Evolution of the international trading system and its trends from a development perspective

Note by the UNCTAD secretariat

Executive summary

How international trade can best serve development needs is an issue that should be re-examined because of the persistent slowdown in trade in recent years. To revitalize trade, Governments need to promote a forward-looking trade agenda. The increasing importance of the service sector in global trade, its resilience to economic downturns and its growing competitiveness could open up substantial trade opportunities. Services are pivotal for many of the 17 Sustainable Development Goals and 169 targets set out in the 2030 Agenda for Sustainable Development. Their achievement largely depends on a service sector that operates efficiently and equitably, and on universal access to infrastructure and essential services.

The service economy and trade are central to job creation, as they strengthen productive capacity and structural transformation aimed at economic diversification and improved competitiveness. Services are becoming more and more important for the least developed countries, not only as a source of export diversification but as a source of competitiveness for the economy as a whole.

The recent services waiver in favour of the least developed countries, adopted at the Eighth Ministerial Conference of the World Trade Organization (WTO) in 2011, can serve as a stepping stone towards facilitating the liberalization of services and improving access of the least developed countries to trade in services. The next step would require the establishment of a comprehensive set of international support measures going beyond what has been provided so far. A permanent system focused on trade in services could provide a space for follow-up actions to ensure the effective implementation of the waiver and a regular assessment and review of its implementation. UNCTAD could contribute to the process as the focal point within the United Nations system dealing with the integrated treatment of trade and development and interrelated issues, with a view to revitalizing the Global Partnership for Sustainable Development.
Introduction

1. In July 2015, the Third International Conference on Financing for Development adopted the Addis Ababa Action Agenda, which was followed by the adoption by the United Nations General Assembly in September 2015 of the 2030 Agenda for Sustainable Development and 17 Sustainable Development Goals. Both documents set out a globally shared vision translated into a plan of action for the sake of people, the planet and prosperity for all.

2. In both, international trade was recognized as a means of implementation for achieving development goals. A comprehensive and timely review and monitoring process at the national, regional and global levels is necessary to analyse how trade can be most instrumental and relevant in serving its purpose.

3. However, because of the persistent slowdown in trade in recent years, a reconsideration of how international trade can best serve development needs is warranted. In doing so, the importance of the changing composition of international trade – from goods to services – should not be overlooked. Recent statistics show that the slowdown in trade can be mainly observed in that of manufactured goods, while trade in services shows some growth, especially in the least developed countries. Therefore, as exports of services are more dynamic and resilient than trade in goods, they could in the coming decades play a more important role in economic development than manufactured goods.

4. One of the reasons why trade in services is outperforming trade in manufactured goods is that the tradability of services has increased substantially because of technological progress. Many services, such as information technology (IT), accounting or secretarial services, are often offshored to developing countries and the least developed countries. Further, offshored tasks that are classified as more easily tradable than others are often highly skilled services. Integrating into the global service economy is crucial for the development prospects of many developing countries and of the least developed countries.

5. Services are pivotal for many of the 17 Goals and 169 targets set out in the 2039 Agenda for Sustainable Development, as their achievement presumes an efficient and equitable functioning of the service sector and universal access to infrastructure and essential services, such as telecommunications, energy, financial services, health care, sanitation and education. The service economy and trade in services are central to job creation, as they strengthen productive capacity and structural transformation aimed at achieving economic diversification and improved competitiveness.

6. Fully harnessing the potential of services and interlinkages between the service sector and the economy as a whole calls for policy coherence and a holistic approach to the regulation of services and the liberalization of trade in services, especially for the least developed countries, where the service sector is becoming more and more important.

7. The recent services waiver in favour of the least developed countries, adopted at the Eighth Ministerial Conference of WTO in 2011 and extended in Nairobi in 2015, could potentially serve as a stepping stone towards the further liberalization of trade in services. Aimed exclusively at the least developed countries, the waiver has the potential to provide the comparative advantage needed to kick-start trade in services for the least developed countries on international markets. However, when estimating real life benefits of the preferences generated by the waiver, the following issues should be taken into account: Are such preferences granted in sectors of interest to the least developed countries? Are they already being applied to all trade partners? Are they simply a form of recognition of the most favoured nation treatment? Are the preferences truly beneficial to the least developed

1 TD/B/C.1/29.
countries in providing broader and better market access? What could be the next step towards liberalizing access for service providers from the least developed countries in order to provide a higher degree of certainty and accountability on both sides of trade in services? This paper aims to shed light on some of these issues.

I. **Current trends in international trade and goods and services: Slowdown in trade**

8. World trade grew rapidly in the last two decades; however, world trade dynamics have changed dramatically since the recent global recession. Although the world economy has rebounded from the downturn of 2008, many individual economies have not fully recovered – economic growth has often remained weak and volatile. Moreover, the most recent figures indicate that a further slowdown took place in 2015, where weak aggregate demand, falling commodity prices and increasing financial market volatility resulted in global output rising only by about 2.6 per cent. The weak performance of the world economy has clearly had major implications for international trade. However, the problems behind the downturn in international trade go beyond those of a weak world economy.

A. **Trends in trade**

9. Recent statistics indicate that from 2011 to 2014, world trade grew at a noticeably slower rate of 2 per cent compared with the pre-recession period. World trade slowed down further in 2015 (figure 1).

Figure 1
**Trade in goods and services, 2004–2015**


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10. The slowdown in trade of the last few years has been widespread across most developing and developed countries. Average trade growth rates for all regions are low and a fraction of what they were before the global financial crisis (table 1). Among developing countries, the slowdown affected all regions, including the Asian powerhouses and the more peripheral regions such as sub-Saharan Africa. Trade growth rates have generally been negative for countries with economies in transition and close to zero, on average, for Southern Asia and sub-Saharan Africa.

Table 1
Annual growth in trade by region
(Percentage)

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<tr>
<td>Countries with economies in transition</td>
<td>21.1</td>
<td>-0.5</td>
</tr>
<tr>
<td>Developed countries</td>
<td>11.2</td>
<td>0.7</td>
</tr>
<tr>
<td>Eastern Asia</td>
<td>15.4</td>
<td>3.1</td>
</tr>
<tr>
<td>Latin America</td>
<td>14.7</td>
<td>1.0</td>
</tr>
<tr>
<td>Southern Asia</td>
<td>20.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>17.9</td>
<td>0.1</td>
</tr>
<tr>
<td>Western Asia and Northern Africa</td>
<td>18.9</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Source: UNCTAD calculations based on data derived from UNCTADstat and COMTRADE databases.

11. A particularly important aspect of the current slowdown in trade is that it may imply a structural departure from past trends. Driven by favourable policies, technological innovation and business models that lower the costs of cross-border transactions, international trade grew quickly during the 1990s and early 2000s. International trade rebounded swiftly from the downturn of the global financial crisis, but has grown at a modest pace in the last three years. Since 2012, international trade has grown largely because of an increase in trade in services. Merchandise trade, which contributed most of the trade expansion of the past, has stabilized at about $18 trillion. In addition, after 2012, trade growth became much less responsive to output growth than before. While international trade has been historically growing at a substantially faster rate than global output, it grew at a similar, or sometimes lower rate, after that year (figure 2). It is not clear whether this pattern indicates the beginning of a period of diminishing interdependence and integration between countries.
B. Factors leading to the slowdown in trade

12. A large part of the slowdown in trade can be attributed to the weak and uncertain global economic environment. However, a relevant question is whether the deglobalization phase, with international trade growing at lower rates than the world economy, is going to persist, or whether the economic integration process will resume.

13. The slowdown has affected all categories of goods, indicating that there are diverse but reinforcing causes underlying it (table 2). Commodity cycles are behind both the surge and the downturn in the value of international trade of primary goods of the last two decades. Since 2015, prices of primary goods have remained relatively low, contributing substantially to the stagnation of international trade. Moreover, persistently low commodity prices, in particular those of energy goods, have deteriorated the terms of trade of commodity-exporting countries and thus contributed to economic recessions, all of which have ultimately exacerbated the negative effects on international trade as a whole.

14. The slowdown in the trade of investment goods can also be explained by cyclical factors. In particular, uncertainty surrounding the economic prospects of many countries, including developed countries, has led to the withholding of investment with consequent negative repercussions for international trade. The slowdown is also related to the shift in the production and trade patterns of global value chains. The global value chain revolution lost steam after the financial crisis and is now thought to have largely stabilized. The inertia of vertical specialization is reflected in the statistics on trade in intermediate goods. On the

Source: UNCTAD calculations based on data derived from UNCTADstat and COMTRADE databases.
other hand, trade in consumer goods and services has been relatively less affected by the slowdown in trade. Although this trend may be driven by expansionary policies, it may also indicate that final demand – especially in developing countries – may play a relatively greater role in the future of international trade.

Table 2
Annual growth in trade by product group
(Percentage)

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<tbody>
<tr>
<td>Consumer goods</td>
<td>9.8</td>
<td>2.8</td>
</tr>
<tr>
<td>Intermediate goods</td>
<td>12.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Primary goods</td>
<td>20.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Investment</td>
<td>12.2</td>
<td>1.6</td>
</tr>
<tr>
<td>Services</td>
<td>15.7</td>
<td>4.0</td>
</tr>
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Source: UNCTAD calculations based on data derived from UNCTADstat and COMTRADE databases.

15. Patterns of international trade are also dependent on government interventions. Indeed, there were some concerns that protectionist behaviour could have emerged during the crisis and the years following the global financial crisis, with a dampening effect on international trade. However, empirical evidence indicates that trade policies have only had a limited effect on the ongoing slowdown in trade. The use of protectionist policies – at least in their traditional connotation – has not been much more different than usual or widespread enough to contribute substantially to the slowdown.3

16. The impact of other forms of government interventions on international trade is less clear. Indeed, during the last decade, there has been a rapid proliferation of policies which, although not specifically aimed at trade, have had implications for international trade. For example, regulatory measures adding to trade costs, subsidies for domestic industries and measures to limit the delocalization of production processes abroad have, on the whole, increased in the post-crisis years. Although legitimate, these policies are likely to have had negative effects on trade.

C. Implications for economic development and policy responses

17. As international trade has been instrumental in achieving economic growth, technological upgrading and rising productivity, an enduring period of declining economic interdependence could reduce development opportunities and pose serious constraints on developing countries to meet the Sustainable Development Goals. From a policymaking perspective, this implies that developing countries seeking to benefit from international trade should adapt their development strategies in line with recent trends in international trade. Within the service sector in particular, there appears to be tremendous scope for developing numerous and reliable trade opportunities by supporting technological upgrading and increasing competitiveness.

18. Government interventions should also be directed to facilitate the integration of more dynamic segments of the economy into international markets. In this regard, small

and medium-sized enterprises (SMEs) may be better positioned than large ones to benefit from future trade opportunities. 4 Facilitating trade for such companies and the implementation of technologies to ease cross-border transaction costs for smaller players is essential for this to happen.

19. There is still substantial scope for further economic interdependence in many regions. Therefore, increasing regional cooperation initiatives can open up trade opportunities, especially in Latin America, Southern Asia and sub-Saharan Africa. This requires Governments to pursue a forward-looking trade agenda that takes into account the new international trade environment. Reaching a balanced outcome on the liberalization of services, ensuring regulatory harmonization and tackling the multiplicity of behind-the-border issues influencing international trade would allow developing and developed countries alike to benefit from opportunities of international trade.

D. Trade in services: A way forward?

20. As a panacea for the declining economic indicators of recent years, trade in services can become fundamental in providing the much-needed support to the feeble performance of global trade. Global service exports grew at an average annual rate of 3.6 per cent from 2008 to 2014 – faster than merchandise exports.5 However, the actual magnitude and importance of trade in services is not fully captured by most statistics, as they rely mainly on cross-border data. Trade in services increasingly occurs through foreign direct investment and the movement of natural persons. Affiliates made about $18 trillion in service sales in 2014, nearly four times greater than global cross-border service exports.6

21. Growth in global remittances flows is a sign that trade through the movement of natural persons has also risen significantly.7 Given the continued growth of remittances, it would appear that trade through Mode 4 is on an upward trend. In 2015, worldwide remittance flows are estimated to have exceeded $601 billion, with about $441 billion going to developing countries.8

22. Service exports were also more resilient than merchandise exports throughout the global financial crisis,9 facilitating export diversification. Moreover, most of the growth in service exports has been driven by developing countries. Among developing regions in 2013, services made the largest contribution to output in Latin America and the Caribbean – 63 per cent – but they are also predominant in Africa and developing Asia, with roughly 50 per cent shares. Services also have the largest share of output of the least developed countries, at 44 per cent.10 This share is more stable in the least developed countries than in other regions.

23. Worldwide service exports are mainly dominated by transportation, travel and other business services. These have performed strongly over the last decade. Developing countries have increased their share of trade in services in all sectors, especially with regard

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6 A/70/277.
to construction services, travel and transportation, as well as computer and information services.

Figure 3
Export market shares of trade in services by region, 2014

II. Trade in services for sustainable development

24. The development of a service economy and trade in services can play a critical role in achieving many of the Sustainable Development Goals through positive spillover effects, such as women’s empowerment, the promotion of employment and decent work for all, environmental sustainability and stimulation of the development of SMEs. Such links are further explored below.

A. Gender equality and women’s economic empowerment through trade in services

25. The increased share of service employment in the last decade is partly the result of women moving out of the informal and agricultural sectors into the service sector. Globally, this sector employs almost half of the female workforce. Therefore, the service sector is a critical source of jobs in the developing world, in particular for women. According to data from the International Labour Organization (ILO), by 2015, more than 60 per cent of working women were employed in services, exceeding the percentage share employed in manufacturing, and female participation rates in service employment have shown a steady
increase over time. Women’s employment in services rose from 41.1 per cent in 1995 to 61.5 per cent in 2015.11

26. Trade in services has provided many opportunities for women in the formal and informal sectors. Numerous studies suggest that the expansion of exportable services has enhanced employment opportunities for women in some high-skill sectors, most notably the IT sector. Such studies indicate that IT sector jobs have contributed to shrinking gender gaps12 and may play to women’s comparative advantages.

27. The liberalization of travel and the movement of persons across borders has also opened new opportunities for lower-skilled female workers in developing countries. For women, this often allows a shift from the informal sector to the formal sector. Informal and small-scale cross-border trade has emerged as a critical economic activity that links developing countries and provides livelihoods to thousands of poor women who may otherwise have limited opportunities for income generation.13 In certain regions, for example the Great Lakes region of Africa, cross-border trade is predominantly carried out by women, who represent 80–90 per cent of traders at many border crossings.14

28. Despite progress on the liberalization of access of service providers to foreign markets, persistent challenges remain. One of the major obstacles for women in developing countries who are willing to provide their services abroad is the lack of recognition of their professional and academic qualifications.15 The General Agreement on Trade in Services (GATS) allows Member States to deviate from the most-favoured nation requirement and set up bilateral or plurilateral mutual recognition agreements on academic and professional qualifications. In most countries, professions in which many women are employed, for example health care and social work, fall into the category of accredited or regulated professions where the mutual recognition of qualifications is of particular relevance. At present, however, developing countries’ participation in mutual recognition agreements is limited to a few countries.16

29. To increase women’s participation in international trade in services and the benefits thereof, it is necessary to enhance multilateral dialogue aimed at the further liberalization of international trade in services.

B. Promotion of employment and decent work for all: The case of tourism services in coastal areas

30. Half of all tourist travel is to coastal areas.17 In some developing countries, particularly in small island developing States, tourism accounts for over 25 per cent of gross domestic product.18 The number of international tourists visiting destinations in small

16 TD/B/C.1/29.
island developing States increased from 28 million in 2000 to more than 43 million in 2015.\textsuperscript{19} Tourism accounts for over 40 per cent of the value of all exports of goods and services in half of the small island developing States.\textsuperscript{20} Coastal tourism is also diversifying and extending to tourism relating to the environment, culture, medicine, sports, spas and wellness.

31. The tourism sector can provide considerable development opportunities: a vibrant service sector creates not only direct employment opportunities, but generates considerable labour demand to support the upstream and downstream sectors related to tourism.\textsuperscript{21} Therefore, since the tourism sector has significant backward-and-forward linkages with national economies, it is necessary to raise the quality and quantity of output in a wide range of other economic sectors to build tourism capacity. These sectors include transportation, telecommunications, energy, water and waste management facilities and services, as well as banking, medical, retail, travel and other related services required by tourists during their stays.

32. On a multilateral level, the liberalization of services is conducted under GATS, where tourism services are covered under tourism and travel-related services. Tourism services are categorized as follows:

(a) Hotels and restaurants;
(b) Travel agencies and tour operators;
(c) Tour guides;
(d) Other.

33. Many services closely linked to tourism are classified under different sectors such as business, financial and recreational services. GATS commitments vary across modes of service supply. Commitments are generally lowest for Modes 3 and 4. Importantly, there is significant export potential related to Mode 3 (restaurants, hotels and travel agencies) and Mode 4 (tour guides and business visitors such as agency operators visiting clients or attending tourism fairs). The barriers to trade in services in these modes pose difficulties for the supply of travel agency services and tour operator services through e-commerce, a significant export opportunity for developing countries and the least developed countries.

34. Many developing countries and least developed countries have indicated their interest in seeking more liberal access for their tourism providers and other related services providers in the form of bilateral requests, the plurilateral request related to Mode 4, the plurilateral request related to tourism and the least developed country group request related to Mode 4. Given the importance of tourism in providing trade and development opportunities for the least developed countries, commercially meaningful commitments to GATS within Modes 3 and 4 are important.

C. Role of environmental services in promoting the green economy

35. Among the Sustainable Development Goals of interest to policymakers, the support of a green economy becomes increasingly important. In simple terms, the green economy can be described as low-carbon, resource efficient and socially inclusive. The emphasis of its policies and measures may vary, and a growing number of countries put a premium on

\textsuperscript{19} World Tourism Organization, 2016, statement delivered by the Geneva Liaison Office at the meeting Oceans Economy and Trade: Sustainable Fisheries, Transport and Tourism (UNCTAD, Commonwealth Secretariat and International Oceans Institute), Geneva, Switzerland, 12 May.
\textsuperscript{20} Ibid.
\textsuperscript{21} F Vellas, 2011, The indirect impact of tourism: An economic analysis, Third Meeting of Group of 20 Tourism Ministers.
the socially inclusive employment effects that the green economy may bring. The building of a green industrial base, including renewable energy, can generate significant dividends to employment, estimated by the United Nations Environment Programme at tens of millions of dollars worldwide.22

36. Renewable energy has served as a fertile ground for countries looking to jump-start employment. However, policies aimed at creating green jobs and subsequently keeping them from going offshore may lead to economic tensions. While competition over green jobs tends to focus exclusively on manufacturing, many job-generating services that accompany manufacturing activity are too often ignored. Many of the job-generating services are not born of an export strategy, but of a domestic renewable energy deployment strategy. Services account for the bulk of research and development, installation and maintenance of solar and wind systems, with considerable positive effects on employment.23 Further, renewable energy production opens possibilities for the generation of carbon credits, whose marketing and trading represent an entire class of derived services that help decarbonize economies.

37. The liberalization of environmental services is a relatively new phenomenon and is being discussed in plurilateral negotiations on the Environmental Goods Agreement among China, the European Union, the United States of America and 11 other members of WTO.24 On 24 January 2014, these countries launched the Green Goods Initiative. Since July 2014, the Initiative has served as a framework for negotiations on the Environmental Goods Agreement. It was agreed that the second phase of the negotiations would be expanded to cover environmental services. During the negotiating round, which took place in November and December 2015, members reaffirmed the need to tackle environmental services. During the March round, they produced a draft text on institutional provisions for updating the product list to reflect environmental services.

38. Recent developments in Asia–Pacific Economic Cooperation (APEC) are also relevant to the discussion on the liberalization of environmental services. APEC member economies launched the Environmental Services Action Plan, meant to promote liberalization, facilitation and cooperation with regard to environmental services. It is meant to bring into focus regulatory issues, including with respect to cross-border supply, commercial presence, licensing and the temporary movement of personnel.

39. The Environmental Services Action Plan is complementary to the APEC initiative on environmental goods, which had, to a large extent, provided a blueprint for WTO negotiations on environmental goods. These negotiations had been conducted under the mandate provided for in paragraph 31(iii) of the Doha Ministerial Declaration. History may well repeat itself, this time for environmental services in the plurilateral or multilateral context, especially since the mandate covers trade in both goods and services.

40. The transition of environmental services negotiations to the multilateral level is highly desirable, as it would provide opportunities for developing countries and the least developed countries to voice their views and seek the liberalization of services from its developed countries counterparts. The environmental service economy and trade in those services are expected to bring vast opportunities for a new generation of green and blue jobs unforeseen less than a decade ago, as well to deliver on other Sustainable Development Goals related to preserving the environment, combating climate change and ensuring energy access for all.

24 Australia, Canada, Hong Kong (China), Taiwan Province of China, Costa Rica, Japan, New Zealand, Norway, Singapore, the Republic of Korea and Switzerland. Iceland, Israel and Turkey joined in 2015.
D. Fostering trade in services through competition policy: Access to small and medium-sized enterprises

41. The aim of competition policy and law is to correct market failures and ensure that consumers can exercise their choices effectively. Higher prices, lower-quality goods and services, and economic injustice prevail when competition is lacking in markets, especially in the presence of monopolies and cartels. This may have negative effects on the poorest or most vulnerable producers and consumers.25

42. In an increasingly globalized world economy, production in many sectors is carried out through global value chains dominated by large multinational companies, their subsidiaries and subcontractors. Global value chains have been experiencing increased concentration through horizontal and vertical mergers of large transnational corporations or takeovers by transnational corporations of smaller domestic companies. In these highly concentrated and vertically integrated global manufacturing sectors, local SMEs face the challenge of dealing with very large enterprises with strong bargaining power. Local SMEs do not have sufficient bargaining power and are therefore in a disadvantaged position to negotiate fair prices or contract terms and conditions for their goods and services in vertical relationships with large firms.26

43. Inclusive growth and better social welfare and infrastructure service development in the least developed countries deserve particular attention because they are of critical importance to economic development and dealing with physical infrastructure deficits. Competition policy can play a critical role in making markets more competitive and facilitating the access of SMEs as service providers.

44. Evidence shows that in the transport sector, for instance, eliminating anticompetitive behaviour and entry barriers reduces transport costs and prices. In Chad, the existence of cartels in the main corridors has doubled transport prices.27 After Mexico opened road freight to competition in 1989, cheaper, more customer-responsive trucking services made it possible for downstream companies to offer new, previously unavailable goods and reach previously unserved areas.28

45. In air transport, the entry of low-cost airlines and the liberalization of air cargo markets have been found to significantly benefit consumers through lower transport costs and greater price competition. For example, incumbents in Mexico charged 37 per cent lower prices, on average, on routes where they faced competition.29 Another study estimated that improving the quality of air transport regulation from the level of Ecuador (twenty-fifth percentile) to that of France (seventy-fifth percentile) reduced transport costs by 14 per cent – while introducing open skies agreements to foster competition reduced them by 8 per cent.30

46. One of the ways in which competition policy can contribute to sustainable and inclusive development is to identify priority sectors that are essential for an economy and

26 TD/RBP/CONF.8/6.
poor people. Ensuring a competitive infrastructure service sector may contribute to the elimination of anticompetitive practices and the inclusion of SMEs, and in turn ensure fair prices for consumers and producers, and improved living standards.

III. **Liberalization of trade in services: Call for greater involvement of the least developed countries through existing and new mechanisms**

47. Service exports from the least developed countries are increasing rapidly, and in recent years have outpaced other developing country regions (figure 4).

Figure 4  
**Service exports by level of development and region, 2008–2014**

![Service exports by level of development and region, 2008–2014](chart)

*Source: UNCTADstat database (data extracted from United Nations, 2016).*

48. While the aggregate share of commercial service exports of the least developed countries remains low (0.76 per cent in 2015), it nonetheless increased significantly (by over 50 per cent) between 2007 and 2015, reflecting vibrant growth rates over the period, with the exception of 2009 and 2015 (table 3).

Table 3  
**Shares and growth of exports of commercial services from the least developed countries, 2007–2013**  
(Percentage)

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<tbody>
<tr>
<td>Share of aggregate exports&lt;sup&gt;a&lt;/sup&gt;</td>
<td>0.40</td>
<td>0.46</td>
<td>0.52</td>
<td>0.54</td>
<td>0.59</td>
<td>0.63</td>
<td>0.68</td>
<td>0.70</td>
<td>0.76</td>
</tr>
<tr>
<td>Growth of service exports&lt;sup&gt;b&lt;/sup&gt;</td>
<td>25.28</td>
<td>28.33</td>
<td>1.4</td>
<td>12.4</td>
<td>24.15</td>
<td>9.4</td>
<td>14.7</td>
<td>9.93</td>
<td>1.03</td>
</tr>
</tbody>
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*Source: UNCTAD calculations based on data derived from the UNCTADstat database.*  
<sup>a</sup> Percentage of world trade in commercial services.  
<sup>b</sup> Year-on-year percentage.
49. Least developed country export interests tend to concentrate in the following service fields: financial and insurance services, travel services, communications and computer services, transport services, construction services, maintenance and repair services, and creative industries. Even though this information can have certain limitations due to data availability, this provides useful indications of where the least developed countries enjoy a competitive advantage in the production and exchange of services.

50. Other statistics indicate that in some least developed countries, as much as two thirds of the workforce is engaged in services. Further, given current population and urbanization trends, especially in African least developed countries (Africa’s population is forecast to double by 2025), the service sector is expected to expand even further.31

51. Services have a vital role to play in the development strategy of the least developed countries, whether based on the exploitation of their natural resource base or on labour-intensive light industry and manufacturing.32 As a growing sector in many least developed countries, services can support the process of infrastructural transformation, characterized by a shift from low- to high-productivity activities, and a declining share of agriculture in output and employment, as well as an increasing share of manufacturing and modern services in output.

52. Major challenges remain, especially as the least developed countries seek to move away from consumption-based growth to more durable sources of growth. Many of these countries need to reduce their reliance on subsistence and non-tradable services to services, which generate greater value addition and growth. The liberalization of trade in services could help to translate this service-led growth into sustainable employment and inclusive development in the least developed countries.33

53. However, barriers to trade in services persist across countries and appear as domestic regulations rather than tariffs. The right of Governments to regulate trade in services is recognized under numerous parts of GATS, including the preamble and article XIX (progressive liberalization). However, while seeking to ensure that licensing, qualification and other requirements do not burden foreign providers unduly or that monopolies do not abuse their position to impede entry and competition, the Agreement does not impose many constraints on domestic regulation beyond non-discrimination and transparency obligations.34

54. The development and spread of information and communications technologies has allowed for an increasing trade in services to take place through Mode 1 that entails the so-called practice of outsourcing certain tasks to countries where the price of a service is lower. In this regard, the gains for developing countries and for the least developed countries are significant, as export earnings derived from outsourcing are often accompanied by a number of related advantages, including foreign direct investment, human capital formation and knowledge spillover. However, measures requiring commercial presence for suppliers to deliver cross-border services or the outright prohibition of outsourcing have acted as barriers to Mode 1 supply of services.35

55. Of all the modes, Mode 4 remains the most restricted, owing to concerns over its implications for the labour market in service-receiving countries. Many countries allow for entries of highly skilled labour such as intra-corporate transferees, while limiting the entry

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32 Ibid.
33 Ibid.
34 TD/B/C.I/MEM.3/11.
35 TD/B/C.I/29.
of low-skilled labour. Most potential service providers from developing countries and the least developed countries, including women, do not fall within highly skilled labour groups.

A. Services waiver for the least developed countries: Necessary – but sufficient?

Brief history

56. An important development objective in multilateral services negotiations is achieving preferential market access for the least developed countries that can be provided in the context of special and differential treatment provisions contained in WTO agreements. The notion of special treatment for the least developed countries in services dates back to the 2003 decision of the Council for Trade in Services on modalities for the special treatment for least developed country members in the negotiations on trade in services. In short, this decision aimed to define negotiating modalities for the least developed countries in the area of services to ensure that Members would take into account the special situation of the least developed countries when negotiating with them.

57. After several years of discussions on how to effectively implement the modalities for the least developed countries, government ministers at the Eighth Ministerial Conference of WTO adopted a waiver that allows the exceptions from most favoured nation provisions in GATS article II – a provision that requires WTO members to provide non-discriminatory treatment to all their trading partners. The waiver thus allows members to provide preferential treatment to services and service suppliers in the least developed countries with respect to market access and other measures. While preferential treatment concerning market access is automatically allowed under the waiver, preferential treatment with regard to non-market access provisions is subject to approval by the Council for Trade in Services. The waiver applied to all least developed countries, including non-members of WTO.

58. With no substantial progress to report after two years, government ministers revisited the issue with a subsequent decision on the Operationalization of the Waiver Concerning Preferential Treatment to Services and Service Suppliers of Least Developed Countries, adopted at the Ninth Ministerial Conference of WTO in Bali in 2013. Following that decision, a collective request identifying the sectors and modes of supply of most interest to the least developed countries was submitted by the least developed country group in July 2014.

59. The least developed country group submission called for members to waive market access and national treatment restrictions through horizontal and sector-specific measures. With regard to the former, the submission suggested that restrictions should be waived by, inter alia, creating special temporary entry visa subcategories to allocate quotas for least developed country service suppliers and waiving economic needs and labour market tests. The submission also urged members to waive restrictions on certain sectors, including tourism, banking, transport, information and communications technology, and business process outsourcing services, as well as certain restrictions relating to visas and permits, the recognition of qualifications of professionals from the least developed countries and the accreditation of institutions in those countries.

60. Members agreed that those intending to grant preferences under the waiver would follow up by submitting detailed notifications of their intended preferences by July 2015. Given the sluggish beginnings of the process, it is remarkable that, no less than 23 Members – including several developing countries – have submitted notifications and

36 WTO, 2003, Modalities for the special treatment for least developed country members in the negotiations on trade in services, TN/S/13, 5 September.
started implementation: Australia, Brazil, Canada, Chile, China, Hong Kong (China), Taiwan Province of China, the European Union, Iceland, India, Japan, Liechtenstein, Mexico, New Zealand, Norway, the Republic of Korea, Singapore, South Africa, Switzerland, Thailand, Turkey, Uruguay and the United States.

61. Further developments with regard to the services waiver for the least developed countries took place at the Tenth Ministerial Conference of WTO held in Nairobi in 2015, where government ministers reiterated that trade in services can play an important role in achieving the development objectives of the least developed countries. They noted the need to strengthen the domestic service supply capacity in those countries with a view to maximizing benefits from trade opportunities, including through preferences granted them. Further, the Conference decided to extend the waiver until 31 December 2030. The decision encourages Members that have not notified preferences to do so, and Members that have, to provide technical assistance and capacity-building in order to allow the least developed countries to actually benefit from the preferences granted. It also asks Members to address regulatory barriers as defined in GATS article VI.4 and mentions tasks to be carried out by the Council for Trade in Services for a quicker and more efficient implementation of the notified preferences.

Preliminary assessment

62. With regard to progress achieved in implementing the services waiver, the notifications made to date generally address all modes of service supply in differing degrees. Some notifications include good examples of preferential treatment, including extending periods of entry and stay, and waiving economic needs tests, visa fees and work permits. Others detail measures to enhance the supply capacity of the least developed countries, including by facilitating temporary movement for study and capacity-building and assistance in relation to the construction of infrastructures for services relating to tourism, education, health care, culture and sports.

63. However, many notifications contain elements that do not go beyond the existing status quo. Additionally, many notifying Members usually cover all modes of supply for any given subsector mentioned, even if the intended preference only extends to one or two modes. Those modes where no changes reoccur are only a restatement of the status quo.

64. Another challenge in assessing the progress in implementing the services waiver is to single out which of the notified preferences actually reflect applied (real-life) preferential treatment, as it requires analysis of the applied regimes of each individual preference-giving member. However, it may be argued that a significant part of the so-called preferences reflects what has often been dubbed “autonomous liberalization”, that is, most favoured nation treatment that is better than that promised in GATS schedules – but nonetheless applied on a most favoured nation basis in compliance with GATS article II, which applies unconditionally. Such preferences that do not go beyond existing applied most favoured nation treatment are not preferences in real terms. They may reflect treatment that is attractive for least developed country service providers, and should be welcomed as such, but they neither require nor implement the least developed country services waiver, which allows deviation from the most favoured nations principle in favour of least developed country services and service providers. Where these services and providers are treated like all others, the waiver as such does not deliver its purpose.

37 WTO, Implementation of Preferential Treatment in Favour of Services and Service Suppliers of Least Developed Countries and Increasing LDC Participation in Services Trade, Ministerial decision of 19 December 2015, WT/MIN(15)/48 – WT/L/982.

65. Another observation that may seem positive at first sight is that at least some of the preferences offered seem to go beyond what the least developed countries requested in their collective request of July 2014. However, most of the collective request-plus preferences are in Mode 2. Not only is Mode 2 in most sectors the easiest Mode to commit to, as no restrictions apply, there is little interest in introducing them. Many of these would be considered to be “collective request-plus” for a purely technical reason: a key part of the collective request consists of a list of sectors and subsectors for which the least developed countries specifically request openings in Modes 1, 3 and 4, as their liberalization is most important to them. That preferences are offered in sectors or modes not asked for may partly reflect a choice by preference grantors to boost their packages by adding more easily feasible but less relevant preferences. In some cases, this may effectively serve to mask limited responsiveness to the actual needs of the least developed countries.

66. In conclusion, the least developed country waiver can be meaningful if it is about actual preferences, that is to say, real-life deviations from most favoured nation treatment, and thus about actual improvements for trade in services in the least developed countries. However, it remains unclear how many of such preferences, compared with previous practice, are contained or reflected in the notifications. This would require a comparison with applied regimes and therefore, a more extensive study of member States’ trade policy applied on the ground.39

B. The way forward

67. The preference offers presented so far in the context of the least developed country services waiver constitute a significant and widely acclaimed development. With 23 notifications for preferences already submitted to WTO covering over 2,900 individual preferences and several more under preparation, this initial response to the collective request of the least developed countries represents a critical first step. However, if the purpose is to ensure greater involvement of these countries into international service trade through meaningful service liberalization, the waiver can be only a temporary solution.

68. The next step would require the establishment of a comprehensive set of international support measures going beyond what has been provided so far. The notion of a comprehensive, structured and permanent support system for trade preferences in services could emulate the original idea of a generalized system of trade preferences proposed at the first session of UNCTAD in 1964. Such a system would support developing countries by enhancing their export earnings, promoting industrialization and encouraging economic diversification by granting autonomous trade preferences by industrialized countries to all developing countries. To create a legal framework for such system, a waiver from the general most favoured nation treatment obligation provided under the General Agreement on Tariffs and Trade (article 1) was granted in 1979 through the adoption of the so-called “enabling clause”. Originally envisaged for a period of 10 years, the enabling clause was subsequently renewed in 1979 for an indefinite period of time. While this initiative focused on trade in goods, a similar model might be envisaged for trade in services.

69. A permanent system focusing on trade in services could provide a space for follow-up actions to ensure effective implementation of the waiver and a regular assessment and review of its implementation. By its permanent nature, it would significantly contribute to enhancing predictability and legal certainty for potential investors who might be reluctant to invest in the development of the service exports of the least developed countries if preferences are solely granted under a waiver limited by time. More specifically, such a structure could do the following:

39 UNCTAD, forthcoming. The least developed countries services waiver: Operationalized?
(a) Collect data to further improve the availability of disaggregated, timely and reliable information on flows of trade in services, with a particular focus on the least developed countries;

(b) Conduct research and analysis, and disseminate information to improve the design and implementation of trade preferences in services;

(c) Provide capacity-building and technical assistance to support the least developed countries in the design of coherent and development-oriented domestic policies on services and the regulation of services;

(d) Provide a forum for dialogue and the exchange of experiences on issues relating to services.

70. Establishing such a process may require the involvement of several institutions ranging from WTO to the International Trade Centre and the World Bank. Given its long history in this area, strong development focus, and research and technical assistance capabilities, UNCTAD could take the lead in taking this process forward.

IV. Contributing to the monitoring and review process for implementation of the 2030 Agenda for Sustainable Development: The role of UNCTAD

71. One of the crucial elements in implementing the 2030 Agenda for Sustainable Development, where trade is recognized as a means of implementation, is a functioning monitoring and review mechanism established at the national, regional and global levels. A sustainable development review could aim to assess four factors:

(a) Progress towards the achievement of the Sustainable Development Goals (improvement in national indicators);

(b) Means of implementation, including financial, at the disposal of a particular country;

(c) Challenges faced by member States as main actors of the 2030 Agenda for Sustainable Development (for example, policy effectiveness and coherence, appropriate national and international frameworks);

(d) Functioning partnerships in sustaining efforts by member States.

72. At the operational level, the review process should be supported by the United Nations system with a clear division of labour and the involvement of specialized agencies.

73. UNCTAD has a wealth of well-tested tools to help the review process at the national, regional and global levels. At the national level, UNCTAD could draw on its experience in supporting countries in their national assessments, using existing tools such as the reviews it conducts on policies relating to investment and services, national green exports, and information and communications technology.

74. At the regional level, UNCTAD could share its experiences and continue to collaborate with the existing regional mechanisms. The Trade and Development Board could be used as a platform to present and discuss the findings of the regional commissions on trade-related matters.

40 In the synthesis report on the post-2015 sustainable development agenda (A/69/700), the Secretary-General of the United Nations suggested the need to consider the universal review process of the implementation of the agenda.
75. At the global level, as the focal point within the United Nations system dealing with the integrated treatment of trade and development and interrelated issues in the areas of finance, technology, investment and sustainable development, UNCTAD could continue contributing throughout the process to revitalize the Global Partnership for Sustainable Development.

76. UNCTAD stands ready to become an active member of a thematic review process for the element “prosperity”: “to grow a strong, inclusive and transformative economy” and offer services to member States based on its experience in United Nations-wide theme-specific monitoring activities and the integrated approach of the three pillars of UNCTAD activities 41 that cut across issues in economic development: trade, investment, technology and finance. The possible platforms that UNCTAD could propose as a basis for a thematic review process include its flagship reports and use of the Trade and Development Board.42

V. Conclusion

77. There will be uncertainty surrounding the evolution of world trade in the coming years. For trade to resume growth at the rates of the last few decades, Governments need to advance a forward-looking trade agenda. The increasing importance of the service sector in global trade, its resilience to economic downturns and its growing competitiveness could provide reliable trade opportunities.

78. Services are playing an increasingly important role for the least developed countries, not only as a source of export diversification but also as a source of competitiveness for the economy as a whole. In a world characterized by globalization, interconnectedness and competition, the need for the least developed countries to structurally transform their economies, raise levels of productivity and integrate into the global trading system has become more pressing. Services that were not tradable several years ago are now being exported, due, among other things, to progress in communications technologies. Services also serve as inputs or facilitators in many production processes by providing connectivity (for example transportation, logistics, communication and finance) or by enhancing the productivity of factors of production such as human capital (for example, education, health, sanitation, research and development). The service economy and trade could become the backbone for the implementation of many of the Sustainable Development Goals.

79. To benefit from the service economy and trade in international markets, a balanced outcome in service liberalization must be reached. The recent services waiver in favour of the least developed countries, adopted at the Eighth Ministerial Conference of WTO, can serve as a stepping stone towards facilitating the liberalization of services and improving access of the least developed countries to trade in services. The next step would require the establishment of a comprehensive set of international support measures going beyond what has been provided so far. A permanent system focused on trade in services could provide a space for follow-up actions to ensure the effective implementation of the waiver and a regular assessment and review of its implementation.

41 Research and analysis, consensus-building and technical assistance.
42 For further discussion, see UNCTAD, 2015, A sustainable development review process, Post-2015 Policy Brief No. 4, June.
Trade and Development Board
Sixty-third session
Geneva, 5–9 December 2016
Item 2 of the provisional agenda

Evolution of the international trading system and its trends from a development perspective

Note by the UNCTAD secretariat

Corrigendum

Paragraph 5

2039 Agenda for Sustainable Development should read 2030 Agenda for Sustainable Development.
Trade and Development Board
Sixty-third session
Geneva, 5–9 December 2016
Item 2 of the provisional agenda

Evolution of the international trading system and its trends from a development perspective

Note by the UNCTAD secretariat

Corrigendum

Paragraph 60, line 4
23 Members – including several developing countries – should read 23 members of WTO – including several developing economies –
Evolution of the international trading system and its trends from a development perspective

Note by the UNCTAD secretariat

Corrigendum

Paragraph 20

For the existing text *substitute*

20. Among the various solutions for the declining economic indicators of recent years, trade in services can become fundamental in providing the much-needed support to the feeble performance of global trade. Global service exports grew at an average annual rate of 3.6 per cent from 2008 to 2014 – faster than merchandise exports.\(^5\) However, the actual magnitude and importance of trade in services is not fully captured by most statistics, as they rely mainly on cross-border data. Trade in services increasingly occurs through foreign direct investment and the movement of natural persons. Affiliates made about $18 trillion in service sales in 2014, nearly four times greater than global cross-border service exports.\(^6\)

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\(^6\) A/70/277.