

The Missing Link: Philippine Services in Production and International Trade

Topic: A Global Focus on the Service Sector

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The information and communication technology (ICT) revolution in the 1980s ushered in a breakthrough in international trade: the unbundling of factories and offices across and within countries, also known as the fragmentation of production or the division of labor at the international level. These changes opened a new path of industrialization: nations no longer have to build their own supply chains at home; rather, they can simply join an already existing international supply chain. In this case, a developing nation simply “receives” or “welcomes” offshored stages by preparing their workers and business environment, which includes supporting producer services such as transportation, trade, communication, financial services, and other business services. With the participation of the Philippines in global value chains for both goods and services, the country’s producer services sectors experienced dramatic expansion. This begs the question, how do services contribute to the manufacture of exports? Using national input-output tables from 1985 to 2006, this study looked into the dynamics between producer services and Philippine exports. In particular, the embodied services in exports, or the services that were used as inputs in the production of manufactured exports, were measured. The nature of the embodiment, whether they were embodied through direct or indirect linkages, was also analyzed. Embodied services in manufactured exports were also compared to disembodied services exports, or the services that were directly exported. Does the embodiment in exports contribute to the growth of producer services? Through the structural decomposition analysis, the growth of producer services sectors was decomposed into four possible sources: the domestic final demand effect, the export expansion effect, the import substitution effect, and the technological change effect. Lastly, the export sectors that served as sources of producer services growth via the export expansion effect, were also identified.

Results showed that among the producer services, it was the trade sector that was greatly embodied in manufactured exports, followed by transportation, communication, financial services, and then business services. For all producer services, their embodiment in manufactured exports were through indirect linkages. Also, the value of embodied services in exports relative to the value of disembodied services exports has been increasing for all sectors except for the business services where disembodied services exports has increased especially in the 2000s. The growth of producer services was consistently due to the domestic final demand effect. The contribution of export expansion in producer services sector growth varied across sectors throughout the period studied. It had the biggest contribution to the growth of business services between 2000 and 2006. The industry sources of growth via the export expansion effect were the footwear and wearing apparel sectors between 1990 and 1994; machinery and electrical machinery between 1994 and 2000; and food manufacturing as well as business services in 2000 to 2006. These results reflect the impact of policies implemented during the period, like the promotion of electronics exports from the 1990s to the 2000s and the liberalization of the telecommunications sector in 1993 which led to the growth of business services exports.