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Report of the Multi-year Expert Meeting on Trade, Services and Development on its seventh session

Held at the Palais des Nations, Geneva, 1 and 2 May 2019

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Contents

Introduction

The seventh session of the Multi-year Expert Meeting on Trade, Services and Development, held on 1 and 2 May 2019 in Geneva, held discussions focused on enhancing productive capacity through services.

I. Chair’s summary

A. Opening plenary meeting

1. The Deputy Secretary-General of UNCTAD opened the seventh session of the Multi-year Expert Meeting on Trade, Services and Development.

2. In her opening statement, she emphasized that services contributed to overall growth in productivity, not only through the direct effects they had on the economy, but also through indirect effects on other sectors. That meant services were not an alternative to agriculture or industrial development, but rather a key element for strengthening the agricultural sector and industrialization.

B. Enhancing productive capacity through services

(Agenda item 3)

3. The Director of the UNCTAD Division on International Trade and Commodities, in introducing the background note by the secretariat (TD/B/C.I/MEM.4/20), highlighted that development of services could enhance productive capacity through services’ forward and backward linkages with other economic sectors. Countries should address limitations in collecting data on services and the proportions they had as inputs to products of other economic sectors.

The relationship between services and productive capacity

4. During a four-member panel discussion, one panellist noted that, in a modern economy, productive capacity was determined principally by available productive resources, entrepreneurial skills and production linkages. Many service activities were directly linked to agriculture and manufacturing, such as finance, transportation, professional services and research and development. Services sector development was thus directly and positively impacting the productive capacity development of countries, especially as the “servicification” of manufacturing had led to services and manufacturing becoming so closely interconnected that industrialization currently also meant “servicification”. He also said that, while pre-production stages, such as research and development and design, and post-production stages, such as marketing and branding, provided high value added opportunities, the manufacturing stage offered low value added and little profit due to intensive competition. For example, the manufacturing costs of a particular brand of smart phone were only around 29 per cent of the final price. The brand’s company did not own a physical factory, but rather outsourced production of the smart phone to low-cost manufacturers elsewhere.

5. One participant noted that small and medium-sized enterprises (SMEs) were dominant in developing countries and their development had a great impact on productive capacity enhancement in those countries. Some delegates and participants emphasized the challenges of SMEs, such as their small scale, lack of access to resources and sensitivity to an unfavourable business environment. They proposed options to address those challenges. One panellist suggested that one option to support them was having a public policy that reserved a certain percentage of the public procurement budget to purchase goods or services from SMEs. He and one delegate also said that a second option was to formulate regulations that required large retail chains to stock and market a minimum percentage of products from SMEs. Another panellist proposed a third option, which was to help

SMEs integrate information and communications technology services and clustering related activities around manufacturing processes, as exemplified in the *Ppuri* industry of the Republic of Korea. The *Ppuri* industry was dominated by SMEs producing components and finished products through use of manufacturing process technologies, such as casting, moulding, metal forming, welding, surface treatment and heat treatment. A few years earlier, the Government of the Republic of Korea established an information and communications technology-based smart factory policy to help SMEs integrate production management, online connectivity with key business partners and real-time control into a manufacturing system. Currently, 10 per cent of the *Ppuri* industry had introduced the smart factory project. As a result, productivity had improved by 18 per cent, the defect ratio decreased by 64 per cent and automation increased by 10 per cent.

6. Another panellist said that, from the perspective of global value chains, different types of services contributed to the execution of different productive, technological and organizational functions. Services had become increasingly heterogenous in terms of their potential for value addition, technology content and opportunities for linking development across the economy. In developed economies and fast industrializing countries, producer services and knowledge-intensive and business services had a symbiotic relationship with manufacturing and agriculture modernization towards co-value creation processes of production transformation and capabilities development. Supporting mechanisms for that symbiosis included outsourcing services from manufacturing, demand pull from agriculture modernization and demand pull and technology push from high-technology manufacturing industries.

7. He noted further that, in developing economies with a limited production base, the impact of services on productive transformation and linkages remained more limited and, in many cases, focused more on value extraction than value creation. Nevertheless, there were some important mechanisms, such as demand pull from financial services, demand and technology pull from trading activities and infrastructure and technology push from SMEs. Services policies should therefore be integrated into broader industrial policies to exploit complementarities in sectoral development. Recognition of the heterogeneity of services was important and the support of knowledge-intensive services for broader production transformation across sectors should be acknowledged. Services policies needed to consider the specific situation of developing countries, where demand pull and technology push from high-technology manufacturing industries were limited. Consequently, producer services needed to support, development of opportunities for linkages was needed and technology and organizational services needed to be provided to improve firm-level efficiency, quality standards and organizational processes.

8. Some delegates raised the question of whether services or industrial development should be prioritized. In response, some panellists noted that development strategies required a balanced approach involving services, manufacturing and agriculture, where a manufacturing basis was required to create demand for services and to foster innovation, and where services played an important role in providing inputs for all sectors and in diversification and upgrading strategies. Another panellist said that, to decide on policy priorities, developing countries should identify key products where they could be competitive, then determine services linkages around the relevant sectors and ensure that producers had those services in sufficient quantity, diversity and quality and at adequate levels of affordability. Several panellists emphasized that it was necessary to move to higher value added activities that focused mainly on services.

9. One delegate highlighted the role of UNCTAD and its various forums for debate, as well as its analyses in support of countries’ strategies to achieve the Sustainable Development Goals through services. Another delegate expressed appreciation to UNCTAD for its work on services and noted the expectation of future technical cooperation in the area.

Increasing services provision to enhance productive capacity

10. During the discussion, several participants said that services provided the means for different activities to interact.

11. One panellist shared the experience with the Port Authority of Jamaica, where the traditional role of the port had moved from that of a gateway port (with import/export functions) to a port that incorporated more advanced logistical functions (a logistics centre port) independent of local demand/supply. That created the potential to increase the productive capacity of services in Jamaica. Services offered within a 200-hectare special economic zone adjacent to the Port of Kingston included light assembly, packaging/repacking, labelling/relabelling, sorting, mixing and the like. In addition, associated services within the port area, such as bunkering (cruise and liquefied natural gas supplies), ship chandlery (supplies and victualling), waste disposal and recycling, ship repairs, installation of motor vehicle parts and the like, offered added value to port services. Significant investment was needed to make the port attractive to business. Through an international bidding process, the Government offered a 30-year concession to a private company for an investment of $400 million. Conditions of the concession included undertaking dredging works and the construction and operation of a common-access container terminal. At the same time, the Government provided $25 million of finance to build facilities for businesses. She noted that the combination of private investment in essential infrastructure works with government investment in superstructure stimulated provision of local services. Part of the package offered to businesses for locating in the new facilities within the special economic zone included tax incentives, capacity-building of individuals, to be able to apply previously acquired skills in the workplace, and a number of measures to ease import/export procedures, such as a single-window customs facility and the establishment of a port community system and use of the UNCTAD Automated System for Customs Data World Plus software. To maintain competitiveness, port authorities collected data that were meaningful to benchmark the port’s performance against that of peers.

12. Another panellist and one participant said that, in developing countries, while SMEs played a key role in enhancing the productive capacity of a country, they faced acute insufficiency in the provision of basic infrastructure services essential for doing business, such as power, water, roads, transportation and telecommunications networks. The panellist advocated the need for local governments to invest in building such infrastructure services, so as to shift the financial burden away from SMEs. Contrary to developed countries, where such basic services were provided by national government investment, in the majority of developing countries SMEs were compelled to undertake that role in building at their own expense. In addition, he said that developing countries should tackle the question of creating an enabling environment, through a purpose-fit regulatory framework, and strengthen regulatory transparency, especially in the enforcement of laws to ensure stability, predictability and confidence.

13. Another panellist noted that, in Arab countries, services play a key role in employment generation, investment and trade. He highlighted that services created overall spillover effects on other productive sectors and had a big impact on the Arab region’s insertion into international production networks and on deepening regional economic integration. Various barriers were restricting trade in services in the Arab region and the region was found to be the most restrictive as compared to other major blocs. In order to allow the services sector to bring about its enabling potential for enhancing productive capacity in the region, many Arab countries needed to reform their services sector and address barriers that hindered the development and promotion of trade in services in the region.

Digital services and productive capacity enhancement

14. During a four-member panel discussion, all panellists agreed that the world was experiencing rapid digitalization, leading to the emergence of digital services that were increasingly influencing the productive capacity enhancement of countries. Developing economies could realize the benefits of digital services mainly through the effect they had in reducing costs. From reduced back-office costs to lessened transaction costs, digital services enabled developing countries to become more competitive and increase their economic viability.

15. One panellist cited the example of financial technology that used technologically enabled financial innovation and gave rise to new models, applications, processes and products, which affected the provision of financial services, financial markets and institutions. Financial technology had significantly reduced the costs of information, coordination and contracting. In peer-to-peer lending platforms, software and mobile phone applications matched borrowers with lenders without a traditional intermediary, pooling capital from many sources and facilitating access to capital for SMEs and consumers. In addition, the platforms placed competitive pressure on large banks, improving overall economic efficiency. Financial technology could also serve populations that did not currently have banking access. While an estimated 1.7 billion adults were still excluded from the formal financial system, two thirds of the unbanked had mobile phones, which could enable them to gain access to digital financial services. The benefits of financial technology and of digital financial ecosystems could become powerful drivers of the inclusive growth called for in the 2030 Agenda for Sustainable Development, by facilitating economic and social integration. Digital cash transfer services, such as M-Pesa, reduced costs and increased outreach, had low start-up capital requirements and did not require investing heavily in infrastructure.

16. The panellist said that, nonetheless, there were multiple unintended economic, social and environmental consequences, including a risk linked to the higher amounts of money involved in peer-to-peer lending not supported by guarantees. That required regulatory and supervisory action and policy interventions to ensure that new technologies created equal opportunities for all. It was necessary to find a balance between innovation and risk to achieve financial inclusion, with coordination at the global level that involved central banks, establishing effective partnerships between the public and private sectors and encouraging investment in digital technologies that advanced sustainable finance.

17. Another panellist pointed out that, due to the evolution of technology, trade was changing, including for example greater bundling of goods and services and increases in tradability with new means for delivering services, which blurred the distinctions between modes of services delivery. Emerging technologies and information industries, such as artificial intelligence, big data, quantum computing and cybersecurity, were likely to bring further changes to the way trade was conducted.

18. The panellist stated that data were at the core of digital trade, which implied greater complexity for trade policy. Trade rules were based on distinguishing between goods and services, but that was increasingly difficult to do. An online transaction as simple as the cross-border purchase of an electronic book rested on a series of enabling factors, such as the liberalization of related audiovisual services, access to digital networks for ordering and the ability to pay electronically. Hence, services firms cared about goods barriers and vice versa. In that evolving environment, new issues needed to be addressed. For example, growing parcel trade made *de minimis* customs duty and trade facilitation more important and data-flow restrictions could have unintended consequences.

19. He also stated that a digital dimension that underpinned the entire production and delivery cycle of goods in global value chains was bringing new opportunities for trade inclusion, for instance for women and for microenterprises and SMEs. The digital economy depended on data, while regulation of data had been increasing, comprising at times restrictions on data flows and localization. In a digital economy, it was necessary to think holistically, bringing together several policy areas to reflect the real current combination of goods, services and connectivity in trade. It was also necessary to act jointly to address regulatory divergence and apply principles of transparency, non-discrimination, interoperability and, in his view, avoidance of unnecessary trade restrictiveness. It appeared that regulatory trends since 2016 were heterogeneous across countries and tended to focus more on tightening rather than liberalizing regulations.

20. Another panellist explained that almost anything digitally enabled could qualify as a service and that digital services were the cornerstone of the digital economy. Given the increasingly important role of services, the concurrent role of digital regulations was important for countries to realize the positive potential of the digital economy. In her view, good digital regulations should be transparent, non-discriminatory and impartial. Those principles were the basis of the General Agreement on Trade in Services and other

World Trade Organization agreements. A good digital regulatory framework should be as innovative as the underlying digital ecosystem, and such a framework would rely on collaboration between regulatory authorities within Governments and at the multilateral level. Regulators would also need to maintain openness to new technologies and demonstrate impartiality in relation to technologies. Some other panellists also emphasized the need for regulation to be anticipative, especially given how rapidly new technologies evolved.

21. One panellist said that good digital regulations mattered for countries, as digital economies were complex ecosystems based on co-dependent technologies. The Internet, the cloud, blockchain, artificial intelligence and other parts of the digital economy only worked in combination with each other. As a result, when Governments chose to discriminate between technologies, it not only affected the technology discriminated against, but also impaired the entire digital ecosystem. Additionally, digital ecosystems were based on seamless collaborations and partnerships that weak regulations could undermine.

22. Another panellist explained the rise of digital services and the economic and social impact they had in Indonesia. Digital innovation in the country had increased the range of digital services available to the public, as digital service providers had expanded provision of their services and enabled consumers to use services they could otherwise not access. Non-digital service providers had also benefited from the rise in digital services, as they had increased efficiency and allowed for more direct communication with consumers and fewer intermediaries. Digital creative services had the highest growth rates in the country’s labour market. Those industries had been able to shift the traditional labour structure, creating increased opportunities for female entrepreneurs and a level playing field. Digital services had also provided new opportunities for start-ups and SMEs, making informal sectors of the Indonesian economy more formal. The rise of digital payments had increased financial inclusion, enabling the unbanked population to have access to finance. Expanding digital infrastructure could create a more efficient digital ecosystem, with greater access for both merchants and consumers. To promote consumer trust, countries could harmonize their cybersecurity, privacy and consumer protection laws.

23. Some delegates expressed concern regarding the development impact of applying binding trade rules to some aspects of the digital economy, such as taxation, data policy and Internet governance, as data were a key element of the digital economy and, consequently, for the industrialization of developing countries in the digital era. Several panellists commented that the World Trade Organization moratorium on electronic commerce applied to customs duties rather than to domestic tax regimes. For example, sales taxes could be incorporated in products delivered digitally.

24. Another panellist underlined the importance of international cooperation and dialogue, including the support of international organizations to developing countries in the regulatory and standard-setting sphere. International regulatory efforts needed to respect national realities and national policy space, while at the same time not undermining regulatory objectives, such as protecting consumer interests. A balanced approach could include peer reviews, where countries could comment on regulation and implementation in other countries.

Promoting the enhancing role of services in productive capacity through international cooperation

25. During a four-member panel discussion, several panellists said that developing countries’ overall capacity to supply services remained limited. Most countries were net importers of commercial services. International cooperation, including through reginal trade and integration agreements and South–South cooperation, could be a useful solution. One panellist noted that countries in Africa were mainly focusing on industrial and agricultural development in a traditional sense. Thus, the role of services in enhancing productive capacity was not yet part of the broad policy discourse in Africa. She also said there was limited discussion about servicification of production, the support of services to increase the competitiveness of other sectors and the role of services in trade facilitation.

26. Some panellists pointed out that a lack of data contributed to the gap between policymaking and an analytical framework. One panellist noted that lack of data on the breakdown of services trade by modes of supply, limited information on the contribution of mode 3 to trade and limited quantification of the barriers affecting services trade were the main data obstacles that policymakers faced in making informed decisions. For example, mode 3 had become crucial even for some developing countries, such as Brazil, which successfully managed to gain a prominent commercial presence by establishing affiliates in foreign countries, including in developed countries. Mode 1 was also growing as a result of development of digital trade. Going beyond services and looking into the linkages between services and manufacturing competitiveness, countries should fully account for the role of the so-called mode 5 services (that is, services embedded into manufactured goods, trade and jobs) in their services statistics. In that respect, a joint European Union–UNCTAD project on measuring the contribution of services to goods exports through mode 5 was being implemented.

27. Another panellist said that lack of bilateral services trade was another challenge for developing countries. The 13 member countries of the Latin American Integration Association were cooperating to build database on bilateral trade in services. In addition, the Latin American Integration Association promoted the sharing of country experiences and facilitated debates on issues relating to services development in member countries, such as knowledge-based services.

28. Another panellist said that, in Africa, regional integration had expanded gradually from a regional approach to the African Continental Free Trade Area. Priority services sectors for the African Continental Free Trade Area were transportation, communication, finance, tourism and business services, which were key infrastructure services to promote productive capacity. However, sectoral commitments as well as regulatory cooperation frameworks needed to be negotiated. Services could explore synergies with other important initiatives, such as on accelerated industrial development for Africa, the Programme for Infrastructure Development in Africa and the Single African Air Transport Market project. It was also important to engage the private sector at all levels of the African Continental Free Trade Area negotiation process to improve participation of countries in the Africa’s integration process.

29. All panellists and one delegate discussed the issue of properly sequencing the integration of countries at the regional and international levels. One panellist and the delegate suggested starting trade negotiations and agreements at the regional level first, as there was often less disparity in development capabilities among countries in the same region. Some panellists mentioned the possibility of countries simultaneously engaging in different levels of integration. The panellist explained that, for example, deep integration at the regional level could coexist with integration at the global level, as a regional service sector might not be sufficient or effective enough to give a competitive edge to other local firms in the region to compete in global markets.

30. Another panellist and delegate stated that the eight founding countries of the Developing Eight Organization, namely Bangladesh, Egypt, Indonesia, the Islamic Republic of Iran, Malaysia, Nigeria, Pakistan and Turkey, were strengthening cooperation on services development and trade in services. The panellist said that services featured high among the six priority areas for cooperation (agriculture and food security, trade, industry, tourism, transportation and energy). Currently, the economic bloc produced only 2.8 per cent of global services exports, and the eight countries were “net importers” of trade in services, running a services deficit of $20 billion in 2017. Individual member countries had signed 42 regional trade agreements with various partners, but only 12 of the regional trade agreements had provisions related to services trade. There was significant potential to increase cooperation among members of the Developing Eight Organization as well as cooperation between them and other countries.

C. Closing plenary meeting

31. During the closing plenary meeting, the Chair of the session presented his summary of the key policy messages that had come out of the discussions, highlighting the following:

(a) There was a need to strengthen the linkages between services, which were embedded in all economic sectors, and other economic sectors, including manufacturing.

(b) Services policies should be integrated into broader industrial policies, to exploit complementarities in sectoral development.

(c) Developing countries needed to identify key products where they could be competitive, determine services linkages around the relevant sectors and ensure producers had adequate access to those services; where that was not the case, imports could play a complementary role.

(d) In creating logistics centres around ports, productive capacity could increase through backward and forward linkages and provision of more efficient services, thus creating employment opportunities.

(e) SMEs needed government support, such as through policies that promoted SMEs. Such government policies had the potential to increase productive capacity, including provision of related local services.

(f) Developing countries needed enhanced human capital (skills and expertise) to develop their services sectors and improve government understanding of micro-level needs for services.

(g) In setting policies, Governments needed to address the creation of enabling environments, while involving the private sector, and transparency in the provision of services and infrastructure amenities for the business sector, to make businesses competitive.

(h) Regulators should be anticipative in establishing regulatory rules, especially given how rapidly new technologies evolved, and find a balance between risk and innovation.

(i) Cooperation and coordination among government agencies and regulators at the national level were important for enhancing linkages between services, including digital services and other economic sectors.

(j) The digital economy was a complex ecosystem and benefiting from digital services depended on services, goods and connectivity. Governments and regulators thus needed to bring together all related policy areas.

(k) Data collection on services, including in relation to productive capacity and trade, needed to be more rigorous and made publicly available to make informed policy choices. Greater cooperation among countries, including through regional and international organizations, could improve national capacity in services data collection and analysis.

(l) Exchanging country experiences on successes and lessons learned at the regional and multilateral levels, including through South–South cooperation, should be strengthened to exploit the potential of services to enhance the productive capacity of developing countries and least developed countries as they sought to achieve the Sustainable Development Goals. UNCTAD and other international organizations could provide a forum for such exchanges.

II. Organizational matters

A. Election of officers

(Agenda item 1)

32. At its opening plenary meeting on 1 May 2019, the Multi-year Expert Meeting on Trade, Service and Development elected Mr. Aliyar Lebbe Abdul Azeez (Sri Lanka) as its Chair and Ms. Débora Ponce (Guatemala) as its Vice-Chair-cum-Rapporteur.

B. Adoption of the agenda and organization of work

(Agenda item 2)

33. Also at its opening plenary meeting, delegates at the multi-year expert meeting adopted the provisional agenda for the session (TD/B/C.I/MEM.4/19), as follows:

1. Election of officers;
2. Adoption of the agenda and organization of work;
3. Enhancing productive capacity through services;
4. Adoption of the report of the meeting.

C. Adoption of the report of the meeting

(Agenda item 4)

34. At its closing plenary meeting, on 2 May 2019, delegates at the multi-year expert meeting authorized the Rapporteur, under the authority of the Chair, to finalize the report after the conclusion of the session.

Annex

Attendance*

1. Representatives of the following States members of the Conference attended the session:

Algeria
Angola
Bangladesh
Brazil
Burkina Faso
Congo
Costa Rica
Côte d'Ivoire
Djibouti
Ecuador
Egypt
Guatemala
India
Iran (Islamic Republic of)
Jamaica
Kenya
Lebanon
Madagascar
Mexico
Mongolia
Montenegro
Morocco
Mozambique
Namibia
Nepal
Nigeria
Oman
Pakistan
Panama
Peru
Republic of Korea
Russian Federation
Saudi Arabia
Spain
Sri Lanka
State of Palestine
Switzerland
Trinidad and Tobago
Tunisia
Turkey
Uganda
Ukraine
United Kingdom of Great Britain and Northern Ireland
Yemen
Zambia

2. The following intergovernmental organizations were represented at the session:

African, Caribbean and Pacific Group of States
Eurasian Economic Commission
European Union
Latin American Integration Association
Organization for Economic Cooperation and Development
Pacific Islands Forum Secretariat
South Centre

3. The following United Nations organs, bodies and programmes were represented at the session:

Economic and Social Commission for Western Asia
International Trade Centre
United Nations Development Programme

4. The following specialized agencies and related organizations were represented at the session:

United Nations Industrial Development Organization
World Trade Organization

5. The following non-governmental organizations were represented at the session:

General category

Village Suisse ONG

* This attendance list contains registered participants. For the list of participants, see TD/B/C.I/MEM.4/INF.7.