

**Service Markets in OECD Countries:
Characteristics, Opportunities and Challenges**
Insights from research by OECD/CEPII
for developing countries

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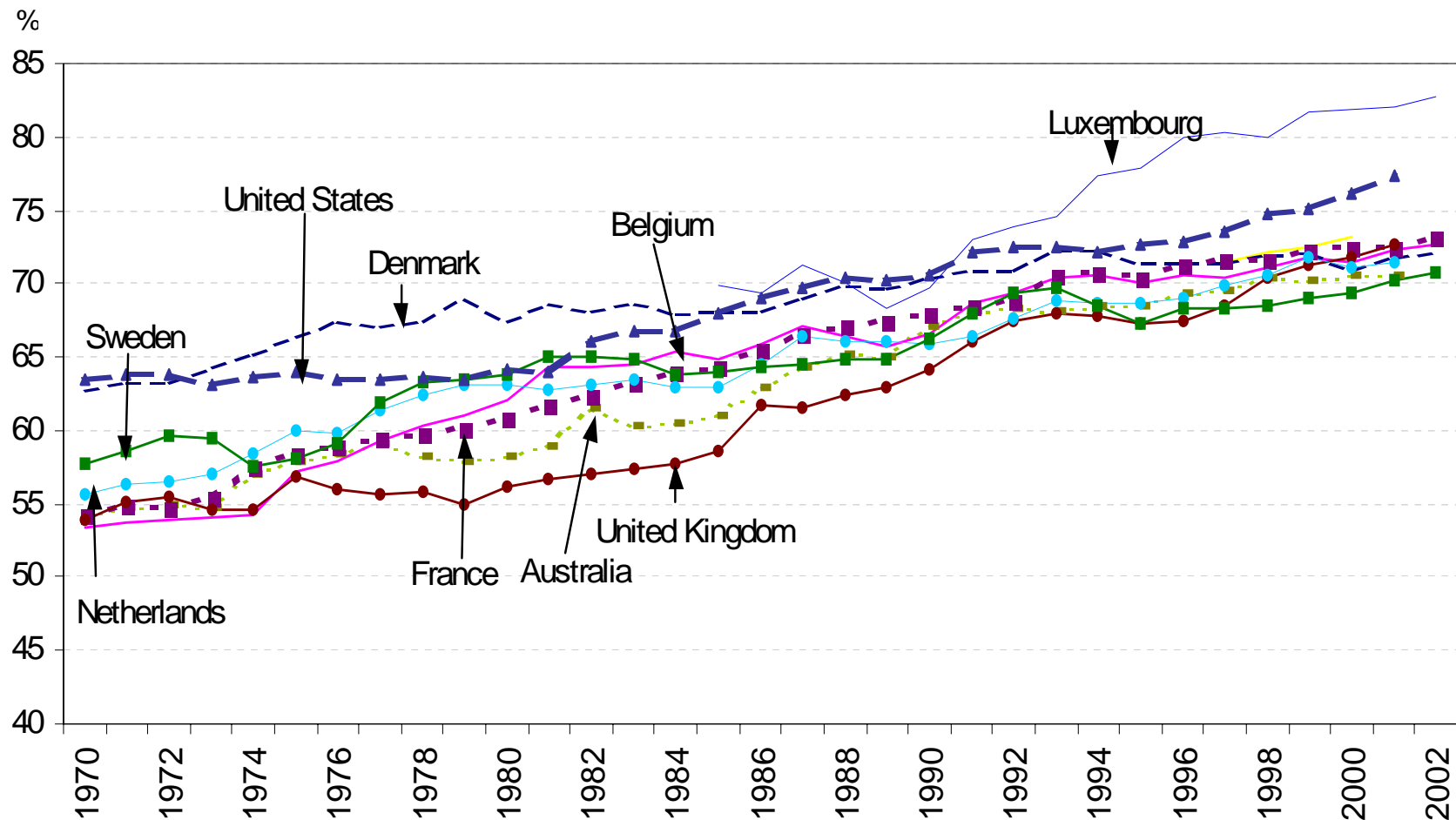
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Why analysing the services economy in OECD economies?

- Stylized facts
 - Share of services in total value added and employment: ~70%
 - Weaker productivity growth in services than in manufacturing
 - > slowing down aggregate growth?
 - Cross-country differences in services performance.
- Main questions for policy
 - What is the role of services in aggregate growth and employment?
 - What are the factors and specific characteristics that drive the performance in services industries?
 - What are factors hampering productivity and employment in services?

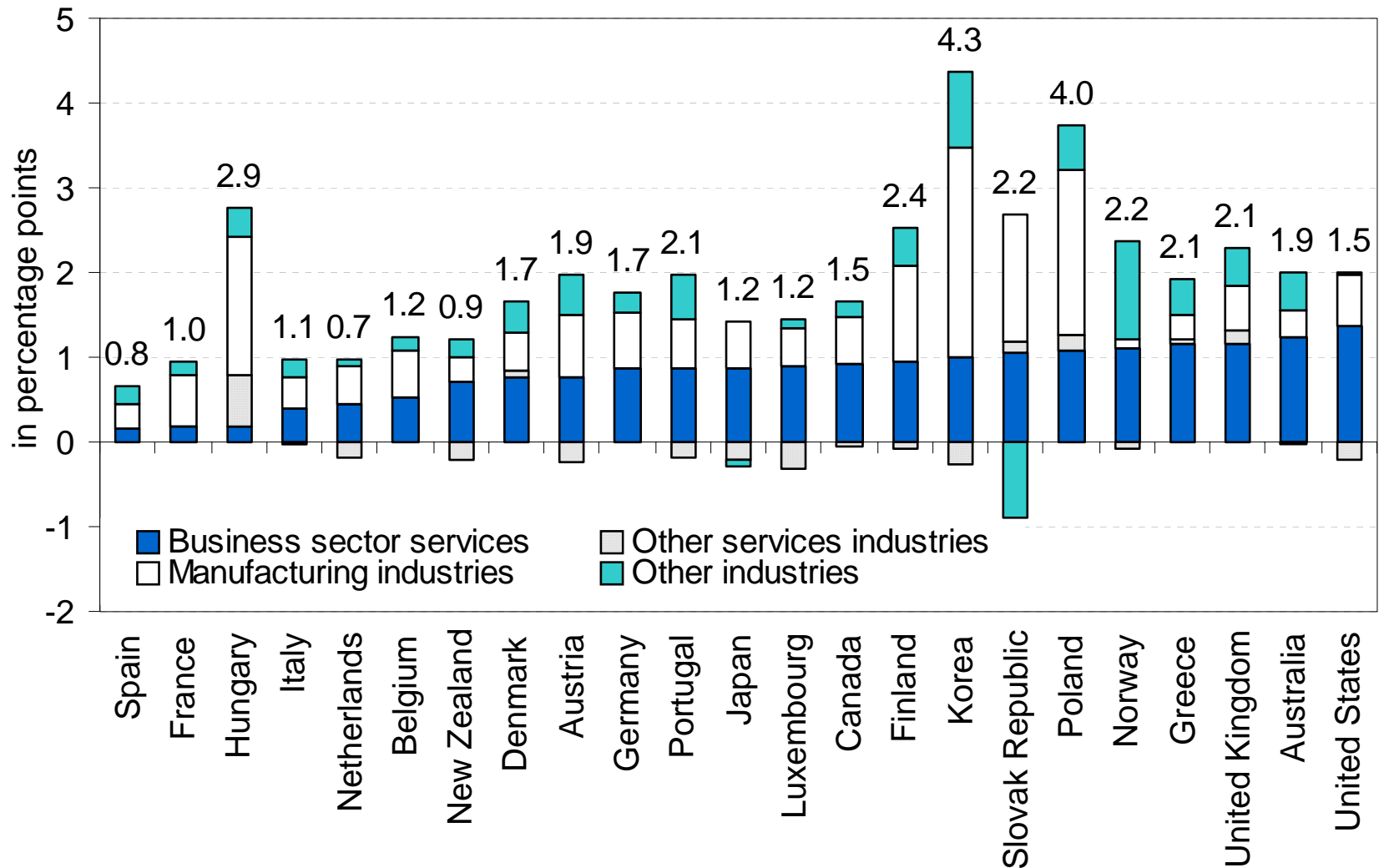
A. Share of the services sector in total value added

Countries with value added shares of more than 70% in 2001



Source: OECD STAN Database 2004, Wölfel (2005)

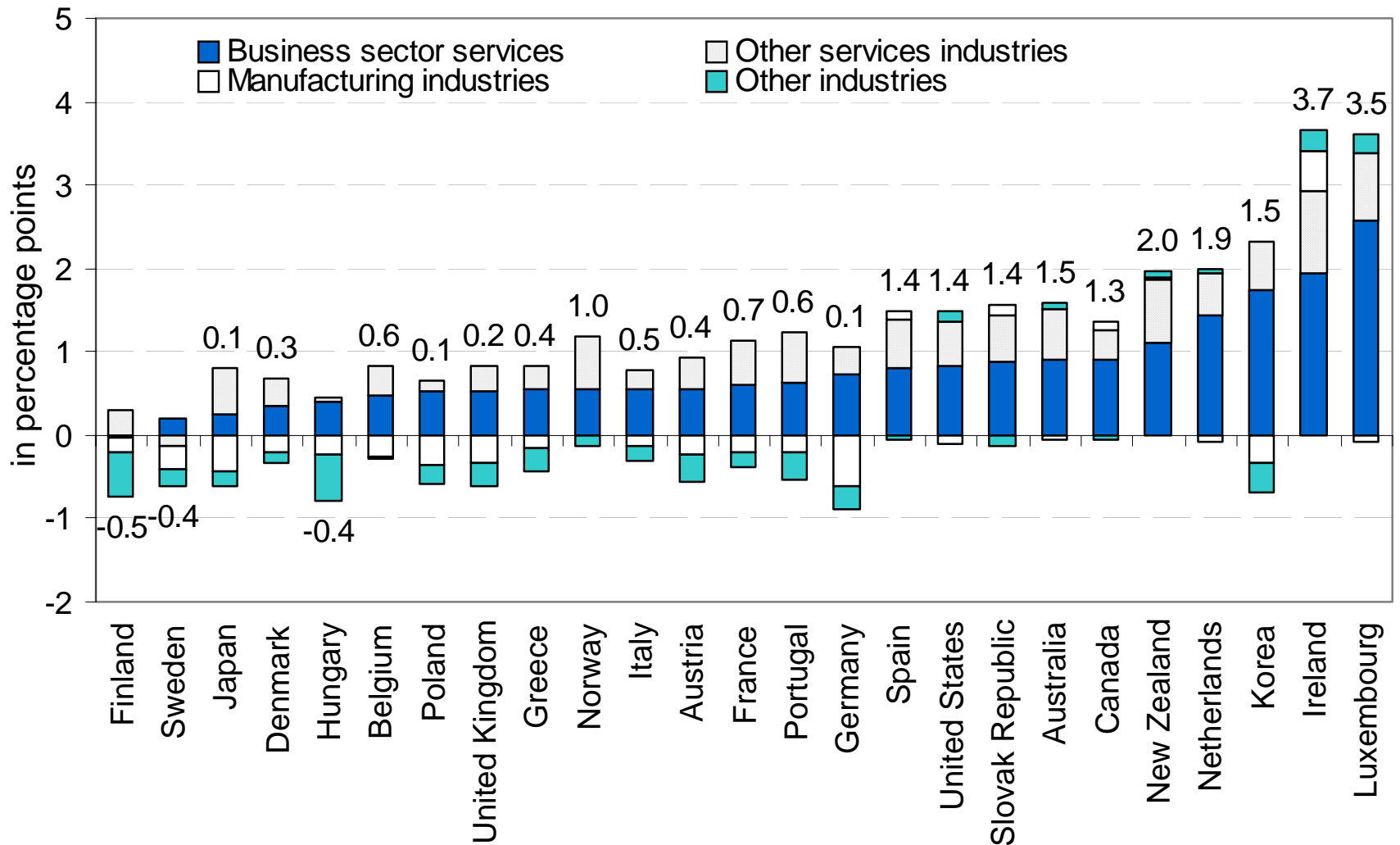
A. Services contribute strongly to aggregate productivity growth ... Contribution in percentage points



Source: OECD STAN Database 2004, Wölfl (2005)

A. ... and even stronger to aggregate employment growth

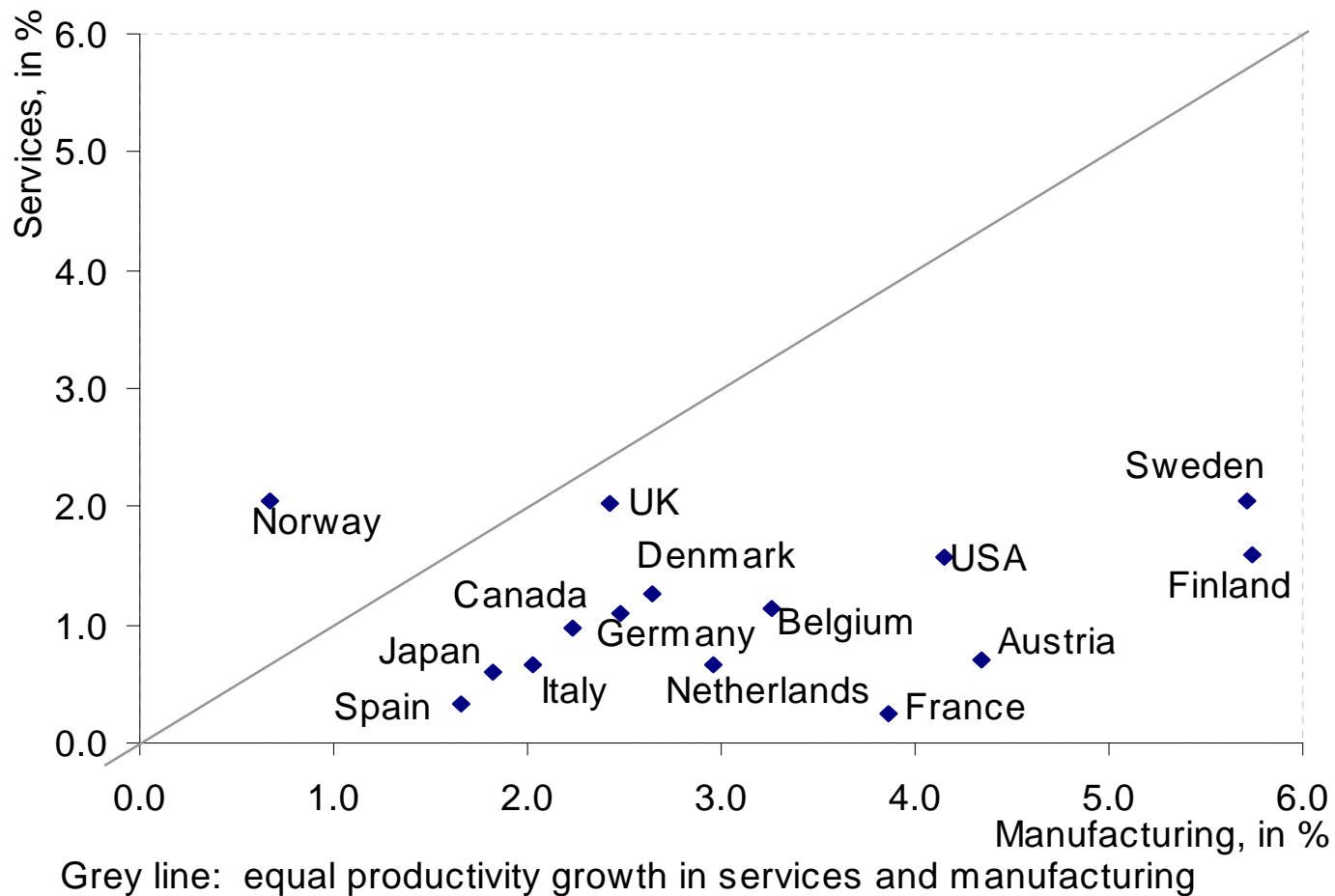
Contribution in percentage points



Source: OECD STAN Database 2004, Wölfl (2005)

A. Unbalanced growth between manufacturing and services

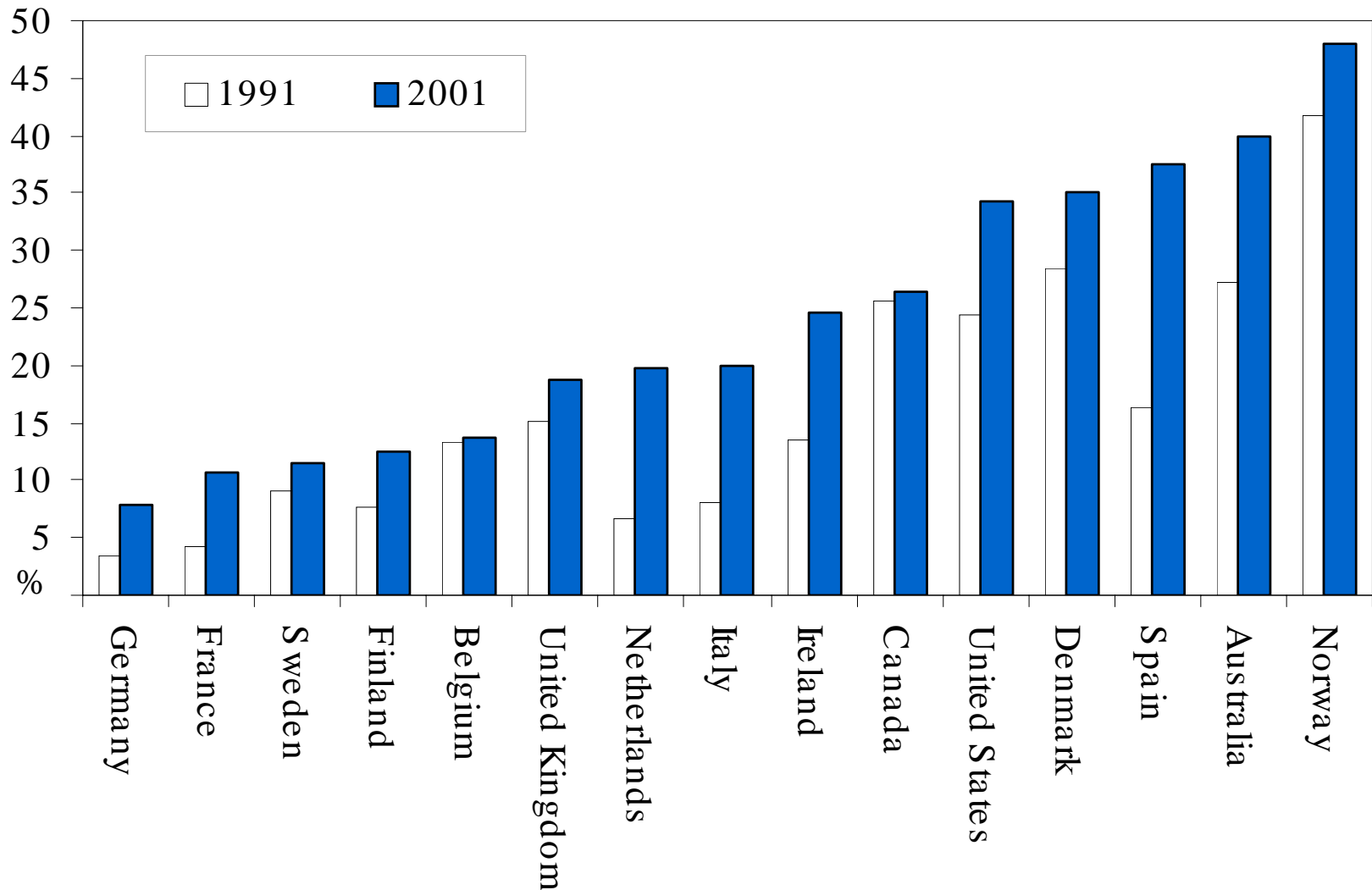
Average annual productivity growth 1990-2000, in percent



Source: OECD STAN Database 2004, Wölfl (2005)

B. Services are increasingly knowledge-intensive

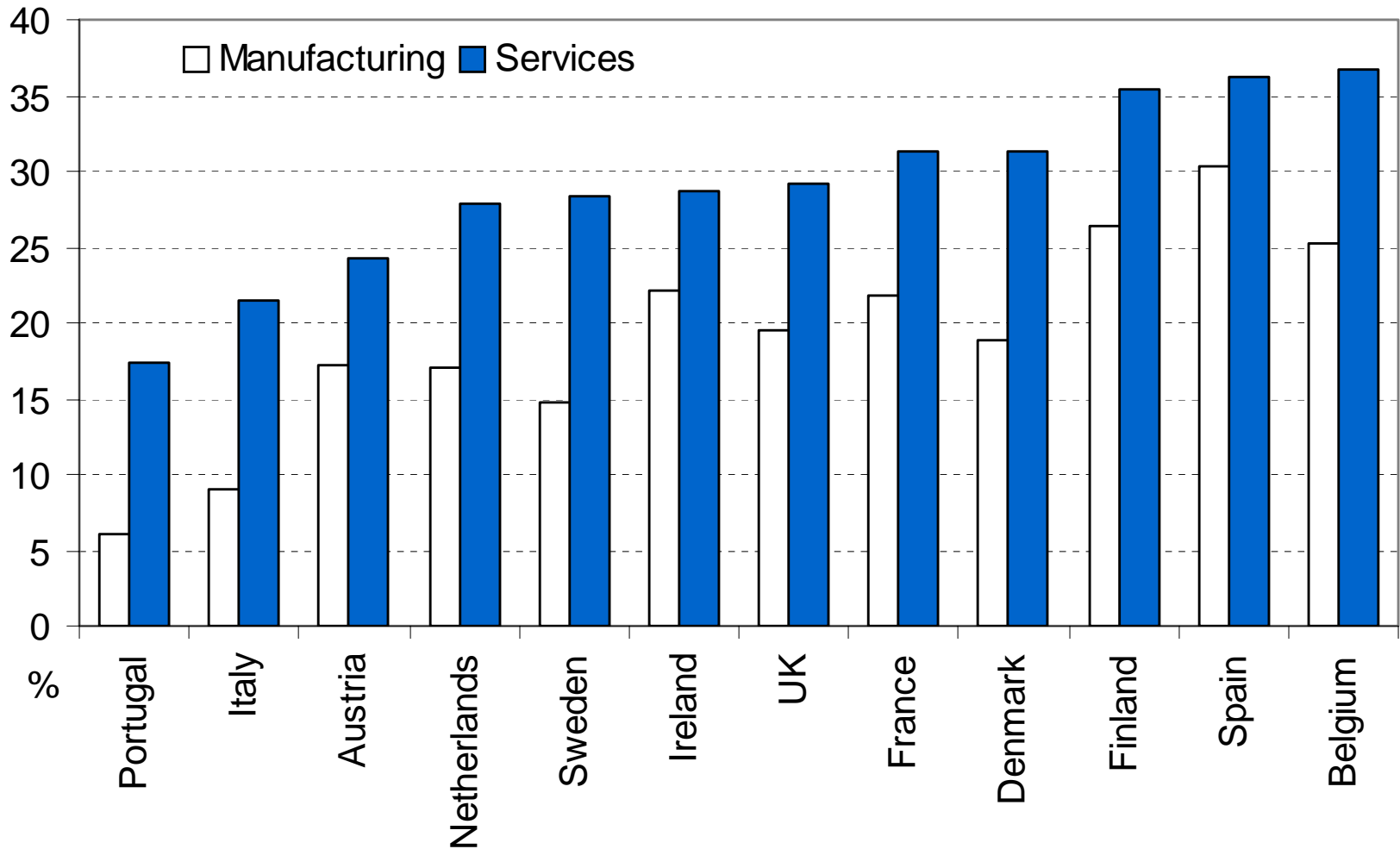
Percentage share of services in total business R&D



Source: OECD ANBERD Database 2003, Wölfl (2005)

B. Services are skill-intensive

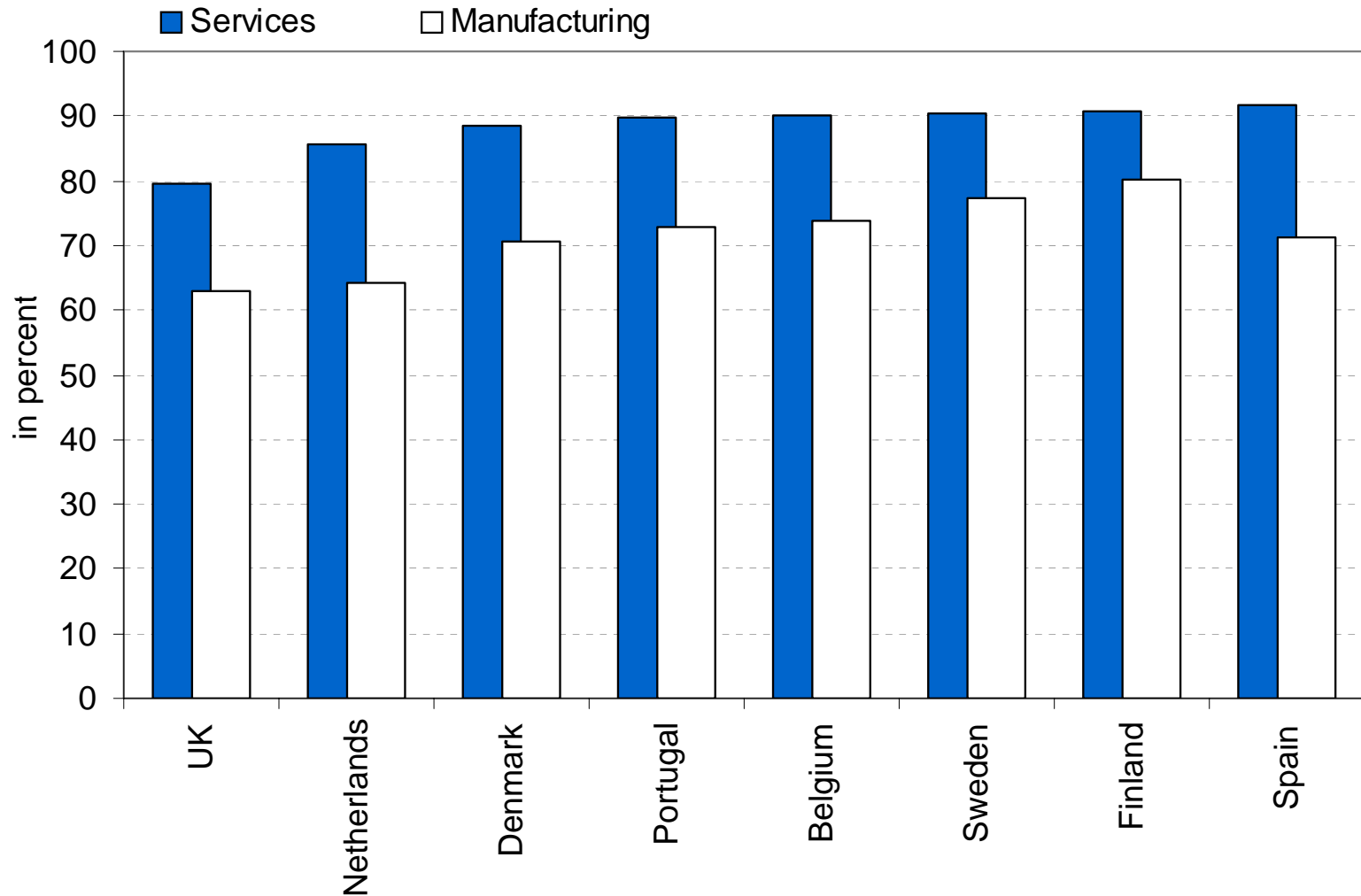
Percentage share of high-skilled employment in total employment



Source: OECD Labour Force Survey 2003, Wölfl (2005)

B. Small firm size – good or bad for growth?

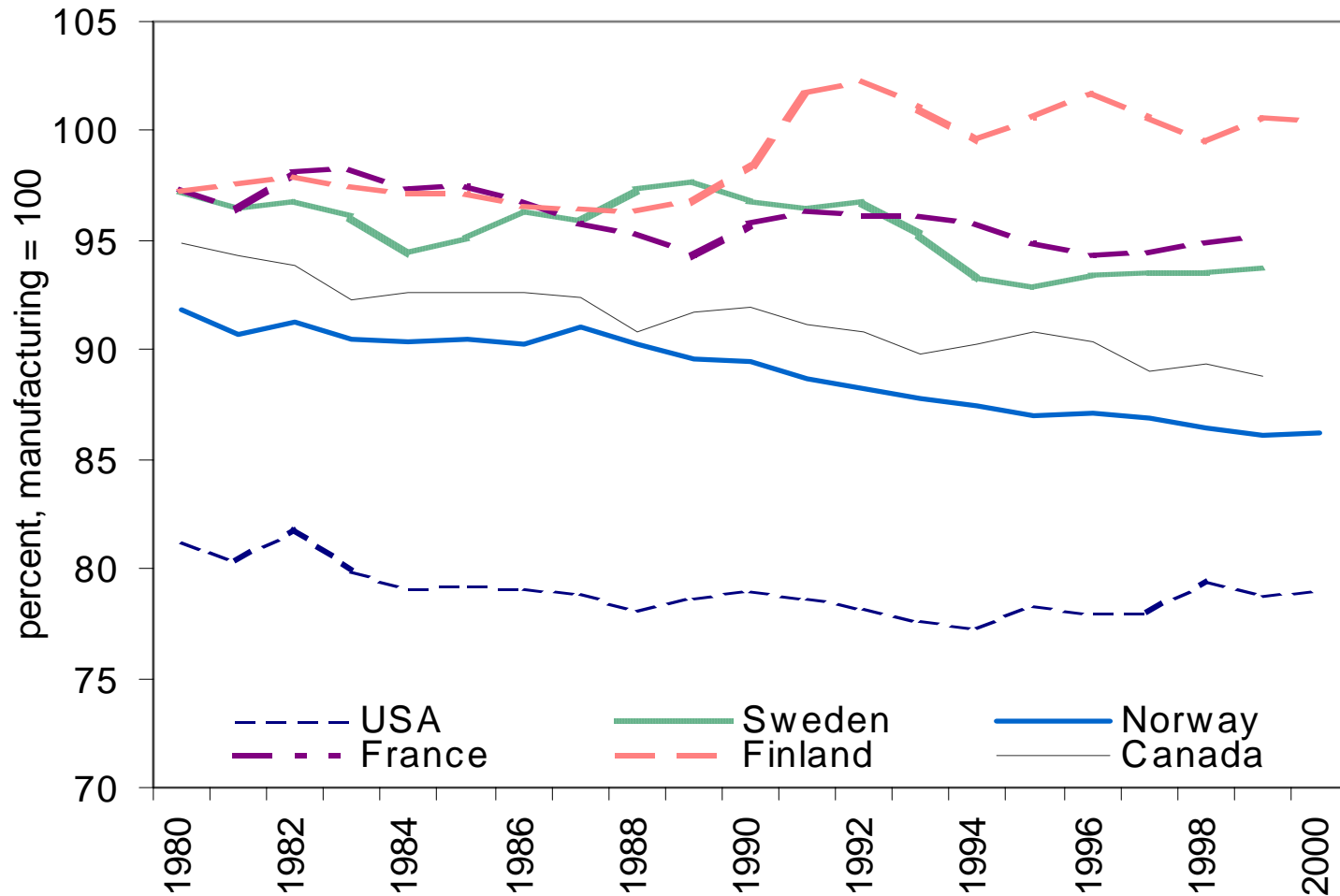
Share of firms with less or equal 4 employees, in % of all firms per sector



Source: Based on Brandt (2004)

B. More part-time work in services than in manufacturing

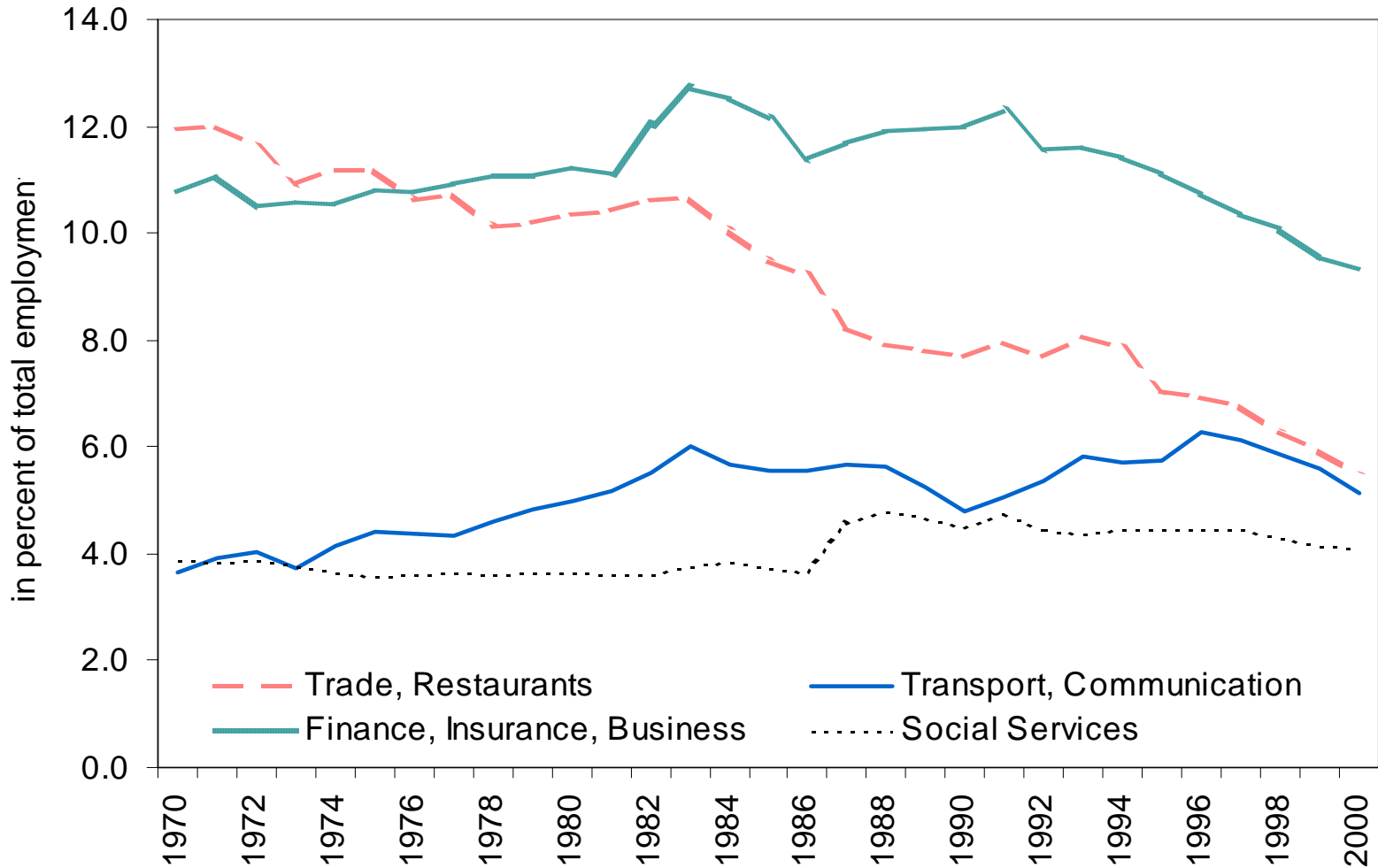
Hours worked per employed person in the services sector, manufacturing=100



Source: OECD STAN Database 2003 , Wölfl (2003)

B. High share of self-employed persons

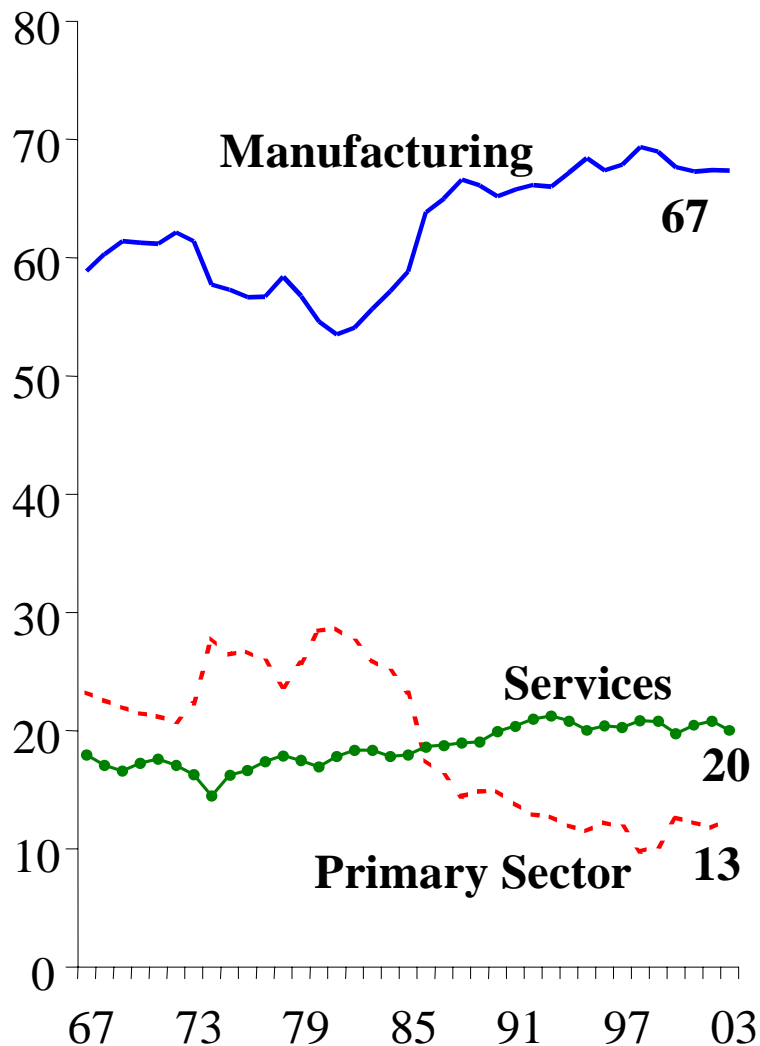
Share of self-employed persons in % of total employment,
Selected services, United States



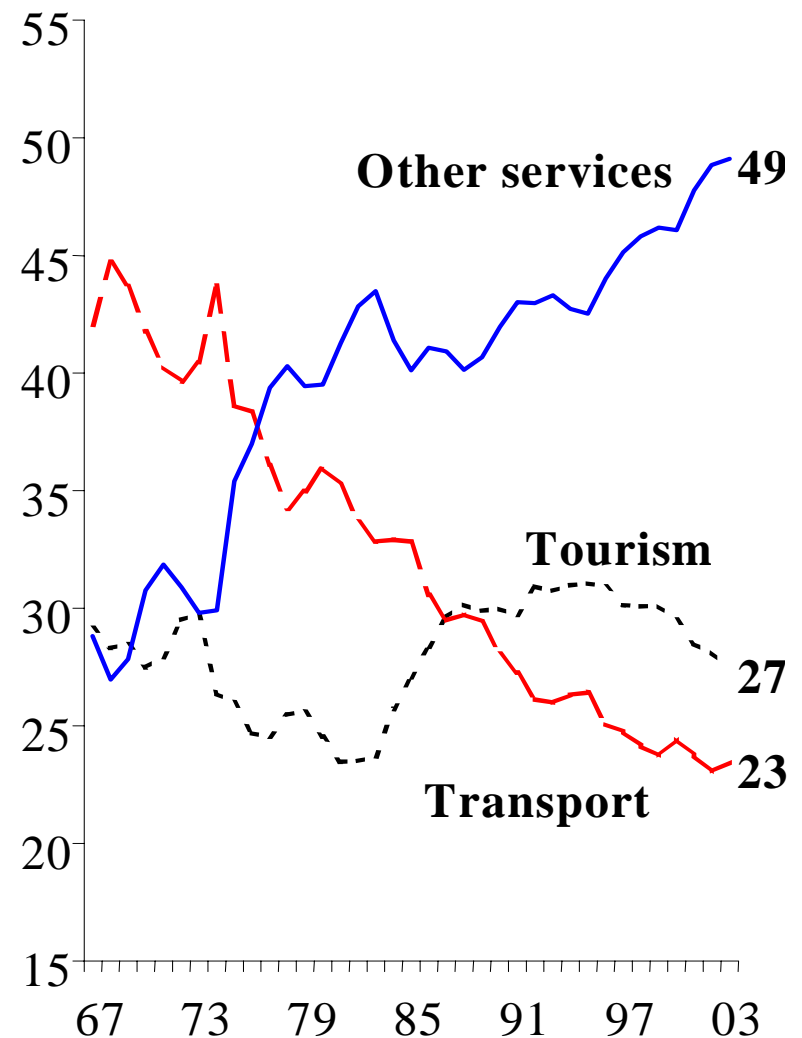
Source: OECD STAN Database 2003

B. Low exposure to international competition

a) Share of trade in services, in % of total trade



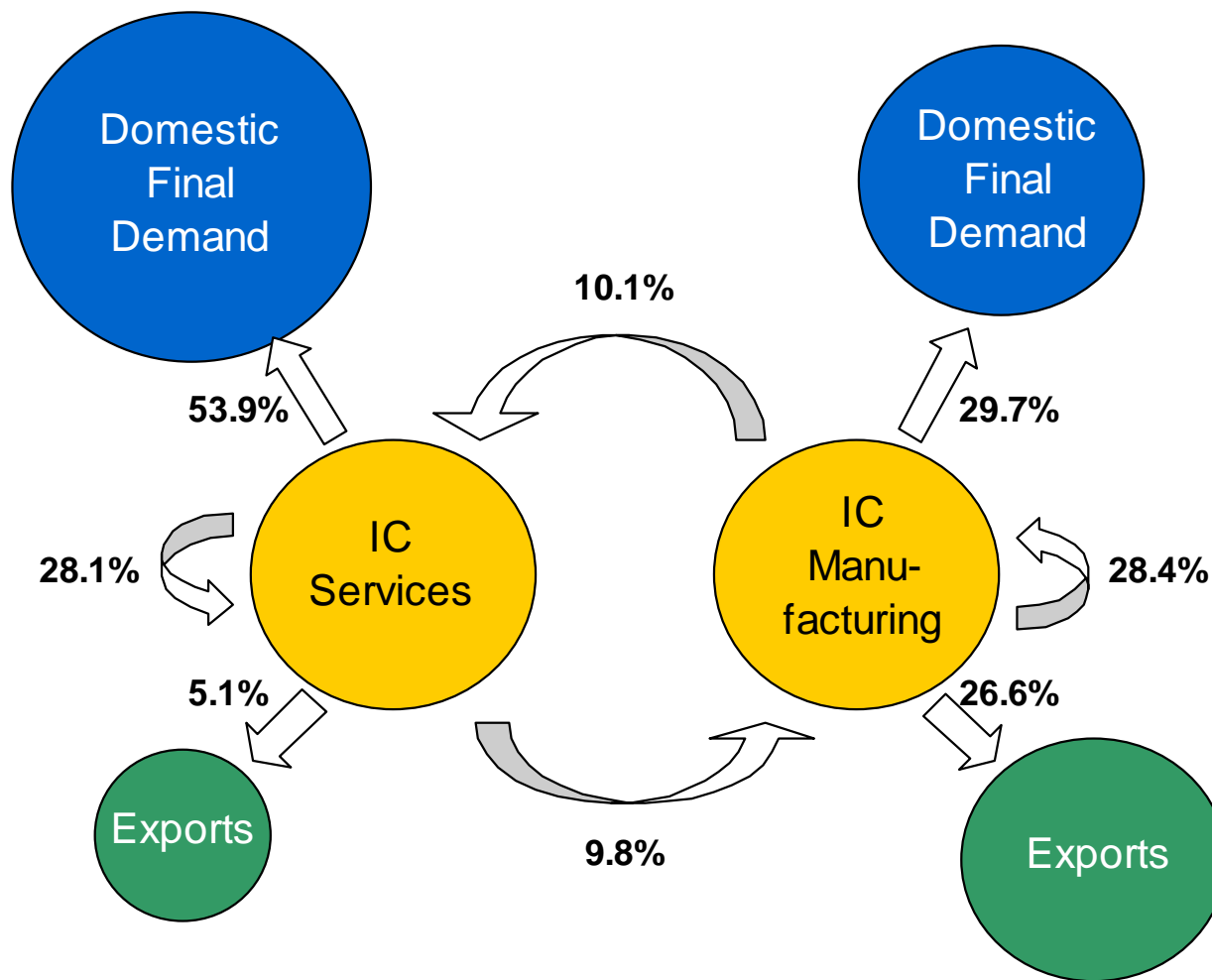
b) Share of particular services, in % of total services trade



Source: Ünal-Kesenci and Boumellassa (2006)

B. Services and manufacturing interact

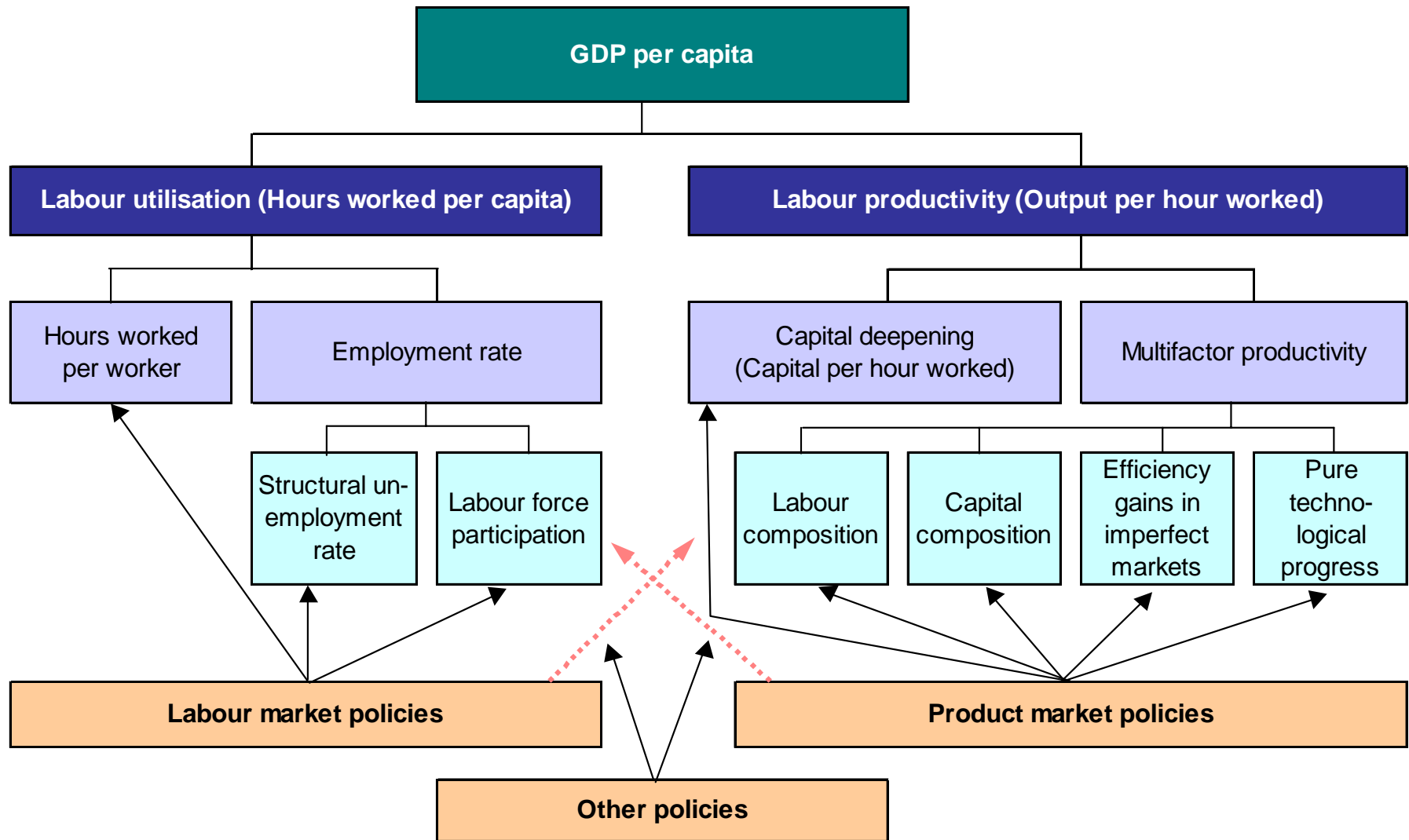
Share of demand components in total output of services and manufacturing,
France 2002



Source: INSEE Input-Output-Table for 2002.

C. Regulation and business environment matter

An overview



Source: Based on Nicoletti and Scarpetta (2005)

C. Specific studies on the impact of services regulation

- Retail trade:
 - mainly administrative barriers affecting entry and business operations,
 - gains from regulatory reforms:
 - distribution systems become more efficient,
 - the range of services provided to consumers increases,
 - employment and the volume of sales increase,
 - margins decline putting downward pressure on consumer prices.
- Network industries:
 - non-competitive segments and price distortions
 - gains from regulatory reforms:
 - liberalisation leads to lower prices, greater competition and productivity increases,
 - privatisation reduces inefficiency but does not enhance welfare unless matched by effective market liberalisation.

Source: Nicoletti and Pilat in CAE (2004)

D. Conclusions and issues for discussion

- Services contribute to aggregate productivity growth ..
 - directly through:
 - strong productivity growth performance of some services,
 - increasing use of R&D, ICT and highly skilled staff,
 - entry of small service firms with potential to grow.
 - indirectly through:
 - growing share in the total economy,
 - provision and use of intermediate inputs.
- ... but there are still some issues to address:
 - high R&D, but also innovative?
 - small firm size - good or bad for growth?
 - how to increase exposure to (international) competitive markets?
 - services friendly business environment?
 - productivity versus quality of services provided?