



# **Training Workshop on Trade in Services Negotiations for AU-CFTA Negotiators**

**24-28 August 2015**

**Hilton Hotel**

**Nairobi, Kenya**

**Services in the Global Economy:  
Key Issues for Development**



**UNCTAD**

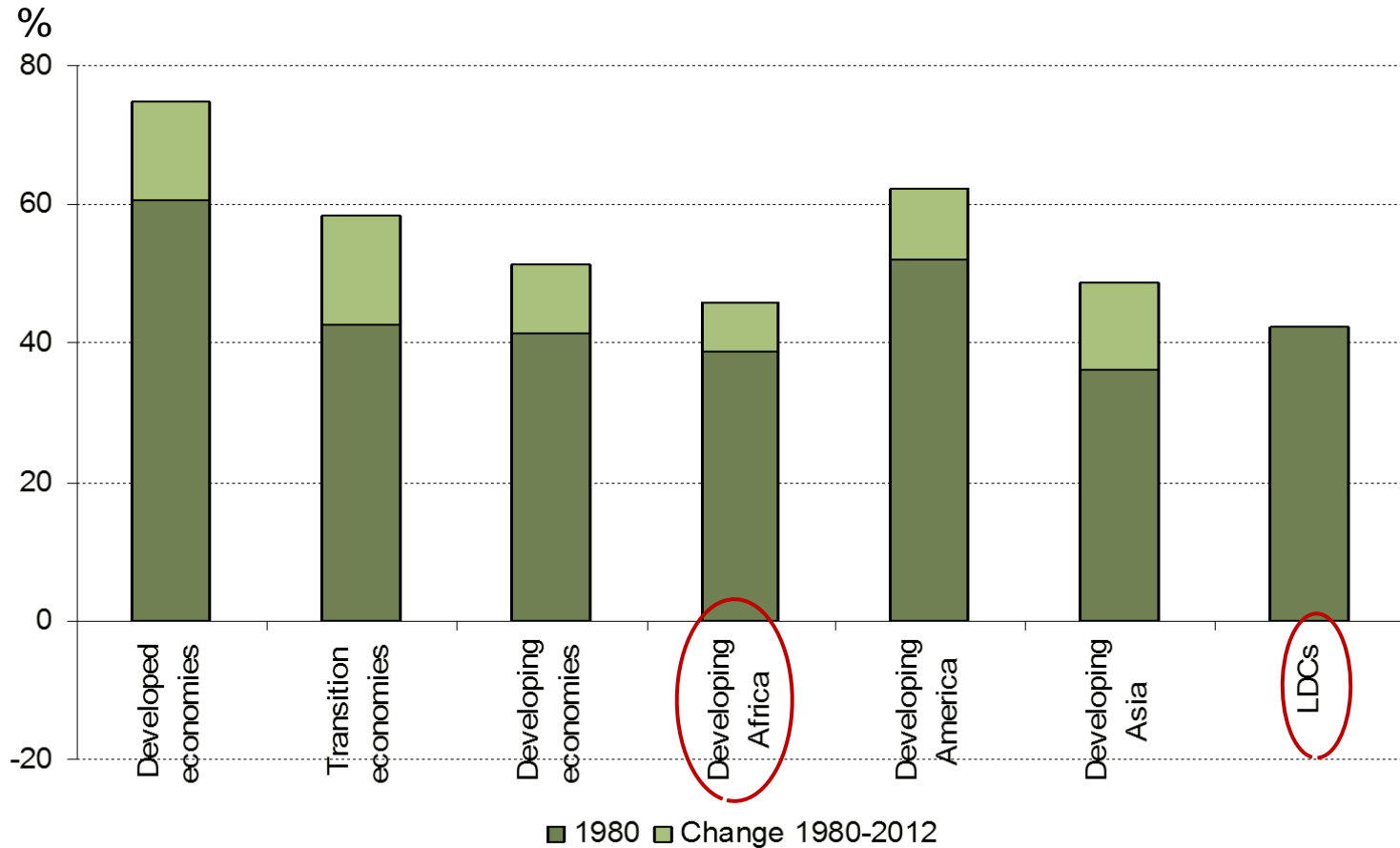
# Outline

1. Trends
2. Linkage between services and development
3. Factors promoting globalization of services
4. Regulatory and institutional issues
5. Concluding remarks



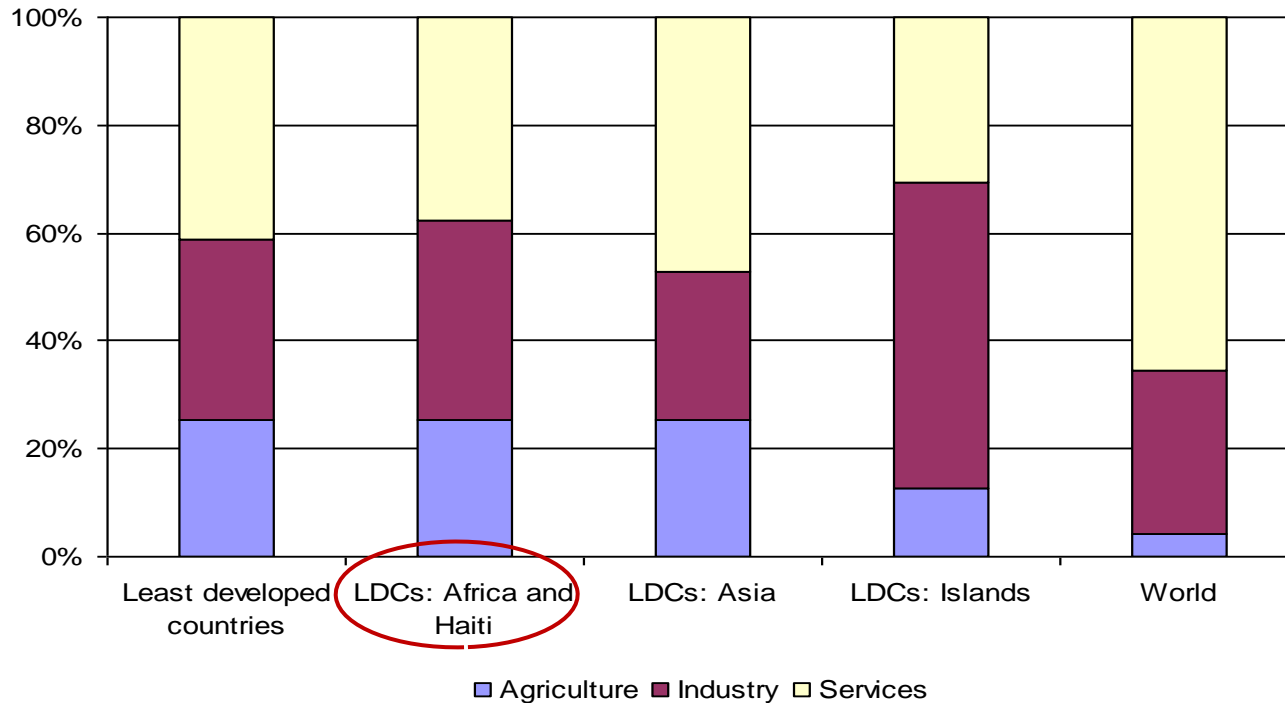
# 1. Trends (GDP)

Contribution of services to GDP by region, 1980 and 2012



# 1. Trends (GDP)

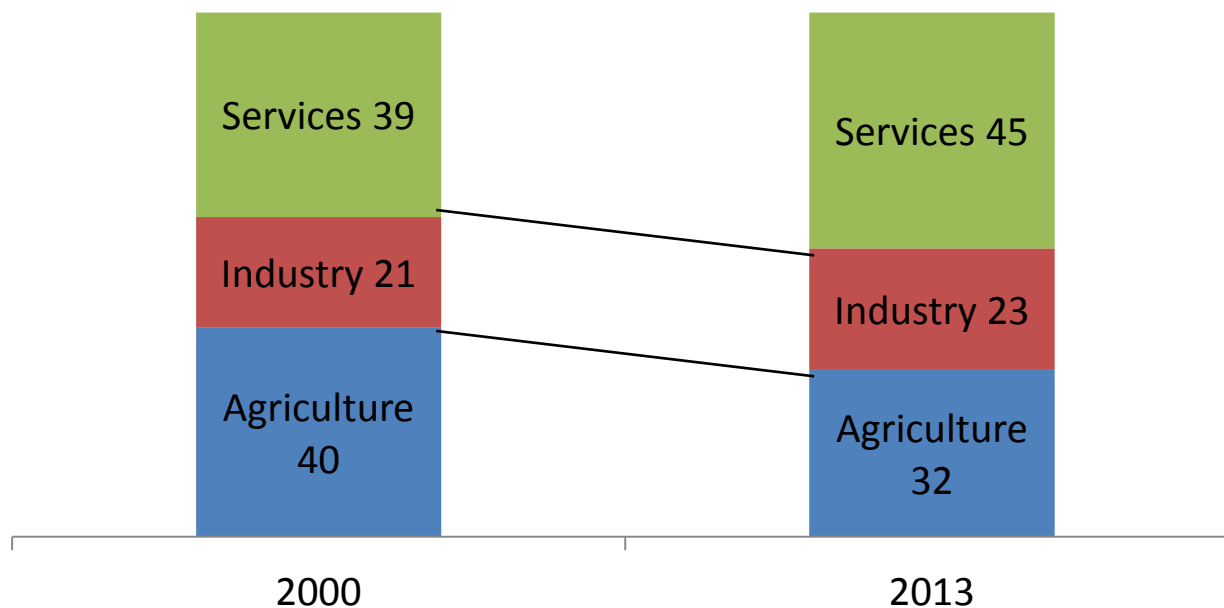
## LDCs' GDP distribution in 2011 (percentage)



Source: UNCTADstat.

# 1. Trends (Employment)

Contribution of services to global employment, 2000 and 2013, (percentage)

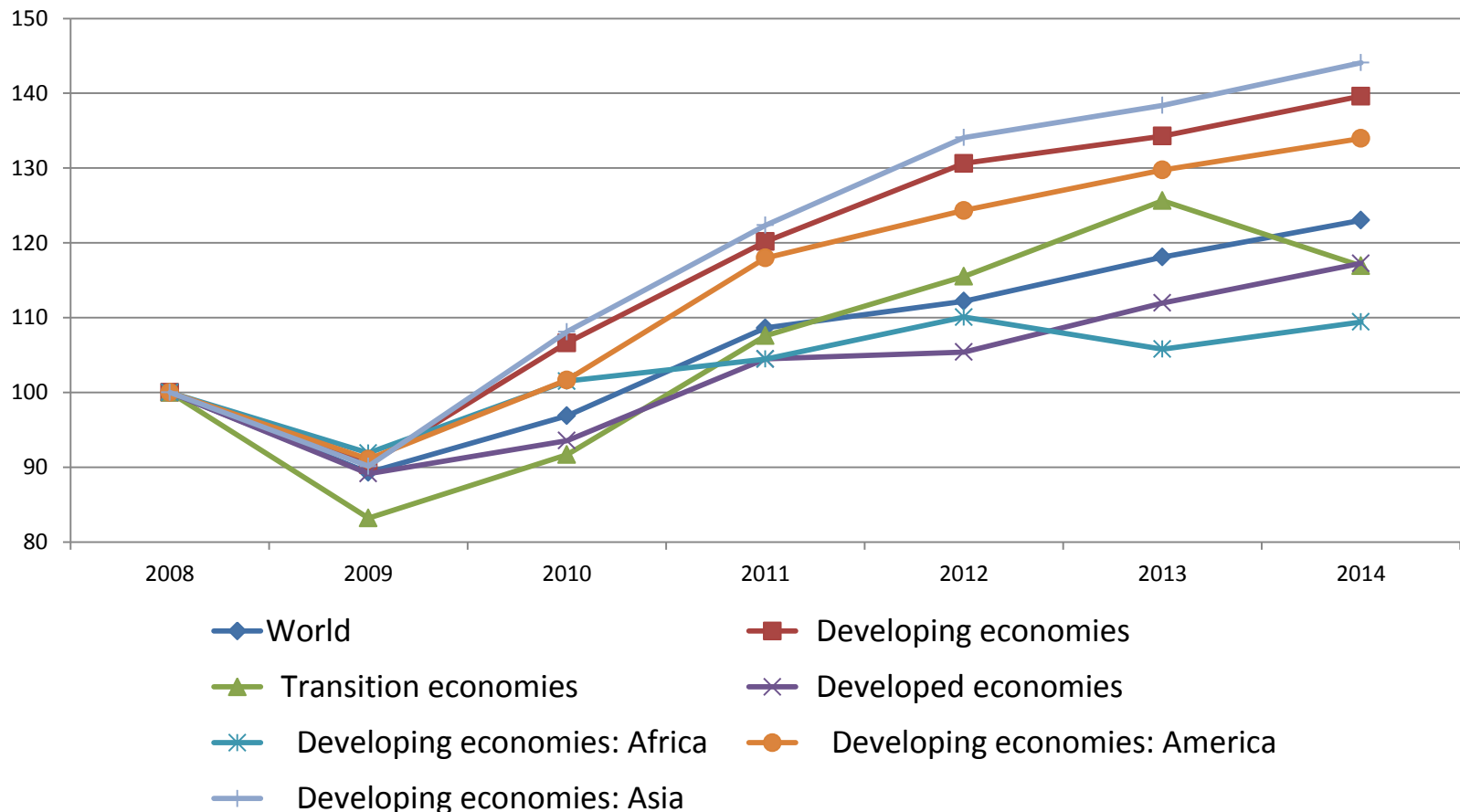


Source: ILO, 2014, *Global Employment Trends 2014: Ris of a Jobless Recovery?*



# 1. Trends (Trade)

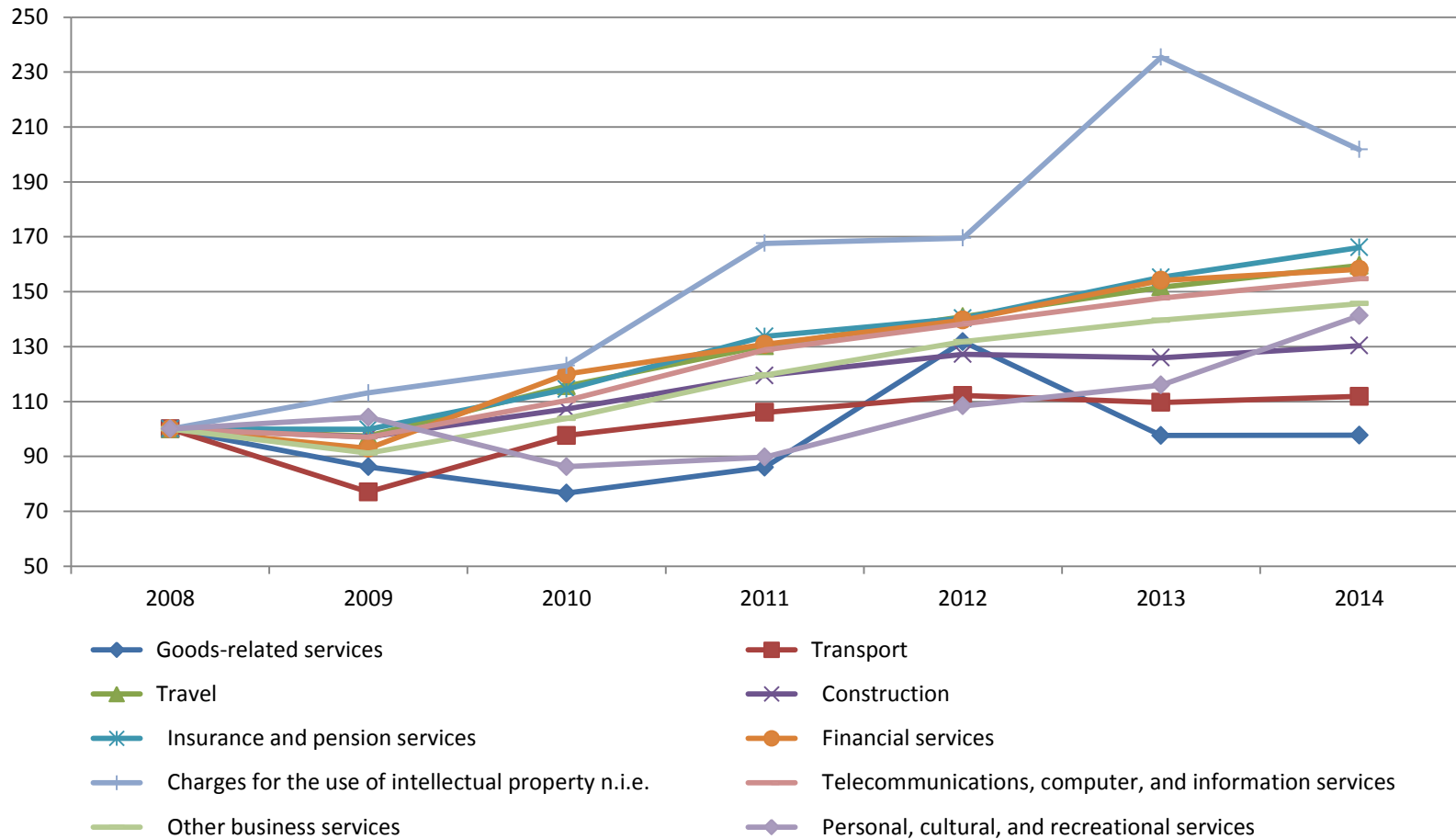
Exports of commercial services by region,  
2008-2014 (2008=100)



Source: UNCTAD Stat.

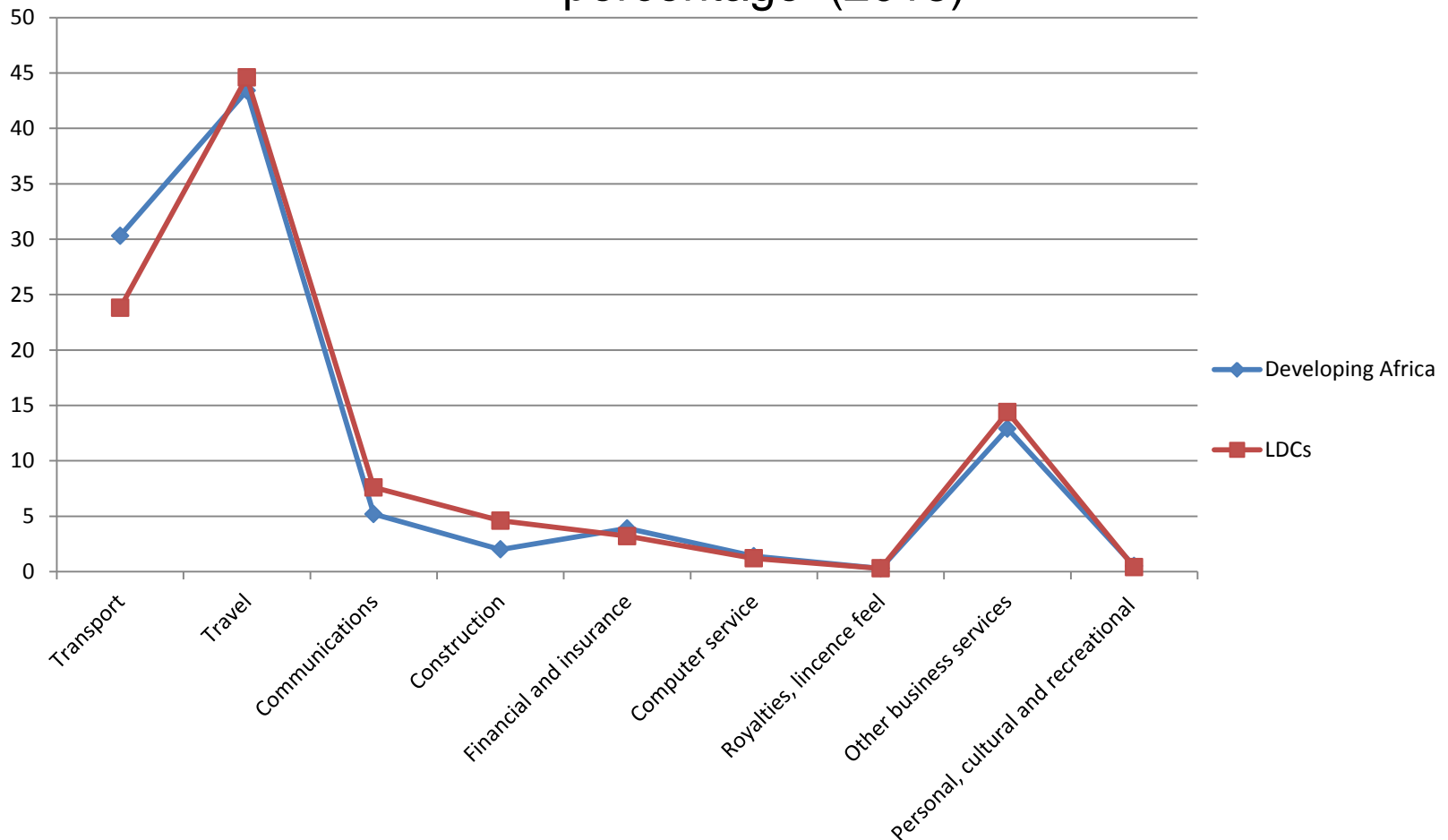
# 1. Trends (Trade)

Exports of commercial services from developing countries by category, 2008-2014 (2008=100)



# 1. Trends (Trade)

Exports of commercial services from Africa and LDCs by category, percentage (2013)



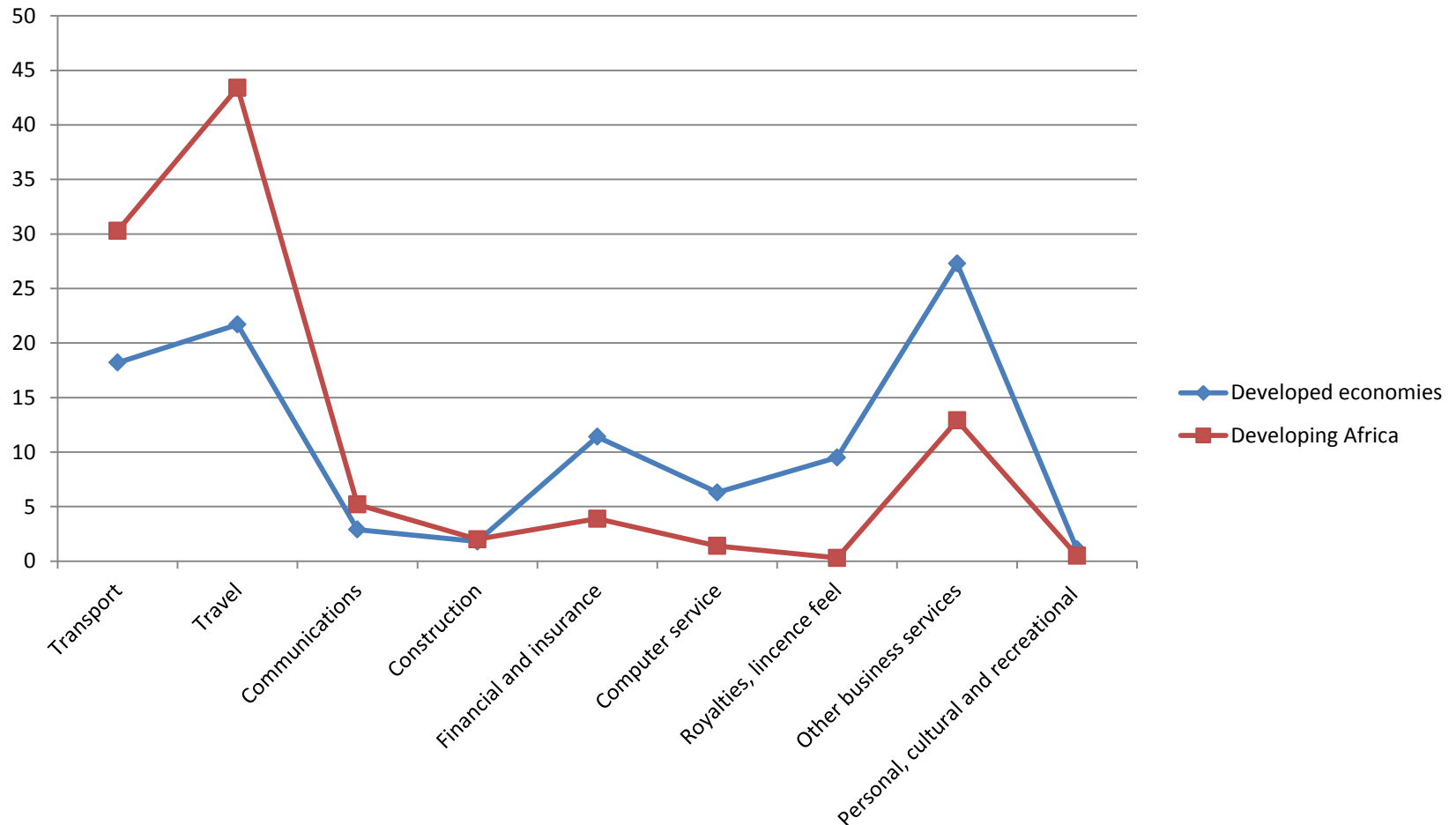
Source: UNCTAD Stat.





# 1. Trends (Trade)

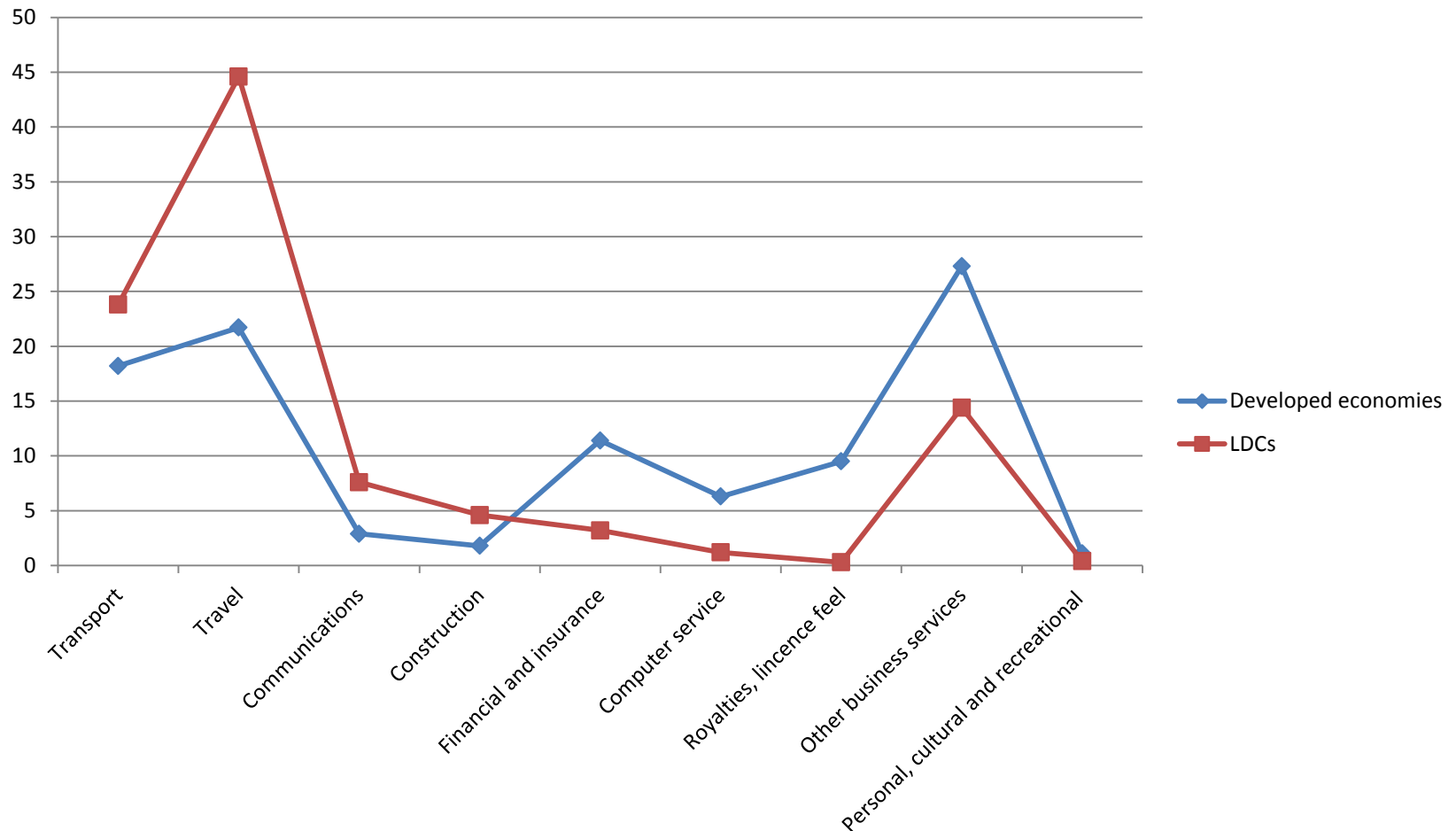
Exports of commercial services  
from developed countries and Africa by category, percentage  
(2013)



Source: UNCTAD Stat.

# 1. Trends (Trade)

Export of commercial services  
from developed countries and LDCs by category (2013)



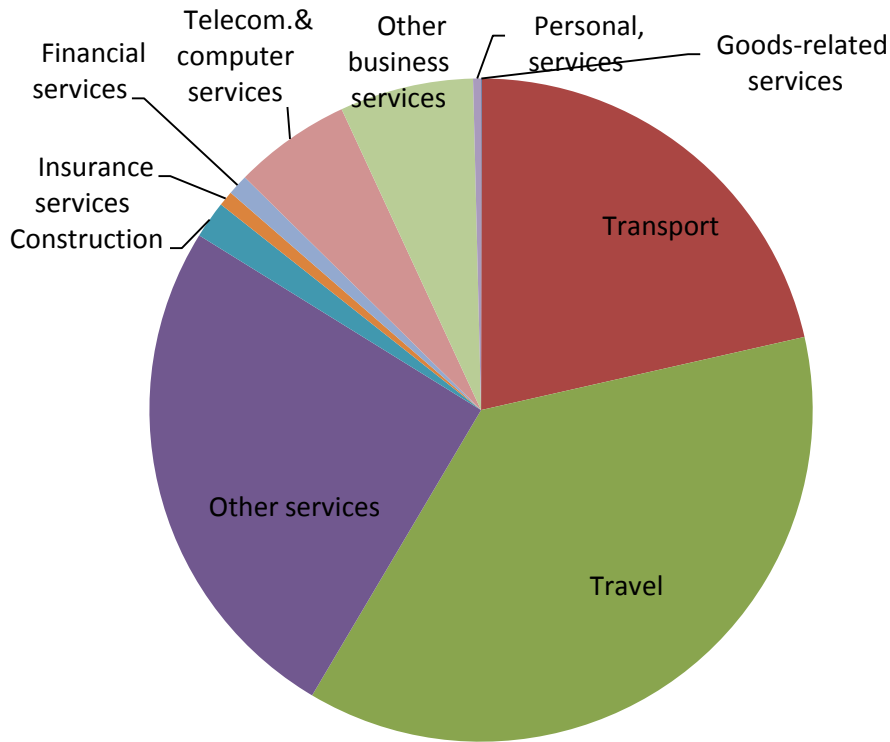
Source: UNCTAD Stat.



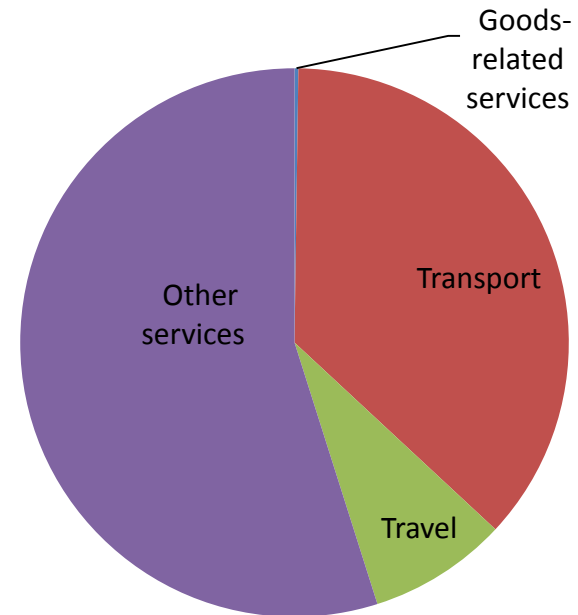
# 1. Trends (Trade)

## Exports and imports of commercial services in LDCs (2013)

Exports in LDCs, 2013



Imports in LDCs, 2013



Source: UNCTADstat.

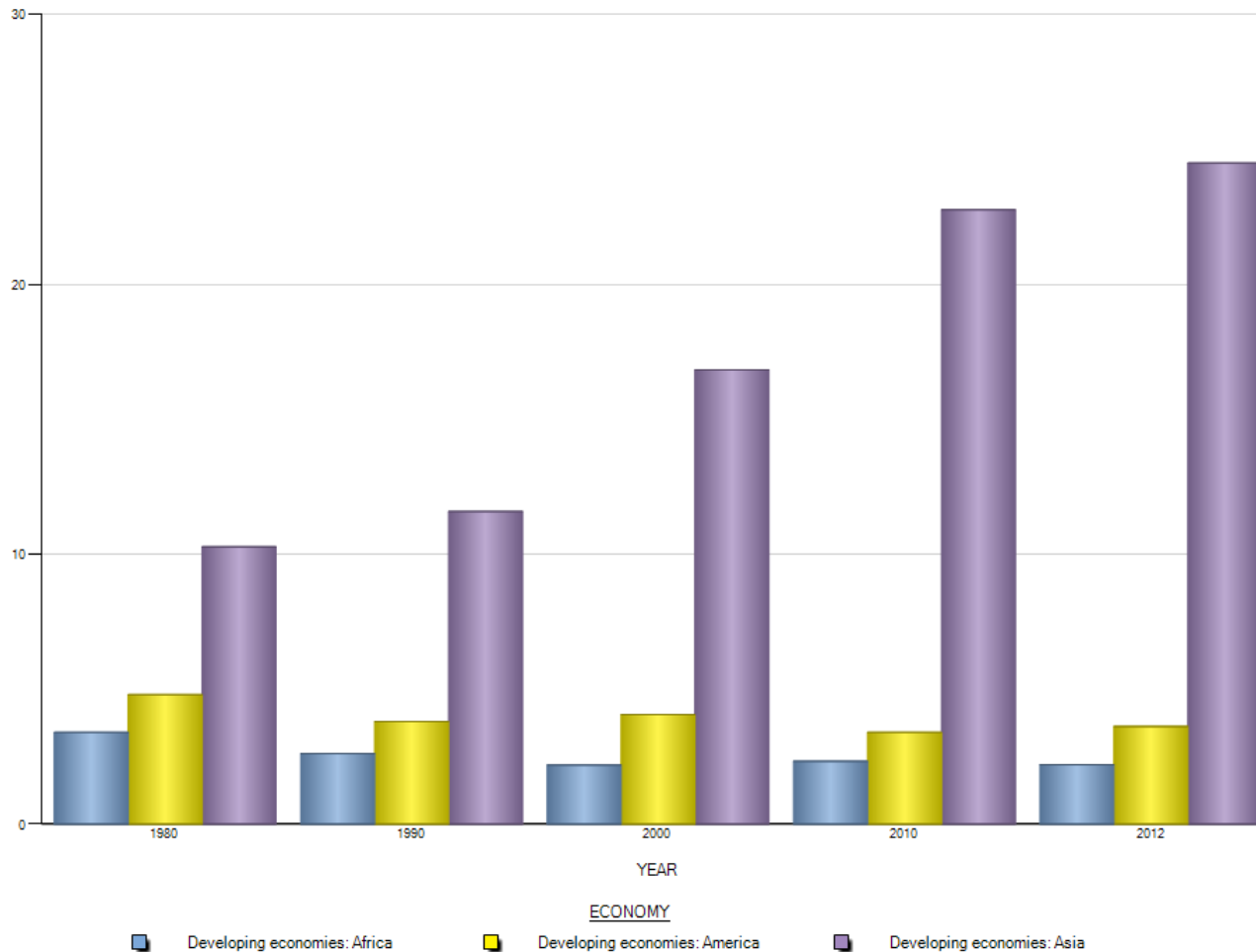
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UNCTAD



# 1. Trends (Trade)

Developing Regions' Services Exports  
(% of Total World Exports of Services, 1980 – 2012)



Source: UNCTAD Stat.



# 1. Trends (Trade)

- Trade statistics does not capture Modes 3 and 4 (commercial presence, and presence of natural persons)
  - Services trade increasingly occurs through these modes.
  - UNCTAD estimates the value of all service sales by affiliates at \$18 trillion in 2014, nearly four-times greater than global cross-border services exports.
  - In 2012, services accounted for 63 per cent of global FDI stock.
  - Cross-border movement of people supplying services (Mode 4) is particularly important in professional and business services, as well as services related to agriculture, manufactures and mining.
- Also, statistics do not reflect full importance of services value added embedded in exports of goods (45% in 2009)
- Therefore, the importance of service trade is largely underestimated



## 2. Linkage between services and development

### ➤ Fundamental support to the economy

- Important source of employment, particularly for women
- Essential to efficient functioning of productive capabilities and a determinant of competitiveness

### ➤ Contribution to innovation and development

- Knowledge, technology and innovation services promote diversification, structural transformation and sustained growth and development
- Knowledge intensive economic activities are services or have high content of services

### ➤ Contribution to sustainable development goals (SDGs)

- Goal 3 (health), Goal 4 (education), Goal 5 (gender equality), Goal 6 (water), Goal 7 (energy), Goal 8 (economic growth and employment), Goal 9 (infrastructure), Goals 13-17 (sustainable development)



# 3. Factors promoting globalization of services

- Foreign direct investment (FDI) (Mode 3)
  - Commercial presence through FDI is the major mode of supply in services
  - FDI in services grew tenfold within 20 years to reach almost \$1000 billion in 2012 outpacing agriculture and manufacturing sectors
  - FDI in financial services, transport and communication increased sharply
- Migrant and remittances (Mode 4)
  - Services exports through the temporary movement of natural persons is substantial for developing countries
  - In 2014, developing countries received \$436 billion in remittances with global remittances flows standing at \$583 billion. This trade is on a rising trend inferring from a continued growth in global remittance flows.
- Advancement in information and communication technology (Mode 1)
  - Emergence of international cross-border processing services (customer services, publishing, graphic design, etc)
  - Growing e-commerce not only in goods but in services, B2B, B2C
- Growth of the middle class (Mode 2)
  - Increase in international tourism, education in abroad, etc



# 3. Factors promoting globalization of services

## Global value chains (GVCs) and services

- Development of GVCs requires efficient professional, business and infrastructure services (i.e., energy, transport, telecommunication and ICT, financial services, research and development, product design and marketing)
- Proportion of value-added services to the gross value of exports in goods represented almost 60 per cent in developed countries and over 40 per cent for developing countries in 2011.
- Imported services value-added accounted for 15 per cent in developed countries, and this share had increased significantly since 1995.
- This has made services a major option for export diversification but opportunities are yet to be fully explored in many developing countries.





# 4. Regulatory and institutional issues

- Services sector needs to be regulated for the purpose of:
  - Consumer protection
  - Environmental protection
  - Prudential protection (economic and financial stability)
  - Fair competition
  - Universal access
- Regulation is crucial in many service sectors regardless of whether the sector is open to trade
- Such regulation is needed to ensure that services markets work properly by addressing problems associated with **information asymmetries**, **natural monopolies** and **externalities**
- UNCTAD has been working on regulatory and institutional issues for infrastructural services and holding Multi-Year Expert Meeting for the last 8 years.



## 4. Regulatory and institutional issues

- Regulatory and institutional challenges for developing countries
  - Developing countries have particular structural weaknesses in regulatory and institutional aspect
  - Many regulatory agencies in developing countries are still quite fragile or non-existent
  - It takes time and resources to build well functioning regulatory and institutional framework
  - Yet, for liberalization of services to produce the expected benefits, effective regulation and institutional capacity is necessary



## 4. Regulatory and institutional issues

- Liberalization of services should support:
  - Universal access
  - Macro-prudential objectives
  - Financial inclusion
  - Fair competition
  - Sustainable development
  
- Liberalization of services may require international regulatory cooperation and harmonization of regulation (e.g., in transport services, professional services, financial services)



# Concluding remarks

- The important of services will increase for Africa as its population and economy grow.
- Exports and imports of services are likely show dynamic growth for Africa.
- Services can be an engine of growth, diversification to knowledge-intensive activities.
- More liberalized the service sector is, more important to have sound regulatory and institutional framework.
- Liberalization of services should support universal access, macro-prudential objectives, financial inclusion, fair competition and sustainable development.
- How do these issues translate into trade in services negotiations for AU-CFTA?



# Thank you

[michiko.hayashi@unctad.org](mailto:michiko.hayashi@unctad.org)

