

The Role of Services in Global Value Chains

ASEAN SERVICES FORUM

REGIONAL INTEGRATION OF SERVICES IN ASEAN COUNTRIES: PROGRESS AND CHALLENGES

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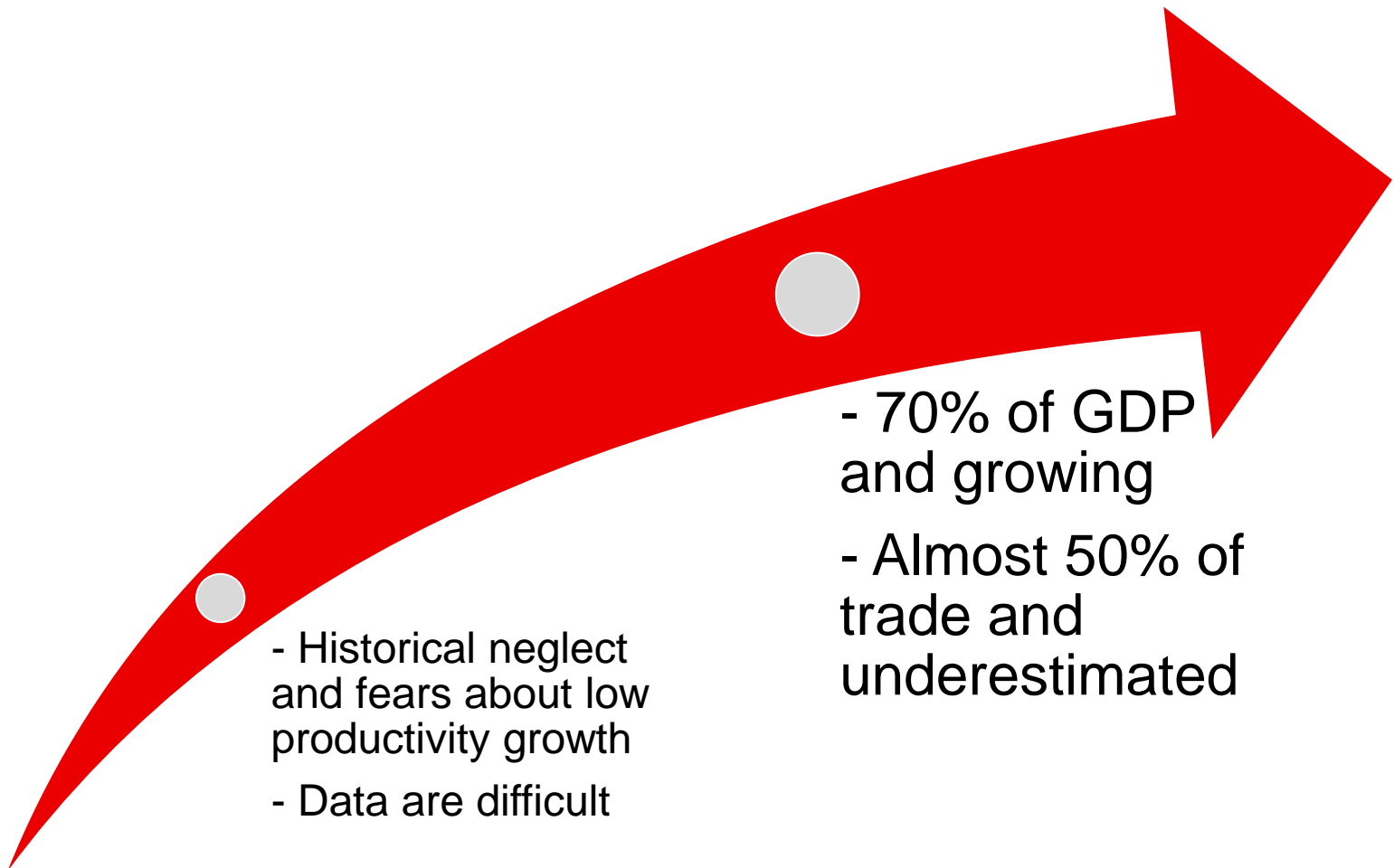
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1. | **Services- Poorly Understood but
Becoming More Important**

1. Services- Poorly Understood but Becoming More Important



1. Services- Poorly Understood but Becoming More Important

Sources of higher services growth relative to other sectors

- In production  globalization, servicification
- Consumers more demanding, customization is services-intensive

Services as innovation

- Services an important source of process innovation, as well as in bundled combination with goods-driven R&D

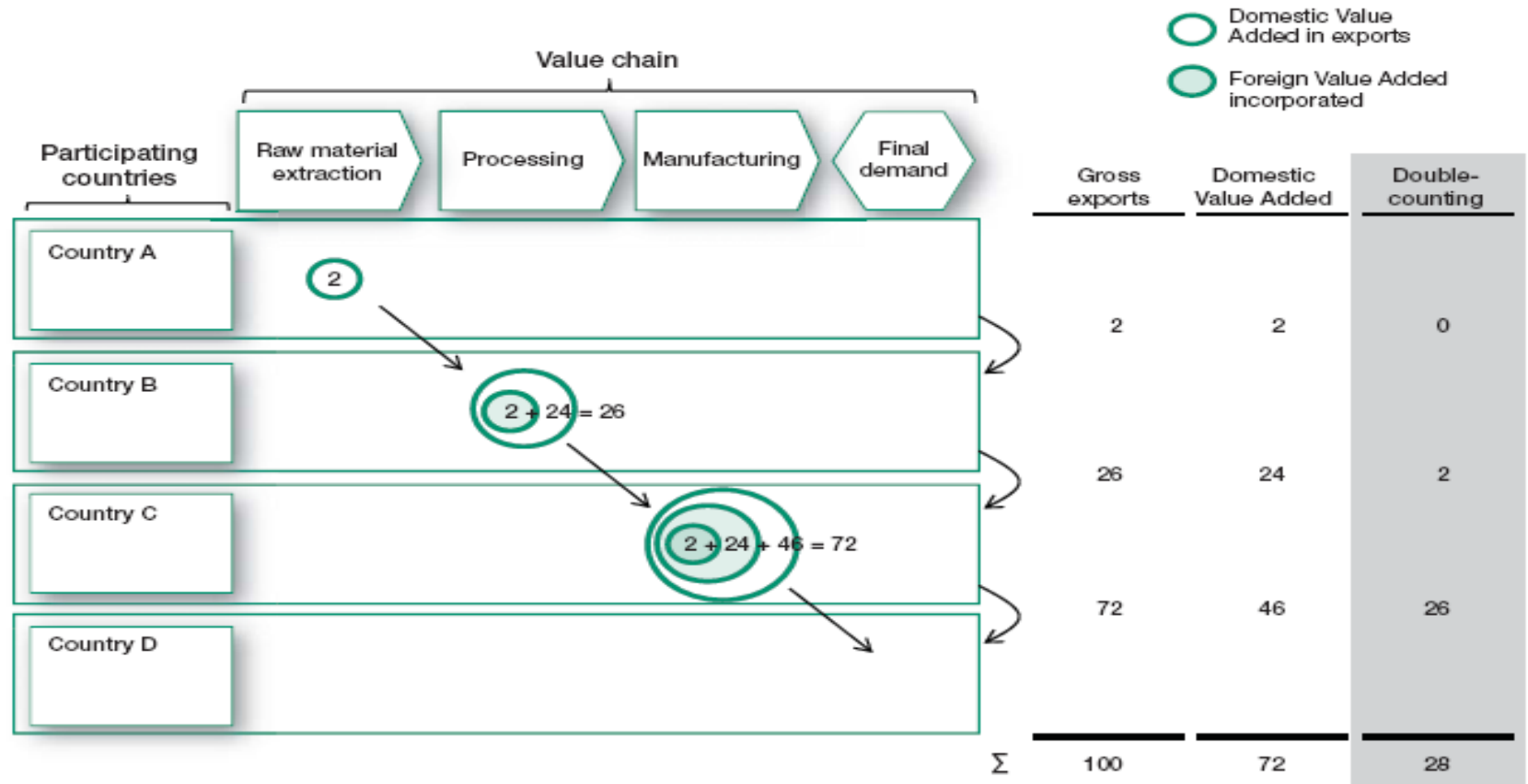
2. | Trade in Value-Added

2. Value-Added: What Are We Measuring?

- Trade measured in terms of flows in value-added is to be contrasted with gross trade flows
- The value-added calculation captures what happens at each stage in a production process
- It tracks inputs into the production process all the way down the line until the final product emerges

2. How does value-added measurement of trade work?

Figure 1. Value added trade: how it works

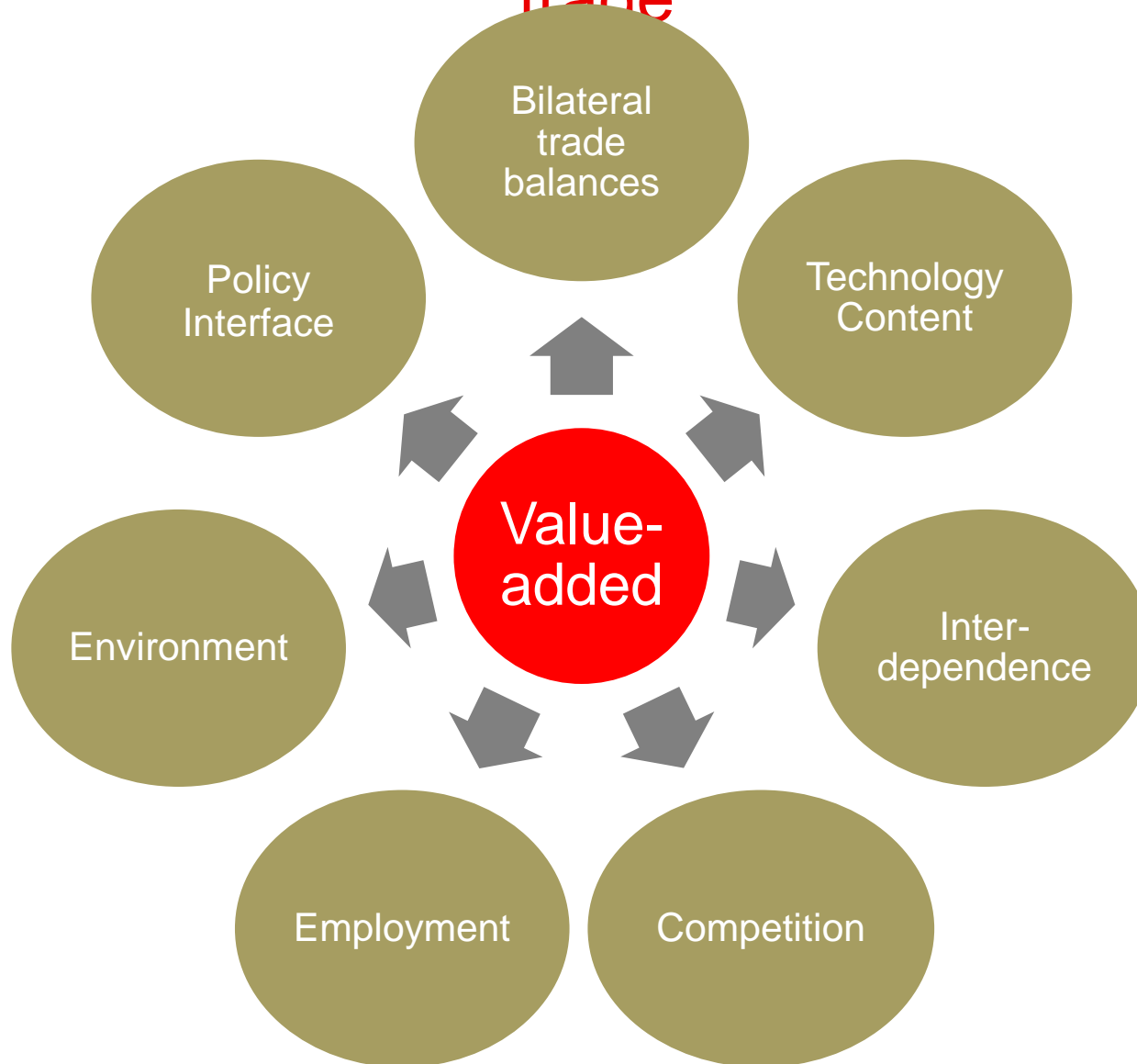


Source: UNCTAD.

2. Value-Added Trade Data

- The import content of trade is rising globally (some two-thirds of merchandise imports are intermediate goods)
- Single products are produced in multiple countries
- The last country of production is but a link in the chain, one among several contributions to value-added
- This has profound implications for how we think about trade and interdependency
- It carries significant policy implications

2. Value-added measurement reveals more about trade



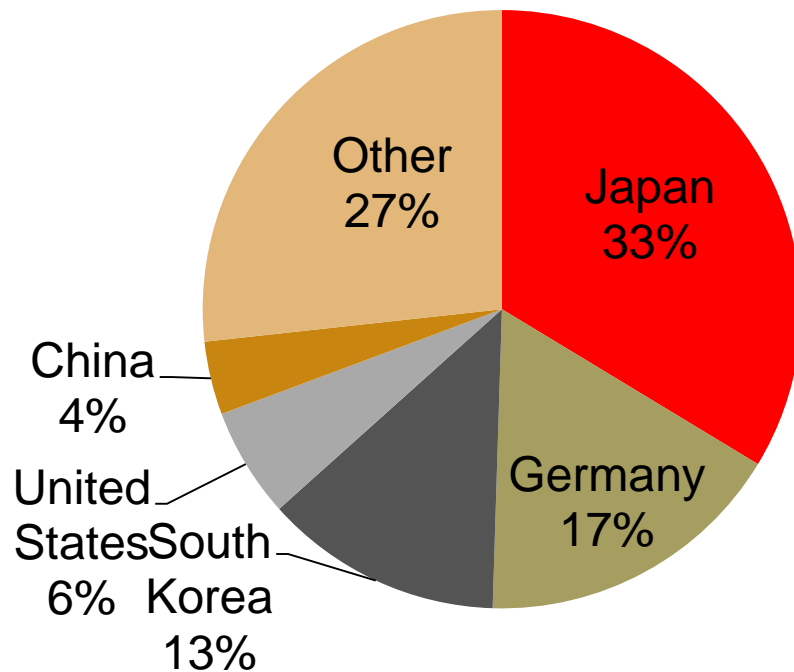
2. An iPhone “Exported” From China to the USA

Total price: US\$178.96

Recorded in USA as import from China

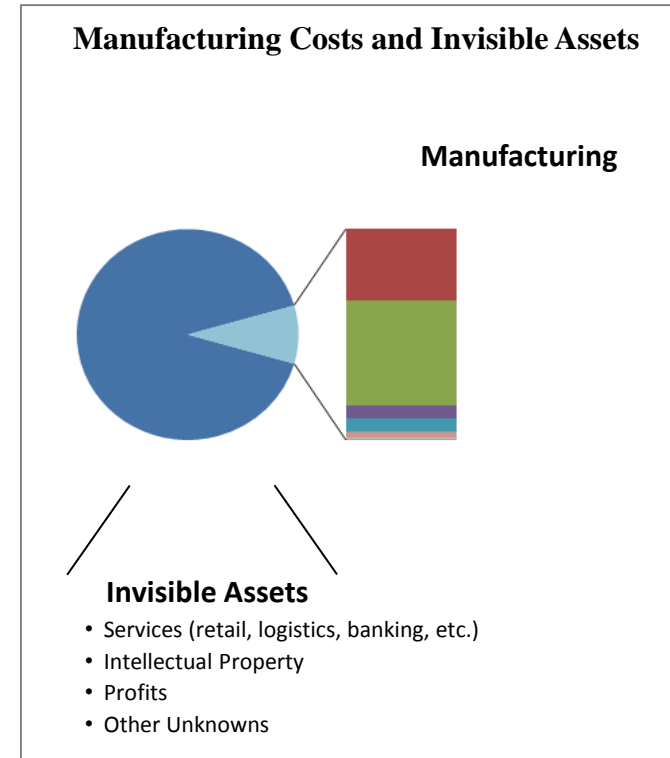
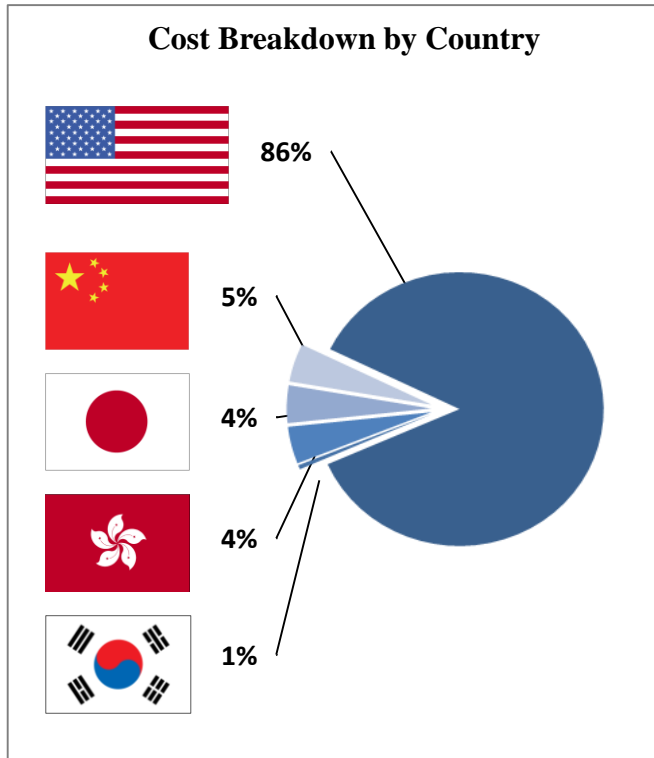
Real Chinese value exported: US\$2.20

COMPONENTS AND LABOUR COME FROM:




3. Case Study: A Suit Made in China and Sold in the US

Fung Global Institute: Li & Fung Case Study



3. | Case Studies

3. Case Studies

- A cautionary note  What we do and do not learn from case studies
 - Specificity: a blessing and a curse
 - Sample size
 - Shaping hypotheses
- 12 case studies across many manufacturing sectors (aircraft parts; auto-parts; car manufacture; construction machinery; die makers; home appliances; oil and gas extraction; power plant; server manufacturer; wastewater treatment; watch manufacturer; welding alloys)

3. Case Studies as Discovery

Define the Value Chain

Beginning, end and first-tier outsourced suppliers



Map the services according to production stages

Establishment, pre-production, production, post-production, back-office, after-sales



Study outsourcing, bundling, innovation



Identify impact of policy on location, configuration and operation of the value chain



4. | Numerous Services Enter the Value Chain

4. Numerous services enter the value chain

Services Entering a Manufacturing Value Chain for Construction Machinery

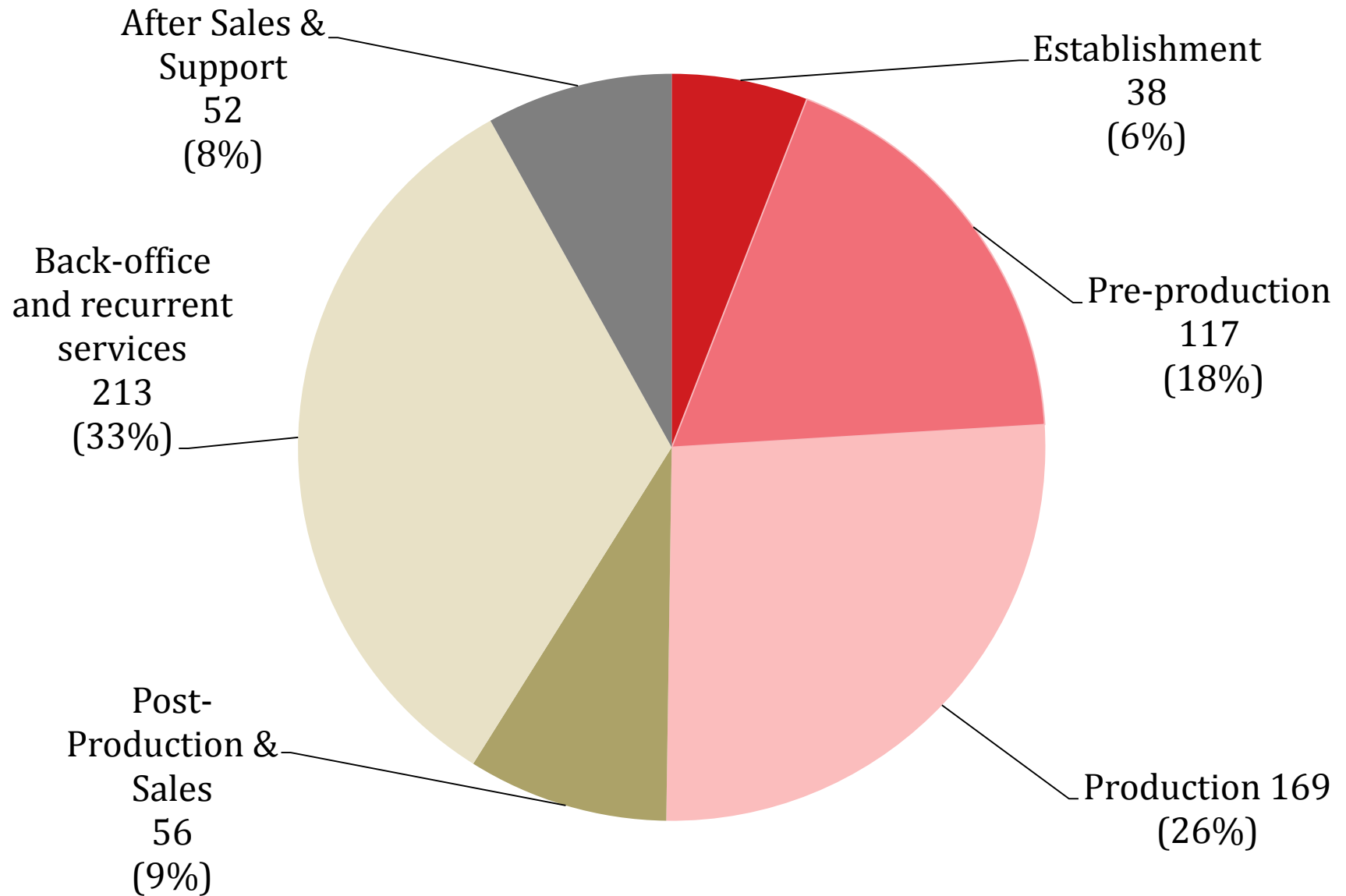
Establishment Stages	Pre-manufacturing	Manufacturing	Post-manufacturing	Back-office and recurrent	After-sales
1. Business liaison services	6. Raw material procurement agent	16. Production management services	31. Land transport of vehicles to distributors	38. Auditing on financial accounts	63. Customer complaints and compliments handling
2. Company registration and licensing services	7. Customs-related services	17. Quality control and standards compliance	32. Sea transport of vehicles to distributors	39. Financial services	64. Technical support for customers
3. Information and statistical services	8. Quality inspection services of inputs	18. Cleaning services of factory	33. Retail trade services - By distributors	40. Internal auditing	65. Information services for customers
4. Visa and immigration services	9. Freight transportation services of raw materials	19. Engineering Services	34. Retail services on a fee or contract bases	41. Insurance for machinery	66. Satellite services for remote monitoring
5. Business establishment consultants	10. Fleets repair and maintenance	20. Gardening services for factory lawn	35. Retail operation management	42. Insurance for staff	67. Data center services for remote monitoring
	11. Storage – general storage	21. Security guards services	36. Storage and warehousing services for machineries at distributors	43. Business and management consultancy services	68. Ground radio communication services for remote monitoring
	12. Storage – tank farm	22. Sewage water treatment services	37. Hire purchases and financing services for customers	44. Company secretary	69. Global Positioning System (GPS) services
	13. Conception and design of product	23. Equipment maintenance		45. Corporate communications, Courier, postal and local delivery services	70. Repair and maintenance of machines for customers
	14. Patent acquisition	24. Waste collection and recycling		46. Estate management	71. Buy back services to buy used parts and machines from customers
	15. Product development/ R&D for new technology	25. Government safety/ environmental inspection		47. Human resources management	72. Remanufacturing and refurbished services
		26. Catering services		48. Personnel search and referral services	
		27. Workers' dormitory		49. I.T maintenance and support	
		28. Medical services		50. Safety and security	
		29. Recreation facilities and services for workers		51. Telecommunication	
		30. Employees transportation services		52. Uniform -Design and alternation	
				53. Uniform -Laundry	
				54. Legal services	
				55. Advertisement administration	
				56. Advertisement agencies services	
				57. Advertisement designers' services	
				58. Advertisement – cameramen, directors, photographers and models.	
				59. Electricity supply	
				60. Gas supply	
				61. Water supply	
				62. Water supply	

4. Numerous Services Enter the Value Chain

Stages/Cases	Total Number of Services
Aircraft parts, Philippines	53
Automotive components, Japan	<u>37</u>
Car manufacturer, Philippines	70
Construction machinery, Japan	72
Die makers, Thailand	38
Home appliance Japan	55
Oil and gas extraction equipment, Singapore	55
Power plant equipment, Japan	<u>77</u>
Server manufacturer, Taiwan	53
Wastewater treatment, Thailand	54
Watch manufacturer, Hong Kong	43
Welding Alloys, Thailand	38

Source: Case studies

4. Numerous Services Enter the Value Chain



5. Outsourcing

5. Outsourcing

- Outsourcing is quite common. In the sample an average of 59% of all services inputs were outsourced – 40% was the least and 77% the most (caution with the count) .



Universally outsourced on a discretionary basis

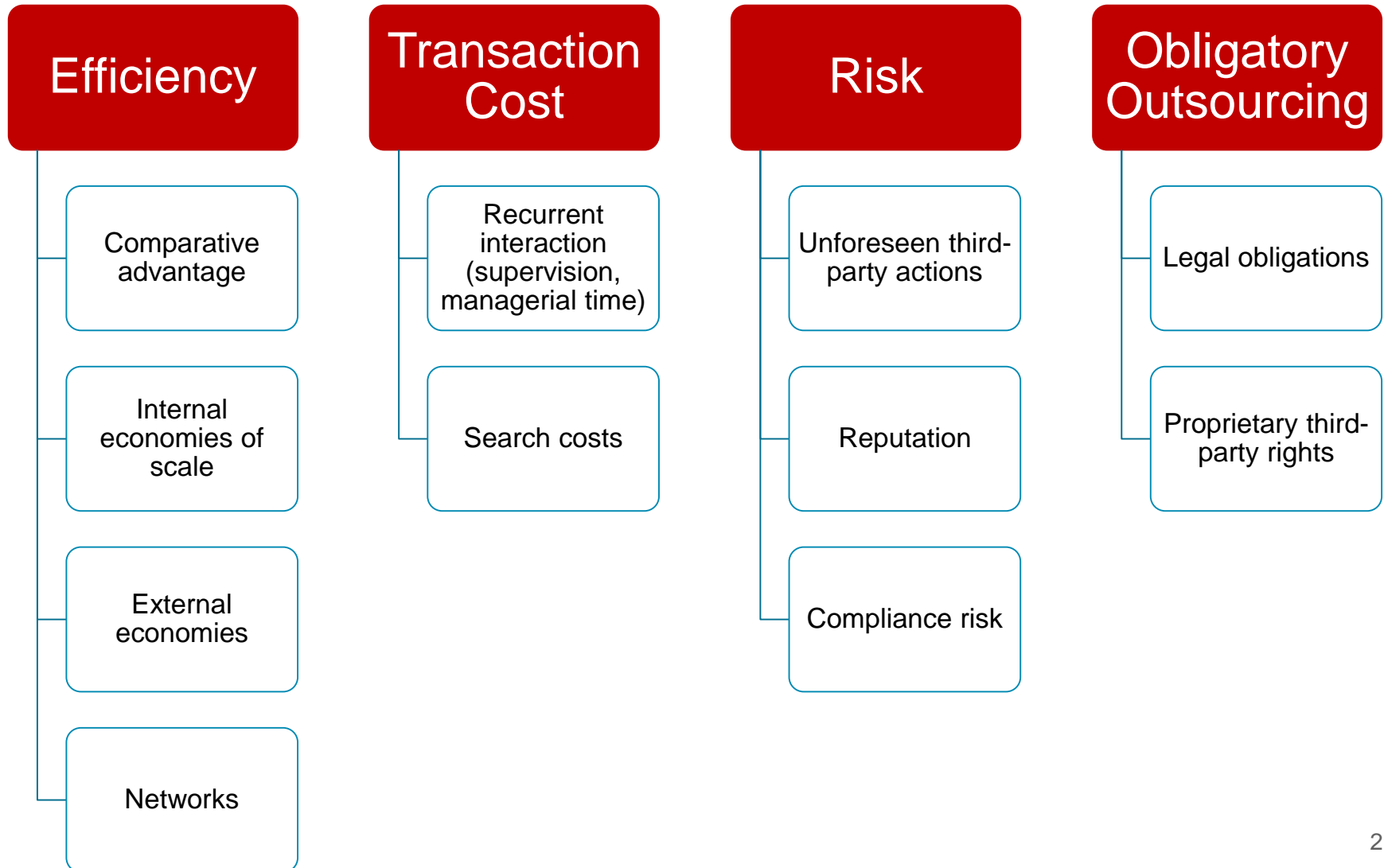
- Telecoms
- Freight
- Insurance
- Security

Never completely outsourced

- Ongoing Management
- Book-keeping
- Engineering
- Product Design

5. Outsourcing

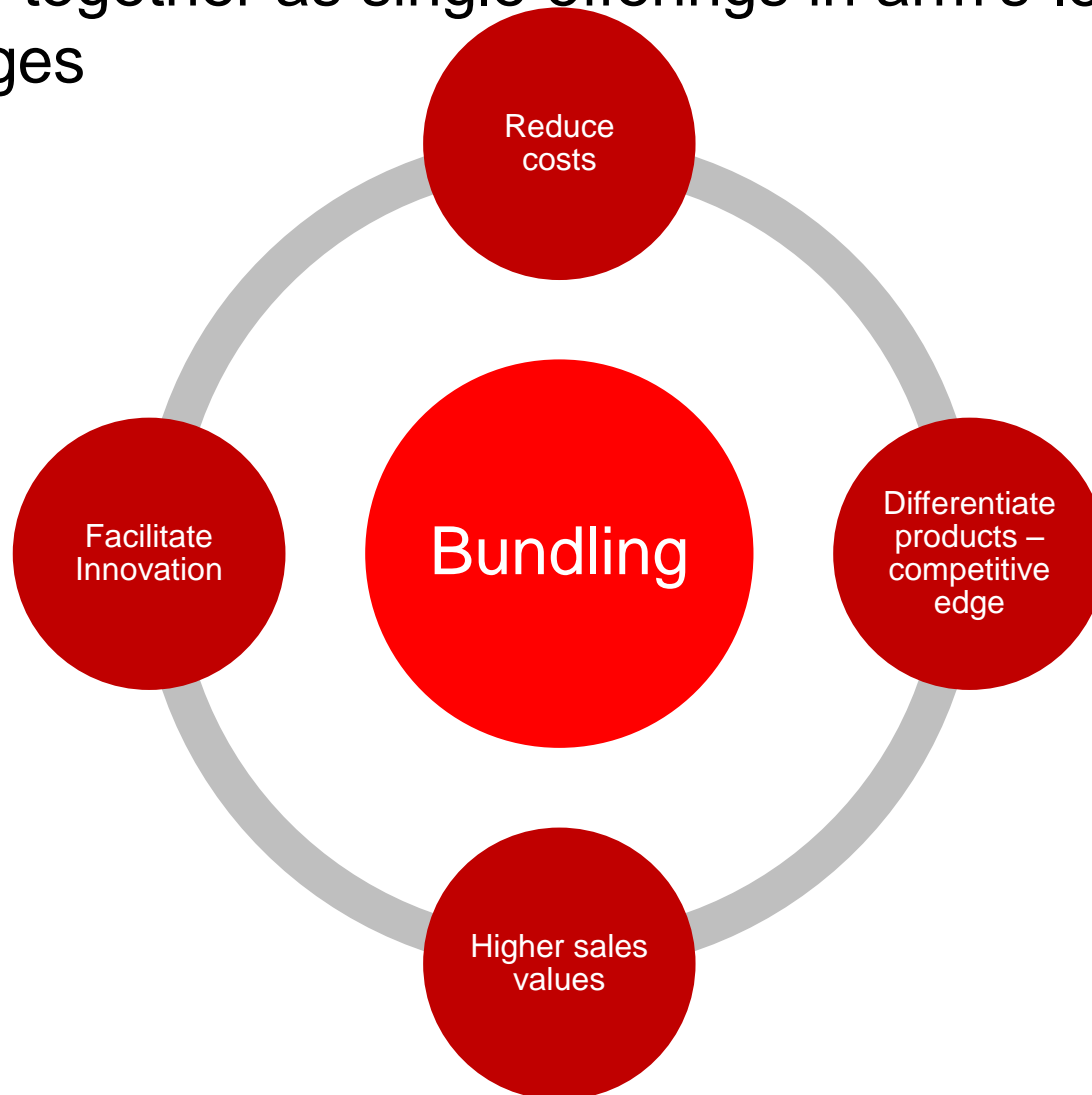
• Reasons for outsourcing, or not: trading off




6. | Bundling

6. Bundling

- Various products (goods and/or services) are typically bundled together as single offerings in arm's-length exchanges

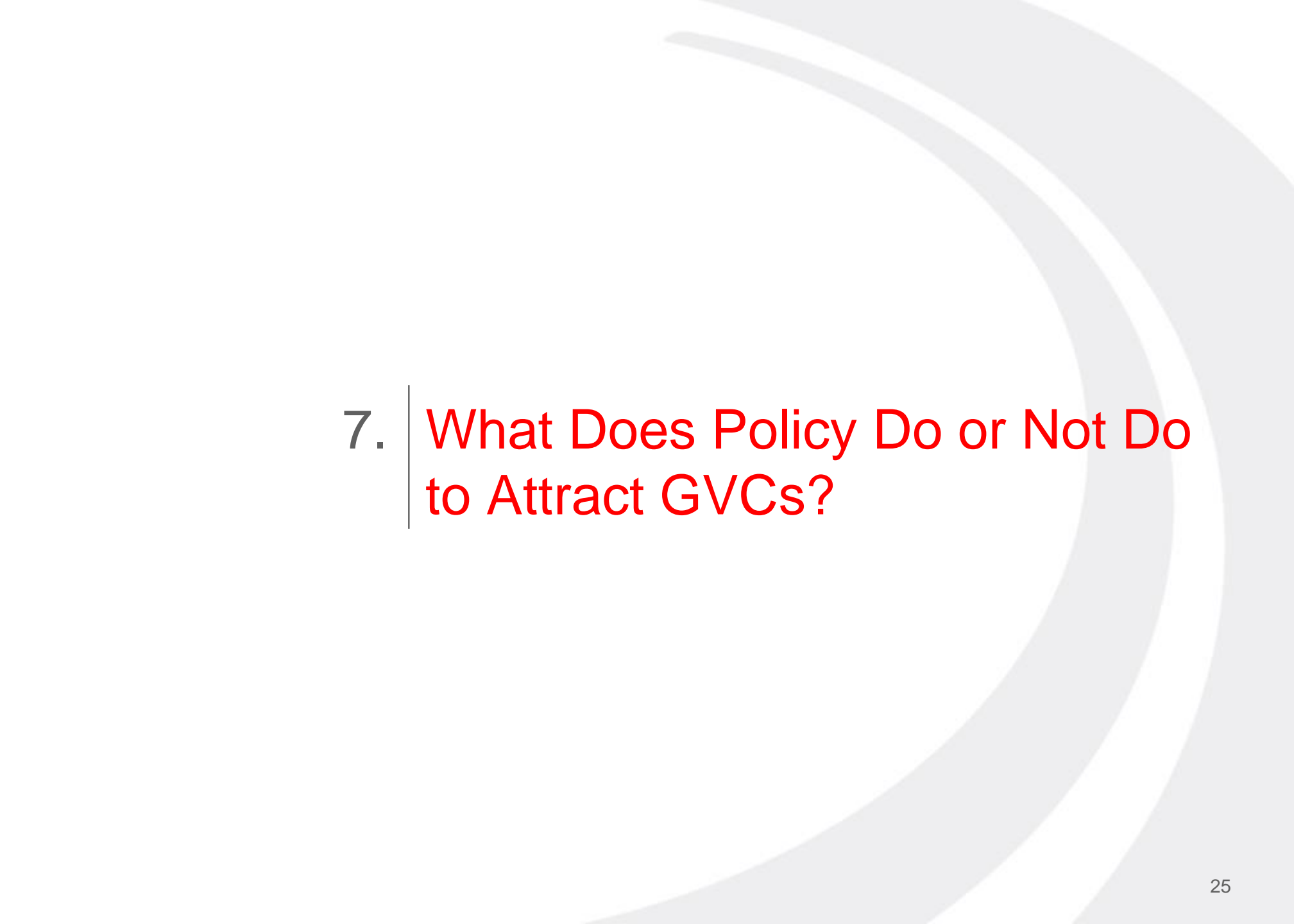


6. Bundling



Bundling has the interesting property of rendering all producer services potentially tradable

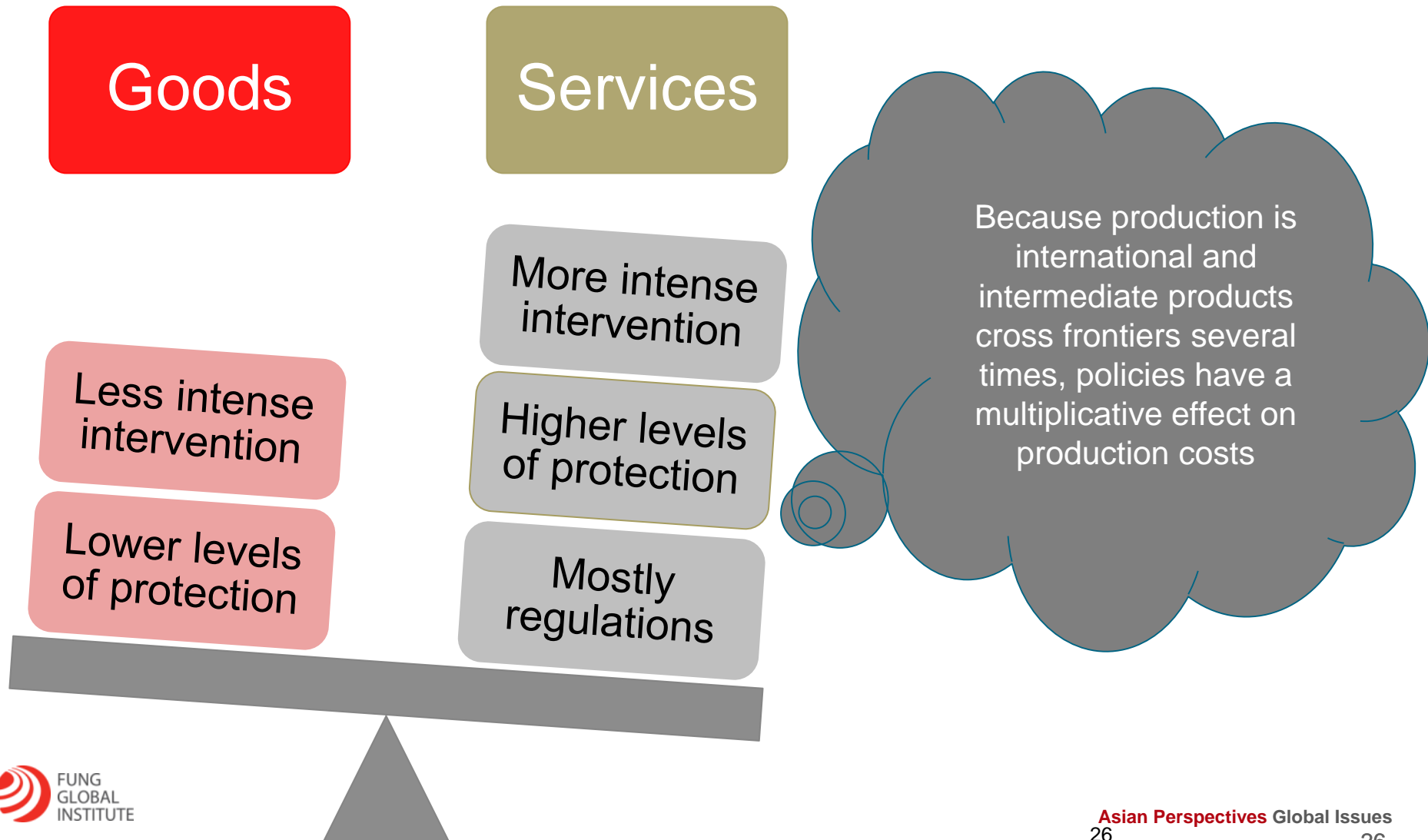
Governments may want to reconsider policy and sources of comparative advantage



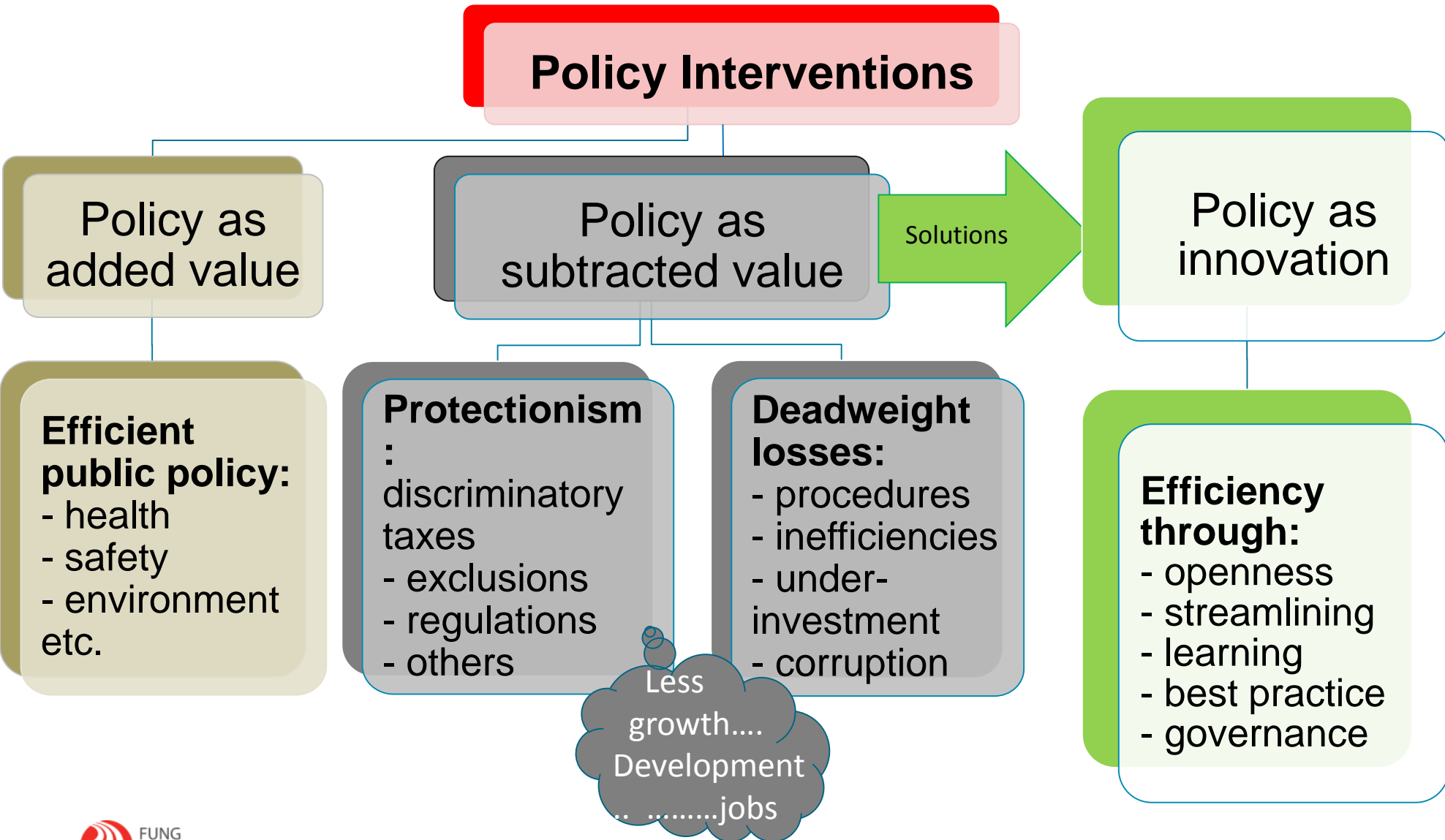
7. | **What Does Policy Do or Not Do
to Attract GVCs?**

7. Policy and Services in GVCs

- Policy intervention on goods vs. policy intervention on services



7. Policy as added value, subtracted value and innovation



7. What Does Policy Do or Not Do to Attract GVCs?

The policy environment:

Policy certainty and consistency

- The costs of frequent and often unannounced policy and regulatory changes
- Policy inconsistencies between local and central government
- Misuse of discretionary authority at the level of implementation
- Transactions costs associated with navigating uncertainty
- Implications for SMEs

7. What Does Policy Do or Not Do to Attract GVCs?

Policy areas where the supply of manufacturing-related services is directly affected by restrictive policy:

1. Labor Market Restrictions

- Visas, length of stay
- Hiring, demonstration of local unavailability
- Sectors closed for foreign labor

2. Foreign Equity Restrictions

- Direct restrictions on share of foreign equity
- Indirect barriers, such as uncertainty in policy regime and excessive administrative burdens

7. What Does Policy Do or Not Do to Attract GVCs

3. Customs Regimes

- Inefficient administration and complicated procedures
- Compulsory appointment of customs agents

4. Intellectual Property

- Compulsory to transfer IP to local partner
- Efficacy of counterfeit controls
- Insufficient or non-existent IP protection

7. What Does Policy Do or Not Do to Attract GVCs?

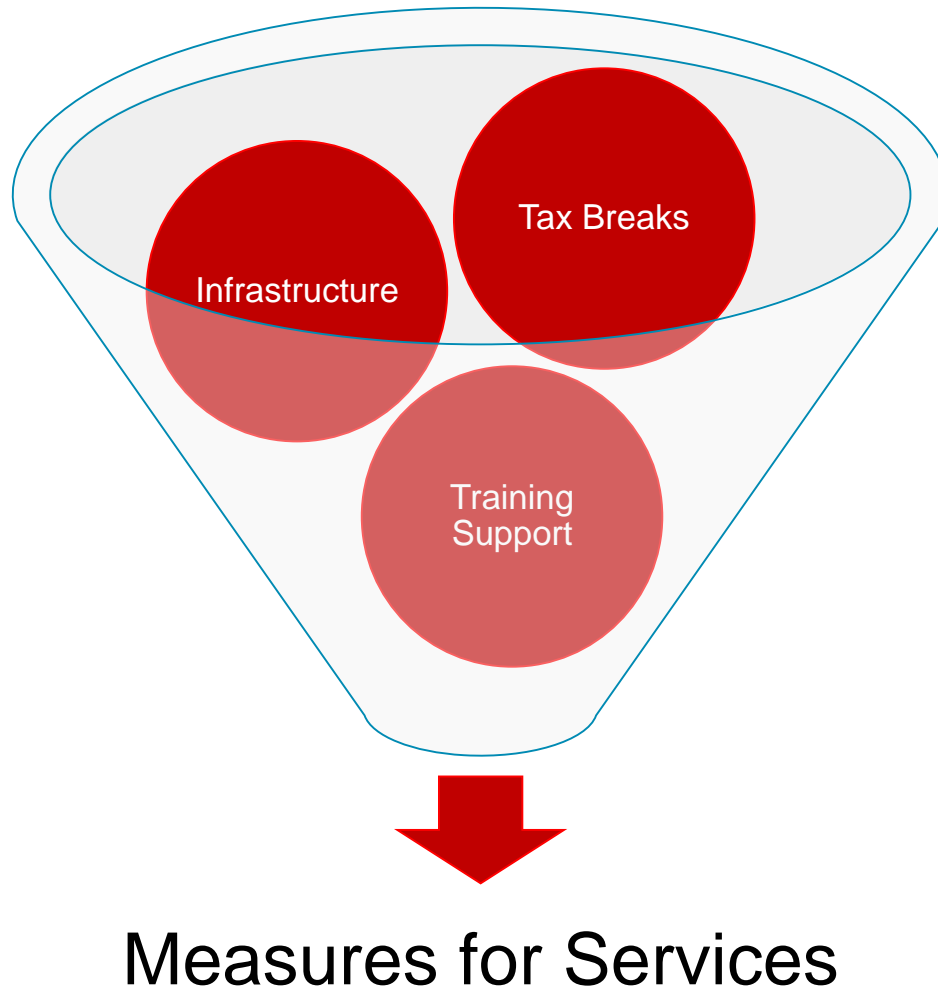
5. Health, Safety and Environmental Regulations

- Costly Compliance
- Compulsory Appointment of Specific Company

6. Inadequant Infrastructure

- Development of human capital
- Physical infrastrucure

7. What Does Policy Do or Not Do to Attract GVCs and SME Participation?



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