Developing the Services Sector as an Engine for Inclusive Growth
(Financed by the Republic of Korea e-Asia and Knowledge Partnership Fund)
ABBREVIATIONS

ADB – Asian Development Bank
DMC – developing member country
ERMF – Macroeconomics and Finance Research Division
TA – technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

| Type | – Research and Development Technical Assistance (RDTA) |
| Targeting classification | – General intervention |
| Sector (subsectors) | – Multisector (education sector development, finance sector development, trade and services, health systems, transport management and policies, information and communication technology) |
| Themes (subthemes) | – Economic growth (promoting economic efficiency and enabling business environment, widening access to markets and economic opportunities); regional cooperation and integration (trade and investments); private sector development (policy reforms) |
| Location (impact) | – Regional (high), national (high) |
| Partnership | – Republic of Korea e-Asia and Knowledge Partnership Fund |

NOTE

In this report, "$" refers to US dollars.

| Vice-President | U. Schaefer-Preuss, Knowledge Management and Sustainable Development |
| Chief Economist | C. Rhee, Economics and Research Department (ERD) |
| Assistant Chief Economist | J. E. Zveglich, Jr., Macroeconomics and Finance Research Division, ERD |
| Team leader | D. Park, Principal Economist, ERD |
| Team members | G.E. Estrada, Economics Officer, ERD |
| | M. Lee, Senior Economist, ERD |

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.
I. INTRODUCTION

1. While developing Asia has benefitted significantly from export-led growth, continuing uncertainty over the economic performance of industrial countries highlights the risk of overdependence on external demand. Many of the developing member countries (DMCs) of the Asian Development Bank (ADB) are considering key policy options to rebalance their growth by increasing demand from domestic sources. One way to achieve a better balance is to strengthen the services sector.1 This requires raising productivity and enhancing competition within the sector and removing policy distortions that favor manufacturing over services.

2. One of the strategic priorities for research in 2009–2011 identified by the Technical Assistance Strategic Forum 2008 was the promotion of inclusive growth.2 This research and development technical assistance (TA) will address this strategic priority by analyzing the part played by the services sector in the region’s economies and drawing policy lessons from in-depth studies that can be used to enhance the sector’s productivity and expand its role in growth and job creation. By helping DMCs develop the sector and the economic and employment opportunities it offers, the TA can make an important contribution to the inclusive growth agenda of ADB’s Strategy 2020.3 The design and monitoring framework is in Appendix 1.4

II. ISSUES

3. The development, growth, and productivity of the region’s services sector are hampered by structural distortions and impediments. These include excessive regulation, government domination of some service industries, and high barriers to trade.5 Despite these impediments, the contribution of services to growth often tends to be high where industrialization has been slow. Examples include the Philippines and South Asia.6 In 2005–2010, the services sector in the Philippines contributed 3.1 percentage points to the country’s average annual gross domestic product growth of 4.9%, compared with the 1.6 percentage points added by the industry sector. In Bangladesh, India, Pakistan, and Sri Lanka, the corresponding contributions of the services sector to growth were about 3–6 percentage points to these countries’ average gross domestic product growth that ranges between 5% and 9%, compared with 1–2 percentage points from the industry sector. Reducing or removing distortions and impediments would increase this already dominant contribution to economic growth and job creation in these DMCs and throughout the region.

4. Developing Asia’s remarkable economic success has been driven by export-oriented industrialization. Governments have focused their efforts, policies, and fiscal and other incentives on promotion of export-oriented manufacturing. At the same time, there is a clear

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4 The TA first appeared in the business opportunities section of ADB’s website on 10 October 2011.
evidence that services sector development is lagging behind manufacturing throughout the region.

5. As manufacturing productivity has increased, the services sector’s demand for labor has declined. Whether it can provide enough jobs for the growing numbers of workers available has become a key question for the region’s middle-income economies. With a few exceptions, labor productivity and wages are generally low in the services sector. It absorbs most of the labor released by the agricultural sector but provides most of these workers with informal, low productivity jobs that offer no formal social protection. In addition, groups with a vested interest in blocking change stand in the way of reform in a wide range of service industries.

6. The services sectors of DMC economies vary widely and the potential exists for them to learn from one another’s successes. For example, services form a much greater share of overall output in India than they do in such other middle-income economies as Indonesia and Thailand. The growth of India’s services sector and those of other South Asian countries has been propelled by the vast opportunities offered by the global services revolution. Their experience provides a key lesson: while excessive domestic and international trade barriers can severely limit the development of the services sector, liberalization can accelerate its growth.

7. The studies to be undertaken through this TA will add importantly to the existing literature on the subject by exploring in depth both the barriers to services sector development across the region and policy options to overcome them. One critical barrier is the protection of certain service subsectors. The TA will study this obstacle and examine how the sector can be liberalized domestically and be made more open to international trade so it can contribute more to the region’s economic growth. It will identify the benefits and costs of domestic and international liberalization—information that will be important in promoting sector reforms in economies across the region. More closely that has been done before, the TA studies will also examine how services sector development can create good jobs for the region’s growing labor force and thereby reduce poverty and generate inclusive growth in ADB’s DMCs.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

8. The impact of the TA will be enhanced productivity in the services sector and a greater role for it in the region’s growth process. The outcomes will be improved understanding of the services sector by DMC policymakers and the general public through the lessons provided by the TA about the sector’s status, main structural features, main weaknesses, and the strategic directions and reforms that should be followed to strengthen it.

B. Methodology and Key Activities

9. The main output of the TA will be a comprehensive book that will cover the following: (i) analysis of the role of services in making growth more inclusive, (ii) analysis of the constraints to

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9 Low-productivity services sectors are already a major source of jobs in Asia but improving sector productivity will create additional jobs by promoting growth and economic dynamism.
the development of the services sector in the region, and (iii) policy recommendations to strengthen the services sector. The specific contents of the book are:

(i) Overview of the region’s services sectors, including regionwide issues, challenges, and opportunities. This may include case studies of specific service industries—India’s business process outsourcing sector, for example.

(ii) Four regionwide studies of services sectors in the DMCs, examining, for example, the importance of services in DMC gross domestic product and employment compared with experiences in advanced countries.

(iii) In-depth analysis in five individual DMCs to identify the primary obstacles to the growth and development of their services sectors and to facilitate comparisons between countries. This may also include case studies of specific service industries. The countries will be the People’s Republic of China, India, Indonesia, the Republic of Korea, and the Philippines. The TA may also cover one country from Central Asia (i.e., Kazakhstan or Uzbekistan).

(iv) Concrete policy options for strengthening services sectors in the DMCs drawn from the findings of the research.

(v) Policy lessons from country-specific studies on services sector development.

10. Research papers that will be produced under the TA may also serve as background material for a possible theme chapter on the services sector in ADB’s Asian Development Outlook. Electronic or printed material presenting concise widely applicable lessons or recommendations based on the findings of the TA studies will also be produced for the widest possible audience.

11. The TA will fund the conduct of workshops and conferences. In the initial workshop, the Macroeconomics and Finance Research Division (ERMF) of ADB Economics and Research Department, together with the consultants and researchers, will deliberate on a common framework of analysis, especially for the individual country studies. Additional workshops and conferences will be held to discuss the findings of the studies and help refine the final output. ERMF will participate in academic conferences organized by reputable international institutions to disseminate the findings of the TA. The timing of such intermediate outputs as research seminars and workshops and for dissemination activities will depend on the project’s overall progress.

C. Cost and Financing

12. The total cost of the TA is estimated at $500,000. The TA will be financed on a grant basis by the Republic of Korea e-Asia and Knowledge Partnership Fund and administered by ADB. Appendix 2 shows the cost estimates and financing plan.

D. Implementation Arrangements

13. ADB will be the executing agency. The TA will be implemented by the ERMF. The TA is expected to be completed in 24 months from November 2011 to October 2013.

14. ADB will engage a consulting firm through consultants’ qualifications selection to work with ADB staff and other consultants on the research papers. The firm will contribute to determining the strategic direction and the technical scope of the research papers, oversee the quality and timely delivery of the research papers, and ensure that they are widely disseminated. A total of 7 person-months of international consulting services will be required from the selected
The consulting firm, comprising 2.5 person-months from one lead economist and 4.5 person-months from three senior economists.

15. The TA will also require 6 person-months of international consultants’ time to prepare five country studies. Resource persons will be hired for approximately 2 person-months to review the papers, provide comments, and serve as discussants in the workshops. The TA will also engage the services of an economics editor for 2 person-months to ensure that the publication to be produced is of high quality. The TA will also require 6 person-months of services from 3 national consultants: 2-person months for assistance in the preparation of research studies and in organizing workshops and related activities, 2 person-months from a manuscript editor to ensure a quality publication that adheres to ADB style, usage, and format, and 2 person-months from a graphic designer to prepare the book for publication. Individual consultants will be hired using the individual consultant system. An outline of the terms of reference of consultants and resource persons is in Appendix 3.

16. The consulting firm, individual consultants, and resource persons will be engaged in accordance with ADB’s Guidelines on the Use of Consultants (2010, as amended from time to time). Disbursements under the TA will be done in accordance with ADB’s Technical Assistance Disbursement Handbook (2010, as amended from time to time).

IV. THE PRESIDENT’S DECISION

17. The President, acting under the authority delegated by the Board, has approved ADB administering technical assistance not exceeding the equivalent of $500,000 to be financed on a grant basis by the Republic of Korea e-Asia and Knowledge Partnership Fund for Developing the Services Sector as an Engine for Inclusive Growth, and hereby reports this action to the Board.
## DESIGN AND MONITORING FRAMEWORK

<table>
<thead>
<tr>
<th>Design Summary</th>
<th>Performance Targets and Indicators</th>
<th>Data Sources and Reporting Mechanisms</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Impact</strong></td>
<td>Governments undertake policy reforms in support of the services sector’s productivity and growth.</td>
<td>Government reports and statistical data</td>
<td>Assumption: Governments are willing to undertake reforms to enhance services sector productivity and growth.</td>
</tr>
<tr>
<td><strong>Outcomes</strong></td>
<td>Consultations held with both public and private sectors on services sector status and reforms.</td>
<td>Feedback from governments and private sector groups</td>
<td>Assumptions: Adequate consultations are held with both the governments and the private sector.</td>
</tr>
<tr>
<td><strong>Outputs</strong></td>
<td>Book published, launched, and distributed; results are disseminated research institutions, policy makers, the academia, and media.</td>
<td>Number of participants and quality of discussion in the workshop</td>
<td>Assumption: Services sector experts are available to produce research reports and to participate in the workshops.</td>
</tr>
</tbody>
</table>

**Impact**

Enhanced productivity of the services sector in the region and a greater role for it in the growth process.

**Assumptions and Risks**

**Assumption**

Governments are willing to undertake reforms to enhance services sector productivity and growth.

**Risks**

Governments do not recognize the importance of reforms. Policy reforms are not implemented due to the influence and strong opposition of groups with vested interests.

**Outcomes**

Relevant lessons on services sector status and reforms are provided to governments and the public.

Improved understanding of developing Asia’s services sector by policymakers and the public (e.g., their main structural features, their main weaknesses, and strategic directions to foster strong services sector).

**Assumptions**

Adequate consultations are held with both the governments and the private sector.

Information and data for the research studies are available.

Quality research outputs are produced.

**Risk**

Government policy makers resist reforms and new policies.

**Outputs**

1. Book covering:
   a. Analysis of the role of services sector in making growth more inclusive
   b. Analysis of the constraints to the

   **Assumption**

   Services sector experts are available to produce research reports and to participate in the workshops.
### Design Summary

<table>
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<tr>
<th>Performance Targets and Indicators</th>
<th>Data Sources and Reporting Mechanisms</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>development of the services sector in the region</td>
<td>media</td>
<td>Risk&lt;br&gt;Insufficient data and relevant references are available to produce quality papers.</td>
</tr>
<tr>
<td>c. Policy recommendations to strengthen the services sector</td>
<td>Papers completed and presented during the workshops</td>
<td></td>
</tr>
<tr>
<td>2. Background papers which may be published as ADB working papers</td>
<td>Workshops attended by experts</td>
<td></td>
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<tr>
<td>3. At least two workshops to present study results for comments</td>
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### Activities with Milestones

1. Draft terms of reference and engage consulting firm and individual consultants to write main papers that will form part of the book. (Oct–Dec 2011)
2. Conduct inception workshop or video conference, with consultants and researchers. (Jan 2012)
3. Carry out interim research workshop where consultants and researchers will present their findings. (Apr–May 2012)
4.1. Publish the book. (Dec 2012–Mar 2013)
4.2. Launch the book. (Apr 2013)
5. Conduct dissemination activities. (Apr–Jul 2013)

### Inputs

**Republic of Korea e-Asia and Knowledge Partnership Fund: $500,000**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount ($'000)</th>
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<tbody>
<tr>
<td>Consultants:</td>
<td></td>
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<tr>
<td>International (15 person-months, including 7 person-months through a consulting firm): remuneration and travel</td>
<td>345.00</td>
</tr>
<tr>
<td>National (6 person-months)</td>
<td>12.00</td>
</tr>
<tr>
<td>Financing for workshops and conferences (including resource persons' honoraria and travel)</td>
<td>87.00</td>
</tr>
<tr>
<td>Miscellaneous administration and support costs</td>
<td>36.00</td>
</tr>
<tr>
<td>Contingencies</td>
<td>20.00</td>
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</tbody>
</table>

ADB = Asian Development Bank. TA = technical assistance.
## COST ESTIMATES AND FINANCING PLAN
($'000)

<table>
<thead>
<tr>
<th>Item</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Korea e-Asia and Knowledge Partnership Fund&lt;sup&gt;a&lt;/sup&gt;</td>
<td>500.00</td>
</tr>
</tbody>
</table>

1. Consultants
   - a. Remuneration and per diem
      - i. International consultants  285.00
      - ii. Local consultants  12.00
   - b. International and local travel  60.00

2. Workshops and conferences<sup>b</sup>  87.00

3. Miscellaneous administration and support costs
   - a. Publications  30.00
   - b. Other administration and support costs<sup>c</sup>  6.00

4. Contingencies  20.00

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<sup>a</sup> Administered by the Asian Development Bank.

<sup>b</sup> Includes costs of workshop and conference resource persons, including travel expenses of staff participating in workshops as resource persons, and dissemination activities.

<sup>c</sup> Includes communications, data support, and data subscription.

Source: Asian Development Bank estimates.
OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Consulting Firm for Regionwide Studies (7 person-months)

1. The consulting firm will work on four research papers on the services sector from the perspective of the developing member countries (DMCs) of the Asian Development Bank (ADB) as a whole. The four specific regionwide topics will be determined in close consultation between ADB and the consulting firm. For example, one paper may provide an overview of the current state of service industries in the region and the major obstacles to its growth and development. Another paper may explore the issue of how a stronger services sector can contribute to job creation and more inclusive growth. Yet another paper may be a case study of a particular service industry—e.g., financial services—in the DMCs. These studies will become part of a collective volume on the services sector. The consulting firm should be a well-known and reputable international economic research institute. It will provide the consultancy services of a minimum of four experts (a lead economist and three senior economists) for the technical assistance (TA). They should be recognized as experts in services sector research.

2. Lead economist (international, 2.5 person-months). This expert will be an internationally well-established economist with expertise on services research. The consultant will preferably have sufficient experience in similar assignments that involved the preparation and coordination of research products and work with international financial institutions. The consultant will

   (i) jointly supervise the preparation of the research papers with the ADB team leader, review the other background papers, and provide comments on the papers;
   (ii) provide inputs to the overall project report, including concrete suggestions on activities, structures, and outputs;
   (iii) submit a proposed outline of the research paper on one of the agreed topics;
   (iv) provide a comprehensive literature review;
   (v) perform rigorous, data-based empirical analysis and write a research paper that clearly identifies the link between services sector development and inclusive growth, compares the sector experiences in the DMCs with those of advanced economies, and recommends concrete and specific policy options for developing a stronger and more efficient services sector that will make a major contribution to inclusive growth;
   (vi) present the paper at the midterm and finalization conference;
   (vii) incorporate the comments from the midterm and finalization conference in the paper;
   (viii) submit a final report;
   (ix) ensure the coherence of the team from the firm and the timely delivery of outputs by team members;
   (x) maintain effective communication with the ADB team leader and lead coordination between the firm’s economists and the economics editor to ensure the overall quality and analytical consistency of the collective volume publication;
   (xi) co-edit with the ADB team leader the collected volume on the DMCs’ services sector; and
   (xii) perform other related tasks as reasonably requested by ADB.
3. **Senior economists** (international, 3, 4.5 person-months). These experts will be internationally well-established economists with expertise on services research. Acting jointly with a team of experts and ADB’s Economics and Research Department, each consultant will

(i) submit a proposed outline of the research paper on one of the agreed topics;
(ii) provide a comprehensive literature review;
(iii) perform rigorous, data-based empirical analysis and write a research paper that clearly identifies the link between services sector development and inclusive growth, compares the sector experiences in the DMCs with those of advanced economies, and recommends concrete and specific policy options for developing a stronger and more efficient services sector which will make a major contribution to inclusive growth;
(iv) present the paper at the midterm and finalization conference;
(v) incorporate the comments from the midterm and finalization conference in the paper;
(vi) submit a final report; and
(vii) maintain effective communication with the other economists and the ADB team leader and cooperate with the lead economist and the economics editor to ensure the overall quality and analytical consistency of the collective volume publication.

B. **Consultants for Country Studies** (international, 5, 6 person-months)

4. The consultants will prepare individual country studies of the services sectors of the People’s Republic of China, India, Indonesia, the Republic of Korea, and the Philippines. In the People’s Republic of China, the share of services in the economy is significantly lower than in other economies at similar income and development levels. India has emerged as a major global exporter of information technology-enabled services such as business process outsourcing so, to a lesser extent, has the Philippines. Large potential exists for the growth of the services sector in Indonesia, where domestic demand plays a major role in growth. In the case of the Republic of Korea, the government is promoting the services sector as a new engine of growth and economic dynamism although the sector’s productivity lags that of the manufacturing sector. Depending on the budget and data availability, one international consultant may also be hired for a country study from Central and West Asia. Each international consultant should be an economist with proven knowledge of and extensive work experience on service industries. As a minimum qualification, the international consultants who will handle the country studies should have a master’s degree or the equivalent of 7 years of relevant professional experience. They should have thorough knowledge of the services sector in their assigned country. Each expert will be under the guidance of the TA supervising unit officer and will have several responsibilities:

(i) Provide a comprehensive, in-depth overview of the main structural features of the country’s services sector, including qualitative description and quantitative data. One example of the information required is the size and composition of the country’s services sector. Others are the size and composition of the country’s trade in services and identification of its main trading partners in services trade.
(ii) Perform rigorous, data-based empirical analysis of the country’s services sector. This should include, for example, measuring labor productivity in services and comparing it with labor productivity in manufacturing.
(iii) Identify the main structural and policy-induced barriers to the growth and development of the services sector, as well as barriers to higher productivity in
the sector, including barriers to trade in services. These barriers should be ranked in terms of their relative significance.

(iv) Using the findings from the research in activities i–iii, recommend concrete, specific policy options for developing a stronger and more efficient services sector that will make a major contribution to inclusive growth.

(v) Write a policy-oriented research paper that incorporates the work and findings of activities i–iv. The research paper will become a chapter in the main final output of the TA—a comprehensive, policy-relevant, high-quality book on the services sector in ADB’s DMCs.

5. The consultants will present the preliminary drafts of their papers at the inception workshop and the quasi final drafts of their papers to the closing workshop. The consultants will incorporate the comments from that workshop in revising their papers before submitting their final drafts to the supervising unit officer.

C. Resource Persons (international, approximately 2 person-months)

6. Resource persons with background as policy makers and/or experts will be engaged to review the draft chapters and to participate as discussants in the workshops.

D. Economics Editor (international, 2 person-months)

7. The economics editor will review and edit drafts and manuscripts to ensure coherence, sound economic arguments, and the highest publication standards. In particular, the consultant will

(i) examine the economic arguments to assess whether they are logical and based on accepted economic theory and principles;
(ii) rewrite text, add or delete information, and help revise pages or sections if needed to tighten economic arguments;
(iii) fill in the discussions and ensure the smooth flow of ideas; and
(iv) examine tables, figures, and charts to ensure data consistency within pages and across documents and suggest deletions and additions to ensure that they are useful.

E. Consultants for Research (national, 3, 6 person-months)

8. A national consultant with experience in general economics will be hired for 2 person-months to assist in the TA research work. In particular, the consultant will

(i) support the preparation of research studies under the TA;
(ii) provide technical support to both international consultants and ADB staff in implementing the TA;
(iii) undertake quantitative analysis, as required;
(iv) be responsible for the preparation of administrative requirements, including logistical arrangements, for the workshops and related activities; and
(v) perform other tasks as may be assigned by Macroeconomics and Finance Research Division staff.

9. A manuscript editor will be hired for 2 person-months to edit the thematic studies, draft reports, and other related papers. The editor will ensure that the language and content of the
papers conform to ADB style and usage. The manuscript editor will work in close coordination with ADB staff and the economics editor.

10. Another consultant will be hired for 2 person-months to serve as a graphic designer and will typeset and convert the files into the required format for publication. The consultant will prepare InDesign, Illustrator, and PDF files of the interiors and covers using original manuscripts submitted in Microsoft Word and Microsoft Excel. In particular, the consultant will

(i) lay the book out in accordance with ADB standards,
(ii) reformat all the tables and charts in the book,
(iii) encode text and graphical corrections based on feedback received from the editor and the staff of the Macroeconomics and Finance Research Division,
(iv) prepare the final layout of the book
(v) encode final revisions,
(vi) design the book’s cover and submit it to the project officer for final offset printing,
(vii) submit the web-ready and preflight consolidated PDF of the report to the project officer,
(viii) coordinate with ADB’s Department of External Relations on matters related to the publication of the report, and
(ix) perform other related tasks assigned by the project officer.