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BEIJING SUMMIT
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SERVICES: A NEW FRONTIER FOR SUSTAINABLE DEVELOPMENT
服务业：可持续发展的新领域

BACKGROUND NOTE

HIGH-LEVEL SESSION 1

SERVICES AND JOB CREATION

28 MAY 2013; 9:30-12:30

DRAFT FOR DISCUSSION



Introduction

1. The services sector has gradually become the world's main sector for employment. Many more jobs have been created in the services sector in recent years than in any other sector. During the last decade, the employment share of services climbed up to 44 per cent. Many services jobs are directly or indirectly linked to international trade. Services trade has increased substantially over recent years and is expected to outperform growth rates in merchandise trade as well as GDP growth. A fact that has been contributing to this development is the increased tradability of services, mainly due to technological progress. IT, accounting or secretarial services, for example, can be offshored. Travel costs have also decreased. Furthermore, the services content of manufacturing has been steadily increasing and many manufacturing companies outsource services activities. Some of these are offshored contributing to international services trade.

2. The indirect link between services employment and trade is through trade in goods for which domestic services are used as inputs. The importance of this effect is underlined by new approaches to measure trade where value addition is considered rather than gross exports. The share of services in trade in value added terms is much higher than gross trade of services. Services accounts for 45 per cent of world value added trade. Consequently, more services companies and employees are engaged in trade than previously thought.

3. An important question is the effect of trade on employment. Most of the research as well as the policy discussion have focused on the manufacturing sector (see e.g. Winters et al 2005 and McMillan, 2011). A recent ILO/UNCTAD publication (Cheong et al, 2013) assesses the link between trade in agriculture and employment. Services trade emerged later on the international policy agenda and, partly due to lack of good data, less is known about its effects on employment. This note assesses the link between trade in services and employment.

4. Trade plays a prominent role in strategies to promote job creation. Policies aim to enhance countries' competitiveness in order to increase exports and to break into global value chains to generate employment or to replace imports and to reshore production so that jobs come back. Current high unemployment levels especially for the youth underline the importance of job creation. Furthermore, trade has also been linked in the policy and academic debate to a decreasing inequality between many countries and to an increasing income inequality within many countries. In modern economies, services play a growing role. An efficient and productive services industry contributes significantly to productivity growth and is crucial for the overall competitiveness of an economy including in manufacturing and agriculture. Integrating into the global services economy is crucial for the development prospects of many developing countries. However, many developing countries are lagging behind and only few developing countries, so far, managed to become a global supplier in services.

5. In the public, the perception of negative labour market effects of international trade is frequent. Concerns, in developed and developing countries over the loss or relocation of jobs and a race to the bottom regarding job conditions are widespread. In addition, due to the specific nature of services, concerns about liberalization and the

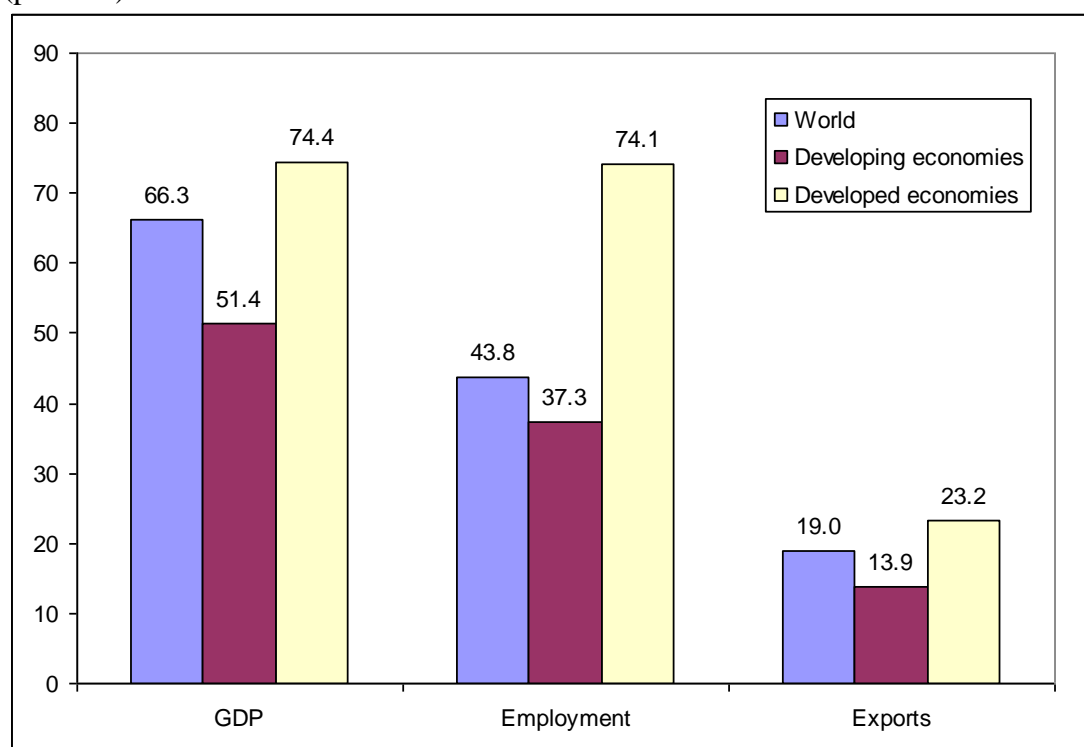
effects on universal access, concentration, maintaining traditions, inequality and strategic importance of certain sectors exist.

6. To discuss the link between trade in services and employment the note is organized as follows. Section II discusses developments in trade and employment in services. Section III discusses the link between trade and employment in services and Section IV concludes and aims to identify policies that are supportive for job creation in services in developing countries.

I. Services Sector in the Globalized World Economy: Stylized Facts

7. Services sector has been the main economic activity and source of employment in the world economy for decades. It accounts for around 2/3rd of the world output and slightly less than half of the world employment in 2011 (figure 1). As the sector's global output reaches up to \$40 trillion, it provides employment for 1.4 billion people in the world. Significant differences between developed and developing countries exist. The sector occupies significantly larger share in developed economies compared with developing countries in which it rises above 74 per cent in both share of GDP and employment in the former group of countries. In developing countries services account less than half of the economic activity with the exception of developing countries in America (62 per cent). Main macroeconomic indicators also show steadily increasing role of services sector in the world economy, again, stark contrasts in trends can be observed between developed and developing countries as well as different regions of the developing countries.

Figure 1: Share of Services Sector in GDP, Employment and Total Exports, 2011 (per cent)



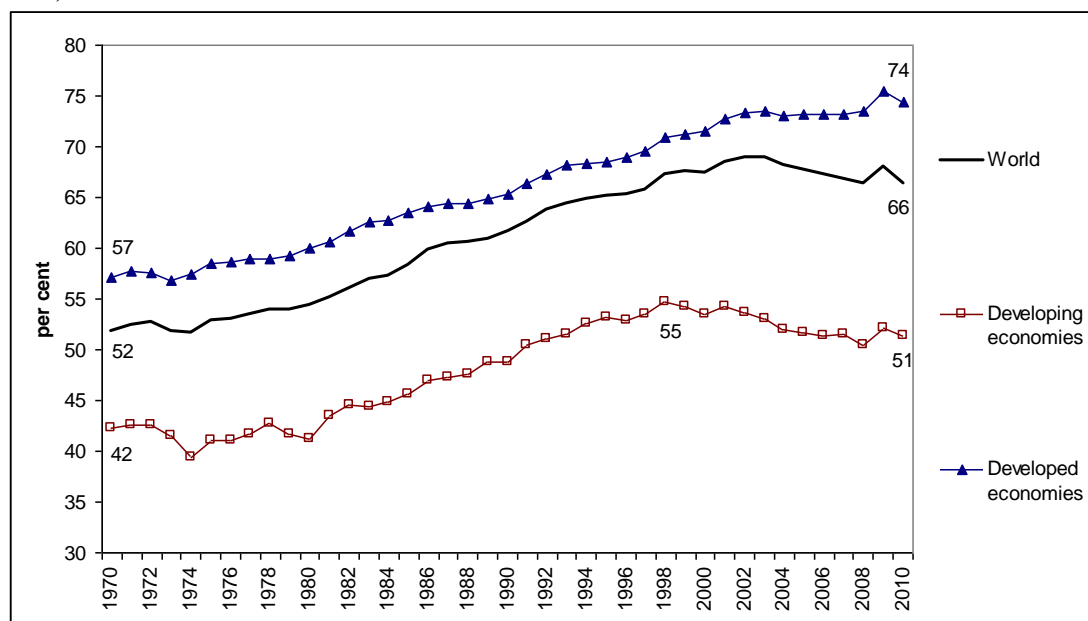
Sources: UNCTADStat, ILO Global Employment Trends 2012

Note: 2010 figures were used for GDP statistics.

I.1. Services as the Leading Economic Activity

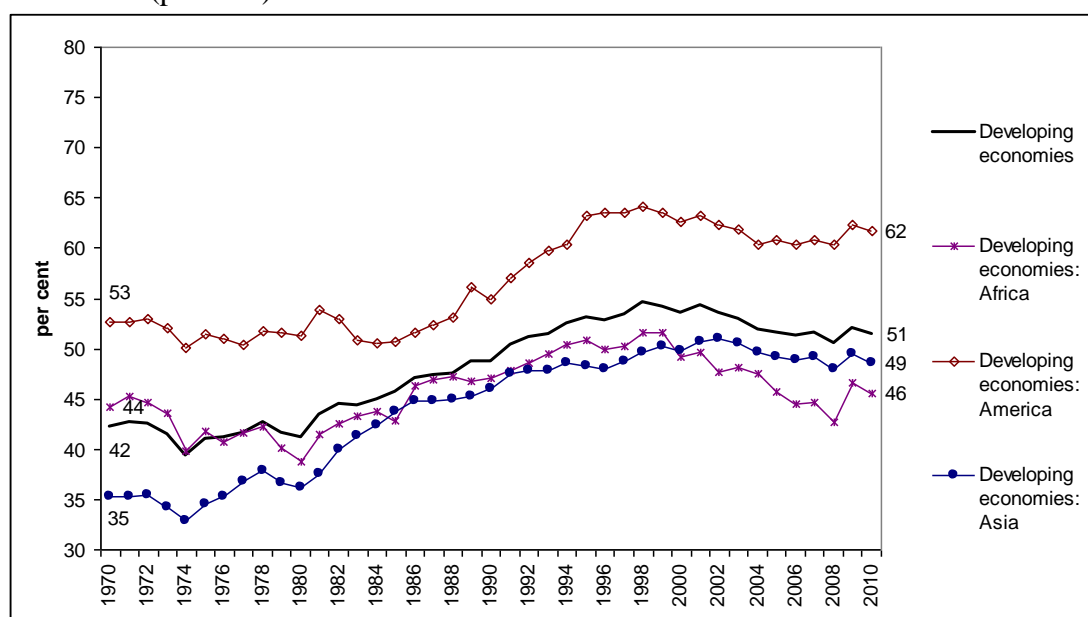
8. Services sector has become the leading economic activity in the world economy. Its contribution to GDP has steadily increased in developed countries during the last 40 years (Figure 2). Throughout this period, the sector registered 17 percentage point increase from 57 per cent in 1970 to 74 per cent in 2010. Services sector exhibited similar upward pattern in developing countries until the end of 1990s when it revert back to stagnation and then to retreat in 2000s.

Figure 2: Share of Services Sector in GDP by Development Status, 1970-2010 (per cent)



Source: UNCTADStat database

Figure 3: Share of Services Sector in GDP in Developing Countries (by Region), 1970-2010 (per cent)



Source: UNCTADStat database

9. All different regions of developing countries followed more or less similar paths of development in services share in GDP until the late 1990s with strong growth of services in all regions (figure 3). During the last 10 years, however, in Asian developing countries the share of services in GDP had been stagnant while it has been falling in all other developing country groups. As of 2010 developing countries in America still hold the greatest share of services in GDP among all developing countries while developing countries of Asia registered the greatest leap in the sector's share during the last 4 decades, 14 percentage points increase.

I.2. Employment Trends in Services: Shift Between Sectors

10. Employment shares of services have shown similar trend as output trends. The services sector has been gradually becoming the world's main sector for employment (Table 1). During the last decade, employment share of services climbed up to 44 per cent while the share of agriculture fell to 34 per cent. In developed countries the sector now accounts for almost three-quarter of employment. In developing countries the employment share is considerably smaller but increased at the expense of employment in agriculture to 37 per cent. The increase in employment in the industry sector in developing countries against the global trend reflects the importance of industry exports, domestic investment policies and developing countries' main role in global supply chains whereby industrial production processes are increasingly done in developing countries. Few developing countries have successfully extended their services exports.

11. With more than 60 per cent employment in services the sector is particularly important in Latin America and the Caribbean, and to lesser degree in Middle East and North Africa. In Asia (except Middle East) and Sub-Saharan Africa agriculture still captures a significant share of employment. In Sub-Saharan Africa agriculture still employs more than 60 per cent of the total employment as the region's stalling services export performance do not generate robust employment growth yet. However, in all regions, except North Africa, the share of services employment has increased during the last decade.

Table 1: Distribution of Employment by Sector, per cent

	2000			2011		
	Agriculture	Industry	Services	Agriculture	Industry	Services
World	40.5	20.4	39.1	34.1	22.1	43.8
Developed Economies	5.5	27.3	67.3	3.8	22.1	74.1
Transition Economies	25.8	24.7	49.6	20.0	26.3	53.8
Developing Economies	49.3	18.6	32.2	40.9	21.8	37.3
East Asia	47.6	23.4	29.0	35.4	28.2	36.4
South-East Asia and the Pacific	49.7	16.4	33.9	43.1	18.4	38.5
South Asia	59.5	15.6	24.9	51.0	21.0	28.1
Latin America and the Caribbean	20.5	21.6	57.9	16.0	22.0	62.0
Middle East	22.4	24.3	53.3	16.7	25.6	57.6
North Africa	30.5	19.4	50.1	28.5	21.9	49.7
Sub-Saharan Africa	66.3	7.9	25.9	62.0	8.5	29.5

Source: ILO Global Employment Trends 2012

12. Services have also become the largest provider of jobs to women. The sector absorbed 48 per cent of women in the workforce in 2011, as compared to 41 per cent in 2000. In 2000, agriculture was the main employer of women but its share declined to 35 per cent in 2011. The industrial sector employs 17 per cent of women in 2011. Regional data show significant variation. The services sector was the main employer of women in developed countries (63.6 per cent), Latin America and the Caribbean (78.2 per cent), the Middle East (59.4 per cent) and North Africa (52.5 per cent). Agriculture remained the most important sector in sub-Saharan Africa and South Asia (62.6 and 68.6 per cent respectively, in 2011).¹ In many developing countries, the more traditional, non-tradable, low-productivity services with reduced capital accumulation potential, such as small retail trade, restaurants, and personal services, have accounted for the increasing share in employment of women.

13. Creation of productive employment and distribution of income are essential for achieving poverty reduction and sustainable and inclusive development. Addressing inequality and employment has become increasingly important. The

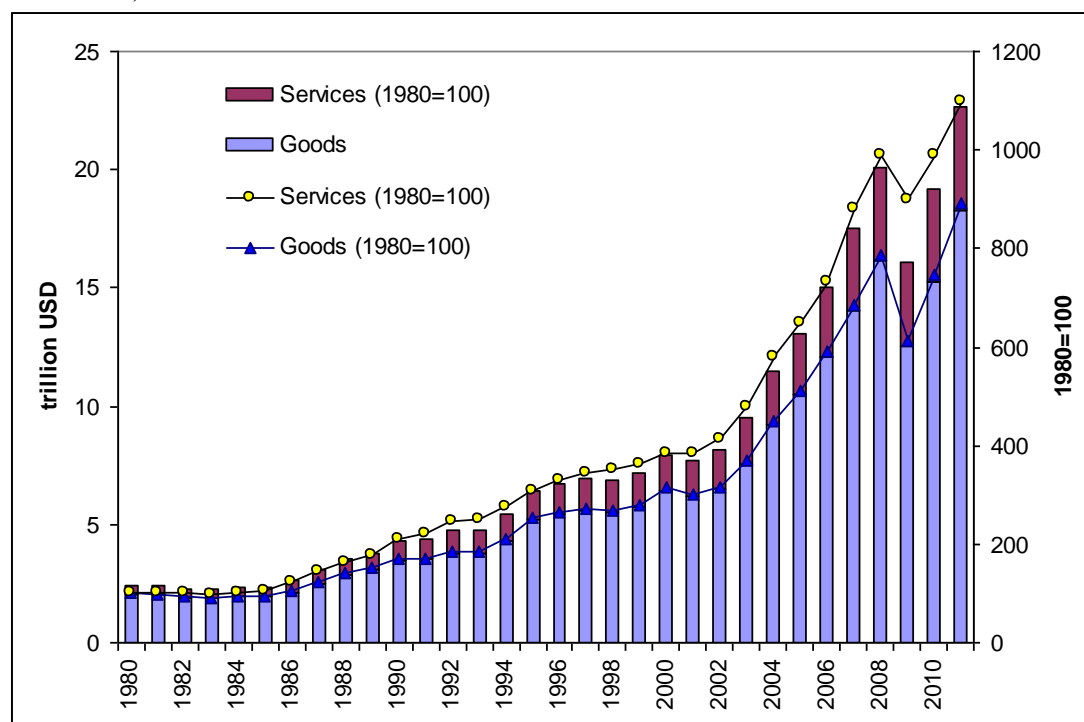
¹ ILO (2013). *Global Employment Trends 2013: Recovering from a second jobs dip*. Geneva.

global youth unemployment rate, estimated at 12.6 per cent in 2013, is close to its crisis peak. 73 million young people are estimated to be unemployed in 2013.² At the same time, informal employment among young people remains pervasive and transitions to decent work are slow and difficult.³

I.3. Trade in Services Increasing

14. Services gross trade, which stood at \$4.4 trillion in 2011, accounts for a considerably smaller share of global trade than goods trade, less than 1/5th of world exports in goods and services (figure 1). The share falls even further down to around 14 per cent in developing countries. However, services trade has been an important engine for export growth (figure 4). During the last 3 decades value of global commercial services (total services minus government services) achieved 8.5 per cent annual growth rate by outpacing 7.8 per cent growth rate of goods trade. Thus, commercial services raised its share in world trade from around 16 per cent in 1980s to 19 per cent in 2011.

Figure 4: World Exports of Goods and Services, 1980-2011 (trillion USD and 1980=100)

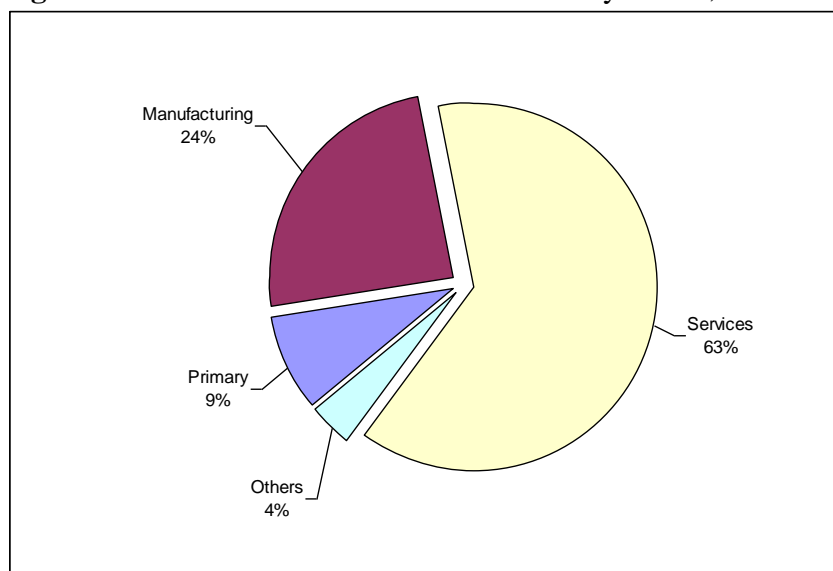


Source: UNCTADStat

15. Measuring true extent of trade in services is often difficult and official trade figures may underestimate the real share of services in world trade. According to UNCTAD world FDI inflows figures services receives 63 per cent of world investment in direct investments during the 2008-10 period, rather close to its share in world GDP but significantly greater than its share in world trade (figure 5).

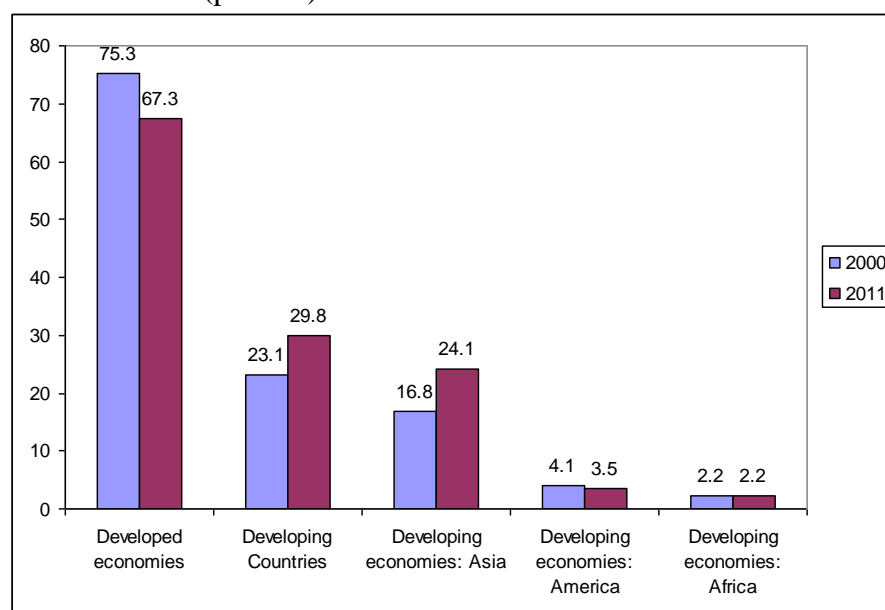
² ILO (2013). Global Employment Trends for Youth 2013.

³ ILO (2013). Global Employment Trends for Youth 2013.

Figure 5: Distribution of World FDI Inflows by Sector, 2008-10 (per cent)

Source: UNCTAD World Investment Reports annex tables. (Others include purchase or sale of properties and unspecified items.)

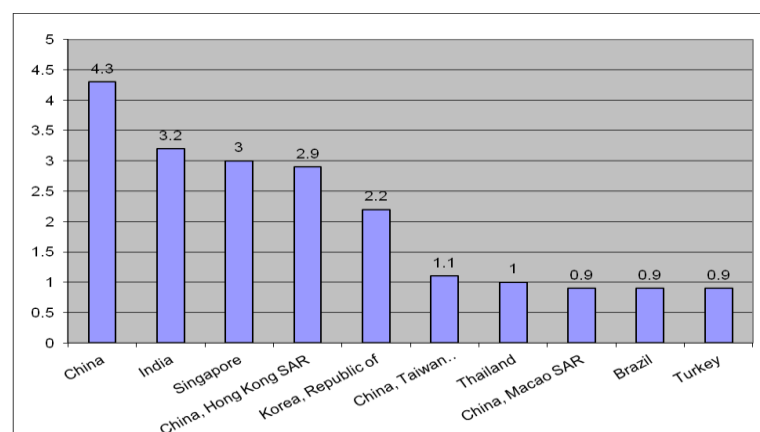
16. Services exports has been increasingly becoming an important source of external revenues for some developing countries as the sector registered 13.9 per cent annual services export growth, faster than developed countries during the last decade (9.8 per cent). Particularly in Asian developing countries, services export growth rate reaches to 15 per cent per year, faster than both African (11.1 per cent) and American developing countries (9.8 per cent) growth rate. Better performance led to increase in developing countries share in world services exports from 23.1 per cent in 2000 to 29.8 per cent in 2011 (figure 6). Nevertheless, only Asian developing countries as a group managed to increase their global market share leaving other developing countries either with the same or smaller market shares.

Figure 6: Distribution of Total Services Exports by Development Status, 2000 and 2011 (percent)

Source: UNCTADStat

17. Few developing countries, so far, managed to become a global supplier in services; China and India are the leading services exporters among developing countries followed by Singapore and Hong Kong (China) (figure 7). In fact, just ten developing countries produce almost 70 per cent of the developing countries services exports in 2011, which corresponds to 20.4 per cent of the global total. Top 10 developing countries used to provide much smaller share, 58 per cent, of the developing countries services export in 2000.

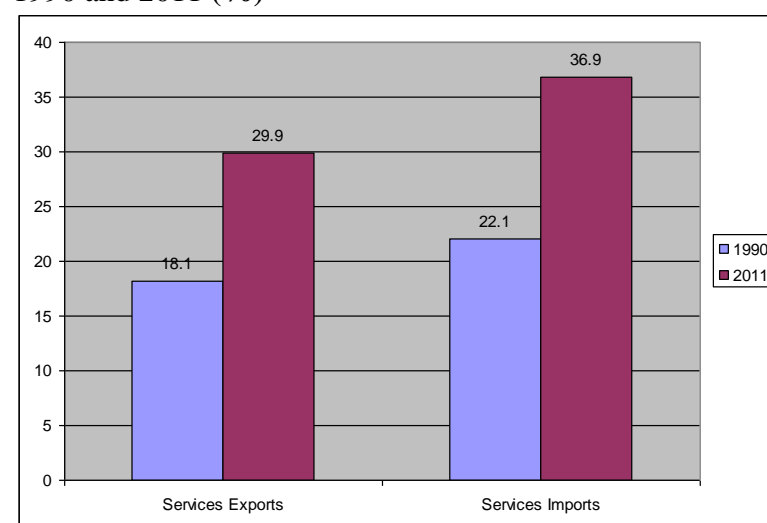
Figure 7: Top 10 Services Exporting Developing Countries and Share in World Trade, 2011 (percent)



Source: UNCTADStat

18. The share of developing countries services imports in world imports has increased to 37 per cent (figure 8). The robust increase in services imports has widened services trade deficits in many developing countries. In LDCs this figure increased to almost half of their volume of services trade.

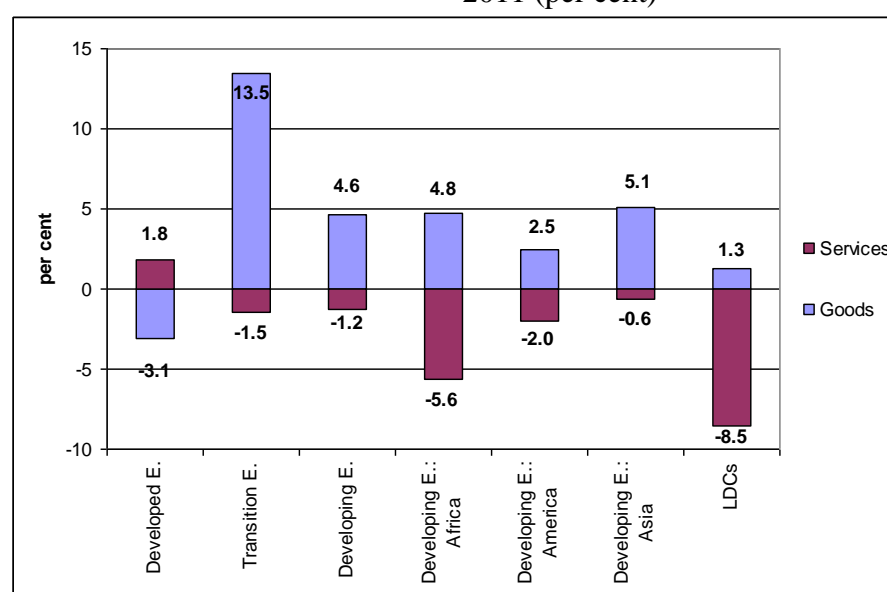
Figure 8: Share of Developing Countries in World Services Exports and Imports, 1990 and 2011 (%)



Source: UNCTADStat

19. Trade balance in goods and services statistics across different country groupings reveal stark contrasts particularly between developed and developing countries which resemble a trade pattern in line with the product cycle theory. As the theory would predict, developed countries have been concentrating on more sophisticated processes of production as well as trade in services while most developing countries deepening their export basis mostly on lesser sophisticated processes and merchandise products. Indeed, developed countries registered trade deficit in goods trade which was partially closed by trade surplus in services. All regions of the developing countries posted trade surpluses in merchandise trade but trade deficits in services in 2011, including LDCs (figure 9). As a whole developing countries registered \$218 billion deficit in service trade. Developing countries trade surplus in goods reaches up to 5 per cent of goods and services trade in Africa and Asia. Services trade deficits rises up to around 9 per cent in LDCs and 6 per cent in African developing countries.

Figure 9: Goods and Services Trade Balance as a Share of Total Trade Volume, 2011 (per cent)



Source: UNCTAD calculations based on UNCTADStat database.

20. Services trade deficit is not a temporary phenomenon for many developing countries as only few developing countries managed to improve their balance during the last 4 decades (table 2). With the exception of some Asian developing countries most developing countries registered small progress at best in closing the gap in services trade.

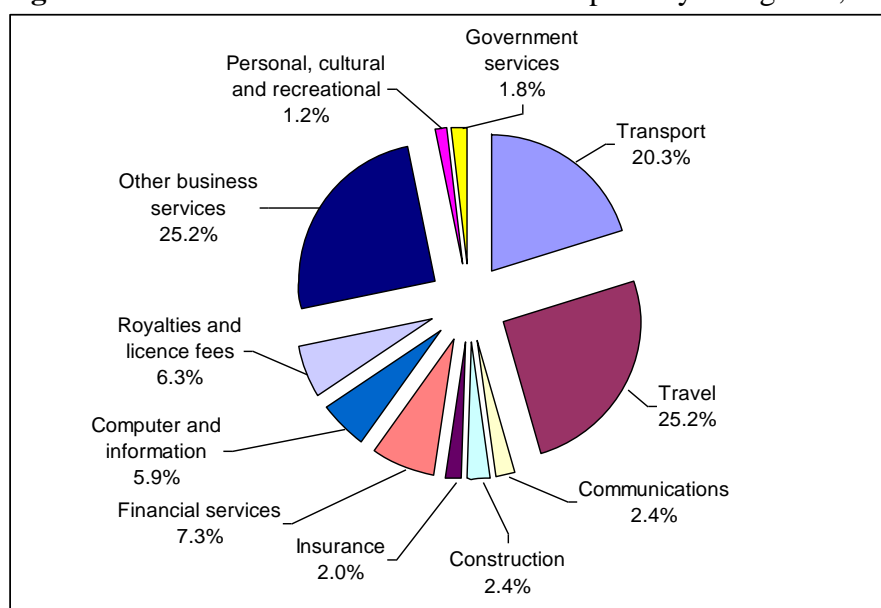
Table 2: Share of Services Trade Balance in Total Trade Volume 1980s-2011 (per cent)

	1980s	1990s	2000s	2010-2011
Developed economies	0.5	0.6	1.1	1.8
Transition economies	-2.4	-2.3	-1.5	-1.5

Developing economies	-4.1	-1.9	-1.1	-1.2
Developing economies: Africa	-5.5	-3.4	-3.1	-5.3
Developing economies: America	-2.6	-2.0	-1.0	-1.8
Developing economies: Asia	-4.2	-1.7	-0.9	-0.6
Least developed countries	-9.2	-9.4	-8.2	-8.7

Source: UNCTAD calculations based on UNCTADStat database.

Figure 10: Distribution of World Services Exports by Categories, 2011 (%)

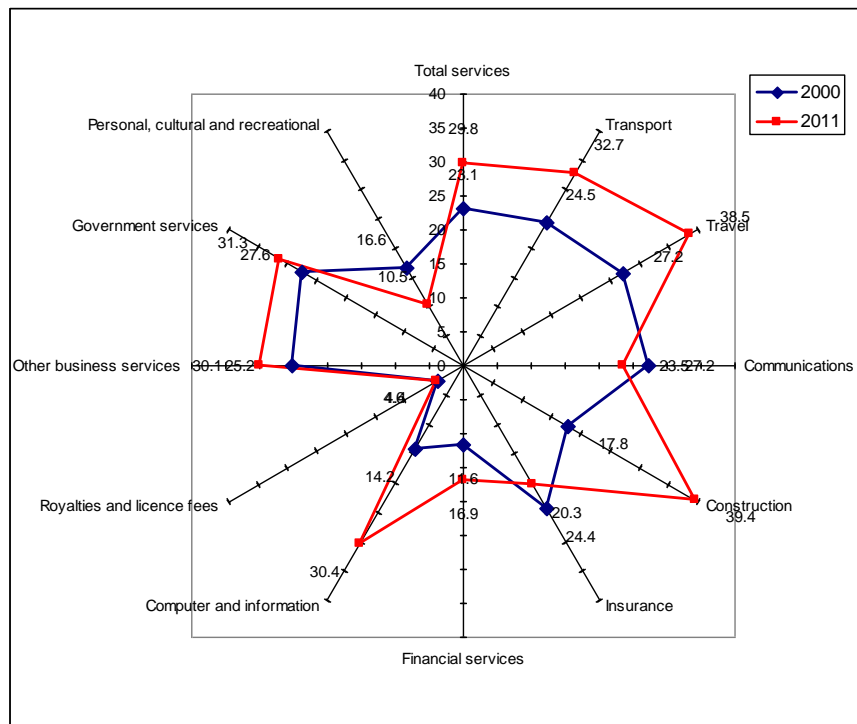


Source: UNCTADStat

Services Trade at Sectoral level

21. Travel, transportation and other business services are the three major services sub-categories (figure 10). Together these three occupy more than 70 per cent of the global services exports. Other business services is a large category which includes diverse economic activities from merchanting and other trade-related services, to professional and technical services such as legal, advertising, consulting, accounting and R&D. Together with computer and information services, other business services are emerging as the fastest growing services activities.

Figure 11: Share of Developing Countries in World Services Exports by Category, 2000 and 2011 (%)



Source: UNCTADStat

22. Developing countries account around 30 per cent of the world services exports (figure 11). The share climbs up to almost 40 percent in construction and travel services in which developing countries gained significant rise in market share during the last decade. There is a noticeable increase in developing countries share in computer and information services exports from 14.2 per cent to 30.4 per cent as well.

I.4. Factors Contributing to Increasing Importance of Services

23. The fragmentation of production, prompted by more liberal trade environment and lower transport and communication costs, and technological progress has also led to a “servicification” of manufacturing which led to higher trade in services. Four main factors contribute: production in different locations require higher transport and logistics inputs; regulatory requirements such as recycling increased; strategic decisions such as outsourcing of IT and management services; and an increase of the relative importance of services such as research and marketing in the production process.

24. Accounting for the direct and indirect domestic and foreign value added content of gross exports, the share of services trade in total goods and services exports increases to 46 per cent (table 3). Much of the services trade is invisible since it appears as trade in goods. For example, to produce a car, banking, IT and transport services are used. Some are imported (23 per cent) while others are domestic inputs (77 per cent). The content of services in gross exports is 50 per cent in developed countries, significantly higher than in developing countries. Manufacturing exports

include 34 per cent services in developed countries and 26 per cent in developing countries. In agriculture the shares are lower.⁴

Table 3: Services Industry Value Added Embodied in Gross Exports, percent

	All countries	Developed	Developing
Total (incl. services)	46	50	38
Agriculture	23	28	15
Manufacturing	31	34	26

Source: UNCTAD calculation based on WTO-OECD database

25. Several factors contribute to the increasing share of services in employment. These factors are technological changes that increase demand for labour in services; outsourcing of services related activities from manufacturing to specialized services firms (inter-industry division of labour); growing role of services as providers of intermediate inputs (the share of services in intermediate trade in goods and services trade has increased between 1995 and 2009 from 24 per cent to 28 per cent, whereas the share of industrial goods supply-chain trade decreased from 61 per cent to 52 per cent⁵); increase in final consumer demand for services as a result of rise in per capita income; demographic developments; the provision of certain services as public goods; and low productivity growth in services. Of these, the real shift in final demand towards services, the role of income growth as well as productivity changes have been identified as the major driver. Rise in per capita incomes increases demand for services more than proportionately. The lower mechanization of many services makes services more expensive relative to agriculture and industry, and thus increases its share in GDP, and continues to exhibit strong labour demand while employment in agriculture and industry declines.

26. The persistent services trade deficits as well as the small share of services in world exports in many developing countries is striking. UNCTAD (2013)⁶ attempts to assess the importance of human and physical capital as contributing factors to this situation. They find that a revealed comparative advantage in services is correlated with a higher human and physical infrastructure. This suggests that a strategy to integrate into the global services economy requires a carefully designed policy that addresses weaknesses in physical and human capital.

⁴ The high share of services content in exports of goods and services demonstrates the importance of an efficient services sector. Both domestic and foreign services are important. In developed and developing countries, the foreign services value added embodied in their gross exports is about 11 per cent.

⁵ Baldwin, R.: Supply-chain trade: A portrait of global patterns. Presentation at Graduate Institute 2012.

⁶ UNCTAD (2013). Trade in Services and Employment, *UNCTAD Series on assuring development gains from the international trading system and trade negotiations*, forthcoming.

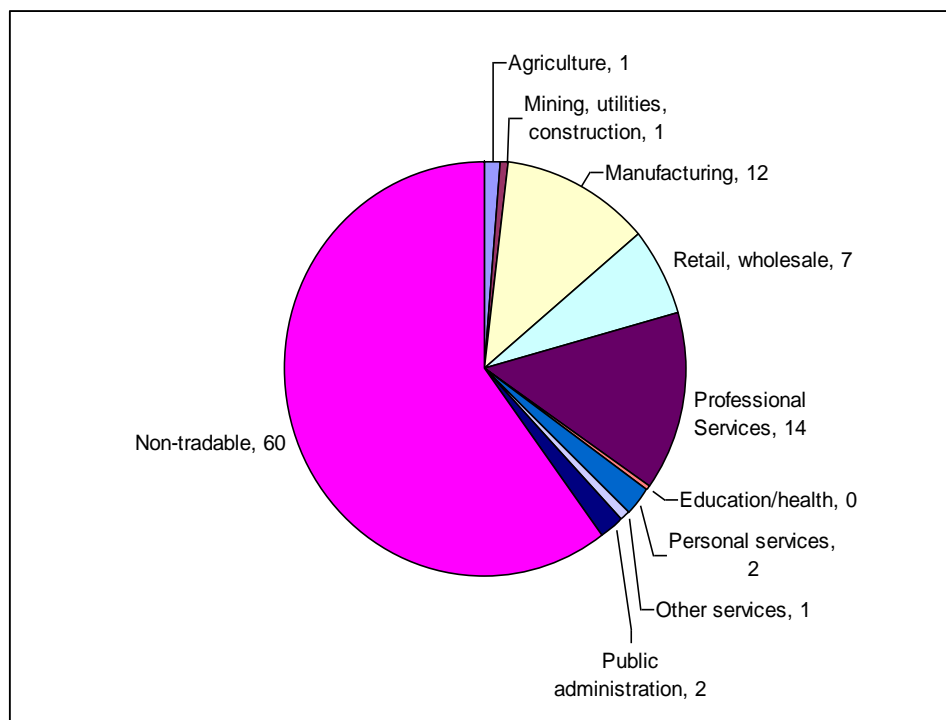
II. Trade and Employment Linkages in Services: High Potential but Challenging for many Developing Countries

27. The increasing importance of services in output, trade and employment, as opposed to scarce knowledge about their linkages, emphasizes the need for increased research in this area.

II.1. Tradability, Offshoring and Investment in Services

28. In high-income countries, growing concern exists that services offshoring will lead to domestic job losses, including high-wage jobs. The high share of employment in tradable services fuels this concern. A study on the United States found that 40 per cent of total employment in the country is in tradable industries (figure 12). Some large services sectors, e.g. health care and public administration, have a small share of employment in tradable industries. Nevertheless, since the overall services sector is larger than the manufacturing sector, a higher number of jobs in services sectors are potentially exposed to international trade. Furthermore, some intermediate input production in services in non-tradable industries (e.g. computer programming in banking) may be tradable even if the industry is not. Tradable services jobs represent relatively more high-education and high-wage positions than non-tradable activities.

Figure 12: Tradable Industries' Share of Employment (Percentage)



Source: Jensen JB and Kletzer LG (2006). *Tradable services: Understanding the scope and impact of services outsourcing*. Working Paper No. 05-9. Institute for International Economics.

29. Research, based on the premise that tasks that can be offshored are often complementary to tasks that cannot, and thus cannot as easily be offshored as initially thought, found that between 20 and 29 per cent of all jobs in major economies could

be potentially offshored.⁷ A significant share of jobs in the services sector is tradable, contrary to the belief that services jobs are mostly non-tradable.

30. In the United States, evidence suggests negative impact of offshoring services on employment in manufacturing and services industries when employment in disaggregated industries is considered, but this effect disappears when industries are aggregated into broader sectors, indicating that workers who lose their job in one industry move to another growing industry. Similarly, for the United Kingdom of Great Britain and Northern Ireland, jobs displaced by services outsourcing are likely to be offset by new jobs.⁸

31. Distinguishing between different skill levels, evidence indicates that services offshoring changes the composition of employment in favour of high-skilled workers in developed countries as low skill-intensive services are offshored to developing countries. But educated high-skill workers can also face competition from educated, lower-paid high-skill services workers from developing countries. However, taking into account sales of services produced in developed countries to unaffiliated buyers in China and India, the net effect in developed countries is likely to be positive though small. Services offshoring appears to have had little effect on employment levels in developed countries. Negative relocation effects appear to have been mostly offset by indirect positive effects on workers in other sectors or with different skill levels.

32. Offshoring is an opportunity for developing countries. In South Asia, growth in the services sector outpaced that of other sectors between 1995 and 2009. The main sectors with significant employment growth are construction, tourism, retail trade, health care and IT business process outsourcing. Employment creation has also been favourable compared to other sectors and regions since 2000, indicating that services growth contributed to services employment growth. However, employment growth in services was not commensurate with that of output growth as employment elasticity is relatively low in the region. UNCTAD research⁹ also suggests that the link between trade growth and employment creation is relatively small in services compared to the agricultural and industrial sectors.

33. Employment generation from services FDI is also smaller than in other sectors. Data for Japan, Germany and the United States reveal that the share of outward stocks in services is higher than the corresponding employment share. However, FDI is still considered to generate employment in host countries and the job-creation effect is increasing with the rise of export-oriented services. Services FDI has increased disproportionately in recent decades (figure 13), representing a large share of services trade. FDI inflows into developing countries account for 37 per cent of world FDI inflows in services (2008–2010), an increase from 19 per cent in 1990–1992. Furthermore, indirect effects through high-quality services from multinational enterprises and resulting positive employment effects in upstream industries in host countries contribute to employment creation. Dee et al.¹⁰ show that a 50 per cent

⁷ Lanz R., Miroudot S and Nordas H (2012). Trade in tasks. In: Lippoldt D (ed.). *Policy Priorities for International Trade and Jobs*. OECD, Paris: 237–248.

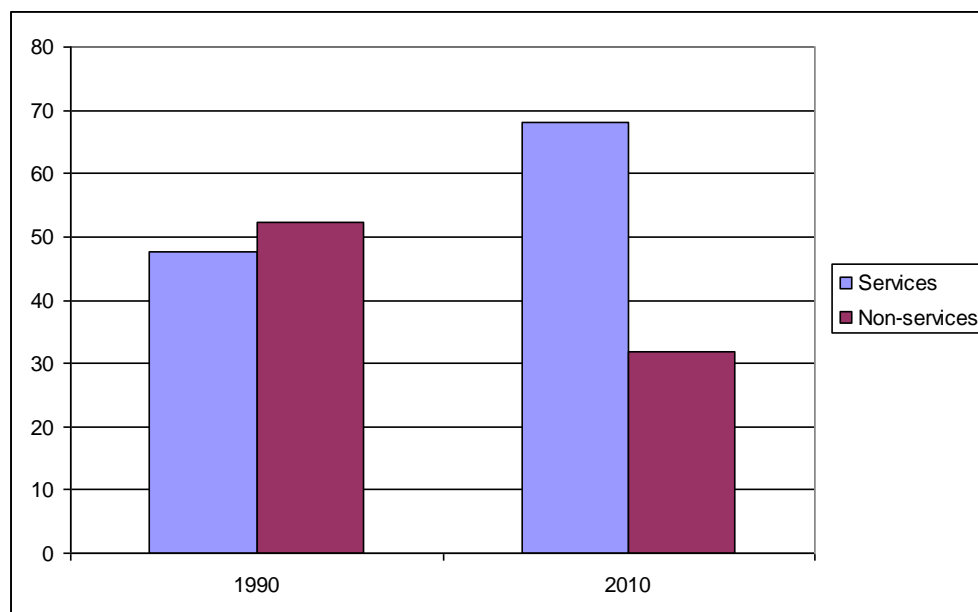
⁸ Amiti M and Wei S-J (2009). Service offshoring, productivity and employment: Evidence from the United States. *The World Economy*. 32(2):203–220; Amiti M and Wei S-J (2005). Fear of services outsourcing: Is it justified? *Economic Policy*. April: 308–347.

⁹ UNCTAD (2013, forthcoming). Trade in services and employment. Geneva.

¹⁰ Dee P, Francois J, Manchin M, Norberg H, Nordås HK and van Tongeren F (2011). The impact of trade liberalization on jobs and growth: Technical note. Trade Policy Working Papers No. 107. OECD.

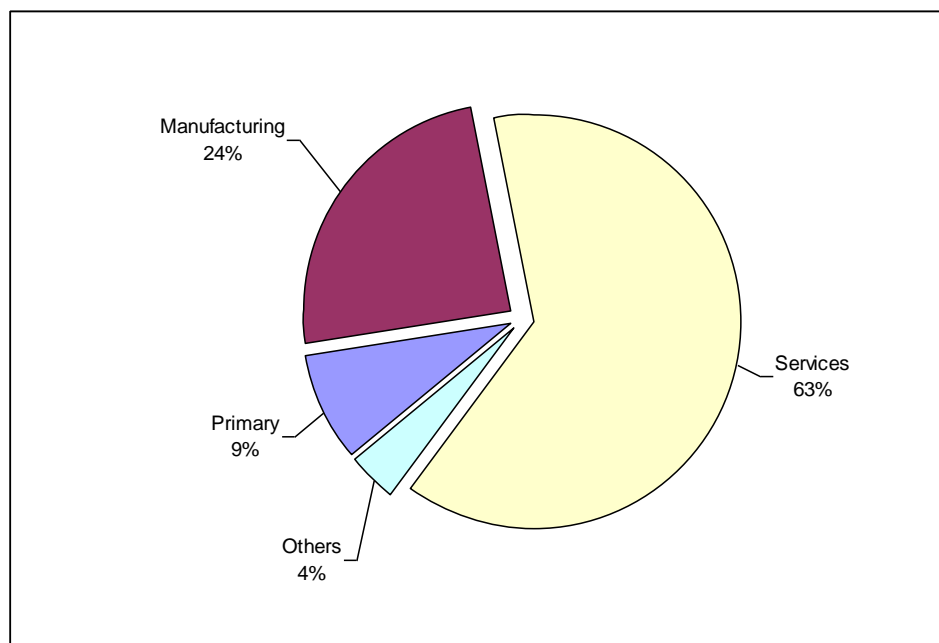
liberalization of investment in services could create employment of up to 1.4 per cent in countries with restrictive sectors for skilled labour and 1.2 per cent for unskilled labour.

Figure 13: Share of Services FDI Outward Stock in 1990 and 2010, (Percentage)



Source: UNCTAD (2012). *World Investment Report, database annex tables*. See <http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx> (accessed 28 December 2012).

Figure 14: Distribution of World FDI Inflows by Sector, 2008–2010



Source: UNCTAD (2012). *World Investment Report, database annex tables*. See <http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx> (accessed 28 December 2012).

34. Evidence suggests that India is the greatest net beneficiary from offshoring. In 2007 IT-enabled services and business process offshoring accounted for 553,000 jobs and the software exporting sector employed another 270,000 people. Although these are high-paid jobs, the numbers are relatively small compared to the size of the increasing workforce in India. Concerns over high geographical concentration, small linkages to the rest of the economy and low innovation have been raised. Similarly, in Peru employment effects from exports in engineering, consulting, logistic and computer-related services are expected to be concentrated in Lima and on skilled workers, with limited indirect economy-wide benefits.

35. In Nicaragua, employment effects and indirect economy-wide positive effects have the potential to be significantly positive in telecommunications, financial, road transportation and tourism services. The business process outsourcing sector has been identified as a key sector for high-skilled jobs and exports in Uganda. Several developing countries have been successful in expanding services centres, including call centres.

36. Potentially negative effects for employment and poverty could come from liberalization of the distribution sector. The distribution sector in Uganda, for instance, absorbed 10 per cent of the workforce, composed mainly of low-skilled workers. Liberalization could lead to crowding out small stores with potential for severe social impact.

37. Growing offshoring and the high tradability of services tasks and jobs create opportunities for developing countries to create productive employment. Services jobs are often better paid, and increasing productivity and efficiency in services sectors will have positive impact on employment in other sectors. Because of scale and indirect effects, there is little evidence to suggest that jobs created in developing countries would be lost in countries where companies offshore. However, challenges are manifold. Skill gaps, poor infrastructure and high entry barriers prevent many developing countries from benefiting from trade in services and offshoring. Requirements in education and language skills are high so that only a small proportion of young professionals are available for export-oriented services offshoring companies.

II.2. The link Between Value Added Trade and Employment in Services

38. Gross export figures do not represent value addition since many imported intermediate goods and services are used. Gross trade may therefore not be linked closely to employment.

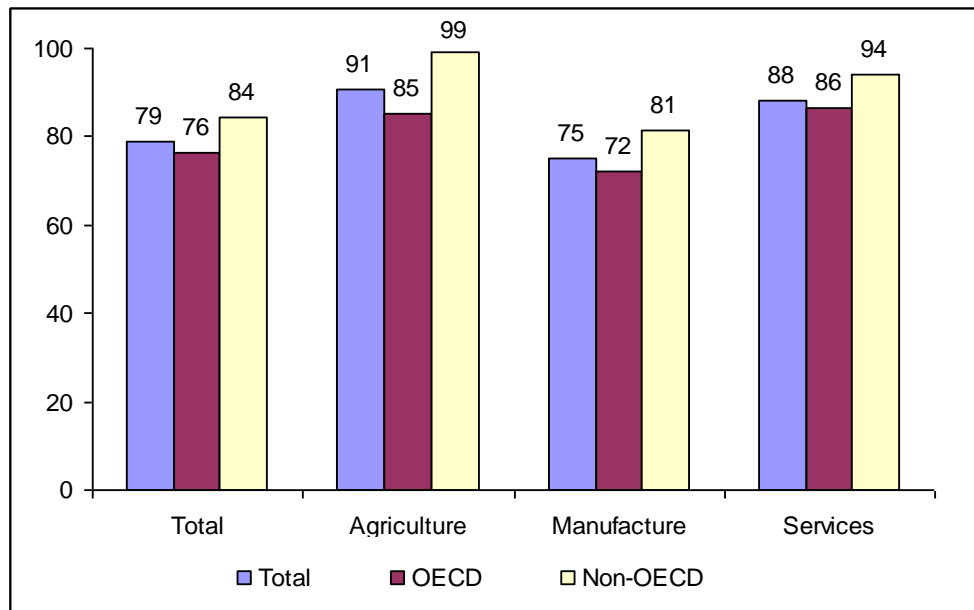


Figure 15: Domestic Value Added Share of Gross Exports (2009), (Percentage)

Source: UNCTAD, based on WTO-OECD TiVA database.

39. The WTO-OECD TiVA database, which provides data on domestic value added content of exports, shows that the average domestic value added share of gross exports was 79 per cent in 2009 (figure 15); i.e. the remaining 21 per cent were imported intermediates. On average, developing countries add more value to their exports than developed countries. The latter are more deeply integrated into GVCs. Trade in GVCs is highly regionalized, with North America and Europe being major clusters. Furthermore, developed countries often produce more sophisticated products requiring more intermediate goods.

40. The domestic value added share is highest in agriculture and lowest in manufacturing. In services, 88 per cent of exports are domestic value addition, with a higher share in developing countries than in developed countries. High foreign input shares are observed in core manufacturing subsectors: electrical and optical equipment (33 per cent), transport equipment (30 per cent), machinery and equipment (24 per cent), other manufacturing and recycling (23 per cent), as their production and trade structures are relatively dominated by GVCs.

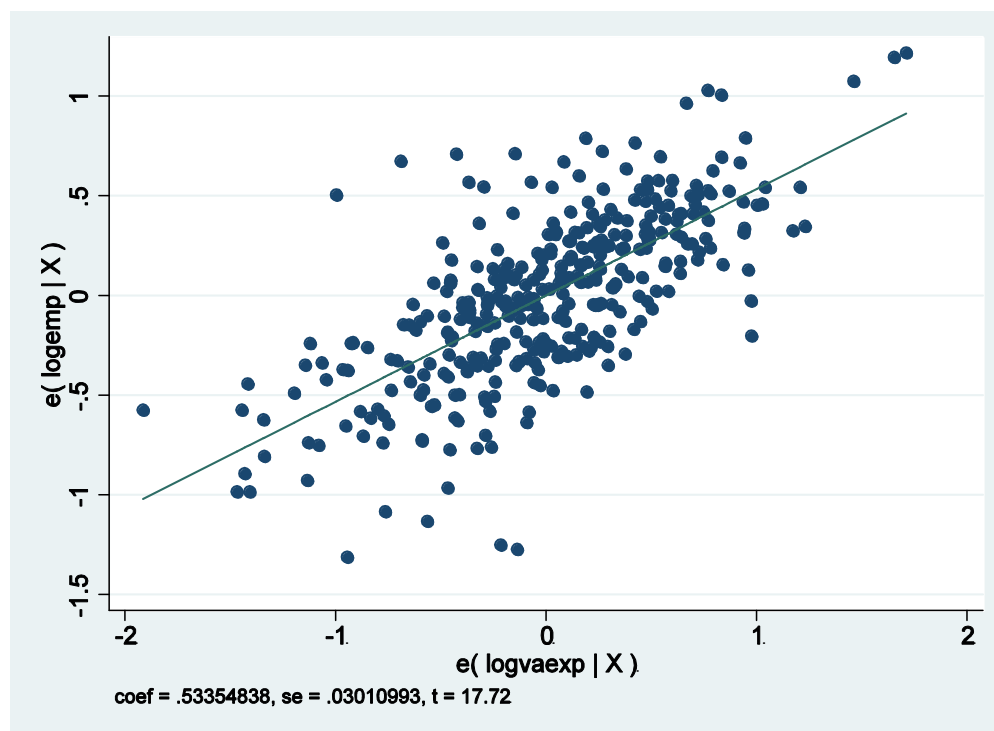
41. UNCTAD11 analyses the link between gross trade and employment and value added exports and employment in different sectors in a paper that also assesses whether services exports have a lower job-creating effect than manufacturing.

42. The paper shows that employment and exports are positively correlated and employment is more responsive to changes in value added exports than in gross exports, though the difference is small. In core manufacturing, however, the difference is significant. One per cent higher value added exports is associated with 0.53 per cent higher employment in core manufacturing (figure 16). For gross exports elasticity is lower (0.47 per cent). Thus, in sectors that are more strongly linked to

¹¹UNCTAD (2013, forthcoming). Employment data are from the World Input-Output Database (see <http://www.wiod.org/>).

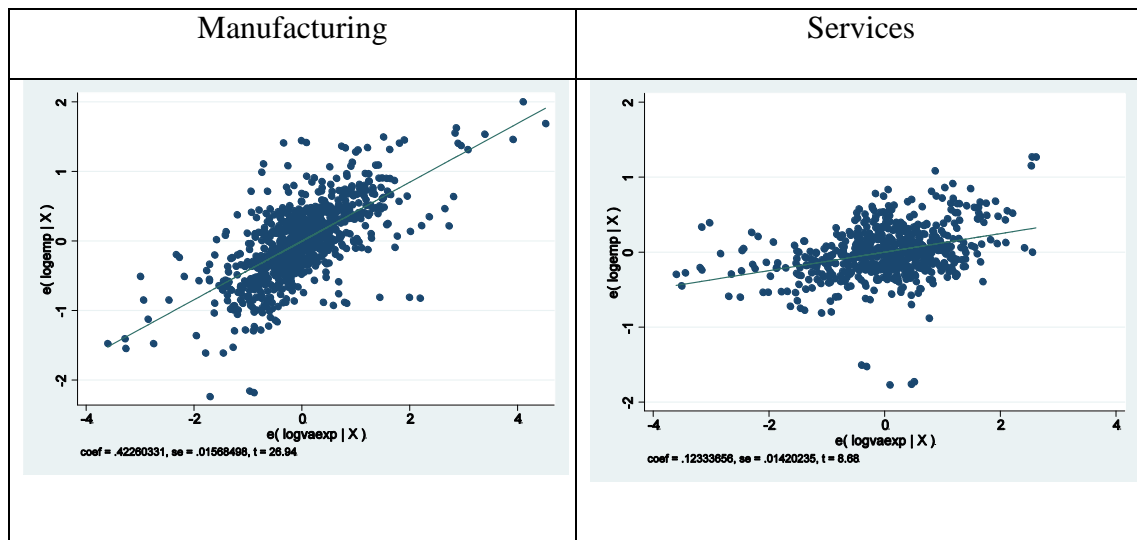
GVCs such as core manufacturing, changes in employment are more closely associated with changes in value added exports than with changes in gross exports, while in sectors that are less linked to global value chain trade there is no difference in association.

Figure 16: Employment and Value Added Exports in Core Manufacturing



Source: UNCTAD calculation.

43. The nexus between employment and export performance varies significantly across sectors. A 1 per cent increase in value added exports in manufacturing is associated with a 0.42 per cent increase in manufacturing employment (figure 17). In services, the corresponding employment elasticity is only 0.12. This is likely due to a lower share of trade in services. Many services activities are not internationally traded and therefore services employment is more sensitive to domestic changes in demand than to export developments. Also, those services sectors that are mostly traded internationally could have disproportionate productivity gains when exports increase so that job creation remains limited. Correcting for the much smaller share of exports in services relative to services output and employment, it is possible that the absolute job creation effect of additional services exports is higher than in manufacturing. In Indonesia the job creation effect of additional fixed amounts of exports in many labour-intensive services sectors is higher than in most manufacturing sectors, and as high as in agriculture.

Figure 17: Employment and Exports Correlation for Manufacturing and Services

Source: UNCTAD calculation.

44. Analysis confirms that the link between gross trade and employment is weaker than between value added exports and employment, mainly in sectors that have the most segmented value chains. GVCs are important in a few sectors, including automobiles and electronic parts. Furthermore, though analysis confirms empirically that job creation in services is to a lesser extent linked to services exports than in manufacturing or agriculture, correcting for the smaller share of services trade in services output and employment, the link between services exports and employment may be as high or even higher than in manufacturing.

45. The results may have implications for development strategies. Increasing value addition is important for job creation. Export-led growth strategies in services create jobs and depending on the sectoral and geographical distribution could significantly contribute to alleviating poverty.

II.3. Trade and Gender

46. Employment for women workers in developing countries increased in labour-intensive export-oriented industries. However, more equitable distribution of trade benefits can only be achieved if gender differences in employment are low with respect to sectors, occupations and skill levels.

47. Tourism, for example, represents an important opportunity for women's empowerment, as women constitute 60–70 per cent of the labour force in the tourism sector. Unlike other sectors, tourism can provide employment to women, including young women, with little formal training. However, there is a divergence between qualifications and employment opportunities for women. Unskilled or semi-skilled women tend to work in the most vulnerable jobs and on average are paid 25 per cent less than male workers for comparable skills.¹² A sufficient number of skilled personnel are preconditions for delivering high-quality tourist services. Women's

¹² ILO (2010). *Women in labour markets: Measuring progress and identifying challenges*. Geneva.

participation in tourism education and training would allow them to have access to more qualified, stable and better-paid positions.

II.4 Informal Employment

48. Under the conventional view, the informal economy expands countercyclically during downturns when workers are dismissed in the formal sector. Greater competition for domestic producers resulting from trade liberalization increases informal employment, as firms shed formal workers to cut costs. However, contrary to this view, a decrease in trade costs due to liberalization may lead informal firms to become formal as they expect higher gains in productivity from the shift. A comprehensive literature review concludes that estimates “point to the possibility that, over the near term, trade opening causes informal labour markets to grow, requiring protected companies in the formal sector to adjust and to reallocate jobs and workers”. Over the longer term, benefits from more intensive trade could strengthen formal employment growth.¹³

49. The impact of trade liberalization on informal services sectors depends on the specific sector and the nature of the shock on the economy. If the overall shock is positive, informality may increase over the longer term as demand for non-traded services increases. Earnings in the informal sector could also be expected to improve relative to formal wages. If the overall shock is negative, then relative earnings would probably fall.

II.5 Green Jobs and Trade

50. Among the goals increasingly sought by policymakers is the support of a process of economic development and employment creation that is environmentally sustainable and socially inclusive. Services sectors are among those experiencing the most significant changes in a greening economy: energy, recycling, buildings and transport. The global drive towards a greener economy is already generating employment in these and manufacturing sectors. Labour studies indicate net gains on the order of 0.5–2 per cent.¹⁴

51. The distinguishing advantage of these new jobs is in their sectoral and geographical distribution; employment gains will be significant in poor rural areas in developing countries and in sectors easily accessible to poor rural workers. Opportunities are high in the agriculture sector and in green services sectors such as ecotourism, carbon sequestration and commercial services for small-scale off-grid renewable energy systems. Energy-based local content requirements are being considered in some countries, taking potentially higher costs of renewable energy into account in order to create jobs. The net employment effects are unclear as local content can also reduce employment when higher production costs lead to lower demand and competitiveness.

¹³ ILO and WTO (2009). *Globalization and informal jobs in developing countries*. Bacchetta M, Ernst E and Bustamente J, eds. Geneva.

¹⁴ ILO (2012c). *Working towards sustainable development: Opportunities for decent work and social inclusion in a green economy*. Geneva.

II.6. Temporary Labour mobility

52. Services became an integral part of the multilateral trading system with the establishment of WTO in 1995 as a result of the Uruguay Round. Four modes of supply are distinguished. Mode 4 is the temporary movements of individual service suppliers and during the Doha Round on services, where it was intended to liberalize services trade and to achieve an increasing participation of developing countries in international trade in services, developing countries were concerned over the lack of value added in areas of interest to them, including mode 4.

53. Mode 4 offers enormous potential for developing countries' participation in services trade but, until now, services that have been liberalized through mode 4 are mainly reserved for highly qualified professionals and senior business categories. Most potential service providers including women do not fall within these groups. Developing countries and LDCs have sought opening for lower-skilled workers during the Doha Round. It is often argued, though, that mode 4 is unworkable, particularly for lower-skilled service providers, since countries of origin cannot guarantee the return of their service providers which thus becomes a migration issue. However, experience from some North–South RTAs shows that measures can be put in place to ensure that workers' stay abroad is temporary, including negative and positive incentives.

54. Lack of recognition of their professional and academic qualifications remains a major obstacle for developing country services providers. Bilateral or plurilateral mutual recognition agreements of academic and professional qualifications could address such obstacles. Professions of potential export interest to developing countries (e.g. health or social work) fall in most countries into the category of “accredited” or “regulated” professions where mutual recognition of qualifications is of particular relevance but developing country participation in mutual recognition agreements is limited. In order to increase benefits from services trade through mode 4, including for women, it is necessary to enhance multilateral dialogue and share good practices.

55. It is important to distinguish between temporary movement of individual service suppliers and migration. Both often support relatives in their home countries. Some three per cent of the world's population is migrants. Many of these send payments (or remittances) home to relatives and friends. World Bank data indicates global remittance flows reached \$501 billion in 2011 and are expected to increase to \$615 billion by 2014. Remittances to developing countries reached US\$372 billion in 2011. Remittances can play an important role particularly in the case of those in poorer households and be used to build productive capacities for longer-term impacts. Supportive integrated cohesive policy frameworks and institutions can enhance benefits to youth. The direct poverty reduction impact of remittances (both domestic and international) is undisputed as they are sent to those in need.

III. Conclusion: Supportive Trade Policies and Complementary Measures

56. The services sector has emerged as the largest segment of the economy, contributing a growing share to GDP, trade and employment, and become a major driving force of the world economy. The development of services, particularly infrastructure services, contributes significantly to economy-wide growth, as they constitute a fundamental backbone of any economy, and provide indispensable inputs to other products and services. Efficient and competitive services are catalytic to the expansion of global value chains. Services trade has emerged as a vibrant component of world trade, and several developing countries have indeed seized substantial benefits by exploiting traditional and emerging areas of their comparative advantage, including the promising areas of modern exportable business services and temporary movement of natural persons, while others are yet to acquire the critical capacity to follow suit relying heavily on traditional, non-tradable and low-productivity services, including the informal economy. The sector has become the largest provider of existing jobs as manufacturing value chains are partly outsourced to services suppliers and as the final consumer demand for services increases with the rising income levels.

57. It is less and less possible to conceive economic growth and development without taking into account the services sector development. Neither is it possible to conceive agriculture, manufacturing and services as distinct economic sectors, as they go hand in hand in generating new values in the society and creating jobs. Enhancing the linkage between services trade and employment represents a major development challenge.

58. At the national level, building productive capabilities and enhancing export competitiveness require a comprehensive, integrated and coherent strategy. Regulatory and institutional frameworks tailored to local conditions are critical. Skill development, including within the existing workforce in services sectors, is important in promoting employment growth and structural change. Skill gaps within the existing workforce in the tourism and hospitality industry, including among women, are hindering future economic and employment growth potential of the sector. Attracting investment in infrastructure, including ICT, is important. Improving and enforcing labour laws, supporting the creation of firms and providing basic social protection for all facilitate the transition from informality. Gender equity policies such as education and childcare provision could increase participation of women in services and improve job quality. Increasingly, countries seek to capitalize on services to promote transition to a green economy and create green jobs.

59. At the international level, efforts and cooperation are needed to advance the development-led services trade agenda. Designing the adequate content, pace and sequence of the liberalization process, and coordinating this process with national policies and regulations, is fundamental for creating an enabling environment to build national productive competitive capacities and create employment. Enhanced market access and cooperative measures such as regulatory cooperation to create a more facilitative policy environment, especially in the areas of export interest to developing countries such as the temporary movement of natural persons, and promoting common infrastructure and network development, innovation and greater value addition in services value chains, would also be important.