

The Role of Services for Competitiveness in Manufacturing

Topic: Trade, global value chains and foreign direct investment: measurement issues and impact evaluation

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This study analyses the relationships between competitiveness in manufacturing and the quality of key supporting services. Three indicators of competitiveness are considered: the degree of product differentiation, unit prices obtained in export markets and the duration of trade. The density of telecoms networks and the reliability of electricity supply stand out as the most crucial for competitive manufacturing. In addition the ease at which contracts can be enforced and the time it takes to export and import goods are strongly related to competitiveness. Our methodology allows us to go beyond a one size fits all policy analysis. Interestingly, we find that in low-income countries, the impact of services quality and policy on competitiveness is highest in low-technology industries; in middle-income countries it is highest in medium-technology sectors and in high-income countries the impact is highest in medium-high and high-technology industries. This suggests that better services contribute to moving up the value chain in industries where a country already has technological capacity and comparative advantage, but better services alone may not stimulate product differentiation in sectors where a country is far from the competitive edge – at least not in the short run. Policy reforms needed are to simplify procedures for contract enforcement, liberalisation of FDI, strengthen pro-competitive regulation of network services, and eliminate tariffs. It is concluded that new ways of doing business where manufacturers build relationships with customers and compete on the basis of products they are willing to pay a premium for has the potential to become an important driving force for growth after the great recession, provided that adequate support from competitive services markets is in place.