



# MULTI-YEAR EXPERT MEETING ON

## **Trade, Services and Development**

### 9th session

4–6 July 2022, Hybrid (online and Palais des Nations, Room XVII), 2.30–4.30 p.m. CEST

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

#### **Statement by**

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

Discussion points: Patrik Ström, Director, European Institute of Japanese Studies, Stockholm School of Economics

Historic narratives around economic development for many emerging economies have shifted towards a service industry-led focus as their domestic industries strengthen and service industries become ever more globalized. New technologies of automation associated with Industry 4.0 are creating a wave of disruption in many service industries, the profound implications of which for the nature of service sector activity are only just beginning to be understood.

This will be especially important as value is being generated at the intersection of manufacturing and services, and that digitalization plays an increased role in these networks. However, services are under researched and less profiled in policy. This seems especially to be the case in the area of digital services, that is both technology dependent and complex to facilitate and regulate. Hence, close collaboration is needed among both developed and developing economies.

In relation to the transition towards services, digitalization and the green economy, let me now turn to a few empirical examples to underline some key aspects. The first example is Costa Rica. The country has over the last decades positioned itself as a regional hub for high value business services. This development has been driven by lower cost outsourcing for high value services in North America. As an example McKinsey has now over 500 consultants in San Jose by 2020. This development is no coincidence, but has been driven by a government policy to attract wide range of IT and business support firms, on the basis of skilled workforce, lower infrastructure costs and geopolitical setting. More recently this development has been connected to a strategy of greening of the economy. Costa Rica has strong policy position on sustainability with protected national parks etc attracting tourism. Hence, there is an active engagement towards lower carbon industry through Industry 4.0 and digital services.

In contrast, St Lucia is a small Caribbean economy with significant service-led economic development focus. Transitioned from agricultural domination to tourism services, where the economy is 83% service sector. However, the challenge for the economy is tourism domination, reliance on foreign capital and foreign service imports. In the so-called Service Industry Development Strategy, there is an explicit aspiration to shift to higher order services, and reduce

dependency on tourism. The challenge is centered around skilled labour, infrastructure and the development of new business models on the basis of digital services.

The final example is the recently strengthened relationship between Japan and the EU, with the EU-Japan Economic Partnership Agreement (EPA), Strategic Partnership Agreement (SPA) and the EU-Japan Green Alliance. Both stakeholders have a lead role in the work on digitalization and sustainability, in their respective economies, but also a possibility to impact and facilitate digitalization and the green economy in developing or emerging markets. This is mainly done through the composition of complex regional or global value chains and production networks. Within the SPA, the main areas for future works have formed around: connectivity, digitalization, climate change, security. A tangible outcome of the relationship with direct impact on emerging markets is the so-called “EU–Japan Partnership on Sustainable Connectivity and Quality Infrastructure”, and the readiness of the European Investment Bank (EIB) and the Japan International Cooperation Agency (JICA) to support infrastructure, energy, micro-finance.

The near future of EPA/SPA have the possibility to more actively engage the economies in both advanced and emerging economies in relation to; services, market enhancement and access, and trade of Digital services and hence categorizations and data capture for developing viable policies on growth. The area of digital services could also be of importance for pushing the envelope on sustainability and green economy both through public policy, but also within private industry collaboration and aid programs. The EU and Japan can use the commitment towards a rules based order for pushing the sustainability agenda.

In conclusion, there are a set of possibilities for developing countries to engage in the services through digital services and the combination of manufacturing and services. The challenges lie within finding the right balance of skilled labour, trade facilitation and market enhancement and international access.

Thank you!

Patrik Ström