

Executive Summary

Connected services,
competitive businesses



5 Thought
leaders

6 Business
voices



International
Trade
Centre

TRADE IMPACT FOR GOOD

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Connected services, competitive businesses



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Foreword



From a refugee camp in Africa, Abubakar provides digital bookkeeping services to clients all over the world. During the height of pandemic restrictions, Felipe's freight booking app kept essential goods moving in Latin America. From her living room, environmental consultant Liu runs a small online company that helps other small businesses in Asia turn their waste into revenue streams.

People like Abubakar, Felipe and Liu remind us that from crises come opportunities. With their entrepreneurial spirits they have created new businesses, generated jobs and provided ways to overcome some of the biggest challenges of our time – conflict, COVID-19 and climate change.

But there is something else that unites these three entrepreneurs: they provide critical services.

Services are hard to grasp. We drive, wear and sleep in products made by industry. We eat the products of the land. But services sometimes seem invisible, even though they are everywhere. This is because they are intangible – you don't touch them, and often you don't even own them. Also, they are increasingly incorporated into something else.

This SME Competitiveness Outlook, and other publications like it, are perfect examples. Their value does not merely come from their physical properties. It derives from all the highly specialized services that went into creating them: researching, writing, editing, translating, designing and printing. The dozens of people who perform these services usually do not all meet in person, but technology allows them to work seamlessly together to give you, a reader they also usually never meet, something valuable.

The production of this report embodies two trends that are reshaping services. First, they account for a growing share of the value of whatever is produced. Second, they are increasingly supplied using digital technologies.

But not all services are the same. A set of four activities – which ITC has dubbed the ‘connected services’ – are at the forefront of these trends. Financial services, ICT, transport and logistics, and business and professional services are the connective tissue that links various parts of a supply chain, and are spearheading digital innovation.

This report finds that connected services are valuable in their own right. Employment is growing rapidly in these sectors, particularly in low-income countries. They also export more, attract more investment from abroad and reinvest a larger share of their revenue in innovation.

However, it is their contribution to overall competitiveness that makes connected services critical. Our research shows that firms in all sectors are more competitive when they have access to high-quality connected services. Such services provide the key ingredients all firms need to prosper: efficient payment solutions and innovative financing, reliable digital and physical connectivity, and cutting-edge business expertise, as the businesses ran by Abubakar, Felipe and Liu illustrate.

Connected services also make our societies more equal. Through connected services, small businesses integrate into international value chains, and adopt

digital technologies to produce and engage with buyers, suppliers and support institutions more efficiently. This way, trade becomes more inclusive, with the resulting gains more broadly distributed. As we rebuild, this services-led approach to development can help countries leapfrog and transform their economies.

Recognizing the catalytic role of connected services, ITC has been reinforcing its offer on these core elements. We have recently launched Switch ON, our strategy to enable small businesses to trade digitally. It brings together our diverse programmes such as ecomConnect, which helps businesses go online and use digital trade channels, and FastTrackTech, which supports digital service providers, such as financial technology firms, to expand their services to small businesses.

Our programmes targeted at refugees and internally displaced people, women-owned and youth-led services enterprises help them build skills to expand their digital presence, and connect to other services providers and global markets through online platforms.

Finally, we help countries enact the necessary regulatory reforms, and implement trade strategy solutions to foster an enabling business environment for connected services.

Services can turbocharge economic transformation. To do so, they must be connected. Through this report, ITC aims to help our partners better grasp the nature of connected services, and understand how to make them more accessible to all firms, to foster more prosperous and inclusive economies.



Pamela Coke-Hamilton

Executive Director
International Trade Centre

Connected Services

- ▶ are critical to **supply chains** and
- ▶ are frontrunners in the use of **digital technologies**.



Transport and logistics



Financial services



Information and communication technologies

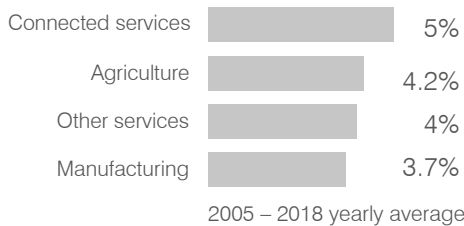


Business and professional services

DIRECT EFFECT

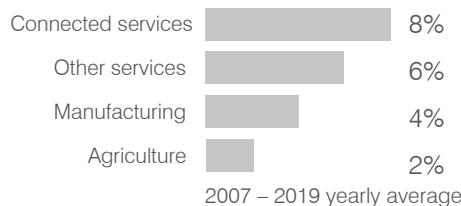
Faster growth

in value added



Rising employment

in low income countries

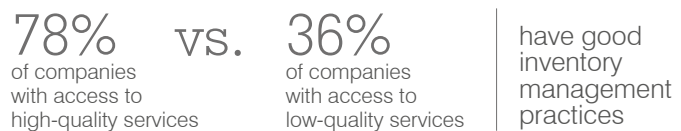


More jobs, innovation, exports, output
in connected services

INDIRECT EFFECT

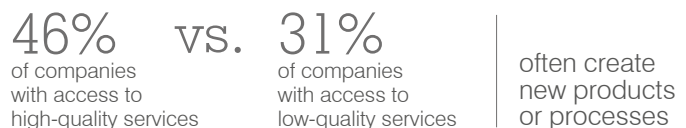
Logistics services

improve inventory management and timely delivery



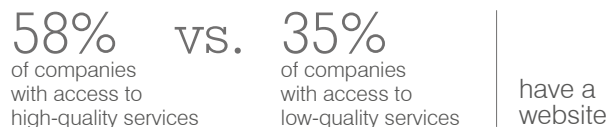
Financial services

support innovation



ICT services

help connect to buyers, suppliers

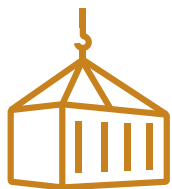


All companies more competitive

More jobs, innovation, exports, output
in all sectors

economic transformation

Small services firms are more export ready and more competitive



The **export gap** between small and large firms in services is **half** that of manufacturing



To start exporting, small services firms need to improve **4 out of 9 business operations**

(compared with 7 out of 9 in manufacturing)

Good connected services help firms to export

44% of firms export



in regions with **strong** connected services

vs. 19% of firms export



in regions with **weak** connected services

A services-led transformation can be more inclusive for

small companies



services firms are SMEs

(compared with 8 out of 10 in manufacturing)

women



of workers are women*

(compared with 37% in manufacturing)

youth



of firms are led by young people

(compared with 10% in manufacturing)

For more competitive connected services, firms must:



Grow networks
Manage relationships



Innovate to deliver
quality services



Deepen staff
skills



Use finance to diversify
products and markets

with the help of business support organizations and governments

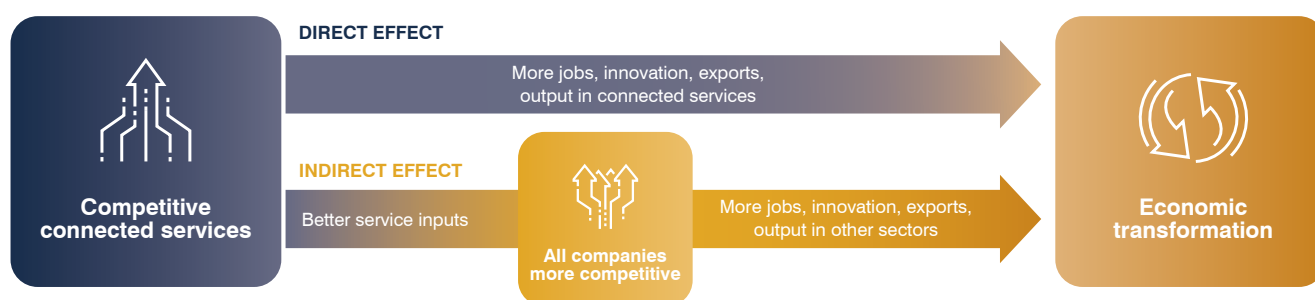
* includes finance and business services in a sample of developing countries

Executive Summary

Four sectors are key to a services-led economic transformation. This report names them ‘connected services.’

Transport and logistics, financial services, information and communication technologies (ICT), and business and professional services contribute directly to economic growth and development with an increasing share of output, trade and jobs. They also contribute indirectly by making all firms more competitive and connecting them to global value chains and digital innovations.

Connected services transform economies, directly and indirectly



Source: ITC.

Small business success requires access to good-quality connected services.

Small firms' success depends partly on access to good-quality connected services. This is particularly true of small businesses in services sectors, which seem more export ready than those in manufacturing.

And when small services firms are more competitive and trade more, they create better, higher-paying jobs, notably for the women and youth that are disproportionately represented in the sector.

Unfortunately, most small services firms in developing countries do not have easy access to connected services. This report explores the nature of connected services, and the measures that companies, business support organizations and policymakers must take to help them flourish – to benefit all companies, foster more prosperous economies and build more inclusive societies.

What are connected services?

Connected services are: financial services, ICT, transport and logistics, and business and professional services.

During the industrial revolution, the textiles and clothing industry led economic transformation. It was built upon new ways of organizing production, such as the apparel assembly line, and new technologies, such as the cotton gin.

In more recent times, the way of organizing production is the international supply chain, and technologies are digital. The connected services are at the centre of these contemporary economic trends. Why is this so?

- First, they are critical to supply chains, in which services now provide a greater share of value – a process known as ‘servicification.’
- Second, they are frontrunners in using digital technologies, which enable services once viewed as local to be offered across borders.

These four services sectors are at the centre of contemporary economic trends.

Four services subsectors add higher value to exports and are more digitally intensive: financial services, ICT, transport and logistics, and business and professional services. Though all four are export and digitally intensive, the digitalization process drives ICT and finance in particular. Servicification of value chains embeds business and professional services and transport.

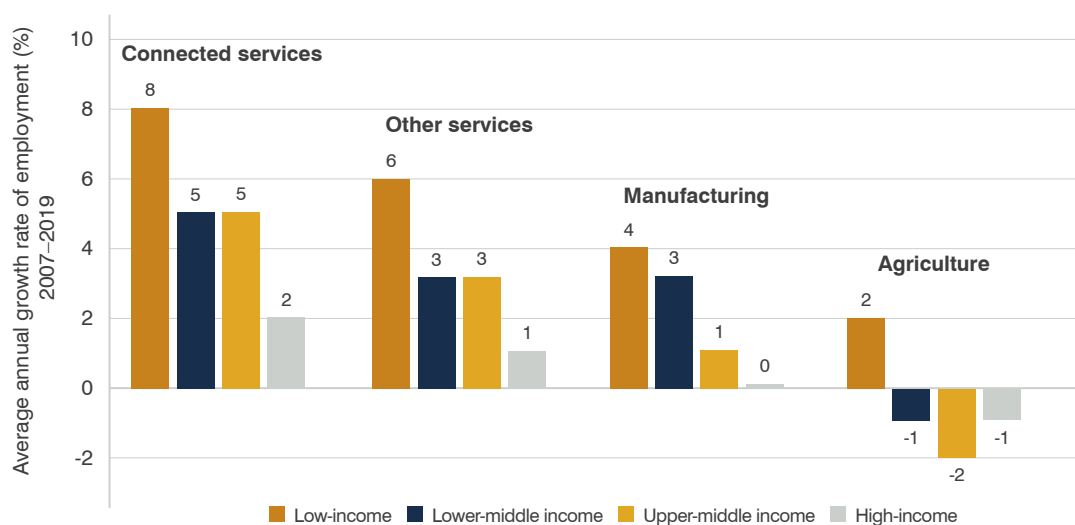
Why are connected services critical?

The rapidly increasing output, jobs and exports in connected services directly contribute to economic growth.

Connected services directly contribute to economic growth – with more output, jobs and exports.

Employment growth in connected services occurs across all levels of economic development, and especially in low-income countries that start from a lower base. Between 2007 and 2019, employment in connected services grew by about 8% a year in low-income countries. In contrast, employment in manufacturing grew less than 4% per year during the same period, while growth in agriculture was only 2%. Digitalization and servicification trends are leading connected services to hire workers to meet growing demand.

Employment grew faster in connected services



Source: ITC, based on International Labour Organization Statistics (ILOSTAT).

As the glue that connects firms in supply chains and spread digital innovation, connected services increase the competitiveness of all firms.

Connected services also export more and are expanding fast. Whereas 26% of connected services firms surveyed by ITC export, the figure was 15% for firms in other services. Between 2005 and 2018, the value added to total exports by connected services grew faster than value added by manufacturing. In LDCs, export growth of connected services outpaced that of other services between 2007 and 2019, and was faster than in the rest of the world.

The indirect effects of connected services make them even more critical. By being the glue that connects firms within supply chains and spreading digital innovation, connected services increase the competitiveness of all firms.

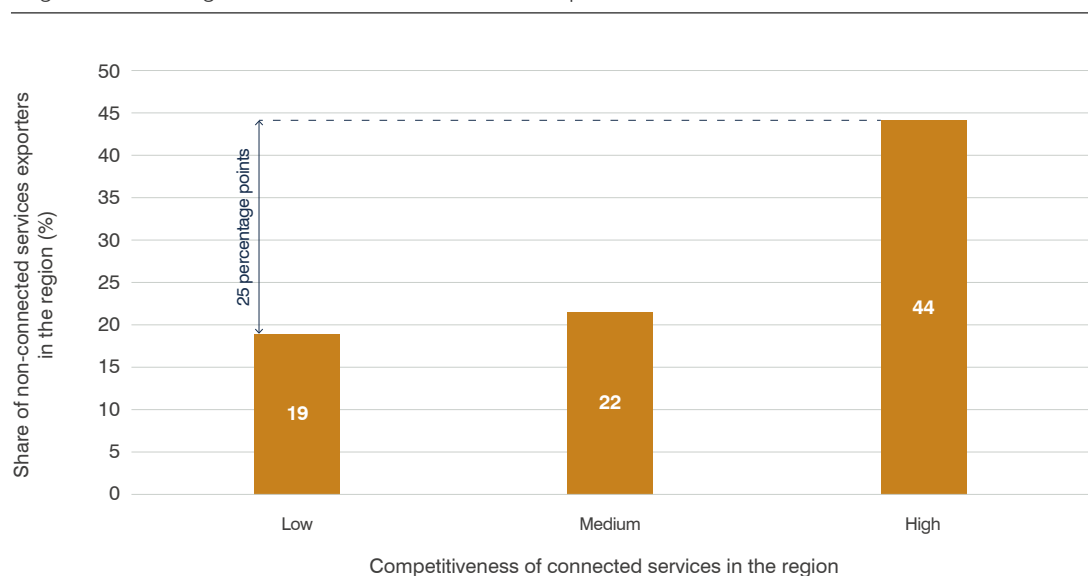
Connected services source products and services from other sectors, stimulating economic activity that feeds into value chains, or backward linkages. Significantly, they also stimulate economic activity by supplying services to other sectors, creating forward linkages.

When firms begin to outsource activities to specialized connected services firms, they become more competitive. Companies that used good logistics services had better inventory management and more often delivered their goods on time, according to data from the ITC Competitiveness Survey. Similarly, those that were able to access high-quality banking services were 15 percentage points more likely to succeed in developing new products or processes. Finally, firms with better access to the internet were much more likely to have information on potential buyers and suppliers than those without it.

Moreover, companies in regions with competitive connected services tend to be more competitive, and companies that are more competitive have a higher propensity to export, ITC analysis shows. The share of companies that export was 25 percentage points higher when there were competitive connected services firms nearby.

In regions where connected services were strong, 44% of all firms exported, versus 19% where services were weak.

Regions with strong connected services have more exporters



Source: ITC, based on ITC SME Competitiveness Surveys.

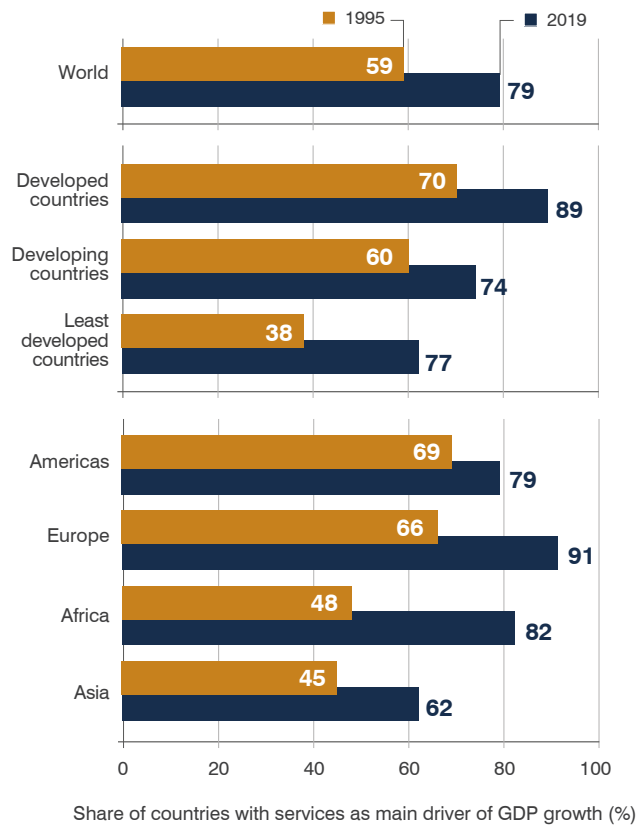
How can connected services foster a services-led transformation?

Services are big, though companies are small. Services were the main GDP driver in more than three-quarters of countries in 2019.

Many small services firms are poised to go global, with levels of competitiveness that make them almost ready to export. Access to strong connected services can push them over the frontier into international trade. This matters for two reasons.

First because services are big, even though companies are small. As recently as 2019, services firms, including those in the connected services sectors, accounted for about two-thirds of economic output globally and generated most employment. The services sector was the main driver of higher GDP in more than three-quarters of countries in 2019. For instance, the share of LDCs in which the services sector was the main engine of economic growth more than doubled from 38% in 1995 to 77% in 2019.

Services drive growth in most countries

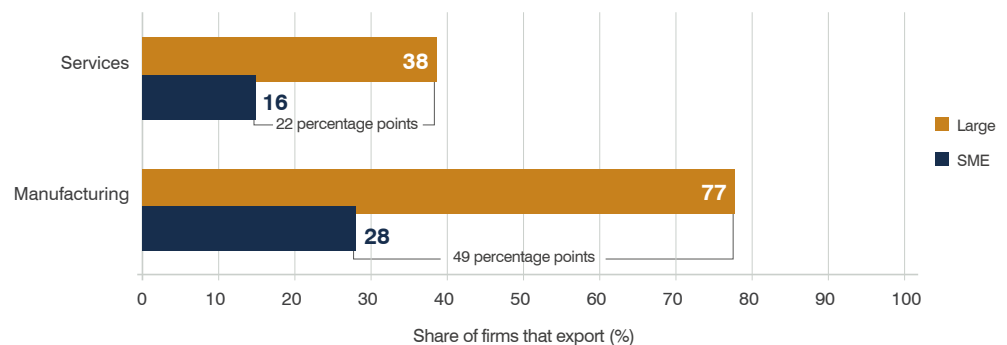


Source: ITC, based on World Bank World Development Indicators (WDI).

Small businesses are prevalent in the services sector. An estimated nine out of ten services enterprises globally have fewer than 100 employees.

The economic potential of these small services firms is evident if success is defined as the ability to export. Generally, services firms are less likely to export than those in manufacturing. This is partly because trade costs are on average higher in services than in manufacturing. Still, it seems easier for small services firms to export than for small manufacturing businesses.

Export gap smaller in services



Source: ITC, based on ITC SME Competitiveness Surveys.

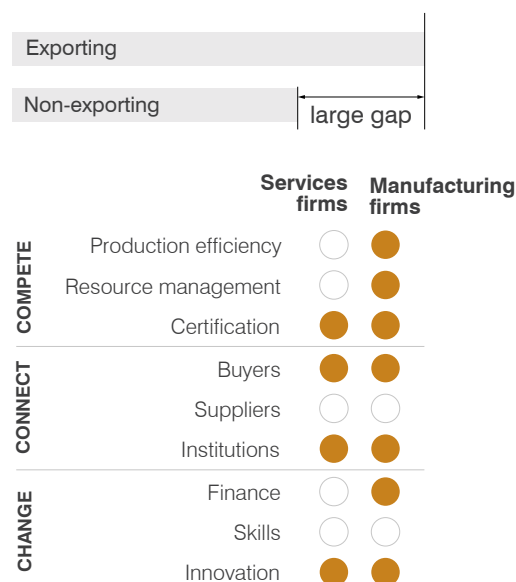
The export gap between small and large firms is twice as large in manufacturing than in services. Specifically, small and medium-sized enterprises are 49 percentage points less likely to export than large firms in the manufacturing sector. In services, though, they are only 22 percentage points less likely to export than large firms.

Second, smallness is less of a disadvantage to exporting services than manufactured goods, with purely domestic services firms nearly as competitive as exporters in most respects. In contrast, domestic manufacturing companies fall drastically short of the performance of their exporting peers in virtually all aspects of competitiveness, according to ITC's competitiveness framework and data.

Domestic services firms are more export ready.

Domestic services firms perform worse than services exporters in just a few features of competitiveness: connecting to buyers and institutions, certification and innovation. As a result, domestic services firms need to improve fewer aspects of their business operations to start exporting than those in manufacturing.

Domestic services firms more export ready



Source: ITC, based on ITC SME Competitiveness Surveys.

Note: This figure focuses on competitiveness at the level of firm capabilities. Themes in which non-exporting firms significantly lag exporting firms are coloured. A significant lag is defined as a difference of more than six percentage points in the average across questions included in each theme.

Even where domestic services firms fall short of their exporting peers, the gap is narrower than in manufacturing. For example, in manufacturing, non-exporters are 21 percentage points less likely to be certified to an international standard than exporters. In contrast, the gap in the services sector is only seven percentage points, or three times smaller.

Another area where the difference is less stark in services than manufacturing is online presence. Non-exporters are 42 percentage points less likely to have a website than exporters in the manufacturing sector, compared with 28 percentage points for services firms.

This evidence suggests that domestic services firms require fewer steps to be export ready. Yet to get certified, they need professional services providers. To develop online presence, they need support from suppliers of ICT services. Hence, better access to connected services can push small services firms towards global competitiveness.

Why is a services-led transformation more inclusive?

Making small services firms more competitive can have important aggregate effects, as many are led by women or young people, and contribute to achieving Agenda 2030.

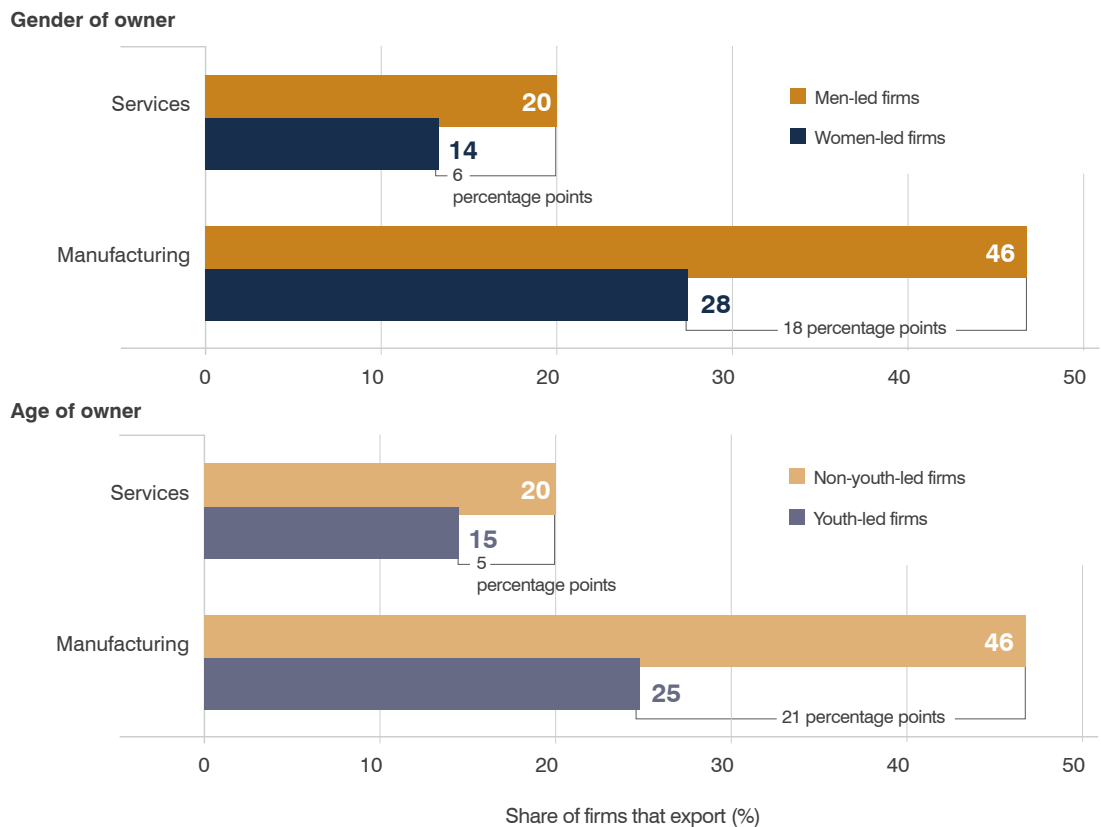
Young entrepreneurs and women-led firms in services are more likely to participate in trade than similar firms in manufacturing.

While women-led firms are disadvantaged in manufacturing, this is often not the case in services. The performance of women-led services firms is very similar to that of men-led firms in most aspects. The same cannot be said of the manufacturing sector, where women-led firms underperform in most aspects of competitiveness.

Young entrepreneurs have a strong presence among services start-ups. The services sector appears to be more attractive to young entrepreneurs than manufacturing, probably due to ease of access and low capital requirements. Indeed, 16% of the services businesses surveyed by ITC in the services sector are run by young people, compared with 10% in the manufacturing sector.

The gap in trade participation, while still present, is smaller for women-led and youth-led services firms than manufacturing ones. The gap between exporting and domestic women-led firms is only six percentage points in services. In manufacturing, the difference is three times as much. For youth-led firms, the export gap is five percentage points in services, but four times higher in manufacturing.

Gender and age barriers easier to overcome in services exports



Source: ITC, based on ITC SME Competitiveness Surveys.

How to boost connected services competitiveness?

With many domestic services firms so close to export readiness, it may be relatively easier to push them over the edge into trade. One way is to improve the competitiveness of connected services, on which many of them depend.

To compete, connected services must focus on four critical areas: networks, innovation, skills, finance.

This report highlights four competencies that are often lacking, but are critical to the competitiveness of connected services. These are the ability to:

- Grow networks
- Innovate
- Deepen skills
- Leverage finance

Many aspects of these competitiveness shortcomings can be addressed by **connected services firms**. Measures for firms to adopt include:

- Network to learn and upgrade
Craft trust-based, long-term relationships with buyers, in a way that enables the firm to learn and improve its service offering.
- Invest in research, certification and customization
Customize services to meet the needs of buyers, invest in research and development, and develop unique products.
- Set up formal hiring and training
Establish formal hiring processes and training practices to identify and nurture workers with the right set of skills.
- Improve financial management
Enhance financial management practices and develop the capacity to approach funding entities with a compelling business plan.

Whether firms can access good connected services also depends on factors outside their control. Business support organizations and governments play a critical role in strengthening access to competitive connected services.

Business support organizations – trade and investment promotion organizations, chambers of commerce and sector associations – stimulate key links in the business ecosystem for connected services. They can:

- Build online networks and services coalitions
Connect services companies, including by using platforms and coalitions as additional tools to link small businesses to connected services providers.
- Create spaces for innovation and collaboration
Provide spaces such as incubators and accelerators where tech and entrepreneurship community members assemble in a network of connected services firms that exchange ideas, innovation and input.
- Improve digital skills of SMEs
Provide courses on advanced skills in digital entrepreneurship and cybersecurity to small business managers and staff.
- Facilitate exchange of information between businesses and financial institutions
Collaborate with financial institutions to use SME electronic transaction records on e-commerce platforms as proof of their capacity to repay loans.

Governments also have a role to play. ICT, transport and logistic companies often cited technical requirements, taxation, movement of natural persons and quality control measures as the most burdensome barriers to trade, according to ITC Non-Tariff Measures Business Surveys in a handful of countries.

As digital technology rapidly transforms the services sector, new regulatory challenges emerge.

Issues such as data flow and privacy, competition, digital taxation and intellectual property protection have become vital, and require enabling regulation for small firms in connected services to operate and flourish.

The top four things that **governments** can do to improve connected services for SME competitiveness are:

- Promote fair and inclusive networks
Regulate platforms to safeguard fair competition and promote equitable treatment of SMEs.
Ensure data regulations are not too cumbersome for small businesses.
- Create an environment for ideas to flourish
Align technical regulations and standards with those used by trading partners to support the free flow of technologies, ideas and innovations.
- Increase access to technical skills
Provide financial support to domestic connected services companies to build capacity, fund scholarships in these sectors and facilitate the short-term movement of connected services providers across borders.
- Facilitate investment and online finance
Create regulatory frameworks for electronic transactions, data protection and privacy, taxation of digital services, competition and digital intellectual property protection.

The *Connected Services, Competitive Businesses Plan* summarizes the top actions that firms, business support organizations and governments can take to improve the quality of, and access to, connected services for SME competitiveness.

The Connected Services, Competitive Businesses Plan

	CONNECTED SERVICES FIRMS	BUSINESS SUPPORT ORGANIZATIONS	GOVERNMENTS	
			Domestic actions	International actions
GROW NETWORKS	Build networks to learn and upgrade	Build online networks and services coalitions	Promote fair competition, especially on digital platforms	Balance privacy protection and competitiveness concerns in data regulations
INNOVATE	Invest in research, certification and customization	Create spaces for innovation and collaboration	Protect intellectual property while enabling innovative activities	Harmonize technical standards
DEEPEN SKILLS	Establish formal hiring processes and skills training	Improve digital skills of SMEs	Train workforce in the skills of the future	Facilitate labour movement across borders
LEVERAGE FINANCE	Improve financial management	Facilitate exchange of information between businesses and financial institutions	Create frameworks for online payments and alternative finance	Encourage foreign direct investment

Policies and solutions are needed to turn the potential of connected services into a reality.

This report shows that connected services are emerging as a powerful force for economic transformation. Connected services are poised to help SMEs take part in this change, by giving them the inputs they need to be competitive. By connecting SMEs to market trends shaping the global economy, companies in the business and professional services, ICT, transport and logistics, and finance sectors can encourage inclusion of small firms in trade. Governments, business support organizations and connected services firms must implement policies and find solutions that turn this promise into a reality.

Thought leaders



H.E. Chipoka Mulenga
Government of Zambia

Using digital technology
to foster financial inclusion



Doreen Bogdan Martin
International Telecommunication Union

Digital technologies have the power to
change the world and transform lives



Shamina Singh
Mastercard Center for Inclusive Growth

Promoting digital transformation
for small businesses



Kanayo Awani
Afreximbank

Transforming cross-border payments
for small businesses in Africa



Indermit Gill
World Bank Group

Seizing the potential
of services

Business voices



Alejandro Vega
Huli, Costa Rica

Think international
from day one



Emmanuel Emodok
ChapChap Africa, Uganda

Innovating to close
the financing gap



Emrana Khan
SuperTel Ltd., Bangladesh

Your customers are
our business



Bashiru Mansaray
Open Space, Sierra Leone

Providing digital services
for business large and small



Le Hoang Oanh
Avina Logistics, Viet Nam

Time is a valuable
commodity



Amal Hassan
Outsource Global, Nigeria

Skills fuel high-quality
services

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