



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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Intervention Nanno Mulder, UN-ECLAC

In my short intervention, I will discuss first how traditional services have shrunk, and modern services thrived during the pandemic, and second how developing countries struggle to jump on the bandwagon of the global expansion of modern services. I will comment on both from the perspective of Latin America and the Caribbean.

Over the past six months, we have witnessed a significant contraction of multiple traditional services GDP and trade. Traditional services require the physical presence of the provider and consumer. In both industrialized and developing economies, the most significant drops in GDP and employment were in tourism, transport, wholesale and retail trade, construction, education, and personal services.

Within the services trade, tourism is by far the most affected activity. In Latin America and the Caribbean, tourism has come to a standstill since April. This temporary paralysis has hit not only Caribbean economies and employment hard, but also many local communities in Latin America. Tourism accounts for half of regional services exports.

Air and maritime transport are also hard hit. Travel restrictions have affected aviation activity. In May 2020 global revenue passenger kilometers and freight tonne kilometers had fallen 98.9% and 62.1% year-on-year, respectively. Also, maritime container trade has trended downward since the outbreak of the pandemic.

Over the same period, many modern services have expanded their business, employment, and trade. These information technologies enabled services (ITeS) have shown double-digit growth over the past decade. Also, they are less affected than others as they benefit from several long-term trends that have accelerated under the COVID-19 pandemic:

1. Most governments and companies worldwide adopted massively teleworking from home or anywhere. This trend has increased the tendency of many industries to tap into a globally connected productive workforce empowered to act in uncertain times. This scenario has benefitted the IT and ITeS outsourcing industries located in Latin America and the Caribbean, as well as demand for services related to digital connectivity and cybersecurity;
2. The increased demand for the digital upskilling of workers around world benefits the IT/ITeS sector. According to the World Economic Forum “*by 2022, no fewer than 54% of all employees will require significant reskilling and upskilling*” to fit into the new realities presented through digital transformation;

3. The companies' IT departments increasingly use a global pool of gig workers to further develop the model of the hybrid workplace- with both physical and remote employees;
4. The accelerated paradigm shift from traditional brick-and-mortar shopping towards business and consumer spending via digital platforms (eCommerce). This increased reliance on e-commerce has accelerated the growth of all affiliated services to eCommerce;
5. The accelerated reshoring to home countries and regions of activities within the global value chains has increases the demand for automation and outsourcing of firms to remain competitive in the market.

Latin America and the Caribbean, and other developing regions, face several obstacles to benefit from these mentioned trends.

1. Except for China and India, few developing countries have companies that play a role in these trends. A few, mostly US, companies absorb more than 90% of this growth;
2. There are still significant restrictions to access broadband internet in rural areas;
3. The dual character of the economies in our region, with a few large IT-intensive companies across all sectors and a majority of SMEs that hardly use digital tools, makes it difficult to bring about this digital transformation in a short period;
4. Few countries, such as Costa Rica and Uruguay, have an effective public-private policy to promote the ITeS sectors. Some others, like Argentina, Chile, and Mexico, promoted this sector for some time but abandoned it later. This strategy is needed, for example, to invest in skills required in this sector, attract key multinational companies to their territories, introduce a favorable tax treatment both domestically and for exports, amongst other factors.
5. Few governments understand the strategic role ITeS play in the competitiveness of all sectors. These mode 5 services create the most value in the GVCs.

In short, this pandemic is a wake-up-call for several developing countries regarding the importance of ITeS for the competitiveness of all sectors. Hopefully, many will put into place strategic medium-term public-private partnerships, together with regional and international cooperation, to promote their development and increase international trade. In Latin America and the Caribbean, these initiatives continue to be very modest, except for the Pacific Alliance where this topic gained some interest from its member countries.

These issues will be discussed in more detail during the fourth Global Services Forum, which is organized as a side event during UNCTAD 15 in Barbados in April next year. This Forum is coorganized with the Latin American Network for Research and Policies in Services (REDLAS), managed by UN-ECLAC.