Session 2. The potential for diversification towards and through digitally deliverable services

Statement by

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The emerging opportunities for economic diversification of digitally deliverable services in Latin American value chains

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I am honored to deliver this statement for the Multi-year Expert Meeting on Trade, Services and Development. This statement focuses on some of the salient features and emerging opportunities for economic diversification and resilience of digitally deliverable services in Latin American value chains.

Definition

“Digitally deliverable services” (DDS) as defined by the United States Bureau of Economic Analysis, comprise five categories of services, namely: (a) business, professional and technical services such as computers and information services, legal, architectural, consulting and advertising services; (b) royalties and license fees paid for the use of intellectual property; (c) financial services such as online banking and investment activities, market research and buying and selling shares; (d) insurance services such as digital transmission of premiums and payments for claims online; (e) and telecommunications services including video conferences, email and Internet access services.

The previous categories overlap to a greater extent, with the definition of knowledge-intensive business services (KIBS), which includes six categories: (a) communications services; (b) insurance services; (c) financial services; (d) computer and information services; (e) royalties and license fees; (f) and other business services (merchandising and other trade-related services, operational leasing services, and miscellaneous business, professional and technical services). Therefore, “digitally deliverable services” and “B2B ecommerce in services” are often used interchangeably, under the general assumption that these services are largely knowledge-intensive 1.

Trade in services and DDS

A growing body of policy-focused and empirical literature suggests that trade in services has become increasingly important in the last three decades for igniting structural transformation, economic diversification and for increasing resilience in Global Value Chains and Global Production Networks, particularly after the global disruption caused by the COVID-19 pandemic 2 (UNCTAD, 2022).

The importance of the services sector and the DDS was initially driven by the IT sector and general-purpose technologies. More recently, the fourth industrial revolution and the emergence of new

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1 The United Nations Conference on Trade and Development (UNCTAD) defines “ICT-enabled services” as composed of the following categories from the standard IMF balance of payments classification: communications services; insurance; financial services; computer and information services; royalties and license fees; “other” business services; and personal, cultural, and recreational services. ICT-enabled services correspond to the five categories of services in BEA’s statistics on international trade in services mentioned supra. These are the services for which digital technologies play an important role in facilitating trade and economic diversification (UNCTAD, 2022).

2 See for example (Hernández, 2014), (Suominen, 2021) and (Giordano & Ortiz de Mendível, 2021).
technologies such as artificial intelligence (AI), 3D printing and the internet of things (IoT), has enabled the “servicification” of manufacturing, in which services are used either as inputs, as activities within firms or as output sold bundled with goods (National Board of Trade, 2016).

Digital transformation has also enabled cross-border electronic delivery of financial, business and knowledge services. Furthermore, digitally enabled services (DES) have been growing as global demand has shifted to remote supply and to e-commerce channels\(^3\) (OECD, 2022).

As a result of the expansion of Global Value Chains and Global Production Networks in the last 15 years, and the spawning of the “trade in tasks”, world exports of digitally deliverable services have grown faster than the total services exports. That is, the total value of global DDS has grown three-fold since 2005 from US$ 1.2 trillion in 2005 to US$ 3.2 trillion in 2019. During this period, the share of DDS in all services trade increased from 45 per cent to 52 per cent (UNCTAD, 2022).\(^3\), (Suominen, 2021), (WTO, 2022).

(UNCTAD, 2022) reports that high-income countries dominate digitally deliverable services exports and have accounted for around 85 per cent of global DDS exports since 2005, while low-income countries accounted only for 0.1 per cent of the world’s total. The divergence of DDS trends across different income groups may be explained by the digital divide and the gaps in internet connectivity, digital infrastructure, and general digital capabilities.

For Latin America and the Caribbean (LAC), the value-added of the services sector as a share of GDP has been around 58\% during the last years, and in terms of employment, represents 64\% of the labor force. However, the market share of LAC in global services exports is low and declining from about 3\% in 2010 to 2\% in 2020 (Mulder, 2022).

While trade in services in the region has grown at an annual average rate of 6.1\% between 2005 and 2019, the trend has fluctuated. Global trade decreased severely in 2020 because of the pandemic and services exports did not fully recover in 2021, especially traditional services such as tourism in the Caribbean and Central America (Giordano & Ortiz de Mendível, 2021), (Mulder, 2022), (WTO, 2022).

**Digitally deliverable services and economic diversification**

Trade in services and digitally deliverable services are drivers of structural transformation and consequently, of economic diversification. Economic diversification is inextricably interrelated with the structural transformation of emerging markets and developing countries and the achievement of higher levels of productivity resulting from shifting economic resources within and between economic sectors. Economic diversification encompasses not only trade diversification but also domestic production diversification\(^4\) (UNCTAD, 2017).

**Resilience in services value chains**

In the aftermath of the COVID-19 pandemic, a new debate has emerged on the resilience of global value chains (GVCs) (Miroudot, 2020). Most of this debate focuses on the disruption of the supply chains, the crisis of containers and the bottlenecks on transport and logistics.

*Resilience* in supply chains can be defined as the ability to return to normal operations after a disruption (Miroudot, 2020). Trade in services has recovered at a slower pace than trade in goods in 2020-2021, especially traditional services such as transport and travel.

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\(^3\) Extended Balance of Payments Services (EBOPS) statistics trade are available in several “digitally-deliverable services”. These are services for which a large proportion is delivered by digital means. The share of digitally deliverable services in commercial services trade gives an indication of the importance of digital services trade in different economies (OECD, 2022).

\(^4\) See (Suominen, 2021) for examples of digitally deliverable services sourced and developed by Asian and Latin American businesses. See also how Costa Rica has become a major BPO hub for digitally deliverable services in Asia.
Transport and travel account for about one third of total services exports and business services, financial services, and digitally enabled services have been impacted slightly by the pandemic and have recovered by the end of 2020. This situation may be explained by the mode of provision of services. Digitally enabled services and digitally deliverable services can be supplied cross-border digitally and are more resilient than services which require that a worker crosses a border to temporarily work for a company (UNCTAD, 2022).

According to (Miroudot, 2020), one can question the idea that services are less resilient during a crisis. While resilience is the capacity to recover swiftly after a disruption, robustness is the ability to continue to produce during a crisis. Transport and travel have shown robustness during the pandemic but also resilience as they recovered quickly after lockdowns and quarantines were removed. For LAC, services have shown more resilience than manufacturing and resilience as well as robustness should rely on lean production and capabilities related to flexibility and adaptation across services value chains. As for DES and DDS, investment in digital infrastructure is of the utmost importance for reducing potential bottlenecks. In addition, regulatory flexibility can also play a major role and allow services firms to continue to operate during a crisis (Miroudot, 2020).
References


