Session on

Effect of Globalization on Services Producer Price Index Change in the IT Industry:

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In 2005, services accounted for 70% of global GDP and 72% of jobs in the OECD countries.

…but only 20% of global trade.

Many services may be difficult to trade at a distance. Services delivery often requires close interaction between providers and customers, e.g., in cleaning, security, accounting and consultancy.

Service is typically delivered face-to-face.
But the persistence of policy barriers to trade in services plays a major role in the low contribution to global trade.

Lowering or eliminating policy barriers is more complicated than eliminating customs barriers.

Since 1995, multilateral negotiations on trade in services have been conducted in the framework of the GATS (General Agreement on Trade in Services).
What services can be imported or exported?

Mode 1, cross-border: the service moves across the border
- Satellite TV broadcasting
- Call centers
- Financial operation in a foreign country

Mode 2, consumption abroad: the customer moves across the border
- Tourists

Mode 3, commercial presence: the legal entity moves across the border
- A bank operating in a foreign country

Mode 4, presence of natural persons: the service provider moves across the border
- The "Polish plumber"
› **Mode 3, commercial presence** (the legal entity moves across the border)
› is the predominant mode for sales of services abroad to satisfy local consumers, e.g.:
› – Foreign branches
› – Subsidiaries
› – Retail banking networks
› – Retail chains
At global level, growth in trade in services (in the narrow sense) has been moderate, but no greater than growth in merchandise trade (1995-2005, approximately 5% annual growth in value terms).

- Half is “travel and transportation”: +3% a year
- Half is “other services”: +7% a year

But
- +10% for financial services
- + 9% for culture and leisure
- + 8% for royalties
- +23% for IT services

Source: OECD
Services and globalization

› In recent years, growth of the services sectors and globalization of services have gone hand in hand

› This arises in part from **greater outsourcing of intermediary services** both domestically and abroad.

› Facilitated by:  
  - high-speed networks  
  - scope for digitization of services  
  - reforms of national regulation  
  - trade liberalization (OECD)  
  - global high skill labor market
Services and globalization

› Some countries have become highly competitive with international IT outsourcing (e.g., Ireland, the Czech Republic, Israel, India…)

› Other countries have indirect gains in the form of
  -- Lower costs
  -- Greater competitiveness

› But intensified competition in services can also have negative effects on the population (even if less visible in Services than in Manufacture).
Services and globalization

› This raises issues that statisticians must resolve:

› - measuring service imports (here: IT activity) mainly as intermediate consumption
  › – either by the IT industry
  › – or by other industries in the case of direct imports

› - measuring the price, with the question of whether the tools available are sufficient.

› And if not, what are the tools to be invented?
A brief history of time

A. Renault operates in “autarky”
B. Renault outsources its IT services

Renault

IT company A 62.01
IT company B 62.02
IT company C 62.03
IT company D 62.03

IT company D
C. Renault seeks to rationalize and lower costs: an effect of globalization

IT company E

AtosOrigin 62.03

IT company F in India

Renault
Services and globalization

This will addressed by the following papers:

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