



UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW



VIII REDLAS Conference Bogota 6-8 November 2019

Service economy integration in Latin America – international connection and value chain upgrading.

Andrew Jones,
City, University of London

and

Patrik Ström, University of Gothenburg





Overview

- Objective and Research Questions
- Economic integration and emerging markets
- GVCs and GPNs in Latin America
- Preliminary results from first empirical study



Purpose and Objectives

The project aims to study the possible transformation of the economy based on upgrading within or external to the region. The establishment of intra-regional trade relations prove important for the development of markets (Alvstam et al., 2016).

Historic narratives around economic development for many emerging economies have shifted towards a service industry-led focus as their domestic industries strengthen and service industries become ever more globalized.

New technologies of automation associated with Industry 4.0 are creating a wave of disruption in many service industries, the profound implications of which for the nature of service sector activity are only just beginning to be understood.



RQs

- What are the underlying mechanisms for service economy integration in Latin America?
- In what areas do Latin American economies possess a competitive advantage in service economy value-chains?

The paper seeks to contribute to theory through disentangling the service economy from the spatial perspective and conceptualize how countries are positioned in global value chains.



Latin America in the world economy

- In 1963, the share of Latin America in world trade of goods amounted to roughly 7 per cent, compared to 6 per cent in 2013.
- Southeast Asia accounted for 3 per cent of world trade in 1963 and 7 per cent in 2013.
- The EU trade relations with Latin America have stagnated during the last fifteen years at about 2-2.5 per cent of its total foreign trade in goods.
- Intraregional trade in Latin America has not grown during the past decades. Its share of total trade is still below 20 per cent.
- Intraregional trade within ASEAN10 has grown from about 15 per cent to 30 per cent since the mid 1960s



Global interconnectedness of goods and services

- Economic geography of activities – spatial implications;
- Economic interconnectedness, US, Pacific Asia, EU.
- Upgrading in the global value chain within the framework of new industrial policy measures;
- Transformation of the economic structure in the domestic markets;
- The trade political context at the regional and global level.
- Complexity of conceptualization; GVC, GPS, VA, trade and FDI etc.
- Firm level theory – IB and spatial dimension



The case of EU and Latin America

- EU-Mercosur talks with five South American economies, re-initiated 2010 after a six year pause. Now potentially coming to a close.
- From the Mercosur side, the EU is an important partner, comprising about 20 % of its external trade, and also a key investment partner, but only about 3 per cent of EU's total trade.
- Bilateral comprehensive free trade agreements with Latin American countries, comprising both goods and services, notably Mexico, Chile, Colombia and Peru, an Association Agreement with six Central American states, and Economic Partnership Agreements with fifteen Caribbean states (CARIFORUM).



Research design

- Analysis of the size and interconnectedness of the Latin American service economy.
- The next level will more closely study a set of countries that will constitute the main empirical part of the research. The initial analysis has indicated that Columbia, Costa Rica and St. Lucia will constitute the empirical platform.
- The paper works with both primary and secondary sources. Secondary sources are trade statistics and reports published by industry associations and firms. Primary data comprises interviews with policy representatives, representatives from industry associations, and finally firm executives.



St Lucia Pilot Study

- St Lucia selected as small Caribbean economy with significant service-led economic development focus
- Island economy
- c. 200 000 population
- Transitioned from agricultural domination to tourism services, and now strategy towards services.
- Economy c. 83% service sector St Lucia government
- BUT tourism domination, reliant on foreign capital and foreign service imports
- St Lucia Coalition of Service Industries
- Government partner to develop Service Industry Development Strategy (2016)
- Focus on aspiration to shift to higher order services
- Reduce dependency on tourism



Pilot Design and Specific RQs

- Summer 2019 field research
 - Primary & Secondary data
 - Government reports, corporate body reports, agency data
 - Key respondents within service firms, service industry organizations, policymakers
 - 3 focus groups (c. 25 participants), 10 depth interviews
- RQs
 - Domestic high order service sector firm population & capacity
 - Value chain position (vis-a-vis foreign service firms)
 - Domestic upgrading practices
 - Scope for new industry 4.0 technology
 - Barriers (policy, regulation etc)



Initial Findings

- Local capacity
 - Extensive low order services, but higher order exists
 - Accountancy, consultancy in sub-value relationship to foreign partners
 - Evidence of born global higher order (e.g. digital, consultancy), but small firm population
 - Barriers to value chain upgrading
- Market access
 - Driven by foreign client preference, global regulatory standards, scale and market access ability
 - East Caribbean integration v limited with export barriers
 - Labour market: lack of skilled (tertiary) professionals
 - Financial – risk averse financial / banking system for domestic start-ups, SMEs
- Areas for policy development
 - Trade integration, skills, SME support, technology investment, outsourcing 4.0 as ‘leap-frog’ tool



Conclusions

- In several countries the manufacturing and raw material based economy have created hurdles for further expansion into services.

- International;

One is driven by the connection to the world market through offshoring, GVC and GPN configuration and back-office functions.

The other area is the regional market in relation to service value added upgrading.

- Difficulties of getting trade structures working better in the region.

St Lucia

- Foreign capital lock-in in tourism is a key factor in local domestic service firm market access
- Regional trading structures are not significantly developed
- Labour market skills and technology not being address in government policy yet
- Evidence of born global higher order services, but policy needs to support potential mini 'unicorns' as capacity builders



UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

Thank you!

