Structural Economic Transformation – The role of Services

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Priority 5 of the VPoA-Objectives

• Increase value addition in the manufacturing and agricultural sectors;
• Increase economic and export diversification;
• Promote service-based growth;
• Encourage FDI in high-value added sectors
Measuring structural transformation in LLDCs

- Value-added of agriculture sector
- Value-added of manufacturing sector
- Value-added of services sector
- Composition of economies and exports
- Concentration index
- Technology content of exports
- Domestic credit to private sector
- R&D expenditure
LLDCs performance

- Value-added contribution of the manufacturing sector approximately 9% of LLDCs’ economic activity during 2015-2017
- Share of primary commodities accounts for over 80% of LLDCs exports.
- Services, value added (% of GDP):
  - LLDCs = 46.04
  - Africa LLDCs = 46.04
  - World = 65.1
  - Africa accounted for 3% of world trade in services in 2017.
The role of services in value chains

• Services can be characterized in value chains as falling under two categories:
  
• **Enabling services**: described as the “oil” in the manufacturing process, and include such services as communications, finance, transport and distribution, ICT and other business services.

• **Task-related services**: those activities that businesses can outsource to other companies - business process outsourcing (BPO). India and the Philippines have become a particularly significant global provider of BPO services.
## Services in the value chain

<table>
<thead>
<tr>
<th>Driver</th>
<th>Stage in the value chain</th>
<th>Service</th>
<th>Benefit to producer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design</td>
<td>Design services</td>
<td>Makes process more efficient</td>
<td></td>
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<tr>
<td>R&amp;D</td>
<td>R&amp;D services</td>
<td>Improves products; reduces development costs and shortens product development cycle; increases product efficiency</td>
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<tr>
<td>Sourcing of intermediate inputs</td>
<td>Logistics and transportation services; supply chain management services</td>
<td>Allows geographic dispersion of GVC with the aim of lowering costs</td>
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<tr>
<td>Manufacture and assembly</td>
<td>IT services/ production process management services; testing services; parts inventory tracking</td>
<td>Makes process more efficient</td>
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<td></td>
<td>Network and communications services; data analytics and processing services</td>
<td>Increases production process quality and cuts production times</td>
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<td></td>
<td>Utilities, including telecommunications and electricity</td>
<td>Makes manufacturing more efficient due to high-quality provision of services (no interruptions)</td>
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<tr>
<td>Management of the firm</td>
<td>Human capital management services</td>
<td>Lowers overhead costs and improves coordination of the enterprise</td>
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<td></td>
<td>IT services</td>
<td>Lowers financing costs</td>
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<td></td>
<td>Financial and treasury services</td>
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<tr>
<td></td>
<td>Legal, accounting, and other professional services</td>
<td>Lowers overhead costs</td>
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<tr>
<td>Warehousing</td>
<td>Inventory management services; logistics and transportation services</td>
<td>Allows geographic dispersion of GVC with the aim of lowering costs</td>
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Sources: USITC, Services Contribution to Manufacturing  
“Servicification” in Africa

• There is increasingly recognised that services play an important role in global value chains and the manufacturing process (often referred to as “servicification”).

• Rising profile of services sector in Africa offer promising opportunities for export diversification, services led transformation and services trade-led growth
Challenges

- Barriers to trade in services are more complex than barriers to trade in goods
- Underdeveloped regulatory environment
- Key sectors such as telecommunications, professional services, and transport services are relatively restricted in many countries
- Sector widely underdeveloped and fragmented as a result of restrictive policies and disjointed regional regulations
- Regulatory requirements, and immigration policies restricting the movement of persons
Suggested recommendations

- LLDCs need to review production processes for manufacturing and agriculture in order to identify the relevant trade in services impediments that should be prioritised.
- More research needs to be done to better evaluate the complex roles that service -more fully understanding roles will allow policymakers to design the necessary reforms—that can best position a country to increase service trade and boost overall economic competitiveness.
- Enhance Capacity building to LLDCs in dealing with services negotiations.
- LLDCs should enhance liberalization of services sectors necessary to support their industrialization and trade facilitation: communications, finance, transport and distribution, ICT.
- Promotion and facilitation of mutual recognition agreements between.
- Mutual recognition: interested Member States seeking to pursue common value chains.
- Leveraging technology and innovation in structural transformation, value addition and productive capacity building.
- Seek FDI inflows to the high-value added sectors.
Thank You

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