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**Services and Sustainable Development:
A viewpoint from Brazil**

by

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Overview

1. The economy of the 21st century has in services its main driving force. The role of the services sector in generating new businesses (e.g., digital economy) and creating skilled jobs, apart from its capacity to support business competitiveness, is currently a consensual position among analysts and policy makers. The positive influence of services permeates all sectors of the economy.
2. The dichotomy that still separates foreign trade in services from that of goods and merchandise is now outdated. What actually exists is a synergy between the production of goods and the supply and provision of services, thus generating a process of induction and continuous symbiosis in the economy between companies of the two sectors. The value-added and sophistication that the use of services incorporates into agricultural and industrial goods allows companies to gain the skills needed to succeed in their local and internationalization strategies. The process of conquering foreign markets by industrial companies and their products helps service companies to internationalize. In turn, the servitization process makes services take the lead in terms of value aggregation, increased competitiveness and innovation.
3. A clear understanding of the services economy and trade and their contributions to sustainable and inclusive development should be an integral part of the policies and actions of developing countries, especially in the face of the new challenges created by the digital economy and the ever-pressing need for the maintenance and creation of jobs.

Services economy and trade and sustainable development¹

4. Although the growing contribution of the services sector for the development of the Brazilian economy is better known in aspects such as Gross Domestic Product, employment and innovation, foreign trade in services (exports and imports), although decisive, remains less visible. Arbache (2017) compares the evolution of foreign trade in services in Brazil in the initial and last five years of the period 1995-2016. For the researcher, in the five-year period 1995-1999, the average annual trade in services (exports + imports) was US\$ 20 billion, or 19% of the trade in goods. In the five-year period 2012-2016, the total foreign trade in services reached US\$114 billion annually, corresponding to 28% of the trade in goods.
5. The flow of trade in services is expected to keep growing in the coming years — via increased imports — and will increasingly influence the outcome of Brazil's external accounts. A substantial up-turn in the trade deficit is also expected as a result of increased and continued imports of sophisticated products both by businesses and individuals. Among such imports: data management

¹ Paragraphs 4 to 6 follow Arbache, J. (2017). Comércio exterior de serviços – o que vem pela frente? Blog "Economia de Serviços – Um espaço para debate". Available at: <http://economiadeservicos.com/2017/05/30/comercio-exterior-de-servicos-o-que-vem-pela-frente/>

and use, cloud services, e-commerce, streaming, digital entertainment, brands, intellectual property, design, marketing, distribution, use of platform services, among many other services. Nowadays there is enough evidence indicating that in the near future it will be impossible to create wealth, generate quality jobs and enter the front door of the global value chains without the ability to develop and manage sophisticated services and "pack them" into goods and third-party services.

6. These trends — coupled with digital "commoditization" — strongly suggest that trade in services must be an integral part of sustainable economic growth policies, as well as of those relating to overall foreign trade, investment, industrial, technological, human capital and infrastructure.

Services and servitization contributions to development

7. Sustainable development has to do both with the advancement of present economic, social and overall conditions, but also bears on the possibility of guaranteeing the well-being of future generations. In Brazil, the services sector comprises an impressive share of Gross Domestic Product, having risen to 73,3% of GDP (against 72,7 in 2015)² while it employs close to 70% of the work force (against 68,8% in 2015). Although there was an increase in the percentage that the tertiary sector represents in the total work force in Brazil, it is important to state that there was a decrease of formal jobs in absolute numbers from 27,2 million jobs in 2015 to 26,6 million in 2016³. These can be explained by the economic recession in Brazil that have generated an increase in the unemployment in the country.

8. Not a new fact in itself, the servitization process, or the recognition of the key role played by services in sustaining competitiveness, has become the center of the debates on the interaction between industry and the services sector. By offering integrated packages of products and services, the industrial sector seeks to compete strategically in the markets. In this context, actions towards servitization are considered important characteristic of innovative industrial companies. Even more important than the aggregation of value, servitization can be seen as the path to product differentiation.

9. In Brazil there is a greater concentration in "cost services". A study by the industry and academia indicates that "in order to break the trap of low growth in which we have been in since the 1980s and enter the world economy by the 'front door,' we will have to focus more on "value-added services" and product differentiation". It is no coincidence, therefore, that we see a greater "activism on the part of developed countries in favor of the global liberalization in services, especially those of aggregation of value and of stricter rules of protection of intellectual property⁴".

Services and the challenge of job creation

10. The services economy and trade, as we see them, present developing countries with a myriad of unavoidable challenges and a number of opportunities - one such challenges lies in labor maintenance and creation (preferably quality jobs). In Brazil alone, according to World Bank data⁵, the percentage of people employed in the services sector in relation to total employment was 46%, in 1981, having risen to almost 70% in 2016 (according to the Ministry of Labor and Employment). Such a steep increase, much in line with the trend verified in the developed world, poses real challenges to policy makers in the different levels of government.

² Source: Brazilian Institute of Geography and Statistics (IBGE).

³ Source: Ministry of Labor and Employment. RAIS. According to the official methodology used by the Ministry of Labor and Employment in Brazil, these data includes public sector jobs and excludes construction industry (that is included in the industry sector). This methodology is valid for job evaluation purpose. In the case of public policies driven by MDIC (Ministry of Industry, Foreign Trade and Services) the civil construction is one of the services sector.

⁴ Confederação Nacional da Indústria - CNI (2014). *Serviços e Competitividade Industrial no Brasil*. Brasília: CNI Work coordinated by prof. Jorge Arbache. Available at: http://arquivos.portaldaindustria.com.br/app/conteudo_24/2014/12/09/517/ServioseCompetitividadeIndustrialnoBrasil.pdf

⁵ World Bank. *Employment in services (% of total employment)*. Available at: <http://data.worldbank.org/indicator/SL.SRV.EMPL.ZS?locations=BR>. In 2016, according to official Brazilian information, the tertiary sector, including employment in the public sector, participated with 69,6% (almost 70%) of formal jobs in Brazil (Ministério do Trabalho/CAGED).

11. In the present context, the main challenge faced by developing countries is the creation of knowledge-based quality jobs. The slow pace of the world economy, reinforced by weak productivity gains, slack investment growth (exacerbated by policy uncertainty in some large economies) and a persistent trade deceleration⁶ only makes this task more daunting. In face of the dire situation of the domestic labor market, Brazil is now in the process of reforming and updating its labor laws to make them more flexible, more prone to job creation and adequate to the present economic and social reality.

Impact of new technologies and the digital economy

12. As spelled out by a World Economic Forum E15-Initiative publication⁷, the “economic growth and globalization, spurred on by technological advances, brought services into a new prominence as sources of income, trade, jobs and development”. Preparing the present and next generations for the skills of the 21st century, such as programming, ability to work with machine learning, artificial intelligence, new business models, complex problem solving, etc., should be a priority for emerging economies. In the absence of such actions, developing countries risk becoming even more unprepared for the race for development.

13. From one point of view, there has been a clear and increasing advance of IT-based companies over more traditional markets (as in the case of the purchase of the Whole Foods network - the largest retailer of organic and natural products in the U.S. - by Amazon - the country's third largest retailer), pointing to the consolidation of these companies into large export platforms. A number of issues should be addressed here: (i) as a result of consolidation, barriers may increase and be justified on the basis of the competitive advantage of these large platforms; (ii) difficulties and distortions may arise in the regulatory arena, since these companies are extremely difficult to regulate; (iii) further, changes in the internal policies of large platforms can have effects on the market worldwide; as the cost of staying out of these platforms can be very high, small businesses usually undergo the established rules, the platforms then acting as *de facto* regulators. (iv) Finally, as regards the broader effect of consolidation for developing countries, as these platforms originate in industrialized countries, even if access opportunities are created, the bulk of the value created is retained in these countries, increasing global inequality and hampering a greater convergence of income⁸.

14. In Brazil, e-commerce and digital trade in services have gained considerable space both in relation to domestic and international consumption. The domestic challenges faced by national companies are compounded by external competition offered by major international players. Over the last years, electronic commerce in Brazil has presented an impressive growth, in many times above the traditional retail business. Presently, the sector amounts to 3.3% of total sales in Brazil, if we compare to “restricted retail” (as measured by the Brazilian Institute of Geography and Statistics - IBGE).

15. Most of the growth in e-commerce can be explained on two fronts: for consumers, the sector offers convenience, product variety and services, access to different suppliers, 24-hour availability, and the possibility of quick price comparison, among others. For merchants, the electronic channel is innovative in terms of services provision, enables rapid expansion of the consumer network in both domestic and international markets, amplifies operational capacity with reduced levels of inventory and personnel, higher level of automation, etc. Improvements in the services provided by e-commerce websites have contributed to increasing consumer confidence and consequently has enabled the expansion of the segment.

⁶ International Labour Organization (2017). *World Employment and Social Outlook: Trends 2017*. Geneva: ILO. “The global volume of trade in goods and services is estimated to have expanded by only 1.2 per cent in 2016, the slowest rate since 2009 and the third-lowest rate of trade growth over recent years”.

⁷ E15 Initiative. *Rethinking services in a changing world*. By Patrick Low on behalf of the E15 Expert Group on Services, January 2016. Available at: [file:///D:/Users/francisco.silva/Downloads/Rethinking%20Services%20in%20a%20Changing%20World%20\(1\).pdf](file:///D:/Users/francisco.silva/Downloads/Rethinking%20Services%20in%20a%20Changing%20World%20(1).pdf).

⁸ Moreira, R. (2017). *A consolidação de Amazon, Google e outras grandes plataformas*. Blog “Economia de Serviços – Um espaço para debate”. Available at: <http://economiasdeservicos.com/2017/06/29/a-consolidacao-de-amazon-google-e-outras-grandes-plataformas/>

16. The revitalization and boost that the issue of electronic and digital trade had in 2016 in international trade forums reveals the intention of the more developed economies to deal with digital trade in a multilateral context and not only in bilateral trade agreements. The progress in these discussions and possible international commitments will bring impacts to the international and domestic competitiveness of companies all over the developing world, in particular of Brazilian companies. In many international forums, such as WTO, OECD, G-20, countries are discussing regulatory aspects linked to the digital trade. The focus of those discussions varies from one forum to another, but they include important aspects: consumption rights, the localization of servers, property rights, duties, digital trade of goods (electronic retail) and services, electronic signature, means of payments, etc.

17. Those are not only theoretical discussions, as they are the basis to an internationally accepted environment for the digital trade. Furthermore, the WTO Ministerial Meeting that will occur in December will focus on services and e-commerce. At this moment, the mandate under WTO does not allow formal negotiation on e-commerce, but includes discussion on that.

18. As all rules established internationally are drawn by countries after rounds of discussions and negotiations, it is important for developing countries to understand the impact of all the discussion that are taking place at this moment. Those discussions will result on directives or even in an international agreement and they directly affect the possibility of countries to nationally regulate the e-commerce. They also impact competitiveness of companies, both the ones that take part in international trade, but also the ones that only acts domestically. The huge electronic platforms bring the international competition inside countries. Traditional retail and many other traditional services are already facing the challenges and opportunities created by the digital economy.

Our contributions to sustainable development in Brazil

19. The Ministry of Industry, Foreign Trade and Services (MDIC) actively contributes to the sustainable development goals. This task is carried out jointly with other public bodies and through strong and continuous consultation with the private sector. MDIC's programs and public policies are more related to three sustainable development goals: Goal 8: Decent Work and Economic Growth, Goal 9: Industry, Innovation and Infrastructure and Goal 16: Peace, Justice and Strong Institutions.

20. In such a context, one project stands out for the foreign trade of services: the creation of **Siscoserv** (2005). Siscoserv — or, Integrated System of Foreign Trade in Services and Intangibles — is an automated system created and maintained by MDIC (namely by its Secretariat of Commerce and Services-SCS), together with the Brazilian Revenue Service, for the collection, analysis and dissemination of Brazilian services trade data. Siscoserv was created out of the need for data for better and evidence-based public policy for the development of the service sector in Brazil.

21. At its outset in 2005, Siscoserv was an idea that mirrored the already existing system for the trade in goods. But it had greater challenges before it since it dealt with a rather different, broader and more complex subject matter, much more so than the international merchandise trade, much less studied and understood and carried out in four different modes of supply. At the time of its inception Siscoserv had no national or international model to use as a parameter. Now it can be used as a benchmark, an experience we are willing to share.

22. By prioritizing the trade flow, Siscoserv outlines an overview that goes beyond the financial aspects of the foreign trade in services. Details of services provision that are not seen by other instruments are captured through the System. The mode of supply unveils business models adopted by Brazilian companies and it is a determinant aspect on international negotiations. Registration in Siscoserv covers services provided in the four modes of supply. In line with the nature of mode of supply 3, data for this mode are not registered in the Acquisition Module (imports) but solely in the Sale Module.

23. The starting and completion date of services provision, help us characterize commercial links, enduring or fleeting, between the countries. Identifying relevant players became possible to the Government. All information registered in Siscoserv are classified according to the Brazilian Classification of Services and Intangibles (NBS), that is based on the United Nations Central Product Classification (CPC) and adapted to meet Brazilian current standards and needs and that.

24. The obligation to register in Siscoserv is of natural or legal persons domiciled in Brazil, whenever they carry out purchases (imports) or sales (exports) of services and intangibles from or to natural or legal persons domiciled abroad. Micro and small companies participating in a special tax regime called Simples (simplified tax collection for micro and small firms), as well as natural persons who, as a sole proprietor, do not explore, habitually and professionally, any civil or commercial activity with the purpose of profit, provided that they do not perform operations that exceed, in a month, US\$30 thousand, are not obliged to register in Siscoserv.

25. After more than a decade of hard work (sometimes plagued with personnel and budgetary constraints), Siscoserv now produces tangible results – Brazil has (i) a ready to use three-year statistical base (2014-2016) on the foreign trade (exports and imports) of individual services, (ii) on the four modes of supply; (iii) classified individually as “products” in accordance with NBS, that is based on CPC; and (iv) that can be retrieved in different formats and for different purposes. Further work is now under way to make Siscoserv more pliable and user friendly, thus increasing its usefulness for evidence-based public policy and use by the general public and specialists.

26. The Secretariat of Commerce and Trade - SCS/MDIC has sought to contribute with transparency and relevant information on the services sector. Since 2015, the Secretariat of Commerce and Services began to publish annually the statistics of international trade in services based on data from Siscoserv. The data referring to 2014, 2015 and 2016 were already released and are available in different formats, including in English.

27. The statistics allow the understanding of the current background of Brazilian foreign trade in services. They also allow the mapping of opportunities for expansion of businesses, and they are available at: <http://www.mdic.gov.br/comercio-servicos/estatisticas-do-comercio-exterior-de-servicos>.