



Why Are Services and Services Trade and Integration Important for ASEAN?

Ahmad Ahsan

Lead Economist

East Asia and Pacific Region, the World Bank

ASEAN Services Forum

Jakarta, Indonesia

June 18-19, 2015



Outline



- A. The Evolving of Role of Services
- B. International Evidence
- C. Challenges and Opportunities for ASEAN Member States



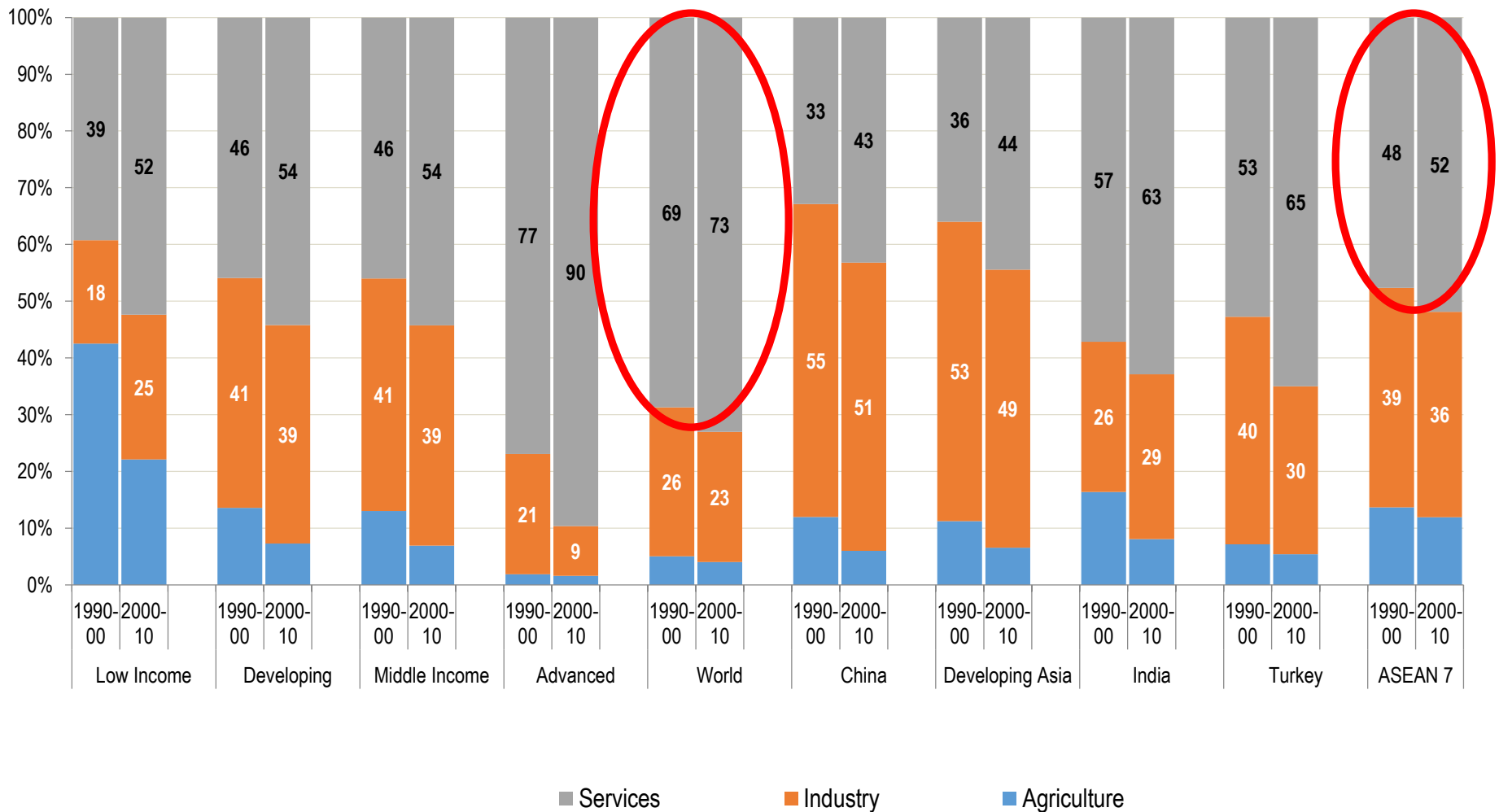
A. From Baumol's Disease to the Glue of International Trade and Production – The Evolution of Services



- Past View: Services were considered important from the demand side, but were seen as labor intensive, requiring proximity in transactions and subject to low productivity and Baumol's cost disease
- Present View: Services are not only important on the demand side but are critical intermediate inputs on the supply side; they are the glue that holds international production and trading systems, global value chains together
- ICT/Digitization and Global Production Networks/ Unbundling in the 1990s led to an explosion in Services Trade: 20 percent of global trade in nominal terms (US 3.3 trillion dollars) and 50 percent of trade in value added terms are in Services
- Regional Integration in Services can offer particular benefits if they achieve economies of scale and regulatory cooperation



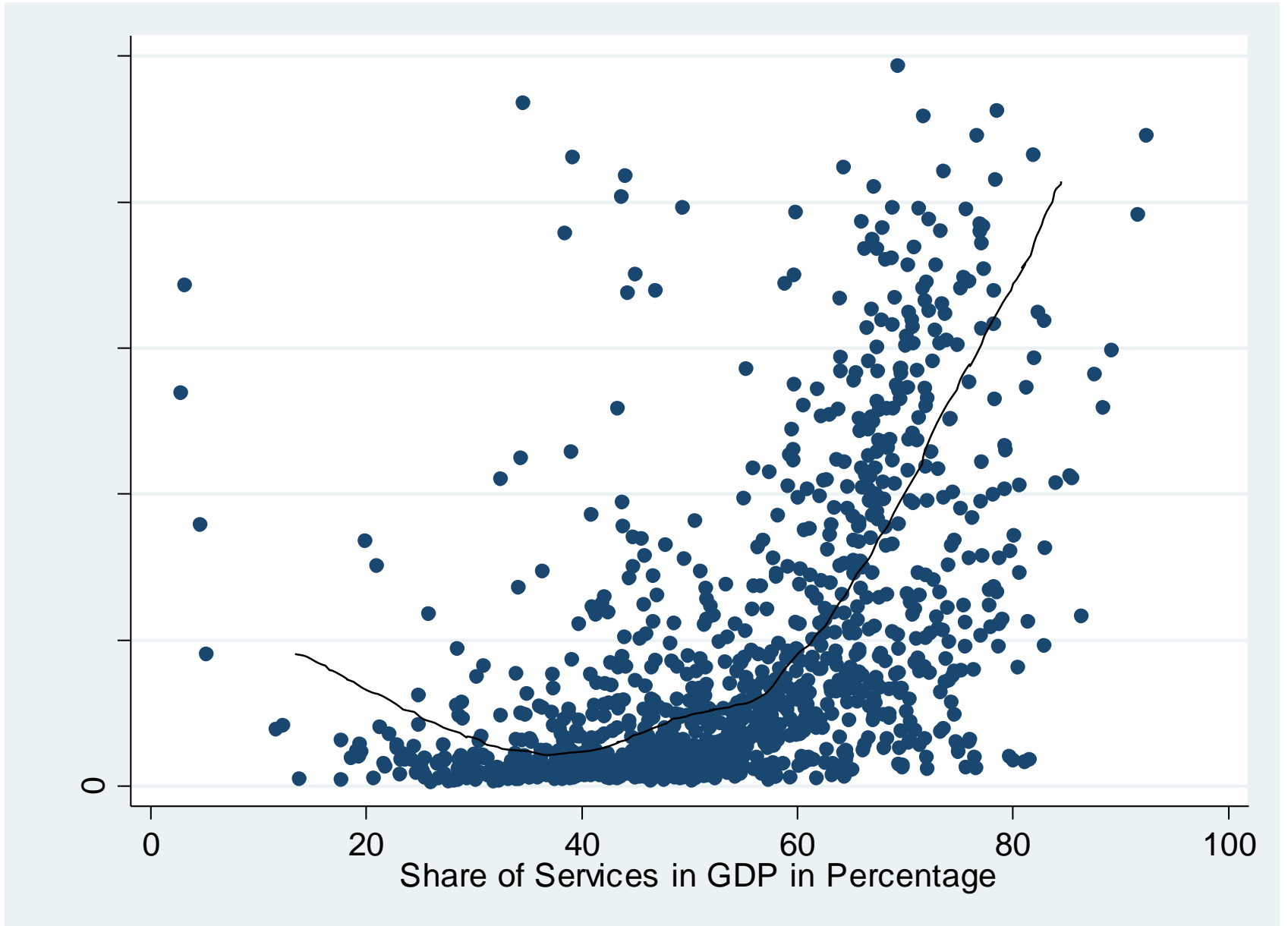
B. Evidence: Increased Role of Services As Source of Growth – Everywhere, especially in advanced economies.



Source: WDI Data



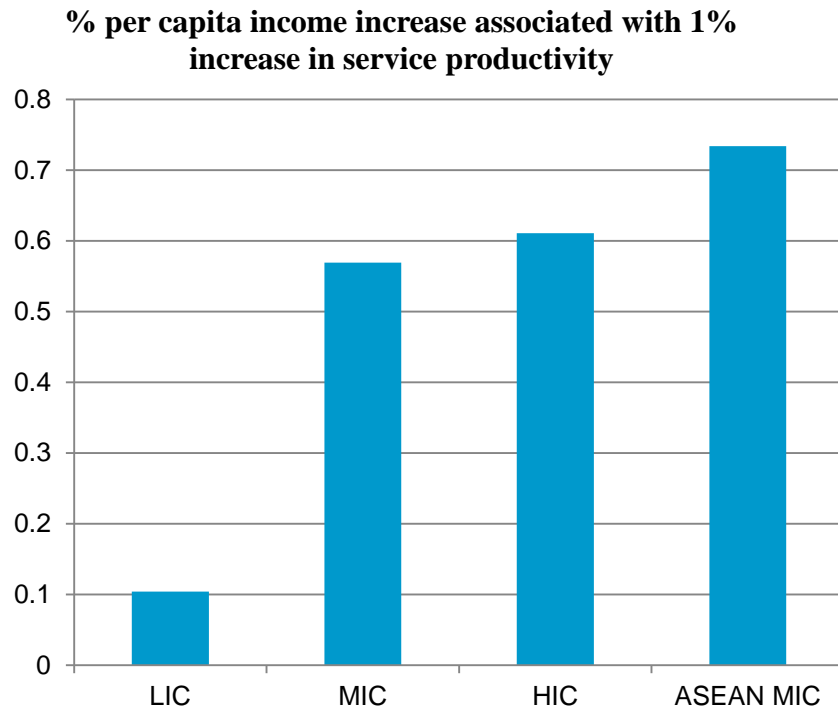
Services Become Particularly Important at upper Middle Incomes



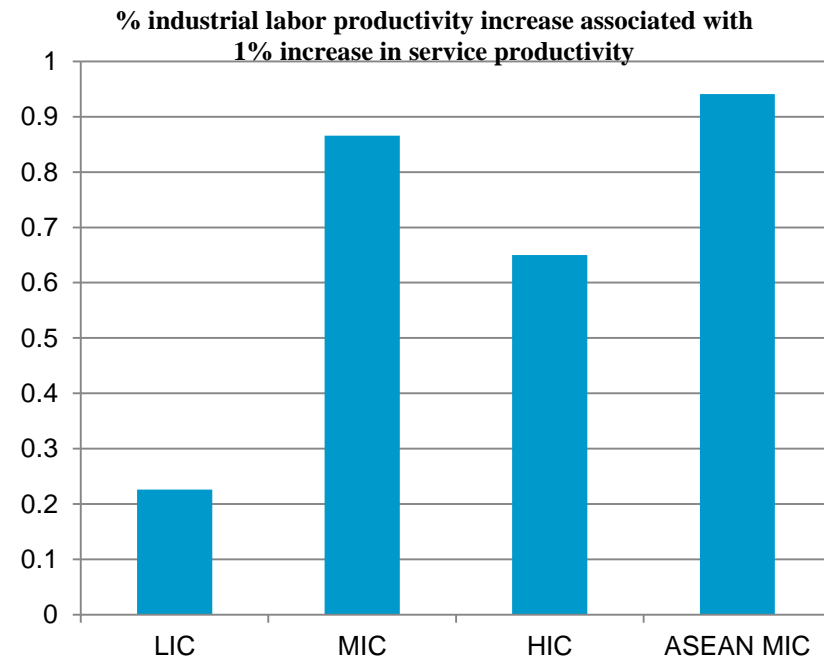


Services as a key input

Service Productivity and Income



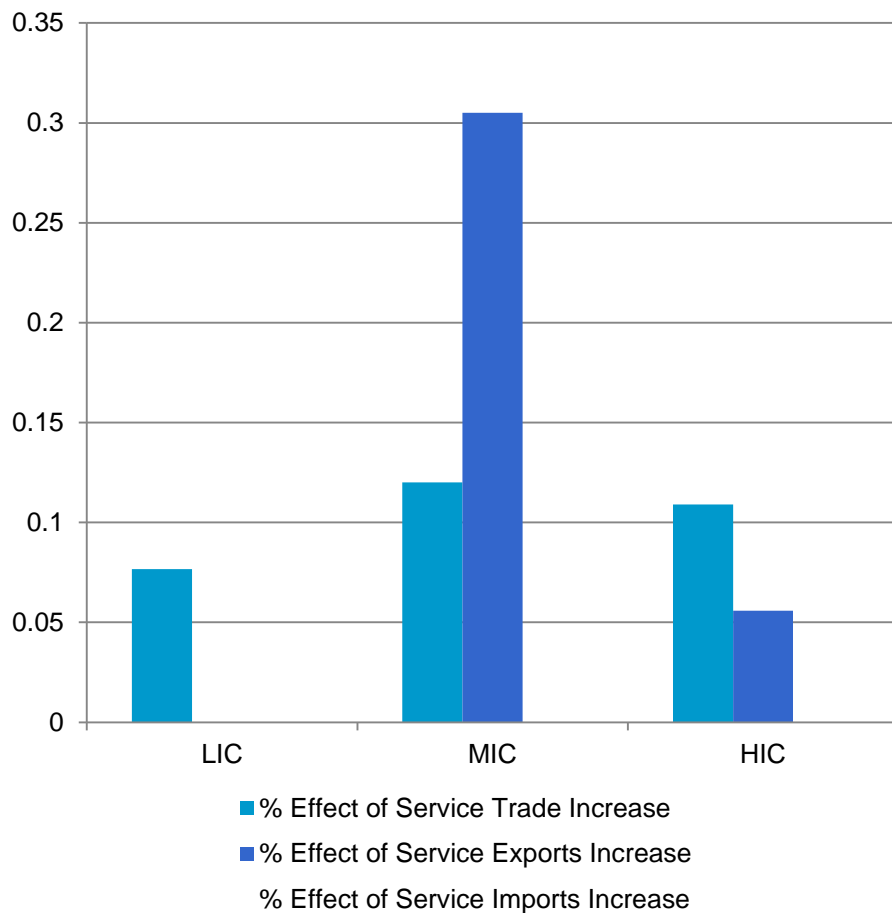
Service Productivity and Industrial Productivity



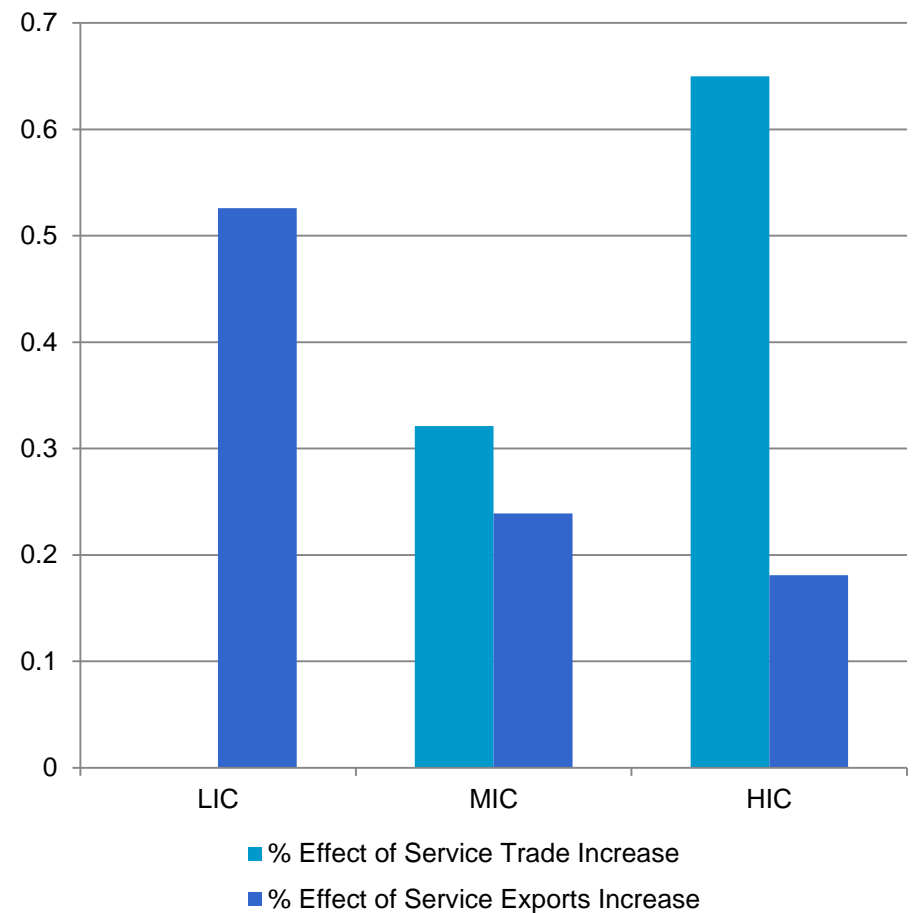


Services Trade as a Key Input

Services Trade and Income



Services Trade and Industrial Productivity.





Country Studies



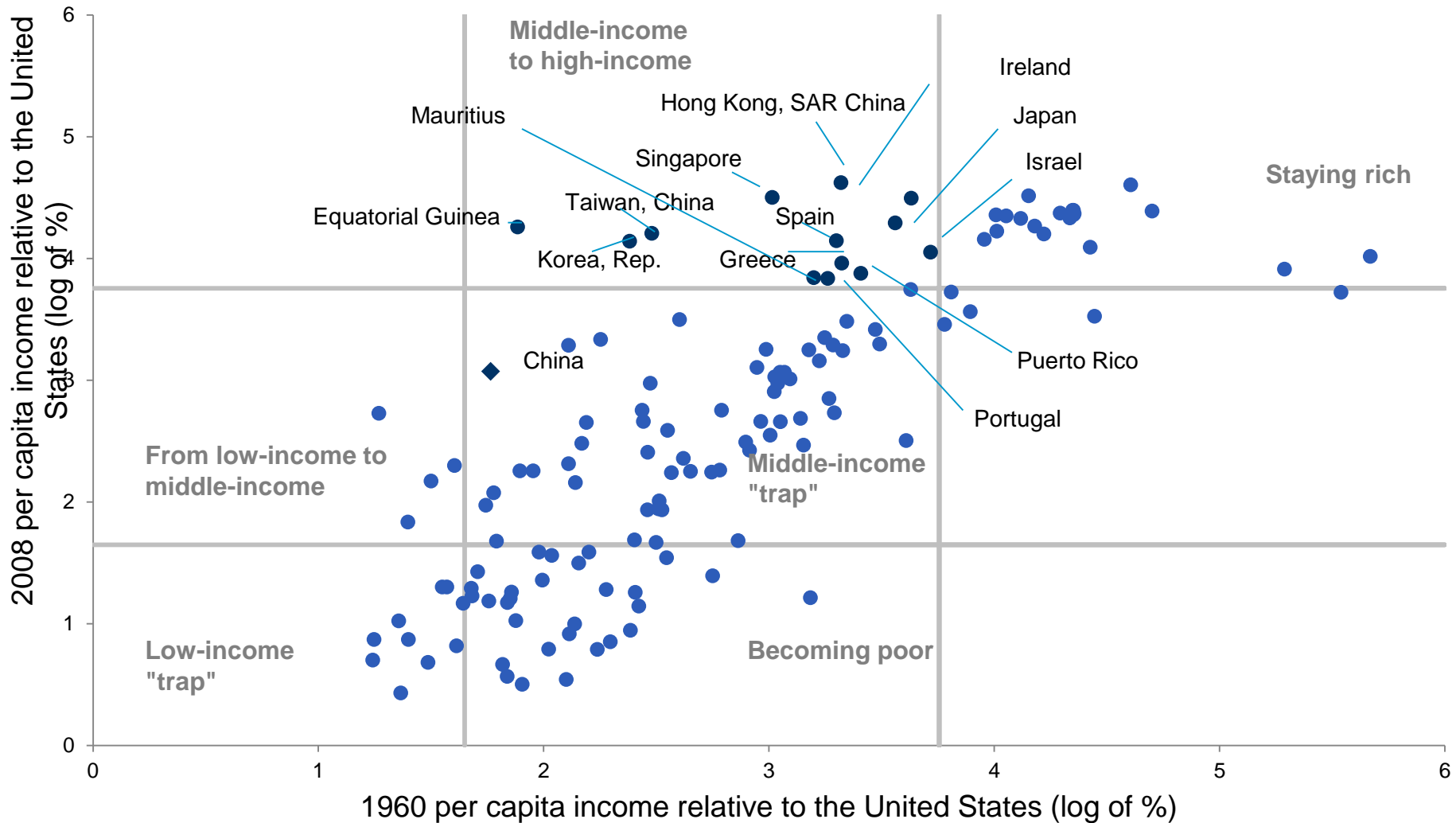
- Advanced Economies: Most of 2000s European growth (80 percent) and US (70 percent) Productivity growth attributed to Services sector's contribution.
- Research suggests that differences in aggregate productivity levels and growth rates among seven advanced economies countries were largely explained by differences of the performance in the service sector
- Middle Income Economies: In Chile FDI in services closely linked to manufacturing productivity, especially helpful for small firms.
- In Indonesia relaxing equity restrictions in both the transport, and the electricity, gas, and water sectors led to significant productivity gains of manufacturing firms.



In general, the Services Performance seems to be related to the Middle Income Trap of Productivity Growth



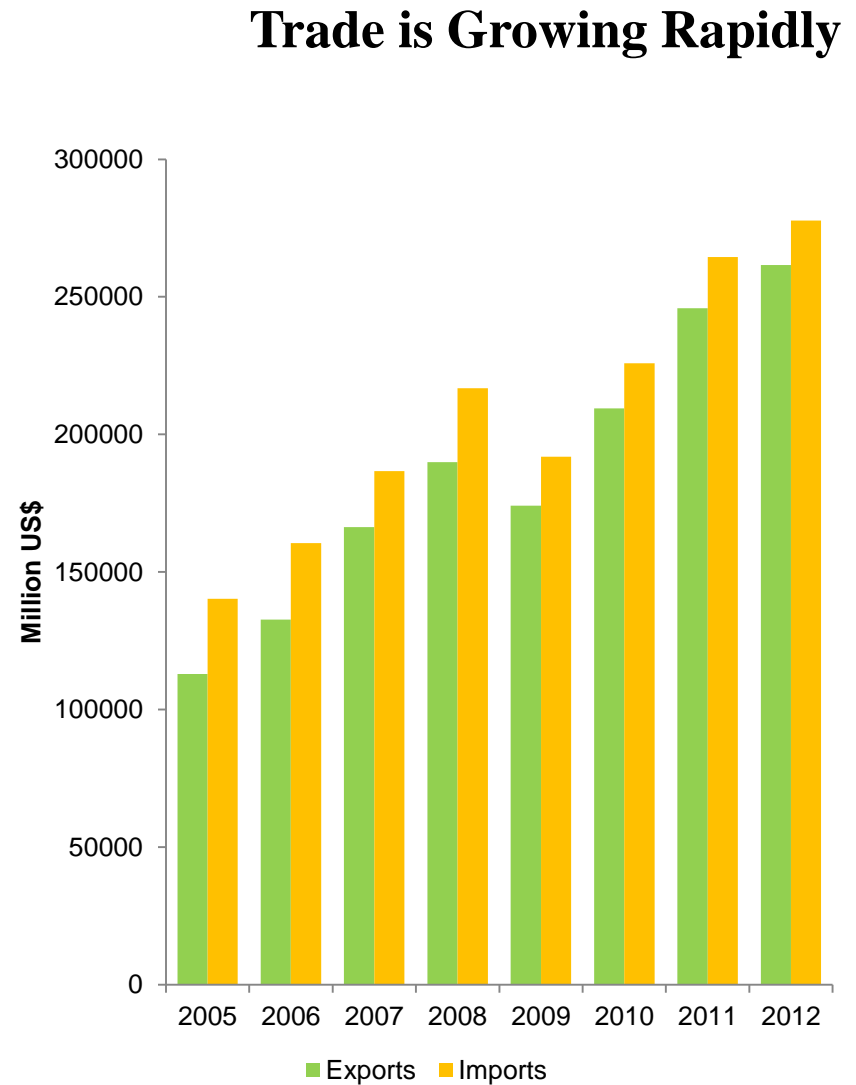
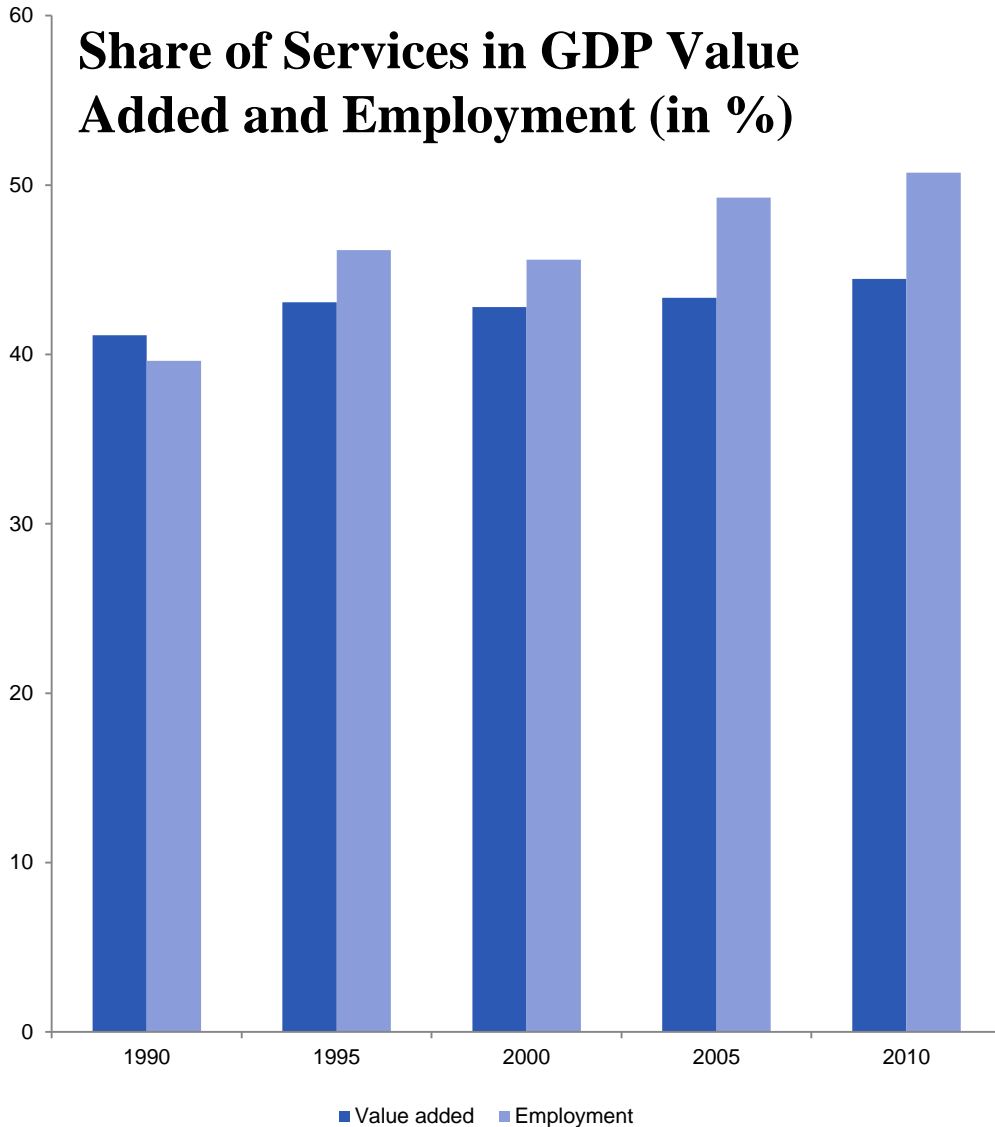
(Per capita income relative to the United States, 1960 and 2008)



Source: World Bank and Development Research Center 2012, China 2030

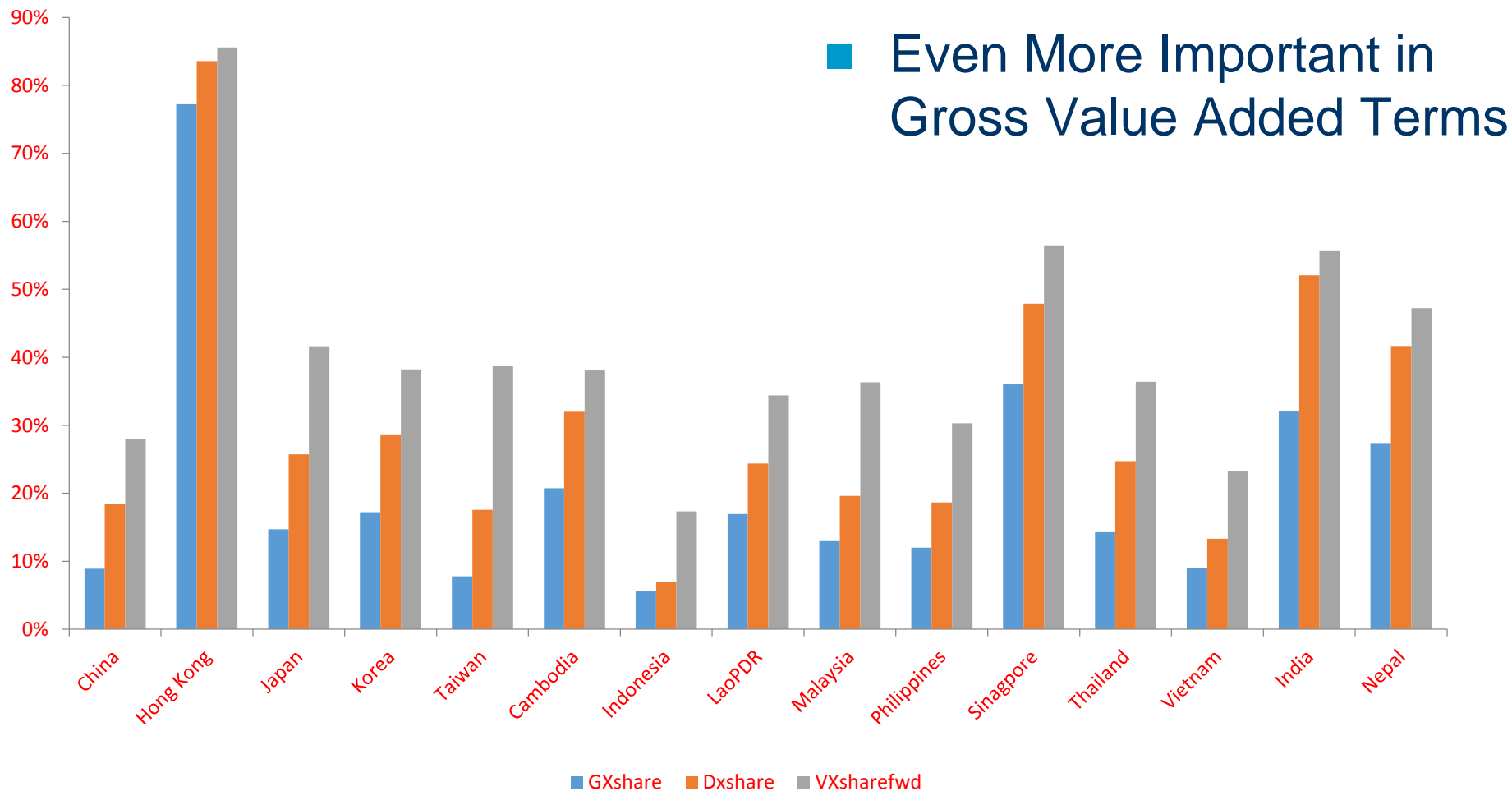


C. The ASEAN Experience: Opportunities and Challenges





The ASEAN Experience: Service Exports as Share of Total Exports: Gross, Value Added, and Total



Source: WDI and World Bank Export of Value Added Database.

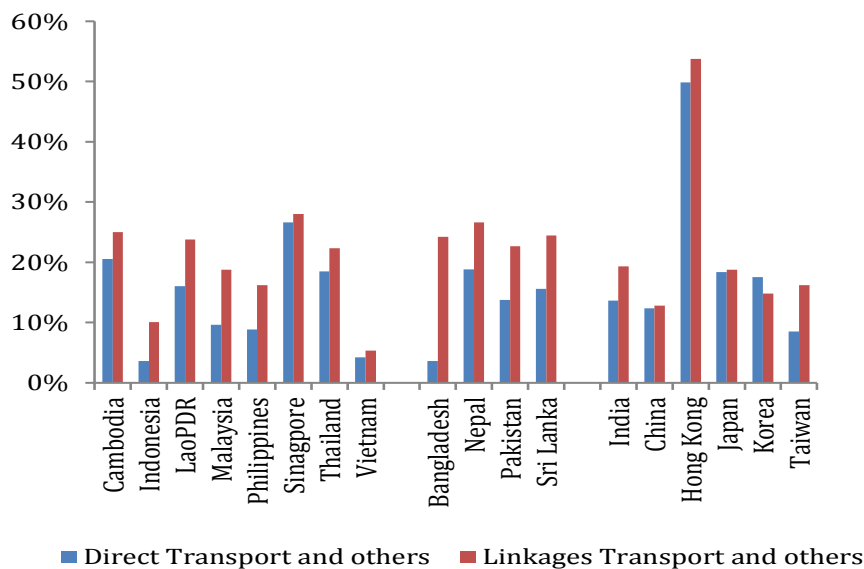
Note: GXshare = Gross Exports Share, DXshre = Direct Exports Share, VXshsrefwd = Total Exports Share.



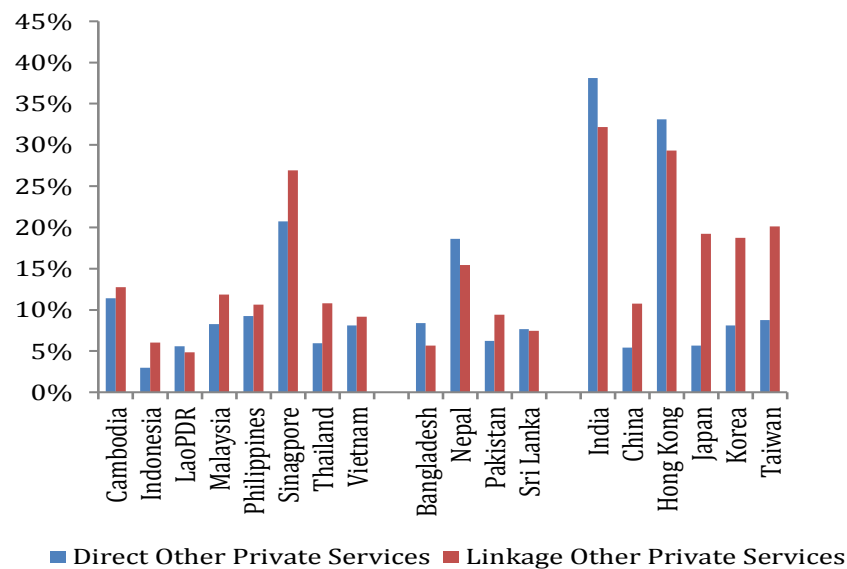
Services Play a Significant Role as Input to Other Export Activities

Services trade measured on Value-Added terms

Share of Transport and other services in total exports



Share of other private services in total exports



Source: World Bank *Value Added Database*.

Note: Due to data limitations we work on the basis of two broad categories. The first category corresponds to transport, distribution, and tourism activities, broadly speaking. The second category (“Other private services”) corresponds to activities such as professional services, business services, financial, entertainment services, and others.

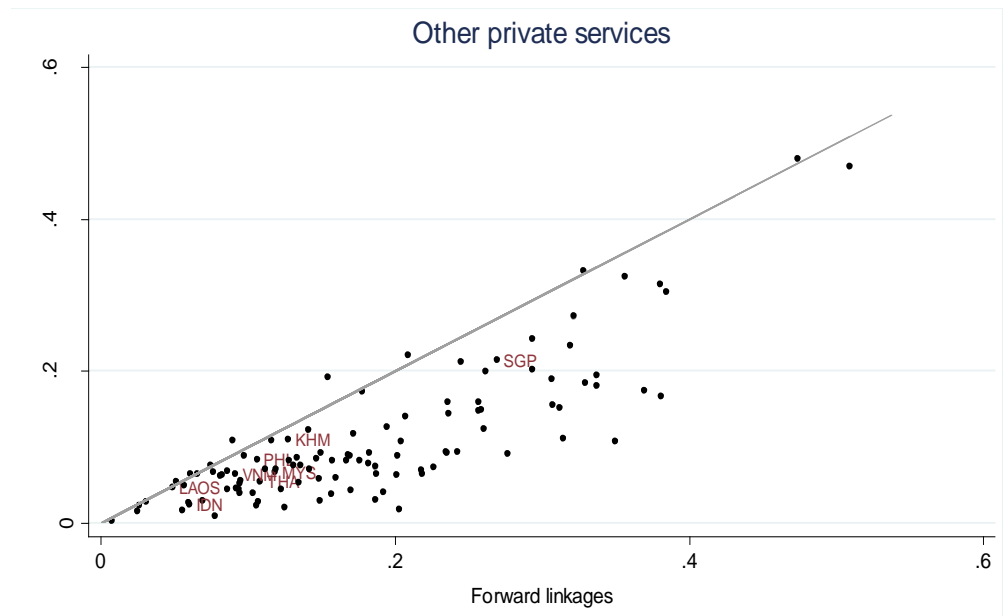
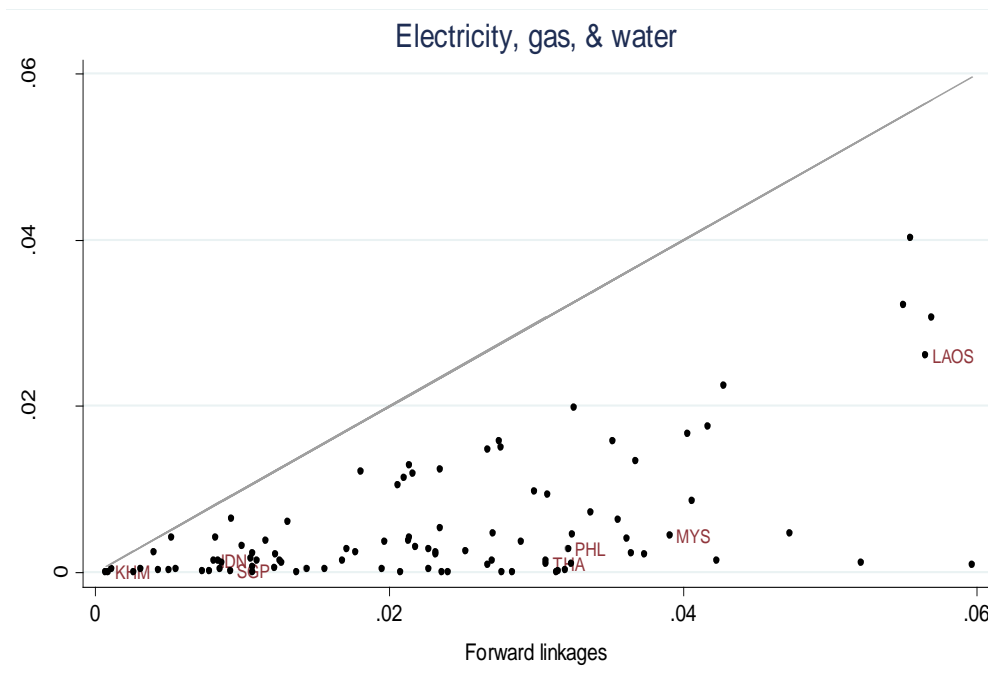


Forward Linkages

(share of value being used as inputs in other sector)

Electricity Gas and Water

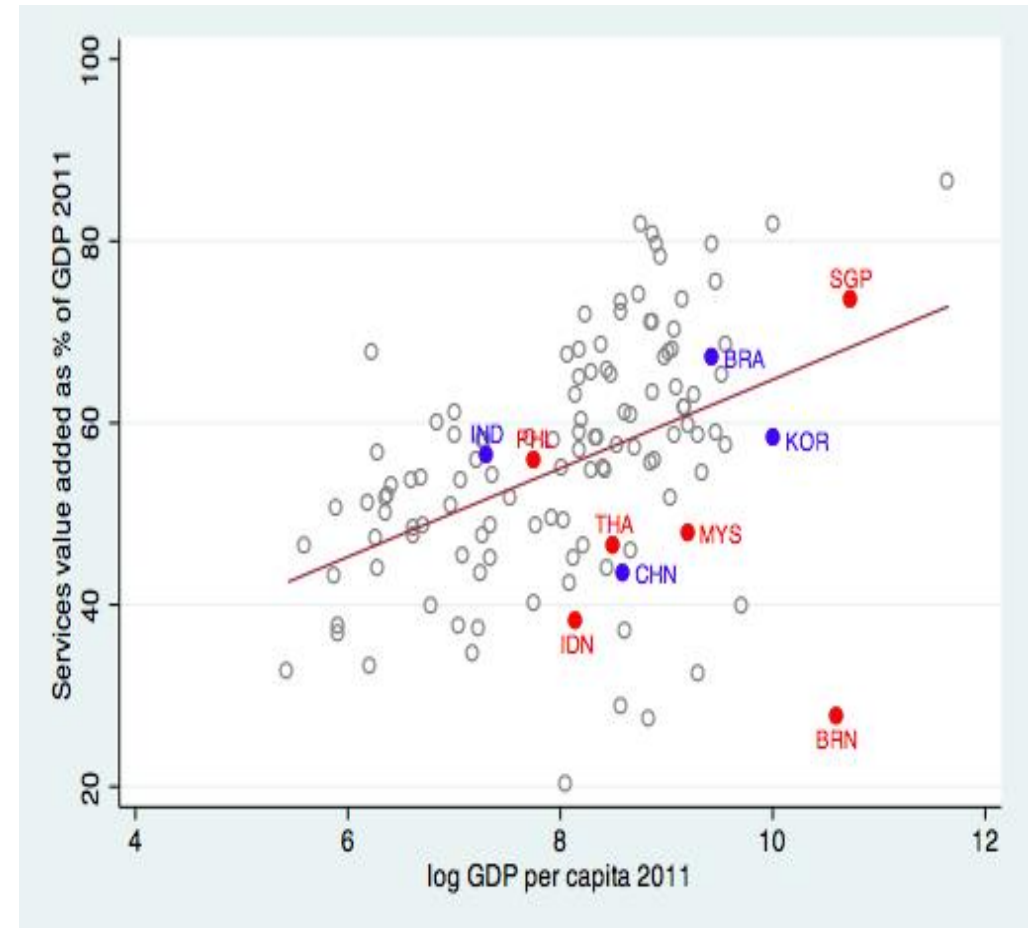
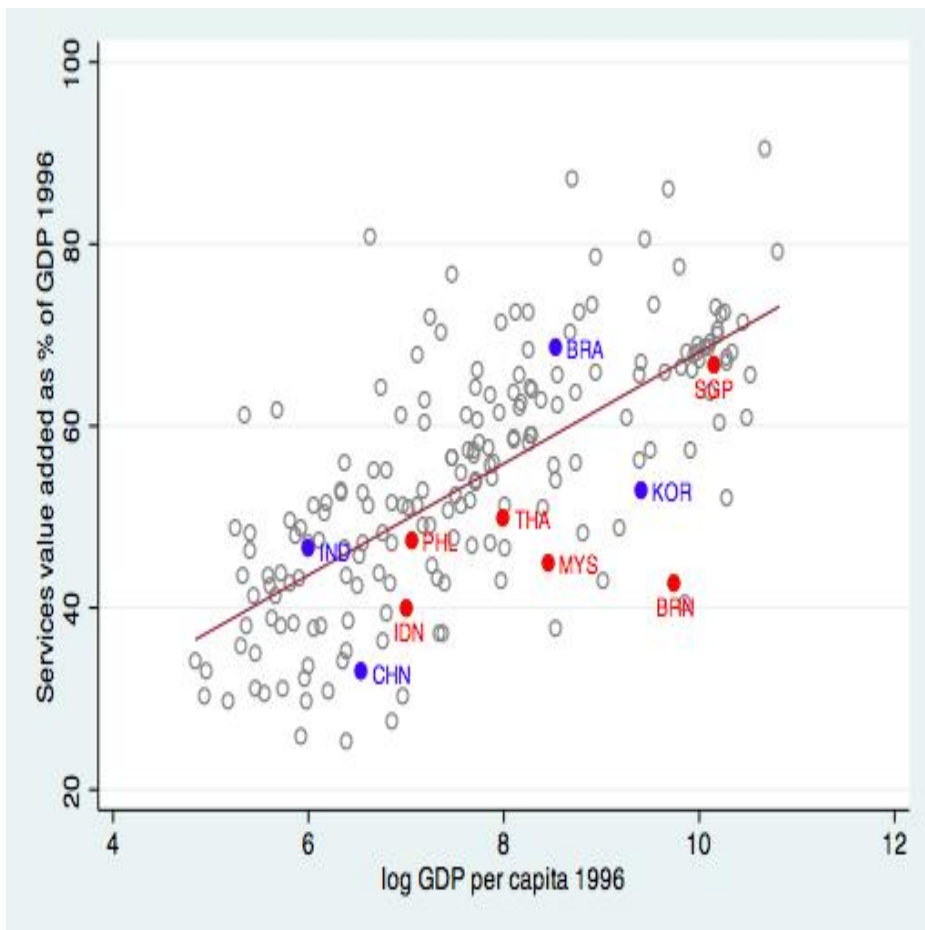
Private Services





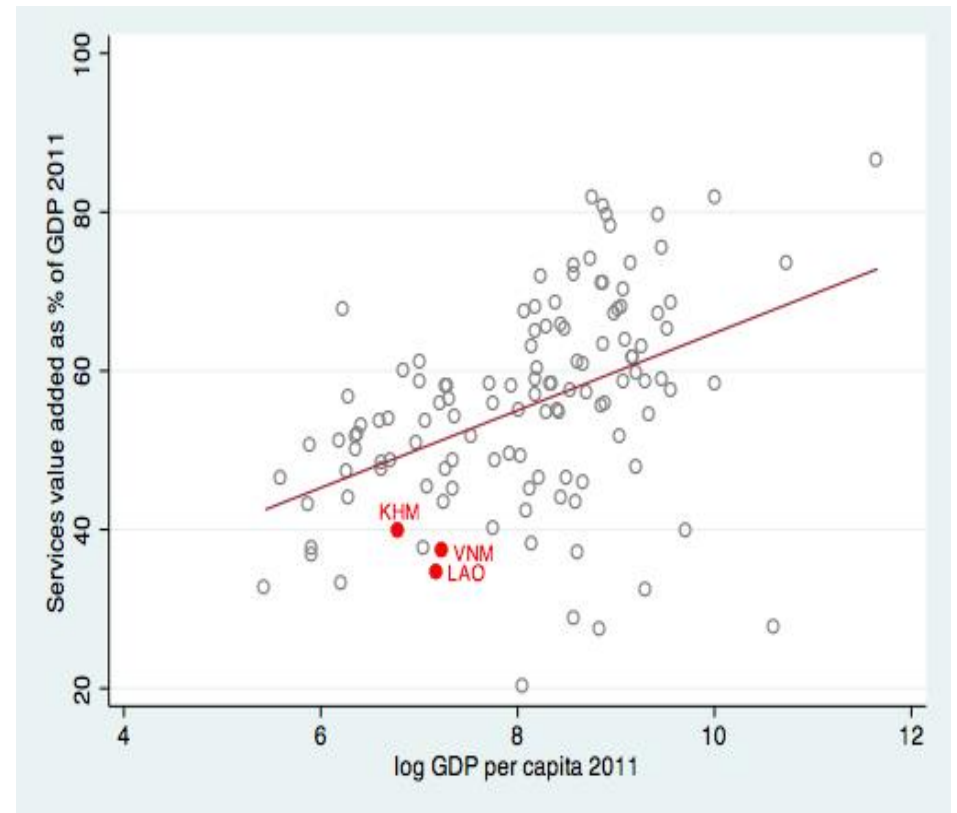
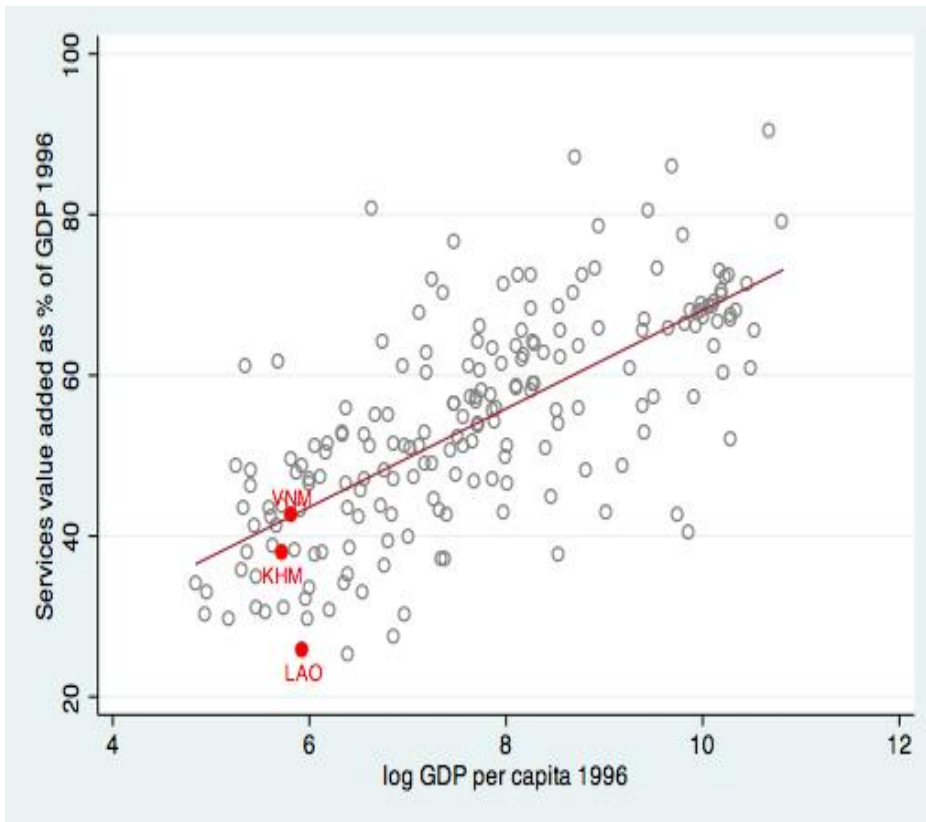
However, Services Sectors in ASEAN Countries Have Remained Relatively Underdeveloped

Middle Income Countries,
1996 and 2011



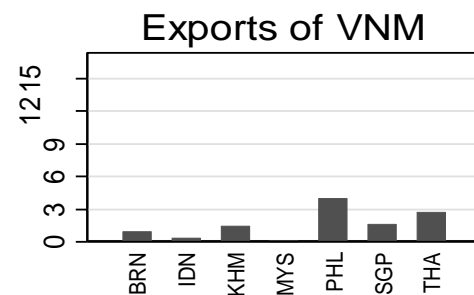
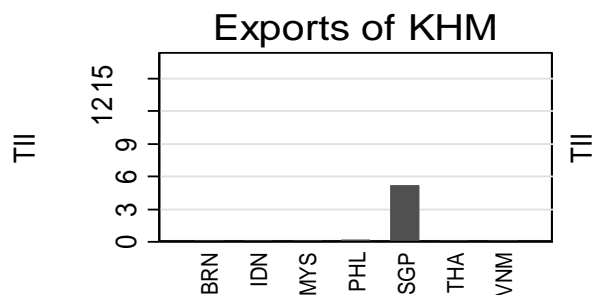
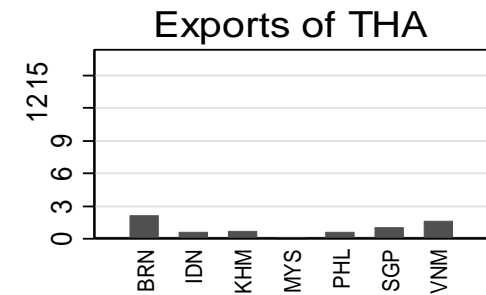
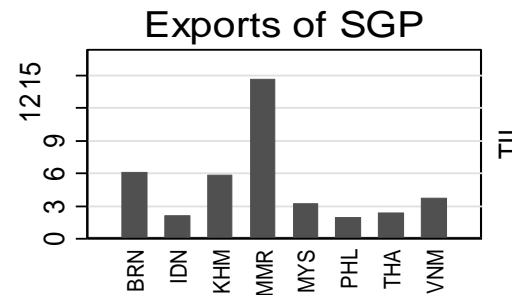
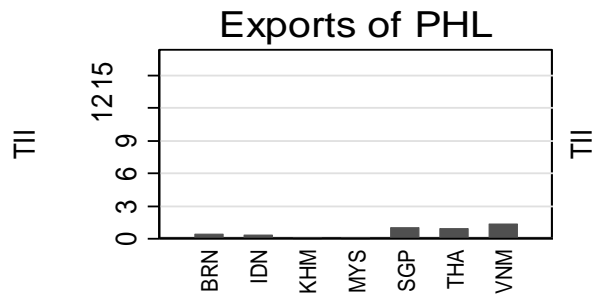
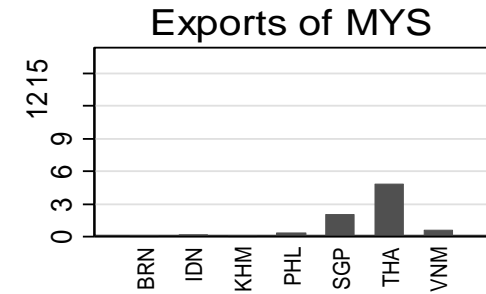
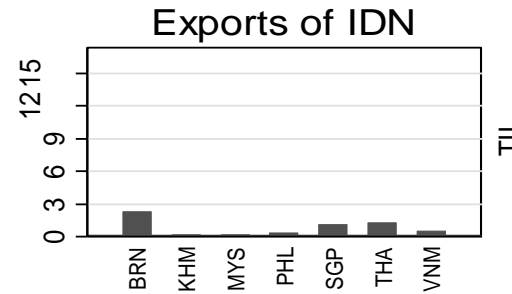
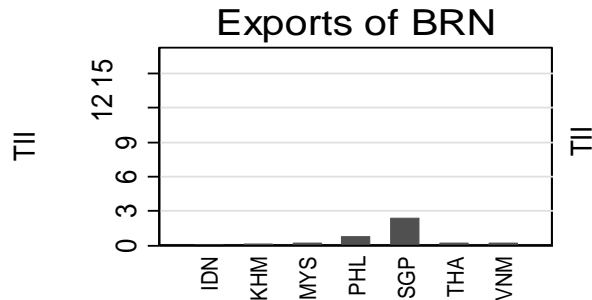


Lower Income Countries



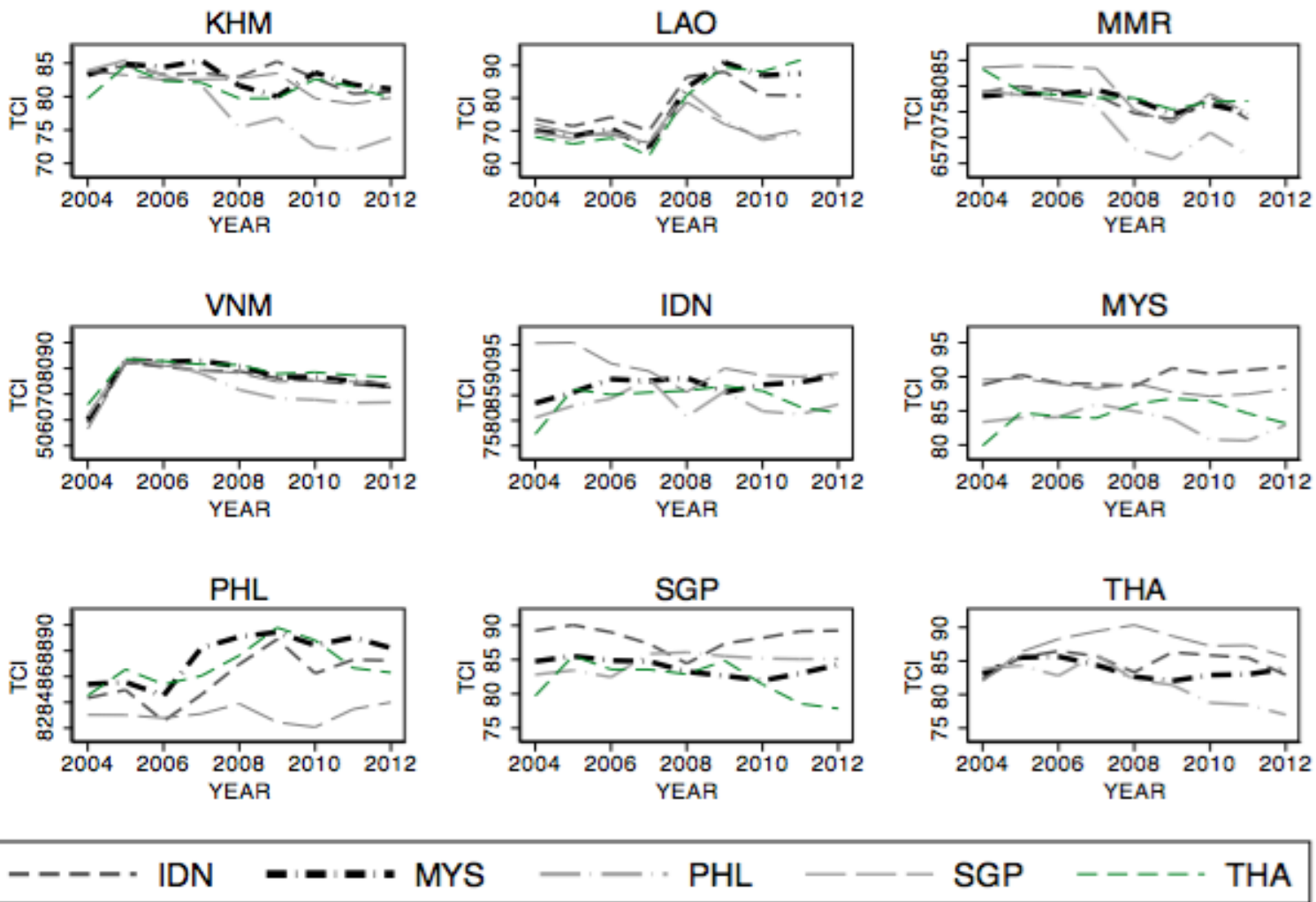


Regional Integration is weak: Regional Trade Intensity of Services is Low – Suggesting untapped potential



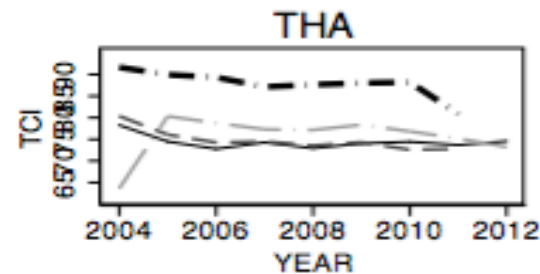
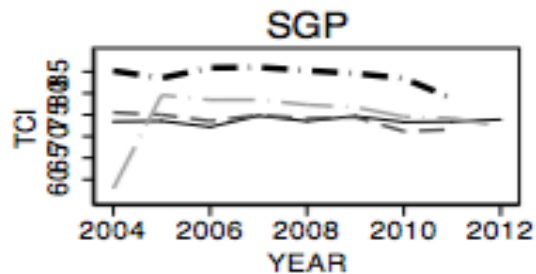
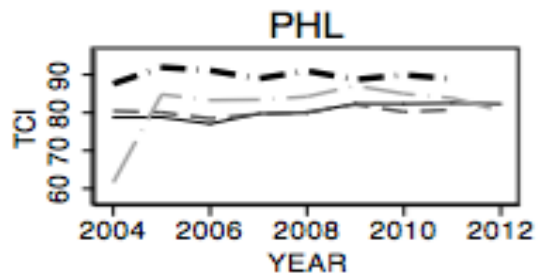
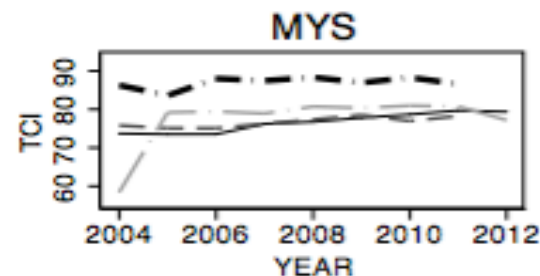
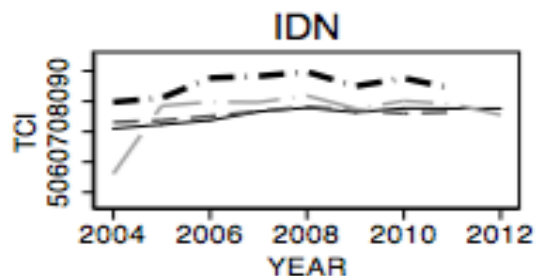
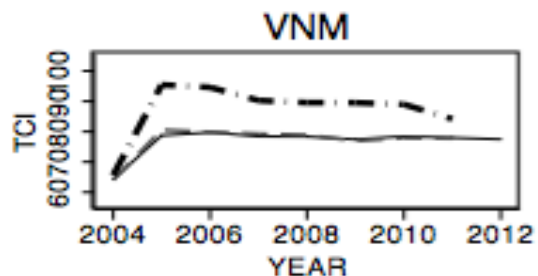
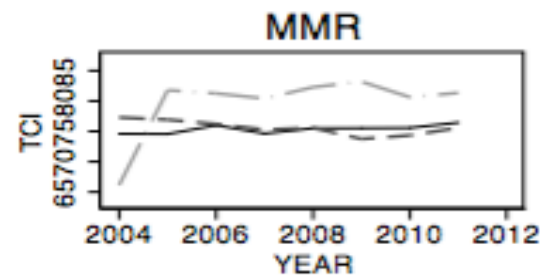
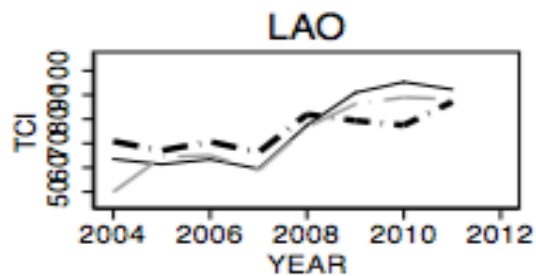
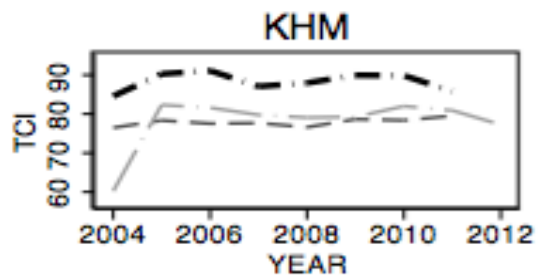


Despite Relatively High Trade Complementarity in Services: Singapore and ASEAN Middle-Income Countries





Trade Complementarity of Low-Income Countries





Key Messages



- Services Growth and Trade are Closely Linked to Productivity Growth, especially in middle income countries.
- Services trade have grown rapidly. When measured in terms of value-added, services contribution to total exports increases significantly
- In ASEAN countries also services are a fundamental input to other activities and therefore a key determinant of the region's competitiveness
- Services' role in ASEAN countries is below what would be expected from a dynamic region as East Asia
- Data suggests that there is scope for greater regional integration in services in ASEAN that can help to achieve gains from economies of scale from a market of 600 million people and USD 2.3 trillion GDP



Thank You