



## SERVICES AND ECONOMIC DEVELOPMENT

### A MESSAGE FROM THE GLOBAL SERVICES COALITION

September 22, 2010

The world economy is increasingly dependent on services. This is evident from the important synergies that exist between various parts of both the global economy and individual national economies. There are a number of contributing factors, among them the rise of knowledge-based activities and the importance of intangible assets in all economies, and the interplay of both with the manufacturing and agricultural sectors.

Productivity growth in services is as critical to economic recovery, jobs and growth as in other sectors, and the fastest and most proven way to improve services productivity is for trade in services to be developed and progressively liberalized. Yet liberalization of trade in services lags behind that of other sectors and activities. Services trade liberalization could result in global welfare gains that are a multiple of the potential gain from eliminating barriers to trade in industrial goods and many times the projected gains from liberalization of global agricultural trade. It is now time to make progress. That is the key message of the Global Services Summit, which meets today in Washington DC. It is a message that is developed in the attached Statement on Development, which highlights the vital role of the "infrastructure" services sectors including financial services, information and communications technology, express delivery, retail services, and energy and environmental services.

The need for progress is urgent. Services contribute to every aspect of a country's economy; they are a fundamental part of the economic infrastructure, and can help determine a country's success in exporting goods and agricultural products, as well as other services. Neglecting the role of services will undercut the goals of more competitive manufacturing and agriculture sectors. Service sector development can drive industrialization: the potential for high economic growth in developing countries no longer lies solely with the development of the manufacturing sector.

Liberalization of international trade and investment in services drives economic growth and development, bringing higher quality and lower prices through competition and integration of the markets, and promotes more advanced applications that contribute to yet better welfare. They create a dynamic environment that promotes infusions of capital and technology that in turn generates new economic growth. All countries, at all levels of development, benefit from this environment. All countries should support the case for fostering services development and for services liberalization.

Australian Services Roundtable

Barbados Coalition of Service Industries

Canadian Services Coalition

Coalition of Service Industries, United States

European Services Forum

Financial Leaders Working Group

Hong Kong Coalition of Service Industries

Japan Services Network

Taiwan Coalition of Service Industries

TheCityUK, United Kingdom

Wellington Employers' Chamber of Commerce, New Zealand



September 22, 2010

## GLOBAL SERVICES COALITION STATEMENT ON DEVELOPMENT

The world economy is increasingly dependent on services and the important synergies that exist between various parts of the economy. There are a number of contributing factors but a key force is the rise in importance of knowledge and intangible assets in all economies, and their interplay with the manufacturing and agricultural sectors. Services now account for 67% of global economic output. For OECD countries the figure is 73%, for the U.S. it is 77%, and for Hong Kong SAR, 95%.

In developing countries too, the share of GDP generated by services has been growing; it rose from 37% in 1970 to 45% in 2006. As countries transition to middle income status, growth in the economy reflects not only the shares of agriculture and manufacturing, but the increased importance of services.

This trend is evident also in employment. From 1995-2005, worldwide employment in the service sector increased from 34% to 39% of the global workforce.

Further, services attract more foreign direct investment in developing countries than all other industries combined. According to UNCTAD, developing countries received services-related inward FDI flows of \$255 billion from 2006-2008.

Finally, worldwide trade in services has grown rapidly, though goods trade is much larger. World services exports grew from \$365 billion in 1980 to \$3.8 trillion in 2008, though they fell back to \$3.3 trillion amid last year's global economic downturn.

Productivity growth in services is as critical to economic growth as in other sectors. The World Bank has found that countries with high productivity growth in services also tend to have high overall economic growth. In a sample of 50 developing countries, growth in the service sector was found to be more closely correlated with poverty reduction than was growth in agriculture.

The fastest and most proven way for developing countries to improve their services productivity is to create a positive climate for the "infrastructure" services essential to create 21<sup>st</sup> Century economies: financial, information and communications, express delivery, retail, and energy & environmental services. Three critical elements are required for these services to develop: capital, technology, and advanced applications which can be lacking in many countries. These gaps can be fully and expeditiously addressed by attracting new investment and expertise, including by enabling competition in the market by foreign providers. Continued reliance on an indigenous industry to supply the capital and technology a country needs will leave that country underserved and less competitive in services and without a healthy set of sectors that are critical to economic development. Moreover, in all countries these essential services require a regulatory framework to enable entry and address issues associated with international integration.

Services are important in and of themselves, but are also "force multipliers" for all other sectors. That is, efficient services multiply the efficiency and global reach of other activities including manufacturing and agriculture, and enable greater productivity in those sectors. Imagine sustaining today's levels of trade in goods without express delivery services, or today's trade in agriculture without the benefit of transportation and financial services.

According to one study, services trade liberalization could result in global welfare gains more than double the potential gain from liberalization of barriers to trade in industrial goods and over 30 times the projected gains from liberalization of global agricultural trade.

The following are a few examples of how key infrastructure services drive economic growth and development.

### **Financial Services**

Efficient financial services are essential for dynamic modern economies. Liberalizing trade in financial services, including measures to ensure equal competitive conditions with state-owned enterprises that are engaged in commercial activities, improves capital market efficiency, bolsters financial sector stability, and supports economic growth and job creation in both developed and developing countries.

Foreign banks' participation in a market improves access to credit for businesses of all sizes. Liberalization can facilitate access to international capital markets and augment the amount of savings available for productive investment. Insurance services, in a liberalized market, provide unique and important social benefits, including financial security, private compensation for loss (in place of government compensation or no compensation), investment in basic infrastructure, and mobilization of capital for other long-term investments. Similarly, securities and asset management services create new savings and investment vehicles for businesses and entrepreneurs; a competitive asset management sector is an essential component of the global shift in how pensions and retirement systems are structured.

Financial systems in both developed and developing economies have grown substantially in recent decades. The size of financial systems, as measured by total financial assets to GDP, was roughly 60% of GDP in high-income countries in 1980, and grew to more than 120% in 2007. In upper middle income countries, the size of the financial system has grown from slightly more than 30% of GDP in 1970 to more than 60% in 2007.

According to the WTO, the financial services sector employs more than four percent of the workforce in countries such as Canada, Cyprus, Ireland, Switzerland, the United States, and Uruguay, and more than 10% in places such as the Bahamas, Cayman Islands, Luxembourg, and South Africa.

Financial services trade has experienced rapid growth in tandem with the deepening of financial systems. World exports of financial services (including insurance) have grown by 17% per year since 2000, reaching US\$370 billion in 2007. The subsequent financial crisis revealed the need for new disciplines and regulatory repair in certain financial services sectors; this is being vigorously addressed in the markets affected. While international financial activity has traditionally been dominated by developed country suppliers, in recent times, developing countries have become important sources of lending and investment, particularly to other developing countries.

Countries that fully liberalize financial services markets are able to realize these benefits, and as a result, experience GDP growth that is, on average, 1% faster than countries which do not, according to the World Bank.

### **Information and Communications Technology**

Information and communications services, from digital services to the networks over which they travel, are essential to 21<sup>st</sup> Century commerce. Domestic producers will find it difficult to succeed, even in purely domestic markets, without access to quality information and communication technology (ICT) and related services at competitive prices. ICT has been a driver of economic growth, has spurred innovation and competitiveness, and has improved people's lives by facilitating much greater access to goods and services. Liberalization in this sector has allowed developing countries to become significant players in regional and global markets.

ICT services include both IT services and communication services. Communication services provide the network infrastructure that supports the transmission of voice, data, images and video. IT services such as cloud computing, and data center services add data processing,

application and storage capabilities. This modern infrastructure supports a broad range of ICT-enabled services that can be delivered electronically, including online stores, business process outsourcing, social networking services, search engines and online payment systems.

Global spending on ICT services is projected to reach US\$800 billion this year, according to the World Information Technology and Services Alliance, opening up tremendous trade and investment opportunities for suppliers around the world. Interestingly, the biggest consumers of these services are other service industries. The financial industry, for example, purchases more ICT services than does the manufacturing sector, and the health care and professional services industries are among the largest consumers of ICT services.

Telecommunications are essential in the production of all other services, and the sector is growing rapidly, which is also significant for others engaged in the ICT industry, including those who are developing and selling hardware and software, many of which are emerging economies. The BRICs, for example, are the fastest growing markets for PCs, and China will soon be the largest market for PCs in the world. Mobile growth in particular and the e-commerce activities that mobile capabilities support (e.g., communications, banking, entertainment) has exploded, driven largely by consumer interest in accessing information and content and in the proliferation of ways to access information at home, in the office and on the move. The growth of broadband services and the use of the internet have been dramatic and drive economic growth unlike any other service.

Countries with substantial liberalizing WTO telecoms commitments experienced a more rapid rate of growth in telecom sector revenues (and consumer benefits) than those without such commitments. For example, in low-income countries in Europe and Central Asia, telecom sector revenue in countries with liberalizing WTO commitments grew from 1.5% to more than 4% of GDP in the years following the WTO Agreement on Telecommunications Services (1997-2002), while the figure was essentially flat during the same period for countries that made no liberalizing commitments.

Telecommunications investment and usage has surged in countries that have liberalized this industry, and the costs of both local and long distance calls have fallen dramatically. World Bank statistics underscore the correlation between availability of telecommunications services – particularly broadband and wireless – and standards of living. For every 10 percentage-point increase in the penetration of broadband services, there is 1.3 percentage-point increase in economic growth.

IT services help to improve productivity and competitiveness across all sectors of the economy. When combined with communication services, IT services enable the creation of new applications and business models, open up access to more export markets for many services, and provide access to critical services for economic growth, including low-cost access to sophisticated IT capabilities.

The use of ICT enables the public and private sectors to address many of society's critical challenges in areas such as energy efficiency, improved healthcare, smarter transportation and better public services. ICT is central to the implementation of "smart grid" and other "smart" or "green" technologies. Moreover, ICT-enabled services allow for more efficient and environmentally friendly delivery of services across the entire economy, at the same time as they

create growth opportunities for developed and developing countries alike. ICT services can also help improve the delivery of public services through increased competition, transparency and efficiencies associated with e-government. E-commerce, the advent and spread of low-cost broadband networks, and the spread of advanced computer services, can help drive social and economic development. The future growth of ICT services will be a key to the economic growth and success of a country or region.

### **Express Delivery**

Express delivery services drive economic development, enhance competitiveness and attract additional foreign direct investment. The core business of the express industry is the provision of value-added, door-to-door transport and deliveries of next-day or time-definite shipments, including documents, parcels and merchandise goods. Express Delivery Services offer entrepreneurs a way to reach new consumers and move past many of the logistics weaknesses in many developing economies. The Express industry supports over 2.75 million jobs today around the world and directly contributed over \$80 billion to world GDP in 2008. The Express industry is expected to support almost 4.5 million jobs by 2018 and continue to grow almost twice as fast as global GDP growth.

Developing countries that embrace liberalization in this sector improve the competitiveness of their businesses and entrepreneurs as they gain access to new markets and consumers around the world. Express delivery services are one component of a host of supply chain services that together can enhance development. Development requires tapping into economic growth opportunities around the world. Express Delivery Services can connect people and businesses to global supply chains. The absence of Express Delivery Services in a developing country leaves it less attractive to foreign investors. Countries at every level of development that embrace and liberalize Express Delivery and other logistics services grow faster, compete better, and develop more quickly than those that do not.

Reducing customs, regulatory, investment and other services barriers to Express Delivery and other logistics services can enhance a country's development often more quickly than the reduction of more traditional tariff barriers. Moreover, Express Delivery Services empower small- and medium-sized enterprises, which are the lion share of enterprises in the developing world, by connecting them to new markets and customers around the world.

### **Retail Services**

Virtually every good or commodity makes its way to the market through distributors. Wholesalers, retailers, commissioned agents and franchisers provide the domestic infrastructure for moving goods to consumers. The value added in the distribution stages can greatly exceed the value added in production; for example, the value created in distribution accounts for 70% of total value for textiles and over 75% for food products, according to UNCTAD.

Liberalization of retail services allows enterprises to manage inventories more efficiently with lower risk, minimize spoilage and waste, and offers consumers greater choice at lower prices. This last argument in itself should be a policy driver in developing countries, in order that poor consumers have better access to basic necessities.

## **Energy and Environmental Services**

Energy accounts for approximately one-tenth of world economic output, according to the WTO, and an efficient energy sector is a prerequisite for social and economic development. The availability of varied sources of energy at competitive prices contributes to a nation's ability to compete in the world marketplace. There is a high correlation between more efficient energy usage and economic growth, increased life expectancy, and higher standards of living. Moreover, modern energy services provide the means to develop energy resources in an environmentally sound manner and in ways that promote responsible and efficient development and use of energy resources.

Liberalizing the energy services sector helps realize these goals. In countries where such liberalization has taken place, both foreign and domestic investment have increased competition and lowered prices. New technology in extraction, transformation, transportation and commercialization of energy products and services has modernized the energy supply chain, generating increased capacity. The spread of advanced technology and services in this sector will be crucial for developing countries to sustain their development path.

The availability of efficient environmental services for waste management, clean water management, efficient water distribution systems, and air quality controls will be crucial elements of economic development in the coming years, and will be essential for the improvement of health and well-being in developing countries. Liberalizing the environmental services sector will provide developed and developing countries alike access to the most advanced technologies to ensure a cleaner environment and the protection of valuable environmental resources.

## **Conclusion**

Services contribute to every aspect of a country's economy; they are a fundamental part of the economic infrastructure, and can help determine a country's success in exporting goods and agricultural products, as well as other services. Neglecting services will simply undercut the goals of more competitive manufacturing and agriculture sectors. Indeed, a recent World Bank paper argues that service sector development can drive industrialization, and that the potential for high economic growth in developing countries no longer lies solely with the development of the manufacturing sector.

Liberalization of international trade and investment in services drives economic growth and development, and brings higher quality and lower prices through competition. It creates a dynamic environment that promotes infusions of capital and technology that in turn generates new economic growth. Countries at all levels of development benefit from this environment.