

UNCTAD Multi-year Expert Meeting on  
**TRADE, SERVICES AND DEVELOPMENT**

Geneva, 18-20 July 2017

**The Role in of Services in Structural Transformation and  
Inclusive Development**

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.



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Development*

**The Role of Services in Structural  
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# Outline

1. Services, structural transformation and SDGs
2. Trends in the services economy and trade
3. Enabling policies and regulations for structural transformation
4. The role of the international trading system
5. Conclusion



# I: Services and SDGs

## Services' potential for structural transformation & SDGs

- Contribute a growing share to GDP, trade & employment
- Enhance productivity, competitiveness & economy-wide growth
  - Constitute essential inputs to other products and services
  - Modern IT-enabled business services emerged as promising tradable services
  - Efficient services are catalytic to the expansion of GVCs
- National policies and regulatory efforts, as well as multilateral and regional trade policy cooperation, should recognize this developmental potential of services.
- Coherent and fit-for-purpose policy, regulatory and institutional frameworks, including trade liberalization approaches and human skills development, is key for harnessing this potential of services



# I: Services and SDGs

## **SDGs are essentially a services agenda**

- **Goal 1 - End poverty:**
  - 1.4 By 2030, ensure that all men and women have access to basic services, new technology and financial services, including microfinance;
- **Goal 2 - End hunger and achieve food security:**
  - 2.3 By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, including through secure and equal access to financial services
- **Goal 3 - Ensure health and well-being:**
  - 3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services
- **Goal 4 - Ensure education:**
  - 4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education
- **Goal 5 - Achieve gender equality and empower all women and girls:**
  - 5.a Undertake reforms to give women access to financial services



# I: Services and SDGs

- Goal 6 - Ensure water and sanitation:
  - 6.1 By 2030, achieve universal and equitable access to drinking water for all
  - 6.2 By 2030, achieve access adequate and equitable sanitation and hygiene
- Goal 7 - Ensure energy:
  - 7.1 By 2030, ensure universal access to affordable, reliable and modern energy;
- Goal 8 - Inclusive / sustainable economic growth & employment:
  - 8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation
  - 8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of enterprises, including through access to financial services
  - 8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all;
- Goal 9 - Infrastructure, industrialization & innovation:
  - 9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure
  - 9.2 Promote inclusive and sustainable industrialization



# I: Services and SDGs

- Goal 9 - Infrastructure, industrialization and innovation:
  - 9.3 Increase the access of small-scale industrial and other enterprises to financial services
  - 9.c Significantly increase access to ICT and strive to provide universal and affordable access to the Internet in LDCs by 2020
- Goal 10 - Reduce inequality within and among countries:
  - 10.5 Improve the regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations
  - 10.7 Facilitate orderly, safe, regular and responsible migration and mobility of people
  - 10.c By 2030, reduce to less than 3 per cent the transition costs of migrant remittances & eliminate remittance corridors with costs higher than 5%
- Goal 17 - Means of implementation:
  - 17.10 Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system
  - 17.11 Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020
  - 17.14 Enhance policy coherence for sustainable development
  - 17.15 Respect each country's policy space and leadership to establish and implement policies for poverty eradication and sustainable development



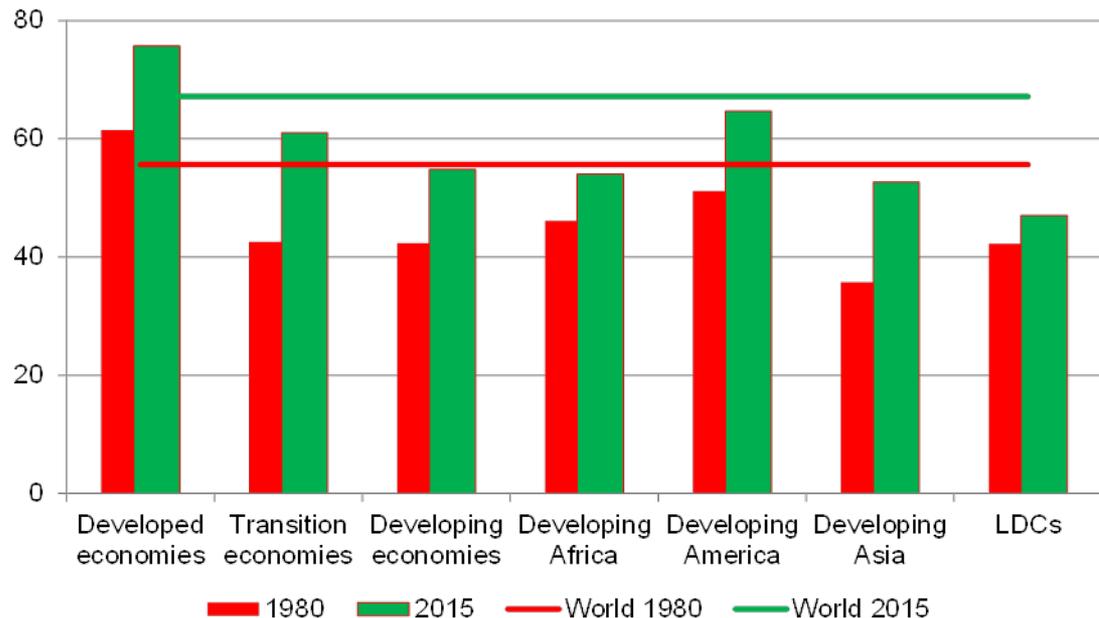
# II: Trends in services economy & trade

## Services in GDP

- The contribution of services to economies has increased
  - Between 1980 and 2015, the share of services in GDP increased for all categories of countries, from 61 to 76% in developed countries and from 42 to 55% in DCs
- Services are predominant in all developing regions, mainly in Latin America and the Caribbean, and including in LDCs.

Contribution of services to GDP by region, 1980 and 2015 (%)

Source: UNCTADStat

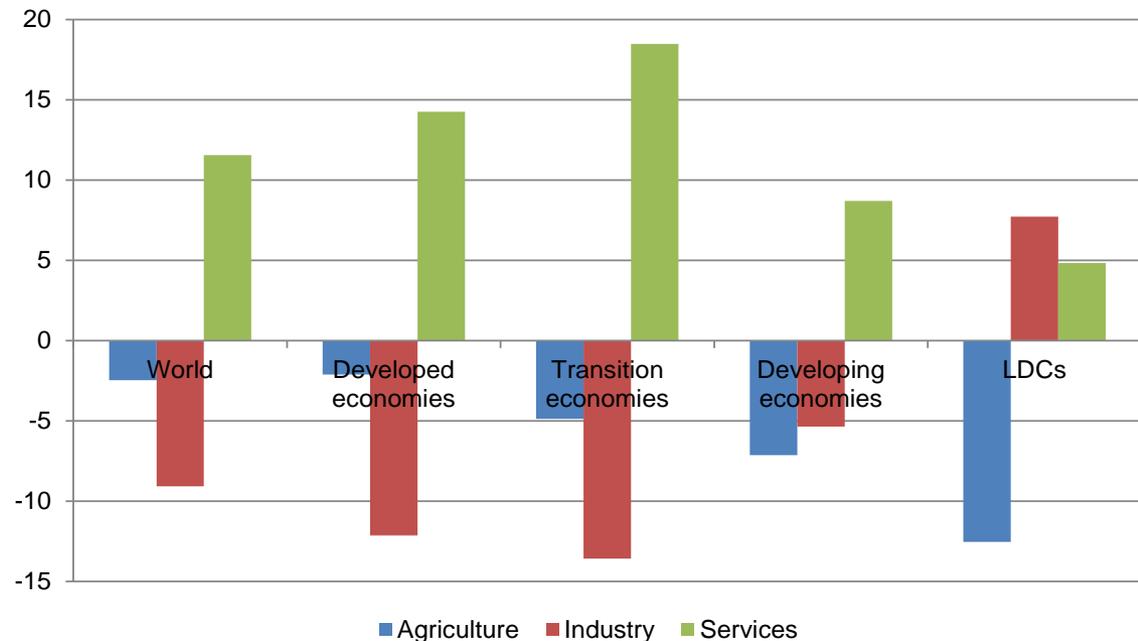


## II: Trends in services economy & trade

- Patterns of structural transformation are different across countries
- The increase in services output largely derive from a fall in industrial output in developed economies but a fall in agricultural sector in DCs & LDCs

Contribution of economic sectors to GDP by income level, change between 1980 and 2015 (%)

Source: UNCTADStat



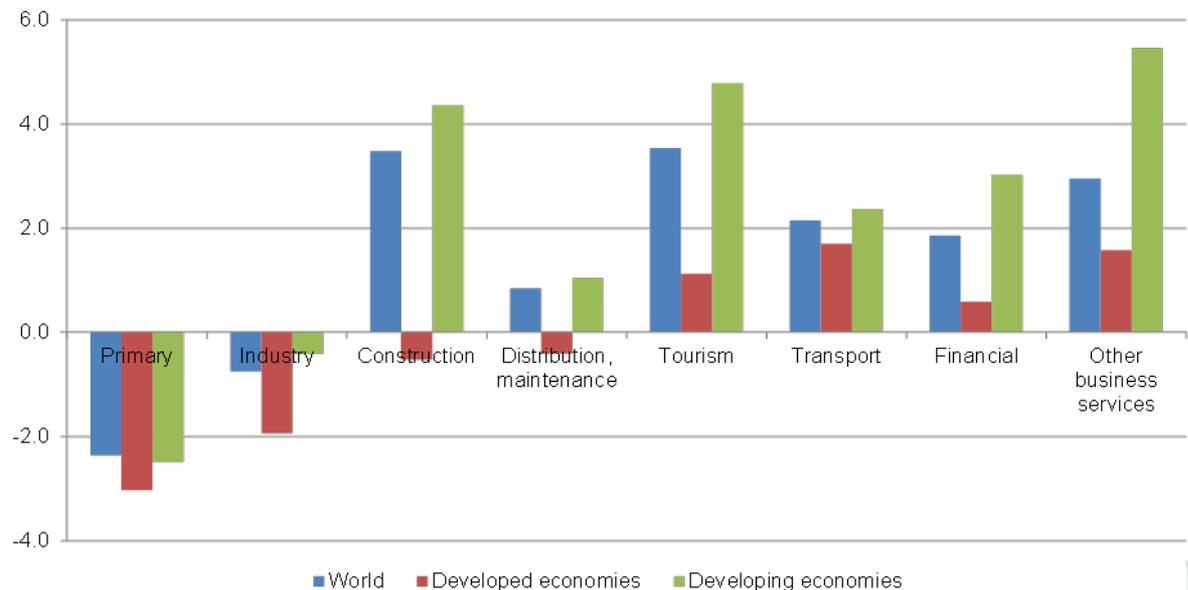
# II: Trends in services economy & trade

## Services in employment

- The services sector account for 50% of global jobs (2016)
  - 75% in developed countries, 44% in DCs
- Services are the main job provider since mid-2000s.
- Between 2001 and 2016, construction, tourism and other business services were the most dynamic sectors, including in DCs
- Informal economy often characterize services sector in DCs

Annual growth of employment distribution by income level and selected sectors, 2001-2016 (%)

Source: UNCTADStat



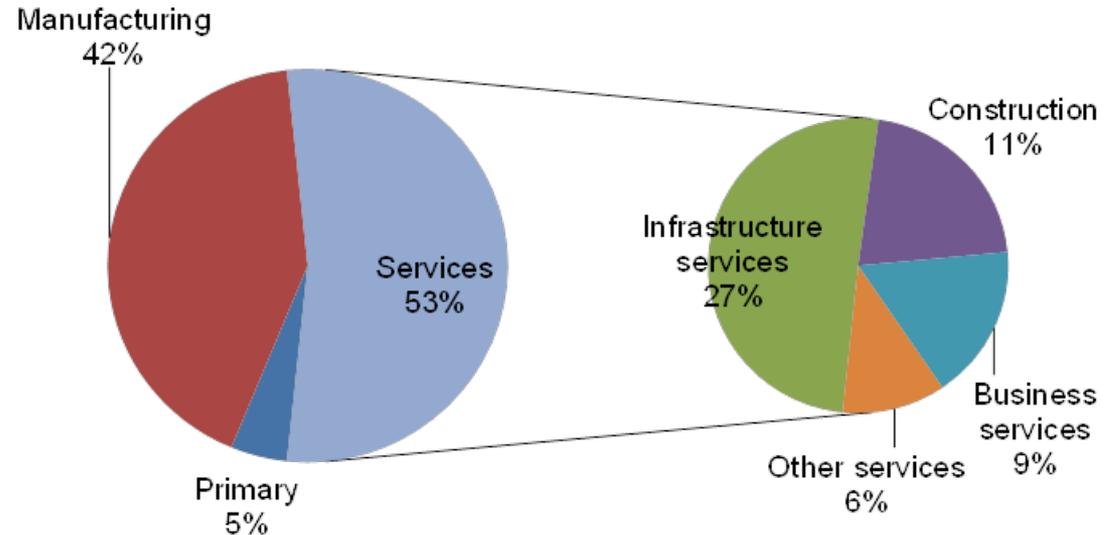
# II: Trends in services economy & trade

## Services & FDI

- Services are also prevalent in FDI with announced greenfield investment mainly concentrated in the services sector
  - In 2015, services received 53 per cent of total FDI and grew faster than the primary or manufacturing sectors.
- The infrastructure services sector grew even faster:
  - Over 50% of the announced greenfield investment in services

Sectoral distribution of announced greenfield FDI projects, 2015 (%)

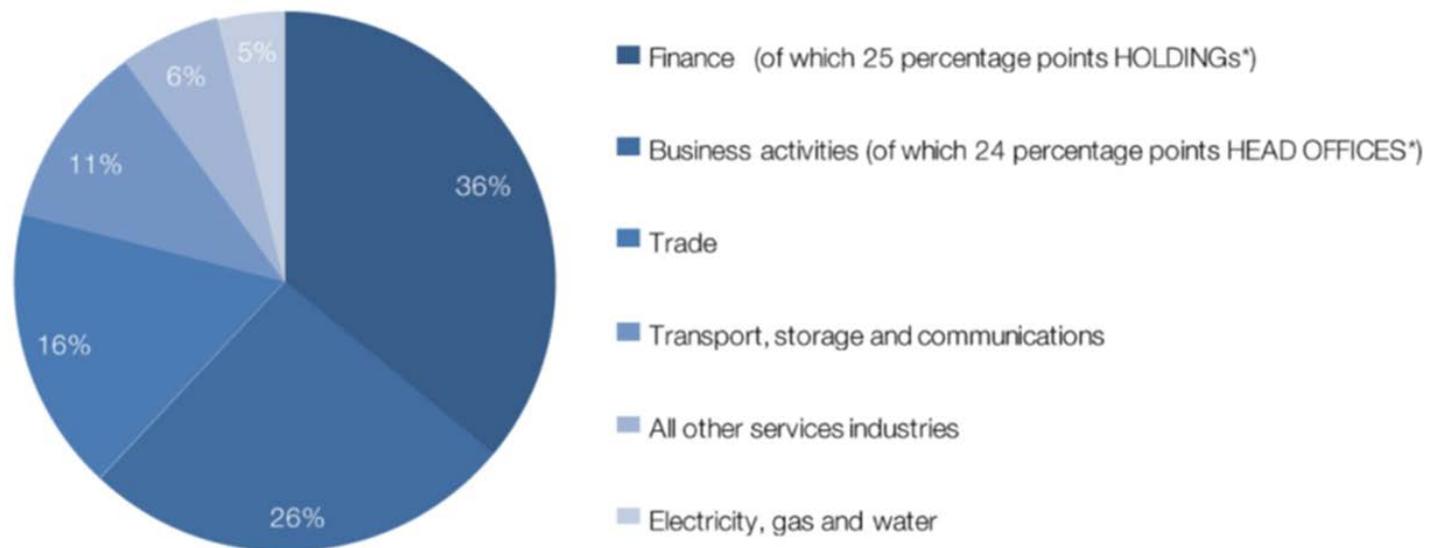
Source: UNCTADStat



## II: Trends in services economy & trade

- In terms of stock, services accounts for 65% of global FDI Stock, 62% of which was finance and business activities
- A significant share of these services FDI cover financial holding companies, head office activities & other non-commercial intra-firm activities, including in primary & manufacturing sectors, & not necessarily by services firms (UNCTAD Investment Trends Monitor June 2017)

Global FDI stock, by major services industries, 2014



# II: Trends in services economy & trade

## Trade in services

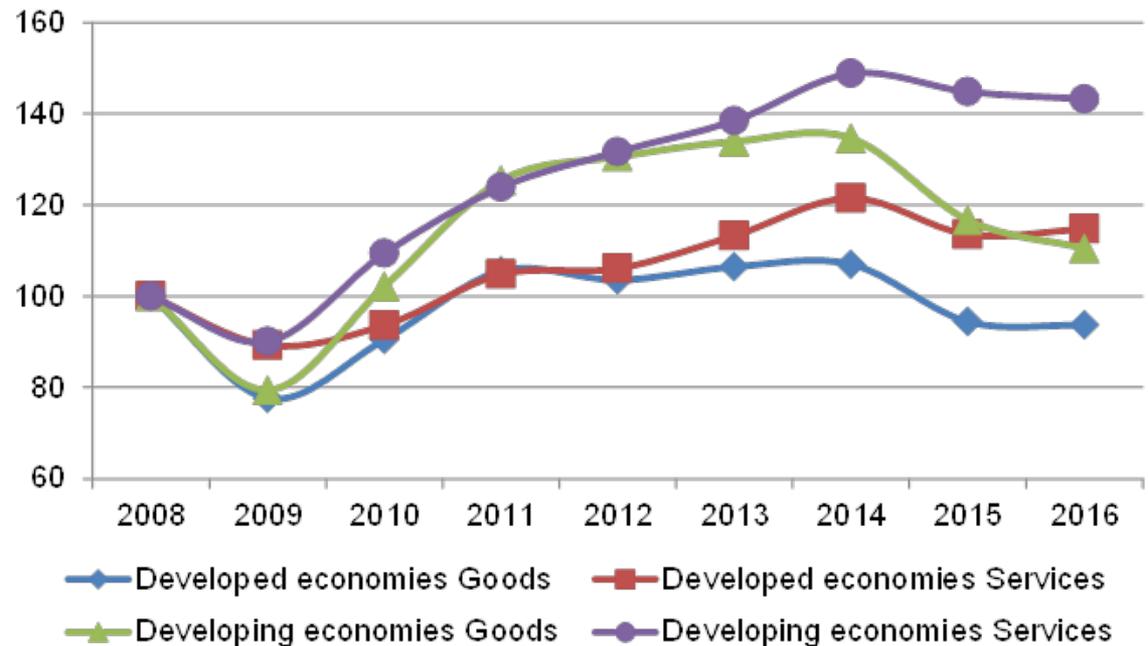
- The United States, EU members & China are the largest exporters, followed by Japan, India & Singapore
- The DC share rose from 23 to 29% between 2005-2016
- The share of services in total exports (goods and services) was about 28% in developed economies, and 17% in DCs

<i>Main services exporters</i>	<i>Value of services exports</i>	<i>Share of global services exports</i>	<i>Main services importers</i>	<i>Value of services imports</i>	<i>Share of global services imports</i>
United States	752 411	15.6	United States	503 053	10.7
United Kingdom	327 176	6.8	China	453 014	9.6
Germany	272 738	5.6	Germany	312 074	6.6
France	236 760	4.9	France	235 679	5.0
China	208 488	4.3	United Kingdom	198 653	4.2
Netherlands	179 776	3.7	Ireland	191 939	4.1
Japan	173 821	3.6	Japan	184 710	3.9
India	161 845	3.3	Netherlands	169 458	3.6
Singapore	149 642	3.1	Singapore	155 581	3.3
Ireland	146 678	3.0	India	133 710	2.8
<b>Total</b>	<b>2 609 334</b>	<b>53.9</b>	<b>Total</b>	<b>2 537 870</b>	<b>53.9</b>

## II: Trends in services economy & trade

- Services exports grew faster than goods exports, and faster in DCs than in developed economies.
- The share of services exports in total exports of goods and services increased from 24% in 2005 to 28% in 2016 in developed economies, and from 14% to 17% in DCs
- Services exports were more resilient than goods exports

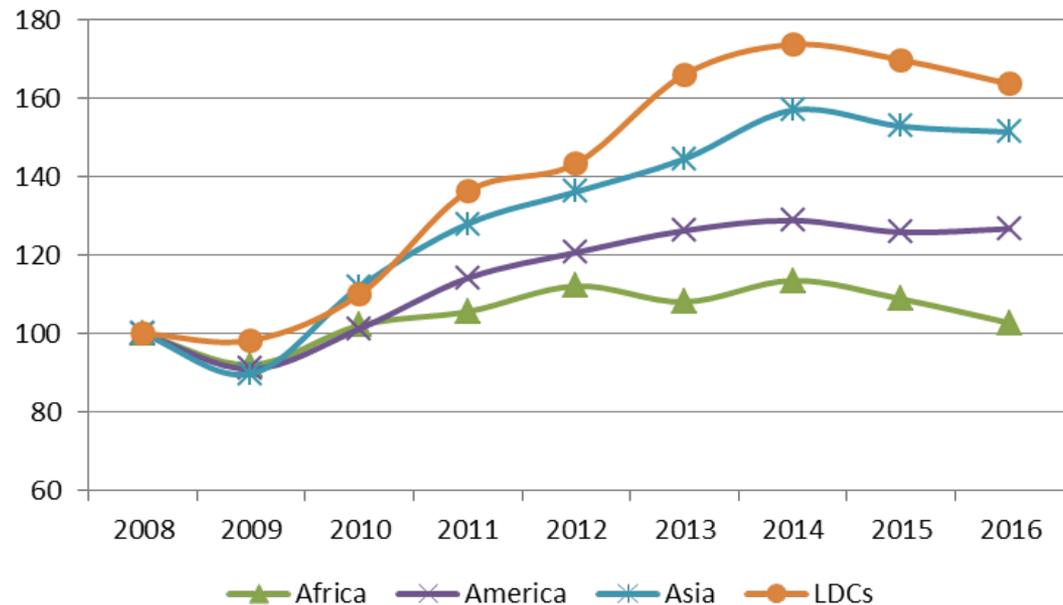
Services and goods exports by income level, 2008-2016  
Source: UNCTADStat



## II: Trends in services economy & trade

- Among DC regions, Asia registered the fastest export growth while Africa exports remained largely unchanged
- LDCs saw dynamic export growth, starting from a low base
- Developing Asia accounts for 24% of world services exports while the shares of other regions are small: developing America (3.5%), Africa (2%) & LDCs (0.7%)

Services exports by  
developing country regions,  
2008-2016  
*Source: UNCTADStat*

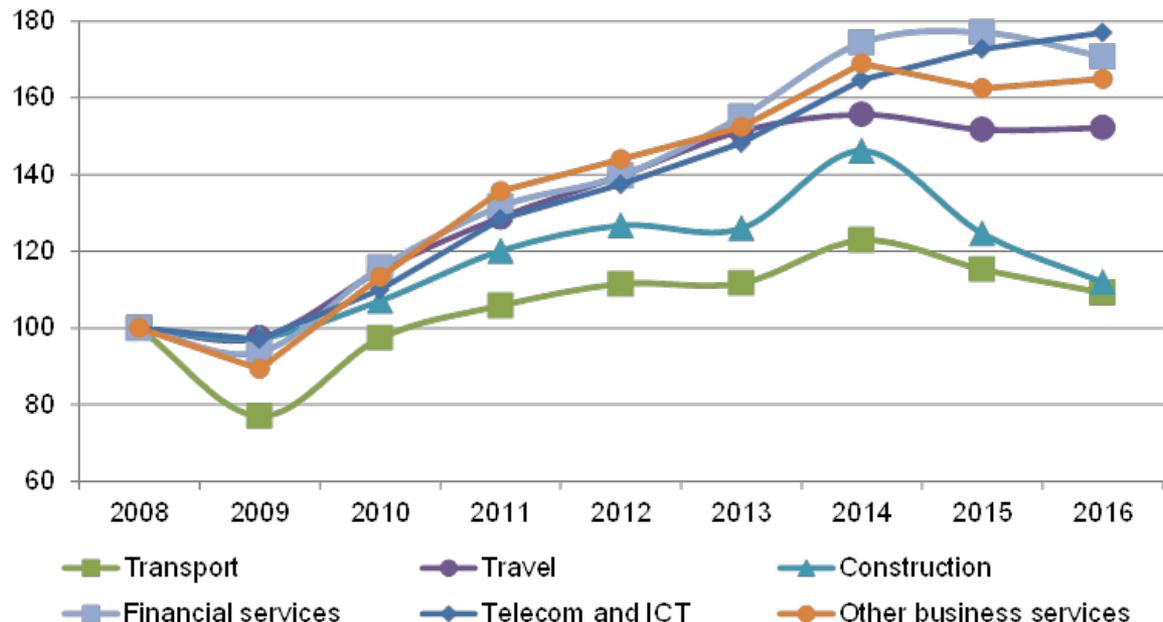


## II: Trends in services economy & trade

- By category, transport, travel & other business services are the largest categories
- DC exports are dynamic in telecommunications & ICT services, other business services and financial services
- Trade profiles differ between developed countries & DCs
  - The share of transport and travel services remain higher in DCs
  - The share of higher value-added services categories, such as financial services, is high in developed countries

Exports of selected commercial services from developing economies by category, 2008-2016

Source: UNCTADStat



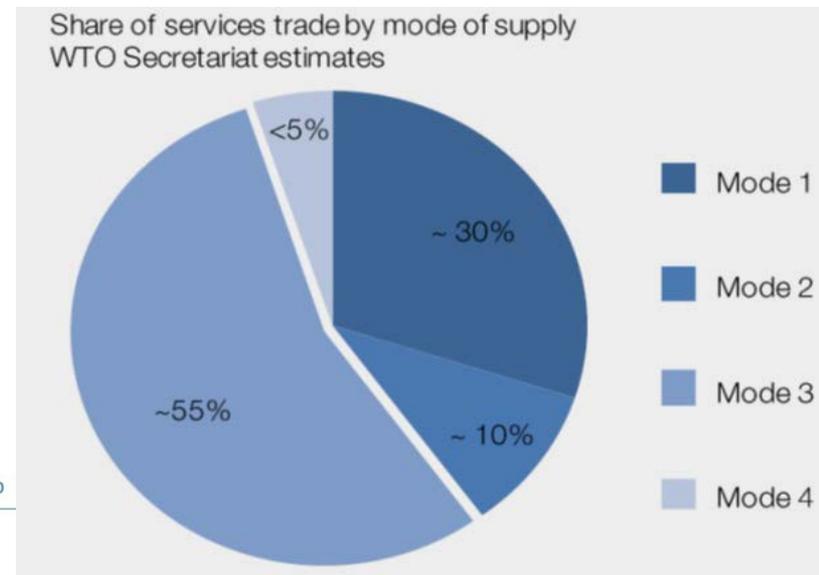
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# II: Trends in services economy & trade

## The importance of services in exports is underestimated

- Mode 3 is not captured in cross-border trade data
  - Commercial presence through FDI is the major mode of supply;
  - The sales of foreign affiliates are in the order of \$37 trillion in 2015, an increase from \$34 trillion in 2014
  - In EU, Mode 3 represents 70% of services exports in all modes
- Mode 4 is not captured either
  - Mode 4 trade on a rising trend
  - Global remittance flows at \$575 billion & \$429 billion flowing to DCs
  - Mode 4 prevalent in professional, business services, & services related to agriculture, manufacturing and mining



## II: Trends in services economy & trade

- Services value-added embedded in goods exports are not captured by the gross export value data
  - In 2011, services value added accounted for 44% of exports in developed economies and 32% in DCs, higher than their shares of services in total exports
  - The imported services value-added of gross exports grew for all countries between 1995 and 2011, indicating the increased tradability of services
- Services activities within manufacturing firms are not captured either
  - Firms develop services activities themselves rather than outsourcing in order to add more value content to their products & to keep strategic business functions in-house
  - For a sample of countries, services inputs accounted for 37% of manufacturing exports but by adding services activities within manufacturing firms, that share increased to 53% and the contribution of services to overall exports was close to two-thirds



# II: Trends in services economy & trade

## The need for quality services data

- High-quality, timely, disaggregated data is important for evidence-based policy-oriented actions (e.g., SDGs)
- The provision of valid statistics requires institutional cooperation as many institutions are involved in services trade
- In Brazil, the Integrated System of Foreign Trade in Services and Intangibles (SISCOSERV) is a tool for services data collection
  - The system covers all services transactions between residents and non-residents and data collection encompasses the 4 modes of trade in services
  - The effectiveness relies on assigning a high priority and political support to data availability and in the country's experience in e-government and e-platforms
  - SISCOSERV helped different Brazilian authorities to identify services export potential, supported trade promotion, and provided evidence-based inputs for trade negotiations and trade policy formulation

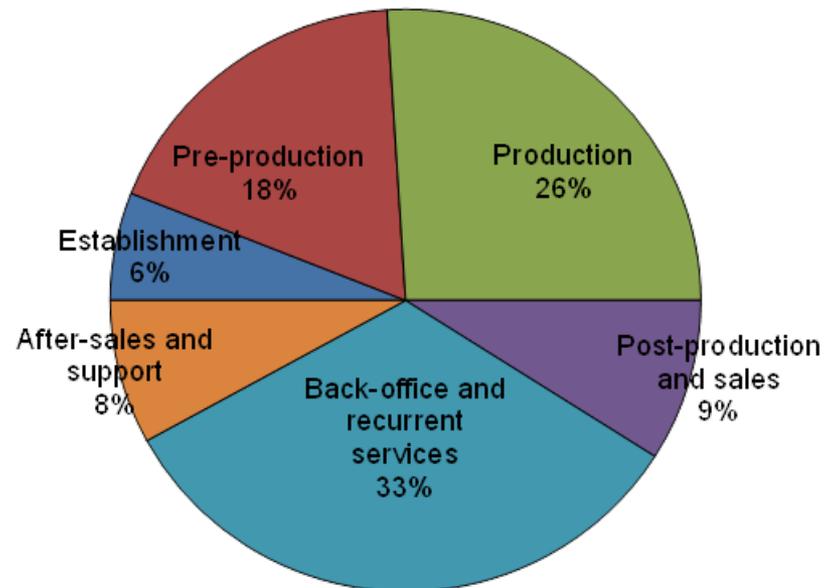


# III: Services & structural transformation

## Services provide intermediate inputs to all economic activities

- The "servicification" facilitates productive and export processes throughout productive processes
- Mainly in back-office and production stages (e.g. quality control, engineering services), as well as establishment, pre-production, post-production and after-sales stages

Distribution of the number of services activities by production stage (%)



Source: Asia Global Institute, 2015, The role of services in Global Value Chains.

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# III: Services & structural transformation

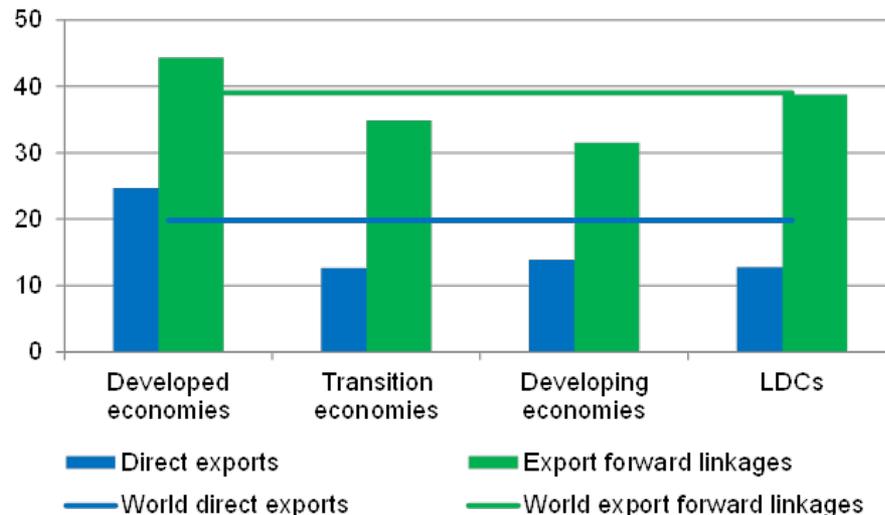
- Services support activities (R&D, engineering) represented between 25-60% of employment within manufacturing firms (2015)
- Services are also important in coordinating production processes & enhance economies' organizational capabilities
  - Telecommunication services allow for cooperation between different activities in the production process
  - Knowledge and technology-based services have an intermediation function facilitate specialization
- There is services value-added incorporated in output and exports in all economic sectors, including agriculture & manufacturing



# III: Services & structural transformation

- Services' value-added is higher than the direct contributions of services to output and exports
  - In value-added terms, services represent as high as 44% of the value-added in total exports in developed economies and 32% in DCs. These compare with the share of services in total exports in gross value terms of 25% for developed countries & 14% in DCs
  - The significant amount of value added embedded in manufactures needs to be given more attention
- Points to the importance of services for improving export capacity and the increase tradability of services, particularly for MSMEs

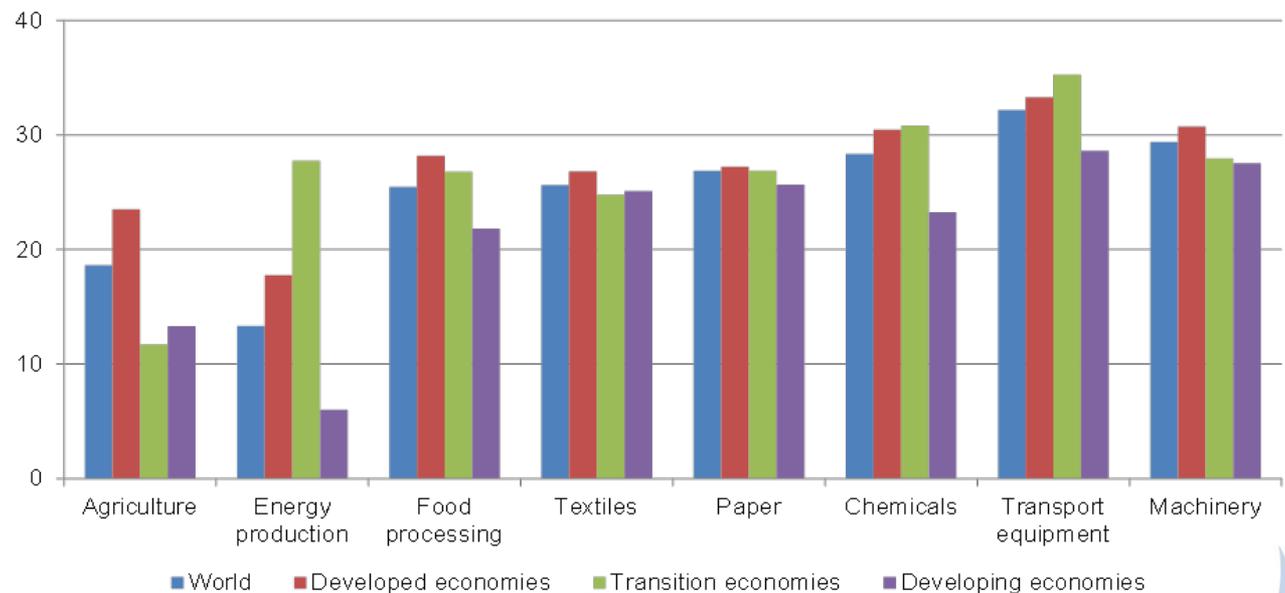
Share of services in total direct exports and in total forward linkages in exports by income level, 2011 (%)



# III: Services & structural transformation

- Services value-added in total value-added of sectoral output:
  - Represented 23% of agricultural output in developed economies & 9% in DCs
  - In textiles, 27% of sectoral output
  - DCs incorporate less services' value-added (agriculture and energy).
- Services value-added in total value-added of sectoral exports:
  - Represented 24% of agricultural exports in developed economies & 13% in DCs
  - In textiles, 27% of sectoral exports in developed economies and 25% in DCs

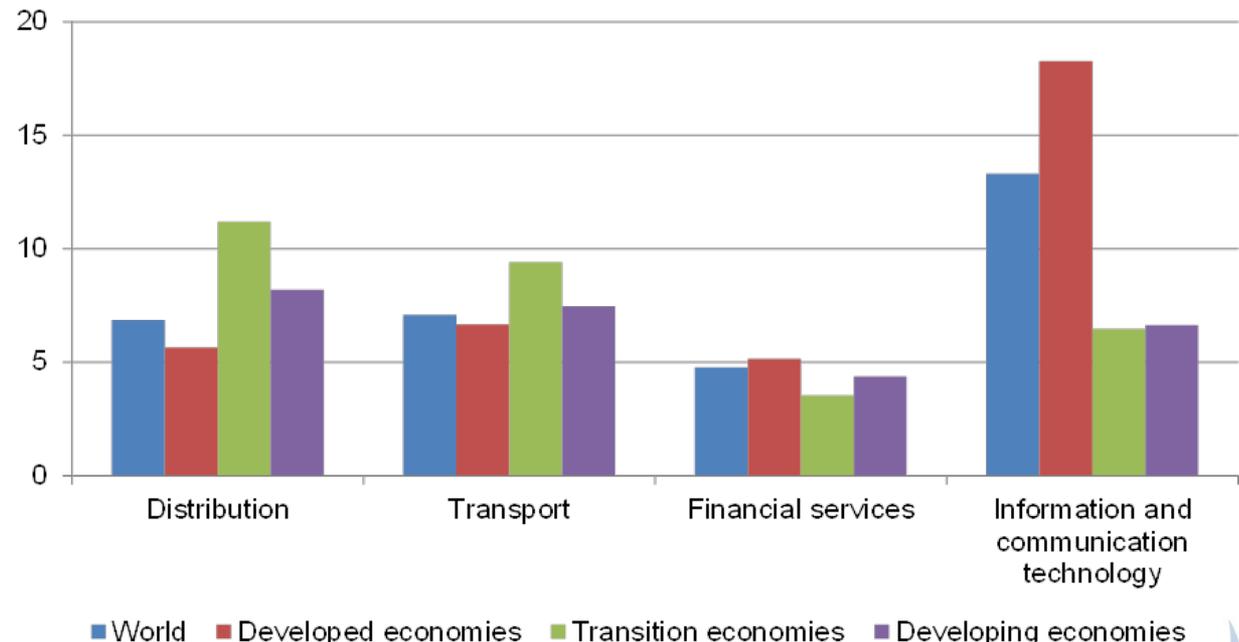
Share of services in total backward linkages in exports of selected sectors by income level, 2011 (%)



# III: Services & structural transformation

- The services sectors that contributed the most value-added to the world's total export value-added are distribution (7%), transport (7%), financial services (5%) and ICT services (13%)
- DCs tend to incorporate more value-added of distribution and transport services in total exports while developed economies use more value-added of financial services and ICT services

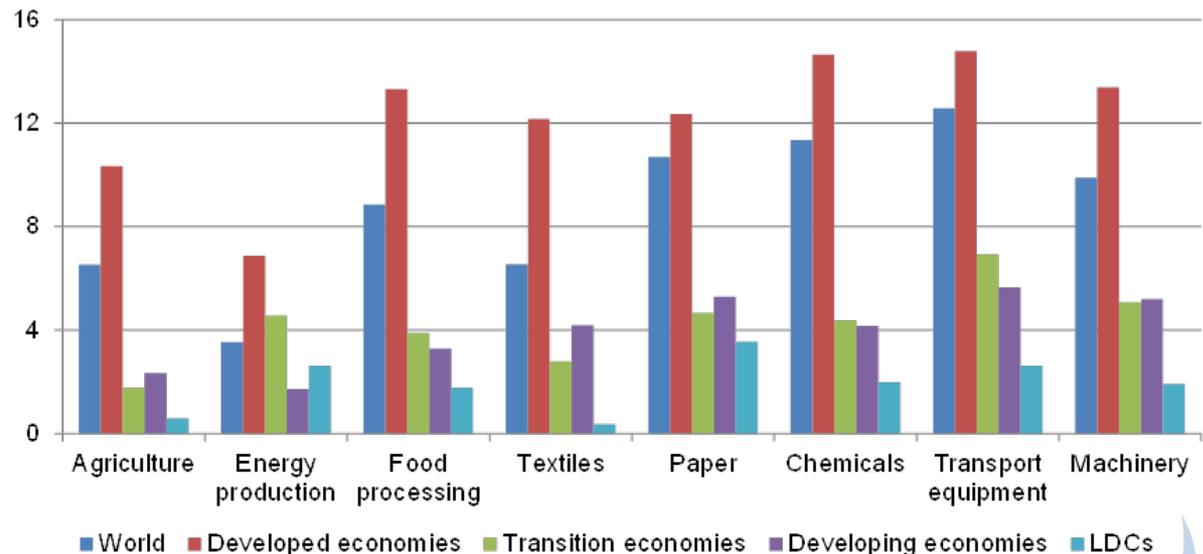
Participation of selected services sectors in total forward linkages in exports by income level, 2011 (%)



# III: Services & structural transformation

- Developed economies are more advanced in the use of ICT services value-added in agriculture & manufacturing exports
  - Agricultural exports incorporated 10% of ICT services' value-added in developed economies but only 2% in DCs
  - ICT services are also relevant to improve performance of services activities. ICT diffusion is associated with higher productivity of wholesale, retail and business services. These sectors responsible for most of the differentials in labour productivity between Europe and the United States

Participation of ICT services in total backward linkages in exports of selected sectors by income level, 2011 (%)



# III: Services & structural transformation

- Services increase productivity due to their direct (BoP) and indirect (VA) importance (including an important part of production costs), their coordination role and their intra-firm relevance.
- By enhancing productivity and competitiveness, services can induce structural changes and trigger economy-wide growth if it favours sectors which have greater technological intensity with greater spillover effect
- Services should no longer be considered as a alternative to industrialization but as part of countries' transformative strategy
  - For example, structural changes in Asia in the 1990s was supported by a close linkage between competitive services and manufacturing
  - No less than one third of aggregate productivity growth is associated with the performance of the services sector in countries where manufacturing has grown rapidly (eg. Viet Nam)



# IV: Enabling policies for ST

## Policies and regulations are key for services performance

- Coherent policy, regulatory & institutional frameworks adapted to local conditions & implemented gradually
  - China pursued a series of industrial upgrading phases including through WTO accession to mobilize limited resources and build SEZs and industrial parks, most recently Shanghai's pilot FTZ (2013) using a negative list for foreign investment to test opening policies
    - In 2016, registered 24000 trading companies and 45 financial institutions. 43% of the workforce was employed in services
  - In India, policy challenge arose to enhance the sustainability of the services-led growth model (faster aggregate labour productivity growth in services) in the absence of corresponding growth in industrial sector & of employment absorption in services sector
  - Kenya's transformation strategy included its Vision 2030 strategy that set clear objectives for the tourism, retail trade, BPO and financial services. The establishment of diversified financial hubs, a favourable tax regime and policy-led regional integration with the EAC, have helped to facilitate financial sector deepening

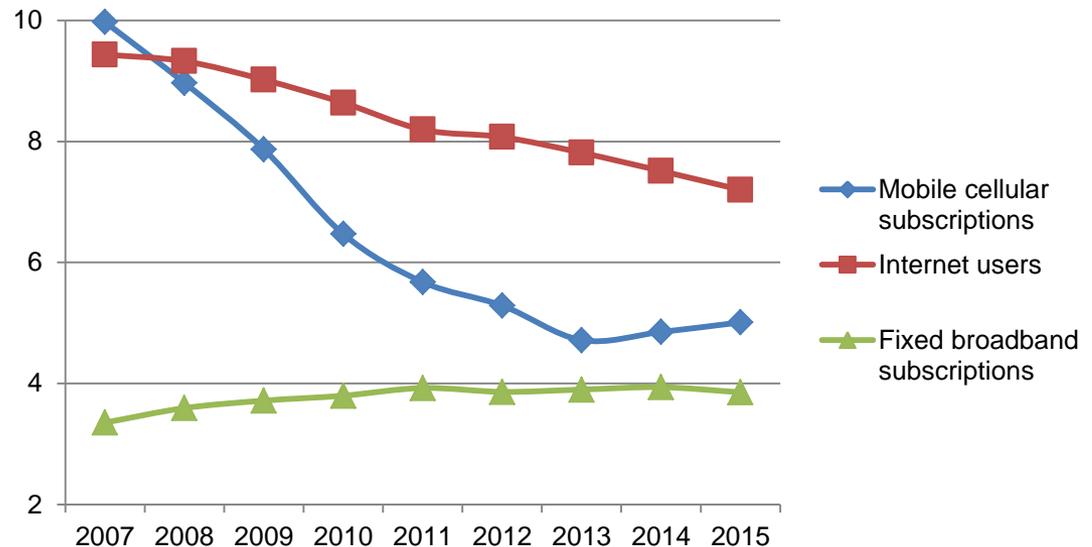


# IV: Enabling policies for ST

## Universal access to bridge digital divide in telecom & ICT services

- Digital divide remains a challenge
  - The number of Internet users and of fixed broadband subscriptions
  - DCs are less specialized in telecommunications and ICT services exports
- Policies needed to promote universal access
  - UA fund, digital literacy, PPP, competition policy have been used
  - E.g. In Korea the Internet access for 95 per cent of households in 2014 was facilitated by the Informatization Promotion Fund focused on ICT investments,

The number of people with the subscription of telecom & ICT services, 2007-2015  
(Per 100 subscriptions)

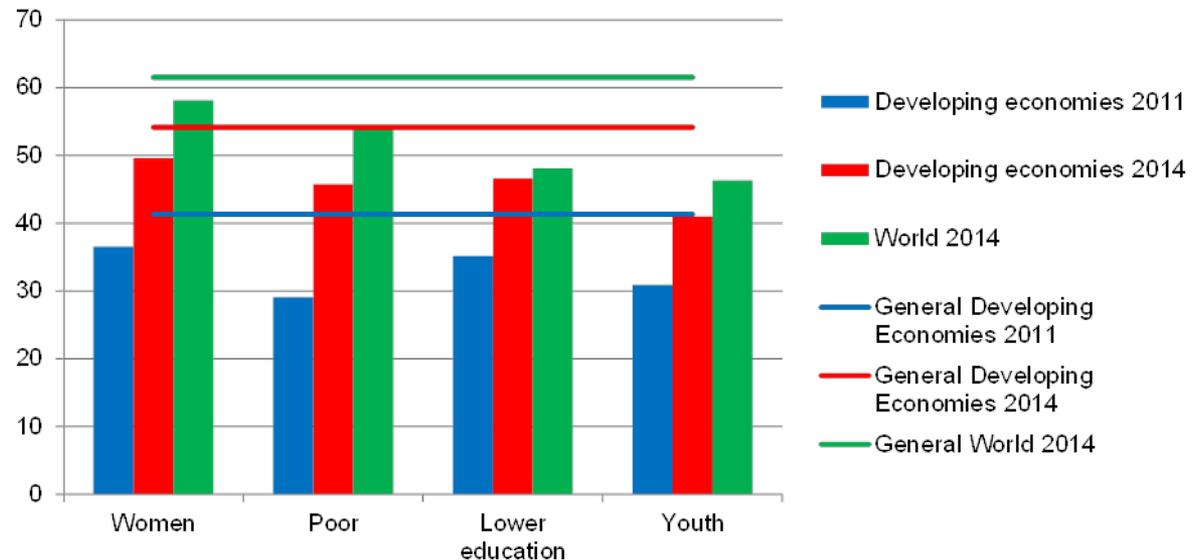


# IV: Enabling policies for ST

## Universal access to facilitate financial inclusion

- Thus financial inclusion remains a challenge under SDGs
- The share of adults with bank account is much higher in developed than in developing countries, and women and the youth still lag behind
- Greater access by firms, especially MSMEs, is important for industrialization
  - The use of new technology (RegTech, digital financial services) play a key role
- Financial inclusion can also contribute to speedier and less costly remittances and facilitate channeling remittances (which is a private funds) to productive & social investment

The share of people with an account by gender, economic status, education and age, 2011 and 2014 (%)

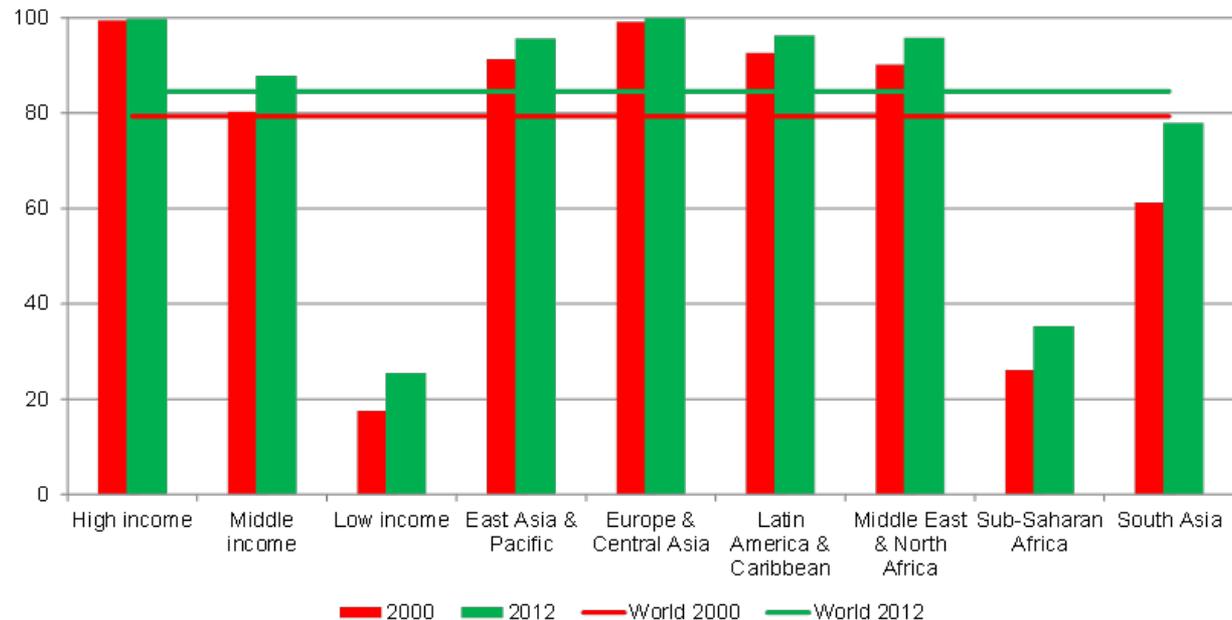


# IV: Enabling policies for ST

## Universal access to energy services as SDG 7

- Despite progress, some DCs such as Sub-Saharan Africa lag behind
- Policies promoting access to energy may include a regional policy with harmonized regulatory frameworks that explores the optimization of supply.
- This may involve creating common regional infrastructure, power interconnection and harmonization of specifications, and common markets that facilitate cross-border trade of energy. The digital ecosystem can enable smart power grids that improve power transmission efficiency and delivery systems

Access to electricity,  
2000 and 2012 (%)



# IV: Enabling policies for ST

## Lessons from UNCTAD's Services Policy Reviews

- The importance of policy coherence and coordination
  - A multi-stakeholder approach to policymaking involving the private sector (coalitions of services industries)
  - Coherent regulatory design to secure adequate policy objectives and avoids unnecessary restrictions
  - Sound institutions and good governance, including at sub-national (local and city), national, regional and international levels of coordination
  - An enabling productive, technology and business environment, promoting business facilitation, economic formalization, technology & producer association and clustering
  - Labour skills development, supported by a sound education strategy that matches labour demand and skills
  - Provision of adjustment policies & facilities is essential, including through labour market policies, adjustment facilities (e.g., US TAA), other complementary policies (e.g., education) and macro-economic policies
  - Improved collection of services data for evidence-based policymaking

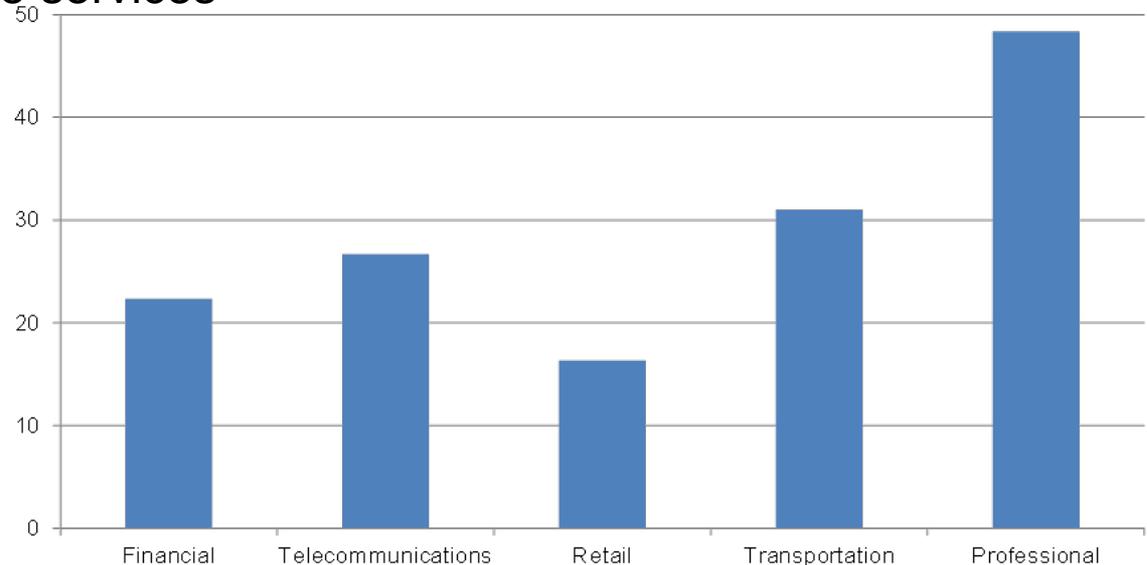


# V: The international trading system & ST

## Regulatory measures may act as trade barriers on services

- Prohibition of foreign providers, limits on foreign ownership, discriminations on qualification requirements may act as barriers
- Greater restrictions in professional services and transport, as well as on mode 4 (quotas, labour market tests and durations of stay)
- The impact is estimated greater in exports than in imports, as barriers reduce the competitiveness of both local exporting firms and foreign firms supplying intermediate services

Services Trade  
Restrictiveness Index,  
average by sector



# V: The international trading system & ST

## The multilateral trading system

- Services are part of a GATS built-in agenda and the Doha Round since 2001. Insufficient progress led to intensified plurilateral and regional initiatives
- Extension of LDC services waiver achieved at MC10 (2015)
  - Preferential treatment of LDC services & services exporters
- In preparation for MC11 (10-13 December 2017), attention is given:
  - (i) Disciplines on domestic regulations
  - (ii) Trade Facilitation Agreement for Services (TFS)
  - (iii) Services aspects of e-commerce
  - (iv) MSMEs
- Need to operationalize development provisions of GATS such as right to regulate, Article IV and Telecom Annex to allow for adequate space for DCs to implement legitimate regulations (e.g., UA policies)



# V: The international trading system & ST

## (i) Domestic regulations

- GATS mandated negotiations to develop multilateral disciplines on qualification & licensing, & technical standards
- Specific elements of the possible disciplines discussed include:
  - Administration of requirements to simplify the procedures for foreign providers' to supply services (e.g., single windows)
  - Enhanced transparency to provide the information for services suppliers (including prior comment on regulations)
  - Development of regulations - Relevant to policy space - publication and information available and on enquiry points, including for private entities, not only for WTO member States - DCs regulatory policy space



# V: The international trading system & ST

## (ii) Trade Facilitation Agreement for Services (India)

- Seek to achieve timely and cost-effective delivery of services
- Deemed to apply to sectors where commitments are made
  - Address elements of domestic regulations, e.g., publication/information & administration of measures
  - Possible guidelines on fees & charges; the administration of ENTs; recognition of qualification and licensing requirements
  - Measures to facilitate effective supply of services through different modes: e.g., cross-border information transfer by electronic means; facilitating consumption abroad and Mode 4 (e.g., by creating separate visa categories; multiple entry etc)
  - SDT arrangements similar to the Trade Facilitation Agreement
- Some countries are concerned over some proposed elements (cross-border information flows, Mode 4, ENTs & transparency)
- Ongoing discussion on investment facilitation is also relevant to GATS and possible elements of TFS



# V: The international trading system & ST

## (iii) E-commerce

- Proposed examination of e-commerce & the relevance of trade disciplines
  - To strike a balance between the potential of e-commerce & addressing legitimate regulatory objectives, such as data protection, privacy protection, and cyber security
  - Concern over some regulatory measures, such as commercial presence and localization requirements
- Extended moratorium on non-imposition of customs duties on electronic transmissions
- Electronic signatures as essential tools for e-commerce
- E-commerce for development
  - Empowering smaller business to use e-commerce and lower their cost of conducting trade (e.g. through access to logistics services)



# V: The international trading system & ST

## E-commerce under TPP

- Customs duties may not be applied on electronic transmissions;
- TPP provides for legal frameworks consistent with the UNCITRAL Model Law on E-Commerce or the UN Convention on the Use of Electronic Communications;
- Local presence requirements cannot be imposed;
- **Cross-border information flows:**
  - Acknowledge the importance of balancing the objectives of allowing cross-border transfer of information with legitimate public policy objectives (e.g. protection of personal information);
  - TPP says that measures to achieve legitimate public policy objectives may not constitute arbitrary or unjustifiable discrimination or a disguised trade restriction
- **Personal information and consumer protection:**
  - The importance of guidelines of relevant international bodies on personal information protection. TPP mentions that Parties may recognize each others regulatory outcomes;
  - Recognize the importance of international cooperation on consumer protection;
- **Development concerns on e-commerce chapters**
  - Include references to international cooperation, exchange of information, and participation in regional and multilateral (TPP) fora;
  - TPP adds that the private sector is encouraged to self-regulate including codes of conduct, model contracts, guidelines and enforcement mechanisms.



# V: The international trading system & ST

## Plurilateral and regional initiatives

- New-generation RTAs assume a strong regulatory focus addressing behind-the-border regulatory measures
  - TPP's investment chapter covers all investments (goods & services) while the chapter on cross-border trade include modes 1, 2 & 4.
  - Regulatory coherence to facilitate increased trade and investment between the Parties
- Services increasingly pursued under SS RTAs
  - Continental Free Trade Area (CFTA) adopted the hybrid GATS approach
- TISA negotiations since 2012 (27 members)
  - Offers are to go beyond the GATS commitments & match countries' "best FTA" commitments
  - Emphasis on Mode 4 as well as the treatment of "new services"
  - Sensitive issues, including the liberalization of public services, data protection and the process for dealing with "new services" in schedules of commitments



# Conclusion (1)

- Services can act as a powerful catalyst for economic transformation.
- Services value-added have been significant & increasing, and trade in services enabled countries to diversify and upgrade their economies, including through GVCs
- There is need for economies to pursue a balanced growth strategy to capitalize on growth-inducing services, including for agriculture & manufacturing sector development
- Important to institute trade & social adjustment support
- An enabling environment - best-fit policies, adequate regulations and strong institutions - is key to harvest the services potential
  - Sound, timely and disaggregated data, including at the firm level.
  - Human, regulatory and institutional capacity building
  - An inclusive and multi-stakeholder approach and PPP to services policymaking for policy and regulatory coherence.
  - UNCTAD's SPRs can help in the assessment and revision of national services economy and regulatory frameworks.



# Conclusion (2)

- At the international level, addressing those regulations acting as trade barriers can play a role in facilitating services trade while recognizing the need for space to implement pro-active services policies & regulations, including for SDG-relevant UA policies
- Need to advance global SDG-oriented services trade agenda in the ITS, including preferential treatment, flexibilities, experimentation, adjustment mechanism and support, and CB for DCs
- Adequately designing the content, pace and sequence of the liberalization process, and coordinating this process coherently with the implementation of national policies and regulations, is key
- Complementary measures such as strengthening regulatory cooperation to create a more facilitative services trade environment, would make an important contribution





# ***Thank you***

**Link to presentations in this Multi-year Expert Meeting:**

**<http://unctad.org/en/pages/MeetingDetails.aspx?meetingid=1435>**

**More information on services, trade and development:**

**<http://unctad.org/en/Pages/DITC/Trade-in-Services.aspx>**

