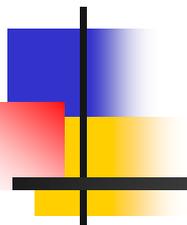
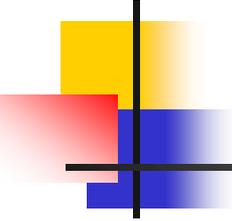


# Services trade in CESEE

## Policy Discussion



Beata Javorcik  
University of Oxford and CEPR



# At the first sight

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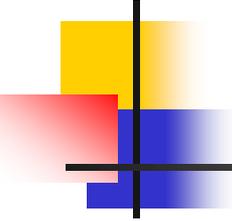
- Services sector is not that different from manufacturing
  - Exports and FDI are undertaken by more productive services firms (Jörn Kleinert)
  - Foreign IT and back office service firms have few linkages with the local economy => limited potential for spillovers (Magdolna Sass)
  - 40% of the drop in external demand feeds back to services (Olga Pindyuk)



# Why focus on services?

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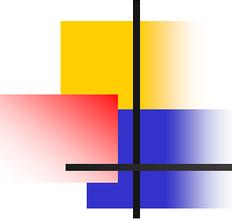
- **Aggregate productivity growth** in advanced economies **is mainly driven by productivity gains in services** rather than manufacturing (Francois and Hoekman 2010)



# Why engage in services reform?

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- Improvement in services sector performance
- Creation of good jobs  
(good = human capital accumulation)
- Boost to manufacturing productivity



# Own liberalization improves performance

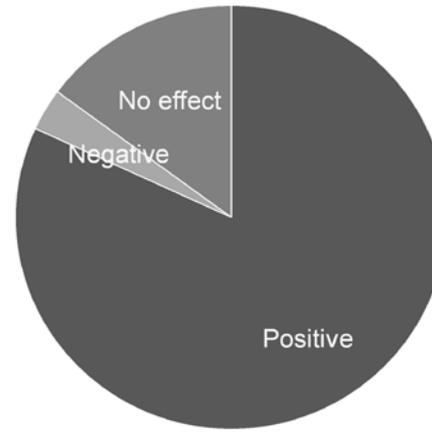
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- Survey of 350 Czech firms in 2004
- Firms were asked to assess the impact of liberalization and foreign presence in Czech services sectors
- Large majority of respondents perceived a beneficial effect on prices, quality, the range of services on offer and the availability of services

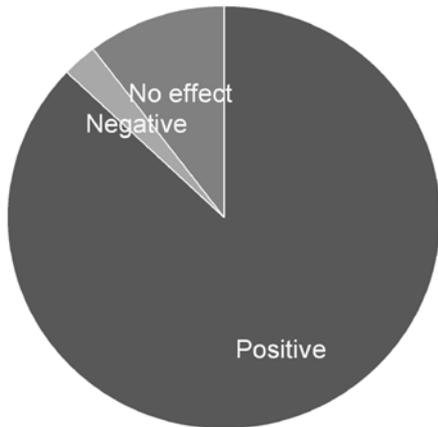
# Perceived effects of opening Telecommunications sector to FDI



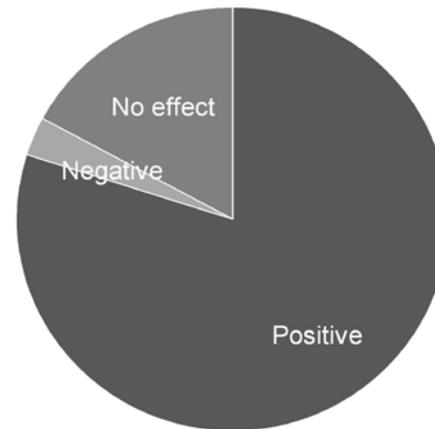
Prices



Quality

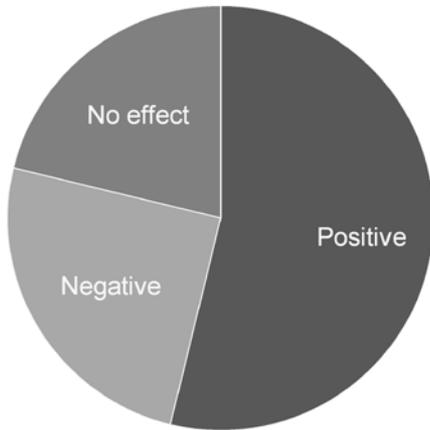


Range of Services offered

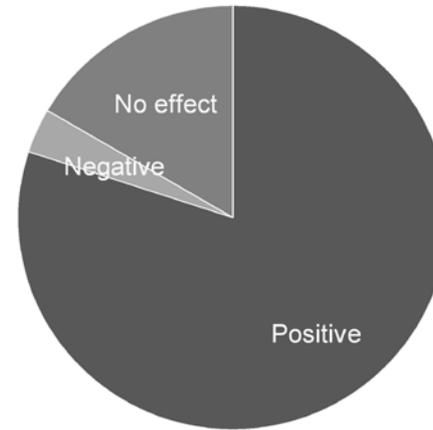


Availability

# Perceived effects of privatization and foreign entry into Banking



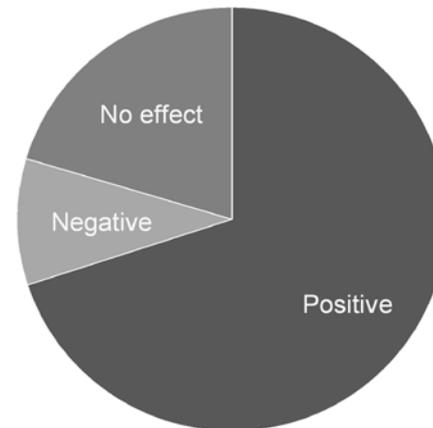
Prices



Quality

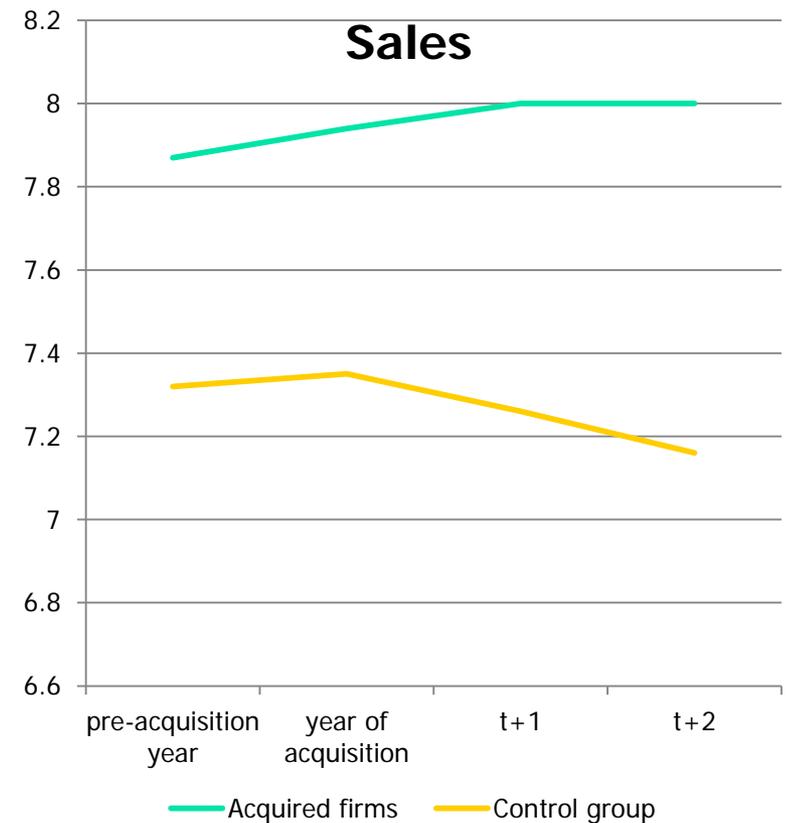
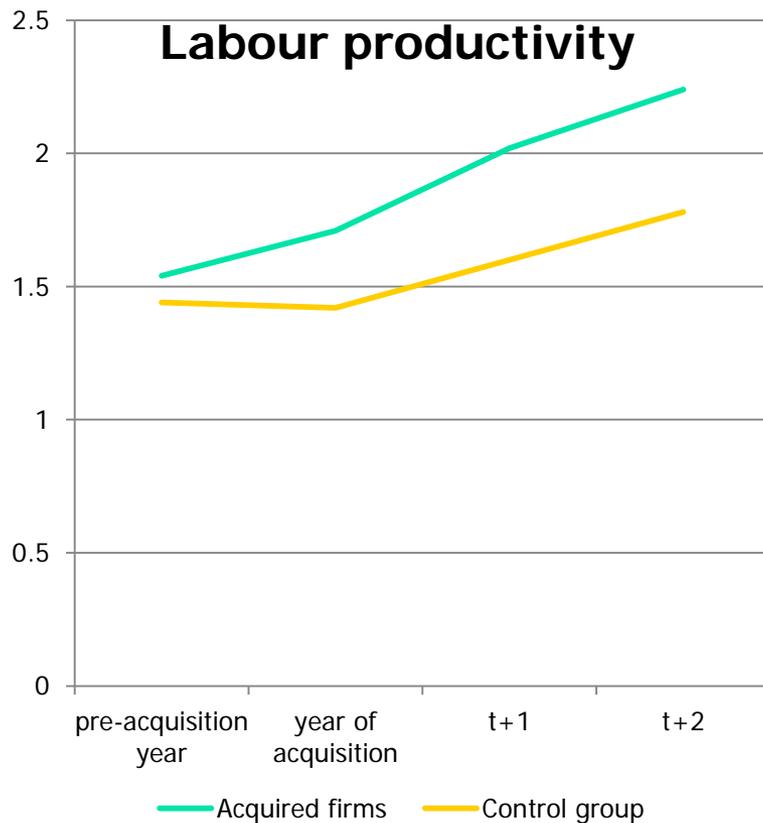


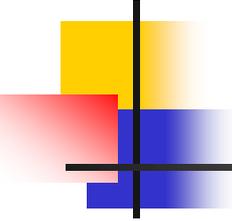
Range of Services offered



Availability

# Foreign acquisition boost performance of services firms



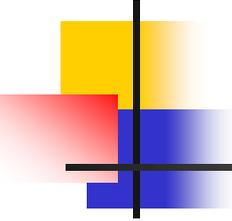


# Bilateral liberalization will boost aggregate performance

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- More productive services firms export and do FDI => bilateral liberalization will lead to expansion of more productive firms => aggregate productivity will improve

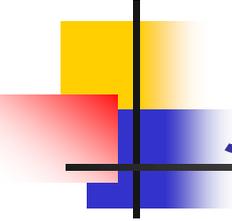
Jörn Kleinert



# Why engage in services reform?

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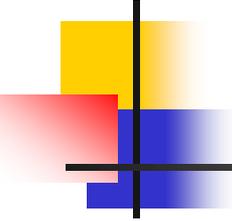
- Improvement in services sector performance
- Creation of good jobs  
(good = human capital accumulation)
- Boost to manufacturing productivity



# Foreign affiliates create good jobs

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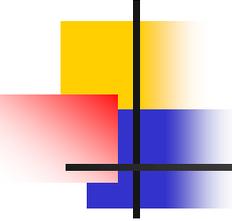
- Foreign affiliates pay higher wages and offer more training
- Magdolna Sass:
  - All interviewed firms provided employee training
  - Between 2005 and 2008 wages increased by 10% annually across the three countries
  - Attrition rates were close to 20%
  - The turnover fell as unemployment increased during the 2008 recession



# Why engage in services reform?

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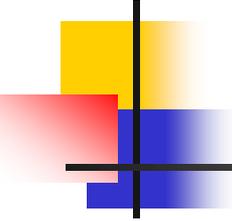
- Improvement in services sector performance
- Creation of good jobs  
(good = human capital accumulation)
- **Boost to manufacturing productivity**



# What makes services different

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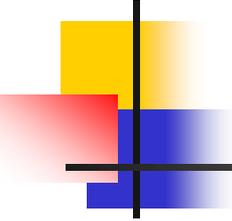
- Producer services are an input into many manufacturing industries
- **Cross-border tradability of services is limited**, so manufacturing firms are often at the mercy of local services providers



# Evidence from the Czech Rep.

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- There is a positive relationship between services sector reform and the performance of domestic manufacturing firms
- **Allowing foreign entry appears to be the key channel** through which services liberalization may affect performance of downstream manufacturing sectors
- A one-standard-deviation increase in FDI in services => a **5.9%** increase in the average productivity of Czech firms in downstream manufacturing



# Evidence from India

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- A one-standard-deviation change in the services reform index corresponds to the following increase in productivity of manufacturing firms
  - banking 6.6%
  - telecommunications 8.4%
  - transport 18.8%

Arnold, Javorcik, Lipscomb and Mattoo (2012)

# Global Chain in Romania:

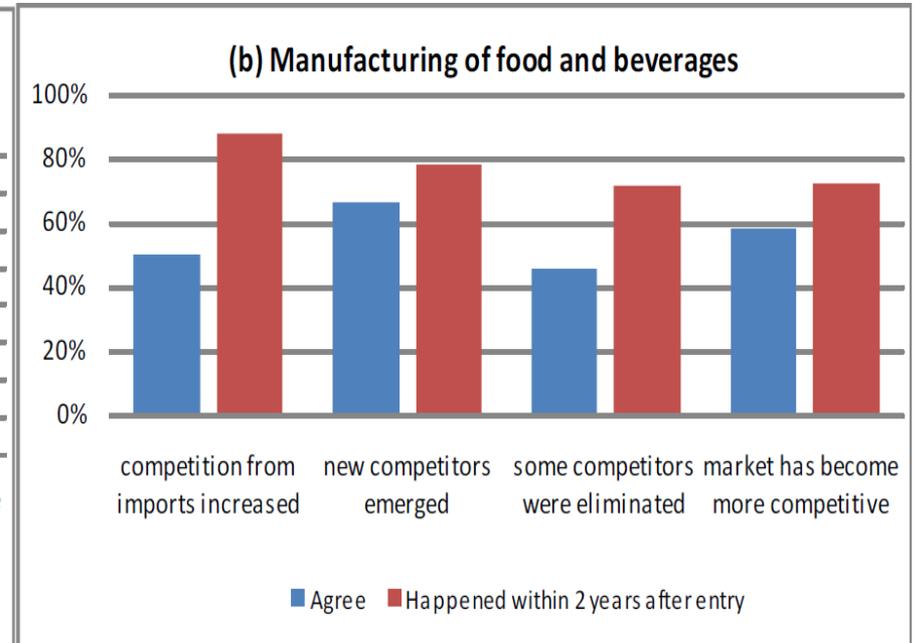
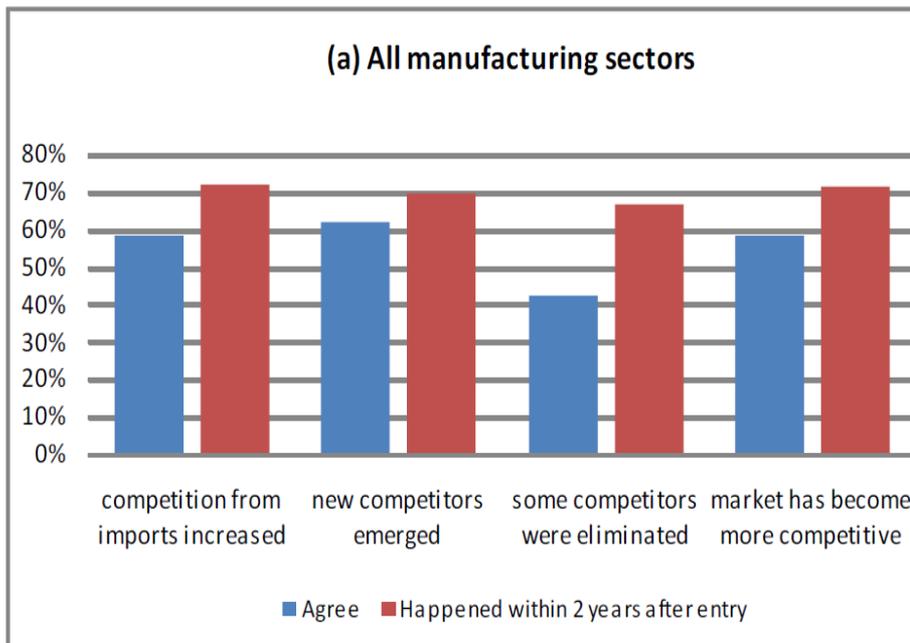
## Regional Distribution 1997

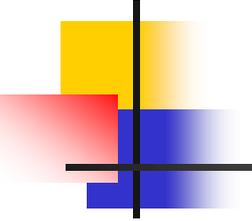


# Global Chain in Romania: Regional Distribution 2005



# What were the effects of the entry of foreign retail chains on the market in your city?





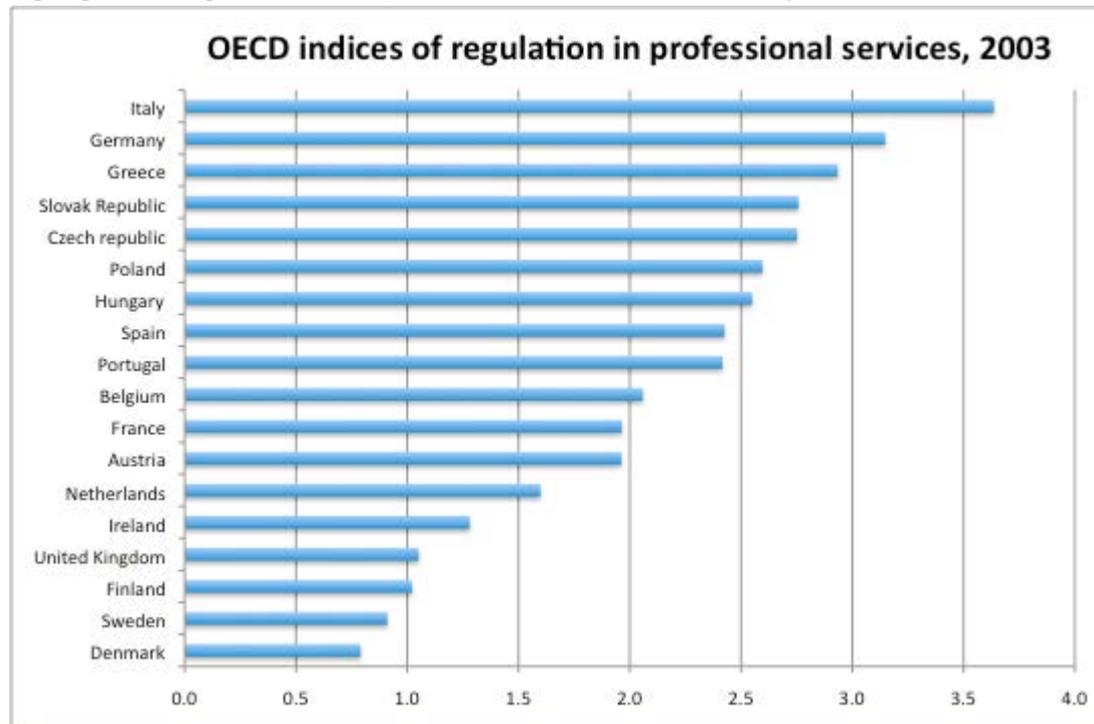
## Evidence from Romania

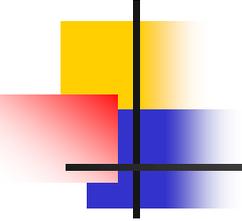
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- The opening of the retail sector to FDI has stimulated productivity growth in upstream manufacturing in Romania
- Presence in a region increases TFP by 3.8-4.7%
- The effect took place through within firm productivity growth and reallocation

# Bottom line

- Turn to services to stimulate growth in aggregate productivity





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Thank you