

27 September 2017 | Geneva, Switzerland

Driving Inclusive Growth and Enhancing Intra-African Trade through Service Sector Development

Global Value Chains and Services

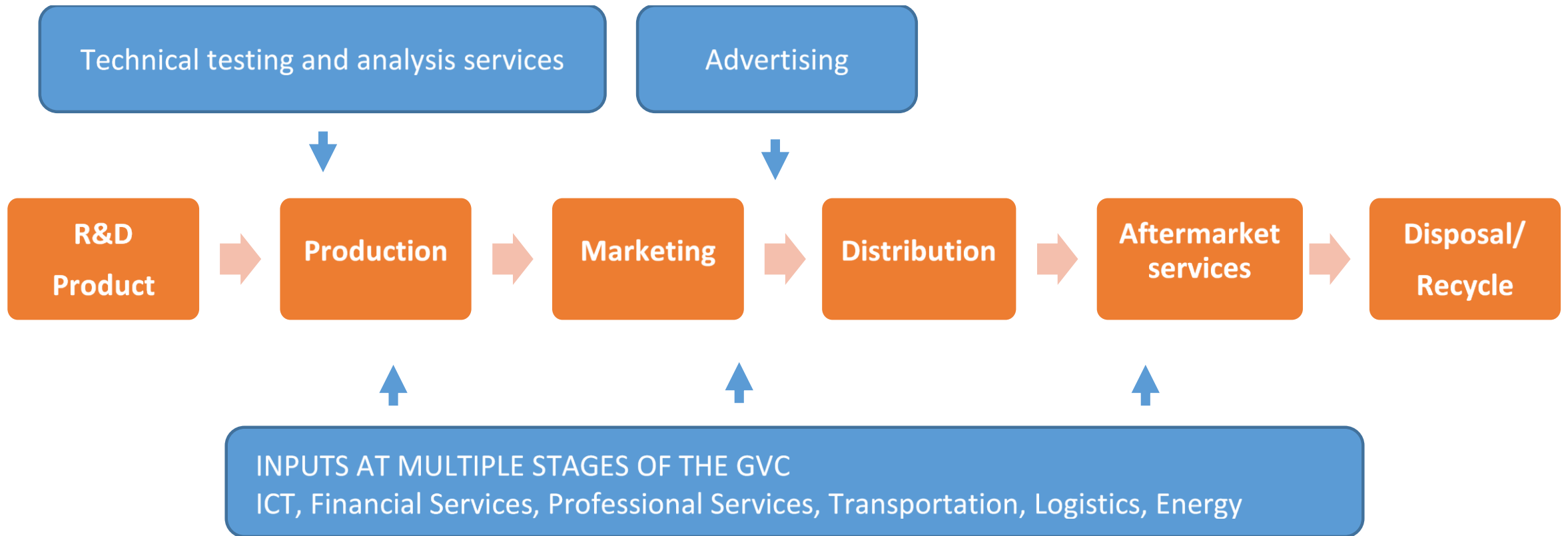
Judith FESSEHAIE, *Trade and Development Manager, ICTSD*



NORTH-WEST UNIVERSITY
YUNIBESITHI YA BOKONE-BOPHIRIMA
NOORDWES-UNIVERSITEIT



Mapping Services Inputs into GVCs



Servicification of manufacturing

Sandvik Tooling

SERVICES ACQUIRED

Legal services; Accounting, book-keeping etc.; Taxation services; Placement of personnel

Computer services; Educational services; Environmental services; Banking services; Insurance

R&D; Design

Advertising; Market research

Services incidental to manufacturing; Maintenance and repair; Energy services

Packaging; Printing; Publishing; Photographic services; Audio-Visual services

Courier services; Logistic services; Postal services; Telecommunications; Hotels and restaurants; Travel agency services; Maritime transport – freight; Inland waterways – freight; Inland waterways – freight; Air transport – freight/passenger; Road transport – freight/passenger; Cargo-handling services; Storage and warehouse services; Freight transport agency services; Feeder services

Rental/Leasing; Security services; Building cleaning services; Medical services; Health related services

Contd.

SERVICES OFFERED
R&D; Design; Computer services
Rental/leasing; Financial services
Management consulting; Technical testing and analysis services; Services incidental to manufacturing
Maintenance and repair
Environmental services; Logistics; Warehouse services

Sweden National Board of Trade, 2010

Drivers of *servicification* of manufacturing

Profits → for ex. aftermarket sales

Strategic → to differentiate, customise and upgrade products

Response to external factors → for ex. recycling services to meet new regulations

Technology → communication and transport innovations increase the tradability of services inputs

Modularisation → implies that activities are formalised, codified and standardised

(Sweden National Board of Trade, 2010; Low, 2013; Stephenson and Drake-Brockman, 2014)

Why does it matter?

- Services account for 23% of world trade, but **45% in value added terms**
- Impact on firm productivity and value chain competitiveness in LDCs and LICs
- Support upgrading into more remunerative functions in GVCs such as product design
- Indirect job creation effects – South Africa automotive exports (Farole 2015):
 - 1 direct job / 1 indirect job in 2001
 - 1 direct job / 3 indirect jobs in 2013
- SDGs
 - SDG 1 - ending poverty
 - SDG 5 - gender equality
 - SDG 8 - inclusive economic growth
 - SDG 10 - reducing inequality

Services highest value added functions in GVCs

Processors , €34, 6%
Memories , €15, 3%
Integr.circuits , €32, 6%
Display , €22, 4%
Camera (5 mp), €17, 3%
Other parts , €59, 11%
Licenses , €21, 4%
Nokia's value added , €169, 31%
(Excluding operating profit and final assembly listed below)
Nokia's operating profit , €89, 16%
Final assembly , €11, 2%
Distribution , €19, 4%
Retailing , €60, 11%



Nokia N95
retail price € 546
2007

Source: Ali-Yrkkö et al., 2011

Professional Services

GVCs/RVCs

- In-house, outsourced, offshored
- Offshoring opportunities for developing countries

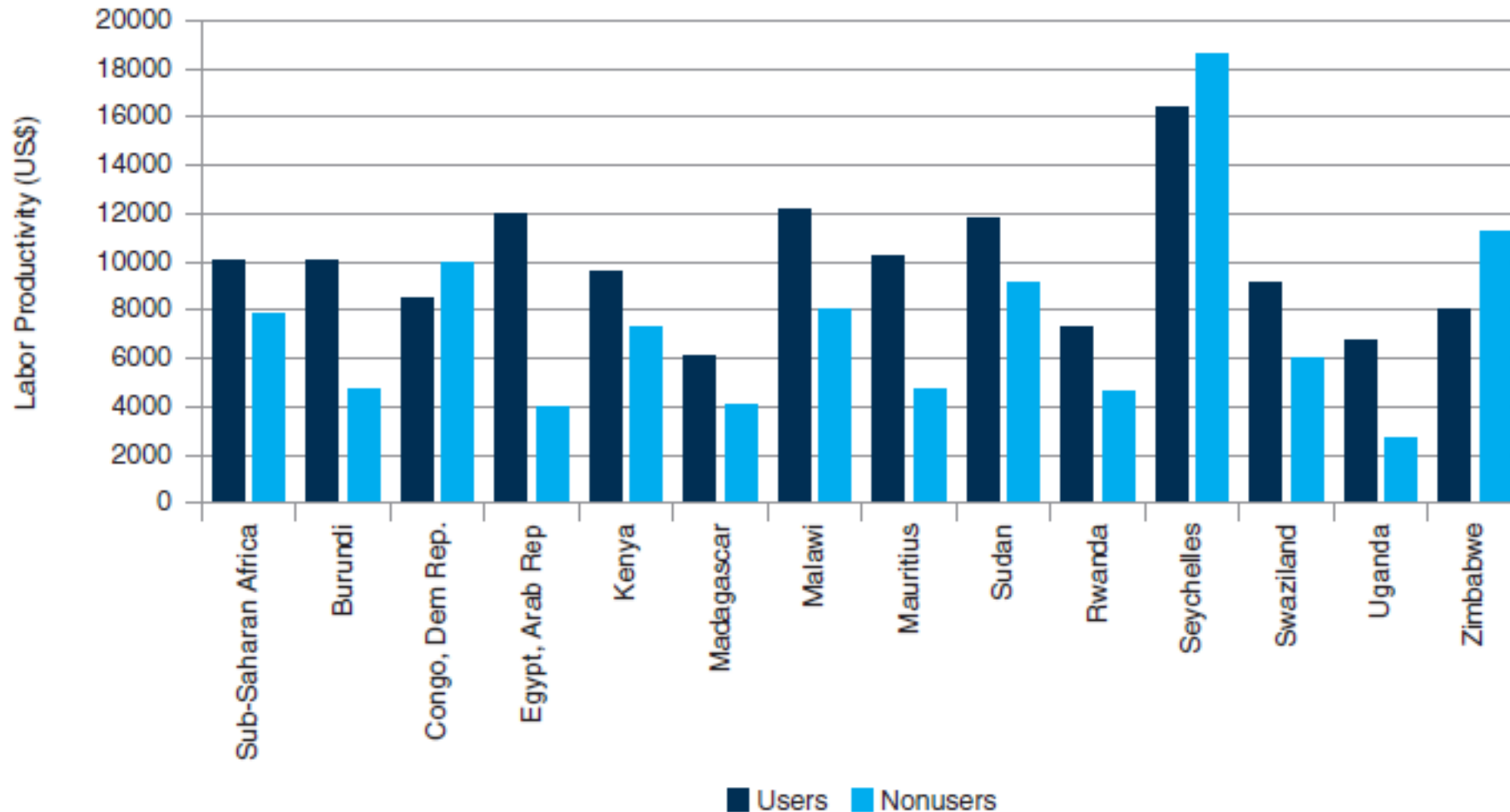
SDGs

- Firm-level and Economy-wide productivity gains
- High impact on SMEs development as buyers and providers

Trade and
investment policy

- Linked to investment in ICT and education
- Deepen regional integration across all Modes, especially 1 and 4
- Domestic regulations (transparency, simplification)
- Regional cooperation (Mutual Recognition Agreements)

Professional services and firm productivity – Eastern and Southern Africa



Aftermarket Services

GVCs/RVCs

- Linked to BPO – important opportunities for entry and upgrading
- Linked to maintenance and repairs – locational advantages, large market

SDGs

- Significant opportunities for low skilled, female employment in call centres
- Significant opportunities for youth employment
- Opportunities for skills development

Trade and
investment policy

- Linked to investment strategy in ICT and education
- Encourage trade under Mode 3 (FDI) in BPO

Aftermarket Sales: Examples from mining machinery

Processing equipment	Initial USDM	Total Stay In Business USDM	Ratio Stay In Business:Initial
Grinding mill, rod & ball	5.5	197.6	35 :1
Cone crushers	4.0	65.0	16 :1
Mobile crushing plants	1.2	17.7	15 :1
Gyratory crushers	13.0	170.0	13 :1
Underground loaders (LHDs)	1.9	27.0	14 :1
Shovels, hydraulic	15.9	179.3	11 :1
Continuous miners, u/ground	3.2	35.9	11 :1
Roof bolters	1.4	16.5	11 :1

Source: Virgo, Armstrong and Alftan, 2013

Conclusions

- Services → competitiveness and upgrading in GVCs / contribute to SDGs
- Trade negotiations need to take an holistic view across goods and services
- No 'one size fits all' strategy
- Trade policy design needs to be informed by detailed value chain analysis:
 - Broad stakeholder consultations
 - Taking into account overall competitiveness and each services input
- Domestic regulations important to ensure access by SMEs, women, youth
- Regional integration and regional cooperation
- LDCs services waiver → Preferences and measures to ensure LDCs take advantage