DEVELOPMENT TRAJECTORIES IN GLOBAL VALUE CHAINS

The Intangible Economy

How Services Shape Global Production and Consumption

Edited by
Deborah K. Elms • Arian Hassani • Patrick Low

Much effort has been made in recent years to shed light on the economic functions of services and how they contribute to economies. These endeavours are overdue, considering the increasingly dominant role played by the intangible economy, spurred by rising incomes, growing technology-driven complexity, and closer international economic integration.

Just as services need disentangling and to be better understood for their actual and prospective contributions to the global economy, so does policy call for closer attention. In our linked-up world a policy aimed at one objective can have an impact across a wide array of sectors and activities.

The Intangible Economy: How Services Shape Global Production and Consumption takes an eclectic look at some of these issues, touching on aspects of the role of services in development as well as on particular sectoral issues, always with policy considerations lurking not far from the analysis.

Deborah K. Elms is Founder and Executive Director of the Asian Trade Centre, Singapore.

Arian Hassani is currently based in Hong Kong where she covers J.P. Morgan's philanthropic activities across ASEAN and Australia.

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The Intangible Economy

The volume highlights the evolution and significance of services in the global economy, including as a vehicle for development. It discusses the major pillars that hold the services infrastructure together, namely, its governance and financing mechanisms.Some of the chapters adopt more specific geographical or sectoral perspectives, including a regional study of the impact of services in economic integration in ASEAN; a country-level analysis of the role of services in economic and social upgrading in India; a look at industry-specific dynamics through the business process outsourcing model; and finally, a value chain view to understand how services are impacted on a granular or micro level by policies.

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Development Trajectories in Global Value Chains

A feature of the current phase of globalization is the outsourcing of production tasks and services across borders, and increasing organization of production and trade through global value chains (GVCs), global commodity chains (GCCs), and global production networks (GPNs). With a large and growing literature on GVCs, GCCs, and GPNs, this series is distinguished by its focus on the implications of these new production systems for economic, social and regional development.

This series publishes a wide range of theoretical, methodological and empirical works, both research monographs and edited volumes, dealing with crucial issues of transformation in the global economy. How do GVCs change the ways in which lead and supplier firms shape regional and international economies? How do they affect local and regional development trajectories, and what implications do they have for workers and their communities? How is the organization of value chains changing and how are these emerging forms contested as more traditional structures of North-South trade are complemented and transformed by emerging South-South lead firms, investments, and trading links? How does the large-scale entry of women into value chain production impact on gender relations? What opportunities and limits do GVCs create for economic and social upgrading and innovation? In what ways are GVCs changing the nature of work and the role of labour in the global economy? And how might the increasing focus on logistics management, financialization, or social standards and compliance portend important developments in the structure of regional economies?

The series includes contributions from many disciplines and interdisciplinary fields and approaches related to GVC analysis, including GCCs and GPNs, and is particularly focused on theoretically innovative and informed works that are grounded in the empirics of development related to these approaches. through their focus on the changing organizational forms, governance systems, and production relations, volumes in this series contribute to on-going conversations about theories of development and development policy in the contemporary era of globalization.

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Deborah K. Elms
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1

Introduction

Deborah K. Elms, Arian Hassani and Patrick Low

The literature on global value chains (GVCs) has been growing fast over the past decade. It is diffused and has to deal with a rapidly changing world. The authors contributing to this collection of essays consider contemporary challenges and opportunities facing business and government, which in different ways determine the location, configuration and operation of GVCs. The role of services in GVCs is at the centre of the analysis. Through that prism, the chapters consider the extent to which services can act as a catalyst for fuller GVC participation to promote development, growth and jobs.

In what follows, chapter 2 by Low and Hassani focuses on the role of services in the global economy. It begins with a historical discussion of the distinguishing features of services, and considers some of the reasons for past neglect of the contribution of services to the economy, including their perceived incapacity to contribute to productivity growth. Attention is also paid to definitional challenges, measurability and data issues. Certain shortcomings in these domains have resulted in misleading analysis of the importance of services, especially in trade.

In chapter 3, Findlay discusses the challenges of making services work for development. He argues that there are some common principles among goods and services for the development and design of successful reform packages. However, a number of differences between reforms aimed at goods and those targeting services require closer attention. Political economy considerations related to local political interests may influence attitudes to foreign entry in services markets. If impediments to services affect costs, rather than profits, reform could have significant employment effects. If protection is higher in services markets than in goods markets, domestic services providers will be more severely affected. Where services suppliers are subject to universal services obligations – for example in telecommunications or public transport – the ability to finance these obligations may constitute an additional source of resistance to change.

Abrenica (chapter 4) discusses the challenges facing East Asian economies in surpassing the middle-income trap. Only a handful of these economies have attained developed country status, while a good number seem to be caught in a pit of relative economic stagnation. In mainstream literature, a huge part of the East Asian success story in attaining middle income status is attributed to the use of trade to promote domestic growth and overcome development hurdles. While the author does not deny that the realities of the present global ecosystem and the development challenges they present are different from the 1980s, she observes that many still see the East Asian model relevant insofar as it offers an escape path that combines trade with the right mix of domestic policies. The chapter considers how middle-income countries might escape the trap by leveraging their participation in GVCs. However, policy needs to give full play to the development of services as an enabler of trade.

In chapter 5, Stephenson and Pfister seek to clarify the discussion of governance in GVCs, including in the realm of services. They argue that the debate has been obscured by a lack of definitional clarity as to the meaning of the word 'governance'. The authors set out a typology of GVC governance in three different categories. First, industrial policy frameworks look at the governance of GVCs from the firm perspective. Second, national policy frameworks consider governance from an individual country perspective. Finally, in a global trading system framework, the focus is on the World Trade Organization (WTO) and major preferential trade agreements. Stephenson and Pfister maintain that governance considerations at the firm level are the most straightforward to comprehend. For the other levels of analysis, they lay out several recommendations to remedy governance gaps, urging the WTO and the international community to step up efforts in multilateral leadership, ensuring that any gains captured through more efficient GVC governance are beneficial for development and inclusive growth.

Pasadilla (chapter 6) looks at how financial services enable GVCs. She notes that no globally-accepted framework has been developed in this domain. The chapter seeks to demystify various structures and incarnations of supply chain finance by applying two lenses. One is structured trade finance and the other involves specific bank financing instruments that link suppliers and buyers in a supply chain relationship. The author argues that in order to facilitate supply chain financing for small and medium-sized enterprises (which are significant sources of revenue and job creation in developed and developing countries), there is a need to shift more broadly toward asset-based lending practices

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