

# Key Trends and Relevance of Trade in Services

Apia, 8 May 2023

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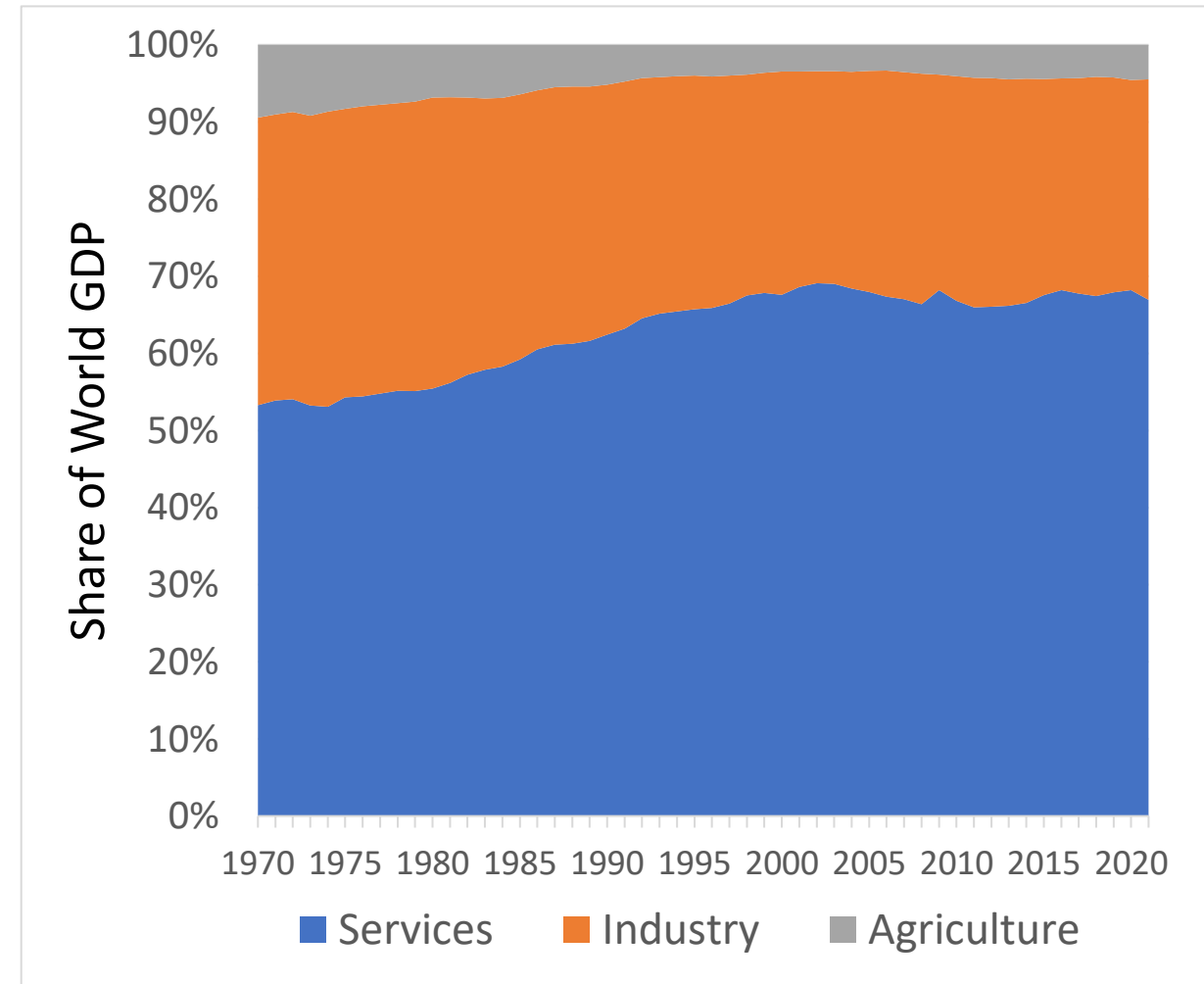
WTO Secretariat



# The Shift Towards Services

- The world economy is experiencing structural shifts placing services and services trade at the heart of economic transformation.
- Once perceived as secondary, services have become critical to development strategies and to participation in the global economy.
- The service sector today generates more jobs and output than any other sector.
- Government policies in relation to services trade are now important determinants of foreign direct investment, economy-wide productivity, and export performance.

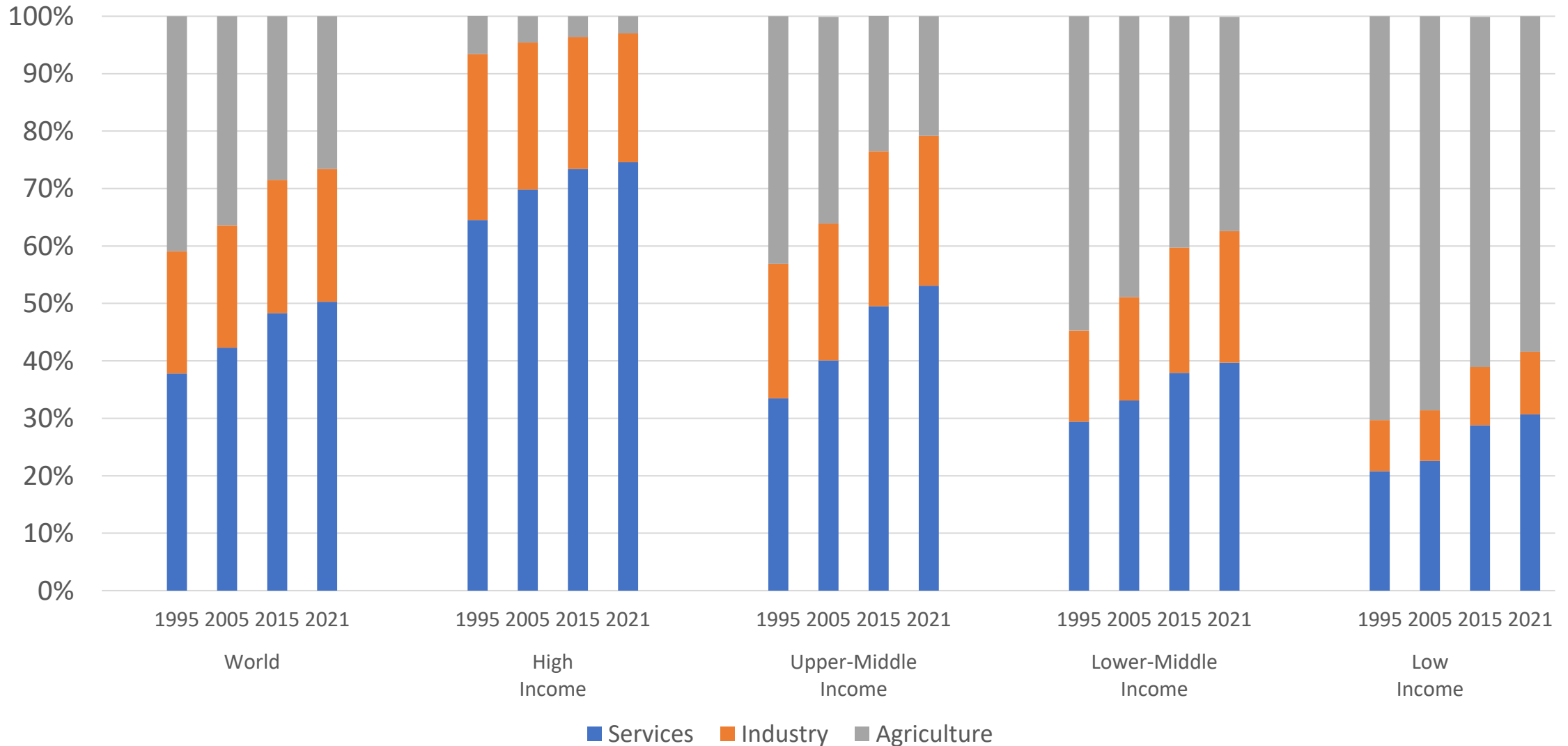
**Structure of GDP, World, 1970-2021**



Source: WTO-WB (2023)

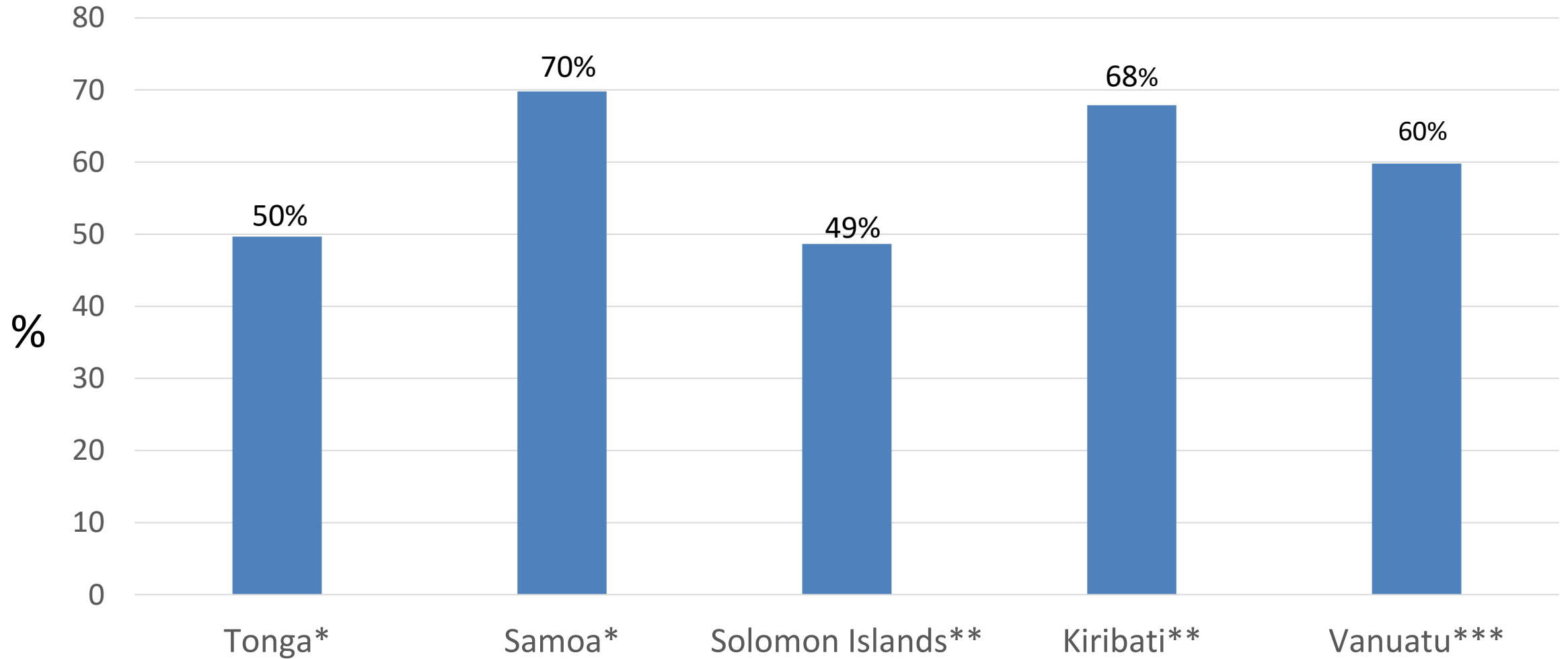
# The Shift Towards Services

**Employment by sector, 1995-2021**



Source: WTO-WB (2023)

# Services value added as % of GDP

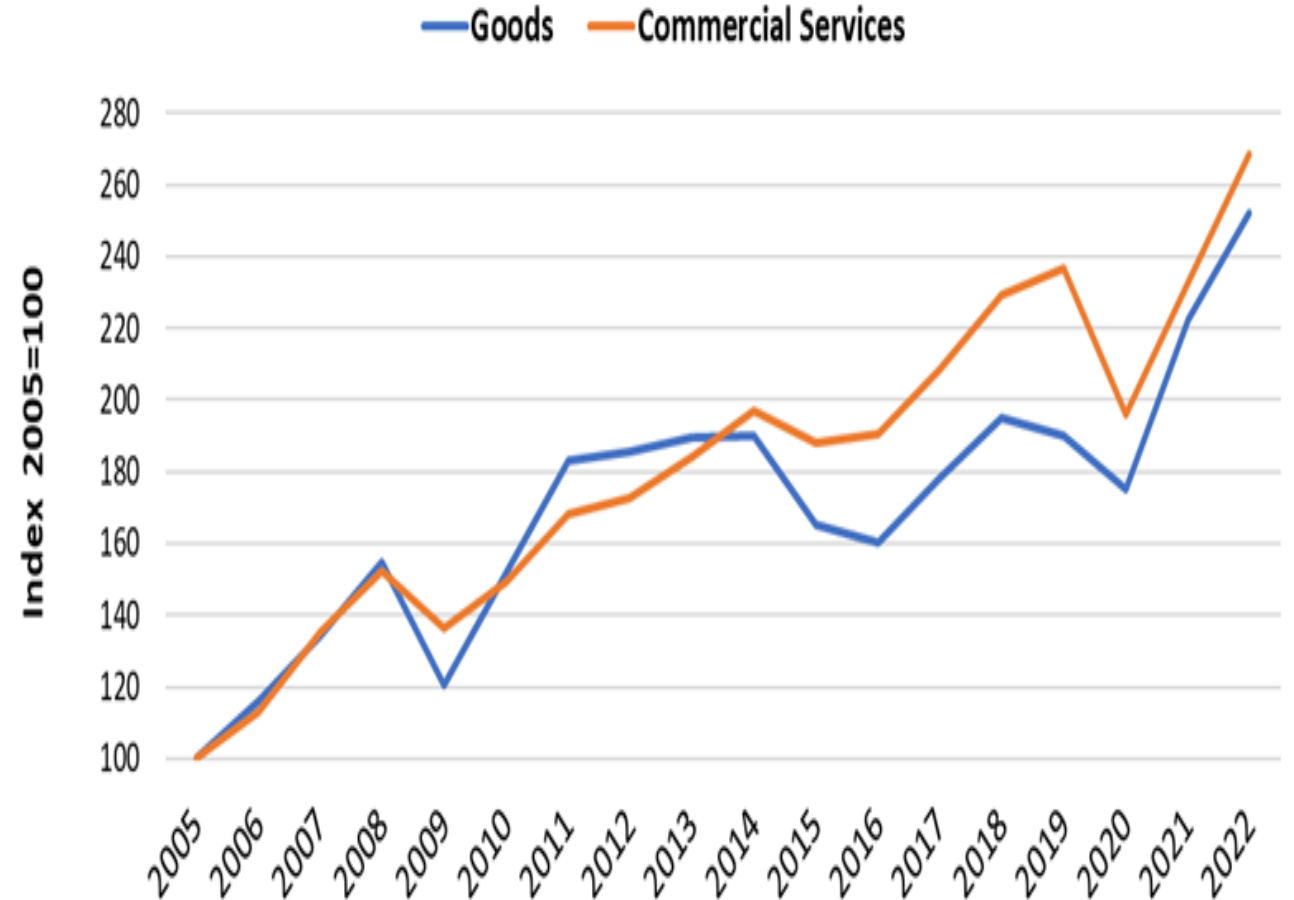


# Services Have Transformed World Trade



- Trade in services has been the most dynamic component of world trade prior to the COVID-19 pandemic.
- Measured on a BOP basis, trade in commercial services expanded at a faster pace than trade in goods between 2011 and 2019.
- The share of services in global trade flows stood at over 22% in 2022, down from 25% in 2019, prior to the pandemic.
- Since 2005, global service exports have almost tripled

**World Export of Goods and Commercial Services, 2005-2022**

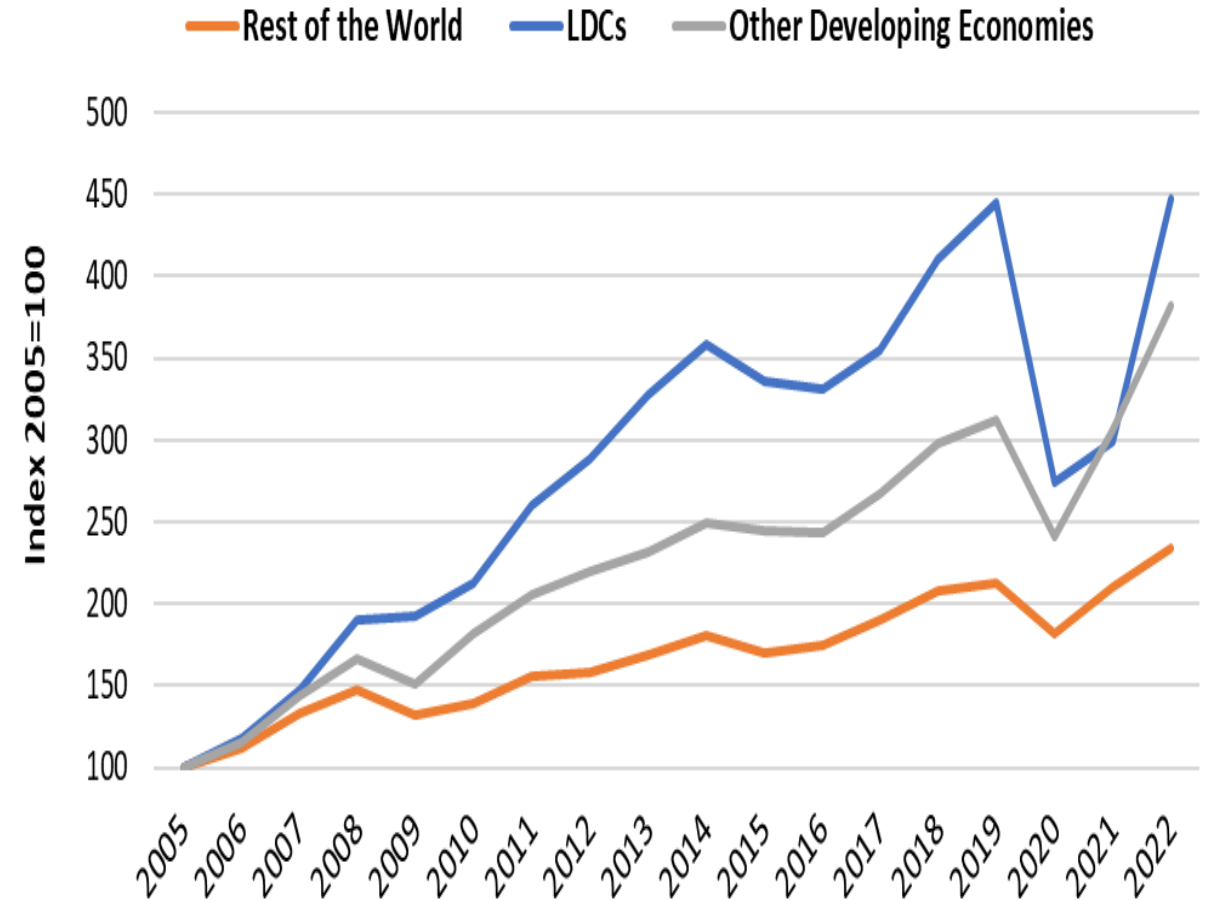




# Services Have Transformed World Trade

- The growth rate of commercial services exports has been stronger in developing and least-developed countries.
- Between 2005 and 2022, the services exports of LDCs more than quadrupled, while those of other developing economies more than tripled.
- As a result, the share of developing economies in world exports increased from 23.5% in 2005 to 33.5% in 2022.
- Despite this, the relative share of LDC services exports remains limited, at less than 1% of global exports.

**Growth in Exports of Commercial Services, 2005-2022**



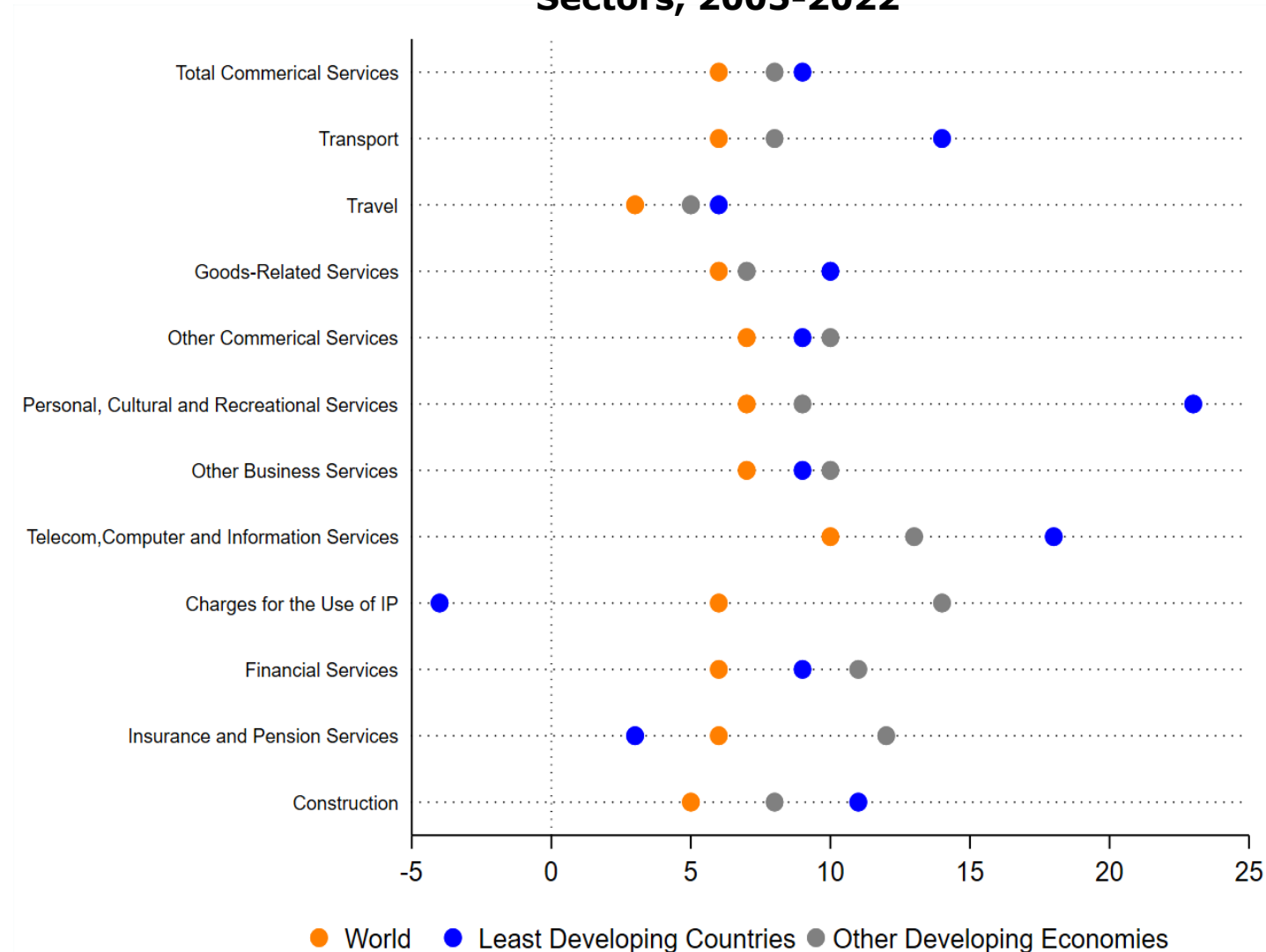
Source: WTO-WB (2023)

# Services Have Transformed World Trade



- The expansion of trade in commercial services was fuelled by advances in information and communications technologies (e.g., Internet), which have boosted opportunities for the remote supply of services.
- Trade has grown more rapidly in less traditional sectors. 'Other commercial services', which include many digitally delivered services, have expanded at a much faster rate than more 'traditional' sectors like transport and travel.
- The expansion of developing economy exports is increasingly tied to less traditional services that can more readily be supplied across borders through digital means.

**Average Annual Growth Rate of Exports in Selected Sectors, 2005-2022**



Source: WTO-WB (2023)

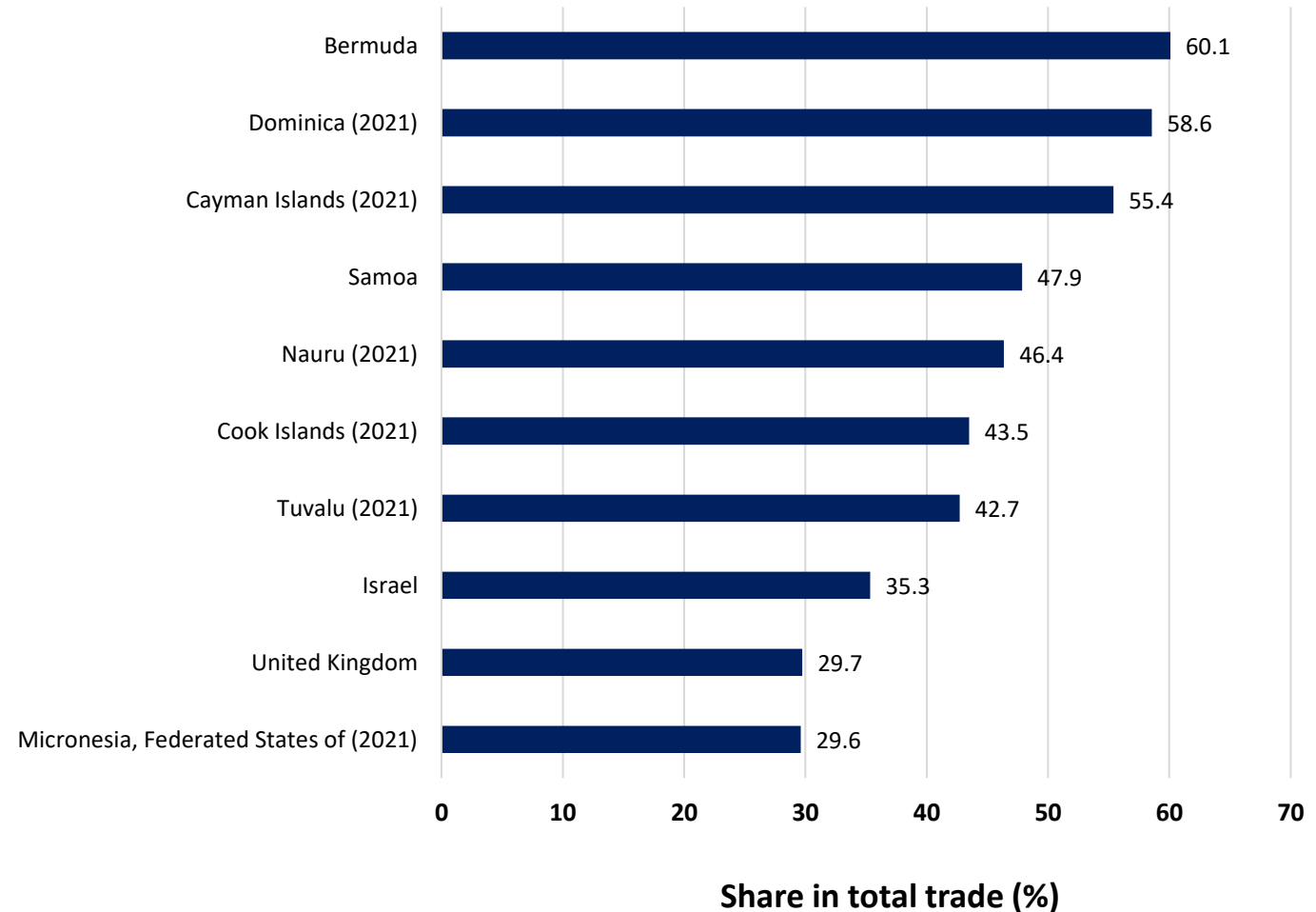
# Services Have Transformed World Trade



- The growth in less traditional services exports has helped to diversify the export baskets of many developing economies.
- For a number of developing economies, ICT, finance, and other business services, which are predominantly delivered digitally cross-border, accounted for over 20% of total exports of goods and services in 2022, as well as before the pandemic in 2019.

**Share of telecommunication, computer and information services, other business services, and finance in total exports of goods and services (2022)**

2022



Source: WTO-WB (2023)

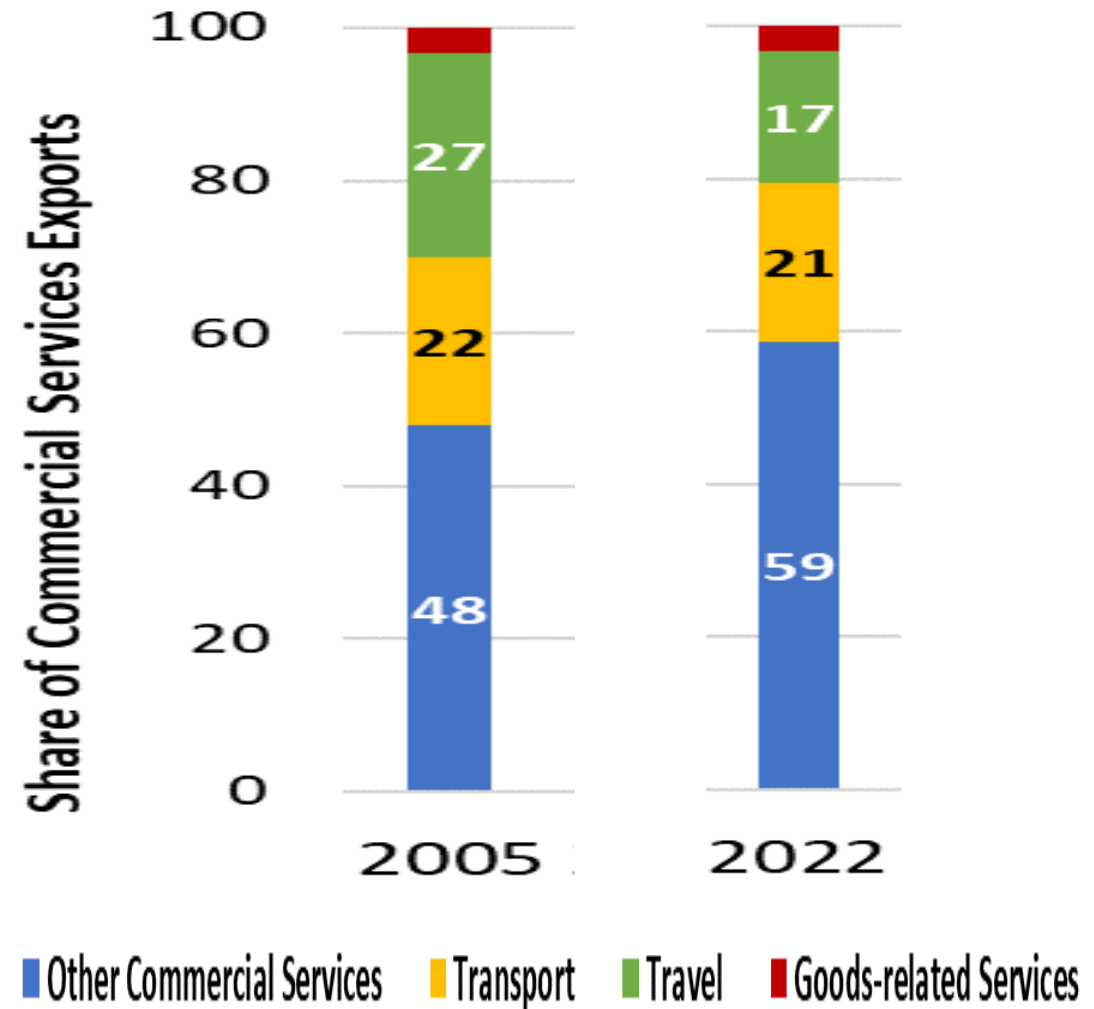


# Services Have Transformed World Trade



- The structure of trade in commercial services has changed significantly.
- The share of 'other commercial services' in world commercial service exports increased from 48% in 2005 to 56% in 2019, and then rose further to 66% in 2021, and then to 59% in 2022.
- For developing economies, including LDCs, changes in the composition of services trade have been pronounced. The share of 'other commercial services' in their total commercial services exports rose from 34% to 48% between 2005 and 2022.
- Developing economies also account for a greater share of world exports in non-traditional sectors. Their share of world exports of 'other commercial services' grew from 17% to 28% between 2005 and 2022.

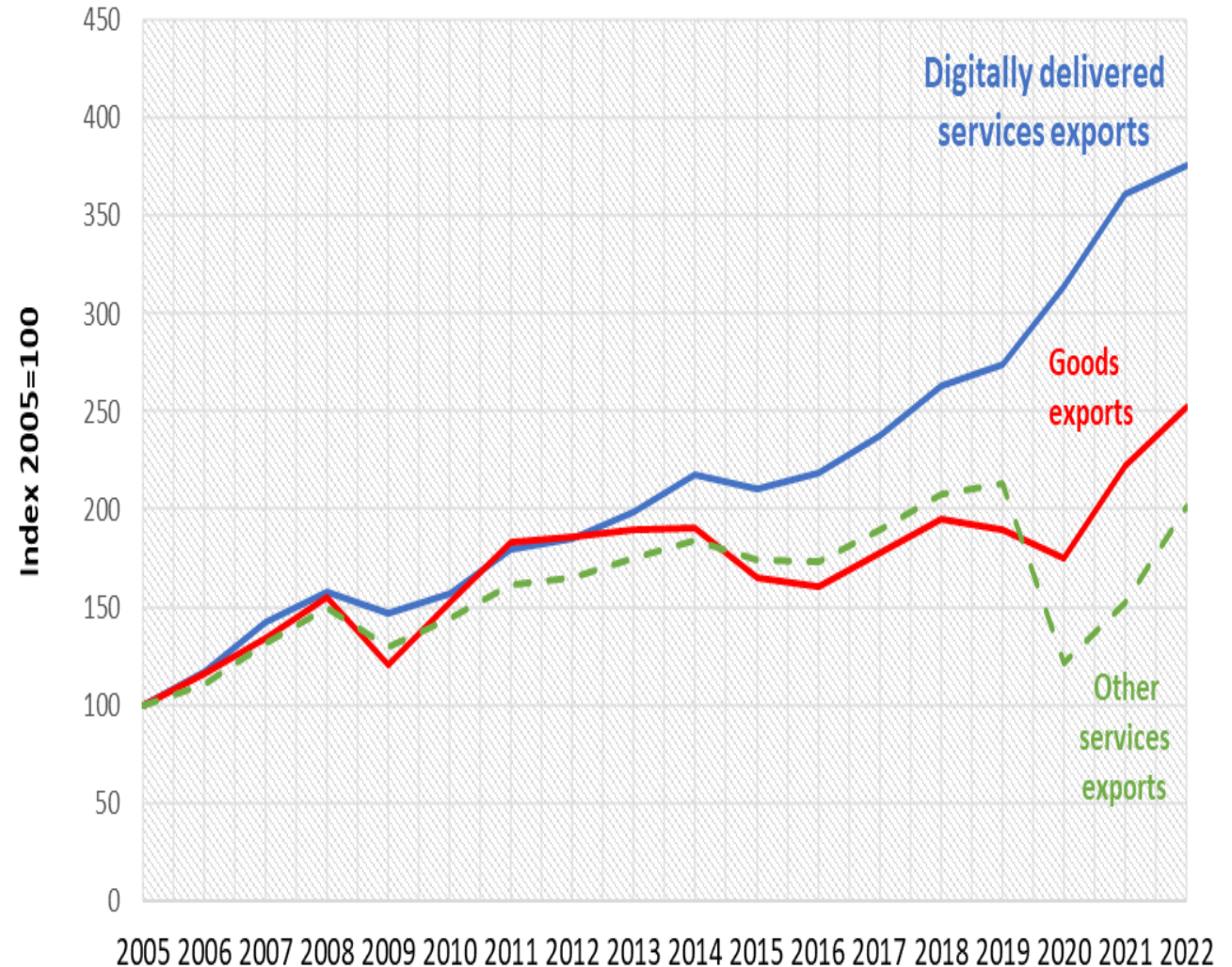
**Structure of Global Exports of Commercial Services, 2005-2022**



# Services Have Transformed World Trade



**Growth of Digitally Delivered Services Exports, 2005-2022**



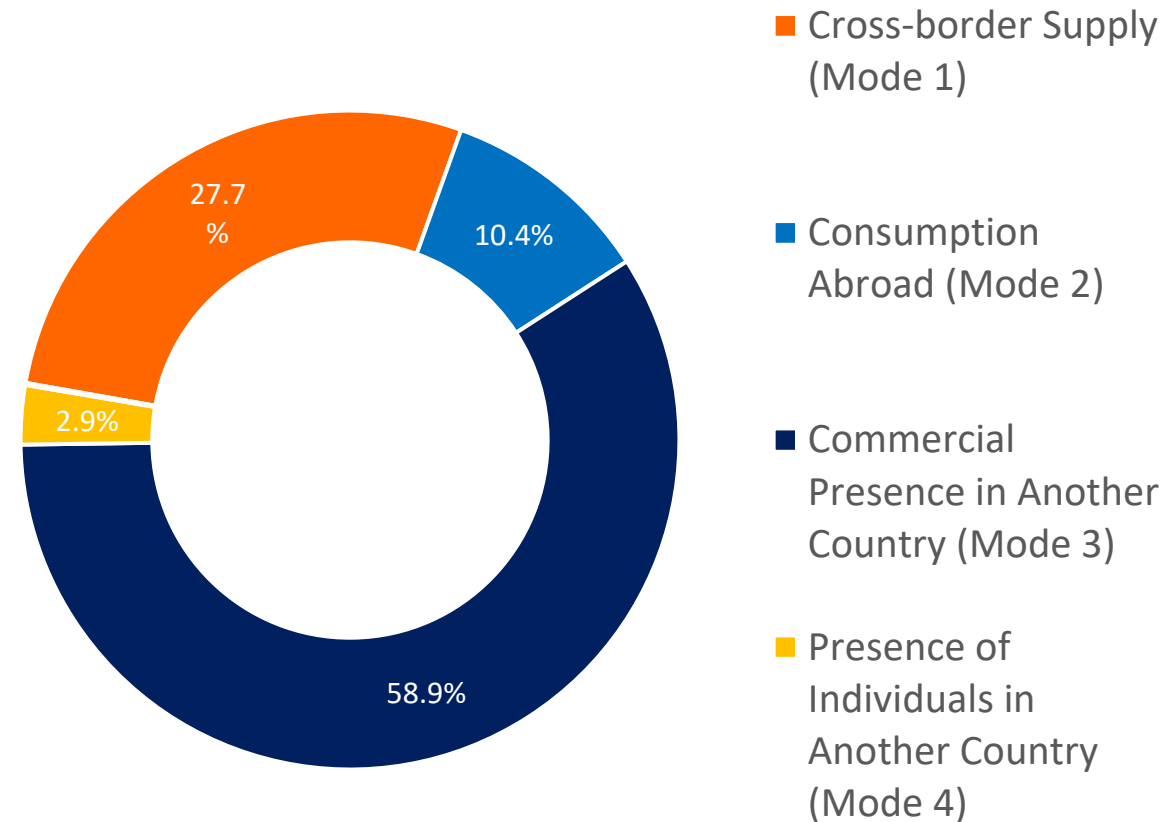
Source: WTO (2023)

- The rapid expansion of services trade, especially of non-traditional services, mirrors the strong recent growth of digitally delivered services.
- Services are central to digital trade not only because a broad range of services can now be supplied online, but because they provide the basic enabling infrastructure for digital supply and e-commerce more generally.
- According to recent WTO estimates, global exports of digitally delivered services more than tripled since 2005, growing 8.1% per year on average during 2005-2022, outpacing the growth of both goods exports (+5.6%) and other services (4.2%).

# Services Have Transformed World Trade

- Trade in services through commercial presence further underscores the sector's weight in the world trading system.
- By taking into account 'Mode 3' (supply through establishment abroad), services' share of world trade increases by 20 percentage points.

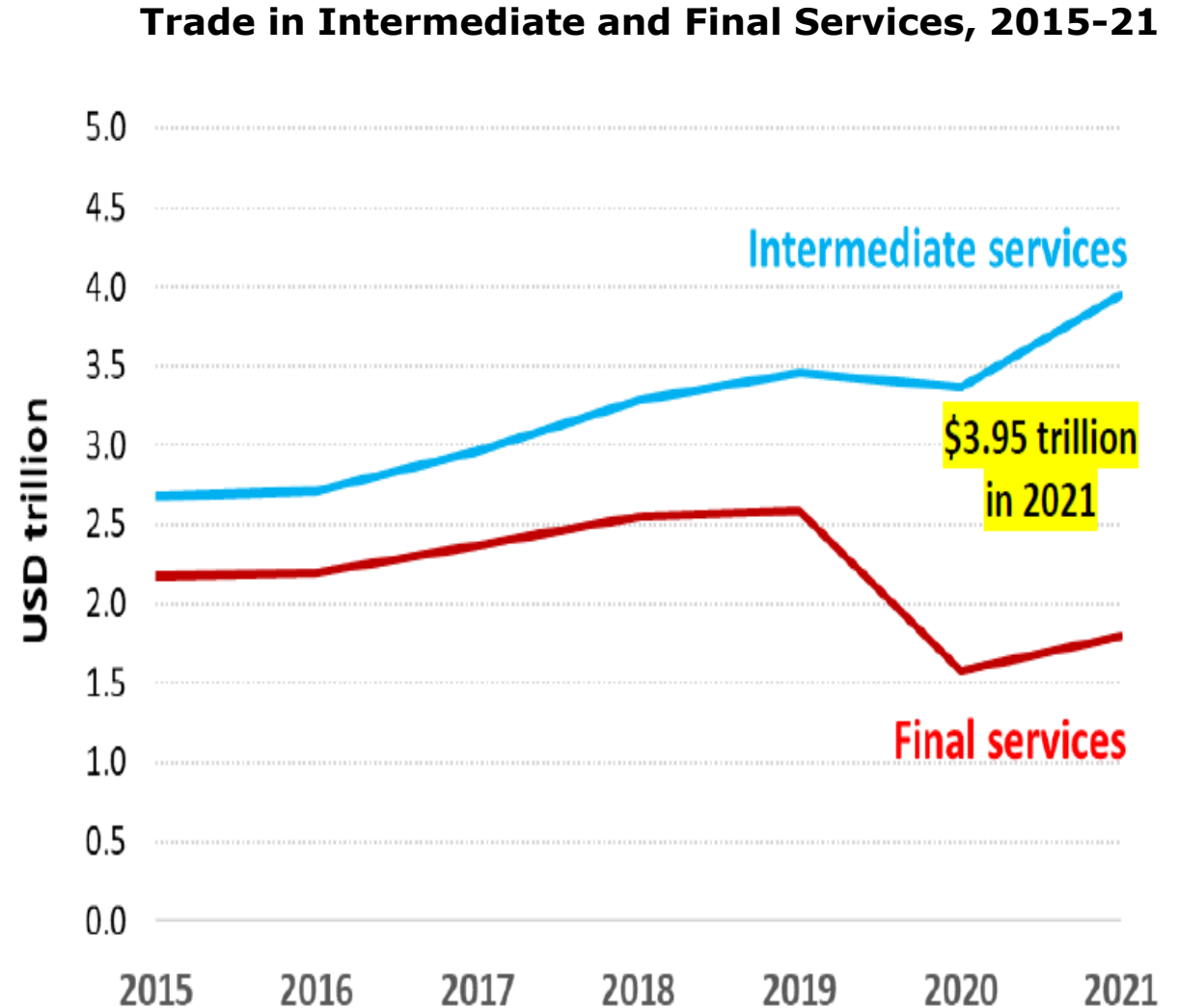
World trade in commercial services by mode of supply



Source: WTO (2019)

# Services Have Transformed World Trade

- Services have played a critical role in enabling the emergence of global and regional value chains.
- In addition to linking different production stages across borders, services are also important inputs at all stages in the production process of goods and other services.
- The critical role of services as inputs and in supply chains is reflected in the fact that over two-thirds (69%) of global services trade (on a BOP basis) consists of trade in intermediates, as opposed to trade in services for final consumption

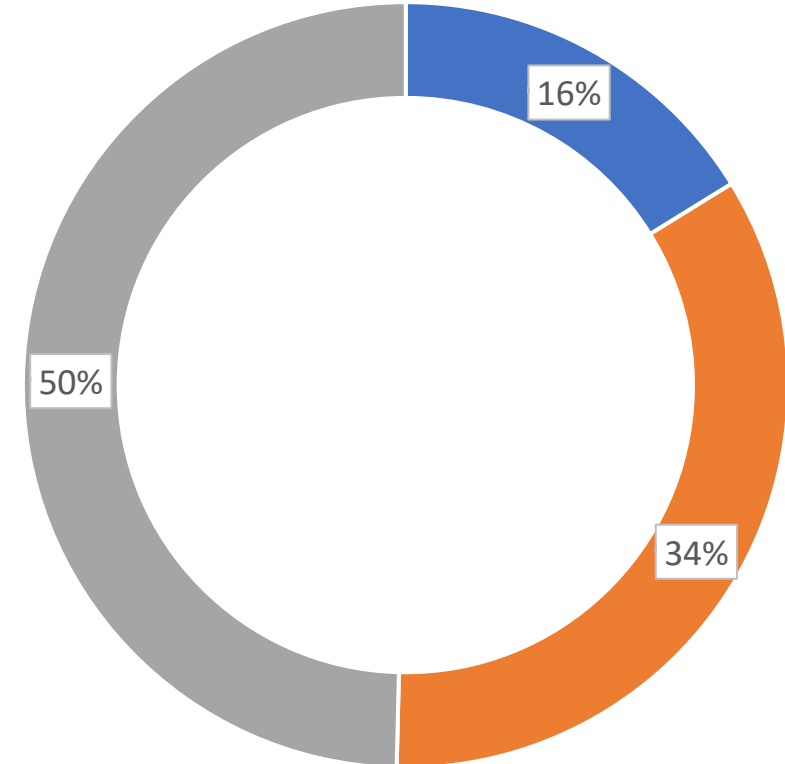


# Services Have Transformed World Trade

- The rising share of services inputs in total trade also reflects major structural changes in the fabric of economic activity, with production processes making increasing use of services and manufacturing components.
- Services value added represents a large and increasing share of total exports, reaching 56% on average for OECD economies, and 44% for non-OECD economies in 2018.

**Structure of World Trade in Value Added Terms (2018)**

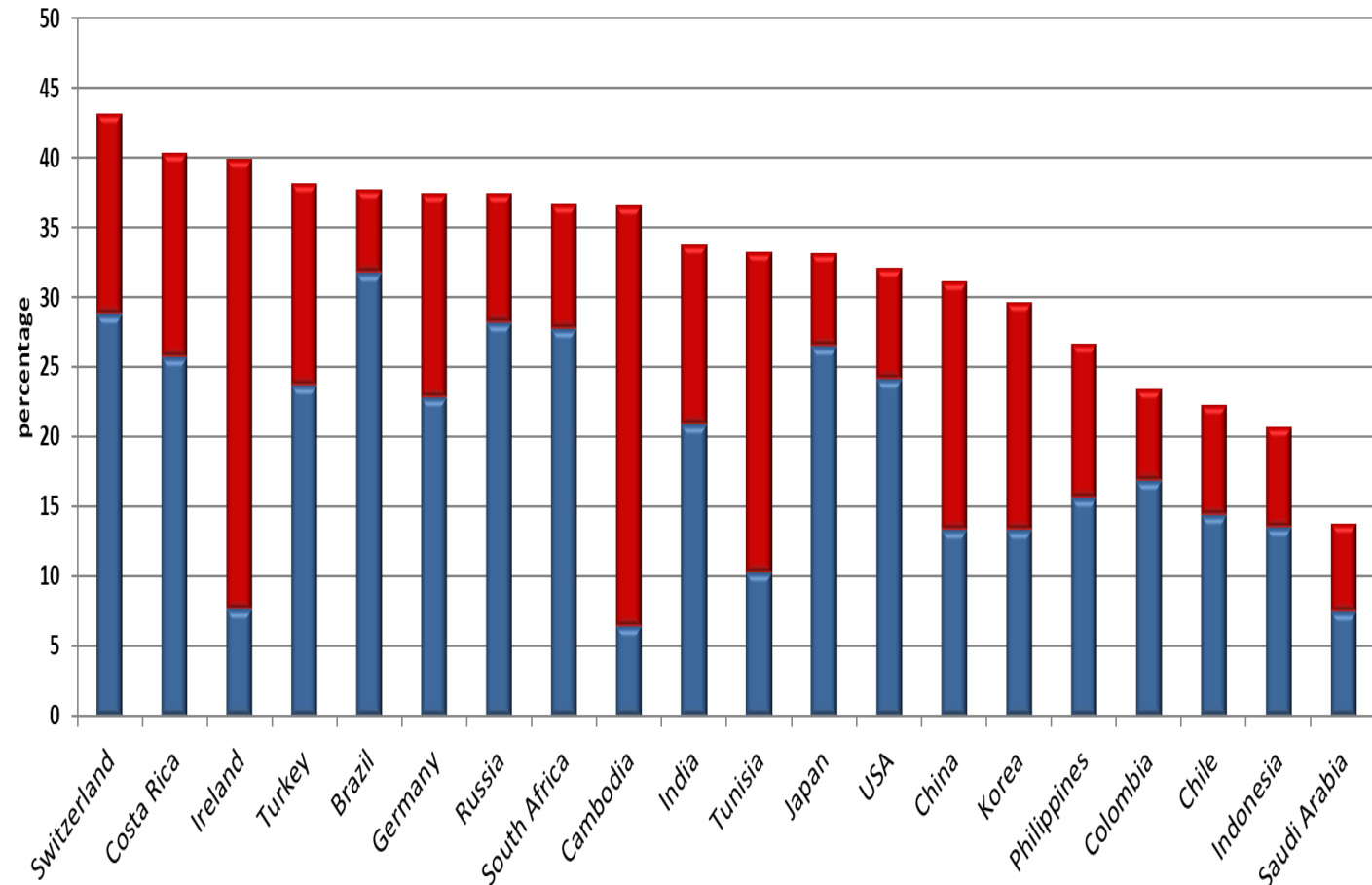
■ Primary    ■ Manufacturing    ■ Services



# Services Have Transformed World Trade

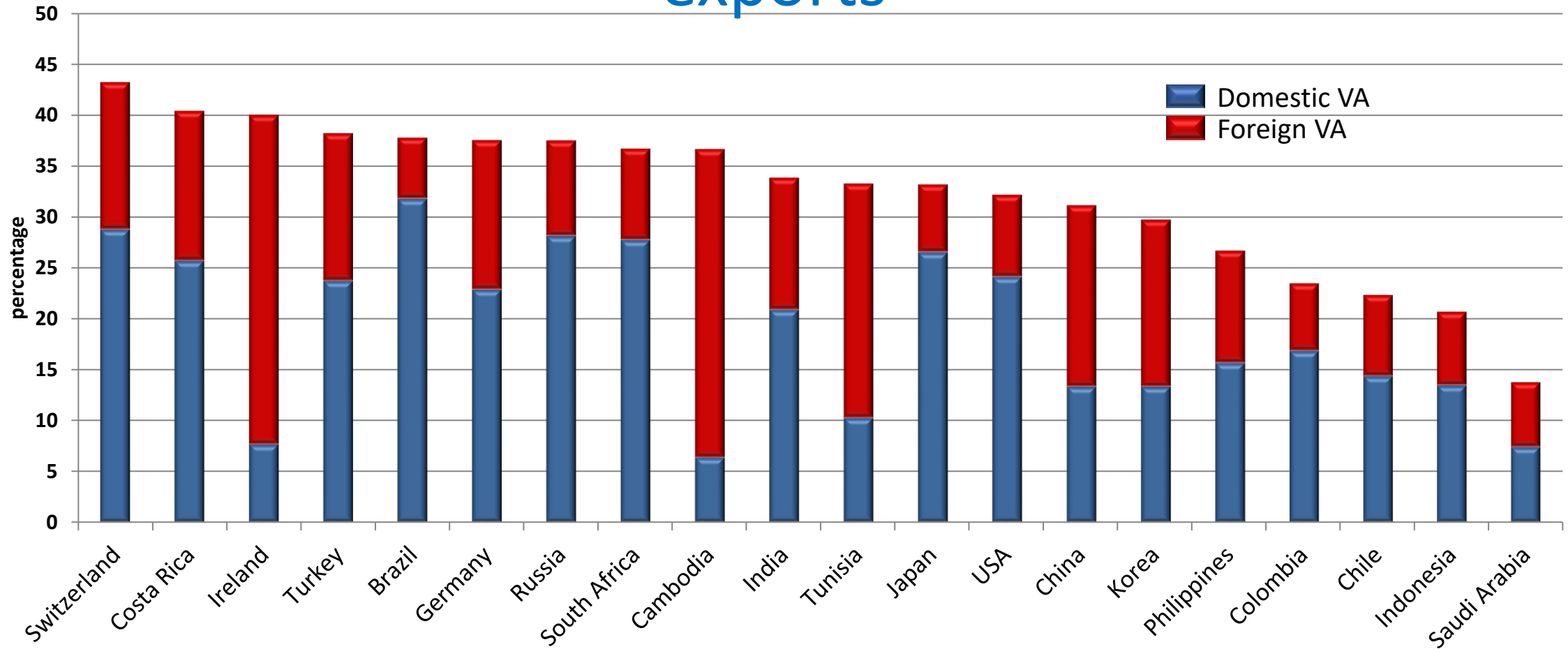
- Services value added accounts, on average, for about a third of manufacturing exports for OECD countries (31%), and only slightly less for non-OECD countries (29% in 2018).
- This significant share underscores the importance of efficient and quality services for the productivity of manufacturing activities and their international competitiveness and export potential.
- The cost and quality of the underlying services affect the performance of the economy as a whole and are essential for connectivity and the competitiveness of goods exports.

Services VA in manufactures exports



# What TiVA indicators can tell

## Services VA in manufactures exports



Source: Based on OECD-WTO TiVA database, June 2015

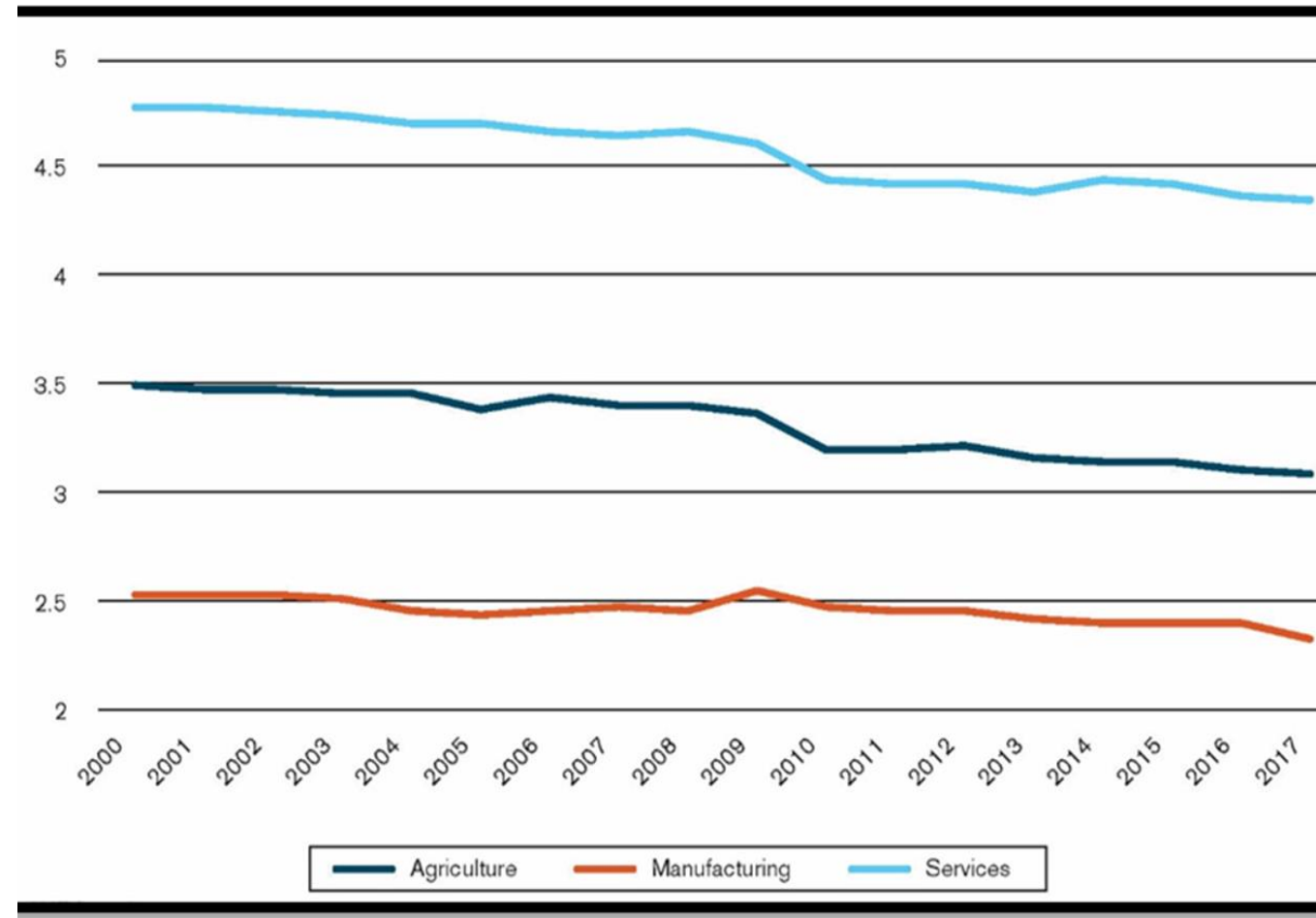


# An Economic Shift, but Is Policy Lagging?



- Services trade costs are much higher than for goods – services trade costs are almost 2 times higher than for manufacturing, while agriculture is 1/3 higher than manufacturing
- Services trade barriers are high (STRIs), including for certain key sectors

Trade costs by sector



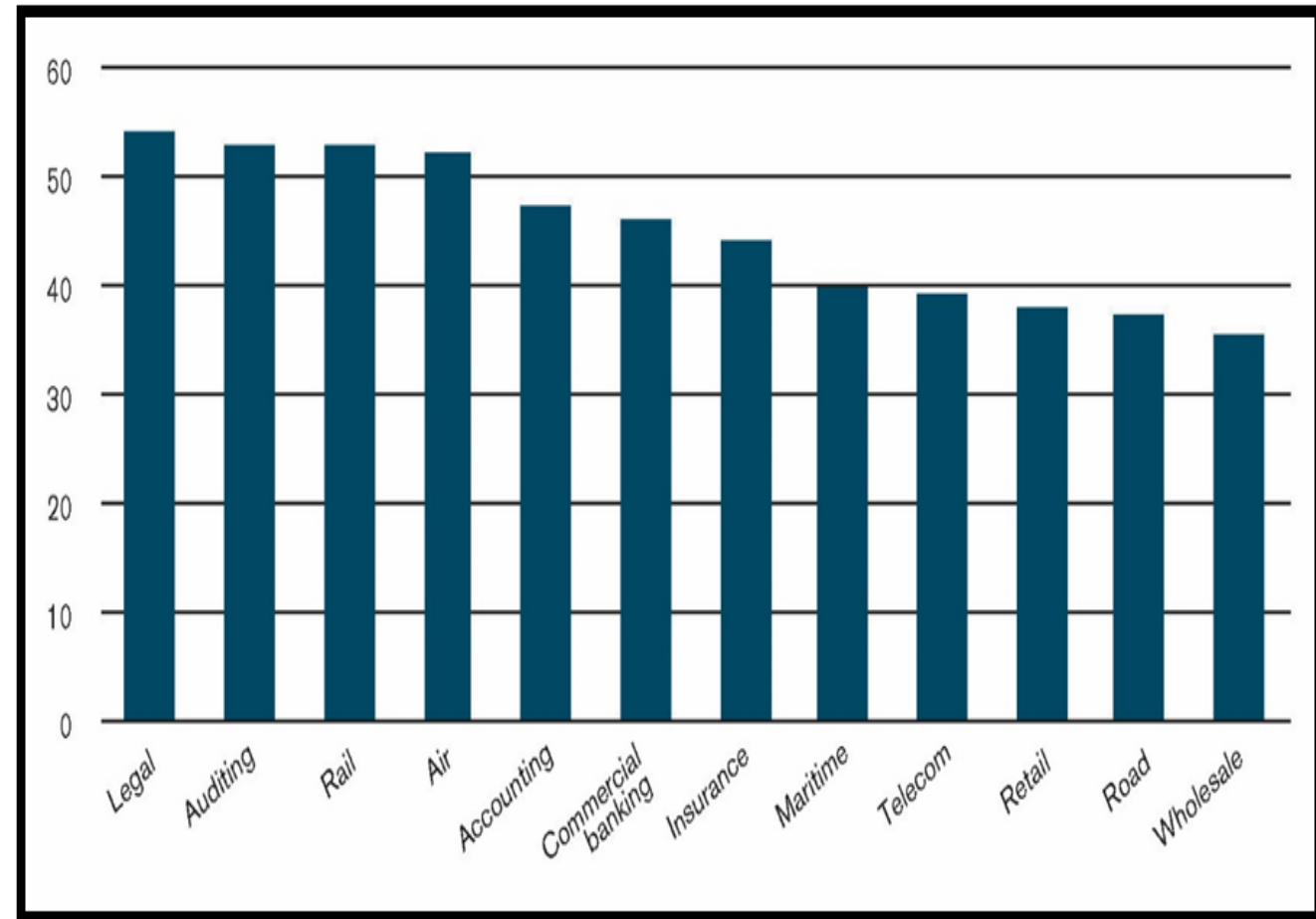


# An Economic Shift, But Is Policy Lagging?



- Services trade barriers are high
- While the longer-term trend is towards more openness, recent policy changes point towards more restrictiveness (OECD)

Services Trade Restrictions Index by subsector



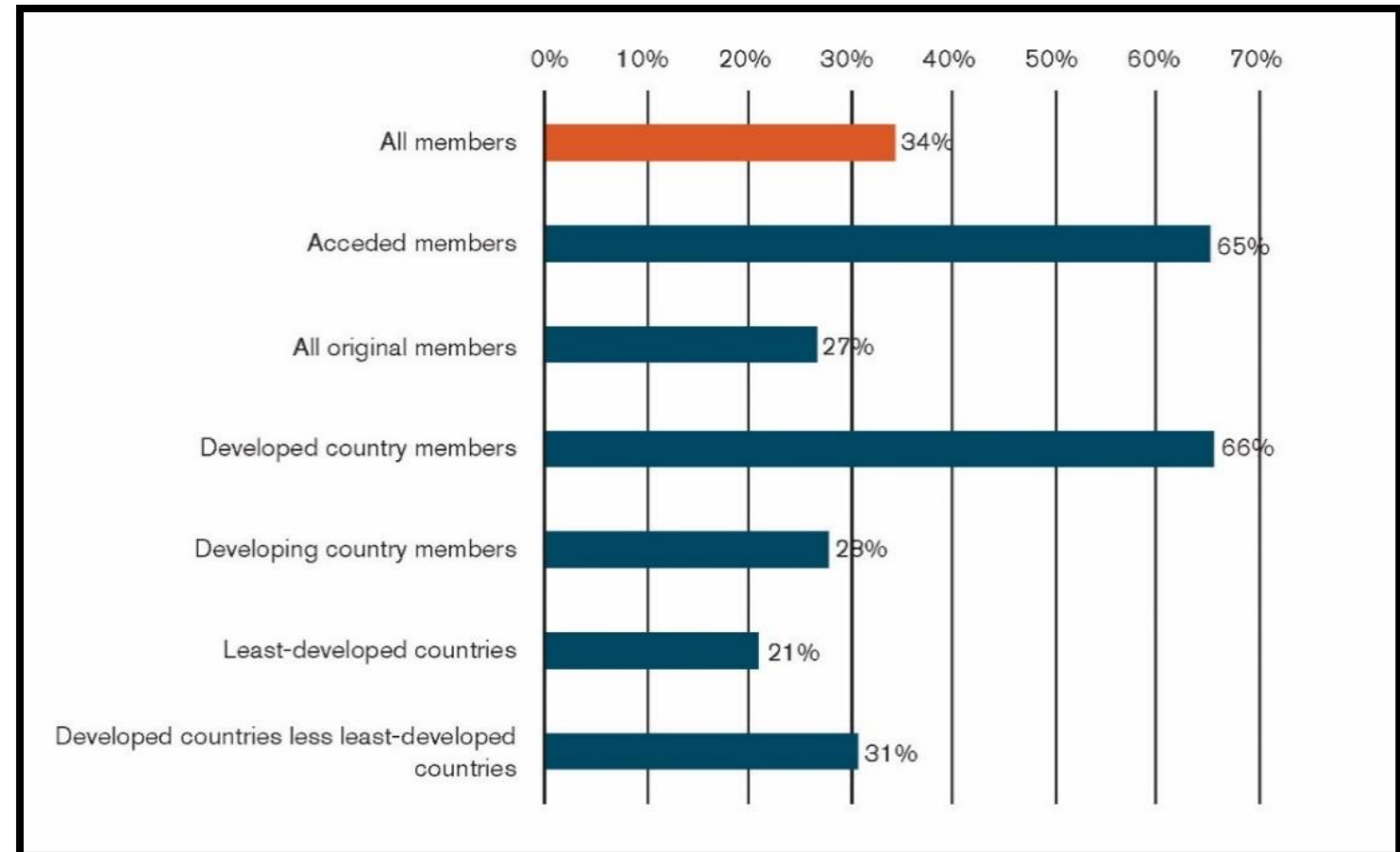
Source: World Bank SRTI, from WTO (2019).

# An Economic Shift, But Is Policy Lagging?



- Overall, multilateral commitments provide for limited predictability, transparency and protection against trade-restrictive policy reversals

Proportion of services sub-sectors with GATS commitments



Source: WTO (2019).

# Services Provide Opportunities...

- The service sector is the largest contributor to economic activity and employment in most countries.
- Trade in services and services trade policies now play an increasingly important role in the global economy, including through their impact on foreign direct investment, economy-wide productivity, connectivity, and manufacturing competitiveness and exports.
- In that context, services trade policies are key to any sustained effort to achieve diversification and regional integration

# ... and Challenges

- Services' regulatory intensity carries certain implications for liberalization.
- Institutional obstacles that, domestically, make it more challenging to develop a holistic approach.
- Improving confidence in relation to international commitments: services trade barriers vs freedom to regulate
- Assessing the contribution of services trade policies to sectoral performance and to broader development goals and economic strategies

# Enabling Services Trade to Support Development

- Despite the policy challenges, maintenance of supportive domestic business environments and a commitment to trade openness in the sector form indissociable parts of a comprehensive growth-enhancing policy agenda.
- Deepened international cooperation directed to increasing the predictability of policy regimes and of commitments made in trade agreements, lowering barriers to trade in services, and promoting the adoption of trade-facilitating regulatory practices, are all key to realizing the development promise of expanded services trade.

# Enabling Services Trade to Support Development

- The WTO and WB (2023) identify 6 key areas for stepped up levels of technical assistance and capacity building to improve services trade performance:
  - (i) addressing data gaps in services trade;
  - (ii) increasing the participation of developing countries in international policy deliberations on services;
  - (iii) helping countries manage the process of market opening while supporting trade facilitating regulatory frameworks;
  - (iv) strengthening services-related regulatory frameworks and institutions;
  - (v) assisting developing economies in seizing the opportunities offered by digital services trade; and
  - (vi) boosting supply capacities and skills to help developing economies supply world markets with competitive services exports.