

Determinants of Competitiveness and Factors Affecting Productivity in Services

- Discussion -

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C O N T E N T S



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II . Why Service?

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Part-01

Prologue

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- The services sector has long been **neglected as a source of productivity and economic growth.** – **Yes!**
- In both developed and developing countries the services sector is now **the dominant source of economic growth.** – Yes...?
- At a conceptual level services productivity growth and the factors underlying it have been slow to develop, but are now reasonably well understood. – Yes...
- **A toolkit of policies** to rapidly improve developing countries' services productivity has been described. – **Yes!**



- What should be discussed?

All Happy Families?

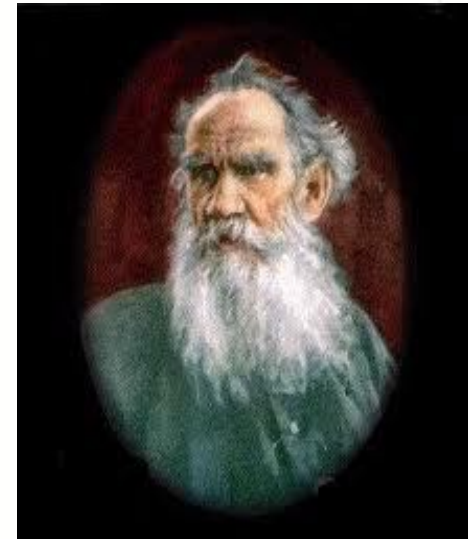


"All happy families resemble one another, each unhappy family is unhappy in its own way"

Countries with developed service sector ?

"I looked for an answer to my question. But reason could not give me an answer - reason is incommensurable with the question. Life itself has given me the answer....."

L. Tolstoy (1877), Anna Karenina



Learning by Doing! – Is it most efficient?
What about Learning by Watching?

All Happy Families!

Common Features of Happy Families

Bottom

- Higher growth rates of **physical capital**
- Higher initial levels and growth rates of **human capital in service**
- Innovation and Convergence (IT)
- Globalization

Surface

- High average **productivity growth** rates in service
- Rapid **output growth** in service
(More employment?)
- High growth in **service trade**
- Less volatility of the economy



Institution + Policy



Part-02

Why Service?

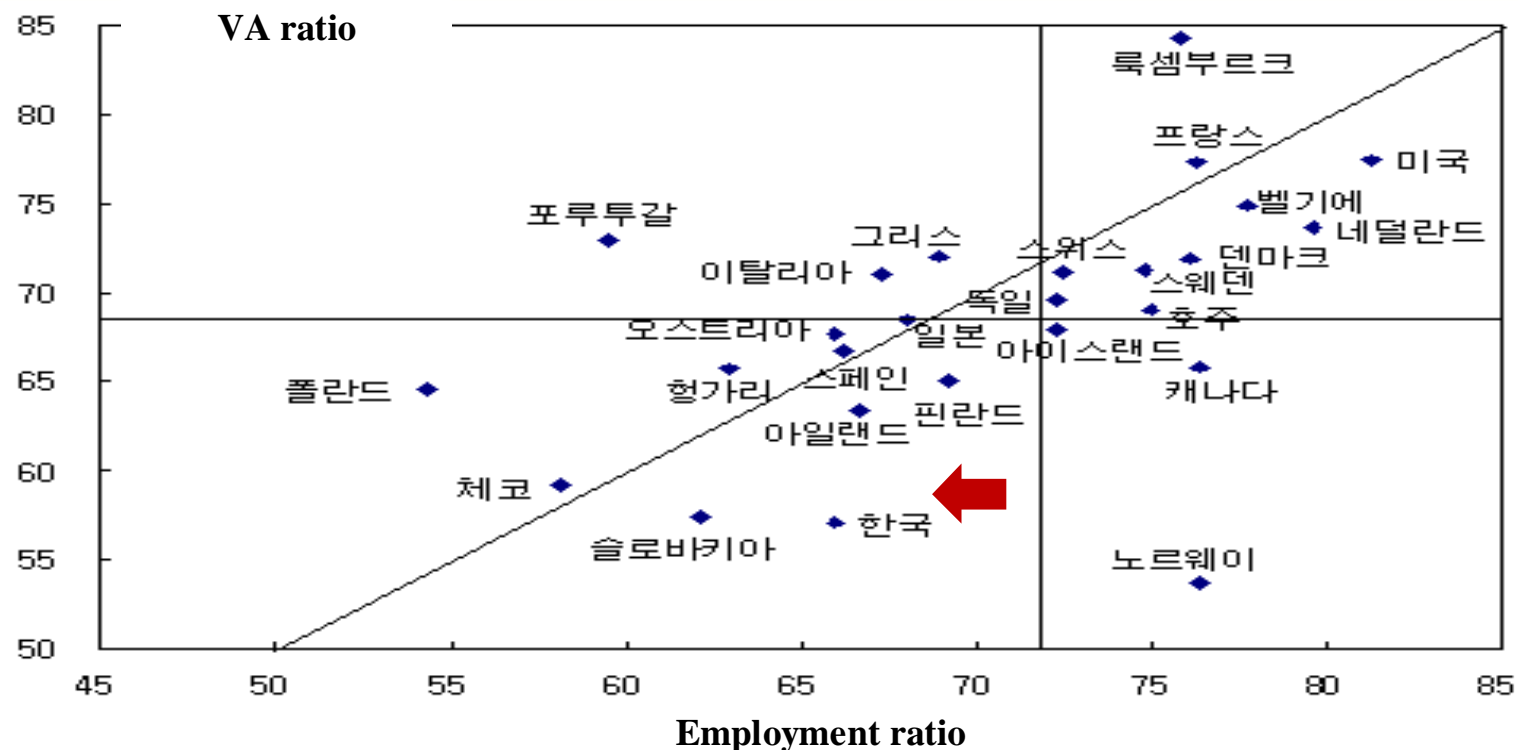
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Why is Service Sector Important?

For most developed countries, service sector explains the largest portion in employment and value added.

- Slow growth in service sector erodes the growth of the economy.

Value added and Employment Ratio of Service (OECD, '07)



Jobs as well as Productivity!

The service industry creates the largest no. of new jobs when 1 bil. won of output is produced in the industry.

- **Even the knowledge-intensive sectors' job creation effect is higher than that of the manufacturing.** (eg) bus. service: 10.6, fin. & insurance: 9.1, broadcasting & telecom: 7.9.

The No. of New Job Creation in Each Industry*

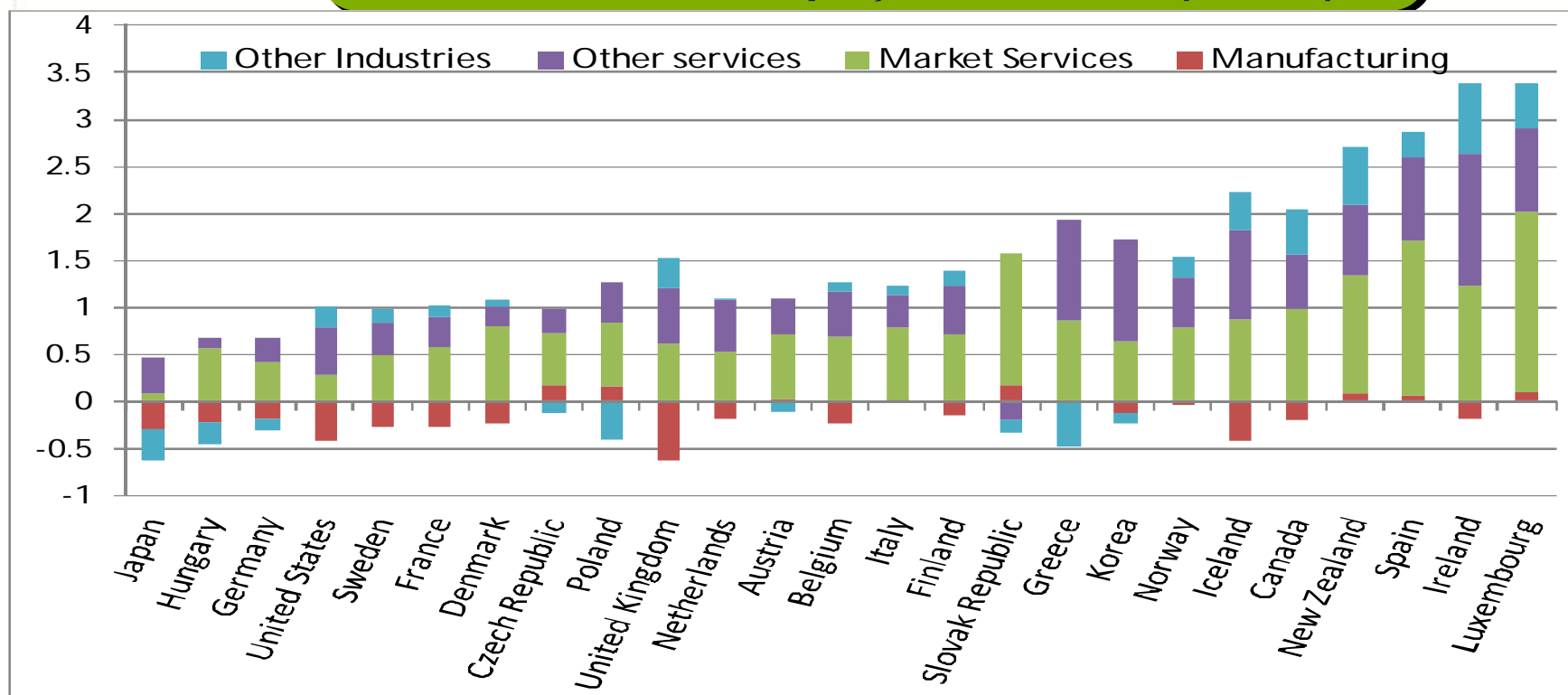
| Category | 2000 | 2003 | 2005 | 2006 | 2007 |
|----------------------------------|------|------|------|------|------|
| Manufacturing industry | 8.8 | 8.6 | 7.2 | 6.9 | 6.6 |
| Electricity, gas, water services | 4.7 | 3.9 | 3.2 | 3.1 | 3.1 |
| Construction industry | 14.6 | 16.3 | 14.8 | 15.2 | 14.8 |
| Service industry | 13.7 | 13.7 | 12.6 | 12.6 | 12.6 |

Note: The number of jobs newly created in the economy when 1 bil. Won of output is produced in the industry

Service for Jobs

Service sector is a major source of employment growth.

Contribution to Employment Growth ('00-/08)



Note: Market services cover "Wholesale, retail trade, hotels and restaurants" (ISIC 50-55), "Transport, storage and communication" (ISIC 60-64), "Finance, insurance, real estate and business services" (ISIC 65-74).

Source: OECD STAN Database

Service for Inclusive Growth

More Employment of Women, Elders and Disadvantaged



Part-03

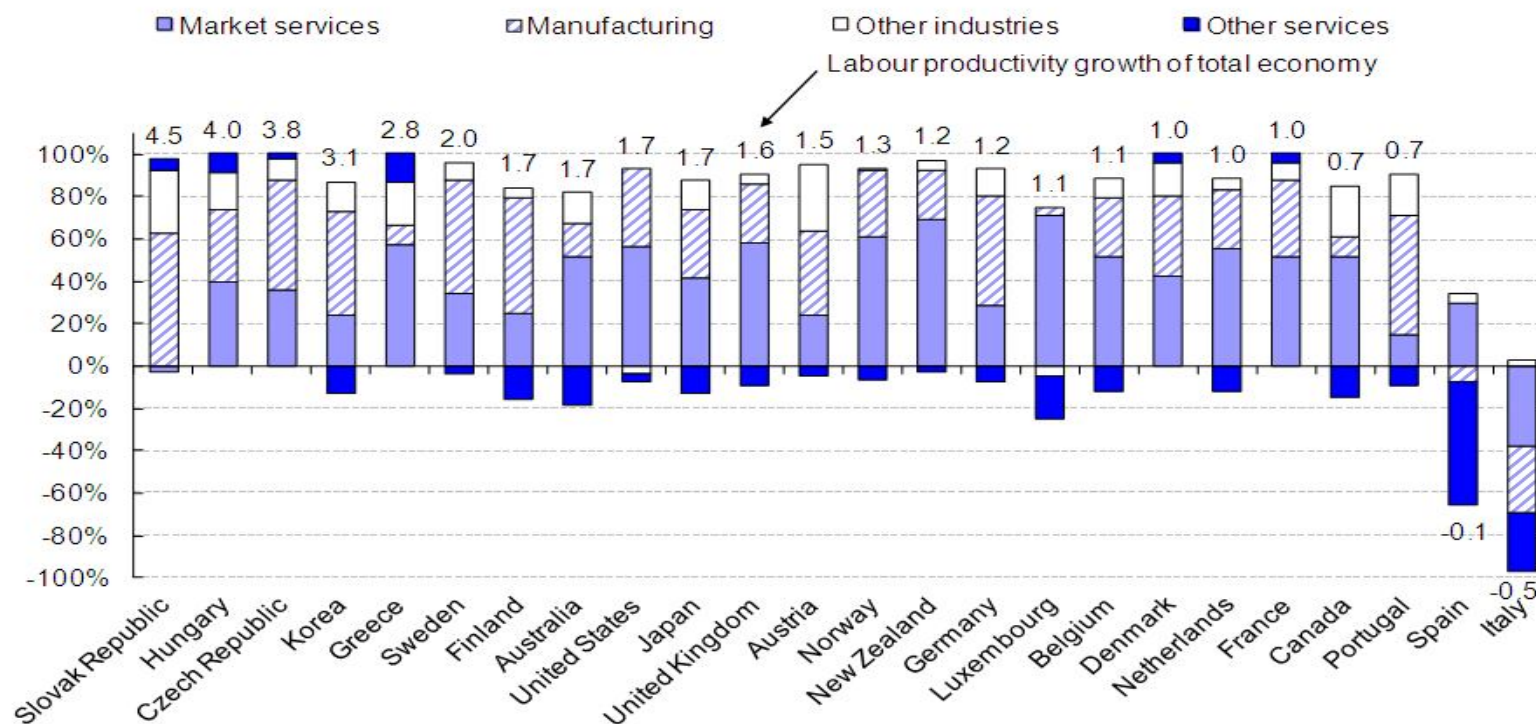
Comments

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Comment 1 : Growth by Service...?

Possibly not by productivity enhancement but by input increase.

Contribution to Productivity Growth by Sectors (OECD, '00-'06)



Note: The Sector Classification in this table is followed by the ISIC code.

Source: OECD STAN Database, Criscuolo(2010)

Comment 2 : The Dilemma

By the definition of **Labor Productivity**,
Service Employment (E_i) is represented as the following :

- $E_i = Y_i^d \cdot A_i^{-1}$ (1)
- where Y_i^d is demand (expenditure), A_i is labor productivity in service sector i

Using the employment ratio, Eq.(1) can be rewritten as :

- $\frac{E_i}{E} = \frac{Y_i^d}{Y^d} \times \frac{A}{A_i} = \alpha \cdot \beta^{-1}$ (2)
- where α is demand share, β is Relative Productivity in service sector i

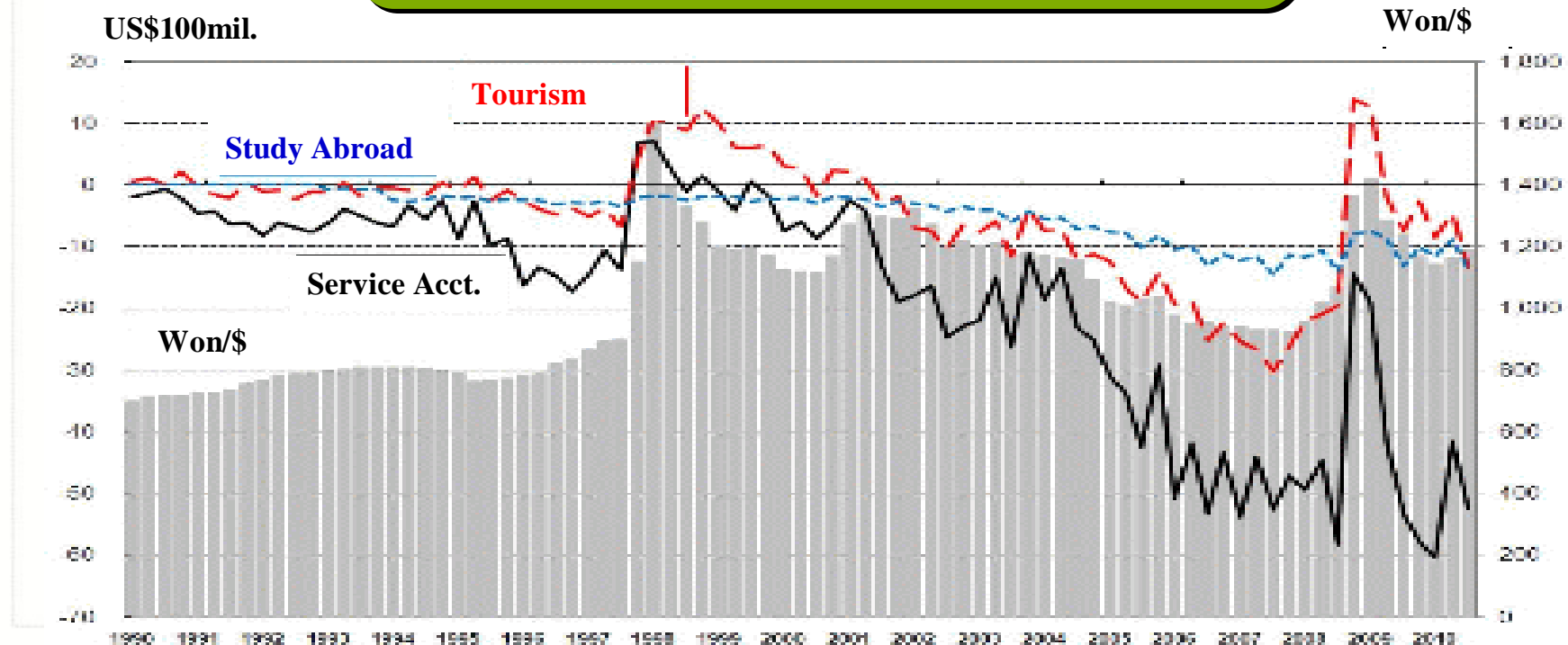
Unless the market size increases, productivity growth reduces employment. -> **How to increase the size of the market?**

Comment 3 – Macro Variables?

Macro variables important for some service sectors'
“productivity.”

- Different sectors may get different effects from the macro variables.
- For example, tourism is very sensitive to ER : Tradability?

ER and Service Account - Korea



Comment 4 : Sector-Specific Regulatory Reforms Needed

Regulatory reform to improve industrial foundations

- Eliminating legal, medical, welfare service regulations which pursue the political perspective for the reason of **public interest**
- Reviewing various **entry barriers** which deliberately limit the manpower provision in the service industry.
- Preparing institutional improvement measures to stop **collective selfishness**.

Entry Barriers in Legal Service – International Comparison

| | USA (2008) | UK (2008) | Germany (2008) | Japan (2007) | Canada (2004) | Aust. (2002) | Korea (2007) |
|-------------------------|-------------------------|-----------------------|-----------------------|----------------------|-------------------|-------------------|---------------------|
| # of Lawyers | 1,162,124 ¹⁾ | 155,323 ²⁾ | 146,910 ²⁾ | 24,302 ³⁾ | - | - | 8,174 ⁴⁾ |
| Pop. per Lawyer | 268 | 394 | 560 | 5,238 | 447 ⁶⁾ | 558 ⁶⁾ | 5,891 |
| Rel. ratio to Korea (%) | 5 | 7 | 10 | 89 | 8 | 9 | 100 |

□ The Power of Regulatory Reforms



Comment 5 : To Level the Playing Ground?

Why service underdeveloped than manufacturing?

- Some differences innate
 - Manufacturing higher facility investment, larger scales, more export-oriented, tangible assets, more IT related works
- <Discrimination? - The Korean Case>
- Correcting high **utility rates** for service industry
- Reviewing **definition** of **SMEs** - Revised
 - Manufacturing: < 300 workers or 8b won
 - Service: < 50~300 workers or 5~30b won
- Correcting different **value-added ratio** – **Under revision**
 - Manufacturing: 20%
 - Service: 30~40%
- Reviewing **discriminatory tax system**
 - Special Tax Reduction for SMEs for manufacturing + selected service only (wholesale and retail, car service, tourism)

Part-04 | Epilogue

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Epilogue

- I completely agree to the authors' opinions : Regulatory reform, Trade, Innovation and Human resource.

PLUS, in order to improve productivity, we need

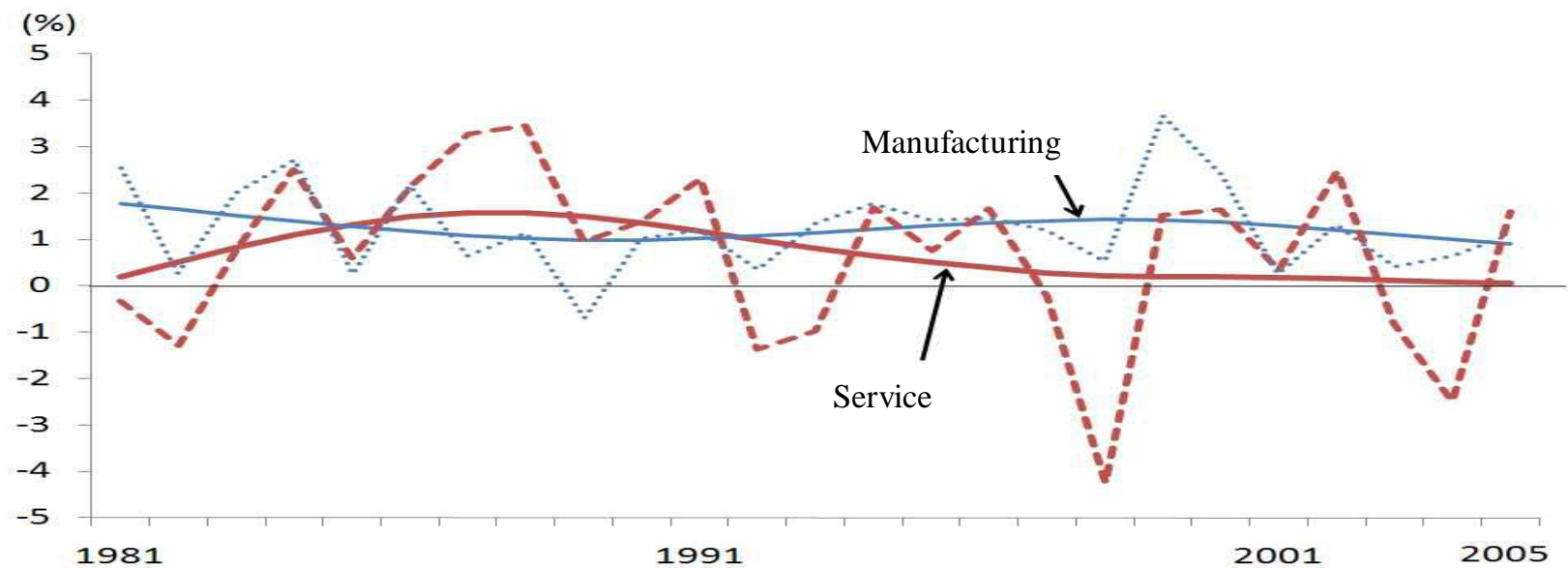
- Sector specific approach – NO one-size-fit-all
- Comprehensive policy mix
 - (eg) Strengthening **policies and institutions** to support innovation
 - financial markets, venture capitalists, excellent science and education, a more favourable business environment, etc.
- To provide greater scope for entrepreneurship, new firms and experimentation: enable failure, rapid growth and changes within firms.

Appendix : Why Worry? – Because.....

Since 1990's, **Korea's TFP^{*} in Service Sector** showed the declining trend, different from that in manufacturing.

- TFP(Total Factor Productivity)
 - a measure of an economy's long-term technological change or dynamism
 - complexly indexed by a variety of factors including qualitative changes (eg) qualitative change of labor or capital, union-management relation, management innovation and institution efficiency, and so on.

Trend of TFP Growth Rate - Korea



Note: The H-P Filter is used for extracting the trend of time series.

Source: EU KLEM Database

THANK YOU

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