



MULTI-YEAR EXPERT MEETING ON

# Trade, Services and Development

9th session

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Session 1. **Services trade, economic diversification and resilience to economic shocks**

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





AfCFTA  
Secretariat

**UNCTAD MULTI-YEAR EXPERT MEETING ON TRADE, SERVICES AND DEVELOPMENT: 9<sup>TH</sup> SESSION**

***Session 1: Services trade, economic diversification and  
resilience to economic shocks***

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## **Outline of presentation**

- 1. Introduction: Importance of diversification**
- 2. Trade in services as an enabler for economic diversification and resilience to economic shocks.**
- 3. Diversification of production under the AfCFTA.**
- 4. Development of productive capacities of developing and the least developed countries.**
- 5. Conclusion**
- 6. Q&A**



# 1. Importance of diversification

- Economic diversification is important because it is inextricably linked with the *structural transformation of the domestic economies* and *the achievement of higher levels of productivity* resulting from the movement of economic resources within and between economic sectors.
- A lack of economic diversification is frequently connected with increased sensitivity to external shocks, which might jeopardize long-term economic growth, therefore, diversification helps to **manage volatility** and **provide a more stable path for equitable growth and development**.
- Successful diversification is also more important now in the wake of the global pandemic and the imperative in many developing countries to increase the number and quality of jobs.



## **2. How does services enable diversification: Introduction**

- The global economy has gone through a dramatic shift towards services.
- Services now generate more than two-thirds of economic output, attract over two-thirds of foreign direct investment, and provide most jobs globally.
- In recent decades, services have grown to dominate the production and employment landscape of economies at different levels of development.
- They are also increasingly prominent in international trade and investment as services are the most dynamic component of international trade and form the backbone of the global economy.



# **How does services enable diversification: 1**

- 1. Services are also increasingly exported by manufacturing firms as a strategy to add value and to create a long-term relationship with customers.**
  - These strategies are a source of economic diversification and allow countries to move up the value chain and engage in new activities, building on their existing manufacturing expertise.
  
- 2. Services trade policies also stimulate trade diversification because, as inputs, they often facilitate exports of new or upgraded products and expansion into new markets.**
  - For example, access to more abundant, high quality, and lower priced services inputs, as well as more efficient infrastructure services (e.g., transport, logistics, distribution, payment services) enable the diversification of goods exports. Moreover, efficient and affordable telecommunication services are fundamental to take advantage of export opportunities for a wide array of ICT-enabled services. (Being prioritized under the AfCFTA).
  
- 3. The contribution of services to employment has also increased; services now create more jobs, and at earlier stages of development.**
  - Globally, services and agriculture each accounted for 39% of total employment in 2000; as of 2018, however, just over half of the world's population worked in services (52%), while agriculture's share of total employment slipped to 26%. Services' share of employment is projected to continue to expand in the coming years for countries at all levels of development (ILO, 2018).



# How does services enable diversification: 2

## **4. Services as Value Added Content in Goods Exports.**

- Services promote trade integration by providing the basic infrastructure on which trade in goods relies. Without efficient services, goods cannot be successfully traded, as a diversity of services is needed to bring final goods from their production site to consumers across borders.
- Services, and trade in services, are also key enablers of global and regional value chains, as services provide the "glue" that connects the fragmented and dispersed production stages that constitute global value chains (GVCs) (Díaz-Mora and others, 2018).

## **5. Highlighting the gender dimension, services are even more important to women's employment.**

- In 2018, the service sector employed 87% of women in high income countries, 65% in upper-middle income countries (compared to 35% in 2000), 41% in lower-middle income countries (up from 27%), and 22% in low-income countries (up from 15%).

## **6. Growth of services does not necessarily imply a shrinking manufacturing sector.**

- The idea that productivity improvements derive from manufacturing, and therefore that expansion of the services sector would come at the expense of overall growth, is eroding, as services become more tradable, technology intensive, subject to economies of scale, allows greater competition, innovation, and technology diffusion to take hold in services (Nayyar and Cruz, 2019).



## **How does services enable diversification: 3**

**7. Services are central to digital trade not only because they provide the basic enabling infrastructure, but also because a broad range of services can now be supplied online.**

- Services in sectors such as telecommunication and computer services, in particular, but also financial and logistics services, are key enablers not only of e-commerce in goods, but also of digital supply of services.
- Telecommunication services, which encompass Internet, mobile telephony, and data transmission services, provide the basic infrastructure and transport capacity that allow a range of services to be supplied digitally, and also permit goods to be offered and purchased through these networks.





### **3. Diversification of production under the AfCFTA**

- The AfCFTA encourages a shift away from a reliance on commodities in certain industries, towards higher-value-added products and services instead.
- The AfCFTA Agreement articulates that one of the specific objectives of the AfCFTA is the progressive liberalization of services and the creation of a single market, therefore, prioritizing services negotiations at the onset together with trade in Goods.
- As a starting point, State Parties have prioritized 5 key sectors that are *financial services, tourism, transport, business, and communications services*, as these services are foundational in the workings of day-to-day trade.
- The AfCFTA is also expected to enable countries to break into new African markets as they both diversify by export destination and type of goods produced.
- Additionally, liberalisation of TiS under the AfCFTA will facilitate the development of regional and continental value chains (RVC) and the structural transformation they can drive.



## 4. Development of productive capacities of developing and the least developed countries.

- While fostering continental integration, the AfCFTA will lay the groundwork for a *Made in Africa* revolution by expanding and deepening these regional value chains. A leading objective of the AfCFTA is to ‘*stimulate production through the development of regional value chains*’.
- The consideration of regional value chains (RVCs) is particularly important because these chains may be more amenable to upgrading than GVCs as all the players in the value chain in the former are located within the region.
- By facilitating the expansion and deepening of regional value chains, the AfCFTA is catalyzing the *Made in Africa* Revolution necessary to ensure not only increased trade within the Continent, but also a step change in growth and job creation through increased value addition and structural change toward higher-productivity sectors that generate jobs.



## **Development of productive capacities.**

- Developing the productive capacity of developing and least developing countries in the area of services will be an essential means to both improve and diversify their production of goods and services. This will be achieved through the following:
  1. *Firstly, various services are found at each link of the value chain; therefore, increasing their availability and quality will have a large impact on the end products.*
  2. *Secondly, the development of infrastructure services will also facilitate the exchange of goods and services at the national, regional and international levels.*
    - For example, the development of productive capacities in services such as health and education will directly contribute to the upgrading of human resources, skills and managerial capabilities that are essential for improving the productive capabilities of countries.



## **Development of productive capacities.**

*3. Thirdly, by supporting the integration of economic agents, particularly micro, small, and medium-sized enterprises (MSMEs) that suffer a productivity gap with larger firms, into these regional and continental value chains to boost exports.*

- Services can improve their productivity, reduce trade barriers and costs, and allow for their diversification and upgrading. 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. (The development of RVCs is a key objective of the AfCFTA Agreement and the AfCFTA Protocol on Trade in Services.)
- The upgrading MSMEs to higher levels of production is a critical component of structural transformation on the African Continent, as these types of enterprises generate a significant portion of the GDP of most, if not all, African economies.



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**Q & A SESSION**