At Your Service?
The Promise of Services-Led Development

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WTO “Simply Services” Series

www.worldbank.org/services-led-development
Why this BOOK?

• 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.

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

Source: Calculations based on World Development Indicators database.
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

Manufacturing = 100%

Source: Calculations based on firm-level data from 20 countries analyzed for this book, supplemented with OECD/Eurostat data
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)

Source: Calculations based on International Labour Organization (ILO) and World Development Indicators data
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

Source: WTO TISMOS and World Development Indicators
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")

Source: Oxford iLabour project

Source: WTO TiMoS
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

Source: WTO TISMOS and World Development Indicators
The mode of trade also varies by services subsector

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

Source: WTO TISMOS
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

- India: 98 million
- Bangladesh: 48 million
- Pakistan: 37 million
- United States: 23 million
- Philippines: 14 million
- United Kingdom: 13 million
- China: 9 million
- Ukraine: 6 million
- Russian: 5 million
- Egypt, Arab Rep.: 4 million
- Canada: 4 million
- Sri Lanka: 3 million
- Kenya: 3 million
- Indonesia: 3 million
- Australia: 3 million
- Nigeria: 3 million
- Vietnam: 3 million
- Romania: 3 million
- Serbia: 3 million
- Venezuela, RB: 2 million

Total number of workers (millions)

High Income | LMIC

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.

Source: Oxford iLabour project
Innovation through intangible capital

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

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.

Source: Calculations based on OECD data
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.

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.

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

Source: Calculations based on the OECD TiVA database.
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

**Trends**

- Due to ICT, reduced need for physical proximity, expanding opportunities for SCALE ECONOMIES
- Potential for automation and data analytics to leverage labor
- From increased intangible capital, more incentives to innovate and invest

**Linkages**

- Expansion of linkages with other sectors, including other services for greater SPILLOVERS

**Policy implications to realize benefits of these trends**

- **Trade** – to lower barriers to services trade and competition to expand access to markets
- **Technology** – to improve access to ICT and technology adoption; complementary policies to ensure competition and inclusion
- **Training** – to raise digital and complementary interpersonal skills; management practices
- **Targeting** – to address market failures in enabling services to capture wider spillovers
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.

While high-income countries tend to have stronger performance across the 4Ts, some LMICS have potential for opportunities in the global innovator services.

Many countries in SSA could improve productivity in low-skill domestic services such as retail through diffusing the use of basic digital technologies.
The book is available online at www.worldbank.org/services-led-development