



Short course for Geneva-based delegates

Services value-added in exports: Policies for development

Room XIX, Palais des Nations, Geneva, 7 May 2021

TSD, TNCDB, DITC, UNCTAD

Roadmap

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Setting the scene



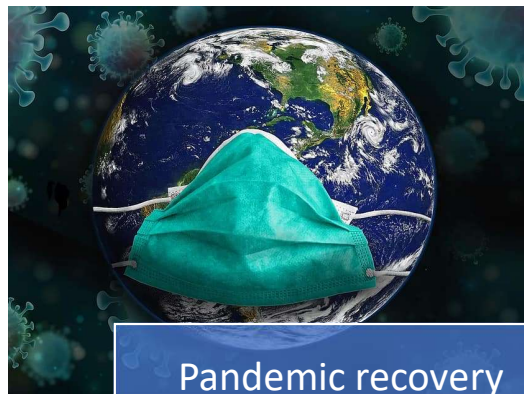
Servicification



Servicification and diversification



Unlocking the potential



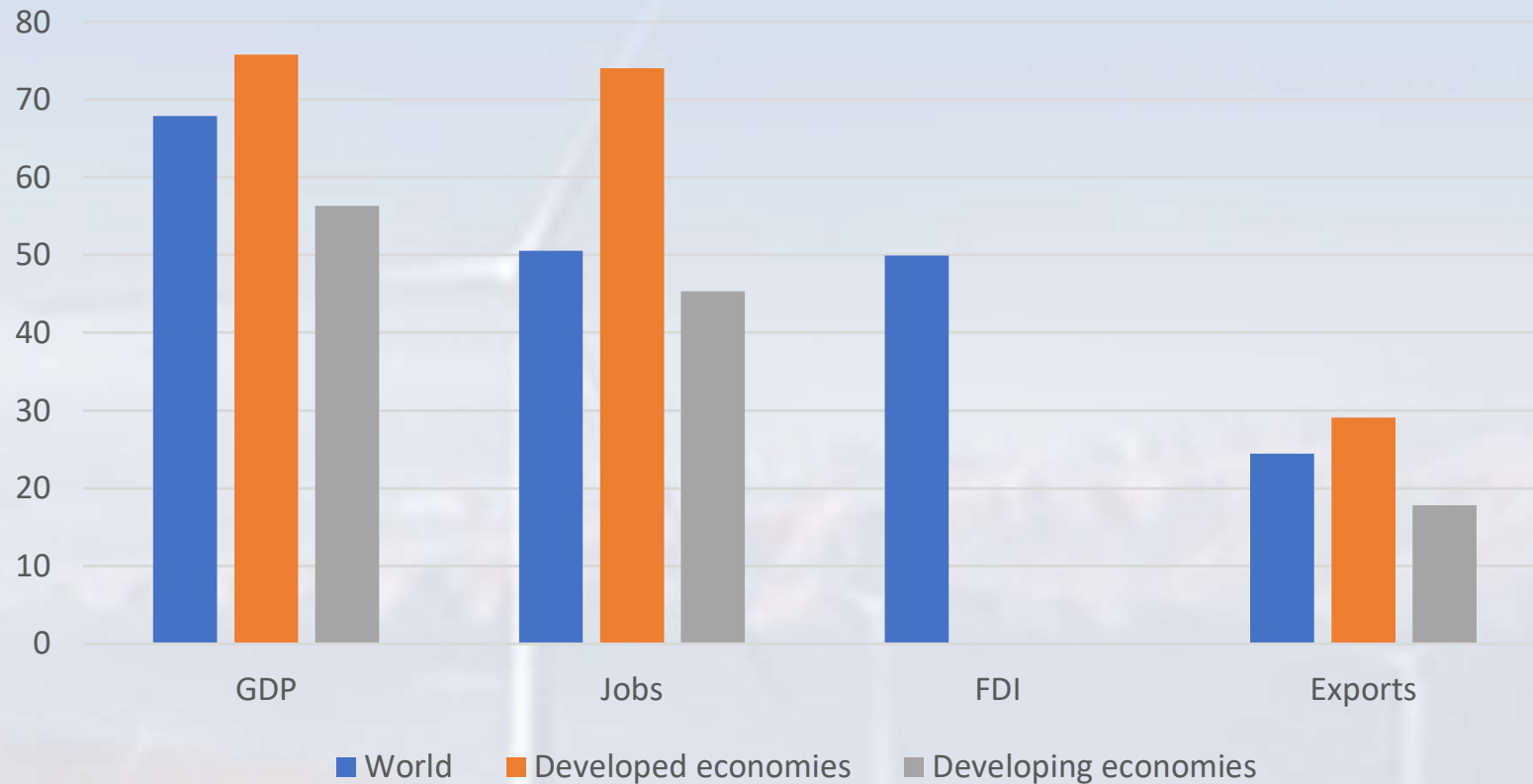
Pandemic recovery



Policy considerations



Setting the scene – direct significance of services

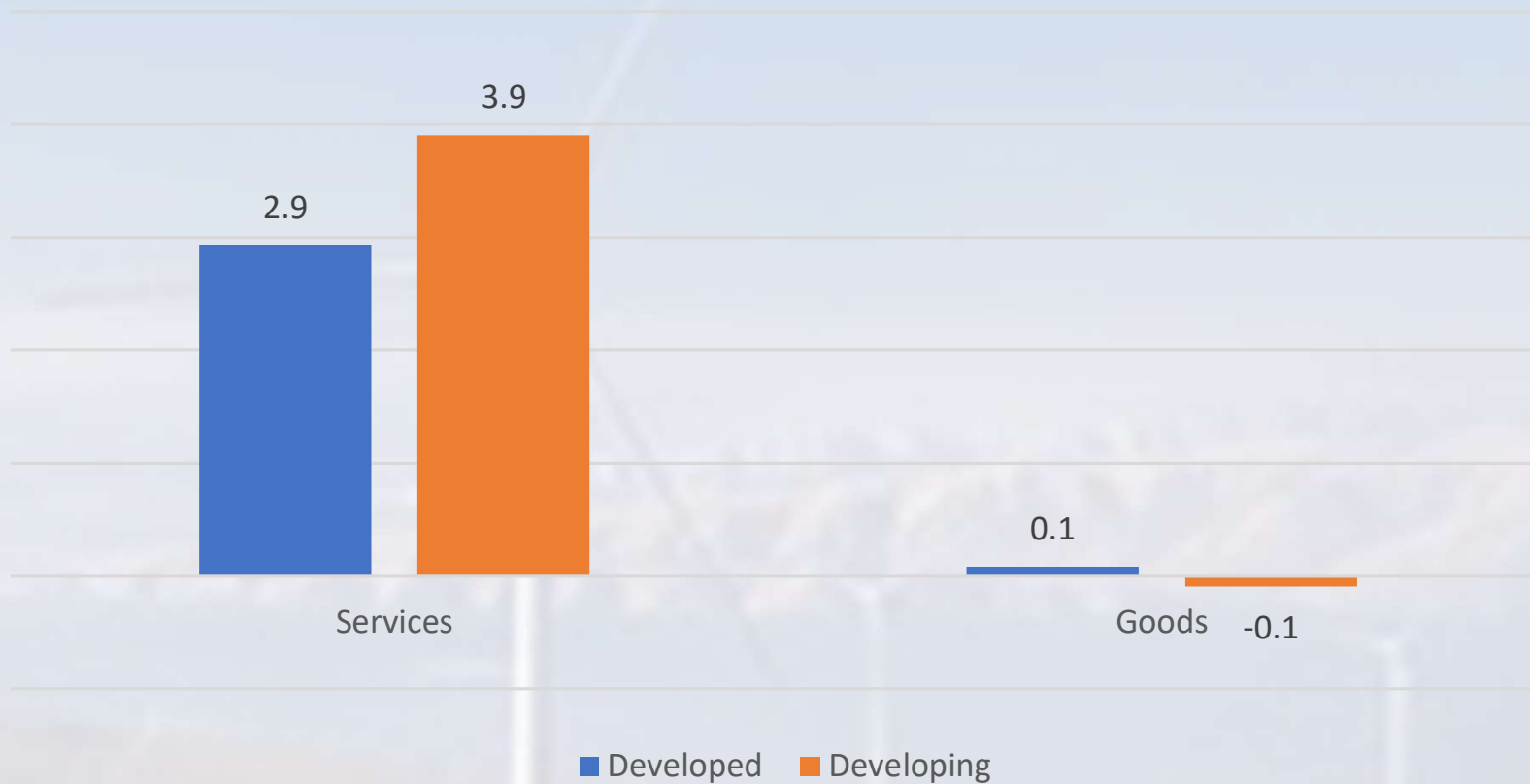


Share of services, 2019 (Percentage)

Source: [UNCTADstat](#), [ILOSTAT](#), [UNCTAD World Investment Report Annex Tables](#).



Setting the scene – dynamism of services exports

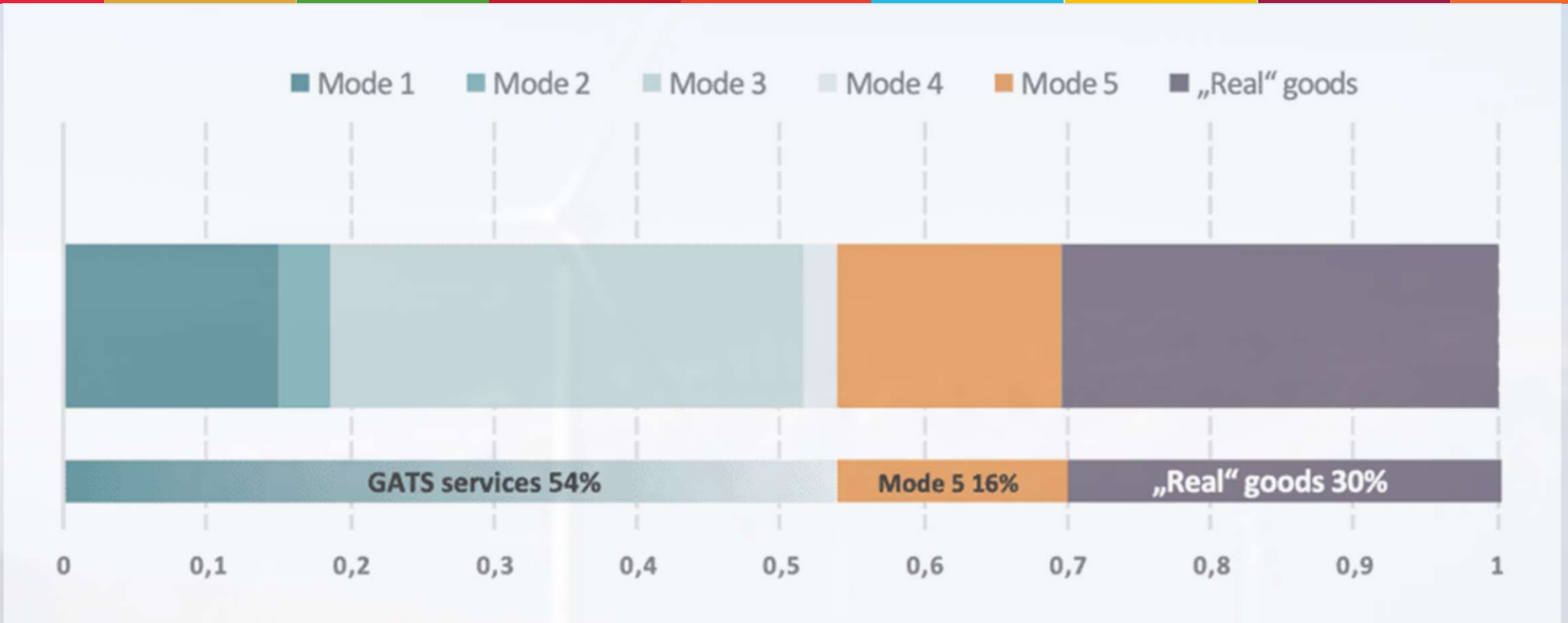


Dynamism of exports, 2014-2019 (CAGR)

Source: [UNCTADstat](https://unctadstat.unctad.org/).



Setting the scene – modes of supply

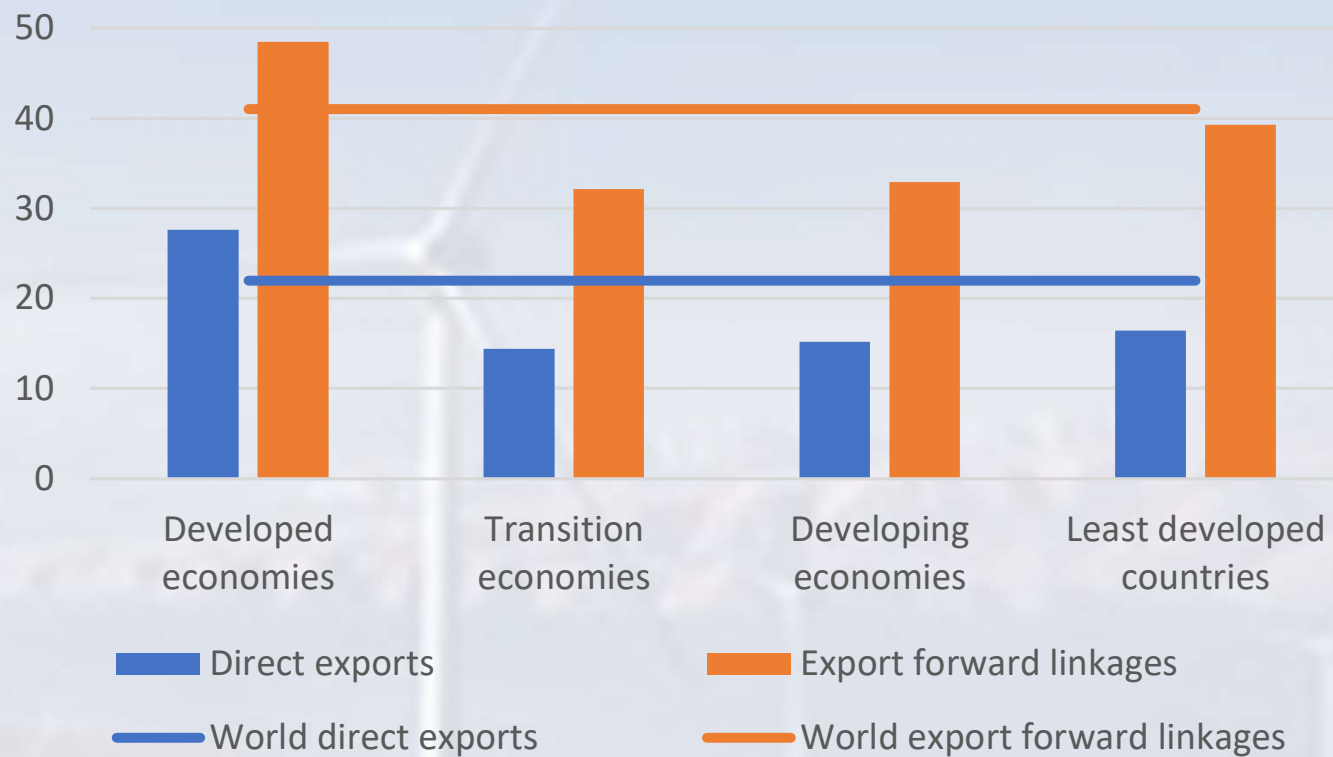


European Union: Composition of exports, 2017 (Percentage/100)

Source: Cernat, Lucian, 2021, [We Need to Talk Trade and Technology!](#), April, ECIPE.



Setting the scene – below the tip of the iceberg



Services in total direct exports and services inputs in total export value-added, 2014 (Percentage)

Source: [UNCTADstat](#) and UNCTAD calculations based on [WITS Export of Value-Added Database](#).



Setting...– services for diversification & structural transformation

- Direct exports of services in 2014 were 28% of total exports in developed economies & 15% in developing economies.
- Services in 2014 were 48% of the value-added of total exports in developed economies & 33% in developing economies.
- Services relevance is more revealed in value-added terms, more in developed countries but also in developing countries.



- Direct services exports have increased, but close to 2/3 of the growth of services value-added in exports comes from services intermediate inputs.
- Services are increasingly tradable, particularly when associated with inherently tradable goods & services.

UNCTAD, 2018, [Services and Structural Transformation for Development](#).

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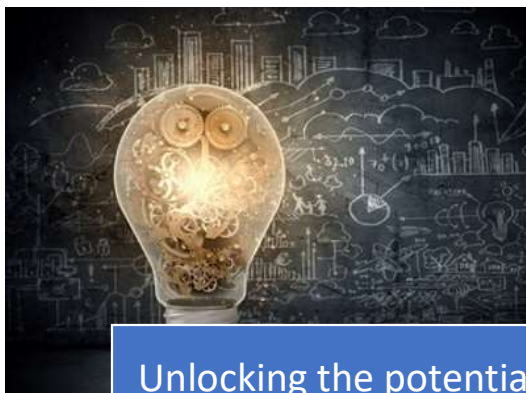
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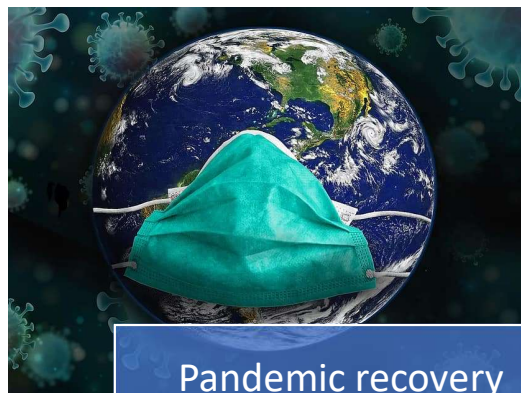
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Servicification – several mechanisms



Services inputs provided to all sectors.
E.g., software services provided to car manufacturers.



Firms in all sectors can internalize services activities
E.g., marketing departments in agribusiness firms.



Services can be bundled with goods
E.g., maintenance services provided with the purchase of machinery



Servicification – services inputs provided to all sectors

A wide range of activities increasingly rely on services inputs and value: “servicification”.

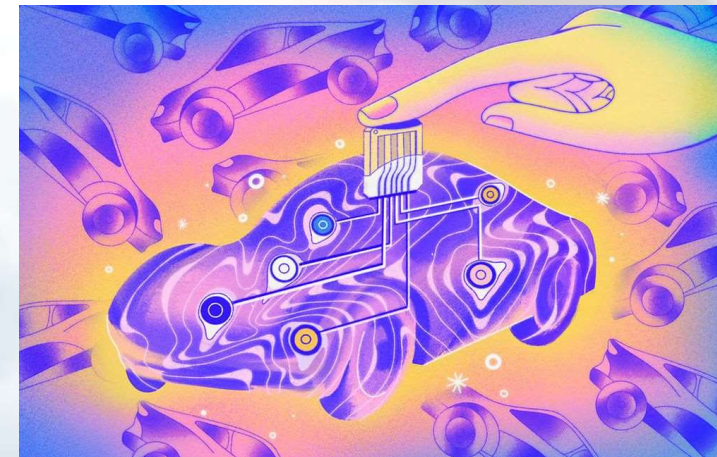


30% of the value of the environmental services of a consultancy firm is supplied to exporting clients.

UNCTAD International meeting on services value-added in exports: Services and trade policies for diversification and upgrading, Brazil, 2019.

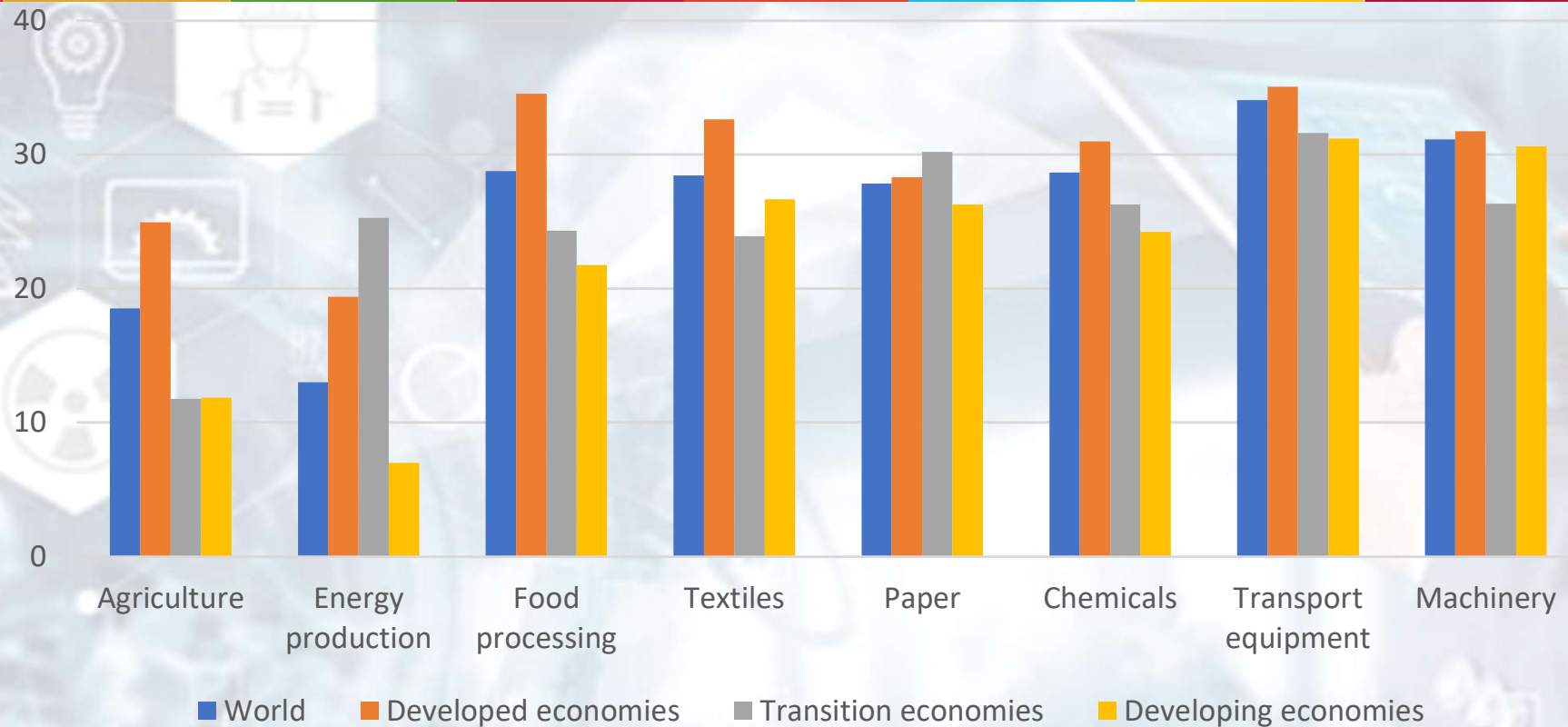
“Cars these days are in many respects computers on wheels, with electronics accounting for about 40% of a vehicle’s value”.

Bloomberg Business Week, 2021, [Carmakers Face \\$61 Billion Sales Hit From Pandemic Chip Shortage](#), January.





Servicification – services inputs provided to all sectors

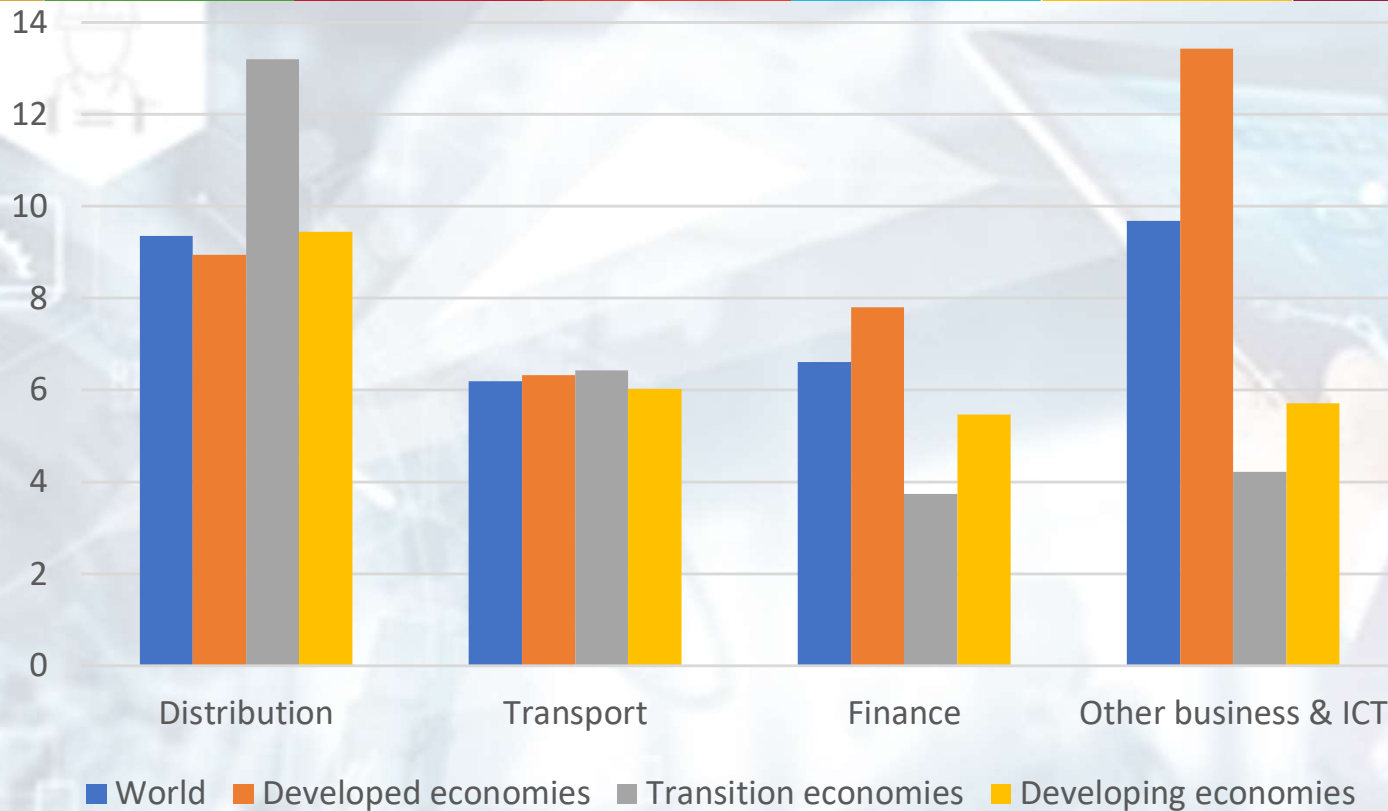


Services in exported value-added of selected sectors, 2014 (Percentage)

Source: UNCTAD calculations based on [WITS Export of Value-Added Database](#).



Servicification – services inputs provided to all sectors



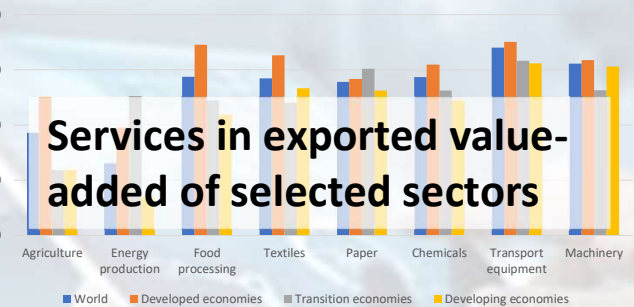
Selected services in total exported value-added, 2014 (Percentage)

Source: UNCTAD calculations based on [WITS Export of Value-Added Database](#).



Servicification – potential diversification & structural transform.

- Services inputs in 2014 were 25% of the value-added of agric. exports in developed countries & 12% in developing countries.
- Services inputs in 2014 were 33% of the value-added of textile exports in developed countries & 27% in developing countries.
- Services inputs were important for all sectors in all countries. Developing countries incorporated less services value-added.



- Globally, in 2014, the main services providers to the value-added of total exports were other business services & ICT services (10%), distribution (9%), financial (7%), transport (6%).
- In 2014, developed countries relied more in inputs from other business services & ICT services & developing countries in inputs from distribution services.



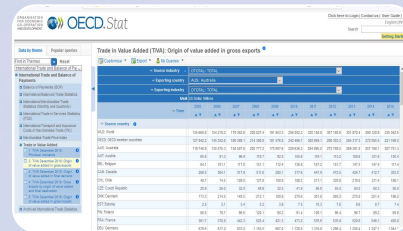
Servicification – challenges in measuring services inputs

- Data on services trade is challenging (e.g., intangibility, modes of supply), even more for services inputs (need to measure sector interactions).
- Measures extracted from input-output information.



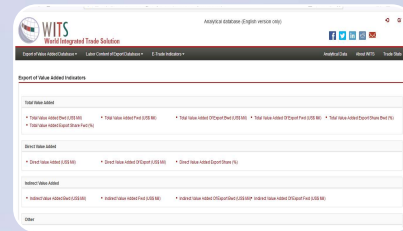
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[UNCTADstat](#)

Balance of payments data (direct services exports)



OECD [Trade in Value Added Database](#)

Intermediate inputs data (services value-added in exports)



WITS [Export of Value-Added Database](#)

Intermediate inputs data (services value-added in exports)



UNCTAD Guidebook on the methodology for the measurement of services value-added in exports



Servicification – internalized services activities



- Firms in all sectors can decide to internalize services activities.
- Internalization decision may be driven by e.g., confidentiality, cost, differentiating offer.
- Not captured in input-output, require ad-hoc analysis based on firm-level data.

- The importance of services increases significantly by adding services activities internalized in manufacturing firms.
- Sample: Services inputs were 37% of manufacturing exports. With internalized activities, services were close to 2/3 of overall exports.

Miroudot, S.; Cadestin, C., 2017, [Services in Global Value Chains: From Inputs to Value Creating Activities](#), OECD Trade Policy Papers, No 197, Paris, OECD.





Servicification – services bundled with goods



- Services provided together with goods.
- Bundling decision may be driven by e.g., differentiating offer.
- May be captured in balance of payments or input-output or may require ad-hoc analysis based on firm-level data.

E.g., maintenance, repair and installation services provided with machinery exports.





Servicification – everybody is in services



91% of the value of a suit is from invisible assets: services (retail, logistics, banking, ...), intellectual property, and others.
Patrick Low based on Fung Global Institute Li & Fung case study.

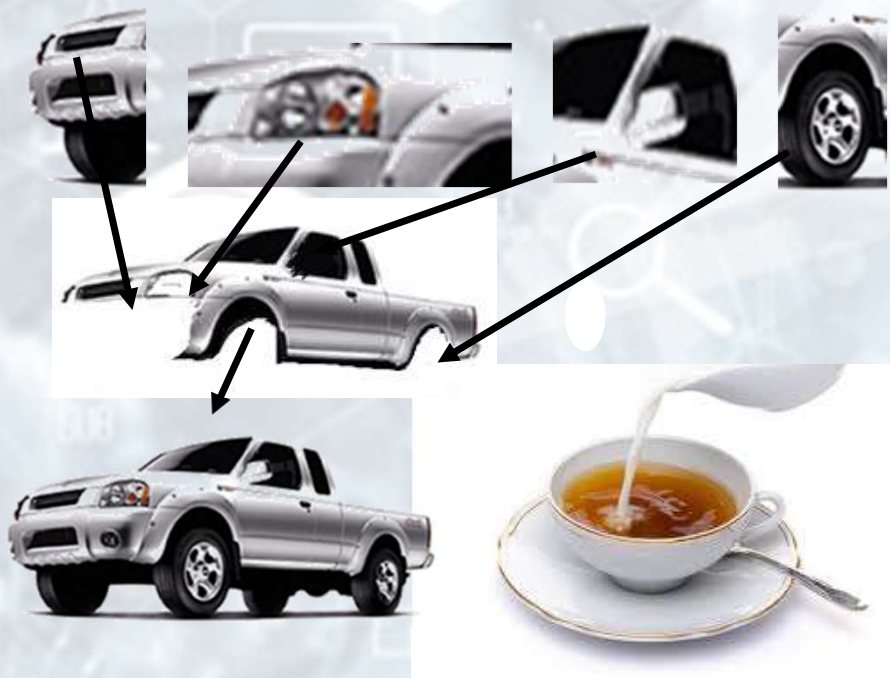


72% of the value of bread is from services.
Patrick Low based on Fung Global Institute Li & Fung case study.

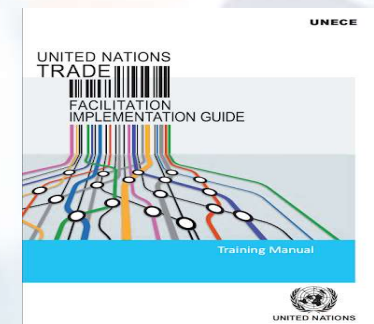


Servicification – illustration on transport & distribution services

- Physical additions



- Services additions



Capacity Building - UNCTAD/FIATA TOT



FIATA App for training on the go

Research - Measuring e-commerce and logistics services efficiency

Inputs



EVI	GNI	HAI
Agricultural production	Income per capita	Education
Natural disasters		Health
Exports of goods and services		
Population in low elevated coastal zones		
Agriculture, forestry and fishing in GDP		
Merchandise export concentration		
Remoteness		
Population		

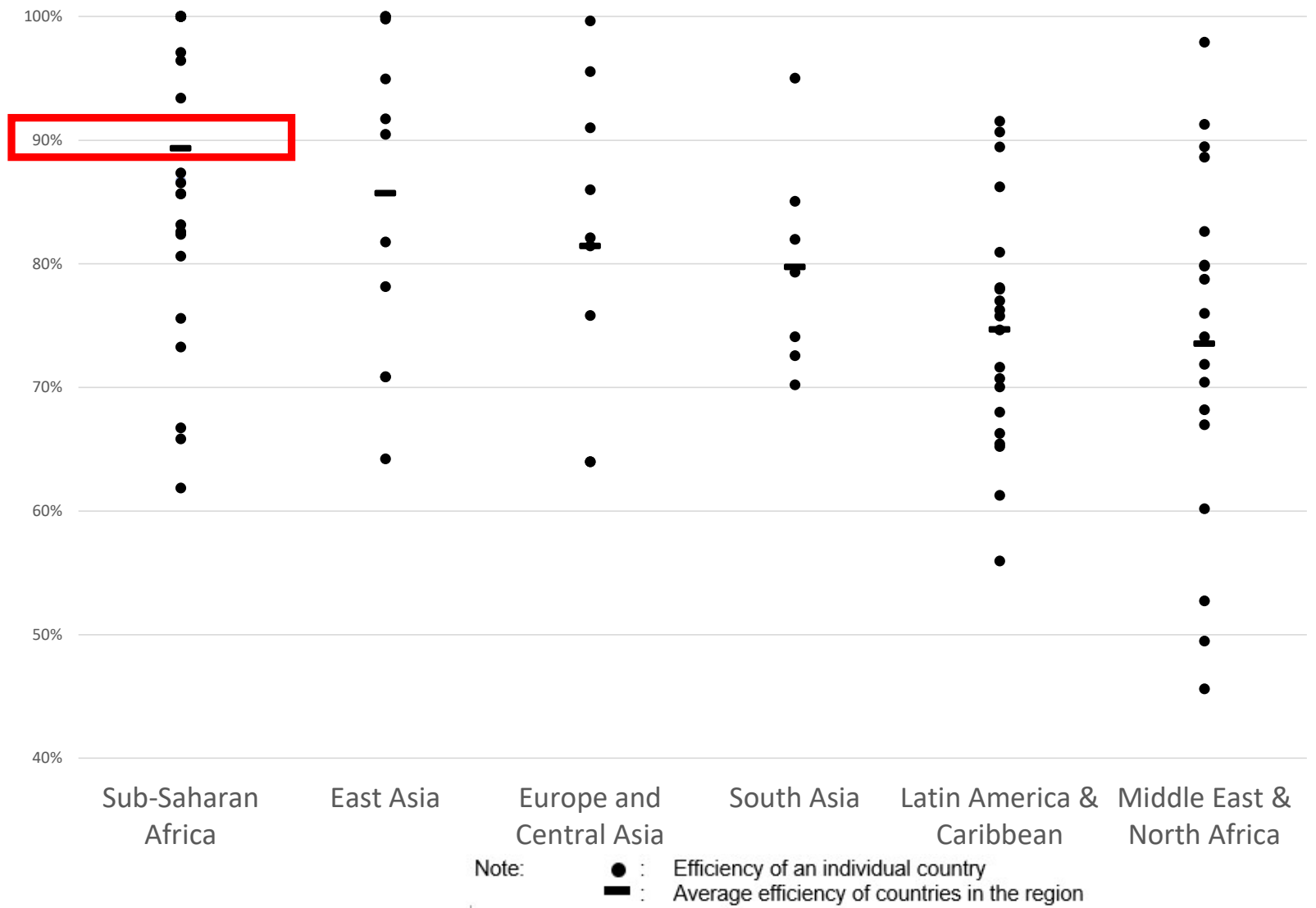
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Outputs

B2C	LPI	TAB
Account ownership	The efficiency of customs and border management clearance	Documentary compliance
Individuals using the Internet	The quality of infrastructure	Border compliance
Postal Reliability Index	The ease of arranging competitively priced international shipments	Domestic transport
Secure Internet servers	The competence and quality of logistics services	
	The ability to track and trace consignments	
	Reliably of delivery time	

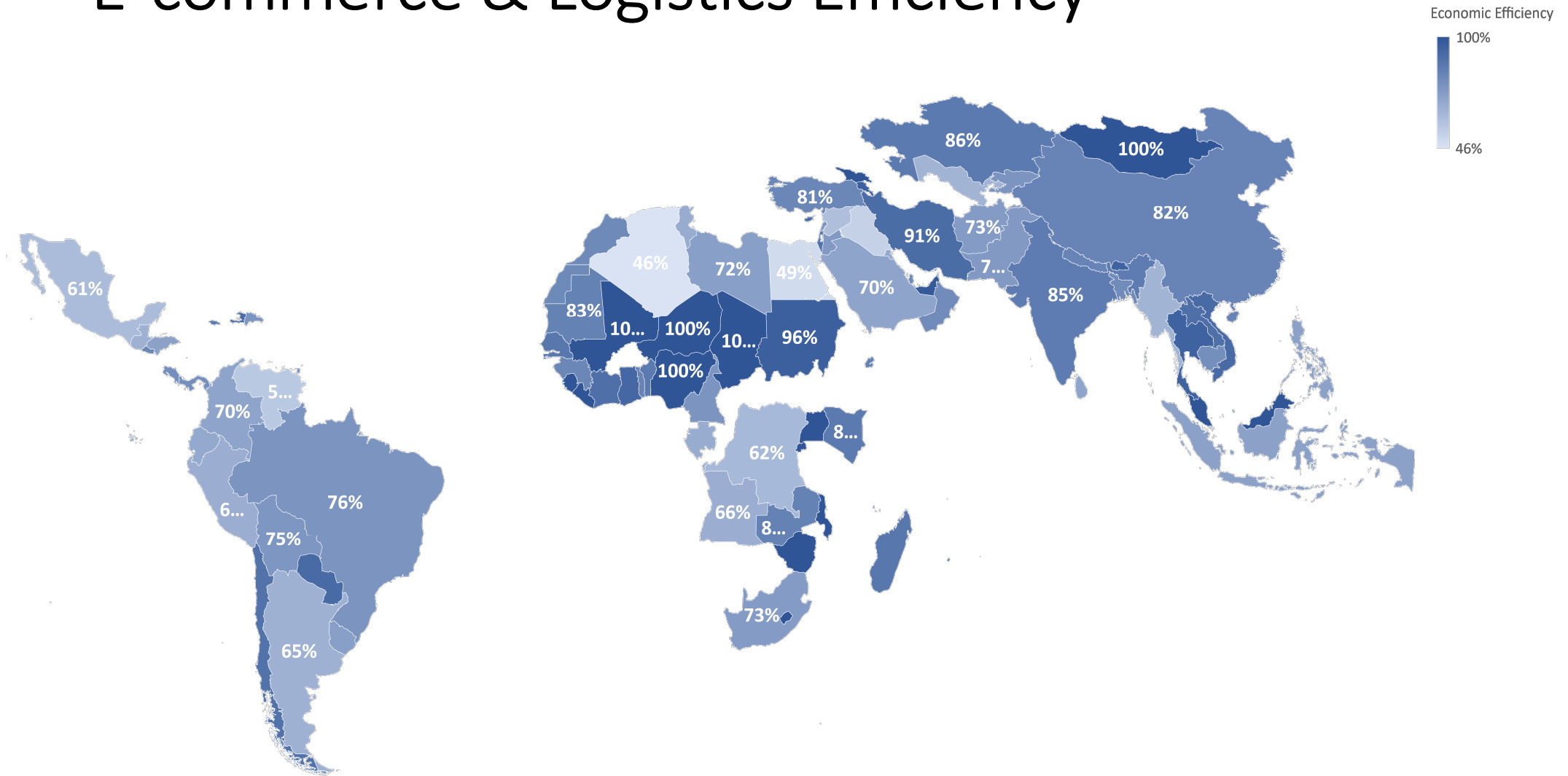
Source: Wang, T., Kang, J.W. & Valentine, V.F. A holistic analysis of national e-commerce and logistics development. *Marit Econ Logist* 22, 500–513 (2020). <https://doi.org/10.1057/s41278-020-00151-w>

Efficiency rankings of countries in eCommerce and Logistics using Data Envelopment Analysis



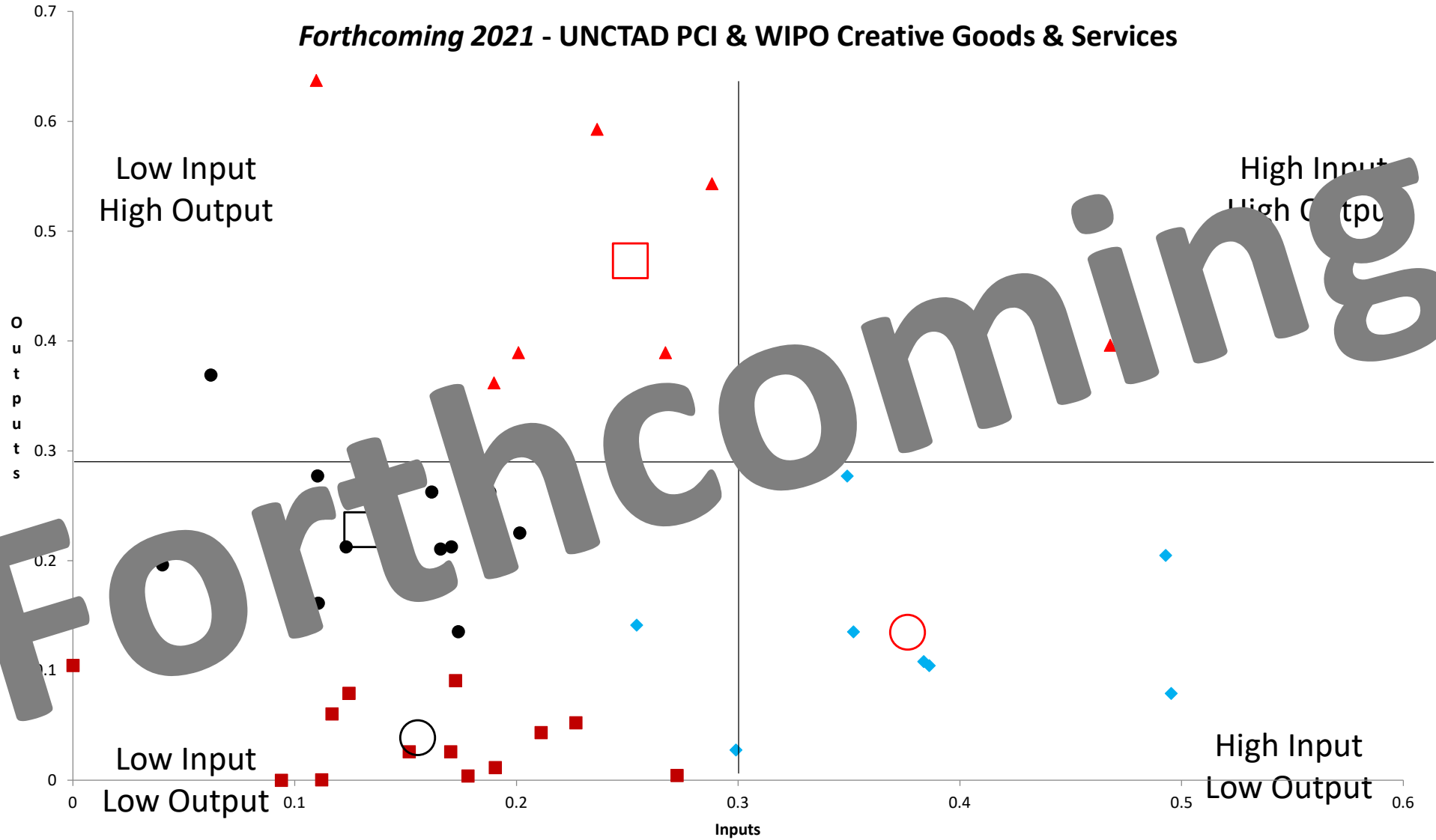
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E-commerce & Logistics Efficiency



Source: Wang, T., Kang, J.W. & Valentine, V.F. A holistic analysis of national e-commerce and logistics development. *Marit Econ Logist* 22, 500–513 (2020). <https://doi.org/10.1057/s41278-020-00151-1>

Forthcoming 2021 - UNCTAD PCI & WIPO Creative Goods & Services



Forthcoming

▲ 1 ◆ 2 ● 3 ■ 4 □ Center 1 ○ Center 2 □ Center 3 ○ Center 4

Roadmap

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Setting the scene



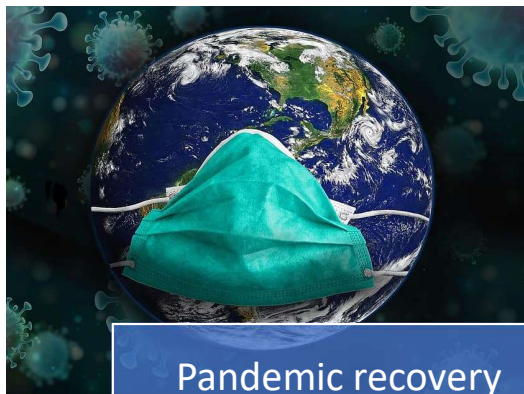
Servicification



Servicification and diversification



Unlocking the potential



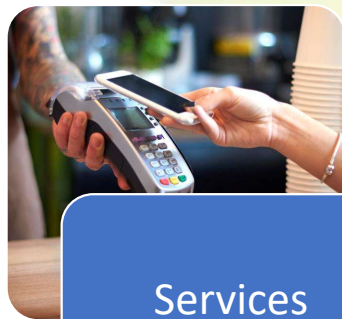
Pandemic recovery



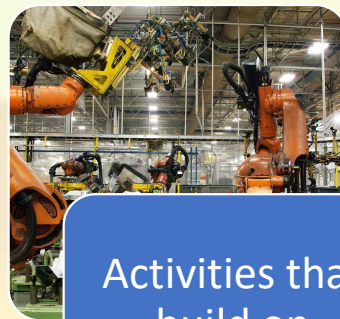
Policy considerations



Servicification & diversification—services determine performance



Services provide value and inputs



Activities that build on services value and inputs



Services determine performance of downstream activities

With these linkages, services explain 2/3 of total productivity growth in developing countries.

UNCTAD, 2018, [Services and Structural Transformation for Development](#).

Servicification is a tool for industrialization.

UNCTAD, 2020, [Services sector vital to COVID-19 economic recovery](#), Nov.





Servicification & diversification – resilience & development



“Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation”:

- 9.1 (...) resilient infrastructure (...)
- 9.1.2 Passenger and freight volumes, by mode of transport
- 9.3 (...) financial services (...)
- 9.4 (...) infrastructure (...) environmentally sound technologies (...)
- 9.a (...) resilient infrastructure (...) financial, technological (...) support
- 9.b (...) technology development, (...) for industrial diversification and value addition to commodities
- 9.c (...) information and communication technology (...)

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE





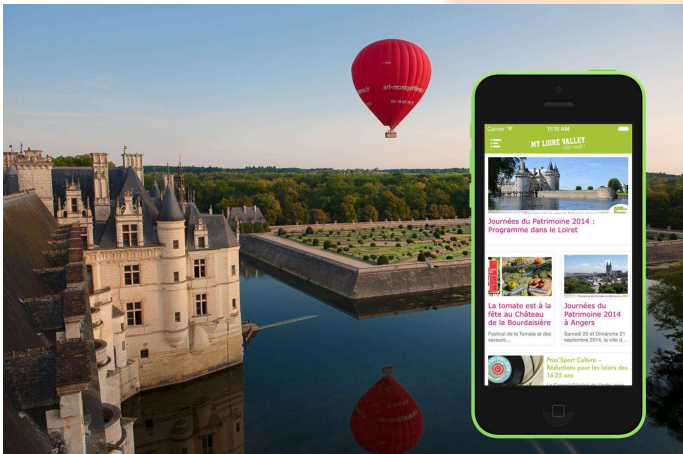
Servicification & diversification – effects on many activities

Cashew-growing countries that mainly export unprocessed products forego value creation. Certification and marketing services allow for certified products that can be sold at premium prices.

UNCTAD, 2021, [Commodities at a Glance: Special issue on cashew nuts](#), April.



- Recovery in tourism is also linked to the use of ICT services to better connect providers to consumers, to online travel agency services, data processing, and others.
- Environmental, medical & creative services support niche tourism markets with longer stays & stronger linkages to the local economy.



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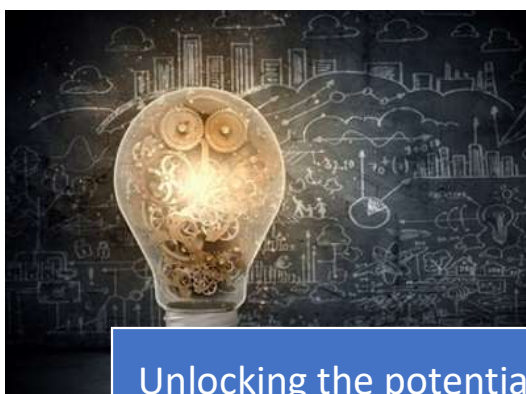
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Policy considerations



Unlocking the diversification potential – trade capacity

Trade allows access to foreign services inputs (as a contribute to overall supply capacity in all sectors) and to foreign markets (allowing scale economies for domestic suppliers).



In 2016, 5% of the value added of gross exports from the non-OECD economies reporting to the TiVA database was from foreign services (further to the 35% from domestic services providers).

OECD [Trade in Value Added Database](#).

Trade policy needs to keep the policy space for the development of regulatory frameworks and for their continuous adaptation.

See more on the lessons shared at UNCTAD [Multi-year Expert Meeting on Trade, Services and Development: The regulatory and institutional dimension](#), Geneva, 2016.





Unlocking the diversification potential – regulatory capacity

The performance of several services, including infrastructure services, requires addressing regulatory constraints to devise sound regulatory frameworks.



Smart regulations avoid unintended trade restrictive effects & address regulatory divergence by reducing arbitrariness, facilitating compliance, and promoting predictability.

See more on background documents of the UNCTAD [Multi-year Expert Meeting on Trade, Services and Development: The regulatory and institutional dimension](#), Geneva, 2020.

The digital transformation strategy for Africa recognises need to align services negotiations & regulatory cooperation frameworks.

See more on the lessons shared at UNCTAD [Multi-year Expert Meeting on Trade, Services and Development: The regulatory and institutional dimension](#), Geneva, 2020.





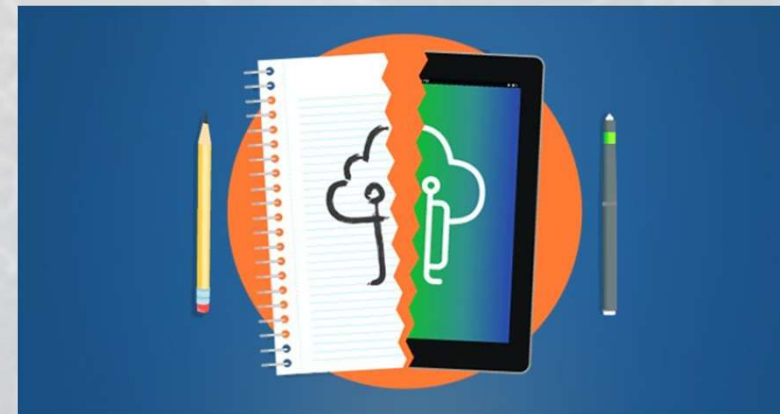
Unlocking the diversification potential – productive capacity

Trade and industrial policies need to mutually support the upgrading of services inputs to the whole economy. Stronger services inputs will strengthen downstream activities.



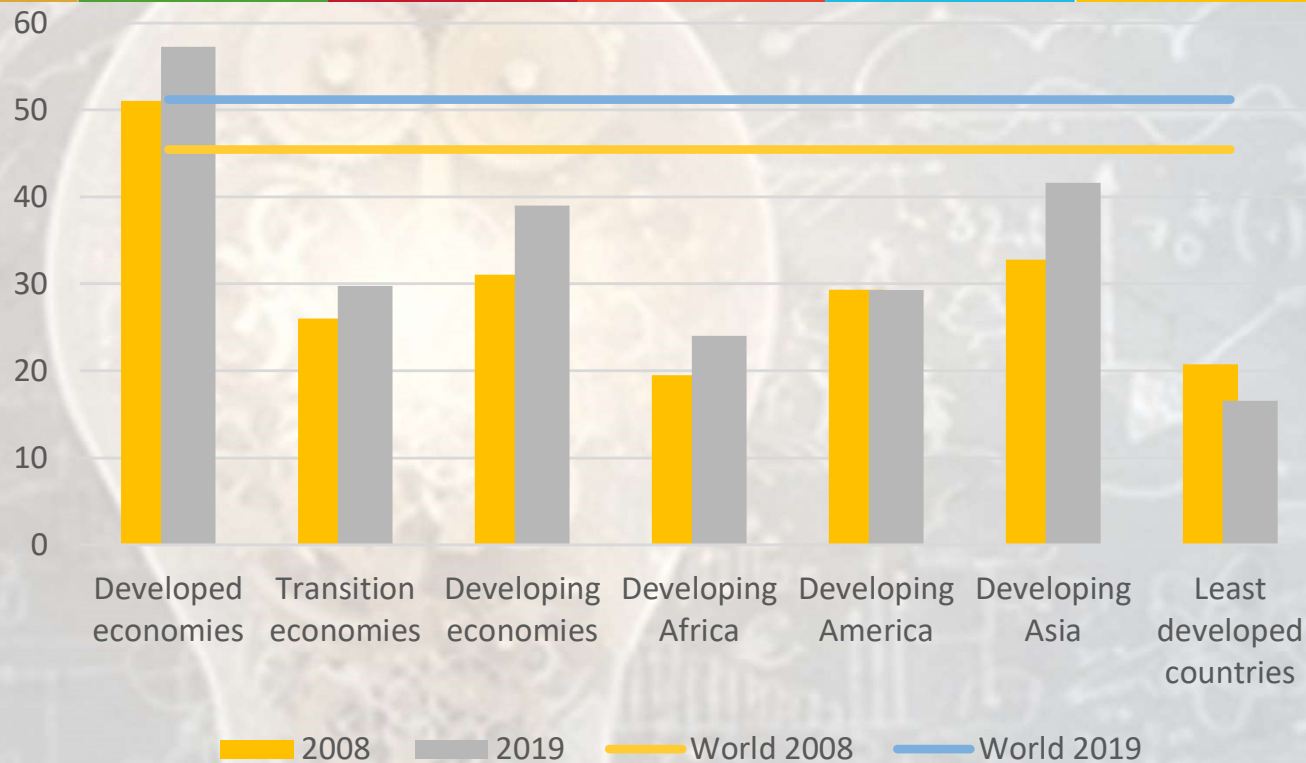
Competitive advantages in many knowledge-intensive services are sustained by first movers that achieved economies of scale, for example in knowledge and information networks, specialized labour market, and availability of specialized suppliers.

Necessary to bridge productive, technology, and skill gaps, including the digital divide.





Unlocking the diversification potential – productive capacity



Knowledge-intensive services in total services exports, 2008 and 2019 (Percentage)

Source: [UNCTADstat](https://unctadstat.unctad.org/). Note: Knowledge-intensive services include financial services, charges for use of intellectual property, telecommunications and ICT services, and other business services.



Unlocking the diversification potential – skills

Services, and knowledge-intensive services in particular, require qualified persons.

Education and training strengthen services activities, but costs need to be addressed. Costs may deter some people from pursuing education & may not be perceived by some firms as compatible with the drive to be efficient.

In Malaysia firms are taxed a small % of their revenue to train its workforce, and the money can only be spent in training. National training schemes to encourage individual training at no or little cost to the employer also exist in other countries





Unlocking diversification potential – policy/institutional capacity

Services linkages with the whole economy call for coordinated action in several policy areas.



In the Republic of Korea, developing ICT services entailed public actions in improving infrastructure, demand & education, in tandem with investment in cooperation with private sector.

See more on the lessons shared at UNCTAD [Multi-year Expert Meeting on Trade, Services and Development: The regulatory and institutional dimension](#), Geneva, 2015.

In Paraguay, the National Services Forum promotes the collaboration of public institutions, private sector, professional associations, academia, and civil society to support trade in services with a shared approach.

See more at UNCTAD, 2021, [Services Policy Review of Paraguay \(II\)](#), April.





Roadmap



Setting the scene



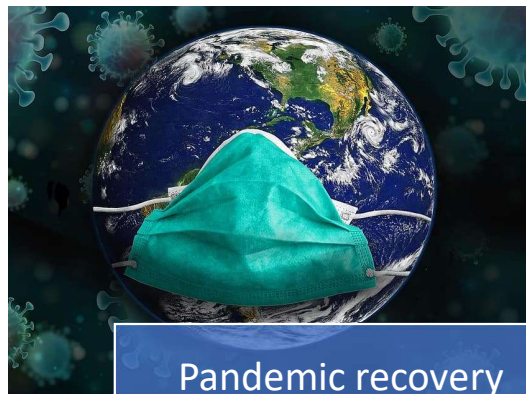
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Pandemic recovery



Policy considerations



Pandemic recovery – unprecedented crisis

COVID-19 brought the biggest recorded output drop, an estimated loss of US\$5.8 trillion in income in 2020. 255 million full-time jobs lost globally. UNCTAD, 2021, [Trade and Development Report Update: Out of the frying pan... into the fire?](#), March.



Global FDI flows were down 42% in 2020.

UNCTAD, 2021, [Global Investment Trend Monitor](#), No. 38, January.



Trade growth also suffered a steep decline of about 8% in 2020.

UNCTAD, 2021, [Key statistics and trends in international trade 2020](#), January.



Pandemic recovery – particularly affected sectors

The price of some commodities, such as fuel, was brutally affected in 2020. There are concerns of emerging volatility in agricultural commodities. UNCTAD, 2021, [Trade and Development Report Update: Out of the frying pan... into the fire?](#), March.



Unparalleled impact on tourism, with a cost between 2.8 and 4.2% of GDP in 2020.

[Statement by Acting Secretary-General of UNCTAD](#), in “Services for economic resilience and post-pandemic recovery”, April 2021.



ISABELLE DURANT
ACTING SECRETARY GENERAL OF UNCTAD



COVID-19 effects on tourism are reflected on the 63% fall in travel exports in 2020.

[UNCTADstat.](#)



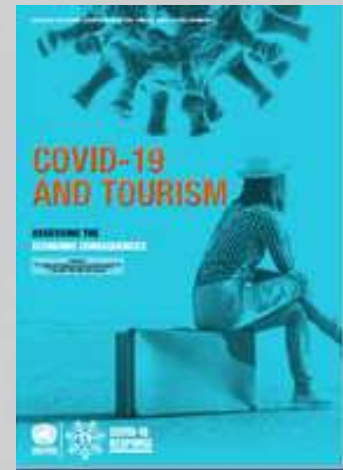
Pandemic recovery – diversification to build back better

Diversification is critical:

- To reduce over-dependence on a few sectors and increase resilience to shocks that affect those sectors in particular.
- For 2/3 of developing economies which are commodity dependent.
- For many SIDS that are dependent on tourism services.

Dire effects for women as they account for more than half of jobs in tourism.

UNCTAD, 2020, [COVID-19 and Tourism: Assessing the Economic Consequences](#), July.



- Economic diversification requires building capacity in a range of sectors and activities.
- Often, services can be the drivers of this transformation.

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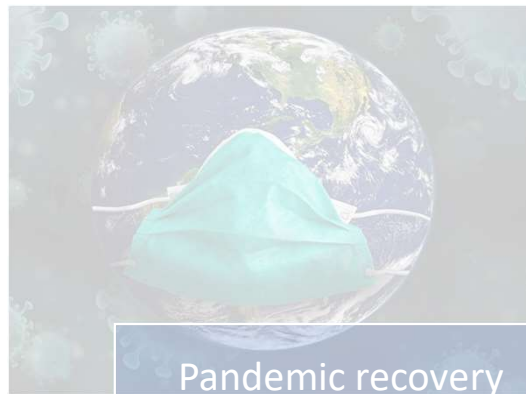
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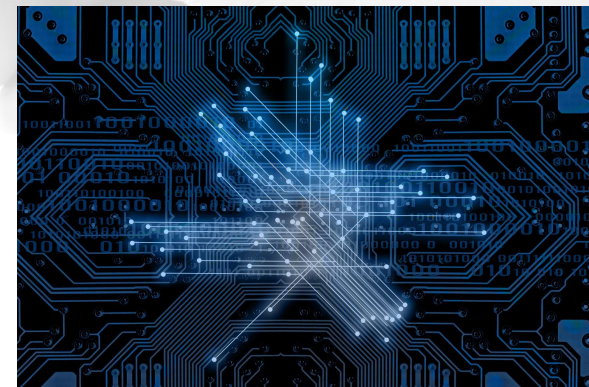
Policy considerations - coherence and coordination

Whole-of-government and whole-of-society approach to policymaking to maximize the potential benefits of servicification in promoting diversification & structural transformation.



Services policies need to be coherent with other policy areas such as those related to agriculture, industry, education, competition, investment and trade.

Industrial policies to support technology & innovation capabilities, infrastructure & human capital as drivers of knowledge-intensive services. These can, in turn, contribute to skill & technology-intensive diversification of the economy and trade.





Policy considerations – dynamic comparative advantages

Leverage dynamic comparative advantages: Assess and identify those service activities which are critical for economic diversification and upgrading, with a view to strengthening them.

Current specialization of many developing countries reflects structural fragilities, and those comparative advantages need to be challenged.



UNCTAD supports countries in these assessments through its [Services Policy Reviews](#). UNCTAD also helps countries to apply the appropriate statistical methods to interpret data in support of evidence-based policy making.





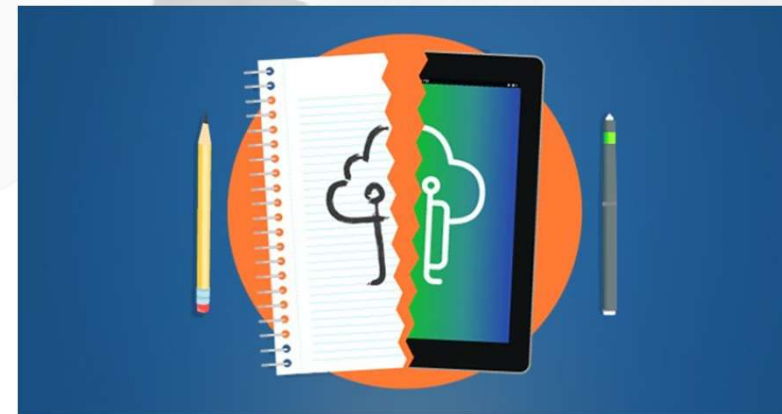
Policy considerations – aligning trade & regulatory frameworks

Trade policies and regulatory frameworks remain central elements of the services policy mix and it is critical to align them.



The multilateral trading system is best placed to provide inclusive rules for these trade policies. The WTO provides an opportunity for broad engagement.

Wide participation in the multilateral trading system will depend on addressing the gaps between countries e.g., the digital divide. Trade policy needs to consider servicification and digitalization trends & the effects of the pandemic.





Policy considerations – inescapable need of skills & data

Capacity building, with education, skills & data policies, is an imperative.



Governments, education providers & providers need to identify & address skill gaps. Due to a significant % of women working on services, this should contribute to empower women & upgrade women services' jobs. This should include addressing the gender gap in science, technology, engineering, and mathematics (STEM).

Increase availability of high-quality, timely & reliable data on services disaggregated by sector & mode of supply, on Foreign Affiliate Trade Statistics (FATS) & on services value-added.





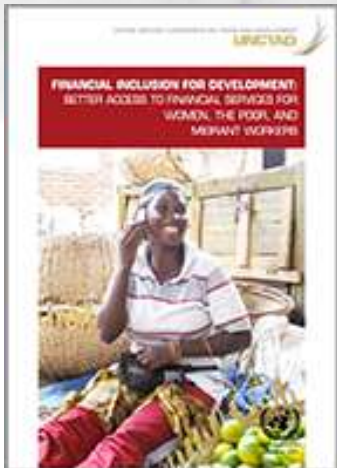
Policy considerations – UNCTAD can help through the 3 pillars



UNCTAD supports countries with the Multi-year Expert Meeting on Trade, Services & Development & the Global Services Forum. Delegates, policymakers, trade negotiators, regulators & representatives of private sector, academia & civil society, share lessons learned & build consensus

UNCTAD supports countries through its [Services Policy Reviews](#).

This technical assistance are customized assessments with policy recommendations for countries/regions. UNCTAD also provides skills and data capacity building.



Research & analysis on several dimensions of services & development nexus. Cover different services sectors & modes, servicification & digitalization trends.

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Thank you!

More on services and development:

<https://unctad.org/topic/trade-agreements/services>



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