

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

24th Voorburg Group
Meeting



Oslo

september 14th 2009

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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?

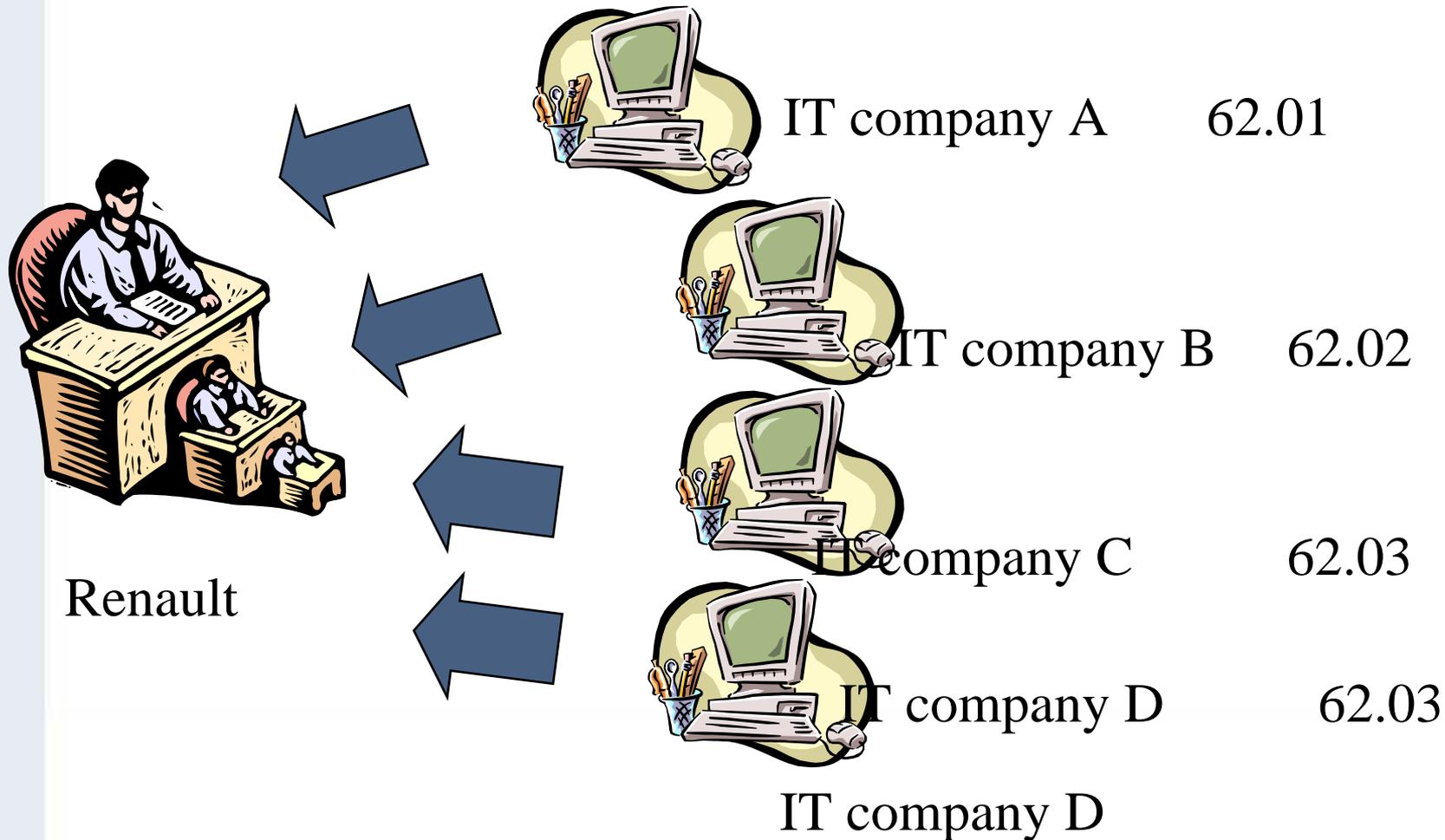
A brief history of time

A. Renault operates in “autarky”

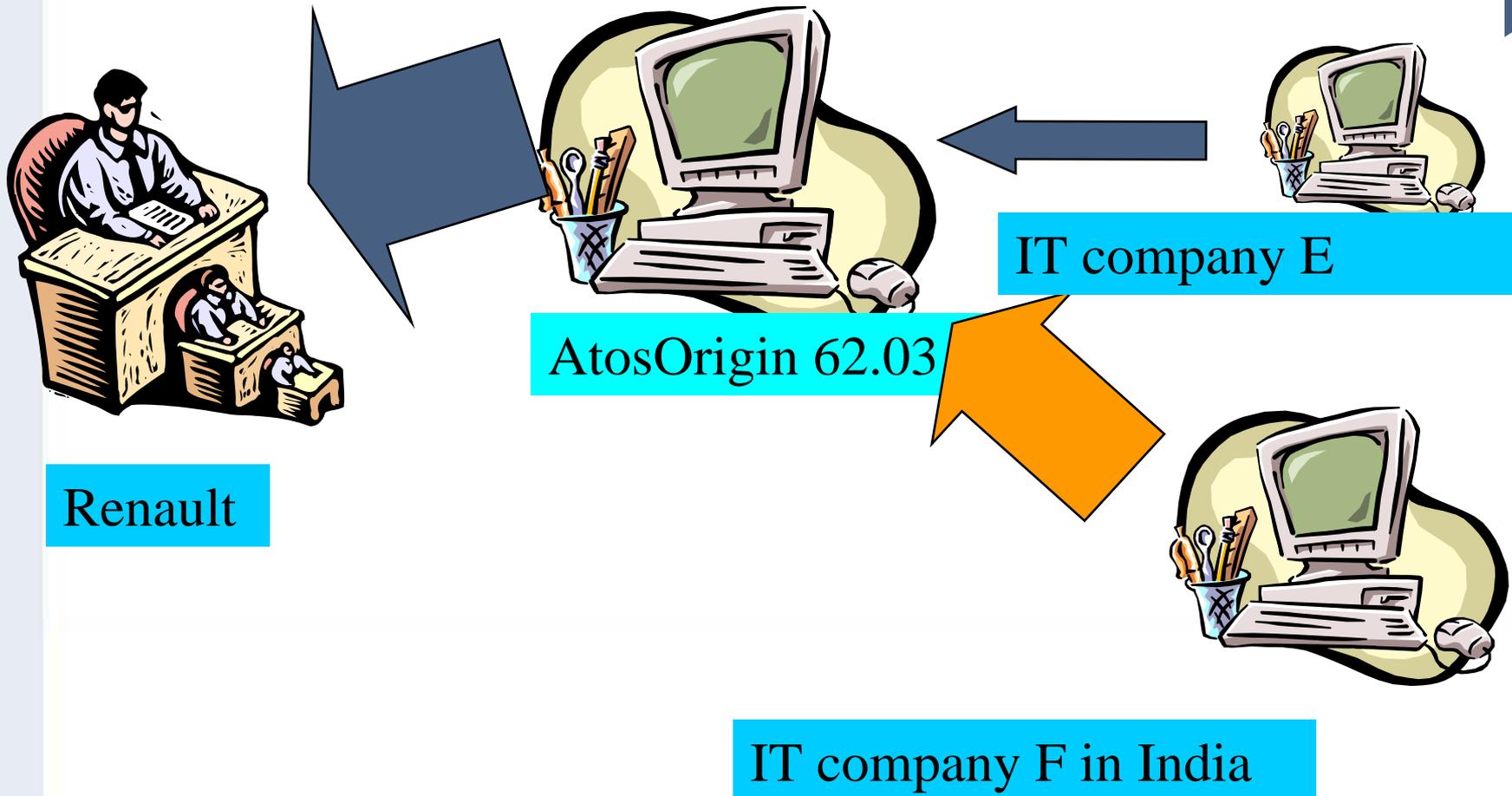


Renault

B. Renault outsources its IT services



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



Services and globalization

- › This will be addressed by the following papers:
- › Richard McMAHON CSO Ireland
- › Roslyn SWICK US BLS
- › Vera NORRMAN Statistics Sweden