

Policy reforms in services: where next for LAC?

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KEY MESSAGES

1. Services trade represents a **significant opportunity for growth** in the Latin America and Caribbean (LAC) region, particularly in the realm of Knowledge-based services (KBS), driven by global trends and digitalization.
 2. Despite the region's potential, **there are challenges** associated with digital transformation, regulatory frameworks, and skills development to enhance competitiveness.
 3. **The Inter-American Development Bank (IDB) Group has played a crucial role in supporting LAC countries** to leverage these opportunities and overcome challenges through comprehensive financial and non-financial interventions, alongside fostering regional integration efforts.
- **Going forward, the IDB is ready to deploy a roadmap to fully leverage the benefits of knowledge services trade in the LAC region**, including through promoting digital infrastructure and transformation, streamlining regulations, enhancing innovation ecosystems, bridging skills gaps, and fostering deeper regional integration.
 - **Deepened services trade cooperation in the WTO could open increased opportunities for services trade to drive growth in LAC.**

1. THE POTENTIAL OF TRADE IN KNOWLEDGE SERVICES FOR THE LAC REGION

In the rapidly evolving landscape of international trade, services play a pivotal role in driving growth and fostering opportunities, particularly for the LAC region.

- Services constitute a significant portion of LAC's total exports, comprising 12 percent of the overall export volume, though this is notably lower than the global average of 22 percent.
- Within the LAC services export portfolio, travel holds the largest share at 39 percent, followed closely by Knowledge-based services (KBS) at 37 percent, and Transport at 18 percent.¹

This underscores the potential for the region to further explore and capitalize on the growth of Knowledge-based services, which has been steadily rising worldwide (219 percent increase in global exports from 2005-2021).

The digital revolution has emerged as a transformative force, presenting new avenues for trade-led development in LAC.

Despite these opportunities, LAC's position in the global KBS landscape reveals areas for improvement.

- While LAC KBS exports have grown at a similar rate to the global average, they still lag economies such as India, East Asia, and the U.S.²

¹ Calculations based on IMF Balance of Payments Statistics database.

² Calculations based on OECD-WTO BaTiS.

2. CONDITIONS TO FULLY LEVERAGE THE POTENTIAL OF KNOWLEDGE BASED SERVICES IN THE REGION

To fully leverage the potential of KBS, digital transformation becomes imperative in the region.

- This entails enhancing connectivity, lowering internet access costs, and improving access to ICT infrastructure and digital skills.
- Additionally, addressing risks associated with digitalization and the potential for technology-induced labor market disruption is also important.

Enhancing the competitiveness of LAC countries as potential locations for offshoring knowledge-based services requires reducing information frictions and streamlining regulations.

- There is a wide variation in the competitiveness of LAC countries as KBS locations, with three LAC countries (Brazil, Mexico, Colombia) among the top 15 economies in the Kearney Global Services Location Index.
- Information frictions regarding a country's services offer, business regulations, and other competitiveness factors also pose a challenge for international investors.³ Also in this aspect there is wide variation in performance in investment attraction and export promotion among countries.
- On regulations, I would like to highlight the collective effort of over 70 WTO members to simplify domestic services regulation and cut red tape. The completion of the certification process of the services schedules of over 50 members, announced at the WTO 13th Ministerial Conference, is an important step forward.⁴ The IDB is ready to support the countries that still need to certify.

Bridging the skills gap between education systems and industry demands and reducing the gender gap in the access to educations are also key to fully leverage knowledge services for inclusive development.

- The region deals with low tertiary education enrollment and insufficient investment in education, leading to curricula that do not meet the demand of the economy. It also suffers from a shortage of technical workers and inadequate collaboration between private sector and academia.
- Additionally, there is a gender bias in enrollment in science, technology, engineering, and mathematics-related careers, that needs to be addressed.

3. THE CURRENT ROLE OF THE IDB IN SUPPORTING KBS

In advancing trade in KBS in LAC, the IDB plays a pivotal role through its comprehensive support framework.

- The Bank follows a comprehensive approach to trade in KBS, which encompasses financing and operational support, investment attraction and facilitation, export promotion, and investment-driven training programs.

³ Carballo, Marra de Artiñano, and Volpe Martincus (2021).

⁴ WTO (2024) ([link](#))

Investment attraction and facilitation: our programs include training and support to soft-landing services, lead generation programs, pre-investment projects, red-carpet services, information portals, digital single windows for investment, country branding, aftercare services and policy coordination/evaluation.

Export promotion: recent operations include business development programs with a KBS focus, productive linkages, upgrading of SME's capabilities, participation in trade missions and fairs, and special regimes and zones.

Investment-driven training programs: non-formal programs designed to provide short-term training through public-private partnerships, thus bridging the skills gap.

Lending operations: recently, the Bank has supported countries in the region through ten lending operations totaling US\$ 163 million, e.g.:

- In **Uruguay**, a program to support the KBS sector included investment promotion, regulatory strengthening, training programs, and red-carpet services to investors.⁵
- In **Chile**, a program to support the services export sector has contributed to achieving a greater share of high value-added services and promoting the diversification of the productive structure.⁶
- In **Jamaica**, we provided and financed relevant trainings for the global services industry and structured the Career Pathways Framework talent platform.⁷

Additionally, the IDB complements financial interventions with the generation of operationally relevant knowledge, technical cooperation and policy dialogue.

Knowledge generation and technical cooperation

- The IDB has pioneered studies in three countries (Chile, Ecuador, Uruguay) to strengthen firm-level statistics on services trade.
- It has also pioneered analyses to help close knowledge gaps about the broader developmental effects of services trade using data from those three economies.
- In El Salvador, the Bank has provided technical cooperation for the development of a training model to connect workers with opportunities in global digital services.⁸

Policy dialogue

- Through several programs, including the Americas Business Dialogue (ABD), the Outsource2LAC and ConnectAmericas and the IDB supports policy dialogue and identification of business opportunities and networking in services trade.

By actively supporting regional integration efforts, the IDB also has contributed to fostering collaboration and harmonization of regulations, further facilitating services trade in the region.

- The Bank has supported the trade in services agenda in the Pacific Alliance (Chile, Colombia, Mexico, and Peru) by preparing a report on the taxation of cross-border services within the bloc,

⁵ Alvarez, Sutin, Flores and Candia ([link](#)).

⁶ CH-L1138 PMR 2023 Second Semester ([link](#)).

⁷ JA-L1079 PMR 2023 Second Semester ([link](#)).

⁸ ES-T1332, Habilidades de *e-lancing* para el trabajo en la economía global.

as well as providing technical assistance for the development and implementation of the Road Map for the Pacific Alliance Regional Digital Market.

- The Bank has also prepared a report on digital trade in the Pacific Alliance and is currently developing a study on cross-border data flows.

➤ **A ROADMAP TO FULLY LEVERAGE THE BENEFITS FROM KBS IN LAC**

Moving forward, the IDB Group will maintain its commitment to helping countries fully harness the potential of KBS trade for development and to strengthen its ties with the WTO through a multifaceted approach that includes:

- **Advancing policies for enhanced digital infrastructure, facilitated digitalization, and emerging technology adoption in the region. Examples of potential actions include:**
 - Promoting competition in telecoms, spurring investment and broadening internet access.
 - Prioritizing ICT infrastructure in remote areas, ensuring widespread internet access.
 - Investing in fiber optic networks for high-speed internet, especially in urban areas.
 - Promoting digital inclusion programs for training and support of underserved groups to access and utilize digital services effectively.
- **Providing comprehensive support for the implementation of regulatory reforms, drawing upon the WTO initiative of domestic services regulation as a foundational framework. The IDB will offer hands-on assistance to countries throughout this process to ensure its successful completion. Specific areas for support could include, for example:**
 - Simplify and streamline regulatory processes to reduce time and costs of compliance.
 - Increase transparency in regulatory processes to build trust and encourage investment in the KBS.
 - Create a regulatory environment that encourages innovation.
- **Strengthening and expanding programs aimed at re-skilling and upskilling, with a focus on identifying new areas of intervention, refining existing strategies for optimal outcomes and reducing the gender gap in the access to skills. Specific actions include, for example:**
 - Support the reform of education systems to focus on the skills required for knowledge-based services, including digital literacy, technical skills and soft skills.
 - Promote and strengthen technical and vocational training programs to provide practical and relevant skills that meet the need of the knowledge-based services sector.
 - Encourage collaboration between industry and academia to ensure that curricula are aligned with the evolving needs of the knowledge-based economy.
- **Cultivating innovative ecosystems conducive to the inclusive development and trade of novel services and technologies. The IDB actively support initiatives that:**
 - Encourage collaboration between industry, academia, and government to drive innovation, entrepreneurship, and the growth of startups.
 - Support investment in R&D to stimulate innovation in KBS.
 - Develop and pilot policies and programs that support entrepreneurship in the knowledge-based services sector.
- **Promoting and supporting the deepening of regional integration efforts to establish a larger and more unified market for services trade within LAC. This entails:**
 - Strengthening trade facilitation mechanisms to foster cross-border trade in services, with a focus on promoting the adoption of digital platforms for documentation and payments.

- Facilitating cross-border investments through harmonization of standards and regulations, reducing barriers to entry and making it easier for firms to operate across borders.
- Harmonizing regulatory frameworks to facilitate the smooth movement of services and foster greater economic cooperation among LAC countries.
- Facilitating the movement of skilled professionals across borders, which can address skill shortages in the short run and enable the transfer of knowledge and expertise.