

**REGIONAL MEETING ON PROMOTING SERVICES SECTOR DEVELOPMENT AND TRADE-LED GROWTH IN
AFRICA**

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Achieving Sustainable Development through the Services Sector



**Regional Meeting on Promoting Services Sector
Development and Trade-led Growth in Africa**

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Outline of Presentation



- Development gains associated with the services sector
- The importance of access to basic services
- Services as catalysts for economic growth and key inputs into the agriculture and manufacturing sectors
- The importance of the services sector and of services trade for national strategies for promoting job creation
- Conclusions

The Multi-faceted Contribution of Services to National Economies and Trade



- The services sector is a fundamental component of all nations' economic structure
- Single services sectors can also contribute significantly to the development of an economy (e.g. tourism, transportation)
- Services contribute to increased productivity in agricultural, manufacturing and other services sectors
- They are indispensable inputs (i.e. intermediate services) in GVCs

The Multi-faceted Contribution of Services to National Economies and Trade



- The impact of services on a sustainable economy will not depend only on the availability of services but also on who is providing the services and in what context
- There may be at times a need to strike a balance between the objectives of efficiency and equity
- Both the State and the market have an important role to play in the development process – roles must be streamlined in a complementary manner

The Multi-faceted Contribution of Services to National Economies and Trade



- While development of the private sector is critical for economic growth, the State is vital for:
 - designing and implementing development strategies,
 - reducing poverty
 - attaining equitable income distribution
 - building physical and human infrastructure
 - addressing market failures
 - ensuring consumer protection
 - employment safety nets
 - providing enabling macroeconomic conditions
 - providing a sound regulatory framework

The Importance of Services in Economies



Services represent:

- 44% of world employment
 - 74% of employment in developed countries
 - 37% of employment in developing countries
- 2/3 of world output
 - 74% of developed countries' GDP
 - 51% of developing countries' GDP
- 1/5 of world trade

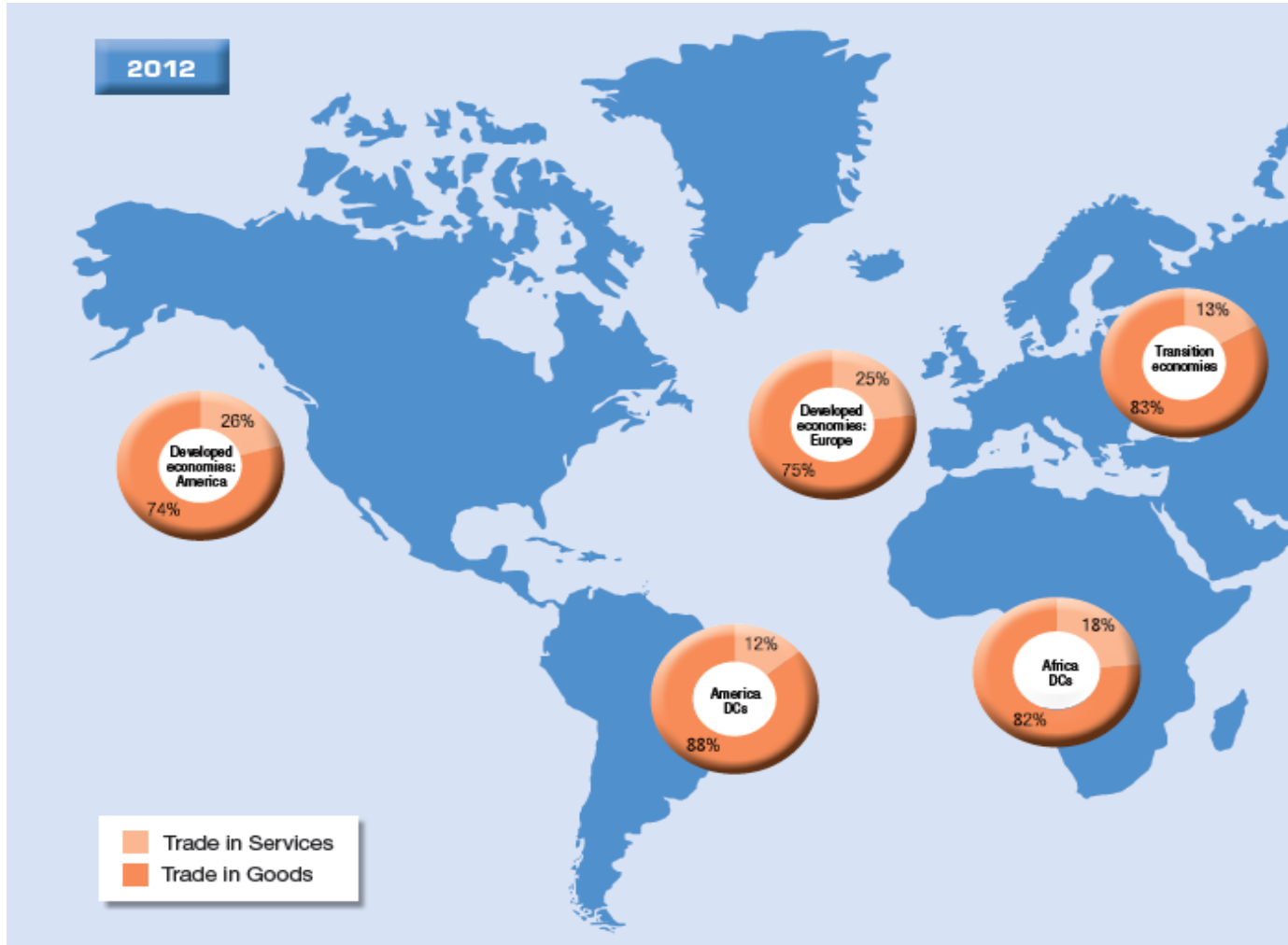
It is important to design and implement a services-driven development strategy within a coherent and comprehensive policy framework ensuring linkages with other policy areas and overall national development objectives

Services Trade and Development



- Opportunities are offered by globalization but benefits are often unevenly shared and that costs are unevenly distributed
- DCs and LDCs' experience with liberalization has been mixed and many have remained marginalized in the world economy
- The development potential of the services economy and trade in services is yet to be fully exploited in the international trading system
 - lack of progress in WTO's Doha Round services negotiations
 - slow progress in regional integration as regards services
- Globalization has be rendered fully inclusive and equitable

Services Trade in Africa



Global Value Chains (GVCs)



- Defined as the global sourcing of intermediate goods and services in the production process of products
- 46% of the value added embodied in exports is contributed by service activities
- Africa is currently not a major player in the value chain network
- Addressing current challenges would require:
 - Developing sufficient logistics for supporting trade flows
 - Expanding the telecom infrastructure
 - Upgrading the skills of the workforce
 - Improving the business environment

Source: Sherry M. Stephenson in Bridges Africa Review, Vol.1, Nb. 4, 2012

Basic Services



- Services assume an important social function by directly providing access to basic services such as education, electricity, financial, telecommunication, transport and water services
- Many services are a vehicle to promoting gender equality, child mortality reduction, maternal health improvement, and combating AIDS and other diseases
- There are many services that tend to employ women and that can have a fundamental role in gender empowerment

Basic Services



- Integrating considerations surrounding universal access, equitable distribution, and the cost-efficacy relation in services provision of basic services can contribute to social peace and labour productivity
- Regulatory measures are often required to extend the access to affordable services to poor and underserved segments of society

The Linkages between the Services Sector and Other Sectors of the Economy



- Multiplying backward and forward linkages with the primary and the secondary sectors can be an effective component of a comprehensive development strategy
- "Servicification" not only implies the increase in the number of services incorporated into the manufacture but also an increase in the number of services offered in conjunction with it

The Services / Agriculture Linkages



- Efficient services can improve the competitiveness of the agricultural producers in developing countries
- Adequate financial and insurance services may provide options to hedge agricultural production risks
- Environmental, testing and R&D services may support more sustainable agricultural practices and the specialization of production
- Marketing services in the agricultural sector, including agribusiness opportunities can expand the distribution of agricultural goods internally and externally and assist in the diversification of clients

Services, Farm Export Participation and Poverty in Malawi and Uganda



- The role of services for export crops as facilitators of export market participation and poverty reduction
- Export crop liberalization was regarded as the single best channel to accelerate the growth of smallholder agriculture and through this, the entire rural economy
- Entry into commodity export markets (tobacco, cotton, coffee, tea, vanilla, pineapple, fish, and exotic fruit) usually requires special attributes of the households such as skills, knowledge, credit, start-up capital, and labour supply.
- Regression analysis to establish relevant correlations between various services and export market participation in the target countries

Mashayekhi, Olarreaga and Porto, eds. (2011),
Services, Trade and Development

Services, Farm Export Participation and Poverty in Malawi and Uganda



- In the case of Uganda, the role of marketing services (that is, market access via increased competition among intermediaries and transportation)
- In the Malawi case, the role of the services provided by the tobacco clubs (such as market access, input access, credit, transportation services) in increasing tobacco sales and yields as well as tobacco adoption among tobacco farmers is investigated
- illustrate how services at the grassroots, complement export agricultural liberalization to reduce poverty in Africa

Services, Farm Export Participation and Poverty in Malawi and Uganda



In Malawi the study found that:

- i) the presence of a credit club in a village has a strong positive effect on commercialization activities
- ii) the presence of a cooperative in a village also has a positive effect on farming of export crops
- iii) the district road variables included in the analysis seem to have little impact on the measure of commercialization

In Uganda the study found that:

- i) a strong relationship exists between access to tractor services and commercialization
- ii) somewhat weaker link exists between access to improved seeds, oxen use, and access to water
- iii) overall, though, access to agricultural services seems to be a positive determinant of commercialization

Services, Farm Export Participation and Poverty in Malawi and Uganda



The authors conclude that:

- complementarities that exist between the role of services, services reforms, and trade in poverty reduction
- the analysis illustrates that potential gains from trade arising from the production of export crops destined to international markets depends to a large extent on the availability of services (such as transportation and marketing)
- services reforms that reduce trade costs and encourage marketing activities in rural areas may be useful to facilitate exports and reduce poverty

Services & Employment



- The services sector has gradually become the world's main sector for employment
- Many more jobs have been created in the services sector in recent years than in any other sector
- During the last decade, the employment share of services climbed up to 44 per cent
- Many services jobs are directly or indirectly linked to international trade

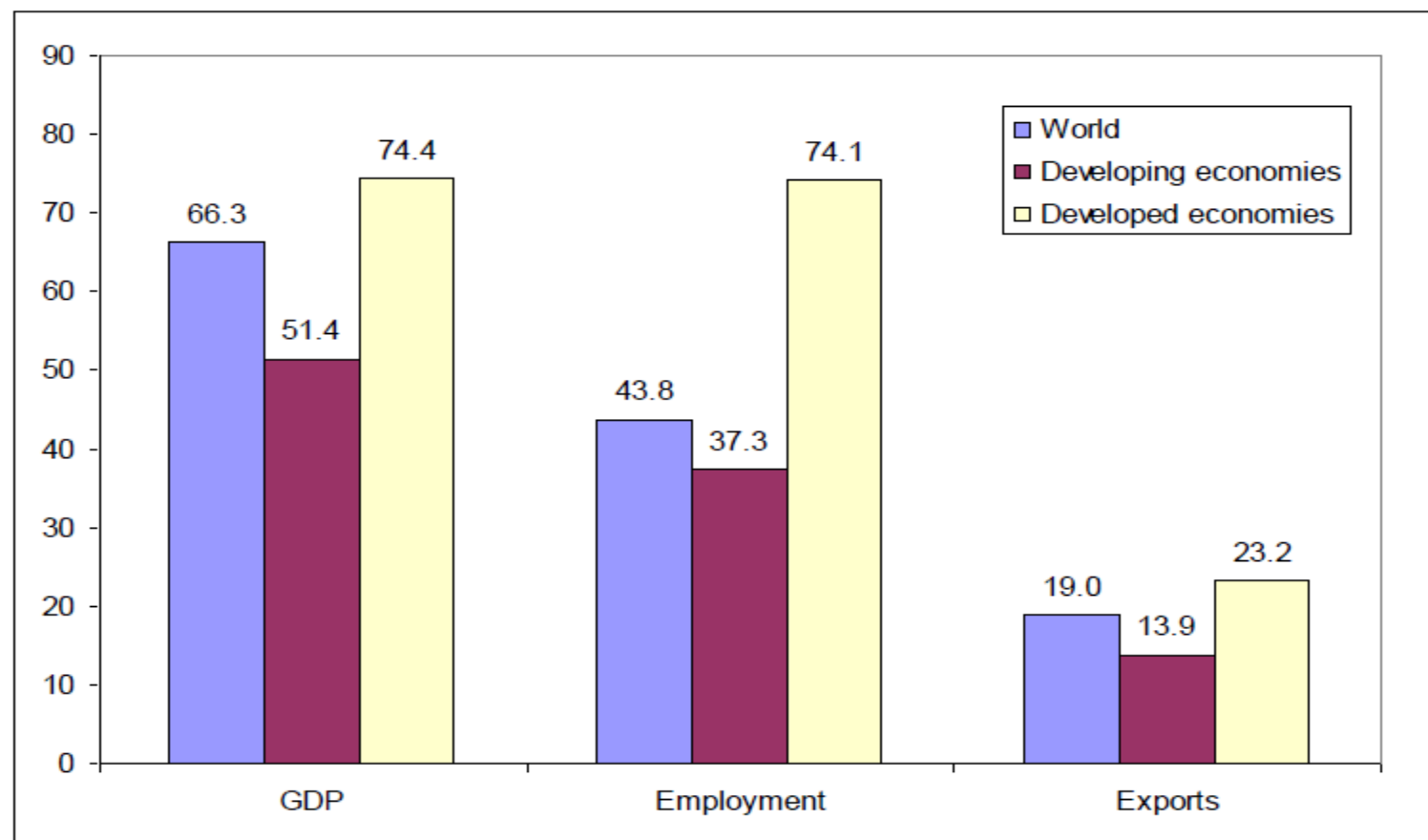
UNCTAD (2013), Services and Job Creation, Background Note
for the Global Services Forum, 28-29 May 2013

Services & Employment



- Trade plays a prominent role in strategies to promote job creation
- Policies aim to enhance countries' competitiveness in order to increase exports and to break into global value chains to generate employment or to replace imports and to reshore production so that jobs come back
- Current high unemployment levels especially for the youth underline the importance of job creation

Share of the Service Sector in GDP, Employment and Total Exports, 2011 (per cent)



Sources: UNCTADStat, ILO Global Employment Trends 2012

Note: 2010 figures were used for GDP statistics.

Services & Employment



- In developed countries the sector now accounts for almost three-quarter of employment
- In DCs the employment share is considerably smaller but increased at the expense of employment in agriculture to 37%
- The increase in employment in the industry sector in DCs against the global trend reflects the importance of industry exports, domestic investment policies and developing countries' main role in global supply chains whereby industrial production processes are increasingly done in DCs
- Few DCs have successfully extended their services exports

Services & Employment



Several factors contribute to the increasing share of services in employment, including:

- technological changes that increase demand for labour in services;
- outsourcing of services related activities from manufacturing to specialized services firms;
- growing role of services as providers of intermediate inputs;
- increase in final consumer demand for services as a result of rise in per capita income;
- demographic developments;
- the provision of certain services as public goods; and
- low productivity growth in services.

Services & Employment



- Creation of productive employment and distribution of income are essential for achieving poverty reduction and sustainable and inclusive development
- Growing offshoring and the high tradability of services tasks and jobs create opportunities for DCs to create productive employment.
- Services jobs are often better paid, and increasing productivity and efficiency in services sectors will have positive impact on employment in other sectors

Challenges are manifold:

- Skill gaps, poor infrastructure and high entry barriers prevent many DCs from benefiting from trade in services and offshoring
- Requirements in education and language skills are high so that only a small proportion of young professionals are available for EX-oriented services offshoring companies

Conclusions



- The services sector has emerged as the largest segment of the economy, contributing a growing share to GDP, trade and employment, and become a major driving force of the world economy
- The development of services, particularly infrastructure services:
 - contributes significantly to economy-wide growth
 - constitute a fundamental backbone of any economy, and
 - provide indispensable inputs to other products and services
- Efficient and competitive services are catalytic to the expansion of GVCs
- Services trade has emerged as a vibrant component of world trade

Conclusions



- It is less and less possible to conceive economic growth and development without taking into account services sector development
- At the national level, building productive capabilities and enhancing EX competitiveness require a comprehensive, integrated and coherent strategy
- Regulatory and institutional frameworks tailored to local conditions are critical
- Skill development, including within the existing workforce in services sectors, is important in promoting employment growth and structural change
- At the international level, efforts and cooperation are needed to advance the development-led services trade agenda

Thank you for your attention



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