

The Service Sector Advancement: Issues and Implications for the Korean Economy

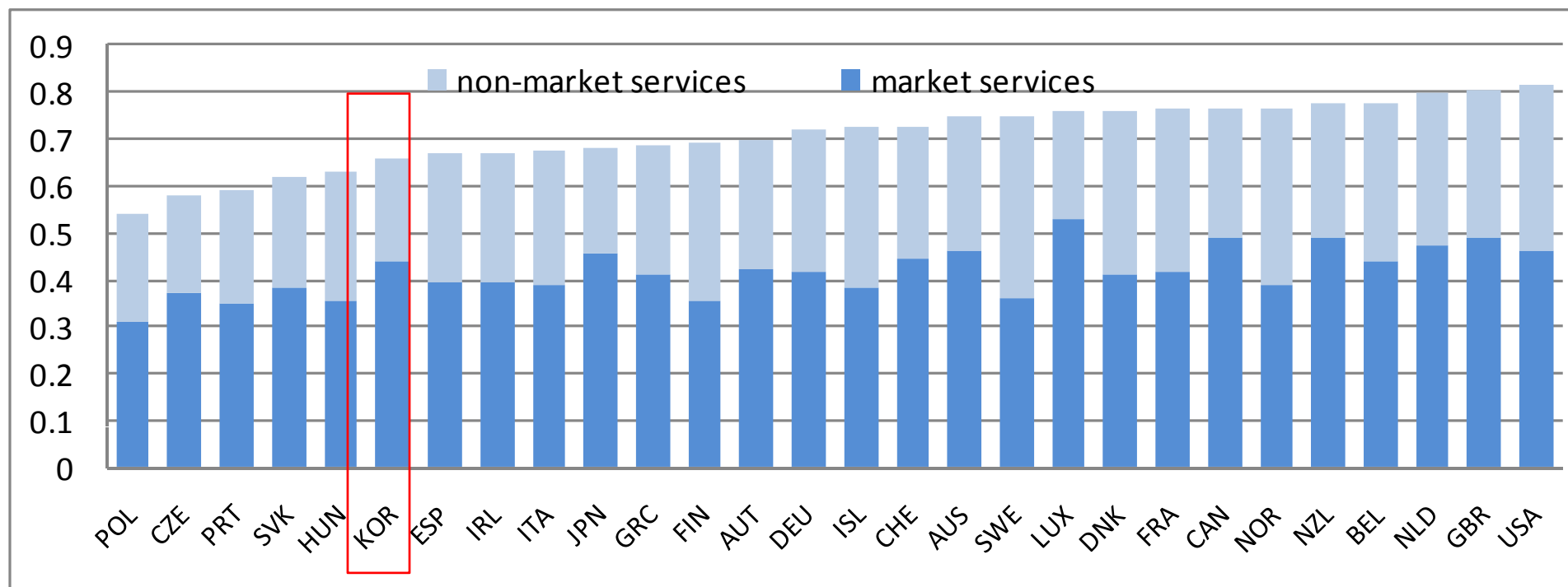
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The Trends of Service Sector Development in Advanced Economies: How does Korea Perform?

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Large variation in employment in services across the OECD ...

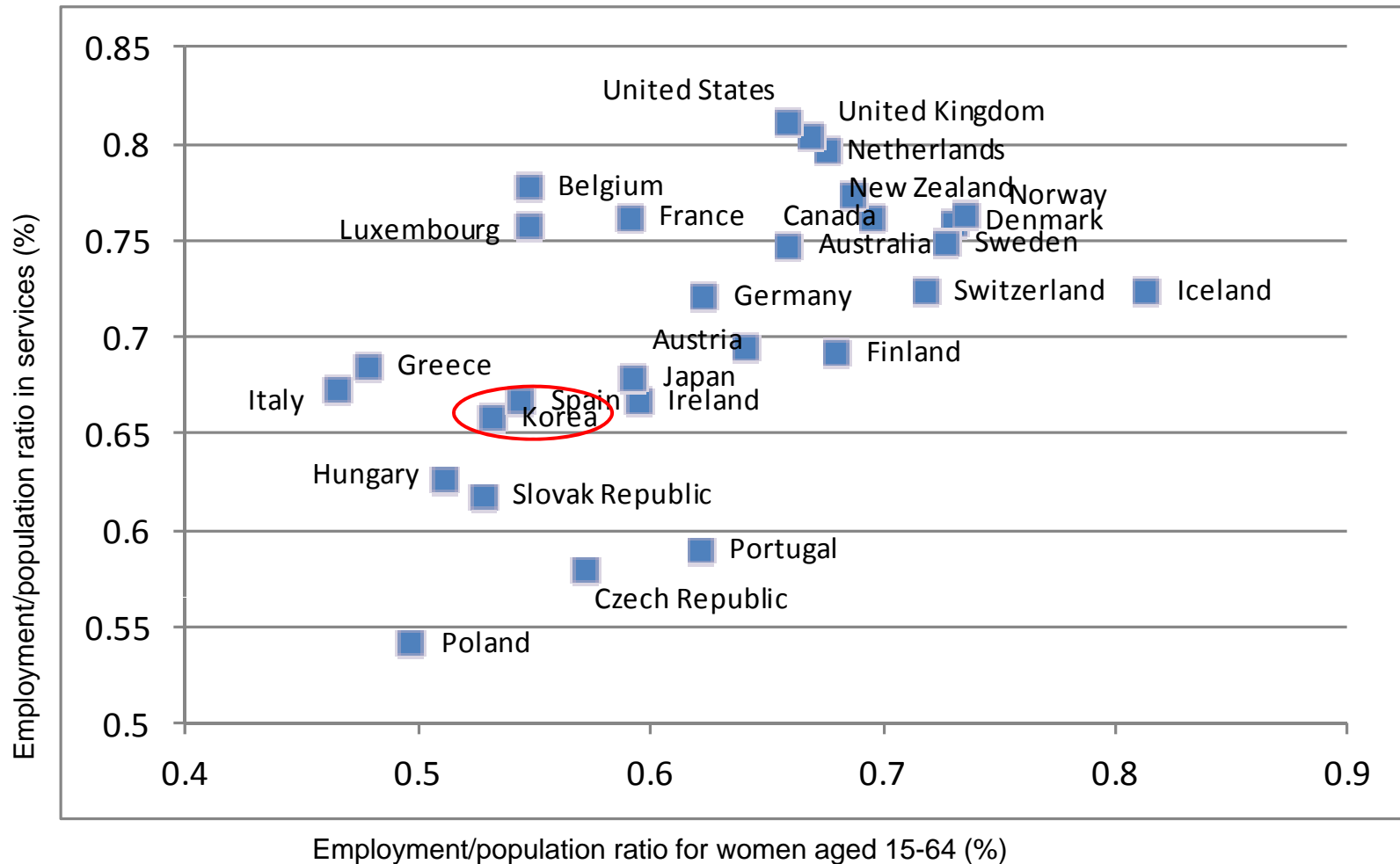
Share of employment in services, 2005-2008



- Low employment in services accounts for most of the variation in overall employment rates in OECD countries.

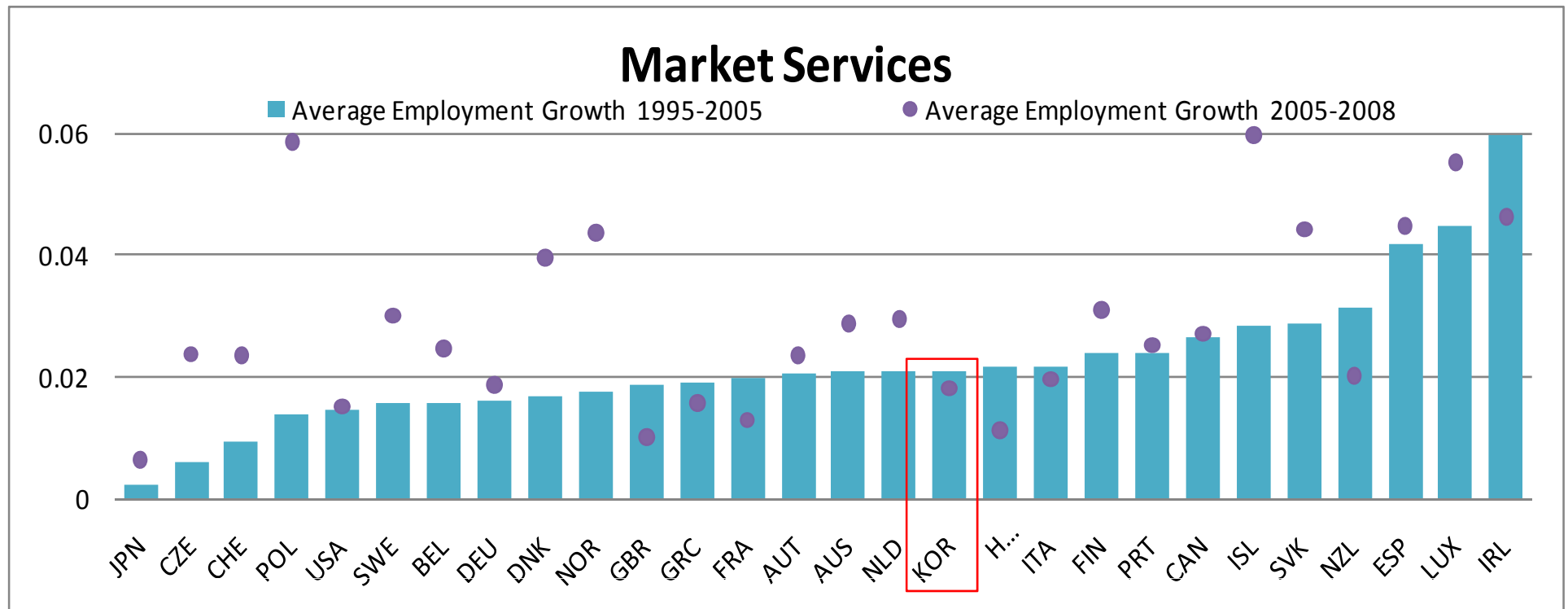
... which partly reflects employment of women

Employment/population ratios in services and for women, 2005-2008



- High employment in services goes hand-in-hand with high employment for women

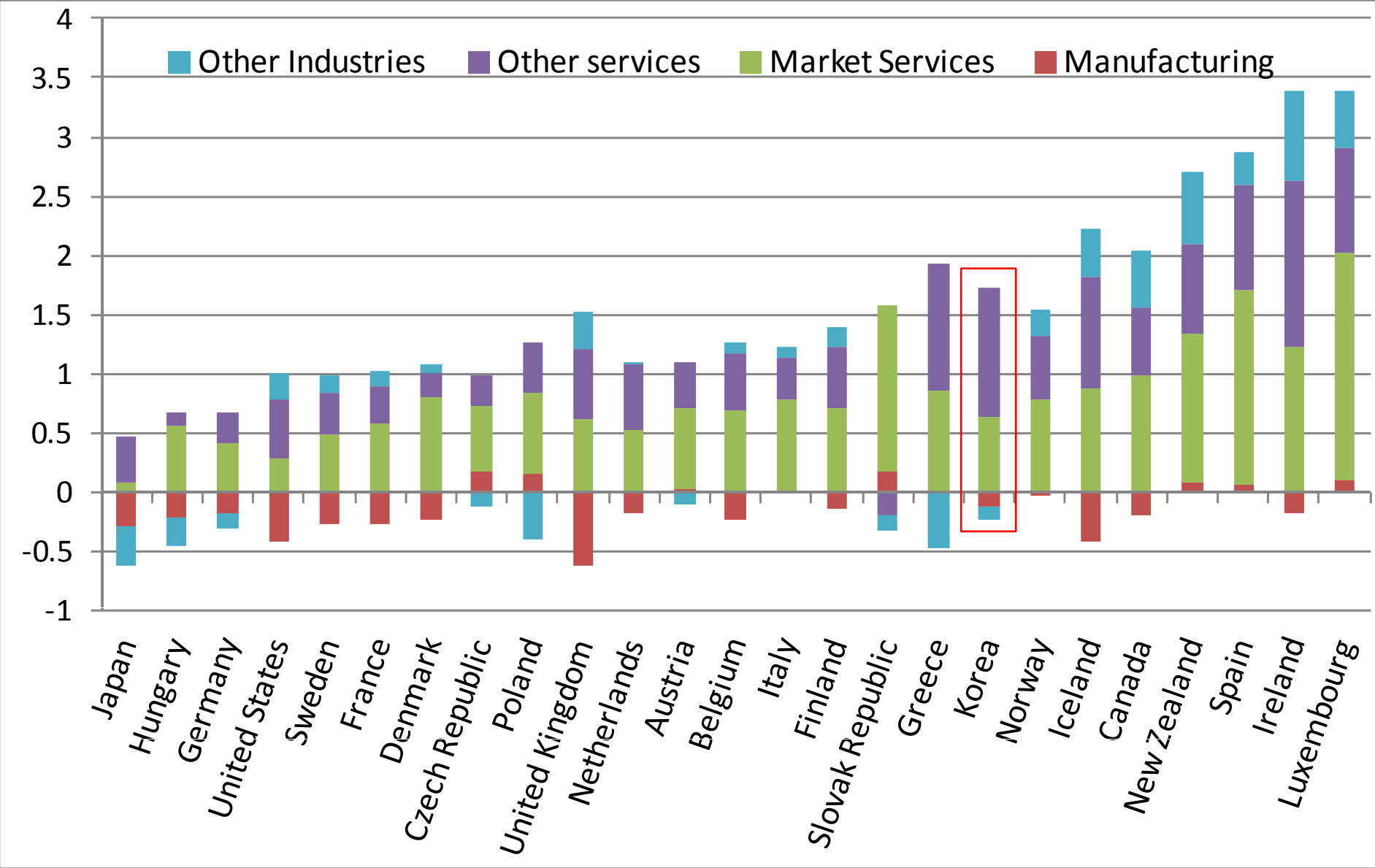
Employment in Market Services has grown markedly



Heterogeneity also in the employment growth of Services in the OECD

And contributes significantly to employment growth

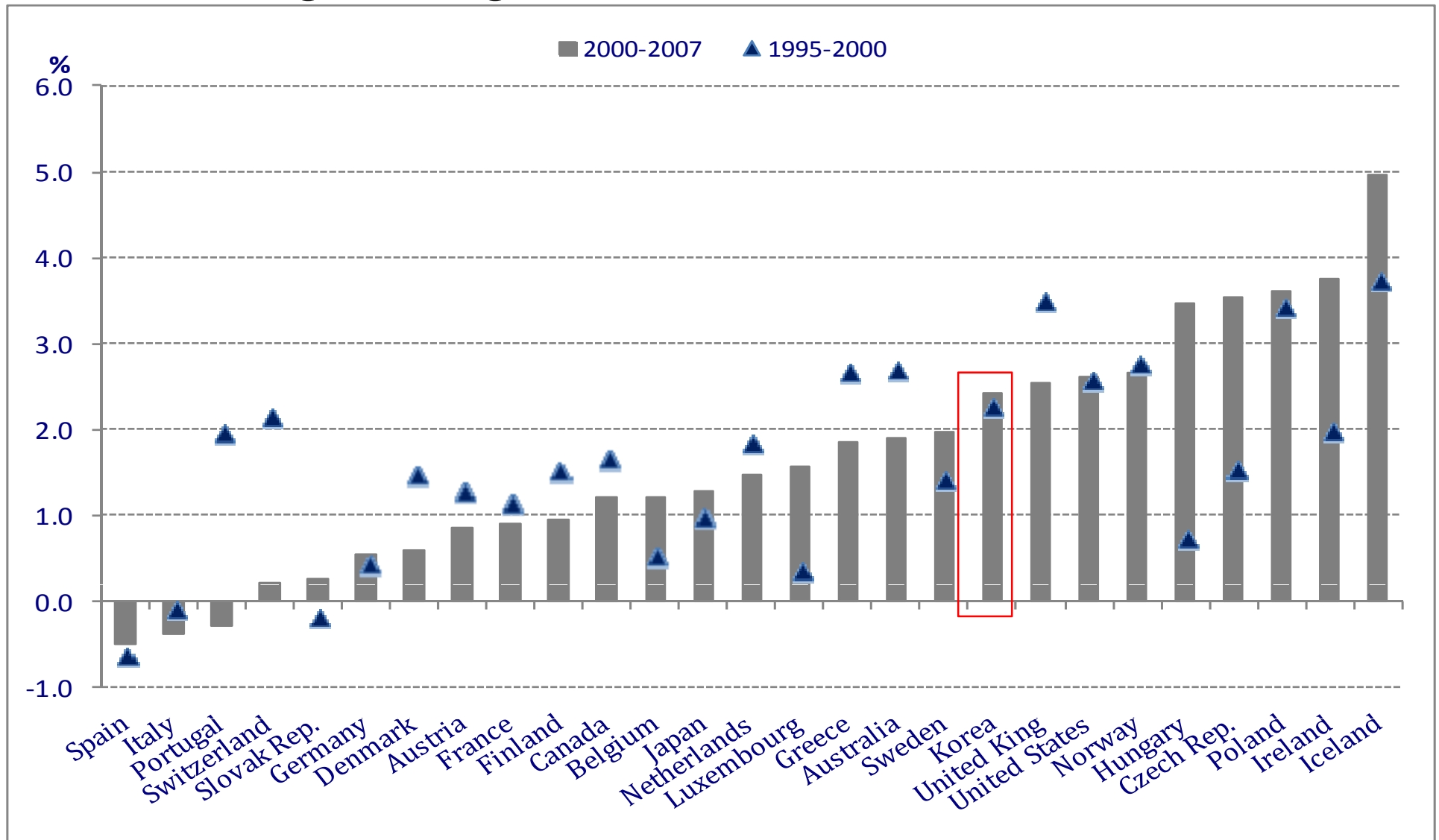
contributions of key activities to employment growth, in percentage points. 2000-2008 or latest available year



Reallocation of resources to services requires adequate human resources policies

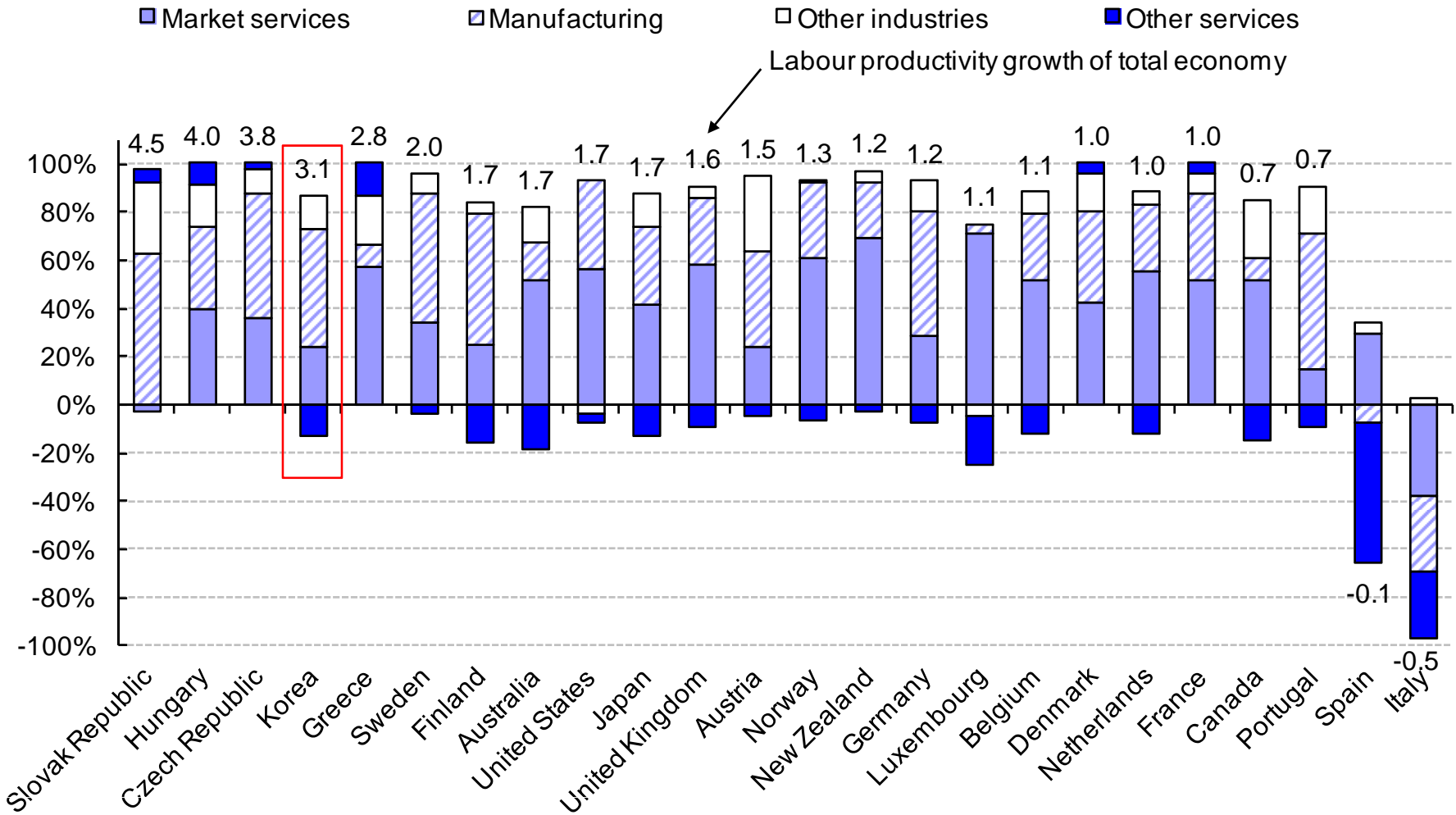
- Services firms may require new skills:
 - For specific trades and activities.
 - Specific needs, e.g. ICT skills and qualifications.
 - Skills are essential to the interaction with customers.
- Education policies – adapting the curriculum to address new needs.
- Training policies – workers will change jobs and activities more frequently than in the past:
 - Develop frameworks to foster training and life-long learning, e.g. through co-financing by workers, firms and governments.
 - Develop systems to credit such training, e.g. through quality certificates and skills accreditation mechanisms.

Labour productivity in market services is growing in several countries ...



Contribution to labour productivity growth

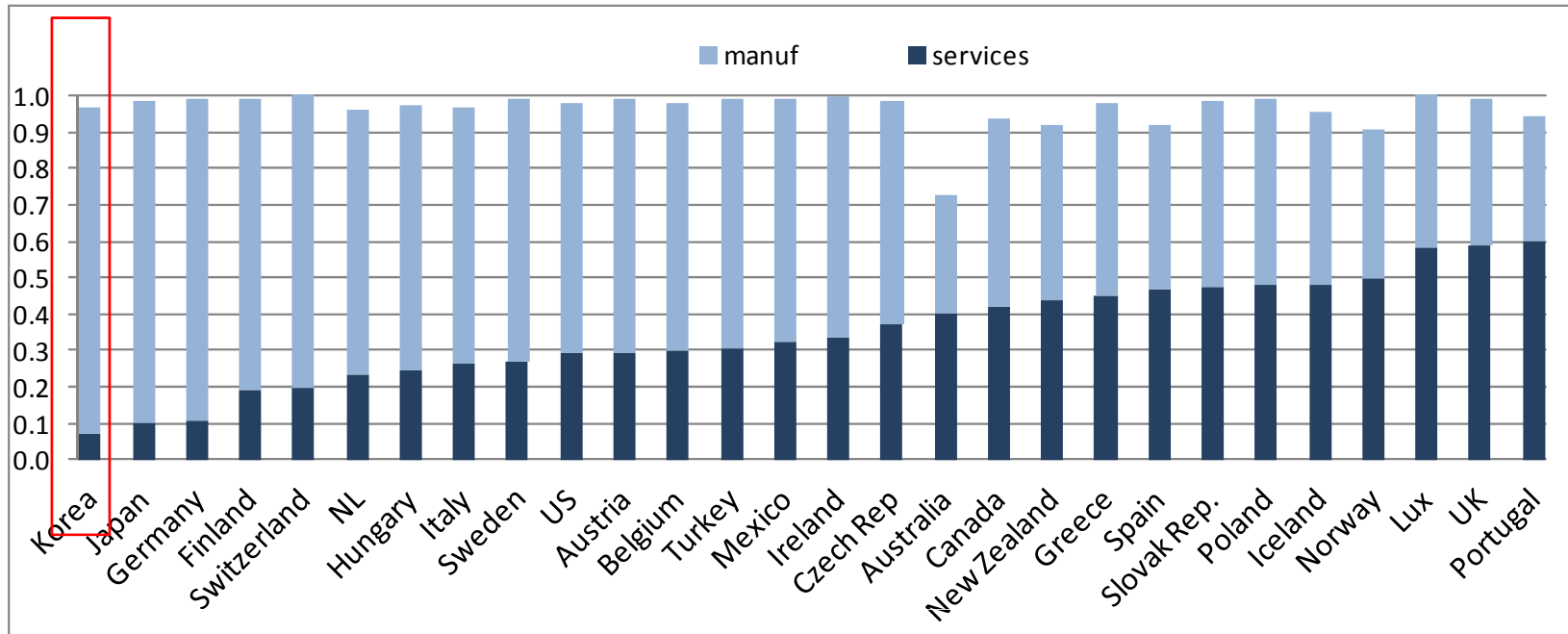
Shares in contributions of key activities to growth of value added per person employed, in percentage points. 2000-2006



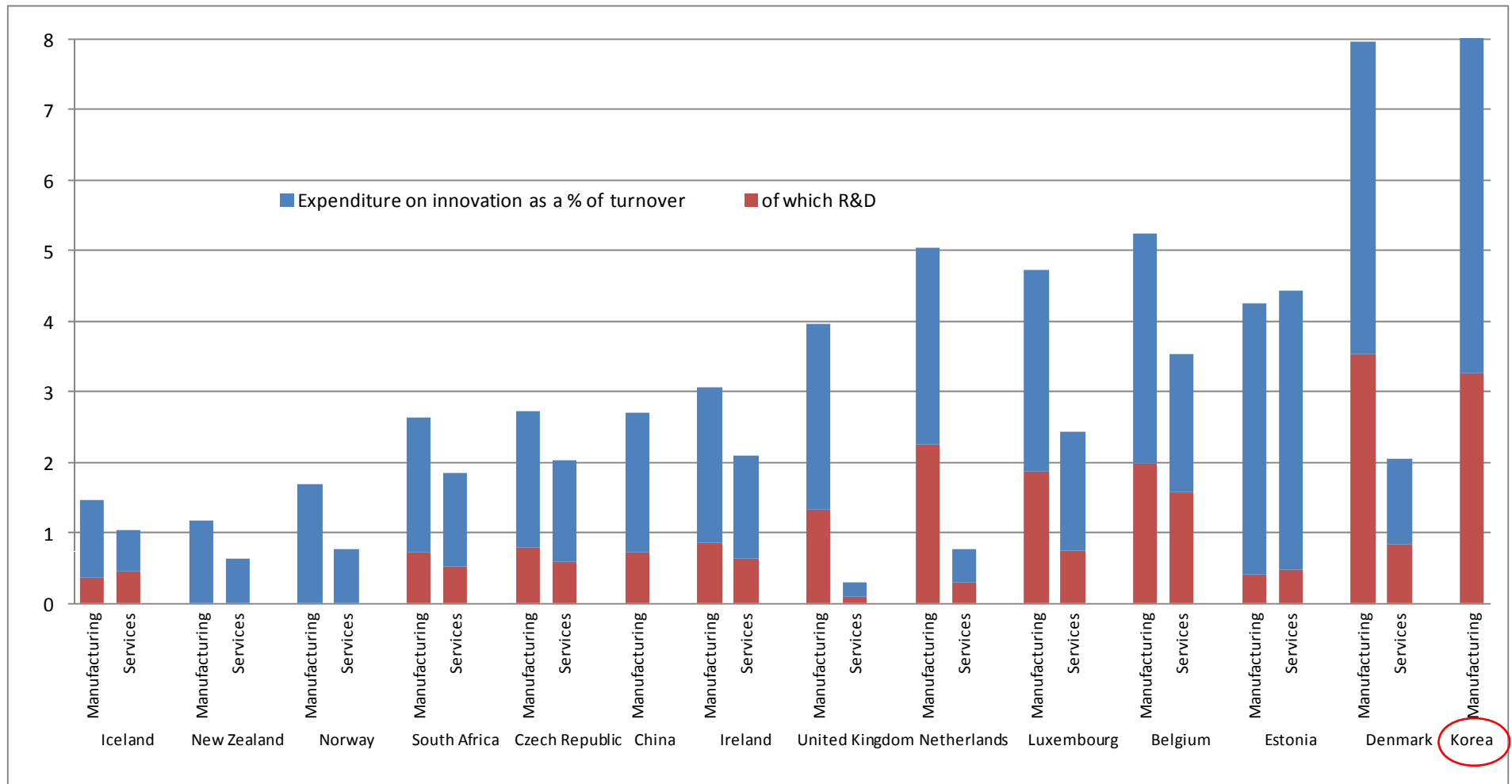
Market services cover "Wholesale, retail trade, hotels and restaurants" (ISIC 50-55), "Transport, storage and communication" (ISIC 60-64), "Finance, insurance, real estate and business services" (ISIC 65-74).

In some OECD countries, services account for a significant share of business R&D

Proportion of BERD performed in manufacturing and service sector, 2007 or latest available year

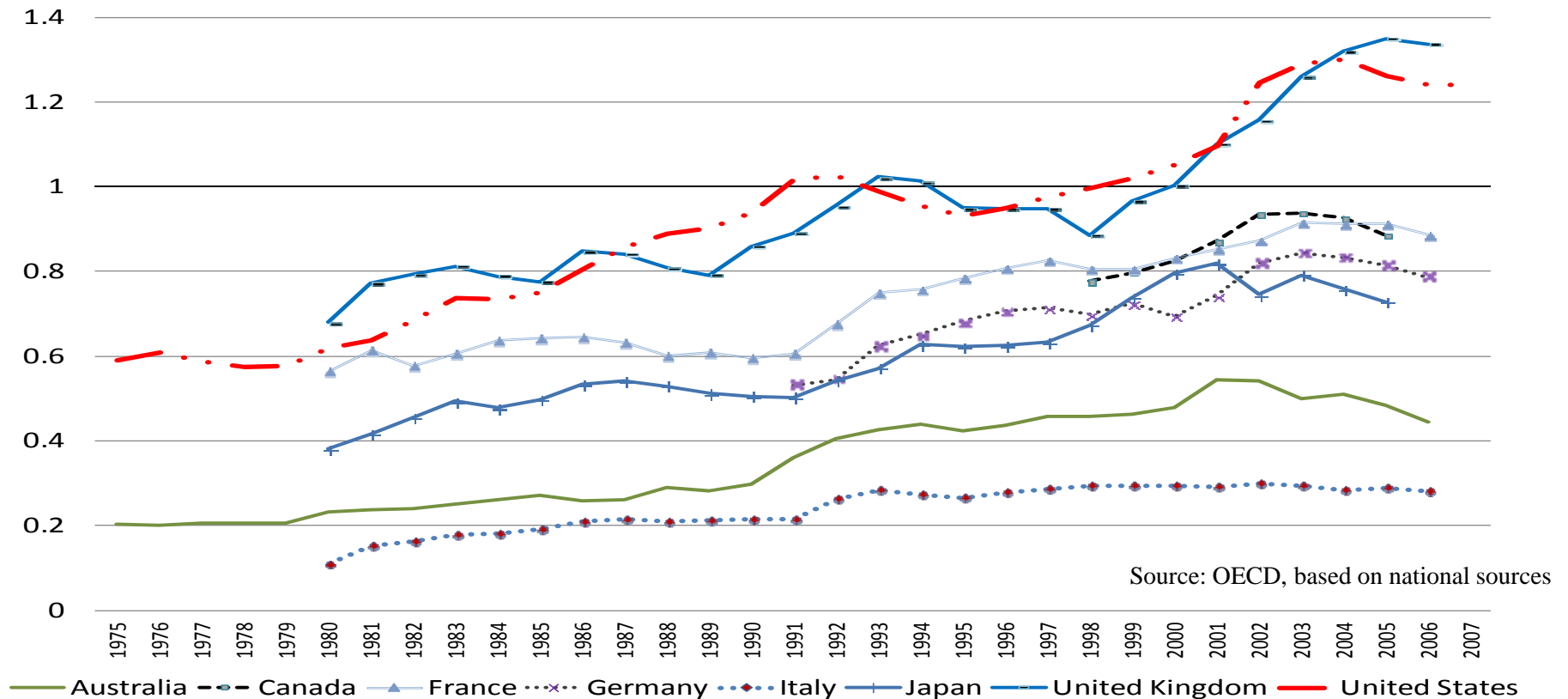


But investment in innovation is not only about R&D..especially in services



Source: OECD, Innovation Microdata project. Note: Results for countries participating in the CIS are from CIS-2006 except Iceland which is based on the CIS-4. For other countries, data are based on latest available surveys: Australia (2007), Japan (2003), Korea (2008),

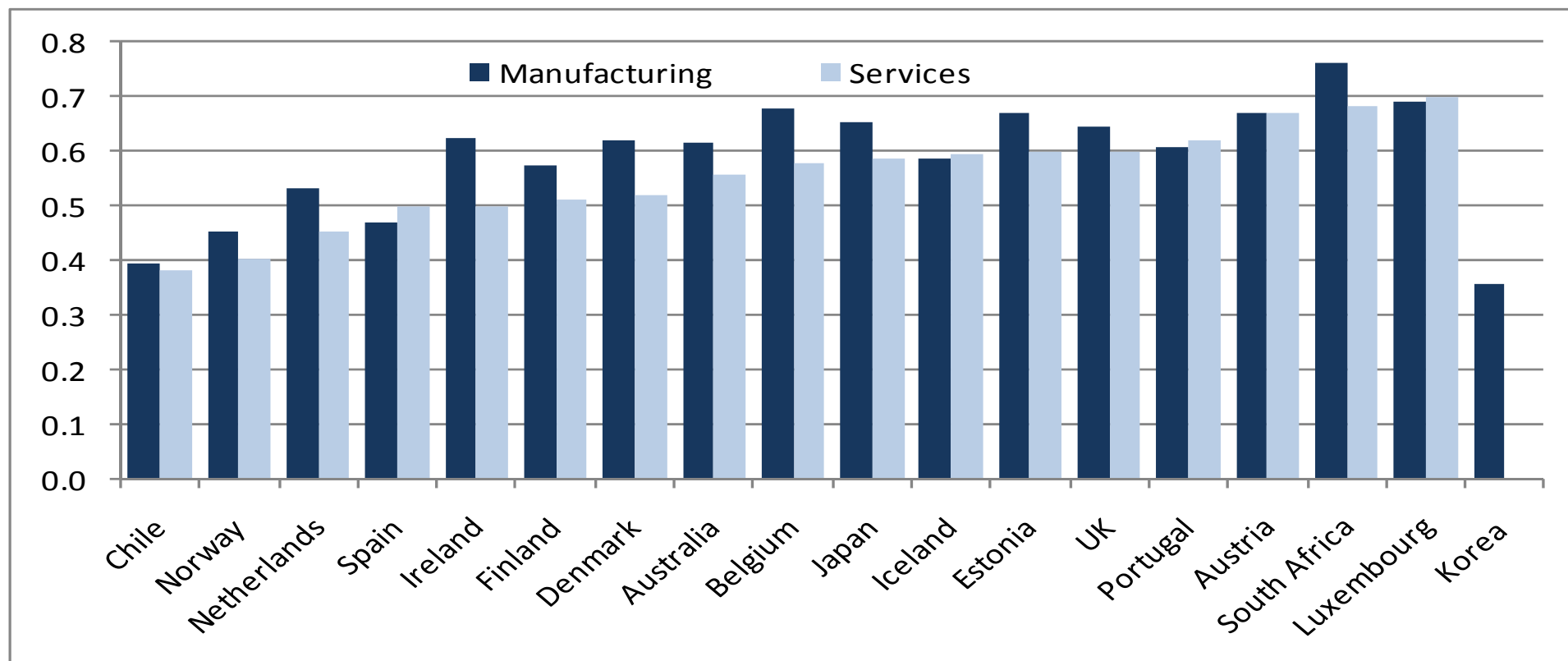
The growth of services is accompanied by growing investment in intangible assets



- Intangible investment (software, R&D, training, organisational factors) is now larger than investment in machinery, equipment and buildings in some countries – this is increasingly how firms create value.
- Intangibles are often not yet included in firm (& national) accounts.
- Improved corporate reporting of intangibles increases market transparency and can help lower the costs of capital – this may be particularly important in the services sector.

Services can be as innovative as manufacturing firms ...

Innovative firms (product, process, marketing or organisation innovators) as % of all firms 2004-2006

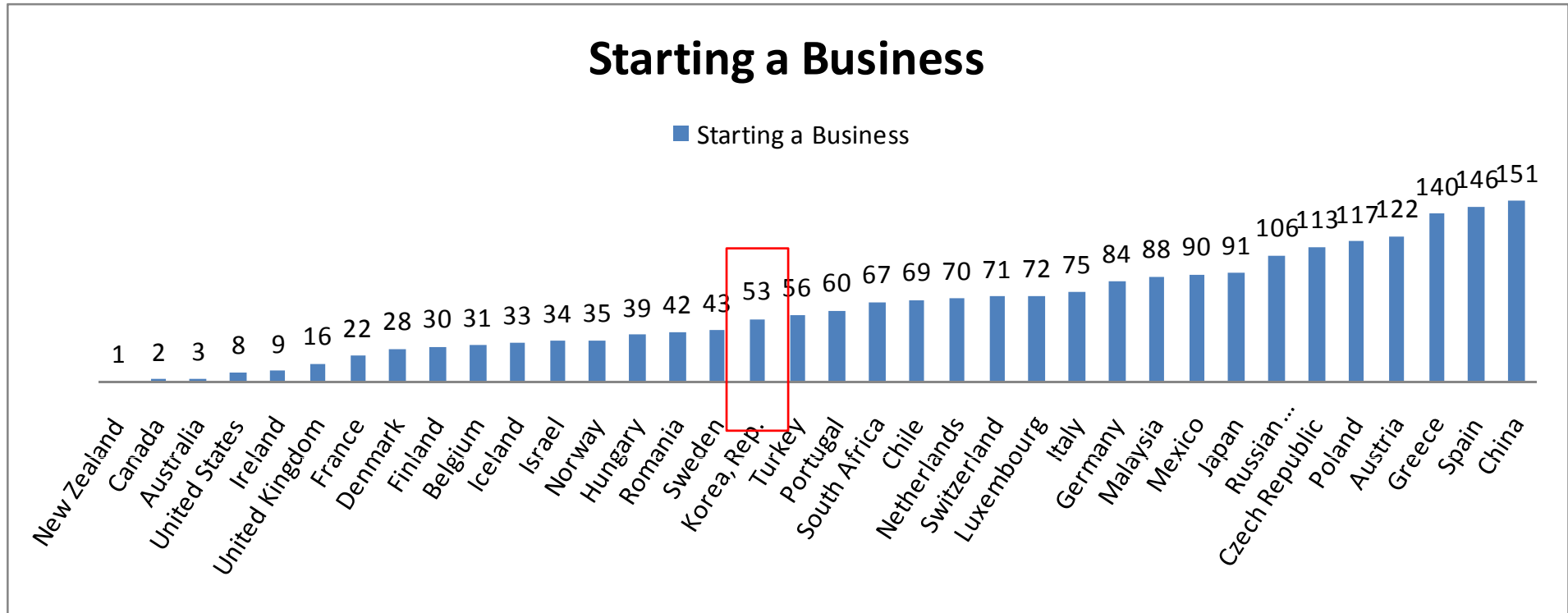


- Service firms are potentially just as innovative as manufacturing firms.
- Many governments do not yet sufficiently consider services firms in their policies to foster innovation.

What policies to strengthen innovation in services?

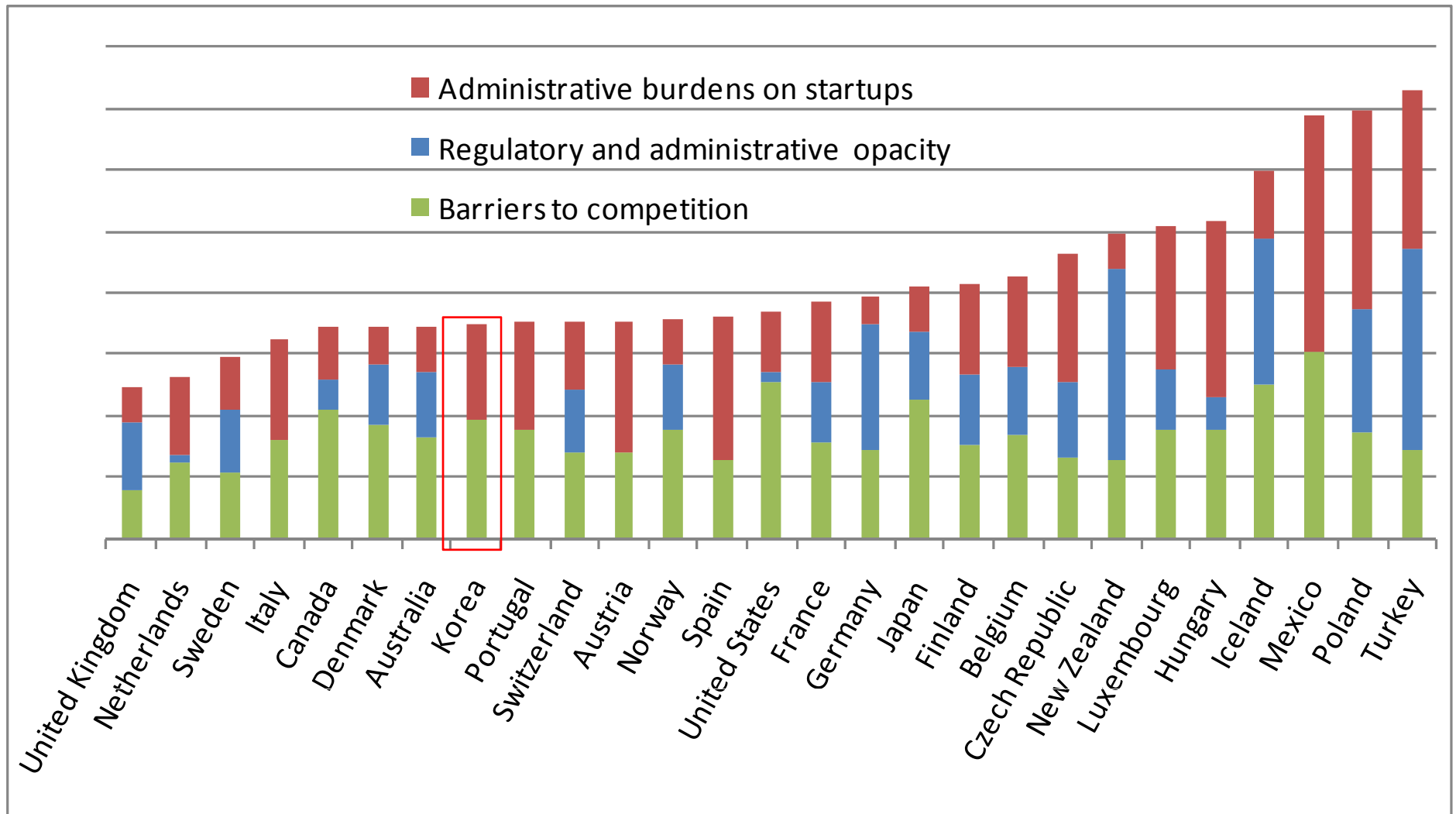
- Existing policies for innovation and technological change should be made more relevant to services sectors, notably by broadening innovation policies beyond support for R&D, e.g. by:
 - Opening government innovation programmes to innovation in the services sector.
 - Raise awareness of existing public policies among services firms.
 - Fostering links between service firms and scientific research institutions and within the supply chain.
 - Addressing the long-term knowledge requirements of services firms, e.g. by involving services firms more directly in long-term (basic) research.
 - Strengthening framework conditions for services firms:
 - Enhancing competition, by regulatory reform and opening of services markets to international competition.

Creating a new firm is still difficult in some countries (Ranking , 2010)



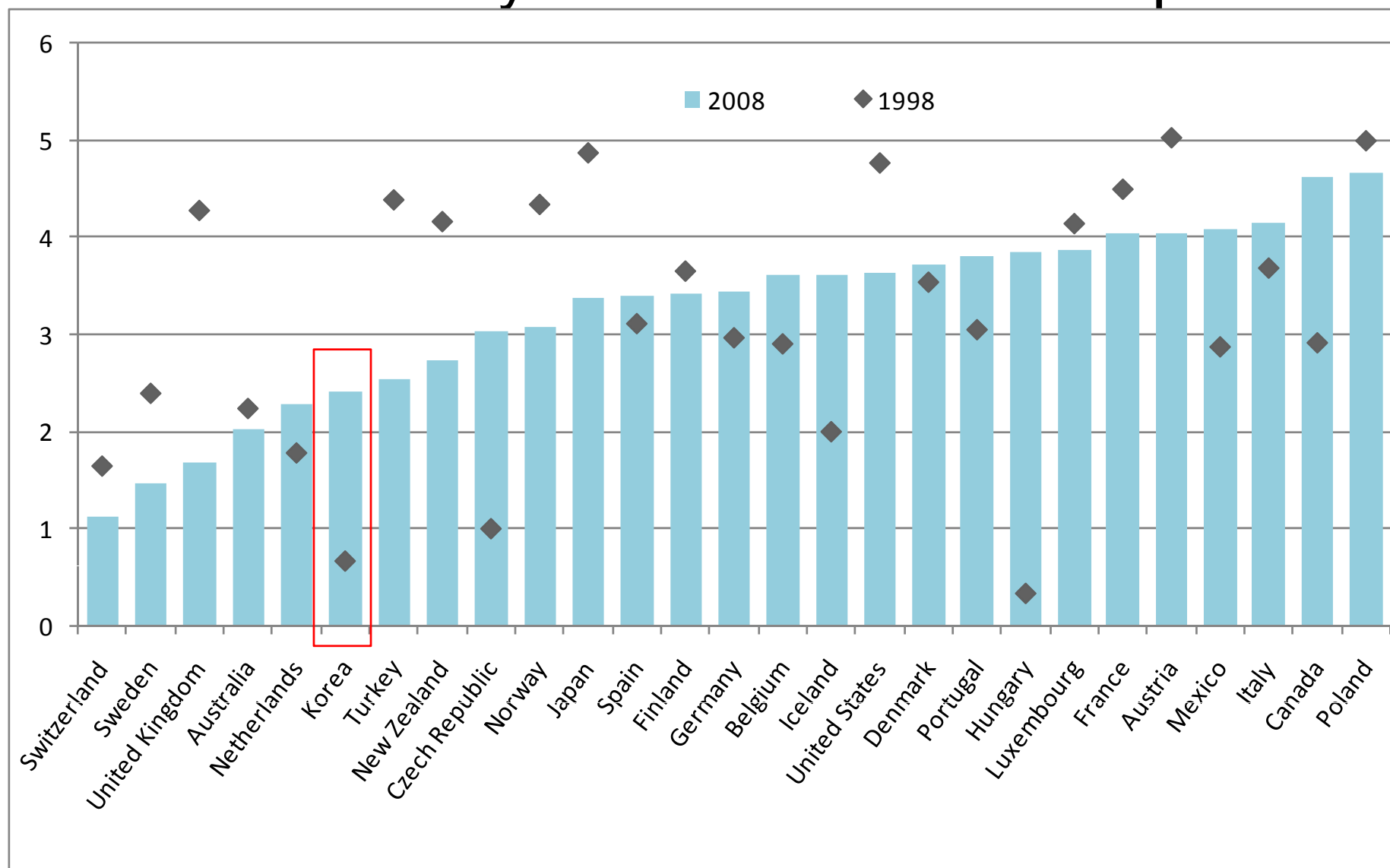
Source: Doing Business 2010, World Bank

Barriers to Entrepreneurship



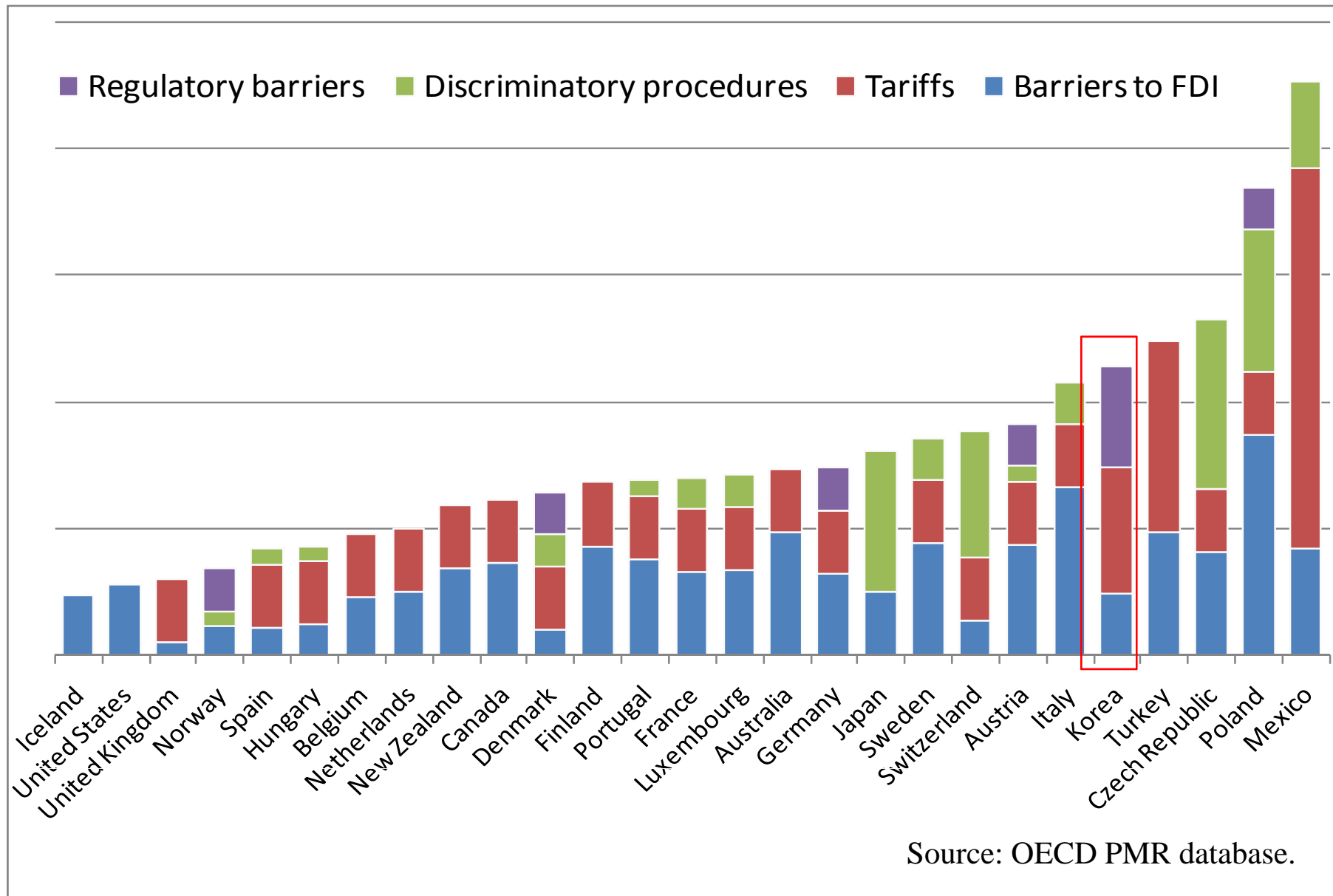
Note: The index ranges from least restrictive to most restrictive. Source: OECD PMR database. Figures refer to 2008

Barriers to Entry in Services remain a problem

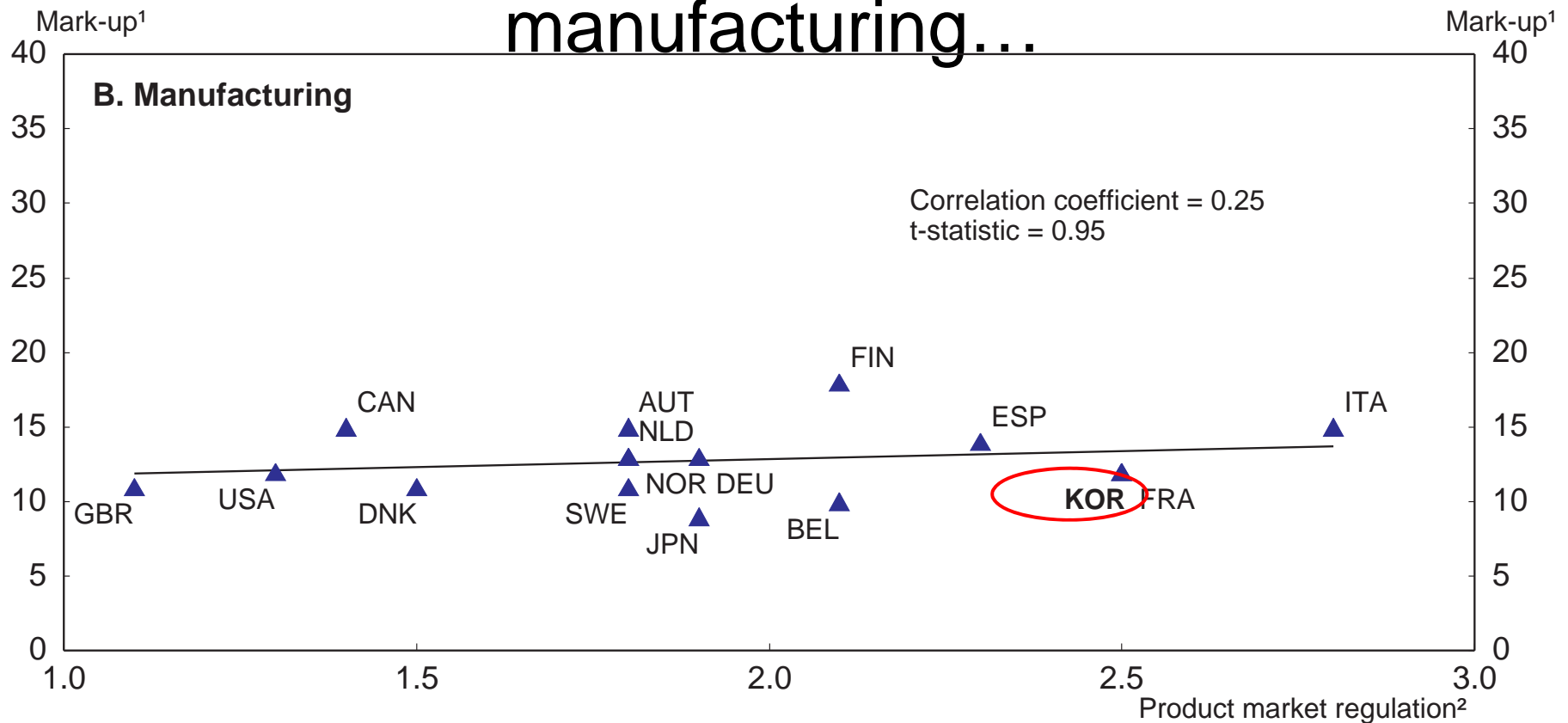


Services markets are also affected by barriers to international trade and foreign direct investment

(indices of restrictions on foreign direct investment, 2008)



More domestic product market regulation means less competition in manufacturing...

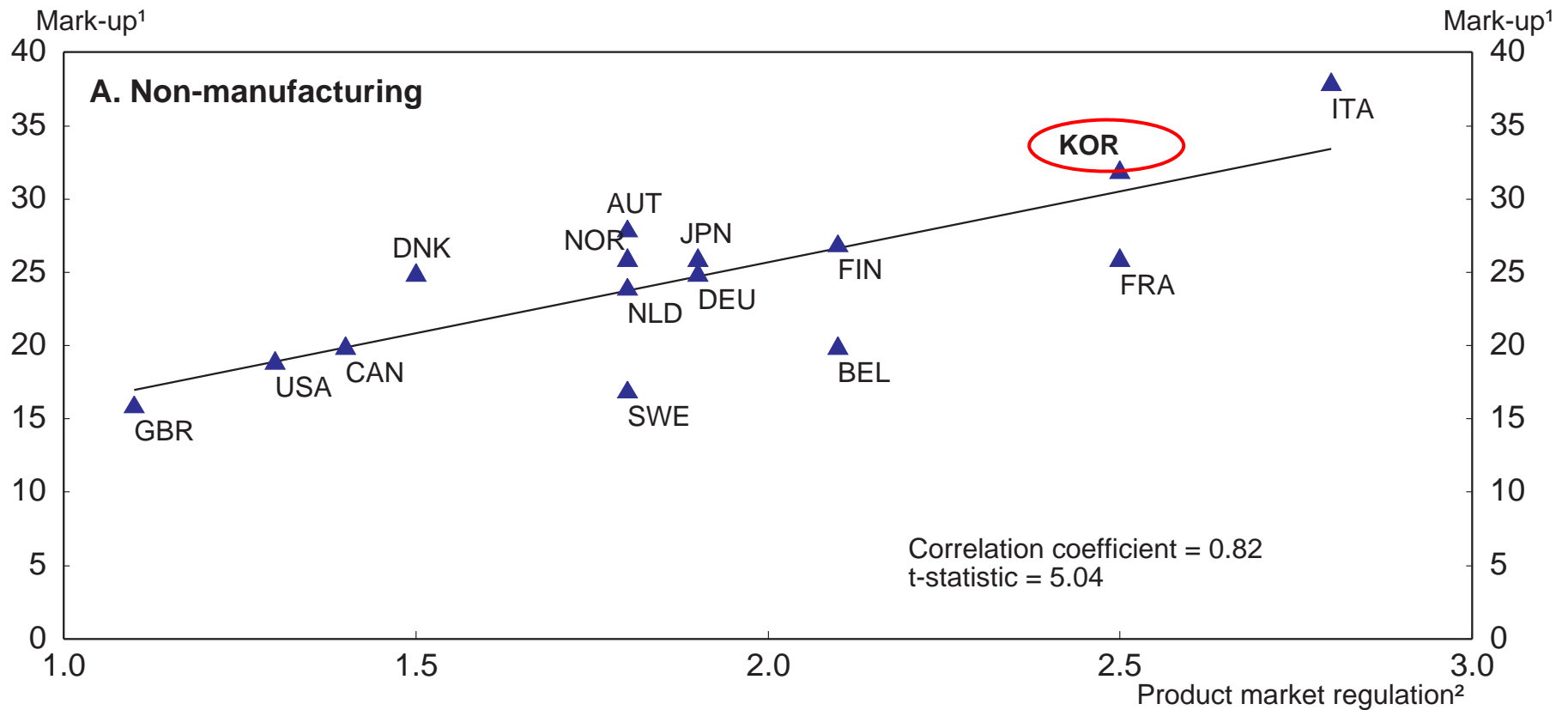


1: Mark-ups are calculated for individual two-digit ISIC sectors and aggregated using country-specific final sales as weights.

2: Product market regulation is the overall indicator for 1998.

Source: Høj et al. (2007).

...and even more so in non-manufacturing

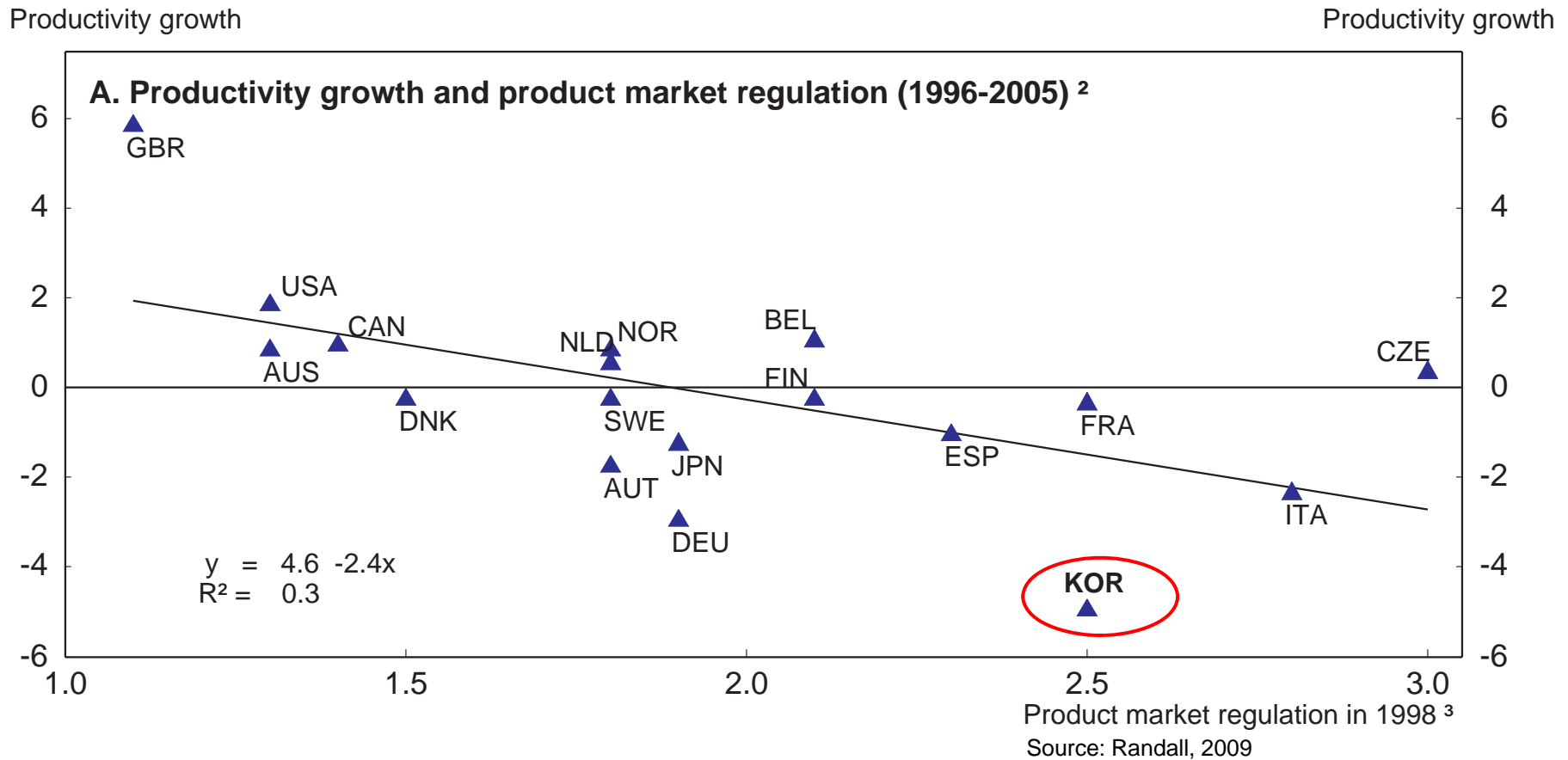


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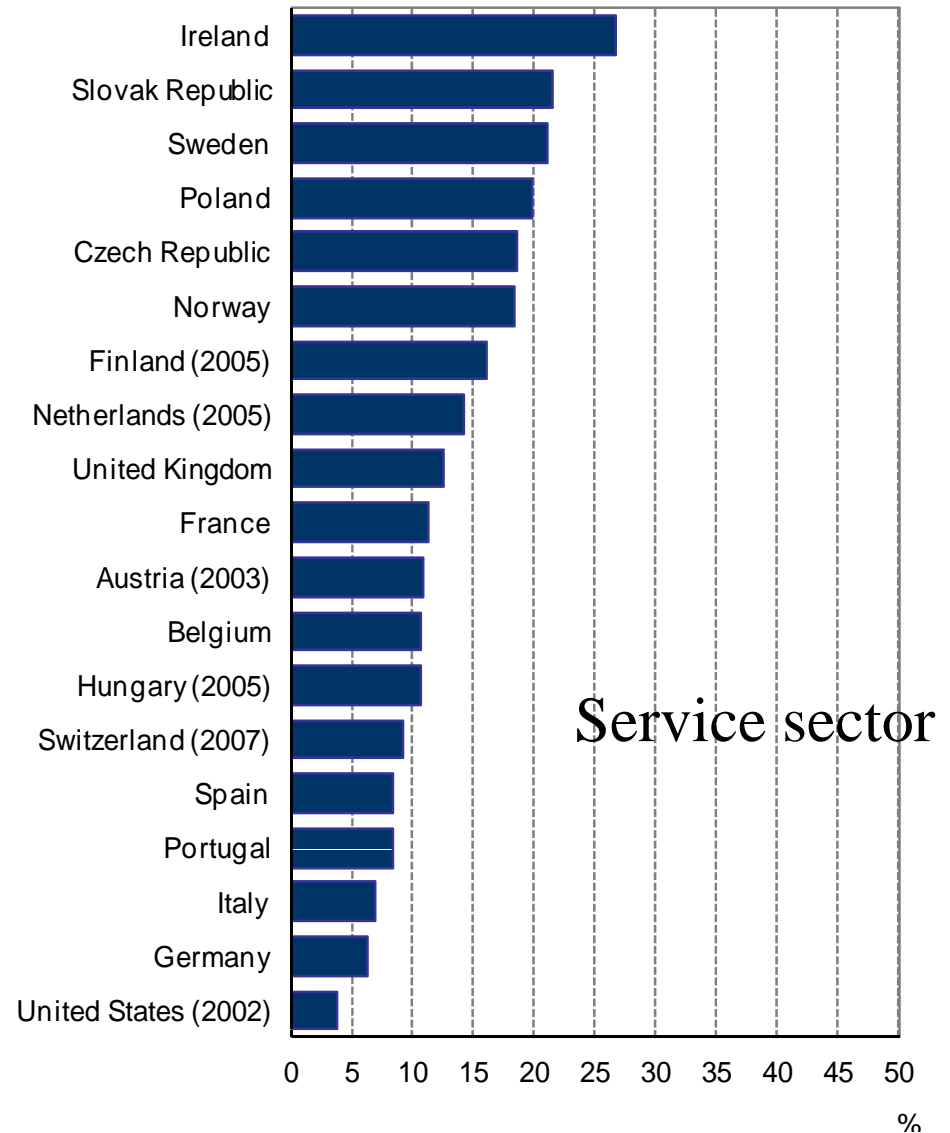
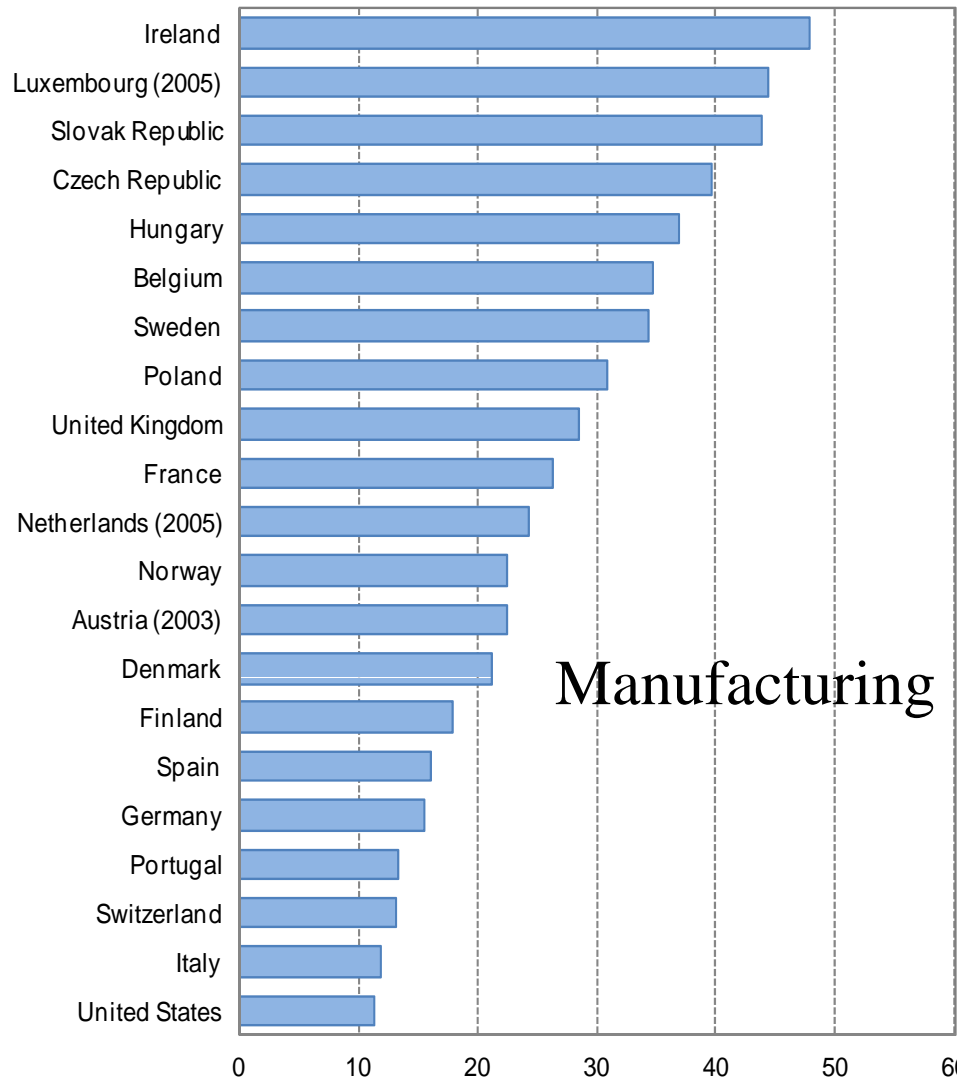
2: Product market regulation is the overall indicator for 1998.

Source: Høj *et al.* (2007).

Higher PMR is associated with lower productivity growth in business services

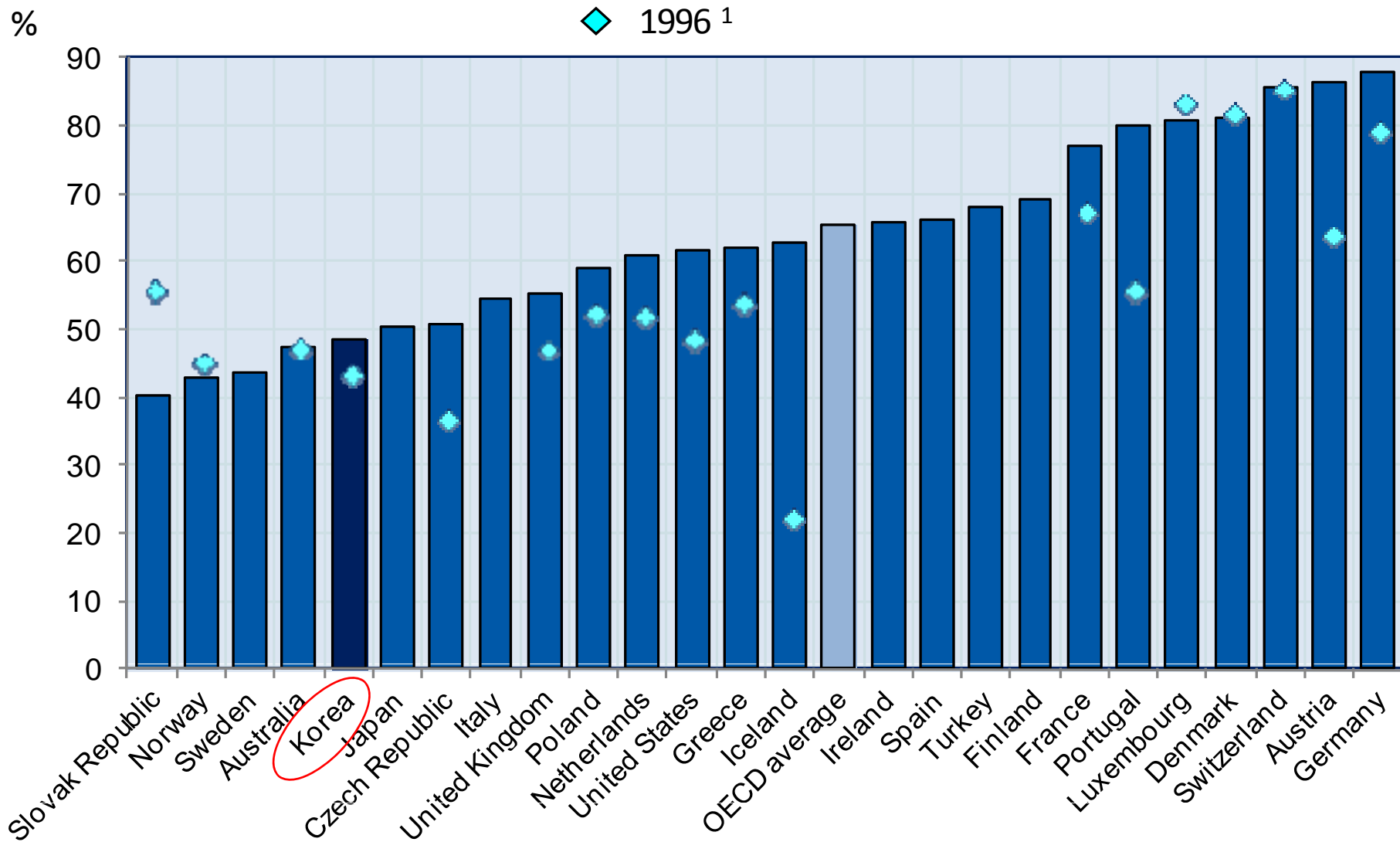


Share of affiliates under foreign control in employment



- Services are often more sheltered from foreign direct investment – regulations are higher.

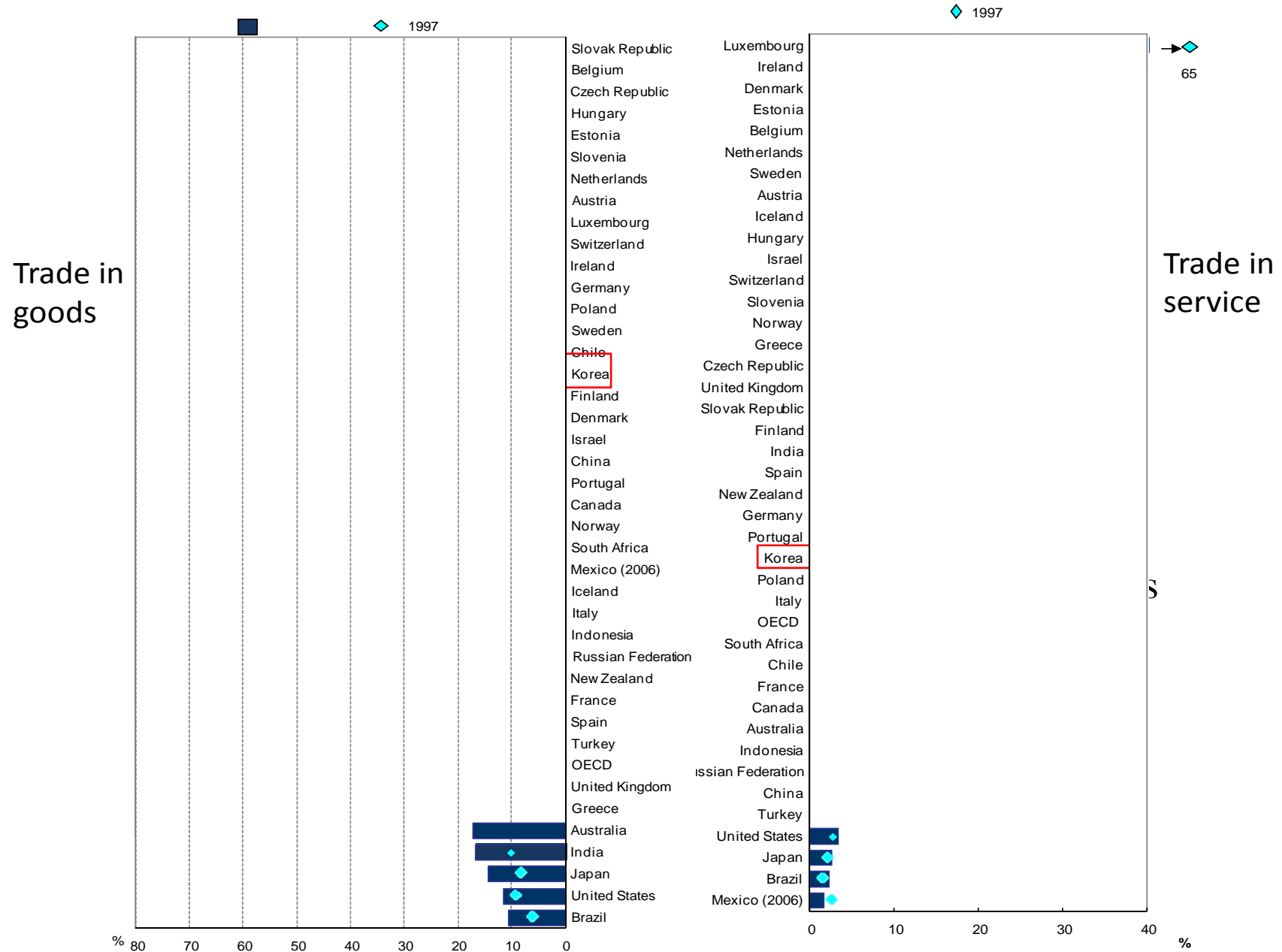
Share of the service sector in the stock of inward FDI in OECD countries, 1996, 2006



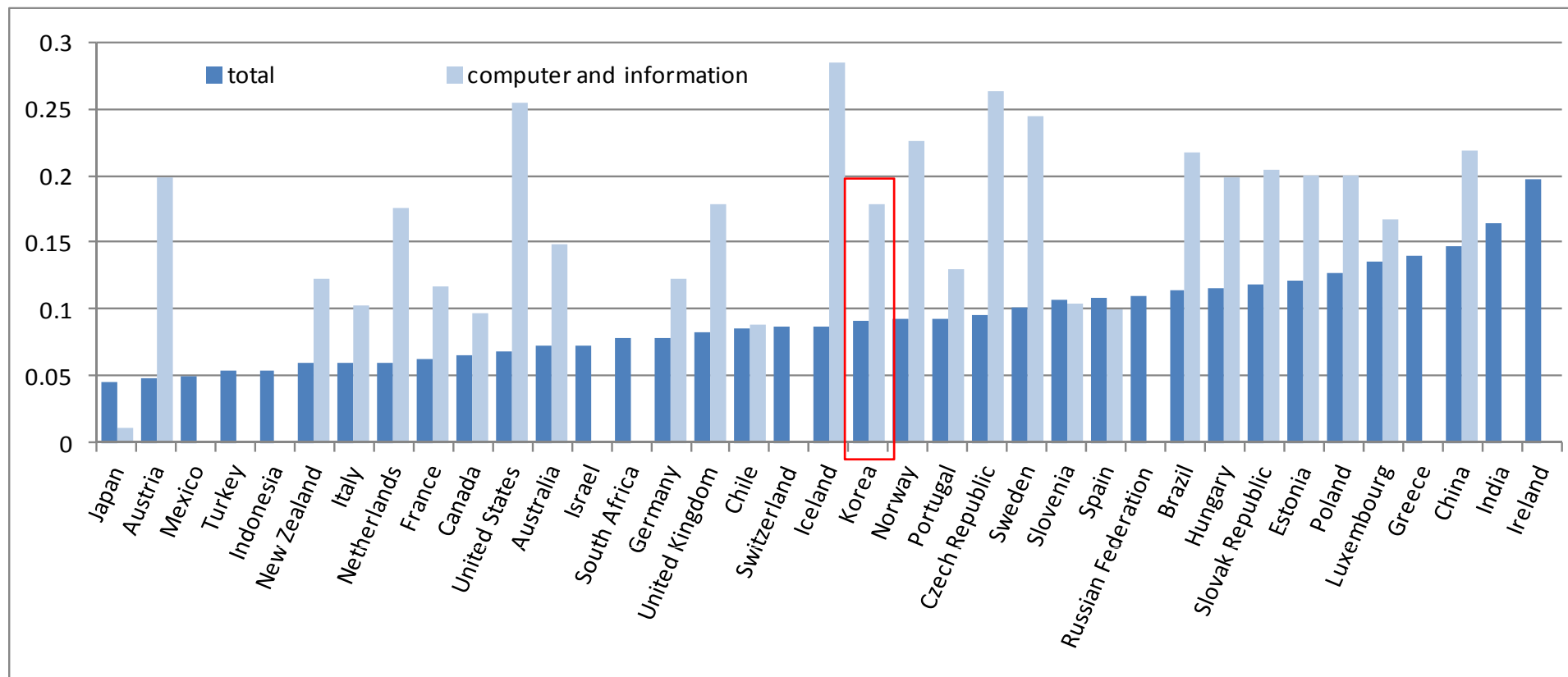
Source: OECD, International Direct Investment database, January 2010.

1. 1998 for the Slovak Republic, Greece and Denmark; 1997 for the Czech Republic.

Service and goods trade-to-GDP ratio



... although international competition in services is growing



Average annual growth rate of total service trade and trade in computer and information services over the period 1997-2007

Opening markets can help create new services

- OECD case studies of successful services firms point to three common factors (Erocal, 2005):
 - Market opening allowed new firms (e.g. low-cost airlines, or firms offering new digital services) to enter new markets and expand, offering new services (innovate) and creating jobs.
 - These firms are often innovative, provide new services, use modern technology, and open up new areas of consumer demand.
 - These firms often apply new work practices, focusing on the organisation of work (e.g. decentralised responsibilities), motivation of workers (e.g. profit sharing), and improvements in skills.

Opening markets also acts as a spur to innovation

- Opening up also:
 - Acts as a spur to innovation and strengthens incentives to adopt best practices.
 - Can bring new products to markets and create new market possibilities, enabling firms to exploit economies of scale.
 - Can further stimulate economic activity and increase employment by reducing costs, which can stimulate demand.
 - Allows entrepreneurship to flourish.
- Opening of markets, e.g. through regulatory reform and trade liberalisation, has to be carefully designed to avoid creating important adverse effects.

Performance of services will affect efficiency of other sectors

- Recent evidence shows that regulation and lower productivity in services is negatively associated with productivity in other sectors (e.g. manufacturing)
- Therefore ensuring a competitive and open service sector will have a double impact:
 - Will contribute to an efficient and innovative service sector
 - Indirectly it will lead to efficiency gains in the manufacturing sector.

What can governments do?

- Further opening and integration of services markets to strengthen competition and foster innovation.
- Strengthen policies and institutions to support innovation – financial markets, venture capitalists, excellent science and education, a more favourable business environment, etc.
- Provide greater scope for entrepreneurship, new firms and experimentation: enable failure, rapid growth and changes within firms.
- Broadening human resources policies to address skills needs in the services sector.
- Adapt policies for innovation and technological change to the growing role of the services sector, e.g. by:
 - A better accounting for intangible assets.
 - Broadening the scope of innovation policies: OECD Innovation Strategy being finalised by May 2010.
 - Seizing the benefits of ICT for innovation.

Conclusions

- Policies aimed at increasing employment, productivity growth and innovation need to tackle services-related issues
 - They are key to increasing employment, and to strengthening innovation and productivity.
 - They will also help in adjusting to the globalization of services, which have become increasingly tradable!
- Innovation Policies should take into account the importance of non-technological innovation and of investment in intangible assets beyond simple R&D
- A stronger services sector will also benefit other industries, such as manufacturing.
- There are costs in adjusting to change, but these can be overcome by a comprehensive policy mix. Not adjusting will be more costly in the long run.

Thank you!

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Back up slides

Export of goods and services

Figure 1. Exports of goods as a percentage of GDP, 2008



Figure 2. Exports of services as a percentage of GDP, 2008

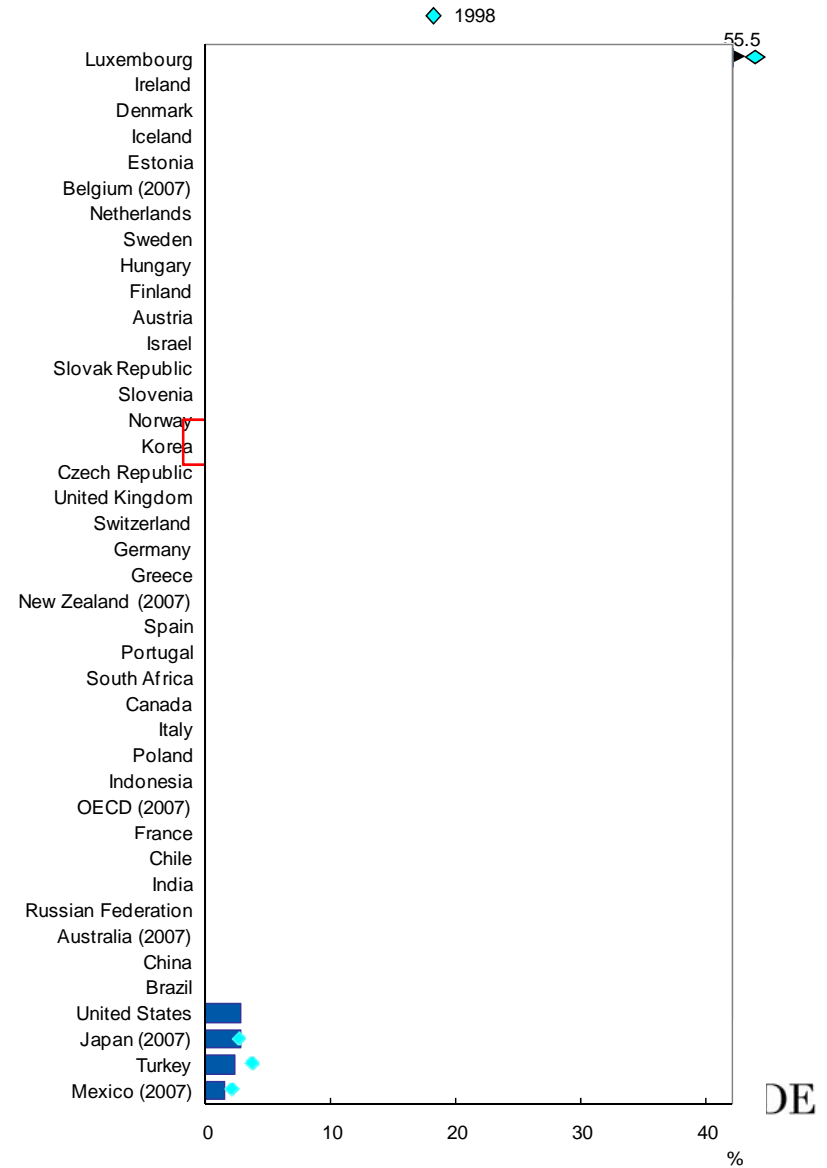


Imports of goods and services

Figure 3. Imports of goods as a percentage of GDP, 2008

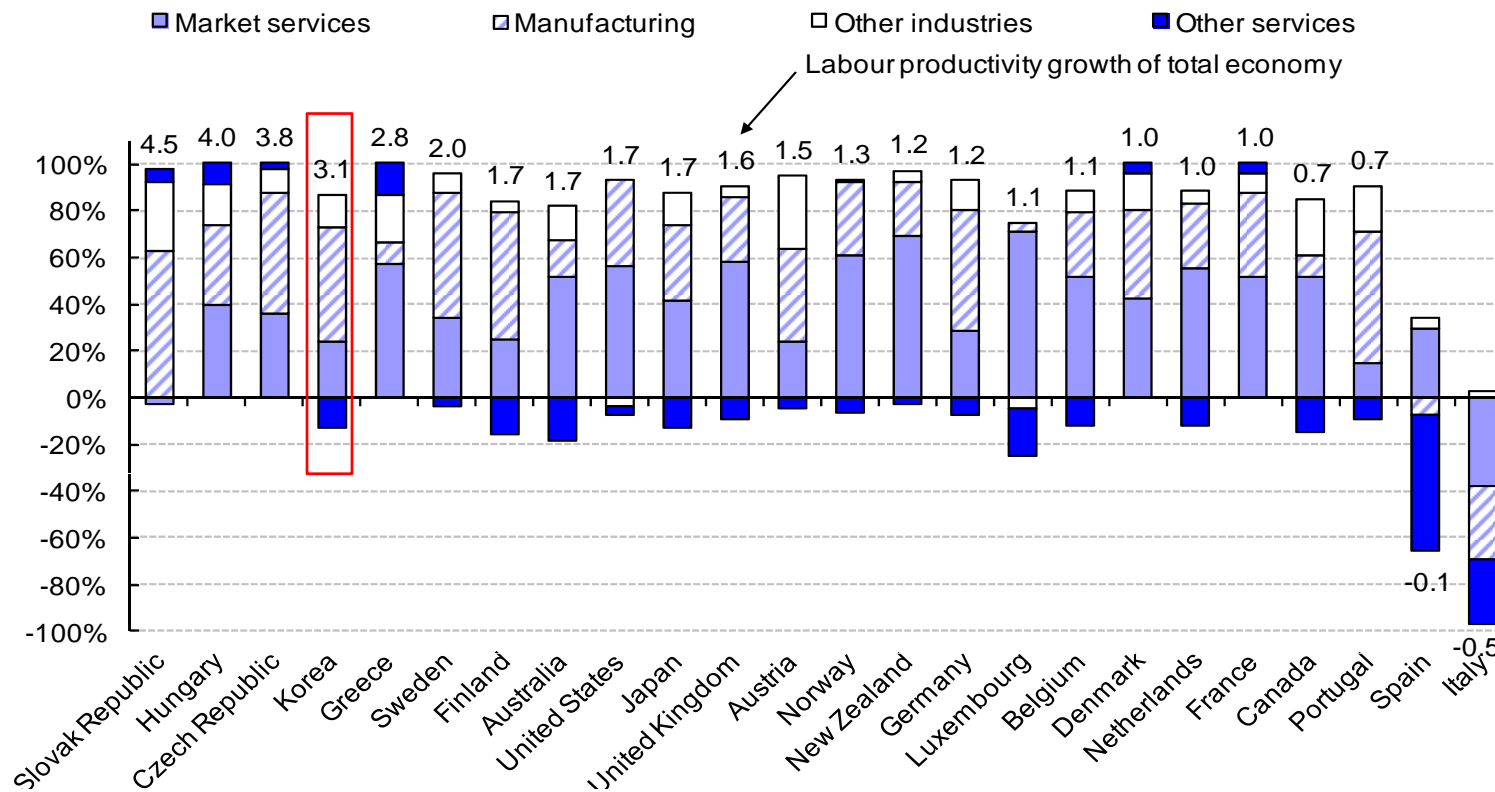


Figure 4. Imports of services as a percentage of GDP, 2008



... and makes an important contribution to aggregate productivity growth

Contribution of the services sector to productivity growth, 2000-2006, in %



- In several OECD countries the services sector makes a relatively small contribution to productivity growth, despite its growing weight in the economy in terms of employment.
- In other OECD countries, such as New Zealand, the UK, Australia and the United States, market services now account for the bulk of productivity growth, showing that the sector can be a dynamic source of growth and innovation.
- This large difference in performance suggests that some factors and policies constrain productivity growth and innovation.