UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

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MULTI-YEAR EXPERT MEETING ON

Trade, Services and Development

Leveraging services, including infrastructure services, to achieve the Sustainable Development Goals

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Segment 1. Services, resilience to economic shocks and economic recovery

*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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Segment 1. Services, resilience to economic shocks and economic recovery

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Good afternoon. I would like to thank UNCTAD for inviting me and for creating the opportunity to discuss such a significant subject to trade. It is a pleasure to be with you amongst the bright colleagues chosen for this panel.

Building a dynamic and productive domestic services sector is a necessary condition for overall economic development in the 21st Century, as services play an increasingly central role in an economy's successful integration into Global Value Chains. It is therefore only natural, amid all the challenges posed by the Covid-19 pandemic, to promote discussions aimed at identifying how to best explore the services sector's potential to serve as an escalator for such economic development.

When considered on a value-added basis, services trade reaches almost 40% of world trade. In Brazil, according to the latest data available for the indicator "TiVA database" based on OECD calculations, services accounted for approximately 40% of the value added of Brazilian exports of manufactured goods. This is the so-called "servicification process" of the world economy: the increasing importance of services embedded into countries.

The share of services in the country's GDP has increased rapidly over the last decades, comprising about 70% up to date. In 2019, Brazil exported US $ 34 billion in services and imported US $ 69 billion, for a total of US $ 103 billion. This scenario is 2.7% lower than that traded in the previous year. In 2019, Brazil was the 38th largest exporter of services and the 25th largest importer in the world.

It is also worth mentioning that, in spite of being one of the main contributors to GDP and job creation in Brazil, services remain a relatively minor component of the country's foreign trade. According to data from the World Bank, the share of foreign trade in services in Brazil's GDP in 2019 was 5.6%, against the world average of 13.3%. The country ranked 103rd in a list of 106 countries, only higher than China, Bangladesh and Mexico. These numbers shows us the huge opportunity that we have in our hands to explore in the services sector in our country.

In this scenario, the government has undertaken a series of initiatives aimed at raising the overall competitiveness of its economy whilst promoting an efficient integration into the global marketplace, through the enhancement of the roles of the services sector and trade in services.

I would like to mention that the Foreign Trade Secretariat of the Ministry of Economy has counted on the invaluable support of the World Bank for this important task. Especially in what regards to the identification of best practices in a series of key areas that affect, directly or indirectly, the performance of the services sector in Brazil.

We are putting our best efforts to identify sector-specific barriers to services trade. An important input for this analysis has been the OECD Services Trade Restrictiveness Index (STRI), which measures, based on a specific methodology, the level of regulatory restrictions in over 20 sectors. My team will shortly initiate technical discussions with entities responsible for the regulations of sectors in which a reduction of the level of restrictiveness could raise the overall competitiveness of Brazil’s economy, like banking, postal, maritime transport, and professional services. Measures of this kind would build on previous initiatives such as the liberalization of Brazil’s air transport sector, which as of June of 2019 no longer has limitations on foreign capital.

The rise of competitiveness and the insertion of Brazil into the global value chains also require tax rules compatible with international good practices. Among them are the expansion of the Brazilian network of Double Taxation Agreements (DTAs), which today is quite limited in comparison to what can be seen in other countries. DTAs can be a vector for stimulating cross-border trade and foreign direct investments (FDIs) given that they avoid double taxation and create an environment of legal certainty for economic agents. Considering the Brazilian accession process to OECD, the new DTAs will be closer of the OECD Model Tax Convention, which allows the abovementioned benefits.

One other action with potential benefits is the use of drawback regime. It encourages companies of the most diverse sizes and sectors of the economy to take part of the Brazilian trade flow by importing or purchasing in the domestic market goods inputs - with suspension or exemption of taxes charged on - to produce exported goods. Given the country's distortive tax system, which generates accumulated tax credits for exporting companies, the regime assumes an even more decisive role in inserting Brazil into international trade, contributing to the country's economic and technological development. In 2019, approximately 22% of Brazilian exports of goods (USD 49 billion) were made under the drawback regime.

Hence, Brazil is evaluating the possibility of expanding the scope of its drawback regime to cover services employed in industrialization and / or in the delivery of exported goods in addition to the exemption of taxes levied on goods purchased as inputs. This distinctive tax treatment between goods and services under the drawback regime must be addressed in order to ease the servicifcation process over the country.

The current global pandemic poses great challenges, both sanitary and economic. Brazil is convinced that, in the post-pandemic context, the services sector has a key role to play in the trade and economic recovery, and is therefore strongly committed to implement the measures necessary to explore to the extent possible the sector’s potential to positively impact overall economic performance.

This meeting is extremely relevant to discuss the role of the services sector for different economies around the world and, more specifically, to share experiences with regard to services, manufacturing and servicification. I am looking forward to hearing the contribution from my colleagues and for the debate afterwards. I would like to acknowledge the organizers for the opportunity once again. Thank you.