VI REDLAS Conference

Services Economy and Trade and Structural Transformation

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Outline

1. Services and SDGs
2. Trends in the services economy and trade
3. Services and structural transformation
4. Enabling policies and regulations for structural transformation
5. The role of the international trading system
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I: Services and SDGs

Services' potential for structural transformation & SDGs

• Contribute a growing share to GDP, trade & employment

• Enhance productivity, competitiveness & economy-wide growth
  – Constitute essential inputs to other products and services
  – Modern IT-enabled business services emerged as promising tradable services
  – Efficient services are catalytic to the expansion of GVCs

• National policies and regulatory efforts, as well as multilateral and regional trade policy cooperation, should recognize this developmental potential of services.

• Coherent and fit-for-purpose policy, regulatory and institutional frameworks, including trade liberalization approaches and human skills development, is key for harnessing this potential of services.
I: Services and SDGs

SDGs are essentially a services agenda

• Goal 1 - End poverty:
  – 1.4 By 2030, ensure that all men and women have access to basic services, new technology and financial services, including microfinance;

• Goal 2 - End hunger and achieve food security:
  – 2.3 By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, including through secure and equal access to financial services

• Goal 3 - Ensure health and well-being:
  – 3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services

• Goal 4 - Ensure education:
  – 4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education

• Goal 5 - Achieve gender equality and empower all women and girls:
  – 5.a Undertake reforms to give women access to financial services
I: Services and SDGs

• Goal 6 - Ensure water and sanitation:
  – 6.1 By 2030, achieve universal and equitable access to drinking water for all
  – 6.2 By 2030, achieve access adequate and equitable sanitation and hygiene

• Goal 7 - Ensure energy:
  – 7.1 By 2030, ensure universal access to affordable, reliable and modern energy;

• Goal 8 - Inclusive / sustainable economic growth & employment:
  – 8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation
  – 8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of enterprises, including through access to financial services
  – 8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all;

• Goal 9 - Infrastructure, industrialization & innovation:
  – 9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure
  – 9.2 Promote inclusive and sustainable industrialization
I: Services and SDGs

- **Goal 9 - Infrastructure, industrialization and innovation:**
  - 9.3 Increase the access of small-scale industrial and other enterprises to financial services
  - 9.c Significantly increase access to ICT and strive to provide universal and affordable access to the Internet in LDCs by 2020

- **Goal 10 - Reduce inequality within and among countries:**
  - 10.5 Improve the regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations
  - 10.7 Facilitate orderly, safe, regular and responsible migration and mobility of people
  - 10.c By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances & eliminate remittance corridors with costs higher than 5%

- **Goal 17 - Means of implementation:**
  - 17.10 Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system
  - 17.11 Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries’ share of global exports by 2020
  - 17.14 Enhance policy coherence for sustainable development
  - 17.15 Respect each country’s policy space and leadership to establish and implement policies for poverty eradication and sustainable development
II: Trends in services economy & trade

Trade in services

• Services economy has major contributions in GDP, jobs, FDI:
  – GDP: 76% developed, 55% DCs, 65% LAC / FDI: 58% (global);
  – Jobs: 75% developed, 44% DCs, 63% LAC;

• Trade in services:
  – Between 2005-2016, the share of services exports in total exports of goods & services increased from 24 to 28% in developed econ. & from 14 to 17% in DCs;
  – In the same period, services exports grew faster annually (5% in developed economies and 8% in DCs) than goods exports;
  – Services exports were more resilient than goods exports.

Source: UNCTADStat
II: Trends in services economy & trade

Trade in services

- Among DC regions, Asia registered the fastest export growth while Africa exports remained largely unchanged
- LDCs saw dynamic export growth, starting from a low base
- Developing Asia accounts for 24% of world services exports while the shares of other regions are small: developing America (3.5%), Africa (2%) & LDCs (0.7%)

Source: UNCTADStat

Services exports by developing country regions, 2008-2016
II: Trends in services economy & trade

Trade in services in LAC

- Brazil & México are the largest exporters in the region, followed by Argentina & Panama. Heterogeneity also revealed:
  - The first 10 exporters account for more than 80% of regional exports, the first 10 importers represent more than 50% of regional imports.

<table>
<thead>
<tr>
<th>Main services exporters</th>
<th>Value of services exports</th>
<th>Share of global services exports</th>
<th>Main services importers</th>
<th>Value of services imports</th>
<th>Share of global services imports</th>
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<tbody>
<tr>
<td>Brazil</td>
<td>33 300</td>
<td>20.0</td>
<td>Brazil</td>
<td>63 750</td>
<td>34.2</td>
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<tr>
<td>Mexico</td>
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<td>Mexico</td>
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<td>Argentina</td>
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<td>Panama</td>
<td>12 329</td>
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<td>Chile</td>
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<td>Cuba</td>
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<td>Chile</td>
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<td>Dominican Republic</td>
<td>8 311</td>
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<td>Panama</td>
<td>4 446</td>
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<td>Costa Rica</td>
<td>8 288</td>
<td>5.0</td>
<td>Dominican Republic</td>
<td>3 310</td>
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<td>Colombia</td>
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<td>Ecuador</td>
<td>3 232</td>
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<td>Peru</td>
<td>6 304</td>
<td>3.8</td>
<td>Costa Rica</td>
<td>3 207</td>
<td>1.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>133 989</strong></td>
<td><strong>80.6</strong></td>
<td><strong>Total</strong></td>
<td><strong>161 396</strong></td>
<td><strong>86.5</strong></td>
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</table>
Trade in services by category in Latin America and the Caribbean

- Transport (16% of total commercial exports), travel (47%) & other business services (21%) are the largest categories;
- Exports are dynamic in telecommunications & ICT services, travel and other business services;
- Among developing regions, LAC still lags behind to Asia on exports of higher value added services (e.g. financial, telecommunication, other business services).

Exports of selected commercial services from LAC by category, 2008-2016 (index 2008=100)

Source: UNCTADStat
II: Trends in services economy & trade

- **Mode 3 and mode 4** are not captured in cross-border trade data;
- **Services value-added** embedded in goods exports (mode 5) is not captured by the gross export value data:
  - In 2011, services value added accounted for 44% of exports in developed economies and 32% in DCs, higher than their shares of services in total exports (25 and 14%);
  - Mode 5 reflects servicification in exports and the increased services' tradability, especially when linked to inherently tradable goods & services;
  - Imported services value-added of gross exports grew for all countries between 1995-2011, also indicating the increased tradability of services.

- **Services activities within manufacturing firms** are not captured either:
  - Firms develop services activities themselves rather than outsourcing in order to add more value content to their products & to keep strategic business functions in-house;
  - Services support activities (R&D, engineering) represented between 25-60% of employment within manufacturing firms (2015);
  - For a sample of countries, services inputs accounted for 37% of manufacturing exports but by adding services activities within manufacturing firms, that share increased to 53% and the contribution of services to overall exports was close to two-thirds.
III: Services & structural transformation

Services have a multi-dimensional importance

• Services provide inputs to all economic activities/productive stages;
• Services are also important in coordinating production processes & enhance economies' organizational capabilities:
  – Telecom services allow cooperation between different activities in the process;
  – Knowledge & technology-based services have an intermediation function facilitate specialization;
• Induce efficiency & effectiveness, reduce productive/trade barriers & costs, improve export capacity & favour participation in GVCs;
• This is particularly important and true for MSMEs:
  – Represent 95% of firms, 50% of output & 60% of jobs, but face productivity gap (wider in DCs), minimal trade participation & focus low value-added production;
  – Services improve competitiveness of MSMEs, are less dependent on economies of scale, are often less capital-intensive, allow for atomised provision of inputs, and distribute certain costs (e.g. reputational, costs of capital) along the GVC;
  – SDGs acknowledge the importance of financial services (8.3 & 9.3) for MSMEs;
  – Telecom and ICT promote MSMEs inclusion, e.g. through digital financial services and e-commerce.
III: Services & structural transformation

- Services' value-added is higher than its direct contributions (2011):
  - Services represent 77% of the value-added in total output in developed economies and 59% in DCs. These compare with the share of services in total GDP in gross value terms of 74% for developed countries and 51% in DCs;
  - In LAC, services' direct output was 62% while services' value-added in total output was 69%;
  - Services represent 44% of the value-added in total exports in developed economies and 32% in DCs. These compare with the share of services in total exports in gross value terms of 25% for developed countries &14% in DCs;
  - In LAC, services' direct exports were 12% while services' value-added in exports was 32% - a difference of crucial importance for policy making.

Share of services in total direct exports and in total forward linkages in exports by income level, 2011 (%)

Source: UNCTAD based on the World Bank Export Value Added Database (EVAD).
III: Services & structural transformation

- **Services value-added in total value-added of sectoral output:**
  - 23% of agricultural output in developed economies, 9% in DCs, 15% in LAC;
  - In textiles, 27% of sectoral output in both developed economies and DCs;
  - DCs incorporate less services' value-added (agriculture and energy);
  - LAC incorporates more services' value-added in output than the DCs average.

- **Services value-added in total value-added of sectoral exports:**
  - 24% of agricultural exports in developed economies, 13% in DCs, 16% in LAC;
  - 27% of textiles' exports in developed economies, 25% in DCs, 30% in LAC;
  - LAC incorporates more services' value-added in exports than the DCs average.

### Share of services in total backward linkages in exports of selected sectors by income level, 2011 (%)

**Source:** UNCTAD based on EVAD.
III: Services & structural transformation

- Services increase productivity due to their direct (BoP) and indirect (VA) importance (including an important part of production costs), their coordination role and their intra-firm relevance.

- By enhancing productivity, services can induce structural changes;

- These can trigger economy-wide growth if it favours sectors which tend to have more productivity, greater technological intensity, greater spillover effect and upgrading potential:
  - For example, structural changes in Asia in the 1990s were supported by a close linkage between competitive services and manufacturing;

- In LAC, structural changes had a different pattern, with workers displaced to lower-productivity activities, which led to reduced growth. Active flanking policies and a balanced growth strategy is called for:
  - No less than one third of aggregate productivity growth is associated with the performance of the services sector in countries where manufacturing has grown rapidly (eg. Viet Nam);

- Services should no longer be considered as an alternative to industrialization but as part of countries' transformative strategy.
IV: Enabling policies for ST

Lessons from UNCTAD's Services Policy Reviews (1)

• The importance of policy coherence and coordination:
  – A multi-stakeholder approach to policymaking involving the private sector (coalitions of services industries). Coherent regulatory design secures adequate policy objectives and avoids unnecessary restrictions;

• Sound institutions and good governance, including sub-national (local & city), national, regional & international levels of coordination:
  – E.g. SPR Peru: setting up an inter-institutional committee and translating the national agenda into a public instrument catalyses inter-institutional coordination;

• Enabling productive, technology, business environment, promoting business facilitation, economic formalization, technology, innovation & producer association and clustering, standard adoption and recognition:
  – In Central America, the Regional Technical Commission on Telecommunications plays a role on the development and regulatory harmonization of telecommunications in the region.
IV: Enabling policies for ST

Lessons from UNCTAD's Services Policy Reviews (2)

• Labour skills development, supported by a sound education strategy that matches labour demand and skills:
  – In Costa Rica, where export of business services is important, a strategy to improve skills includes vocational training; firms working with universities to design curricula that match market needs; bilingual public high schools to improve English speaking skills;

• Provision of adjustment policies & facilities, including labour market policies, adjustment facilities (e.g. US TAA), other complementary policies (e.g. education) and macro-economic policies;

• Improved collection, treatment and analysis of services data for evidence-based policymaking (see SISCOSERV).

See more on SPRs, including SPR of Nicaragua, Paraguay and Peru on: http://unctad.org/en/Pages/DITC/Services/Services-Policy-Review-Series.aspx
Coherence between trade liberalization, policy, regulatory and institutional frameworks is needed

- Reg. attends legitimate policy concerns & are precondition to liberalization;
- Regulations may act as trade barriers. It is necessary to examine if they are not unnecessarily harmful for the development potential of services:
  - Prohibition of foreign providers, limits on foreign ownership, discriminations on qualification requirements may act as barriers. Greater restrictions in professional services and transport, as well as on mode 4 (quotas, labour market tests and durations of stay);
- The impact is estimated greater in exports than in imports, as barriers reduce the competitiveness of both local exporting firms and foreign firms supplying intermediate services.

Services Trade Restrictiveness Index, average by sector

Source: World Bank Services Trade Restrictions database.
Conclusion (1)

- Services can act as a powerful catalyst for economic transformation;
- Services are enablers, interveners, and beneficiaries of the potential of the digital economy and artificial intelligence;
- Services value-added have been significant & increasing, and trade in services enabled countries to diversify and upgrade their economies, including through regional and global value chains;
- There is need for economies to pursue a balanced growth strategy to capitalize on growth-inducing services, including for agriculture & manufacturing sector development;
- Important to institute trade & social adjustment support (e.g. skill development, social safety nets, allow revision & rollback mechanisms);
- An enabling environment - best-fit policies, adequate regulations and strong institutions - is key to harvest the services potential:
  - Sound, timely and disaggregated data, including at the firm level;
  - Human, regulatory and institutional capacity building;
  - An inclusive and multi-stakeholder approach and PPP to services policymaking for policy and regulatory coherence;
  - Implementation, monitoring, and evaluation;
  - UNCTAD’s SPRs can help in the assessment and reform of national services policies, economy and regulatory frameworks.
Conclusion (2)

- At the international level, addressing those regulations acting as trade barriers can play a role in facilitating services trade while recognizing the need for space to implement pro-active services policies & regulations, including for SDG-relevant UA policies;

- Need to advance global SDG-oriented services trade agenda in the ITS, including preferential treatment, flexibilities, experimentation, adjustment mechanism and support, and capacity building for DCs;

- Adequately designing the content, pace and sequence of the liberalization process, and coordinating this process coherently with the implementation of national policies and regulations, is key;

- Complementary measures such as strengthening regulatory cooperation to create a more facilitative services trade environment, including standards-related cooperation, would make an important contribution, particularly in the context of regional integration.
Thank you

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More information on services, trade and development: