NEREUS

Núcleo de Economia Regional e Urbana da Universidade de São Paulo
The University of São Paulo Regional and Urban Economics Lab

POLICY CENTER FOR THE NEW SOUTH

THINK • STIMULATE • BRIDGE

The Internal Geography of Services Value-Added in Exports: A Latin America Perspective

"The New International Scenario and Brazil's Foreign Policy"
PCNS-CINDES, Rio de Janeiro, 30 October 2019

Prof. Eduardo A. Haddad
Professor of Economics, University of São Paulo, Brazil
Senior Fellow at the Policy Center for the New South, Morocco

Introduction

UNCTAD Project:

Haddad, E. A. (2019), **Measurement of the Services Value-Added in Brazilian Exports**. UNCTAD. *Unpublished report*

Focus:

MoS 5 / Latin America / Geography

- Services bundled in goods
- Brazil, Chile, Colombia, Mexico
- Regional inequality within countries ("new look")

Context

Increasing international fragmentation of production chains and the emergence of global value chains (GVC)

Gross export statistics may be inaccurate to measure a country's participation in international trade:

- Looking directly at gross exports of goods and services may affect how a country chooses priority partners in trade agreement negotiations, and may also bias the impact analysis of international demand shocks, for instance

This inaccuracy is basically led to underestimating (particularly) the contribution of services to exports and employment. This further leads to a general lack of understanding in the true contribution of services to development and policy emphasis on services sectors by policymakers of developing countries.

Context (cont.)

A more appropriate measurement should consider the value added by each country in the production of goods and services that are consumed worldwide

Moreover, if one is interested in sectoral-specific trade policies, it would be important to map the contribution of value added to trade flows by sector or group of sectors (e.g. services) in different countries

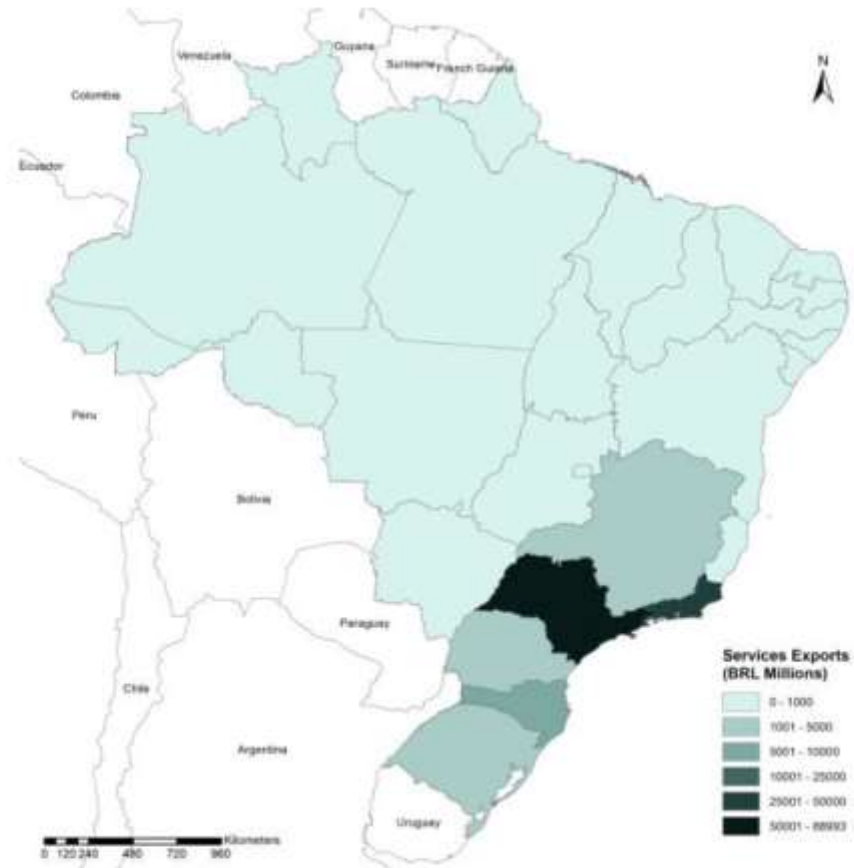
Recent initiatives have successfully addressed the data challenge, generating global input-output databases that have been widely used for measuring different dimensions of GVCs

In spite of their enormous contributions, these databases still suffer from lack of detailed information both in terms of country coverage and products and sectoral disaggregation

Spatial Pattern of Gross Exports of Goods and Services: Brazil

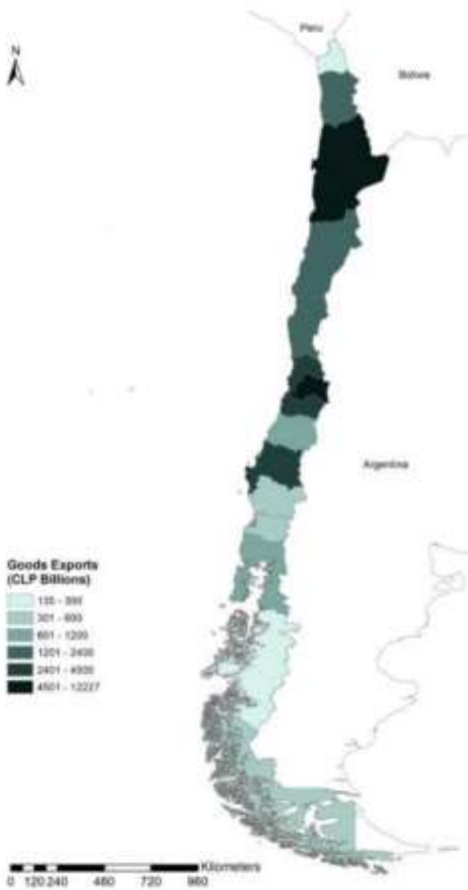
Goods

Services



Spatial Pattern of Gross Exports of Goods and Services: Chile

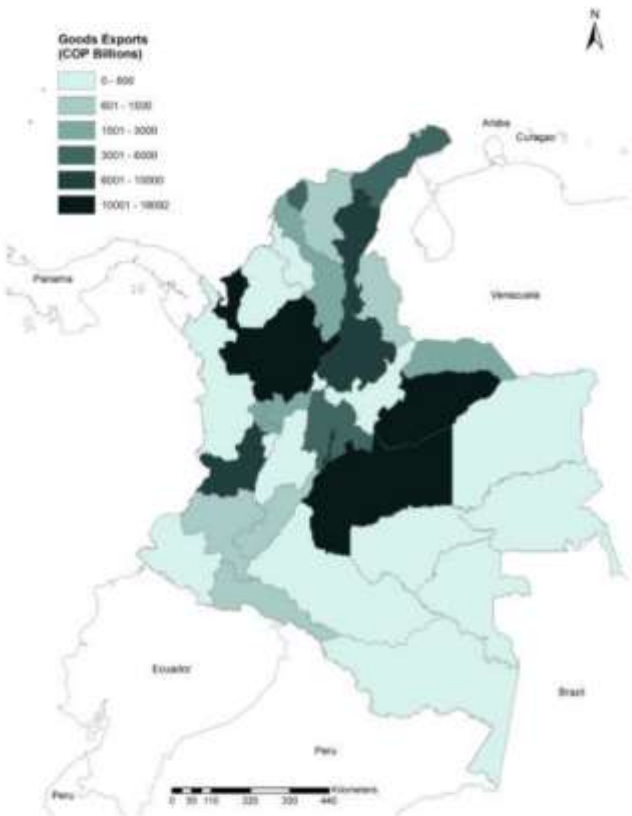
Goods



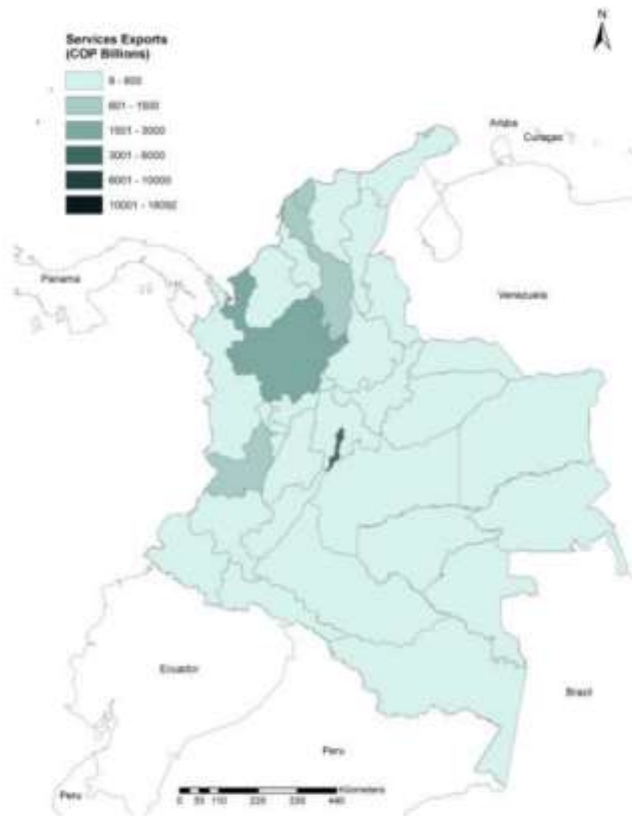
Services

Spatial Pattern of Gross Exports of Goods and Services: Colombia

Goods

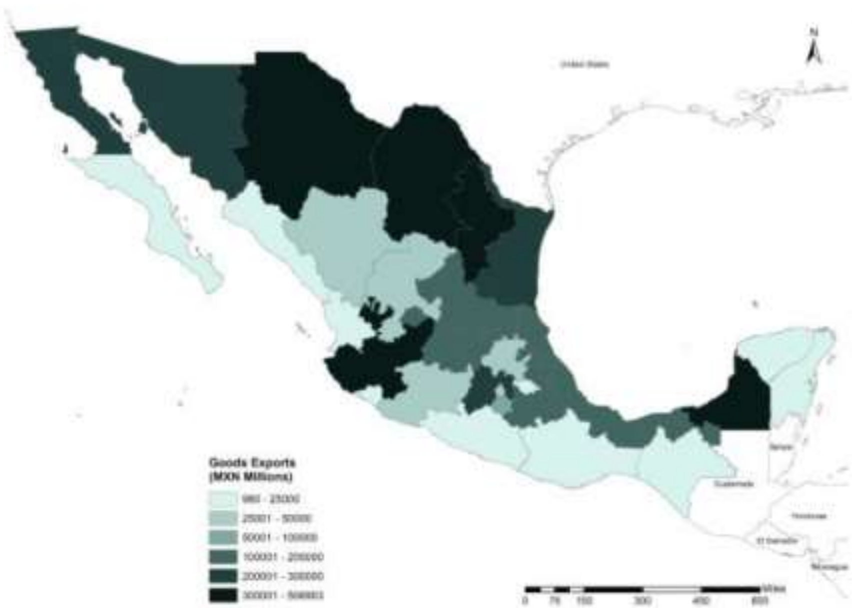


Services

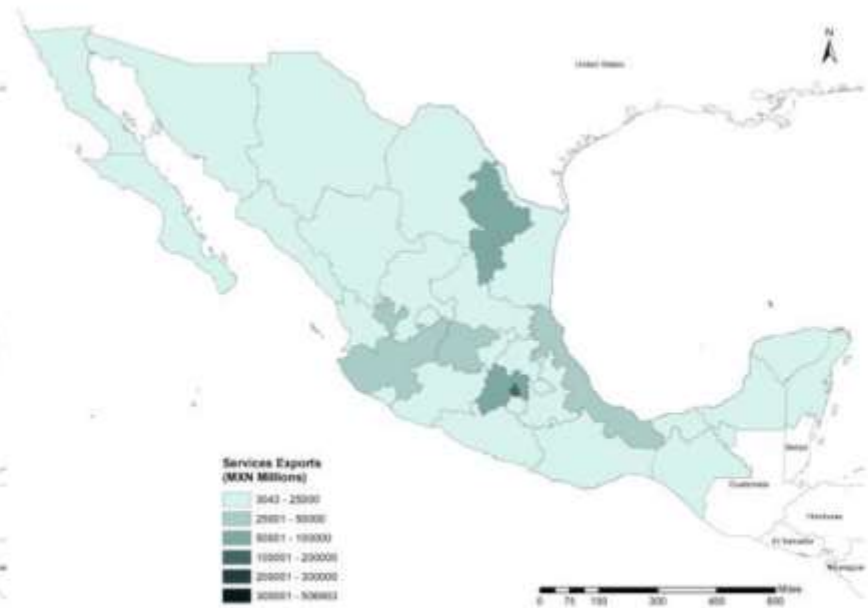


Spatial Pattern of Gross Exports of Goods and Services: Mexico

Goods



Services



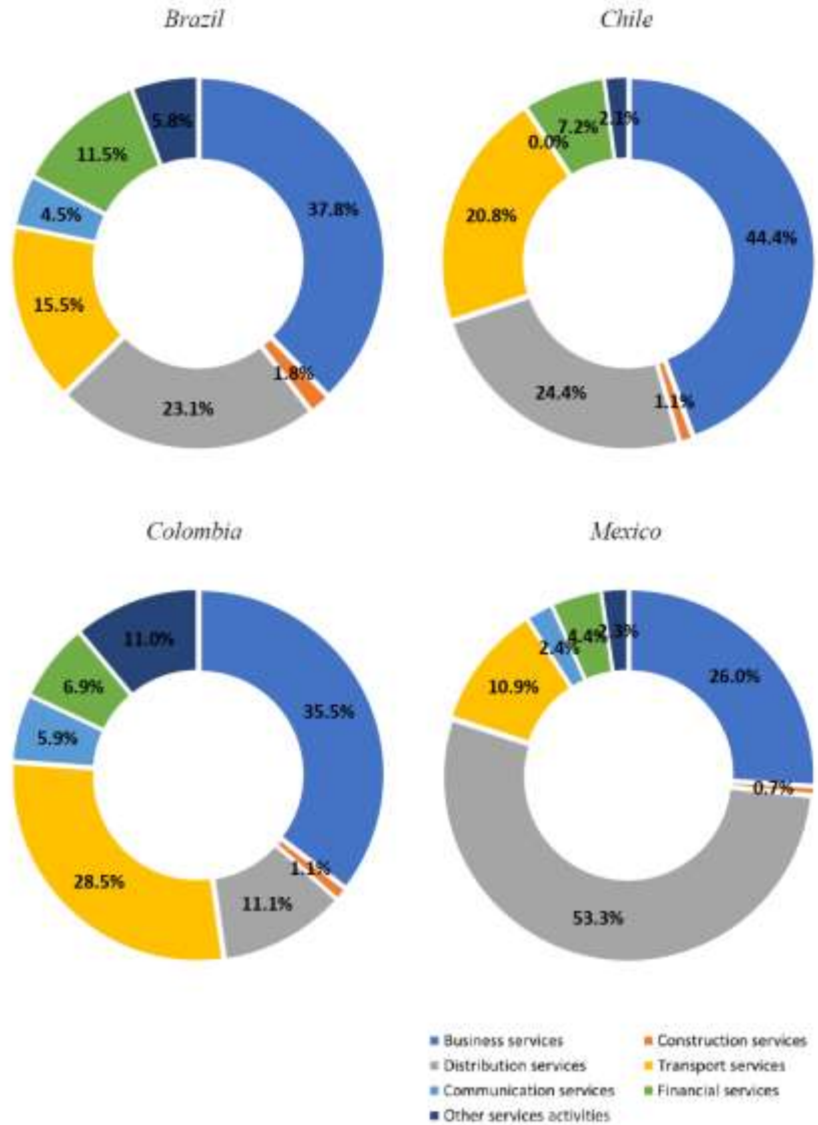
How much services value-added is in exports and how does it compare to direct services exports?

Table 1. Trade in Value Added: Brazil, Chile, Colombia and Mexico

	Brazil	*Chile*	*Colombia*	*Mexico*
Exports of goods				
VA in service sectors	172,076	8,522	19,612	736,351
VA in non-service sectors	295,893	22,976	64,937	1,931,817
Total VA	**467,969**	**31,498**	**84,550**	**2,668,168**
Exports of services				
VA in service sectors	113,938	6,362	11,817	577,257
VA in non-service sectors	5,907	369	1,280	20,676
Total VA	**119,845**	**6,730**	**13,097**	**597,933**
Total exports				
VA in service sectors	286,014	14,883	31,429	1,313,607
VA in non-service sectors	301,799	23,345	66,218	1,952,493
Total VA	**587,813**	**38,228**	**97,647**	**3,266,100**
Gross exports				
Goods	628,020	39,909	103,683	4,274,221
Services	139,012	8,074	15,314	641,657
Total	**767,032**	**47,982**	**118,997**	**4,915,878**

Obs. Estimates for Brazil in 2015 BRL millions; Chile in 2014 CLP billions, Colombian in 2015 COP billions, and Mexico in 2013MXN millions

What services sectors contribute more to overall domestic services value-added embodied in total exports?

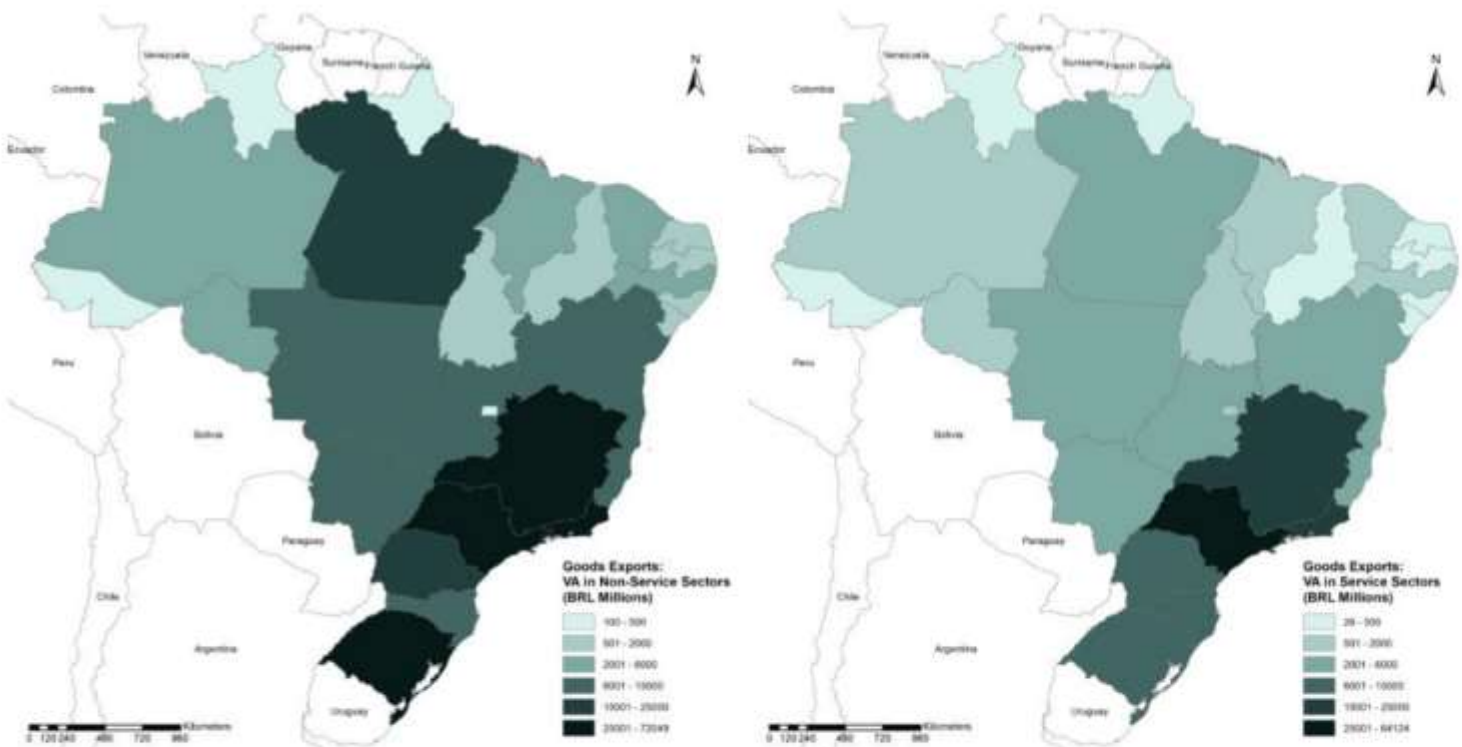


What are the main regions contributing to domestic value-added in the (goods and services) exports local value chains?

Figure 3. Spatial Patterns of Non-Services and Services Value-Added Embodied in Exports of Goods and Services: Brazil (in 2015 BRL millions)

Exports of goods

Non-services value added | *Services value added*

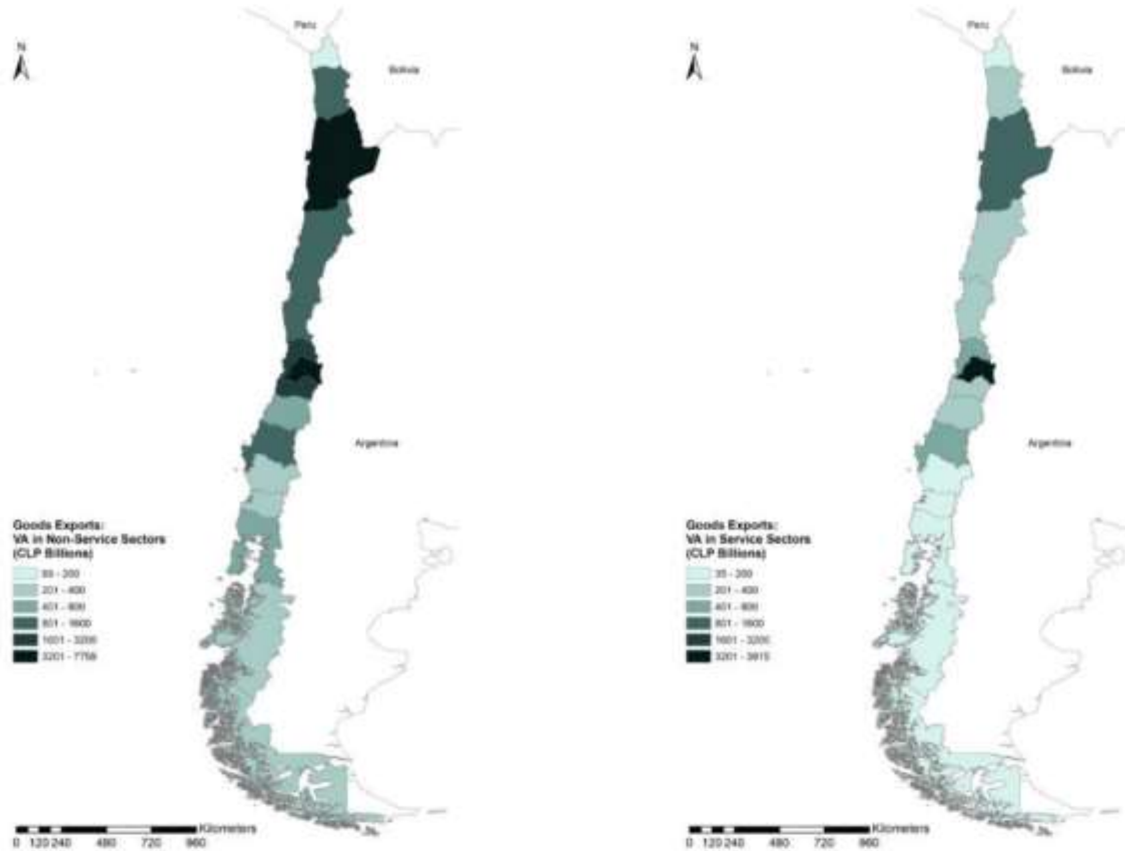


What are the main regions contributing to domestic value-added in the (goods and services) exports local value chains?

Figure 4. Spatial Patterns of Non-Services and Services Value-Added Embodied in Exports of Goods and Services: Chile (in 2014 CLP billions)

Exports of goods

Non-services value added | *Services value added*

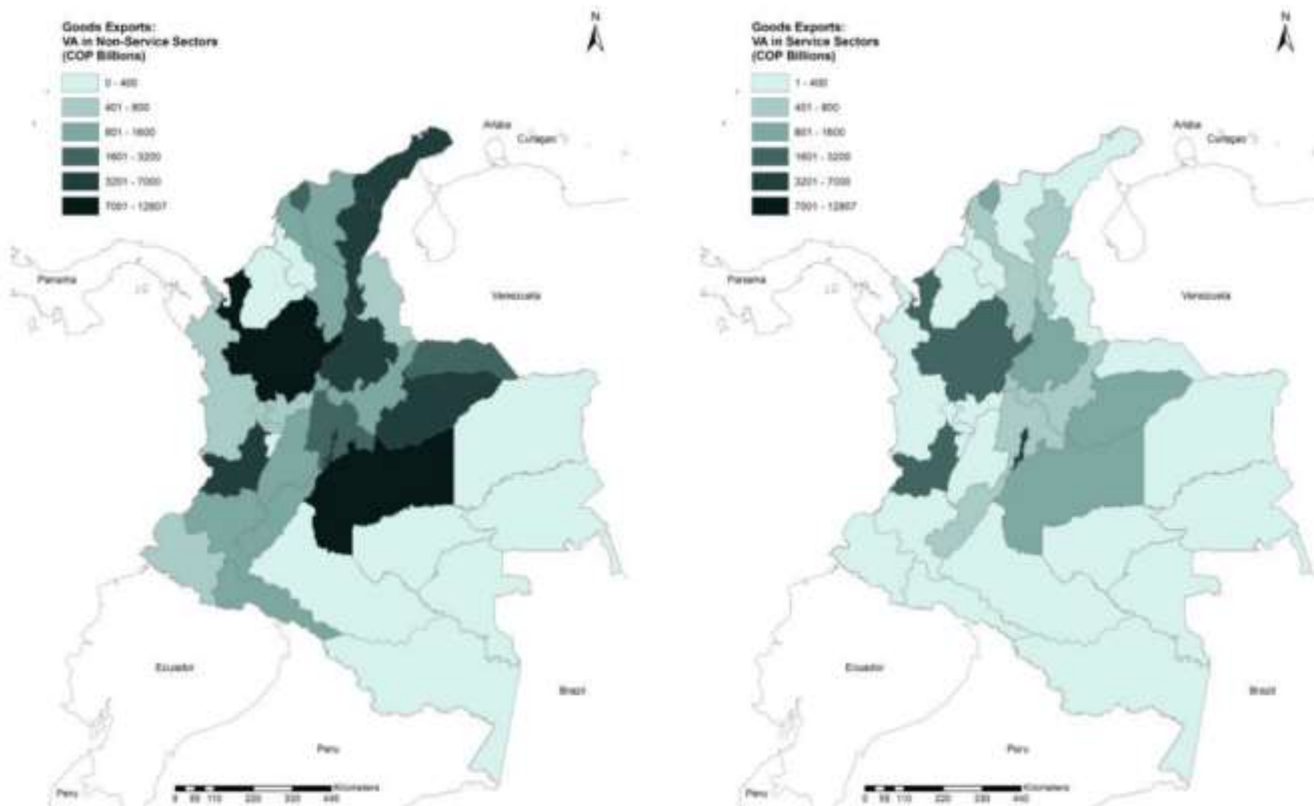


What are the main regions contributing to domestic value-added in the (goods and services) exports local value chains?

Figure 5. Spatial Patterns of Non-Services and Services Value-Added Embodied in Exports of Goods and Services: Colombia (in 2015 COP billions)

Exports of goods

Non-services value added | *Services value added*

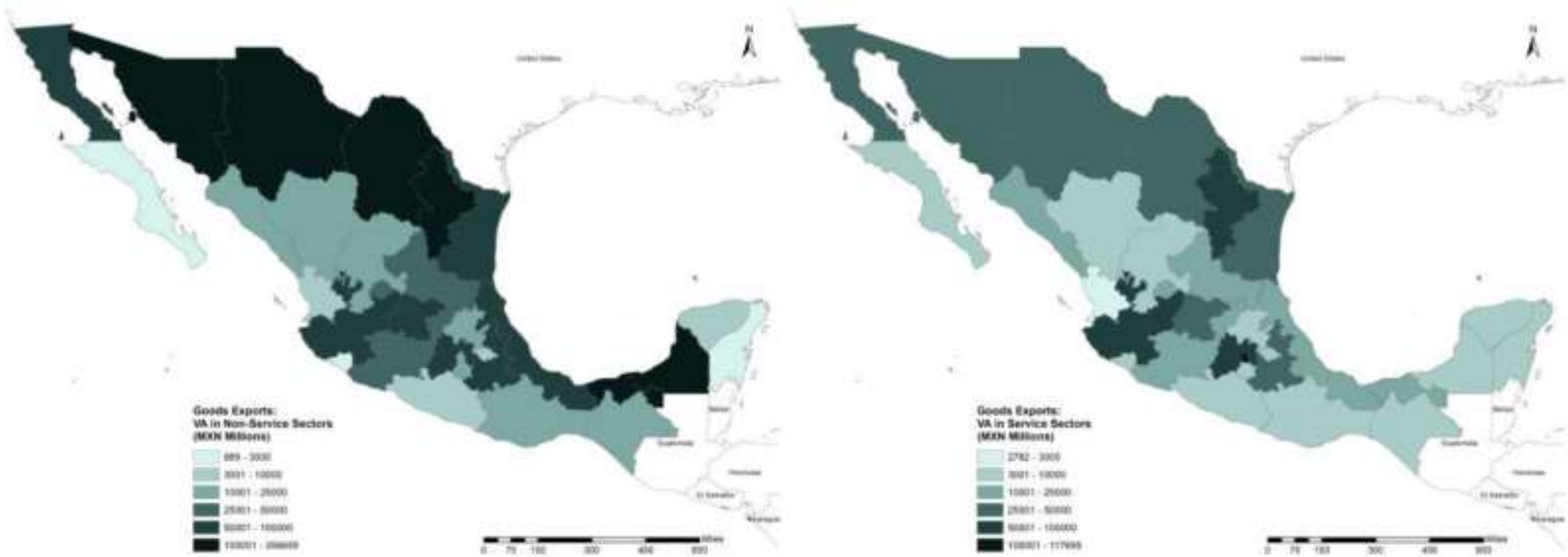


What are the main regions contributing to domestic value-added in the (goods and services) exports local value chains?

Figure 6. Spatial Patterns of Non-Services and Services Value-Added Embodied in Exports of Goods and Services: Mexico (in 2013 MXN millions)

Exports of goods

Non-services value added — *Services value added*



Where is services value-added of exports more concentrated?

Table 2. Regional Concentration of Value-Added in Exports: Brazil, Chile, Colombia and Mexico

Brazil

Exports of goods				*Export of services*			
VA in non-service sectors		*VA in service sectors*		*VA in non-service sectors*		*VA in service sectors*	
São Paulo	24.3%	São Paulo	37.3%	São Paulo	35.2%	São Paulo	64.0%
Minas Gerais	12.6%	Minas Gerais	11.2%	Rio de Janeiro	16.7%	Rio de Janeiro	19.1%
Rio de Janeiro	10.3%	Rio de Janeiro	10.6%	Paraná	8.0%	Santa Catarina	3.9%
Rio Grande do Sul	10.1%	Paraná	7.9%	Santa Catarina	7.7%	Paraná	3.8%
Paraná	8.3%	Rio Grande do Sul	7.3%	Minas Gerais	6.5%	Rio Grande do Sul	3.4%
TOTAL	65.7%		74.2%		74.0%		94.2%

Chile

Exports of goods				*Export of services*			
VA in non-service sectors		*VA in service sectors*		*VA in non-service sectors*		*VA in service sectors*	
De Antofagasta	33.8%	Región Metropolitana de Santiago	45.9%	Región Metropolitana de Santiago	32.3%	Región Metropolitana de Santiago	65.8%
Región Metropolitana de Santiago	16.0%	De Antofagasta	18.2%	De Valparaíso	13.3%	De Valparaíso	7.9%
De Valparaíso	8.8%	De Valparaíso	7.1%	Del Biobío	12.3%	Del Biobío	5.3%
Del Libertador General Bernardo O'Higgins	8.8%	Del Biobío	6.3%	Del Libertador General Bernardo O'Higgins	9.1%	De Antofagasta	4.4%
De Coquimbo	5.9%	De Atacama	4.3%	De Antofagasta	7.1%	Del Libertador General Bernardo O'Higgins	2.7%
TOTAL	73.2%		81.9%		74.1%		86.1%

Colombia

Exports of goods				*Export of services*			
VA in non-service sectors		*VA in service sectors*		*VA in non-service sectors*		*VA in service sectors*	
Meta	19.7%	Bogotá D.C.	22.3%	Antioquia	13.6%	Bogotá D.C.	33.5%
Antioquia	12.2%	Antioquia	15.8%	Valle del Cauca	11.1%	Antioquia	14.1%
Casanare	9.4%	Valle del Cauca	10.2%	Bogotá D.C.	11.0%	Valle del Cauca	10.2%
Cesar	7.7%	Meta	6.8%	Cundinamarca	9.8%	Atlántico	5.5%
Santander	6.1%	Atlántico	6.8%	Meta	8.2%	Cundinamarca	4.4%
TOTAL	55.1%		61.8%		53.6%		67.6%

Mexico

Exports of goods				*Export of services*			
VA in non-service sectors		*VA in service sectors*		*VA in non-service sectors*		*VA in service sectors*	
Campeche	18.5%	Ciudad de México	16.0%	Campeche	20.3%	Ciudad de México	22.3%
Tabasco	9.3%	Nuevo Leon	11.3%	Tabasco	14.5%	Mexico	9.5%
Coahuila de Zaragoza	8.6%	Jalisco	7.4%	Mexico	8.7%	Nuevo Leon	8.3%
Nuevo Leon	7.6%	Mexico	7.0%	Veracruz de Ignacio de la Llave	7.5%	Jalisco	7.1%
Chihuahua	5.7%	Coahuila de Zaragoza	6.2%	Ciudad de México	6.5%	Veracruz de Ignacio de la Llave	4.5%
TOTAL	49.6%		47.9%		57.5%		51.7%

What types of services are associated with more concentrated patterns of value-added embodied in exports?

Table 3. Share of Primate Regions in Services Value-Added of Exports of Good and Services: Brazil, Chile, Colombia and Mexico

	Brazil		*Chile**		*Colombia*		*Mexico*	
	Goods	*Services*	*Goods*	*Services*	*Goods*	*Services*	*Goods*	*Services*
Business services	35.3%	64.0%	43.0%	69.8%	23.4%	33.3%	25.9%	37.5%
Construction Services	26.5%	33.6%	27.6%	40.5%	13.7%	22.6%	3.8%	9.7%
Distribution services	35.1%	60.2%	60.9%	71.1%	29.9%	37.7%	5.6%	17.8%
Transport services	31.2%	58.4%	38.4%	54.6%	11.2%	40.4%	7.1%	21.2%
Communication services	50.7%	70.7%	-	-	34.1%	42.0%	50.6%	60.1%
Financial services	57.7%	80.2%	60.2%	76.8%	42.5%	51.7%	32.8%	44.1%
Other services activities	29.3%	60.8%	32.5%	53.1%	18.9%	20.1%	8.4%	18.7%

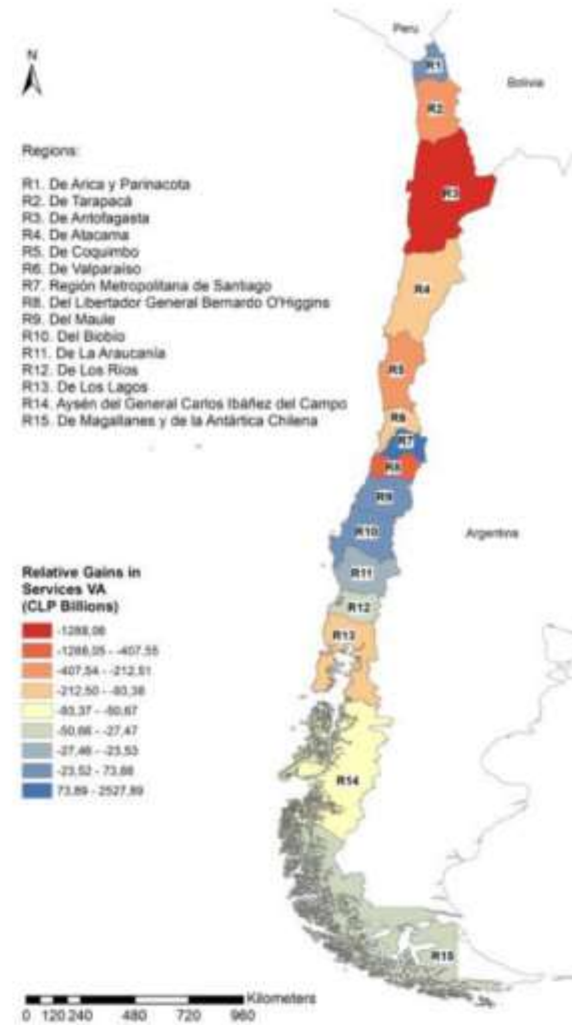
* Transport services include communication services

Obs.: Primate regions in each country are: São Paulo (Brazil), Santiago (Chile), Bogotá (Colombia), and Mexico City (Mexico)

What regions would have lost (gained) most, had the spatial distribution of exports of goods prevailed in the local generation of services value-added?

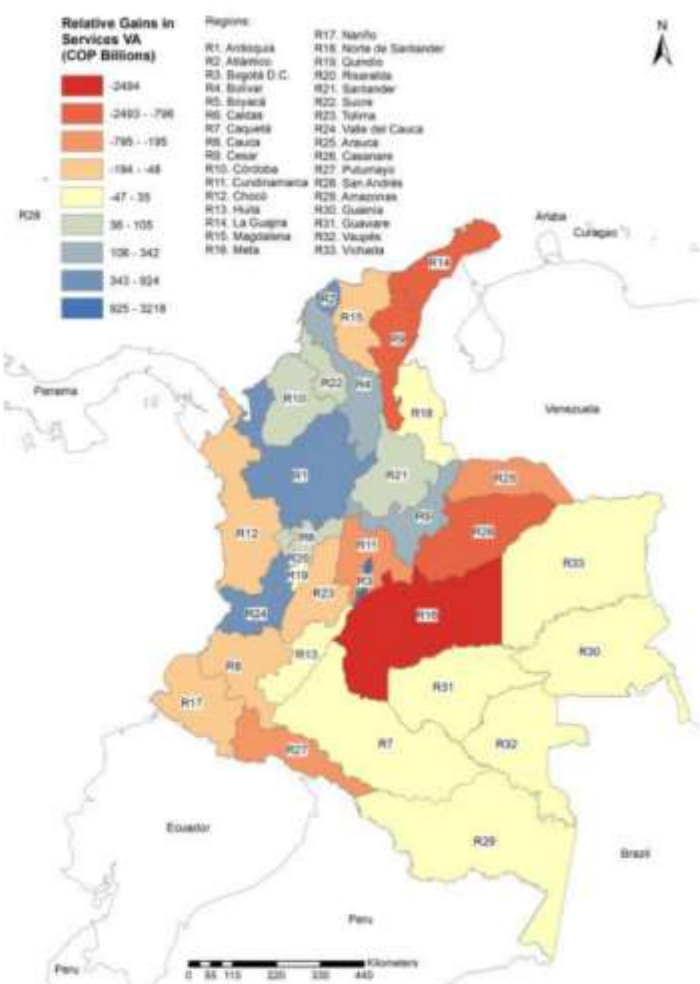
Brazil

Chile

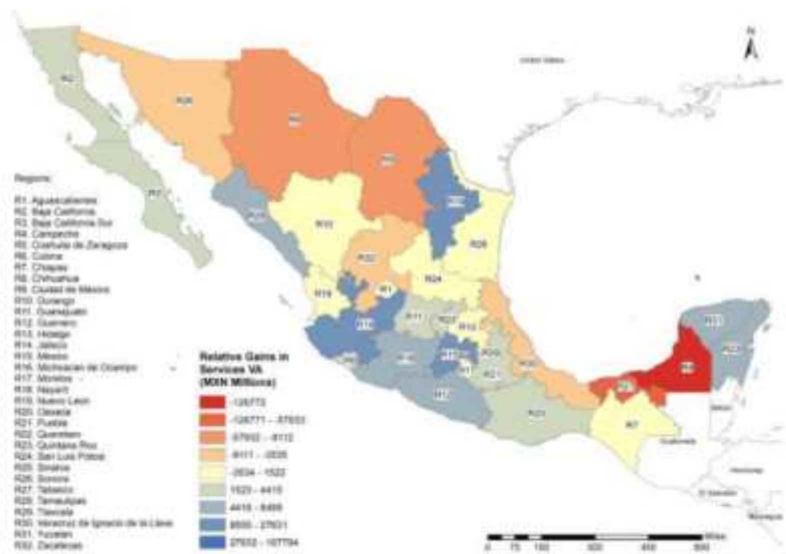


What regions would have lost (gained) most, had the spatial distribution of exports of goods prevailed in the local generation of services value-added?

Colombia



Mexico



Relevance for policy

"Servicification" has potential asymmetric locational impacts, benefiting developed economies, at a global scale, and primate cities, at the national level

- **Global**: more sophisticated services sectors exports are largely and increasingly dominated by developed economies
- **Local**: tend to benefit larger urban agglomerations in the more developed regions, reinforcing regional inequality

Importance of MoS 3 (FDI-driven services)

- Bulk of the tasks are undertaken in offices located in big cities

MoS 5 also raises concerns for regional inequality in natural resource-rich Latin American countries

Relevance for policy

LA still requires policies, capabilities and infrastructure to promote intermediate services

Despite its relevance, MoS 5 is not subject to the existing international trade regime under the GATS

- Policies linked to services’ content shares and services’ trade facilitation, may lead to the removal of important trade frictions, helping increasing competitiveness, productivity and well-being, at least in the short-term

Asymmetric effects of business cycles

- Opportunities to minimize production and income leakages

Relevance for policy: climate change

Exports of goods:

- Fossil fuel (changes in the world energy matrix)
- Agriculture (productivity and geographical shifts)

Services value-added:

- Valuation of environmental services (less concentrated)
- Promote a “green economy”
- Circular economy
- (…)

Three spatial regimes: identification

"Primary exporters"

- Services infrastructure is sparse and the connections are easily associated with specific and scattered export activities

"Intermediate space"

- Assumes a role of transition in the context of the interface of the country's interregional system with the world economy, and is more articulated with the domestic markets

"Global traders"

- Denser economic spaces, more integrated with the world economy, where efficiency in services activities plays a crucial role in affecting the countries' overall competitiveness

Three spatial regimes: consequences

In summary, the internal geography of services value-added in exports *vis-à-vis* the location patterns of natural resources in Latin American countries may add another source of tension for the contemporary trade negotiations in the region

To the extent that there will be mismatches between the sequencing, cadence and intensity of policies promoting a greater insertion of LA countries into RVC and GVC, it may lead to **a novel form of geography of discontents** in the region

Thank you!

ehaddad@usp.br

www.usp.br/nereus

NEREUS

Núcleo de Economia Regional e Urbana
da Universidade de São Paulo
The University of São Paulo
Regional and Urban Economics Lab

POLICY CENTER
FOR THE NEW SOUTH

THINK • STIMULATE • BRIDGE