Services and Investment and the 2030 Agenda

WTO Workshop on the Sustainable Development Goals, Addis Ababa Action Agenda and the Aid for Trade Initiative – WTO Committee on Trade and Development

Sherry Stephenson and Alice Tipping, ICTSD

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Services sectors reflected in the 2030 Agenda

Access to essential services:
- Health
- Education
- Environmental services (water and sanitation)
- Energy*
- Finance*
- Telecoms and ICT*

Backbone services:
- Transport and logistics
- Energy*
- Finance*
- Telecoms and ICT*

Sustainable tourism
References to essential services

Access to essential **health services** as part of universal health coverage (SDG 3.8)

Access to affordable and quality **technical, vocational and tertiary education** (SDG 4.3)

Halve the proportion of **untreated waste water** (SDG 6.3)

Access to affordable, reliable and modern **energy services** (SDG 7.1)

Provide universal **access to the internet** in LDCs (SDG 9.c)

Access to **financial services**:

- Contributes to improving productivity and incomes of small food producers (SDG 2.3)
- As part of improving access to economic resources (SDG 1.4)
- As part of social inclusion and women’s empowerment (SDG 5.a)
Explicit references to sustainable tourism:

Implement policies to promote sustainable tourism that creates jobs and promotes local culture and products. (SDG 8.9)

Increase benefits to SIDS and LDCs from the sustainable use of marine resources, including through sustainable management of fisheries, aquaculture, and tourism. (SDG 14.7)

- Travel (tourism) services makes up 45% LDC commercial service exports, revenue came to US$14 billion in 2013. (WTO, 2015)
References to backbone services

Transport and logistics

Technical assistance and the improvement of trade and transit-related logistics to enable LLDCs to implement policies aimed at facilitating trade and diversifying exports. (AAAA para 90)

- Transport services = 24% of all LDC commercial services exports. (WTO, 2015)

Energy

International cooperation to expand infrastructure and technology for modern and sustainable energy services, in particular in LDCs and SIDS. (AAAA para 49)

Telecoms and ICT

Promote the development and use of information and communications technology infrastructure, as well as capacity-building, particularly in LDCs, LLDCs and SIDS. (AAAA para 114)

- Communications and ICT services were the most dynamic LDC service export sectors between 1995 and 2013. (WTO, 2015)
Financial services

Increase access for small-scale enterprises, particularly in developing countries, to financial services, including affordable credit, and their integration into value chains. (SDG 9.3)

Development banks to promote finance for micro, small and medium-sized enterprises, through the creation of targeted credit lines as well as technical assistance. (AAAA para 43)

Lack of access to trade finance can limit country’s trading potential... We welcome the work carried out by the WTO Expert Group on Trade Financing, and commit to exploring ways to use market-oriented incentives to expand WTO-compatible trade finance... (AAAA para 81).
How can Better Services support Development?

- Some Estimations of Economic and Welfare Gains from Improvement in Performance of Various Service Sectors
1. Financial Services: More efficiency could achieve more poverty reduction through remittances

- Financial Services are more available to:
  - 8% of world population holds **83.3%** of total wealth
  - However, the 92% remaining still have $40 trillion in wealth
  - More efficient Financial Services would lower cost for the transfer of remittances to low-income countries

A 10% increase in remittances would contribute to **3.5%** reduction in the share of people living in poverty

Trade Finance: A necessity to promote more services trade by developing country firms

• Gap in trade financing in world economy is huge: annual global gap estimated at $1.6 billion (ADB).
  • Trade finance is the backbone of international trade. One-third of trade is backed by one or more trade finance instruments.
  • For Africa the unmet demand for trade financing amounts to more than $110 billion i.e. around one-third of the existing market (AfDB). Others say that it could be more than twice this amount.
  • Access to trade finance consistently cited as one of the biggest obstacles for services suppliers to participate in value chains.

Increasing availability of trade finance globally by 5% could raise production and number of jobs worldwide by 2%.

Source: German Development Institute, 2015. “Financing Global Development: The Potential of Trade Finance.”
2. E-Commerce: Reducing logistics barriers can increase services trade for SMEs

- Of the firms doing business on eBay – many with fewer than five employees – 97% of those with more than US$ 10,000 in annual sales sell their goods internationally.

- Although the Internet facilitates cross-border trade, supply chain barriers still interfere:
  - Logistics costs
  - Express delivery costs

If merchants decide to sell internationally, they will typically limit their sales to the countries whose REGULATIONS are easiest to navigate and whose SHIPPING SERVICES are most reliable.
Lowering trade & logistics barriers could increase international sales for SMEs by 60% to 80%!

SMEs could increase e-commerce cross-border trade by up to **60%-80% with lower logistics costs**, equivalent to up to a US$ 6.4 billion gain in trade (from eBay report).

If this behavior held for the entire global e-commerce market, **international trade from the Internet might unlock ~US$ 95 billion**.
4. Telecom and Transport: Better infrastructure could strongly impact world GDP and Trade as these are among the main supply chain barriers

Based on the WB and WEF study “Enabling Trade: Valuing Growth Opportunities” 2013

Reducing supply chain barriers could increase world GDP six times more than removing all tariffs.

- Reducing supply chain barriers to trade halfway to global best practice could potentially increase world GDP by nearly 5% and trade by 15%.

WEF-WB Enabling Trade Report 2013
Potential Impact by Region of Improved Telecom & Transport Infrastructure and Improved Logistics

The biggest gains will be in the Developing World, especially Africa!
Distribution of the Gains to Trade and GDP from REDUCTION OF TRANSPORT AND COMMUNICATIONS BARRIERS

• Gains in GDP and trade associated with better infrastructure (transport and telecoms) and logistics (customs procedures) would take place in all regions, though they would be concentrated in those developing regions which would show the greatest improvements
  • Sub-Saharan Africa
  • South Asia

Note: Economic gains from supply chain barrier reductions are more evenly distributed across countries than the gains from tariff elimination

Should reflect on this when setting the Aid4Trade priorities - DFQF or Services oriented?
How can More Appropriate Regulations for Services support Sustainable Development?

- The Regulatory Framework for Infrastructure Services is Critical to ensure that these operate Efficiently and at the Lowest Cost and that Universal Access is achieved in Key Sectors.
Design and quality of regulations can impact economic efficiency and growth

• Governments remain sovereign to regulate in the manner they feel best, but their choices will have an impact on how their countries will be able to meet the SDGs for 2030
• Thus, evaluating the appropriateness of services regulations is critical
Appropriate regulatory environment will vary by service sector

• This will depend upon the type of market failure that needs to be addressed or the objective that a government wishes to achieve for its people

• Nearly all regulatory interventions are for two reasons:

  1. to correct market failures
  2. to achieve public policy goals

If carried out well, these will contribute to SUSTAINABLE DEVELOPMENT
Key challenge in regulating services from a development perspective:

How to identify the most appropriate regulations for services and the framework for investment that will both

• Achieve legitimate policy objectives
• Have the least restrictive impact on trade

The design and quality of regulations can impact strongly on both economic efficiency in the national economy as well as on international trade
ICTSD is developing a Guide to Assess the Appropriateness of Services Regulations

- The purpose of the Guide is to help LDCs and LICs identify appropriate regulations for various services sectors and understand how to improve existing ones, so as to enhance competitiveness and engagement in international trade and achieve sustainable development.
Aid for Trade and the 2030 SDG Agenda: Services and Investment are Critical

- Both more Infrastructure build-out as well as more Appropriate Regulatory Frameworks for Services can help attract Investment and boost Contribution of Services to Sustainable Development and achieving the SDGs

8 out of 13 of the actions considered to have potentially the most positive results in reducing trade costs are related to services

- Upgrading transport infrastructure,
- Upgrading ICT, energy and telecoms network infrastructure,
- Improving the regulatory environment for services,
- Improving skills levels in services sectors,
- Improving access to trade finance,
- Working with trade partners to remove restrictions on movement of natural persons,
- Working with trade partners to recognize professional qualifications,
- Removing domestic restrictions on commercial presence (mode 3).


• To date (between 2006 and 2015, more than three-quarters of total Aid for Trade funds disbursed ($454 billion) have gone to the four areas below

• Three of these are services related:
  - Transport
  - Energy Generation and Supply
  - Agriculture and
  - Banking and Business Services

Aid4Trade at a Glance Report
prepared for the Fifth Global Review (June – July 2015)

Aid for Trade Disbursements by Area


Should note that “Improving the Regulatory Environment for Services” has only received 3% of the aid disbursements since 2006 (or $7.6 billion), even though regulatory reform is ranked just after customs and infrastructure improvement – and on a par with tariff reforms in terms of having the most positive results in reducing trade costs (page 10 of report)

To present Aid4 Trade efforts have not focused much on improving regulatory frameworks for services

Areas in which Aid4Trade could help contribute to the SDGs for 2030 for services

Aid for Trade efforts could focus on improving quality, availability and efficiency of the essential backbone services that are essential to growth and trade and will contribute to realization of the SDGs.

These include a continued focus on the backbone services:

◆ Transport infrastructure
◆ ICT, Energy and Telecoms infrastructure
◆ Improvement in Financial Services, PLUS
◆ **BETTER REGULATIONS FOR THESE SERVICES** (ICTSD project will contribute to this goal; more Aid4Trade efforts as well as studies on the role & type of regulations will also help)
Areas in which Aid4Trade could help contribute to the SDGs for 2030 for services

More emphasis on appropriate regulatory frameworks for services could be required going forward in the Aid for Trade efforts; without this, greater services availability through greater infrastructure build-out might not result in improved efficiency and a better contribution of services to growth and sustainable development.
Thank You

Dr. Sherry Stephenson
sstephenson@ictsd.ch

Ms. Alice Tipping
atipping@ictsd.ch

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