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Services and Structural Transformation for Development

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The "Services and structural transformation for development" is published in the context of the longstanding and comprehensive substantive work of UNCTAD in the area of services economy and trade for inclusive and sustainable development and for the achievement of SDGs. The publication was edited and prepared by Mina Mashayekhi and Bruno Antunes, Economic Affairs Officer of the TNCDB, DITC of UNCTAD. The major contributors are the authors of the individual papers and substantive interventions in the fifth session of the multi-year expert meeting.

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NOTE

Values are presented in short scale and references to dollars are United States of America dollars, unless otherwise stated.

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ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
AUC	African Union Commission
B2C	Business to consumer
BIAT	Action Plan for Boosting Intra-African Trade
BoP	Balance of payment
CCSA	Competition Commission of South Africa
CEER	Council of European Energy Regulators
CETA	Comprehensive Economic and Trade Agreement
CFTA	Continental Free Trade Area
CPC	Central product classification
CWTMM	Commonwealth Trade Ministers Meeting
DFQF	Duty-free, quota-free
DFS	Digital financial services
DITC	Division on International Trade in Goods and Services, and Commodities
DR	Domestic regulation
DRD	Disciplines on domestic regulation
DTI	AUC Department of Trade and Industry
EIF	Enhanced Integrated Framework
EPA	Economic partnership agreement
EVAD	Export Value Added Database
FDI	Foreign direct investment
FTAs	Free trade agreements
FY	Fiscal year
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GNI	Gross national income
GPA	General Procurement Agreement
GSP	Generalized system of preferences
GTAP	Global Trade Analysis Project
GVCs	Global value chains
IBGE	Brazilian Institute of Geography and Statistics
ICT	Information and communication technology
IDI	ICT development index
IFCs	International financial centres
ILO	International Labour Organization
IoT	Internet of Things
IPR	Intellectual property rights
ISO	International Organization for Standardization
ISS	Infrastructure services sector
IT	Information technology
ITC	International Trade Centre
ITeS	IT-enabled services
ITS	Intelligent transport systems

ITU	International Telecommunication Union
IY2017	International Year of Sustainable Tourism for Development
KBS	Knowledge-based services
LDCs	Least-developed countries
LICs	Low income countries
M2M	Machine to machine
MC11	11th WTO Ministerial Conference in Buenos Aires, Argentina
MDIC	Ministry of Industry, Foreign Trade and Services
MFN	Most-favoured-nation
MRAs	Mutual Recognition Agreements
MSMEs	Micro, small and medium size enterprises
NBS	Brazilian Classification of Services and Intangibles
NQI	National quality infrastructure
ODI	Overseas Development Institute
OECD	Organization for Economic Co-operation and Development
PPP	Purchasing power parity
R&D	Research and development
RCEP	Regional Comprehensive Economic Partnership
RECs	Regional economic communities
RIA	Regulatory impact assessment
SAARC	South Asian Association for Regional Cooperation
SADC	Southern African Development Community
SATIS	SAARC Agreement on Trade in Services
SDGs	Sustainable development goals
SDT	Special and differential treatment
SISCOSERV	Integrated System of Foreign Trade in Services and Intangibles
SME	Small and medium enterprise
SOEs	State-owned enterprises
SPRs	Services Policy Reviews
SPS	Sanitary and phytosanitary
STRI	Services Trade Restrictiveness Index
SWOT	Strengths, weaknesses, opportunities and threats
TBT	Technical Barriers to Trade
TiSA	Trade in Services Agreement
TISIs	Trade and investment support institutions
TiVA	Trade in Value Added
TNCDB	Trade Negotiations and Commercial Diplomacy Branch
TPFs	Trade Policy Frameworks
TPP	Trans-Pacific Partnership
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TWN	Third World Network
UNCTAD	United Nations Conference on Trade and Development
UNWTO	World Tourism Organization
WDI	World Development Indicators
WTO	World Trade Organization
WEF	World Economic Forum

EXECUTIVE SUMMARY

The Nairobi Maafikiano, adopted at UNCTAD XIV in 2016, called upon the United Nations Conference on Trade and Development (UNCTAD) to "(c)ontinue and reinforce its work on trade in services, services data and statistics and analysis of trade and services for development". It also mandated UNCTAD to "(c)ontinue and further enhance its work on infrastructure services and support developing countries in the establishment of policy, regulatory and institutional frameworks that contribute to infrastructure development". Based on this mandate and also on the outcome of the Trade and Development Board, UNCTAD has convened the fifth session of the multi-year expert meeting on trade, services and development to focus on the role of the services economy and trade in structural transformation and inclusive development, as key issues for trade and development. Particular attention was given to infrastructure services such as energy, financial, telecommunications and information and communication technology (ICT), and transport services.

This session builds on the outcomes of the previous four sessions of the multi-year expert meeting on trade, services and development (2013-2016) and on the four sessions of the multi-year expert meeting on services, development and trade (2009-2012). This was therefore the ninth edition of this unique platform to develop an extended network of experts and partnerships, to improve understanding and generate policy insights to support countries' efforts to formulate and implement suitable and coherent policy, regulatory and institutional frameworks and engage in international trade, negotiations, trade agreements and cooperative frameworks, at multilateral and regional levels, which enable the development potential of services. The platform has served for policy options, exchange of experiences and lessons learned between countries and to enhance the coherent contribution of services to the 2030 agenda for sustainable development and its sustainable development goals (SDGs). Achieving these global goals is, to a great degree, a services agenda. The potential of the services economy and trade for economic transformation, growth, poverty eradication and job creation, is recognised in several goals and targets of these global goals. Many presume efficient and equitable services and their achievement relies on universal access to basic services and infrastructure, including health, education, water and sanitation, energy, financial, transport, telecommunication and ICT services.

The importance of the services sector derives from the servicification trends, where services have major contributions to output, employment and investment and an increasing relevance in international trade, where it has grown more than goods, more resiliently, and more in developing countries. In addition, services can provide intermediate inputs to all economic activities, be bundled with goods, and be developed within manufacturing companies. Through all these effects, the services sector induces efficiency, effectiveness, productivity and productive and export capacity, particularly in micro, small and medium enterprises. It can thus promote a structural transformation that can support diversification and upgrading aspirations. Harvesting this potential requires sound and evidence-based policy, regulatory and institutional frameworks. With these regulations as a precondition, international trade can strengthen services sectors and enhance this potential for a services-led growth through pro-development economic adjustment. It is therefore crucial to address domestic-supply constraints and to achieve coherence between several policy areas, as well as between these areas and trade liberalization.

This publication reflects the deliberations and results of the fifth session of the multi-year expert meeting on trade, services and development on services, structural transformation and inclusive development. Together with the multi-year expert meeting, this publication is part of UNCTAD's overall toolbox to assist countries in developing regulatory and institutional frameworks to allow harvesting the benefits of services for economic transformation and development. The Global Services Forum, also a part of this toolbox on services, is another important platform to share best practices and form partnerships in trade in services. UNCTAD has also developed country surveys, case studies and dedicated research. Services Policy Reviews, another central element of this toolbox, provide support to policymakers and regulators in assessing the potential of services productive capacities and trade and the robustness of regulations and institutions. This allows identifying constraints for the development of the services economy and trade and also practical solutions and policy options for best-fit practices to improve services performance. Services Policy Reviews draw on UNCTAD's longstanding experience of more than 20 years supporting the national assessment of services. This publication also draws from the results of this toolbox with a view to assist developing and least-developed countries to pursue their development objectives by strengthening their services economy and trade.

Services economy and trade for development

A. THE ROLE OF THE SERVICES ECONOMY AND TRADE IN STRUCTURAL TRANSFORMATION AND INCLUSIVE DEVELOPMENT AND SUSTAINABLE DEVELOPMENT GOALS

Mina Mashayekhi, Taisuke Ito, Bruno Antunes, Martine Julsaint Kidane

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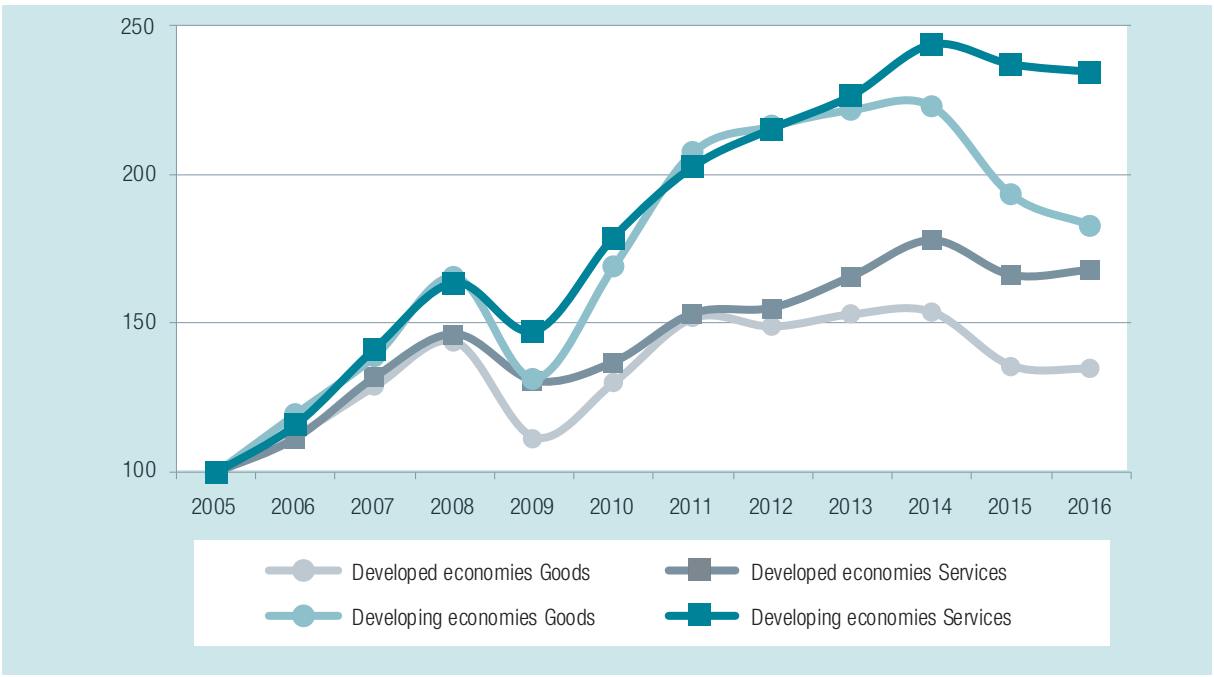
1. Services economy and trade for development

The growing importance of services for all income levels is reflected in the major contributions of this sector to output, jobs, and foreign direct investment (FDI). In developing economies, services accounted for 55 per cent of output in 2015 and 44 per cent of jobs in 2016. Services received 53 per cent of investment in 2015. In trade, between 2005 and 2016, the share of services exports in total exports increased from 24 to 28 per cent in developed economies and from 14 to 17 per cent in developing economies (figure 1). In this period, services exports had an annual growth of 5 per cent in developed economies and 8 per cent in developing economies, higher than the annual growth of goods exports for both income levels. In addition, services exports have been more resilient than goods exports. Globally, services exports decreased 11 per cent in 2009, in the global economic and financial crisis, and 6 per cent in 2015, in the trade downturn, much less than goods exports, which have decreased 22 per cent in 2009 and 13 per cent in 2015 (figure 1).

Trade in services has a direct contribution for development, with services exports growing faster in developing economies than in developed economies. Between 2005 and 2016, the share of developing economies in global services exports grew from 23 to 29 per cent (figure 1). Still, the largest global exporters and importers of services are mainly developed economies. In 2016, the top 10 exporters accounted for more than 50 per cent of global services exports. The same economies were also the top 10 importers in 2016 and have also accounted for more than 50 per cent of global services imports.

Figure 1. Growth of goods and services exports by income level, 2005–2016 (Index; 2005=100)



Source: UNCTADstat.

The decomposition analysis of services exports also reveals the different trade profiles according to income level. The focus of transition and developing economies in transport and travel continues to be higher and developed economies still more specialized in higher value-added categories such as financial services (table 1). The evolution of services exports in developing economies reveals that, in spite of these different trade profiles, services exports in developing economies are growing more pronouncedly in telecom and ICT, financial and other business services, all with an annual growth above 6 per cent between 2008 and 2016.

Balance of payment (BoP) statistics confirm the important dimension of trade in services. But cross-border services trade data captures only a part of services trade, as services trade increasingly occurs with commercial presence - mode 3 - and with the temporary movement of natural persons - mode 4. Commercial presence is the major mode of supply in services based in the growing trend on sales by foreign affiliates, if assumed it also derives from services, which reached $37 trillion in 2015.[1] In 2013, 69 per cent of services exports in the European Union were by mode 3. Taking into account the amounts of remittances, mode 4 is important for developing countries. In 2016, global remittance flows were $574 billion, with $429 billion flowing to developing countries.[2] The relevance of migration for services is also underscored by the fact that around 71 per cent of migrant workers are on services. Migrant workers accounted for 150 million of the 232 million migrants in 2013.[3]

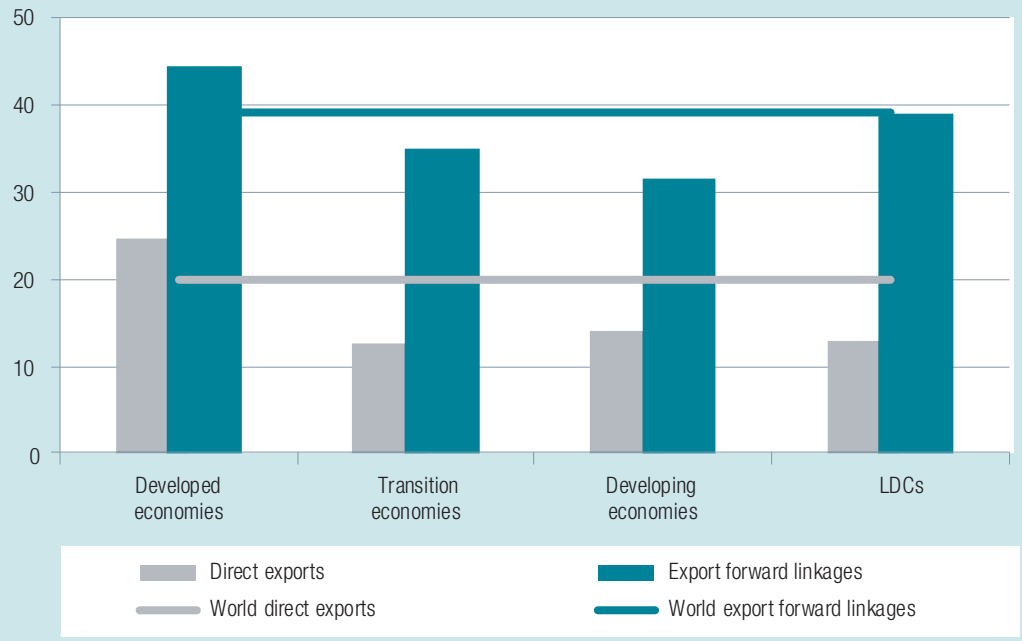
In addition to the direct effects of services on output, employment, FDI and trade, the services sector -and most notably the infrastructure services sector (ISS)- can provide intermediate inputs to all economic activities, facilitating productive and export processes. Furthermore, services are bundled with goods, for example with manufacturing firms that also provide the distribution services or with the machinery industry where maintenance, repair, and installation can be indispensable services to be sold with the good. These indirect effects of services imply that there is services value-added included in output and exports in all economic sectors - the forward linkages of services. While services direct exports in 2011 accounted for 25 per cent of total exports in developed economies and 14 per cent in developing economies, services represented 44 per cent of the value-added in total exports in developed economies and 32 per cent in developing economies (figure 2). The export of this services' value-added within products of all economic sectors is referred to as the mode 5 of services trade and is the reflection of servicification in international trade. The significant differences between direct services exports and services' value-added in exports from all sectors are also not captured in cross-border services trade data. Global gross domestic product (GDP) gains from liberalizing mode 5 services at multilateral level could reach up to €300 billion by 2025 and world trade could increase by over €500 billion.[4]

Table 1. Exports of commercial services by income level, region and category, 2016 (Percentage)

Services category	Developed economies	Transition economies	Developing economies	Developing Africa	Developing America	Developing Asia	Least developed countries
Goods-related	3.4	6.4	3.4	2.0	2.5	3.6	1.9
Transport	15.8	35.1	21.1	29.2	16.2	21.2	23.1
Travel	21.4	23.2	33.8	39.1	47.4	31.4	53.5
Construction	1.3	5.6	2.8	2.3	0.1	3.2	1.8
Financial	13.6	2.2	6.5	4.2	5.0	6.9	2.1
Intellectual property	9.0	0.8	1.4	0.3	0.8	1.5	0.3
Telecom and ICT	10.6	9.4	9.5	6.6	4.7	10.4	8.6
Other business	23.9	16.6	20.6	15.7	20.7	21.0	7.8
Personal. cultural and recreational	1.0	0.8	0.9	0.7	2.7	0.7	0.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: UNCTADstat.

Figure 2. Participation of services in total direct exports and in total forward linkages in exports by income level, 2011 (Percentage)



Source: UNCTAD based on the World Bank's Export Value Added Database (EVAD).

In addition, neither cross-border services trade data nor analyses of value added in gross exports captures the importance of services activities within manufacturing companies. Services support activities represented in 2015, between 25 and 60 per cent of jobs within manufacturing firms. Services inputs accounted for 37 per cent of the value of manufacturing exports for a large sample of economies but, by adding services activities within manufacturing firms, that share increased to 53 per cent and the contribution of services to overall exports was close to two-thirds.[5] The analyses of value-added in gross exports and of in-house services in manufacturing firms expose an importance of services for trade at the same level of their importance for output, jobs and investment; and reveal the increased services tradability, especially when linked with inherently tradable goods and services.[6]

2. The role of services in structural transformation

Services, including infrastructure services such as transport, energy, financial services, and telecom and ICT services, play a multifaceted role in development, and are central backbone of the 2030 Agenda for Sustainable Development. Services can contribute to many SDGs, including goal 1 on ending poverty - financial services in target 1.4; goal 2 on ending hunger - financial services in target 2.3; goal 3 on health services; goal 4 on education services; goal 5 on gender equality - financial services in target 5.a; goal 6 on water and sanitation services; goal 7 on energy services; goal 8 on economic growth and decent work - financial services in target 8.3 and 8.10; goal 9 on infrastructure - infrastructure services in target 9.1, financial services in target 9.3 and telecommunications and ICT services in target 9.c; goal 10 on reducing inequalities - financial services in target 10.c; goal 11 on human settlements - transport services in target 11.2; and goal 17 on means of implementation - ICT services in target 17.8. Achieving these global goals is to a great degree a services agenda.

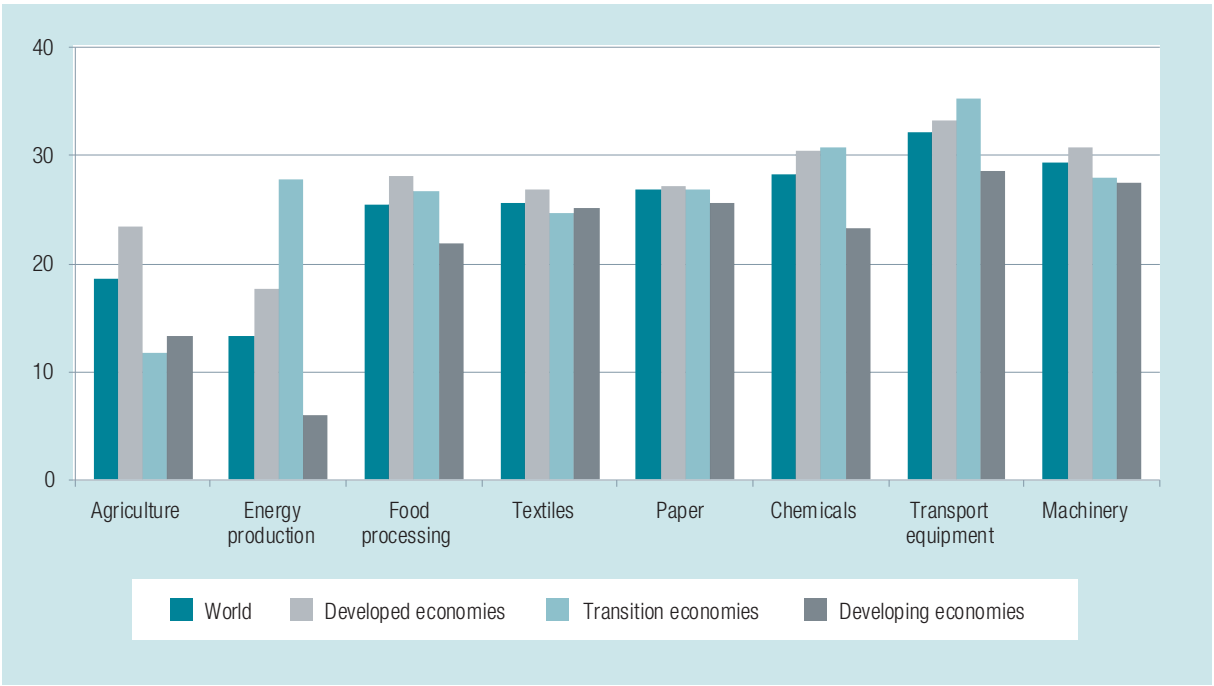
This central role of services derives from their direct contributions, from services value-added in all economic sectors and from bundled and in-house services in non-services firms. While directly exported value-added has increased in recent years, close to two-thirds of the growth of services value-added in exports is due to an increase in services embodied in exports of other sectors, particularly foreign services, revealing the growing importance of global value chains (GVCs). In addition, services create linkages

-providing the means for different activities to interact- and contribute to all stages of productive processes, mainly in back-office -for example business services- and production stages - e.g. quality control, engineering services, security services - but also on establishment, pre-production, post-production, and after-sales stages. This is particularly manifest in infrastructure services such as telecommunication and ICT services that allow for cooperation between different activities and participants in the production process. Knowledge and technology-based services have an intermediation function facilitating specialization and are crucial for economic transformation.

These effects can induce efficiency and effectiveness, the reduction of productive and trade barriers and costs, and thereby contribute to more productivity and increased productive and export capacity. Therefore, services change relative prices in the sectors to which they contribute, thus impacting production, employment, investment, trade and consumption decisions related to those sectors. This creates services-led changes in the economic structure, where some sectors become more important by building on support from the services sector - the backward linkages. In 2001, services' value-added represented 24 per cent of agricultural exports in developed economies and 13 per cent in developing economies. In textiles, services' value-added accounted for 27 per cent of sectoral exports in developed economies and 25 per cent in developing economies. Developing countries incorporate less services' value-added than developed countries in many sectors (figure 3).

The structural changes that derive from services may favour sectors which tend to have higher productivity, be more technological intensive or with more upgrading potential, leading to a services-led growth. Services are at the service of the whole economy by contributing to productivity growth through structural change and also by productivity improvement within the services sector. The first channel is associated with significant development opportunities, most notably because there are large productivity gaps between sectors in countries at low levels of income and a services-led economic transformation could represent an important productivity increase. The second channel has a two-fold development potential as productivity increase within the services sector contributes to overall productivity growth through the direct effects of services in the economy and through the effects of services in other sectors. The services sector is responsible for two thirds of total productivity growth in

Figure 3. Participation of services in total backward linkages in exports of selected sectors by income level, 2011 (Percentage)



Source: UNCTAD based on the World Bank's EVAD.

developing countries.[7] The impacts that services can have on a positive structural transformation - through the diversification of production, development of new productive capacities, and upgrading[8] - expands the debate on development options.

Opportunities may appear for economic agents to join value chains supporting exports, including in some cases for micro, small and medium size enterprises (MSMEs), which face a productivity gap between them and larger firms - wider in developing economies-, focus on low value-added production, and have higher trade costs. Services can improve their productivity, reduce trade barriers and costs, and allow for their diversification and upgrading. Financial services are mentioned in both targets of SDGs that refer to MSMEs (8.3 and 9.3), and telecom and ICT services promote MSME's inclusion, inter alia, through digital financial services and e-commerce. Services activities are also more amenable for MSMEs' as services are less dependent on economies of scale and are often less capital-intensive. Moreover, services can be providers of atomised inputs for different stages of broader productive processes. MSMEs can concentrate in producing such atomised services' inputs rather than face the challenge of producing the whole final product. The integration of MSMEs in broader productive processes and value chains also means that some costs are, to some extent, distributed by the several participants, such as reputational costs, costs of capital, and of technology transfer. This facilitated participation can provide the incentives for the formalisation of many MSMEs and for informal workers to enter formal labour markets.

Development linkages between services and structural changes were evidenced by shifts from low to high-productivity sectors in Asia leading to growth since 1990. Services are a transformative strategy that may promote industrialization as in Viet Nam where manufacturing grew rapidly and no less than one third of aggregate productivity growth was linked to services.[9] Still, services-led changes do not lead automatically to growth. In Africa and in Latin America and the Caribbean structural changes involved workers displaced to lower-productivity activities, including in services and the informal sector, and led to reduced growth. In Latin America, the contraction in the manufacturing sector forced a resource reallocation across sectors, contributing to this outcome.[10] Thus, services are more likely to support a positive structural transformation in countries with productivity growth in manufacturing. Successful countries have seen simultaneous productivity changes in services and other sectors, in a balanced growth strategy.[11]

3. Towards a coherent services trade policy, regulatory and institutional framework for structural transformation

In Africa, access to low-cost and high-quality services helps countries to participate in local, regional and global value chains. This requires services trade policies such as adequate openness and regulation.[12] Competition policy has been instrumental in South Africa's industrial policy toolkit to contribute to structural transformation, including on critical services sectors such as telecommunications, transport and financial services.[13] Priorities also include investment in physical and institutional infrastructure to remedy deficiencies that penalize agriculture, such as rural roads, electricity, telephone, and Internet. In Asia, China had several industrial upgrade phases in the process of economic transformation, including the build-up of special economic zones and industrial parks with competitive infrastructure and business environment. In India, the economy is found to be mainly services-intensive with 55 per cent of economic activities being services-intensive. While services and agriculture appear to have little inter-dependence, industry is highly services-intensive with 70 per cent of its activities being services-intensive. The services sector is more growth inducing than agriculture or industry but this potential requires growth impulses from all sectors.[14] In Latin America and the Caribbean, Costa Rica devised a strategy to generate human capital aiming to allow exporters of business services to upgrade into higher value-added segments of the value chain. This comprised vocational training, firms working with universities to design curricula, and the improvement of English skills.[15]

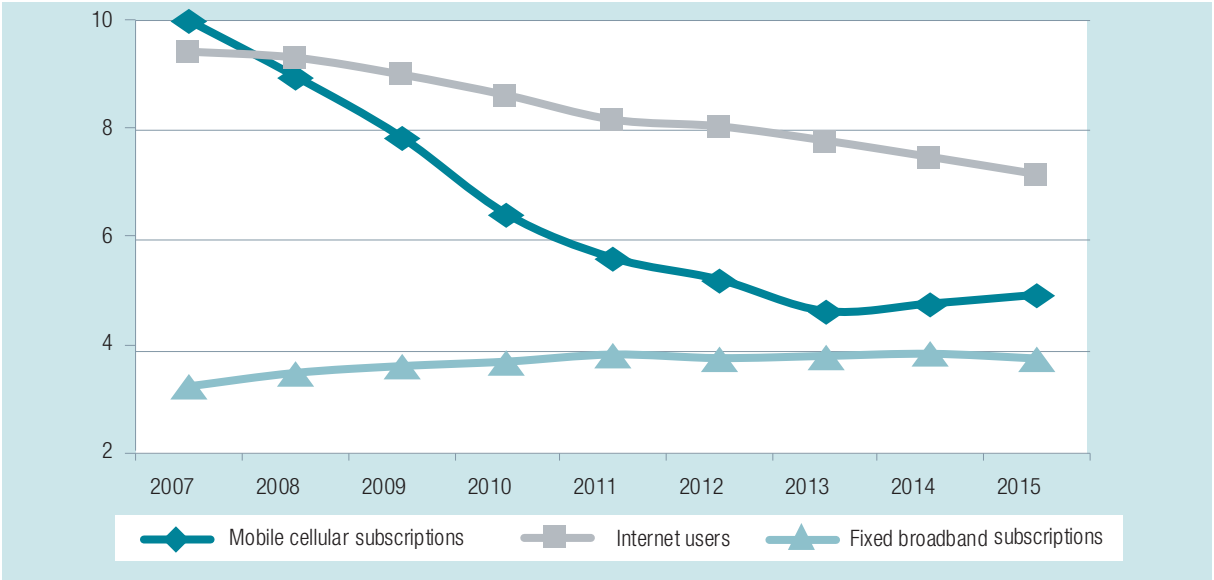
The above experiences, as well as UNCTAD research, confirm that harvesting the potential benefits of a trade and services-led structural transformation requires evidence-based policy, regulatory and institutional frameworks that are adapted to local conditions and introduced gradually. These are a key component of services policy and necessary to address domestic supply-side constraints, externalities and coordination issues, particularly in infrastructure services, minimising inadvertent trade-restrictive effects, and determining performance.[16]

Cross-cutting lessons for effective regulatory and institutional frameworks from UNCTAD's Services Policy Reviews (SPRs)[17] also point to the importance of policy coherence and coordination between services sectors and also with trade, investment, competition, industrial, social and other policy areas. This is facilitated by a multi-stakeholder approach to policymaking involving the private sector, such as coalitions of services industries. Regulatory design, which ensures policy objectives and avoids unnecessary restrictions, is a major component of ensuring coherence. Sound institutions and good governance are also required, including at sub-national, national, regional and international levels of coordination, strategy definition and resource allocation. Independent regulators are essential in ensuring neutral, effective and procompetitive regulation and their national, regional and international cooperation is important for trade facilitation, infrastructure development, and standard recognition and harmonization. SPRs also underscore the need for an enabling productive, technology and business environment, promoting business facilitation, the formalization of the economy, enhanced technology and producers association and clustering. Labour skills development is required as a qualified workforce promotes knowledge and technology-intensive services. This calls for a sound education strategy, both at technical and higher levels, that matches labour demand and provided skills and a strong interaction between the private sector, academia and policymaking bodies facilitating the identification of skills gaps and academic solutions. Evidence-based policymaking is also emphasized by SPRs to harvest the potential of services to structurally transform society by building on improved collection, treatment and analysis of services data.[18]

4. Sectoral services policies and regulations for structural transformation

Telecommunication and ICT services are essential for all economic activities, with digitization allowing for increased productivity and greater efficiency and reduced production, transaction and trade costs, as exemplified in digital financial services, e-commerce and ICT-enabled trade in general. Their inputs strengthen the supply capacity of the overall economy and their coordinating role in production networks, together with important innovation in digital technology, has promoted tradability and the development of GVCs, with a relevant inclusive role for MSMEs. Telecom and ICT services are recognised in SDGs, implicitly through multiple references to technology and innovation, and explicitly in targets 9.c and 17.8. Still, progress in reducing the digital divide between developed and developing countries remains insufficient with low/middle-income economies still lagging behind in terms of the number of Internet users and of fixed broadband subscriptions (figure 4).

Figure 4. Difference between global and low and middle-income economies in number of subscriptions and level of use of selected telecommunications and information and communication technology services, 2007–2015 (Per 100 users or subscriptions)



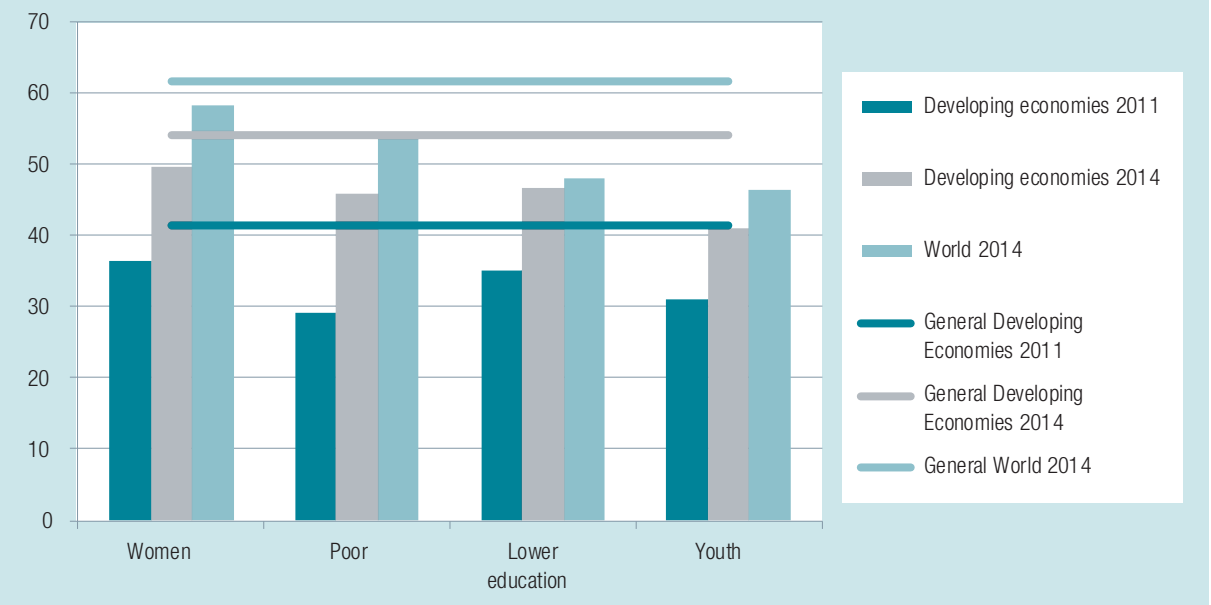
Source: UNCTAD based on the World Bank's World Development Indicators (WDI).

Regulatory and institutional frameworks remain critical to enable telecom and ICT services, connectivity and the transformative role of the digital ecosystem. Promoting universal access is essential, including by funding infrastructure and service uptake, provisioning grants, encouraging innovation and increasing demand, for example by extending digital literacy. Facilitating the investment and business environment, including by supporting tech clusters, is highly important. Regulators can play a role in public-private partnerships, by encouraging infrastructure and network sharing, spectrum pooling and using licence-based obligations. Ensuring competition is also crucial. Moving from rigid rules to a light-touch regulatory approach could promote a proportional approach. At the institutional level, sectoral regulators need to collaborate more in this environment of blurred inter-sectoral borders.

Telecommunications and ICT services have been paramount to connect consumers and providers through digital means allowing for e-commerce and ICT-enabled trade, of both goods and services. This facilitates MSMEs and individuals to connect to new domestic and foreign markets and GVCs, for example through online marketplaces, promoting competition, consumer choice and increased trade. The increase of Internet use in an exporting country is directly linked to the increase in the number and value of products traded.[19] An e-commerce divide still persists and an enabling ecosystem needs to be implemented. This includes the efficient provision of ICT connectivity and other infrastructure such as energy, payment services and e-commerce platforms. Regulatory frameworks are needed to build the digital economy with security, availability, affordability, convenience, and quality objectives.

Financial services facilitate transactions, mobilise savings and channel investment and credit for firms, including MSMEs, as well as households. Financial inclusion, defined as the effective access and use of affordable, convenient, quality and sustainable financial services from formal providers, needs to factor in the increased international provision of financial services. Financial inclusion is a central element of SDGs as acknowledged in several targets: 1.4, 2.3, 5.a, 8.3, 8.10, 9.2, 10.5 and 10.c. Access to financial services can also contribute to facilitated, speedier, safer and less costly remittances and to maximise the development role of remittances by facilitating options to invest these private funds in productive activities, social services and infrastructure.[20] This is important from a development perspective as a 10 per cent rise in remittances may contribute to a 3.5 per cent reduction in the share of people living in poverty.[21] Although progress has been made in recent years, a large variation in financial inclusion still exists in terms of income, region, gender and age (figure 5).

Figure 5. People with an account, globally and in developing economies, by gender, economic status, education and age, 2011 and 2014 (Percentage)



Source: UNCTAD based on the World Bank's Global Findex database.

Supply side policies regarding financial services include subsidies and mandatory requirements, such as universal services obligations, and sound and proportional regulations that address under and over supply, protect consumers, promote competition, and pursue balanced objectives of financial inclusion, stability and integrity. Best practices in risk management are needed, including a proportional approach and effective risk management, rather than risk avoidance as in the case of de-risking. Demand side policies include the Government using financial services, supporting information availability, financial literacy and consumer empowerment.[22] Digital financial services (DFS) play a key role building on ICT services to reduce infrastructure costs and increase coverage. DFS are more gender neutral and youth friendly. Developing DFS requires an enabling environment and infrastructure readiness,[23] including availability and reliability of energy and ICT services.

Energy services, electricity in particular, remain paramount to the prosperity of economies and to social welfare.[24] The availability of electric supply is essential for both economic development and quality of life and it is a key requirement for human development.[25] This is reflected in goal 7 of SDGs on energy. Although many developing regions have achieved levels of access to electricity close to or above 90 per cent, the status of Sub-Saharan Africa remains critical with only 35 per cent of the population having access to electricity in 2012. This requires a regional policy with harmonised regulatory frameworks that optimizes supply and creates common regional infrastructure, power interconnection and harmonisation of specifications, and common markets that facilitate cross-border energy trade.

5. The role of services-related trade policies and trade negotiations for structural adjustment

Linkages to international markets, by allowing access to foreign services and to inputs and factors that support domestic services, can strengthen services' contribution to the whole economy, to structural transformation and shifts in comparative advantages. The importance of trade for services is supported by the higher productivity of exporting services firms in low income countries than in non-exporting services firms. In financial services in China, the value added of the financial intermediation sector could double with trade openness in that sector as labour, capital, technology, and elasticity respond to liberalization policies.[26]

Therefore, having a sound regulatory framework as a precondition to trade liberalization, it is important to ensure that trade in services' restrictions are not unjustifiably undermining the role of services. Although some countries have reduced restrictions, mainly related to mode 3, there are tighter restrictions on the temporary movement of people to provide services, such as quotas, labour market tests and durations of stay,[27] restrictive visa and work permit rules and refusal to recognise qualifications and licences. Despite its importance, services trade continues to face relevant restrictions, particularly in professional services and transport. Addressing restrictions is particularly important taking into account that services trade costs are high and declining more slowly than trade costs for goods. Services policies and regulations are the determinants of trade in services costs and also of costs of downstream activities that use such services. Thus, active, appropriately combined trade policies are required to reform the services sector through its different dimensions such as trade negotiations, trade facilitation, market intelligence and trade promotion. Considering "mode 5" in trade negotiations would require adapting existing trade rules - including customs valuation and rules of origin - and the impact of reducing tariffs on goods based on the share of services inputs could be meaningful.[28] It is also important to address sectoral regulatory barriers, lack of competition, and barriers to the movement of people. Trade policy needs to connect with industrial policy to promote efficiency, innovation and enhanced productive and export capacity in services.[29] A "whole-of-supply-chain approach" is required to avoid policymaking in silos, while recognising the heterogeneity of services sectors.[30]

Efforts are needed to advance a global SDG-led services trade agenda in the international trading system. This points to the adequate content, pace and sequencing of liberalization so that regulatory and institutional frameworks are previously built and retain the possibility to adapt to new challenges, including those from liberalised markets. It also calls for skills development, social safety nets and adjustment mechanisms, including by allowing countries to adequate revise and use rollback mechanisms of commitments.[31] Support to developing countries remains paramount, for example through the use

of inclusive rules of origin, preferential treatment, flexibilities, experimentation, capacity building, and aid for trade to build supply capacity, towards an effective international trading system. International cooperation at bilateral, regional and multilateral levels is also necessary, particularly to strengthen national regulatory frameworks.

B. THE SERVICES ECONOMY

Julian Braithwaite

Ambassador and Permanent Representative, Permanent Mission of the United Kingdom of Great Britain and Northern Ireland to the United Nations Office and other international organizations in Geneva

1. The services economy

The services economy is crucially important for the United Kingdom of Great Britain and Northern Ireland. According to recent statistics, it has the highest services trade to GDP ratio of the G7 group of countries and the services sector accounted for 80 per cent of national GDP. We are increasingly seeing services being embedded in all areas of the global economy. My Swedish colleagues have coined the term "servicification" of trade. While the linguistic purist in me may wonder if another term might have been used, the phenomenon that it describes is real.

Conventional trade data (including in the United Kingdom's Office of National Statistics' services exports data) underestimates the importance of services because it only captures the first two modes of supply (cross-border supply and consumption abroad), but does not include modes 3 and 4. We also face the issue of services being embedded in goods for example the design and engineering components of technology, the marketing of a product or even the after-sale maintenance which are rarely captured. This is a fundamental problem if we are to work towards achieving the SDGs as good policymaking is dependent on being able to fully understand the challenges facing us. Without good data, the task in front of us becomes exponentially harder. The Trade in Value Added (TiVA) database from the Organization for Economic Co-operation and Development (OECD) and the World Trade Organization (WTO), as well as UNCTAD's databases on Trade in Services, Creative Services and Information and Communication Technology are all improving our understanding of the real world trade flows in these products and services.

Barriers to trade in services are often embedded in domestic regulation, rather than tariffs and customs at the border. Such regulation is often designed for other legitimate purposes. They may be deliberately or inadvertently trade-restrictive however. Furthermore, responsibility for domestic regulation is invariably spread across different departments, creating a coordination challenge for governments everywhere.

Services also enable trade. Financial and legal services organise payments, loans and investments, and enforce commercial contracts. Telecommunication services allow for services trade to take place over the Internet or over a phone call. Transport and logistical services allow goods to move around efficiently. These are essential services for businesses of any size and in all commercial sectors in any country. However, I urge you also to not forget, as services are embedded in goods, improving trade in services is also dependent on removing the barriers that face goods (both tariffs and non-tariff barriers).

The United Kingdom has also recognised the transformative role that the services economy can play in promoting sustainable development. In the International Economic Development Strategy published earlier this year, the Department for International Development plans to focus national efforts on sectors which can propel growth including on infrastructure and financial services as well as supporting the adoption of new technologies and skills – all of these crucial for the development of the services economy.

This brings me to digital trade. By reducing distance and transactional costs, digital trade has the potential to empower entrepreneurs and businesses of all sizes, connecting them to the global economy. The challenge facing all of us is how to ensure countries at all stages of development can benefit. The United Kingdom believes that the digital economy, digitally delivered services and e-commerce in particular, are important drivers to wider economic growth. This is especially true in the country, which UNCTAD's own statistics estimate to be the third biggest market in the world behind the United States of America and China in some sectors.

It is critical that any digital discussions in the trade forum should keep the development and inclusiveness agenda firmly in mind. The United Kingdom has been working, along with other delegations, to encourage the Geneva institutions to recognise the economic

potential of the global digital market and to work to break down some of the silos and remove barriers to digital trade. If the international system doesn't catch up with advances being made in services and digital trade this will be harmful to economies both of developed and developing countries and stifle the real opportunities for greater prosperity and achieving the SDGs that the digital economy provides.

2. World Trade Organization Council for Trade in Services

I have recently commenced my Chairmanship of the WTO's Council for Trade in Services, in a personal capacity. In December 2015, at the tenth WTO Ministerial Conference, Ministers agreed a Decision on the Implementation of the Preferential Treatment in Favour of Services and Service Suppliers of Least Developed Countries and Increasing LDC Participation in Services Trade. Ministers also tasked the Council for Trade in Services to: continue discussing and promoting the operationalisation of the waiver; facilitate an exchange of information on technical assistance measures undertaken to promote the increasing participation of LDCs in world services trade; and, further discuss any issues that may facilitate benefits provided under the notified preferences. It is my intention to carry out these Ministerial instructions and hope that the discussions at the multi-year expert meeting will help to inform this ongoing work just down the hill at the WTO.

C. PERSPECTIVE OF THE WORLD ECONOMIC FORUM ON SERVICES ECONOMY AND TRADE FOR DEVELOPMENT

Sean Doherty

Director, International Trade and Investment, World Economic Forum (WEF)

The following is a selection of very basic business and non-expert reactions to the issues raised in the background paper[32] of the meeting. Three main points are covered: how services are regarded by business; how cross-border services provision works; and how cross-border services provision could be made easier to support development.

1. The role of services

Firstly, the manufacturing / agriculture / services distinction is very blurred. Value added comes from putting tasks and inputs together in a smart way. This is especially the case for anything complex – which is most things in a modern economy. The distinction is of limited usefulness. However, services seem to be the largest part of economies and employment in most places. Depending on definitions, even for most core manufacturing, around 60 per cent of employment is arguably in service functions – in engineering, logistics and support.

This services dominance is increasing. A greater use is being made of subscription models for many consumer and business goods – from cars to electronics. The moment of purchase has become more of an ongoing relationship. Another development is asset sharing. Both of these can be very positive for developing country consumers – they lower both the initial outlay and the ongoing cost. Further, low marginal costs, particularly for digital services, mean services can be provided at price points that work for the poor.

Services sectors are sometimes politically unrepresented. Historically, there has been greater focus on the smaller numbers of manufacturing workers. The lack of focus on services workers can potentially be problematic in political decision making.

2. International trade in services

Services trade flows seem lower than one might expect as a proportion of trade. This stems partially from statistical issues – a higher proportion is seen when measured in value added terms. Nonetheless, services trade still seems low given the importance of services in the economy – which might indicate barriers to trade higher than for goods. This interpretation might be strengthened when comparing the General Agreement on Tariffs and Trade (GATT) and the General Agreement on Trade in Services (GATS). There is clearly a case for services liberalisation – a topic to be left to the experts at this juncture. There are many calls to start with liberalising services linked to goods-trade, i.e. logistics, finance, etc. This seems sensible in that it kills two birds with one stone. It is perhaps politically easier too.

Regardless, from a business perspective, much can be done to increase the attractiveness of services investment opportunities and to boost the export services. There are various instructive examples of

services offshoring in North and West Africa and multiple business process outsourcing developments. Clearly, such developments require reasonable telecoms infrastructure. Also particularly important is education and training. This may not be in traditional educational fields but rather in softer skills such as relationship management and customer orientation skills.

As services are not as fungible, the negotiation of where the value sits in an intangible exchange is more open. Consequently, commercial positioning and understanding is very important. Arguably, even more so than design and marketing, management becomes the differentiator.

3. Investment in services

Services investments often do not require large capital expenditure. The possibility to start small, even at the small and medium enterprise (SME) level, makes trade barriers even more impactful, given their larger relative size. In this context, it's worth mentioning perhaps that trade finance for services is somewhat underdeveloped.

4. Regulatory reforms and facilitation

Barriers to services trade are mainly regulatory, rather than tariffs at border. Often the provider is regulated, rather than the (ephemeral) service. This can be a greater psychological disincentive to the provider, as an ongoing source of risk. As services are typically people-driven, services regulation often needs to be understood by more people in an organization, than is the case for manufacturing. Simplicity and commonality are thus even more important.

Perfectly valid differences between countries, alternative ways to regulate, are still barriers in that they take time to learn. So coordination and coherence are important. This means ongoing dialogue and standards.

5. Services facilitation

Three main attributes to aim for, similar to those sought in trade and investment facilitation: transparency and information availability so people can figure out the rules; predictability and stability so businesses do not fear that things are going to change unexpectedly; and efficiency and effectiveness so the cost and effort involved in compliance is minimal.

Finally: services imply people. Services trade means people need to move. The World Tourism Organization (UNWTO) and others provide rankings of visa openness. Given the employment intensity of tourism, or the innovation value of educational services, keeping people away by making visa applications tricky is just bad policy.

D. THE ROLE OF INFORMATION AND COMMUNICATION TECHNOLOGY SERVICES IN THE SERVICES ECONOMY AND TRADE FOR DEVELOPMENT

Catalin Marinescu

Head, Strategy Division, International Telecommunication Union (ITU)

1. Introduction - digitalization and market openness

All countries are transforming into a digital economy whether they like it or not. It's like a freight train. You need to get on board or get left behind. Countries are under tremendous pressure to accelerate social and economic development and improve their competitiveness. A key element to this process is connectivity.[33] Making the digital transformation work for the economy and the society means to focus on policies that enable the effective use of digital technologies by people, firms and governments, and policies that foster the application of digital technologies in specific activities and policy areas. In other words, in order to underpin the benefits of digital economy, governments need to work together to facilitate digital trade across borders, whether digitally or physically delivered, address existing cross-border barriers and frictions, and avoid unnecessary new restrictions.[34]

2. Information and communication technology sector as a model

The ICT industry is one of the main service markets open to global competition. Thanks to the digital instruments brought by the fourth industrial revolution, new economic opportunities are being created, allowing firms to access new markets, and bringing new products and services to consumers with lower transaction costs and space and time constraints. ICTs provide in-

teresting examples for other sectors and markets that are in the process of opening up (e.g. postal, energy) to redesign the regulatory paradigms. The energy market is in the midst of a transformation, as technological innovation and global competition disrupt traditional systems. New digital solutions based on Internet of Things (IoT) call for decentralized business models enabling improved demand response and flexibility.[35] With Industry 4.0, integrated energy, digital twins, machine learning, predictive maintenance, smart materials, and networked and collaborative robots - cobots -, companies of all sizes today have a multitude of high-tech solutions to choose from. The prospect is impressive but it can't be fully unlocked without opening up to foreign markets and join effort in reinforcing institutions and infrastructure.[36]

Digital trade also opens opportunities for entrepreneurship, innovation and job creation, and digital tools can help firms (SMEs in particular) overcome barriers to their growth, by facilitating payments, enabling collaboration, avoiding investment in fixed assets through the use of cloud-based services, and using alternative funding mechanisms (e.g. crowdfunding).[37]

3. Key trends

This opening of the market has had great impact on access to ICT services –to the point that has become one of the most successful and inclusive infrastructure.[38] Analysis of ICT development index (IDI) 2016 shows that almost all of the 175 economies included in the index have continued to improve their level of ICT development. The average improvement over the year was 0.20 points, with significant changes among middle-income developing countries. Today, we can proudly note that there are seven billion people - 95 per cent of the global population - living in an area that is covered by a mobile-cellular network.

Mobile-broadband networks - 3G or above - reach 84 per cent of the global population. In most economies with data available, more than 80 per cent of the population use a mobile phone, and almost universal usage has been reached in Bahrain; Hong Kong, China; Qatar; and in the Republic of Korea. Long-term evolution networks have also spread quickly over the last three years and reach almost 4 billion people today - 53 per cent of the global population -, enhancing the quality of Internet use.

Improved interconnection and infrastructure have enabled accessibility and affordability of Internet access to customers. Globally, the price of a basic fixed-broadband connection fell from around $80 per month in 2008 to $25 in 2015, corresponding to a drop in the ratio of price to average gross national income (GNI) per capita from over 90 per cent to 14 per cent. Mobile-broadband prices fell from an average of purchasing power parity (PPP) $29 per month in 2013 to PPP$18 in 2015. Following, mobile-broadband services are offered in only 38 per cent of the LDCs; however, in those countries where the service is offered, handset-based prices more than halved in PPP terms between 2012 and 2015 and currently account for 11 per cent of GNI per capita.

4. Private and public sector commitment

The right incentives are necessary to promote greater investment, which remains a great concern, including supporting new business models within the ICT ecosystem that can help the private sector thrive, while also benefitting the consumer by helping bring more people online and making the Internet more affordable to individuals or communities without access.

The ICT sector also provides great example of how policy-makers and businesses can cooperate. Digital innovations in ICTs and a rise in market demand have had strong implications for government-owned telecom utilities and ICT infrastructure, including a trend toward deregulation and liberalization of telecommunications markets. Public sector defines rules of market and complements with policies of digital inclusion in the areas where markets are not competitive. Private sector deploys networks, build services, applications and manufacture equipment.

On September 17, 2009, the European Commission adopted guidelines on the application of EC Treaty state aid rules to the public funding of broadband networks. The guidelines provide what the European Commission believes will be a clear and predictable framework for stakeholders and will help European Union member states to accelerate and extend broadband deployment. The guidelines also contain specific provisions concerning the deployment of next generation access networks, allowing public support to foster investment in this strategic sector without creating undue distortions of competition. The guidelines take account of comments received during a public consultation.[39]

5. Lessons for other industries

This provides an example for other sectors. Having a global body facilitating discussions, defining global standards, providing platform for agreements and harmonization is fundamental to create synergies among regulatory frameworks and allow coherent investments in infrastructure that allow cross-border exchange of goods and services.

As ICTs transform many industries we have to keep an eye on how this transformation and the lessons learned in this market should be adapted to new dimensions of ICTs. Regardless to the industry of activity, businesses and societies of all size are affected by digitalization. SMEs, which are an important driver of innovation and job creation, stand to benefit from the digital revolution. And yet, as digitalization can transform companies, organizations and markets, it can also create challenges for inclusiveness. There are four main kind of challenges businesses face towards digitalization:

- Access - the ability to actually go online and connect to the Internet;
- Skills - to be able to use the Internet;
- Motivation - knowing the reasons why using the Internet is a good thing; and
- Trust - the risk of crime, or not knowing where to start to go online.

For organisations taking their first steps to go online, they can also face wider challenges such as needing to reorganising business processes and systems to benefit from going digital. Not having the right skills and capabilities, such as specialist information technology (IT) knowledge or understanding where to go for the right advice on security can also stop organisations from going online. For SMEs like individuals the biggest challenge is motivation and making the Internet relevant to their organisation. Past experiences and a lack of digital skills or capabilities reinforce this attitude. To benefit from going online it is necessary to overcome all the challenges of access, skills motivation and trust.

6. Message to governments

Where should efforts be focused to break down digital trade barriers? How can entrepreneurs - especially the young - be helped to reach the widest possible audience? The answer is connectivity and access. More than half of the world's population - 3.9 billion people - is still offline. So we need to invest in and develop infrastructure, especially in places where people need it the most. We already know that most people to come online by 2020 are likely to come from more urban areas, or areas that are already covered by infrastructure.[40]

7. Role of the International Telecommunication Union

ITU understands this and continues playing its part in promoting a good dialogue between all stakeholders, bringing the benefits to the society through the coordination of global resources, initiatives and projects that supports innovation and development of new technologies but, more importantly, working to ensure that the benefits of service economy and trade reach everyone. ITU believes in the power of partnership and collaborative initiatives that intend to become solutions that are of real and lasting benefit to people everywhere – wherever they live and whatever their socio-economic circumstances may be.

E. INTERNATIONAL ORGANIZATION FOR STANDARDIZATION: INTERNATIONAL STANDARDS FOR SERVICES

Belinda Cleeland

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1. The International Organization for Standardization services strategy

When you think of the car you drive, the food you eat or the house you live in, you know intuitively that manufacturers and builders must meet certain standards to ensure your car does not break down on the highway, your food is safe to eat and your house does not suddenly collapse over your head. Why should it be any different for services? You need to be sure that your tax payments arrive on time to avoid paying a fine, that the water you drink complies with sanitary requirements, and that your scuba instructor has all the relevant certificates of competence to be able to teach. ISO's commitment to developing service standards is borne out by the ISO strategy

for service standardization, which was adopted in 2016. Trade in services is expanding at a faster rate than trade in goods. Based on this observation, ISO anticipates that market demand for service standards will steadily increase and we want to make sure that the organization and its members will have the necessary tools and knowledge to respond to this demand, and to the challenges and opportunities it brings. ISO's mission is to respond to the needs of the services sector and to raise ISO's profile as a provider of service standards. ISO is a membership based network of national standards bodies. Through our members, we bring together experts to develop international standards ensuring products, processes and services are fit for purpose. ISO standards provide practical tools for tackling many of today's global challenges, bringing tangible benefits to business, society and the environment.

2. International service standards – providing opportunities for increased trade, economic growth and development

The growing importance of the services sector in the global economy is not only a well-documented trend, it is also a powerful opportunity to leverage millions of jobs and encourage the creation of more innovative companies. According to WTO statistics, trade in services represented 21 per cent of world trade in 2014 for a total value of $4800 billion. Moreover, despite global economic fluctuations, trade in services remained resilient, showing a steady growth of 5 per cent in 2014 compared with a 0.5 per cent increase in trade in goods. Although the services sector is most important in high-income countries, representing 72 per cent of GDP in 2007, it also makes up a significant and growing percentage of GDP in both middle - (53 per cent) and low-income (46 per cent) countries.[41]

With such clear trends, government and industry alike are looking for ways to promote trade in services and reap the benefits that come with it. International service standards are just one tool that can help them to do this, because they give confidence that products and services are safe, compatible, and fit for purpose. They can also facilitate regulation of services at national level and as they are international, provide governments with a convenient way to ensure they abide by their obligations under the WTO - namely, that any new regulations they introduce on services must not constitute unnecessary barriers to trade. Indeed, with an important part of trade costs being linked to service-related regulations, the less restrictive a country becomes in terms of trade (reduction on non-tariff barriers, in particular), the easier/cheaper importation and especially exportation of products and services becomes.

Basing regulations on international service standards not only helps states pursue their policy objectives through regulation without them being too restrictive, it also provides a presumption of conformity with WTO rules. This is because the WTO Technical Barriers to Trade (TBT) agreement explicitly recognizes the role that international standards can play in the harmonization of regulations and includes a requirement stating that "*Where technical regulations are required and relevant international standards exist or their completion is imminent, Members shall use them, or the relevant parts of them, as a basis for their technical regulations…*".[42] It also states that "*Whenever a technical regulation is prepared […] and is in accordance with relevant international standards, it shall be rebuttably presumed not to create an unnecessary obstacle to international trade*".[43]

Services, however, are not just about economic growth; they are also the road to development. Increased trade in services has been correlated with poverty reduction, as it is a catalyst for job creation, in particular jobs for women in developing countries. International service standards are practical tools to help companies, organizations and governments meet the SDGs' ambitious targets. These aim to solve international challenges that have no national boundaries. What better way to tackle them than by using international standards? For example, ISO has a number of service standards that directly support SDG 6 on clean water and sanitation. Globally, over 80 per cent of the wastewater generated by society flows back into the ecosystem without being treated or reused. ISO develops standards providing guidelines for service activities relating to drinking water supply systems, wastewater sewerage systems and water reuse (e.g. ISO 24510, ISO 16075). They help authorities to achieve a level of quality that best meets the expectations of consumers.

A closer look at the SDGs also highlights the crucial role of public services and the urgent imperative for

governments to improve and reform public utilities. There is no doubt that reforming and adapting public-sector services has its challenges as it means taking a number of socio-economic, environmental and political factors into consideration in the provision of services. Harnessing standards for trade and development must therefore take a realistic and inclusive approach that encourages actors from different countries and from the private and public sectors to work together. In addition, international standards for services can:

- Be used for conformity assessment - to enhance confidence and consumer trust;
- Offer the same level of consumer protection whether in a mature or evolving economy;
- Provide benchmarks for quality;
- Reduce uncertainty and information asymmetries;
- Improve comparability of services;
- Increase transparency;
- Provide business continuity for the service provider;
- Ease mutual recognition (e.g. of qualifications).

ISO has already published more than 700 standards related to services in various sectors, including finance, business, brand valuation, customer contact centres, outsourcing, assessment services, IT services, marketing, network billing and many more (box 1).[44]

3. Why the International Standardization Organization's standards for services? Global relevance and good standardization practice

As an international organization which places stakeholder consultation at the core of its standards development process, ISO is uniquely positioned to develop standards that are inclusive and globally relevant - addressing the needs of all stakeholder groups from developed and developing countries alike.

ISO's membership covers almost the entire globe, with more than three quarters of its 163 members being developing countries. However, with the "one country, one vote" principle, every country in the ISO system, whether large or small, can have the same influence in the development of an international service standard. Through the "Action Plan for developing countries 2016-2020", ISO also provides assistance to developing country members to build capacity, increase their participation in international standardization and fully exploit the value of standards. For example, many developing countries suffer from a weak national quality infrastructure (NQI), which can be a major impediment preventing their integration into

Box 1. International Standardization Organization's portfolio of international service standards

ISO service standards cover a wide variety of sectors, with the largest number of standards being in the sectors of business, financial and tourism sectors. The following list gives examples of the types of service standards in ISO's catalogue, and the committees that develop them:

- Business services, including IT and security services;[45]
- Financial services, including banking and insurance;[46]
- Tourism and related services (e.g. adventure tourism, diving, accommodation, sustainable tourism);[47]
- Educational services (e.g. language learning services);[48]
- Environmental services (e.g. water, sustainable procurement, environmental labelling and design);[49]
- Transport and distribution services (e.g. intelligent transport systems (ITS) service provision for travellers);[50] and
- Health-related and social services (telehealth, health and care for ageing societies).[51]

However, with the trend towards servicification, where services are increasingly being embodied in manufactured goods and traded as a "package", we are seeing more and more ISO committees in traditional sectors developing standards that can be used by industry to deliver performance-based services. As industries are moving from being more product-based to being more performance-based, the line between "product standards" and "service standards" is becoming more blurred. For example, ISO 19030, which defines a method for measuring changes in the hull and propeller performance of ships, has led to the servicification of paint and is changing the way ship manufacturers think. Paint companies are already using this standard to offer unique personalized contracts to customers. For a prescribed fee, they deliver a specific level of performance based on the standard. If the company fails to meet its promised performance, it charges less or nothing at all depending on the commercial model.

Source: Author.

regional and global markets, limiting the opportunities offered by trade, and hindering the ability to improve public welfare in vital areas such as health, safety and environmental protection. ISO supports developing countries to improve their NQI, which will help them in turn to better meet the SDG targets.

At the national level, ISO's members ensure participation in standards development from a wide range of stakeholder groups, including industry, government, consumers, labour organizations, academic bodies, and non-governmental organizations. The resulting standards for services represent consensus between all interested parties at the expert and country level - double layer of consensus - and can therefore provide objective, substantial and neutral criteria for service provision, which is one of the main reasons why ISO standards are used by policy makers and companies worldwide.

Another reason is that ISO follows the code of good practice and six core principles for the development of international standards that were defined by the WTO members in the TBT Committee: transparency; openness; impartiality and consensus; effectiveness and relevance; coherence; and addressing the concerns of developing countries.[52] This set of principles is complemented by the procedures set out in Annex 3 of the TBT agreement - the code of good practice for the preparation, adoption and application of standards.[53] Because ISO follows these six core principles and that the majority of ISO members also follow the code of good practice, policy makers can have confidence that they are not creating unnecessary technical barriers to trade when using ISO international standards to support their policy initiatives.

4. Challenges for international standardization in the services sector

ISO has a portfolio of more than 21,000 international standards. However, standards for services make up only a very small percentage of these - about 3 per cent. Given the economic importance of the services sector and growing international trade in services, why is this? For the most part, it is simply because standardization has historically been focused on products and processes and the rapid growth of trade in services is relatively recent. But despite the great potential of service standards to foster trade and development, there are some important challenges that ISO and its members face in terms of increasing the profile of service standardization and identifying opportunities for the development of service standards.

Stakeholder engagement is perhaps the biggest of these challenges. It is important to note that ISO only develops standards based on market need - the request for an international standard always comes to ISO because stakeholders in the sector are looking for a solution to a particular problem that a standard can provide. But in order for this to occur, stakeholders have to be aware of what standards are, the benefits they can offer, and how to get involved in the standardization system. The heterogeneity of the services sector and the high number of SMEs involved makes it more difficult for ISO members to engage with service sector stakeholders at national level. Since not all kinds of services have the same relevance in international trade, it is first a case of identifying which kinds of services can benefit most from international standardization, and then raising awareness of the stakeholders involved about the benefits that standards can bring them. Sectors of interest may be different in developed versus developing countries, or may vary by region. In addition, because SMEs often have few resources and are not the traditional stakeholders of standardization organizations, they may perceive standards as too costly or as obstacles to be complied with rather than opportunities to get a competitive advantage.

The highly regulated nature of the sector is another challenge. While there is a need to free up barriers to market access and ensure compatibility and interoperability, governments also need to ensure that they meet their regulatory responsibilities, for example to promote competition and protect consumers. However, as each government determines their service sector regulations individually, this leads to a situation where diverse regulatory requirements act as obstacles to services trade. We need to move towards regulations being based on objective and transparent requirements. International standards can help to achieve this and to bring about regulatory convergence, via their referencing in regulation, but the challenge lies with getting the regulators involved and convincing them of the benefits of using international service standards. Government stakeholders can sometimes be more difficult to get on board, partly because it is not easy to quantify the benefits of the standardization of government services, and partly because elected officials have finite mandates, so priorities in government are liable to change. Special investment and engagement on the part of standards bodies is required to overcome these challenges.

The role of services in structural transformation

A. SERVICES TRADE AND GLOBAL VALUE CHAINS: IT IS NOT WHAT YOU MAKE BUT WHAT YOU DO

Cecilia Heuser and Aaditya Mattoo

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In some ways, services play a role similar to goods in GVCs, whether they are meant for final consumption or as inputs in the production of goods or other services. However, services deserve special attention for four reasons, relating to how they are transacted, how they affect downstream sectors, how they are regulated, and how international cooperation can contribute to integrating national markets.

1. How services are transacted

The most detailed analysis of the role of services in value chains - drawing on the new world input-output tables and value-added trade databases - relates only to situations in which services are traded in a manner akin to how goods are traded. Even though the share of services in trade in value added varies across countries and industries, it is generally high (and rising) and considerably larger than the share of services in gross trade. While directly exported value added has increased in recent years, close to two-thirds of the growth of services value added in exports is due to an increase in services embodied in exports of other sectors - particularly foreign services, revealing the growing importance of GVCs.

The reasons for these developments are variants of the older arguments for why the share of services in GDP tends to grow: the splintering or outsourcing of services activities from manufacturing firms; the growing importance in a GVC world of connecting services like telecommunications and transport; the growing services component in sophisticated manufacturing goods, such as software in cars; and the increase in the prices of services tasks relative to manufacturing tasks because manufacturing tasks are easier to offshore to lower cost locations. However, there is little empirical evidence for these arguments, and understanding the reason for these developments should be an area for future research.

For services GVCs, there are good reasons to look beyond the traditional arm's-length cross-border trade data, to encompass also transactions within countries between national and foreign entities. While there may also be a reason to take a similar broad view of GVCs involving only goods, the case is overwhelming for services because focusing only on cross-border trade would ignore the large share of international transactions in services that takes place through consumers traveling to other countries, commercial presence, and the presence of natural persons. Even though our ability to measure the role in GVCs of international services transactions through commercial presence is limited - despite efforts by the United States of America Bureau of Economic Analysis and the OECD - ways have been found to estimate their economic impact.

2. How services affect downstream sectors

The argument that services can have a substantial economic impact because they are vital inputs into producing downstream goods and services may not seem a sufficient reason for separate consideration. After all, goods such as computers are also vital inputs. But two features of services seem to merit special focus. One is that the very existence of GVCs is due to improvements in services like transport, communication, and computing (or ICT services) that have made it possible to fragment and coordinate production globally.

Another is the growing evidence that when GVCs include finance, communications, transport, and professional and other business services in favourable price-quality bundles and diverse varieties, firms perform better. These services enable firms to invest in new business opportunities and better production technology, to exploit economies of scale by concentrating production in fewer locations, to efficiently manage inventories, and to make coordinated decisions with their suppliers and customers. The result can increase total factor productivity and other aspects of the performance of downstream firms. The development of domestic services sectors and access to foreign services can also shift the pattern of comparative advantage. Preliminary evidence suggests that trade-in-value-added data could help in understanding dynamic structural change and deindustrialization - areas that merit more analysis.

3. It is not what you make but what you do

Some have called for developing a notion of GVCs that goes beyond arm's-length market-based transactions to functions within the firm. It may be feasible to distinguish between tasks that would have been services if they had taken place at arm's length (such as book-keeping) and other tasks that are intrinsically agricultural or manufacturing in nature (such as wood processing). But such distinctions slide on a slippery slope: ultimately, almost any task can potentially be conceived of as an arm's length service. A horticultural labourer can be hired as a worker in a horticultural firm, or the labourer's "fruit-picking" services can be purchased from an individual or a firm. This kind of deconstruction of a firm into its constituent tasks could reduce each firm to a bundle of services regardless of what it ultimately produces.

Perhaps what really matters is not what a person makes but what the person does. For a long time, notions of economic performance have been closely tied to economic sectors - manufacturing, agriculture, and services. In a world of fragmented production, these distinctions are hard to sustain and may not be economically meaningful. Instead, the focus could be on the implications of performing certain tasks. Do product design and marketing offer greater scope for innovation and learning-by-doing and thus for productivity growth than product assembly? Such task-based analysis - perhaps initially focusing on occupational structures - could be more help than the traditional sector-based analysis in comprehending the implications for individuals and countries of the new international division of labour.

4. How services are regulated

Even though most services markets are much more open today, thanks to unilateral liberalization, services reforms remain incomplete, and barriers to domestic and foreign competition persist. In fact, most of the policy barriers to competition and to FDI are not in goods but in services. Many countries that have reaped huge benefits from the liberalization of trade and investment in goods, continue to maintain restrictions on trade in services. Trade in transport services, in particular, remains impeded in both industrial and developing countries by the exclusion of third-country providers and by quantitative restrictions in bilateral agreements. Trade through commercial presence in banking and communication services must confront restrictions on foreign ownership and regulatory requirements that can be discretionary and discriminatory. The presence of foreign professionals is prevented by restrictive visa and work permit rules as well as by a refusal to recognize their qualifications and licences. And trade in all data-intensive services is threatened by diverging national privacy laws.

5. How international cooperation can contribute to integrated services markets

International cooperation in services has attempted to replicate the goods model of reciprocal market opening, but so far that approach has delivered little incremental liberalization. Because the impediments are different for services-related GVCs, international cooperation needs to take a different form. Much more could be achieved through a greater emphasis on regulatory cooperation. First, and most obviously, greater regulatory convergence - as in prudential regulation-intensive financial, health, education, and professional services - is needed to create more integrated markets in which competition, economies of scale, and GVCs can develop. Second, credible regulatory commitments by exporting countries to safeguard the interests of consumers in importing countries - as for deposit protection when capital flows internationally or privacy when data flow internationally - could also induce greater liberalization of explicit barriers to international transactions by providing importing countries with the regulatory reassurance they need.

B. TRADE, TECHNOLOGY AND MODE 5 SERVICES: WHAT IS AT STAKE FOR DEVELOPING COUNTRIES?

Lucian Cernat

Chief Economist, DG Trade, European Commission. The opinions expressed in this chapter are those of the author and do not necessarily represent the views of the European Commission. This note is based on A. Antimiani and L. Cernat, 2017, Liberalizing mode 5 services: how much is worth?, DG Trade Chief Economist Note 4/2017.

Mode 5 services represent not only a growing share of global trade in goods but also an important economic

activity that support tens of millions of jobs worldwide. For the vast majority of WTO members, the significance of mode 5 services is considerable across all sectors, in some cases reaching around half of the final value of the exported products. Given their widespread use, all countries and all sectors would have the potential to benefit from the liberalization of mode 5 services in an international agreement. Mode 5 services such as product design, research and development (R&D), engineering and IT services are high-value added and intrinsically linked to technology. Their importance for securing a competitive advantage in global trade and especially in the context of global production networks is indisputable not just for advanced economies but also for developing countries that continue to rely on more traditional sectors, including agriculture, mining, or textiles and clothing. Several authors have suggested that service inputs affect firms' export capabilities positively and that buying-in more services is linked to higher export intensity for firms in some industries[54] as well as to increases in total factor productivity growth, especially in high-skilled intensive industries.[55]

For instance in the mining sector, an important driver of export potential for many developing countries, digital mode 5 services such as IoT are making a big difference. Running earth-moving machines in remote, harsh environments is costly for a developing country mining firm, if such equipment breaks down often and in unpredictable ways, making the repair process long and difficult. By introducing remote sensors and IoT technology in mining equipment and by applying predictive analytics, the typical maintenance cost of $650,000 can be reduced to only $12,000.[56] Advanced digital mode 5 services (the Internet of farming) are also revolutionizing agriculture in the developing world. For instance, Kenyan farms are now equipped with water tank, soil moisture and plant sensors that transmit remotely essential crop parameters to small farmers. Similar IoT technological solutions are deployed in banana plantations in Latin America. Such technological upgrades lead to improved productivity and better compliance with international standards required along the supply chain (sanitary and phytosanitary (SPS), product traceability, logistics, etc.).

All these examples illustrate the growing importance of embedded mode 5 services in major products of export interest for developing countries. However, when these mode 5-enabled products are exported by developing countries, or when they become part of processed exports by other countries, mode 5 services often pay duties. Even if certain primary or intermediate products are imported duty-free in their first country of destination, tariffs can escalate considerably along global supply chains leading to fairly high rates of protection.[57]

If mode 5 services would be exempted from duties worldwide, that would unlock new sources of trade-led growth in developing countries. Based on the latest Global Trade Analysis Project (GTAP) dynamic computable general equilibrium model, the global gains that could be derived from a multilateral mode 5 initiative were estimated in two scenarios to simulate the possible impact of a mode 5 initiative.[58] In the first one, a set of tariff cuts is introduced on mode 5 services embodied in goods exports. Each country receives a multilateral tariff cut on its exports according to the share of services embodied in its goods. The second scenario adds a productivity enhancing effect of such an increase in mode 5 services trade, in line with estimates from recent research.

The global GDP gains from liberalizing mode 5 services at multilateral level are thus estimated to reach up to €300 billion by 2025 and world trade could increase by over €500 billion. The results suggest that all regions in the model - both developed and developing ones, including LDCs - stand to gain considerably both in terms of additional economic growth and export potential. A number of manufacturing sectors, for which both tariff levels and share of mode 5 services are high, benefit greatly (e.g. textiles, motor vehicles, metal products). Apart from manufacturing, processed food stands out among agricultural sectors while business services exports are set to expand under traditional GATS modes of supply. It is worth nothing that a multilateral mode 5 initiative will increase the share of embedded services and will lead to an increase of both domestic and foreign services content, thus offering an additional boost to GATS services trade.

Both real-world mode 5 examples and economic projections show that developing countries have a developmental interest to ensure that trade rules will remain up to date with technological changes and business realities. Liberalizing mode 5 services would provide a good opportunity to further develop the competitiveness of traditional and new industrial sectors in the developing world. But this potential will be stifled if tariffs are still applied on mode 5 services. WTO members need to reflect on how GATT and GATS rules operate when it comes to 21st century technology-intensive manufacturing sectors.

The obvious question is then how to address the growing importance of servicification in the context of existing trade rules. For instance, could existing WTO rules covering mode 5 be extended and included as part of various policy proposals (e.g. services trade facilitation, e-commerce) in the lead up to the 11th WTO Ministerial Conference in Buenos Aires, Argentina (MC11)? Should mode 5 services feature specifically in plurilateral negotiations, like the Trade in Services Agreement (TiSA)? Alternatively, can a more ambitious set of coherent mode 5 rules be agreed in a bilateral context as a part of future free trade agreements (FTAs)?

The right policy answer to this important set of questions needs to reflect the views of developing countries, as it involves a number of important trade policy considerations, both at multilateral and bilateral level. While waiting for international consensus on these issues, the existing evidence clearly shows that mode 5 services have outgrown by far the narrow trade rules currently governing them.

C. SERVICES TRADE AND ECONOMIC TRANSFORMATION: MODELS AND EVIDENCE

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1. Introduction

While much of the debate on economic transformation centres on transforming agriculture and moving into manufacturing, services are often an unexplored component of such strategies. A proper understanding of the trade dimension of services is also important for policy-makers in low income countries (LICs), many of whom may not regard services - let alone trade in services - as a prime focus of action on economic transformation. By contrast, policy - including policy directly affecting trade in services - can have a major impact in raising the contribution of services for economic transformation. A sceptical view often exists that services follow rather than lead transformation, but it is important for economies to follow a balanced growth path because of the explicit and implicit linkages between sectors. Policy-makers need to update their evidence base on these linkages and carefully consider what specific actions deserve priority. Even when promoting manufacturing exports is the top priority, the answer can often be found in trade in services policy.

The observation that an increase in incomes goes together with an increasing share of services in economic activity dates back to at least the 1940s. The earlier theoretical contributions suggested a linear path of transformation in which resources, such as labour and capital, shift from agriculture to manufacturing. The dual sector model by Lewis emphasises this concept of transformation in terms of shifts in labour shares between sectors, which is perceived to be positive, as manufacturing embeds larger benefits than more traditional sectors (e.g. agriculture). These benefits, some of which apply also to services, include increasing returns to scale and a larger income elasticity of demand, in addition to the effects of employment absorption, productivity increases and spillovers. As economies develop further and move beyond manufacturing, an increasing share of resources flows to services.

More recent evidence suggests that the growth of the service sector does not happen in a linear way. Eichengreen and Gupta[59] suggest that the increasing share of services in the economy occurs in two waves. During the first wave, traditional services emerge at low levels of income. At higher levels of income the share of services increases further and particularly includes modern services, including communication, finance, computer and business services. Rodrik argues that developing countries reach their manufacturing peak - measured as real value added as a percentage of GDP - earlier in what he calls premature deindustrialisation, with an increasing share of activity and employment taking place in the services sector, albeit at low-productivity levels. Balchin et al explored the literature and the available data to understand the links between trade in services and economic transformation. This

chapter summarises that report: it first describes three different models on the role of services, then presents selected new evidence, and finally concludes with some implications.

2. Models of services and economic transformation

Broadly speaking, there are three different concepts of a services-led economic transformation strategy. First, a strategy for services at the service of the economy as a whole, including manufacturing and `agriculture, means tackling many problems in low-income countries. Access to services is low in Africa generally (e.g. electrification rates), and the costs are high where there is access. For example, road freight, water and electricity services in African countries are twice as expensive as in other developing countries. High trade costs will hamper the development of (manufacturing and agriculture) value chains and economic transformation. Moreover, the interest rate spread (between deposit and lending rates) is currently two percentage points higher inmaximize Sub-Saharan Africa than in other developing countries (both low income and middle income countries) - an inefficient intermediation function will hinder transformation and diversification. Growth diagnostics and value chain analyses often find that specific service sectors are binding constraints to growth and development. Several studies find a positive link between the productivity of services and that of manufacturing[60] and between the productivity of services and that of agriculture.

The second services strategy is to maximise service export revenues and capital inflows, and see specific service sectors as contributing to growth in the scale of the economy (or as growth "escalators") - but sometimes this is done without sufficiently considering the links to the rest of the domestic economy. In this situation, the links to the wider economy and transformation are more complex. On the positive side, increased export revenues from, for example, ICT or financial services are welcome. However, this will also attract more short-term capital, which could be risky and inflationary, increase the real effective exchange rate and draw in resources such as skills, which would hamper the competitiveness of manufacturing and agriculture. Manufacturing is traditionally the main sector responsible for the diffusion of innovation and productivity change, but it has lost competitiveness and performed poorly in much of Africa. Kenya is often suggested as a country where services have grown much faster than manufacturing.[61] Conversely, Mozambique's exports of services are not very dynamic: only 17 per cent of total exports. Tourism is sometimes considered as an enclave industry with few linkages, but it can also be a major source of GDP, jobs and foreign exchange as in the United Republic of Tanzania. There is also potential to develop backward linkages from tourism to the rest of the economy, particularly to the food and beverages processing industry, agriculture and fisheries, and services sectors. However, value chain and backward linkages from tourism to other sectors remain underdeveloped.

Some authors have pointed to a third services-led transformation concept, the agglomeration of low-skill informal services around urban areas. As people move out of agriculture, and migrate from rural to urban areas, the current type of industrialisation, especially in many African countries, creates insufficient numbers of jobs to absorb new labour market entrants (Rodrik's "premature deindustrialisation"). These people end up in low-productivity services or are engaged in services activities with few productivity increases. We see that many African counties have urbanised without urban jobs, whereas Asia countries urbanised with jobs. It is important that African countries experience a different type of urbanisation in the future, with high-productive industrial and services jobs.

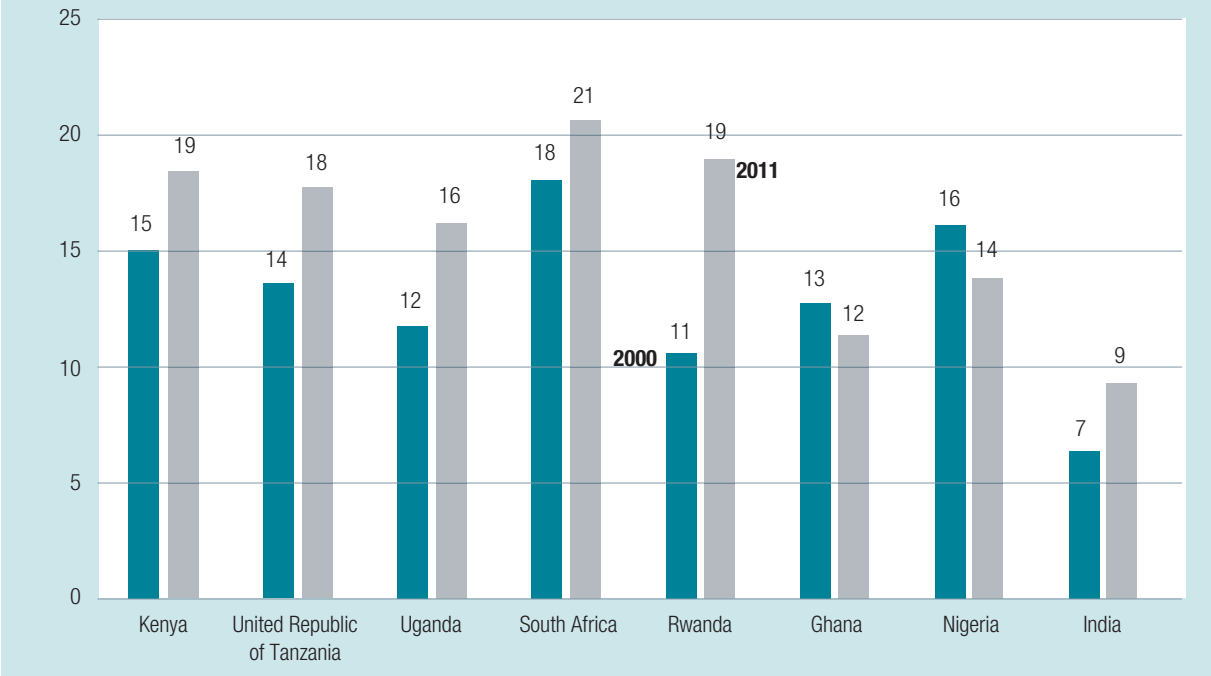
A key overall discussion is how to move into high-productivity services or how to improve the productivity of services that feed into other sectors. Diao et al discuss recent research on economic transformation, which has two implications for the role of the services sector in economic growth in developing economies. Focusing on recent growth accelerations, they argue that the services sector has contributed to labour productivity growth in developing economies through structural change (primarily in Africa) and through productivity improvements within the services sector (primarily in Latin America) and sometimes through both channels (primarily in East Asia). They also show that in many African countries, within-sector productivity growth in the services sector (and in most other sectors, with the exception of agriculture) has been weak and sometimes negative. Without more focus on within-sector productivity improvements in services (and manufacturing), it is suggested that the structural change-led growth path will peter out in Africa.

3. What does the evidence tell us?

There is great potential for services to drive economic transformation; there are already important direct effects from services on trade, productivity and employment; but mixed linkages with other sectors and GVCs. The existence of large productivity gaps between sectors, including services, at low levels of income suggests significant opportunities for structural change (movements across sectors) to raise productivity. This means that at lower levels of income, countries can increase productivity by moving across sectors away from agriculture; whereas at higher levels of income, productivity increase may be associated more with improvements within sectors. This might include functional and process upgrading in value chains. Productivity differentials between sectors decrease as levels of income increase.

Productivity differentials also exist amongst services firm within a services sector. This is already well documented in the goods sector, but the same applies to the service sector. Low and high productivity services firms often co-exist in uncompetitive settings, with large differences in labour productivity across firms within sectors in LICs. As exporting services firms in LICs have a 46 per cent higher labour productivity than non-exporting services firms and labour productivity of exporting services firms is significantly higher than in exporting non-services firms (and the differential is highest in LICs), trade plays a key role in stimulating within sector productivity change, especially for services in LICs. Trade in services has expanded at a faster rate than trade in goods since 1991 in more than half of the LICs examined. LICs' services are increasingly traded as intermediates into other countries' production and increasingly as part of value chains of goods and services. Trade in services has grown markedly in LICs and services exports grew faster than exports of goods. The share of services value added in goods exports from LICs has grown from 16 per cent in 1992 to 22 per cent in 2012. Thus services are increasingly "traded" through trade in goods. Input-output data was used to calculate the contribution of the services sector to value addition in exports for a number of African countries as well as India. Data shows that the services share in value added in exports increased in all countries listed, apart from Ghana and Nigeria where increased commodity prices increased the share of the primary sector. After South Africa, Kenya holds joint second position with Rwanda, but increases have been much faster in Rwanda (figure 6). This could imply that developing country services are

Figure 6. Contribution of the service sectors to value addition in exports of selected countries, 2000 and 2011 (Percentage)



Source: Authors using EORA database. Services include financial and business, hotels and restaurants, post and telecommunications and transport.

increasingly linked to exports, which could be good news - but at the same time it could be bad news if the costs of services have increased while services productivity has not increased.[62]

Services have also been dominant in aggregate productivity change. Taking total labour productivity change and considering individual developing countries, empirical evidence suggests the growth in productivity in the services sector explains much of the total productivity change. The services sector accounts for the majority of the labour productivity change in many developing countries between 1991 and 2013. Even in countries that have experienced major expansion of the manufacturing sector, such as Bangladesh and Viet Nam, the services sector is responsible for a substantial part of aggregate labour productivity change (figure 7). When taking the average of productivity growth across developing countries, services are responsible for two thirds of total productivity growth. This suggests that, in addition to becoming a major employer in many developing countries, services are also responsible for most of the increase in productivity observed in the past 25 years.

There are three broad types of effects of services:[63] (i) direct impact (employment, exports, GDP); (ii) indirect impacts through input–output analysis (jobs and output in supplier industries); and (iii) second-order effects, for example productivity effects and forward linkages. The report summarized in this chapter explores the link between services and economic transformation in financial services in Kenya and Nigeria; hydropower transmission services in Lesotho and Nepal; ICT services in India, Mauritius and Senegal; tourism services in Mauritius and the United Republic of Tanzania and trade in air transport services in Ethiopia and Kenya, comparing the performance of Ethiopian and Kenyan airlines.

The sectors illustrate the wide variety of impacts of trade in services on economic transformation, but each example is successful in its own way. Financial services lead to export revenues and inward FDI and employs often skilled workers, but its role as an intermediary between savings and investment opportunities drives the extent to which transformation effects are felt throughout the economy. Hydropower generation and transmission services can drive economic transformation if their export revenues are used effectively and if they supply local industry with quality and sufficient electricity. ICT services have become important for many developing countries, in terms of generating export revenues and jobs but also in driving transformation through the rest of the economy. India is the frontrunner but, in Africa, Mauritius is also an established player with other countries starting to explore the sector, including Senegal. Tourism services is a starter service, easy to access for poor countries, with job generation potential, but the impact of transformation depends on the cross-sector linkages. Finally, we cover trade in air transport services, which is another backbone service with potential knock-on transformative effects.

4. Implications

Policy makers need to update their evidence base on the role of services in economic transformation. The day of simple, linear progression from agriculture to manufacturing, followed by services are long gone. Over the past 25 years, the services sector has become more important in terms of direct trade as well as embodied in goods trade. The services sector is the dominant sector in aggregate productivity change. The main challenge is how countries can promote the services sector in a way that support exports and jobs in the services sector (as escalator sector), whilst supporting other sectors in the economy (at the service in the economy) and not ending up as a sink of low-skill workers with few prospects (associated with premature deindustrialisation). Rather than a passive approach, if a country wants to use the services sector, it needs active support to avoid services becoming delinked from the other sectors or absorbing only low labour productivity emanating from premature deindustrialisation.

D. THE SERVICIFICATION OF GLOBAL VALUE CHAINS: EVIDENCE AND POLICY IMPLICATIONS

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The GVCs framework gained a lot of traction in the past decade to describe global production, analyse value creation along supply chains and answer policy questions related to trade, competitiveness and development.[64] Focusing on sequences of value added within an industry, from conception to production and end use, this framework acknowledges that services

Figure 7. Decomposition of labour productivity growth, 1991–2013 (Percentage)

Source: Authors based on WDI.

and manufacturing activities are intertwined. However, services are exported not only by services firms but also by manufacturing firms. These firms increasingly export services that are bundled with material goods (e.g. installation, maintenance and repair services). Through this process, firms create more value and try to accompany the existing product all along its life cycle.[65] Moreover, services are not just inputs or products bundled with goods, they are also the output of value chains. While supply chains are generally shorter for services, there is also a fragmentation and internationalisation of production for services.[66]

More recently, services have also been described as value-creating activities as their role is to create value all along the GVC. Services lead to higher value creation and are part of a shift towards more productive and more customer-centric production models where value can be seen as co-created with consumers.[67] The servicification of manufacturing means that the manufacturing sector is increasingly relying on services, whether as inputs, as activities within firms or as output sold bundled with goods.[68] The phenomenon is intrinsically related to GVCs as it is through the deployment of services that they operate. But it goes beyond as services are also redefining the way companies produce value. Against this backdrop, the chapter presents some recent evidence on the servicification of GVCs as well as some policy implications related to the specificities of services in GVCs.

1. Services account for about one third of value-added in manufacturing sales and exports

Services account for a much bigger share of sales or exports when looking at flows in value-added terms. The decomposition of manufacturing exports according to the industry of origin of value-added highlights the important role played by services inputs in GVCs. The share of services' value-added in manufacturing exports goes as high as 40 per cent for textiles and apparel and food and beverages. On average, a bit more than one third of manufacturing exports consists in value-added originating in services industries. All manufacturing industries tend to rely on the same mix of services inputs. Over time, there is an increase in the share of foreign services value-added rather than more services value-added in manufacturing value chains. The main trend is the internationalisation of services in GVCs.

2. Adding their in-house provision, the contribution of services increases to half of manufacturing value-added in sales or exports

Another important dimension of the servicification is the role played by in-house services within manufacturing firms. These activities can be identified as services in the sense that if they were outsourced they would belong to services industries. This servicification inside manufacturing firms is more difficult to assess and to measure. One way to look at services activities within manufacturing firms is to analyse labour force surveys and occupations related to services activities in manufacturing industries. Using this methodology, some recent work at OECD suggests that on average 18 per cent of the value-added in exports comes from the in-house provision of services.[69] As a result, instead of one third of the value-added originating in services, we now have on average half of the manufacturing value-added corresponding to services activities, either outsourced or insourced.

3. Services are often sold bundled with goods

A third aspect of the servicification is that services are increasingly sold bundled with goods. When statistics distinguish goods and services and identify firms producing goods or producing services, it is to a large extent artificial as manufacturing firms are responsible for a significant share of services sales and exports. Some empirical work done at OECD with the ORBIS firm-level dataset indicates that manufacturing firms are often involved in wholesale and retail trade activities, and that it is often the same firms providing the manufacturing and the distribution activity. Related to distribution services, many manufacturing firms are also involved in transport services, particularly when the goods to be transported require specific types of technologies and skills that generally come from the same sector. The other categories of services bundled with goods illustrate some indispensable services that are required to export goods. In the case of the machinery industry, maintenance and repair, as well as installation, are indispensable activities without which companies could not sell the sophisticated machines they manufacture.

4. Global value chains in services: value networks and value shops

While the servicification is often referring to the transformation of manufacturing industries, the way services operate has also changed. In the financial, transport, telecoms, distribution or other business services sectors, companies have broadened the range of services they provide and created new types of relationships with customers. The value chain is well suited to describe industries where raw materials are transformed and value is added to more processed products in a sequential way culminating in the final product. Some service industries, such as construction and food services can fit into this model. But this is not the case of most services, for which two additional types of value creation are suggested.[70] The first one is the "value network" where value is created by linking customers. In the case of insurance services, for example, the value comes from the fact that there is a large group of insured people who share a risk and pay for the losses of a few. The second model of value creation more adapted to describe value creation in certain services industries is the "value shop". Value is created by solving customer problems, involving experts and professionals. While standard processes are required for value chains, tailored solutions are the objective in value shops, such as in professional services, consultancy, engineering, and R&D services. It is important to understand that what we regard as GVCs is a mix of these different business models. Some empirical analysis suggests that in all countries there is an increase in the value created as part of value shops. Emerging and developing countries follow the same trend than OECD countries, pointing out that this shift is universal and not the result of the specialisation of specific economies in service activities.

5. Concluding remarks and policy implications

TiVA statistics already emphasised that services account for half of world trade in value-added terms. A new stylised fact is that, when adding the in-house provision of services in manufacturing firms, the share of services in manufacturing exports increases from one third to 50 per cent. Moreover, on the servicification of GVCs, there is a higher use of foreign services as inputs in exports, replacing domestic services inputs. Services value chains are becoming more and more international. Also, there is a more qualitative shift with services redefining the way manufacturing companies produce value. Bundles of goods and services suggest that firms increasingly provide "solutions" to customers that combine goods and services. In addition, an analysis of value creation through the three models proposed also highlights the raise of "value shops" in the value-added in exports, confirming this trend towards activities that solve problems and co-create value and productivity with customers. In the digital era, services are not only the enablers of GVCs, i.e. the activities that are deployed for international production networks to operate, but also the drivers of value creation. Services are part of a "business ecosystem"[71] where collaboration with customers, partners and contractors is the key to innovation and productivity.

Policy implications of GVCs included removing tariffs and non-tariff measures affecting imports of intermediate goods, streamlining customs procedures and carrying out domestic service reforms that can improve the provision of efficient services inputs.[72] These traditional trade barriers are still relevant in a world of services' GVCs, particularly when taking into account that services are traded embodied in goods and therefore impacted by trade rules on goods.[73] Through a cascading effect in the value chain, trade policy instruments such as tariffs and non-tariff measures have an impact on embodied services. The prevalence of bundles of goods and services also suggests reinforcing the consistency of trade rules on goods and on services. But the shift towards value networks and value shops also points to additional reforms. In value networks, the main trade barriers are generally sector specific regulations and lack of competition. Rules related to data localisation or commercial presence requirements can also prevent companies from creating a network of users across borders. In value shops, the main barriers are related to movement of people. Beyond trade, skills and innovation policies play an important role in the development of value shops. The prevalence of services activities within firms also suggests looking at whether services outsourcing or offshoring should be facilitated and is not blocked by restrictive policies. There is an economic rationale in keeping some services activities in-house, particularly when they are complementary with the core activities of the firm. For example, the literature has recently put the emphasis on the benefits of co-location for R&D and manufacturing activities. What regulators and policymakers should ensure is that the choice between outsourcing and insourcing is based on economic reasons and not policy-distorted.

II

Services trade policy, regulatory and institutional frameworks for structural transformation

A. PERSPECTIVES FOR SMALL AND MEDIUM ENTERPRISES

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Without a doubt, services play an increasingly important role for many developing countries. As a joint agency of the United Nations and the WTO, ITC's mandate is to support our parent organizations' regulatory, research and policy strategies, and implement and deliver practical trade related technical assistance projects. Whereas UNCTAD focuses on research and policy, and the WTO focuses on trade rules, ITC focuses on businesses and exporters.

1. International Trade Centre's support to micro, small and medium size enterprises trading in services

ITC works with and for MSMEs and with trade and investment support institutions (TISIs) and policy makers who provide support to MSMEs in their country. MSMEs are ITC's most important beneficiaries and working directly with MSMEs on capacity building is what distinguishes ITC from many other international organizations. ITC's offering in services focuses currently mainly on three areas: tourism; IT and IT-enabled services (ITeS); and e-commerce activities.

Tourism constitutes for many developing countries the single largest foreign exchange earner. Tourism has linkages into many other parts of the economy, contributing to job creation and poverty reduction. It is estimated that one out of every ten jobs worldwide is directly or indirectly interlinked to tourism. Tourism's potential to contribute to sustainable development is strongly reflected in the SDGs. Taking this into account, ITC and the UNWTO have entered a strategic partnership to aggregate the two organizations' resources and competencies and to share perspectives in the process of rethinking a joint approach to Aid for Trade in tourism. ITC hosts the UNWTO's liaison office in Geneva, inaugurated at the beginning of 2017, the international year of sustainable tourism. ITC and the UNWTO already work together in Myanmar and the Gambia, and are looking forward to expand the technical assistance work in other countries by taking a holistic view of the tourism value chain and aiming to address issues at every step along this chain.

Information technology and ITeS offers tremendous opportunities in cross-border trade in services, and increasingly developing countries are getting a foothold in international markets. ITC projects and programmes in IT and ITeS build the export capacity of SMEs and help them connect to international markets in a sustainable manner. For example, in the context of the Netherland Trust Fund project, ITC helped to improve services offerings and reach out to global customers in over 100 IT and ITeS companies in Bangladesh, Kenya and Uganda.

E-commerce is rapidly changing the landscape of international trade and provides exciting opportunity particularly for MSMEs. It enables them to build an international reputation, access markets and participate in the international value chain in ways previously only feasible for larger companies. However, SMEs in developing countries struggle to capture these benefits as they lack awareness, lack access to payment and logistics solutions, and suffer from burdensome technical requirements in target markets.

To bridge e-commerce divide, ITC "e-solutions" and "Virtual Market Places" projects take MSMEs in Jordan, Morocco, Rwanda, Senegal, Tunisia and other countries by hand and guide them through the e-commerce process chain from establishing business online, accessing e-payment, cross-border delivery to finally providing satisfactory customer service in aftersales. These projects have helped MSMEs make real sales through e-commerce to customers in Europe and expand their business through enhanced online transactions.

2. What we have learned on the policy side

So, what we have learned on the policy side that really matters to the MSMEs from our technical assistance projects? On tourism, infrastructure is a big challenge in many developing countries and LDCs, but policies are also relevant. Visa openness and open sky agreements are critical to ensure mobility of international tourists. Investment policies regarding the establishment of hotels and resorts and regulations for tour operators often have a significant impact on the development of the sector.

On IT and ITeS, most of exports are supplied cross-border via the Internet, which is to the advantage of MSMEs. Nevertheless, temporary movement of professionals, recognition of education and

qualifications are often on the watch list of the private sector, as well as emerging issues such as data regulations, privacy and cybersecurity, which may have an impact on business models and growth trajectories.

On e-commerce, it cuts across various types of activities and has triggered much policy discussion, including at the WTO and UNCTAD. This is why last year ITC produced a highly downloaded publication "Bringing SMEs onto the E-commerce Highway", which analyses the major policy bottlenecks and provides policy recommendations for developing countries to increase e-commerce uptake by MSMEs. The report provides a comprehensive framework to analyse e-commerce policy issues in four components that are important to SMEs: establishing an online business, international e-payment, cross-border delivery, and aftersales - and the three layers of competitiveness: firm capability, business ecosystem and national environment. This layout allows policymakers to assess e-commerce policy issues at the different levels, focus interventions where they will be most effective and identify actionable policy recommendations to remedy weaknesses in e-commerce environment.

To strengthen the voice of business in the policy discussion, ITC is also conducting an SME e-commerce survey, which gathers first-hand information on the challenges SMEs encounter in cross-border e-commerce and puts them in the context of the current discussions at the WTO. The survey has attracted about 2000 respondents. Preliminary findings show that logistics are still a major bottleneck for MSMEs, with a cost of logistics in the final price of e-traded goods twice as high in developing than in developed countries. Speedy implementation of the Trade Facilitation Agreement can help to address this. MSMEs in developing countries also express concern about a lack of access to international e-payment solutions and they find it hard to predict whether and which duties will be applied on returned products. MSMEs are also concerned about their own lack of technical knowledge, language skills and weaknesses to raise visibility of their offering for consumers abroad. As a consequence, many firms abandon their attempts to get onto the e-commerce high-way, with female owned companies getting stuck earlier in the process than male owned companies.

3. International Trade Centre: from micro, small and medium size enterprises to policy makers

All of these policy challenges need to be addressed for the healthy development of the services sector and services trade in the developing countries and LDCs. For policy makers, UNCTAD's SPRs and Trade Policy Frameworks (TPFs) are very useful tools that contribute to formulation and implementation of trade and services policies, providing broad frameworks to guide countries on improving policies and conducting reforms. ITC complements this work with an offering based on lessons learned in ITC's projects and programmes and tailored to the needs of MSMEs.

First, ITC works on trade intelligence, which is vitally important for informed policy decisions. ITC has developed a suite of market intelligence tools, such as trade map, investment map, all containing useful information on services trade. ITC's web-interfaces are particularly friendly for enterprises who are interested in exporting. In addition, country specific services' snapshots serve as a tool to help policymakers acquire an at-a-glance overview of a country's services development and services' exports. ITC also deploys a comprehensive firm-level survey that enables developing countries to assess their SME sector's strengths and weaknesses, helping policymakers and the private sector to make more informed policy decisions.

Second, based on trade intelligence, ITC helps countries develop their national export strategies, including specific services sector development and export strategies. These export strategies are developed in partnership with governments and provide useful blueprints for actionable measures on the policy side to develop services sectors and boost services exports. At the recent global review on Aid for Trade ITC launched a most recent offering in this area: the joint ITC-UNWTO national tourism export strategies.

Third, ITC works on building knowledge and negotiation capacity for policy makers who wish to take MSME concerns and positions into account in their work. ITC has developed a number of e-learning courses for policy makers on services trade, e-commerce, ICT and digital trade, and hosts face-to-face workshops such as the ones on digital trade and preparing LDC delegations for the LDC services waiver negotiation at the WTO.

Fourth, ITC works on strengthening capacity of TISIs, which play an important role in channelling business voices into the policy making process and promote export and national branding. ITC projects, for example, have helped the coalitions of services industries in developing countries to conduct industry mapping and organize public-private dialogues, through which policy makers can hear directly from the industries and have a better understanding of their needs and concerns.

Another policy perspective important for ITC is gender, which is particularly relevant for services. Studies show that services employ more women and provide more opportunities to women entrepreneurs. Nevertheless, there're many challenges for women to tap into services trade. ITC's survey finds that the gender gap is particularly large in the digital sphere. 40 per cent of women-owned firms said they were not familiar or comfortable with using technology for their business; women-managed firms were 12 per cent less likely to use email than men-managed firms; and in developing countries women were 8 per cent less likely to have access to the Internet than men. Bridging gender digital gap is crucial for ensuring equal participation of women in international trade and other economic activities. Through the SheTrade project, ITC aims to connect one million women entrepreneurs to the market by 2020 and increase the participation of women entrepreneurs in international supply chains.

4. Lessons learned and conclusions

ITC is a 100 per cent Aid for Trade agency and has been in the business of providing trade related technical assistance for over 50 years. Through projects and programmes, ITC has learned the following:

Policies need to catch up with business reality. The business world is moving ahead much faster than before and it is becoming increasingly challenging for the policy world to catch up with its pace. Advancements such as the Internet and digital technologies have fundamentally changed the way people do business, and opened doors for MSMEs, providing them with the tools that were previously available only to large corporations. At the micro level, ITC is seeing that many MSMEs are "born global". They rely on digital technologies to establish their own global supply chains, no matter how small the company is, and supply their products and services to the global market. At the macro level, technologies change production and consumption patterns and there is a trend of "servicification" where services account for increasingly larger shares in companies' inputs and outputs. Policy makers need to catch up with these trends and provide MSMEs with matching support. This is the reason ITC has been focusing on the new frontiers, such as cross-border e-commerce, digital trade, innovative business models and new tools for business growth.

Soft infrastructure is as important as hard infrastructure. When discussing challenges for developing countries' SMEs to access global market, lack of infrastructure is often identified as a major challenge. Surely, roads, ports and telecom networks are vitally important for connectivity and trade flows. But, where it may not be feasible to improve this hard infrastructure in a short time, making the best use of the existing infrastructure can make a big difference. This is where soft infrastructure comes into play. Improved regulations, reducing red tape, and improving transparency can all contribute significantly towards reducing trade costs and improving trade flows. An example is the implementation of the WTO's Trade Facilitation Agreement.

In the services world, regulation is even more important, as services trade is mostly affected by behind the border domestic measures. This is the reason why ITC, and many international organizations including UNCTAD, invest so much in disseminating best regulatory practices and building an enabling business environment. Results of these interventions might be hard to measure in terms of sales and transactions, but they do play a key role in sector development and advancing services trade.

B. POLICY DIMENSIONS OF TRADE IN SERVICES AND ECONOMIC TRANSFORMATION

Maximiliano Mendez-Parra

Senior Research Fellow, ODI. *This chapter summarises the policy dimensions in Balchin, N, Hoekman, B., Martin, H., Mendez-Parra, M., Papadavid, P, Primack, D., te Velde, D W, 2016, Trade in Services and Economic Transformation, SET report, November. London: SET.* *The authors are grateful to the UK Department for Development for supporting this research, however, only the authors are responsible for the views expressed (or any errors).*

Productivity differentials are large and occur across countries, across services and other sectors and between firms within services sectors.[74] This suggests a lot of opportunities for economic transformation in the services sectors. However, the debate about the determinants of these differentials is far from being settled and more detailed surveys and studies are needed. Services play a key role in aggregate productivity change and successful countries have seen productivity change in services and other sectors at the same time. This balanced growth story is not surprising given the many links (qualitative and quantitative) between services and other sectors. This confirms previous conceptual discussions with new empirical evidence on how services are embodied in goods trade – developing manufacturing without quality services is difficult if not impossible.

In addition, there are different ways in which services contribute to economic transformation. For instance, there is heterogeneity in the impacts of different services sectors on employment. Certain services are important revenue and foreign exchange earners (e.g. hydropower, tourism, ICT); and in some, visible linkages with the rest of the economy are more prominent (e.g. suppliers in tourism). Finally, some sectors are key for supporting productivity and trade in other sectors (e.g. ICT, logistics, finance) and these linkages are perhaps less visible. As important as documenting the relevance of trade in services in transforming the economies of LICs[75] is to highlight the different policies that can enable and foster economic transformation. Some of these policies can be targeted to influence the actions of stakeholders trading in services in LICs, whilst others may operate horizontally, enabling the flourishing of a service sector that contributes to the economic transformation.

1. Trade policy (directly affecting trade in services) in low income countries

Firm-level evidence suggests exporting is good for productivity in services firms. As it is in the case for goods, openness (defined as the extent to which firms export) is related to transformative effects in the services sector. Broadly speaking, evidence suggests that export promotion is also likely to be important for services producers and economic transformation more generally. As imported services are an important part of the value added embedded in a country's goods exports, it is also necessary to remain open towards imports in services. Openness to FDI is also important. The effect of foreign ownership on labour productivity is large and positive, although the effects in the services sector in LICs are not as strong as elsewhere. The effect of foreign ownership is not homogenous within services and foreign ownership in some services sectors has higher labour productivity.

Trade policy plays a crucial role in opening markets, regionally and internationally (e.g. in airline services). An open service sector will increase competition and help domestic services firms become more competitive. In the selected case studies, trade in services is mostly regional. In these contexts, it is important to liberalise trade in services within individual regions. Trade in hydropower services is a good example of this for landlocked (small) states.

2. Other policies in low income countries

The presence of certain basic factors is critical for success in some services sectors. This includes natural resources/endowments and structural factors for hydropower (Lesotho, Nepal) and tourism (Mauritius, United Republic of Tanzania) or a skilled workforce and telecommunications infrastructure for ICT. Active services policy can play an important role in promoting exports of services. This comprises, for example, the development of software technology parks (India) and a cyber city (Mauritius) to support ICT services. The productivity of services firms in LICs that supply exporters is low on average, so there is economic transformation potential by raising the productivity of these services firms, which will have knock-on effects on trade in goods and services, etc.

An appropriate domestic regulatory framework for services is important to promote competition and improve efficiency (as for example the liberalisation of domestic regulations in telecommunications, allowing entry of new players, has shown in Mauritius and Senegal), thereby ensuring services exports are competitive in international markets. Regulation and political economy considerations are particularly important in large services sectors. Liberalisation, however, needs to recognise the complicated nature of the regulations that affect trade in services. Many regulations are embedded in the respective domestic regulatory frameworks. These regulations may be reasonable and perfectly justifiable by addressing certain standards of quality (i.e. certification of medical

practitioners). But they can also constitute a formidable impediment to trade in services. Consequently, more innovative and alternative approaches may be required to overcome the constraints to liberalisation.

In the tourism sector, for instance, several developing countries have implemented domestic regulatory frameworks that are non-trade-distorting. Mauritius, South Africa and Uganda have begun to liberalise air access (although not completely) together with some broader regional initiatives. Cabo Verde has implemented a liberal regime for tourism support services such as transport handlers. The United Republic of Tanzania has encouraged privatisation and the Gambia has been open to foreign ownership and FDI. In ICT, Mauritius and Senegal have made extensive efforts to liberalise their telecommunications sectors, allowing entry of new players and ending monopolies and exclusive rights, thereby improving efficiency and making their ICT services exports more competitive internationally.

There is also a range of mechanisms available to negotiate better access for developing countries' services exports. At the plurilateral level, large developing countries such as China and India are actively negotiating accession to the WTO General Procurement Agreement (GPA), which may boost their market access to public works and services contracts in GPA member countries. Regional negotiations are also important, particularly for facilitating mutual recognition of services sector qualifications to facilitate services trade, such as that achieved through Mutual Recognition Agreements (MRAs) among the Association of Southeast Asian Nations (ASEAN). Finally, bilateral services negotiations have very occasionally, with many qualifications, facilitated access for mode 4 services from developing countries (e.g. in Chile's FTA with the United States of America or Colombia and Peru's FTA with Canada). This is particularly important for labour-intensive services sectors such as ICT, health and education where developing countries have a comparative advantage.

3. Case study: financial services in Kenya and Nigeria

Regional integration has helped Kenya develop onshore and offshore financial hubs, whereas the Nigerian banking sector has depended greatly on the injection of funds from oil exports into the economy. Kenya's domestic capabilities in the financial sector are greatly helped by mobile technology, such as M-PESA, but Nigeria's trade in financial services has been hindered by economic instability and an absence of corporate governance. The financial sector in both countries has failed to link sufficiently with the domestic real economy, and regulation of the sector has been too light-touch. Policy-led integration with East African Community has boosted Kenya's trade in financial services. Nigeria has no clear strategy to promote trade in financial services, and a lack of integration has hampered the development of the sector. Export development programmes are mostly directed at goods rather than services (financial services excluded).

4. Case study: hydropower in Lesotho and Nepal

The ability of Lesotho and Nepal to export electricity to their regional neighbours relies critically on the further development of a regionally interconnected grid infrastructure to facilitate transmission services. This is particularly urgent for Nepal, whereas Lesotho could exploit the existing interconnections between Southern African Development Community (SADC) member states through the Southern African Power Pool. In addition, because we are dealing with large-scale investments in small countries, it is even more important to consider the governance and coordination arrangements around attracting investment and investing the revenues in transformative development. This requires a flexible and adaptive approach where governments and other local actors experiment with policy interventions and adapt when necessary. Such an approach has begun to pay dividends in Nepal, where it was successful in setting up a mechanism to coordinate investment in the hydropower sector.

Both countries have bilateral trading arrangements with large emerging market neighbours (India, South Africa). Nepal's trade in electricity with India is facilitated through transmission interconnections at the border, but these remain limited. Hydropower exports are also affected by India's restrictions on electricity imports, including an import tariff and a surcharge tax.

5. Case study: information and communication technology in India, Mauritius and Senegal

Basic factors need to be in place to take part in exports of ICT services, including a skilled workforce and

telecommunications infrastructure. ICT is already an open sector, but active policy also plays a fundamental role. The government of Mauritius, for example, has proactively developed a cyber city, attracted investment and helped upgrade the sector. The Indian government has developed software technology parks which provide access to high-quality Internet and facilities to support the competitive delivery of IT and ITeS and have helped to attract FDI. In Senegal, the sector is markedly less developed, and much still needs to happen to develop the necessary ICT-related infrastructure and human capital required to drive its development. In the longer term, the potential of ICT to contribute to the economic transformation of the country depends on the extent to which ICT services enhance productivity and the sector's linkages with other sectors.

Liberalisation of telecommunications to allow entry of new players (and reduction of tariffs on computer imports in Senegal) was important for recent ICT services development in Mauritius and Senegal. India still faces mode 4-related work permit issues in IT services.

6. Case study: tourism in Mauritius and in the United Republic of Tanzania

The United Republic of Tanzania has enjoyed higher absolute growth in tourism export revenues, albeit off a much smaller base. Mauritius made more progress in diversifying beyond sun, sea and sand tourism (beach holidays) and into other types of tourism, principally through growing medical tourism and business tourism subsectors. Relatively good quality tourist-related infrastructure and a skilled labour force support the tourism services sector in Mauritius. In contrast, in the United Republic of Tanzania deficiencies in the availability and quality of tourist-related infrastructure and a shortage of relevant skills in the domestic economy adversely affect tourism services exports. In both countries, developing the sector further depends on appropriate skills development, finding new markets to further expand tourist arrivals, using open skies policy with liberalised bilateral agreements (Mauritius, for example, could do more to liberalise air transport services) and building better linkages between foreign companies and local firms.

Although positive progress has been made in liberalising the air transport sector in Mauritius, it still maintains stringent protectionist policies over its skies compared with the United Republic of Tanzania, resulting in relatively limited connectivity by air. The United Republic of Tanzania has made important progress in liberalising air travel, marking it as an easily accessible tourist destination with good air transport connectivity between domestic locations.

7. Case study: air transport in Kenya and Ethiopia

Both Kenya Airways and Ethiopian Airlines have been successful in attracting tourists and developing other sectors, such as flower exports, which are crucial for economic transformation. Ethiopian Airlines has a diversified growth model involving the provision of domestic, regional and international passengers transport services, cargo services and maintenance, repair and operations services. This facilitates strong linkages between the company and the rest of the economy, bringing greater opportunities for economic transformation. The main factors behind the success of Ethiopian Airlines' large expansion plan include its aggressive targeting of the Asian market, numerous bilateral agreements, successful governance structure and unregulated labour market in Ethiopia. This has helped to keep costs low relative to competitors including strong competition from the large Middle East airlines in the African market. Recent estimates suggest the company's fares on its intra-African routes are between 10 and 21 per cent higher thanks to restrictive bilateral agreements that exclude other competing airlines. Ethiopian Airlines has also been successful in expanding its regional network through strategic partnerships within Africa, thereby enhancing access to Western, Central and Southern African markets. Furthermore, partnerships with Asian airlines have helped the company to expand into the Asian market.

Kenya Airways has not been as successful in capitalising on growth in air travel in the Asian market, nor has it managed to expand its regional network as successfully. Furthermore, higher operating costs mean the company has struggled to engage in competitive pricing and remains heavily reliant on government funds. Both airlines have code-sharing agreements and partnerships with other airlines (e.g. StarAlliance for Ethiopian Airlines).

C. ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT SERVICES TRADE RESTRICTIVENESS INDEX: SERVICES TRADE POLICIES AND THE GLOBAL ECONOMY

Frédéric Gonzales

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Services generate more than two-thirds of global GDP, employ the most workers in major economies and create more new jobs than any other sector. The OECD-WTO TiVA database reveals that services represent more than 50 per cent of the value added in gross exports, and over 30 per cent of the value added in exports of manufacturing goods. Efficient services sectors are thus important in their own right, and essential for manufacturing competitiveness.

1. The Organization for Economic Co-operation and Development services trade restrictiveness index

The OECD Services Trade Restrictiveness Index (STRI) catalogues barriers to services trade and identifies potential scope to unlock growth through regulatory reform. Launched in 2014, the OECD STRI presents an up-to-date snapshot of services regulatory regimes in 22 sectors across 44 countries, accounting for over 80 per cent of global services trade. This evidence-based tool allows policymakers to assess reform options, benchmark them relative to global best practice, and assess their likely impact; helps trade negotiators identify restrictions that most impede trade; and is a source of regulatory transparency for businesses seeking to enter foreign markets. The OECD STRI project provides:

- STRI database of laws and regulations in force, updated annually (currently covering 2014-2016), verified and peer-reviewed by regulators and trade officials;
- Composite STRI indices quantifying restrictions on foreign entry and the movement of people, barriers to competition, regulatory transparency and other discriminatory measures that impact the ease of doing business;
- Empirical analysis assessing the impact of services trade policies on economic performance and trade costs; and
- STRI online tools allowing users to compare regulatory regimes across countries and to simulate the impact of policy reforms. The STRI Internet page is a single window to the STRI regulatory database, interactive tools as the "compare your country" and the "policy simulator", methodological notes, and links to analytical OECD trade policy papers on services trade (table 2).

2. Services trade restrictiveness index regulatory database

The STRI database monitors changes in services trade policies on an annual basis (figure 8). Trade liberalising reforms between 2014 and 2016 have been most prominent in telecommunications and logistics services. In telecommunications services, the main drivers behind the change were the easing of barriers to foreign investment and the introduction of pro-competitive ex ante regulation for dominant suppliers. In logistics services, lifting foreign equity limitations contributed to lowering indices in cargo-handling, storage and warehousing and freight forwarding services. Increases in indices were mainly driven by economy-wide changes that tighten the conditions for foreign firms' operation in the host economy and increase the hurdles on the temporary movement of natural persons supplying services.

3. Services trade restrictiveness index composite indices

The STRI composite indices are derived by quantifying the qualitative information in the regulatory database as binary scores. The resulting sectoral indices take values between zero (complete openness to trade and investment) and one (total market closure to foreign services providers).

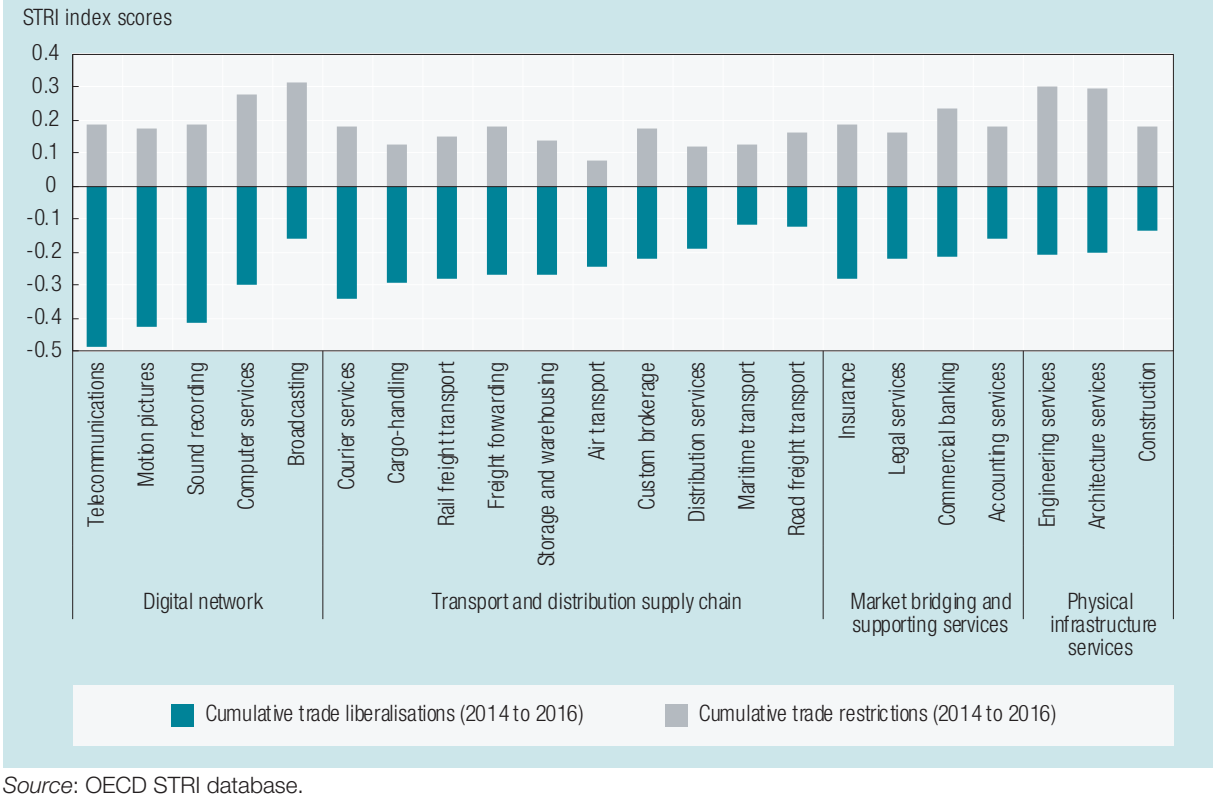
The average levels of restrictiveness in each of the services sectors in the STRI (figure 9) reveal a large dispersion across countries, some of which are completely closed to trade and investment in certain sectors. Air transport, legal services and accounting

Table 2. Services trade restrictiveness index online tools

Compare your country (http://oe.cd/stri-cyc)	Used to compare services trade restrictiveness across 22 sectors in 44 OECD countries and partner economies. Key economic indicators are projected onto a world map to give a comparative view of the importance of services in the countries covered by the STRI.
Policy simulator (http://sim.oecd.org/)	Provides all STRI information by country and sector to understand how the STRI indices are calculated, to analyse the contribution of each policy measure to the index, to compare countries in detail, and to simulate the impact of a policy change on the index value. Simulations can be saved and shared with other users, and data can be downloaded.
Online STRI regulatory database (http://oe.cd/stri-db)	Displays complete and up-to-date regulatory information collected for the sector composite indices. Contains information on trade restrictions and behind-the-border regulations in the 22 STRI services sectors. Entries are documented with reference to sources (title and articles of the relevant law), with an Internet link to each legal source.
STRI composite indices at OECD.Stat (http://oe.cd/stri-stat) (under the heading: industry and services, sub heading: services trade restrictions)	In addition to the five policy areas, the indices are presented by four additional classifications: GATS market access/national treatment and domestic regulation/other; GATS modes of supply; discriminatory versus non-discriminatory measures; and firm's establishment versus on-going operations. The indices of regulatory heterogeneity are also available under this section.

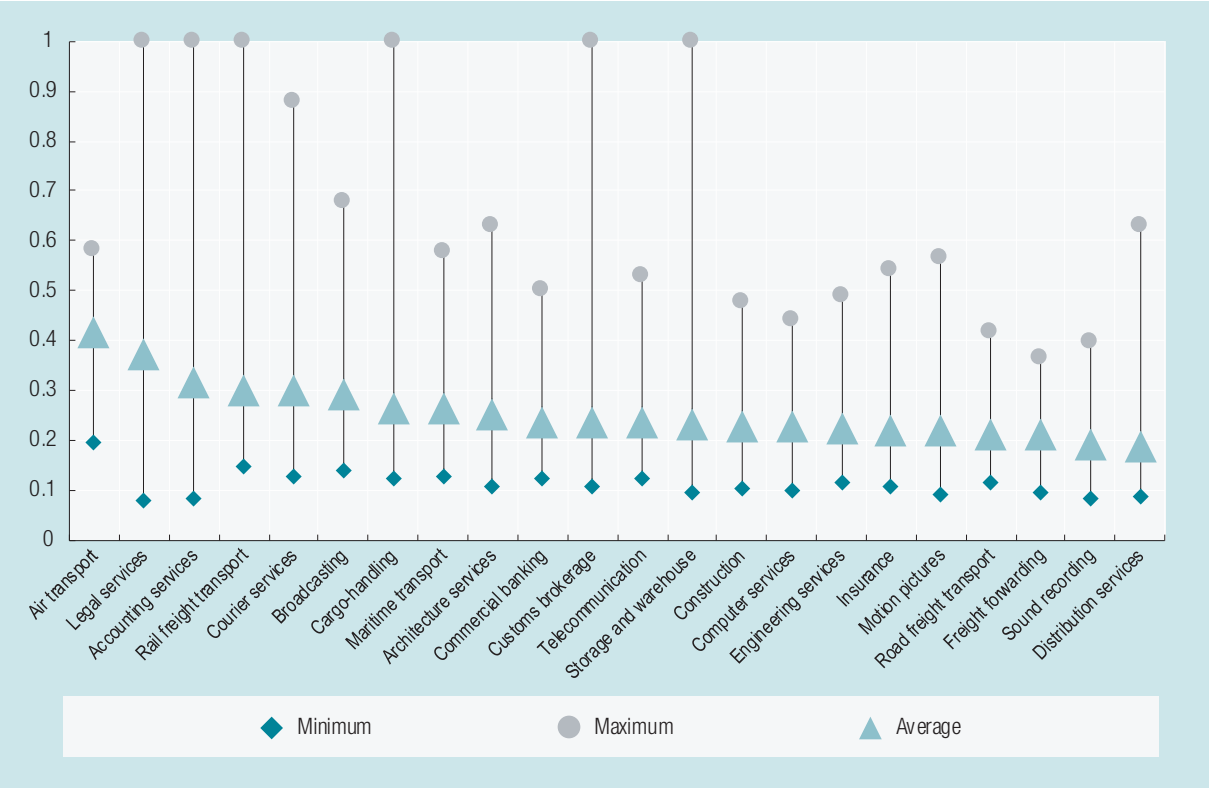
Source: Authors.

Figure 8. Services policy changes, 2014-2016 (Index)



Source: OECD STRI database.

Figure 9. Average, minimum and maximum services trade restrictiveness index scores by sector, 2016



Source: OECD STRI database.
Note: Air transport and road freight currently cover only commercial establishment (with accompanying movement of people).

and auditing services tend to be more restrictive on average than other sectors. Notably, these sectors provide important inputs to, and facilitate trade in other sectors. Reforms in these sectors would bring significant benefits not only to exporters, but also to firms serving the local market. Foreign equity limitations are most common in backbone infrastructure sectors, and behind-the-border regulations related to licensing constitute considerable barriers to trade in professional services. Access to the public procurement market is particularly important for construction firms. National treatment in relation to taxes and subsidies is important in all sectors, especially transport and audio-visual services sectors. Restrictions on the movement of natural persons significantly hinder trade, particularly in skilled labour-intensive sectors such as computer services and professional services.

4. Services trade restrictiveness index analytical findings

The STRI project is the basis of a wide range of empirical work on the impact of services trade restrictions. Main findings are presented as follows.

Services trade barriers impede services exports. OECD estimates reveal that the trade cost equivalent of services trade barriers largely exceeds the average tariff on traded goods. Services trade barriers have a strong anti-export bias impeding services exports just as much as services imports. Trade costs arise both from policies that explicitly target foreign suppliers, and from domestic regulation falling short of best practice in the area of competition policy and rule-making.

Consumers and firms pay the cost of trade restrictions. Entry barriers allow incumbent firms to gain market power and delay innovation. The costs of a policy environment that reduces competition from new entrants, whether domestic or foreign, is ultimately borne by consumers and downstream business customers, who pay higher prices and enjoy less choice than they would in more competitive markets. The resulting price increases for domestic users of services can be quantified as a sales tax equivalent on their purchases. On average, estimates of the tax equivalent of the restrictions recorded in the STRI in 2014 range from about 3 per cent in road freight transport to almost 40 per cent in broadcasting. In

some segments of transport and logistics, as well as in construction, the sales tax equivalent was estimated around 20 per cent on average, and in some countries at almost 80 per cent imposing substantial additional costs on manufacturers and eventually on final customers.

Regulatory cooperation can reduce trade costs. Differences among countries in regulating the same service create additional costs for exporters that need to adapt to new sets of rules in each new market. Regulatory differences become more important as trade barriers come down to a level where firms start to consider entering multiple markets. Thus, when markets are relatively open, trade costs imposed by the average degree of regulatory differences is estimated at about 40 per cent in ad valorem terms. While regulatory harmonisation can reduce trade costs, removing the most onerous restrictions first is a prerequisite to maximise the gains from regulatory cooperation.

Trade in services depends on the movement of professionals. The cross-border movement of people may not account for a large share of services trade, but it is essential for international business operations. Mobility of natural persons across international borders is crucial, particularly for trade in business services, which in turn is an important channel for knowledge transfer.

Trade in services underpins the digital economy. Liberalisation and pro-competitive reforms in the telecommunications sector are associated with a substantial reduction in trade costs for business services. High capacity networks at competitive prices are a necessary condition for a digital transformation of knowledge-intensive services. Access to the professions and the services they provide is also essential.

Services reforms boost SMEs. The costs of dealing with regulatory hurdles and complying with diverging regulations in every new market fall more heavily on SMEs. For micro firms engaging in cross-border exports, an average level of services trade restrictiveness represents an additional 7 per cent in trade costs relative to large firms. Establishing an affiliate abroad involves even higher costs. For instance, for a small firm an average level of services trade restrictiveness is estimated to be equivalent to an additional 12 per cent tariff compared to large firms.

5. Services trade and policy supports inclusive growth

The STRI analytical findings[76] demonstrate the potential gains from strategic regulatory reforms such as the one presented in the following paragraphs.

Domestic regulation regarding competition and transparency is concurrently improved. There is substantial scope for reducing trade costs in major services sectors by scaling back restrictions on foreign entry and barriers to the movement of professionals that discriminate against foreign services providers.

Regulatory cooperation makes doing business easier for exporters. Where high restrictions to services trade still prevail, reducing them remains a prerequisite for regulatory cooperation to make a substantial difference.

Modes of supply are in many cases complementary. The business models for supplying services are complex, often involving a combination of modes, a bundle of goods and services, or a mix of digital products and face-to-face interaction. In order to avoid distorting these business models, a balanced approach should be taken towards the different modes of supply across the spectrum of trade, investment and competition policies.

Opening up services markets would primarily benefit SMEs. Smaller and less experienced exporters face a steeper cost burden in more restrictive regulatory environments, which are responsible for the majority of new job creation.

Services trade costs affect the competitiveness of value chains and the location of activities along the value chain. Targeting bottlenecks in transportation and logistics services reduces trade costs.

Education reforms are essential for better matching of workers with jobs. As digitisation leads to changes in market structure, transforming some services to knowledge-capturing products and changing the way production is organized.

Reforming services trade brings benefits for consumers and strengthens domestic productivity and economic performance. Modern manufacturing is a heavy user of high-tech services inputs and its competitiveness relies on access to state-of-the-art suppliers at the best price. Furthermore, countries with more favourable and transparent regulatory environments are also more attractive for FDI, which stimulates extra activity, jobs and exports.

D. THE COMMONWEALTH'S PERSPECTIVE ON SERVICES TRADE POLICY FOR ECONOMIC TRANSFORMATION

Jodie Keane

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Profound shifts in the trade–growth nexus have occurred in recent years. At the current time, the international trade community is contemplating a glass half full (or empty) scenario. For example, on the one hand, there is an acknowledgement that the wave of fragmentation which underpinned the GVC mechanism in recent decades has reached its limit.[77] This realisation, along with other noticeable trends such as the outpacing of growth in trade in services compared to goods, has prompted a period of introspection in the international trade community. On the other hand, since the great recession and global trade slowdown, trade in services has been far more resilient than trade in goods. Some have even gone as far as to say that not only are exports of services gaining momentum, but a new wave of trade globalisation - or what we have termed "future fragmentation" process - is just getting started. This is because of a rapid acceleration in cross border services trade through mode 1 of the GATS. Digital trade now accounts for around one quarter of total world exports; of which, developing countries account for around 20 per cent.[78]

There is a general recognition that the big 21st century shifts in international trade are within the realm of services trade.[79] They include the transformation to digitalisation (the fourth industrial revolution) and digital trade (data flows); and the outsourcing of services - the services revolution. These two major transformations should be considered alongside a more general rise in the intensity of services trade within economies (or "servicification"); the rise of intermediate goods and services within global trade; and finally, the complementarity of trade and investment. All of these developments require critical reflection on the adequacy of public policy frameworks to guide continued structural economic transformation, which is driven by technological progress, in the future.

1. Reflection on policy frameworks

As the rise of global trade value chains has demonstrated, trade in goods and services are deeply interconnected. It is the services which accompany trade in goods which make the greatest impact in terms of value added. This is the crucial aspect of trade, which drives economic growth. Since the global economic and financial crisis when international agencies were charged with the imperative of better understanding contemporary trade, new understandings of the economic importance of trade in services have arisen. As a result, we have now moved towards the measurement of trade in the same way as GDP: moving away from the uncomfortable juxtaposition of gross numbers for trade and value-added estimates of GDP.[80] The new value-added estimates of trade have transformed our appreciation of the contribution made to total trade by services.

However, despite these advancements, data limitations for many of our members are particularly acute and, similarly, capacity constraints. Generally, the realm of services trade is plagued by major data limitations across all modes included in the GATS framework. Getting data on trade flows is next to impossible for African countries for mode 1 (cross border trade, mostly digital trade) with any sectoral disaggregation, not to mention mode 3 (commercial presence). Whilst Commonwealth members collectively have been less protectionist than others,[81] there is a need for more systematic evaluation and expansion of Commonwealth country coverage in globally recognised services policy reviews mechanisms.

In addition to these major data constraints, we have to change mind-sets. We are still operating within the context of separate regulatory frameworks for trade in goods and services. It is becoming clearer within the realm of services trade that we urgently need to catch up with rapid advancements regarding the modus operandi of conventional services delivery. Major technological advancements are on their way and these will dramatically accelerate the transformation of mechanisms of services delivery.

2. Are regulatory frameworks fit for purpose?

Nowadays, as pointed by Low, it is recognised that a tendency to define regulatory structures for goods, services and investment in separate policy compartments interferes with the relatively

seamless nature of interaction among these aspects of GVC activity. Within the context of contemporary trade patterns as manifested in GVCs, rules across different modes of services supply need to be defined and applied with greater consideration of their interconnectedness, rather than being formulated in silos. The new policy framework to maximize the gains from GVC integration is one in which a "whole of supply chain approach" must be adopted. This reflects the fact that in a world economy where GVCs play a dominant role, imports matter as much as, if not more than, exports, and in which the flows of goods, services, people, ideas, and capital are interdependent and must be assessed jointly.[82]

Within policy frameworks, the assignation of policies individually to modes of supply can reduce neutrality. This can serve development objectives in certain cases, but also potentially undermine them. For example, policy impediments affecting services-related participation in GVCs tend to crop up more often in relation to investment (mode 3) and the movement of people (mode 4), with potential for negative effects on GVC participation and upgrading.[83] These restrictions may generate incentives to supply via digital trade (mode 1) as compared to alternative means, which could stimulate stronger linkages within domestic economies.

Although in principle, movement towards a "whole of supply chain approach" and reconciliation of regulatory structures for good and services seems relatively straightforward within country, the international community has to confront the fact that understanding company ownership structures, as well as where 'substantive activity' takes place through services trade are still not as clear cut as we would hope. Invariably, this has major implications for public policy aspects like taxation, as well as the design of a "Coherent Services Trade Policy, Regulatory and Institutional Framework for Structural Economic Transformation". The conventional profit-investment nexus has been profoundly altered through the globalisation process we have experienced in recent years. Therefore, regulatory cooperation needs to be given greater priority in intergovernmental discussions, as suggested by Drake-Brockman. This cooperation will need to be operationalised at different levels and of course, within different fora: public and private. There will be different institutional frameworks, with implications for regulatory reform and policy formulation.

A number of Commonwealth's small States are providers of high-value services to multinational enterprises through their role as hosts of international financial centres (IFCs).[84] Their development of comparative advantages as IFCs resulted from an economic diversification agenda which recognised the barriers to other forms of entry into manufacturing-GVCs was not economically feasible. However, although their position as IFCs was advantageous in the past, it is coming under increasing strain. Business models are changing. Many of these small States are in the process of adapting to important regulatory shifts. This includes addressing the regulatory shortfalls which lead to the global financial crisis and the Basel regulatory reforms. This process has also affected areas such as correspondent banking for a number of our small States - a key enabler service.

As a result, there is a need for Commonwealth's small States to adapt. This includes building on existing comparative advantages and capabilities to facilitate movement into other high-value services, as they begin their fragmentation processes. Given this imperative, the Commonwealth has begun to explore future fragmentation processes including within the realm of services trade. This includes the likely movement of high-value services, the outsourcing of back office functions, through the services revolution.

3. Structural economic transformation

One fifth of Commonwealth countries are LDCs. Results suggest the services export basket of LDCs has become more concentrated over time.[85] While travel (tourism) is the main source of services revenue and registers a net surplus, mode 4 (presence of natural persons) is an important source of net exports but cannot be satisfactorily measured. The value of LDCs participation in royalties and licence fees remains negligible and in some cases has declined. This may be of concern since many island LDCs often rely on foreign fishing vessels.

Other "other commercial services" (e.g. communication, construction) provided by the LDCs has progressively shrunk. Overall, LDCs' services trade deficit increased by more than four times (in nominal terms) between 1995 and 2013.[86] Other data discrepancies are also clear within the realms of transportation (are port facilities included?) and construction. Generally, the available evidence is

suggestive of increasing specialisation within services sectors at very low levels of income. The profound implications of these trends for the achievement of structural economic transformation remain under explored within the literature[87] and there is no historical precedent. Although this pattern is now becoming obvious in some of the LDCs, it has been the case for some Commonwealth small States for decades.[88]

4. Future fragmentation processes

The Commonwealth, in a recent work on future fragmentation processes, taking stock of past performance, reflects on potential dynamics and future fragmentation processes. It provides for a more careful examination of GVCs within which Commonwealth members specialise at the sectoral level: manufacturing, services and commodity trade, including within the realm of the oceans economy. Given that the overwhelming majority of the 52 Commonwealth member countries are small states, 45 are oceans states and around one-fifth are LDCs, understanding how dynamics are unfolding at the sectoral level is critical to encouraging more gainful GVC participation.

In view of the aforementioned trends, in order to maintain competitiveness in an increasingly automated and ICT-dominated environment, countries and companies need to be part of global production and knowledge networks, ensure regulatory certainty and take advantage of commonalities where they exist. Some of the analyses undertaken for the future fragmentation workstream suggest that improvements in ICT connectivity have the potential to boost trade in GVCs by four times the global average for Commonwealth members.

Distance exerts a strong influence on GVC participation, due in part to costs of coordination and a reduction in the exchange of tacit knowledge arising from interactions between buyers and sellers. Distance can, therefore, reduce the potential for 'learning by exporting'.[89] Although small states may find it easier to insert themselves into GVCs through specialisation in a narrow range of tasks, overcoming some of the challenges of distance requires strong interventions designed to foster exposure to high-value activity hubs that specialise in R&D and marketing, with targeted skill development and active linkage development.

In this regard, particular attention must be paid to ICT and connectivity. These technologies transform not only conventional business models but also how buyers and sellers interact.[90] As described by Taglioni et al. cutting-edge digitally powered goods and services are likely to be outsourced based on sophisticated contractual arrangements. This means that areas such as contract enforcement and the rule of law are again important foundational areas, and important services.

5. The Commonwealth next steps

There was considerable reference to both the opportunities as well as challenges of digital trade at the Commonwealth Trade Ministers Meeting (CWTMM) convened in March 2017. Other themes which arose in the discussions included GVCs, services trade more generally and innovation. The Commonwealth has interpreted the latter as not only conventional research and development but also greater consideration of innovation systems, e.g. specifically devised to enhance interactions between public and private actors such as structured dialogue between business associations and policy makers.

There are areas of mutual interest and where enhanced coordination between member states could enhance trade gains. Because the ability to transmit tacit knowledge through Commonwealth trade, finance and investment networks is inherent in the trade cost advantage shared by members - which exists without formal collaboration - it suggests the sharing of already known best practice could further enhance the gains from more concerted action. In view of the demands expressed since the CWTMM, the Commonwealth is following up with more technical discussion.

The Commonwealth is working towards addressing the data limitations which hinder effective policy making within the realm of services trade for its members. These needs are particularly acute for its members in the Caribbean, Pacific and the LDCs. The Commonwealth is considering piloting alternative approaches, including working with private sector bodies such as the City of London. Innovative approaches such as "mode 5" approaches to services liberalisation could also be pioneered within regional economic communities (RECs). Finally, on Brexit the Commonwealth's consultative processes continue. Whilst the government of the United Kingdom has recently stated that it will adopt the European Union's everything but arms regime for LDCs, it is not clear whether the same schedule as the European Union will be adopted for services (and whether there may be any preference erosion because of a more liberal

schedule adopted by the United Kingdom towards third-parties).

E. COMPETITION REGULATIONS AND INSTITUTIONS IN SOUTH AFRICA

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1. Introduction

Chapter VII of the UNCTAD Model Law on Competition[91] (UNCTAD Model Law) notes that the aim of competition law and policy is to minimise economic inefficiencies created by anti-competitive behaviour. Therefore competition law and policy forms an important pillar of industrial policy.

South Africa's very complex economic history led to extensive government regulation in one respect and the government also actively participated in economic activity through state monopolies, for example, in telecommunications, transportation, utilities and steel manufacturing. At the advent of democracy in 1994, it became imperative for the state to ensure that the economy is transformed, by ensuring that previous state monopolies, including in the services sectors, become competitive through not only the process of market liberalisation but also through strengthening and amending regulations which governed the conduct of the state as an economic actor. These interventions were required by the need for sustainable inclusive growth and development. Competition law and policy became one of the instruments envisioned to achieve growth and inclusiveness.

The UNCTAD Model Law also recognises that services sectors such as telecommunications, transportation and utilities, *"are fundamental to the performance of a country's economy, since they provide inputs for all other sectors of activity"*. Therefore the efficiency of these sectors is intrinsically linked to the success of a state's economy. For example, the growth of South Africa's global trade in goods (manufactured and agricultural) is intrinsically linked to the efficiency and competitiveness of South Africa's transportation system including ports and land. Although South Africa has liberalised some sectors such as telecommunications through the issuance of licences to new operators, some sectors such as ports and electricity are only subject to sector regulation. Various policy decisions have informed the process of liberalisation including ensuring affordable universal access and difficulties of replicating and investing in some infrastructure such as rail facilities.

However, natural state monopoles are not inherently immunised from competition regulation in South Africa. The Competition Act applies to all economic activity, including state monopolies. In particular, the Competition Act ambit encompasses the regulation of state monopolies in relation to conduct such as excessive pricing, price discrimination and access to essential facilities, along with other anti-competitive activity that is exclusionary in nature.

2. Broad institutional arrangements

The Competition Act establishes concurrent jurisdiction between the Competition Commission of South Africa (CCSA) and other sector regulators. To give effect to concurrent jurisdiction, the CCSA has signed various memoranda of understanding with sector regulators. There are inherent tensions on priority setting, as striking the balance on what the competition regulator can do without interfering with the jurisdiction of the sector regulator is complex. In the telecommunication market, for example, the CCSA has intervened to address access to the network infrastructure of the erstwhile monopoly provider, where the sector regulator had limitations. Another example is in the ports market, where there is a regulator of ports, but prices, albeit declining, appear still high relative to comparable markets. The CCSA in this case has invoked its investigative powers to look into pricing for ports services in South Africa. Challenges of concurrent jurisdiction are common, as also noted in the UNCTAD Model Law.

3. Trade in services: competition regulation experiences in South Africa

Trade in services encompasses trade in business and professional services such as engineering and legal services; communication, construction and related services, distribution, energy, financial and transport services. Trade in services has become an important developmental and growth topic in all economies.

According to the WEF's Africa Competitiveness Report 2015, "Productivity in services plays a critical role as a strategic driver of economic competitiveness.

The competitiveness of most exported goods in global markets depends not only on access to raw material inputs, but also on critical services inputs. These include efficient, competitively priced utilities (e.g., ICTs and transport), financial services (e.g., banking and insurance), and other commercial services (e.g., accounting, engineering, consulting, legal services, and marketing)".[92]

South Africa's trade in services with the rest of the world amounted to over $36 billion in 2012 and saw a gradual decline year-on-year to $29 billion in 2016. South Africa imports more services in comparison with its exports of services to the rest of the world, leading to a trade balance deficit of $594 million in 2016. Given the significance of trade in services, it is important that South Africa deals with any impediments to enhancing growth in services as part of the developmental agenda and increase its trade in services both regionally and globally. South Africa's export in services has been declining over time and this suggests that there is great scope to develop policies that seek to enhance the growth of the services sector. One such policy would be to entrench competition in the services market and improve productivity and innovation which will ultimately improve the export competitiveness of South Africa's products, albeit noting that competition may not be feasible in some services markets thus requiring regulation.

One of the impediments in South Africa, as recognised by the WEF, is the penetration of competition in key service such as telecommunications, transportation, financial services and construction and infrastructure. In South Africa, these markets are characterised by high levels of concentration, natural monopolies and high barriers to entry. A World Bank Report[93] notes that, *"Competition in the marketplace matters - for a country's economic growth, its international competitiveness, and the welfare of its citizens. It encourages companies and industries to become more productive, allowing local firms to invest more and grow and to compete successfully at home and abroad - generating profits, creating jobs, spurring economic growth, and benefiting society more broadly. Firms can then deliver the best deals for consumers, protecting poorer households from overpaying for consumer goods, and facilitating access to a broader set of goods"*.[94]

Therefore, the promotion of competition and effective regulation of services sectors becomes a key industrial tool in the path to development. In a bid to contribute to the developmental path, the CCSA has adopted prioritisation in sectors that are significant to the economy and which complement South Africa's growth and developmental agenda. The sectors prioritised include, construction and infrastructure, healthcare, telecommunication, financial services, energy and agro-processing and foods. The CCSA's intervention into the services sectors has markedly contributed in opening up concentrated markets, dealing with cartel behaviour and clearing mergers that are likely to result in efficiencies in the broader economy (box 2). These interventions are discussed further below with focus on case studies in telecommunication, construction and related services, financial services and transportation.

Telecommunication

The CCSA's intervention in the services sectors is indicative of underlying concerns permeating these sectors. In relation to telecommunications, the CCSA also gave cognisance to the fact that direct policy intervention, alongside competition regulation, is important in seeking to achieve structural transformation and development. This is so again, as noted in the World Bank Report that, *"…mobile technologies are best placed to provide connectivity and deliver Internet access to the poorest populations. Given its potential transformational effects on key sectors of the economy, estimations indicate that if Internet access achieved an impact of the same scale as mobile telephony in Africa, it could account for 10 percent of the region's total GDP in 2025 compared to 1 percent in 2013"*.

The South African government is currently reviewing its national ICT policy and published an "National Integrated ICT Policy White Paper"[95] which seeks to address, providing cross-government leadership and facilitating multi-stakeholder participation in the drive for inclusive digital transformation, interventions to reinforce fair competition and facilitate innovation in the converged environment including approaches to addressing horizontal and vertical integration across the value chain and interventions to facilitate digital transformation of society such as bridging the digital divide and ensuring affordable access by all. This is a significant step in promoting the competitiveness of the ICT sector and access to communication services particularly in the rural areas of South Africa.

Box 2. Key interventions in mergers, cartels and abuse of dominance by Competition Commission of South Africa in services sector over time

2012
Construction – eradicating bid rigging, fast track settlement programme, civil damages claims
Transport – airlines exemptions

2013
Telecommunications – abuse of dominance finding against former state monopoly Telkom
Transportation – exemption to South African Airways a state-owned airline in relation to a code sharing agreement

2014
Telecommunication – merger activity
Energy – market inquiry into liquefied petroleum gas

2015
Telecommunication – investigation into abuse of dominance by Vodacom and MTN
Transportation – investigation against SAA by Comair in relation to incentive schemes

2016
Energy – mergers in Liquefied Petroleum Gas
Liquefied Petroleum Gas Market Inquiry

Ongoing cases
Private Health Market Inquiry
Public Passenger Transport Market Inquiry
Shipping cartels (cargo)
Forex Banking Cartel
Broadband Data Cost Market Inquiry

Source: Author.

Construction and related sectors

Much like other jurisdictions, the CCSA intervened in the construction and infrastructure market and, most notably, in the construction bid-rigging cartel investigations. The CCSA also investigated the cement sector which is a key input into construction and infrastructure services. Competition regulation is important in this sector in removing barriers to entry in order to reduce costs for governments, businesses, and households and also to encourage investment in the cement sector. Based on a study conducted by the CCSA, competition regulation intervention in this sector has led to new cement manufacturers entering markets previously subject to cartel conduct such as market allocation. Moreover, the CCSA's intervention led to estimated consumer savings of between R4.5 billion and R5.8 billion (approximately €380 million) after uncovering the cartel in 2010 and 2013.

The work of the CCSA in relation to construction related primarily to collusive conduct, brought about largely by historic relationships which were not sufficiently discouraged or deterred from engaging in anti-competitive conduct prior to 1994 due to ineffective competition law and policy. In seeking to address and breakdown historic relationships, following CCSA's intervention in the construction sector, various government departments and the large construction firms entered into a settlement agreement. This agreement seeks to, amongst other things, foster entry and sustainability of non-incumbent and smaller firms within the construction sector through financial contributions amounting to R1.5 billion (over €100 million). The settlement also commits the promotion of transformation and wider economic participation in the sector, through either equity transactions or by partnering with and developing smaller construction companies. This will result in these smaller firms attaining a market value of roughly R5 billion (over €320 million) by 2024.

Financial services

Although not largely subject to explicit conduct uncovered by the CCSA, the financial services sector in South Africa is characterised by concentration and a lack of vigorous competition between the four big

banks. This sector is also characterised by opaque rules and standards as well as a lack of information for consumers to make informed choices. Much of competition regulation in banking focusses largely on consumer banking.[96] However, banking and financial services are imperative to the growth of SMEs who, in the developing world, are the biggest employers. Therefore, access to financing and banking facilities to all economic players of all sizes is critical to encouraging entrepreneurship, entry, investment and dynamism in all sectors of the economy.

Transportation

According to the World Bank Report, *"High road freight rates in Africa and limited quality in terms of timeliness might be explained in part by competition problems in transport and logistics. Given that various actors intervene in the supply chain for end-to-end cargo transportation, sector prices, service quality, and performance depend on the functioning of various interlinked markets, including trucking, freight-forwarding, brokerage, warehousing, cargo consolidation, and others."* This speaks to important policy interventions necessary in order to ensure the efficiency of transportation given its linkages into all sectors. The CCSA intervened in many subsectors of transportation and is currently undertaking a market inquiry into land transportation and investigating ports and rail. South Africa is a strategic hub for the trade of goods in and out of the Southern African region. Therefore, uncovering cartels into cargo shipping is important as they increase the cost of trading in the region and render the region uncompetitive in the world markets.

4. Conclusion

Competition regulation has proved an important instrument within South Africa's industrial policy toolkit to contribute to structural transformation. The competition authorities have been able to intervene in markets of strategic importance to South Africa's development. Moreover the competition authorities have also sought to intervene in a meaningful way by using innovative remedies beyond the imposition of administrative penalties to effectively address the identified competition harm as well as improve the competitive dynamics of markets. The CCSA has undertaken individual enforcement cases and advocacy initiatives, with the latter illustrated in the recommendations on policy and legislative changes as an outcome of its market inquiries into liquefied petroleum gas[97] and banking.

Services markets are crucial in spurring growth in an economy. Equally, if these markets are not competitive, they could significantly impede the growth and development of an economy. To this end, the CCSA has prioritised enforcement and advocacy in key services markets such as telecommunications, energy and transport, primarily to tackle constraints to competition (where entry is feasible) and competitiveness. The CCSA's intervention into the services sectors has markedly contributed in opening up concentrated markets, dealing with cartel behaviour and clearing mergers that are likely to result in efficiencies in the broader economy (and blocking anti-competitive mergers too). South Africa is still not competitive in many other services sectors thus requiring ongoing pro-competitive regulatory intervention by both the competition authorities and sector-specific regulators.

IV

Sectoral services policies and regulations for structural transformation

A. POLICY APPROACHES FOR KNOWLEDGE-BASED SERVICES IN ARGENTINA

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1. Knowledge-based services: a strategic sector in Argentina

During the last two decades, knowledge-based services (KBS) - services that use high technology and/or have the relatively highly skilled workforce that is required to benefit fully from technological innovations[98] - gained relevance in the Argentinian economy and became a strategic sector for three main reasons. First of all, KBS create high-quality jobs. During the last two decades, employment in these activities grew faster than in other industries and their share in total private formal employment rose from 4.3 per cent in 1996 to 6.4 per cent in 2016. There are over 421,000 registered private jobs in KBS which contrast to employment in other sectors because of their skills,[99] formality[100] and higher wages.[101] When considering also freelancers, entrepreneurs and informal workers, more than 1.1 million people work in KBS activities. Second, KBS had a good export performance during the last two decades. Exports of KBS reached $5 billion in 2016, representing 7.2 per cent of Argentina's sales abroad (only 0.5 per cent in 1996). KBS are the fourth export group - with similar sales abroad to the automotive industry - and they have registered a trade surplus for the last 13 years. Business, professional and technical services represent 70 per cent of KBS exports. Argentina exports more software and computer services than Brazil and this industry has been the most dynamic among KBS. Main export destinations are the United States of America, Latin America and the European Union.[102] Third, KBS have a great potential to foster regional development through decentralization of economic activity and export diversification in many provinces. There are 30 KBS clusters all over the country.

2. Public policies to strengthen knowledge-based services in Argentina

As KBS are strategic, public policy supports these industries through different initiatives. This chapter describes only some of the most relevant instruments that aim to foster KBS.

"Programa 111 Mil" (111K Programme)

In order to prevent bottlenecks that could restrict growth of KBS, the government launched in 2016 the "Programa 111 Mil". It is an ambitious plan that aims to develop entrepreneurship (1,000 new entrepreneurs), strengthen education in universities (10,000 new professional in some KBS areas) and certify 100,000 coders in the next four years. The certificate is issued by the Ministry of Production and endorsed by the Ministry of Education and the KBS industry. There are currently 47,000 students in the programme all over the country. Besides developing software industry, "111 Mil" is expected to support digital transformation of other industries and promote digital inclusion. In fact, most students come from other industries and many of them have low-qualified jobs such as taxi drivers, hairdressers, babysitters, housewives, maids, kitchen assistants, waiters, among others.

National Programme for Regional KBS Clusters Development

There are 30 KBS clusters in Argentina, where more than 38,000 people work in 1,000 firms. The national programme for regional KBS clusters development was created to strengthen and develop emerging clusters through capacity identification, cooperation, promotion, and strategic planning. In addition, it supports the creation of IT districts in main locations.

Financial and fiscal incentives

There are also fiscal benefits and financing incentives for KBS firms. First, the Law for the Promotion of Software Industry enables firms that export, invest in R&D and/or certify quality, to benefit from fiscal stability, tax credit to pay federal taxes, and income tax reduction. Second, the Trust Fund for the Promotion of Software Industry provides non-refundable contributions to finance projects focused on R&D, innovation and development of human capital, new products and processes. It also includes subsidies for start-ups,

export credit for SMEs, and scholarships. Third, there are specific benefits for SMEs in KBS sectors, such as non-refundable contributions and preferential funding for investment and working capital.

3. E-commerce: significant opportunities

E-commerce offers significant opportunities for exports of goods and services. The first e-commerce platforms in Latin America emerged in Argentina in the mid-nineties and some of them expanded worldwide. Argentina has three e-commerce "unicorns"[103] (private companies valued at $1 billion or more): MercadoLibre (a business to consumer (B2C) platform that became Argentina's largest company and recently replaced Yahoo! is in the Nasdaq top 100); OLX (one of the world's leading consumer to consumer platforms); and Despegar.com (the most important travel agency in Latin America).

E-commerce is relevant for services exports, especially KBS which are exported mostly through mode 1. As double taxation is one of the main barriers to cross-border KBS exports, Argentina is discussing new double taxation agreements and adjusting some existing treaties to avoid this problem. In addition, the country is negotiating several FTAs which include provisions on trade in services and e-commerce. Exports of digital goods and merchandises through e-commerce are still less developed. However, the government has recently adopted some trade facilitation measures to improve exports of SMEs that are expected to contribute to expand sales abroad through electronic means.

4. Final remarks

For the last 20 years, KBS gained relevance in the Argentinian economy and had become a strategic sector. They create formal, qualified and well-paid jobs, have a good export performance and contribute to regional development. Argentina is one of the best positioned countries in Latin America in the KBS global market and there are opportunities to continue developing its potential. Current policies try to address some of the main challenges to achieve that goal.

B. THE ROLE OF TOURISM SERVICES IN STRUCTURAL TRANSFORMATION

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1. Why tourism matters?

Over the past six decades, tourism has experienced continued growth and diversification to become one of the largest and fastest-growing economic sectors worldwide, despite occasional shocks. This demonstrates tourism's strength and resilience compared to other economic sectors. The following data produced by the UNWTO clearly illustrate this trajectory:

- International tourist arrivals have increased from 25 million globally in 1950 to 278 million in 1980, 674 million in 2000 and 1,235 million in 2016 and are forecast to reach 1.8 billion in 2030;
- Likewise, international tourism receipts earned by destinations worldwide have surged from $2 billion in 1950 to $104 billion in 1980, $495 billion in 2000, and $1,220 billion in 2016;
- Additionally, more than 6 billion domestic tourist trips take place every year;
- Tourism is a major category of international trade in services. In addition to receipts earned in destinations, international tourism also generated $216 billion in exports through international passenger transport services rendered to non-residents in 2016, bringing the total value of tourism exports up to $1.4 trillion, $4 billion a day on average;
- International tourism represents 7 per cent of the world's exports in goods and services, after increasing one percentage point from 6 per cent in 2015. Tourism has grown faster than world trade for the past five years and, as a worldwide export category, tourism ranks third after chemicals and fuels and ahead of automotive products and food. In many developing countries, tourism is the top export category.

Besides numbers, tourism strongly contributes to inclusiveness and poverty reduction as it is relatively labour-intensive, a sector that is largely driven by SMEs, provides youth and women with opportunities to enter the labour markets and start new businesses.

2. Tourism is increasingly important for developing countries

In the period 2016-2030, the share of international tourist arrivals in Africa and Asia is expected to increase. In LDCs, international tourism grew at an average annual rate of 14 per cent between 2000 and 2015, against an average of 4 per cent worldwide. It is worth mentioning that it is in tourism that developing countries have a strong comparative advantage, given their valuable, unique cultural and natural assets, such as authentic culture, art, music, natural landscapes, protected areas, biodiversity, wildlife and climate. With a strong tourism sector, Botswana (1994), Cabo Verde (2007), Maldives (2011) and Samoa (2014) have managed to graduate from being part of the LDCs.

3. Tourism has strong backward linkages, especially at local level

Tourism relies on transportation/infrastructure, construction, food and beverages, durable consumer goods, technology, communication services, banking, financial and legal services and other sectors. It has the potential to stimulate other economic activities throughout a complex supply chain of goods and services, thus diversifying the economic structure of a region or a country, and can generate investment opportunities that are often used for creating infrastructure at destinations. The infrastructure required by tourism also benefit local communities, such as transport and communication, water supply and sanitation, public security and health services.

4. World Tourism Organization's key recommendations

Increase mainstreaming of tourism in national strategies

With tourism strongly anchored in national development strategies, tourism policies can be focused on the benefits for local communities, balancing visitor requirements with local needs, protecting natural and cultural heritage and fostering vocational training, especially for women and youth.

Strengthen the dialogue between tourism and trade stakeholders, at country level, development partners and donors

Despite tourism's great potential for socio-economic development, tourism stakeholders and policy-makers are often not well connected with development partners and donors. Donors should be encouraged to finance the implementation of sustainable tourism policies that promote inclusiveness and create jobs.

Reinforce the involvement of tourism-related institutions with trade institutions at the national level

Cross-linkages between sectors can be strengthened, so that leakages can be limited and local industries can profit from tourism.

Facilitate mechanisms that trigger the initiation of sector-specific strategies

A sector specific tourism strategy can help tourism contribute to the diversification of exports, increase of the export of services and the generation of foreign currency receipts, so crucial for many developing countries.

5. Tourism's role in achieving the sustainable development goals

Tourism can contribute to the achievement of all the SDGs, such as those on poverty, gender equality, sustainable cities and communities and climate action, and is specifically mentioned in SDG 8 on decent work and economic growth; SDG 12 on responsible consumption and production; and SDG 14 on life below water.

In 2017, we celebrate the International Year of Sustainable Tourism for Development (IY2017), as adopted by the United Nations General Assembly. In the context of the universal 2030 Agenda for Sustainable Development and the SDGs, the IY2017 aims to support a change in policies, business practices and consumer behaviour towards a more sustainable tourism sector that can contribute to the SDGs in five identified critical areas of sustainable development, namely:

- Inclusive and sustainable economic growth;
- Social inclusiveness, employment and poverty reduction;

- Resource efficiency, environmental protection and climate change;
- Cultural values, diversity and heritage;
- Mutual understanding, peace and security.

C. FINANCIAL INCLUSION: THE ROLE OF FINTECH AND DIGITAL FINANCIAL SERVICES

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Financial inclusion is measured in three dimensions: (1) in terms of access to financial services, (2) usage of financial services, and (3) the quality of the financial products provided and the way in which they are delivered. Financial inclusion has become an important international financial policy objective and financial regulatory principle and has been incorporated into a number of international declarations and codes of good practice. Some of the international initiatives to promote financial inclusion include the Maya Declaration on Financial Inclusion (2011) that was set forth by the Alliance for Financial Inclusion, a network of central banks, financial supervisors and other regulatory authorities from developing and emerging market economies, to improve the economic and social potential of the world's poorest by improving their access to financial services and products. Significantly, the Maya Declaration states that financial inclusion is critical for empowering and transforming the lives of all people, especially the poor, and that policies designed to promote it should also enhance global and national financial stability and market integrity. The G20 has recognised the importance of digital financial services in supporting the objective of financial inclusion. Also, international regulatory bodies, such as the Basel Committee on Banking Supervision, have identified technical guidance for banking supervisors to facilitate the use of digital technologies that enhance financial inclusion.

1. Fintech and financial inclusion

Fintech has the potential to facilitate increase financial inclusion by enhancing access to financial services for those individuals and businesses that have been excluded from formal financial markets. Fintech companies are developing digital services that could result in billions of people having greater access to the banking sector and to new investment products. Digital innovations across different areas of the financial sector have had a tremendous impact in enhancing the provision of financial services. Specifically, digital technologies have spread rapidly in many areas of the global economy, yet there is potential for increased use of these technologies.

To support the spread of digital financial technologies, the G20 has adopted High Level Principles for Digital Financial Inclusion (2016) that place great emphasis on using digital technology to enhance financial inclusion. The principles emphasise finding the right balance between innovation and risk in achieving greater financial inclusion and how to utilise legal and regulatory frameworks for using digital technologies to increase financial inclusion. This involves establishing responsible digital financial practices to protect consumers and to improve financial literacy and awareness so that digital financial products are better understood by users.

Internationally, the world has 2.5 billion "unbanked" individuals and 200 million small businesses without formal access to financial services. High percentages of unbanked individuals and businesses are in Africa, Latin America, Asia, and the Middle East. Of unbanked individuals, 1 billion have mobile phones, meaning for many that financial mobility and enhancements in services used could occur in the near future.

The role of e-finance in enhancing financial inclusion in financial services for individuals and small businesses, especially in developing countries, is based on making financial services available to those who would normally not have access. Fintech expands availability of information on financial services, such as investment advice and online and mobile banking services and products. Fintech firms have a market niche in developing products and services for previously under-served markets. All you need is access to the Internet and mobile network. The spread of mobile technology, smartphones and mobile network coverage will lead to more and less costly options for individuals and SMEs, for example, with peer-to-peer lending, borrowing funds on electronic platforms directly from creditors (direct finance), rather than borrowing indirectly from savers through banks and other financial intermediaries.

2. Barriers for developing countries

Despite the obvious benefits of using digital technology to increase financial inclusion, there are significant barriers to financial inclusion, especially for developing countries, involving geographical distances between service providers and users and the lack of market infrastructure (i.e. payment systems and securities settlement). In many countries that rely heavily on agricultural production and services, weather risks are important and can dictate when loans are repaid and whether investments are profitable. Also, in many countries, there is little effective competition in the financial services industry which leads to higher operating costs and thus high costs and charges for individuals in opening bank accounts. Moreover, in many developing countries, weak regulatory institutions and legal uncertainty for the enforcement of contracts leads to moral hazard among market participants and to adverse selection and thus to unnecessarily higher costs of capital resulting in a misallocation of capital to less efficient projects.

Each economy is unique and presents its own separate challenges. In the Philippines, the widespread availability of mobile money payments and high demand for international money transfers contrasts with other countries, such as South Africa, where there is less incentive for financially-excluded individuals to replace their existing methods of accessing funds. In Mexico, banks have a reputation for poor customer service and are very inefficient relative to banks in other similarly-sized Latin American economies. As a result, the availability of smartphones and relatively low barriers to entry, are leading to a growing number of fintech firms entering the Mexican market to provide payment services and lending through smartphones and other digital technology. In Bangladesh, a firm called 'BKash Limited', a subsidiary of BRAC Bank Limited, was launched in 2011 to provide mobile phone financial services, including payments and money transfers, to both unbanked and banked individuals and businesses.[104]

3. Peer-to-peer lending

Financial technology also enhances financial inclusion by facilitating the bringing together of lenders and borrowers: small businesses and start-ups with investors. In Europe, over a dozen 'peer-to-peer' lending platforms have been established for small and medium businesses and entrepreneurs to obtain credit: for instance, Zopa, Funding Circle. These fintech businesses that provide electric or digital lending platforms are not legally defined as banks; for instance, they do not leverage their balance sheets, nor do they accept deposits. As a result, they are not regulated as banks or other financial intermediaries and thus are not burdened by regulatory costs and therefore can pay higher interest rates to savers (or lenders) and charge lower interest rates to borrowers.

The advantages of these P2P lenders are as follows. There is no channeling of investment money through traditional banks and therefore it avoids the higher charges of banks as compared to digital lenders that do not have bricks and mortar operations and do not have to comply with costly regulation. Also, by using these e-loan platforms, investors and business borrowers can identify each other and agree their own terms without the intrusion of an intermediary. There is much transparency between lenders and borrowers that does not exist between savers and borrowers of banks. Also, e-lending platforms provide alternative sources of credit for many small businesses and start-ups – which may have difficulty obtaining credit from traditional banks because of stricter regulation and previous lack of access to credit.

The disadvantages of P2P lending platforms are several including the credit-worthiness and other information about the borrower and lender are more difficult to ascertain. This leads to a higher risk of default as the lender cannot rely on the veracity of the information provided on the e-lender's platform and it is difficult for the lender to seek compensation for any defaults. These greater risks are not absorbed by the e-lending platform business and instead are covered by individual lenders - many of whom may be unsophisticated in how they assess credit and other market risks. However, the greater risk of default in P2P lending does not appear to be systemic risks for the banking sector as the amount of credit provided through e-lending and other P2P platforms is very limited in comparison to the amount of credit provided by the whole banking sector. However, the number of borrowers is growing rapidly along with limited competition there is an incentive for some platforms to become too big too quickly. E-lending businesses may not be as sophisticated in managing risks as traditional banks and therefore there may be the need for regulation.

Financial inclusion has become an important objective of international policy and financial regulation. Fintech can be used to support financial inclusion but it also poses business, regulatory and technical challenges.

D. STRUCTURAL TRANSFORMATION AND THE POTENTIAL OF E-COMMERCE AND SERVICES FOR DEVELOPMENT

Lee Tuthill

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There are three reasons why e-commerce holds out great potential for economic development: it dramatically reduces the cost of doing business; in doing so, it permits new players and smaller enterprises to participate more fully in economic activity, in general, and in international markets, in particular; and it greatly expands the reach of GVCs and the opportunities for SMEs and developing countries to participate in GVCs at all levels.

Electronic commerce, in itself, represents a transformation in the way people and businesses relate to one another and also a transformation in the way economies function. This digital transformation relates to the importance of structural transformation as follows:

- Can allow deeper and broader participation in economic activity, both domestically and in trade. In other words, it can lead to greater inclusion in economic development and trade;
- Can allow key sectors of economies, such as agriculture and tourism, to be more cost-efficient and to reach out to more customers, more effectively;
- Can promote economic and trade diversification, permitting developing countries to enter, for example, global markets in professional services, IT services, and a whole host of business services that can now be sourced globally.

How do services come into play in this transformation?

- Services constitute the infrastructure for e-commerce, in even more critical ways than they have for economies in the past. This includes telecommunications, computer services, logistics and delivery services, and financial services;
- Services, including some of the infrastructure services, themselves, are easily amenable to electronic trade both within and across borders. This includes not only services that can be digitised, and consequently supplied online, but also many ICT-enabled services;
- Services also facilitate e-commerce in goods. This not only includes ICT, logistics and delivery services, but also the emerging online market places for trade in both retail and wholesale trade, or what services nomenclature refers to as “distribution services” - this means both B2C and B2B trade in goods are now facilitated by online services.

1. What is the role of the World Trade Organization in services policies and regulation?

The WTO’s Work Programme on electronic commerce has been ongoing since the Geneva Ministerial session in 1998; by MC11, it will have been in place for 19 years. Because the major bodies of the WTO - the GATT, GATS and the Trade-Related Aspects of Intellectual Property Rights (TRIPS) councils, as well as the Committee on Trade in Development - were tasked with undertaking the examination of the relevance of WTO to electronic commerce, the WTO operational definition of e-commerce for the Work Programme was cast in very broad terms. It covers not only goods ordered online, but also services supplied electronically, whether or not ordered online, as well as aspects of ICT-enabled trade. In the early phase, debate centred on the provisions of WTO agreements and their relevance or adaptability for electronic commerce. In this phase, the WTO bodies involved have generally found that none of the WTO agreements are designed in such a way that they rule out any form of trade, electronic or otherwise, although formal conclusions have not been issued.

Subsequent discussions focussed on what, if any, may be problems or issues which, if not unique to e-commerce, then perhaps take on added importance in an era where online trade becomes the norm. During this period, some Members seemed to feel we might be looking for solution for which no problems had been clearly identified; some felt that the landscape for e-commerce was evolving so quickly that there was a risk that a response designed prematurely might be detrimental rather than helpful to global e-commerce.

In recent years, as e-commerce has become more commonplace and more integral to all forms of economic activity, it has become apparent that

e-commerce is "commerce" and laws and regulations that apply to offline activities also should or do apply to online activities. This realization has inspired WTO Members to make submissions outlining issues and priorities that they believe are important to facilitate e-commerce. In some cases this includes identification of laws or regulations that may need to be adapted to accommodate e-commerce - for example, consumer protection laws that, where they exist, did not adequately cover online transactions. In other cases submissions have cited areas in which supportive legal frameworks may not yet be in place, such as to address cross border payments, cybercrime and authentication or electronic documentation, contracting or signatures.

2. Why do such issues arise in the World Trade Organization?

In large part this is because, in governing international trade, WTO agreements have always recognized that there is a relation between trade and domestic measures that can have an effect on trade. At a minimum, all relevant WTO agreements require domestic measures that can impact trade to be made transparent (i.e. public) and non-discriminatory. The services agreement in particular has a very significant relevance to domestic regulatory frameworks, in part, because it includes commercial presence in various forms, including FDI, as a form of trade. Services such as IT outsourcing, financial services, and tourism, were very early adopters of e-commerce and online technologies. These industries integrate online functions into a web of global relationships that encompass all of the GATS modes of supply, not only cross-border supply.

As a result, GATS delves deeper into domestic regulatory regimes, but at the same time there has been a degree of misrepresentation recently promoted in some quarters that ignores the flexibilities of the agreement. The GATS permits significant latitude for governments to impose reasonable regulations to meet legitimate policy objectives. This latitude obviously encompasses a number of regulatory areas that have been cited in e-commerce discussions.

3. Recent developments

Over the past two years of heightened activity on e-commerce, WTO has received 15 detailed submissions from Members, many from groups of Members. Many of these submissions laid out issues and priorities in a general fashion, some indicated areas where rules, if not rule making, might provide a supporting environment for e-commerce. Very recently, with the upcoming Ministerial Conference in view, some submissions have become more detailed regarding possible areas of work for WTO. Ideas range from encouraging WTO's trade policy reports to cover e-commerce related measures, to encouraging added transparency, to securing a mandate for discussion of possible rule-making in the WTO in the future. All of the recent submissions have been issued at public documents for all to consult.

E. ENERGY SERVICES: THE ESSENTIAL NATURE AND POLICY AND INSTITUTIONAL ARRANGEMENTS

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1. The essential nature of energy services

Energy, electricity in particular, is essential to modern life. It is a key element of economic development, social well-being, and overall quality of life. Given all of that, the energy sector is more than simply an area of economic activity, it is also a subject matter thoroughly infused with public policy considerations. Indeed, some have argued that many, if not all, commercial participants in the energy sector are as much creatures of public policy as they are business enterprises. As a result, the industry will always be subject to significant regulatory oversight, the nature of which could be either reinforced or relaxed, depending upon the degree of monopoly power a market participant may be able to exercise. Thus, any investor, foreign or domestic, in the sector must necessarily expect to be subject to economic, environmental, safety, labour, and possibly other forms of regulation. The profound impact of energy service and why it is so infused with public policy issues are made clear in the paragraphs that follow.

Energy has enormous effects on the quality of life. It dramatically reduces burdens of maintaining households, which, in many cultures, means it frees up more time for women to do more with their time.

That almost certainly enables more cottage economic activity. It frees up children from chores at home so that they can seek educational opportunities, and affords them lighting suitable for homework and reading at night. It also enables everyone to access telecommunications and digital networks, with all of the benefits associated with that interconnectivity. Access to electricity displaces kerosene and wood burning for lighting, the effect of which is improve air quality in houses, reduce fire hazards, and thereby provide better health and safety. Similarly, mass displacement of wood burning and kerosene use, on an aggregate basis, has very beneficial social and environmental benefits in regard to both air quality, global climate change, and in regard to access to clean water and sanitation services.

On a micro-economic level, access to electricity enables micro-enterprises that would otherwise not exist. It can enhance agricultural productivity in a number of ways, and affords the opportunity to provide more geographical diversity for economic growth and economic opportunity. On a broader, more macro level, access to energy, by increasing economic opportunity in rural areas, may well dampen migration to the cities which has led to increased congestion and pollution. It provides, therefore, for more balanced and manageable demographic pattern. The availability of energy, of course, improves both economic efficiency and productivity, enables the deployment of new technology, and enables responsible and full development of natural resources. All of that increases the ability of any given country to compete in the global market.

2. Policy and institutional arrangements essential to optimization of energy services

The economically essential nature could, with the public policy laden nature of the energy sector, make it necessary to put in place institutional arrangements that reduce the level of politicization on sector decision-making, that clearly delineate public agency scopes of authority, and provide assurance of professional and reasoned processes for determining the course the sector will take. Providing such institutional arrangements, of course, must also be accompanied by the respect for the rule of law and for reasoned decision making.

Central to accomplishing these objectives is the independence of both the judiciary and of the sector regulators. Both need to be independent of the political process and insulated against short term political considerations. Judges and regulators need to be able to act as agents of the state but not of the government. They also, of course, need to be fully independent of any economic interests that are affected by the decisions taken. Accomplishing that requires transparency - both substantively and procedurally - and clarity in articulating not only the decisions themselves, but also their underlying rationale. It also requires a clear definition of the roles of various public agencies with responsibilities in the sector, including both line ministries and regulatory agencies. It is critical to avoid bureaucratic confusion and battles that serve to confuse matters and detract from substantive focus rather than clarify them and direct attention to where it needs to be. What also needs to be clearly articulated are the laws and regulations that pertain to the sector. While it may be impossible to remove all unpredictability from decision-making, clarity in the law protects against arbitrary actions, and disciplines decisions. It also can be very useful in reducing politicization in the sector.

On an economic level, certain policies are critical. While competitive markets require ease of entry and exit for participants, in the energy sector that may not necessarily be the case. That is because there are essential bottleneck assets whose ownership and control must be highly reliable, so entry and exit must be regulated. That regulation, however, must be free of arbitrariness and unreasonable discrimination. Achieving then necessitate the existence of a clear body of rules that govern decisions regarding entry and exit. Similarly, the principles governing the roles of the state and the private sector in the energy space need to be clear, so that private investment in a sector, that might heretofore have been the exclusive domain of the parastatals, not be inadvertently discouraged. The currently in vogue, “public private partnerships” need to be clear as to what they mean. The phrase, itself, is vague and the concept has different meanings in different jurisdictions. Closely related to that is the symmetry between risk and reward, which also needs clarity. It is vital that arrangements which skew the balance between socialization and privatization of risk and reward, will inevitably lead to undesirable consequences. Even without public involvement, it is vital to the attraction of investment that the degree of reward that is possible is commensurate with the risk

being taken. The failure to do so will inevitably lead to either unduly high profits which harm customers or, at the other end of the spectrum, a level of risk that makes investment unattractive. In the energy sector, it is also vital that non-economic obligations, such as consumer protection, safety, labour, and environmental obligations, be clearly articulated. Knowing these obligations provides investors with a basis for making knowledgeable decisions, and provides consumers and the public with some level of comfort that such non-economic needs will be met. Also, given that the energy sector has within it areas that are contestable and areas that are best served on a monopoly basis, there needs to be clarity on competition policy, enforcement, and market reform.

Finally, regulatory decisions must be based on a foundation of solid cost/benefit analysis, taking into consideration both long term and short term consequences, as well as broader socio-economic considerations. All of this must be carried out without undue discriminatory effects.

F. EUROPE'S POWER MARKET TRANSFORMATION: THE WHY AND THE HOW

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In the field of energy and climate, the European Union has set itself the objective to reduce greenhouse gas emissions by at least 40 per cent compared to 1990 levels by 2030, to reduce its energy consumption by 30 per cent by 2030, and to increase the share of renewable energy sources to at least 27 per cent of its energy consumption by 2030. These objectives are at the heart of the European Union modernisation agenda: accelerating the transition to a more sustainable, lower-carbon economy is seen as an opportunity to sustain economic growth, stimulate investment in innovative technologies and create new employment opportunities, while contributing to enhance the welfare of European citizens.

The transformation of the energy sector, which is one of the main sources of carbon dioxide emissions, is a prerequisite to meet these objectives. In particular, the achievement of the European Union's renewable energy targets implies a real paradigm shift in the power sector, in which fossil resources and centralised means of generation remain predominant: according to the estimates of the European Commission, the share of renewable energies could reach half of the electricity mix by 2030. Integrating such levels of variable, decentralised and less predictable generation requires rethinking the system as it was conceived in the second half of the 20th century. New sources of flexibility have to be found and important investments have to be mobilised to preserve the reliability and the security of power supplies. These are all reasons why an important process of revision of the European legislative framework relating to functioning of the internal market in electricity was initiated in 2016.

The proposals currently under negotiation by the European institutions are based on the further harmonisation of the operating rules of European power markets. Much progress has already been made to optimise the use of cross-border infrastructure within the European Union, whereby actors can benefit from the complementary nature of consumption patterns and production fleets in Member States to reduce the cost for supplying their customers. Nevertheless, short term market rules must now be adapted to integrate larger shares of renewable power in a cost-effective and secure way. To do so, the European Commission also suggests that regional cooperation of all players in the sector, be it industry, sectoral regulators or Member States, must be strengthened. Security of supply, however, remains an area in which Member States are rarely inclined to accept transfers of sovereignty. Finally, it is about encouraging final consumers to participate more actively in the market, including by making sure that they are well informed about their rights and the opportunities available to them to reduce their bills as the system moves to a smarter, more flexible and responsive one.

Indeed, the evolution of the power sector provides multiple means of action for users. Consumers can better control the level of their consumption and decide on the energy sources needed to generate the power they consume by opting for a low carbon/green offer. They can also opt for contracts allowing them to benefit from price fluctuations on the market by opting for time-differentiated dynamic pricing contracts or for contracts with so-called aggregators, which may remotely activate consumption reductions in order to resell volumes thus obtained on the wholesale markets in times of tension between supply and demand. The decrease in renewable technologies'

costs is further expanding the opportunities available to end consumers, who can now generate electricity to meet their own needs. However, it is clear that a significant part of European energy consumers, which have been able to choose freely their supplier since 2007, has not yet made use of these opportunities. European energy regulators are committed to make customers' choice easier and help them engage more actively in the market.

On the supply side, one of the roles of the regulators is to ensure that the regulatory framework enables suppliers to make a range of offers available to customers. In order to promote competition, as well as innovation, European energy regulators advocate for the regulatory framework to allow all players to participate in the market on a level playing field. Discussions about the regulatory treatment of renewable energy self-generation provide a good illustration of issues at stake as technology develops.[105] On the demand side, it is important that consumers have access to more reliable and more detailed information on their consumption and its costs. European energy regulators therefore believe that all consumers should be able to access reliable and independent comparison tools. They also consider that all energy consumers should be able to switch energy suppliers free of charge, i.e. without undue termination fees, and as quickly as possible, if possible within 24 hours.

Within the Council of European Energy Regulators (CEER), energy regulators from the European Union and the European Economic Area are furthermore sharing their experience and know-how on retail market monitoring. For instance, they have developed a handbook[106] with a set of indicators to assess the dynamism of their retail market and identify whether progress concerning energy consumers' protection and empowerment is satisfactory. The means to involve stakeholders in the development of market rules, especially for those - such as consumers' associations - which have fewer resources than the sector's incumbents, are also a concern for energy regulators. The CEER issued an advice on this matter to the attention of the European Commission and the Member States as well as energy industry as early as 2015,[107] and the Association of Mediterranean Regulators for Electricity and Natural Gas is also promoting exchange of good practice among its members in this area.

All these voluntary initiatives demonstrate the willingness of European energy regulators to contribute to the emergence of innovative practices and services for the benefit of consumers.

V

The role of services-related trade policies, trade agreements and trade negotiations for structural adjustment

A. PERSPECTIVE FROM SOUTH AFRICA

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Since the GATS became operational in 1995, the services sector has seen dramatic and radical evolution that could never have been foreseen by the architects of the agreement. We currently live in a world characterized by an increasingly seamless integration of traditional manufacturing, services, artificial intelligence and robotics, what is now commonly referred to as industry 4.0.

Whilst this new paradigm has spawned vast new streams of economic activity, at the same time, these groundbreaking changes are causing huge social, political and economic dislocations across the globe. However, it is in developing countries that the impact will be the most severe, as they are the ill-equipped to deal with these tectonic shifts.

We live in an age where the pursuit of greater efficiency is driven by "disruption", a term that until recently evoked negative connotations. Now the largest corporations in the world are embracing it. How do we locate these major shifts within the multilateral trade policy and regulatory landscape?

As a point of departure it is important to recognize that in South Africa's view, domestic regulations (DR) per se are considered important and necessary for trade in services. However, we are opposed to the process, nature and scope of the current DR negotiations. DR, as it is understood in the context of the GATS, can influence the role of services for structural transformation and development in South Africa. DR serves to put the final piece of services liberalization together to ensuring effective market access.

The efficiencies that can be generated through DR rules depend on the nature of a Member's services sector, and on its own domestic context and history on how a sector has been regulated in the past. In other words, the benefits are not necessarily automatic; nor can it be sufficiently proven that a one-size fits all model is the most suitable approach to multilateral, horizontally-applied DR disciplines.

A simple data analysis demonstrates that Africa, taken as a whole, is not a major services exporting region. This is not to argue that there is a direct causal link between imports, exports and trade balance vis-à-vis the proposed DR disciplines, because it mischaracterizes the nature and effect of DR rules, but also perpetuates the misnomer that these rules are about 'trade'. A convincing case can be made that GATS Article VI.4 has been misinterpreted and is aimed at something other than DR disciplines under the GATS.

The proposals intend to restrict the actual policy-making processes of governments, not just the rules and policies that you can develop, but in terms of how you develop them, who can participate in this process such as corporations and foreign states, and setting the terms by which you go about these decision-making processes.

1. Defining Africa's priorities

If Agenda 2063: The Africa We Want is anything to go by, enormous future potential lies in Africa. Africa shall be a continent where the free movement of people, capital, goods and services will result in significant increases in trade and investments amongst African countries rising to unprecedented levels, and thus strengthening Africa's place in global trade.

One of the key questions is to what extent the DR disciplines are likely to impact the development of the domestic services sector. The proposals in its present form do not promote "development", nor do they seem to adhere to the tenets of the GATS i.e. to ensure the quality of services under the market access commitments that Members have undertaken.

The proposed DR rules will reduce the policy space for Africa. For African countries, the Continental Free Trade Area (CFTA) heralds the most ambitious trade initiative yet. It is seen as the locomotive for unlocking Africa's industrial, services and trade potential. This will not be easy but the intention is to build from the ground up. Conversely, the current DR negotiations are seeking to impose a top-down approach.

The developed economies are aiming to gain a competitive advantage and remain the dominant players of services in the market. By imposing restrictive DR requirements on the African continent, and constraining our policy space, these economies are aiming to obtain policy space for themselves. Industrialised economies already have first-mover advantage.

It is very clear that Africa is a region with huge growth potential and a simple data analysis, without accounting for future exponential growth rate of Africa, shows that the region - with its policy space - will have the leverage to achieve its industrial policy goals. Without preserving our policy space, and with stringent binding DR rules that would lock us in, Africa's development will be hampered.

Looking at this from a policy perspective, projections show that in 2050, the bulk of the world's population growth will take place in Africa. Developed countries population growth is declining, and population ageing will steadily increase. Therefore, we will have a robust labour force, and this will certainly contribute to stronger African economies. However, this can fail if we bind ourselves to what is being proposed.

2. Clarifying the scope of the domestic regulation rules

The bananas case has given a wide interpretation to the scope of the GATS, and almost any type of state intervention to the extent that it affects trade in services, and falls under it. In the WTO context, there are 14 services sectors, over 50 sub-sectors and hundreds of services falling under the GATS. Therefore, how do you distinguish between what is within the scope of these proposed DR rules, and what is not?

The proponents need to clarify the scope of the DR rules because what we are seeing is that our capacity to promote policies that facilitate growth, employment creation, investments and industrialisation would be severely undermined if these horizontal DR rules in its current framing are adopted.

How? They would actually limit our policy space to determine independently why, which and how the measures we want to introduce in our relevant jurisdictions should be taken. This regulatory model will be detrimental to the development interests of Africa. Before we even develop, there are some Members who are imposing horizontal disciplines on an extremely broad scope of measures that will severely restrict our capacity to grow.

Additional info

When the Development of Measures and Transparency proposals are read together, it is clear that too much emphasis is being placed on the domestic processes involved in developing new domestic measures. Most services sectors are intrinsically related to perform social, cultural and economic functions, for which regulation in the national interest would be the biggest priority. However, what these proposals attempt to do is grab the only tool that governments have to intervene and seek corrective measures, and consequently erode the minimal policy space that is left to develop a particular sector. It was neither the will nor the intent of GATS Art. VI.4 to multilaterally centralize and cede a government's sovereign regulatory powers to the rest of the WTO Membership.

The African Group has always reaffirmed the 'right to regulate' and that preserving the necessary policy space is critical to Africa's long-term developmental objectives. The African Ministers of Trade restated in the African Union Declaration on WTO Issues[108] that any outcome on GATS Article VI.4 disciplines shall not involve the implementation of new and/or onerous administrative requirements or requirements that intrude into the domestic policy-making processes.

3. What is missing from the new template (Trade in Services Agreement) versus the 2009 and 2011 texts?

The proposals depict a reorganisation of headings to include provisions under 'Administration of Measures', 'Development of Measures' and 'Transparency'. Even though a chapter on Transparency was contained in the 2009 and 2011 Chairs' texts, it is still unclear under which mandate the proponents seek to address 'transparency' in DR disciplines.

Further, a closer examination of the proposals reveals that some important substantive provisions that were contained in the previous 2009 and 2011 Chairs' texts have been removed. These include: (i) the recognition of the right to regulate; (ii) recognition of difficulties of developing country members; (iii) definitions of licensing requirements, licensing procedures, qualification requirements, qualification procedures and technical standards; and (iv) the right to use Universal Service Policies.

The substantive elements under qualification requirements that have been removed in the current proposals include:

- Verification and assessment of qualifications;
- Identification of deficiencies of qualifications; and
- Mutual recognition of qualification requirements.

The first two elements were the result of intensive negotiations between 2008 and 2009, and due to their strong mode 4 (temporary presence of natural persons) component, were in developing Members interests. The lack of mutual recognition or the unwillingness to enter into MRAs could constitute an unnecessary barrier, and disciplines on the mutual recognition of qualification requirements fall under the DR negotiation mandate.

4. Linkages to e-commerce and investment

Prohibition of requirements on data localisation, forced technology transfer, etc., could be interpreted under DR rules to be licensing requirements or technical standards. The new disciplines could seriously hinder the ability of developing countries to impose these requirements, and subject them to onerous and costly dispute settlement proceedings.

5. Conclusion

Whilst African countries are not opposed to services liberalization and domestic regulations, they do not currently see a sufficient quid pro quo for further liberalising their service sectors and for adoption of onerous disciplines on domestic regulation. The vast and complex technological changes currently unfolding across the global economy, further underlines the need for African countries to approach any new disciplines with analytical and intellectual caution. In making the adjustments that will be required for the fourth industrial revolution, African countries will need the necessary policy space to advance their national socio-economic objectives.

B. IMPLEMENTING THE TWIN INITIATIVES OF THE CONTINENTAL FREE TRADE AREA NEGOTIATIONS AND THE PROGRAMME ON BOOSTING INTRA-AFRICAN TRADE TO CREATE A COMPETITIVE AFRICAN SERVICES SECTOR

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1. Services contribution to growth and development in African countries

Despite promising trends of services GDP and employment, services trade for Africa is still not very significant in global terms. African exports of services increased from 10 per cent in 1980 to 21 per cent in 2015, with the highest increase in the last decade, as recorded by UNCTAD. The sectors experiencing the highest increase tend to be construction, travel, telecommunications and computer services. Africa's share of global exports was only 2 per cent, compared with 3.6 and 24.3 per cent for developing countries in the Americas and Asia respectively. In terms of trade balances for selected African countries, major oil producing countries ran the largest services trade deficits, while most tourism exporters tended to enjoy positive services trade balances, e.g. Mauritius, Cabo Verde, Seychelles. Thus Africa's role in services trade is still at a very low level and a tremendous potential exists here for future growth both at continental level and between Africa and the rest of the world. However, there is a need for increased data collection at both national and regional levels to obtain a fuller picture of the trends in intra-African trade.

2. The Continental Free Trade Area and the Programme for Boosting Intra-African Trade

In January 2012, the African Union Heads of State and Government adopted the decision to create the CFTA, with an indicative date of end of 2017 for the conclusion of the agreements. The African Union Assembly decided that trade in services should form part of the first phase of the negotiations. The CFTA is viewed as a stepping stone that will lead to an African Common Market and an African Economic Community. A major aim of this ambitious effort is the expansion of intra-African trade by lowering the trade barriers to goods and services, as well as the movement of people throughout the continent. At the same time as the CFTA was launched, the African Union Assembly adopted the Action Plan for Boosting Intra-African Trade (BIAT). In promulgating the BIAT, the African Union Heads of State and Government made the following recommendations:

- "Partners are called upon to assist Regional Economic Communities (RECs) in developing regional frameworks for services trade liberalization;

- The AUC and RECs should assist Member States in strengthening domestic regulations in specific service sectors in preparation for regional and continental liberalization;
- The AUC and Partners should assist RECs/Member States to mainstream services into regional and national export strategies with a focus on sectors with potential to enhance intra-African trade in services;
- RECs and Member States should improve services trade statistics to aid policy analysis and formulation."

The two initiatives - the CFTA and the BIAT Programme - should be seen as two sides of the same coin. If the CFTA is concluded and implemented, it is estimated that it would increase intra-African trade and contribute $35 billion per year to Africa's GDP. But trade agreements in themselves cannot deliver on the ultimate objective of promoting and encouraging inclusive and sustainable growth. They are one component of the toolkit for achieving sustainable growth. They must be backed up with services sector development strategies, services policy frameworks and the required sectoral regulation (at regional and national level). Thus the relationship between the CFTA and the BIAT is critical in ensuring overall coordination of sector policy development to achieve a competitive services sector in Africa.

For instance, in the area of financial services, across regions in Africa, banks are taking a pan-African approach, proliferating and providing mobile money services which cross borders - of course, as goods, services and persons move across the continent, financial services must follow. Financial services are very likely to be part of the priority sectors chosen for the negotiations of the agreement on trade in services under the CFTA, as they are a key infrastructure service. Given the current developments in the banking and insurance sector, it will be important that financial sector development strategies complement what emerges from the agreement on trade in services, in order to shape the sector in a way that drives inclusive and sustainable development outcomes to ensure a single continent-wide market for financial services. Of course, domestic regulation and sector strategies at the national level can also feed from the regional level sector strategies.

The African Ministers of Trade in their meeting in Niamey from 15th to 16th June 2017 have approved the modalities for negotiations on trade in services which would include a framework trade in services agreement plus a broad regulatory framework on services, in recognition of the importance of regulation for delivering actual gains in trade in services. Negotiations on trade in services will continue throughout the year.

3. Importance of services sector policies and regulation

Regulations in the services arena come in several varieties and they range from qualification and licensing requirements and procedures in professional services, to pro-competitive regulation in telecommunications, energy and other network services to prudential requirements in financial services, and universal access requirements in health and education services. Services policies and regulation can address critical market failures such as monopolies and oligopolies, information asymmetries, universal access targets for public goods, and policy goals like environmental protection. However, such domestic regulation, while necessary for sector growth, in many cases may become barriers to market access in services without necessarily being discriminatory. And while trade agreements may enshrine the right of governments to regulate, such regulations are not applied in a vacuum, and must be carefully designed to coincide with commitments and obligations under trade agreements. Transparent regulations, regulatory governance and the necessary institutional framework are thus critical to services liberalisation if actual gains are to be attained from market access, and if real value-added can be achieved in services trade. Market access negotiations for trade in services under the CFTA will therefore have to include regulatory disciplines and regulatory governance if the continent is to achieve tangible outcomes.

Regulatory audits are also a key tool for governments to be able to enter negotiations fully informed, carrying out regulatory assessment and identifying any necessary reforms. They entail the description of measures, the specific aspect of the economy potentially affected, the nature of the measure(s), the modes of supply affected and the impact of the measure(s), among other things. Regulatory audits therefore will be an obvious step in the CFTA services negotiation process.

The African Union Commission (AUC) has produced a compendium of 5 case studies of successful services

exports in Africa,[109] highlighting air transport services in Ethiopia, banking services in Nigeria, business processing outsourcing/ICT services in Senegal, cultural services in Burkina Faso and higher education services in Uganda. The case studies examine some possible best practices in services exports from the suppliers' point of view, with a review of the role of policy and other factors that may have shaped the success of these industries. The countries and sectors were selected on the basis of their service sector performance. In some cases (e.g. cultural services in Burkina Faso) non-traditional service sectors were selected, particularly where the private sector's role in exploring foreign market access was a critical success factor. In some cases, public-private partnerships were important to the growth of the particular services sector.

Overall, the studies found that: a) an appropriate and enabling domestic regulatory framework was one of the key factors necessary for engagement in services exports; b) regulatory policies that create neutrality of incentives as between the various forms of trading systems (four modes of supply) and that do not favour one mode of service supply over another have been able to generate services exports in complimentary modes; c) more appropriate government regulations were able to either lay the basis for services export growth or to help initial advantages to grow; and d) different types of services sectors have needed and benefited from different types of policies, and that the key is to fashion the appropriate regulatory framework for the needs of the service sector in question. Overall, the studies point to the fact that the services sector has the potential to become a major driver of sustained economic growth and structural transformation in Africa. This publication is designed to contribute to the literature on trade in services in Africa, helping to plug gaps in data and analysis; it is also intended to catalyse further research on services sector exports among African countries. Furthermore, it is hoped that policy makers can find in it lessons learned for effective strategies for stimulating services sector exports, and the design of appropriate regulatory frameworks.

4. A draft services development programme

In order to implement and build on the relationship between the CFTA and the BIAT in contributing to Africa's growth and transformation, the AUC Department of Trade and Industry (DTI) is developing a services development programme with the strategic objective of creating a competitive services sector and developing other traditional and non-traditional services sectors to boost intra-African trade.

The services development programme is intended to have a five year time frame and will encompass all of the actors that would be involved in carrying out activities on services within the continent, including trade officials and services negotiators in the African Union Member States, officials in the various RECs and private sector stakeholders in the form of services firms and services coalitions.

The content of the Programme would be focused on steps that would assist with the liberalisation of services by African Union Member States, either unilaterally, through the RECs or in CFTA negotiations, as well as with the strengthening of regulatory frameworks for key services sectors. The programme would help strengthen the capacity of AUC-DTI officials to assist negotiators and policy makers. It will promote the engagement of the private sector as an active voice in the discussion and design of services policy, and in the negotiations on services at both regional and continental levels. To better coordinate the work on services, the services development programme outlines steps to be taken that would allow the AUC-DTI to liaise more effectively with the RECs and sets out a proposed communication strategy for services to improve available information and knowledge in this area. The six pillars of the programme are proposed as:

- Design of sector specific strategies and regulatory frameworks for identified priority sectors;
- Compilation of a regulatory audit and strengthening of regulatory frameworks for services in African Union Member States, together with the mapping of regulatory institutions;
- Identification of capacity building activities for African Union Officials in services work;
- Enhancement of private sector involvement in policy making and trade liberalisation;
- Development of an information and communication strategy for AUC DTI;
- Identification of channels to improve coordination between AUC-DTI and RECs on the work of services.

Within each pillar a series of steps and programme activities will be promulgated at the continental, regional and national level. The programme can be customised for a regional or national services development. The

AUC-DTI looks forward to the assistance of its partners in further refining and implementing the Programme.

C. THE EUROPEAN UNION'S PERSPECTIVE

Fabien Gehl

First Secretary, Mission of the European Union to the World Trade Organisation, Geneva

With respect to services negotiations at the WTO in a post-Nairobi environment, the European Union has concentrated its efforts where the WTO adds the most value, i.e. the rule making. This prioritization echoes and supports structural transformation in developing countries. The negotiating agenda put forward by the European Union at the WTO on services focuses on the regulatory infrastructure, both offline and online, in pace with today's economy. This emphasis echoes the European Union's own experience, where regulatory reforms have supported economic growth. A rule-making agenda also supports SMEs, which are more sensitive to uncertain rules or regulatory obstacles. The European Union proposed agenda is articulated around two strands of work: the so-called domestic regulation disciplines and a set of proposals that would facilitate online trade in services.

1. Services domestic regulation or good regulatory practices

Discussion on services DR reflects a well-known agenda on licensing and qualifications. The proposed rules would not regulate the entire services sector of a country but would facilitate the requirements and processes leading to the authorization of services suppliers. Existing market access can be undermined by uncertainty around authorization processes. DR rules contribute to certainty, predictability and good process. DR is an agenda promoted by both developed and developing countries, including by LDCs in their services collective request. Multilateral rules can contribute to and be a trigger of reforms. Most importantly, it facilitates processes for both foreign and domestic services suppliers. It therefore contributes to a harmonious development of the domestic services market. The right to regulate is a strong feature of the negotiation of DR rules. The European Union shares the view that the right to regulate is a fundamental right that should be preserved, and is convinced that the proposed DR disciplines would not affect a countries' ability to regulate services and to define its own public policy objectives. Those disciplines would not preclude any regulatory approaches. Rather, the disciplines would increase objectivity and contribute to fighting arbitrariness.

2. Facilitating online trade in services

With the objective of facilitating online trade in services, the European Union suggested to WTO Members to agree upon a limited set of multilateral rules covering all the steps of online transaction. By agreeing on basic disciplines relating to consumer protection, unsolicited communications, electronic signatures and electronic contracts, WTO Members would enhance the legal certainty of online services transactions. While online trade in services is increasingly global, multilateral rules would ensure that a global solution is devised. An outcome in the areas mentioned above would consist in a substantial contribution to a progressively increasing role of the WTO in dealing with digital trade. The European Union is proposing multilateral rules on online trade in services. At the same time, the European Union and its Member States have multiplied the initiatives in many developing countries with the objective to help out bridging the digital divide. The combination of regulatory reforms through multilateral rules and concrete development cooperation and technical assistance projects could represent a significant opportunity for developing countries.

3. Conclusions

Today's debate at the WTO represents a chance to ensure the relevance of this organization in the digital economy, and an opportunity to create global benchmarks with all WTO Members, in a transparent and inclusive fashion.

D. THE PERSPECTIVE OF THE EUROPEAN SERVICES FORUM

Pascal Kerneis

Managing Director, European Services Forum

There is a need for a paradigm shift in trade policy. The new trends in the real economy that are led by the private sector need to be reflected in trade policy. As we are in an ever-growing globalised world where everything is becoming interlinked, there is a need

to adapt trade policy methods to this new world. Trade policy is continuously negotiated in "pillars". All sectors are negotiated separately which is becoming inefficient. The world economy and trade are moving at a rapid pace and trade in goods and in services are now completely integrated. To negotiate separately chapters of "trade in goods", "trade in services", "public procurement", "intellectual property rights" (IPR), "investment" etc. does not allow trade policy to rapidly adapt to the new model by innovation and digital economy. This is where the private sector must take the lead. The private sector must now grasp the totality of trade policy, instead of looking exclusively to their own sector in silo.

European Union sectoral services exports and imports reveals that "other business services" stands at 27.5 per cent. This is the biggest "sector" in all services statistics, but there is no data showing the breakdown of services within this category. It is a mixture of lots of services, which are often around or embedded in the products. It is urgent to collect more detailed figures on these exports. In addition, there is a stark difference in measuring methods. The BOP records products coming into the country as a whole. It does not take into account that goods and services are more and more bought and sold together. Services are embodied or embedded into the products, but the BOP method does not take them into consideration, even when the bulk of the value of a product is in fact due to the embedded services. For instance, a computer without its software does not have much value. With this in mind, the WTO and the OECD teamed up to create a database taking these factors into account. In 2011, world exports in BOP were 77.6 per cent in goods and 22.4 per cent in services. However, the TiVA indicator tells a different story: world exports in 2011 were 42.3 per cent in goods and 57.7 per cent in services. The relevance of this database is significant, highlights the importance of services, and shows their great importance in the world economy.

There is a new concept in the world economy, which is called "servicification", a word that is coined by the Swedish National Board of Trade. There is a shift from traditional trade in finished products to trade in intermediates story. The United Nations estimates that intra-firm trade accounts for as much as one third of global trade. Services are so important as intermediates in every sector that efficiency, including regulatory efficiency, in the services sector has become paramount to remain competitive in exporting manufactured goods and services. The digital economy is fostering this trend and is a great example. The policy challenge is to get the enabling factors right, so that business can move up the value chain into higher value-added tasks.

The business community is supporting the European Union bilateral trade policy, which strives for a "deep and comprehensive FTA" in a single undertaking with its trading partners. Trade in services is focused on cross border transfers, movement of people, and increasing market access, but all companies also need to ensure that an FTA will look at IPR and covers copyrights, patents, data flows etc. The public procurement chapter is also very important and commitments must cover central, regional, local, and public entities, etc. The "servicification" of the economy goes far beyond the GATS.

Since the conclusion of the Uruguay Round and the adoption of the GATS and country commitments, there have been some significant developments in trade in services negotiations in bilateral, regional (e.g. Trans-Pacific Partnership (TPP)) or plurilateral (e.g. TiSA) agreements. The market access commitments go into much more depth:

- Use of negative list approach in negotiations, where openness is the default situation, obliging negotiators to make first a state of play of the real picture of the current practice;
- Standstill and ratchet clause for restrictions on existing measures (annex 1) allow spreading out of liberalisation without passing by the FTA revision process;
- Scheduling at higher level (2 digit of the central product classification (CPC)), allowing automatic binding of new products;
- Commitments in schedules are not only for services sectors (mode 1, mode 3 and mode 4 are for the whole economy).

It is very important to understand that the "GATS Modes" apply to all economic sectors. The mode 1 commitments are negotiated in services schedules but are of direct concerns to manufacturing industries (e-commerce B2C, cross border data flows which covers three dimensional printing, IoT or machine to machine (M2M), digital manufacturing, etc.). Mode 3 (commercial presence abroad) commitments are also negotiated in the services and investment/ establishment chapter but now include commitments

on agriculture, mining, all manufacturing sectors and then in services. Similarly, mode 4 (temporary movement of natural persons) is typically negotiated in service schedules, but covers all economic sectors like intra corporate transferees, experts, engineers, etc. from manufacturing companies.

The text on services-related chapters goes now into much more details, which further increases the value of the commitments. The text on horizontal issues includes domestic regulation and transparency into legislation (licensing procedure, authorisation processes, etc.), performance requirements and localisation rules, cross-border services, temporary entry for business persons, and establishment and investment (pre-access and protection). The text on sector-specific issues now also includes more stringent rules for the signatories' legislators or regulators. This is notably the case of the sector-specific texts on financial services, telecommunications, e-commerce, and professional services, etc. In the services chapters or annexes, horizontal or sectoral, new deals include new frameworks for regulatory cooperation. It includes MRAs of diploma and licences in professional services. It also includes exchanges between regulators on methods towards regulatory equivalence, to avoid duplication of costs. Other parts of the agreement have a significant impact on the services sectors, like - to mention a few - public procurement, disciplines on state-owned enterprises (SOEs), disciplines on SMEs, and the trade and sustainability chapter.

Looking at the future of the European Union trade policy, there is a number of agreements that have not yet been ratified. These include FTAs of the European Union with Canada (Comprehensive Economic and Trade Agreement (CETA)), Singapore, Viet Nam; and the economic partnership agreement (EPA) with Japan. The European Union has also ongoing FTA negotiations with Indonesia, Malaysia, Mercosur, Mexico (revision), Philippines, and of the bilateral investment agreement with China. Some negotiations that should start soon include FTAs with Australia, Chile (revision of mandate), Turkey (revision); a deep and comprehensive free trade area with New Zealand; and bilateral investment agreements with Hong Kong, China, and Taiwan Province of China. TiSA is still on hold but hopefully negotiations will start to commence in the near future.

E. THE PERSPECTIVE OF THE COALITION OF SERVICES INDUSTRIES

Christine Bliss

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1. Services economy and trade

CSI represents the interests of the dynamic United States of America service economy, which accounts for over 75 per cent of the workforce and nearly 80 per cent of GDP; roughly 10 million services sector jobs are directly supported by services exports and investment.

2. Digital economy and technology

Digital services are transforming the American economy, and an area where the United States of America is highly competitive. In 2015, digitally enabled services exports accounted for $159 billion of the $262 billion services trade surplus.

Cloud computing and storage is an increasingly significant part of the digital ecosystem and has tremendous cost efficiencies. Governments, universities, hospitals, start-ups, SMEs, manufacturers, financial services suppliers and many others are migrating to the "cloud" to meet their information technology needs.

Because United States of America's SMEs increasingly reach foreign customers via Internet platforms, financial services, app stores, and advertising services, adopting a legal and regulatory framework that is open to these services is also critically important to supporting SMEs. This is particularly the case for cloud services where governments should create policy environments that support and encourage the safe, secure, affordable use of the cloud and expand the export potential for SMEs. SMEs need information and communications networks that are accessible and affordable. Broadband policies should consider the need for SMEs to have reliable connectivity and ensure that SMEs in rural locations are not left behind.

Ensuring the free flow of data across borders and prohibiting data localisation is imperative if we are to realize the full potential of services, particularly Internet enabled services, in promoting global economic growth and innovation. A March 2016 report by the McKinsey Global Institute found that in 2015, for the

first time, the global value of international data flows ($2.8 trillion) exceeded the value of global merchandise trade.

As cloud-based services become more central to our daily lives – and to the ability of United States of America's small businesses to connect with global customers - the need for affordable broadband connectivity becomes critical. Significant gaps remain in global Internet access, as only 3.4 billion people have access. For example, Internet penetration is close to 100 per cent in Qatar, the Republic of Korea, and Saudi Arabia, but less than 2 per cent penetration remains in a number of sub-Saharan African nations. Without specific steps to increase access, just 16 per cent of people in the world's poorest countries, and only 53 per cent of the total global population, will be connected to the Internet by 2020.

3. Services and manufacturing

Services promote the competitiveness of manufacturers and agricultural providers. Services, particularly digitally enabled services, account for 25 per cent of manufacturing input (such as R&D, telecommunications, financial services, distribution), enabling improvements in manufacturing efficiency and product performance through inclusion of smart technologies. On manufacturing shop floors, companies depend on software and services, increasingly cloud services, which drive new processes to keep manufacturers competitive. Farmers are increasingly reliant on data and cloud computing technology to monitor the health and productivity of their cows, or what is known as the "connected cow". Farmers use monitoring systems to provide real-time milk production figures, health statuses of their cows, tracking of birthing and insemination cycles and much more. Farmers are now more efficient, more productive, and have more control over their cattle than ever before.

4. Role of services and trade in global development

Services are predominant in all developing regions, including in LDCs. Between 1980 and 2015, the share of services in GDP increased in all income level groups, including from 61 to 76 per cent in developed economies and 42 to 55 per cent in developing economies.

Services are predominant in employment. In 2016, the broad services sector was estimated to account for nearly half (49 per cent) of global jobs. In developed economies, services jobs account for 75 per cent of the total, and in developing economies they account for 44 per cent. Services employment is particularly relevant for women, who hold the highest share of jobs in the sector globally. Participation of women in services jobs in developing economies is 41 per cent, second only to agriculture.

Services are predominant in investment and trade. In 2015, services received 53 per cent of global investment. Between 2005 and 2016, services exports grew faster in developing economies than in developed economies. The share of developing economies in global services exports grew from 23 to 29 per cent.

5. Services and micro, small and medium sized enterprises

MSMEs represent 95 per cent of firms globally, 50 per cent of output and 60 per cent of employment. They are sources of innovation and provide more opportunities for women and youth, though regularly are confronted with significant challenges related to low productivity, minimal participation in international trade and a focus on low value added production. Services provide inputs and linkages through the production processes, allowing for MSMEs to improve productivity and diversify.

6. Enabling policies and regulations for structural transformation

A set of enabling policies and regulations is required for the improvement of services performance to support economic transformation that favours sectors with higher productivity and value added. These include public and private efforts in ICT-enabled services, significant public investments in ICT infrastructure and strong regulation. For financial services, encouragement of investment and access to loans, insurance and other development-enabling products is critical for developing economies.

F. THE PERSPECTIVE OF THE WORLD TRADE ORGANIZATION

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Negotiations on market access, although referred to by several delegations as an important element to revive in the overall process, have not been subject to any specific proposals outlining any exact objectives. Negotiations on domestic regulation, on the other hand, are quite active. The proponents of domestic regulation disciplines have put on the table specific proposals for draft disciplines covering several elements including transparency, development of domestic regulation measures as well as others. Discussions are advancing and some convergence is emerging. However, at this point, one cannot say that consensus is in sight.

The delegation of India has also put forward a comprehensive proposal on a "Services Trade Facilitation Agreement". It is proposed as a new stand-alone agreement analogous to the Trade Facilitation Agreement on Goods Trade, concluded at the Bali Ministerial. The proposal by India contains a number of ambitious elements in relation to the four modes of supply. Examples of such elements are: disciplines on cross border data flows for mode 1, health insurance portability for consumption abroad under mode 2, single window approval systems for commercial establishment under mode 3, as well as additional transparency and simplification of procedures for work permits under mode 4. It is recognized that the proposal by India goes beyond the scope of work on domestic regulation under Article VI:4 of the GATS, which covers, strictly speaking, licensing requirements and procedures, qualification requirements and procedures and technical standards.

Pursuing negotiations on regulatory issues should be seen in the broader context of the GATS and its different provisions. The domestic regulation negotiating agenda under the GATS is not confined to Article VI:4. Article XVIII (additional commitments) provides an even broader scope for negotiating regulatory disciplines. In fact, the scope of Article VI:4 can be seen as a sub-set of that of Article XVIII. Therefore, elements of the proposal by India, which do not fall within Article VI:4 negotiations, could be taken up under Article XVIII. It is also important to recall that, according to Article XIX:4 of the GATS, negotiations may be pursued bilaterally, plurilaterally or multilaterally. Pursuing a consensus-based negotiation should not be seen as the only way forward. There are indeed examples of additional commitments being negotiated under Article XVIII plurilaterally. The most obvious example is the Reference Paper on Regulatory Principles in Telecommunications. The relationship between Article VI:4 and XVIII opens doors for creative negotiating and drafting solutions worthy of consideration by the proponents. The architecture of the GATS embodies a built-in "trade facilitation agenda" in the form of Articles VI:4 and XVIII. They have been designed as continuing mechanisms for rule-making negotiations aimed at providing solutions to unforeseen challenges emerging from technological advancement and innovative business models. Examples of such challenges are digital economy-related issues such as cross-border data flows and localisation requirements for computing facilities, among others.

G. DOMESTIC REGULATION DISCIPLINES PROPOSED IN SOME RECENT TRADE AGREEMENTS

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Disciplines on domestic regulation (DRD) in services are currently being negotiated in a number of trade agreements including at the WTO, in the TiSA, the Regional Comprehensive Economic Partnership (RCEP) and some European Union FTAs. These DRD restrict the ability of governments to have even non-discriminatory regulations. The proposed DRD would restrict laws and regulations etc. applying to: a) licensing requirements and procedures (such as what is needed to obtain a licence for a hospital or nuclear power station); b) qualification requirements and procedures (e.g. what a human being needs to do to qualify as a medical doctor); and in some trade agreements c) technical standards (e.g. how clean the water has to be and how many patients are allowed per nurse in a hospital, etc.).

In some trade agreements, these DRD would only apply to the service sectors liberalised (which may be on a positive list basis: i.e. the sectors listed are liberalised as occurs at the WTO; or on a negative list basis: where all service sectors are liberalised

except those listed). In other trade agreements, some countries are proposing that the DRD apply to all service sectors, even those which are too sensitive to be liberalised.

While the WTO's services rules in the GATS are not strictly binding on subnational governments (because national governments only have to take such reasonable measures as may be available to it to ensure their observance by subnational governments), in some trade agreements the proposals are that these DRD would be strictly binding on all levels of government, even local and municipal governments.

Some of the main proposed DRD in current trade negotiations are that licensing requirements and procedures etc. must be:

- Objective: This has been interpreted as: (a) not arbitrary (where arbitrary can mean a rigid unbending requirement such as a maximum price for water); (b) not biased, which could prohibit affirmative action for disadvantaged groups (e.g. lower licensing fees for the disabled, women, veterans, etc.); (c) not subjective, which could make it difficult to have just and reasonable rates for essential services or fit and proper person tests for media ownership; and (d) not tougher than international standards (e.g. the World Health Organization's Framework Convention on Tobacco Control);
- Transparent: experts note that this can mean that requirements must be fixed, not discretionary. But if they are fixed, they can be arbitrary and so not objective. The proposed footnote to 'objective and transparent' in TiSA, noting that this can include potential health or environmental impacts of an authorisation decision, shows the concerns that some TiSA governments have for how these criteria could be interpreted;
- Not more burdensome than necessary and other similar wording. In the WTO DRD negotiations this necessity test has been opposed by many countries, including Brazil, Canada and the United States of America who noted that it would be both a vague and unpredictable standard, ultimately defined by a panel rather than WTO Members, which would open the door to second-guessing experienced regulators about some of the most sensitive policy choices made by Members;
- Pre-established was proposed at the WTO in 2009, but was dropped from the 2011 Chair's text, presumably because of the way it could be a standstill on services regulations, even when there has been changes in external circumstances such as the financial crisis, climate change, etc. However, the recently concluded CETA between Canada and the European Union has a similar requirement that licensing requirements and procedures must be established in advance;
- As simple as possible is also a CETA requirement that may prevent regulations requiring environmental impact assessments and consultations of the local community, etc. before, for example, starting a mine.

There are also proposals in current trade negotiations restricting licensing fees, for example to be commensurate with the cost of printing the licence and enforcing it (e.g. making sure the restaurant closes at midnight). This would prevent governments from using licensing fees to raise revenue, to discourage certain services (such as casinos), or to cross-subsidise (for example a public hospital from a private hospital's licensing fees). Governments at various levels in both developed and developing countries are currently using licensing fees to pay for street lighting, rubbish collection, public health clinics, police and fire departments, etc. It is not clear if ministries at all levels of government are willing to give up this revenue source and that the national governments will compensate them for the lost licensing revenue for the duration of the trade agreements. There are usually exceptions to these restrictions on licensing fees for auctions (e.g. of the 4G phone spectrum), natural resources (e.g. mining and forestry licences) and mandatory contributions to universal service (e.g. for postal services).

The proposed DRD often include a proposal that a licence once granted must take effect without undue delay (in accordance with its terms and conditions). This prevents governments from changing their mind (e.g. when a new government comes to power, or there has been a change in external circumstances - e.g. a nuclear power plant accident -, or of public opinion, etc.).

While the general exceptions in GATS for health and the environment etc. often apply to these proposed DRD, one 2015 study found these WTO exceptions (for goods and services) have only worked once out of 44 attempts to use them.

VI

Country experiences

A. SERVICES AND SUSTAINABLE DEVELOPMENT - A VIEWPOINT FROM BRAZIL

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1. Overview

The economy of the 21st century has in services its main driving force. The role of services in generating new businesses (e.g. digital economy) and creating skilled jobs, apart from its capacity to support business competitiveness, is currently a consensual position among analysts and policy makers. The positive influence of services permeates all economic sectors.

The dichotomy that still separates foreign trade in services from that of goods is now outdated. What actually exists is a synergy between the production of goods and the supply and provision of services, thus generating a process of induction and continuous symbiosis in the economy between companies of the two sectors. The value-added and sophistication that the use of services incorporates into agricultural and industrial goods allows companies to gain the skills needed to succeed in their local and internationalization strategies. The process of conquering foreign markets by industrial companies and their products helps service companies to internationalize. In turn, the servicification process makes services take the lead in terms of value aggregation, increased competitiveness and innovation.

A clear understanding of the services economy and trade and their contributions to sustainable and inclusive development should be an integral part of the policies and actions of developing countries, especially in the face of the new challenges created by the digital economy and the ever-pressing need for the maintenance and creation of jobs.

2. Services economy and trade and sustainable development

Although the growing contribution of the services sector for the development of the Brazilian economy is better known in aspects such as GDP, employment and innovation, foreign trade in services (exports and imports), although decisive, remains less visible. Arbache[110] compares the evolution of foreign trade in services in Brazil in the initial and last five years of the period 1995-2016. In 1995-1999, the average annual trade in services (exports + imports) was $20 billion, or 19 per cent of trade in goods. In 2012-2016, the total foreign trade in services reached $114 billion annually, corresponding to 28 per cent of trade in goods.

The flow of trade in services is expected to keep growing in the coming years - via increased imports - and will increasingly influence the outcome of Brazil's external accounts. A substantial up-turn in the trade deficit is also expected as a result of increased and continued imports of sophisticated products by businesses and individuals, including among others: data management and use, cloud services, e-commerce, streaming, digital entertainment, brands, intellectual property, design, marketing, distribution, use of platform services. Nowadays there is enough evidence indicating that in the near future it will be impossible to create wealth, generate quality jobs, and enter the front door of GVCs without the ability to develop and manage sophisticated services and "pack them" into goods and third-party services.

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

3. Services and servicification - contributions to development

Sustainable development has to do both with the advancement of present economic, social and overall conditions, but also bears on the possibility of guaranteeing the well-being of future generations. In Brazil, the services sector comprises an impressive 73.3 per cent share of GDP (having risen from 72.7 per cent in 2015)[111] and employs close to 70 per cent of the work force (68.8 per cent in 2015). Although there was an increase in the participation of the tertiary sector in the total work force in Brazil, there was a decrease of formal jobs in absolute numbers from 27.2 million jobs in 2015 to 26.6 million in 2016.[112] This can be explained by the economic recession in Brazil and the increase in unemployment.

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

In Brazil there is a greater concentration in "cost services". A study by the industry and academia indicates that "in order to break the trap of low growth in which we have been in since the 1980s and enter the world economy by the 'front door,' we will have to focus more on "value-added services" and product differentiation". It is no coincidence, therefore, that we see a greater "activism on the part of developed countries in favour of the global liberalization in services, especially those of aggregation of value and of stricter rules of protection of intellectual property".[113]

4. Services and the challenge of job creation

The services economy and trade present developing countries with a myriad of unavoidable challenges and a number of opportunities. One such challenge lies in labour creation and maintenance (preferably quality jobs). In Brazil alone, the percentage of people employed in services in relation to total employment was 46 per cent in 1981,[114] having risen to almost 70 per cent in 2016.[115] Such a steep increase, much in line with the trend verified in the developed world, poses real challenges to policy makers in the different levels of government.

In the present context, the main challenge faced by developing countries is the creation of knowledge-based quality jobs. The slow pace of the world economy, reinforced by weak productivity gains, slack investment growth (exacerbated by policy uncertainty in some large economies), and a persistent trade deceleration[116] only makes this task more daunting. In face of the dire situation of the domestic labour market, Brazil is now in the process of reforming and updating its labour laws to make them more flexible, more prone to job creation, and adequate to the present economic and social reality.

5. Impact of new technologies and the digital economy

The "economic growth and globalization, spurred on by technological advances, brought services into a new prominence as sources of income, trade, jobs and development".[117] Preparing the present and next generations for the skills of the 21st century, such as programming, ability to work with machine learning, artificial intelligence, new business models, complex problem solving, etc., should be a priority for emerging economies. In the absence of such actions, developing countries risk becoming even more unprepared for the race for development.

From one point of view, there has been a clear and increasing advance of IT-based companies over more traditional markets (as in the case of the purchase of the Whole Foods network - the largest retailer of organic and natural products in the United States of America - by Amazon - the country's third largest retailer), pointing to the consolidation of these companies into large export platforms. A number of issues should be addressed here: (i) as a result of consolidation, barriers may increase and be justified on the basis of the competitive advantage of these large platforms; (ii) difficulties and distortions may arise in the regulatory arena, since these companies are extremely difficult to regulate; (iii) further, changes in the internal policies of large platforms can have effects on the market worldwide; as the cost of staying out of these platforms can be very high, small businesses usually undergo the established rules, the platforms then acting as de facto regulators. (iv) Finally, in regard to the broader effect of consolidation for developing countries, as these platforms originate in industrialized countries, even if access opportunities are created, the bulk of the value created is retained in these countries, increasing global inequality and hampering a greater convergence of income.[118]

In Brazil, e-commerce and digital trade in services have gained considerable space both in relation to domestic and international consumption. The domestic challenges faced by national companies are compounded by external competition offered by major international players. Over the last years, e-commerce in Brazil has presented an impressive growth, in many times above the traditional retail business. Presently, the sector amounts to 3.3 per cent of total sales in Brazil, if we compare to "restricted retail".[119]

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

The revitalization and boost that the issue of electronic and digital trade had in international trade forums in 2016 reveals the intention of the more developed economies to deal with digital trade in a multilateral context and not only in bilateral trade agreements. The progress in these discussions and possible international commitments will bring impacts to the international and domestic competitiveness of companies all over the developing world, in particular of Brazilian companies. In many international forums, such as WTO, OECD, G20, countries are discussing regulatory aspects linked to the digital trade. The focus of those discussions varies from one forum to another, but they include important aspects: consumption rights, the localisation of servers, property rights, duties, digital trade of goods (electronic retail) and services, electronic signature, means of payments, etc.

Those are not only theoretical discussions, as they are the basis to an internationally accepted environment for the digital trade. Furthermore, MC11 will focus on services and e-commerce. At this moment, the mandate under the WTO does not allow for formal negotiation on e-commerce, but related discussions are included.

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

6. Our contributions to sustainable development in Brazil

The MDIC actively contributes to SDGs. This task is carried out jointly with other public bodies and through strong and continuous consultation with the private sector. MDIC's programmes and public policies are more related to three of the SDGs: goal 8 on decent work and economic growth; goal 9 on industry, innovation and infrastructure; and goal 16 on peace, justice and strong institutions.

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

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

By prioritizing the trade flow, SISCOSERV outlines an overview that goes beyond the financial aspects of foreign trade in services. Details of services provision that are not seen by other instruments are captured through the system. The mode of supply unveils business models adopted by Brazilian companies and it is a determinant aspect on international negotiations. Registration in SISCOSERV covers services provided in the four modes of supply. In line with the nature of mode 3 of supply, data for this mode are not registered in the acquisition module (imports) but solely in the sales module. The start and completion date of services provision, help to characterize commercial

links, enduring or fleeting, between the countries. Identifying relevant players became possible to the Government. All information registered in SISCOSERV is classified according to the Brazilian Classification of Services and Intangibles (NBS), which is based on the United Nations CPC and adapted to meet Brazilian current standards and needs.

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

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

The Secretariat of Commerce and Trade of MDIC has sought to contribute with transparency and relevant information on the services sector. Since 2015, the Secretariat of Commerce and Services began to publish annually the statistics of international trade in services based on data from SISCOSERV. The data referring to 2014, 2015 and 2016 were already released and are available in different formats, including in English. The statistics allow the understanding of the current background of Brazilian foreign trade in services. They also allow the mapping of opportunities for expansion of businesses.[120]

B. BANGLADESH: SERVICES POLICY REVIEW AND LEAST-DEVELOPED COUNTRIES SERVICES WAIVER

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Like many other countries around the world, the role of services in Bangladesh has also been increasing progressively. While the share of services sector in the GDP was 39 per cent in the fiscal year (FY) 1976-77, it rose to 48.8 per cent in FY 2000-01, and it grew at an average rate of 7 per cent from FY 2000-01 to FY 2009-10. In the last FY 2016-17, the contribution of the services sectors to GDP was about 56.5 per cent. Liberalization and modernization of the economy and, above all, utilization of advanced technology are the factors for which the contribution of services has been increasing day by day.

Among the sectors within the broad services area, it was found that the contribution of wholesale and retail trade was the highest (14.12 per cent). Other well performing sectors were: transport, storage and communication (11.44 per cent); social and personal services (9.53 per cent); real estate, renting and business activities (6.83 per cent), public administration and defence (3.42 per cent); financial intermediations (3.41 per cent); education (2.28 per cent); health and social works (1.84 per cent); and hotel and restaurants (0.75 per cent).

Though the contribution of the services sector to Bangladesh economy is the largest, trade in services, particularly international trade, still remains insignificant. According to Bangladesh statistics, export earnings from services were $3.14 billion in FY 2016-17, while import expenditure for services was $6.8 billion for the same period. However, since a statistical system for trade in services is still not well-developed and organized, recorded figures of trade in services seem to be less than the actual trade. Experts and trade analysts are also of the same view that the actual trade in services in Bangladesh is much more than the recorded figures.

1. Services policy review

Considering the growing importance of services sectors, the Government of Bangladesh requested UNCTAD to conduct an SPR. Accordingly, UNCTAD

conducted the SPR for Bangladesh, which was completed in 2015. The SPR covered several potential sectors and sub-sectors of services, which were: ICT services and ICT-related services; tourism; accounting and auditing services; architectural and engineering services; and nurses and midwives. These sectors and sub-sectors were selected by Bangladesh in consultation with the stakeholders. In the SPR process, the study was conducted by the international and local consultants, also in consultation with the stakeholders. Two workshops were held in Dhaka. The SPR report analysed each sector in detail through strengths, weaknesses, opportunities and threats (SWOT) analyses and made recommendations for each area, detailed as follows.

ICT sector:

- IT infrastructure, including connectivity needs to be improved and expanded;
- Focus needs to be given on human resource development and also on productivity;
- Initiatives need to be taken for market expansion and development;
- Financial transactions need to be made easier and affordable;
- Import and export policies need to be favourable for IT business.

Tourism sector:

- Need for a tourism master plan with short, medium and long term goals and targets;
- Quality infrastructure and communication system needs to be developed;
- Necessary steps should be taken to attract investments, including FDI, in tourism;
- Required skills need to be developed for delivering tourism services;
- Tourism services need to be diversified;
- Country branding is also necessary.

Export of human resources:

- Skill development activities need to be intensified;
- Focus should be given on exports of skilled human resources;
- Government needs to strengthen diplomacy and promotional activities to find out more opportunities;
- Government should try to have bilateral agreements or memorandums of understanding with the prospective countries;
- Coordination among the different ministries and agencies needs to be strengthened;
- Research needs to be carried out for market promotion and development.

Lessons learned from the SPR process:

The SPR process revealed some ground realities of Bangladesh's services sectors. Important findings are:

- Services sectors of Bangladesh have enormous potential. However, the sectors are still not well-organized;
- Though some sectors have policies and guidelines, in most sectors there are no policies for promotion and regulation of the sector;
- There is no comprehensive trade policy for services in Bangladesh;
- Due to wide range of services sectors and subsectors, many Ministries and organizations are involved in various activities, like regulation, production, and trade of services;
- Coordination among relevant entities is insufficient.
- Inadequate infrastructure, both legal and physical, is a big issue for services sectors;
- Overall capacity in services is very limited. Due to complex nature of services and trade in services, knowledge of stakeholders on relevant issues is not adequate;
- Lack of reliable data and information.

Government initiatives:

- Bangladesh Government has set a vision to make the country a middle income one and "Digital Bangladesh" by 2021. Hence, many initiatives are taken to develop the IT sector;
- Sector specific policies are being formulated, some are already in place;
- Capacity building and infrastructure development activities are underway in various service sectors;
- Formulation of a comprehensive trade policy, including on trade in services, is also underway with the help of the European Union;
- Initiatives are underway to streamline foreign exchange regulations to facilitate services exports.

Regional initiatives:

Apart from the WTO, Bangladesh is a party to three regional services trade agreements. Bangladesh

has already signed the South Asian Association for Regional Cooperation (SAARC) Agreement on Trade in Services (SATIS) and the Framework Agreement on the Promotion and Liberalization of Trade in Services among Asia-Pacific Trade Agreement participating States. In addition, Bangladesh is now negotiating the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation agreement on trade in services. Bangladesh's objectives in these negotiations are, apart from the mutual benefits from regional liberalization of trade in services, to ensure better market access and special and differential treatment (SDT) for the LDC participating countries.

2. Least-developed countries services waiver

Bangladesh has been doing very well in exports of goods and it is well recognized by the international community. Bangladesh is the second largest exporter of apparel products in the world. One of the important reasons of Bangladesh's good performance is preferential market access, particularly duty-free, quota-free (DFQF) market access facilities under the generalized system of preferences (GSP) schemes of various countries.

These kind of preferential facilities were not available in trade in services. However, after a decade-long negotiation, the "LDCs services waiver decision" was adopted in the 8th WTO Ministerial Conference in 2011, with a view to providing preferential market access to LDCs. The decision gave waiver from most-favoured-nation (MFN) principle for members providing better market access to LDCs without extending the same to other countries.

However, the waiver decision could not be operationalized due to various practical constraints. In order to operationalize the decision, the LDC group - with the support of development partners - conducted studies, including country-specific studies. Some important decisions were also adopted in the 9th Ministerial Conference in 2013, Bali. Following the Bali decisions, the LDC group submitted a collective request on which a high level conference was held in Geneva, in 2015, where many countries indicated their willingness to declare preferential schemes under the LDCs services waiver.

Accordingly, 24 members have declared their schemes so far: (1) China; (2) Republic of Korea; (3) European Union; (4) Hong Kong, China; (5) Thailand; (6) Switzerland; (7) Australia; (8) Uruguay; (9) New Zealand; (10) Canada; (11) South Africa; (12) India; (13) Norway; (14) Mexico; (15) United States of America; (16) Turkey; (17) Chile; (18) Iceland; (19) Brazil; (20) Singapore; (21) Japan; (22) Taiwan Province of China; (23) Liechtenstein; and (24) Panama.

However, Bangladesh (and no LDC in fact) could not yet make use of the preferential scheme. The Ministry of Commerce of Bangladesh disseminated all the schemes to stakeholders. In addition, several workshops were held with the help of WTO and Government's own initiatives. Continuous dialogues with stakeholders are also on-going with a view to making use of the preferences. However, our stakeholders are of the view that they do not find any real preferences in the schemes. Currently, the Ministry of Commerce has been conducting a study under the Enhanced Integrated Framework (EIF) programme of the WTO to find out the way forward for making use of the preferences declared under the LDCs services waiver. In fact, Bangladesh, being the home to a huge population of 160 million, has enormous potential in services, particularly in human-resources-based services. If real preferential market access could be achieved under the LDCs services waiver, Bangladesh would be immensely benefited as it was the case with DFQF in the exports of goods.

C. THE ROLE OF THE SERVICES SECTOR IN THE DEVELOPMENT OF BELARUS

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1 Introduction

The development level of the service sector is the major indicator of a society's well-being. The service industry is important in building an effective non-resource innovative economy. Many countries that do not have sufficient scientific and technological resources, and raw materials, provide economic growth based on innovative development of the services sector. This way is acceptable for Belarus. The share of services added value in the gross output in Belarus is 68 per cent and exceeds the similar indicator in industry and agriculture by 39 and 24 percentage points, respectively. The share of people employed in services in the total number of employees in the republic was 56.6 per cent in 2012 and 59.2 per cent

in 2016. Women have the highest share of jobs in the sector - 70.3 per cent.

Structural transformation of the Belarus economy assumes the increase importance of services in social and economic development of the country and its position in the world market. Belarus is a small state with an open economy. Globally, the republic ranks 84 in territory and 92 in population, and has a share of 0.07 per cent of GDP, 0.16 per cent of exports, and 0.18 per cent of imports.

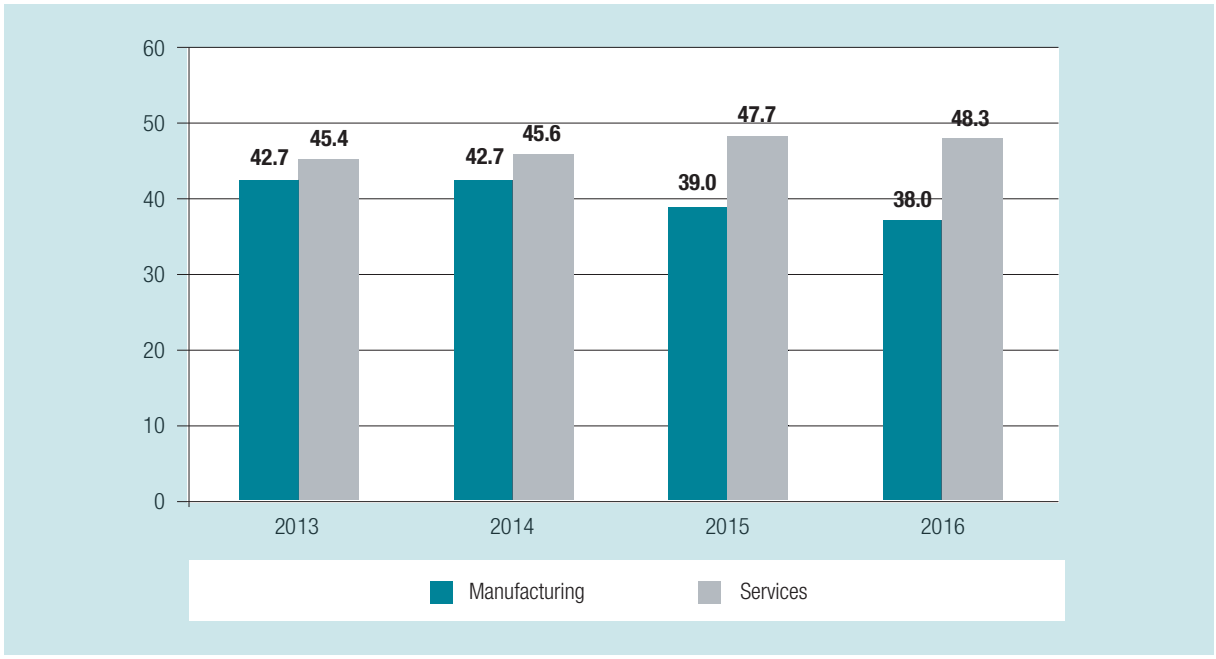
2. Services as a growing part of the Belarus economy

The development of the service sector and of the national economy are interdependent phenomena: the development of the country's economy stimulates the growth of services and, in turn, services increase the efficiency of production and, therefore, activate economic growth. The share of the industrial sector in the country's GDP went from 42.7 per cent in 2013 to 38 per cent in 2016 while the services sector has grown from 45.4 per cent in 2013 to 48.3 per cent in 2016, i.e. by 2.9 percentage points in three years (figure 10). In developed economies, the share of services in the gross national product is 76 per cent.

The largest share in GDP in 2016 was occupied by services such as wholesale and retail trade (10.8 per cent), transport (5.7 per cent), real estate transactions (5.4 per cent), information and communication (5.1 per cent), education (4.3 per cent), and financial and insurance activities (4.0 per cent) (table 3).

Wholesale and retail trade has the largest share in the structure of services, but characterized by a downward trend: 12.4 per cent in 2013 and 10.8 per cent in 2016. The share of health and social services in the total volume of services increased from 2.8 per cent in 2013 to 3.6 per cent in 2016. In the same period, the financial and insurance sector has slightly increased from 3.1 to 4.0 per cent, and education from 3.8 to 4.3 per cent, respectively. The share of information and communication services increased from 3.1 per cent in 2013 to 5.1 per cent in 2016, which should be noted as a positive trend. In Belarus, in 2016, the Internet was used by 66.6 per cent of the population, and cellular communication by 93.5 per cent. In the same year, Belarus took the 31st place among 175 countries in the IDI, climbing 10 positions from 2013. At the same time, there has been a negative trend in the article "creativity, sport, entertainment and recreation", decreasing from 1.1 per cent in 2013 to 0.9 per cent in 2016 in the total volume of services, although with a reduced share.

Figure 10 . Share of manufacturing and services in the gross domestic product of Belarus, 2013–2016 (Percentage)



Source: Belarus in figures 2017, National Statistical Committee of the Republic of Belarus.

Table 3. Gross domestic product structure by types of services in Belarus, 2013-2016 (Percentage)

Indicators	2013	2014	2015	2016
Gross domestic product – total	100.0	100.0	100.0	100.0
Manufacturing sector	42.7	42.7	39.0	38.0
Services sector – total	45.4	45.6	47.7	48.3
Including:				
– wholesale and retail trade, car repairs and motorcycles	12.4	12.2	12.2	10.8
– transport, warehousing, post and express activity	6.4	5.7	5.5	5.7
– services for temporary residence and meals	0.8	0.9	0.8	0.8
– information and communication	3.1	3.2	4.1	5.1
– finance and insurance	3.1	3.2	3.8	4.0
– real estate transactions	4.7	4.8	4.9	5.4
– professional, scientific and technical activities	2.0	2.5	2.6	2.6
– activity in sphere of administrative and support services	1.5	1.1	1.1	0.9
– public administration	3.3	3.4	3.5	3.6
– education	3.8	4.0	4.4	4.3
– health services and social services	2.8	3.1	3.3	3.6
– creativity, sports, entertainments and recreation	1.1	0.9	0.9	0.9
– provision of other types of services	0.5	0.6	0,6	0.6

Source: Macroeconomics and the environment, national accounts.

Business and professional services are dynamically developing in Belarus: marketing, insurance, leasing, real estate, and consulting activities. At the same time, a considerable part of business services is carried out by own forces in the organizations. Outsourcing is slowly developing, especially for the provision of legal, accounting services, and services for development of new products. Banking and insurance services are prospective directions for development, with remote servicing actively developing and with the increasing scale of operations with use of bank payment cards.

The change in the structure of the service sector by forms of ownership is an important trend at the present stage. Considerable part of services in the republic belongs to SOEs but in recent years there has been a tendency for a more active development of small business in this area. As of the beginning of 2017, there were 86,901 micro and small-sized enterprises in the service sector. The market of paid services to the population develops dynamically - 129.5 per cent for 2011-2016.

3. Exports and imports of services in Belarus

The export of services in Belarus has amounted to $6.8 billion in 2016. This is 12.1 per cent of GDP, an increase by 2.7 per cent compared to 2015 (table 4). The largest share in exports is from transport services - 42.9 per cent -, which is explained by the favourable geographical position of the Belarus. Construction services (15.1 per cent) and computer services (14.0 per cent) also have considerable shares. Tourism services accounts for 10.4 per cent of total exports of services (figure 11).

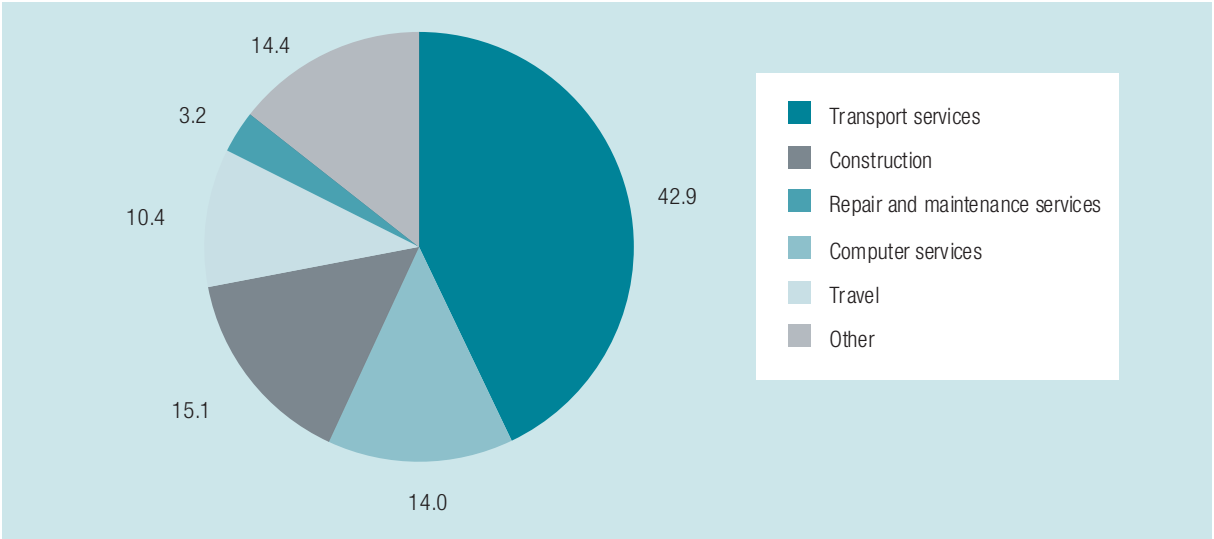
Exports of construction, computer, and telecommunications services increased in 2016 compared to 2015, while transport, tourism and financial services have decreased. Belarus' exports of computer and information services per inhabitant take the lead position in Central and Eastern Europe, exceeding identical indicators in the Russian Federation and Ukraine.

Table 4. Foreign services trade in Belarus, 2013–2016 (Millions of dollars and percentage)

Indicators	Volume				Change		
	2013	2014	2015	2016	2014/2013	2015/2014	2016/2015
Total	12 759	13 613	11 004	11 060	106.7	80.8	100.5
Export	7 506	7 880	6 634	6 813	105.0	84.2	102.7
Import	5 253	5 733	4 370	4 247	109.1	76.2	97.2
Balance	2 253	2 147	2 264	2 566			

Source: Belarus in figures 2017, National Statistical Committee of the Republic of Belarus.

Figure 11. Structure of exports of services in Belarus, 2016 (Percentage)



Source: Belarus in figures 2017, National Statistical Committee of the Republic of Belarus.

4. Trends in the Belarus services economy

Despite the positive dynamics of the services economy development in the Belarus, its growth rate remain low. Trends in services trade in Belarus include:

- Dominating influence of the price factor on changes in foreign services trade;
- The leading part in export of transport services. At the same time, the role of profitable services in developed countries such as audit, consulting, leasing, and insurance is insignificant. The main reasons of this situation are the imperfection of the infrastructure, including the financial market, shortage of necessary financial resources, and absence of skills for realization of scientific and technical production for foreign markets;
- Limitations for the participation of foreign investors in the services sector. For example, services of telecommunication, electric power distribution, and transportation of cargo by rail, are closed for foreign proprietors;
- Low innovative and investment activity;
- Shortage of highly-skilled personnel;
- Poor development of services in small towns and countryside;
- The slow development of small and medium-businesses in this area;
- Underdevelopment of modern infrastructure and insufficient access to financing.

5. Information technology services in Belarus

IT sector plays an important role in structural transformation of Belarus' economy. Over the last eight years, the sector saw a five-fold growth from $0.2 billion to over $1 billion. The employment in IT services reached 36 thousand. The export share of IT services amounted to 70 per cent. The growth rate of IT exports was 117.5 per cent in 2016. The geographical distribution of Belarus's IT export destinations is the following: 47 per cent to European countries, 40 per cent to the United States of America, and the remaining 13 per cent to the Russian Federation, the Commonwealth of Independent States, and Asia.

More than 971 companies are active in the sector of computer and information services. 59 per cent of IT-companies are joint ventures and foreign enterprises. Investors from Austria, Belgium, France, Germany, Netherlands, Russian Federation, Switzerland, and the United States of America have started business in the IT services sector of Belarus. IT products and companies from Belarus' include Epam, Viber, and World of Tanks. 73.8 per cent of the IT companies are SMEs, with their valuable effects for the national economy. There are several key factors underpinning the competitiveness of Belarus' IT branch:

- Historic availability of significant workforce with high level of education in the IT sector;
- Relatively low labour costs;
- Developed ICT infrastructure;
- Considerable efforts by Belarus' authorities to establish enabling and competitive conditions for IT business, including exciting tax incentives to international businesses.

Liberalization in the IT-sector started with the adoption of the concept of the state policy in the information technology sphere in 1999. It further culminated with the establishment of the high-tech park in 2005. The legal regime of this park offered major incentives to its residents such as release from a number of taxes and duties, i.e. the corporate tax, the value added tax, the land and real estate taxes, offshore fee, and customs duties for the required equipment. The rent rate for office space for IT companies was also reduced by 50 per cent, and a privileged regime for taxation of workers' incomes was introduced.

Building up on the achieved success, the authorities of Belarus are looking ahead with the view to transform Belarus into an IT country. New IT legislation, deemed to be game-changer, has been recently announced by political leadership. The legislation will set the basis for circulation of drone vehicles and companies developing them. Gett and Uber already demonstrated their interest in Belarus in this regard. The new legislation is also expected to abolish excessive regulations or non-automatic procedures for capital-account transactions and currency controls. Additional scene-setting regulations and facilitating mechanisms based on British investment-related law will enable activities of international capital funds, which are indispensable to finance IT projects of global scale. As an effect of new legislation, two- or three-fold increase of IT sector employment is forecasted.

IT services contribute to the development of a number of sectors of the national economy (financial, especially banking, trade, e-commerce, transport and others). In fact, Belarus has got new and very strong growth in the IT services sector cluster, which harnesses opportunities of the global economy.

6. State policy of services development for structural transformation

The concept for the development of services in Belarus, for 2015-2020, was developed for the purpose of defining the basic directions of the development of the services economy and foreign trade in services. Its structure and content are based on the tasks, priorities and parameters of the development of services, set in the National Sustainable Development Strategy of the Republic Belarus for the period until 2030. Further sustainable development of foreign services trade requires the implementation of the following areas:

- Stimulating privatization and attraction of FDI;
- Adaptation of the services market to WTO norms;
- Equal business conditions for public and private companies: reduction of subsidies to state enterprises;
- Reconstruction and modernization of the infrastructure of foreign trade in services;
- Liberalization of the implementation conditions of economic activities in services;
- Integration of material production and services, first of all, in science-intensive sectors of manufacturing and telecommunications;

- Further development of modern forms of foreign economic activity in the service sector (for example, franchising, know-how, leasing);
- Participation in international strategic alliances in the field of information, computer, telecommunications, space, aviation services, research;
- Improving the advertising activities of service companies abroad;
- Improvement of the system of collection of taxes, fees and customs control.

7. Conclusion

Modern development of services does not correspond to the national economy. One of the most important strategic directions for the development of the services economy in Belarus is the wide application of modern information technologies and technologies of e-commerce.

D. CASE OF LAO PEOPLE'S DEMOCRATIC REPUBLIC

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1. Overview

Lao People's Democratic Republic has successfully sustained annual growth rates in excess of 7 per cent over the past decade. In fact, the WEF has forecasted the country among top-10 fastest growing countries in 2017. Key drivers of this growth are services (tourism in particular), hydropower, construction and the food processing sectors. The economic structural reform has been shifting along the industrialization and modernization directions, which has resulted in a reduced proportion of the agriculture sector and increased proportions of the industry and service sectors in GDP. Services have been growing faster than the economy itself with the former expanding by 9 per cent. The contribution of services to the economy has increased steadily over the past three decades, from 24.3 per cent in 1990 to 38.2 per cent in 2000 and 48.0 per cent in 2016 according to the World Bank WDI 2017.

2. Services sector liberalization, governance and institutional setting

The services sector was liberalized upon accession to the WTO in 2013. Lao People's Democratic Republic made high quality commitments for 79 sub-sectors in 10 sectors, including 16 sub-sectors in communications services and 17 sub-sectors in financial services. Policies related to trade and investment in services are covered by multiple institutions. Different ministries and agencies have jurisdiction over different sectors and mode of supply. While the Ministry of Industry and Commerce has a broad mandate on trade matters, including international negotiations, the Bank of the Lao People's Democratic Republic is the regulatory body for financial institutions, and Ministry of Posts and Telecommunications and Ministry of Science and Technology are charged with regulation and oversight over telecommunications and ITC services. Nevertheless, there is a significant level of coordination between these line ministries or agencies and the Ministry of Industry and Commerce with formal mechanisms for consulting.

3. Rule-making procedures

Great efforts have been made to effectively respond to regulatory challenges and to strengthen regulatory quality. These include the promulgation of Law on Making Legislation which provides clear guidance on making laws and rules, and mandates stakeholder consultations prior to regulatory change. The Law which governs the regulatory process as a whole represents a strong step in the right direction. It mandates that the process of developing and amending the law should be transparent, open and benefit from cooperation with relevant sectors. It confirms the rights of foreign and domestic individuals and entities to provide comments and requires the ministry or entity leading the regulatory change process to post draft legislation on a website or print media or other means. A 60-day window is provided for interested parties to make comments. In addition, the Law definitively indicates the steps to be followed by ministries and agencies as they engage in the reform process, and that a regulatory impact assessment (RIA) should be conducted.

4. Transparency

Private sector feedback has consistently highlighted difficulties in accessing laws and regulations and the lack of clarity of their substantial requirements as hindrances to both the establishment and operation of services suppliers. Main laws are readily available on the websites of many government agencies as well as on that of the National Assembly. However, few Ministries or agencies provide a comprehensive catalogue of the most recent version of laws related to their sector.

5. Actions taken

To overcome these challenges, the country concentrated its efforts at creating effective regulatory regimes to drive trade and investment in its service industries. Key to the creation of such a regime is the systematic implementation of trade commitments while seeking to ensure that legislation is coherent and unambiguous. Improvements in the governance framework are to strongly complement the establishment of an efficient services regime. In particular, ease of access to business legislation and intra-government coordination on trade policy formulation and implementation promise to deliver significant dividends in terms of stimulating trade and attracting investment. In this regard, the country is implementing the Second Trade Development Facility, a multi donor program financed by Australia, the European Union, Germany, Ireland, the United States Agency for International Development, and the World Bank with a view to improve trade and private sector development in the country. The project is composed of three main clusters: (1) trade facilitation, trade policy and regulations; (2) diversification and competitiveness; and (3) mainstreaming aid for trade.

The cluster on trade facilitation, trade policy and regulations focuses on the provision of essential and continued technical assistance in support of the effective implementation of goods and services commitments at both the WTO and ASEAN levels, including a strong emphasis on private sector engagement. More specifically, its objective is to complement Lao People's Democratic Republic's efforts to liberalize the economy by strengthening the governance of the regulatory environment affecting trade in goods and services through: (i) the improvement in understanding of trade in goods and services; (ii) the provision of greater access to and transparency of goods and services regulations; and (iii) the enhancement of trade performance in key goods and services sectors. The trade in services sub-component includes several elements related to the regulation and governance of the services sector, with activities grouped into two main areas: (i) enhancing regulatory capacity in services trade; and (ii) improving access to services regulations.

Some progress has been made in implementing the project. For instance, in the area of enhancing regulatory capacity in services trade, in particular in telecommunications services, Prime Minister Decree No. 109/PM was promulgated on 27 March 2017 to establish the framework for the creation of the Independent Telecommunication Regulatory Authority. Furthermore, relevant regulations were drafted on the four types of telecommunication licences, and other regulations were enacted on various aspects of the ICT sector. At the same time, a telecommunication law is being revised to bring it into compliance with international practice. In the area of improving access to services regulations, Lao People's Democratic Republic is currently in the process of establishing a Services Trade and Investment Portal aimed at having a central virtual information centre that facilitates access to all regulations in the services sector, thus allowing services providers and government officials to gain a clear understanding of the regulatory framework that applies to the services sector.

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