



SERVICES: NEW FRONTIER FOR SUSTAINABLE DEVELOPMENT



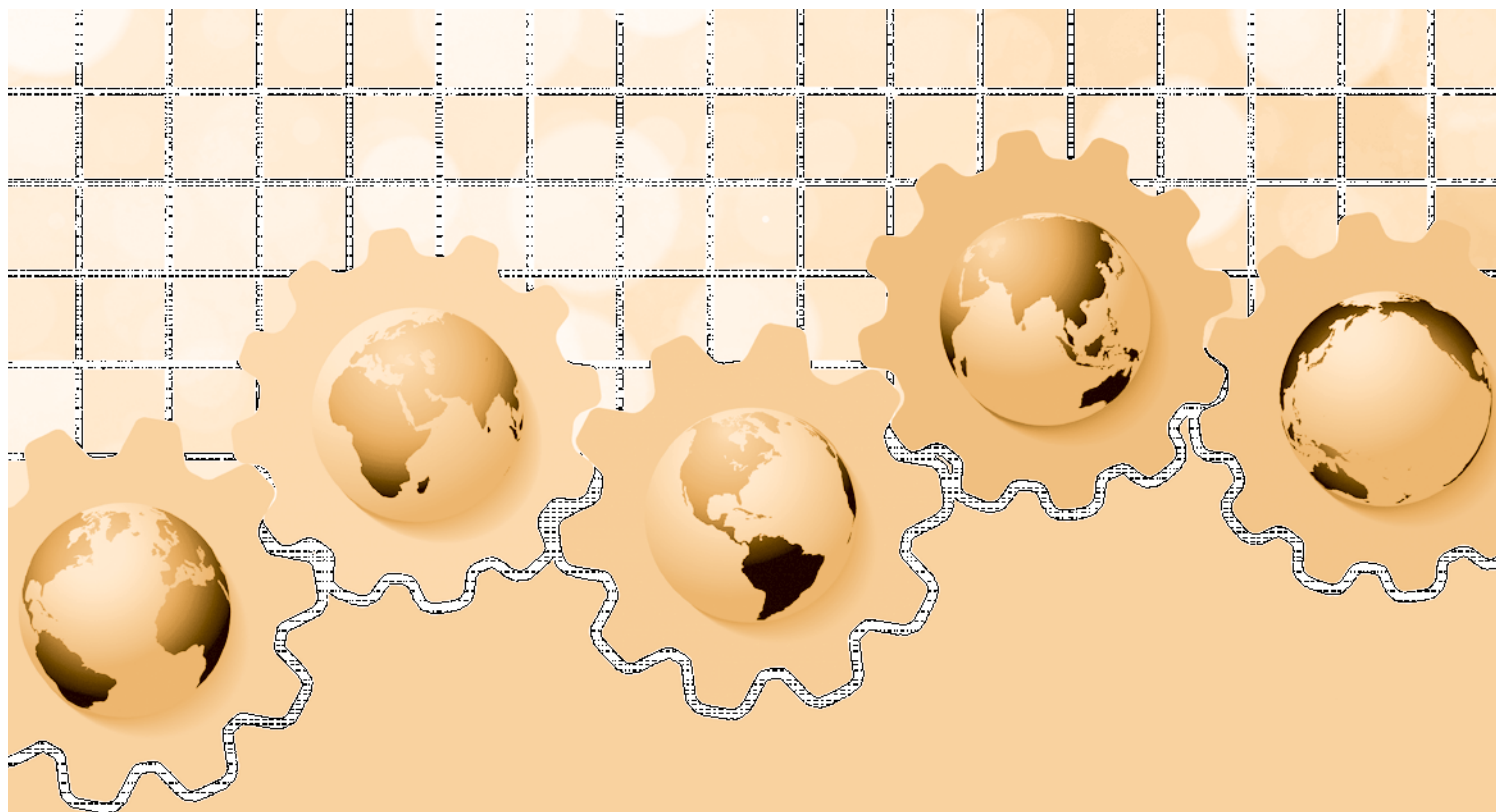
**Exploiting the Potential of
the Trade in Services for
Development**

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the Trade in Services
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PREFACE

The wide and deep impact of services on development is affirmed by various studies. Services are becoming crucial in the development of a country, including in achieving the Millennium Development Goals, such as poverty reduction and access to basic services, including education and health services.

Services contribute to increased productivity in the agricultural, manufacturing and services sectors, as many services are indispensable inputs (i.e. intermediate services). Indeed services have become a fundamental economic activity and play a key role in building infrastructure, competitiveness and trade facilitation.

The trade in services has grown at a faster pace than the trade in goods since the 1980s and has demonstrated relative resilience in the latest financial and economic crises in terms of lower magnitude of decline, less synchronicity across countries and earlier recovery from the crises. Such resilience has led many countries to incorporate their services sector and services trade into their post-crisis national growth strategies.

For developing countries and least developed countries (LDCs), the trade in services is the new frontier. Positively integrating developing countries, especially LDCs, into the global services economy and increasing their participation in the trade in services remains a major development challenge.

Given the multifaceted contribution of services to national economies and to trade, it is critically important to design and implement a services-driven development strategy within a coherent and comprehensive policy framework, ensuring linkages with other policy areas and overall national development objectives.

The development potential of the services economy and the trade in services is yet to be fully exploited in the international trading system owing to the lack of progress in the World Trade Organization (WTO) Doha Round services negotiations and in regional integration as regards services. It is important that the international regulations of services are framed in such a way as to allow developing countries to expand their exports in sectors and modes of interest to them, particularly General Agreement on Trade in Services (GATS) mode 4, while allowing adequate space for them to design and implement national policies and regulations to strengthen the productive and export capacities of services.

It is therefore imperative to increase private and public advocacy for, and awareness of, the services sector in order to mobilize the attention and resources of policymakers and the private sector to boost the contribution of the sector to growth and development in developing countries and LDCs. It is also necessary to build up the supply capacity of developing countries and LDCs in infrastructure services and business services; to improve their regulatory and institutional frameworks, particularly for infrastructure services; to enhance market access for their services exports through WTO and other trade negotiations; and to strengthen regional integration in services. Building on the successful experience of the Global Services Forum launched at UNCTAD XIII in Doha in 2012, UNCTAD is now organizing a new edition in Beijing in order to enhance the networks between national and regional services coalitions and associations and promote all forms of partnership and cooperative frameworks on services.

CONTENTS

NOTE	ii
ACKNOWLEDGEMENTS.....	iii
PREFACE	iv
INTRODUCTION.....	1
PART I: TRADE IN SERVICES: NEW GROWTH OPORTUNITIES	3
PART II: TRADE IN SERVICES: A NEW FRONTEIR FOR DEVELOPING COUNTRIES	7
PART III: EXPANDING THE PARTICIPATION OF DEVELOPING COUNTRIES IN WORLD SERVICES TRADE.....	11
CONCLUSION.....	17
ENDNOTES.....	18
ANNEX: FACTS AND FIGURES IN DETAIL.....	21

Figures

Figure 1. Global exports of goods and services, 1980-2012	4
Figure 2. Share of other commercial services in total services by region, 2012 (per cent)	5
Annex figure 1. Output share (percentage)	22
Annex figure 2. Employment share (percentage)	22
Annex figure 3. Trade share (percentage)	22
Annex figure 4. FDI share (percentage)	22
Annex figure 5a. Share of services sector in GDP,, 1970-2011 (by development status, percentage)	23
Annex figure 5b. Share of services sector in GDP,, 1970-2011 (by development status, percentage)	23
Annex figure 6. Share of goods and services in total trade, 2012 (percentage).....	24
Annex figure 7. Distribution of world trade in services, 2012 (by region, percentage).....	25
Annex figure 8. Normalized services trade balance, 1990 and 2012 (percentage)	26
Annex figure 9. Distribution of world services exports, 2000 and 2012 (by subcategories, percentage).....	27
Annex figure 10. Share of developing countries in world services exports (percentage).....	28
Annex figure 11. Distribution of computer and information services exports, 2011 (percentage).....	29
Annex figure 12. Top exporters 2012 (US\$ million)	30
Annex figure 13. Top importers 2012 (US\$ million)	31

Boxes

Box 1. Services trade statistics.....	6
Box 2. The contribution of tourism to trade and development.....	8
Box 3. Service exports and job creation in India.....	9
Box 4. Strengthening understanding of and partnerships in services	12
Box 5. Strengthening understanding of and partnerships in services	13
Box 6. Trans-Pacific Partnership Agreement	16

INTRODUCTION

Over the last decade the services sector has become increasingly important in both the world economy and in employment. In 2011, the sector accounted for 65.6 per cent of world GDP¹ and 44.1 per cent of world employment.²

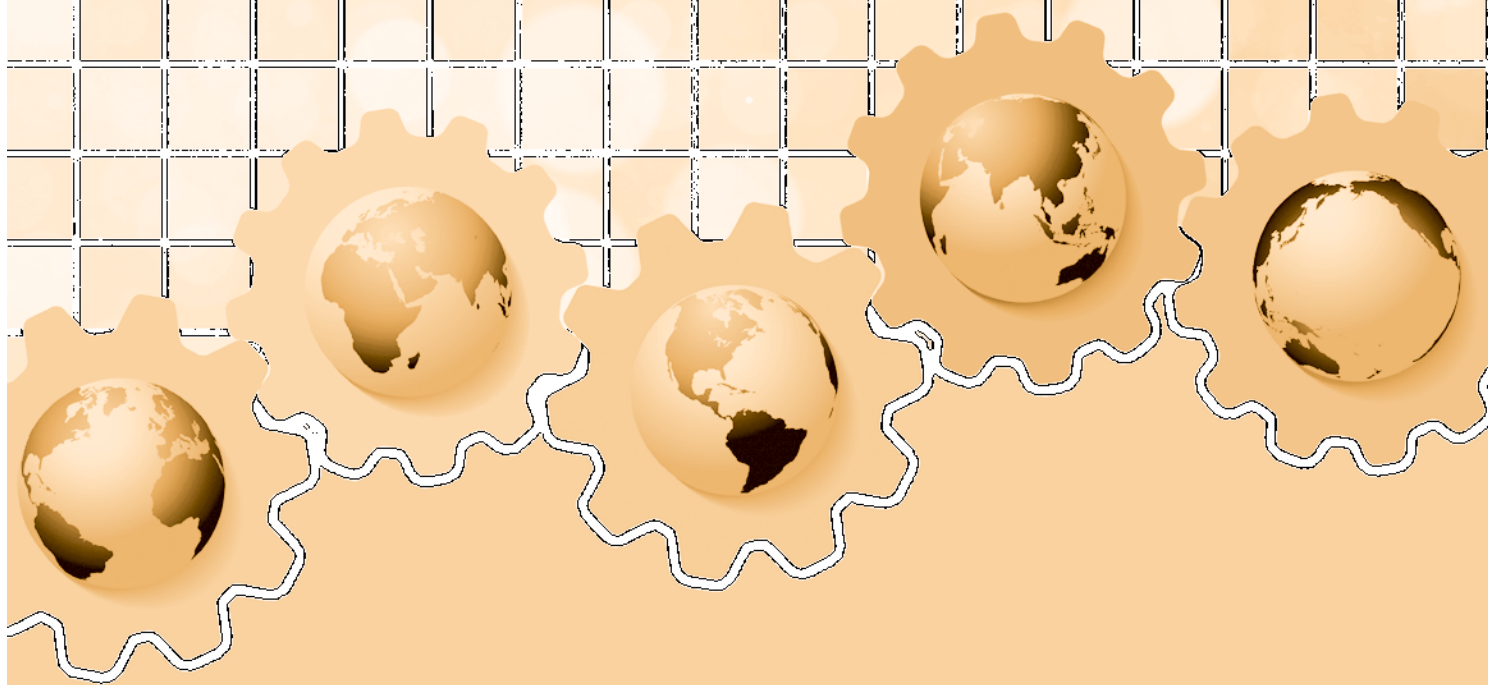
At national level, the services sector is becoming crucial in the development of a country, including in achieving the Millennium Development Goals, such as poverty reduction and access to basic services, including education and health services. The poverty reduction impact of services is particularly attributed to its role in economic growth and employment creation. In 2011, services accounted for 74.2 per cent of GDP in developed countries and 51 per cent in developing countries.³ In terms of employment, services accounted for about 73.8 per cent of total employment in developed countries and about 37.7 per cent in developing countries.⁴ In all regions except North Africa, the share of services employment has increased during the last decade. In the least developed countries (LDCs), the services sector has been the largest sector of the economy, with its share in GDP remaining fairly stable at a little below 45 per cent since around 1980, whereas employment accounted for only 26 per cent in 2008.⁶

UNCTAD research based on a sample of 139 countries finds a strong correlation between the quality of infrastructure services and economy-wide competitiveness and national income in 2010.⁷ A recent World Bank study based on a sample of 136 countries found that between 2000 and 2005 there was a strong correlation between services sector growth and overall GDP growth.⁸ It also found that in 50 developing countries during the period between 1990 and 2005, growth in services was more closely correlated with poverty reduction than growth in agriculture. Indirect job creation by services is also substantial. In India, for every job created in the information technology and information technology enabled services (IT/ITES) sector, four additional jobs are created in the rest of the economy (e.g. in training, transport and real estate).⁹ Services have also become the largest provider of jobs for women, absorbing 48 per cent of women in the workforce in 2011, as compared to 41 per cent in 2000 and surpassing agriculture.¹⁰ It appears that countries with high employment in services tend to have the highest participation of women in the labour market. This may also partly explain the relationship between growth in services and poverty reduction as the employment of women plays a special role in reducing poverty.

Recent studies and researches have shown that services contribute to increased productivity in the agricultural and manufacturing sectors, as well as in the services sector itself, as many services are indispensable inputs (i.e. intermediate services). UNCTAD studies show that intermediate services, such as transport, telecommunications, financial services, business services, including professional services, and R and D services, have a significant bearing on the productivity and competitiveness of goods and services produced by a country.¹¹ In the United States a large part of productivity growth since 1995 is attributed to the growth in distribution and financial services. Similar findings were reached in agricultural production.

In Argentina, provision of road transport services has a positive and statistically significant effect on agricultural productivity. Farmers who have access to agricultural services, including contracting farm services, enjoy higher productivity than those who do not. Intermediate services play such an important role because they allow specialization and creation and diffusion of knowledge, thus contributing to increasing economic complexity and productive capabilities. At the same time, intermediate services facilitate trade and encourage producer engagement in export activities.¹² In Zambia, Malawi and Uganda, services providing access to financial credit, transport services, marketing services and information services determine to a large extent the gains of farmers from producing export crops destined for international markets. Those services facilitate farmers in those countries to grow export crops, which positively contributes to poverty reduction in rural areas. The positive link between access to finance and the participation of small and medium-sized businesses (SMEs) in export markets is also proven in Brazil, where postal services have been used to implement financial inclusion policies and to facilitate trade for SMEs in relatively poor municipalities located in the peri-urban areas and in the countryside.

Strengthening the domestic services sector by multiplying its backward and forward linkages with the primary and secondary sectors, as well as its linkage with trade, can therefore be a very effective component of a comprehensive development strategy. The private sector and public advocacy and awareness-raising are key to enabling countries to formulate such policies and strategies to enhance the contribution of the services sector to growth and development. Building on the initial success of the Global Services Forum launched at UNCTAD XIII, a new edition in Beijing is being organized in order to contribute to enhancing the networks between national and regional services coalitions and associations, and to promote all forms of partnership and cooperative frameworks on services involving the private sector, services industries, government, researchers and civil society.



Trade in services:
new growth opportunities

I

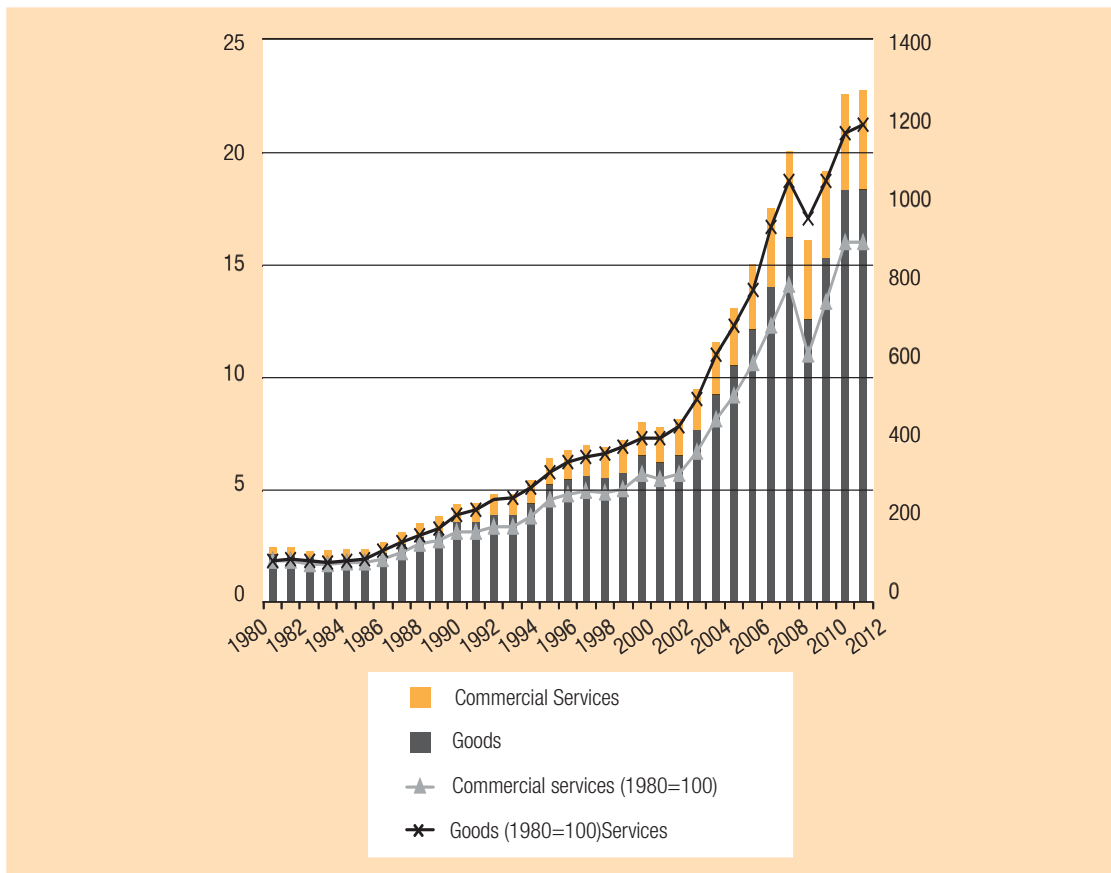
Consistent with the increasing role played by the services sector in domestic economies, the trade in services has also witnessed rapid growth. At the global level, exports of commercial services have increased significantly from about \$367 billion in 1980 to \$4.3 trillion in 2012. Between 1980 and 2012, exports of services have grown faster than merchandise trade, with their share in total world trade increasing from around 17 per cent in 1980 to 20 per cent in 2012 (see figure 1).

In the last decade, based on UNCTAD data, global exports of commercial services grew at 10.7 per cent on average annually between 2000 and 2012, slightly faster than that of merchandise exports during the same period (10.4 per cent). Developing countries' share of global exports of commercial services reached 31 per cent for the first time. The rapid expansion of high-technology services, including communications

and computer and information services, has driven steady growth, reflecting technological advances and the fragmentation of production processes in global value chains, despite the weak recovery of financial, construction and transportation services.

As the demarcation between manufactures and services is increasingly blurred, "servicification of manufacturing" is increasing.¹³ This is described as the increasing use of intermediate services by manufacturing, accompanied by the rising number of services-related workers employed by manufacturing firms. This not only implies an increase in the number of services incorporated into manufacturing but also an increase in the number of services offered in conjunction with it. Services thus account for major tasks performed and exchanged in global supply chains. In fact, recent academic research reveals that the share of services in the total supply chain trade has

Figure 1. Global exports of goods and services, 1980-2012



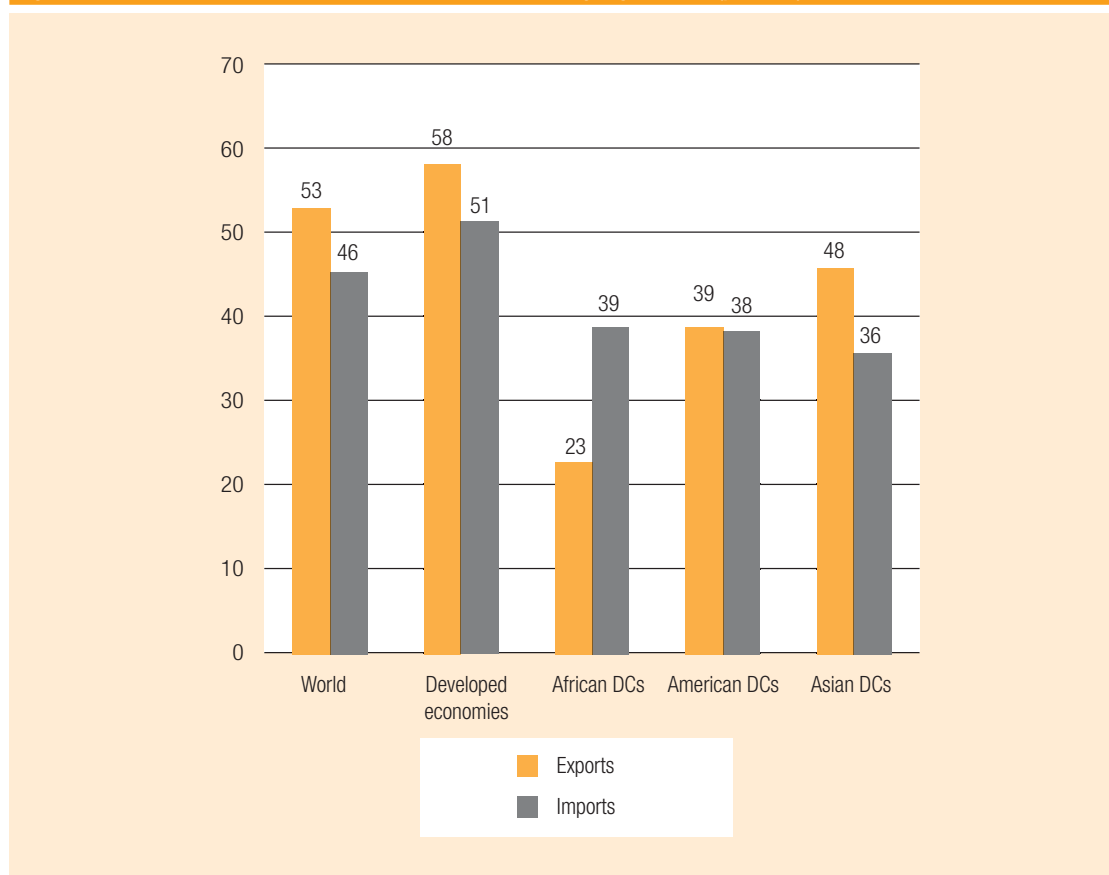
Source: UNCTADStat

increased from 24 per cent to 28 per cent, while that of manufacturing has declined from 61 per cent to 52 per cent.¹⁴ The Organization for Economic Cooperation and Development (OECD) estimates that intermediate inputs currently represent 73 per cent of services trade among OECD countries.¹⁵ Other commercial services such as computing and information, financial and other business services amenable to outsourcing represent 53 per cent of world services exports, growing by 12.6 per cent annually in the period from 2000 to 2012 (see figure 2).

The figure for the trade in services would have been larger if complete and precise data over cross-border services transactions could be collected and if foreign direct investment (FDI) in services, which constitutes over half of the global trade in services, could be taken into account. For example, according to the official statistics of the Government of Finland, total services ex-

ports from Finland to China were worth 0.6 billion euros in 2007.¹⁶ However, in the same year Nokia's internal service exports from Finland to China with respect to one of its mobile phones (i.e. the N95) was about 0.8 billion euros. In 2007 (the latest year for which published data are available), United States firms sold over \$1,026 billion in services to foreigners through their majority-owned foreign affiliates compared to \$478 billion in United States cross-border exports of services.¹⁷ FDI is increasingly targeted at the services sector. Investment flowing into the services sector from developed countries between 2008 and 2010 was over eight times as much as it was during the period from 1990 to 1992 (\$852 billion and \$105 billion respectively).¹⁸ In 2011 alone, services attracted 40 per cent of the global inflows for FDI projects. As a result, the share of total inward FDI stock going into the services sector climbed from 49 per cent in 1990 to over 64 per cent in 2010.¹⁹

Figure 2. Share of other commercial services in total services by region, 2012 (per cent)



Source: UNCTADStat

Box 1. Services trade statistics

Trade in services is defined under the WTO GATS as the supply of a service:

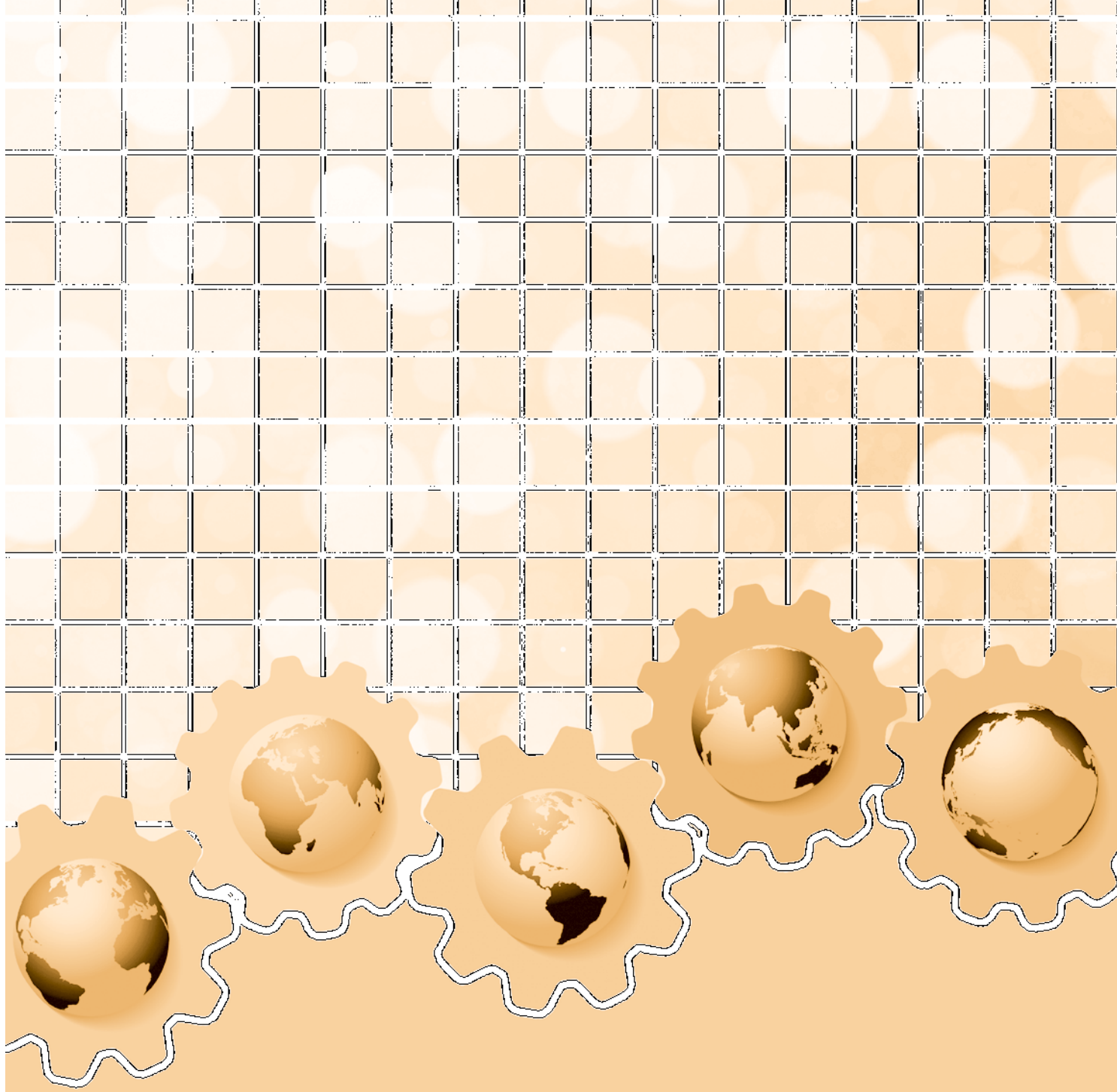
- (a) From the territory of one member into the territory of any other member (cross-border supply or mode 1);
- (b) In the territory of one member to the service consumer of any other member (consumption abroad or mode 2);
- (c) By a service supplier of one member, through the commercial presence in the territory of any other member (commercial presence or mode 3);
- (d) By a service supplier of one member, through the presence of natural persons of a member in the territory of any other member (presence of natural persons or mode 4).

To facilitate trade negotiations, a sectoral classification list containing around 160 subsectors was developed by the WTO secretariat during the Uruguay Round multilateral trade negotiations. This list was built upon the United Nations central product classification provisional version (1989). The component “government services” not included elsewhere is excluded from this sectoral classification list.

Official statistics on trade in services are based on the recommendations of the manual on statistics of international trade in services. These statistics can be broken down into two groups. Trade in services data, as covered by the International Monetary Fund balance of payments manual services account, broadly cover the value of the supply of services through modes 1, 2 and 4, but indistinguishably. Mode 3 is measured within the framework of the statistics of foreign affiliates (which is linked to FDI). For the time being, data on mode 3 is mainly available for OECD and European Union countries, however an increasing number of developing economies have begun such data compilation.

Cross-border services trade is considered to be generally more resilient in a crisis than merchandise trade. In the latest financial and economic crises, fluctuations in exports of services exhibited less synchronicity across countries, experienced a lower magnitudes of decline in general (-22 per cent in trade in goods as opposed to -9 per cent in trade in services in 2009) and after the crisis, the cross-border trade in services recovered earlier than the merchandise trade. Between 2008 and 2012, despite the weak recovery of financial, construction and transportation services, there was rapid expansion of high-technology services, including communications and computer and information services, reflecting technological advances and the fragmentation of production processes in global supply chains. Tourism services also grew rapidly. Global remittances flows, which include transfers associated with temporary movements of service providers, posted a 7.7 per cent increase in 2011 and remittance receipts to LDCs were at 16 per cent above the 2008 level. Since remittances have become a major source of financial inflows for developing countries and account for as much as 20–40 per cent of GDP for small countries such as Lesotho, Republic of Moldova and Samoa, it is important that labour mobility be facilitated and remittance flows channelled into productive use.²⁰ Freer movement of natural persons supplying services, to be accompanied by regulatory cooperation, can be further explored in multilateral and regional trade negotiations. International tourism receipts grew by 4 per cent to reach \$1.1 trillion in 2012 and the number of tourist arrivals also rose by 4 per cent in 2012,²¹ 11.4 per cent above the figure for 2008.²²

The relative resilience of the trade in services to the crisis, its important role in global supply chains and its increasing potential in attracting investment and employment creation has led Governments across the world to implement a services-driven development strategy in the post-crisis era, within a comprehensive and coherent trade and development policy framework. Modern exportable business services exhibit strong economies of scale and externalities and require relatively highly skilled labour, thus providing a realistic opportunity for structural transformation, including for countries without a comparative advantage in agriculture or manufacturing. Global efforts to address climate change and environmental issues also offer support to developing the services sector and the trade in services, since most services are less polluting, produce fewer emissions and use fewer exhaustible resources. Exploring opportunities for the export of services is one of the key focuses of European Union trade policy and the United States has listed promotion of services exports as one of the priorities of its national export initiative. In the past five years, the Government of Bangladesh has targeted IT as a focus area of the economy and has developed favourable policies for its growth, including subsidies for technology imports and tax breaks, so as to prepare the country for the international business process outsourcing market.²³ In its twelfth five-year plan (2011–2015), China has set a target for the share of GDP of the services industry to increase from 43 per to 47 per cent and for import and export of services to reach \$600 billion.



Trade in services:
a new frontier for
developing countries

II

For developing countries the trade in services represents the new frontier. Currently, developed countries dominate the global trade in services with a share of 66 per cent in total services exports in 2012, although this is a decrease from 75 per cent in 2000. However, the export capacity of developing countries is gradually increasing and their share in the global trade in services has grown from 23 per cent in 2000 to 31 per cent in 2012.

Tourism and transport continue to be the two major export items for developing countries, representing half of their total services exports.

However, the share of transport and tourism in the total services exports of developing countries are decreasing as a result of the faster growth of export of other non-traditional services, in particular computer-related and information services in a number of developing countries. These countries have taken advantage of the wave of technological advance in telecommunications and ICT and the disintegration of production processes resulting from the growing global supply chains, which have enabled more services to become tradable and outsourced. Driven by demand for these services, the share of Asian developing countries' exports of computer and information services in the global total has witnessed a big jump from 12 per cent in 2000 to 27 per cent in 2012.²⁴ This has helped increase the share in global exports of services of developing economies in Asia from 16.8 per cent in 2000 to 25 per cent in 2012.²⁵ With its large-scale pool of English-speaking university graduates and good IT infrastructures, India is now the second largest exporter of computer and information services in the world after the European Union and

accounts for 51 per cent of the global offshore IT-business process outsourcing market.²⁶

More developing countries are joining in the export of business process outsourcing services, which are outsourced due to escalating labour costs in high-income countries. With its low costs and educated, English-speaking workforce, as well as the low costs of long-distance calls resulting from legalizing the voice over Internet protocol (VoIP) in 2005, Kenya has become as competitive as countries such as India and the Philippines in the international call centre business. Egypt has also achieved significant success in establishing itself as a recognized location for business process outsourcing services.²⁷ In the A.T. Kearney Global Services Location Index, Egypt climbed from 12th position in 2007 to 4th in 2011. With government support and with wages and operating costs rising in traditional outsourcing favourites such as India and the Philippines, Bangladesh is emerging as a rapidly growing destination for services ranging from back office administrative work, graphic designing and customer service requests to product development and enhancement.²⁸

Exports of IT and business process outsourcing services create jobs, in particular for youth (see box 3). Total direct employment generated by IT-enabled services and business process outsourcing alone was 2.5 million jobs in low- and middle-income countries in 2011.²⁹ As experience in those countries has shown, education, including language education, building an IT infrastructure, a proper telecommunications regulatory framework and targeted government support are necessary to enable the growth of such exports.

Box 2. The contribution of tourism to trade and development

In recent decades, alongside increased capacity and declining costs for passenger air transportation and increases in real household incomes, the global tourism sector has grown and diversified to become one of the fastest-growing economic sectors. The worldwide contribution of tourism to GDP exceeds 5 per cent and its annual turnover has been growing at a faster pace than GDP. With growing participation from developing countries, tourism has become a major contributor to their growth. In over 150 countries, tourism is one of five top export earners, and in 60 countries it is the No. 1 export. It is the main source of foreign exchange for one third of developing countries and one half of LDCs, where it accounts for up to 40 per cent of GDP. With strong backward and forward economic linkages, tourism can stimulate broad-based economic growth and become a rich source of development benefits, generating increased income, foreign exchange earnings, economic diversification and employment. Recognizing the multiple benefits and challenges of tourism, many developing countries seek to reap development gains from tourism, including by building tourism supply capacities, stimulating entrepreneurship and attracting investment. Many have successfully advanced the development of the tourism sector by mainstreaming tourism into national development strategies, for instance by creating effective sectoral policies for infrastructure, employment, trade, investment, education, quality standards and cultural and environmental protection.

Source: UNCTAD/TD/B/C.I/8.

Box 3. Service exports and job creation in India

Over 70 per cent of the turnover of India's IT/business process outsourcing services is exported. The rapid growth in these exports has been accompanied by a significant increase in direct and indirect employment created by the sector. The direct employment growth in this sector can be largely attributed to the increased possibilities for IT-enabled services delivery, under which there has been a gradual shift from a predominantly on-site mode of delivery to a primarily offshore mode of delivery so as to further leverage the advantage of Indian labour costs. The on-site/offshore mix changed from 57 per cent on-site and 43 per cent offshore in 2000 to 15 per cent and 85 per cent respectively in 2010. Today the IT/business process outsourcing services sector is one of the largest employers in the organized private sector in India, providing direct employment to more than 2.3 million people, up from less than a few hundred thousand in 2000. It also provides indirect employment to more than 8.2 million people in support activities such as training, transport and real estate. In 2009, 91 per cent of its employees came from tier 1 Indian cities. Second and third tier cities in India witnessed a 50 per cent increase in employment in 2009 and 2010 respectively. Data further indicates that employment in this sector has important implications for the upward mobility of women, youth and disadvantaged social classes: 30 per cent of employees are in the 18–25 year age group, 4 per cent of employees are from economically backward groups and 31 per cent are women. The impact on development for youth and women, as well as on poverty reduction, is thus significant.

Source: Chanda, R (2011). Impact of services trade liberalization on employment and people movement in South Asia. Working Paper No. 339. Asian Development Bank Institute

Furthermore, the services economy has presented a viable avenue for many developing countries with special needs to overcome their specific trade and development challenges on account of their particular geographical, physical and locational conditions. For instance, this is the case with the landlocked developing countries. The strategic importance of the development of the services sector is increasingly recognized as they approach the 10-year review conference of the Almaty Programme of Action in 2014. The Programme recognized the direct link between transport, trade and economic growth.

Thirty-one landlocked developing countries are indeed among the poorest and most marginalized countries of the world with 18 of them having a per capita income of less than \$1,000. Their lack of direct access to seaborne trade and the dependence on their neighbouring transit economies for transport have raised their transport and transaction costs and resulted in their inherent competitive disadvantages in the trade in merchandise. Such geographical and locational characteristics have therefore acted as a major binding constraint for their economic development, as their economies are particularly vulnerable to poor transport and transit infrastructure, inefficient logistics systems and weak institutions and policies, including in transit countries. High transport and transaction costs therefore constitute important barriers to trade, FDI and economic growth for these countries.

In this light, the services sector has emerged as the largest segment of the economy, contributing a growing share to GDP, trade and employment,

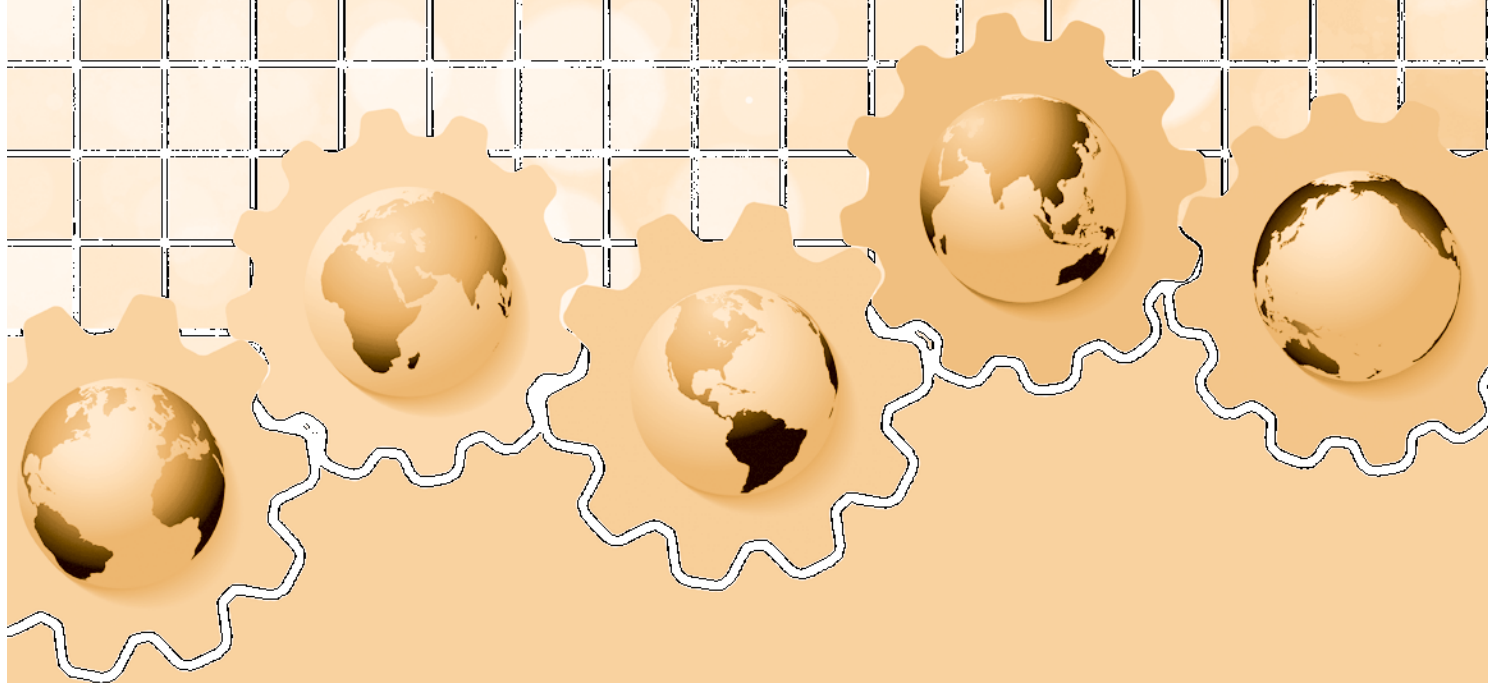
including for landlocked developing countries. For them as a group, services represent 47 per cent of GDP (2008–2010 average), with the highest being Moldova (68 per cent), followed by the former Yugoslav Republic of Macedonia (60 per cent), Lesotho (58 per cent), Kazakhstan (54 per cent), Malawi (54 per cent) and Paraguay (54 per cent). As many landlocked developing countries tend to be characterized by limited productive capacities and rely on a few bulky primary agricultural and mining commodities, the importance of services in their export basket remains relatively modest. Exports of services account for 11.5 per cent of total exports (2009–2010 average) for these countries as a group, lower than the world average (19.0 per cent) or the average for developing countries (13.9 per cent). Individually, however, services are important for foreign exchange earnings, particularly for Rwanda (57.8 per cent), Ethiopia (51.8 per cent), Nepal (44.2 per cent), Burundi (43.5 per cent) and Armenia (41.7 per cent).

Given their relatively low productive capacity in services, landlocked developing countries accounted for a meagre 0.78 per cent of global exports of services in 2012. However, this share has been steadily rising since 1990. Exports of services from these countries grew at an average annual growth rate of 15 per cent between 2000 and 2012, faster than the world average (10.6 per cent) or that of developing countries (13.4 per cent). The fastest growing countries per annum are Burundi (36 per cent), Kyrgyzstan (31 per cent), Azerbaijan (25 per cent), Burkina Faso (24 per cent) and Rwanda (22 per cent). Some of these economies expanded their export capacity in the

traditional service sectors of transport and travel, often associated with their merchandise exports. Others, however, appear to have developed some capacity in the export of modern business and infrastructure services.

Development of an efficient and competitive services economy and the trade in services, especially infrastructure services – telecommunications, transport, energy and financial – could significantly improve the economic outlook for these economies. They could critically improve their major development bottlenecks, namely inadequate transport,

telecommunications and energy infrastructure and inefficient transit systems. Landlocked developing countries could also prove capable of developing alternative areas of dynamic comparative advantage, such as modern business services, for which distance and physical conditions matter less and which present more promising prospects for catalysing economy-wide growth, job creation and broader social development. Harnessing such gains would require building productive capacity and competitiveness, including through adequate national policies and regulations.



Expanding the participation
of developing countries in
world services trade

III

Notwithstanding enormous opportunities for inclusive and sustainable development represented by services and the trade in services, such benefits are still to be harvested by most developing and least developed countries. Being net importers of services and yet to build export capacity in most service sectors, they face the challenges of building and expanding productive and trade capacities in promising services. Their exports of services also face various barriers in their trading partners. This may partly explain why the visibility of the services sector is lower than other sectors in these countries. Some steps that could be considered to address these issues are set out below.

Increasing advocacy and awareness of the role of services and the trade in services in development

As an emerging sector in developing and least developed countries, services are not yet given as much attention as the agriculture and manufacturing sectors in terms of government support, including access to incentives, such as export credit and policies encouraging employment in services. Hence advocacy and awareness-raising at government level and in the private sector is key to enhancing the contribution of the sector to growth and development. Multi-stakeholder consultations and internal coordination are seen as particularly important, as the services sector often falls under multiple ministerial competences. Building a partnership between the public and private sectors is also necessary to synergize national efforts to promote the development of the services sector. UNCTAD provides a unique forum to deepen the understanding of the sector and to mobilize cooperation at international and national levels, including through the Global Services Forum successfully launched at UNCTAD XIII in April 2012 in Doha (see box 4).

Building supply capacity in infrastructure and business services

An important feature of today's global trade in services is the prominence of services associated with the trade of intermediate products within international supply chains, typically including infrastructure services (i.e. transport, telecommunications, energy and financial services) and various business services. Among these services, exports of transport, telecommunications, energy and financial services accounted for one third of global exports of services.³⁰ UNCTAD analysis shows that developing countries, including LDCs, are generally weak in exporting these infrastructure services which are capital- and knowledge-intensive and contain a high level of value added. Only a few developing economies have so far managed to become a major exporter in one or two sectors (Kuwait in telecommunications, Singapore and Hong Kong, China, in transportation and financial services and the Republic of Korea in transportation).

Business services (e.g. legal, accounting, management consulting, database, computer services, etc.) are key elements of many global supply chains. The relevance of global supply chains for developing countries stems largely from the availability of skills and talent that can carry out these business services at lower cost than elsewhere. Thus, the participation in global supply chains by developing countries and SMEs more generally and which policies are suitable for containing or promoting such participation (depending on whether one stands to lose or gain from such an evolution) have become important new areas of focus for policy analysis.

Building up capacity in supplying these services providing infrastructure and intermediate inputs is therefore imperative for developing countries and LDCs. In the process of building up these service sectors, countries may consider importing these

Box 4. Strengthening understanding of and partnerships in services

The private sector and public advocacy and awareness-raising are key to mobilizing policy attention and resources to boost the contribution of the services sector to growth and development. It is therefore important to enhance networks among national and regional services coalitions and associations and promote all forms of partnership and cooperative frameworks on services involving the private sector, the service industries, government, researchers and civil society. It was this concern that led participants at the inaugural Global Services Forum during UNCTAD XIII to institutionalize the Forum as a unique platform for mobilizing international cooperation and partnership relating to the services sector. No comparable intergovernmental forum on services existed on a global scale that brought together a range of stakeholders. An important step was taken at the Forum through the launching of the Arab Coalition of Services Industries (ACSI), which was conceived and proposed at the initiative of the Arab private sector and UNCTAD.

Source: TD/473 and TD/B/59/5.

services through opening their domestic markets to FDI. Conditions, such as local content, domestic employment, infrastructure building and transfer of technology, can be attached to such FDI. With the search for national policies and strategies for inclusive and sustainable development becoming a central policy concern for many countries, services policy reviews can be an important instrument to help countries formulate and implement development-focused policy and regulatory frameworks for services. UNCTAD supports developing countries and LDCs in conducting such reviews, which can provide useful guidance for the multi-stakeholder consultative process to improve policy, regulatory and institutional frameworks, strengthen supply capacity and identify new development and trade opportunities.³¹

Improving regulatory and institutional frameworks

It has been widely recognized that regulatory and institutional frameworks, particularly in infrastructures services such as telecommunications, transport, financial services, energy and water services, are essential in ensuring the proper functioning of the services sector, as exemplified by the latest financial crisis and the ongoing financial regulatory reform in major countries and at the international level. Findings from research work undertaken by UNCTAD and from intergovernmental deliberations in multi-year expert meetings on services, trade and development suggest that a diversity of regulatory and institutional models exist across countries and there is no “one-size-fits-all” model. Countries must design and implement their regulatory and institutional frameworks in line with their specific situation. Attention needs to be paid to several factors relevant to the establishment of such regulatory and institutional frameworks:

- (a) Regulations governing infrastructure services need to be embedded in comprehensive and

integrated economic and sectoral development policies and strategies. An integrated approach building coherence between regulatory and institutional frameworks and other policies, including sectoral development planning, social, trade and investment policies, competition, consumer protection and environmental considerations, has become increasingly necessary in order to harness the developmental gains from developing infrastructure service sectors;

- (b) Adaptive leadership is a key requirement for successful regulators in fast-changing economic, social and technological environments, i.e. regulation should evolve with these changes, as demonstrated by the evolution of regulation in the telecommunications sector, where regulatory reform stemming from technological change has promoted the development of the sector and new challenges of technology convergence now need to be addressed by regulation;
- (c) There is a need to improve the quality of regulation in order to achieve best practice in regulating infrastructure services, for example via impact assessments and cost-benefit analyses aimed at “smart regulation”;
- (d) Good regulatory frameworks are necessary to help identify efficient investment projects via cost-benefit analysis, including private-public partnerships to address the huge investment gaps in infrastructure sectors and drive economic growth;
- (e) Several factors, including transparency in regulatory decision-making, budgetary

Box 5. Strengthening understanding of and partnerships in services

In an effort to transform the country from an economy based on agriculture into a modern knowledge-based economy, Uganda has been seeking to develop its national services development strategies. At its request, UNCTAD conducted a services policy review for the country in 2010 with a focus on the insurance, legal, accounting, construction and engineering, tourism and communications sectors. The review assessed the state of the services sectors concerned and relevant policies and regulations, identified existing bottlenecks in building up supply and export capacity and recommended policies emerging through multi-stakeholder consultations to enhance these capacities and increase associated development benefits for the country, including through regulatory, institutional and trade policy reforms. The second phase of the review is now under way, addressing distribution services, ICT and computer and related services and services auxiliary to all modes of transport.

Source: *Uganda National Services Policy Review (UNCTAD/DITC/TNCD/2010/1)*.

- separation of a regulator from the Government, explicitly legislated regulatory duties, qualified regulatory staff and rigour in economic analysis are indispensable in maintaining a regulator's independence, which in turn enables the regulator to be credible, efficient and effective;
- (f) Sound competition policy is central to developing competitive infrastructure services, especially in competitive segments of the market and for the promotion of consumer interests. Clarity of roles and coherence between sector regulators and competition authorities will avoid duplication and conflicts and enhance implementation, as the relationship between sector regulation and competition is close and intricate.

Enhancing market access for services exports through multilateral trade negotiations

There is a big potential for expansion in the export of services from developing countries if market access can be improved in the sectors and modes of their export interest through negotiations in the Doha Round, in line with the development objectives of GATS on increasing the participation of developing countries in the international trade in services.³³ Compared with the liberalization of the trade in goods, the liberalization of the trade in services in the WTO has a shorter history and therefore there is a longer way to go to reach the equivalent level of liberalization. Although in reality markets are more open in relation to the trade in services than is indicated by the commitments undertaken by WTO members, various border and regulatory measures, including those relating to qualification and technical standards, the establishment of companies and the temporary movement of natural persons, can still act as complex constraints to trade. Some of them may, however, be intended for legitimate national policy objectives (e.g., consumer and environmental protection). As these measures cannot be simply eliminated and despite the complexity of this process, regulatory harmonization and cooperation between importing and exporting countries, such as mutual recognition and equivalence, is required and it is desirable to minimize the negative and trade-distortionary effects.

The Doha Round is intended to raise the level of liberalization of the trade in services on the basis of the achievements made during the Uruguay Round, concluded in 1994. Developing countries are concerned over the lack of value added in areas of interest to

them, such as the cross-border supply of services to facilitate outsourcing and the temporary movement of natural persons (mode 4). The development and spread of information and communications technology has allowed for an increasing trade in services to take place through mode 1 (cross-border supply). The gains for developing countries could be significant, as export earnings derived from outsourcing are often accompanied by a number of related advantages, including FDI, human capital formation and knowledge spillover. Barriers to outsourcing include requiring service suppliers to establish a commercial presence in order to deliver cross-border services, or outright prohibition on outsourcing. Commitments could therefore range from substantial liberalization to binding existing liberalization regimes.

Mode 4 remains more restricted than other modes of services delivery owing to concern over the implications for labour markets. Many countries allow for the entry of highly skilled labour such as transfers within corporations, while limiting entry for lower-skilled labour, for which developing countries and LDCs have sought an opening. Effective market access for services supplied through mode 4 could be provided through increased labour quotas, removing economic means tests, or setting clear criteria for such tests. Both the quantity and quality of mode 4 commitments continue to be limited in the Doha Round offers, restricting the movement of natural persons at all skill levels. With 93 per cent of global migrant stock being economic migrants, including suppliers of services, liberalizing mode 4 can be a win-win situation for both developed and developing countries.³⁴ Estimated development gains for developing countries from opening the OECD labour markets by 3 per cent will be over \$150 billion.³⁵ A strong, commercially meaningful outcome in mode 4 will therefore have huge potential spillover benefits for both developed and developing countries and LDCs.

The international community has set an ambitious target in the Programme of Action for the Least Developed Countries for the Decade 2011–2020 (Istanbul Programme of Action) that half of the LDCs should be able to graduate out of the category by 2020 and the share of LDCs in global exports should double by 2020. To achieve those targets, preferential market access for services exports from LDCs is as important as duty-free and quota-free treatment for their exports of goods. With the adoption of the waiver decision at the eighth WTO Ministerial Conference in December 2011, WTO members are able to deviate from their most-favoured nation obligations so as to

give preference to services exports from LDCs. This mechanism will become commercially meaningful to LDCs only when the substance of preferences given to them covers sectors and modes of export interest to them, especially in mode 4 (including low- and medium-skilled services providers), an area in which all LDCs have expressed a keen interest. Meanwhile it is important to ensure that preferences given to LDCs should be in addition to most-favoured nation treatment so as not to raise barriers for other developing countries.

Some 18 WTO members are engaged in discussions aimed at a plurilateral international services agreement. The possible agreement is expected to build upon the achievement of GATS and capture a substantial part of the liberalization achieved under regional trade agreements (RTAs) on services. The outcomes are expected to be “brought into the multilateral system” although how this may be done remains uncertain. The agreement is expected to be comprehensive in scope, including substantial sectoral coverage, with no a priori exclusion of any sector or mode of supply, and to include market access commitments that correspond as closely as possible to levels of market access conditions that are applied in practice. Existing analysis suggests an increase in bilateral exports among the participating countries of \$78 billion.³⁶ Whether such gains materialize depends on real economic conditions and the extent to which liberalization goes beyond the status quo.

The relationship of such an agreement with the multilateral trading system appears to be a key question in terms of whether the results are extended to non-participating WTO members. It is argued that the liberalization of services resulting from this approach will be extended to non-participating countries through (a) rules of origin which are usually more relaxed for services based on the notion of “substantial business operations” than for goods based on the notion of “substantial transformation” and (b) de facto non-discriminatory application of the regulatory measures, as it is difficult to discriminate between firms when applying regulations.³⁷ Nevertheless, developing countries in general do not have a strong capacity to make investments in the countries which are parties to this plurilateral agreement to take advantage of these “relaxed rules of origin”, because their major export interest is in modes 1 and 4. Moreover, the seemingly difficult application of regulations behind the border on a discriminatory basis does not prevent the Governments of parties to the agreement from imposing discretionary measures unfavourable

to exports from non-Parties, as exemplified by differentiated visa requirements and procedures and differentiated recognition of professional qualifications and of home country regulation of financial institutions. This approach may also entail the risk that services will be left aside in the Doha Round. In other words, if the Doha Round is revived, there will be less willingness from the parties to the plurilateral services agreement to improve their current revised offer. Such prospects will not only tilt the balance inherent in the single undertaking package in the Doha Round negotiations, but also deprive developing countries of the potential benefits, even if they are ultimately considered small, from liberalization of services in the Doha Round. Beyond that, services and agriculture were the only two built-in items from the Uruguay Round. Advancing one of these could tilt the balance of the single undertaking.

Strengthening regional integration in services

An increasing number of RTAs include a services component and the regional integration of service economies. As of May 2012, 102 RTAs in force that are notified to the WTO cover the trade in services, compared with only 5 covering the trade in services in 1995. Today, all major economies are involved in such agreements such that countries which are parties to RTAs account for more than 80 per cent of the global trade in services.³⁸

Often driven by the desire to support a trading environment that is duty-free and free of non-tariff barriers (NTBs) in order to facilitate global value chains, recent new-generation RTAs have become deeper and more comprehensive, going beyond WTO to cover behind the border regulatory measures, including services, investment, competition policy, capital movement, intellectual property rights and government procurement. Large-scale and “high-standard” agreements are emerging, such as the Trans-Pacific Partnership Agreement, which might turn into an agreement between all the members of the Asia-Pacific Cooperation (APEC) to establish a free trade area in the Asia-Pacific region, the transatlantic agreement between the European Union and the United States proposed for 2014 and a tripartite free trade agreement (FTA) between China, Japan and the Republic of Korea. Developing countries are increasingly exploring South-South regional integration to promote economies of scale, diversification and resilience, including in the area of the trade in services. “Developmental integration” could bring substantial gains, combining trade liberalization with regulatory and development cooperation, including in the areas of common infrastructure development, transport

Box 6. Trans-Pacific Partnership Agreement

The Trans-Pacific Partnership Agreement is being negotiated between Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore, the United States and Viet Nam, with the possible participation of Canada, Japan and Mexico. It will create a regional market with a combined GDP of \$27 trillion and hopefully reduce the existing “spaghetti bowl” of some 47 pre-existing bilateral FTAs. Comprehensive in scope, its expected 26 chapters would cover goods, services, investment, intellectual property rights, labour and the environment and achieve a high level of regulatory harmonization, promoting SMEs and innovative products and services, including digital technologies, and disciplining State-owned enterprises (e.g., so that they operate based on commercial considerations and regulations do not favour them). The agreement would set cutting-edge disciplines, including building upon APEC principles, such as the one prohibiting local presence requirements for companies engaged in the trade in cross-border services. The agreement is aimed at strengthening (a) regulatory coherence to eliminate NTBs and make regulatory systems more compatible and transparent; (b) competitiveness and connectivity, including through supply chain management, trade facilitation and border procedures and (c) SMEs, given their importance for business and job creation. The partnership has the potential to catalyse the formation of a pan-Pacific free trade area. It is projected to yield annual global income gains of \$295 billion, and offers a pathway to a free trade area for the Asia-Pacific region with remarkable potential gains of \$1.9 trillion.

networks and regulatory harmonization (e.g. in the areas of professional qualifications, licences and technical standards), as well as related policies such as competition policies.

UNCTAD analysis shows that more substantial commitments are made under RTAs than under general agreements on trade in services.³⁹ WTO research finds that in modes 1 and 3, RTAs generally go beyond commitments undertaken under GATS and the Doha Round services offers.⁴⁰ Developing countries also undertake more GATS+ commitments in RTAs as their commitments in GATS in general are lower than developed countries. It is argued that RTAs may not be more effective than GATS in terms of promoting reforms as opposed to as a tool for locking in reforms that were already undertaken domestically, because some RTA services commitments may be older reforms that had not yet been consolidated in GATS schedules, while others may represent the scheduling of reforms enacted since the end of the Uruguay Round.⁴¹ However, locking in reforms that were already undertaken domestically through RTAs does have the value of providing certainty and predictability of market access to trading partners. Hence there is merit for developing countries in seeking better market access for their services exports through RTAs.

One feature of RTAs that may be of special interest to developing countries and LDCs is the treatment of the impact of RTA commitments for SMEs as compared to similar GATS commitments. A recent paper focusing on SMEs in the trade in services has indeed emphasized that the gap between the number of commitments for modes delinked from a commercial presence and those linked to a commercial presence is significantly smaller in RTAs than in offers made in the Doha Round. The presumption is that RTAs tend to level the playing field between SMEs and larger

enterprises in that they lead to improvement in market access not only with regard to commercial presence, but also in modes presumably preferred by SMEs (i.e. delinked from a commercial presence).⁴²

Regional trade agreements also provide a framework under which regulatory cooperation can start, especially in relation to cross-border supply and supply of services through mode 4. For example, the APEC business traveller card scheme facilitates the movement of business people by saving them time and effort in applying for individual visas or entry permits each time they wish to travel on business.

When developing countries enter into RTAs with more developed partners, it is imperative that they be allowed to design an adequate scope and speed of market opening under the RTAs. Sustainable development, integrating economic, social and environmental aspects, could be used as an audit for the outcome of RTA negotiations involving developing countries.

South-South cooperation and integration in services is increasing, although it lags behind South-South cooperation in non-services areas. The South-South trade in services is estimated to account for 10 per cent of the global trade in services.⁴³ This implies great potential for cooperation between developing countries. Such cooperation and integration can create opportunities for countries to benefit from a larger market, economies of scale and economic diversification. Furthermore, South-South cooperation has proved to be particularly useful in facilitating broader policy and regulatory coordination to facilitate trade, as well as in pooling resources and building common regional transport networks and infrastructure for closer market connectivity. In addition to regional market integration, an important role could be played by regulatory cooperation and harmonization (including recognition and equivalence).

CONCLUSION

Services contribute to the achievement of the Millennium Development Goals, in particular poverty reduction, by promoting economic growth and creating employment. There is great potential for the growth of trade in services.

The cross-border trade in services shows resilience to economic crises relative to the trade in goods. Since they are indispensable inputs or intermediate services, infrastructure services and core business services increase productivity in the agricultural and manufacturing industries. As the demarcation between manufactures and services is increasingly blurred, services account for major tasks performed and exchanged in global supply chains.

Traditional service exports of tourism and transport from developing countries are decreasing, while exports of modern services, particularly exports related to ICT services are increasing, which create both direct and indirect employment, especially for youth.

While Governments in many developing countries and LDCs incorporate the expansion of exports of services into their post-crisis trade and development strategies, these countries face numerous challenges in exploiting the potential of the trade in services for development.

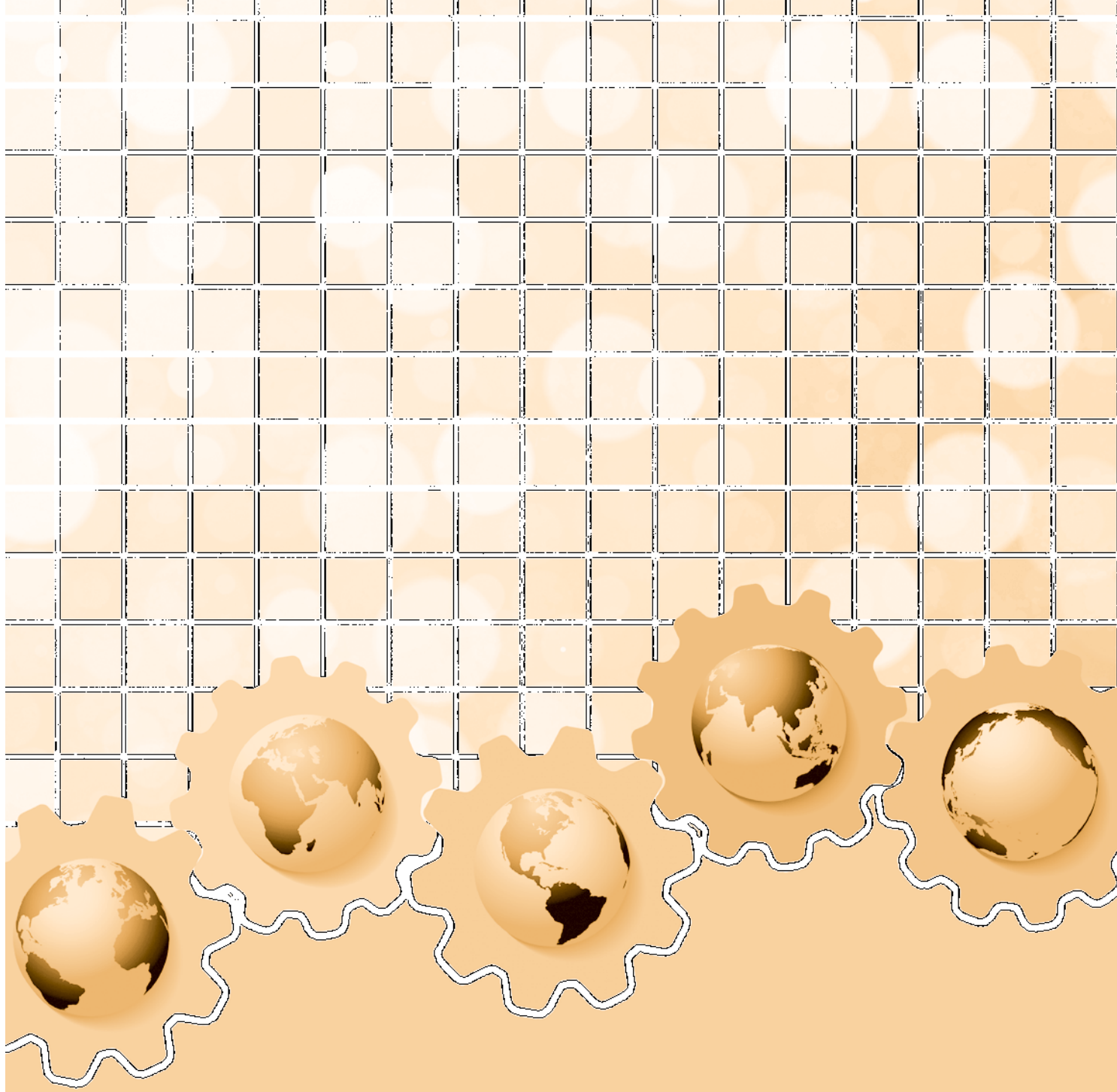
For these countries, building national supply capacity through proper regulatory and institutional frameworks at national level, particularly in infrastructure services and core business services, is imperative.

At the multilateral level, a developmental outcome of the Doha Round negotiations on services will facilitate exports of services from these countries, particularly in modes 1 (cross-border supply) and 4 (presence of natural persons). Liberalizing mode 4 can be a win-win situation for both developed and developing countries, since mode 4 remains more restricted than other modes of services delivery. Regional integration can also be a useful means for developing countries and LDCs to build their capacity to supply services and expand their export of services.

ENDNOTES

- ¹ UNCTADStat.
 - ² ILO Global Employment Trends 2012.
 - ³ UNCTAD data.
 - ⁴ If CIS and non-EU Eastern European countries are included, the employment figure will be 37.8 per cent. At world level, the employment figure is 43.2 per cent in 2009.
 - ⁵ TD/B/C.I/29.
 - ⁶ UNCTAD (2012), *Enabling the Graduation of LDCs: Enhancing the Role of Commodities and Improving Agricultural Productivity*, New York and Geneva.
 - ⁷ TD/B/C.I/MEM.3/8.
 - ⁸ Ghani E and Kharas H (2010). *The service revolution*. Poverty Reduction and Economic Management Network, No. 14. World Bank.
 - ⁹ NASSCOM-Deloitte (2008). *Indian IT/ITES industry: impacting economy and society 2007-2008*. Available at [http://www.deloitte.com/assets/Dcom-India/Local%20Assets/Documents/Nasscom%20Booklet%20Executive%20summary%20fow%20web\(3\).pdf](http://www.deloitte.com/assets/Dcom-India/Local%20Assets/Documents/Nasscom%20Booklet%20Executive%20summary%20fow%20web(3).pdf).
 - ¹⁰ TD/B/C.I/29.
 - ¹¹ Mashayekhi M, Olarreaga M and Porto G. (2011) *Services, trade and development*. UNCTAD, New York and Geneva; UNCTAD (2010). *Services, Development and Trade: the Regulatory and Institutional Dimension of Infrastructure Services*, vols. I and II. New York and Geneva.
 - ¹² Ibid.
 - ¹³ Lodefalk M (2010). *Servicification of manufacturing - evidence from Swedish firm and enterprise group level data*. Working Paper No. 3/2010. Swedish Business School, Örebro University.
 - ¹⁴ Baldwin R and Lopez-Gonzalez J (2013). *Supply-chain trade: a portrait of global patterns*. Working Paper No. 18957. National Bureau of Economic Research.
 - ¹⁵ Miroudot S, Lanz R and Ragoussis A (2009). *Trade in intermediate goods and services*. OECD Trade Policy Working Papers No. 93. OECD Publishing.
 - ¹⁶ Ali-Yrkkö J, et al. (2011), *Who Captures Value in Global Supply Chains?* Discussion Paper No. 1240. Research Institute of the Finnish Economy.
 - ¹⁷ Cooper W H (2010). *Trade in services: the Doha Development Agenda negotiations and U.S. goals*. Congressional Research Service.
 - ¹⁸ UNCTAD (2012). *World Investment Report 2012: Towards a New Generation of Investment Policies*. Annex tables. United Nations publication. Sales No. E.12.II.D.3. New York and Geneva.
 - ¹⁹ Ibid.
 - ²⁰ UNCTAD/DITC/TNCD/2011/8, UNCTAD/DITC/TNCD/2010/8 and TD/B/C.I/EM.4/3, 2011.
 - ²¹ UNWTO (2012). *Tourism Highlights*.
 - ²² UNWTO (2013). *World Tourism Barometer*, vol. 11.
 - ²³ ITC-KPMG (2012). *Bangladesh beckons: an emerging destination for IT/ITES outsourcing*.
 - ²⁴ UNCTADStat.
 - ²⁵ UNCTADStat.
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- ²⁶ Chanda R (2011). Impact of services trade liberalization on employment and people movement in South Asia. Working Paper No. 339. Asian Development Bank Institute.
- ²⁷ UNCTAD (2011). ICT Policy Review Egypt. New York and Geneva.
- ²⁸ ITC-KMPG (2012). Bangladesh beckons: an emerging destination for IT/ITES outsourcing.
- ²⁹ Presentation by Pradeep K. Mukherji, President and Managing Partner, Avasant, India, on 19 April 2012 at the Global Services Forum in Doha.
- ³⁰ TD/B/C.I/MEM.3/11.
- ³¹ See, for example, National Services Policy Reviews of Uganda, Kyrgyzstan and Nepal (UNCTAD/DITC/TNCD/2010/1, 2 and 3).
- ³² UNCTAD, Services, Development and Trade: the Regulatory and Institutional Dimension of Infrastructure Services, vols. I and II. See also background notes and reports of the UNCTAD multi-year expert meeting on the regulatory and institutional dimension of services, development and trade, e.g. TD/B/C.I/MEM.3/11 and 12.
- ³³ For a discussion of the development implications of evolving international trading systems, see for instance, TD/B/59/5 and A/67/184.
- ³⁴ UNCTAD/DITC/TNCD/2011/8, UNCTAD/DITC/TNCD/2010/8 and TD/B/C.I/EM.4/3, 2011.
- ³⁵ Winters A et al. (2002). Negotiating the liberalization of the temporary movement of natural persons. Commonwealth Secretariat. See also, Iregui A M (2003). Efficiency gains from the elimination of global restrictions on labour mobility. Discussion Paper No. 2003/27. United Nations University/World Institute for Development Economics Research.
- ³⁶ Hufbauer G. C. et. al. (2012). Framework for the international services agreement. Policy Brief No. 12-10. Peterson Institute for International Economics.
- ³⁷ Ibid.
- ³⁸ Stephenson S and Robert M (2011). Evaluating the contributions of regional trade agreements to governance of services trade. Working Paper No. 307. Asian Development Bank Institute.
- ³⁹ A/66/185.
- ⁴⁰ Roy M (2011). services commitments in preferential trade agreements: an expanded dataset. Staff Working Paper No. ERSD-2011-18. WTO.
- ⁴¹ VanGrasstek, C (2011). The political economy of services in regional trade agreements. OECD Trade Policy Working Paper No. 112. OECD Publishing.
- ⁴² Adlung R and Soprana M (2012). SMEs in services trade - a GATS perspective. Staff Working Paper No. ERSD-2012-09. WTO.
- ⁴³ See A/66/185.



ANNEX:
Facts and figures in detail

Global services exports reached \$4.4 trillion after increasing 2 per cent in 2012.

The services sector accounts for two thirds of world output and slightly less than half of world employment, but only one fifth of world trade in goods and services (figure 1, figure 2 and figure 3).

Services comprise a significantly larger share of economic activity and employment in developed countries than in developing countries. Yet the services sector in some (though not all) developing countries has been catching up with the developed countries in recent years.

The sector makes up a considerably smaller share of global trade than its share in output and employment.

The possible reasons include:

- Measurement problems: Despite recent efforts to improve statistical methodologies, trade in services remains somewhat elusive form of activity for economists to monitor and record.
- The “non-tradable” nature of certain services activities: Some services are only possible, or at least are more efficient, when the providers are physically close to their clients. In such a case, the service is provided via commercial presence. Indeed, the services sector captures a greater share of foreign direct investment (FDI) inflows (figure 4).

Figure 1. Output share (percentage)

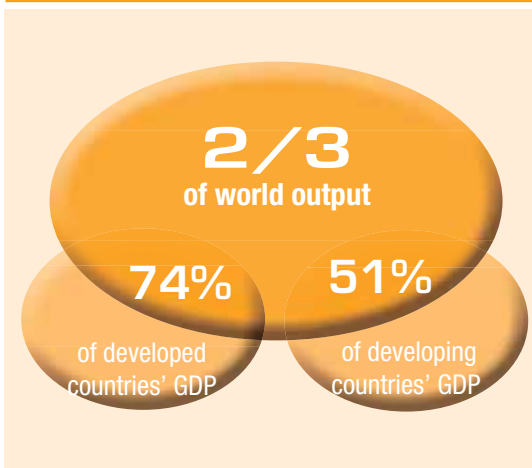


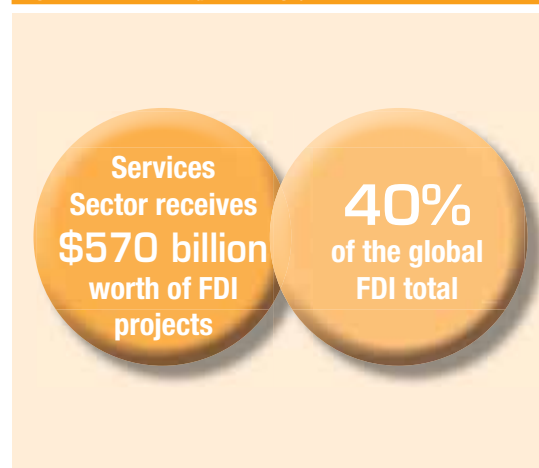
Figure 2. Employment share (percentage)



Figure 3. Trade share (percentage)



Figure 4. FDI share (percentage)



Services sector has been the leading economic activity in the world economy. Moreover, its contribution to GDP has steadily increased in developed countries during the last 40 years (figure 5.a). Throughout this period, the sector registered 17 percentage point increase from 57 per cent in 1970 to 74 per cent in 2011. Services sector exhibited similar upward pattern in DCs until the end of 1990s where it reverted back to stagnation and then to retreat in 2000s.

All different regions of DCs followed more or less similar paths of development in services share in GDP

until the late 1990s where last 15 years exhibited strong share gains for services in all regions (figure 5.b). During the last 10 years, however, DCs of America seem decoupled from the rest of the group. The share of services in GDP had been stagnant in the former group while it has been falling in the latter. As of 2011 DCs of America still hold the greatest share of services in GDP among all DCs while DCs of Asia registered the greatest leap in the sector's share during the last 4 decades, 13 percentage points increase.

Figure 5a. Share of services sector in GDP, 1970-2011 (by development status, percentage)

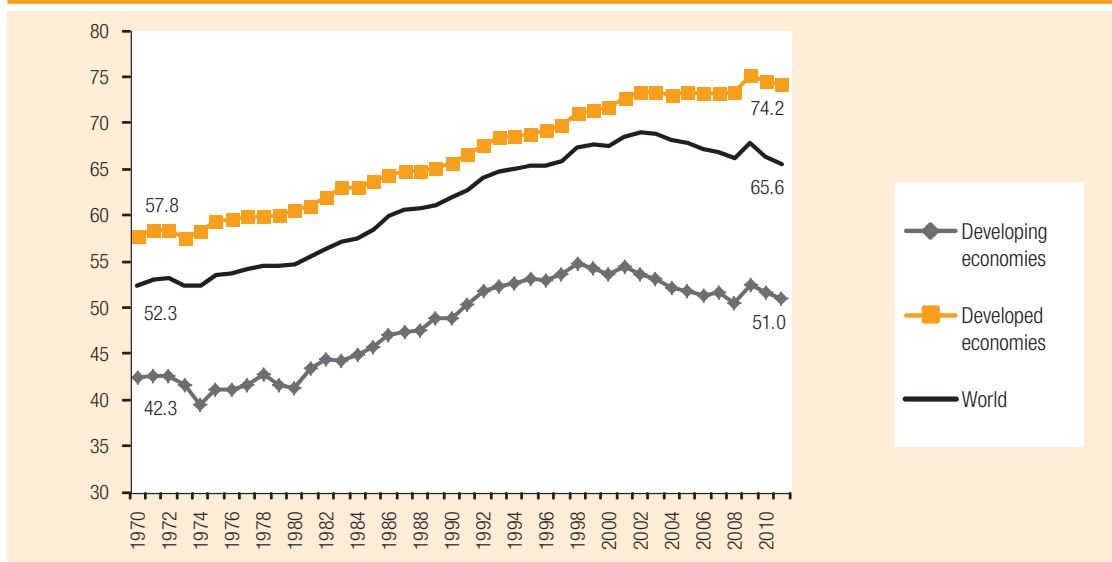
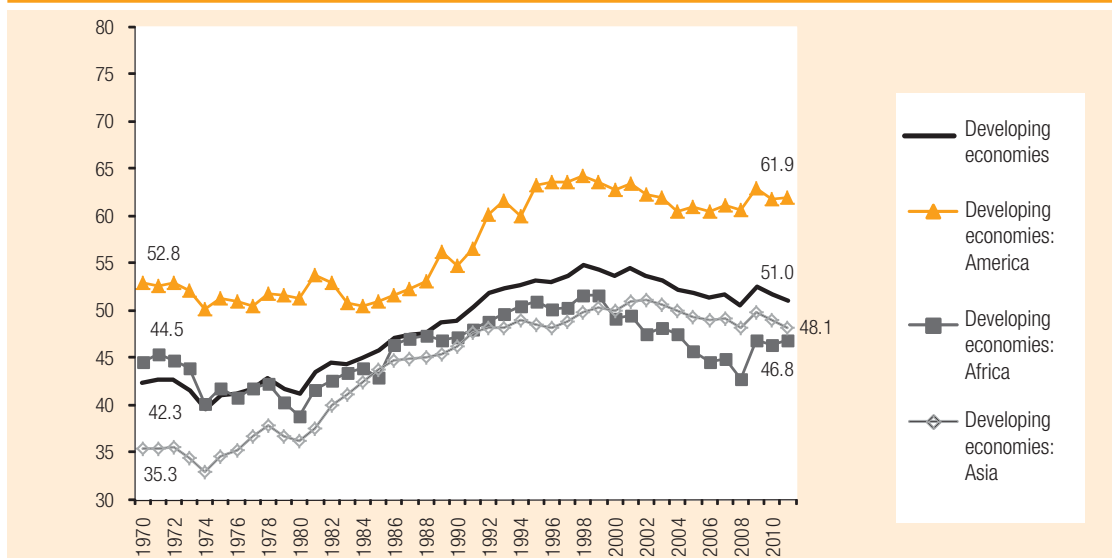


Figure 5b. Share of services sector in GDP, 1970-2011 (developing countries by region, percentage)



In 2012, developing countries conducted 30.4 per cent of global services exports while developed and transition economies captured 66.7 per cent and 2.9 per cent shares, respectively. In the same year, developing, developed and transition economies accounted for 37.3 per cent, 58.8 per cent and 3.9 per cent of world services imports, respectively.

While developed countries continue to be the major services exporter, developing countries of Asia (8 per cent) and America (4 per cent), and the transition economies (7 per cent) led the sector's export growth in 2012.

The share of services in total exports varies across different regions (figure 6). The sector's share increases up to 25 per cent in developed countries of Europe and 26 per cent in developed economies of America. The share falls to as low as 13 per cent in eastern Asian developing countries where manufactured goods exports are very dynamic, and to 12 per cent in developing countries of America where food products play significant role in trade.

In southern Asian developing countries, however, services accounts for 29 per cent of total trade.

Figure 6. Share of goods and services in total trade, 2012 (percentage)



Total world services exports stood at \$4.4 trillion in 2012. DCs accounted for \$1.4 trillion worth of services exports that year.

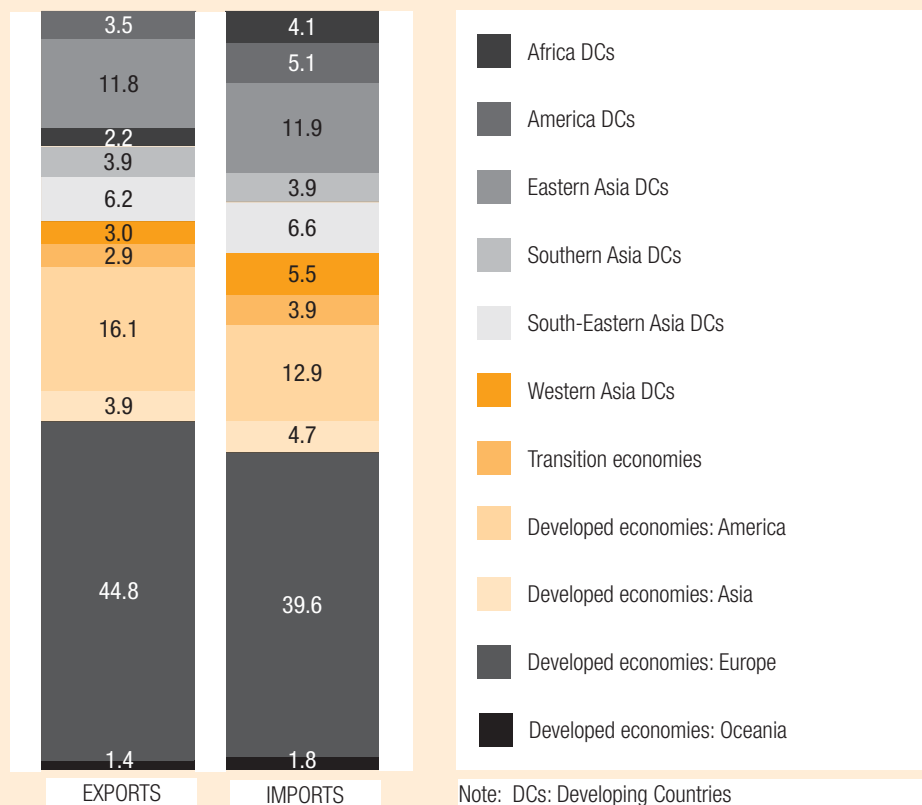
Developed countries are the major services exporters and importers, however developing countries' share in global services trade has been steadily increasing. DCs accounted for about 30.4 per cent of world services exports in 2012, which was significantly higher than their share in 2000 (of around 23 per cent). Nevertheless, most

of this gain was distributed unevenly, as Asian DCs were mainly responsible for the increase (figure 7).

DCs share in imports has increased as well. Their share in total has increased from 27.4 per cent in 2000 to 37.2 per cent in 2012.

East Asian as well as South-East Asian DCs are the major exporters and importers of services among the developing countries.

Figure 7. Distribution of world trade in services, 2012 (by region, percentage)



Many developing countries are suffering from wide trade deficits in service trade (figure 8).

DCs registered a \$248 billion trade deficit in services trade in 2012 which corresponds to around 7.2 per cent of their normalized trade in services (sum of exports and imports).

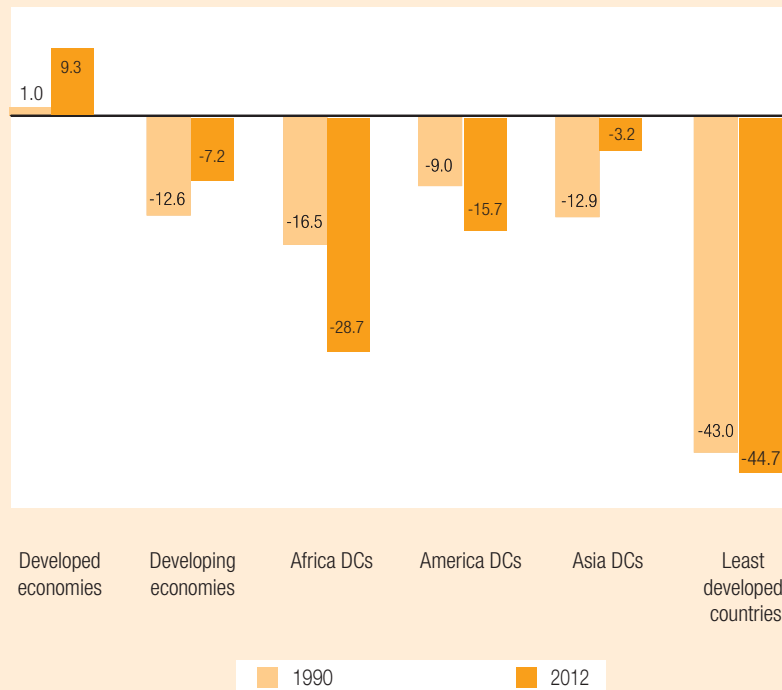
As opposed to merchandise trade, developed countries' trade surplus in services has increased between 1990 and 2012.

Services trade balance as a share of normalized trade

in services has been improving, but unevenly, across DCs. In particular, the balance has been improving in Asian DCs, but not in DCs in Africa or the Americas. The deficit is particularly severe in least developed countries (LDCs) as it reached up to half of the sum of services exports and imports in 2012.

By contrast, DCs in Africa, the Americas and Asia, and LDCs, registered trade surpluses in merchandise trade in 2012. Therefore, policies need to put special emphasis on services trade in order to achieve sustainable current account balances.

Figure 8. Normalized services trade balance, 1990 and 2012 (percentage)

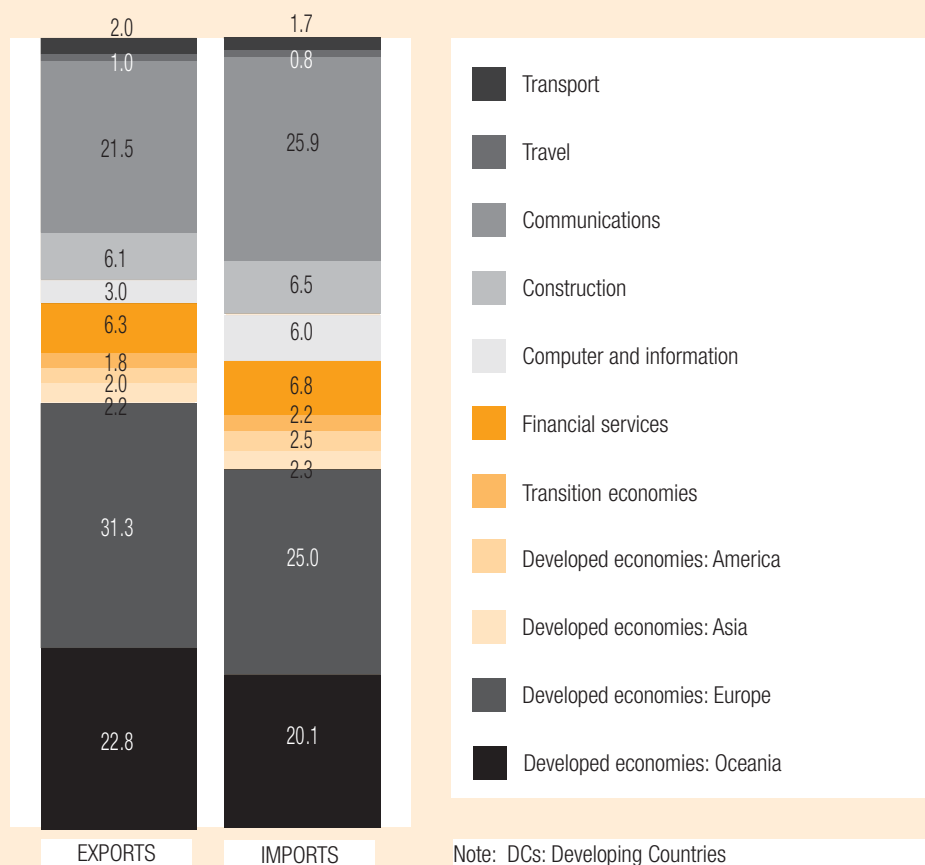


During the last 12 years, the composition of world services trade has changed in favour of other business services, financial services, royalties and licence fees, and computer and information services (figure 9). From 2000 to 2012 the share of other business services has increased by more than 4 percentage points while the share of computer and information services doubled from 3 per cent to 6 per cent. The

three rising sectors are very dynamic and often require highly skilled labour.

The shares of rather traditional services sectors such as travel and transportation has been in decline during the same period. Therefore, positioning a country's trade policies along with global trends and rising dynamic sectors emerges as crucial elements of successful services trade policies.

Figure 9. Distribution of world services exports, 2000 and 2012 (by subcategories, percentage)



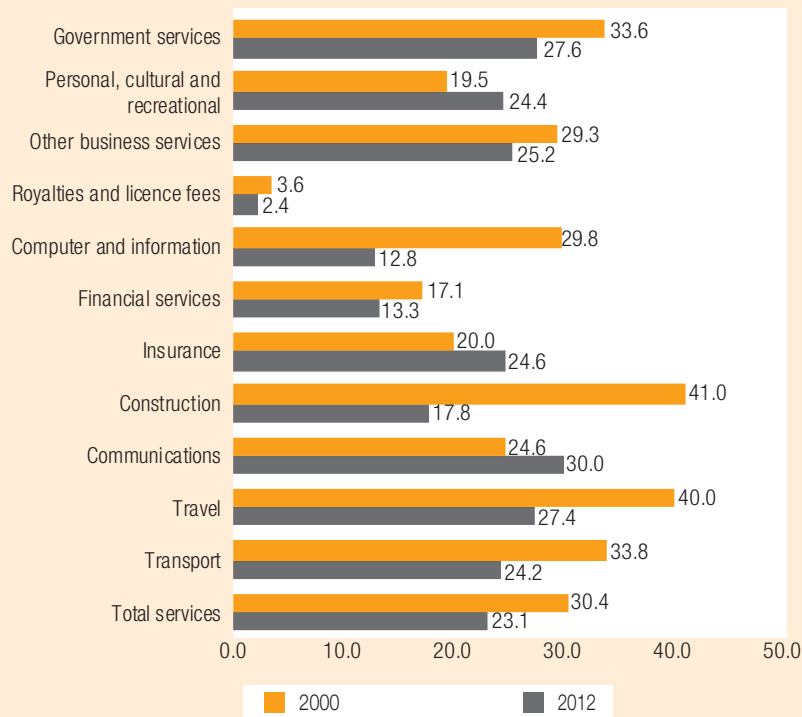
Developing countries are on the way to become the largest services providers in travel, construction as well as computer and information services (figure 10). DCs account for around 31 per cent of world services exports. The share rises to about 40 per cent for the construction and travel services categories.

In most categories – with the notable exception of insurance services, and personal, cultural and

recreational services – DCs strengthened their world market share over the concerned twelve years.

DCs have increased their global share in most of the dynamic services sectors that were mentioned previously (figure 9). The increase is rather evident in other business services, computer and information, and financial services sectors.

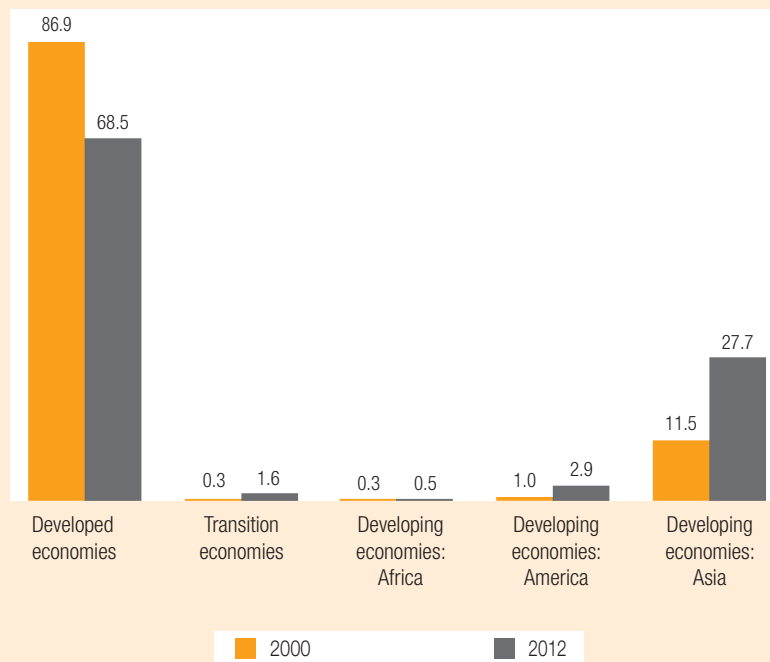
Figure 10. Share of developing countries in world services exports (percentage)



For example, in computer and information services DCs share in world exports has climbed from 14.2 per cent to 30.4 per cent over the past 12-year period, of which 18 per cent of the world total is reported by India.

Nevertheless, developed countries still holds the lion's share in the sector and only some Asian developing countries (India and China) managed to capture a significant market share in computer and information services exports (figure 11).

Figure 11. Distribution of computer and information services exports, 2011 (percentage)



Developed countries are the leading services traders but few developing countries such as China and India are quickly climbing up in the global ranking to become the primary exporter and importer in services (figure 12 and figure 13).

As of 2012, United States, United Kingdom and Germany are among both the major exporters and importers of services.

The leading DC services exporters are China, India, Singapore, and Hong Kong SAR (China). China

registered \$191 billion in services exports in 2012 and positioned itself as the leading services exporter among developing countries and economies in transition.

From 2000 through 2012, China and India registered a 18.3 per cent and a 22.7 per cent annual growth rate in value of services exports respectively.

The leading DC services importers were China, India, Singapore, and the Republic of Korea. China had \$282 billion in services imports in 2012.

Figure 12. Top exporters 2012 (US\$ million)

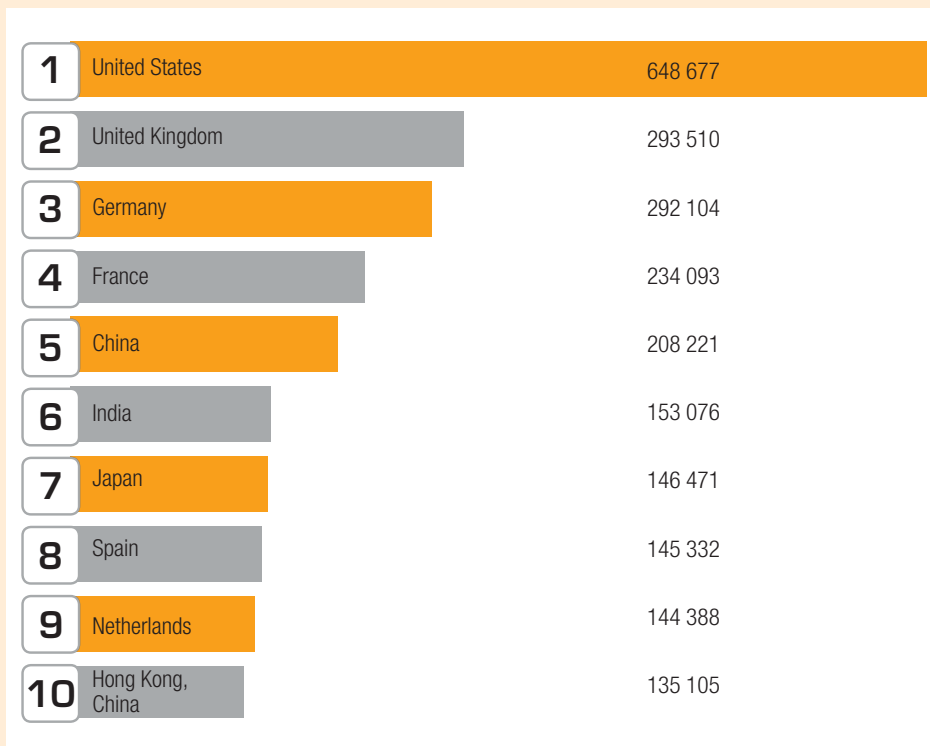


Figure 13. Top importers 2012 (US\$ million)

