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The evolving landscape of digital trade in services*

Note by the UNCTAD secretariat

Summary

The Multi-year Expert Meeting on Trade, Services and Development is a long-standing platform designed to examine the role of trade in services in economic diversification and sustainable development. The multi-year expert meeting provides a forum for sharing national and regional experiences and for promoting international cooperation. This session of the multi-year expert meeting builds on findings from the previous eight sessions, builds on lessons learned during the five sessions of the Global Services Forum held in 2012–2021 and draws on insights from completed and ongoing technical assistance activities.

Member States, at the fifteenth session of the United Nations Conference on Trade and Development, stated that UNCTAD should support and promote activities and initiatives in developing countries through the improvement in trade in services, including the utilization of special economic zones. The substantive topic for the ninth session of the Multi-year Expert Meeting on Trade, Services and Development was approved by the Trade and Development Board through a silence procedure that ended on 28 February 2022.

Background information on the Multi-year Expert Meeting on Trade, Services and Development is provided in the present note. In addition, drawing on the main findings of an UNCTAD study titled “Digitalization of services: What does it imply for trade and development?”, the latest trends in the trade of digitally deliverable services are presented, including the extent of the digital divide, and the implications of the rise of digitally deliverable services for trading systems are addressed. Finally, questions are proposed for consideration by experts at the ninth session of the multi-year expert meeting.

* The present document was scheduled for publication after the standard publication date owing to circumstances beyond the control of the UNCTAD secretariat.



I. Multi-year expert meeting: Background

1. The Multi-year Expert Meeting on Trade, Services and Development is a series of annual meetings that addresses the role of trade in services in economic diversification, aimed at identifying new approaches to services policymaking and establishing a global services community that is development oriented.

2. In 2012, member States, at the thirteenth session of the United Nations Conference on Trade and Development (UNCTAD XIII), stated that the development of, and access to, services, supported by adequate regulatory and institutional frameworks, were important for sound socioeconomic development.¹ The series of multi-year expert meetings focused on the role of trade in services in development was initiated in 2013, aimed at contributing to the sharing of national and regional experiences, advancing understanding of new and emerging issues relevant for policymaking and addressing critical gaps in policymaking through partnerships, including in the area of data.

3. In 2013–2021, the Multi-year Expert Meeting on Trade, Services and Development provided a useful platform for national and international experts to share, and learn from, examples of good practices in effective policymaking with regard to trade in services for development. The findings from the eight sessions underscore the importance of the policies, regulations and institutional frameworks needed to develop and strengthen services sectors as a powerful contributor to sustainable and inclusive development (box 1).

Box 1

Themes from previous sessions of the Multi-year Expert Meeting on Trade, Services and Development

First session: Regulatory and institutional challenges

Links between infrastructure services sectors and other economic sectors
 Best regulations to attract sustainable investment in infrastructure
 Functional criteria for the performance of services providers
 The role of regulators in promoting industrial development

Second session: The regulatory and institutional dimension

Examining services sector regulatory and institutional frameworks and regional-level liberalization
 How parties to regional trade agreements negotiate joint infrastructure services provisions and regulations
 How developmental regionalism combining market access with cooperation frameworks, to build productive capacities, might be achieved

Third session: The regulatory and institutional dimension

How the services economy and trade can contribute to achieving the Sustainable Development Goals
 The role of regulatory institutions and governance frameworks
 How to enhance the competitiveness of services enterprises, particularly small and medium-sized enterprises

Fourth session: The regulatory and institutional dimension

The importance of securing coherent approaches to domestic regulation and trade liberalization in the services sector
 Good regulation and best-fit regulations balancing reform with national regulatory autonomy

¹ TD/500/Add.1.

Fifth session: The role of the services economy and trade in structural transformation and inclusive development

The role of the services sector in promoting productive and export capacities
The conducive mechanism in structural transformation

Sixth session: Trade in services for inclusive and sustainable development

Trade in services dealing with water and sanitation, energy and food-related logistics
The dynamics of trade in services and ways to facilitate them
Market access and regulation in service sectors under multilateral and regional trade agreements

Seventh session: Enhancing productive capacities through services

The role of services in economy and trade
Identification of policies and institutions required to enhance productive capacities in developing countries through services

Eighth session: Leveraging services, including infrastructure services, to achieve the Sustainable Development Goals

Economic diversification through services
How to ensure a supply of good quality infrastructure services through smart regulation

Source: UNCTAD.

4. In September 2021, at the fifth session of the Global Services Forum, held as an UNCTAD XV pre-Conference event, the co-organizers adopted a joint communiqué, in which they invited UNCTAD to provide a platform within the Global Services Forum to promote dialogue and partnership opportunities and other initiatives among the global services community.² This would help harness the potential of developing countries in trade in services, particularly with regard to global digitally deliverable services trade.

5. In October 2021, member States, at UNCTAD XV, stated that transforming economies through diversification was one of the four major transformations needed to move to a more resilient, digital and inclusive world of shared prosperity. Member States, in the Bridgetown Covenant, stated that services had proven to be a powerful engine of economic growth, technology transfer on mutually agreed terms and employment opportunities, including for women, and that UNCTAD should “support and promote activities and initiatives in developing countries through the improvement in trade in services, including the utilization of special economic zones”.³

6. This session of the multi-year expert meeting builds on findings from the previous eight sessions, builds on lessons learned during the five sessions of the Global Services Forum held in 2012–2021 and draws on insights from completed and ongoing technical assistance activities, including the UNCTAD services policy reviews.⁴

II. Multi-year expert meeting: Focus of current sessions

7. With a view to contributing to the implementation of the Bridgetown Covenant, the sessions of the Multi-year Expert Meeting on Trade, Services and Development will focus on the contribution of trade in services to economic diversification. The catalytic role of services in achieving economic diversification has been widely discussed.⁵ By providing

² See <https://unctad.org/meeting/global-services-forum-2021-services-led-transformation-post-pandemic-recovery>.

Note: All websites referred to in footnotes were accessed in May 2022.

³ TD/541/Add.2.

⁴ See <https://unctad.org/SPRs>.

⁵ See UNCTAD, 2017, *Services and Structural Transformation for Development* (United Nations publication, New York and Geneva).

inputs for a wide range of activities in all economic sectors, services can influence the productivity and competitiveness of downstream activities. One estimate suggests that services can account for up to two thirds of the value in exported manufacturing.⁶ As access to efficient services, including through services imports, can help industries improve their competitiveness or help start-ups build productive capacities, it can contribute to the diversification of productive activities within an economy. Each session of the multi-year expert meeting will address this broad theme from a different angle, taking into account evolutions and developments taking place in the trading environment with regard to services.

8. The present session will address the theme in the context of the ongoing digitalization of services. Experts will examine how digitalization could be a game changer in the participation of developing countries in trade in services and will share experiences in linking digital services trade to economic diversification.

III. Digitalization and trade in services: Key issues

9. Key findings on trade in digitally deliverable services from the UNCTAD study titled “Digitalization of services: What does it imply for trade and development?” are addressed in this chapter. Digitally deliverable services are services that can be delivered remotely over information and communications technology (ICT) networks including, inter alia, ICT services, insurance and financial services, professional services, sales and marketing services, research and development services and education services.⁷

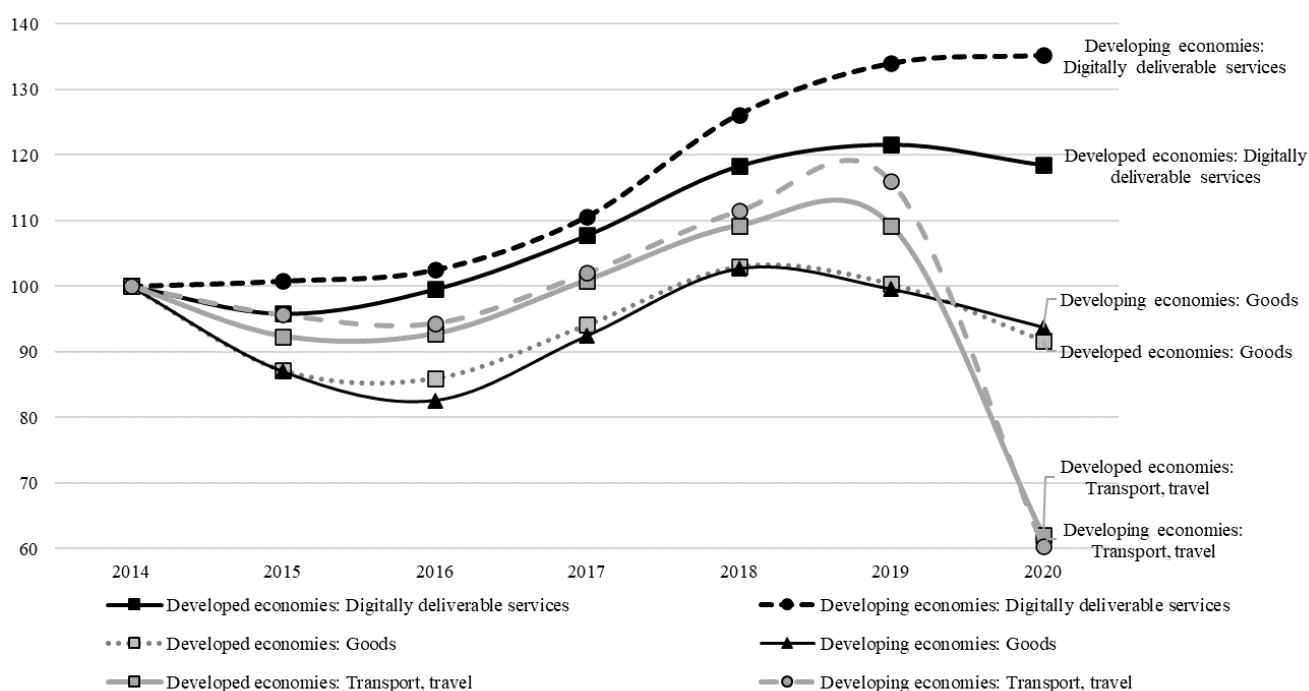
A. Digitally deliverable services exports have proven more resilient during the pandemic

10. Services exports have experienced significant setbacks during the pandemic. For example, in 2020, global travel and transport services exports dropped by 63 and 20 per cent, respectively. In contrast to the general drop in the exports of several services and goods, exports of digitally deliverable services have been more resilient. In particular, in 2020, digitally deliverable services exports from developing countries increased by 1 per cent (see figure). In 2014–2020, digitally deliverable services exports from developing economies grew by 5 per cent annually, in contrast to exports of goods and total services, which each decreased by 1 per cent annually.

⁶ S Miroudot and C Cadestin, 2017, Services in global value chains: From inputs to value-creating activities, Trade Policy Paper No. 197, Organisation for Economic Co-operation and Development.

⁷ See UNCTAD, 2015, International trade in ICT services and ICT-enabled services: Proposed indicators from the Partnership on Measuring ICT for Development, Technical Notes on ICT for Development No. 3, and UNCTAD, 2022a, Digital trade: Opportunities and actions for developing countries, Policy Brief No. 92.

Evolution of exports, 2014–2020 (Index; 2014=100)



Source: UNCTAD calculations, based on data from the UNCTADstat database.

Note: The classification of digitally deliverable services follows that in UNCTAD, 2015.

B. Information and communications technology services are drivers of digitally deliverable services trade

11. The resilience of trade in digitally deliverable services depends on the performance of telecommunications and ICT services. In 2014–2019, exports of such services from developing economies grew by 9 per cent, above the level of exports of total services from these economies in the same period, at 4 per cent. The pandemic has served to accentuate this trend. According to data from the UNCTADstat database, in 2020, exports of telecommunications and ICT services from developing economies grew by 5 per cent, in contrast to a fall by 26 per cent in exports of total services from these economies. Telecommunications and ICT services contribute 4 per cent to the value of global exports in all sectors, including agriculture and manufacturing. The performance of such services depends on several factors. In 2018, according to data from the trade in value added database of the Organisation for Economic Co-operation and Development, the foreign value of activities upstream of ICT services was 22 per cent in member countries of the Organisation and 14 per cent in the non-member countries represented in the database. This indicates the importance of domestic and foreign supplies and, therefore, the need for coherence between trade policies affecting the provision of foreign services and industrial policies shaping the provision of domestic services. The creative economy also influences telecommunications and ICT services (box 2).

Box 2

Creative economy: Digital opportunities

The use of industry 4.0 technologies opens new opportunities for the creative economy. For example, artificial intelligence allows for content customization, used by some online platforms to, for example, personalize music and film preferences; some crafts can now be produced through additive manufacturing (three-dimensional printing); fashion shows can feature apparently invisible models through the use of augmented reality technology; and virtual reality can be used to promote an immersive experience in performing arts and computer games.

The interdependence of the creative and digital worlds is clear. In 2013, creative content generated \$200 trillion in digital revenue globally, encouraging sales of digital equipment and demand for high bandwidth telecommunications services. Creative industries foster digital transformation by pushing demand. At the same time, the use of digital tools can expand the scope, potential and uptake of the creative economy, including with regard to creation, production, distribution and market access. For example, artists can connect with audiences directly through digital platforms.

With increased connectivity, there is scope for greater provision of quality content and higher levels of demand for creative goods and services. Digital data-based analytics allow for the creation and marketing of creative goods and services and the digital transformation allows for new production processes and professions; innovation in products, processes and business models; virtual collaboration; and digital communications.

Source: UNCTAD, 2022b, *Creative Industry 4.0: Towards a New Globalized Creative Economy* (United Nations publication, Geneva).

C. Some developing countries are catching up in trade in digitally deliverable services

12. In 2014–2020, exports of telecommunications and ICT services from developing economies grew by 8 per cent, more than the 7 per cent growth in exports from developed economies. Yet there are important asymmetries between developing regions. In the same period, exports of such services from Asia grew by 9 per cent and from Latin America and the Caribbean, by 5 per cent; and from Africa, declined by 2 per cent. Exports of such services from the least developed countries fell by 8 per cent, according to data from the UNCTADstat database. The differences between developing regions reflect structural differences in services sectors. In 2019, before the pandemic, telecommunications and ICT services accounted for 5 per cent each of exports of commercial services from Africa and Latin America and the Caribbean and for 12 per cent from developing Asia. In the same year, digitally deliverable services accounted for 25 per cent of exports of commercial services from Africa, 30 per cent from Latin America and the Caribbean and 42 per cent from developing Asia (see table). In addition to improving the physical infrastructure for telecommunications and ICT services, regional and international cooperation to improve the human skills necessary for digitally deliverable services would contribute to reducing the gaps between regions.

Distribution of exports of commercial services, 2019
(Percentage)

	<i>Developed economies</i>	<i>Developing economies</i>	<i>Developing Africa</i>	<i>Developing Americas</i>	<i>Developing Asia</i>	<i>Least developed countries</i>
Goods-related	3.7	4.2	2.7	2.7	4.5	5.4
Transport	15.5	20.5	26.6	15.3	20.7	25.3
Travel	20.2	32.6	43.4	48.6	29.7	47.7
Construction	1.3	2.9	2.0	0.1	3.3	2.5
Financial	12.6	6.4	4.2	6.2	6.6	2.0
Intellectual property	9.2	1.7	0.3	0.6	2.0	0.2
Telecommunications and ICT	11.4	10.7	5.2	5.4	11.8	5.6
Other business services	24.3	20.0	14.8	17.6	20.8	10.9
Personal, cultural, recreational	1.7	0.9	0.8	3.6	0.6	0.3
Digitally deliverable	58.6	39.2	24.7	30.1	41.5	18.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: UNCTAD calculations, based on data from the UNCTADstat database.

Note: The classification of digitally deliverable services follows that in UNCTAD, 2015.

D. Trading frameworks for digitally deliverable services have changed

13. Digitalization has transformed the way services are supplied, which is having a transformative impact upon how services trade is framed within the multilateral trading system. The General Agreement on Trade in Services of the World Trade Organization distinguishes four modes of international services supply. For example, the use of digital platforms can help make cross-border marketing and transactions more efficient and cost effective than before, resulting in significant increases in the flow of mode 1 (cross-border supply); streaming technologies allow for services to switch from physical to digital delivery, resulting in a shift from mode 4 (presence of natural persons) or mode 2 (consumption abroad) to mode 1; and services provided by subsidiaries in services consumer countries, or through mode 3 (commercial presence), can now be supplied by digital means, resulting in a shift to mode 1. Increasing digitalization may indicate the need to fine-tune existing trade rules and disciplines based on how services are provided and consumed in the current international trading environment. World Trade Organization members have discussed domestic regulation affecting services and services providers. In this context, in December 2021, a group of 67 members agreed on a joint initiative on services domestic regulation.⁸ Commitments made under the joint initiative by each member will apply to other members, including those that did not participate in the negotiations on the initiative. With regard to electronic commerce, since 2017, 86 members of the World Trade Organization have been participating in discussions on this topic as part of the negotiations on the joint initiative, addressing such areas as customs duties on electronic transmissions, cross-border data flows, data localization, source codes, cybersecurity and online consumer protection and electronic signatures and authentication.⁹

14. Beyond the multilateral trading system, broad-based services liberalization has taken place at the regional level. In particular, the new generation of regional trade agreements is oriented towards deeper and more comprehensive integration with a strong regulatory focus, addressing behind-the-border regulatory measures affecting services, investment and

⁸ See https://www.wto.org/english/tratop_e/serv_e/jsdomreg_e.htm.

⁹ For an in-depth analysis, see UNCTAD, 2021, *What is at Stake for Developing Countries in Trade Negotiations on Electronic Commerce? The Case of the Joint Statement Initiative* (United Nations publication, Geneva).

competition. Such initiatives include the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership. Integration under the African Continental Free Trade Area Agreement is focused on five priority sectors, namely, business services, communications, financial services, tourism and transport.¹⁰ In this context, the services sector in Africa is increasingly important in addressing the challenges related to consolidating trade liberalization processes across the continent into a viable continent-wide framework; and to trading in an increasingly digitalized world. In addition, Governments in Africa may wish to consider the development of value chains through embodied and embedded services.

15. In parallel with regulatory cooperation pursued under formal trade agreements, there are a number of practical ways through which digitally deliverable services trade could be promoted at the bilateral, regional and global levels. Practical approaches could aim at the timely and cost-effective delivery of services by facilitating the movement of information, data, technology and natural and juridical persons, to enable services trade in an increasingly digitalized trading environment by easing regulatory burdens.

IV. Areas for consideration

16. Experts at the ninth session of the Multi-year Expert Meeting on Trade, Services and Development may wish to consider the following questions:

(a) What are some best practices in designing coherent national regulatory frameworks and trade policies in support of ICT services (as the facilitator of trade in digitally deliverable services)?

(b) Are there cases in which bilateral or regional trade agreements or cooperation have contributed to capacity-building in trade in digitally deliverable services?

(c) In which situations has trade in digitally deliverable services contributed to economic diversification, such as through knowledge transfer, training or online education or by increasing market reach beyond a geographical boundary?

(d) Which services sectors should be addressed at future sessions of the multi-year expert meeting in the context of the role of services trade in economic diversification?

¹⁰ See Economic Commission for Africa, 2021, *Assessing Regional Integration in Africa X: Africa's Services Trade Liberalization and Integration under the African Continental Free Trade Area* (United Nations publication, Sales No. E.21.II.K.2, Addis Ababa).