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Youth Forum

Global Services Forum

Session 2: Facilitating trade in services

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How can international trade in services be made more efficient?

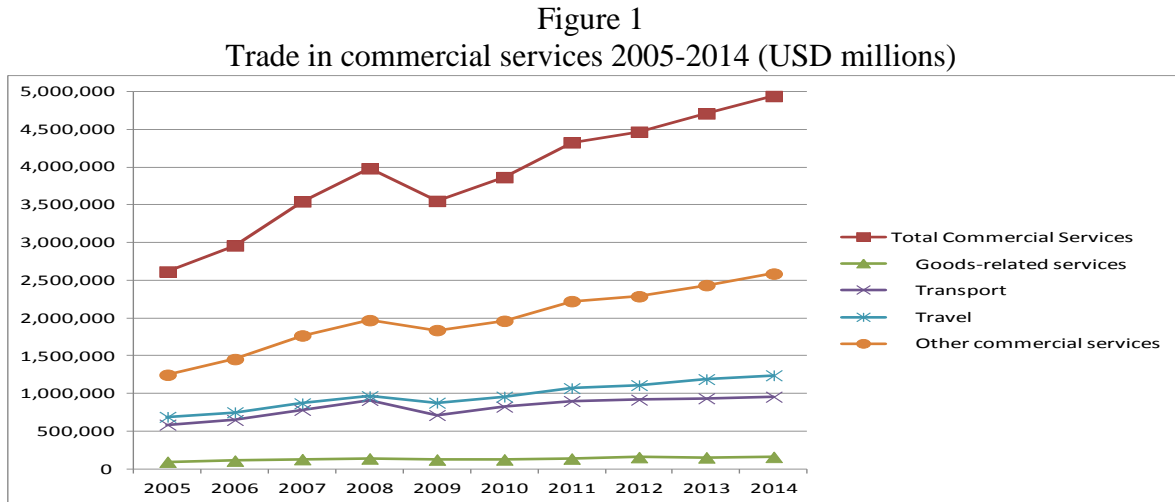
CONTRIBUTION

from

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1. What are the elements that could facilitate trade in services?

The growth of trade in commercial services showed the following behavior from 2005 to 2014 (Figure 1).



Source: WTO (2015) <http://stat.wto.org/StatisticalProgram/WsdbExport.aspx?Language=E>, consulted on 28 April 2016.

During this time, other commercial services experienced strong growth. If we break these down, we can see that they grew as follows during the 2005-2014 period (Table 1):

Table 1
Percentage growth in other commercial services 2005-2014

	Growth %
Construction	124.7
Insurance and pension services	98
Financial services	91.5
Charges for the use of intellectual property	80.8
Telecommunications, computing and information services	129.5
Other business services	113.4
Personal, cultural and recreational services	89.2

Source: WTO op. cit.

As we can observe, telecommunications, computer, and information services experienced the greatest growth (129.5 per cent), followed by construction (124.7 per cent) and other business services (113.4 per cent).

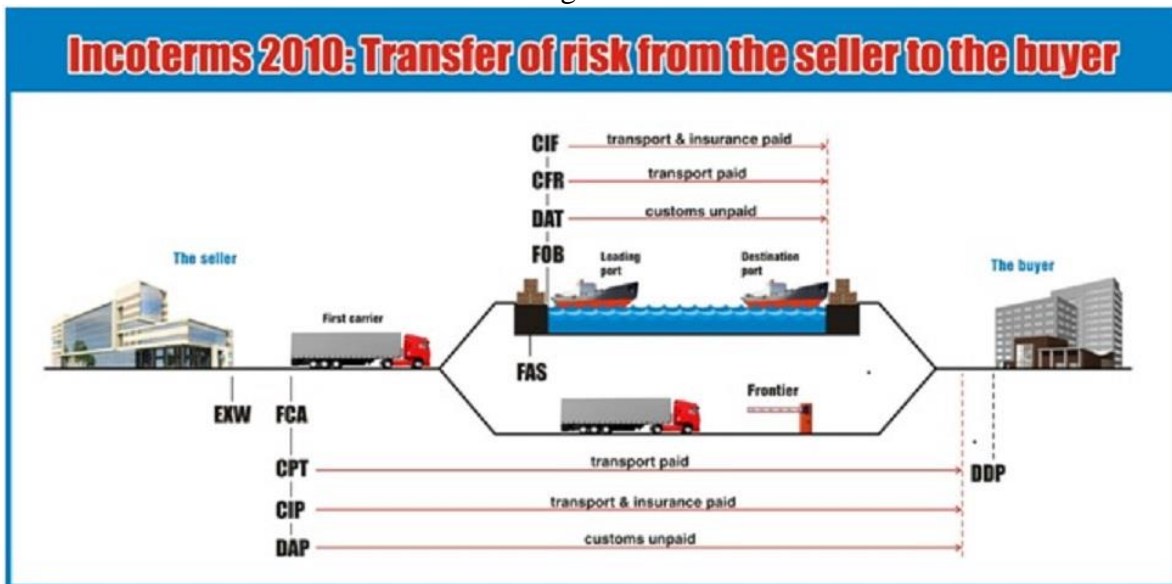
In regard to the growth in telecommunications, computer, and information services, the WTO (2015) states, “Emerging economies, in particular in Asia, have become increasingly important exporters of computer services. The region’s share in world exports rose from an estimated 8 per cent in 1995 to 29 per cent in 2014 as India’s and China’s exports multiplied. North America has lagged behind and its participation in world exports has dropped. However, Europe remains the largest exporter of computer and information services, accounting for 58 per cent of global exports in 2014.”

In this context, and given the implications for logistics and the development of economic activities in general, it is worth mentioning that, as noted by ECLAC (2015; p. 5), “(from 2006 to 2013) in Latin America and the Caribbean the number of users as a proportion of the population has more than doubled from 20.7 per cent to 46.7 per cent. In spite of this, in 2013 the percentage of users remained well below that of the OECD (79 per cent), which indicates a gap of 32.3 percentage points.”

We can incorporate an element that aids us in producing a diagnosis to improve the flow of commercial services, both *per se*, but also in support of foreign trade in goods, which is logistics. Recall that “...logistics not only refers to delivering products on time and in the best possible conditions from the site of production to the end consumer: it includes improving competitiveness and the elimination of obstacles, whether of a technical, legal or other nature, such as certain redundant or unnecessary procedures (Ibarra-Puig, 2012); and in this context “...the general characteristic of all of these procedures is that they require increasing scientific, technological and labor improvements: faster and more refined statistical methods and computer programs; simpler means of transport and quality verifiers; qualified personnel who can use these devices; more economical methods and means of transport and, most importantly, ones that are environmentally friendly...” (*Idem*).

We can therefore see that there is a strong relationship between logistics and commercial services for supporting foreign trade, but also with other commercial services in and of themselves. In order to analyze this relationship in greater depth, let us look at the Incoterms (International Commercial Terms, defined by the International Chamber of Commerce with its headquarters in Paris, France). They can be identified in the 2010 version with the aid of the following diagram (Figure 2).

Figure 2



Source: Internet <http://port-cy.blogspot.mx/2014/03/incoterms-2010.html>, consulted on 10 March 2016.

From here it is possible to extract a series of elements for measuring a country's logistical performance. Specifically, it is possible to evaluate the following elements: internal transport: quality of transport, contracts and penalties in the event of failing to comply with them; infrastructure: its age, functionality, quality, adequate provision of tracking; customs procedures, areas for improving them, which include identifying possible elements that could give rise to corruption in order to minimize this risk; shipments and insurance, seeking improvements in costs and opportunities for their payment and premiums; greater dissemination of the rules applying to imports; identification of logistical and multimodal, national and international transport value chains that lower costs.

In fact, the World Bank (2012) selected some of these elements for the construction of the Logistics Performance Index, as follows:

1. Customs
2. Infrastructure
3. International shipments
4. The ability to track consignments
5. Compliance with delivery times
6. Quality and competence of logistics services

To which we can add:

7. Insurance

Each of the above points is an area of opportunity in the respective countries, and their improvement must be performed taking into account that there is a series of operational and regulatory factors which, through efficient practices, could convert national supply chains into world-class supply chains (Ibarra and Armenta, 2015).

Let us focus, for example, on the case of infrastructure. According the Global Competitiveness Index compiled by the World Economic Forum in its study corresponding to 2015-2016, it is possible to obtain a series of infrastructure values for certain countries in Latin America (the maximum score that can be achieved is 7). We will come back to some of these data and compare them to what occurs in G7 countries (Table 2, Table 3).

Table 2
Quality of infrastructure in certain Latin American countries

Type	Brazil	Chile	Mexico
Overall	2.9	4.6	4.1
Air	3.8	5.2	4.7
Ports	2.7	4.9	4.7
Roads	2.7	4.9	4.3
Railroads	1.7	2.4	2.8

Note: Scale of 1-7, with a higher score indicating better infrastructure quality.
Source: WEF (2015)

Table 3
Quality of Infrastructure in G-7 Member Countries

Type 2015	CAN	FRA	DEU	ITA	JPN	GBR	EUA	G-7 Average
Overall	5.4	5.9	5.9	4.1	6.2	5.3	5.8	5.5
Air	5.8	5.8	6	4.5	5.6	5.8	6.2	5.7
Ports	5.5	5.3	5.6	4.3	5.4	5.7	5.7	5.4
Roads	5.2	6.1	5.7	4.4	6	5.2	5.7	5.5
Railroads	4.7	5.8	5.6	4	6.7	4.8	5	5.2

Note: Scale of 1-7, with a higher score indicating better infrastructure quality.
Source: ERP 2016 with data from World Economic Forum (2015).

We can immediately observe that there is a large infrastructure gap between the G7 and LA. However, it is also clear that the infrastructure elements in urgent need of development in LA are railways (for example, in 1994 the total length of Mexico's rail network was 26,477 kilometers, and in 2015 it was 26,727, an increase of just 250 kilometers in 21 years, in spite of the privatization process; the average speed on the rail system went from 25.8 kilometers per hour to 26.9 kilometers per hour during the period.) These data and observations are consistent with points made in other research (ECLAC-OECD, 2014, for example).

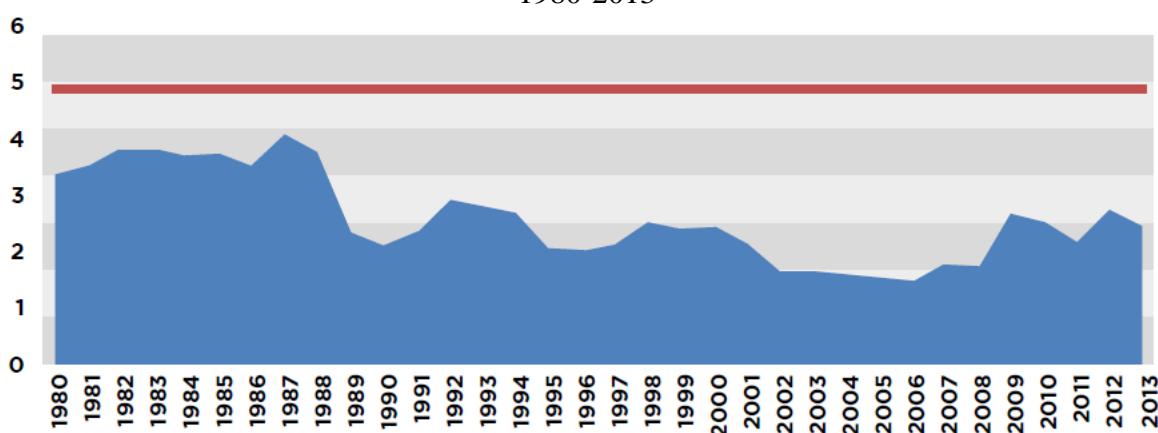
As such, among the elements which could be included to improve logistical performance and achieve greater exploitation and dissemination of commercial services, which tend to reduce transaction costs, it is necessary to add:

1. Highly trained labor in the sector of the services which are sought to be exported or where an improvement is sought for exports that are already being performed (knowhow, languages).

2. Legislation that favors, and not hinders, the free flow of services.
3. To clearly identify the areas of opportunity in infrastructure required for an improved flow of goods and services.
4. Elimination of bureaucratic obstacles in customs.

Investment in infrastructure has positive effects on the economy (ERP, 2016; Serebrisky *et al.*, 2015), as well as spillover effects on the rest of the economy. In this context, investment in this area is urgent for the Latin American region if it wishes to cease to lose ground at the international level. Figure 3 shows the gap which has historically existed in investment in infrastructure in certain countries in the region.

Figure 3
Annual investment in infrastructure in Latin America and the Caribbean, GDP percent
1980-2013



Shadow: Annual investment; Line: Required investment

Note: the figure includes data for Brazil, Chile, Colombia, Mexico and Peru, the countries for which data are available since the 1980s.

Source: Serebrisky, T. et al. (2015).

However, this is not the only area where Latin America is behind. In Mexico, for example, there are significant gaps in other areas that have an impact on both logistics and on international trade in services. This is the case of investment in science and technology, where the country faces serious challenges, especially compared to certain OECD countries, an organization that it has belonged to since 1994 (Table 4).

Table 4
Investment in science and technology in selected OECD countries

Concept/year	Mexico	USA	Canada	Germany	Spain	Japan	Italy	United Kingdom	France
Domestic spending on R&D and experimental development (% of GDP basis 2008=100)									
1994	0.27	2.41	1.73	2.18	0.79	2.74	1.02	1.97	2.31
1995	0.28	2.5	1.7	2.19	2.79	3.87	0.97	1.91	2.28
2000	0.33	2.62	1.87	2.4	0.88	3	1.01	1.73	2.08
2005	0.4	2.51	1.99	2.43	1.1	3.31	1.05	1.63	2.04
2006	0.37	2.55	1.96	2.46	1.17	3.41	1.09	1.65	2.05
2007	0.37	5.63	1.92	2.45	1.23	3.46	1.13	1.69	2.02
2008	0.41	2.77	1.87	2.6	1.32	3.47	1.16	1.69	2.06
2009	0.43	2.82	1.92	2.73	1.35	3.36	1.22	1.75	2.21
2010	0.45	2.74	1.84	2.72	1.35	3.25	1.22	1.69	2.18
2011	0.42	2.76	1.78	2.8	1.32	3.38	1.31	1.69	2.19
2012	0.43	2.7	1.71	2.88	1.27	3.34	1.37	1.63	2.23
2013	0.48	2.73	1.62	2.85	1.24	3.47	1.26	1.63	2.23

Source: EPN (2015)

Another indicator also reflects this problem of a technological development gap, and that is Mexico's technology balance of payments compared to certain OECD countries (Table 5).

Table 5
Technology balance of payments in selected OECD countries
(Millions of dollars)

Year/Country	Mexico	USA	Canada	Germany	Spain	Japan	Italy	UK
1994	-495.4	20,860.0	275.3	-1,942.8		894.6	-903.6	554.0
1995	-369.8	23,370.0	275.4	-2,537.0		1,811.2	-386.1	688.1
2000	-363.6	26,765.0	1,863.2	-4,632.4	-1,276.3	5,702.4	-698.8	10,707.6
2005	-1,778.5	42,975.0	1,445.0	2,284.5	-1,898.3	12,017.8	-288.1	18,347.3
2006	-1,550.9	32,705.0	1,273.0	3,498.8	-1,377.3	14,383.5	978.0	19,387.8
2007	-1,294.2	35,802.0	1,611.6	3,670.8	-2,608.8	15,076.3	1,118.0	21,247.7
2008	-828.9	36,944.0	1,712.2	8,084.4	3,642.8	15,726.0	-4,432.5	21,301.0
2009	-1,728.2	32,065.0	1,483.7	8,488.0	4,384.9	15,821.6	-4,480.2	17,849.6
2010	-568.6	30,992.0	2,434.6	13,037.6	4,299.4	21,719.9	-3,588.5	19,161.6
2011	-676.2	38,110.0	1,888.8	15,609.8	5,713.0	24,690.2	-3,023.7	22,695.2
2012	-1,075.6	38,629.0	1,744.4	14,354.5	5,533.6	28,479.7	1,034.6	24,427.9
2013	-1,066.7	38,900.0	1,393.5	12,427.7	6,628.8	28,868.4	1,330.4	26,168.6

Source: EPN (2015)

Summary and conclusions

Increasing scientific, technological and labor improvements are required in the process of creating commercial services and marketing them internationally.

Faster and more refined statistical methods and computer programs (platforms) must be developed.

A clear and specific diagnosis must be performed of all infrastructure in the country: technology, communications, IT services, education, etc. in order to design a long-term technological development plan (25-year Great Vision Plan), whose objectives include increasing exports of commercial services.

Increasingly simple and precise quality verifiers and indicators for logistical services must be produced.

Spending on science and technology must be increased in developing countries in order to generate a technology platform in the medium to long term, allocating no less than 1 percent to this item in 2020 and increasing this to 2 percent by 2030.

Effective support programs must be developed for innovators, and processes for registering patents and other objects capable of comprising intellectual property must be made more accessible in order to drive growth in exports of services.

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