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Aid for Trade in the Services Sector: Capacity-building and Facilitation in the Services Sector in Small States and LDCs

Pallavi Bajaj

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By Pallavi Bajaj

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For more information contact the Series Editor: Dr Jodie Keane, j.keane@commonwealth.int

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Abstract

Services, predicated on information technology (IT) are emerging as a disruptive influence on the global economic landscape. The sector, one in which most small states, and several Least Developed Countries (LDCs), can benefit from a comparative advantage in trade, is seen as rapidly pushing growth frontiers in these countries. The synergy and interplay between the services sector and technology have enhanced the efficiency of, and possibilities for the sector, and has enabled it to be better connected to global value and supply chains. This has created new roles for services in the economy and in trade, and encouraged new business models. Technology, and in particular information technology, has given service suppliers in small states and LDCs, particularly micro, small and medium-sized enterprise (MSME) suppliers, access to markets across the globe. It remains the job of capacity-building, facilitation and regulation, to convert this access to markets into (effective) market access. In this context, this paper proposes the effective use of Aid for Trade (AfT) programmes as one possible means of addressing some of the challenges faced by LDCs and small states in the services sector. It examines possible ways to enhance the capacity and competitiveness of small states and LDCs in developing their services sectors via greater integration into the global trade regime, by utilising the strengths of AfT. The key to optimising AfT in the services sector requires a focus on technology.

JEL Classification: O14, O19, L81, L88

Keywords: Aid for Trade, services sector, information technology, Least Developed Countries

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1. Introduction

Services, predicated on information technology (IT) are emerging as a disruptive influence on the global economic landscape. The sector, one in which most small states, and several Least Developed Countries (LDCs), can benefit from a comparative advantage in trade, is rapidly being seen as pushing growth frontiers in these countries. Services contribute to gross domestic product (GDP) in increasingly substantial proportions, generate employment, incentivise domestic reform (regulatory, infrastructural, and institutional), provides critical support and value-add to other sectors of the economy, and contributes to the development of skills. In addition, the factors that aide efficiency and competitiveness in the services sector, domestically, require deeper domestic institutional reforms, which in turn contributes to enhanced ease of doing business, and a healthier economic environment, overall.

The sector, therefore, has rapidly and surely, become the sector to reckon with, to promote sustainable growth and development. With the growth of digital trade and e-commerce, the way we trade has evolved, and has also enhanced the role services can play in the economy, and in international trade. Investing in facilitating growth in the services sector, therefore, is not just something economies would like to undertake; it is a critical tool for sustainable economic development and the effective integration into the global trade regime.

Technology has enabled service suppliers in small states and LDCs, particularly micro, small and medium-sized enterprise (MSME) suppliers, access to markets across the globe. It remains the job of capacity building, facilitation and regulation, to convert this access to markets into (effective) market access. It is here that the multilateral community, international organizations such as the World Trade Organisation (WTO), and initiatives such as the Enhanced Integrated Framework (EIF), and Aid for Trade (AfT) must play a role. Services trade focused Aid for Trade (AfT) programmes are a means of addressing some of the challenges faced by LDCs and small states in the services sector.

In light of the multi-layered role that services play in the economy, it is no surprise that governments are looking for ways in which to promote the services sector, and encourage its growth, and efficiency through, *inter alia*, regulatory reforms, regulatory cooperation, (regional, bilateral, and plurilateral), and by engaging the multilateral community in discussion; favourable trade policy; enhanced support for technology transfer and supply-side capacity building. Efforts are also being made to diversify activities within the services sector, to explore avenues of mutual recognition, comparative advantage, and skill development, with the view to increase trade in the sector. While conventionally, tourism has been the industry sub-sector which most small states and LDCs have focused on and one in which they can benefit from a comparative advantage, with new technology, and better global connect, other service sub-sectors such as IT and IT enabled-services, for example, are also showing potential, and garnering interest.

However, several challenges, inherent to the fabric of the services sector, have prevented the sector from achieving its full growth potential in these countries. First, by their very nature, services do not lend themselves to easy and consistent availability, collection and mining of trade data. This is complicated further by the inherent inadequacies of skills and resources for data collection in LDCs and small states. Second, services industries in most small states and LDCs, flourish more in the informal sector, driven by micro, small and medium enterprises (MSMEs). The nature of the sector lends itself to smaller scale of operation, and yet, commands larger risk appetites. Data for the MSME sector, itself, is not easy to find and collate and is often not credible. In addition, the challenge posed by the fluidity of services, as well as by technological advancements leading to rapid changes in framework and platform, and their growing presence in the informal sector, only makes the data challenge worse. Like MSMEs, the services sector is also plagued by a lack of access to credit and funds. Furthermore, the greater focus of all government support in trade and development is on manufacturing, in spite of the potential of the services sector, and its well-acknowledged synergies with and value-add for the manufacturing sector.

Yet, the synergy and interplay between the services sector and technology cannot be underplayed. It is this synergy, which has made the sector more efficient, better connected to global value and supply chains, created new roles for services in the economy, encouraged new business models (for example, as such as those seen with service aggregators such as Uber, Airbnb, and TripAdvisor, for example), as well as enabled 3D design and printing, and blockchain etc. Against this backdrop, and harvesting this synergy, this paper seeks to examine possible ways to facilitate trade, and to enhance the capacity of small states and LDCs in developing their services sectors via the effective utilisation of AfT. It first, underscores the significance of the sector and structure within LDCs and small states. It then outlines recent trends in services trade for LDCs and small states, before proceeding to review some of the specific challenges faced by the sector. Finally, it critically reviews existing policy mechanisms and concludes with policy recommendations to ensure that the sector not only contributes a larger share in economic growth, but also acts as the robust support required by other sectors (manufacturing and agriculture), towards higher, sustainable rates of growth and development.

2. Services – The Backbone of the Economy

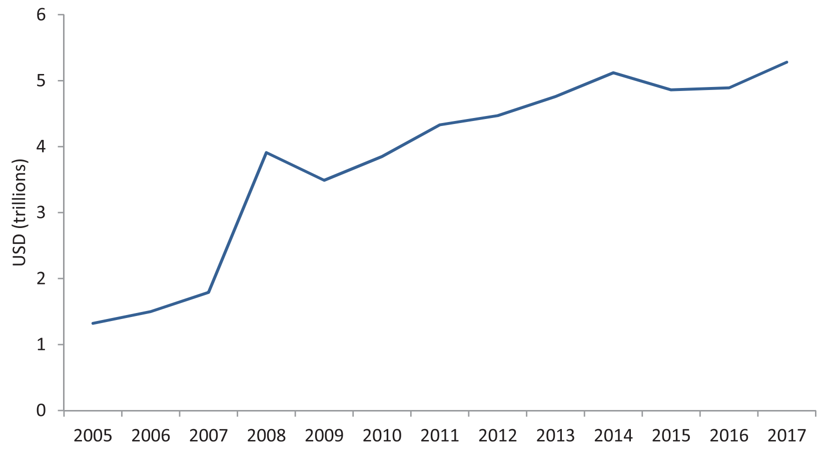
A robust, efficient services sector plays multiple roles in the economy. While pure economic indicators correlate the sector with higher GDP and employment, at a deeper level, the services sector is the key to economy-wide institutional and regulatory reforms. The sector both banks on, and fosters a healthy economic environment, and greater ease of doing business. The ancillary support it provides other sectors, both directly, in value-add, and by means of the spillovers in the sector, are evident and will be further detailed in this section.

Between 2005 and 2017, global exports of commercial services nearly doubled (from USD 1.32 trillion to USD 5.28 trillion in 2017), accounting for approximately 12.7 per cent of global GDP in 2016 (World Bank Data). This would explain why the WTO describes trade in services as "the most dynamic segment of international trade." (WTO 2015). In 2016, services contributed (value add) 66.07 per cent to global GDP, a figure that has displayed a consistent upswing between 1997 and 2015. At the same time, the trend on percentage value-add of manufacturing to GDP has been the opposite from the mid-1990s, closing at 16.17 per cent in 2016 (World Bank Data). Global trade in services has grown faster than trade in manufacturing. Trade in services, for example, as a percentage of GDP has shown consistent growth from 10.43 per cent in 2004, to 12.70 per cent in 2016. During the same period, trade in merchandise, as a percentage of GDP, has displayed sharp crests and troughs without increasing significantly, ranging between 42.81 per cent in 2004 and 42.32 per cent in 2016 (World Bank Data). The percentage share of exports of services to GDP, as well, has increased steadily over the last few decades to around 29.5 per cent in 2015. At the same time, roughly two-thirds of global investment flows are services-related.

In developing and emerging economies, the sector has contributed to growth, employment, and development. According to the Economic Survey of India (2017–2018) conducted by the Ministry of Finance, for example, the services sector emerged as the key driver of growth in the country, contributing to 55.2 per cent of gross value added, and 72.5 per cent of gross value added growth in 2017–18 (IIFL 2018), led by IT and IT-enabled services, tourism, shipping and port services, consultancy and research services, and media and entertainment services, and at the same time, accounted for 28.6 per cent of total employment (IBEF 2018). In LDCs, the services sector contributes close to 40 per cent of GDP, annually, and close to 30 per cent of the manufacturing sector output in value added by services (Winters, 2015). Figure 1 underscores the strong and consistent growth of global exports of services between 2005 and 2016 (WTO Data).

In regional blocks such as the Association of South East Asian Nations (ASEAN) and the

Figure 1. Exports of Commercial Services (World), (value, annual, 2005–2017)

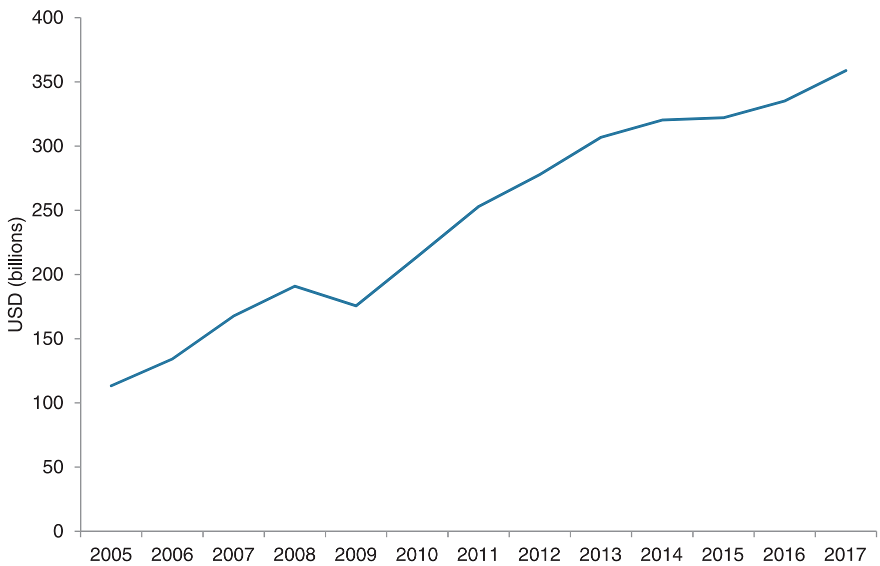


Measure: US Dollars at current prices and current exchange rates in trillions.
Flow: Services Exports; World.
Source: WTO Data.

African, Caribbean and Pacific (ACP) group of states countries commercial exports have increased year-on-year, consistently between 2005 and 2017, as can be noted in Figure 2 and Figure 3. (WTO Statistics Database).

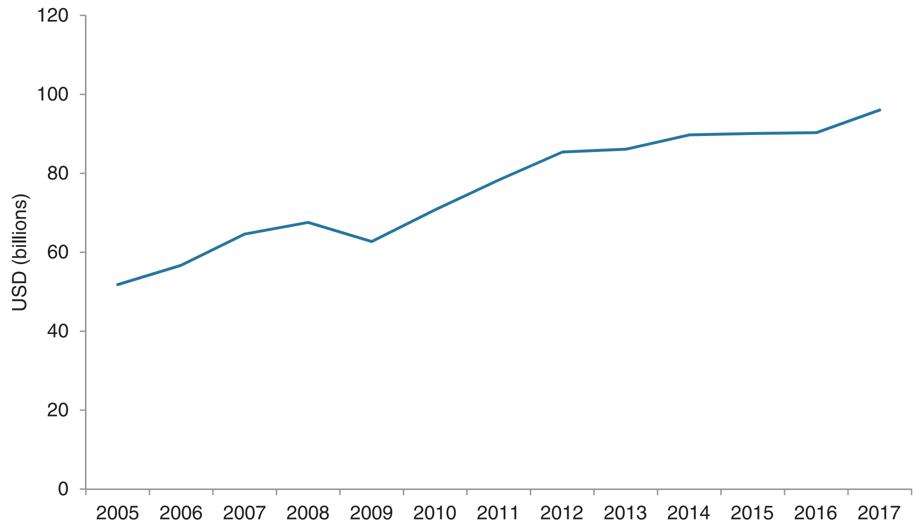
Additionally, predicated on technology, trading nations are finding an increasing number of potential areas of exchange of comparative advantage in services. While traditionally, travel and tourism have been the drivers of trade in services, particularly in smaller economies, and developing countries, increasingly, global trade in services is expanding and diversifying into a gamut of industries, both directly to consumers, as well as in the form of value added to manufacturing output, as well as support and ancillary services for trade in commodities. Figure 4 shows that while travel continues to be a key sector in most countries across the world, other services such as communication, insurance, financial and other business services, etc., are also gaining significance. The WTO also argues that as of 2015, more the half the services exports globally

Figure 2. Exports of Commercial Services (ASEAN) (value, annual, 2005–2017)



Measure: US Dollars at current prices and current exchange rates in billions.
Flow: Services Exports; ASEAN; Partner: World.
Source: WTO Data.

Figure 3. Exports of Commercial Services (ACP) (value, annual, 2005–2017)



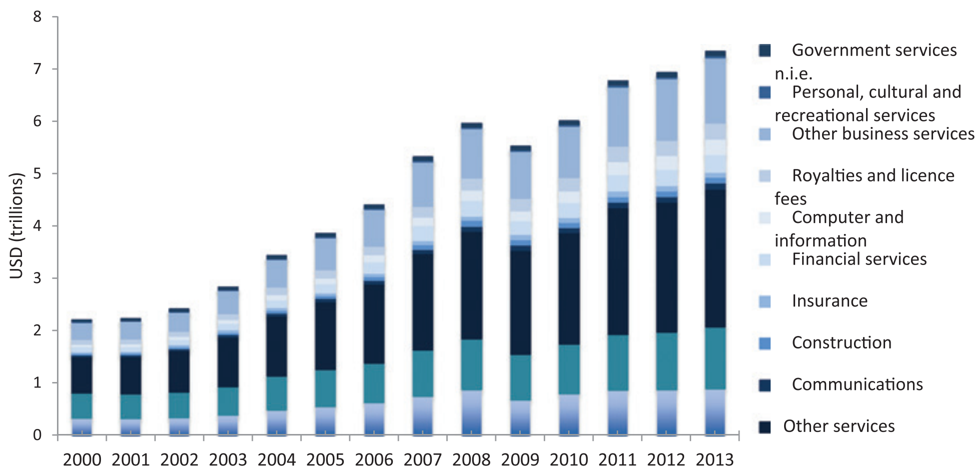
Measure: US Dollars at current prices and current exchange rates in billions.
Flow: Services Exports; ACP; Partner: World.
Source: Author's Estimates based on WTO Data.

were accounted for by the category of "other commercial services" outside of travel and tourism (WTO 2016a).

The contribution of services to employment has been particularly significant. Between 2000 and 2017, the share of employment in services to total employment (World) increased from 38.9 per cent to 51.8 per cent, globally (World Bank Indicators – modelled ILO Data). This trend echoes in low-income economies, where the share increased from 15.9 per cent in 2000 to 21.2 per cent in 2017 (World Bank Indicators – modelled ILO Data). In 2017, services accounted for 57.43 per cent of total global female employment, and 47.01 per cent of total global male employment (World Bank Data).

Evidently, services are fast emerging as the sector that is pushing growth frontiers in several LDCs and small states. Not only do services contribute to Gross Domestic Product (GDP) in increasingly substantial proportions, but they also have critical synergies and interdependencies in adding value to, and facilitating other sectors (services embedded). Services

Figure 4. World Exports of Services by service-category (value, annual, 2000–2013)



Measure: US Dollars at current prices and current exchange rates in trillions.
Flow: Services Exports by Category; World.
Source: Author's Estimates based on UNCTADStat Data.

such as power, water, communication, transport and distribution, healthcare, education and skill development, and financial services are critical for other sectors to function and act as both inputs into other sectors, and support for their activities. A well-developed services sector can enhance efficiency, and competitiveness, and facilitate trade, for the economy as a whole.

In addition, an array of services critical to the functioning of any economy, including, *inter alia,* transport, infrastructure, IT, communications, banking, insurance, and other financial services, tourism, distribution, postal services, education, healthcare, as well as migration of manpower, both skilled and unskilled, make it a significant sector for a healthy economy overall. A robust services sector also facilitates ease of doing business, fostering an environment conducive to foreign investment, a key input into the capital requirements of any developing country or small state.

The regulatory regime governing the operation of, and trade in services, has the capacity to enhance or impede ease of doing business, trade facilitation efforts domestically, and with foreign suppliers, rendering the economy either easier, or more difficult to trade with, both in goods, as well as in services, therefore also determining its investment credibility for foreign investors. At the same time, governments depend on the efficiency of services such as education, financial services, healthcare, sanitation, power and water, for example, to which citizens expect universal access. For all these reasons, services have quickly become the sector to reckon with to promote sustainable growth and development.

In a hugely dynamic trade environment, driven and reshaped by technology, services have benefitted immensely. On the one hand, technology, the Internet, and the growth of e-commerce, in particular, have made it easier and more efficient to trade in services (shifting the spotlight to the significance of Mode 1 trade in services (Cross-Border Supply of Services). At the same time, it has underscored the significance of services, and value-add services and services embedded in other sectors, in economic growth and development, adding new layers to the role the sector can play in trade and growth, and pushed frontiers on how technology can be both, a driving force, and the appropriate leveraging tool, in reforms towards higher efficiency in the services sector.

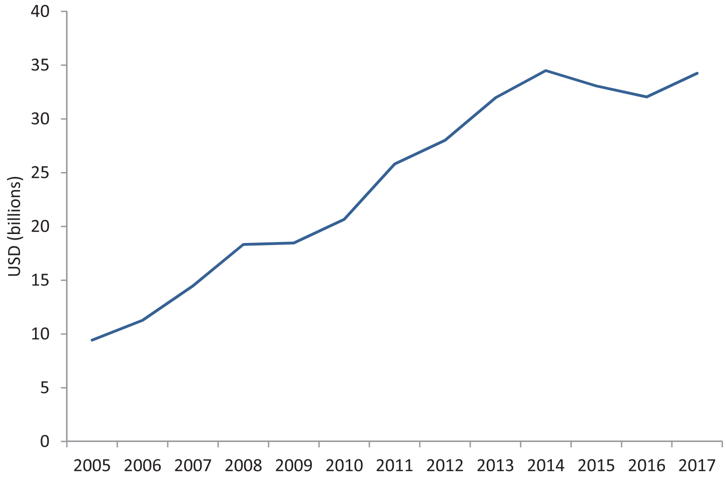
3. LDCs, Small States, and the Services Sector – Trends

The states which stand to gain the most from the flipping of the norms of conventional trade, and the rapidly growing role of the services sector in trade, include Commonwealth LDCs and small states.

While conventional economic models suggest that economies should grow from largely agrarian, towards commodities and manufacturing, and graduate into the more nuanced sphere of services, and trade in services, in recent times, the services sector has shown considerable potential for developing countries, LDCs and small states. According to the WTO, for example, developing countries were responsible for 36 per cent of the total global trade in services in 2015 (WTO 2016a).

The International Trade Centre (ITC), concurs, "…the notion that services sector exports are too sophisticated for LDCs is misguided. Contrary to popular belief, all LDCs export commercial services and nearly one-quarter of LDCs are net exporters of services" (ITC 2013a). The WTO notes that the share of LDC exports of commercial services in world exports, increased from 0.36 per cent in 2005, to 0.66 per cent in 2016 (WTO 2017a), whereas that of developing countries services exports increased from 24 per cent in 2005, to 32 per cent in 2015. Furthermore, the ITC underscores the significant contribution of trade in services to income generation, employment and economic opportunities for developing countries and LDCs, "increased services export from the LDCs is an important contributor of meeting the sustainable development goals of doubling the export from LDCs by 2020" (ITC Trade in Services Portal).

Figure 5. LDC Exports of Services (value, annual) 2005–2017



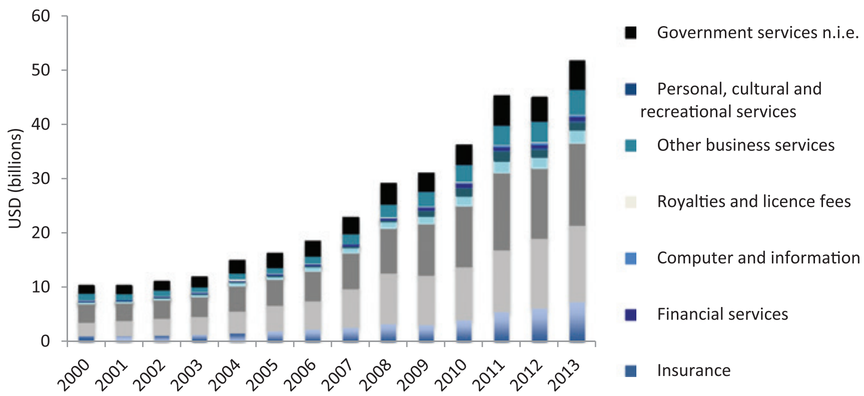
Measure: US Dollars at current prices and current exchange rates in billions.
Flow: Services Exports by Category; Least Developed Countries.
Source: Author's Calculations based on WTO Data.

In value terms, too, service exports from LDCs have more than trebled from US$ 9 billion in 2005, to well over US$ 34 billion in 2017 (Figure 5) (WTO Statistics Database), growing faster, during this period, than ever before, and at a pace more rapid than that in total global services exports.

While travel and tourism continue to be the most significant sectors in services trade in LDCs, other services, such as communication, financial services, and other business services have witnessed an emergence (Figure 6). According to WTO and ITC data sources, several Asian and African LDCs such as Bangladesh, Burundi, Cambodia, Mozambique, and Sudan, export 'Other Business Services,' Communication Services (Bangladesh, Benin, Comoros, Djibouti, Ethiopia, The Gambia etc.), and Financial Services aided by technological innovation (ITC 2013).

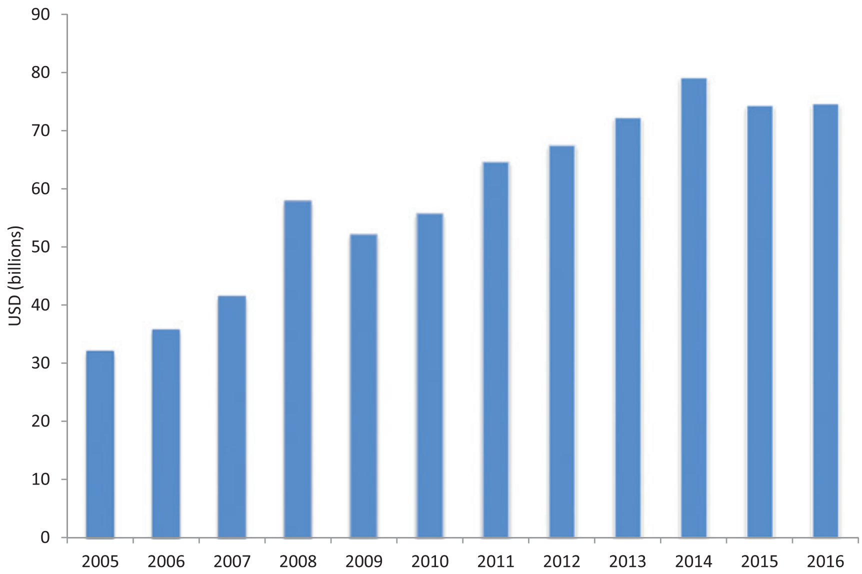
Within small states, for the subset of Commonwealth Small States (CSS), too, the services sector has played an increasingly significant role in the economy. In fact, exports of services almost doubled between 2000 and 2012, closing, at the end of 2012, at USD 31 billion (Soobramanien and Gosset, 2015). As is evident in Figure 7, for small states, as a group defined by the World Bank, the sum total of exports of services (estimated) more than doubled between 2005 and 2015.

Figure 6. LDC Exports by service-category (value, annual, 2000–2013)



Measure: US Dollars at current prices and current exchange rates in millions.
Flow: Services Exports by Category; Least Developed Countries.
Source: UNCTADStat Data.

Figure 7. Service Exports from Small States (Total), Annual, 2005–2016



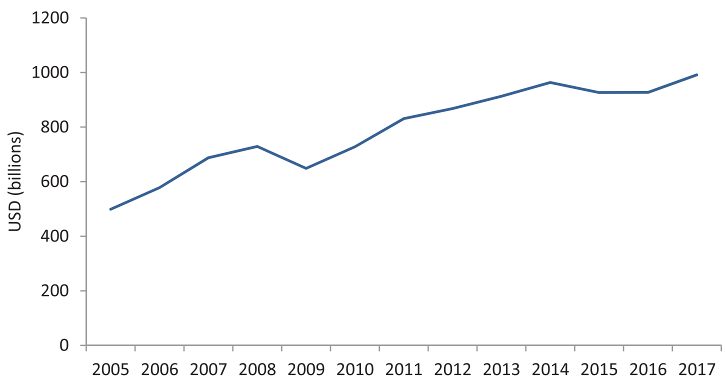
Measure: US Dollars at current prices in billions.
Flow: Services Exports (Total); Small States (as defined by the World Bank).
Source: Author's Calculation based on UNCTADStat Data.

As can be seen in Figure 8, For Commonwealth member countries, exports of commercial services to the world increased from USD 498 billion in 2005 to approximately USD 991 billion in 2017 (WTO Data).

While travel and transport remain key drivers of trade in services, exports of telecommunications, computer and information services also increased by around 20 per cent of services exports in the same period. For countries such as Bahrain, Barbados, Fiji Islands, and Mauritius, exports of financial services also increased noticeably in the same period. For Bahrain and Fiji, for example, the share of exports of goods related services to their total exports to the world between 2005 and 2015, also increased. Figure 9 shows recent growth in exports of travel and transport, telecommunications, computer and information services for all small states, as defined by the World Bank, between 2005 and 2015. Figure 10 charts the share of 'goods related services' to total services exports of Fiji and Bahrain, between 2005 and 2015.

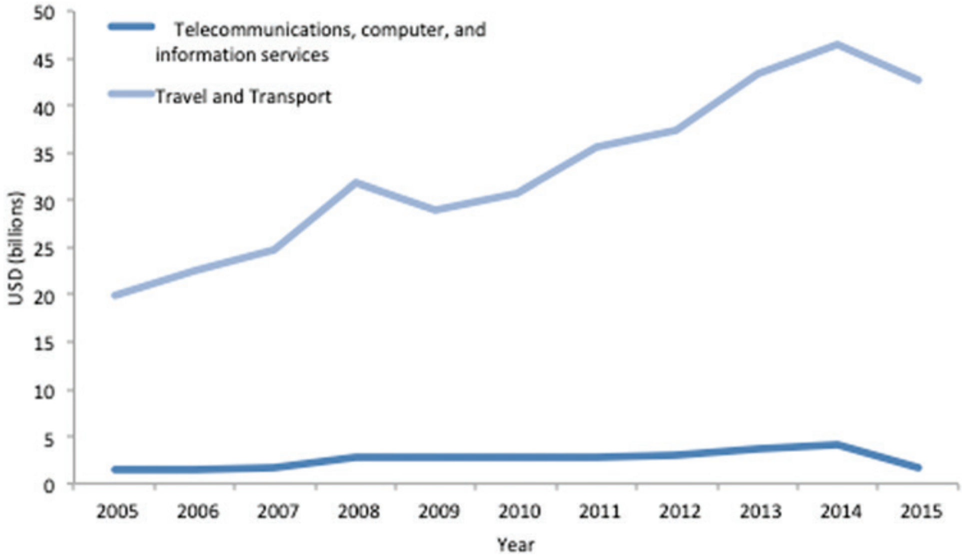
The picture of growth in the service sector and diversification of service offerings by LDCs and small states has become even more convincing given the growth of MSMEs in the sector. Particularly for small states, owing to their small population size, and consequently smaller domestic markets, and lesser scope for

Figure 8. Commonwealth States' Exports of Services (value, annual, 2005–2017) (Partner: World)



Measure: US Dollars at current prices and current exchange rates in billions.
Flow: Services Exports by Category; Commonwealth countries.
Source: Author's Calculations based on WTO Data.

Figure 9. Exports of Telecommunications, Computer and Information Services, Small States (Total), Annual, 2005–2015



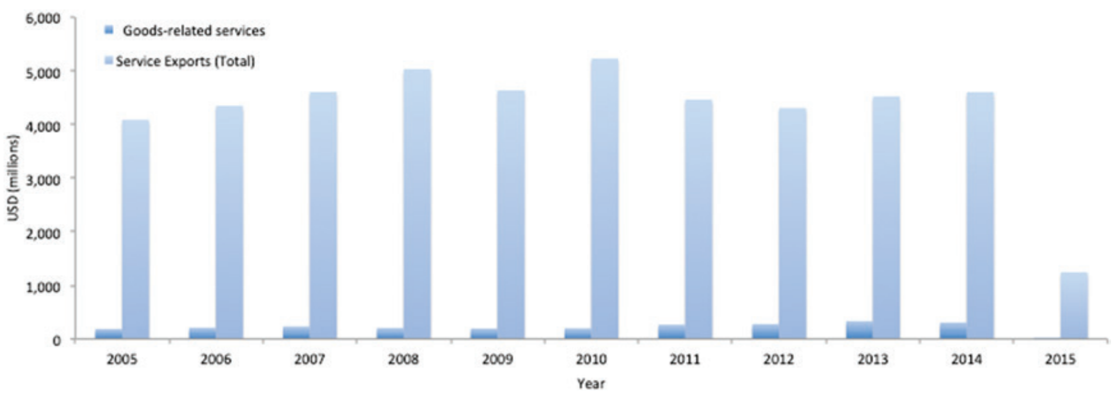
Measure: US Dollars at current prices in billions.
Flow: Services Exports; Small States (as defined by the World Bank).
Source: Author's Calculation based on UNCTADStat Data.

scaling up domestically, MSMEs tend to form the majority of the businesses in these countries.

To that extent, in a global economy dominated by MSMEs, which account for over 90 per cent of all firms, 70 per cent of global workforce, and 50 per cent of global GDP (ITC 2017), and where such firms are particularly significant in small states and LDCs, the growth of electronic commerce, or digital trade has redefined how we trade, how consumers consume, and how producers supply goods and services. Technology, together with the phenomenon of global supply chains and value chains, has encouraged the growth of entrepreneurial ventures in the services sector, and the rise of service- based MSMEs. These firms provide niche service offerings, contributing to the value added in trade in manufacturing, and agriculture, as well as in facilitating trade in commodities, virtually, without the need for a physical presence in the consumer market.

Business models such as Uber and Airbnb combine the effective deployment of physical assets while keeping the provision of services, their monitoring, quality control, management, and affiliated services online. At the same time, they are effective income and revenue generators for the service providers in the field.

Figure 10. Share of 'goods related services' to total services exports of Fiji and Bahrain, Annual, 2005–2015



Measure: US Dollars at current prices in millions.
Flow: Services Exports; Small States (as defined by the World Bank).
Source: Author's Calculation based on UNCTADStat Data.

Services such as TripAdvisor, Booking.com, Zomato, Alibaba and other such aggregators, help use the online community to build consumer confidence in brick and mortar businesses, and provide access to information for consumers and business alike, reducing the need for physical marketing and conventional advertising.

Service models such as these, which provide niche services offerings encourage innovation and can operate out of any territory, almost entirely on the digital medium. Such business models can provide an inroad for small enterprises, and service suppliers from developing countries, LDCs and small states. The link between technology and services can become particularly significant for suppliers from landlocked and small states, which for reasons of either geography or logistics and physical infrastructure, find it more difficult to physically access global markets.

Sectoral synergies and interdependencies are critical in a world connected by the Internet, where the conventional lines between transactions in goods and services have become blurred because of the growth of e-commerce. The distribution, financial services, insurance, advertising/marketing and IT-enabled and network services that support trade in goods, have underscored the critical enabling role played by the services sector.

The availability of funds from domestic investors and the growing foreign direct investment (FDI) in the services sector have fuelled the emergence of MSMEs in critical industries such as tourism, IT and IT-enabled services (ITeS), advertising, marketing, graphic design, healthcare, real estate, and transport etc. As observed by the World Trade Report, "Trade flows of micro firms and SMEs are heavily tilted toward services (accounting for 68 per cent of total exports and 83 per cent of total imports)" (WTO, 2016a). However, while the ITC notes that the share of LDCs in global trade remains less than 1 per cent (ITC 2013b), Soobramanien and Gosset (2015) contend that the same is true for small states, "As is the case with goods trade, small states' share in global services trade is shrinking. Since 2000, the average annual export growth rate for the group of CSS has been approximately 6 per cent, versus…the world average of 9 per cent… their share in the overall world services trade is small…" The challenges for small states in accessing the new market opportunities provided by the services sector, powered by innovations in technology, are explored in the following section.

4. Challenges Faced by the Services Sector in LDCs and Small States

The services sector is unique in its fabric, composition, and regulation, and therefore presents a unique set of challenges. Evidently, then, regulators at the WTO saw merit in negotiating rules of trade in services, not only in a separate Agreement altogether – the General Agreement on Trade in Services (GATS) – but also in an entirely different manner compared to trade in goods.

Barriers to trade in services are often less obvious, more complex, more dependent on the domestic regulatory environment, less standardized and not as transparent. This is not helped by the lack of clarity on international definitions within the sector and poor availability of bilateral services trade data for analysis. These barriers all add to the cost of trade, which includes higher costs of compliance, as well as reduce business certainty regarding the trading environment.

While this impacts the efficiency and ease of doing business for the sector, globally, suppliers from LDCs and small states, already disadvantaged by the economic environment at home, find it harder to survive, compete and optimized their economies in services trade. This is particularly true of smaller enterprises or MSMEs, which form the larger majority of suppliers in such economies.

Trade in services has been demarcated into four modes of service supply, for the purpose of analysis and regulation. Each mode has its own dynamic, and therefore, its own challenges. Each such challenge adds to the cost of trade in its own way, making it harder for service suppliers to cater to and compete in global markets. Table 1 below highlights some of the key barriers to trade faced by service suppliers in each mode of service supply.

Even when firms manage to gain access to markets, regulatory challenges often prevent conversion into effective market access. Whereas trade in goods is subject largely to a mix of tariff and non-tariff barriers, barriers to trade in services are more intangible and harder to quantify. An absence of harmonization or mutual recognition of regulatory requirements can prevent trade.

Another concern for service suppliers, globally, is the absence of credible, updated information, and transparency and certainty in trade policy on regulating trade in services. The services sector supports the economy in several ways, and in a layered manner. This lends it to the need for more stringent regulation, with, at the same time, a fair amount of flexibility for policy-makers. Additionally, each layer of the sector is regulated separately, and often by more than one government ministry within an economy. This, together with the structure of the commitments within the WTO General Agreement on Trade in Services (GATS 1994), leaving several sectors unbound, and outside the purview of regulation, creates an environment of uncertainty for service providers, and diminishes transparency and the ease of doing business.

Arbis and Heal (2015) underscore this concern "as tariffs are not applied to trade in services, barriers to trade are almost always generally of a quantitative and/or regulatory in nature and their impact is not amenable to simple quantification…In general, though, global commitments to the liberalisation of services under the GATS (1994) are less advanced than liberalisation…under the General Agreement on Tariffs and Trade (GATT 1994) and are subject to weaker regulatory disciplines. Thus

Table 1. Obstacles to Trade in Services by Mode of Service Supply

Mode of Service Supply	Nature of Service Supply	Nature of Trade Barriers and Costs
Mode 1	Cross-Border Supply of Services	Infrastructure (transport, communication, IT and IT-enabled capabilities and reach, energy and power, distributional network capacity etc.); Cost of accessing information, and technical know-how; Regulatory framework-induced costs; Cost of compliance due to lack of coherence, harmonisation, recognition of professional qualifications, lack of skilled/trained human resources specific to the industry/sector; lack of credible, sustained data for analysis and assessment; Lack of access to finance at terms which account for the specificities of the sector
Mode 2	Consumption Abroad	Visa restrictions and costs, issues of costs of compliance, and infeasibility of consumption abroad, due to, for example, lack of mutual recognition of, portability of regulation and compliance (for example insurance portability), standardisation; cost of accessing information, often not easily available; lack of credible, sustained data for analysis and assessment
Mode 3	Commercial Presence	Restrictions and regulatory barriers to establishing commercial presence, licenses, levies and administrative processes; Regulatory framework-induced costs – low ease of doing business in the host market; import restrictions and higher tariffs on intermediate/ancillary imports of goods; lack of access to skilled labour in the sector present in the host market; lack of credible, sustained data for analysis and assessment.
Mode 4	Temporary Movement of Labour	Restrictions on movement of labour; Cost of compliance due to lack of coherence, harmonisation, recognition of professional qualifications; lack of credible, sustained data for analysis and assessment; cost of accessing information, administrative fees and costs.

despite falling overall costs, according to estimates, trade costs in services are two to three times higher than trade in goods globally as services costs have remained relatively flat over the past decade, while trade costs in goods have continued to fall overall at a faster rate."

The challenges faced by the services sector are accentuated by the fact that the sector covers a wide array of industries and activities, often resulting in a sketchy definition of what qualifies as 'services' to begin with. As the global economy enters the digital era, the overlapping domains of e-commerce and digital trade make definitions such as 'services' and 'cross-border trade' all the more complicated. What is not well defined is challenging to measure, consolidate, analyse, and regulate. Furthermore, this lack of harmonisation of standards, regulations, and definitions also makes partner data less relevant for analysis. A lack of credible data also, as Arbis and Heal (2015) concur, makes it harder to analyse the growth, as well as the impact of trade in services on the economy particularly for LDCs and small states and to plan and monitor developments in the sector.

Infrastructural deficiencies in the home economy are another significant concern for the services sector. The merits of a robust infrastructure in promoting growth and trade have been discussed in sufficient detail in economic literature, and are all the more critical in the services sector where specific services often form elements of the infrastructural backbone of the economy, and yet, at the same time, depend on a robust infrastructure in the country. For example, services such as travel and transport, as well as tourism services require a well-developed network of roads, railways, and ports; construction services require well-developed infrastructure, including transport infrastructure; postal services require robust distribution networks; and communication services depend critically on well-laid network lines, and consistent power infrastructure; and the key case in point for the services sector in the digital age is IT infrastructure. With firms operating virtually and connecting into value chains, the domestic infrastructural setups in information technology (IT) and IT-enabled services, high-end servers and network abilities, communication, distributional networks, power supply, server pipes and capacity, etc. become even more significant to their survival. In most LDCs and small states, infrastructure constraints affect the ability of service suppliers to deliver, domestically, and internationally, adding to their cost of doing business, as well as hampering their ability to compete in global markets.

Another critical concern faced by most economies today is the mismatch between the education provided at university or school, or even at vocational training institutions, and the skills actually required on the ground, in the professional arena. This resonates deeply within the skill-intensive services sector, which depends on skilled manpower, particularly for smaller firms with the growth of specialised or niche offerings plugging into global supply chains, which creates a more critical need for trained manpower, armed with specialised skill sets. Larger firms and developed economies have the infrastructure and resources to develop this skill-training base and offer training services to their human resources. Specific policy measures are required to assist smaller firms, in smaller in developing and accessing skilled manpower.

Financial concerns also influence the potential of the services sector, and trade in services in LDCs and small states in particular. The lack of efficient, well-developed banking and insurance services in LDCs and small states, and the financial ability of the public sector to support service suppliers, and trade in services, further dampens the ability of the firms to grow and trade. Not only is there a lack of sufficient funding for service suppliers in LDCs and small states, but the nature of the sector and the absence of credible data makes it harder for the financial sector to fully assess and analyse needs and therefore offer financial and credit solutions with the gestation periods required. Smaller firms typically face higher interest rates, and more stringent requirements, than bigger firms do. Weak domestic financial infrastructure means many financial institutions are not robust enough to support the necessary gestation periods, and risk requirements of new business, particularly in the services sector.

Against this backdrop, financial institution practices such as de-risking threaten to further destabilise and weaken the financial sector, and its ability to aid development in small states and LDCs. The World Bank notes that small states, or small economies, which have limited financial capacity and more volatile financial markets, are more vulnerable to the impact of such practices, also risking the reversal of the benefits of financial inclusion (World Bank 2016). This could further de-link these countries from the global financial system and weaken their structure and ability to contribute to trade and development. It would impact their ability to effectively export financial services, and for their financial institutions to compete with developed and developing country institutions.

The concerns of the service sector are underscored with businesses now going digital, and the growth of e-commerce, requiring consumers to meet service suppliers, virtually and allowing services to facilitate trade in commodities. Virtual interactions and e-transmissions require the support of skilled professionals, seamless connectivity, and high-end technology, together with strong distribution networks, customer service set-ups, adequate financial support, and an efficient regulatory system that facilitates trade and enhances the ease of doing business. The inadequacy of such structures in LDCs and small states hinders the productivity and efficiency of service suppliers and their ability to compete in the global market and to connect effectively to global supply chains. In the absence of a globally accepted definition of e-commerce and data across countries, it is harder for policy-makers to effectively and optimally regulate the sector, and provide an environment of transparency, and streamlined procedures for the sector, and aid ease of doing business.

At the same time, the nature of e-commerce by itself has changed the way trade can be regulated, moving fluidly between jurisdictions, and rules of origin, in spaces like 3D printing, and business models like Uber, Ola and Airbnb, spread over multiple services and product lines, interlinked with layers of technology, across geography, making it harder for regulators to protect the interest of consumers and producers and suppliers. Smaller service suppliers from small states, LDCs and developing countries, which plug into these supply chains, and business models, and complete the loop, makes them critically dependent on such niche firms. In the following section, this paper asks whether there is a specific role for Aid for Trade (AfT) in facilitating trade, and addressing supply-side constraints of suppliers in the services sector, and what the nature of such assistance programmes could be.

5. Aid for Trade: Effectiveness and Scope of the Services Sector

According to the WTO, in its most basic form AfT helps developing and LDCs trade by addressing their supply-side and trade-related infrastructure constraints. It helps countries integrate into the multilateral trading system, and trade negotiations, and to implement trade agreements via domestic reforms; helps address infrastructural insufficiencies and challenges and supports capacity building initiatives. The framework also monitors and assesses, the effectiveness and outcomes of the initiatives taken under the trade-related official development assistance (ODA) programmes.

Given the nature of trade, and development assistance, and the scope they both can individually cover, the WTO argues that defining Aid for Trade in a box is also a difficult task. However, it attempts to define Aid for Trade as including, "…technical assistance — helping countries to develop trade strategies, negotiate more effectively, and implement outcomes. Infrastructure — building the roads, ports, and telecommunications that link domestic and global markets. Productive capacity — investing in industries and sectors so countries can diversify exports and build on comparative advantages. And adjustment assistance — helping with the costs associated with tariff reductions, preference erosion, or declining terms of trade" (WTO AfT). Aid for Trade, therefore, does more than just reduce trade costs. It helps trading countries trade better, and integrate more effectively into the global trade regime.

The significant potential of AfT has been assessed, analysed and confirmed by several studies. The Fourth Global Review of Aid for Trade by the WTO (WTO 2013) stressed the significance of value chains in trade. It noted how the impact of Aid for Trade was higher on parts and components, compared to final goods trade. Technological developments within the realm of e-commerce allow smaller firms to connect with, and plug into global supply chains, with niche offerings, diminishing the role of scale. This creates a case for a regional/plurilateral approach to 'scale' in the services sector. The review concurred, noting that a "regional approach" to create such economies of scale could greatly help service suppliers in LDCs and small states. Additionally, the integration of LDC service suppliers into global value chains and the ability of these suppliers to move up value chains would be supported well by trade facilitation efforts. The review underscored the continued need for Aid for Trade efforts in these countries and placed significant emphasis on services as an area of focus for Aid for Trade.

The diversification of AfT deployment into regulatory and trade policy capacity building, supply-side capacity building, institutional development and reforms, provides an inroad for a more specific focus on the services sector. Addressing regulatory constraints, institutional and infrastructural reforms in LDCs and small states, will not only help the services sector enhance its competitiveness and efficiency, but will also create a solid economic foundation for other sectors of the economy.

Given the growing digitisation of trade in goods and services, it is evident that the first step to aiding the efficiency of the services sector is to develop IT and network capacity. AfT can play a significant role in the development of such capacity in any economy and would be particularly useful for small states and LDCs, which often lack the resources or technological know-how and capacity to develop such infrastructure on their own.

Another unique attribute of the services sector is that it is skilled labour-intensive by nature. Therefore, AfT programmes aimed at enhancing the productivity, competitiveness and trade-capacity of the services sector would necessarily need to focus on skill development, via formal training, assessment, and certification.

The LDC Services Waiver, adopted for a period of 15 years, which came into force in 2011, acknowledged the challenges faced by service providers in LDCs and seeks to enable the granting of preferential treatment to LDC services and service suppliers, via WTO membership. While the decision led to enhanced preferential treatment for LDCs in trade in services, it is worth noting that like in case of all preferential treatment, market access is only effectively enhanced if service suppliers in the recipient country are in a position to take advantage of the enhanced preferential treatment towards effective market access. This requires capacity-building and trade facilitation to ensure that regulations do not become barriers to trade.

In this vein, the effective utilisation of the LDCs Services Waiver itself creates a case for enhanced deployment of AfT funds in the services sector, to enable service suppliers from these countries to meet regulatory requirements and standards in consumer markets.

Until recently, the discussions on trade facilitation and AfT focussed mostly on trade in goods. To this end, with a view to reducing costs of trade for developing countries and LDCs, the WTO membership negotiated, ratified, and brought into effect the Trade Facilitation Agreement (TFA) for trade in goods. The negotiations for the TFA were concluded at the Bali Ministerial Conference of the WTO in 2013, and the Agreement entered into force in February 2017. According to the WTO, "The TFA contains provisions …for technical assistance and capacity building in this area… the full implementation of the TFA could reduce trade costs by an average of 14.3% and boost global trade by up to $1 trillion per year, with the biggest gains in the poorest countries…" (WTO TF).

In February 2017, India tabled a proposed Agreement for Trade Facilitation in Services (TFS), along similar lines to the TFA, arguing in favour of the significance of the services sector to trade, output and employment, and addressing the need for reforms in trade regulation, both domestic, and multilateral, aiming for transparency, streamlining and simplification of trade-related procedures in the sector. While this may not be the appropriate platform to discuss the merits or demerits of the proposal itself, and whether the GATS itself could already, inherently, provide for similar tools and measures, the need for efforts to enable the benefits of the Services Waiver, and to ensure effective utilization of the market access received by LDCs, therein, presents a clear case in itself for greater efforts in reducing the cost of trading services, globally. A well rounded Aid for Trade initiative, aimed at building capacity in LDCs and small states, reducing the cost of trading services, combined with definite trade facilitation measures, could go a long way in ensuring that the services sector of LDCs and small states, not only integrates well into global markets, but is also strengthened effectively to support other sectors in the domestic economy.

6. Aid for Trade in Services: Practical Recommendations

Trade in services, pivoted on technology, can be nurtured to spur growth in LDCs and small states, playing on the niche service offerings of small entrepreneurial ventures, which, by their very nature, and in light of available digital solutions, can bypass the conventional need for scale and commercial presence, to plug into supply chains and contribute to exports, GDP and employment. Targeted AfT in the services sector could better assist the transition to high-value services sectors through trade facilitation and a comprehensive domestic reform agenda.

Provided that AfT programmes are customised, in line with national development priorities, and account for size, sector and industry, AfT can be an effective tool in reducing trade costs, and building capacity for LDCs and small states. The challenges faced by LDCs and small states in taking advantage of the benefits of trade liberalisation in services, and the limited utilisation of AfT for services makes a case for the need to provide the services sector with the support and the thrust it needs, to grow at a sustainable pace, to enable LDCs to participate effectively in global trade, and to plug into service supply chains.

Considering the success stories of AfT, and the growing domain of e-commerce, which has, on the one hand, allowed niche service suppliers to trade globally, predicated on technology, bypassing the need for scale and commercial presence, and on the other hand, blurred the lines between trade in commodities and services, making it harder for one to function effectively without the other, the role the development of the sector can play in the economy and for trade, in particular, is clearly evident. Given that smaller enterprises more naturally emanate from the landscape of LDCs and small states, it goes without saying that any Aid for Trade programmes in these economies would have to account for the specific needs, and challenges of MSMEs, including those in the services sector.

Projects and programmes should be pivoted on technology. The advent of e-commerce merits special mention. Digital trade, and its growing significance, particularly for small, remotely located service suppliers, in small market economies, necessitates Aid for Trade deployment in the development of a robust, sustainable, scalable IT and network infrastructure. Digital trade forms a crucial link for firms in small states and LDCs, particularly small firms, to connect and plug into global supply chains. In the absence of a strong network infrastructure, not only do these firms lose out on linking into crucial supply chains, but the cost of trade also increases for them. Therefore, Aid for Trade projects must invest, and collaborate with stakeholders on this crucial requirement.

It is also necessary to implement targeted regulatory reforms, particularly in the banking sector, with a view to allowing easier and consistent access to funds for service suppliers in LDCs. It is also critical to ensure complete financial inclusion of service providing small enterprises, by building institutions dedicated to service suppliers for all sizes of enterprises, within such an 'ecosystem.' Financial institutions, bankers and lenders should be trained via targeted skill development programmes on the specific nature and requirements of the services sector.

AfT projects must encourage governments, and assist them in creating an overarching environment of domestic institutional reforms, which enable service suppliers to operate with the least cost of doing business and facilitate their ability to trade effectively. This would involve educating and informing lawmakers and regulators with the necessary information and skills, to be able to fully understand the sector, its intricacies and challenges.

Such programmes should also help train negotiators and policy-makers from LDCs to effectively negotiate agreements in trade in services with their trading partners, to ensure optimal benefits, and ease of doing business, for their service suppliers.

A core area of concern for LDCs in trade in services is the lack of transparency of regulation, and access to credible information on trade policy, guidelines and procedures. Any effort to facilitate trade in services would be incomplete if it did not commence with addressing this core concern. Aid for Trade can help be used, with the support of the Governments, to create platforms, where LDC service suppliers can access such information, and keep up to date on regulations, and policy, globally, on their respective industries. This would bring down the cost imposed by uncertainty in trade, and help service suppliers better plan their economic activities.

Since AfT programmes are collaborative efforts between international agencies, and donor countries, not just restricted to funding ease and facilitation of trade, but also providing capacity building and institutional reform support, the platform would also be ideal to foster, between donors and recipients, mutual recognition (especially, for example, professional qualifications), harmonization, and the exchange of technical know-how and skill-building capacity and initiatives, and promoting best practices, benefitting suppliers and governments on both sides, and making way for easier trade. To this end, it would be essential, as well as beneficial for these programmes, to leverage technology, and create an 'ecosystem' of service suppliers from LDCs, and their trading partners, donors and other stakeholders, to connect and collaborate.

While developments in technology have constructively disrupted the way trade in services is conducted, technology itself offers the ability to LDC and small state service suppliers to aggregate. Such an 'ecosystem,' created to inform LDCs and small states with updated regulation and policy in partner countries, could also be used to create an 'ecosystem' of service suppliers from LDCs and their trading partners to connect directly, exchange experiences, information, and technical know-how, and to benefit from knowledge and case studies on global best practices in their industry. An 'ecosystem' such as this could also help aggregate the voices of service suppliers in LDCs and small states, both in the organised and unorganised sector, irrespective of their size and scale of operation, and ensure a strong model of co-operation between the public and private sectors, enabling the voices of these suppliers to reach regulatory and policy-making public bodies, and ensuring a combined effort towards mainstreaming trade into development policy. Such a platform would also help countries reap the benefits of digital enlargement, and collaborate on developments and projects in their respective industries, creating an interconnected network of service suppliers.

7. Conclusion

Services are intertwined with economic growth, development, institutional reform, and the more general ease of doing business. AfT emerges as a strong tool, if utilised well, for facilitating the integration of LDCs and small states into the global services trade regime. At the same time, technology, while disrupting the way we trade, also enables us to enhance the ease of doing business in newer ways.

To optimise the benefits of such programmes, however, they will need to be backed by a deep understanding of the peculiarities and needs of the services sector itself, as well as the specific challenges faced by each individual economy, as well as its strengths, comparative advantage, and domestic institutional capacity and requirements. Such programmes would have to be well structured, non-complex, and will depend critically on the co-operation of all stakeholders – donors, the private sector, public sector, and the international community, in equal measure. The natural route for such programmes would require the creation of a technology-enabled 'ecosystem' of service suppliers, donors, and all other stakeholders, for access and exchange of information, experiences, know-how, and for the aggregation of the voices of services suppliers in LDCs and small states, for the benefit of regulators and policy-makers.

To ensure this, it will be essential and most logical for such programmes to leverage the very same technology that has driven the evolution of trade in service. That is to say, to use AfT, pivoted on technology, towards capacity-building and facilitation in the services sector in small states and LDCs.

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