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The importance of services in agro-food exports

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This paper demonstrates the importance of services in agro-food exports. It evaluates the services value added content of the exports of TOP20 agro-food exporters. Secondly, it analyses, which services sectors contribute to the export of TOP6 agro-food exporters. On average 35% is the share of the services value added in the exports of TOP20 agro-food exporters. One third of the services value added originates in other countries and two thirds in the domestic sector. Developed countries' exports contain almost two times higher services value added (39%) than the exports of developing countries (24%). Most important services value added are the followings: wholesale and retail trade (43%), other business services (20%), transportation and storage (11%), financial and insurance services (10%) and real estate activities (5%).

The results show that there is plenty of room for improvement especially in developing countries to develop their services sector and thus increase services value added in their food exports. Appropriate regulatory and institutional frameworks can help developing countries and LDCs to maximize the benefits of services trade.

1. Introduction: the importance of services in trade and in the well-functioning of global value chains

World Trade Report 2019, which is devoted to services trade, highlights that improved services fuel productivity in other sectors like manufacturing and farming¹. Since 2005 **trade in services grew faster** on a yearly basis (5,4%) **than trade in goods** (4,6%). **Services currently account for 55% of GDP in developing** and for **76% in developed economies**². **Emerging economies are becoming more and more services-based**: in China and in Brazil the share of services in GDP is 52% and 63% respectively. Two thirds of global FDI is flowing to service industries. Furthermore, the services sector has a huge potential: the report predicts that services trade will grow by 50% until 2040.

Services have sometimes been referred to as the glue that holds supply chains together and ensures that they function in a fluid manner³. **Services are increasingly used in manufacturing and farming** both in terms of production process and sales. Modern information and communication technologies have facilitated the tradability of services and their incorporation **in supply chain production as traded inputs**. Infrastructural services like transport, telecom, finance, water/electricity **enable production** and they can amplify how an economy benefits from trade. Other services (health and education services) have an **impact on factor productivity**, like on labor force. Some other services (design, R&D) are **embedded in production**.

¹ WTO: World Trade Report 2019 : The future of services trade

² UNCTAD, 2017

³ P. Low: The role of services in global value chains in D. K. Elms and P. Low: Global value chains in a changing world, 2013

2. Services represent an important source of value-added in total trade

Statistics based on trade in value-added capture the **importance of services as inputs to all sectors in the economy** and measures the sectoral value-added of services in exports. In value-added terms, **services play a much bigger role in international trade than gross statistics suggest**. The **services value-added** that is contained in international goods and services exports **accounts for close to half of world exports**⁴. Services are **important in upgrading national economies**: they can increase significantly a country's share in value added generated in global value chains. Challenges posed by COVID-19 pandemic can be a catalyst at setting this transformation in motion⁵.

3. Importance of services in agro-food exports

The agriculture sector is key to development, poverty alleviation, and food security especially in developing countries. SDG 2 mandates to “End hunger, achieve food security and improved nutrition and promote sustainable agriculture”. Trade can be one tool to achieve food security⁶.

Furthermore, trade in agricultural products has been more resilient than overall trade in COVID crisis⁷. While overall merchandise trade fell sharply in the first half of 2020, agricultural and food exports even increased by 2.5 per cent during the first quarter of the year.

Services play a key role in agro-food exports. Services are vital for agriculture and the food value chain because they intervene at all stages, from research and development, to agricultural production, storage, transport, and distribution⁸.

It is interesting to note that in 2006 **some Latin-American developing countries** (Argentina, Brazil, Paraguay and Uruguay) have presented a collective request **on services related to agriculture** in the Doha Development Round negotiations. The request states: „The agricultural sector is considered normally in terms of products, primary or industrialized. **However services are an important component in the structure of the agricultural value chain, both downstream, ..., as well as upstream....**The **liberalization of the sector** and, consequently, will benefit both producers and consumer and **will produce improvements of competitiveness and the quality of agricultural and food production.**” In the sectoral coverage of the collective request we can find among others the following services: Veterinary Services, R&D services, Management consulting services, Services incidental to agriculture, Sales on a fee or contract basis of agricultural raw materials and live animals, Wholesale trade services,. Food retailing services.

⁴ World Trade Report 2019, p. 45.

⁵ From the online speech of M. Kituyi, secretary-general of UNCTAD at the 2020 China International Fair for Trade in Services, 4 September 2020

⁶ Synergy between Agriculture and Services Trade Enabling new Growth Opportunities, FAO

⁷ WTO: COVID-19 AND AGRICULTURE: A STORY OF RESILIENCE, Information Note, 26.08.2020.

⁸ Synergy between Agriculture and Services Trade Enabling new Growth Opportunities, FAO

4. Services value added content of the gross exports of TOP20 agro-food exporters

This paper first evaluates the services value added content of the gross exports of TOP20⁹ agro-food exporters¹⁰ and secondly, it analyses, what kind of services value added the exports of the TOP 6 food exporter countries contain.

For the analysis, the **OECD-WTO Trade in Value Added (TiVA) database** is used. TiVA provides insights into the origin of the value added contained in gross exports and sheds light on the trade flows that take place within GVCs¹¹. The TiVA database helps better understand the **actual contribution of services trade to an economy**. It splits traditional gross trade flows into **value added components** (domestic vs. foreign value added content of exports). The domestic value added component indicates, to what extent the export can foster domestic economic growth, employment and thus tax revenue. The foreign value added component, on the other hand, demonstrates that it is necessary for a country to import the intermediary inputs/services to be able to export final products.

TOP20 agro-food exporters	Domestic value added (%)	Foreign value added (%)	Total value added by services (%)
EU28: European Union (28 countries)	34,8	5,3	40,1
USA: United States	36,7	4,0	40,7
CHN: China	18,8	2,9	21,7
DEU: Germany	26,3	11,8	38,0
FRA: France	31,4	11,0	42,3
NLD: Netherlands	28,3	18,0	46,2
BRA: Brazil	30,6	5,1	35,7
IDN: Indonesia	14,3	2,9	17,2
IRL: Ireland	8,8	21,4	30,1
ESP: Spain	31,1	10,1	41,2
THA: Thailand	18,8	6,6	25,4
ITA: Italy	34,4	9,7	44,1
VNM: Viet Nam	12,0	15,3	27,3
BEL: Belgium	23,4	23,0	46,4
GBR: United Kingdom	28,1	9,9	38,1
CAN: Canada	24,0	10,3	34,3
IND: India	19,4	2,3	21,8
AUS: Australia	31,2	4,7	35,9
ARG: Argentina	14,3	2,4	16,7
MYS: Malaysia	13,9	11,0	24,9
NZL: New Zealand	27,3	7,0	34,3
Average TOP 20	24,0	9,4	33,4 (trade weighted: 35)

Table 1: Share of services in the overall value added in agro-industry exports of TOP20 agro-food exporters (developing and developed countries)

⁹ TOP 20 exporters based on 2015 data: EU28, USA, China, Germany, France, Netherlands, Brazil, Indonesia, Ireland, Spain, Thailand, Italy, Vietnam, Belgium, United Kingdom, Canada, India, Australia, Argentina, Malaysia.

¹⁰ ISIC definition for "agro-industry" mainly includes the production, processing and preservation of food products and beverages as well as tobacco products.

¹¹ World Trade Statistical Review 2017, p. 43.

The first column in Table 1 shows the TOP 20 agro food exporter countries in a descending order based on their annual gross agro-food exports in 2015. The last column in the table shows the total value added by services sector in the exports. On average 33% (or **35%** if we take the trade weighted average) **is the share of the services value added in the exports of TOP20 agro-food exporters**. In the services content 24% is domestic and 9,4% is foreign value added on average, which means that approximately **one third of the services value added originates in other countries and two thirds in the domestic sector**.

We find 12 developed and 8 developing countries among TOP 20 exporters. There is a **strong correlation (0,82) between whether a country is a developed or developing country and the services value added content of its gross exports: developed countries' exports contain almost two times higher services value added (39%) than the exports of developing countries (24%)**. All developing countries in the TOP 20 agro food exporters have below average (33%) services value added content except for Brazil, where the agro food export contains 36% services value added (most of which is domestic value added: 31%). It is interesting to note that Brazil has higher services domestic value added than Germany (26%), the Netherlands (28%) or the UK (24%). India and China have almost TOP20 average services domestic value added (19%), at the level almost of Switzerland (20%) or Greece (19%).

The results show that there is plenty of room for improvement especially in developing countries to develop their services sector and thus increase services value added in their food exports.

Table 1 depicts, as well, that the **US and the EU are core suppliers** to agro GVCs (due to predominance of US and EU multinational enterprises). The agro-food exports of the EU and US contain more than 40% services in value added. The Netherlands and Belgium has the highest services value added (46%). The results show that **agro industry value chains are mainly organized at regional level**. At country level in the EU, agro food exports contain considerable foreign value added (especially in Ireland and the Netherlands: 21% and 18% respectively). But at EU (regional) level there is few foreign value added in services (5,3%). It means that services trade takes place mostly within the EU. We can observe the same for the US, where the foreign value added in agro food exports is just 4% (the rest, 37% is domestic value added).

Overall, **agricultural production is less globally spread compared to industry**. It has many reasons. One of them are trade barriers (tariffs, TRQs, NTBs, trade distorting subsidies). Other is the **constraints of domestic infrastructure (institutional and infrastructural services: transport, storage, roads, education)**.

5. Which services sectors contribute to the export of TOP6 agro-food exporters?

Wholesale and retail trade; repair of motor vehicles	43%
Other business sector services	20%
Transportation and storage	11%
Financial and insurance activities	10%

Real estate activities	5%
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Table 2: Most important services value added in TOP6 food export

With TiVA it is possible to analyse exactly what type of services value added are contained in exports. For this, I decomposed the services value added content of the exports of TOP 6 agro-food exporting countries (EU28, USA, China, Brazil, Indonesia, Thailand). As Table 2 and Annex I shows **most important value added originates in wholesale and retail trade (43%), other business services (20%), transportation and storage (11%), financial and insurance services (10%) and real estate activities (5%).**

Other business services consists of a wide range of services. Firstly, **professional, scientific (R&D) and technical activities.** Secondly, **Administrative and support service activities incl. renting and leasing of machinery, packaging.**

6. The importance of appropriate regulatory and institutional frameworks that can help developing countries and LDCs to maximize the benefits of services trade

Trade costs in services are double compared to trade costs in goods. Barriers to trade in services are much more complex than in goods trade. In the services sector these barriers are **behind the border** type regulatory measures, which pursue public policy objectives, ensure competence of service providers, consumer protection etc. Empirical evidence shows that reducing these burdens and allowing greater access to foreign services boost firm's competitiveness, increase productivity. **More open and enabling environment can foster the quality of services available to firms and decrease the cost of services.** WTO negotiations in services domestic regulations can help developing countries and LDCs to achieve these objectives. These negotiations aim at working out and implementing disciplines that apply to measures relating to licensing requirements and procedures, qualification requirements and procedures, and technical standards affecting trade in services.

The quality of institutions in the importing country is of greater importance to services trade than to goods trade as service providers must often be present in the area where service is supplied (according to WTO TISMOS database Mode 3 is the dominant mode for trading services globally). The quality of institutions are important in the decision of enterprises to invest and once investment is undertaken in the operation and profitability of firms. WTO negotiations in investment facilitation aim to make investment frameworks in developing countries more transparent, predictable and efficient. The aim of the negotiations is to develop a multilateral framework, which can facilitate the flow of foreign direct investment to developing countries and LDCs.

Annex I: Services content of the exports of the Top6 agro food exporters

Exporting industry	D10T12: Food products, beverages and tobacco								
Source country	WLD: World								
Time	2015								
Unit	US Dollar, Millions								
Exporting country	USA: United States	BRA: Brazil	CHN: China (People's Republic of)	IDN: Indonesia	THA: Thailand	EU28: European Union (28 countries)	Total		
D45T47: Wholesale and retail trade; repair of motor vehicles	10 452,3	4 106,4	4 614,0	2 881,5	3 663,4	19 013,4	44 730,9	43%	
D69T82: Other business sector services	6 417,6	3 393,1	981,9	215,1	261,8	9 755,0	21 024,4	20%	
D49T53: Transportation and storage	2 780,1	1 487,0	1 360,4	733,4	546,9	4 331,4	11 239,3	11%	
D64T66: Financial and insurance activities	2 725,4	1 139,5	1 535,2	499,3	500,4	4 342,1	10 741,9	10%	
D68: Real estate activities	2 028,1	483,9	275,0	120,5	158,0	2 280,0	5 345,5	5%	
D86T88: Human health and social work	76,9	60,5	163,2	21,7	84,3	2 827,9	3 234,5	3%	
D58T60: Publishing, audiovisual and broadcasting activities	445,6	108,9	33,0	33,5	38,2	1 073,7	1 732,9	2%	
D62T63: IT and other information services	381,1	245,7	56,3	22,1	21,7	975,3	1 702,1	2%	
D61: Telecommunications	378,6	173,5	187,7	131,2	28,4	623,5	1 522,9	1%	
D55T56: Accommodation and food services	202,6	205,3	220,2	112,8	55,3	671,2	1 467,3	1%	
D85: Education	761,7	38,8	25,6	8,4	11,9	182,7	1 029,0	1%	
D84: Public admin. and defence; compulsory social security	471,9	131,9	24,5	7,8	12,0	314,5	962,6	1%	
Source industry	27 121,8	11 574,3	9 477,1	4 787,1	5 382,2	46 390,7	104 733,3	100%	