to other sectors



Not all services are equally (un)productive



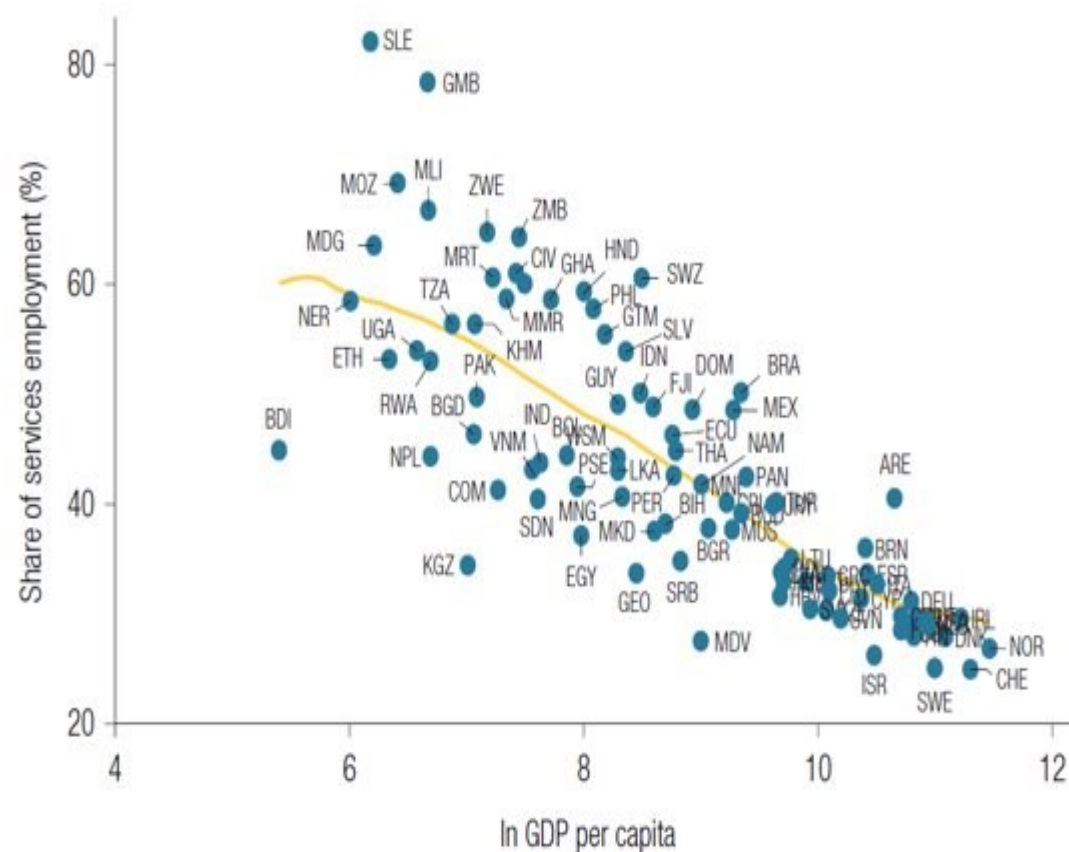
Total factor productivity (TFP), relative to manufacturing



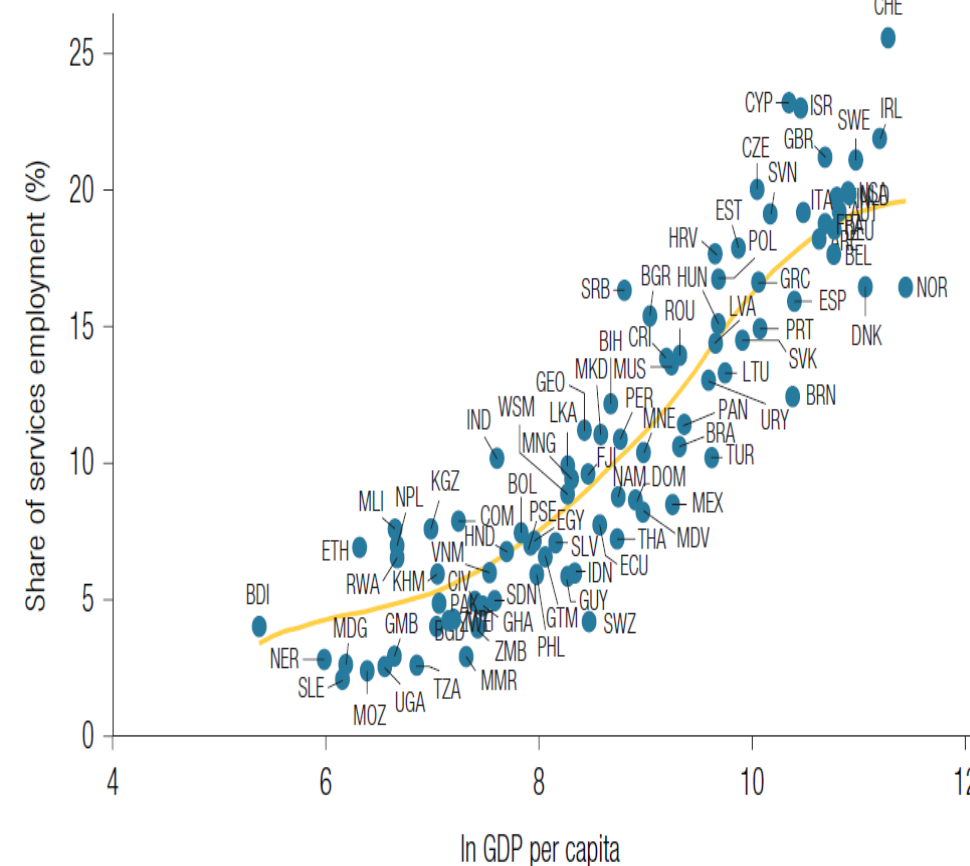
Services employment in developing economies may concentrate in less productive subsectors



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



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



#3

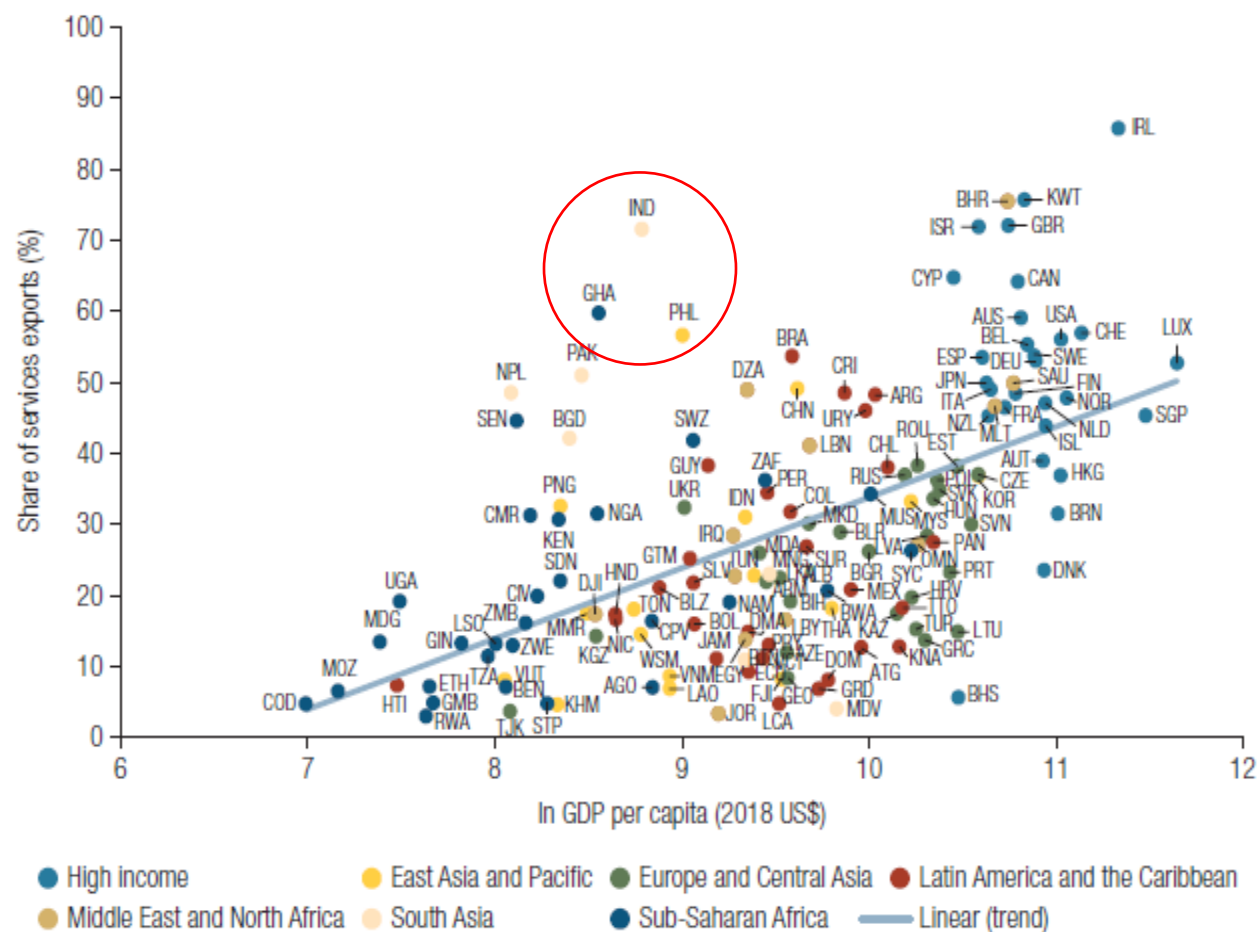
Countries can exploit exporting opportunities from services, regardless of their level of industrialization



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

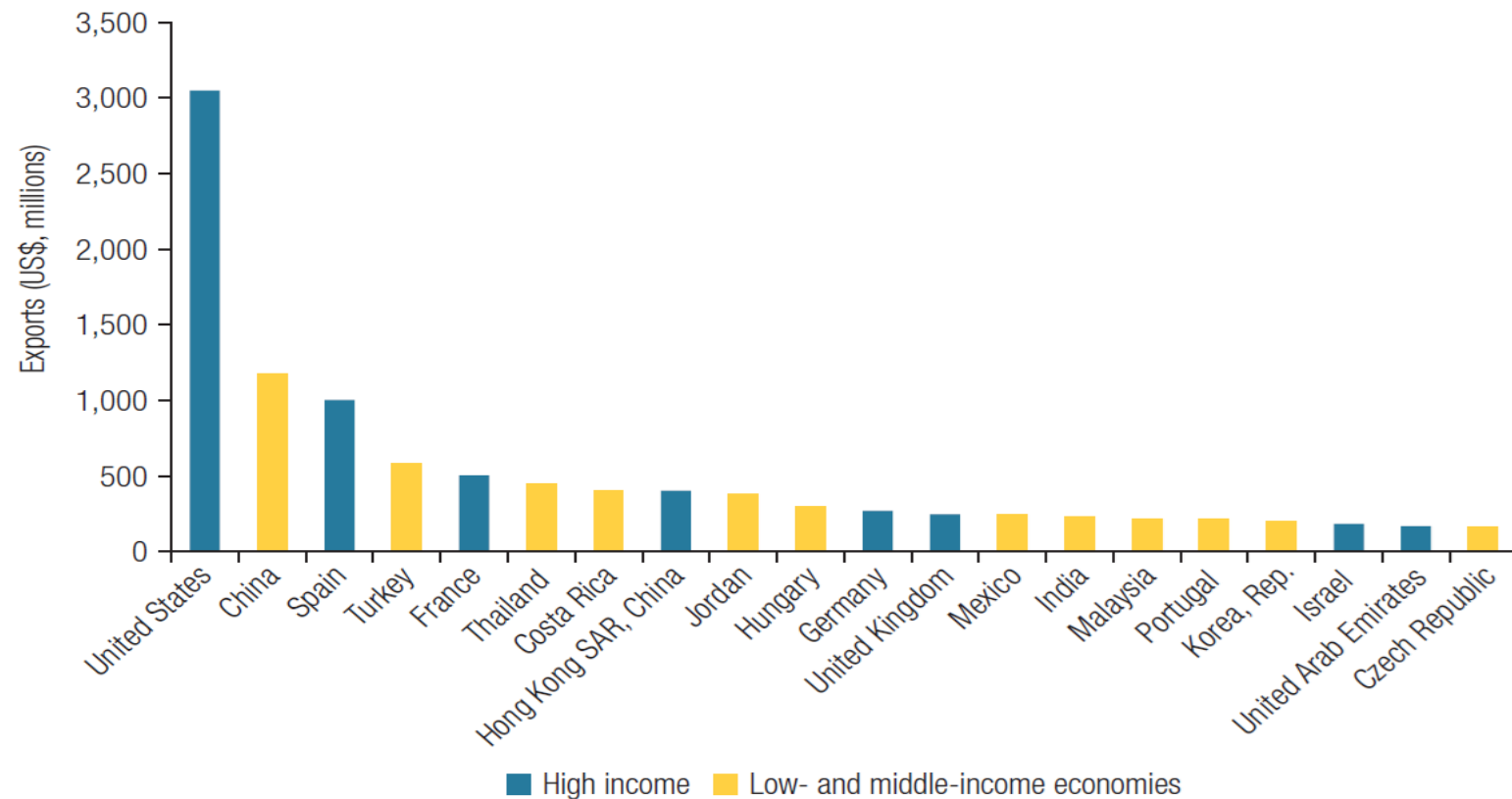


The emergence of skill-intensive social services exports hubs



The top 20 health tourism destinations includes many LMICs

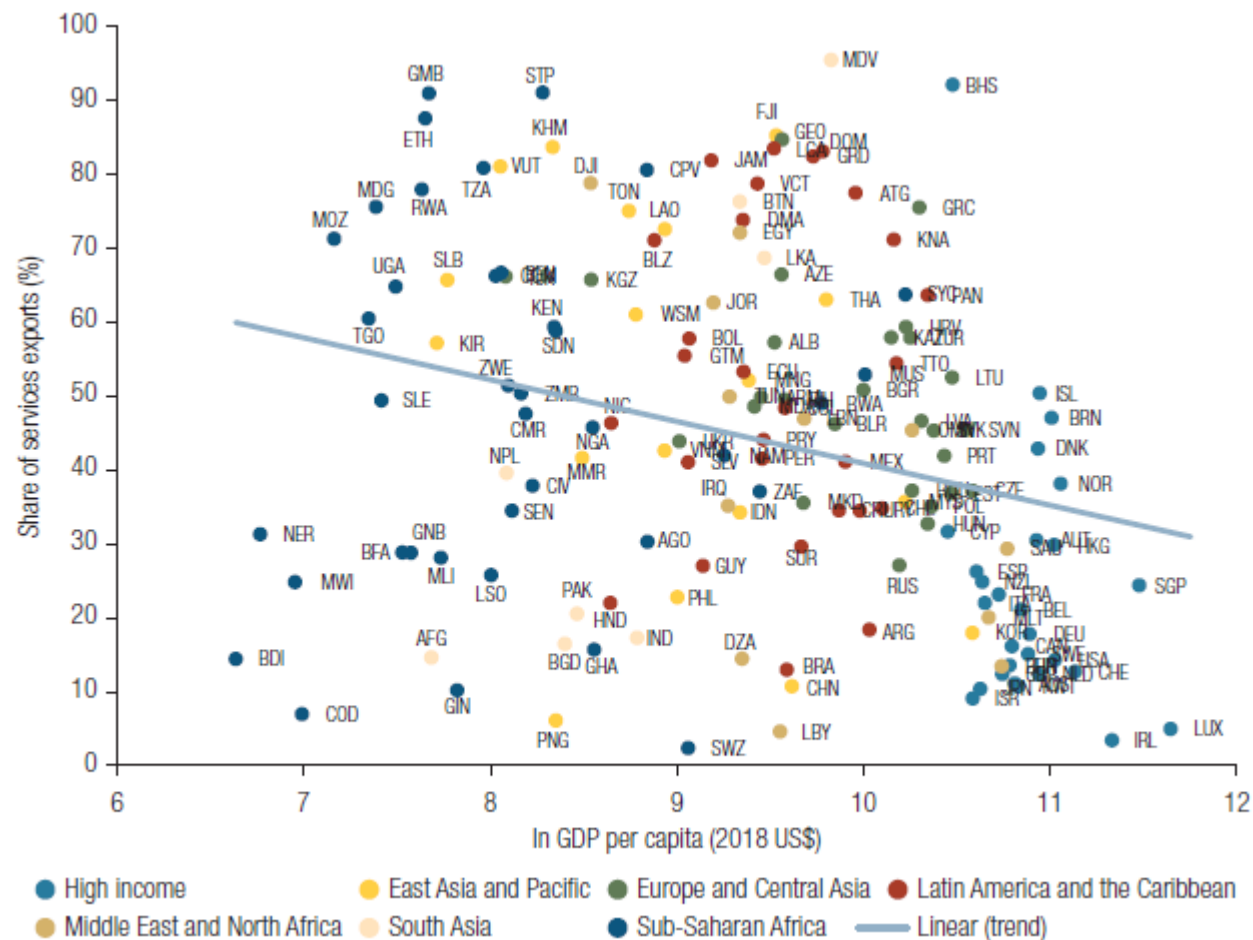
Export value of health tourism (GATS mode 2, "consumption abroad")



Tourism-related services make up larger shares of total services exports in lower-income countries than in high-income countries



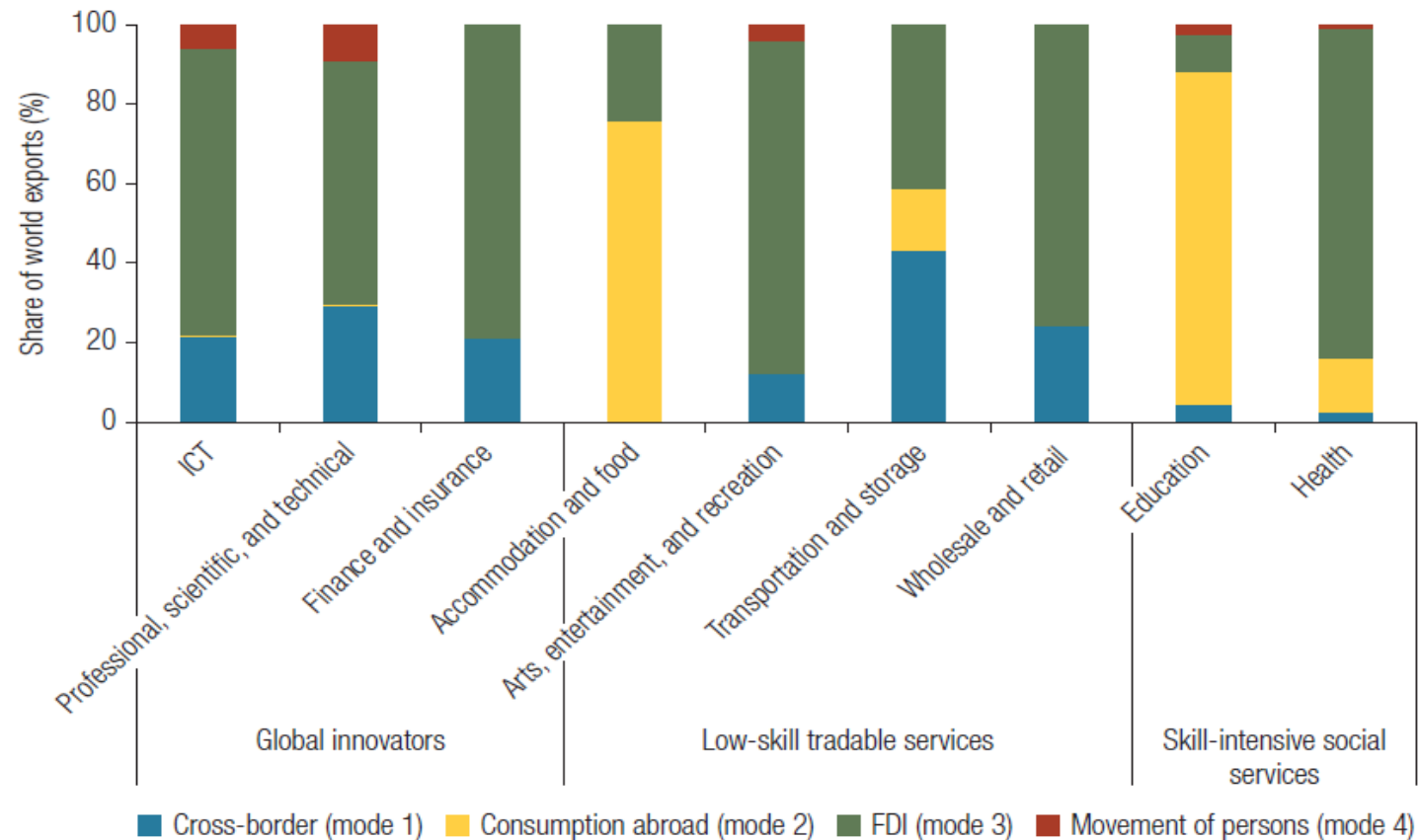
Share of low-skill tradable services in total services exports and log of GDP per capita, 2017



The mode of trade also varies by services subsector



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



#4

New opportunities for scale, innovation and spillovers in the services sector are driving export opportunities

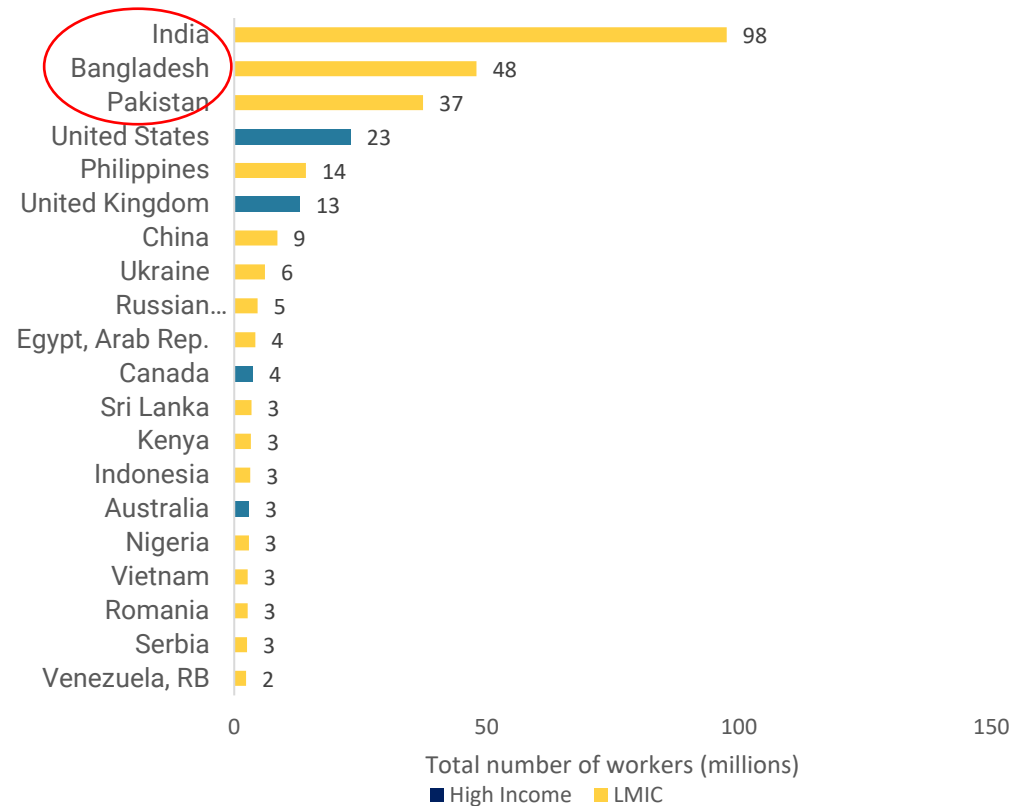


New opportunities for scale



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



New opportunities for scaling up through exporting across services subsectors



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



Even where face-to-face delivery is important, e.g., tourism, digital tools enable less-traditional destinations **overcome the lack of information**, and abate travel costs



Multi-establishment firms such as chains, franchising, allowing to **sell at multiple locations**, e.g., FDI in retail, restaurants, education, health

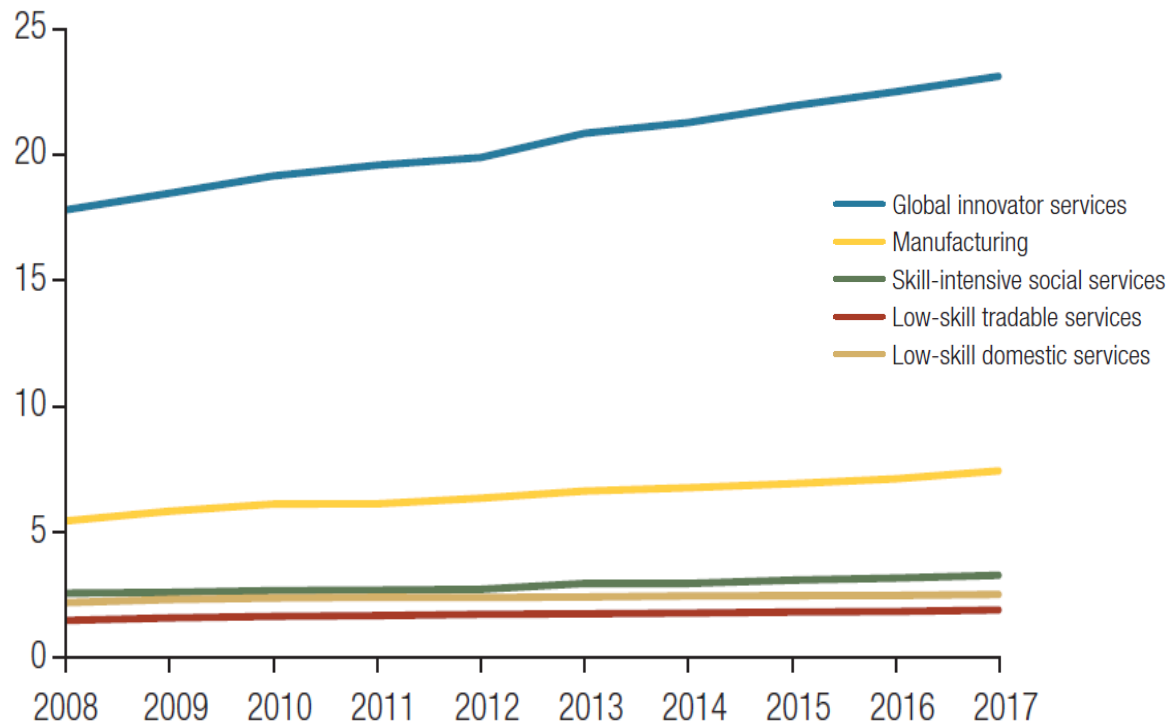


Innovation through intangible capital



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

Spending on software and data per worker (thousand euro)



New exporting opportunities across services subsectors



Fewer language constraints, bigger pool of online freelancers for professional services with machine learning (US exports to Spanish-speaking Latin American countries increased by 17.5–20.9 percent on eBay after the adoption of machine translation).



Streaming platforms such as Netflix and YouTube are fast enabling artists from LMICs to export their creative content to international markets at low cost.

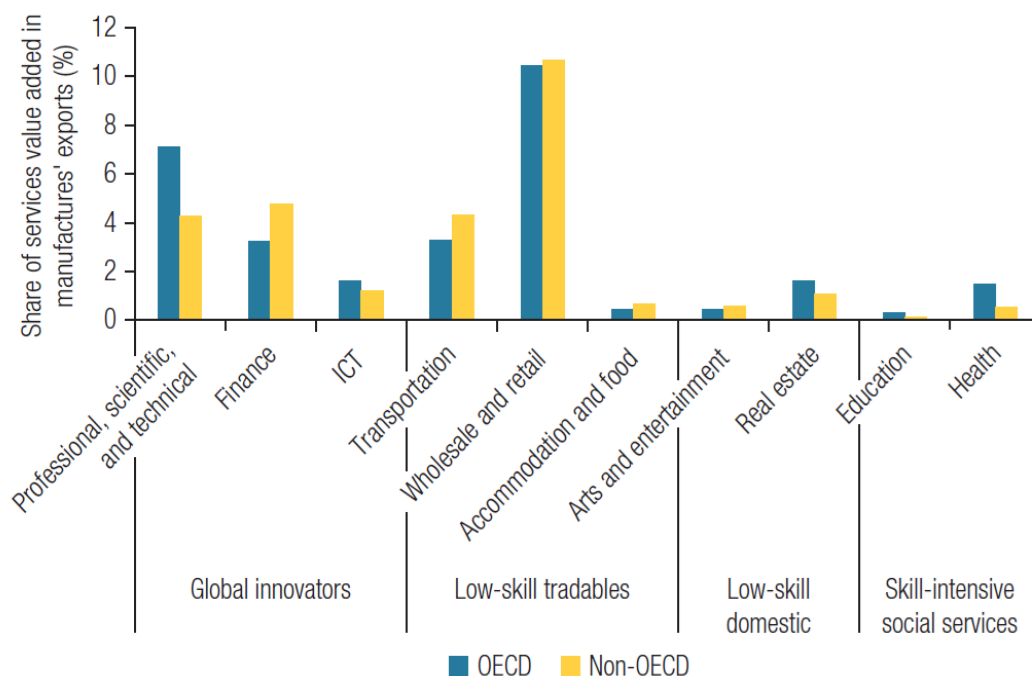


Spillovers across sectors are also expanding opportunities for low-skilled services workers to benefit from exporting



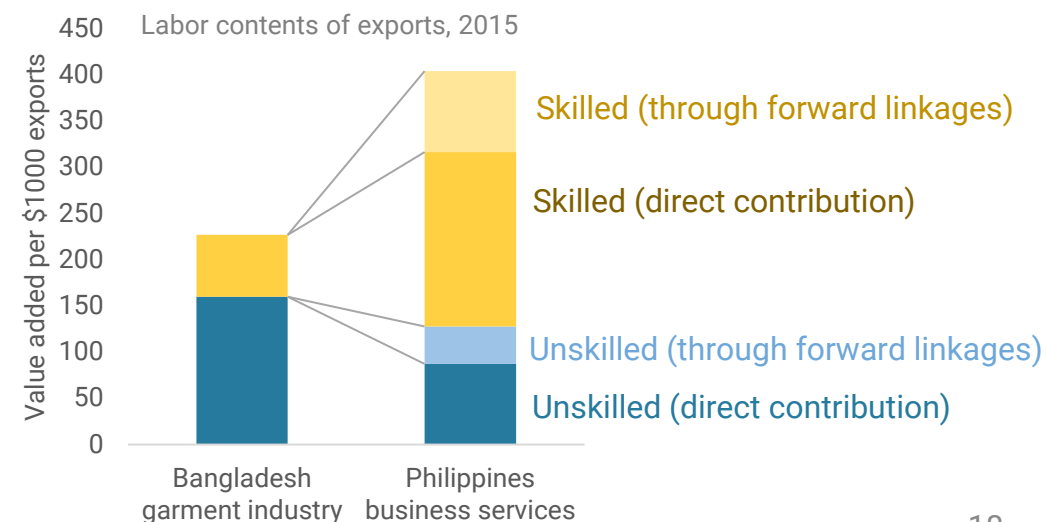
About one-third of the value of manufactures' exports is attributable to **services inputs**

Share of services value added in manufactures' exports (%)



Global innovator services are providing opportunities through their linkages

Compared to garments exports in Bangladesh, business services exports in Philippines contain **similar amounts** of low-skilled labor – much of this contributed **through linkages** to other sectors.

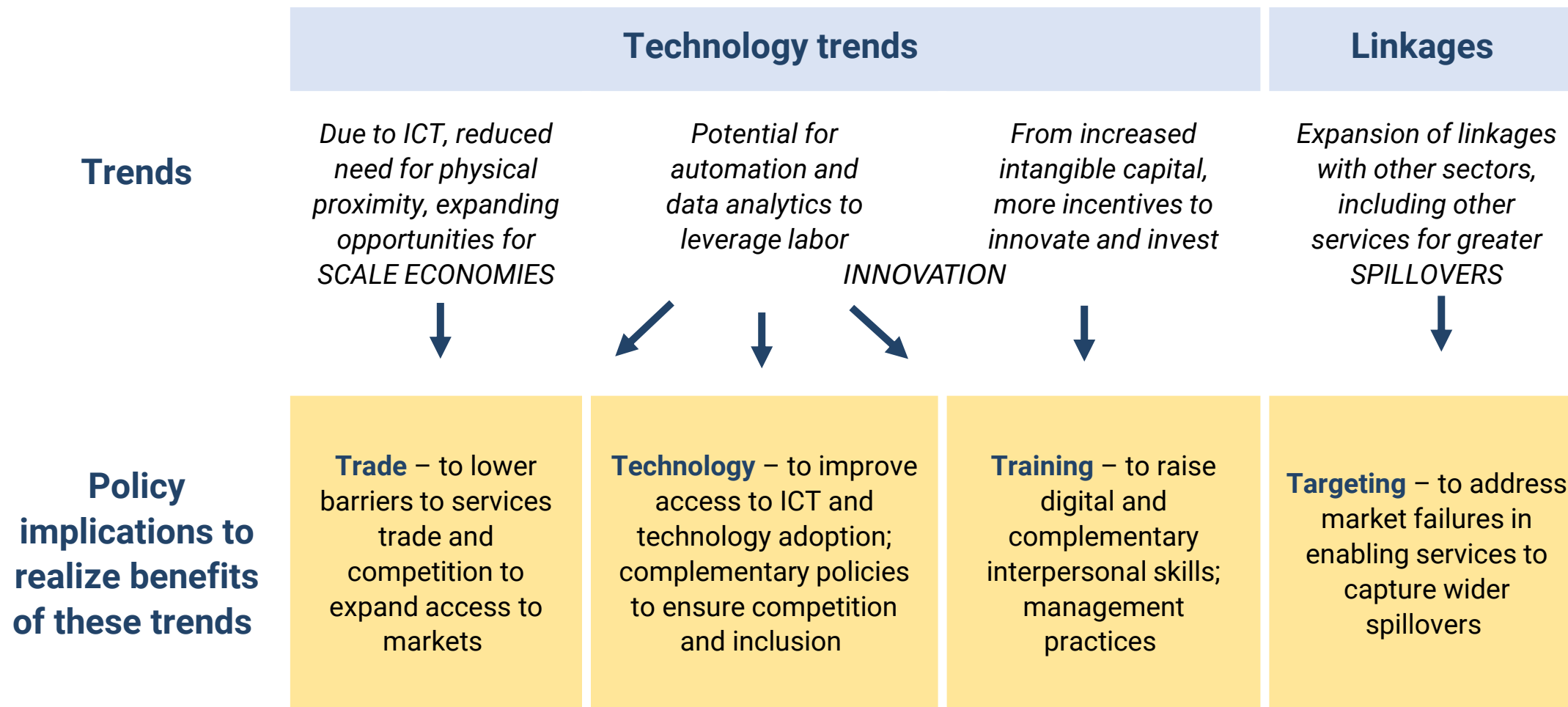


#5

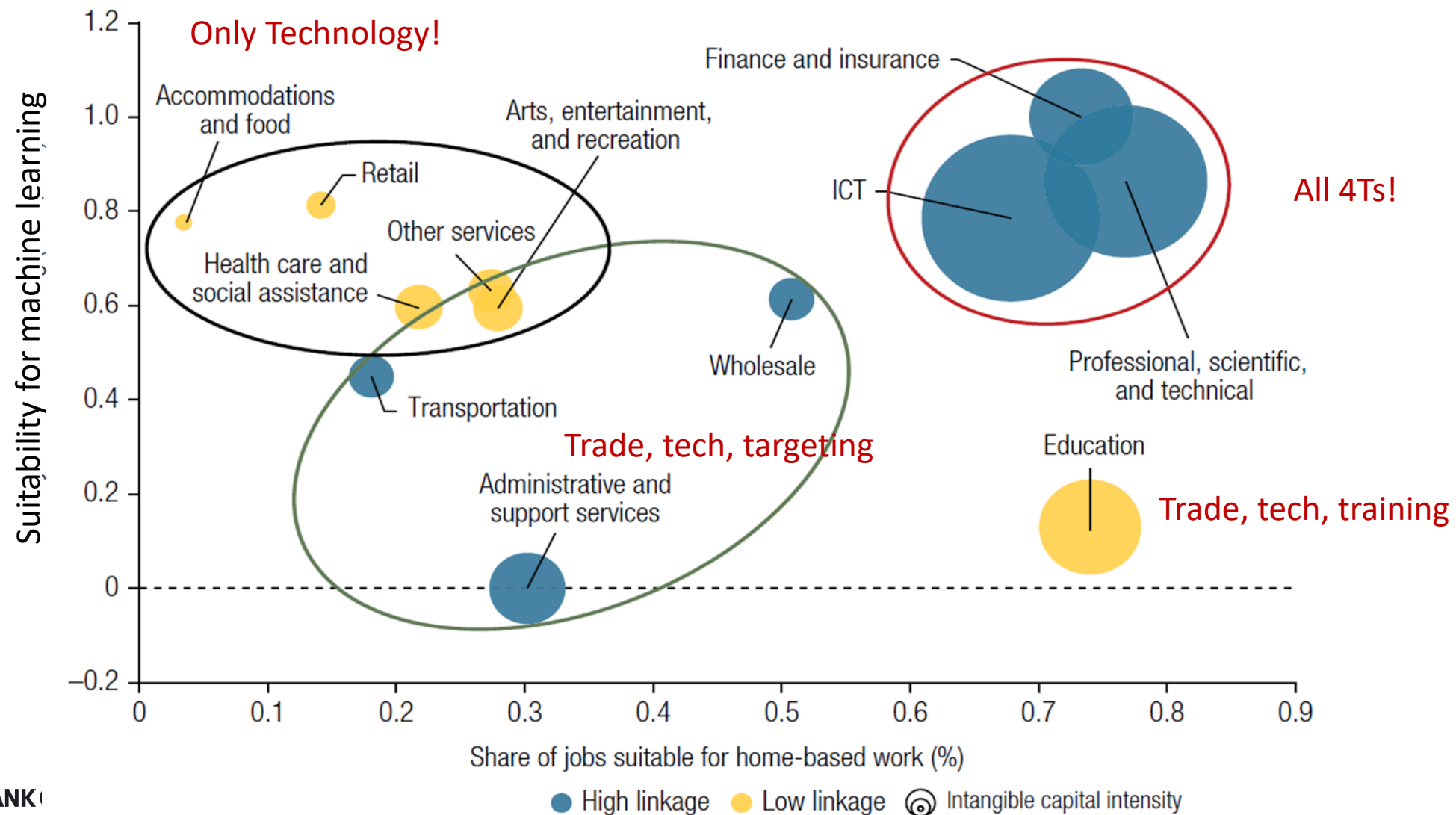
Trade, Technology, Training and Targeting (4Ts)
to leverage the potential of the services sector
for economic transformation



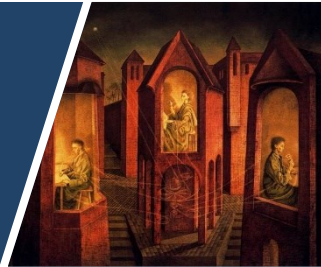
Policy responses - 4Ts - to make most of forward-looking trends



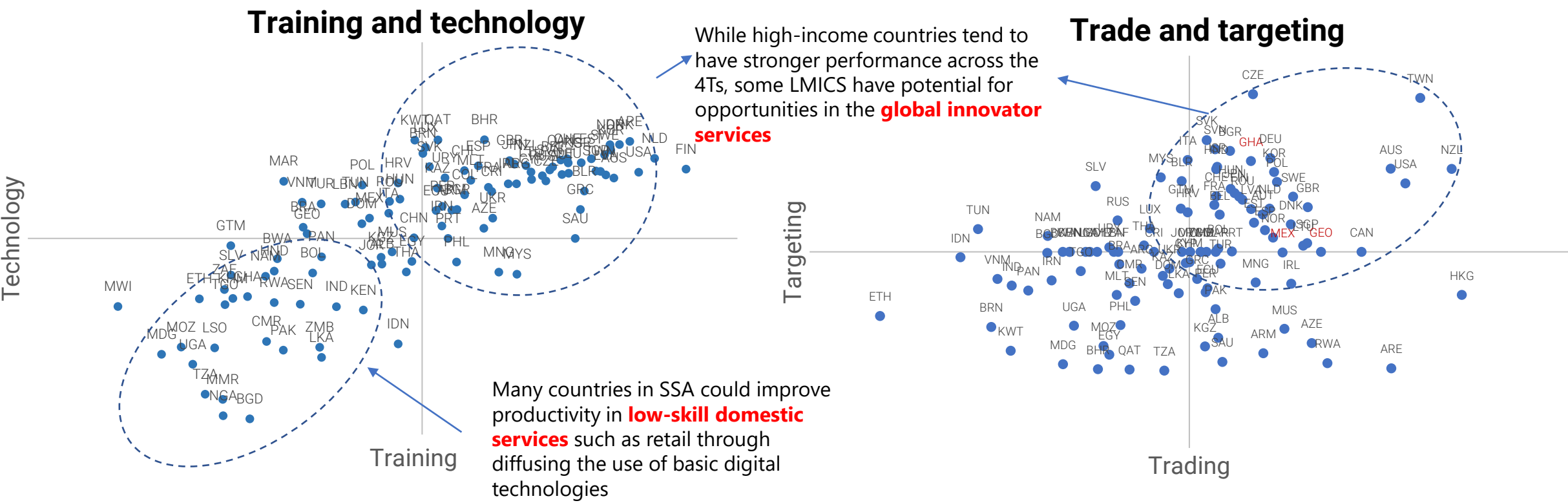
Impacts of reduced proximity, increased automation, intangible capital and forward linkages vary by sub-sectors and can inform priorities



Country performance in the 4Ts helps identify reform priorities by subsector



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



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