

New Evidence about Services: Supply Chain Connectivity

Indonesian Services Dialogue PUBLIC FORUM

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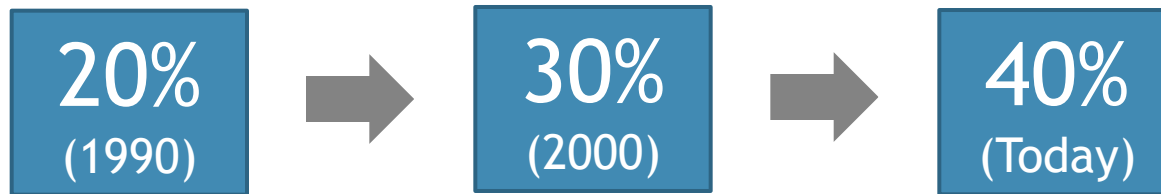
ICTSD and SEADI

NEW EVIDENCE ABOUT SUPPLY CHAINS

- ▶ Production fragmentation is what increasingly characterizes international trade
- ▶ Supply chains are operating primarily in the most dynamic trading regions of the world
- ▶ Supply chains being created by FDI
 - ▶ **Question: Does participating in a supply chain matter for growth?**

Participation by Developing Economies in Supply Chains has doubled in 25 years

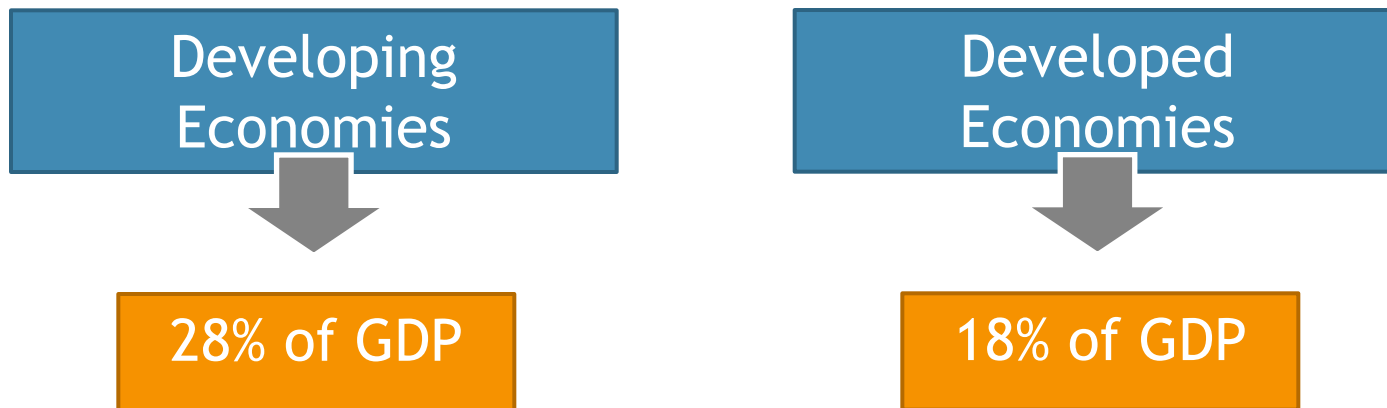
- ▶ Taking part in supply chains is not just for developed economies : participation by developing economies



- The role of FDI is instrumental, as economies with a higher presence of FDI relative to the size of their GDPs have a higher level of participation in supply chains - FDI is leading trade.
- Source: UNCTAD World Investment Report 2013

Evidence that supply chains help developing economies grow faster

- ▶ Importance of Value Added Contribution in Developing and Developed Economies....



- Positive correlation between participation in supply chains & economic growth. Economies with the fastest growing supply chain participation have GDP per capita growth rates 2 % above world average.

SERVICES MAKE SUPPLY CHAIN OPERATION POSSIBLE

- ▶ **Services Sector is the most rapidly growing segment of the World Economy**
- ▶ **Services Sector represents:**
 - ▶ 2/3 (66%) of World Production
 - ▶ 2/3 (66%) of World Employment
 - ▶ Nearly 50% of World Trade
 - ▶ 3/5 (60%) of Foreign Direct Investment

SERVICES ARE 45% OF WORLD TRADE

NEW OECD-WTO DATA BASE ON TRADE IN VALUE ADDED

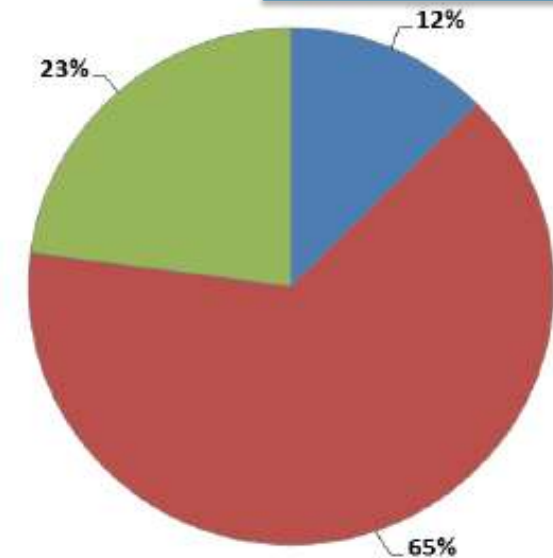
- ▶ Shows that SERVICES represent not 20% of world trade, as formerly reported, but...
- ▶ HALF of total trade → 50% on average for OECD countries' exports and 45% for world average
- ▶ Why? Because services add significant value to manufacturing and agricultural output

Joint OECD–WTO Data Base for 58 economies (95% world output)

<http://www.oecd.org/industry/industryandglobalisation/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm>

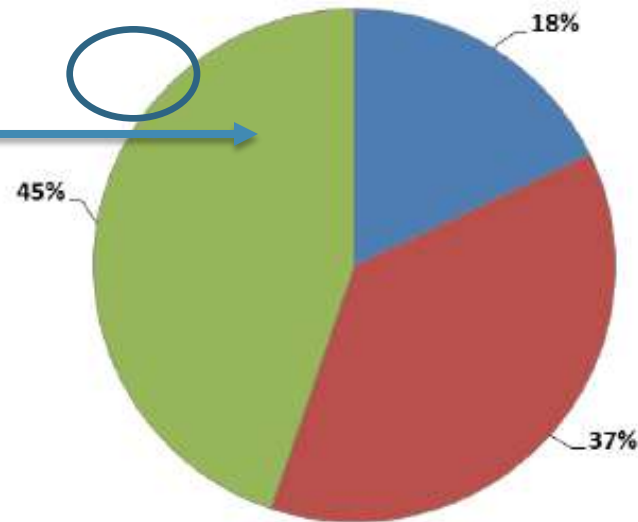
New WTO/OECD Data Base on World Exports - Reveals High Importance of Services

Structure of world exports in gross terms, 2008



■ Primary products ■ Manufacturing ■ Services

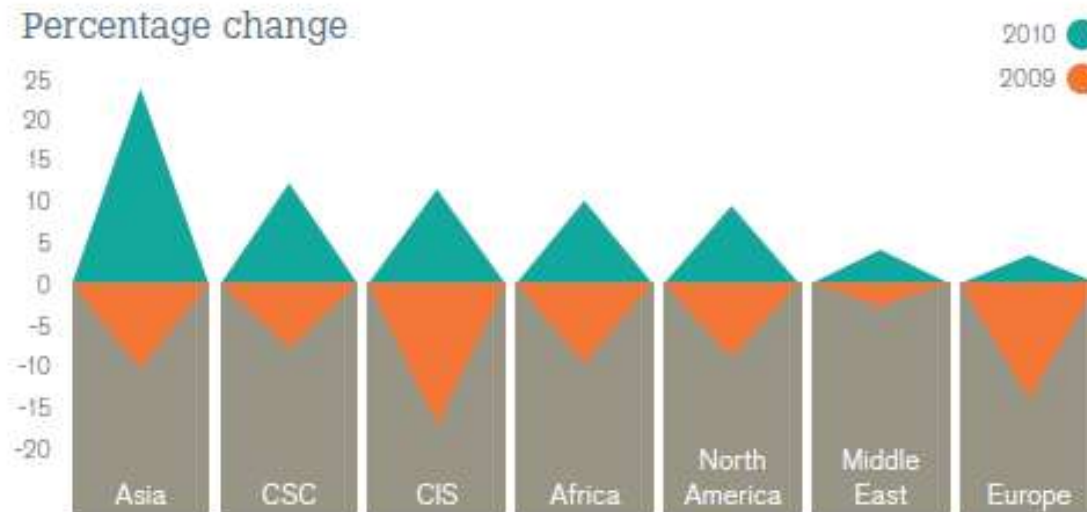
Structure of world exports in value added terms, 2008



■ Primary products ■ Manufacturing ■ Services

Asia is the most Dynamic Exporting Region for Services

World exports of commercial services by region 2009-2010



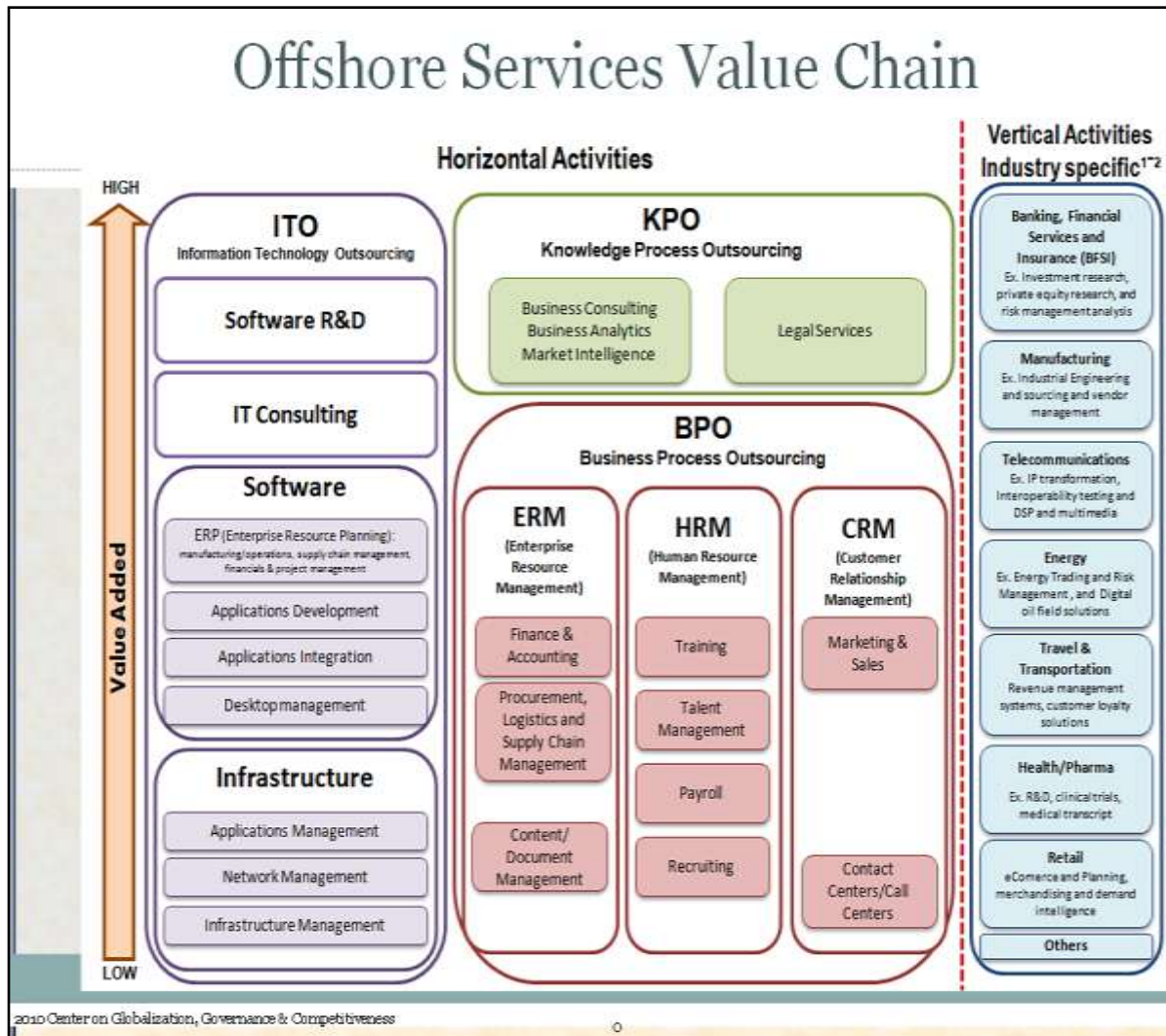
Source: World Trade Developments (2010). WTO

- ▶ Asia's commercial services exports grew by 22% in 2010
- ▶ Commercial services exports in Asia are led by China and India

SERVICES ARE THE “LINKS” IN SUPPLY CHAINS

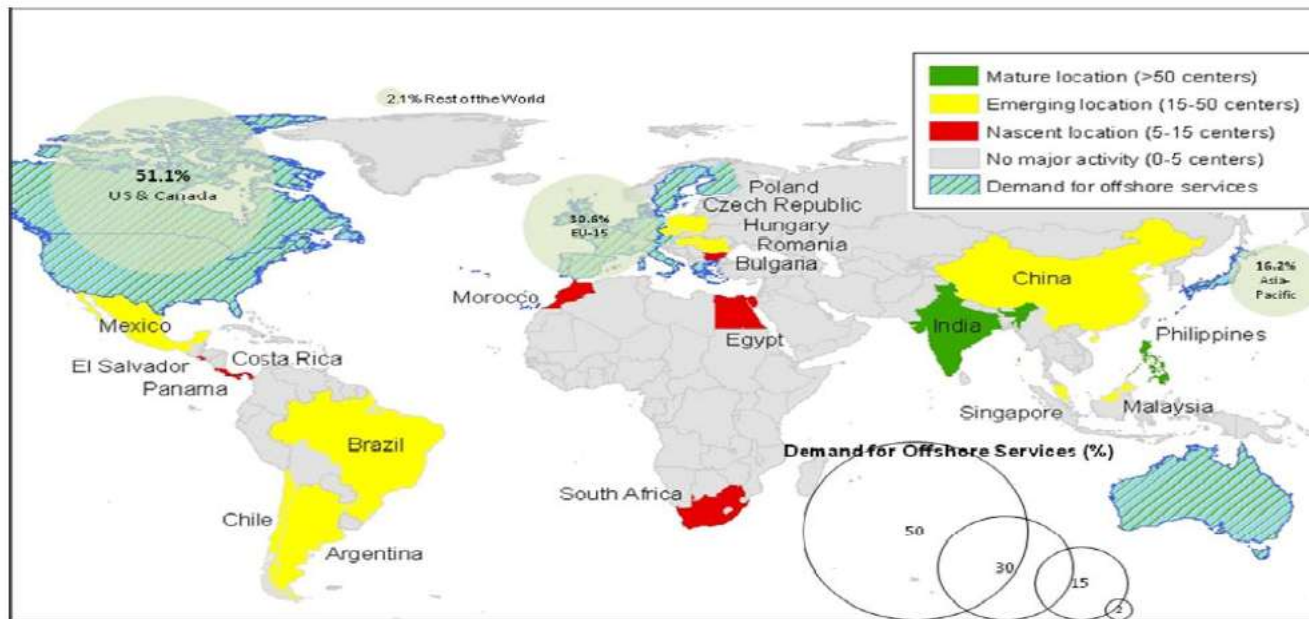
- ▶ Many kinds of services can go into supply chains, depending upon sector: “embodied” in manufacturing output
- ▶ The most dynamic services in world today are business services and ICT services - that make supply chain operation possible
- ▶ **TYPES OF SERVICES OFF-SHORING ACTIVITIES THAT CAN BE “CAPTURED” BY FIRMS:**
 - ▶ Business Process Off-shoring
 - ▶ Information Technology Off-shoring
 - ▶ Knowledge Process Off-shoring

OFFSHORE SERVICES ACTIVITIES



Source: Gary Gereffi (2010). "The Offshore Services Global Value Chains"

REGIONAL CENTERS FOR OFFSHORE SERVICES

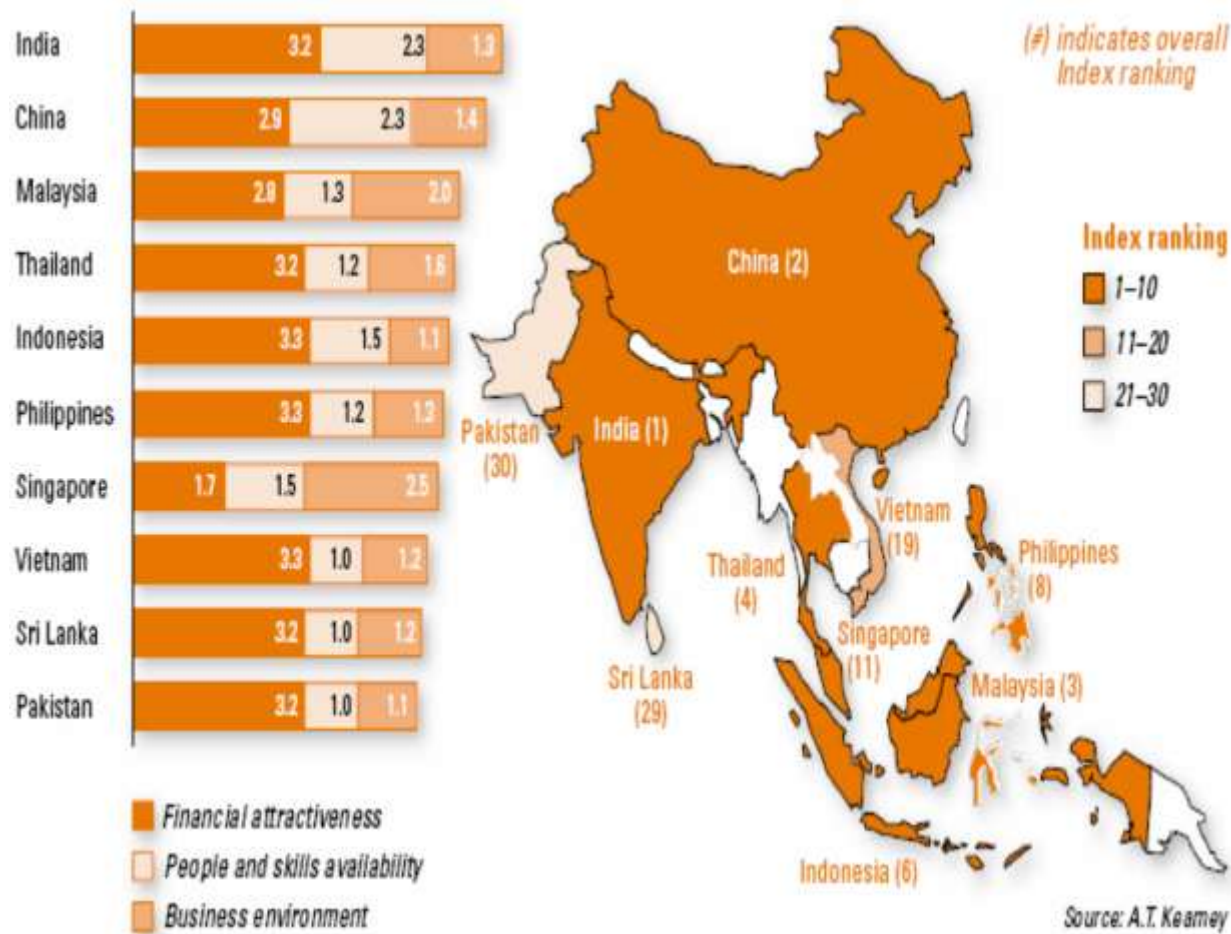


Source: CGGC, Duke University based on data from Everest and Datamonitor.

Source: Gereffi, G; Fernandez-Stark, K. "The Offshore Services Value Chain: Developing Countries and the Crisis". Center of Globalization, Governance & Competitiveness. Duke University. The World Bank Development Research Group, Trade and Integration Team. 2010.

Global Supply Chains operate in the regions of the world with the most dynamic services sectors.

Attractiveness: Asian Destinations for Services Off-shoring Activities



Source: Chanda and Pasadilla, 2011

The AT Kearney Global Services Location Index 2011

Note: 8 of the top 10 locations for attractiveness of services off-shoring activities are in APEC:

- China
- Malaysia
- Indonesia (5th)
- Mexico
- Thailand
- Vietnam
- Philippine
- Chile

Rank	Country	Financial attractiveness	People skills and availability	Business environment	Total score
1	India	3.11	2.76	1.14	7.01
2	China	2.62	2.55	1.31	6.49
3	Malaysia	2.78	1.38	1.83	5.99
4	Egypt	3.10	1.36	1.35	5.81
5	Indonesia	3.24	1.53	1.01	5.78
6	Mexico	2.68	1.60	1.44	5.72
7	Thailand	3.05	1.38	1.29	5.72
8	Vietnam	3.27	1.19	1.24	5.69
9	Philippines	3.18	1.31	1.16	5.65
10	Chile	2.44	1.27	1.82	5.52
11	Estonia	2.31	0.95	2.24	5.51
12	Brazil	2.02	2.07	1.38	5.48
13	Latvia	2.56	0.93	1.96	5.46
14	Lithuania	2.48	0.93	2.02	5.43
15	United Arab Emirates	2.41	0.94	2.05	5.41
16	United Kingdom	0.91	2.26	2.23	5.41
17	Bulgaria	2.82	0.88	1.67	5.37
18	United States	0.45	2.88	2.01	5.35
19	Costa Rica	2.84	0.94	1.56	5.34
20	Russia	2.48	1.79	1.07	5.34
21	Sri Lanka	3.20	0.95	1.11	5.26
22	Jordan	2.97	0.77	1.49	5.23
23	Tunisia	3.05	0.81	1.37	5.23
24	Poland	2.14	1.27	1.81	5.23
25	Romania	2.54	1.03	1.65	5.21
26	Germany	0.76	2.17	2.27	5.20
27	Ghana	3.21	0.69	1.28	5.18
28	Pakistan	3.23	1.16	0.76	5.15
29	Senegal	3.23	0.78	1.11	5.12
30	Argentina	2.45	1.58	1.09	5.12

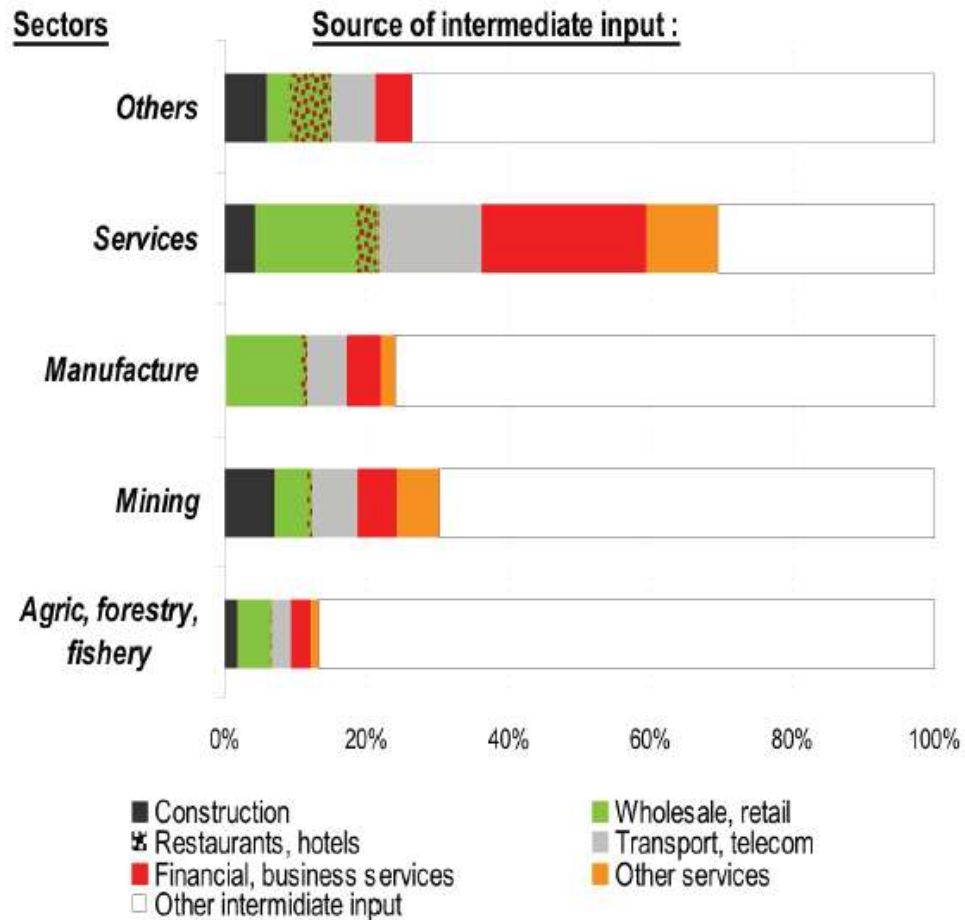
Source: The AT Kearney Global Services Location Index 2011

INDONESIA has low services content in its Exports

- ▶ On a value-added basis, Indonesia exports to a broad set of countries with inputs that are further processed in Japan and Korea and then exported to third countries, especially in machinery, electronics and textiles.
- ▶ BUT... the services content of Indonesian gross exports is rather low (22%). Manufacturing industries use less services inputs in Indonesia than in other East Asian countries.
- ▶ There is a LOT of scope for growing services

Intermediate Services in Indonesia's Exports

Embodied Services; Estimates for Indonesia



Source: Atje, Rahardja and Maidir, 2010

Advantages offered by supply chains for Indonesian firms

- ▶ No longer necessary to “build” an entire supply chain at home; firms can **capture one ‘task’** of the supply chain and become a part of the global market

Easier to do in services than goods - Why?

- ▶ **Services require less capital intensive investments; the greatest investment is in human capital**
- ▶ Services are also suited to smaller economies of scale and especially to **SME** operations
- ▶ **Small firms offer more flexibility than large corporations** - can adapt procedures more easily

HUGE POTENTIAL FOR EXPORTING SERVICES IN SUPPLY CHAINS

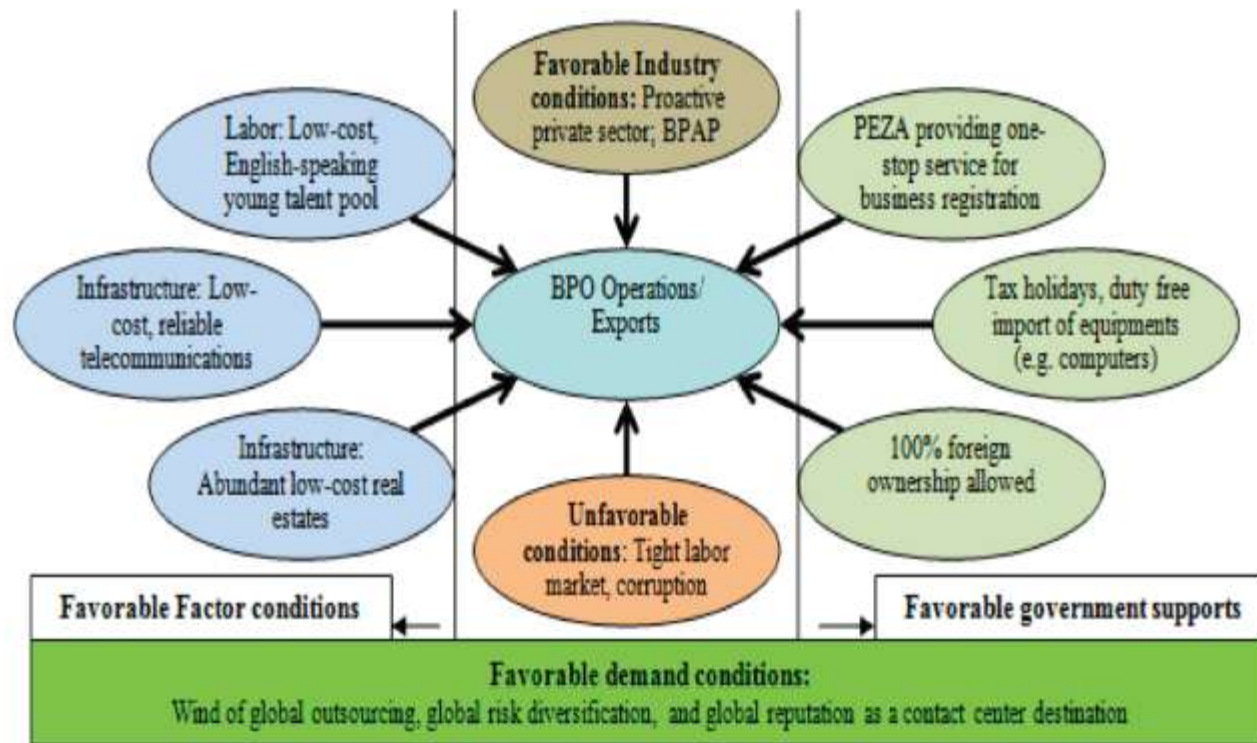
- ▶ **Huge potential for Indonesian firms to Export Services in Supply Chains**
 - ▶ Challenging to enter the global market but easier than before; possibilities are there
 - ▶ Indonesia is a part of most dynamic trading region in world and one of main centers of supply chain operation - also an attractive location
- ▶ **Common elements behind success stories:**
 - ▶ Low cost, educated labor
 - ▶ Low cost, reliable telecommunications
 - ▶ Positive government support programs
 - ▶ Favorable business environment

Exporting Services

The PHILIPPINES & BPO SERVICES

- ▶ **PHILIPPINES** now largest BPO Exporter in World
 - ▶ Philippines has surpassed India for BPO Exports
 - ▶ BPO Exports grew by 46% annually from 2004 to 2008
 - ▶ BPO Exports estimated to have earned US\$ 7.3 billion in revenue and provided 442,164 jobs
 - ▶ Elements contributing to success:
 - ▶ Telecom liberalization and reform
 - ▶ 100% foreign ownership for FDI
 - ▶ Streamlined requirements for business operations
 - ▶ Low cost, English speaking labor

Factors accounting for The Philippines' success-BPO Export



Source: Yi (2011)

Exporting Services

MEXICO & ITO/BPO SERVICES

- ▶ **MEXICO** is a world leading exporter of BPO and ITO/Software Services
- ▶ BPO and ITO Exports grew by 12% annually from 2006 to 2010
 - ▶ Mexico now trying to upgrade from BPO to ITO activities with government targeted programs
 - ▶ Universities, government and private sector have jointly developed 24 technology parks and several training programs in the country. There are a total of 3,237 IT companies in Mexico, up from 2,090 in 2002 and over 600,000 software professionals: “First Mexico” - “Pro Soft” (with subsidies/ tax incentives for IT firms)

MEXICO : GROWTH OF ITO/BPO SERVICES EXPORTS



Source: Mexico First. "Human Capital Development for the IT/BPO Industry in Mexico". Presentation of Raul González. Available at <http://siteresources.worldbank.org/INFORMATIONANDCOMMUNICATIONANDTECHNOLOGIES/Resources/D3S1P2-RaulGonzalez.pdf>

What Development Options do Supply Chains offer Indonesia?

- 1) “Engaging” in world market through capturing a services off-shoring “task” in a supply chain
 - 2) And /or “Upgrading” along a supply chain
- ▶ **Best development outcome may result from joining/ increasing supply chain participation and upgrading at the same time**
 - ▶ Economies that have managed to both increase their participation in supply chains and their domestic value added in exports experienced GDP per capita growth higher than those that only increased their participation in supply chains without “upgrading” their value addition to the process.

Potential benefits for Indonesian firms from taking part in Services Supply Chains

- 1) Helps to build more productive capacity
- 2) Can assist in technology dissemination
- 3) Acts as stimulus to Innovation and Skills development
- 4) Opens up opportunities for longer-term industrial upgrading
- 5) Provides an engine for employment and economic growth

ALL THROUGH GREATER CONNECTIVITY

Such potential benefits of supply chains are not automatic



MUST MAKE CONCERTED EFFORTS TO ENTER THE WORLD MARKET
But the rewards are worth it!

The background features abstract geometric shapes in shades of blue and green, primarily on the right side, with a white background on the left.

Thank You

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