Shifting Gears: Digitization and Services-Led Development

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RECENT DEVELOPMENTS

Recovery amid COVID-19 waves
Many countries reached peak case numbers in Spring and Summer, with per-capita case numbers in half of the countries higher than world average.

The rapid rises in case numbers within a short time put the region’s health care systems under immense pressure and led to losses of lives and livelihoods.
COVID-19 waves dented but did not derail recovery

Production, exports, and tourism suffered setbacks, but have since returned to recovery path.

A. Industrial production and exports

B. Seats on inbound flights
COVID-19 waves dented but did not derail recovery

2nd quarter GDP growth is strong, although partly reflects low bases in 2020.

**Quarterly GDP growth: India**

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>LASSO nowcast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2019</td>
<td>5.8</td>
<td>5.8</td>
</tr>
<tr>
<td>Q3 2019</td>
<td>5.4</td>
<td>5.4</td>
</tr>
<tr>
<td>Q1 2020</td>
<td>4.6</td>
<td>4.6</td>
</tr>
<tr>
<td>Q3 2020</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Q1 2021</td>
<td>3.0</td>
<td>0.5</td>
</tr>
<tr>
<td></td>
<td>1.6</td>
<td>20.1</td>
</tr>
</tbody>
</table>

**Quarterly GDP growth: Maldives**

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<thead>
<tr>
<th></th>
<th>Actual</th>
<th>LASSO nowcast</th>
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</thead>
<tbody>
<tr>
<td>Q1 2019</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Q3 2019</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Q1 2020</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Q3 2020</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Q1 2021</td>
<td>-1.8</td>
<td>-16.4</td>
</tr>
</tbody>
</table>

**Quarterly GDP growth: Sri Lanka**

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>LASSO nowcast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2019</td>
<td>4.3</td>
<td>4.3</td>
</tr>
<tr>
<td>Q3 2019</td>
<td>12.3</td>
<td>12.3</td>
</tr>
<tr>
<td>Q1 2020</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Q3 2020</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Q1 2021</td>
<td>4.3</td>
<td>12.3</td>
</tr>
</tbody>
</table>

**Note:** Data are shown for the calendar year. For example, 2021Q1 is January-March 2021. The nowcasting index uses the set of variables that provide the most accurate in-sample forecast to nowcast the most recent complete quarter. Data labels are for actual GDP growth rates, except when they are not available, the data label shows LASSO nowcast (in red).
More targeted containment limited economic impacts

Compared to preemptive measures in 2020, measures are more localized in 2021, with more widespread testing and targeted quarantine. Stringency index is lower or stays high for shorter periods.

- **Bangladesh** shut down the border with India in April but allowed the trading of goods to continue
- Sri Lanka imposed localized lockdowns at identified COVID-19 hotspots
- India implemented rolling mobility restrictions in states with high case counts
South Asia recovery in a global perspective

Recent GDP growth of 69 countries is correlated positively with size of contraction in early 2020 and long-term growth trend. Relationship with vaccination rates and sectoral composition is less robust.

- Given the empirical relationship, 2\textsuperscript{nd} quarter GDP growth in India and Sri Lanka should have been even higher.
- Recent COVID containment measures help explain part of the shortfall for India but not for Sri Lanka.

\textbf{A. Actual and predicted GDP growth in 2021Q2}

\textbf{B. Growth residuals with and without stringency index for recent containment measures}

\textbf{Note:} Actual GDP growth is calculated using GDP levels in constant local currency unity (LCU). Predicted GDP growth is based on a linear regression. See Appendix 1 for details. A. Countries below (above) the linear line have negative (positive) growth residuals, which means their actual growth rate is smaller (larger) than predicted. B. Regression residuals shown are from two separate regressions, one without stringency index (shown in A) and one with additional stringency index in 2021Q1 and Q2. PHL=the Philippines, LKA=Sri Lanka, IND=India, THA=Thailand, IDN=Indonesia, USA=United States, GBR=United Kingdom, IRL=Ireland, ISR=Israel, MNG=Mongolia, PER=Peru.
Vaccination is important for sustaining the recovery

- As Delta variant spreads to the rest of the world and new variant emerges, South Asia can protect its economy through vaccination.
- Countries have made tremendous progress in vaccinating their populations, but most still have some way to go to vaccinate a majority.
- Vaccine supply remains the bottleneck for most countries.
Recovery uneven across countries

While SAR recovery in production, export have surpassed pre-pandemic levels, large variations exist across countries.

A. **Industrial production (April-July 2021)**
   Percent change from same period 2019

B. **Merchandise exports value (May-August 2021)**
   Percent change from same period 2019

Recovery in tourism also varies, with Maldives having recovered to 80 percent of pre-pandemic levels.

C. **Visitor arrivals**
   Index, Jan 2020=100

Recovery uneven across sectors

Recovery in Industry faster than in Services.
- Industry more affected by lockdown and global slowdown of 2020, and rebound also larger in 2021.
- Both sectors contribute equally to GDP growth in 2021.

Recovery in Private consumption (C) has lagged.
- But because of its sheer size, its recovery is expected to contribute the most to GDP growth.
- Recovery in consumption and imports, together with declining remittance inflows in some countries can reverse the trend of narrowing current account deficits in 2021.

A. Production sector growth

B. Demand component growth

Note: C=Private consumption, G=Government consumption, I=Gross fixed investment, X=Exports, M=Imports.
Elevated inflation

Headline consumer price (CPI) inflation higher than historical average in many countries.

A. Headline consumer price (CPI) inflation

Inflation in fuel and transportation, and food inflation have been higher than headline CPI inflation.

B. Fuel and transport relative to CPI inflation

C. Food relative to CPI inflation
Supply constraints led to high inflation in 2020; global oil prices and demand recovery sustain inflation in 2021.

- In 2020, inflation was driven by supply constraints, as lockdowns disrupted production and distribution.
- In 2021, the effect of supply is dwindling, while rising global oil prices and a recovery in demand sustain inflation.

Source: Results come from a structural Bayesian vector autoregression model, following Ruch and Taskin (forthcoming).
Elevated PPI inflation and commodity import price inflation could foreshadow future inflation pressures, when producers pass higher costs to consumers.
Poverty and inequality increased during COVID, and reduction during recovery will be a slow process.

- COVID set back poverty reduction effort in the region, and recovery has not been enough to reduce poverty back to pre-pandemic levels.

- COVID also widened inequality, and while recovery could help reduce inequality, the uneven recovery so far can also contribute to further inequality.
Poverty based on Surveys

Surveys show widespread food insecurity, and sometimes negative coping strategies during late 2020-early 2021.

SAR Phone Surveys

Individuals who believe their household is unable to cover basic needs for more than one month
Percent of respondents

<table>
<thead>
<tr>
<th>Country</th>
<th>AFG</th>
<th>BGD</th>
<th>BTN</th>
<th>MDV</th>
<th>NPL</th>
<th>PAK</th>
<th>LKA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent</td>
<td>95</td>
<td>65</td>
<td>9</td>
<td>67</td>
<td>23</td>
<td>48</td>
<td>65</td>
</tr>
</tbody>
</table>

Individuals who worried over the past 7 days that food in the household would run out
Percent of workers

<table>
<thead>
<tr>
<th>Country</th>
<th>LKA</th>
<th>PAK</th>
<th>NPL</th>
<th>MDV</th>
<th>BTN</th>
<th>BGD</th>
<th>AFG</th>
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<tbody>
<tr>
<td>Percent</td>
<td></td>
<td></td>
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</tbody>
</table>

SAR Refugee Surveys

How much of household basic needs can be met
Percent of respondents

<table>
<thead>
<tr>
<th>Country</th>
<th>Bangladesh</th>
<th>Nepal</th>
<th>Pakistan</th>
<th>Sri Lanka</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent</td>
<td>All</td>
<td>More than half</td>
<td>Half</td>
<td>Less than half</td>
</tr>
</tbody>
</table>

Refugees’ coping strategies
Percent of respondents

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce expenditure on hygiene items</td>
<td>55</td>
</tr>
<tr>
<td>Take out new loans</td>
<td></td>
</tr>
<tr>
<td>Skip paying rent/debts</td>
<td></td>
</tr>
<tr>
<td>Stop a child attending school</td>
<td></td>
</tr>
<tr>
<td>Sell livelihood assets</td>
<td></td>
</tr>
<tr>
<td>Ask money from strangers</td>
<td></td>
</tr>
<tr>
<td>Move to poor quality shelter</td>
<td></td>
</tr>
<tr>
<td>Send children under 16 to work</td>
<td></td>
</tr>
<tr>
<td>Send household members to work far away</td>
<td></td>
</tr>
<tr>
<td>Engage in risky activities</td>
<td></td>
</tr>
</tbody>
</table>


Source: UNHCR’s post-distribution monitoring surveys, conducted between September 2020-May 2021.
Fiscal and monetary policies play unconventional roles

Fiscal policy:

- In 2020, fiscal policy supports relief efforts through cash transfers and food distribution. During the recovery, continued focus on relief, but also on capacity building.
- Public investment fell in 2020 as public projects halted. Public investment expected to recover in 2021, as governments restart projects, increase spending on education and health services, although part of the increase also reflects a low base in 2020.

Monetary policy:

- All but Sri Lanka has kept policy rates low since start of pandemic.
- High inflation up until Q1 2021 has been driven by supply constraints and high oil prices. The absence of sustained demand-side pressures supports keeping rates low.
- Uncertainty around inflation has been high, making it harder to predict the future path of inflation.

### Estimated public fixed investment growth

<table>
<thead>
<tr>
<th></th>
<th>Percent, year-on-year</th>
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<tbody>
<tr>
<td></td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>-15</td>
</tr>
<tr>
<td></td>
<td>-30</td>
</tr>
<tr>
<td></td>
<td>-45</td>
</tr>
<tr>
<td></td>
<td>-60</td>
</tr>
</tbody>
</table>

### Stochastic volatility of inflation

Source: Uncertainty measure is derived from a structural Bayesian vector autoregression model with stochastic volatility, following Ruch and Taskin (forthcoming).
From fragile recovery to rebuilding
A fragile recovery

- SAR GDP is expected to grow by 7.1% in both 2021 and 2022. Private consumption is to contribute the most to GDP growth in both years.
- The strong near-term growth is driven in part by low bases in 2020, and the average annual growth during 2020-2023 is still 3 percentage points below the average during the four years before the pandemic.

A. Contribution of demand component to GDP growth

- GDP per capita is expected to reach close to 2019 level this year, but will still be far below pre-pandemic trend levels.

**B. South Asia real GDP per capita forecast**

Note: (e)=estimate, (f)=forecast. South Asia aggregates shown are in calendar year. The value of stacked bars does not exactly sum to GDP growth due to inventory changes and statistical discrepancies. Afghanistan is not included in the calculations.
Significant downside risks

An external slowdown and further COVID-19 waves pose significant downside risks, with large disparity across countries depending on import-export and sectoral exposures.

Source: Simulation with shocks to trading partners (external scenario) and to domestic demand (COVID scenario). External scenario assumes GDP outside SAR is 0.5-1% lower in 2021, 1-1.5% lower in 2022, and 0.5-1% lower in 2023, relative to baseline. COVID scenario assumes domestic demand is 1% lower in 2021, 1.5-2.5% lower in 2022, and 1-2.5% lower in 2023, relative to baseline.
Financial sector stress also poses significant risks

High shares of non-performing loans and private sector debt, in an environment of easy monetary and regulatory policies could lead to further financial sector stress.

Further stress in financial sector could drastically lower output, consumption and investment.

Effect of further financial sector stress in South Asia

Source: Simulation with shock to private investment calibrated using the fall in GDP and investment in India during 2008 GFC.
The pandemic left scars on the economy...

**Investment** drops led to cumulative losses of investment in South Asia

Gross fixed investment growth

- Percent, year-on-year

<table>
<thead>
<tr>
<th>BG</th>
<th>BT</th>
<th>IN</th>
<th>MV</th>
<th>NL</th>
<th>PK</th>
<th>KA</th>
</tr>
</thead>
<tbody>
<tr>
<td>-30</td>
<td>-20</td>
<td>-10</td>
<td>0</td>
<td>10</td>
<td>20</td>
<td>30</td>
</tr>
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</table>

Cumulative loss of investment based on forecast revisions

- Percent change relative to 2019 forecast

<table>
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<td>-30</td>
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<td>-10</td>
<td>0</td>
<td>10</td>
<td>20</td>
<td>30</td>
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</table>

**Government debt** increased drastically during the pandemic, shrinking fiscal space and limiting fiscal policy in support of recovery. High government debt leads to higher gross financing needs, soaking up funds for private investment.

**School** closures in SAR higher than world average. While distancing learning platforms were available throughout the region, effectiveness varied across countries, with lack of internet, electricity in poor areas the hurdle to equal learning.
... some of which can have long-lasting impacts

- The loss of schooling translates into loss in learning-adjusted years of schooling (LAYS), the estimate ranges from 9 months to 1 full year.

- In each scenario, the effect of schooling losses on three cohorts of school-age children in 2020 is examined: the 5-9 year old (yo) cohort, the 10-14 yo cohort, and the 15-19 yo cohort.

- Human capital growth falls as the 15-19 yo joins the workforce, and the fall stops after the 5-9 yo joins the labor force by 2035. Average annual deviations from the baseline GDP over the considered period are 1.5, and 1.2 percent, respectively, with the effect stronger when more cohorts with schooling losses are in the workforce.
Silver lining and post-COVID development

<table>
<thead>
<tr>
<th>Silver lining during COVID crisis</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Growth spurt after past recessions, as less productive firms are replaced, generating increases in total factor productivity.</td>
</tr>
<tr>
<td>▪ Great innovations, such as recent burst in digital tech adoption.</td>
</tr>
<tr>
<td>▪ Policies need to expand social safety nets; promote competition and innovation; optimize public infrastructure investment.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Green, resilient, and inclusive development (GRID) post-COVID</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ SAR is vulnerable to natural disasters, and a recovery that incorporates the World Bank’s GRID approach can best optimize the outcome.</td>
</tr>
<tr>
<td>▪ <strong>Green</strong>: climate change mitigation and adaptation.</td>
</tr>
<tr>
<td>▪ <strong>Resilient</strong>: investment in education and public health systems to boost human capital and resilience; strengthen financial sector resilience.</td>
</tr>
<tr>
<td>▪ <strong>Inclusive</strong>: expansion of efficient social protection to improve labor market outcomes and reduce inequality.</td>
</tr>
</tbody>
</table>
THEME CHAPTER

Shifting Gears: Digitization and Services-Led Development
01 Services-led growth is now possible

02 Services are tradable

03 Services can increase productivity
   ▪ Through the servicification of manufacturing
   ▪ Through the adoption of digital technologies

04 Services provide employment with agglomeration and skills requirements

05 Policy challenges
Services are increasingly the dominant share of GDP globally, regardless of the level of development.

Moreover, changes within services sectors have been significant: services are not monolithic.
The rise in digital technologies and COVID accelerated major shifts in production processes

Digital technologies are changing the tradability of goods and services: services-led growth may be the only option for South Asia!

Based on Baldwin and Forslid (2020)
With digitization, services increasingly possess desirable attributes for driving development

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Arguments for why manufacturing-led growth is the most plausible</th>
<th>Counterarguments due to new possibilities: services-led growth has these...and more!</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tradability (depends on opportunities to export abroad and global value chain participation)</td>
<td>Goods are <em>tradable</em> and do not require a physical presence to be <em>consumed</em>—unlike many consumer services—meaning demand can expand beyond domestic frontier.</td>
<td>Services do not have to be directly traded if value added is embodied or bundled with goods. Moreover, remote work and digital technologies have broken down communication barriers globally.</td>
</tr>
<tr>
<td>Productivity (depends on size of production unit, organizational structure, and economies of scale)</td>
<td>Factory production requires a <em>well-organized production structure</em>, unlike the &quot;disorganized&quot; informal sector. Economies of scale are easily achieved through investment in physical capital.</td>
<td>Digital platforms automatically provide <em>access to the market</em> and to related logistics at low cost, while providing workers more <em>flexibility</em>. Network <em>externalities</em> in digital technologies and infinite <em>divisibility</em> in services supply provide economies of scale and scope.</td>
</tr>
<tr>
<td>Skills requirements (profile of jobs amenable to sustained growth)</td>
<td>Manufacturing had the ability to <em>absorb large amounts of low-skilled labor</em> and provide stable jobs that could raise incomes.</td>
<td><em>Start-up costs are relatively low</em>, with no need for large physical capital sunk costs to complement labor. Through human capital accumulation, business networks and skills acquisition matter more.</td>
</tr>
</tbody>
</table>

All attributes check out...except skills development
Presentation outline

01 Services-led growth is now possible

02 Services are tradable

03 Services can increase productivity
   ▪ Through the servicification of manufacturing
   ▪ Through the adoption of digital technologies

04 Services provide employment with agglomeration and skills requirements

05 Policy challenges
Services exports since 2000 have grown comparatively quickly in India, Maldives, Sri Lanka, and more recently in Bangladesh.
Services contribute significantly to the value added of all exports in South Asia. For small tourism economies, revealed comparative advantage in value-added terms is relatively high.

Comparators in Figure A are Indonesia, the Philippines and Vietnam. Comparator in Figure B is the average for Cambodia, Cyprus, and Fiji.

Source: ADB MRIO and authors’ calculations.
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04
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05
Policy challenges
The contribution of services to manufacturing value added—particularly business services—is crucial but often unappreciated.

- Measurement challenges: By ignoring the input and output links across sectors and countries, previous analyses of long-run growth were unable to value the contribution of services to manufacturing or to other sectors.

Services help increase manufacturing productivity and have positive indirect effects:

1. **SPECIALIZATION PAYS OFF**: Bundled manufacturing is generally not as productive as pure manufacturing firms. Moreover, services firms with ownership connections to manufacturing are.

2. Specialized firms in India in **high-skilled business services** have strong relations with hi-tech manufacturing.

3. Links through international production sharing suggest that **business services** that are inputs into manufacturing also have strong spillover effects on all sectors—not just in South Asia—but globally.
The contribution of services to manufacturing value added—particularly business services—is crucial but often unappreciated.

Servitization in production

Servicification of manufacturing: services as inputs

Within the boundaries of the firm

 Outsourcing services (domestic or foreign)

 Inside the production unit (bundling of activities)

 Through ownership control (outside the country-sector)
Servitized manufacturing firms (engaged in both goods and services) are larger and have more intangible assets. But unlike advanced economies and other EMDEs, South Asian bundled firms grow a bit more slowly and are 13.6 percent less productive than pure manufacturing firms.

**Note:** Bundled or servitized (=1) as independent variable on the extensive margin from a panel fixed effects regression on annual data of South Asian firms. Asterisk denotes level of statistical significance.

**Source:** Authors using ORBIS dataset.
The contribution of services to manufacturing value added—particularly business services—is crucial but often unappreciated.

Servitization in production through arms-length specialization.

**Servitization in production**

- Through ownership control *(outside the country-sector)*
- Outsourcing services *(domestic or foreign)*
- Within the boundaries of the firm
- Inside the production unit *(bundling of activities)*

**Servicification of manufacturing:** services as inputs
Services firms in South Asia that have an owner in the manufacturing sector are relatively more successful than stand-alone services firms, along with several traits.

Note: Coefficients from regression results including country-sector; country; and year (2010-2020, annual) fixed effects, all significant at the 1% level. Only 703 firms have data to measure labor productivity, though the result is significant. Source: authors OLS estimations using Orbis database.
The contribution of services to manufacturing value added—particularly business services—is crucial but often unappreciated.
Indirect links with manufacturing through client relationships or auxiliary activities are very strong for certain specific high-skilled business services firms.

South Asian firms in both sectors engage in activities or relate to other firms according to text mining techniques which analyze of firms’ trade description. Based on their trade description, business and professional services firms cross over to manufacturing activities all the time, and vice-versa.
The contribution of services to manufacturing value added—particularly business services—is crucial but often unappreciated.
Services in India, and to some extent Bangladesh and Pakistan have strong forward links, comparatively speaking. The spillover effect to other sectors in India is very high.
Business services contribute the most to manufacturing, and the links are stronger the wealthier the country

- Indirect "spillover" effects from business services for every $1 final demand for manufacturing goods
- Panel regression results on business services indirect contribution to $1 demand for manufacturing
- Business services have the strongest forward linkage to manufacturing globally because of the large spillover effect on other sectors

![Graph showing the relationship between indirect effect and log per capita real GDP for different regions.](image)

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<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
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<tbody>
<tr>
<td>ln(GDPpc)</td>
<td>0.401*</td>
<td>0.247*</td>
<td>0.213**</td>
<td>0.327***</td>
</tr>
<tr>
<td>(0.204)</td>
<td>(0.128)</td>
<td>(0.0953)</td>
<td>(0.0968)</td>
<td></td>
</tr>
<tr>
<td>BSMFG(-1) Lagged dependent variable</td>
<td>0.655***</td>
<td>0.666***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(0.130)</td>
<td>(0.135)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-2.697</td>
<td>-3.568</td>
<td>-1.671*</td>
<td>-1.434</td>
</tr>
<tr>
<td>(1.945)</td>
<td>(2.243)</td>
<td>(0.874)</td>
<td>(0.897)</td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>480</td>
<td>360</td>
<td>420</td>
<td>420</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.114</td>
<td>0.117</td>
<td>0.423</td>
<td>0.425</td>
</tr>
<tr>
<td>Number of countries</td>
<td>60</td>
<td>60</td>
<td>60</td>
<td>60</td>
</tr>
</tbody>
</table>

Note: Year dummies, lagged GDPpc and institutional variables included but not shown (not always significant but of the right sign). Time dummies show 2014 and 2015 positive and statistically significant. Robust standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1
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Policy challenges
Firms are increasingly adopting e-commerce in South Asia

Rate of e-commerce adoption among family businesses in India

Source: World Bank E-commerce and MSME module, India CPHS Household Survey Jan-April 2021
The adoption of e-commerce is associated with a sustained increase in business profits.

Effects of adopting e-commerce:
Dynamic difference-in-differences analysis of CPHS panel dataset.
Digital platforms can improve firm performance by increasing access to markets

Platforms make it easier to:
- Match buyers and sellers
- Enable trust between buyers and sellers
- Facilitate long-distance transactions

Increased market access for firms

Firms can take advantage of economies of scale and learning-by-doing, increasing their PRODUCTIVITY
Firms in Bangladesh joined an e-commerce platform specifically to reach more customers...and firms sales grew after joining the platform.

**Reasons to work with Chaldal**

Percent of firms (%)

- Reach more customers
- Wanted to diversify sales outputs
- More reliable/steady sales
- Chaldal offers better terms
- Response to COVID-19
- Other
- Higher prices

**Did sales and employment increase after joining Chaldal? (% saying yes)**

Percent of firms (%)

- Total sales revenue
- Number of full-time employees
- Number of skilled employees

**Source:** World Bank-Chaldal Survey of Chaldal Supplier Firms, 2021
Digital platforms can also encourage entrepreneurship and innovation

- Reduced fixed costs and marginal costs of running a business
- Information about new technologies
- Information about consumer preferences

- Entrepreneurship and adoption of new technologies and business practices, increasing productivity
Firms that sell on the platform have adopted new business practices...

Source: World Bank-Chaldal Survey of Chaldal Supplier Firms, 2021
...though firms that have adopted e-commerce are a selective group.

Attributes of adopters (Bangladesh)

- The platform sellers are more “sophisticated” than the average firms in the retail and food products sectors.
- Similarly, in India, household businesses that have adopted e-commerce have above-average owner education and business registration.
- The pro-competitive effects of platforms could increase productivity and benefit consumers, though too much market power could accrue to dominant platforms or first movers.

Source: World Bank-Chaldal Survey of Chaldal Supplier Firms, 2021
Presentation outline

01  Services-led growth is now possible

02  Services are tradable

03  Services can increase productivity
    ▪ Through the servicification of manufacturing
    ▪ Through the adoption of digital technologies

04  Services provide employment with agglomeration and skills requirements

05  Policy challenges
Services will only be able to lead development if they can expand jobs and income... and the observed structural changes in the last decade bode well for South Asia.

1. Where do people in South Asia work, and what kind of jobs do they have? How does it compare to an advanced services-led economy?

2. Are the changes in the last 10 years conducive to a services-led economy in terms of trends and upgrading of skills?

   On-the-job learning becoming very important

3. As the labor force transitions to different jobs/occupations and sectors, has there been a general upgrading of skills of the labor force?
Unlike in the US, structural transformation through occupations is evident.

A decline in agricultural and manufacturing occupations has led to growth in construction and services occupations—particularly high-skilled services.

Services occupations are less important compared to the United States, though there is a shift to a greater variety of services-type occupations in the last decade.

Business services employ a large and growing share of high-skilled professionals in all countries.
The servicification of the labor force: workers engaged in services jobs are increasingly found in all sectors of the economy—including manufacturing.

Source: Various national labor force surveys and their equivalents for South Asian countries, the Occupational Employment and Wage Statistics (OEWS) for the United States classified at the ISCO-88 codes. Excludes agricultural workers and elected officials.
All economies except Pakistan see an upgrading of skills in the last decade or so. India and Bangladesh see the largest improvements. Share of high-skilled workers in labor force also increases.

**Note:** Index not comparable across countries due to different starting points. Skills classification based on job description mapping by International Labour Organization.

**Source:** Labor force surveys, various years for South Asian countries; U.S. Occupational Employment and Wage Statistics (OEWS).
Presentation outline

01
Services-led growth is now possible

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Services are tradable

03
Services can increase productivity
  ▪ Through the servicification of manufacturing
  ▪ Through the adoption of digital technologies

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Services provide employment with agglomeration and skills requirements

05
Policy challenges
  ▪ The rapid transformation of the services sectors requires new policies to move away from vested interests, rethinking of regulations, and perhaps even new institutions in three key areas:
1. Devising pro-trade and pro-competition services sector reforms

- Business and professional services sectors are *still heavily regulated* compared to other countries, creating a barrier to entry and vested interests for using new technologies.

- Barriers to competition have been reduced in many backbone services industries, such as transportation, but not fully. Moreover, *South Asia’s services sectors are also relatively sheltered from foreign competition* due to restrictive trade and FDI policies.

- *New institutional capacity must be developed to regulate the digital economy.* It should create a level playing field that allows competition and helps spread the benefits of new technologies broadly. Particularly, reduce the risk of undue market power accruing to dominant platforms. Simply replicating conventional regulations in traditional services industries could stifle innovation.

  **Regulatory sandboxes are recommended!**
2. Preparing workers for jobs in the new services economy

- Though the jobs generated directly by business and professional services tend to be skill-intensive, it is possible to make services-led growth more inclusive by preparing workers for less skill-intensive jobs generated indirectly in the services economy, particularly through *opportunities for on-the-job re-skilling* and greater access to digital technologies.

- For example, shared “*service centers*” in key urban areas where workers can go online and receive assistance with starting a business or supplying tasks.
3. Connecting consumers and firms to the new services economy

- To connect consumers in non-urbanized areas, governments in the region can draw on good examples from other parts of the world to develop last-mile connectivity in partnership with the private sector.

- To connect firms, government programs can support the extension of business advisory services to firms in conjunction with broader policies to promote competition and quality.

- Government programs can also promote private sector innovation in sectors such as tourism and transportation (e.g. tourism apps).
Thank you

Questions?

For more information, visit our website: