Chapter V

Conclusions and policy discussion

United Nations

A. The role of services in the structural transformation of least developed countries

This report critically discusses whether services provide least developed countries (LDCs) with a new avenue towards a type of structural transformation that leads them to the achievement of faster economic growth, higher labour productivity, and superior earnings and standards of living for their population. More specifically, it considers whether services contribute to LDCs' attaining their broader development goals by offering a development path that is different from the traditional industrialization route followed by the vast majority of countries that have had the most successful historical development experiences over the last 250 years.

To consider this complex question, the report carefully builds the analytical elements for its conclusions briefly summarized hereafter. The analysis and arguments presented throughout this report show that services can play positive a role in the structural transformation of LDC economies, especially when they are complementary to other sector (especially manufacturing) and a balanced approach is adopted by development policies and strategies. However, for services to be able to play such a transformational role, it requires a radical change by its companies and workers towards higher value-added and more knowledge-intensive activities which establish dynamic forward and backward linkages with other economic sectors and within the services sector itself.

On the basis of this analysis, the report draws policy considerations discussed in the following sections of this chapter. Given the heterogeneity of the services sector itself and the differences of LDC economies in terms of endowments, specialization and institutional capabilities, the chapter does not try to establish a programme of action. Rather, it provides indications of how LDC policymakers – with the backing of their development partners – can bring about changes in the services sector so that it contributes to the growth-enhancing structural transformation of their economies.

1. Changes in the productive structure

The type of structural transformation that most LDCs have been undergoing has meant the transfer of labour from agricultural/rural activities to services activities (mostly urban). Chapter II shows that services are playing part of the role of manufacturing in traditional development trajectories, namely that of creating jobs that absorb excess labour freed from agricultural/rural areas (Sen, 2023). The bulk of the jobs that have been created in the tertiary sector have been in low-productivity activities in micro and small enterprises. The majority of these firms grow very slowly if at all, and have narrow scope for technological upgrading. This type of structural transformation has not been growth-enhancing, in contrast to the past experiences of successful structural transformation based on industrialization.

At the same time, many LDCs have experienced, to different degrees, the very incipient development of modern knowledge-intensive and high-value-added services, such as the commercial and cargo air transport industry in Ethiopia, the port services industries of Djibouti and Togo, the financial and banking services industries in Rwanda, and the tourism sectors of Cambodia and the Gambia.

The services sector as a whole thus presents in LDCs a picture of duality between large traditional and smaller more modern subsectors and activities. Moreover, the input-output linkages between services and other sectors (such as agriculture, mining and manufacturing), or among different services subsectors, tend to be weak in LDCs, contrary to more developed economies. This limits potential growth-enhancing dynamic technology and knowledge spillovers generated by services sectors.

2. Trade

The limitations of most LDCs' services sector contributions to domestic development are also reflected in their services trade structure, which is analysed in depth in chapter III. LDC services exports are concentrated by product and market. They are dominated by two traditional export sectors: travel and transport. LDC services imports, by contrast, are considerably more diversified than their exports. These countries acquire abroad a wide array of services, reflecting their limited productive capacities and, in several of these services segments, limited demand. Services subsectors can mirror the same low-value export traps and dependence on foreign direct investment as often does manufacturing-led export development.

There are incipient cases of exports of higher-value digitally-delivered services (DDS) (such as business services and research and development), but they represent a minor share of LDC total services exports, and are concentrated on just a few LDCs. The dualistic picture in production and employment mentioned above is thus reflected in the structure of LDCs' services exports. LDCs have largely missed this recent development, and incur growing trade deficits for these products, because of their low investment in technology and lack of specialized skills (UNCTAD, 2020a, 2017a).

3. Sectoral policies

LDC Governments have been actively taking policy initiatives and programmes to develop some (sub)sectors of modern services, driven by the vision of services-led development, as shown in chapter IV. These initiatives have had mixed results, both in terms of the success of the services sectors themselves and especially in terms of their impact on broader development and structural transformation of the domestic economy.

4. The way forward

Despite these mixed results, the existence of more modern high-value added and more knowledge-intensive services production and exports in most LDCs – small as they may be – shows that barriers to their establishment and growth are not insurmountable.

Strategies to strengthen the contribution of services to the structural transformation of LDCs include both domestic and international policies, especially those affecting international trade in services. The remainder of this chapter discusses the policy approaches and options most likely to diversify and upgrade the services sectors of LDCs, so that they provide an effective contribution to the structural, growth-oriented and development-geared transformation of LDC economies in the future.

B. Strategies and policies for the development of the services sector

The present shortcomings of the economic performance of services in LDCs and of their limited contribution to structural transformation imply that LDC policymakers – with the backing and support of their development partners – need to implement policies that address the root causes of this underperformance. For the tertiary sector to fulfil the high expectations that it will become a driver of growth-enhancing structural transformation of LDCs, a coherent set of policies and strategies is required, to be designed and implemented by LDC Governments, with the support of their development partners.

Services are productive sectors per se, and therefore require a capital base; human resources and skills; technological capabilities; tangible and intangible inputs from other subsectors (whether primary, secondary or tertiary), and from physical infrastructure (such as energy, communications and transport); and soft infrastructure, including institutional and regulatory frameworks in which to operate. This means that the level of services development in a country (e.g. the level of labour productivity in the tertiary sector, the degree of diversification of its productive base and export structure, etc.) depends to a large extent on the overall development of the economy's productive capacities and on the business environment. These tend to be major shortcomings of LDC economies, which explain the level of performance of their services sectors (as shown in chapter II).

Policies to cater for these shortcomings include, among others, investment in physical and soft infrastructure; investment in education and training for human capital and skills development; policies for science, technology and innovation (STI); macroeconomic policies; and policies for mobilizing financing for development (including official development finance and foreign direct investment, but also domestic resource mobilization). They are meant to address the "fundamentals" that hold back economic growth in developing countries (McMillan et al., 2017).

However, these are very costly and long-term investments, given the yawning development gaps of LDCs. For this reason, along with these broader development policies that affect the functioning of the whole economy, LDC Governments are advised to implement policies that target different segments of services. For instance, development of transport services requires the building or upgrading of infrastructure such as roads, bridges, ports and airports in given areas of the country, even before it is feasible to extend networks throughout the national territory. Similarly, broadband internet services are typically available in some areas of the country (primarily urban centres) before gradually expanding to the rest of the country.

The heterogeneity of the services sector means that services development policies vary considerably between different subsectors, and therefore need to be sector-specific. Nevertheless, for these policies and initiatives to have the most effectiveness, they should ideally follow the broad indications mentioned below.

1. Services as part of strategies for growth-enhancing structural transformation

To realize the potential for services to provide a meaningful contribution to the structural transformation of LDCs, it is necessary for policymakers to place the tertiary sector within broader strategies for a growth-oriented type of structural transformation. The services sector has an important role to play in the development of productive capacities of LDCs. This happens in two main ways.

First, the tertiary sector is an economic sector on its own right, and can therefore be a generator of jobs and a source of output and productivity growth. As already mentioned, in most LDCs, it has played the first role, but not the second. So far, the LDC tertiary sector has been capable of creating jobs, but has provided only a marginal contribution to a growth-enhancing structural transformation of LDC economies. LDCs have not been able to follow a path similar to that of India, where the services sector has been able to generate a very large number of jobs since the mid-1980s, while achieving strong productivity growth (Fan et al., 2023).

Nevertheless, the tertiary sector provides LDCs with an opportunity to diversify their productive bases and their exports. It has therefore appeared as one of the routes to lead economies out of commodity dependence and thereby attenuate the external vulnerability of economies. Angola has striven to follow this path, with the support of UNCTAD (box V.1).

Box V.1.
UNCTAD support to the services sector of Angola

UNCTAD has been a key partner in the ongoing efforts of Angola to diversify its economy and strengthen its services sector, through a combination of technical assistance, policy analysis and capacity-building programmes. A flagship initiative is the European Union–UNCTAD Joint Programme for Angola: Train for Trade II, which was launched in 2017. Within this framework, UNCTAD has worked closely with Angolan institutions to design policies that enable the services economy to develop, including through a focus on transport, logistics and creative industries. These areas are vital for improving competitiveness, attracting investment, and linking Angola more effectively to regional and global value chains.

Specific outputs of Train for Trade II included a manual for trade negotiations on services (UNCTAD, 2020b), which has provided Angolan policymakers and negotiators with practical tools to participate more effectively in regional and multilateral trade discussions. In addition, an online course was delivered to trade officials and other stakeholders in Angola, in preparation for negotiations on trade in services within the context of the Southern African Development Community (SADC)–European Union Economic Partnership Agreement and African Continental Free Trade Area (AfCFTA). Furthermore, UNCTAD has supported Angola in its efforts to develop a national entrepreneurship strategy through a national entrepreneurship review (UNCTAD, 2024a).

The UNCTAD *Vulnerability Profile – Angola* (UNCTAD, 2023a) highlights the country's high dependence on oil exports, structural constraints in infrastructure and skills, and the urgent need to build resilience through diversification, including through development of the services economy.

Overall, the support of UNCTAD underscores the strategic importance of the services sector in the economic future of Angola. By combining policy advice, capacity-building and targeted sectoral initiatives, the partnership is helping Angola move towards a more diversified, resilient and inclusive growth path. This requires focussing on critical services sectors that provide important inputs to activities outside the oil sector (such as industry and agriculture) through a combination of domestic policy measures and well-prepared international trade negotiating stances.

Source: UNCTAD.

Second, another foundation of the important role that services can play in the development of LDC economies is the intensity and types of production linkages that the sector establishes with other economic activities, but also within the tertiary sector itself. UNCTAD has defined productive capacities as "the productive resources, entrepreneurial capabilities and *production linkages* which together determine the capacity of a country to produce goods and services and enable it to grow and develop" (UNCTAD, 2006a: 61, emphasis added). This means that the potential of the tertiary sector to provide a push to economic growth, development and strengthening of national productive capacities will be realized if the services develop wide and far-reaching forward and backward linkages with other sectors (especially agriculture and industry), but also among different subsectors of the tertiary sector. These include strong relationships and efficient inter-industry connections in terms of flows of information, trade and resources.

The present linkages between LDC services sectors and other economic activities are significantly weaker than in both other developing and developed economies, as shown in chapter II. This further limits the actual contribution of the tertiary sector to the growth and development of LDCs. One form of weak linkage with the domestic economy occurs when service activities develop as enclaves that are well connected internationally but weakly linked to the rest of the domestic economy. This happens quite often with some receptive tourist operations (such as hotels, resorts and conference centres), which rely largely on imported inputs (the so-called tourism leakages). Moreover, these institutions often provide most of the consumer goods and services supplied to their tourist clients, who therefore consume little from other domestic shops, restaurants, tour operators, etc. Another example of weak intersectoral linkages is when digital service producers (whether individuals or corporations) supply services mostly to foreign customers, but little or none to domestic customers. This is the case of many digital freelancers active in LDCs, who export their services directly to foreign customers. Apart from having very limited domestic production linkages, they often lack fiscal linkages, as quite often the services sales abroad are not or are only partially declared to national tax authorities. In these cases of enclave-type operations, the services sectors are well connected internationally, but have limited forward and backward linkages to the domestic economy. This means that their developmental impact is much lower than it could be.

Without deeper linkages, servicification cannot develop in LDCs, and therefore the development of services sectors cannot have the transformative impact it ideally should in order to positively contribute to growth-enhancing structural transformation. Especially critical sorts of linkages of services development ideally should be established with manufacturing, as analysed hereafter.

2. Services development and industrialization

National and international policymakers have become increasingly sceptical on the possibility of industrialization in LDCs, largely as a consequence of two long-run processes: (a) the experience of premature deindustrialization and "pre-industrial deindustrialization" undergone by most LDCs; and (b) the ongoing evolution of the global manufacturing industry, which has become increasingly concentrated on a few countries and more capital- and technology-intensive. This context also explains why these policymakers increasingly see services as the way for structural transformation of LDC economies, as mentioned in more detail in chapter I.

This situation does not, however, mean that the path of industrialization is closed to LDCs, or that they cannot hope to reap the positive economic and social side effects of industrialization (UNCTAD and UNIDO, 2011; Page, 2012; Szirmai et al., 2013).

Expanding productive services sectors enhances manufacturing inputs, efficiency, and global market integration

On the contrary, if LDCs are successful in expanding and modernizing their tertiary sectors – especially their most productive and dynamic segments – this will provide a useful complement to their industrialization efforts. Thanks to production linkages between services and manufacturing, the tertiary sector can provide manufacturing inputs such as transport, logistics, engineering, research and development, business services and finance. All of them provide essential inputs for manufacturing competitiveness, strengthen the efficiency and viability of manufacturing, and enable industrial firms to participate more effectively in global value chains. Moreover, forward linkages between services and manufacturing can be established through after-sales services, marketing, transport, etc., thereby improving the overall performance of manufacturing. The increasing interdependence between services and other sectors – particularly manufacturing – offers significant opportunities for productivity growth, economic diversification and job creation in LDCs.

Some good examples are given by a few LDCs that have been successful in developing manufacturing to some degree, such as Bangladesh, Cambodia, Nepal and Myanmar. Their process of industrialization has been accompanied by the concomitant development of business services such as transport and logistics, given their complementarity to manufacturing activities. Logistics hubs development shows high interdependencies with goods trade, as shown in chapter IV. In the case of Djibouti, by contrast, the impulse for the development of manufacturing activities has come from the strong growth of transport and logistics services around the country's ports. This has allowed the development of manufacturing activities of packaging production, light processing of incoming materials, food processing, marine products and auto parts assembly.[1] However, the development of such associated manufacturing activities does not necessarily take place in relation to logistics development, especially in the absence of active policy action. The absence of manufacturing activities associated with the port of Lomé is a case in point.

This bidirectional relationship between services and industry is also shown in the export performance of several LDCs. These have relatively strong performance in the exports of manufactured goods (such as those mentioned in the previous paragraph), and also have a comparative advantage in the export of goods-related services. The production and export of these goods requires substantial ancillary services, including storage, distribution, logistics and insurance, which are categorized under goods-related services. This interdependence ensures that growth in merchandise exports directly amplifies demand for associated services.

A good example of the successful implementation of policies for the complementary development of manufacturing and services – as well as the concomitant exports originating in both types of economic activity – is provided by Cambodia, which has benefitted from the active support and technical assistance of UNCTAD for different elements of its policies, for the development of productive capacities in manufacturing and services, and for the country's steering towards graduation out of the LDC category (box V.2).

[1] UNCTAD (forthcoming a) and Djibouti Ports and Free Zones Authority, "Djibouti International Free Trade Zone", available at https://dpfza.gov.dj/facilities/Free-trade-area/djibouti-international-free-trade-zone#:~:text=The%20project%20also%20creates%20major%20business%20opportunities,as%20food%2C%20automotive%20parts%2C%20textiles%20and%20packaging.

Box V.2.
UNCTAD support to the services sector of Cambodia

UNCTAD has been a long-standing partner in the efforts of Cambodia to strengthen its services economy and deepen integration into the global trading system. The UNCTAD Rapid eTrade Readiness Assessment (UNCTAD, 2017b) provided a comprehensive road map for developing the e-commerce ecosystem in Cambodia. This work catalysed the adoption of the National E-commerce Strategy in 2020, and by 2022, over 90 per cent of the recommendations of UNCTAD had been implemented. These reforms have supported the rapid growth of digital services, payments and logistics that are now central to the trade competitiveness of Cambodia.

As one of the pilot countries for operationalizing the WTO LDC Services Waiver, Cambodia benefitted from a detailed assessment by UNCTAD of its services export market opportunities, which helped identify priority subsectors and practical strategies for securing more effective market access (UNCTAD, 2020c).

Since Cambodia was designated pre-eligible for graduation by the Committee for Development Policy at its 2021 Triennial Review, UNCTAD has also supported Cambodia in navigating its transition from LDC status. The *Vulnerability Profile – Cambodia* identifies the main challenges Cambodia will face on the path to and beyond graduation, and proposes policy options to build resilience and sustain growth after LDC-specific support is phased out (UNCTAD, forthcoming b). This includes a diagnosis of structural change and productive capacities; analysis of exposure to the withdrawal of international support measures (e.g. trade preferences and other LDC flexibilities), and the trade-related adjustments this implies; and an action-oriented set of recommendations to anchor a national strategy for graduation with momentum.

Through its contributions to the Cambodia Trade Integration Strategy (UNCTAD, 2020d) and subsequent policy dialogues, UNCTAD has guided policymakers in integrating services, e-commerce and digital trade into the country's post-graduation trade strategy. Complementary initiatives in trade facilitation and connectivity – such as the roll-out of pre-arrival processing in Phnom Penh and Sihanoukville ports through the Automated System for Customs Data (ASYCUDA) programme – have reinforced the efficiency and resilience of services-linked supply chains.

Together, these interventions illustrate how the sustained engagement of UNCTAD has helped Cambodia, not only to identify and pursue new services export opportunities, but also to build the digital, regulatory and logistical foundations necessary for a more competitive and successful services sector.

Moreover, in the logic of the synergies between the development of services and manufacturing, since 2025 UNCTAD has also supported the country's upgrading of its manufacturing base through the training of government officials and the provision of advisory services on industrial policy.

Source: UNCTAD.

For LDC policymakers, the implication is that the development and improvement of the productive capacities of national services sectors does not need to be an alternative to industrialization; rather, they can (and in most cases should) be complementary. There is no dichotomy between services and industry in the future development path of LDCs. The implication is that industrial policies to be implemented by LDCs at present need to broaden their focus beyond the traditional role of fostering manufacturing growth (UNIDO, 2024) also to target the joint development of modern services that complement manufacturing.

The question for policymakers remains of the timing of competing priorities and the sequencing of sectors on which to concentrate financial, policy and institutional resources. Timing, sequencing and sectoral focus will necessarily differ among countries, according to their structural characteristics and opportunities open to them. LDCs need to move beyond traditional services and develop more sophisticated, high-value services that can be used directly by manufacturing and other productive sectors. There may be a need for clear, policy-nudged production linkages between services and other production sectors to leverage growth in both services and non-services sectors for trade.

Given challenging present starting conditions and the limited public and private resources available to LDC economies, vertical policies for the development of both manufacturing and services are necessarily selective, and need to target some segments of manufacturing and services. As mentioned earlier, these policies need to be implemented alongside measure to address the "fundamentals" that stymie growth. Suggestions of how to select (sub)sectors for targeting in manufacturing are given by a joint work of UNCTAD and the United Nations Industrial Development Organization (UNIDO) (UNCTAD and UNIDO, 2011), and are not discussed in this report, as they are not its focus. The following sections discuss the major considerations that can help LDC policymakers when designing policies for the development of specific services subsectors, as well as criteria that are useful in the selection of which ones to target.

3. Comprehensive strategies and policies for the tertiary sector

The heterogeneity of services sectors entails adopting different types of strategies and policies for different segments of the tertiary sector. That diversity means that there is a wide variance of the knowledge intensity, capital intensity, skills intensity and input requirements of services subsectors, and often within subsectors themselves (e.g. informal street vendors and online platform retail trade both belong to the retail trade sector). Moreover, the types of these inputs to the tertiary sector are often very subsector-specific (such as skills and material inputs). The implication is that services development policies vary considerably between different subsectors.

While this heterogeneity exists in services sectors globally, it is much more pronounced in LDCs, given the duality of their tertiary sector and the strong weight of the low-productivity and largely informal services activities in these countries. Policies to foster the development and upgrading of services activities and firms in LDCs need to be differentiated according to the structural characteristics of each (sub)segment of the tertiary sector, including, for example, types of firms and enterprises in which they develop; their degree of formalization; the types of products they produce; and their flows (of products, knowledge, technology, finance, etc.) with the international economy.

In the case of LDCs, sectoral policies should be differentiated especially for the following types of services: (a) low-productivity, essentially "non-tradable" services ("traditional services"); and (b) higher-value added and more knowledge-intensive services ("modern services"), including the digitally-deliverable services (DDS).

Policies for the development of these two broad categories of services are further discussed in sections C and D below.

The pitfall that needs to be avoided is that policymakers to focus on "modern"/ higher-value added services, thanks to their dynamism, export potential, knowledge content, higher-quality jobs, potential contribution to growth-enhancing structural transformation, etc. While such attention is warranted, it is important not to neglect the traditional low end of the services sector. This would mean neglecting a large part of the labour force, and would further entrench dualism and inequality.

Moreover, policymakers need to direct their attention not only to already existing services (sub)sectors, but also to those that they may aim at establishing and developing.

4. Selection of (sub)sectors to be targeted

The choice of (sub)sectors for promotion by LDC policymakers needs to take into account the countries' resource endowments (including human, natural and institutional resources), geographic situation, and geopolitical positioning. Chapter IV shows a variety of quite different (sub)sectors targeted by different LDCs, with different degrees of success and actual contribution to meaningful structural transformation. The sequencing of subsector to target should ideally be guided by how they best contribute to the overall process of structural transformation at any given point, paying particular attention to the forward and backward linkages that they can establish in different phases of the process of structural transformation.

When selecting modern services (sub)sectors to promote, LDC Governments are advised to give preference to the following features:

- How this (sub)sector relates to the remainder of the domestic economy, or how it can best contribute to structural transformation: This requires taking into account in each case its job-creating capacity (i.e. the quantity and quality of jobs the (sub)sector is expected to generate), its actual level of labour productivity and its foreseeable growth.
- The type of insertion into the domestic economy: Predominantly formal (preferred) or informal.
- (Sub)sectors that have the potential to deepen/enhance their value added, knowledge intensity and labour productivity.
- Potential to establish strong forward and backward linkages with other (sub) sectors, as well as their fiscal linkages.

Beyond these structural and domestic features of different services (sub)sectors, LDC policymakers also need to consider their export potential, e.g. by targeting (sub) sectors with actual or potential comparative advantages. Given the size and high growth potential of international services markets, trade policy plays a crucial role in the implementation of policies for the tertiary sector. This is true of trade policy at all levels, i.e. bilateral, regional and multilateral. Policies to boost services exports are discussed in section E below. Even in the case of export sectors, policymakers need to keep in mind the importance and desirability of the embeddedness of these sectors in the domestic economy, through solid linkages to other national (sub)sectors.

Whichever services (sub)sectors LDC policymakers decide to target for promotion, they need to consider the developmental impact of the development of each of them, in terms of job creation, wages, diversification, export potential, but also possibly productivity, and backward and forward linkages, among others. Ideally, the actual impacts achieved should be monitored and evaluated, which would allow for leveraging opportunities to maximize spillovers and avoiding (sub) sector enclave effects. It would also make possible implementing corrections in policy directions during the enactment of these plans, if necessary.

At the same time, authorities need to avoid being overly optimistic on the prospects and potential of the (sub)sectors they are targeting. This implies that they need to take into account their potential downsides and pitfalls. Examples include the risks of specialization at the lower rungs of global services value chains, excessive accumulation of foreign debt, financialization and heightened financial instability, increased dependence on foreign markets, etc., as shown in chapter IV. They also need to consider the trade-offs that are involved in any selective policy.

5. Setting up adequate regulatory frameworks

Regulatory frameworks are even more important in the tertiary sector than in other economic sectors, given the impact that the outputs of different services (sub)sectors can have on citizens' economic, social and health-related well-being (such as in health, education and retail services), as well as the systemic importance of some services (such as financial, information and communications technology (ICT) and energy services). Given the very high heterogeneity of services (sub)sectors, regulation must necessarily be specific to each one. Still, some elements that most regulatory frameworks for different services (sub) sectors should have in common include:

- Consumer protection.
- Ensuring there is competition in the supply of services.
- Respect for workers' rights, in both formal and informal activities, but also when working for platforms.
- Consideration of gender issues and the differential impact that sectoral development has on women.
- Integration and consistency of regulations with other policies, laws and international obligations.
- Measures to combat criminal activities.

Regulatory frameworks need to evolve together with the structure and productive capacities of the domestic sector in question, as well as the relevant international technological evolution. This requires flexibility and adaptability from regulatory bodies. Moreover, trade policy in services has a very close link to domestic legislation, which adds a layer of complexity to national services sector regulation (UNCTAD, 2016). For instance, policymakers need to balance the need for companies to collect and analyse data for innovation and efficiency gains, on the one hand, and the concerns of various stakeholders with respect to security, privacy, and movement and ownership of data, on the other (UNCTAD, 2017a).

Designing and implementing regulatory frameworks that give due consideration to the various elements mentioned above requires strong capacity and skills of policymakers and regulators. These are often not plentiful in many LDC policymaking institutions. Hence, the importance of investing in improving, strengthening and enhancing institutional capacity of LDC Governments in the regulation of different services (sub)sectors. UNCTAD services policy reviews serve as a toolkit to assist countries in assessing and devising an appropriate policy mix to improve services sector performance and provide regulatory mapping (UNCTAD, 2014).

C. Traditional services

The largest group of services segments in LDCs is made of low-productivity, low-skill services operating with a very limited physical and human capital base in micro or very small firms, and often in the informal sector, as shown in chapter II.

Often, these are non-tradable services. Although technology – especially ICT – has significantly widened the overall tradability of services, some services sectors remain outside the domain of international trade and have traditionally been termed "non-tradeable services". These non-tradable services comprise two main segments. The first is made of those services activities that require geographical proximity between production and consumption, such as construction-related services, (domestic) trade, local transportation, local retail, personal services and catering. They rely on local demand and supply rather than global markets.[2] In LDCs, the bulk of these services continues to be supplied by domestic agents. The weight of non-tradable services is considerably higher in LDCs than in other developing economies, and in developed economies. The second segment of non-tradable services consists of those services where institutional and practical reasons typically prevent services from being traded, such as the bulk of healthcare and education, or public services.

The first segment of "non-tradable" services absorbs the bulk of the excess labour (typically low-skilled) freed from agriculture, as did manufacturing in the classical experiences of successful development in the past (UNCTAD, 2024b). At the same time, tradable and more modern services activities do not have a comparable job-generating capacity in LDCs. Given the volume of jobs generated by non-tradable services, they play an important economic and social role in contributing to the stability of LDCs. Therefore, these jobs need to be preserved in the short-to-medium term. This poses a challenge to LDC policymakers: preserving (at least temporarily) the functions of these "buffer activities", while pursuing productive and technological upgrading in the more growth-enhancing segments of the tertiary sector, with a view to achieving the growth-enhancing structural transformation of their economies. Policymakers, therefore, cannot afford to neglect the less productive and less growth-oriented segments of their tertiary sectors and focus solely on the modern segment of their tertiary sectors.

Typically, the majority of workers in the low-value added and low-skills segments of the services sector operating independently are "entrepreneurs by necessity" or "survivalist entrepreneurs" (UNCTAD, 2018). They operate autonomously because they cannot find actual jobs, which they would rather take if opportunities were available. For these workers, policymakers need to consider implementing social welfare policies to supplement the earnings of the working poor, as well as strengthening their education policies, so as to enhance the employability of these workers. Given the low skills level of the workers in these low-productivity sectors, who need to improve their labour productivity,

[2] Due to the difficulty LDCs face in attracting foreign direct investment to these sectors (UNCTAD, forthcoming c), the limited size of their domestic markets, the low level of diffusion of modern ICTs in LDCs, these services subsectors remain largely outside the sphere of international trade in services in LDCs, even considering mode 3 of the General Agreement on Trade in Services (GATS).Technically, however, virtually all services sectors are amendable to international trade, since even the bulk of what has traditional been considered as "non-tradable services" can be supplied domestically by foreign operators by means of their operations through commercial presence in the domestic market. This is what is considered as international trade in services through mode 3 (commercial presence) according to the GATS of the World Trade Organization (WTO).

training policies play a role in enhancing their contribution to overall economic performance. Policymakers can consider combining vocational training with "wrap-around" services, i.e. a range of additional assistance programmes for job seekers, in order to enhance the employability, retention and eventual promotion of less-educated workers (Rodrik and Sandhu, 2024).

Policymakers need to pay special attention to the gender aspects of traditional services sectors in LDCs. Chapter II shows that women are disproportionally affected by urban unemployment and more present in the informal sector. Table V.1 results from a more granular analysis of the traditional services sector in these countries and its gender dimension. It provides an indicative characterization of types of jobs carried out predominantly by women and men in traditional services in LDCs.

Table V.1
Selected non-tradable and low-productivity services jobs in least developed countries categorized by gender

Female-dominated jobs	Male-dominated jobs
Elderly and child care providers	Construction and manual labour
Domestic housekeeping and cleaning	Truck drivers and heavy equipment operators
Personal care services (beauticians, massage therapy)	Porters and loading / unloading workers
Home-based food vendors	Motorcycle taxis and informal transport
Informal online micro-traders	Informal taxi drivers / Rickshaw pullers
Informal education and tutoring	Informal repair services (mechanics, electricians)
Laundry and dry cleaning services	Waste collection and street sweeping
Personal and hospitality services (waitresses, hairdressers)	Security guards and janitorial staff
Small-scale retail vendors (kiosks, stalls)	Street vending and street hawking
Traditional handicraft vendors	Street performers and musicians

Source: UNCTAD, based on ILO (2009, 2018).

Several of the jobs mostly performed by men are closer to productive activities carried out in services subsectors such as transport, logistics and construction. These subsectors tend to expand rapidly in the early stages of structural transformation, given their potential strong linkages with other sectors such as industry and agriculture. These early stages are likely to create opportunities for productivity rise and transition to the formal sector in these activities, which is likely to benefit men disproportionately. By contrast, it is only at much later phases of the process of structural transformation – and at much higher income levels – that activities of the care economy expand in relative terms, creating more job opportunities and better earnings for its workers (Global Accelerator, 2023). During this later phase, women are likely to benefit more than men, given the gendered specialization profile indicated in table V.1.

These patterns suggest that during the early phases of structural transformation, policy interventions – such as improving women's access to education and skills development, and facilitating entry into higher-value services activities – are needed to ensure that the expansion of the tertiary sector in LDCs does not aggravate gender inequalities.

Concerning the size of the firms operating in these services activities, the medium- to long-term objective of these policies is to foster the growth of firms so that they become economically viable by achieving economies of scale, are capable of strengthening their entrepreneurial and technological capabilities, and become more capital-intensive, while also generating jobs. These larger firms can thereby provide employment not only to workers already operating in these sectors, but also to the youths entering the labour force. Policymakers can provide incentives to established firms' expanding their job creation, either directly or by establishing linkages with domestic value chains (Rodrik and Stiglitz, 2024; Rodrik and Sandhu, 2024).

The capacity of larger firms to create jobs at scale (in spite of higher levels of labour productivity) is extremely important. It is a way of ensuring that these segments of the services sector continue to have the capacity to create jobs and absorb (excess) labour, which has proven a major economic and social buffer in the ongoing process of structural change.

From an entrepreneurial perspective, larger firms have better chances of survival and technological upgrading. Targeted entrepreneurship policies to enhance efficiency, skills development and technological adoption (including, to the extent possible, digitalization), and extension services/business development services need to be put in place or strengthened (UNCTAD, 2018).

Policies to improve the economic performance of low-skill, low-value added services activities should comprise measures to help these informal producers link with formal and more modern enterprises in the same sector, which creates opportunities for learning and knowledge spillovers, as firms still operating informally adapt to the forms of business operations of the formal sector.

UNCTAD has implemented the Business Linkages Programme to develop and strengthen business linkages between foreign multinational enterprises and domestic companies, especially small and medium-sized enterprises (SMEs) (UNCTAD, 2006b). The policies, programmes and instruments used therein can be adapted to foster linkages between formal companies and informal firms. This can be a means of favouring the flow of entrepreneurial and technological capabilities from the former to the latter, and be a stepping stone towards formalization.

In order to ensure the survival of firms initially in the low-productivity and/or informal segment of the services sector, policymakers are advised to assist in the enhancement of their technological capabilities. However, given their important role as job creators, it has been suggested that they invest in technologies that complement rather than replace low-skilled workers in services sectors. They can consider enabling less educated workers to do (some of) the jobs traditionally reserved for more skilled professionals and increase the range of tasks they can perform (Rodrik and Stiglitz, 2024; Rodrik and Sandhu, 2024).

> Supporting low-productivity firms with technology can preserve jobs and enhance worker capabilities

An additional set of policy measures can aim to attract initially informal enterprises to the formal sector. This entails reaching out to informal enterprises and services providers by providing access to services (such as finance, extension and business development services, technical advice, skills development, entrepreneurship training and social protection for workers), which help them reach higher levels of productivity. It is important to ensure that the potential benefits of formalization exceed the costs inevitably associated with it (such as regulatory and administrative compliance, and taxes).

Such an approach to tackling informality is the opposite of adopting a punitive stance towards the informal sector. Moreover, while entrepreneurship policies geared towards these types of small-scale and often informal firms should help firms grow, it is also important to let firms fail if these policies and corporate efforts do not bear fruit after some time (UNCTAD, 2018).

D. Modern services

"Modern" and more knowledge-intensive services sectors in LDCs tend to have much higher labour productivity, and be relatively better integrated with the remainder of the economy than other segments of the tertiary sector, as shown in chapter II. This refers to subsectors such as financial and business services. They have the potential to provide productive inputs to all other sectors of economic activity – including manufacturing – in a way that raises the efficiency of these other sectors through intersectoral backward linkages. The same is true of the forward linkages that modern services sectors can establish with other economic sectors (such as transportation, delivery, marketing and sales). These intersectoral linkages can work as a lever for knowledge spillovers, thereby generating positive technological impacts on the broader economy.

The tourism sector lies somewhere in between traditional services and more modern services. First, it has both low-value added and low-productivity segments, and knowledge-intensive and technology-intensive segments. Second, it has long been one of the first services sectors to be targeted and developed by a large number of LDCs. Third, being potentially such an internationally connected sector, it is directly affected by ongoing developments in the international economy. For all these reasons, the sector deserves special attention from LDC policymakers (box V.3).

Box V.3.
Tourism

Tourism has traditionally been a preferred entry point for developing country services exports, thanks to lower entry barriers, relatively low capital and skills requirements, and the existence of some comparative advantages. This pattern has been observed in several LDCs. In particular, small island developing States (SIDS) and small economies have specialized in tourism as a means of diversifying their economy and boosting their services exports (see also Section A2 and box IV.3 in chapter IV). At present, tourism ("travel") is the most important services export category for LDCs as a group, and this is also true for 15 of these countries individually.

The tourism industry combines some capital-intensive segments (such as reservations) with labour-intensive segments (such as hospitality and tour guides), which generate the bulk of jobs in the industry and are typically less skill-intensive. It is in the latter segment that tourism has proven especially important in creating jobs, thereby contributing to absorbing the rapidly growing labour force, which is a major challenge of LDC economies. These lower segments of the tourism sector, apart from being an important source of job creation, have a stronger potential for creation or strengthening linkages with the domestic economy, as they can create demand for local goods and services suppliers – such as food and drink suppliers, suppliers of other goods and services to hotels and conference facilities, tour guides, tour operators, restaurants and shops, among others (UNCTAD, 2017c).

Moreover, tourism's exports tend to be concentrated in a few export markets, which account for the bulk of tourist arrivals. This is similar to exports of other services sectors, which tend to be geographically concentrated. A priority for the sector's development is the diversification of its export destinations (i.e. the countries of origin of tourists, including regional markets), as well as exploiting the potential of domestic tourism.

The sector's contribution to structural transformation should be strengthened by minimizing leakages and maximizing linkages to the domestic economy (including fiscal linkages), as a means of avoiding the possibility of tourism operations evolving as enclaves with limited impact on the domestic economy. A major route towards enhancing the contribution of tourism to the structural transformation of LDC economies is the development of productive capacities of agricultural, manufacturing and services (sub)sectors that supply products to the tourism industry (such as food and drink, furniture, electrical equipment, transport, catering and laundry, and ICT services, among others). Developing their own supply capacity and establishing stronger linkages with the tourism sector allow them to reduce leakages from the tourism industry.

Other measures to spur tourism development include the simplification of visa procedures, efforts to diversify source markets, investment in transport infrastructure and fostering local hospitality services suppliers to compete with international ones (UNCTAD, 2017c). This is yet another example of how policies and strategies for the development of specific (sub)sectors have their strongest development impact in LDCs if they are integrated within broader and coherent development strategies and policies aiming at structural transformation.

Policies for the tourism sector of LDCs should also aim to improve the social and environmental impacts of its operations. Policymakers are advised to follow the guiding principles for sustainable investment in tourism, jointly developed by UNCTAD and the World Tourism Organization (UNCTAD and UNWTO, 2025).

1. Knowlde-intensive services

The operation of knowledge- and skill-intensive activities is itself a manifestation of the transition of the economy towards more productive activities and sectors, and this is also true in LDCs. In fact, labour productivity in LDCs in these activities is similar to that in other developing economies (ODEs) (chapter II). However, in LDCs, the potential of these "modern" sectors to have ripple effects throughout the economy – and thereby contribute to structural transformation – is limited by two factors. The first is their small size, in terms of both output and employment, as compared with other services subsectors and with the domestic economy overall. As a result, their impact on overall labour productivity is limited by their reduced share of the labour force. Additionally, the potential impact of these "modern" services is also limited by the small size of the manufacturing sector in most LDCs. This is the sector which has major potential to establish forward and backward linkages with modern services sectors, and this two-way interaction is a major driver of economic growth and productivity increase. This process is taking place in both advanced developing and developed economies. This highlights once again how important it is for policymaking to place the development of services in the context of a broader strategy for the structural transformation of the economy, including some form of industrialization.

There are thus strong complementarities between industrial policies and policies for the development of the tertiary sector.

The development of "modern" sectors requires entrepreneurship policies geared towards knowledge-intensive sectors, which differ from those mentioned earlier, which aim at largely informal and low-value added activities. Policies for higher-value added services, if successful, will result in the creation of higher productivity and higher-earning jobs. The growth of these sectors will then make a stronger contribution to aggregate productivity than is currently the case. Expanding services with potential for higher value added – such as ICT-enabled services, logistics and finance – requires access to digital skills, innovation ecosystems and institutional support systems. Basic digital literacy – alongside competencies such as data analysis, coding, digital marketing and cybersecurity – can open new pathways for employment and entrepreneurship.

A useful instrument of enterprise policy is the establishment and running of forums that bring officials together with local tech entrepreneurs, ICT associations and civil society. Regular consultations help policymakers stay abreast of industry trends and needs, enabling agile adjustments to laws and regulations. This collaborative approach ensures that policies keep pace with technological change and market conditions. National services trade committees can be established as public–private platforms to guide strategy development, coordinate implementation and monitor progress. Effectively functioning committees have been associated with faster implementation of services trade reforms. More broadly, continuous dialogue between policymakers and the private sector has been an important element of development and enterprises policies in several developing countries that have been successful in their catch-up path (te Welde, 2013). Externally, the operation of such entities can enhance the bargaining power of atomized services suppliers vis-à-vis their international clients, and thereby somewhat reduce the power asymmetry between these actors of high-value added global value chains.

The expansion of high-value added services subsectors is likely to spur entrepreneurship in other economic activities. The development of the financial sector, for instance, is likely to contribute to releasing the constraint of the lack of access to finance, which is regularly pointed out as a significant constraint to enterprise development in LDCs (UNCTAD, 2018).[3]

2. Deigitally-deliverable services

The most dynamic segment of "modern" services has been digitally-deliberable services (DDS), which comprise part of the modern services discussed in the present section. Given their dynamism and growth potential, including for LDCs, they are discussed in further detail below.

DDS are the segments of the tertiary sector that have developed most rapidly, and experienced the most dynamic developments since the beginning of the twenty-first century. They are at the core of the emerging digital transformation. The development of the digital economy in LDCs could have far-reaching implications for their structural transformation. The backbone technologies that are at the basis of the digital economy are ICTs, cloud computing and, increasingly, artificial intelligence (AI). These are general-purpose technologies, which can therefore be applied in productive activities in virtually all sectors of economic activity (UNCTAD, 2019, 2025a). The gradual diffusion of these technologies throughout the economy has the potential to strongly boost labour productivity, efficiency and, thereby, earnings levels.

[3] In the case of SMEs, other major impediments to access to finance – especially the high perceived risk and the lack of collateral – also need to be addressed by policymakers to boost the contribution of the financial sector to stuctural transformation.

Despite the great potential for DDS and their backbone technologies to provide a substantial acceleration to structural transformation of LDCs, their contribution has been limited so far, since the DDS sector is still incipient in LDCs, and represents a minor part of their tertiary sector. Providing a transformational contribution is especially challenging for LDC producers supplying international digital value chains. These suppliers are corporate actors or individuals (such as online freelancers). They tend to operate in activities such as business process outsourcing (BPO); supply of services to international customers, largely through platforms (such as data entry, coding and image-tagging); creative industries; and professional services. LDC suppliers are generally located at the lower rungs of global services value chains, which typically have lower entry barriers. Their location at these levels of international digital value chains tends to lead to low earnings associated with the fact of having suppliers with limited market power in highly competitive markets at the global level. These small-scale producers face value chain leaders with much strong(er) market power.

The freelancers or SMEs providing services to foreign digital platforms often operate informally. Although they undertake higher-value added activities than the traditional activities of most low-value added services sectors in LDCs, their operation in the informal sector largely escapes government control and supervision, and therefore poses major challenges to policymakers. It contributes to expanding the size of the informal sector and therefore aggravates the challenges of LDC fiscal authorities in raising taxes. This situation is especially critical because these are higher-value added activities, with a higher potential to generate taxes. This goes counter to the medium-term trend and objective of LDC Governments of raising their tax revenues (albeit from a very low base) (UNCTAD, 2023b). Failing to meet the challenges of expanding the tax base jeopardizes the heavy investment drive that is required both by traditional and modern economic activities and, more broadly, by structural transformation.

For LDCs to benefit from this global shift in services trade, there might be a need for a new generation of public policies, regulations and standards to govern the digital transition (UNCTAD, 2022a). Since DDS sectors are broad, the approach requires a comprehensive policy response that addresses various aspects of society. Consumer protection, data privacy and protection, and cybercrime are the focus of many digital economy policies, but digital transformation requires a broader review of other aspects as well, including the ICT infrastructure and related digital services; payment systems; competition policies; and industry standards, regulation and laws governing e-trade and trade-related issues. To boost the expansion of the DDS sector in LDCs, these countries' policymakers need to act on several fronts, especially: (a) infrastructure, (b) entrepreneurship, (c) skills development and (d) regulation.

Infrastructure

The development of DDS requires investment in robust digital infrastructure, building secure network servers and data centres. These measures are crucial for improving last-mile connectivity and rolling out affordable options such as fibre-optic networks and wireless systems in rural areas. Doing so will boost Internet access and unlock the potential of rural economies. Policymakers can also allocate space and seed funding for technology parks and incubators, where entrepreneurs collaborate. The investments of Bangladesh in high-tech parks and ICT incubators, coupled with training facilities, have nurtured a thriving digital startup ecosystem. Similar hubs in other LDCs can provide mentorship, networking and early-stage financing for new services-oriented ventures.

Investing in digital infrastructure and hubs can unlock rural economies and foster startups

Entrepreneurship

Entrepreneurship policies are crucial for the development of different segments of the services sector in LDCs, and they need to be adapted according to the different types of services subsectors, as mentioned above, ranging from low-productivity services to DDS. For the latter, Governments and development agencies are advised to create an enabling environment for startups and SMEs in the digital space. Business entry and establishment can be eased by simplifying business registration and licensing for tech startups, implementing one-stop online registration portals and reducing red tape. The move by Rwanda to electronic business registration is an example that cut costs and encouraged entrepreneurship.

Innovation funds, fintech solutions, and mentorship are key to thriving digital services in LDCs

Another important aspect of entrepreneurship policies for DDS is improving access to finance for tech entrepreneurs (via innovation funds, challenge grants or fintech solutions), providing mentorship and business development services, and reducing bureaucratic hurdles to starting an online business. Africa has a burgeoning digital finance sector, including fintech innovation, which reached an annual investment of $1 billion in 2022 (UNCTAD, 2022b). This highlights the success of the continent's emerging digital economy. Such success stories can be replicated by tailoring support to local conditions. Special focus could be given to platforms or services that have high social impact. For example, EdTech (online education) and Telehealth services in LDCs can expand access to education and health, while also creating skilled service jobs.

Skills

In terms of strengthening human capital and digital skills, LDCs should integrate digital skills training at all levels of education and provide opportunities for upskilling the current workforce. This means not only basic digital literacy in schools, but also more advanced ICT training through technical programmes, coding bootcamps, and education initiatives in science, technology, engineering and mathematics (STEM). ICT training programmes in Bangladesh have certified over 65,000 professionals, contributing to a 40 per cent annual growth in ICT services exports. Creating tech hubs, innovation labs and university partnerships can build a pipeline of talent. The partnership of Rwanda with Carnegie Mellon University to train local ICT professionals is an example.

Regulation

LDCs need to improve and strengthen their industry standards, regulations and laws governing e-trade. UNCTAD's eTrade for All initiative and eTrade Readiness Assessments have been crucial in assisting LDCs navigate the complexities of e-commerce and the digital economy. They have been complemented by the eT Ready Implementation Support Mechanism since 2020 (UNCTAD, 2020e, 2022c, 2023c). Priority reforms include the following:

- *E-commerce and digital trade laws:* It is important for LDCs to introduce clear legal frameworks recognizing electronic contracts, digital signatures, consumer protection rules for online transactions and online dispute resolution. Early adopters such as Cambodia, which passed e-commerce and consumer protection laws between 2017 and 2023, have seen increased investor confidence in services sectors. Streamlining customs procedures for small parcels, simplifying taxation for online businesses, and enabling digital payments (with appropriate fintech regulations) are also critical. Policymakers can use examples from existing models and guidance (from UNCTAD and the United Nations Commission on International Trade Law, among others) to have inspiration from international best practices. The UNCTAD framework for e-trade and digital transformation also highlights the importance of private sector participation in the delivery of backbone digital services (UNCTAD, 2022c). Some countries are gaining valuable lessons from creating new national online marketplaces or upgrading existing e-commerce and e-payment systems to accelerate their integration into the global digital economy. For instance, Cambodia and Burkina Faso have prioritized skills development, information and public awareness to further support the growth of their e-commerce sectors.

- *Data protection and cybersecurity:* These can be strengthened by implementing robust data privacy laws and cybersecurity regulations to safeguard users and businesses. Adopting clear frameworks for data privacy and cybersecurity protects users and gives foreign investors confidence to engage in LDC markets. This builds trust for crossborder digital services and aligns with global best practices (such as the guidelines of the International Telecommunication Union or the General Data Protection Regulation of the European Union).
- *Online consumer protection:* This can be extended by broadening consumer rights and anti-fraud measures for online transactions. It may be strengthened by establishing units to monitor digital marketplaces and enforce standards so that users (both domestic and foreign) feel safe engaging with LDC-based service providers.
- *Competition in ICT sectors:* One instrument to reduce Internet access costs is to update telecom and Internet service regulations to prevent monopolies. Encouraging market entry and enforcing competition discipline have led to significantly lower data costs in LDCs such as Bangladesh, Bhutan and Cambodia. Lower connectivity prices, in turn, enable more widespread Internet use.

E. International policies

The increasing international tradability of services and the enhanced dynamism of international trade in services have meant that international markets have come to exert a strong influence over developments in domestic services sectors. This takes place both on the export side – given the possibilities opened by foreign markets as export destinations for domestic producers – and in the domestic market, where domestic producers face increased competition from imports. It follows that the domestic policies outlined in the previous sections need to be implemented in tandem and in coherence with trade policies for services, so as to ensure market access and synergies between domestic and international policies, upgrade the performance of LDCs in international trade as compared with their present state (chapter III), and provide clear signals to both domestic and international investors.

Trade policies that affect LDCs' performance in services trade are developed at different levels: bilateral, regional, continental and multilateral. Often, these trade policies are negotiated together with other components of economic relations – for example, technical assistance and development financing. In most cases, LDCs argue with their development partners to take into account the specific conditions of LDCs and the existing asymmetries between their productive capacities and those of their development partners. These asymmetries should translate into special and differential treatment for LDCs.

1. Opportunities in services trade

By being aware of both the constraints and the potential that different services sectors bring to accelerating structural transformation of LDC economies, policymakers can develop strategies for the development of certain tertiary subsectors by taking advantage of opportunities available in international markets.

Sources of comparative advantage

The main bases for export opportunities for LDC service providers are outlined below:

- *Labour abundance and cost competitiveness:* LDCs generally have an abundance of labour willing to work at comparatively low wages, which gives them a comparative advantage in labour-intensive services. This is especially relevant for tourism and hospitality (which rely on a large workforce in hotels, catering and tour guides, among others) and for outsourcing services (such as call centres, data processing and back-office support). In mode 4 services (movement of natural persons, as indicated in box III.1), the large pool of semi-skilled and skilled workers in LDCs (such as construction workers, artisans, teachers and nurses) is a latent advantage – essentially exportable human capital. Low labour costs coupled with growing skill pools (such as the rising number of ICT graduates in Bangladesh, and those with English and French language skills in several African LDCs) have enabled some foothold in BPO and ICT services, as shown in chapter IV.
- *Natural and cultural assets:* Many LDCs are richly endowed with unique attractions that fuel tourism. These include United Nations Educational, Scientific and Cultural Organization (UNESCO) World Heritage sites, pristine beaches, wildlife and biodiversity, and distinct cultural heritage. Some examples include the Angkor temples in Cambodia, the Luang Prabang in the Lao People's Democratic Republic, the mountain landscapes of Bhutan, the Serengeti park and Mount Kilimanjaro in the United Republic of Tanzania, the Himalayas of Nepal, the biodiversity of Madagascar, the gorillas of Uganda and Rwanda, and the music and festivals of Mali and Senegal. Such assets give these countries a comparative advantage in travel services because they offer experiences not easily replicated elsewhere. With tourism seen as a high-growth sector globally, LDCs that preserve and promote these assets have drawn increasing numbers of visitors (at least until 2020). Governments have recognized this. For example, Rwanda brands itself as a destination for ecotourism and conferences, while Senegal leverages its music and heritage for cultural tourism. Thus, inherent endowments combined with focused promotion (such as tourism boards and marketing campaigns) and improving security/stability have supported LDC comparative advantages in mode 2 in travel services.
- *Geographic and strategic position:* Some LDCs benefit from strategic location, which can be leverages for transport and logistics services. Djibouti and the United Republic of Tanzania, for example, serve as gateway ports for neighbouring landlocked countries, mainly Ethiopia for Djibouti, and several countries for the United Republic of Tanzania. The location of Ethiopia was the basis of the policy-developed air transport hub connecting Africa with the Middle East and Asia, leveraging the hub-and-spoke advantage of Addis Ababa for Ethiopian Airlines (chapter IV). These geographic factors – coupled with infrastructure investment, such as port expansion and airport upgrades – bolster comparative advantages in transport services. Djibouti has also been able to benefit from its geographic location, bolstering the exports of services through the presence of foreign military bases on its territory. Additionally, being in proximity to large markets can help certain services. For example, Bangladesh and Myanmar are adjacent to India, enabling some cross-border services trade. Cambodia and the Lao People's Democratic Republic neighbour Thailand and Viet Nam, and benefit from tourism circuits in the Mekong region.

- *Policy and institutional support:* LDC Governments and their development partners have increasingly recognized services trade in policy frameworks, which has been instrumental in developing services exports in several cases. Sector-specific strategies and incentives have been enacted, for example: Bangladesh created ICT parks and incentive schemes to boost ICT exports; Rwanda invested heavily in broadband and an innovation fund to grow tech services; and several LDCs eased visa policies to attract tourists (such as visa-on-arrival schemes in many African LDCs). Some have also engaged in services trade agreements. For example, the Pacific LDCs leverage regional tourism initiatives. East African LDCs (such as Uganda and the United Republic of Tanzania) benefit from joint tourism marketing under the East African Community. In some LDCs, trade facilitation and liberalization in services have improved competitiveness, such as the partial liberalization of logistics and telecommunications in Ethiopia, the opening of telecommunications in Myanmar (which improved Internet access for digital services before its political setback), and the relatively open investment regime in tourism and hospitality in Cambodia. Each of these policy moves has provided an enabling environment for services exporters. Additionally, Aid for Trade programmes have increasingly targeted services (such as tourism training and ICT capacity), further supporting LDCs' development of productive capacities in services.
- *Technological change:* Entrepreneurs and service providers in LDCs can now access global services marketplaces online. Emerging technologies such as AI, blockchain and cloud computing can enable LDC providers to offer new services. For instance, blockchain can allow secure outsourcing of microtasks (such as image annotation for AI) to LDC freelancers, while AI can help LDC-based medical professionals provide remote diagnostic services worldwide.

Policies to exploit comparative advantages

While the opportunities outlined above exist to varying degrees for different LDCs, effectively taking advantage of them requires policies to mobilize human, financial and institutional resources, and develop the productive capacities of service providers in these countries.

Significant challenges remain. Digital divides persist both within and between countries, limiting the potential benefits of digital services (as shown in chapter III). Infrastructure deficits increase the cost of services delivery. Skills gaps constrain the ability of LDC service providers to move up the value chain. Institutional capacity limitations hamper effective policy implementation and regulatory oversight. Moreover, gains from digital services exports are likely to initially accrue to a small segment of the population (mostly urban and educated youth), so policies are needed to expand these benefits economy-wide.

The experience of LDCs such as Rwanda, Cambodia, Bangladesh and Ethiopia, as well as the other case studies presented in chapter IV, provide compelling evidence that strategic policies targeting services sectors can drive diversification, job creation and integration into higher-value segments of global service value chains. The most successful approaches share common elements: (a) strategic investments in both physical and digital infrastructure; (b) deliberate human capital development aligned with target sectors; (c) proactive regulatory reforms that create enabling environments for service providers; (d) careful attention to inclusivity and sustainability; and (e) effective leveraging of regional and international frameworks.

Beyond the policy packages targeting selected services sectors, the policy priority should be not just to integrate domestic services producers into global services value chains, but doing so in a way that maximizes the developmental impact of such integration. This can take place by striving to establish strong intersectoral linkages in the domestic economy, and aiming to upgrade services supply, in terms of progressively intensifying the value added and knowledge intensity of domestic production. Reaching these goals requires policies that are both domestic and international, which implies coordinating domestic economic actors and undertaking international negotiations at the bilateral, regional, continental and multilateral levels. The main policy priorities for LDCs are outlined below:

- *Services export strategies:* These can be developed as a component of policies to expand, strengthen and upgrade some services sectors present in the domestic economy. These strategies can help these sectors by aiming at some of the positive effects traditionally associated with exports, such as overcoming narrow domestic markets, achieving economies of scale, benefitting from specialization, facilitation transfer of technology and knowledge acquisition, loosening balance of payments constraints to growth, and vent for surplus. This means that export strategies should be part of broader national policies for the development of the productive capacities of given services sectors.
- *National services trade strategies:* LDCs should formulate (or update) clear national services trade strategies that identify priority services sectors for growth and key export niches, based on competitive advantage analysis, market opportunities and development impact potential. They should comprise clear implementation mechanisms and monitoring frameworks, as well as required reforms and investments. As exemplified by LDCs such as Rwanda and Bangladesh, a strategic approach focusing on a few competitive sectors (such as tourism, ICT and logistics) effectively channels efforts and resources. The strategy should be cross-cutting – involving, among others, ministries of education, ICT, infrastructure and investment – to ensure coherence.
- *Export promotion agencies:* These have been instrumental in promoting exports of many developing countries. LDC Governments can establish or expand them to include dedicated units within existing trade promotion organizations with sector-specific expertise and public-private governance models. A study of 103 countries – including 13 LDCs – between 2005 and 2024 indicates that a 1 per cent increase in trade promotion organization budgets leads on average to a 0.067 per cent increase in exports and a 0.101 per cent increase in GDP per capita. The fact that returns in GDP per capita are higher than export returns suggests that export promotion has a growth-promoting effect that goes beyond the impact on export growth, likely because they promote a more competitive and innovative ecosystem that leads to productivity and employment gains (Olarreaga, 2024). Trade promotion organizations should embed digital tools in their services offered to small businesses. For instance, online platforms could be better leveraged to present businesses internationally and reach desired communities, as well as to facilitate data collection and analysis, and assess customer needs (UNCTAD, 2017a). These export promotion agencies can also implement export readiness programmes for service SMEs, providing technical assistance on international market requirements, quality standards and export procedures. Another component of services export promotion schemes can include digital trade hubs that combine physical facilities and virtual platforms to provide integrated export support services, market intelligence and business matchmaking for services exporters.
- *Export finance:* Export financing mechanisms tailored to services can be put in place, addressing the intangible nature of services exports and the working capital needs of service providers.

2. The regional and continental dimensions

Regional approaches offer significant potential for LDCs to overcome market-size constraints and enhance integration into services value chains. Regional frameworks are somewhat better attuned to development disparities. Regional cooperation also allows LDCs to pool resources, improve connectivity and build regional value chains that can serve as a springboard into global markets.

It is also critical to promote multilateral dialogue on trade rules to ensure that the development of DDS in LDCs is not hindered by existing or future trade measures, especially with the rising volume of cross-border digital transactions. The success of DDS relies on two key pillars: market access and a robust digital ecosystem. Regional agreements – such as the African Union Protocol to the Agreement Establishing the African Continental Free Trade Area on Digital Trade, and the Association of Southeast Asian Nations (ASEAN) Agreement on Electronic Commerce – could guarantee small economies market access within their own regions.

One of the arguments in favour of regional integration is that the disparities among member countries – in terms of income, technological capabilities, development of productive capacities, etc. – are narrower than in the multilateral context, which makes it easier to open up to neighbouring countries and integrate more deeply with them. This is true, but some level of disparities still exists, even in the regional sphere. Therefore, within regional integration schemes, LDCs should benefit from special and differential treatment, to take into account these asymmetries. To some extent, this is currently put in place in some regional agreements. Within ASEAN, the LDCs – Cambodia and Myanmar (alongside Viet Nam) – enjoy special conditions. These typically materialize as capacity-building programmes/activities, longer phase-in, technical assistance and fewer (sub)sectoral commitments that LDCs have to commit to.

LDCs participate in a number of programmes, initiatives and agreements aiming at integrating the services trade of their members, both in Africa (box V.4) and Asia (box V.5).

Box V.4.
African services trade integration initiatives are thriving

The East African Community (EAC) framework essentially allows each member State's companies and professionals to operate with fewer restrictions in other member States. The EAC also has mutual recognition agreements for qualifications in professions such as engineering, accounting and medicine, enabling professionals to have their credentials recognized regionally. EAC integration has prompted members to update domestic regulations in line with best practices. The relatively advanced regulatory frameworks of Kenya and Rwanda tend to set benchmarks that others then emulate.

The Economic Community of West African States (ECOWAS) has a Protocol on Free Movement of Persons that allows citizens of member States visa-free entry and the right of residence and establishment. However, barriers still exist in practice, where some countries require work permits or have quotas. Moreover, the member States of ECOWAS have adopted regional cybersecurity and data protection policies that help create a safer digital trade environment. Aligning national laws with these regional frameworks is an ongoing process.

The services protocol of the Southern African Development Community (SADC) is still being implemented. It lacks the depth of the EAC common market, but provides a legal pathway to liberalize and possibly binds countries not to reverse openness. As an LDC in SADC, Mozambique has benefited from technical assistance to participate in services negotiations.

The regional services agreements often serve as building blocks for the commitments made in the context of the African Continental Free Trade Area (AfCFTA). Indeed, many AfCFTA service commitments are based on existing regional liberalization levels. Eventually, AfCFTA may supersede these if fully implemented continent-wide, but meanwhile regional agreements act as building blocks.

AfCFTA has adopted the Protocol on Trade in Services (which commits countries to progressive liberalization of services sectors and regulatory cooperation), and is negotiating a Protocol on Digital Trade (which establishes harmonized rules and standards for e-commerce and other digital trade activities across Africa). AfCFTA negotiations on services have been ongoing, with the first round focusing on five priority sectors: business services, communications, financial services, tourism and transport.

An important feature of AfCFTA is that it explicitly provides for Special and Differential Treatment for African LDCs in the scheduling of commitments. LDCs are generally given more time to implement commitments, and can schedule fewer or less extensive commitments, reflecting their development level.

AfCFTA provides a platform for mutual recognition agreements on professional qualifications, thereby facilitating the mobility of skilled workers across member States. This obviates one of the major obstacles to LDC exports of professional services, namely the lack of mutual recognition of qualifications/diplomas.

An important sectoral services initiative by the African Union is the African Single Air Transport Market (SAATM), also known as the Atmosphere of Free Movement of People and Goods for Africa. It is a flagship project of the Union's Agenda 2063. It aims to liberalize and integrate air transport across African countries to enhance connectivity, boost trade in goods and services, and promote economic growth on the continent.

Sources: ECA et al. (2025); African Union (2025).

Box V.5.
Asian least developed countries participate in several services trade integration schemes

The ASEAN Framework Agreement on Services (AFAS), signed in 1995, led to 10 rounds ("packages") of commitments where each member progressively liberalized more sectors for other ASEAN members. Building on AFAS, ASEAN signed the ASEAN Trade in Services Agreement (ATISA) in 2019, a modernized, consolidated agreement that adopts a negative list approach (meaning all services are liberalized except those on a list of reservations) and seeks deeper integration. ATISA entered into force in 2021 for those that ratified, including Cambodia and the Lao People's Democratic Republic.

ASEAN has also adopted a Digital Integration Framework and the ASEAN Digital Masterplan 2025, which outline strategic goals such as reducing the digital divide, securing digital data flows and enabling digital payments across the region. ASEAN is negotiating a landmark Digital Economy Framework Agreement (DEFA), slated for conclusion by 2025. DEFA is envisioned as a comprehensive pact to unify digital trade rules in ASEAN, covering areas such as paperless trade, data regulation, fintech and digital upskilling.

Taking into account asymmetries between member countries, ASEAN introduced the Initiative for ASEAN Integration (IAI) to assist CLMV countries (Cambodia, the Lao People's Democratic Republic, Myanmar and Viet Nam). Through IAI, projects have focused on improving services sector capacities such as English language training for tourism workers or improving Internet connectivity in CLMV. These efforts have helped narrow gaps somewhat. More developed members such as Singapore, Malaysia and Thailand opened many sectors, giving LDCs potential niche export markets (such as sending skilled workers). In return, LDCs also had to open sectors, but they were allowed longer transition periods and flexibility.

ASEAN LDCs also enjoy ASEAN-wide initiatives, such as the ASEAN Framework Agreement on Mutual Recognition Arrangements. They concentrate on qualified professionals, such as tourism professionals, nurses, engineers and architects. Although they are still early in implementation, they eventually facilitate mobility of those professionals among member States. Additionally, air transport liberalization in ASEAN (open skies for ASEAN carriers on certain routes) helped tourism in Cambodia by increasing intra-ASEAN flights.

Regulatory cooperation in ASEAN on services includes forums of regulators (such as the ASEAN Banking Integration Framework and the ASEAN Telecommunications Regulators Council), where members exchange best practices and gradually align regulations. LDCs receive capacity-building through ASEAN to implement commitments – for instance, through training to upgrade their services quality standards or regulatory frameworks in line with ASEAN agreements.

However, South Asian integration in services through the South Asian Association for Regional Cooperation (SAARC) is weak, with significant visa restrictions, regulatory heterogeneity and limited regional initiatives compared with ASEAN or African regional economic communities. Nepal and India have a long-standing treaty (dating from 1950) that allows free movement of people and labour, which is far more impactful for services in Nepal (many Nepalis work in India) than are SAARC agreements. Bangladesh has engaged in bilateral cooperation with India on specific services (such as mutual recognition of academic degrees and cooperation in ICT skills development) outside the SAARC framework.

The Regional Comprehensive Economic Partnership Agreement (RCEP) offers its LDC signatories (Cambodia, the Lao People's Democratic Republic and Myanmar) the opportunity to gain from capacity-building components in e-commerce and greater market access for their digital exports. However, the complexity of implementation and the overlap with ASEAN commitments means the immediate effect might be muted. Still, over time, common rules of RCEP, such as on e-commerce or telecom regulatory principles, could encourage upgrades in LDCs' regulatory systems.

Sources: ESCAP (2025); ASEAN Secretariat (2021); Minghui (2018); TFGI (2023).

Going forward, LDCs could take a more proactive stance in regional and continental blocs to actively leverage and shape them. This can include one or more of the following elements:

- *Deepening regional services liberalization:* Many LDCs are part of regional economic communities that have services trade protocols or digital market initiatives (boxes V.4 and V.5). LDCs are advised to ratify and implement these agreements, aligning their national regulations with regional standards to facilitate cross-border services provision. Where gaps remain, they should push within these blocs for harmonization of regulations – for example, common frameworks for data protection or e-transactions – to reduce the compliance burden on services firms.

  LDCs may consider taking the following actions to deepen regional services liberalization:

  - Accelerate implementation of existing regional services commitments through dedicated technical working groups, implementation monitoring mechanisms and capacity-building programmes.
  - Prioritize services sectors with strong regional demand and demonstrated comparative advantages of regional LDCs, such as transport, tourism and business services.
  - Address non-tariff barriers affecting services trade through transparent notification systems, coordination mechanisms and dispute resolution procedures at the regional level.
  - Enhance mode 4 facilitation by expanding mutual recognition agreements for professional qualifications and implementing simplified visa procedures for business travellers and service providers. The model of the ASEAN Framework Agreement on Mutual Recognition Arrangements has facilitated professional mobility in multiple services sectors.
  - Harmonize regulatory frameworks for key services sectors through regional model regulations, regulatory coordination platforms and shared capacity-building initiatives.

- *Regional digital infrastructure and markets:* In this field, the following actions can be considered by LDC policymakers:

  - Build regional digital platforms and payments. Collaborate regionally to establish platforms that connect service providers with clients across countries. For instance, an African freelancing marketplace or a joint e-learning platform for South Asia could aggregate supply and demand, giving LDC providers a larger audience.
  - Link national digital payment systems to enable smooth cross-border transactions. Initiatives such as the East African Payments System can serve as models to ensure that, when services are delivered across borders, payments flow efficiently. It is also important to establish fintech regulatory coordination to reduce transaction costs for digital services trade and e-commerce within regional markets.
  - Develop regional backbone networks, Internet exchange points (IXPs) and data centres, to reduce connectivity costs and improve service quality.[4]
  - Implement harmonized spectrum management policies and cross-border connectivity agreements to facilitate seamless digital services provision across regional markets.
  - Develop regional approaches to taxation of digital services, avoiding fragmentation that could undermine the growth of digital markets. Coordinated approaches have been shown to increase tax compliance while reducing

[4] For every 1 per cent increase in the number of IXPs per 10 million inhabitants, the speed of fixed-broadband download (Kbps) increases by 0.8 per cent. Countries with a higher number of IXPs also tend to have greater access to broadband Internet, and the costs are more affordable (Ofa, 2021).

compliance costs for businesses.

- Create regional digital skills partnerships, pooling resources for specialized training programmes that serve regional services markets.

- *Mutual recognition of qualifications:* LDCs should also coordinate with neighbouring countries to mutually recognize professional certifications and technical qualifications. This enables LDC professionals (such as nurses, teachers and ICT specialists, among others) to offer services in regional markets without facing prohibitive requalification hurdles. Regional bodies (such as the African Union and ASEAN) can facilitate such mutual recognition agreements in fields such as accounting, healthcare or engineering, expanding the talent pool and high-value services offerings across borders.

3. The multilateral dimension

At the multilateral level, over the years, LDCs have strengthened their participation in services trade negotiations, both at the World Trade Organization (WTO) and in other forums. LDC negotiation strategies have evolved. Initially, they were primarily defensive, seeking exemptions and special treatment, such as flexibility, longer time and aid. More recently, they have become increasingly proactive, seeking to shape rules and gain market openings that matter to them, such as with service visas, mutual recognition and keeping low barriers in sectors where they can compete. Moreover, they have enhanced the coordination of their negotiating positions.

LDCs have emphasized several key priorities in multilateral services negotiations:

- *Mode 4 (movement of natural persons, according to GATS) liberalization:* Enhanced access for natural persons from LDCs providing services in developed markets. All LDCs have a surplus of labour and most have relatively young, growing populations. They consistently push for easier entry for their service providers (both skilled and semi-skilled) into developed and advanced developing markets.
- *Special treatment:* LDCs have pushed for effective implementation of existing commitments and special provisions for LDCs.
- *Technical assistance and capacity-building:* Support for developing competitive services sectors and meeting regulatory requirements in export markets.
- *Regulatory flexibility:* Preservation of policy space to regulate services sectors in accordance with development objectives.

As a result of this more proactive negotiating stance by LDCs, a series of decisions in favour of these countries' services exports have been adopted. But the outcomes of services trade negotiations for LDCs present a mixed picture. The multilateral trading system has established specific instruments and provisions aimed at enhancing LDC participation. The modalities for the special treatment of LDCs in the services negotiations, adopted in 2003, require members to provide "effective market access" in sectors and modes of supply of export interest to LDCs when making specific commitments. Wherever possible, members are requested to make commitments in mode 4 (WTO, 2003).

In 2011, WTO members adopted the LDC services waiver (WTO, 2011) and, in 2015, it was extended to December 2030 (WTO, 2015). It provides a legal basis for granting preferential treatment to LDC services and service suppliers, without having to extend such treatment to other WTO members. More than 50 WTO members have notified preferences for LDCs under the waiver, including both developed and other developing economies. These preferential measures refer mainly to market access, while some address provisions on national treatment, visa regulations, and contact point for LDC services providers. The sectors most frequently targeted by these preferential measures are business and transport services.

The practical impact of these outcomes, however, has been limited (UNCTAD, 2020c). The main reasons for this shortcoming have been:

- *The voluntary nature of many provisions,* including the LDC services waiver, which states that members "may" provide preferential treatment rather than establishing binding obligations. This "best endeavour" language does not obligate any WTO member to provide any preferential treatment to LDCs, and hence it becomes very difficult to ensure compliance.
- *Minimal actual preferences margins* beyond existing most-favoured-nation (MFN) treatment in many cases.
- *The misfit between offers made by preference-giving countries and the supply capacity and export interest of LDCs,* in terms of both the services sectors and modes of supply.
- *Implementation challenges* resulting from complex regulatory requirements, capacity constraints and limited awareness.
- *Migration sensitivities.*

Much of the discourse on the waiver gravitates towards a consideration of "commitments" instead of actually applied preferences.

Another area of proactive engagement is domestic capacity and regulatory cooperation. Recognizing that just market openings are not enough, LDC negotiators have increasingly tied their demands to commitments of support, i.e. capacity-building.

For the future of multilateral negotiations on trade in services, LDCs may wish to consider the following approaches:

- *Maximizing the use of the LDC services waiver:* LDC Governments need to raise awareness among their domestic firms about any existing preferences so that more LDC providers can take advantage of them. Additionally, there is a need to establish a dedicated technical assistance programme to help LDCs understand and utilize preferences under the waiver, including targeted support for services exporters to navigate regulatory requirements in preference-providing markets. As part of this effort, capacity-building initiatives could prioritize strengthening LDCs' data collection and use, covering trade flows, regulations, and utilization rates of the waiver, enabling more evidence-based policymaking and more targeted engagement with preference-granting countries (UNCTAD, 2025b).
- *Update LDC requests:* LDCs may conduct an updated comprehensive assessment of their priority export interests in services to better align preferences with commercial opportunities and comparative advantages. Such an assessment could also identify priority services imports that may enhance the competitiveness of their goods exports, subject to domestic availability, quality and accessibility. LDC Governments could subsequently submit updated requests to existing and potential preference-granting countries and negotiate with trade partners for meaningful preferences.
- *Extension and improvement of LDC services preferences.* To improve its effectivity, the LDC services waiver would need to be extended beyond its expiration in December 2030 to maintain LDC services preferences. Preferences could go beyond market access and include measures such as streamlined licensing, recognition of qualifications, digital trade facilitation or visa facilitation for LDC services providers.

- *A coordinated negotiating stance:* LDCs are advised to engage as a bloc in WTO discussions to ensure special and differential treatment provisions are preserved and enhanced. They have increasingly advanced in this direction. Drawing on the approach taken by the Trade Facilitation Agreement, LDCs can collectively insist on provisions for capacity-building and flexible implementation of rules until capacity is achieved. Speaking with a united voice amplifies LDCs' influence in setting rules that align with their constraints and priorities.
- *Technical assistance and Aid for Trade:* LDCs can proactively utilize the Enhanced Integrated Framework dedicated to LDCs, the broader Aid for Trade initiative and technical cooperation programmes (for example, by UNCTAD and WTO) to build trade capacity. By preparing well-defined project proposals, for example, for digital customs systems or ICT training centres, LDCs can attract funding and expertise through these channels.
- *Transitional periods:* In global rulemaking, LDCs should insist on grace periods and exemptions commensurate with their development level. If new rules on services regulation are negotiated, LDC negotiators can request extra time and assistance to comply. This special and differential treatment principle helps prevent LDCs from being penalized or excluded due to capacity constraints.

By actively shaping negotiations and making full use of special provisions, LDCs can ensure that the global trade regime evolves in a way that supports their ambitions rather than stifling them. It is crucial that LDCs do not remain passive rule-takers. With the right strategy and coordination, they can become influential voices championing a more inclusive multilateral trading system.

4. South–South cooperation

South-South cooperation includes mechanisms that support the development and upgrading of services sectors in LDCs. This includes technical cooperation, peer learning and experience sharing. LDCs can learn from emerging economies that have successfully grown their services sectors. For example, the ICT outsourcing industry in India or fintech innovations in Kenya offer lessons in building competitive services sectors. Through South-South cooperation platforms, LDC policymakers and entrepreneurs can undertake study tours, peer learning programmes and joint projects with more advanced developing countries. Such exchanges can accelerate the adoption of effective policies and business models adapted to local needs. Additionally, India has extended its expertise in digital ID systems and digital payments to countries in Africa and Asia (including LDCs) via development cooperation, which can accelerate the adoption of foundational digital platforms.

Another area in which South-South cooperation can be fruitful to LDCs is through experience-sharing and capacity-building on tax issues. Other developing economies often share with LDCs a large informal sector, and have longer experience with formalization and bringing informal economic agents under the purview of national tax authorities.

> Experience-sharing on taxation enables LDCs to improve compliance and strengthen revenue systems

A further area in which South-South cooperation has become increasingly prominent is in development finance. Institutions such as the New Development Bank and the Asian Infrastructure Investment Bank (AIIB) offer concessional financing that supports infrastructure development critical for services trade, such as energy, transport and trade infrastructure, as well as Internet connectivity, among others. Wider international financing sources help LDCs lift some of the major constraints hampering the development of their services sectors.

F. Summary conclusions

While the expansion of services in LDCs has created much-needed employment opportunities, it has yet to deliver the productivity gains and broad-based improvements in living standards that many had hoped for. The large number of low-skilled workers employed in traditional services needs to be supported through better skills, productivity and working conditions, so that living standards can also improve.

The time is now ripe for LDCs to transition the bulk of their services sector from being a buffer to absorb low-skilled labour, towards promoting the diversification, growth and upgrading of tertiary companies. LDC Governments and development partners need to assist in transforming the sector so that it reaches a new phase of growth — one that deepens linkages across the economy and strengthens the capacity to export services competitively. By fostering tradable, high-value added services, while upgrading traditional ones, LDCs can not only diversify their export revenue base, but also enhance the quality, efficiency and accessibility of services that underpin productivity and innovation across domestic industries.

Such upgrading of the services sector will allow it to become a hub of technology and knowledge spillover by building dynamic linkages with other sectors and activities of the domestic economy – including manufacturing – in a mutually supportive development process that improves efficiency and productivity.

The improvement of the performance of the tertiary sector requires a coherent set of policies ranging from the highest-level development policies aiming to solve some of the structural bottlenecks to growth and development, to much more targeted policies and measures that aim at developing or creating comparative advantages for specific services (sub) sectors. It also requires active trade policies. Access to international markets is being facilitated by the implementation of regional integration schemes and by technological developments, while stronger action is necessary at the multilateral level. Business development for international markets should be complementary to that for domestic markets.

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