

Determinants of Services Competitiveness?

- Empirical research on services is hampered by the paucity of data, especially at the sector-specific level.
- Empirical research appears to confirm theoretical expectations that for both **goods and services**, competitiveness, as measured by export performance is a function of:
 - Differences in technology (?)
 - Differences in fundamentals such as relative endowments of **factors of production**, **infrastructure** and **quality of institutions**
- Differences between countries are not static and may evolve depending on the **policy choices** a country makes

Factors of Production

- The empirical literature and the case studies confirm the critical importance of **human capital**
(talent, education, skills and ideas)
 - Tertiary school enrollment is significant in affecting services exports

Services Infrastructure

- The empirical literature confirms the importance of services economy infrastructure, including the quality of the telecommunications network and internet penetration
 - in both the exporting and the importing country, given that services are relational

BUT

- The state of electronic infrastructure does not seem, in itself, to explain developing country success in exporting services. (India has a very low rate of internet penetration at 7 persons per 100, compared with Malaysia with 63 persons per 100)
- Some of the literature suggests that internet penetration in the trading partner (importer) matters even more than in the exporter

Institutions

- The quality of institutions, as measured by the degree of corruption, complexity of export procedures, rigidity in employment law, or the economic freedom index have a positive influence on trade in services
- And the regulatory environment?
Transparency, efficiency and predictability of regulation?

Performing better in services or manufactures?

- Countries which are performing better in skill-intensive services than in unskilled manufacturing (eg India and the Philippines) may be doing so because of comparative disadvantage in manufacturing rather than an absolute advantage in services.
- Countries which are performing relatively less well in skills intensive services exports (Chile and Malaysia) may be doing so not because of an absolute disadvantage in services but because of their comparative advantage in goods.
- This is an odd point to make?

Policy Choices

- Openness of policies affecting trade, investment (inwards and outwards) and labour mobility in services are important
- Coherence of Regulatory settings?
- Proactive industry policies may have an influence, though the empirical evidence is inconclusive
- Innovation policy?
- Business associations in services play a constructive role

There is no literature on how to grow a services industry

- How to build centres of excellence
- How to train, attract and retain the skill sets
- How to facilitate services innovation, collaboration and customer orientation
- Which enabling infrastructure to provide
- Which regulatory settings will ensure interoperability across the value chain
- How to facilitate the freer flow of ideas as well as people
- What sort of toolkit with which to promote exports (to attract projects to teams based onshore)

What can we learn from experience in the OECD economies?

- Literature available is equally limited
- Evidence merging that “multi-factor productivity” which used to be the unmeasurable residual which we called “technological change”, should be better understood as **services innovation**
- **Services innovation** appears to account for the vast bulk of **productivity growth** and **services export performance**

Insufficient focus in the development literature on the link between services innovation, economy-wide productivity growth and economy-wide international competitiveness

Over-focus on access to technology/know-how rather than generation of new ideas, new solutions, new performances

Education services providers and R&D service providers have a lot to think about!