

# The digitally deliverable services frontier

Unlocking the least developed countries' services trade potential under the Africa Continental Free Trade Area

# Content

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1. **Structural transformation pathways**
2. **Services trade performance**
3. **Services hubs**
4. **Towards a services-enabled development path**



# 1. Structural transformation pathways

# **The traditional and new development thinking**

**The increased role of services has shifted the focus from traditional industrialization as a feasible path for structural transformation in LDCs**

## **Services as the new development pathway**

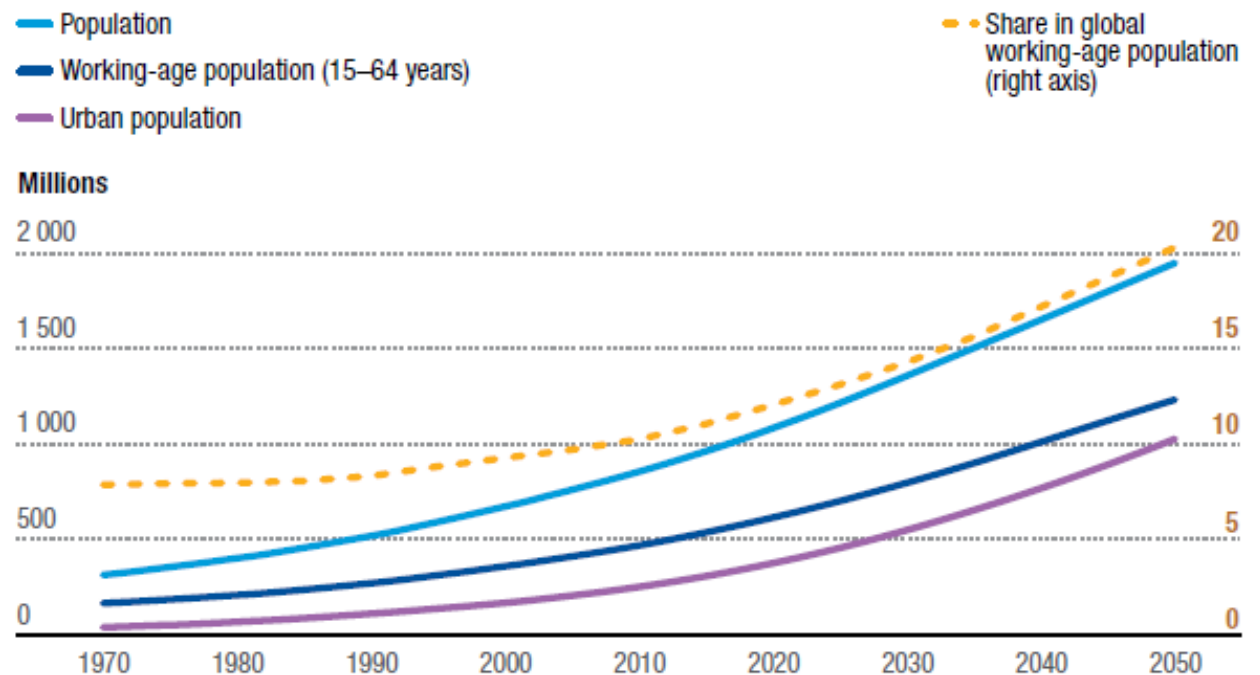
- ▶ Largest job generator accounting for  $\frac{2}{3}$  of global output
- ▶ Lower entry barriers for MSMEs compared to manufacturing
- ▶ Boosted by technological advancement, digitalization and demand for high value-added services in global value chains

# ▶ Structural transformation pathways in LDCs

LDCs face a dual challenge of generating employment and accelerating economic growth amid rapid population growth.

- ▶ LDC populations will reach 1.95 billion by 2050 (1.22 billion in 2025)
- ▶ **Required:** 13.2 million new jobs annually
- ▶ Informal sector employs 89.5% of LDC workers, stalling productivity and tax revenue.

The least developed countries face demographic pressures



Source: UNCTAD calculations based on the UNCTADstat database (accessed 10 March 2025).

# ➤ Structural transformation pathways in LDCs(1)

Despite the rise of services in LDCs, the trend has not effectively led to economic diversification and productivity growth

Employment patterns differ between least developed countries and other country groups

Shares in total employment (percentage), 1991–2023

	Agriculture			Manufacturing			Services		
	1991	2010	2023	1991	2010	2023	1991	2010	2023
Least developed countries	65.1	55.9	48.6	5.6	6.8	7.4	25.8	32.5	38.4
Other developing economies	29.4	22.6	18.3	12.6	10.4	10.0	49.1	56.5	60.7
Developed economies	13.9	8.7	6.4	21.5	14.6	13.6	55.3	66.9	70.7

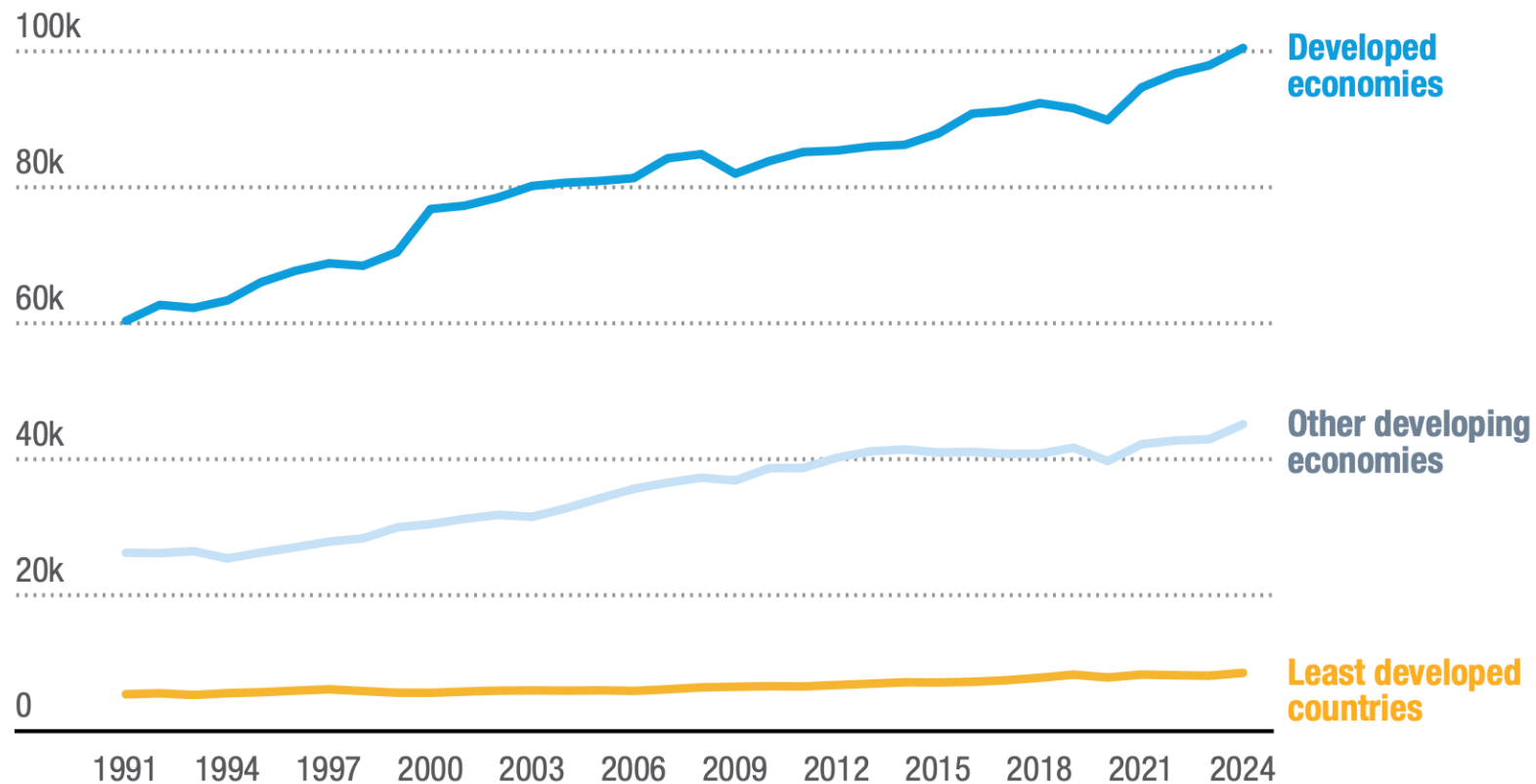
Source: UNCTAD calculations based on ILOSTAT modelled estimates (accessed 24 March 2025).

# ➤ Structural transformation pathways in LDCs (2)

## Labour productivity has not increased at the speed required to drive meaningful growth (SDG 8.2)

Labour productivity is not growing at the required speed in least developed countries

GDP per worker (constant 2021 international dollars at PPP), 1991–2024



# ➤ Structural transformation pathways in LDCs (3)

## Wide productivity gaps between LDC services and manufacturing sectors impede economic growth.

Labour productivity levels and growth potential vary across services sectors

Value added per worker (constant international dollars, PPP adjusted), 2017

Sector	Least developed countries	Other developing economies	Developed economies	Multiplier to other developing economies	Multiplier to developed economies
<b>Services</b>					
Trade services	6 288	16 616	56 903	2.6	9.0
Transport services	16 188	44 481	50 094	2.7	3.1
Business services	30 219	45 067	65 082	1.5	2.2
Financial services	31 084	102 382	167 570	3.3	5.4
Other services	8 799	24 266	45 781	2.8	5.2
Government services	26 480	56 931	94 829	2.1	3.6
<b>Other sectors</b>					
Agriculture	675	4 640	33 890	6.9	50.2
Mining	4 597	56 058	76 573	12.2	16.7
Utilities	33 336	118 673	93 885	3.6	2.8
Manufacturing	5 613	15 728	66 159	2.8	11.8
Construction	69 187	127 686	198 234	1.8	2.9

Source: UNCTAD calculations based on Groningen Growth and Development Centre Productivity Level database, available at <https://www.rug.nl/ggdc/productivity/pld/releases/pld-2023> (accessed 19 March 2025).

Note: Group medians. Real estate is not included due to missing data points and outliers.



## 2. Services trade performance

# ➤ **Services trade performance (1)**

**Services are playing a vital role in global trade, even as a significant gap emerges between LDCs and other economies**

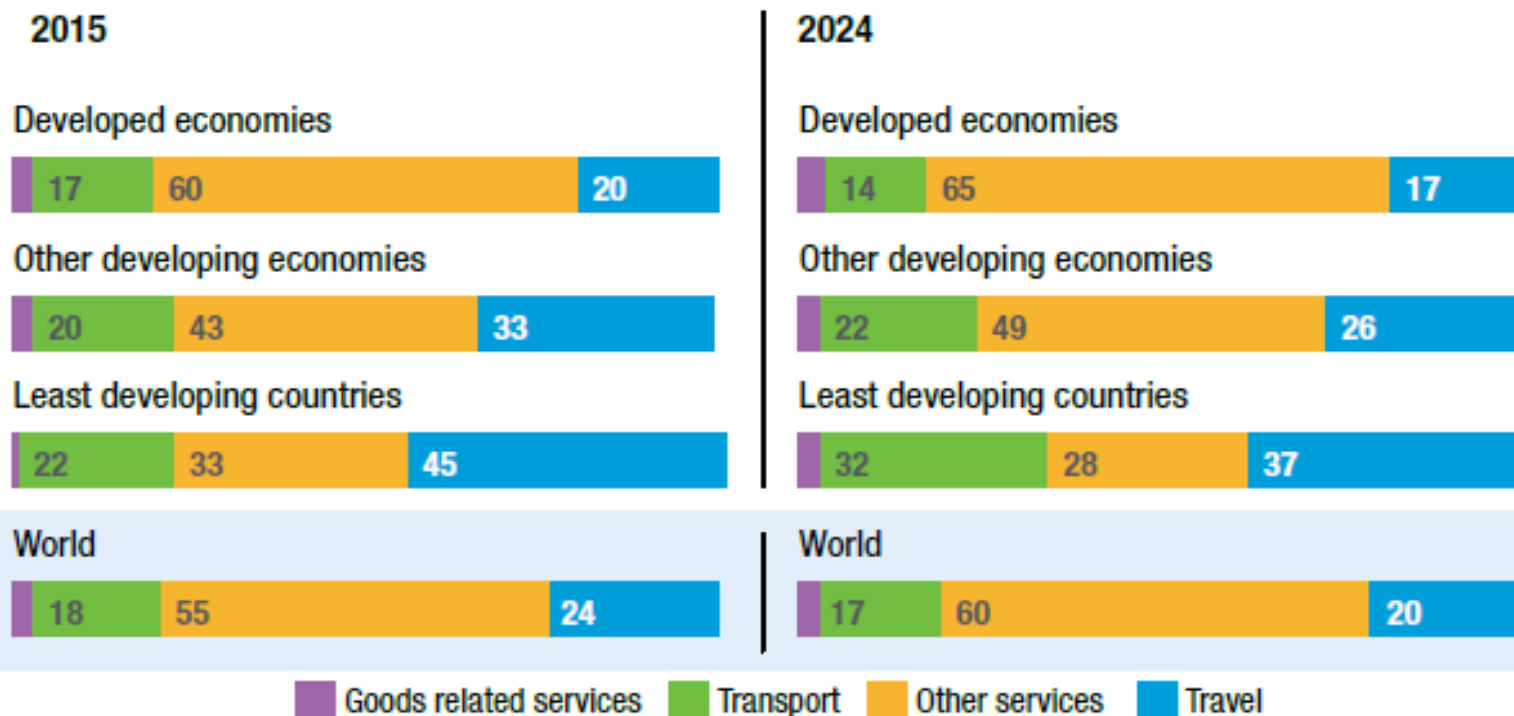
- ▶ Services trade accounted for 24% of world trade in 2024, growing at 9%, vastly outperforming trade in goods ( 2%)
- ▶ Global services exports climbed from \$5.3 trillion (2020) to \$8.9 trillion(2024), but LDCs faced a stagnant recovery, with exports remaining below the 2019 peak during 2021-2023
- ▶ LDCs' services exports reached \$52.1 billion in 2024, but their global share fell to 0.59% from 0.72% in 2019.
- ▶ *For African economies, services exports reached \$159 billion in 2024, from \$87.5 billion in 2020 (\$130 billion in 2019).*

# Services trade performance (2)

LDCs remain on the periphery of global services trade, with only 0.59 per cent (\$52.1 billion) of the global market share in 2024

Travel and transport dominate the services exports of least developed countries

(Percentage)



Source: UNCTAD secretariat calculations based on data from the WTO-UNCTAD Trade in Services Data Set (accessed October 2025).

# ➤ **Services trade performance (3)**

**The rise of digitally-deliverable services (DDS) marks a significant diversion between LDCs and other economies**

Digitally-delivered services(DDS) are the cornerstone of global services trade, reaching \$4.9 trillion (56% of services trade) in 2024



Developed economies dominated with \$3.8 trillion (76.4%), while LDCs contributed a marginal \$8.1 billion (0.16%) to DDS trade

The share of DDS in LDCs' services exports fell from 0.28% in 2012 to 0.16% in 2024

African economies' DDS exports were \$42.7 billion in 2024.

# ➤ Services trade performance (4)

The composition of DDS exports varies significantly across different economy groups, with the state of the digital infrastructure as the main determinant

Economy Group	 Telecommunications, Computer & Information Services	 Professional & management consulting services
World	25%	20%
LDCs	40%	22%
Other developing economies	30%	30%
Developed economies	24%	17%
African economies	23%	22%

# ➤ Services trade performance (5)

## Concentration of global services trade in a few economies

- *Developed economies: \$6.2 trillion (70.1% of global services exports)*
- *Other developing economies: \$2.6 trillion (29.3% share)*
- *The top 10 developing exporters drive 21% of all global services trade*

## Concentration of LDC services trade in a few services and markets in 2023

- **Primary market:** Developed economies absorbed **60%** of total LDC services exports
- **Potential growth market:** Other developing economies accounted for 37% of LDC services exports
- **Sector and market concentration:** Developed economies absorbed 54 % of travel, and 57% of transport services

# Services trade performance (6)

Establishing a commercial presence is the leading mode for exporting services globally

(Percentage of total services exports by mode of supply)

Mode 1 Mode 2 Mode 3 Mode 4

Total services



BUT



**Cross-border supply (63%) and consumption abroad (mode 2) are the most important modes of supply for LDCs**



**Commercial presence (mode 3) is predominant in services imports of LDCs (48%), followed by cross-border supply (41%).**



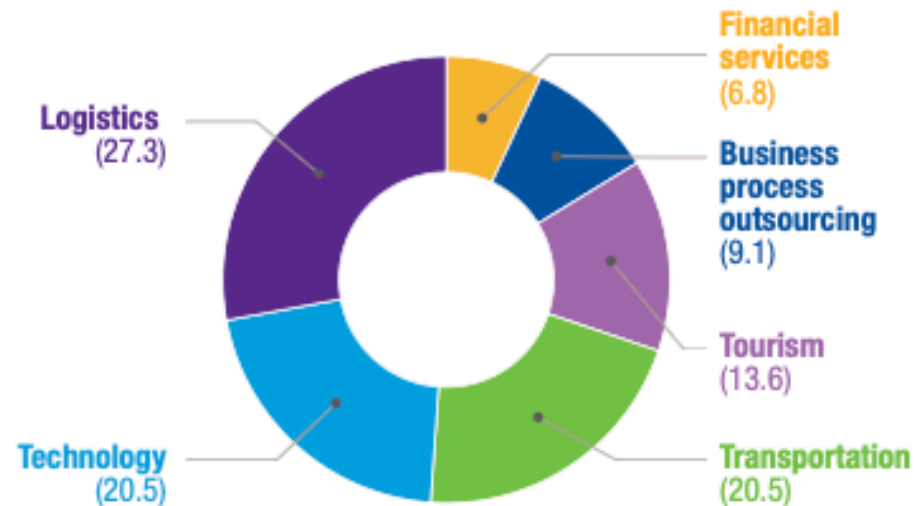
## 3. Services hubs

# Services hubs (1)

LDCs are increasingly adopting hub strategies combining spatial planning, infrastructure and regulatory reforms to create regional growth centres

## Least developed countries prioritize logistics hubs

Rate of adoption of services sector hub frameworks among least developed countries  
(Percentage)



Source: UNCTAD calculations based on publicly available national development plans and strategies.

## ➤ **Services hubs (2)**

### **Hubs strengthen forward linkages via infrastructure and technology, boosting jobs and revenue**

- ▶ 30 LDCs have prioritized enhanced network linkages related to regional integration
- ▶ 12 LDCs intend to establish logistics hubs
- ▶ Tourism plays a prominent role in many LDCs and emerges as one of the hub priorities for 4 LDCs
- ▶ Travel and transport contributed over 5% of GDP in 20 LDCs in 2024

# ➤ **Services hubs (3)**

**Technology advancement including in ICT, and the quality of connectivity and digital infrastructure are key for financial and business support services**

- ▶ 3 LDCs (DJI, RWA, SEN) intend to establish financial hubs
- ▶ In RWA, the financial and insurance industries boost employment and economic development
- ▶ BPO is linked to digitalization and ICT investment (MDG)
- ▶ Large pool of skills, international expansion, and joint ventures are key strategies for BPO sector growth

# ➤ Services hubs (4)

## Policy lessons for maximizing the growth-pulling role of hubs

Lessons	Implications for LDC policymakers
<b>Integrate hubs into national and municipal development plans</b>	Align infrastructure, urban planning and sectoral strategies to avoid bottlenecks and ensure smooth logistics.
<b>Track outcomes systematically</b>	Measure not only investment and output, but also jobs, wages, productivity gains and sectoral linkages.
<b>Blend policy-driven and market-led growth</b>	Support emerging high-value subsectors with targeted policies (incubators, training and finance), without stifling entrepreneurial dynamism.
<b>Maximize spillovers</b>	Link hub activities to domestic micro-, small and medium-sized enterprises and suppliers to avoid “enclave” effects.
<b>Invest in leadership and governance</b>	As Ethiopian Airlines and ShopUp show, strategic vision, operational autonomy and strong partnerships are decisive productivity drivers.



## 4. Towards a services-enabled development path

# Towards a services-enabled development path (1)

**Services can play a positive role in the structural transformation of LDCs, especially when they are complementary to other sectors such as manufacturing**

- ▶ Balanced development policies and strategies
- ▶ Radical diversification of services towards higher value-added and knowledge intensive sectors to boost forward and backward linkages
- ▶ Boost investment in technology and specialized skills development

# **Towards a services-enabled development path (2)**

## **Policy and strategy pillars for development of the services sector in LDCs**

- ▶ Services should be part of strategies for productive capacities and growth-enhancing structural transformation
- ▶ Complementaries: Expand productive services sectors that complement manufacturing, productivity growth and global market integration
- ▶ Develop comprehensive strategies and policies for different segments of the tertiary sector in recognition of the knowledge, capital, skills and input intensities required in various services sectors
- ▶ Adequate regulatory frameworks and capacity are indispensable, giving due consideration to consumer protection, competition, workers' rights, gender, international integration

# ➤ **Towards a services- enabled development path (3)**

## **Policy and strategy pillars for development of the services sector in LDCs**

- ▶ Support low-skill, low-value added services to preserve jobs, while creating opportunities for learning and knowledge spillovers through business linkages
- ▶ Develop modern services enterprises with potential for higher value added such as ICT-enabled services, logistics and finance, based on competencies for the digital economy
- ▶ DDS: diversification in this broad dynamic area requires intervention on several fronts: infrastructure, entrepreneurship, skills development and regulation

## **Towards a services- enabled development path (4)**

### **Special and differentiated treatment of LDCs given their structural limitations, asymmetries and the level of productive capacities**

- ▶ Competitive advantages in labour, natural and cultural resources, and strategic location will fade without policies that build human, financial, and productive capacities
- ▶ Regional frameworks like AfCFTA provide strategic pathways through differentiated treatment, capacity-building with longer phase-in, technical assistance and fewer (sub)sectoral commitments

# ➤ **Towards a services-enabled development path (5)**

## **Special and differentiated treatment of LDCs given their structural limitations, asymmetries and the level of productive capacities**

- ▶ The multilateral dimension remains challenging on key priorities to LDCs such as mode 4, effective implementation of existing commitments including special treatment, technical assistance and regulatory flexibility to preserve policy space
- ▶ Address the shortcomings of the LDC services waiver, including the voluntary nature of provisions, minimal actual preference margins, and misfit of offers received with supply capacity of LDCs
- ▶ Update requests, and explore new measures to extend preferences beyond the expiry of LDC services waiver beyond 2030

# ➤ **Towards a services- enabled development path (6)**

## **South-South cooperation is also prominent in supporting the development and upgrading of services in LDCs**

- ▶ Technical cooperation, peer learning, and experience sharing are important for LDCs in such areas as taxation, regulatory compliance and strengthening revenue systems
- ▶ Development finance , and infrastructure development is another area in which South-South cooperation has become important
- ▶ Business development for international and domestic markets, and upgrading of services sector through technology, knowledge spillovers and dynamic linkages in strategic value chains

# Thank you

