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Trade in services: which modes of supply matter for developing countries?

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.

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Quick takeaways

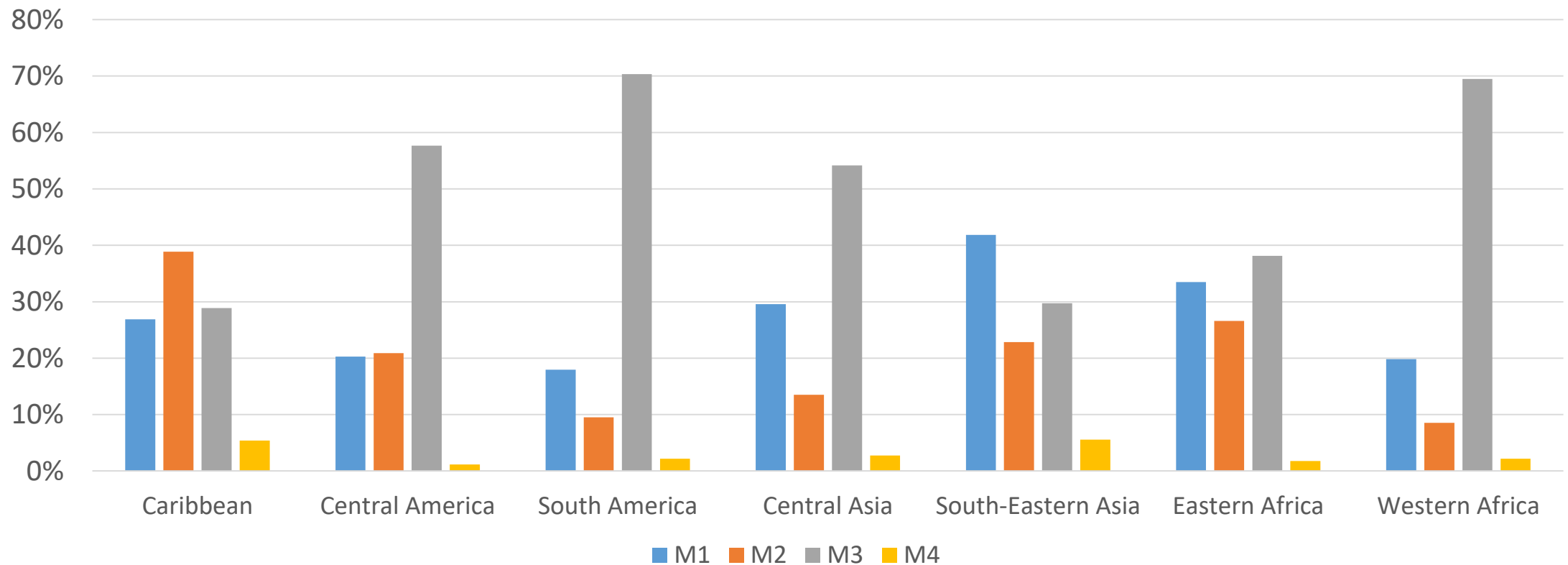
- The role of GATS services, by different modes of supply
 - The crucial importance of Mode 3
 - The growing importance of Mode 1
- Going beyond GATS services:
 - the linkages between services and manufacturing competitiveness
 - The role of Mode 5 services trade (and jobs)
- Future technological trends and challenges: what policy response?

Trade in services: bridging the gaps between policy making and our analytical framework

- For decades, international trade in services has been shaped by trade disciplines defined by GATS modes of supply
- Except that for most of the period, there were major gaps in our services analytical framework
 - No breakdown of services trade flows by modes of supply
 - Very limited information on the importance of Mode 3
 - Limited quantifications of the barriers affecting services trade
- Although services were key elements behind manufacturing competitiveness, little analytical attention paid to servicification and its policy relevance
- The good news is that several EU-initiated projects in this area will address some of these gaps

Mode 3 is the dominant mode of services exports for all, including developing countries

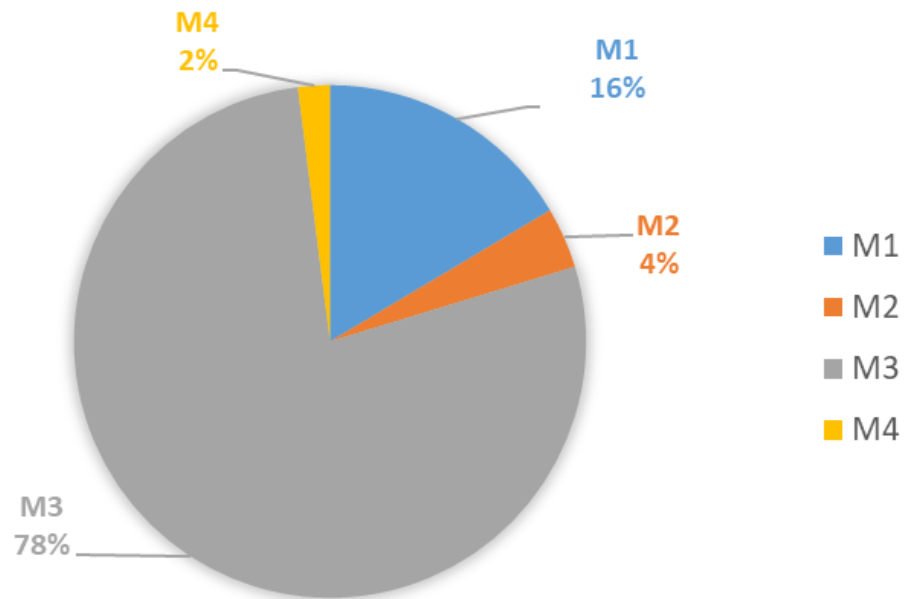
Services exports, by modes of supply (2017)



Source: WTO, preliminary data. Do not quote without permission

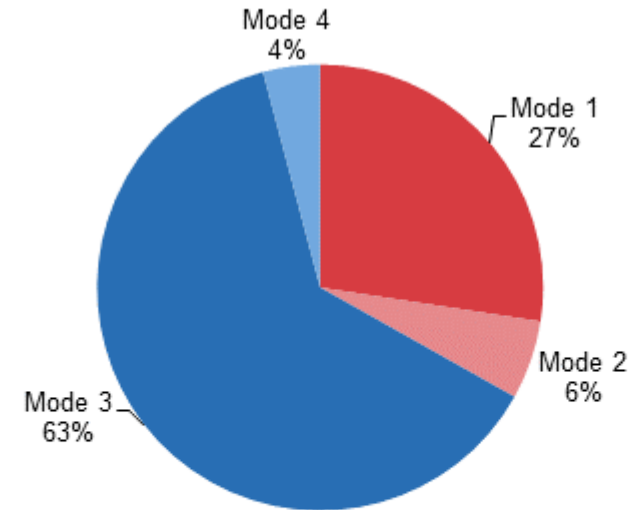
For certain emerging economies, **Mode 3 services** are more important than you think!

BRAZIL SERVICES EXPORTS BY MODES OF SUPPLY



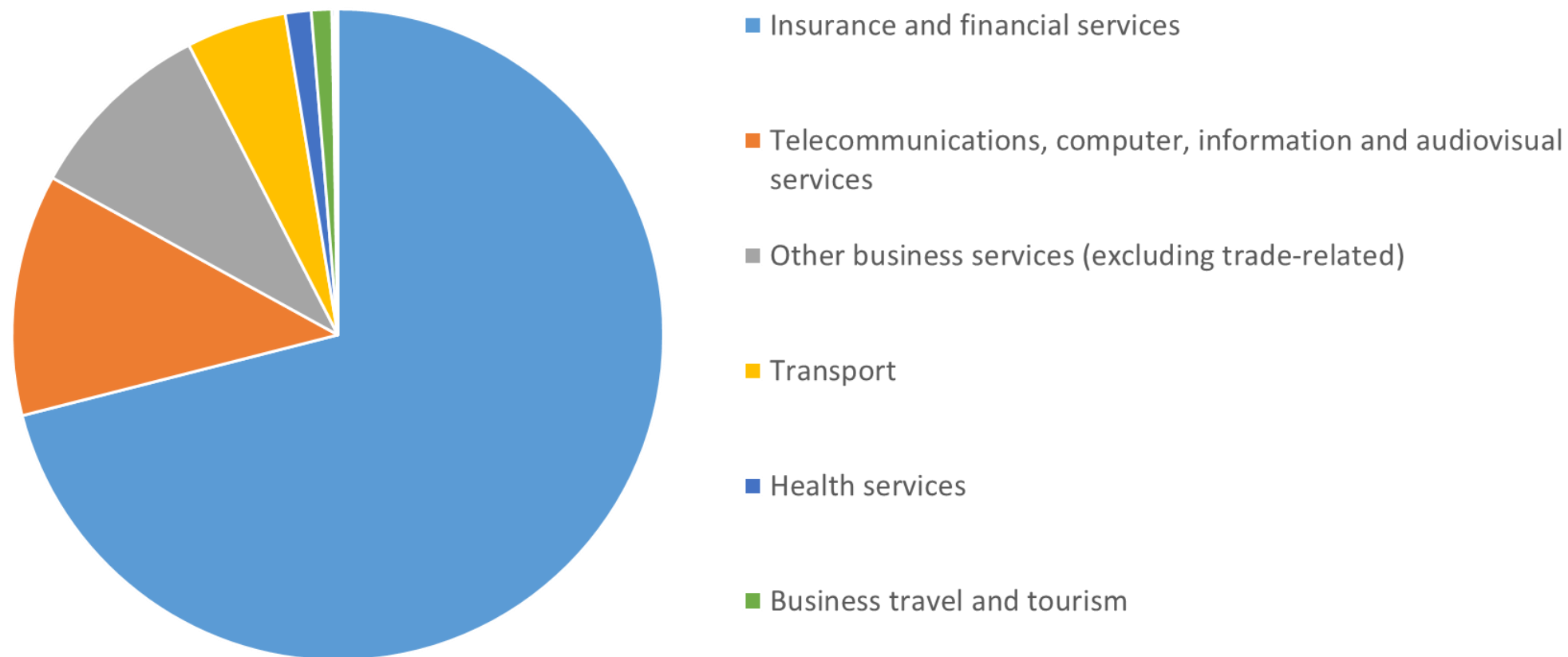
Source: WTO, preliminary data. Do not quote without permission

EU-28 exports of services to non-member countries, 2015



Note: Estimates using the 'Eurostat pilot model'. Modes 1, 2 and 4: ITSS exports, adjusted by excluding goods and including distribution services from trade in goods statistics. Mode 3: outward FATS data.

Brazil: Mode 3 services exports – sectoral breakdown



Source: WTO, preliminary data. Do not quote without permission

Mode 3 service exports: one company example

Global Footprint of Brazil's Top Private Sector Bank | as of December 31, 2018



(1) As of December 31, 2018. Source: Economatica. (2) Controladoria-Geral da União (CGU).
Itaú Unibanco Holding S.A.

Itaú Unibanco at a Glance

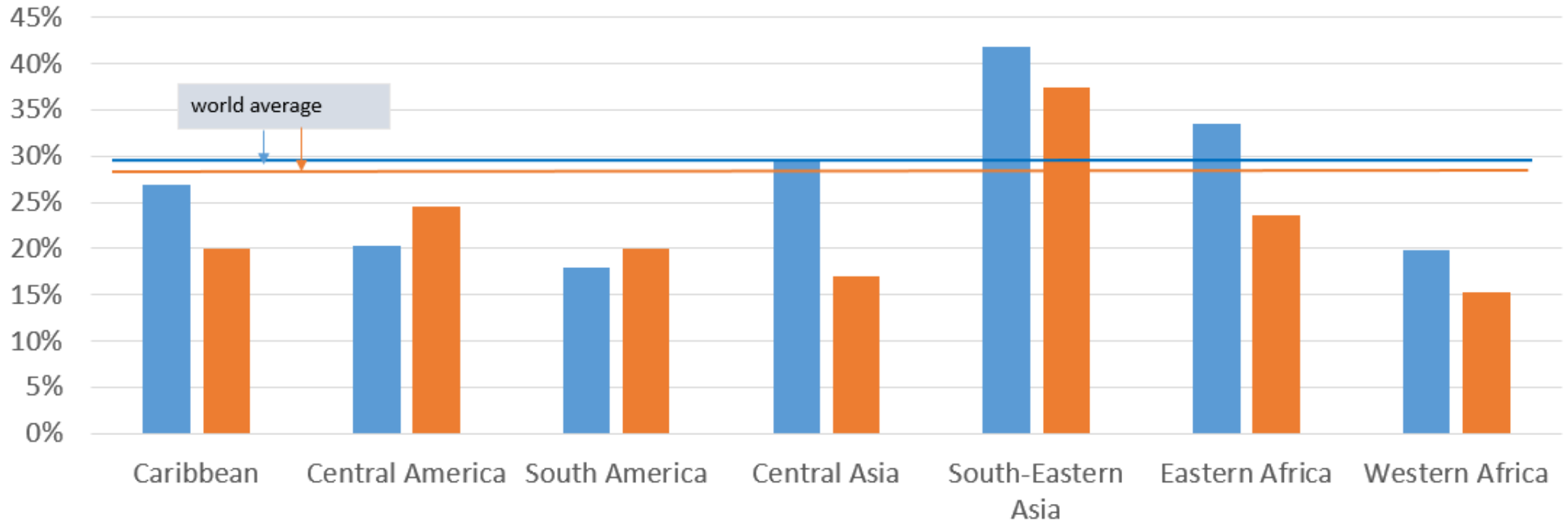
Leading position in Brazil

- US\$88.3 billion market cap ⁽¹⁾
- 100,335 employees in Brazil and abroad
- 4,940 branches and CSBs in Brazil and abroad
- 48,476 ATMs in Brazil and abroad
- Around 49,7 million clients in the Retail Bank
- Brazilian multinational bank
- Major provider of finance for the expansion of Brazilian companies
- In 2017 Itaú Unibanco was elected the The Best Company in People Management (by "Valor Carreira" magazine) and also recognized as a pro-ethics company (Pró-Ética), an initiative between the Office of the Comptroller General⁽²⁾ with the private sector, which encourages the voluntary adoption of integrity measures and corruption prevention in the business sector, being the only financial institution among the companies approved.

How about **Mode 1**: are developing countries well positioned in digital services trade?

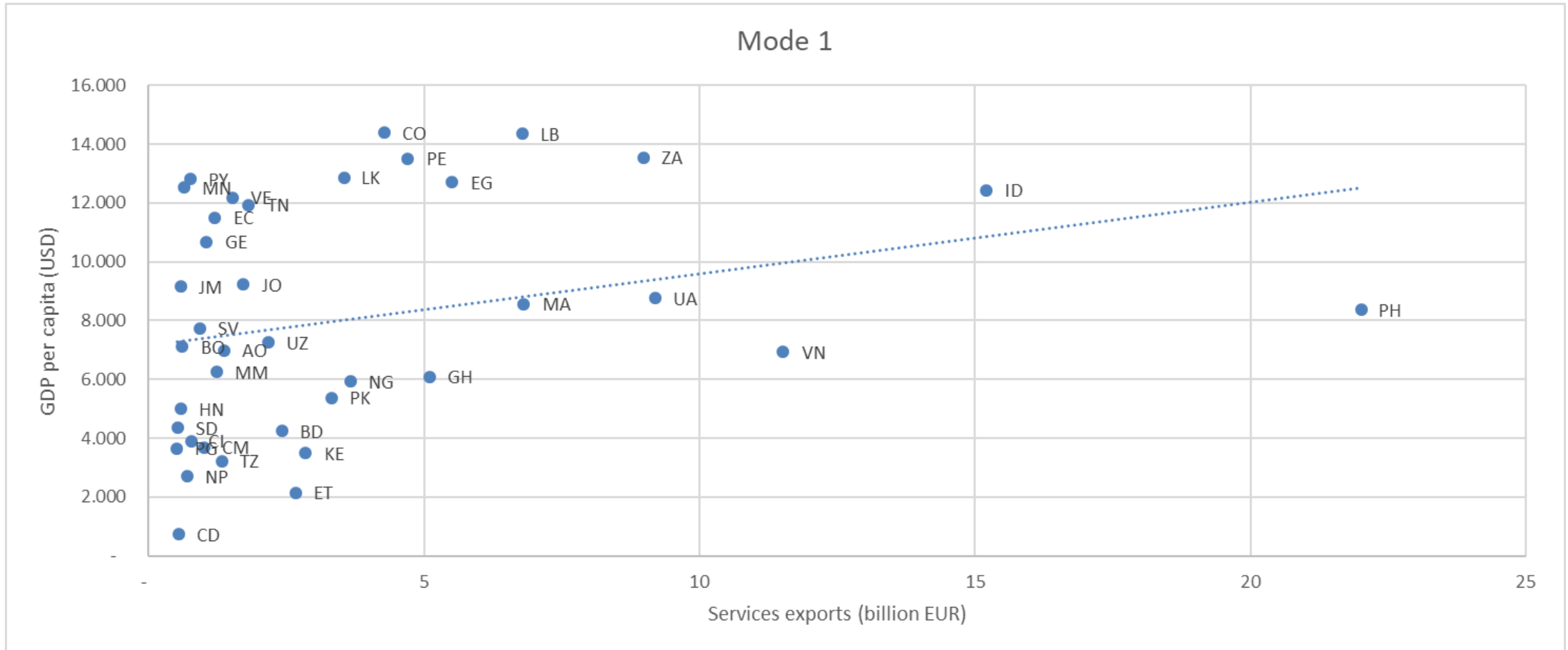
Share of Mode 1 services, selected regions (2017)

■ M1 Exports ■ M1 Imports



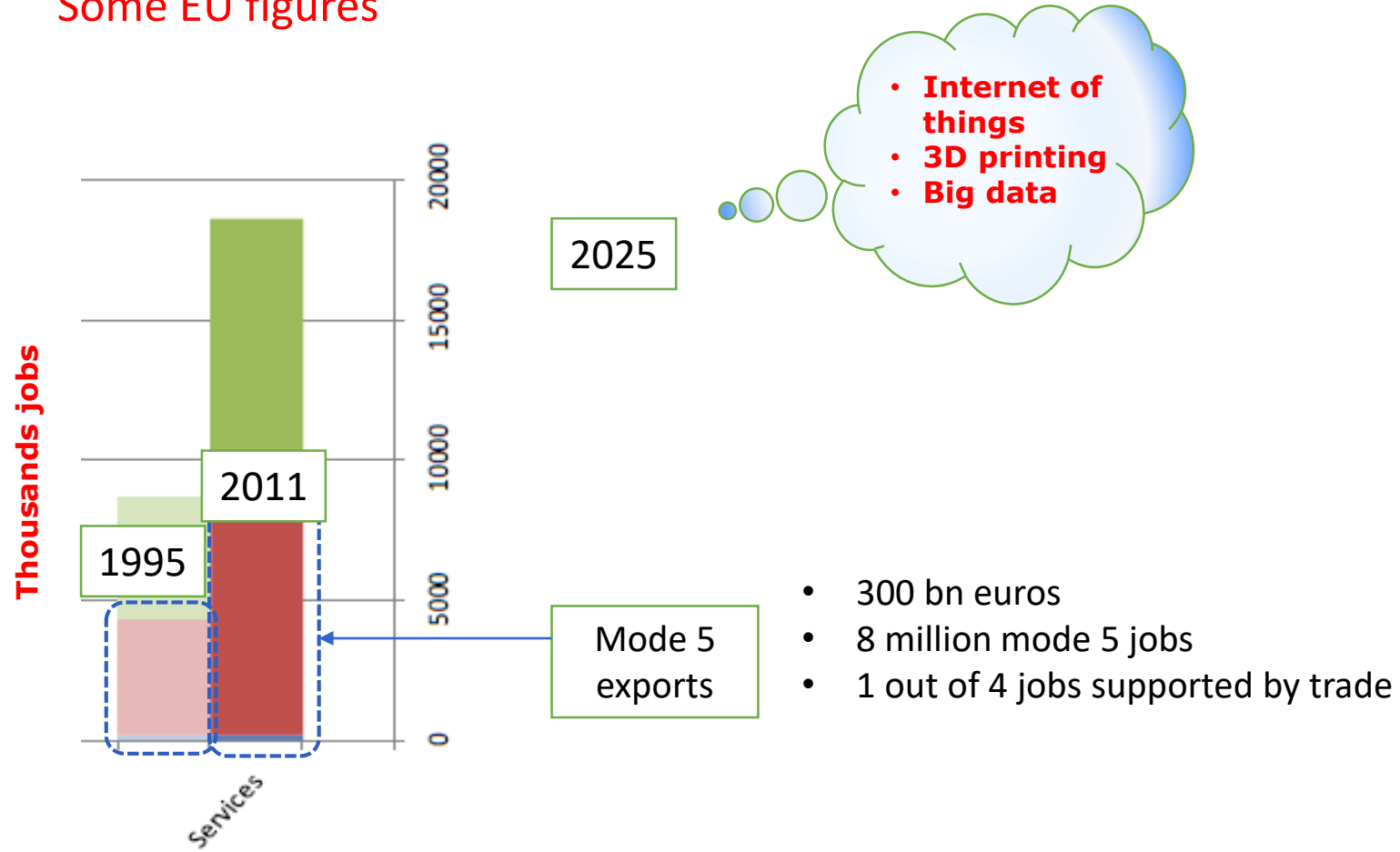
Source: WTO, preliminary data. Do not quote without permission

Digital services exports go hand in hand with per capita income



The complex interplay between goods and services: What to expect from the future technological disruptions?

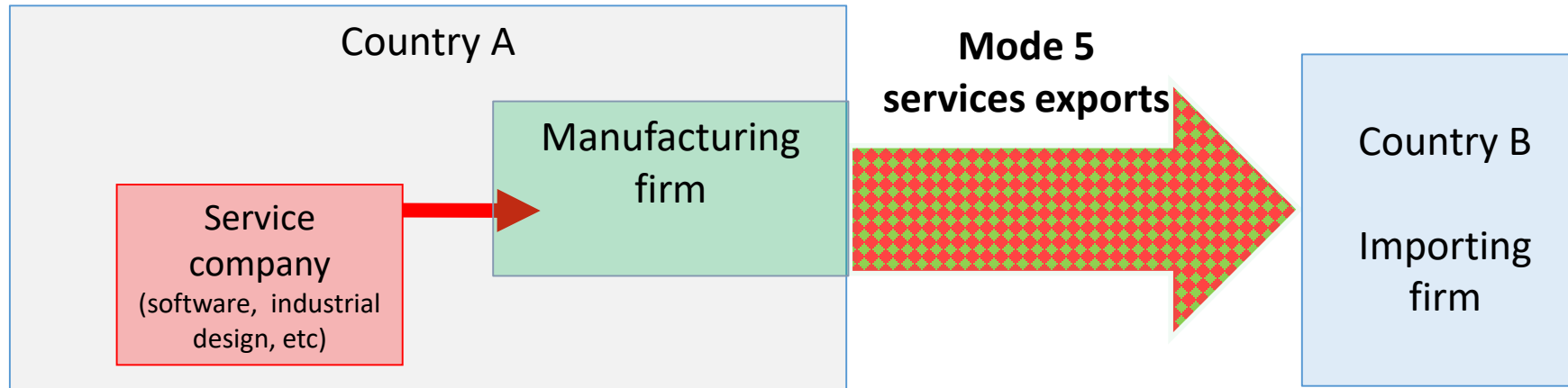
Some EU figures



Source: DG TRADE-IPTS Trade and Jobs Pocketbook

What is Mode 5?

An illustrative example

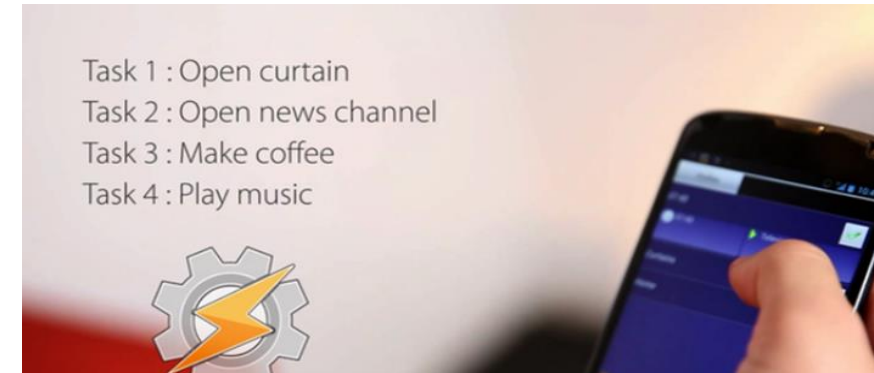


Basic definition: Mode 5 = services exported as part of a good

The linkages between services and technological upgrading: the role of Mode 5 services

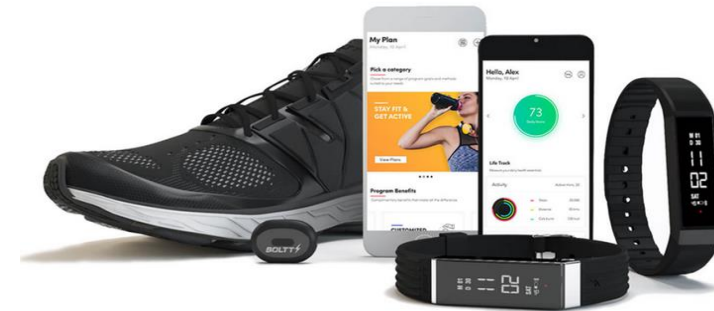
"Wake-up like an Egyptian"

A Cairo-based technology firm developed an IoT solution that can be integrated in day-to-day gadgets like fridges, TVs, coffee machines and remote controlled from your phone



"Boltt Indian idea"

Boltt is an Indian start-up that builds connected shoes, connected bands with AI software for sleep, fitness, nutrition and activity tracking.



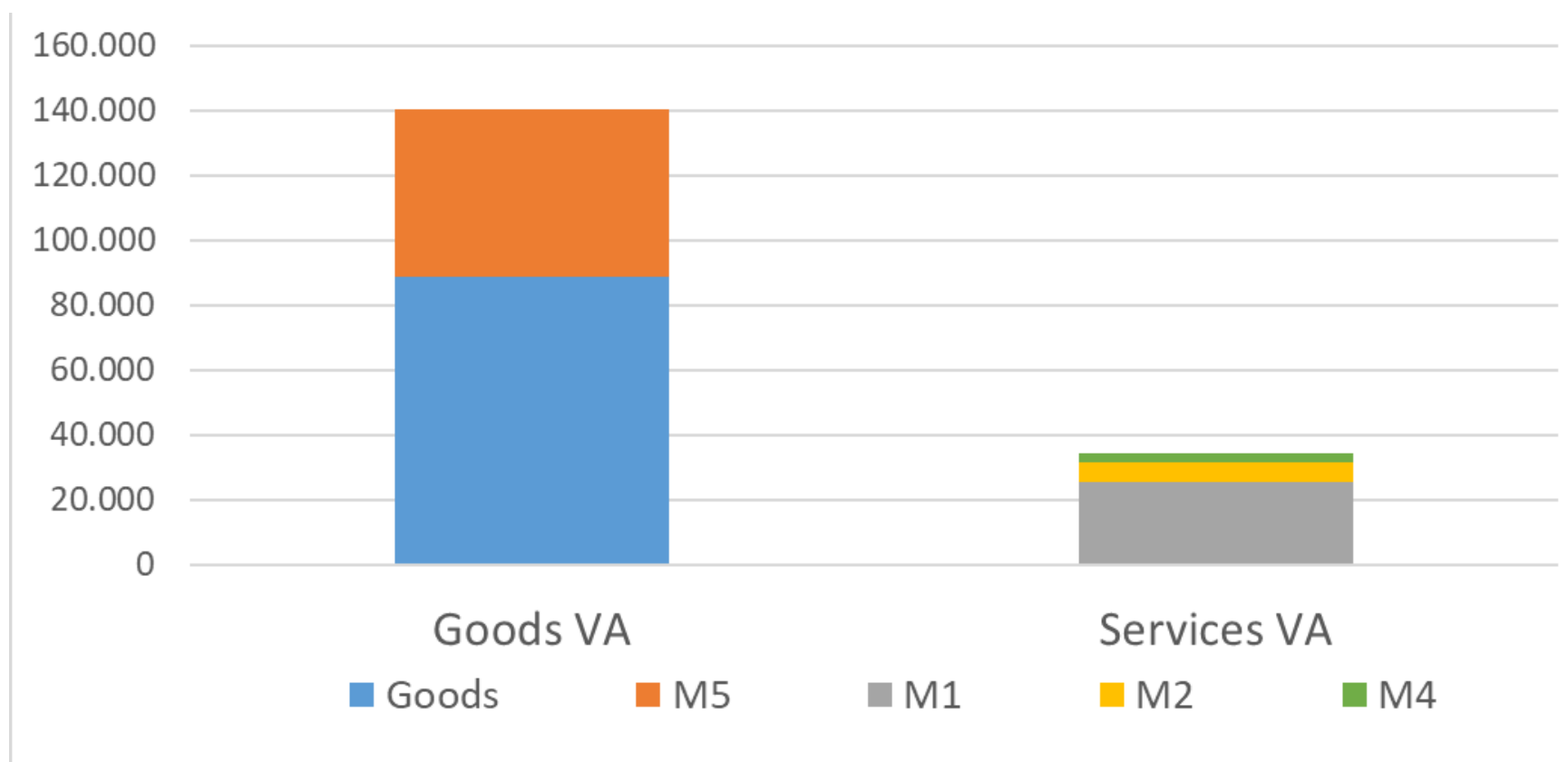
"The internet of farms" and "connected bananas"

Kenyan and Colombian farmers use IoT mobile apps for higher yields, lower farming costs, lower water consumption, traceability and SPS compliance



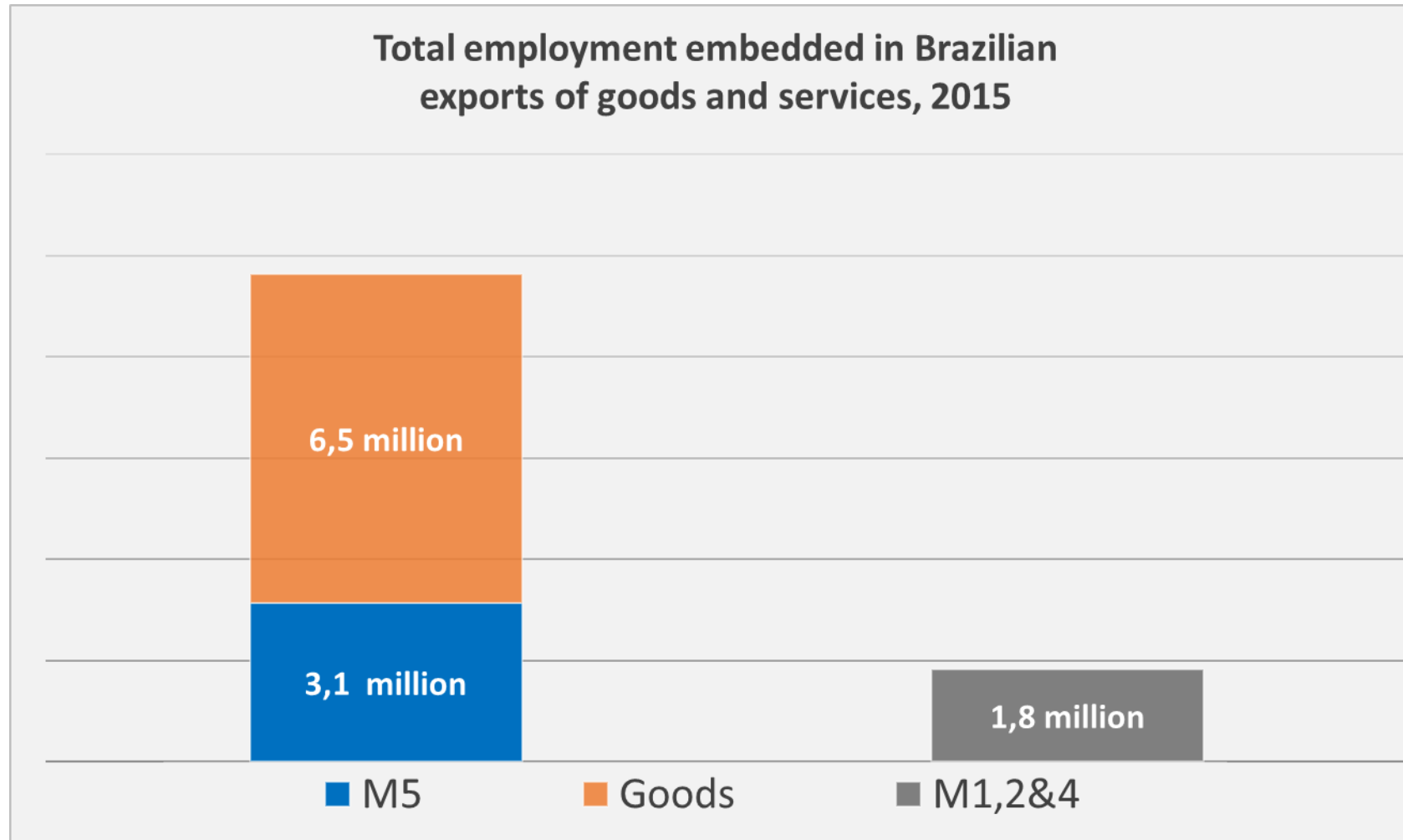
Brazilian exports of goods and services, by modes of supply

Brazil's exports of goods and services in value added (USD millions, 2015)



Source: Preliminary data from the UNCTAD-EC joint M5 project.

Mode 5 jobs can be more important than traditional services: the Brazilian example



Source: Preliminary data from the UNCTAD-EC joint M5 project.

Concluding remarks

- Services hold considerable development potential and will account for a growing share of global trade flows, thanks also to new technologies and internationalization of firms from emerging economies
- The servicification of manufacturing is not just an OECD phenomenon
- The sheer importance of some services modes of supplies require for adequate policies aimed at supporting these key drivers
- Trade rules may need to evolve to keep the pace with GVCs, technology and innovation
- The GATT-GATS interface affecting technology and new services will become more important