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SERVICES: NEW FRONTIER FOR SUSTAINABLE DEVELOPMENT

UNCTAD Findings on Services, Development and Trade

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For further information on the Trade Negotiations and Commercial Diplomacy Branch and its activities, please contact:

Ms. Mina Mashayekhi
Head
Trade Negotiations and Commercial Diplomacy Branch
Division on International Trade in Goods and Services,
and Commodities
Tel: +41 22 917 5640
Fax: +41 22 917 0044
www.unctad.org/tradenegotiations

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This publication was prepared by Alicia Greenidge, President and Chief Executive Officer of Summit Alliances International, based on research findings and analytical work of UNCTAD. It was finalized by Mina Mashayekhi and Liping Zhang, Senior Economic Affairs Officer, TNCDB. Martine Julsaint Kidane, Economic Affairs Officer, TNCDB, provided useful comments on the paper.

Laura Moresino-Borini designed the cover and performed the desktop publishing.

CONTENTS

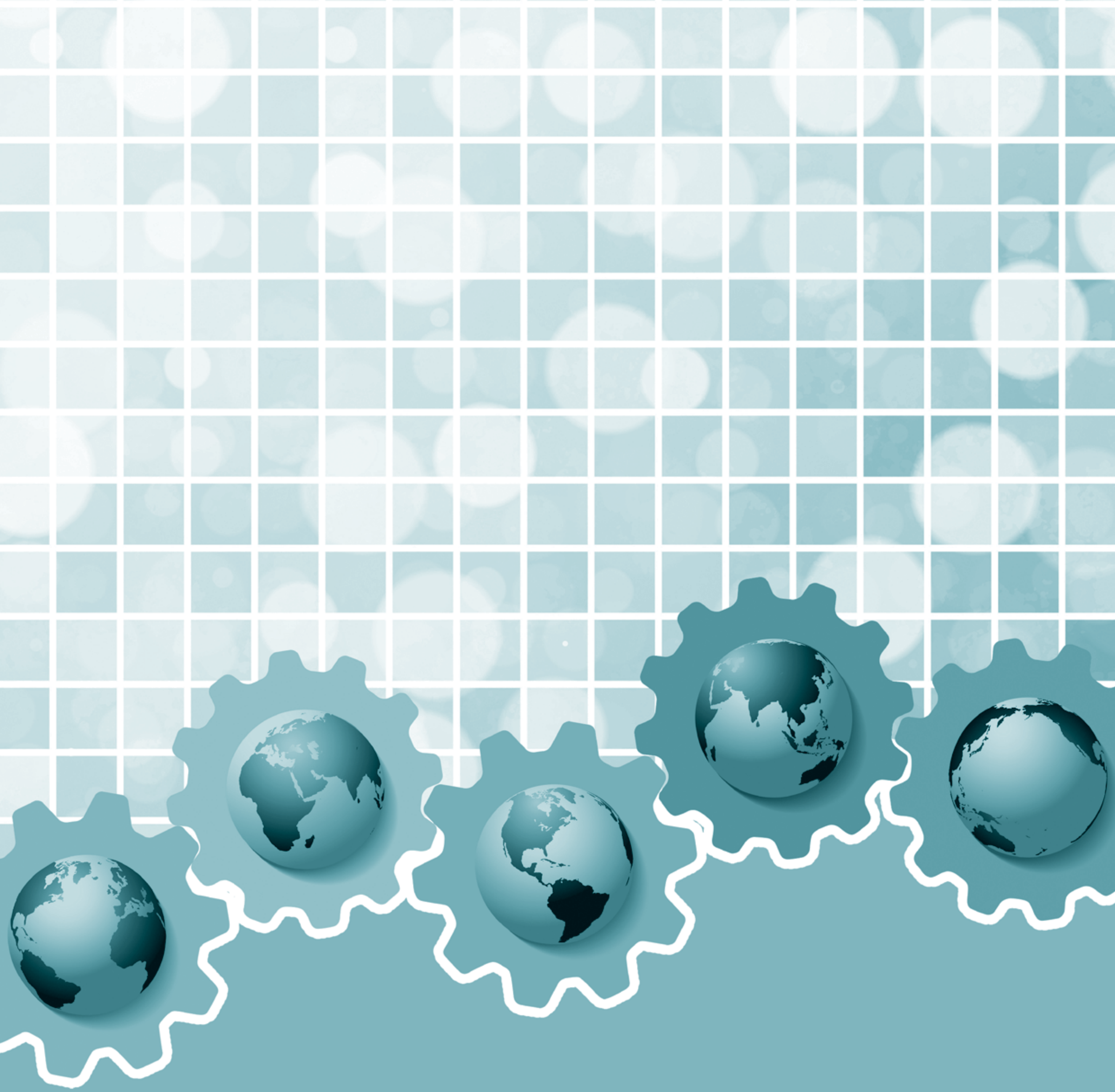
INTRODUCTION

This report reviews the findings of various UNCTAD reports and studies from 2009 to 2013 on services, trade and development. The findings across those works relate to the following themes:

- Why the services economy is important;
- What are the opportunities and challenges for developing countries, including least developed countries (LDCs) and landlocked developing countries (LLDCs), especially for employment and trade diversification;
- What can be learnt from both developed and developing countries that have been successful in promoting the growth of the service sectors and trade in services;
- How can services help sustainable development and value-added competitiveness;
- What sound service policies, regulatory frameworks and trade liberalization may work for the benefit of developing countries?

This overview has drawn mainly from the following UNCTAD works:

- National Services Policy Reviews published between 2011 and 2013 (Nepal, Uganda and Lesotho);
- Multi-year expert meeting reports on services for the period 2009–2012;
- Specialized UNCTAD publications such as: Services, Trade and Development (2012), Maximizing the Development Impact of Remittances (2013); Least Developed Country Report 2012: Harnessing Remittances and Diaspora Knowledge to Build Capacities; Review of Maritime Transport (2011, 2012); Implications of the Global Economic Crisis on India's Services Sector (2012); Information Economy Reports (2011, 2012).



I The contribution of services to sustainable development and competitiveness

The UNCTAD reports reviewed have concluded that the service sector is a fundamental component of the economic structure of all nations. A crosscutting message is that services themselves are a catalyst for economic growth but also function as inputs into the agriculture and manufacturing sectors as well as cross linkages with benefits attached to other services. Services have continuously gained importance over the last three decades for policymakers, regulators and consumers. In Zambia, Malawi and Uganda, financial credit access services, transport, marketing and information services determined to a large extent the gains of farmers from producing export crops destined for international markets. Therefore, strengthening the domestic services sector by multiplying its backward and forward linkages with the primary and secondary sectors, and nurturing its export supply capacity, can be a very effective component of a comprehensive development strategy.

In 2010, the services sector accounted for 66.3 per cent of global gross domestic product (global GDP)[1] and 39 per cent of employment.[2] For developing countries, the services sector constituted approximately 51.4 per cent of GDP.[3] It is already well established in existing literature that as countries move upward in the development path, the share of services in GDP and employment expands. World Bank World Development Indicators have demonstrated the correlation between employment, economic activity and distribution of wealth. Specifically, the wealthiest economies were identified as those with the largest share of total employment in services.[4] Developing country service providers have expanded beyond traditional services in tourism and construction to financial, legal and information services, technical support and other business service sectors.[5] Equally, as the digital divide narrows, services have enabled less-developed countries to participate on a leveller playing field in business and trade. Smaller countries and small and medium-sized enterprises (SMEs) in developing, least developed, and landlocked countries have especially been able to compete well with larger enterprises at home and others globally where demand for their products and services has widened.

The data not only suggest significant service-sector dynamism in developing countries in sectors such as skilled professional, and information and communication technology (ICT) services, including software development, but also that there is much room for an increase in domestic supply and export growth in the near future. The situation in LDCs seems to be relatively different to that in other countries. LDCs are still suffering from low levels of human development and high levels of vulnerability to external shocks and natural disasters. Many LDCs are also running significant current account deficits, which in most cases reach above 10 per cent of GDP.[6] UNCTAD reports reveal significant LDC dependence on external sources of finance including aid, debt and remittance flows.[7] While LDCs have recorded an important growth rate in exports of, for example, 14.4 per cent in 2011, service exports still only represented one ninth of total exports.[8] Despite the promising trajectory of growth in service exports, imports have also expanded by 15.6 per cent, increasing the trade in services deficit from $36.5 billion in 2010 to $42.5 billion in 2011.[9] Nevertheless, service exports and remittance flows still have a key role to play in improving resilience, addressing poverty reduction and providing a source of income and hard currency for LDCs.

UNCTAD reports highlight key sectors in different types of economies and the benefits that have accrued to them during the process of liberalization. In particular, the reports have attributed the rapid growth and increase in the sectors' share of overall GDP to some degree of liberalization. Attention is drawn to the positive effect of services in job creation. Diversification of the export base has been recognized as necessary, especially in respect to expansion of the services base.

The share of intermediate service inputs that comprise some other end-use service and goods products is shown to be as much as 73 per cent of global trade.[10] Cross-linkages between various services with elements comprising the infrastructure services sectors (ISS) such as tourism, financial services, construction, and professional, telecommunication, environmental and energy services are emerging as strong factors in ISS-facilitation policy and economic growth as well as job creation.[11] Packaging with branding and other niche goods areas and niche service sectors, together with a clear plan for targeting regulations, can fuel emerging service trade and development.[12] This is particularly important for landlocked LDCs and other developing countries.

At the same time, the UNCTAD reports spotlight the need for caution in liberalizing certain public service sectors. It is suggested that care should be taken to ensure that a proper regulatory framework is in place to avoid marginalizing domestic players within the economy who may be at a disadvantage in terms of skills and scale, sometimes lacking capital. It can also be deduced from the reports that occasionally too much regulation may hamper development, growth and employment opportunities. Governments must decide in which sectors more or less regulation is appropriate.

Another message emanating from all the reports is the important role played by the Government in creating the right type of environment (business infrastructure, human resources, legal and regulatory frameworks) to foster the development of a sector. Governments are also referred to on several occasions for their role in formulating long-term development strategies for particular sectors. These development strategies may constitute a roadmap for all stakeholders involved, so that coherent actions may be pursued within the system. In the case of developing countries, the active participation of the Government in the economy also sheds light on their significant influence on the inescapable aggregate demand for services. Governments can also play the role of “coordinator” in bringing together various stakeholders and finding ways to engage them in a common effort to develop a particular sector. Finally, Governments, as service suppliers themselves, are key to improving the environment for a growth in services by building out or facilitating key ISS, either through public efforts or by fostering private involvement.

A. INFRASTRUCTURE SERVICES SECTORS

In the period from 2009 to 2012, UNCTAD work has focused on the ISS as demonstrating the highest potential for harnessing sustainable and inclusive development.[13] They are considered instrumental to economic transactions and production. Accessible, affordable and reliable supplies of services in communications and telecommunications, financial services, energy, water, and other utilities, as well as transport, enable the functioning of modern economies, allow efficient production and facilitate trade. These ISS represent a substantial part of global economic output.[14] Globally, in 2010, ISS output was estimated at $8.6 trillion, representing about 14 per cent of output.[15] Financial services commanded the largest share with 37.5 per cent of the total composition of global ISS, followed by transport at 26.5 per cent, utilities (electricity, gas and water) at 18.4 per cent, and communications at 17.6 per cent.[16]

1. Financial services

As a key element of ISS, financial services have proven the most difficult for some developing countries and LDCs to balance between obtaining the required benefits from liberalization and investment with prudential regulatory requirements. Sequencing regulatory reforms and tools to furnish the necessary structure for ISS is found to be an important policy feature for developing countries. Report findings highlight that developing countries were more resilient during the recent financial crises but were proportionately more impacted by the ripple effects on their trade and development plans. It is pointed out that the financial boom that preceded the crisis was not matched with the necessary prudential measures to stabilize the situation and thus increase confidence in this key ISS area. However, the crisis caused Governments to examine more carefully the necessary tools to ensure against crippling risks in unregulated areas.[17]

2. Transport services

A key feature of infrastructure services includes transport services. Transport services are part of the undeniable bedrock of industrial, commodity and agricultural goods trade.[18] Seaborne trade is driven by world trends in merchandise trade. Logistics services and interconnected features of global supply chains stem from the historical and current structure of transport services. Transport services, from a World Trade Organization (WTO) General Agreement on Trade in Services (GATS) perspective, range from road freight transport, to rail, air and maritime transport. Some commitments venture further into marine or maritime, aviation, and transport insurance services. Commitments in this specialized area, notably evidenced by recently acceded WTO member commitments, are starting to include a specific reference to satellite services as well. The notion of “transport” is taking on new dimensions of expression in international logistics trade today. Pipeline transport, fixed infrastructure, and electricity grids are emerging as “transport” commitments. This is reflected as well in a proposal tabled[19] in the current negotiations at the WTO on trade facilitation to “clarify” or “improve” core elements of the General Agreement on Tariffs and Trade (GATT) article V (“Freedom of transport disciplines”). WTO members, including a few developing countries, have made multilateral bindings in some of these subsectors. While certain WTO members pursuing air transport commitments face difficulties, partially due to the limited scope under the GATS, maritime transport commitments have been a key demand from several WTO members.

It is noted in the UNCTAD Review of Maritime Transport 2012 that the shipping industry is a source of employment for some developing countries and that in general these countries account for the largest share of freight usage, with 60 per cent of all freight exports and 57 per cent of freight-related imports. These findings suggest a developing-country shift away from being mainly "loaders" or intermediaries in the sector. A number of developing countries, in particular those with a concentration in mining and oil/petrochemicals/ liquefied natural gas production depend on shipping and container services. The countries include Angola, Azerbaijan, Botswana, Brazil, China, the Congo, Guinea, India, Indonesia, the Islamic Republic of Iran, Jamaica, Kazakhstan, Malaysia, Namibia, Qatar, Saudi Arabia, South Africa, Suriname, Trinidad and Tobago, the Bolivarian Republic of Venezuela and the United Arab Emirates.

Multimodal services have played a pivotal role in facilitating world container services trade.[20] In particular, China's share in world container trade increased in 2010. However, the share decreased the following year, possibly due to reduced imports of certain raw materials.[21] Ironically, leading countries in container and logistics services are not exclusively coastal States. For example, Switzerland is very active in logistics services worldwide and takes a strong interest in eliminating barriers to maritime services.

In the quest for resources and new business opportunities, many developing countries are increasingly liberalizing other domestic ISS, such as telecommunications, ICT, financial, education, and utilities services to foreign investors and private actors. This has been reflected in developing countries' investment inflows into ISS, which increased about fourteen times over the last decade from $7 billion during the 1990's to $97 billion by 2010.[22] Furthermore, many developing-country firms are starting to invest in key ISS in the domestic markets and in neighbouring countries. For example, investment outflows from developing countries reached $185 billion during the period 2008–2010, almost doubling the amount of inflows. However, the best policies of liberalization to attract foreign investment and entry of private actors have been based on countries' identification of the areas in which such actors will add value and be most supportive of the economy and job creation.

3. Information communications technology, telecommunications, and business services

Telecommunications services were identified in the reports as an underlying area of ISS required for the rendering of a number of services, both public, private and consumer based. ICT services, especially, cannot operate without affordable and reliable telecommunication services. Consumers also rely on choice and lower-cost telecommunication services, which warrant important government decisions about liberalization and regulation. ICTs and related services can contribute to the development of SMEs, to lower costs of doing business, and can support communication and transactions between various stakeholders and enable the creation of new services that were not previously provided (for example, call-back centres, data entry, online music and e-finance). Competitiveness and productivity gains can be achieved through the expansion of ICTs. These technologies can also support improvements in the business environment, and more specifically in relation to business registration, licensing and authorization granting, tax administration and trade facilitation. For example, between 1995 and 2008, the ICT sector enjoyed the highest labour productivity.[23] An UNCTAD study on India[24] revealed that, between 2000 and 2007, there was an increase in productivity in the sector estimated at 27 per cent, mostly attributed to technological change and progress, especially in relation to the increase and effective use of ICTs.[25]

For a sector such as ICT, which has relatively low capital infusion requirements, linkages to quality infrastructure and infrastructure services are not only indispensable to deliver ICT services, but also to stimulate growth in the sector. Within the context of rural areas, lack of adequate service-related infrastructure may impede the successful spread of information technology (IT) and IT-related services. This occurrence is notably due to a lack of networks and other physical infrastructure and the difficulty for qualified trainers to access villages where village enterprises and SMEs might benefit from IT. Equally, shortages or the absence of electricity will prevent the deployment of telecommunications and ICT services.

Discussions at UNCTAD expert meetings have concluded that liberalization and foreign private participation is higher in unbundled telecommunications services, including in mobile and other ICT services, than in, for example, universal water, electricity and other energy-related services.[26] Here, there have been ample lessons learnt – for example, from experiences in India, Uganda and Uruguay – to ensure the injection of gradual supportive benefits to the economy and lower prices for domestic consumers and at the same time address access to essential services in poor and underserved communities.

4. Infrastructure services sectors and the Millennium Development Goals

The UNCTAD literature highlights the United Nations Millennium Declaration espousal of the need to ensure that globalization is fully inclusive and equitable and that it becomes a positive catalyst for all people. The Millennium Development Goals (MDGs) have set a series of objectives and measurable benchmarks, to be achieved by 2015, to encourage development by improving social and economic conditions in the world's poorest countries. Access to basic services is registered as a continuous aspect in furtherance of progress to attain the MDGs, including through the provision of services ensuring potable water and sanitation, energy supply, health care, education and environmental protection.[27] Services can also contribute to the reduction and eradication of poverty, including by formalizing several informal economic activities and therefore empowering entrepreneurs and expanding their contribution to the economy.

The UNCTAD Sao Paulo and Accra Declarations, the Doha Mandate, and the United Nations Conference on Sustainable Development (Rio+20) Declaration give a prominent role to services in the advancement of the MDGs and of overall sustainable development. All of these instruments clearly put sustainable development at the centre of multilateral services trade negotiations, investment rule making, international financing, and related environmental policies. A message across the literature is that the integration of developing countries into the global services economy should not only be evaluated in economic and growth terms, but also according to what impact those policies engender in terms of poverty eradication, equity and social inclusion.

The ISS have played, and continue to play a fundamental role in the advancement of the MDGs, despite a series of setbacks over the last decade, including difficulties in the areas of energy and food, and the financial crisis.[28] As already mentioned, ISS also assume an important social function by generating employment and by directly providing access to basic services such as safe drinking water and electricity. Low quality and lack of availability of certain basic services (public or private) can have a huge impact on human development. These also impact on tourism and other important service growth areas in developing countries and LDCs. The ISS are also key sources of employment, as about 291 million workers were engaged in infrastructure services in 2010, about one tenth of the world's labour force.[29]

Another message from the UNCTAD studies is that many services act as a vehicle for the promotion of gender equality, child mortality reduction, maternal health improvement, and for the combat against HIV/AIDS and other diseases. There are many services that tend to employ women and that can have a fundamental role in gender empowerment. In Nepal, for example, women represent a share of more than 30 per cent of the population employed in services such as wholesale and retail services, tourism, education, health and social services.[30] Universal and sometimes preferential access to education services allows women to obtain higher-quality jobs and run their own businesses. Since the 1990s, Uganda has been lauded for deploying initiatives in favour of women's education.[31] These efforts have allowed women to take up more qualified positions in the market. In addition, women are observed to be particularly entrepreneurial in microbusinesses and active users of microcredit opportunities. Furthermore, targeted education and health services contribute to the reduction of the spread of diseases such as cholera and HIV/AIDs, especially among women and children. The expansion of ICTs has demonstrated great potential for enhancing human resource skills, facilitating the incorporation of women and the young into business activities, and contributing to social empowerment.[32]

5. Contribution of the infrastructure services sectors to agricultural development and value chains

The studies also indicate that the pre-existence and continued development of effective services can have a positive correlation with competitiveness and efficiency in other economic sectors including agriculture, manufacturing and in other service sectors themselves. For example, in sub-Saharan Africa, where there is still great dependence on agriculture to generate income, the service sector can act as a catalyst to help increase productivity and support farmers to take advantage of growing export crops.[33] Thus, service contracting arrangements between cotton firms and farmers in Zambia have provided access to credit, fertilizers, information services marketing and distribution channels. However, these arrangements have also generated stronger competition among farmers, and, furthemore, have put farmers that are not part of the value chain, or have decided not to join these arrangements, in a weaker position,[34] thus indicating the delicate balance of stimulating competition on the one hand, and putting pressure on livelihoods on the other.

In the case of Argentina, the expansion and maintenance of the road networks and the availability and use of agricultural contracting services (for example, well drilling, pest control, irrigation support, and veterinary services) have raised levels of productivity. Investment in road maintenance has added value to farm productivity.[35] Moreover, for farmers that have access to agricultural services, productivity was 12 per cent higher than those who did not employ such services.[36] Thus, these services were deemed to have directly improved production methods and to have facilitated the access of farmers to not only internal, but external markets and value chains.

6. The infrastructure services sectors and emerging service sectors

Financial services, telecommunications, energy, and transport services are also key to supporting traditional and emerging service sectors. New service sectors in many developing countries and LDCs, such as software development, new financial and insurance services, full-package medical or health-tourism services (including packaging with traditional medicines and special climatic and natural features), also hold the promise of employment-creation opportunities for these countries. As the ISS improve, emerging service sectors and opportunities increase. Advancements in new and niche service sectors may also help diversify away from the heavy dependence on remittances and the movement of professionals out of many developing countries and LDCs, mainly to the developed world. An interesting trend in temporary movement of persons for employment and remittance generation includes the migration of Europeans for work in developing countries in hospitality services, for example in South-East Asia, the Caribbean, Latin America, and Africa. Such migration may involve other service sectors such as construction, engineering, and professional services. For example, a case in point is the wave of temporary migration from Portugal to Angola, where the consequence is remittance flows to Portugal, which has helped alleviate the devastating impact on that country of the recent financial crisis in Europe.

7. The infrastructure services sectors, environment protection and sustainable development

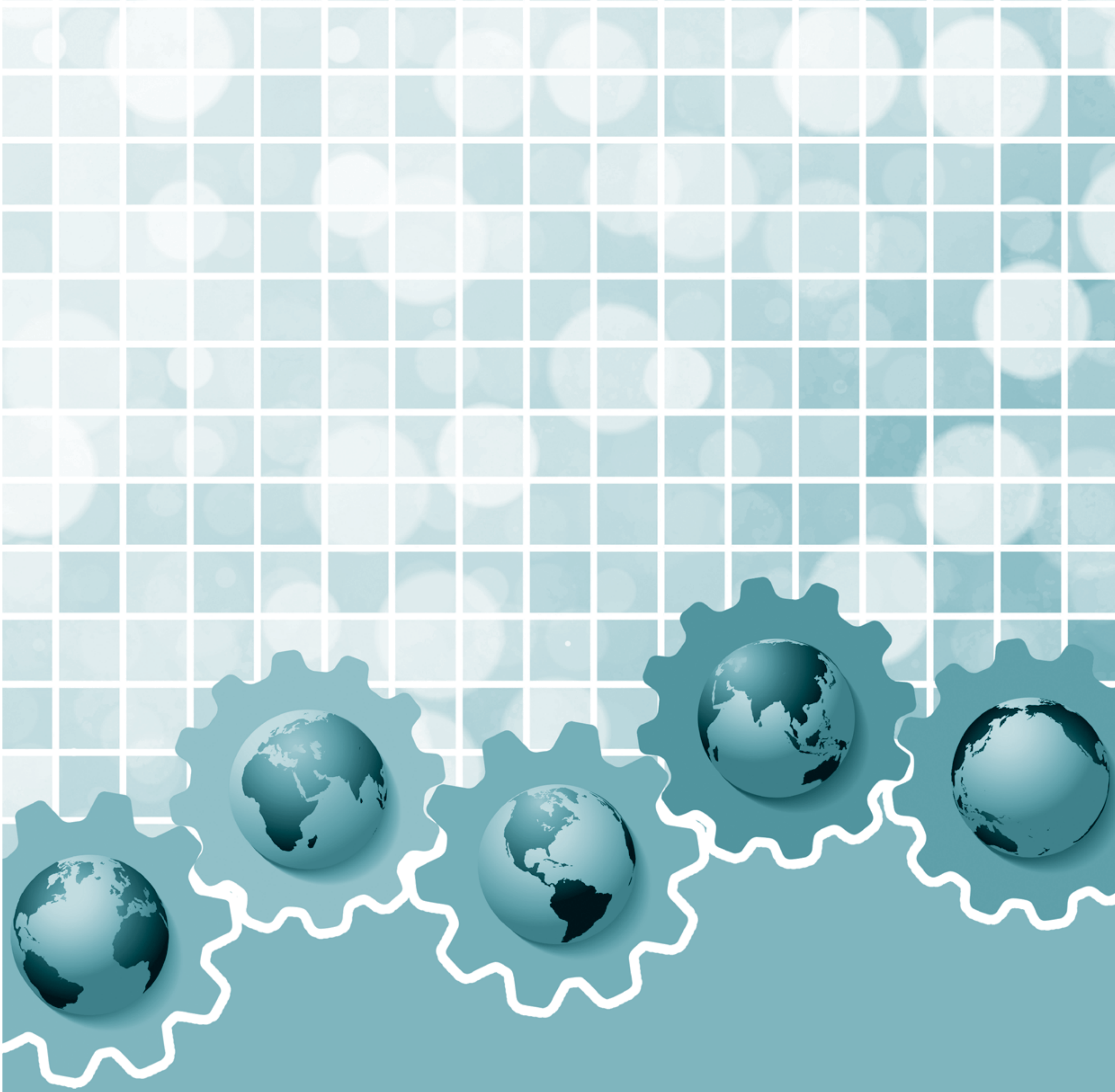
Other messages highlighted by the UNCTAD studies reveal that several infrastructure services, such as energy and transport, can also cause negative externalities such as pollution, an increased number of environmental impacts and health problems. Environmental concerns are not only related to externalities but also to the increasingly abusive use of natural capital. The ecological footprint of many services and products is too high to be sustainable in the long term, and limits of space and fears of certain natural-resource scarcity are already generating political tension and even trade disputes. In this context, regulatory and institutional frameworks and responsible trade liberalization can be important tools for addressing market failures, promoting competition, enabling service-trade flows across frontiers, and minimizing any negative impact on the economy and social architecture of developing countries, while at the same time engineering the advancement of key service sectors.[37]

The studies also indicate that due to the importance of many infrastructure services for sustainable development, policies and regulations dealing with reliability, universal access, affordability and quality of services need to be carefully designed and managed. Furthermore, liberalization strategies, especially in sectors linked to basic services, need to be formulated in such a manner as to minimize negative externalities and maximize gains, while ensuring that all population sectors, in particular the poorest, benefit from them.[38]

B. TEMPORARY MOVEMENT OF PERSONS, MIGRATION AND REMITTANCES

Temporary movement of people has long been identified as being of significant importance in the provision of different types of services by developing countries and LDCs. Continuous provision of remittances by temporary workers and the first generations of migrants are well recorded. The World Bank has estimated that remittances to developing countries reached about $406 billion in 2012,[39] showing an increase of 6.5 per cent over the previous year. LDCs received remittances of about $30 billion in 2010. However, both the temporary and permanent movement of skilled persons from developing countries and LDCs is the protracted impact of “brain drain” – especially impacting the health, education and other professional service sectors – that undermines the building of the foundation of infrastructure services for the economy, rural areas and regions that are most in need of poverty reduction. This process impacts areas where the MDGs are most expected to be achieved. Mobilization of the diaspora for development had become one of the most effective means of addressing concerns about “brain drain”, replacing it with “brain circulation”. Various programmes – including the Migration for Development in Africa programme operated by the International Organization for Migration – provided opportunities for diasporas to become involved in home countries and to share their expertise, either through the establishment of exchange programmes in public administration, or through university training in home countries, or by facilitating the return of diaspora doctors and other healthcare workers and professionals to Africa.

Remittances, as private flows, can influence household income and local spending. They also allow small investments in sectors such as construction, healthcare and education in developing countries and LDCs.[40] This notably generates employment and sustains local production of immediate-consumption goods and services. Depending on internal sensitivities, engaging migrants can have important social benefits. The LDCs that are more economically diverse have been among the more successful in attracting the return of qualified migrants and engaging them in business activities as well as in science, education, and health services.[41] As discussed below, challenges faced by Governments in the development of both physical and service infrastructures are nevertheless being addressed as a priority for their national development objectives.



II

Challenges and opportunities

When building productive services and export capacity, developing countries face a number of challenges. These challenges may be structural in nature, affecting the whole economy and all service sectors and, therefore, may be subject to a broader set of policy actions. They may also be linked to a particular circumstance (for example, economic cycles) or may be sector specific, requiring more precise interventions by all stakeholders. However, with wider space for growth and economic expansion, developing countries also have a number of key opportunities that could be seized to advance their development goals.

Several challenges and policy options have been identified by UNCTAD over the last five years to help developing countries and LDCs face challenges and seize opportunities to foster further integration of services economy, improving regulatory and instructional frameworks and maximizing potential benefits of liberalization. This section will highlight some of the most relevant challenges, opportunities and tools identified so far.

A. CHALLENGES

1. Supply-side

As many developing countries are starting to experience higher and more stable growth rates, there is a need to create capacities to supply the consequential expansion of internal markets and identify export opportunities in key services sectors. Creating supply-side capacities in services implies the existence of a series of well-known prerequisites that need to be in place, such as coherent development and services strategies, an enabling regulatory environment and institutional framework, physical and technological infrastructure, knowledge, and availability of capital.

As explained earlier, the barriers to ISS remain a surmountable challenge but one requiring efficient policy planning and dedicated funds and resources. Poor networks, and power and electricity shortages hinder the emergence of world-class service sectors in developing countries and LDCs.

2. Market access restrictions

Some sectors or modes of supply where developing countries have identified interests or have comparative advantages are sensitive to some markets, especially developed-country markets, and are therefore subject to complex regulations. The GATS trade in services mode 1 (“cross border trade”) in the case of outsourcing, and mode 4 (“temporary movement of persons”) in terms of qualification and licensing requirements for different skill levels, are examples of this situation. Sectors such as business and professional services are sectors were diverse regulations – economic needs tests and burdensome or lack of recognition of foreign credentials – may impede the affected service trade. This predicament compels developing-country industries and Governments to examine carefully all service opportunities, and especially emerging services, that better calibrate to their particular “competitiveness” advantage.

Challenges faced with respect to maritime transport and spinoff multimodal and logistics services may be attributed partly to the maintenance of cabotage restrictions found in certain large markets. However, while cabotage laws protect domestic service providers in inland ports, higher overall costs often result due to lack of liberalization to international suppliers’ market entry. Other challenges associated with freight transport services, whether road, seaborne or air, involve carbon emissions and environmental impact issues.[42] With heightened concerns about climate change and sound environmental regulation, the transport sector stands to gain in addressing policies to mitigate the impact.

Identifying options to increase the participation of developing countries and LDCs in trade in services has been a long-standing challenge in multilateral trade discussions and negotiations. Possible options considered to address this challenge have included: (a) the identification of bottlenecks for exports and imports; (b) the introduction of incentives; (c) support to improve competeiveness; (d) further integration within global and regional value chains; (e) options to address burdensome regulatory barriers; (f) preferential market access to service providers from developing countries and LDCs. In addition, mechanisms to implement the 2011 LDC services waiver in the WTO by developed countries, but also by developing countries in a position to do so, in areas of interest to LDCs, seem to be urgently needed.

3. Liberalization, new investment versus impact on domestic industries and regulatory mix

While a well-managed liberalization of services may contribute to higher levels of investment, competition and technology transfer, certain negative environmental, social and economic factors have been associated with liberalization and privatization on a number of occasions, especially in relation to ISS.[43] UNCTAD reports highlight the particular difficulties that exist in mobilizing labour to provide full support to the relevant sectors. The reports also indicate that there are fears of liberalization, which is the customary perception of threat to SMEs and family business – "mom and pop shops". Securing adequate financing for the provision and expansion of services is constantly mentioned as a barrier to the entry of new suppliers into the market and the expansion of the supply capacity of existing ones. This is particularly the case for small and medium-sized service providers in developing countries. Exploration of the use of tailor-made financial mechanisms and fast-track licences granted to small service suppliers could allow increased competition and has the potential to address the problem of undersupplied enterprises in poor and rural areas.

To identify the adequate mix of sound policies, and design an enabling and adaptive regulatory and institutional environment for services is a permanent quest for developed and developing countries alike. Creating supportive regulatory and institutional frameworks implies significant planning, interagency coordination and institutional and administrative capacity-building, as well as human and financial resources. Situations such as the financial crisis and climate-change considerations show how regulations have to continuously respond to changing contexts.

Coordination can also be an important challenge between Government and regulatory bodies and among horizontal and sectorial regulators. Policy and regulatory responses need to become more dynamic and adaptable to changes in the global and national environments and ensure they encompass all competent authorities. In the particular case of ISS, an adequate regulatory framework in services needs to address a set of complex and interrelated issues such as the increased participation of private actors, the creation of investment opportunities, and the management of competitive and cooperative relations among actors. Support at the national level to design and implement sound horizontal (for example, competition rules) and sectoral regulations (for example, telecommunications or financial), is fundamental to ensure reliable and quality provision of infrastructure services. Such support should assist in the introduction of measures designed to ensure affordability, universal access, safety, and efficacy of services provision. In addition, negotiation and implementation of harmonized regulations and standards at the regional level are big challenges to promote regional integration, cooperation and trade in ISS.

Infrastructure services are capital intensive but generate a significant number of positive externalities, especially in the social realm. In the absence of public intervention, UNCTAD reports consider that markets have underinvested in infrastructure.[44] One report estimated that $1 trillion would need to be invested in infrastructure globally over the next decade in order to sustain growth and to reach development and poverty-reduction goals.[45] For developing countries, the assessment determined that a 6.6 per cent annual investment will be required to sustain the growth. In this regard, attracting investment in infrastructure services is a key challenge for improving competitiveness, allowing the expansion of infrastructure services and helping to unleash the growth potential of developing countries.[46]

Developing countries have encountered difficulties in setting the best ownership model to attract foreign direct investment[47] and in ensuring the advancement of other policy goals such as affordability, quality and reliability. Incentives for new entrants into the services business, especially in rural areas, are still missing in many developing countries, affecting prospects for universal provision and the spread of the benefits that services can bring to rural communities. Finding a balance between investors and consumers has proven to be a difficult task.

4. Skills and human resource development

Lack of sufficient knowledge and expertise in existing and emerging services has been a constant hindrance to improve competitiveness in the provision of services. Most services sectors are knowledge intensive and require solid educational reforms that can enable the creation of a capable and skilful work force. Low availability of qualified human resources hinders the capacity of many potential entrepreneurs to expand their services offer.[48] In certain cases, for example, the real costs of the technology and learning process for ICT may be too high for traditional and small-scale businesses to absorb.[49] The utilization of ICT by women can also be hindered due to cultural barriers. These barriers can obstruct women, for example, from receiving the appropriate and necessary education to operate the ICT tools.[50] In addition, in many developing countries and LDCs the potential employment pool is concentrated in rural areas and agriculture industries. National policies to buttress service opportunities can meet this challenge by examining the agribusiness synergies in their local environments coupled with training in marketing and more efficient services related to agribusiness and agricultural production.

5. Environmental impact

Environmental and climate considerations are taking a stronger political stage at the multilateral level. Options to internalize environmental and pollution costs and to improve mitigation and adaptation efforts by countries need to be incorporated into horizontal and sectoral policies and regulations. This is particularly relevant for infrastructure services as they are the cause of significant negative externalities such as greenhouse gas emissions, as in the case for transport and energy generation.[51] Environmental and human considerations also need to be balanced with growth in sectors that rely on the natural endowment and cultural heritage, such as tourism.[52]

6. Financial services and security

One sectoral challenge faced by developing countries concernes how the commercial objectives of private-sector players are managed in relation to the pace of liberalization in, for example, the financial services sector and development objectives.[53] The recent financial crisis has demonstrated that it is imperative to design and implement specific macroeconomic, prudential, regulatory and supervisory mechanisms to address significant liberalization efforts in order to minimize risks that can negatively impact economic cycles. In the particular case of small and vulnerable economies and LDCs, questions arise on how to use trade in services to improve resilience capacities in the face of isolation, external financial shocks, variations in food prices, and natural disasters. Trade in services can be pivotal in addressing isolation problems, facilitating food flows and contributing to financial risk management and reconstruction efforts.

Reliability, affordability and safety of remittance transfers have been considered a key challenge for many small and vulnerable economies and LDCs, as low-cost and reliable transfer may reduce financial risks and allow for income to build the local economies.54 In the case of wired money transfers, the requirement for a minimum level of knowledge regarding the use of such services in terms of technology can pose obstacles to recipients. A lack of financial literacy is also cited as a barrier to increasing the savings rate among communities, which would contribute to the development of savings accounts and thus open the possibility for providing loans.[55]

7. Reliable data

In order to inform policy decisions and adjust regulations, there is a need for gathering up-to-date, disaggregated and quality data on domestic output, consumption and trade in services. Lack of data limits the use of potential positive approaches to improving the efficiency and quality of services. Reliable data would allow the use of benchmarking methodologies and regulatory assessments, and would provide negotiators with the information necessary to weigh the value of negotiation proposals and potential commitments in trade liberalization.[56] The ability of LDCs and developing countries to collect data on the development and evolution of sectors in their respective economies is further exacerbated by the general difficulty of collecting data on services. For example, Governments are frequently unable to track the number of jobs that are created in a particular sector, which in turn hinders the Government's ability to address the gaps that exist in that sector.

B. OPPORTUNITIES

The facilitation and promotion of service sectors can provide a series of positive catalysts for a whole economy, enable sustained economic growth, generate employment, facilitate diversification, enhance the supply-side capacities of the primary and manufacturing sectors, and bring investment and trade opportunities. Moreover, due to the actual growth potential in many developing countries, and the difficulties in some developed-country economies, opportunities are surfacing for the near future to further develop potential competitive service sectors in agriculture, business, tourism, and other services to enable value addition. In the case of the tourism sector, which is key to several developing countries and LDCs, including landlocked countries, the identification of options on how to improve access to credit, improve marketing, create viable public–private partnerships (PPPs), improve transport and infrastructure, diversify the offer, and address environmental impacts has been considered of importance to build competitiveness (for example, in Uganda and Nepal).[57] Opportunities drawn from the studies examined are outlined in the following sections.

1. Improving competitiveness for agriculture

Efficient services can improve the competitiveness of agricultural producers in developing countries. Adequate financial and insurance services may provide options to hedge agricultural production risks. Environmental, testing, and research and development 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.[58]

2. Improvements to technological, and information and communication technology infrastructure

One strategic opportunity consists of investing in the development and expansion of technological infrastructures such as broadband networks. This will contribute to lowering the cost of internet use and communication services for a vast number of people. Such investment will also contribute to increasing the possibilities for transactions, potentially leading to the creation of new services and online businesses. The deployment of these services can also constitute a powerful engine for job creation. In India, for example, it is estimated that new mobile broadband networks could lead to the creation of up to 140,000 jobs.[59] The expansion of telecom and mobile services can also promote competition and lower prices. For example, in Kenya more liberalization in the mobile sector resulted in a decrease in the cost of communication from $0.2 per minute to $0.004 per minute.[60] In relation to money transfer services, an increase in competition could lead to a reduction in the fees incurred by migrant workers when sending remittances back home.

From simple back-office work, an increasing range of value-added services can be integrated. The need for adaptation is highlighted, especially in the area of software development services. The importance of adaptation resides in the fact that the integration of existing technologies must be in line with the capabilities and needs of the entities (private or public) within an economy. This process becomes crucial when economies attempt to improve those technologies, especially in the context of their effort to sustain economic development.

The increasing use of modern ICTs has allowed for an increase in the share of international trade in services to take place through cross-border supply. New technologies have made outsourcing an option to reduce costs, improve efficiency, benefit from other countries' skills (for example, language and IT knowledge), and take advantage of time differences to maintain constant provision of services. Outsourcing is creating significant opportunities in a great variety of services for developing countries such as data entry, call back and office support services, software development, e-travel and e-finance. In India, outsourcing has accompanied the creation of IT hubs and has enabled a fast increase of software exports. For example, in the period 2007–2008, exports of software and IT-enabled services increased to $40.3 billion and in 2008–2009 to $47 billion, in contrast with $6.3 billion in the period 2000–2001.[61]

3. Environmental opportunities

Challenges related to environmental protection, internalization of environmental cost, and the introduction of new environmental regulations – including climate change mitigation and adaptation – are creating the conditions for the emergence of a growing demand for environmental goods and services. Environmental policies and regulatory and institutional frameworks in developing countries, especially those applicable to infrastructure services, are quite incipient. New regulatory standards, targeted incentives to the entry of renewable energy[62] as well as investment in environmentally responsive infrastructure, are already boosting internal demand in many countries. They are also encouraging the creation of new business opportunities in areas such as clean energy generation, diverse environmental and pollution control services and low-emission transport systems, as well as in the areas of water and sanitation. For example, China has implemented policies to encourage replacement of outdated small coal-fired generators with larger ones. In addition, the number of wind farms was increased while ensuring lower prices.[63] Developing countries and LDCs might wish to explore if and how current proposals related to standards could have implications for their own products and services.[64] Therefore, developing countries and LDCs have the opportunity to determine how to participate in the rule-making of international standards in the area, in order to minimize any incompatibility between the standards generated from more advanced developed-country technologies and services and those characteristic of the requirements and trade realities of developing countries and LDCs. In addition, developing countries and LDCs can become more aware of their own exports and export potential through an increased understanding of the inputs and end products covered in proposals in the environmental goods and services negotiations.

India has established several measures to encourage investment in renewable energy, including preferential tariffs and mandatory procurement of clean energy options.[65] South Africa has become one of the first African nations to implement a feed-in tariff system to encourage the generation of renewable energy.[66]

4. Government as a services consumer, enabler and provider

A recurring message from the UNCTAD studies examined was that Governments can be instigators for the development of new service opportunities. Furthermore, Governments can also be significant sources of demand for services. For example, by setting fast-track licensing procedures, providing targeted technical assistance to fulfil relevant standards, and by setting targeted procurement rules that favour small and medium-sized service providers, Governments can encourage new entrants and enable their integration into value chains.[67] Governments can also work with international agencies to improve the reliability of their data for the service sectors. However, this is a challenge for all Governments. Institutions such as the WTO, UNCTAD, the World Bank and the International Trade Centre have done extensive work to develop tools and information to improve access to date on services.

Investment in research and development services, although often accompanied by high initial costs, can also contribute to rendering industries more efficient and competitive in the long run, and promote the generation of technological assets. Local resources and capabilities are highlighted not so much as a call to protectionism, but rather as a way to reduce dependency on developed countries. These resources and capabilities must be utilized to customize products and services that are suitable to the economy and a country's specific needs. This approach can increase domestic employment and generate revenue internally.

5. Improving human capital

With respect to improving human capital, UNCTAD reports highlighted the important role of twinning, involving pairing regulatory institutions at different levels of development, including developed and developing-country institutions, and staff with similar mandates and goals. Twinning has also been successful for inter-country exchange of technical skills, knowledge and best practices.

6. Improving financial services tools

Within the financial services sector, offshoring offers great potential for expansion in developing countries. Furthermore, as the middle class and the number of small service providers grow in several developing countries, there will be an increased need for the provision of specific finance and insurance products to address their specific needs. These new financial and insurance products and services could include microfinance and insurance, accounts in foreign currency, and products needed to hedge particular risks that may arise in developing countries related to security, health, labour accidents, inability and pension building.

Remittances can be better channelled to allow for capital accumulation and the creation of local business, and to finance investments in local infrastructure. Several programmes in Latin America, Africa and South-East Asia are seeking to promote investments by diaspora, directly or through their families and communities, by supporting small business creation through advice and technical assistance as well as with country-return incentives.[68] Postal and financial services can be designed to promote financial inclusion by enabling specific transfers, access to credit, by expanding coverage of services, and by creating special savings and credit products needed by the diaspora. The Government of India has also rechannelled revenue from diaspora bonds to finance important infrastructure projects.[69] Another opportunity for Uganda identified in the UNCTAD National Services Policy Review is that while the country receives remittances that are two times greater than development assistance, more of the remittances could be reinvested into the economy for skills and training.

7. Advanced tourism-sector opportunities

Tourist services offer significant opportunities for developing countries and LDCs. Tourism's contribution to global GDP is reported to exceed 5 per cent, with annual turnover recorded at a faster growth rate than the average GDP.[70] Tourism has become a vector to promote economic diversification and to strengthen linkages with related services, food production and manufacturing. Setting open-skies policies, expanding transport, tourism and rural infrastructure, and improving security and safety can all be important developments linked to an increase of tourist flows regionally and internationally. In addition, support for the marketing of new tourism packages that include wildlife and cultural heritage, and conference, business and health care services can assist in the diversification of economic sectors in developing countries and LDCs, together with the consolidation of the existing tourism sector, for example in countries such as Uganda and Nepal.[71]

Emerging services in developing countries – tourism, ecotourism, medical and health tourism services, traditional and niche hospitality services, traditional culinary services, specialized energy services – coupled with packaging of traditional goods, also offer opportunities to address competitiveness challenges. With respect to hospitality services and health tourism, one observation not necessarily extracted from the study findings is that, in addition to attracting temporary movement of European personnel, many developing countries and LDCs are becoming more attractive destinations for developed country consumers and more competitive compared to traditional developed-country service providers. The trend stems from lower costs, increases in skilled professionals, the attraction to traditional customs, local hospitality, climate, and natural supplementary herbs and medicines conducive to healing, recovery or rejuvenation.

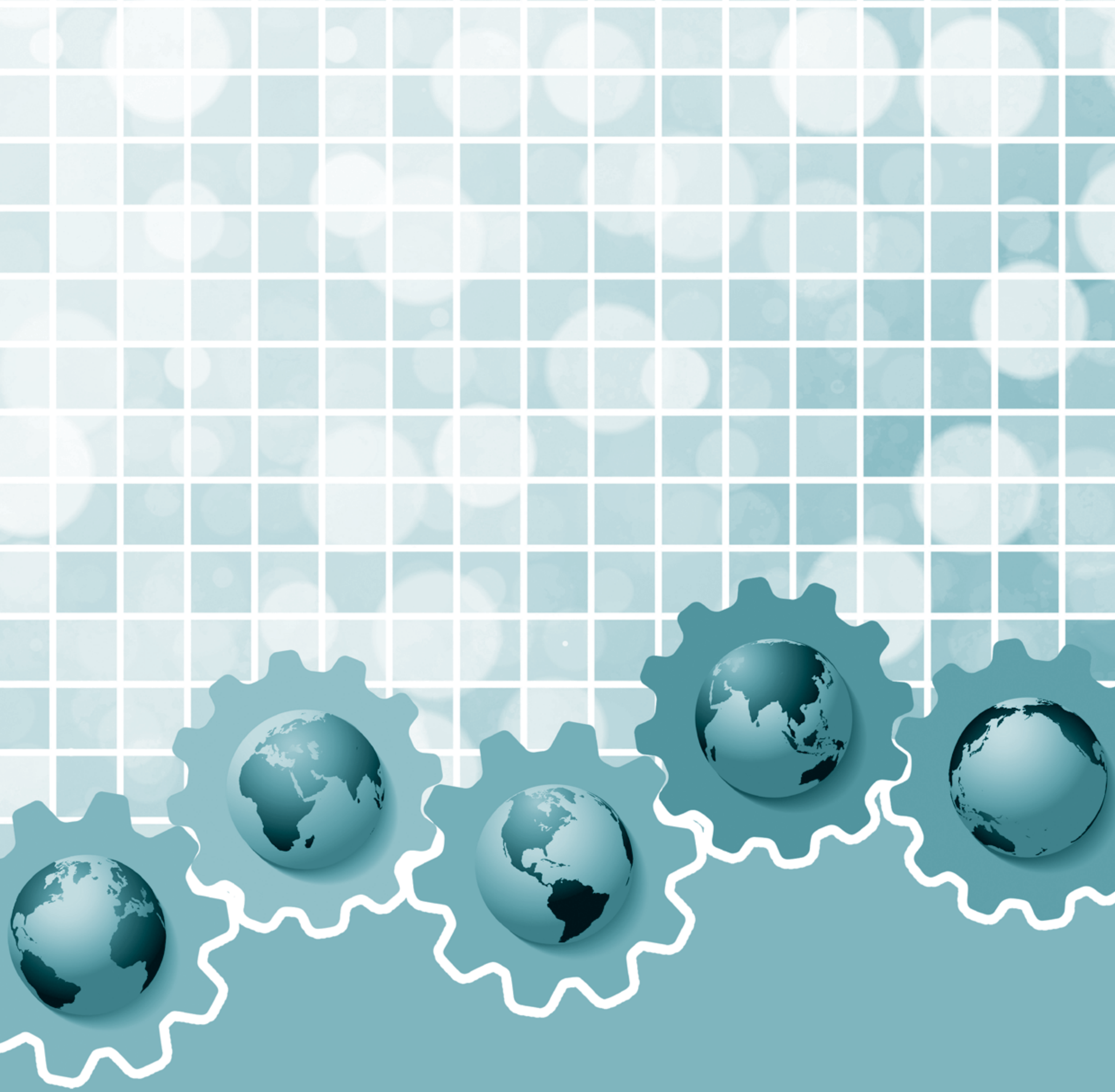
It is becoming apparent, therefore, that the packaging of niche services within developing countries – including related intellectual property and branding – attracts new channels for investment and movement of more service consumers to the countries concerned. Crosscutting opportunities for Nepal, Uganda and Lesotho in the tourism sector can also involve branding and packaging with niche services and traditional products and handicrafts in a manner that distinguishes their value addition and competitiveness. Landlocked countries such as Nepal can galvanize facilitative policies that combine the existing worldwide attraction to the Himalayas for tourism, including ecotourism, combined with branding of specialized health, recuperative and spa services that also create more consumer demand for their essential oils, special horticulture and herbs.[72] These initiatives also require cooperation and awareness-building with private sectors.[73] Uganda and Lesotho are also exploring niche areas in tourism and ecotourism as well as branding their natural heritage. These services, however, also depend on upgraded and efficient ISS.

8. Regional and bilateral trade liberalization opportunities

Regional trade is a thread highlighted in some of the reports as a major conduit for liberalization processes and the development of services trade. In the case of Nepal and Uganda, the potential benefits of the South Asian Association for Regional Cooperation Agreement on Trade in Services and the East African Community are mentioned respectively. Developing countries also need to promote the development of supportive liberalization at the multilateral, regional and bilateral levels. In certain cases, efforts at these levels may open access to markets that would not be possible otherwise. Some regional, bilateral and multilateral trade arrangements might generate opportunities for developing countries and LDCs, especially landlocked States, not only with respect to providing an additional layer of predictability in the rules, but also by affording opportunities for exchanges between service providers and enterprises. For instance, Uganda's involvement in the East African Community and the Community's tripartite plans with the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa hold potential to engineer multi-tier regional collaboration in services trade.[74] Regional neighbours with close ties are increasingly tapping into the same corridors of trade activity, global supply chains and channels of services supply linked to goods trade. Developing-country Governments can respond to market conditions through more effective investment and cooperation in those services as well as transport-related services. For example, in the freight transport business, opening routes and developing better linkages within a country or between the country and its neighbours in the region can be attractive for increased traffic.[75]

9. Multilateral trade-negotiation opportunities

With respect to multilateral market-access negotiations at the WTO, the last series of service offers tabled reveals some developing-country interests in expanding opportunities in niche services, including traditional health methods and traditional culinary services, now fashionable in a few developed-country markets. In addition, various developing countries in South-East Asia and Africa are attracting investment in their countries as regional higher education hubs for top foreign universities. New developing-country regulatory and policy interests in business-to-business environmental services and water purification, where Government access to state-of-the-art technologies needs a boost with PPPs to attract investment, have also been identified in WTO services negotiations.



III

Some lessons learnt from developing and developed economies

Over the last four years, UNCTAD work on trade, services and development has identified a series of key economic lessons for Governments and other stakeholders. These lessons should be taken into consideration when engaging in negotiations and introducing relevant new policies and regulations, or when creating and reforming regulatory institutions. These lessons, drawn from the studies used for this present report, are outlined in the sections that follow.

A. SEVERAL SERVICE SECTORS HAVE BEEN MORE RESILIENT AND HAVE RECOVERED FASTER FROM THE FINANCIAL AND ECONOMIC CRISES

The financial and economic crisis has affected trade in services differently from merchandise trade. Some countries have experienced fluctuations in service exports.[76] The countries most dependent on service exports were adversely impacted as there was severe contraction in tourism and travel, financial services, construction, retail and services related to merchandise trade, including air transport and other transport services. Services deemed less affected by the crisis include energy, health, education, telecommunications and some business and professional services.[77] The demand in these sectors tends to be less elastic. Consumers and businesses consider them as necessities for maintaining a minimum level of living conditions and to sustain basic business operations. Within financial services, insurance has been less exposed compared to banking.

The lower vulnerability of overall service exports by developing countries has demonstrated relative resilience. In particular, internal demand in the services sector in India provided an in-built resilience factor to external shocks and reduced external demand arising from the financial crises.[78] The demand in Indian transport and communication services declined, while demand in other services such as medical care and health services, recreation, education and cultural services, and miscellaneous goods and services, increased.[79]

Government involvement can also lead to the elaboration of standards that are useful in areas such as education and ICTs development. The Government can, for instance, make it mandatory for universities and schools to impart IT knowledge[80] to students. The Government is also a key player in terms of offering long-term investment in projects intended to continuously upgrade citizens' ICT skills and link them with the appropriate industries.[81]

B. THE ROLE OF THE STATE IS ESSENTIAL FOR THE PROMOTION OF DEVELOPMENT, CORRECTION OF MARKET FAILURES AND MAXIMIZATION OF SOCIAL BENEFITS OF TRADE IN SERVICES

The studies emphasize that State action, especially in the form of regulation and in the creation of solid institutions, clearly arises from the need to correct market failures such as externalities, information asymmetries, and monopolistic and oligopolistic market structures. State intervention is also desirable to assure that outcomes are socially efficient and equitable, and to facilitate access to basic services, which is not possible simply by allowing markets to allocate resources. State action may also be required to ensure legal certainty and transparency and avoid over-regulation and burdensome procedures that could hinder policy and regulatory objectives. For example, major industrial government policy responses to the crisis included a series of actions such as bailout packages, deposit guarantees, State support and nationalization measures, and economic stimulus packages, which are not necessarily available to developing countries.

Maximizing social benefits in the aftermath of the financial crises is also a subject reflected in the studies. One area identified where active use of regulation can bring a positive impact over monetary flows, household support, poverty reduction and local investment concerns the potential regulatory changes and incentives to enable and facilitate remittance flows. Several government and financial institutions have allowed for and created special financial products for temporary workers abroad and migrants over the last three decades. For example, in Mexico, Morocco and Turkey, financial products – such as accounts in foreign currency with minimum transfer cost and special savings accounts with higher interest rates – allow the use of remittance flows as collateral, and the expansion of the service network (whether with banks, financial postal services or money-transfer institutions) has significantly reduced transfer costs and facilitated remittance transfers, especially to poor or rural areas.[82] Also, as noted earlier, allowing and regulating the use of mobile technologies to enable remittance transfers and local payments, as done in Kenya, can speed up the reception of remittances, and local payments can enable their more effective use.[83]

C. THERE IS A NEED TO SET PRIORITIES AMONG DIFFERENT AND SOMETIMES COMPETING POLICY AND REGULATORY OBJECTIVES

When setting policy and regulatory objectives in a national development plan, it is necessary to set priorities and to try to generate coherence between different objectives of the public sector. Objectives can be multifaceted and can compete amongst each other, especially in light of a complex set of stakeholders in modern societies. Examples of the types of objectives sought include the provision of effective and efficient services, the creation of supply-side capacity, the enhancement of competition, the expansion of current service networks, assurance of universal access, affordability and reliability of services, and the promotion of sound environmental performance. In many cases, these objectives, if not well managed and implemented, may lead to policy contradictions or inefficiencies. Exploring options to assess policies and the impact of regulatory frameworks, as well as mechanisms for planning and coordination, seem to be essential to ensure better alignment of multiple objectives and to maximize the efforts of different regulatory and implementing agencies.

D. THERE IS NO ONE-SIZE-FITS-ALL SOLUTION TO FINDING THE ADEQUATE POLICY AND REGULATORY MIX

A lesson learnt exposed throughout the reports/studies considered was that the scope, type and nature of policy and regulatory responses depend on country-specific development potential and socio-economic and political circumstances, as well as factors such as size, natural resource endowment, economic structure, landlocked status, and social needs. Therefore, a one-size-fits-all approach to elaborating a services policy and regulatory mix cannot be deployed. While that may be the case, there is a need for policy adaptability and flexibility in order to be able to respond to different policy goals and changing realities. Changing realities has become a factor for continuous adjustment and recalibration. For example in ICTs, exponential technological advances and new forms of services delivery have required regulators to be under continuous alert.

In response, several UNCTAD expert meetings have concluded that a fluid “best-fit approach”[84] should be examined that takes into account the local country context of economic and social development and that can be adapted over time in line with levels of development. The reports determine that finding the “best-fit approach” for each country or sector is a learning and incremental process, requiring a probe of best practices and relevant experiences. Sharing experiences from other countries, transferring know-how and technology, technical assistance and capacity-building can assist in identifying the most suitable options that best fit into the relevant national and regional contexts.

E. CONSIDERATION OF SOCIAL AND ENVIRONMENTAL ASPECTS WHEN DESIGNING AND IMPLEMENTING SERVICE POLICIES AND REGULATIONS HAS A POSITIVE EFFECT ON POLITICAL STABILITY AND COMPETITIVENESS, WHICH SUPPORT MILLENNIUM DEVELOPMENT GOAL OBJECTIVES

Integrating considerations surrounding universal access, equitable distribution, and the cost–efficacy relation in the provision of basic services, but also of services with high social impact such as education and telecommunications, can contribute to social peace and labour productivity. Gender and women’s empowerment through ICT, more specifically, has a large multiplier effect on poverty eradication, a key element of achieving the MDGs.[85] This relationship stems from a strong correlation found between the gender gap, economic development and national competitiveness.

Addressing negative externalities is becoming more relevant as their impact on and cost for the population’s health, the environment and physical infrastructure increases. Numerous policy options have not only been identified but also put in practice by Governments to treat pollution, minimize negative impacts on biodiversity, health and the quality of water and air, and reduce greenhouse gas emissions over the last two decades. Some measures have targeted only specific sectors. In this regard, the types of measures and incentives tend to change from one sector to another. In the case of energy, it has been indicated that expansions in capacities of natural gas, hydroelectric and nuclear facilities will be important elements. In addition, a shift in the type of energy used has been quite successful when supported by the use of incentives such as feed–in tariffs and other types of subsidies, including those to consumers (as an example, by the partial financing of energy assessments and use of solar panels in houses and domestic buildings in Switzerland). Furthermore, energy efficiency and saving measures have been implemented, including smart grid, energy-efficient labelling, and subsidies to consumers for the use of cleaner services. In transport, more efficient vehicles, expansion of public transport and shift in the type of fuels used has contributed to reduced emissions.

There are increasing examples of policies targeted at expanding the supply of renewable energy and introducing mass transport incentives in emerging economies such as Brazil, China, India, Turkey and South Africa.[86] When providing tourism services, a requirement for environmental impact assessments and the treatment of water and wastes could assist in preventing environmental damage. Additionally, countries such as Uganda have developed their own sustainable tourism programmes (2003–2007), which have included financial incentives for diversification of the tourism offer, involvement of local communities and the improvement of transport and energy infrastructure.[87]

The integration of environmental considerations will also be needed to ensure the maintenance of natural capital, the avoidance of negative externalities and the improvement of health and sanitary conditions. In addition, if climate-change mitigation and adaptation measures are not incorporated into national strategies, potential for growth, quality and continuous supply in many service sectors such as water, sanitation and energy services will be compromised. This also applies to sectors such as agriculture, where changes in climate and rising costs in key inputs such as water, transport and energy are already affecting competitiveness and poverty eradication plans, especially in the African continent and in LDCs.

F. QUALITY AND EFFECTIVE REGULATORY AND INSTITUTIONAL FRAMEWORKS MATTER MORE THAN OWNERSHIP WHEN ASSESSING PERFORMANCE

Experience shows that many developing countries are in stages of transitioning certain sectors from public ownership to private involvement in order to reap the benefits of efficiency and growth, and better quality and delivery of services. However, the right to regulate should be retained, and as recognized by the GATS, there are some sectors that must remain within governmental authority or competence. The work to date has shown that paced liberalization and privatization has been a successful recipe for many developed countries. While developing countries do not need to tread the same course as developed ones, and can benefit from lessons learnt, they can develop approaches that allow for liberalization that most capture innovation and reduce costs, and provide responses for their economies and consumer demand.

The findings from the UNCTAD studies indicate that regulations can act as safeguards for pre-empting the situation in which a public monopoly is replaced by a private one, and avoiding overcapacity, underinvestment or unexpected price increases.[88] The typology of ownership has several modalities including State-owned enterprises, PPPs, solely-privately-owned companies and community-based and/or small service providers. This variation in ownership modalities has highlighted the importance of increased diversity and adaptability in regulatory approaches to ensure good performance by a diverse set of operators.[89] For example, in the electricity distribution sector, the introduction of regulatory agencies was associated with increased firm and labour efficiency as well as sustained supply, with higher social welfare through lower tariffs.[90] Within each country it can be determined which sectors are best served through public action and for which a private sector involvement better achieves the desired result. As will be elaborated, examples include Uruguay's approaches to safe water services and those of India in the financial services sector, where more government involvement was needed. Energy and certain other sectors that concern predominantly universal services are better adapted at the public level. On the other hand, telecommunications and ICT services are likely to bring lower prices and consumer satisfaction as a result of private sector involvement. Therefore, within the same country, different models may be used for different sectors depending on the economic structure of the countries and the willingness of Governments to open the market for competition and investment. In this regard, the UNCTAD studies conclude that the use of State-owned enterprises is still common and can be appropriate in areas where the infrastructure or the sector in question is underdeveloped or the cost for providing the service is so high that there is little interest by the private sector in becoming involved.

G. THE RESULTS OF SERVICE-PRIVATIZATION EXPERIENCES IN DEVELOPING COUNTRIES HAVE BEEN MIXED; DEFINING OBJECTIVES AND REQUIREMENTS CAN IMPROVE THE OUTCOME

The findings of the reports examined stipulate that as the participation of private actors in the provision of services expands, there is a need to define a set of preconditions that may be necessary, especially in basic services and ISS, for countries to fully benefit from the opportunities offered by the participation of the private sector. Several options have been chosen to open specific sectors to private participation including unbundling, granting of concessions, privatization and incorporation of small service providers into the network. Of these methods, perhaps the most controversial has been the privatization of enterprises that used to provide services on behalf of the Government.

According to the reports reviewed, developing countries' experiences with privatization have been mixed so far. Based on different cases, a series of prerequisites have been identified in several UNCTAD expert meetings to ensure positive economic and social outcomes for privatization. Key prerequisites identified so far include the existence of coherent domestic services and development strategies; adequate regulatory, institutional and competition frameworks; a plan for handling the transition to privatization; and the necessary institutional capacity.

When resorting to privatization, there is a need to ensure that there is increased competition and that complementary regulations are in place.[91] In many cases just passing from a public monopoly to a private one does not necessarily generate further investment or improvements in performance. This is particularly relevant to natural monopolies, such as water and sanitation services, where privatization in itself is not sufficient to meet the essential needs of the population for safe and affordable water.[92] The case of Uruguay provides lessons learnt through its experience with the privatization of water services, only to shift back to public-led supply, where Government proved to be best suited to provide the services. As a result, the child mortality rate decreased.[93]

There are numerous modalities for attracting investment in key service sectors and more specifically ISS. These modalities include foreign investment, joint ventures, PPPs, the issuing of open stock shares for public enterprises, allowing private participation in parts of the service provision, privatization, and innovative funding mechanisms such as project and diaspora bonds, aid for trade projects, and the creation of joint infrastructure regional integration projects. In certain sensitive social sectors the use of PPPs has proven to be particularly useful, and this approach has been quite popular in various ISS, including transport (roads, rail networks, air traffic control systems and related services), energy (power generation and supply) and water and sanitation projects. The use of PPP arrangements can provide developing countries and LDCs with access to private-sector management techniques and know-how and potential higher quality and lower costs. Such arrangements are also useful for Governments that need to raise private capital for infrastructure investment without immediately dedicating government resources.

Before deciding whether or not to make use of privatization as a potential tool to attract investment or to introduce competition, it may be useful for a Government to refer to the checklist of issues that has been put forward in UNCTAD expert meetings as a means to facilitate sound decision-making on whether to keep the delivery of an ISS public or privatize it. This checklist includes the following issues:

- Whether the private company has the best management capabilities;
- Whether the State retains the ability to discipline or regulate the sector;
- Whether privatization is the best way to access capital;
- How risks are allocated between the private company and the Government;
- Whether the regulator has the ability to design and implement adequate incentives to achieve public policy objectives;
- Whether the reform will be financially and socially sustainable;
- Whether the regulator has the capacity to manage post-privatization politics in the sector;
- Whether there is a conflict of interest between needs in the public accounts and the public interest in the sector;
- Whether privatization will effectively introduce competition;

- What skills are required in the sector – entrepreneurship or risk taking?[94]

H. UNIVERSAL ACCESS, ESPECIALLY IN BASIC AND INFRASTRUCTURE SERVICES, REMAINS A KEY POLICY OBJECTIVE

Universal access to basic and other relevant infrastructure services remains an important public policy objective being pursued by Governments and regulators. Universal access is directly relevant to the fulfilment of the MDGs, and especially to those related to poverty reduction.[95] Cases in point include the fact that in 2008 approximately 1.3 billion people were reported living without electricity, worldwide; that the electrification rate in sub-Saharan Africa was only 31 per cent; and that, in 2010, 789 million people had no access to safe drinking water worldwide.[96] These data show the magnitude of the gaps in the provision of and access to basic services to the poor still exist today.

The main message is that universal access focuses on the availability, access to and reliability of services. Regulatory measures are often required to extend the access to affordable services to poor and underserved segments of society. Universal access has become a quite popular regulatory principle. In a regulatory survey carried out by UNCTAD in 2009, the great majority of regulators indicated they have diverse universal access policies.[97] Universal access objectives remain essential in sectors such as water, energy, health and education. Pricing policies are closely interlinked to finding the right balance between expansion of the supply, quality, access and affordability of services.

Availability, access and affordability are also becoming an important aspect of ISS in order to promote development and social inclusion. This is particularly important in the financial and postal services. There are already several experiences where postal services have become a vehicle for financial inclusion and to facilitate remittances transfer. For example, the Universal Postal Union and the International Fund for Agricultural Development have supported countries in West Africa in providing several financially related services through post offices – including money transfers and postal accounts – by providing international financial, clearing and settlement services to national postal offices.[98] This support has expanded the network of financial services and ensured that money transfer arrives in rural areas while enabling savings and capital accumulation among the poorest.[99] In Brazil, postal services are regarded as a facilitator of trade as they provide non-discriminatory access to simplified customs and trade procedures to all postal and express carriers.[100]

It has been constantly repeated that independence and neutrality of regulatory agencies is key to ensuring access, continuous provision, reliability, efficacy and quality of the services provision. Ensuring their independence has been found to be particularly important as a guarantee of credibility and to avoid the politicization of regulators. UNCTAD expert groups have underlined that independence and neutrality should not be a façade but be constituted with the requisite legal and institutional legitimacy and authority supported by human expertise and financial resources that actualize "independence and autonomy".[101]

Moreover, a crosscutting message from the UNCTAD literature, especially from the expert meetings, is that when seeking to implement universal access as a policy objective, Governments have made use of a series of policy tools. These tools include a wide variety of subsidies (cross subsidies, and production and targeted consumer subsidies), performance requirements, universal service funds, and statutory universal services obligations.[102] For example, the Republic of Korea has for decades used statutory universal obligations to improve universal access to electricity. As a by-product of this policy, the electric coverage ratio in rural areas increased from approximately 12 per cent in 1965 to 99.9 per cent by 1988.[103] In the case of Latin America, one problematic aspect of using subsidies for ensuring universal access is that consumers tend to get used to the subsidy and consider it as an acquired right. This situation is making it politically difficult to withdraw the subsidies later on, even if it is done in a sequential manner. Difficulties in withdrawing subsidies have been evident in sectors such as water, energy and collective transport.

Several tools have been identified to improve performance, reduce regulatory burden, and ensure that new regulations fulfil their purpose–cost efficiency. Some of the tools noted include regulatory impact assessments and benchmarking methodologies, and use adjustable smart regulation schemes. Australia's Office of Best Practice Regulation requires regulation impact statements to determine actions that address policy objectives at the least cost for business and society,[104] while the United Kingdom utilizes performance benchmarking in the electricity and water sectors.[105] These methods have also allowed for clearer incentive mechanisms to attract best service providers.

I. PREPAREDNESS FOR LIBERALIZATION, COORDINATION OF MULTI-STAKEHOLDERS, AND UNDERSTANDING NEGOTIATION OPTIONS MAY ALLOW FOR MORE OPTIMAL RESULTS FOR DEVELOPING COUNTRIES

Adopting a participatory multi-stakeholder approach and transparency (involving trade negotiators, regulators, legislators, professional associations and civil society) in the formulation of policies and appropriate regulatory frameworks would ensure that particular concerns are taken into account. Today, policies or regulation cannot easily have the necessary legitimacy without proper consultations. Many countries are already creating formal mechanisms for regulatory consultation and prior comment in order to enable reviews, adjustments and buy-in by stakeholders.

Improving coordination among regulatory and governmental agencies is essential for ensuring coherence, effective provision of services, and efficient use of limited resources. Coordination mechanisms can be created at a horizontal level or within certain interrelated sectors. A clear definition of competences, roles and responsibilities always facilitates such coordination. For example, differentiating the roles of monitoring and implementation can be important to prevent the duplication of efforts and confusion. This clarity in competences and roles may be important in cases where horizontal and sectoral regulators work in parallel (for example, when a competition authority and independent telecom regulators exist at the same time).

Cross-border externalities and lack of regulatory harmonization in infrastructure has led to suboptimal levels of investment in physical infrastructure capacities across national economies.[106] Regional integration can provide a platform for cooperation among neighbouring countries in building and developing common infrastructure networks and for policy and regulatory harmonization. Certain regional cooperation schemes have allowed parties to realize cross-border service supply. Examples include the construction of a single internal energy market by 2014 in the European Union; a regional coordination mechanism among the Co-operation Council for the Arab States of the Gulf members to establish common infrastructure projects, such as those in electric grid interconnection; and the Association of Southeast Asian Nations cross-border road transport cooperation to reduce the cost of moving goods within the region.[107] Success in these processes would imply significant political will, sustained investment and significant coordination by governmental authorities and regulators.

When engaging in multilateral, regional or bilateral negotiations the level of “preparedness” and understanding of negotiation options by developing countries prior to making commitments can bring important differences in the outcomes of negotiations. For example, there are some pro-development clauses in the Caribbean Forum (CARIFORUM)–European Union Economic Partnership Agreement (EPA) which were not replicated in European Union EPA offers to SADC. The European Union proposal to SADC is more or less identical to the European Union standard negotiating text, raising questions about the extent to which the European Union varies its approach to negotiations based on regional specificities, sensitivities and levels of development.[108] In the meantime, EPAs would have produced more benefits to CARIFORUM countries if mode 4 had been addressed in a more meaningful manner by including more subsectors of their export interests and lowering the conditions for the entry of services suppliers.

Perhaps other regions negotiating with the European Union need to clearly understand previous experiences of developing countries during negotiations of EPAs and how these negotiations can provide opportunities for pro-development concessions. This could also apply to free-trade agreements signed with the United States, where only Chile was successful in obtaining visa quota commitments in certain Chilean professions – the United States Congress later rejected this type of concession for subsequent free-trade agreements.

Understanding key offensive and defensive issues in negotiations, the implications of different scheduling modalities and formats, the extent of regulatory principles proposed by the Parties, and the interrelation between different free-trade agreement chapters where obligations apply to trade in services (for example, the relation between the investment, competition policy, Government procurement, environment, labour, and the like) must be internalized by negotiators.

Liberalization of services, whether at multilateral, regional or bilateral levels, should be tailored in such a way that it would ensure the further integration of developing countries into the global services economy. Liberalization should allow the right to introduce adequate domestic regulations relevant to the implementation of market access, national treatment and other relevant commitments. When acquiring specific commitments under the GATS or under regional trade agreements, Governments and other stakeholders need to be aware that problems may later arise when trying to make use of "policy flexibility".[109] Market access commitments limit the capacity of States to put ceilings on the number of suppliers and the total value of services transactions, or to apply conditionalities on the type of legal entity or in requiring joint venturing. National treatment may limit the capacity to treat less favourably foreign service suppliers than nationals.

The GATS contains a series of pro-development provisions. These provisions can have an impact on the implementation of national policies and on negotiations. For example, there are development provisions regarding an increased participation of developing countries (preamble and in Article IV), negotiations of specific commitments and sectors of interest for developing countries (Article XIX) and technical cooperation and capacity-building (Article XXV) and other related technical cooperation areas, such as the ones found in the annex on telecommunications. Some of the interesting options to improve and operationalize development provisions in the GATS and, potentially, regional trade agreements have been identified in UNCTAD expert meetings. They include the following:

- The setting of benchmarks on financial and technical cooperation and other arrangements in favour of developing countries;
- The improvement of notifications by developed countries on the implementation of development provisions;
- Strengthening the monitoring function of the WTO Committee on Trade and Development in order to verify whether the development provisions are leading to the desired outcomes and/or are being operationalized;
- Put into effect market access, including through quotas or preferential access, for developing country and LDC service suppliers (particularly in modes 1 and 4);
- Develop and implement the WTO services waiver for LDCs in developed and developing countries in a position to do so;
- Make technical assistance commitments enforceable by allowing small claims dispute settlement mechanisms.[110]

Furthermore, provisions related to emergency safeguards, subsidies and government procurement could have a big impact on policy flexibility. Emergency safeguards, if properly operationalized, may facilitate the temporary suspension of commitments in order to address the adjustment costs of liberalization. Subsidies and government procurement preferences are still an important tool for achieving multiple policy goals, including universal access, building of supply side capacities, improving environmental and safety performance, and improvement of competitiveness. However, due to the limited capacity of developing countries to subsidize, many may consider it appropriate to explore options to deal with trade-distortive subsidies by developed countries and export subsidies. In the case of government procurement, transparency measures and due process are important to provide legal certainty even if national preferences are maintained.

Finally, when undertaking new commitments under the GATS or regional trade agreements, flanking policies will have to be designed at the national level and with the support of financial institutions with the objective of, among other things, enabling local development and competitiveness, limiting the risk of excluding local businesses and unemployment, guaranteeing welfare nets and universal access to certain essential services, promoting competition, safeguarding health and safety standards, contributing to regionally balanced socioeconomic development outcomes, and reducing poverty.[111]

CONCLUSION

UNCTAD reports have generated a number of key messages across all service sectors that not only facilitate trade from and to developing countries, but elaborate the fundamental regulatory and policy commitment needed to ensure effective contributions to development objectives, in particular for LDCs and landlocked States. For the latter, which depend in many cases on trade flows in traditional goods in their regions, to enable growth in a range of services trade together with domestic-services reform is the inextricable current and emerging requirement that will propel their economies and job creation into more advanced stages of development. High infusions of relevant infrastructure and technology-intensive services are key in the recipe to reduce any impediments common to the state of being landlocked.

Along the trajectory of lessons learnt, developing countries and LDCs, including those landlocked States among them, can harvest a number of opportunities based on their specific internal economic, policy, social, employment, and developmental needs. In that regard, while a number of developing countries within the same regional sphere may trade in the same or similar goods, with some holding more of a comparative advantage than others, regulatory and financial investment infrastructure and infrastructure services that form the bedrock to facilitate goods trade and robust service synergies can stimulate a new context for efficiencies, job creation and competitiveness.

As opportunities associated with infrastructure, professional and other emerging spheres of the services economy emerge, development objectives are achieved. New regulations and laws may be required to the extent that they facilitate the development of needed sectors and infrastructure. At the same time, developing countries will need to implement policies and regulation that ensure access to infrastructure services in disenfranchised and under-represented populations. Where the earning population is largely rural, Government can play a role to implement the necessary infrastructure services from the toolbox available from internal and external sources to ensure that their economy widely benefits from leap-frog technologies and access to know-how and to narrow any gaps in digital readiness. Agribusiness opportunities and tapping into global value chains can become part of a country's road map to providing incentives and attracting needed investment.

Infrastructure services may also trigger, in landlocked States, a higher aptitude for trade in services. While landlocked States typically need to reach oceans to ship their products, modern means for transporting horticulture, essential oils and other light commodities can be usefully explored, for example a combination of road and air transport. Moreover, landlocked States can serve as hubs for the road transport of goods from coastal States that must transit inland within a region. Some landlocked States may package their hub potential in a region as an alternative approach for neighbouring States to achieve efficiencies and tap into expanding choices in services that facilitate goods trade. Investment in road transport can also be strengthened via private-sector involvement, including foreign service providers, that would create jobs.

The liberalization of services can be tailored to harness optimal benefits for a developing economy. For example, express delivery service providers rely on deployment of their own trucks locally in a country, together with local drivers, as well as establishing the necessary offices to ensure point-to-point timely delivery service, all of which creates jobs and facilitates distribution of goods within the country and beyond. Regulations should be tailored to the specific needs of the country to facilitate the advancement of the service sectors for both services and all goods trade.

The lessons learnt extracted from UNCTAD literature to date may be summarized as follows:

(a) Several service sectors have been more resilient and have recovered faster from the financial and economic crises;

(b) The role of the State is essential to promote development, correct market failures and maximize social benefits of trade in services;

(c) There is a need to set priorities among different and sometimes competing policy and regulatory objectives;

(d) There is no one-size-fits-all solution to finding the adequate policy and regulatory mix;

(e) Consideration of social and environmental aspects when designing and implementing service policies and regulations have a positive effect on political stability and competitiveness;

(f) Quality and effective regulatory and institutional frameworks matter more than ownership when assessing performance;

(g) The results of services privatization experiences in developing countries have been mixed; defining objectives and requirements can improve the outcome;

(h) Universal access, especially in basic and infrastructure services, remains a key policy objective;

(i) Preparedness for liberalization, multistakeholder coordination, and understanding negotiation options may allow for more optimal results for developing countries.

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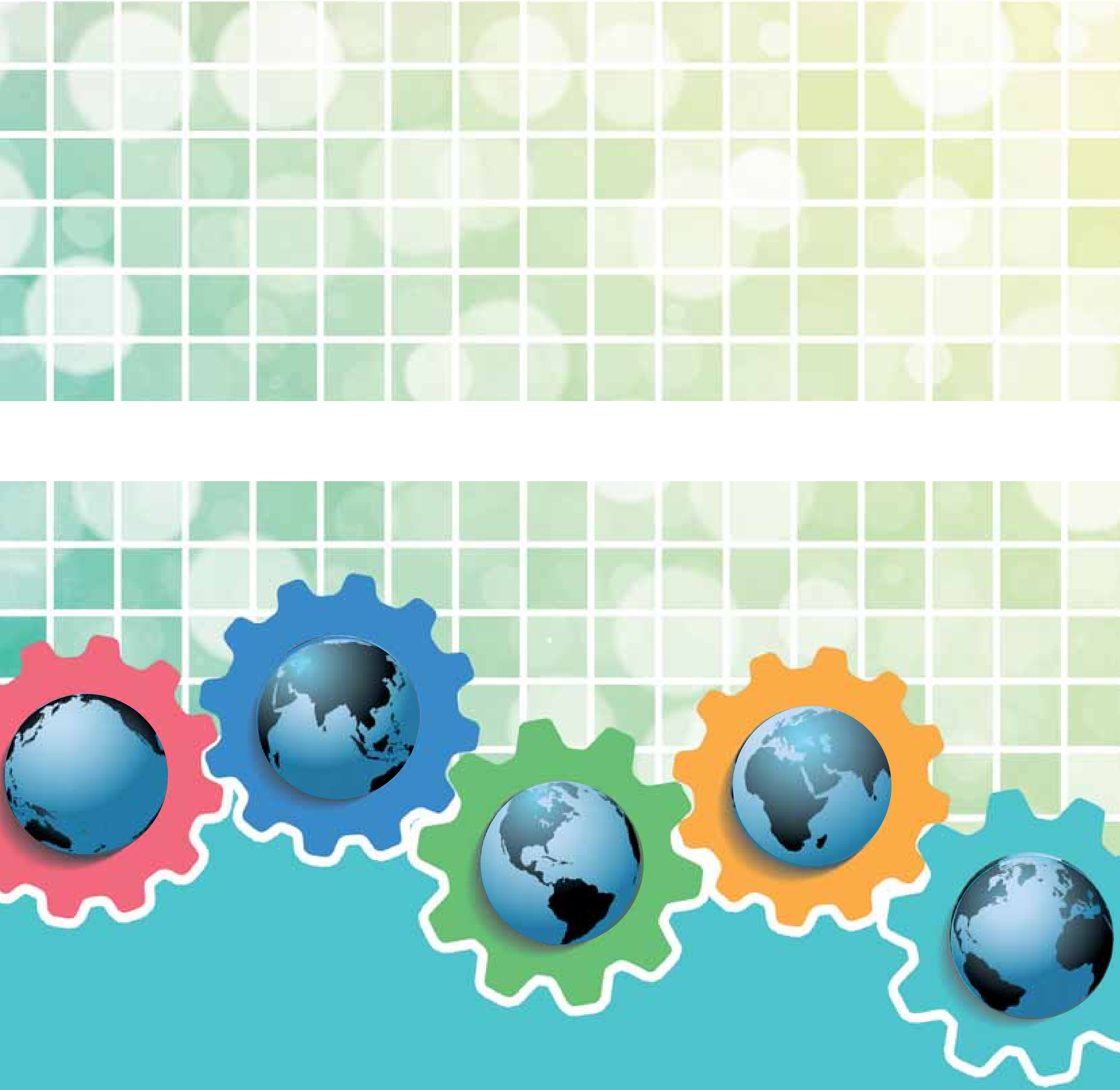

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