

# Economics of Services Sector



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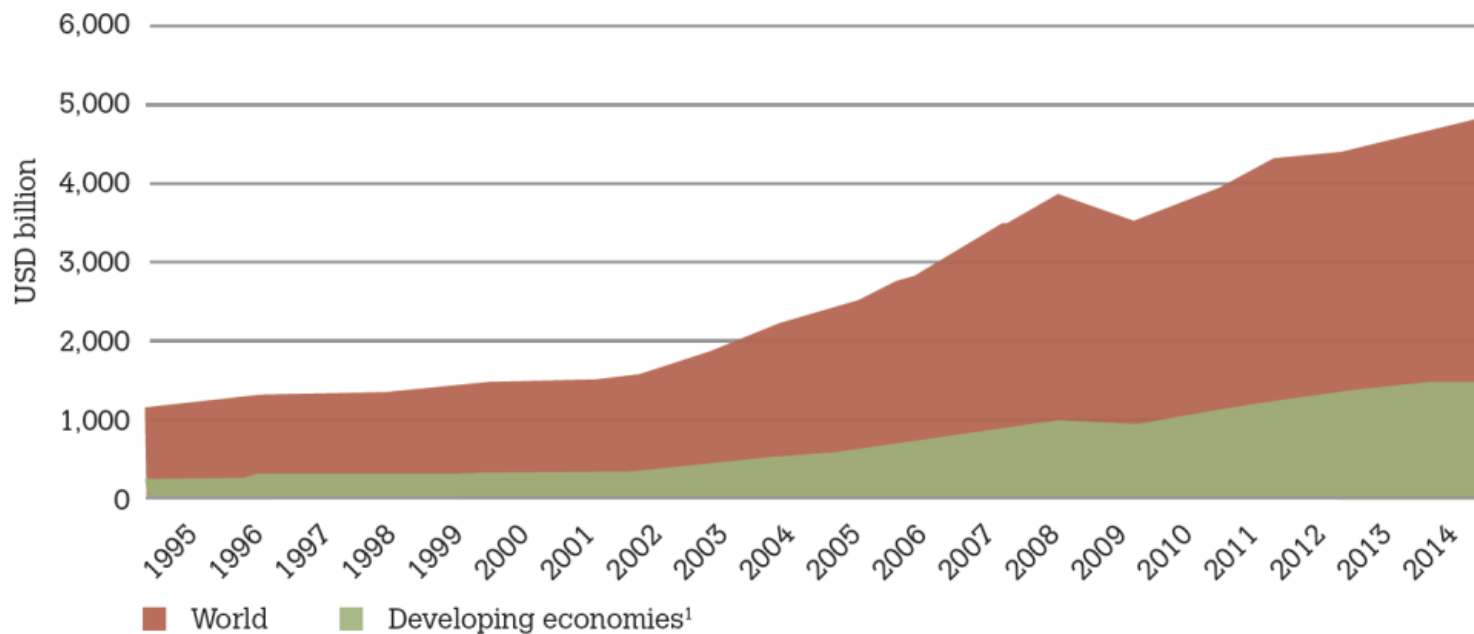
# Trade in Services

# Did you know?

- ❖ Over the past 20 years, **trade in services has become the most dynamic segment of world trade**, growing more quickly than trade in goods.
- ❖ **Developing countries and transition economies have played an increasingly important role in this area**, increasing their share in exports of world services from a quarter to one-third over this period.

# Trade in service by developing economies

Figure 1: Share of developing economies<sup>1</sup> in world exports of services, 1995-2014



<sup>1</sup> Including transition economies in the Commonwealth of Independent States.

Source: WTO-UNCTAD-ITC trade in services dataset

# General Agreement on Trade in Services (GATS)

- ❖ The **GATS entered into force in 1995**.
- ❖ It remains the **only set of multilateral rules** covering international trade in services.
- ❖ It reflects the gradual transfer of responsibility for many services from **government-owned suppliers** to the **private sector** and the **increased potential for trade in services** brought about by advances in ICT.
- ❖ Services covered by the GATS are not automatically opened to competition. WTO members guarantee access to their markets only in those sectors and modes of supply specified in their “**schedules of commitments**”, subject to any “**limitations**” they wish to maintain.
- ❖ The only obligation that applies across all services covered by the GATS is the **most-favoured-nation (MFN) principle**, meaning **suppliers of services from all countries are treated in the same way**.

The GATS covers **all services** (see below), **with the exception of “services provided in the exercise of governmental authority”** and **the bulk of air transport services**.

## Main services sectors

### **Business and professional services, including:**

- Accountancy services
- Advertising services
- Architectural and engineering services
- Computer and related services
- Legal services

### **Communication services**

- Audiovisual services
- Postal and courier services
- Telecommunications

### **Construction and related services**

### **Distribution services**

### **Educational services**

### **Energy services**

### **Environmental services**

### **Financial services**

### **Health and social services**

### **Tourism services**

### **Transport services**

# How are services traded?

The GATS defines trade in services in terms of **modes of supply**:

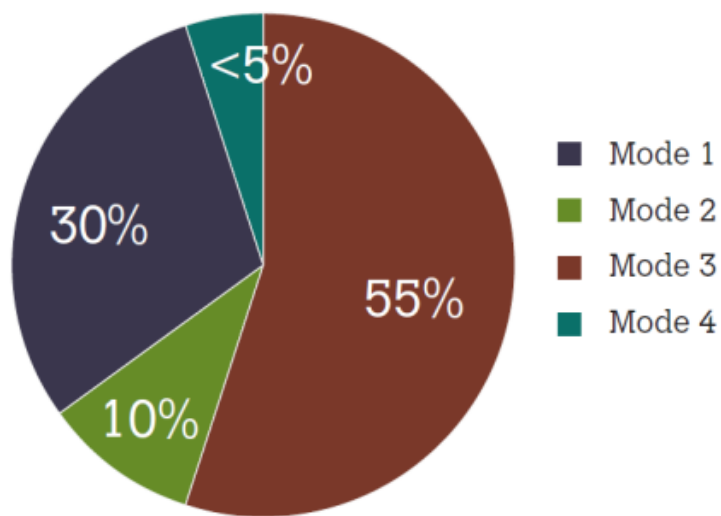
- **Mode 1: services supplied from one country to another** (for example, call centre services).
- **Mode 2: consumers or firms making use of a service in another country** (for example, through international tourism).
- **Mode 3: a foreign company setting up subsidiaries or branches to provide services in another country** (such as a bank setting up a branch overseas).
- **Mode 4: individuals travelling from their own country to supply services in another** (for example, a consultant travelling abroad to provide an IT service).

# How are services traded?

- ❖ **Mode 2 is by far the most liberalized mode in terms of commitments by WTO members.** This is mostly due to governments being less likely to restrict the movements of citizens outside domestic borders (e.g. tourists).
- ❖ **Mode 1 is not often committed,** mostly because it is impossible for many services to be supplied remotely (e.g. construction services)
- ❖ **Mode 3 is more open,** reflecting its crucial role in driving the international supply of services, transferring know-how and improving the capacity of economies to participate in global value chains.
- ❖ **Mode 4 has the lowest depth of commitments,** probably due to a number of sensitivities involved with the movement of foreign workers.

# How are services traded?

Figure 2: Share of services trade, by mode of supply

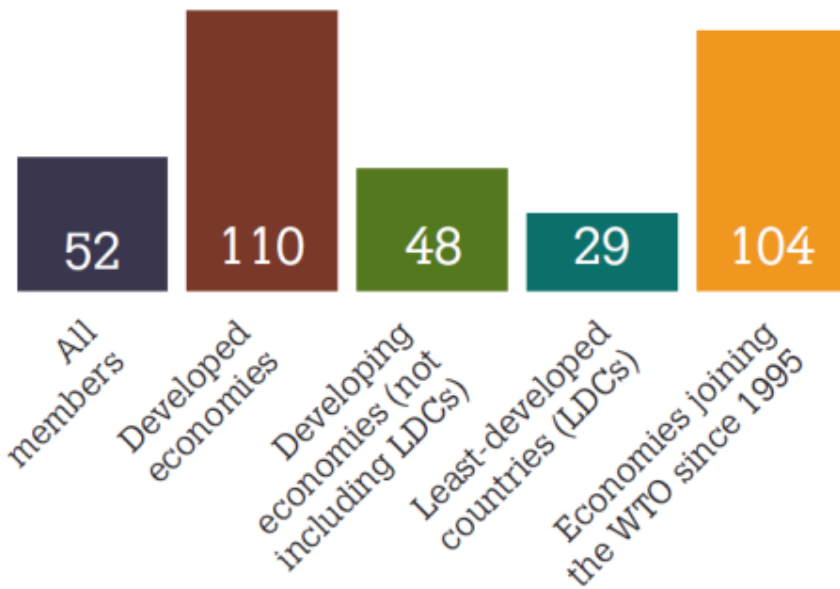


Source: WTO Secretariat.

- ❖ In 2014, **trade in services** totalled USD 4,800 billion, representing **21 per cent of world trade in goods and services**.
- ❖ However, this total **does not cover services delivered via foreign affiliates** (i.e. essentially **mode 3**).
- ❖ **The total trade in services is therefore estimated to be much larger**, even twice as large, as mode 3 represents 55 per cent of total services trade

# GATS Commitments

Figure 3: Average number of committed sectors, by group of WTO members

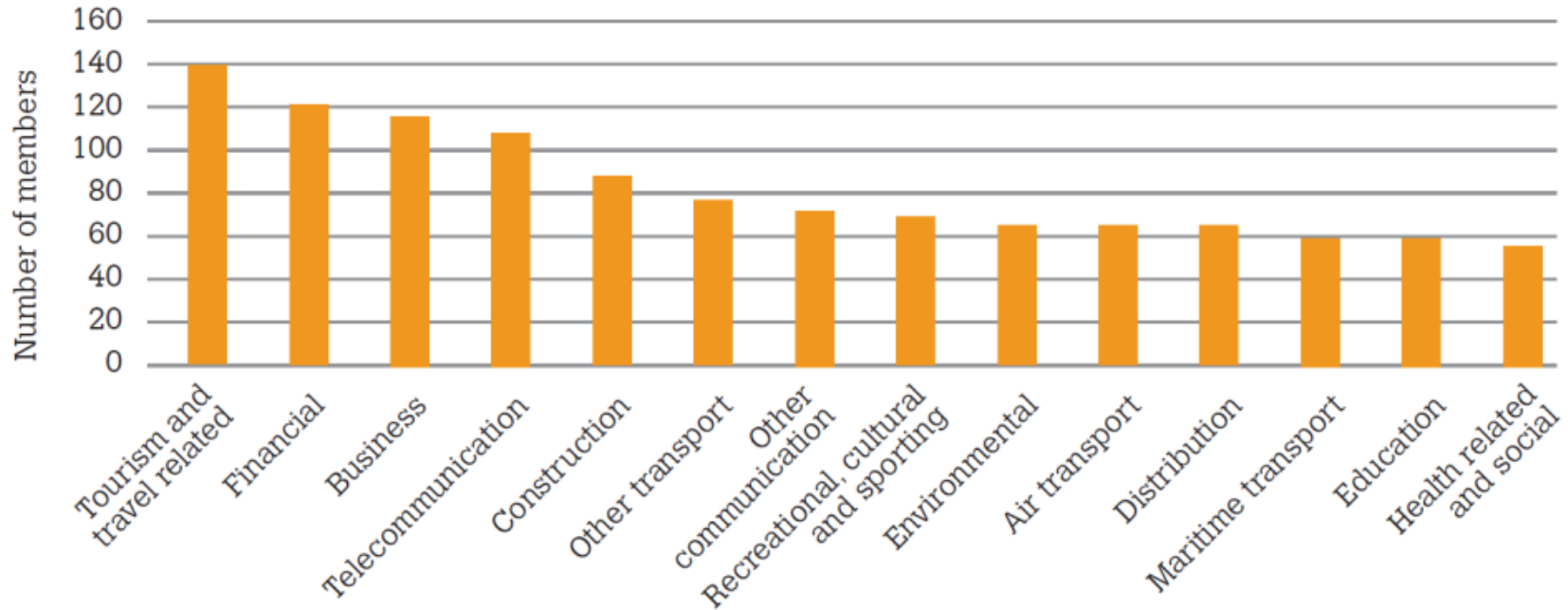


Source: WTO Secretariat.

Note:

- ❖ **Total of approximately 160 sectors**
- ❖ Unlike in the **General Agreement on Tariffs and Trade (GATT)**, where **tariffs** are the only permissible restrictions, the limitations attached to WTO members' **GATS** commitments cover a broad range of measures, including numerical **quotas**, **limits on foreign ownership**, and **discriminatory subsidies**.

Figure 4: Number of WTO members with commitments, by sector



Source: I-TIP Services database, June 2015.

- ❖ The **sector most commonly included** in WTO members' schedules of commitments is **tourism**, followed by **infrastructure services (financial services, business services, and telecommunications)**.
- ❖ The **sectors least frequently included** in commitments are **education and health services**, reflecting the high levels of direct government provision in these services

# Extending commitment through sectoral negotiation

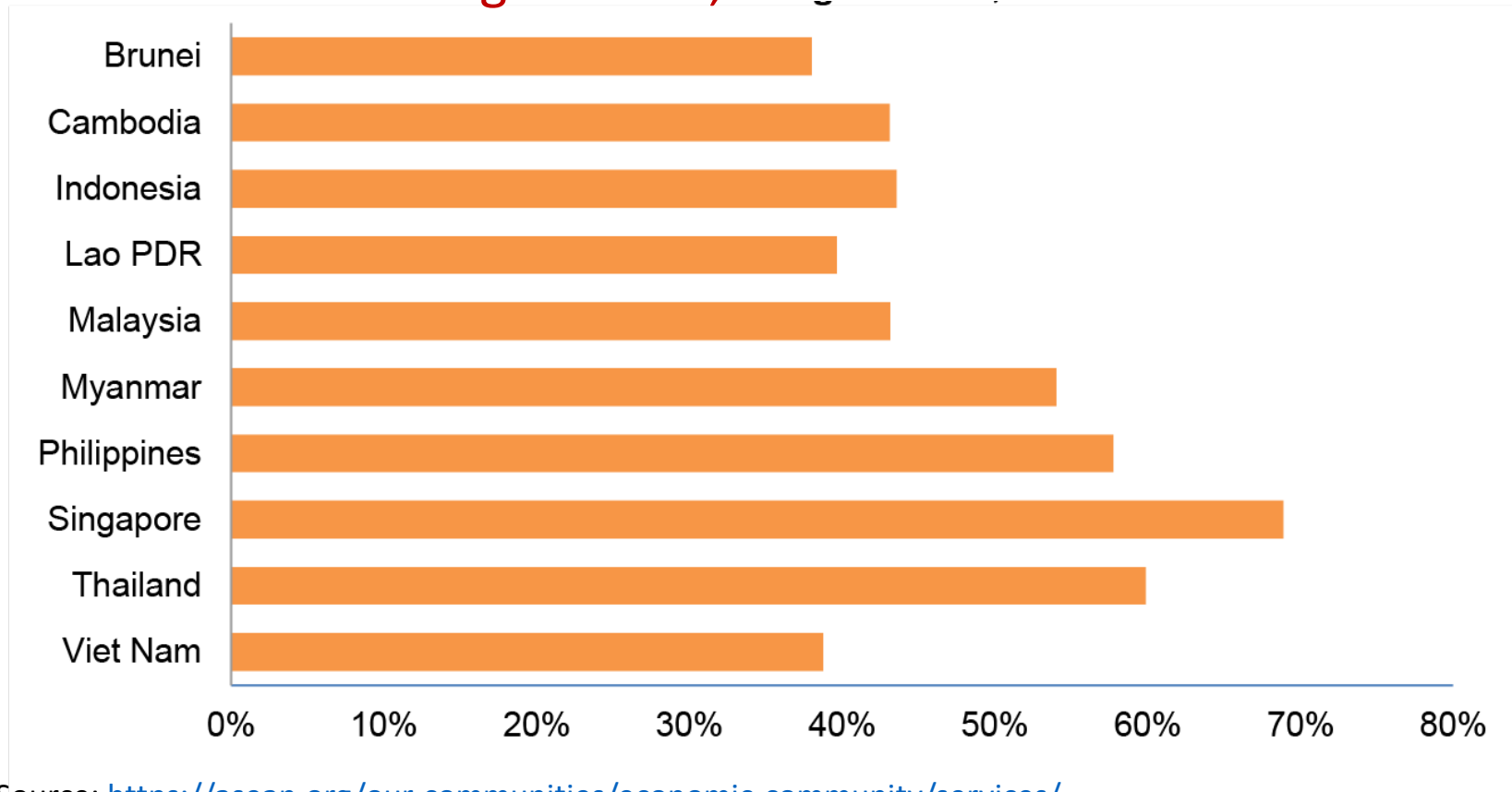
- ❖ At the end of the **Uruguay Round in 1994**, members agreed that their commitments in **financial services, telecommunications, maritime transport** and **mode 4** were unsatisfactory and decided to **extend negotiations in these areas**.
- ❖ These negotiations resulted in enhanced commitments by some 70 WTO members in **telecommunications** and **financial services** in 1997. The talks achieved more **limited success in mode 4** but **no agreement could be reached in maritime transport services**.
- ❖ Negotiations in **telecommunications** and **financial services** were conducted among a subset of members. But the resulting commitments were on a “**most-favoured nation**” basis, meaning they were extended to the benefit of all WTO members.
- ❖ The negotiations in **telecoms** also led to the adoption of a “**Reference Paper**” setting out regulatory principles to reinforce the opening up of the telecoms market.

# Information on Trade in Service

- ❖ The WTO and the World Bank joined forces to establish the **Integrated Trade Intelligence Portal for services (I-TIP services)**.
- ❖ Launched in 2013, I-TIP services is a set of databases listing **services commitments by WTO members in the GATS and regional trade agreements**, the **measures** they have actually applied and related services statistics.
- ❖ For more information, visit I-TIP services at:  
**<http://i-tip.wto.org/services>**.

# Service sectors in ASEAN member countries

## Services as Percentage of GDP, 2018



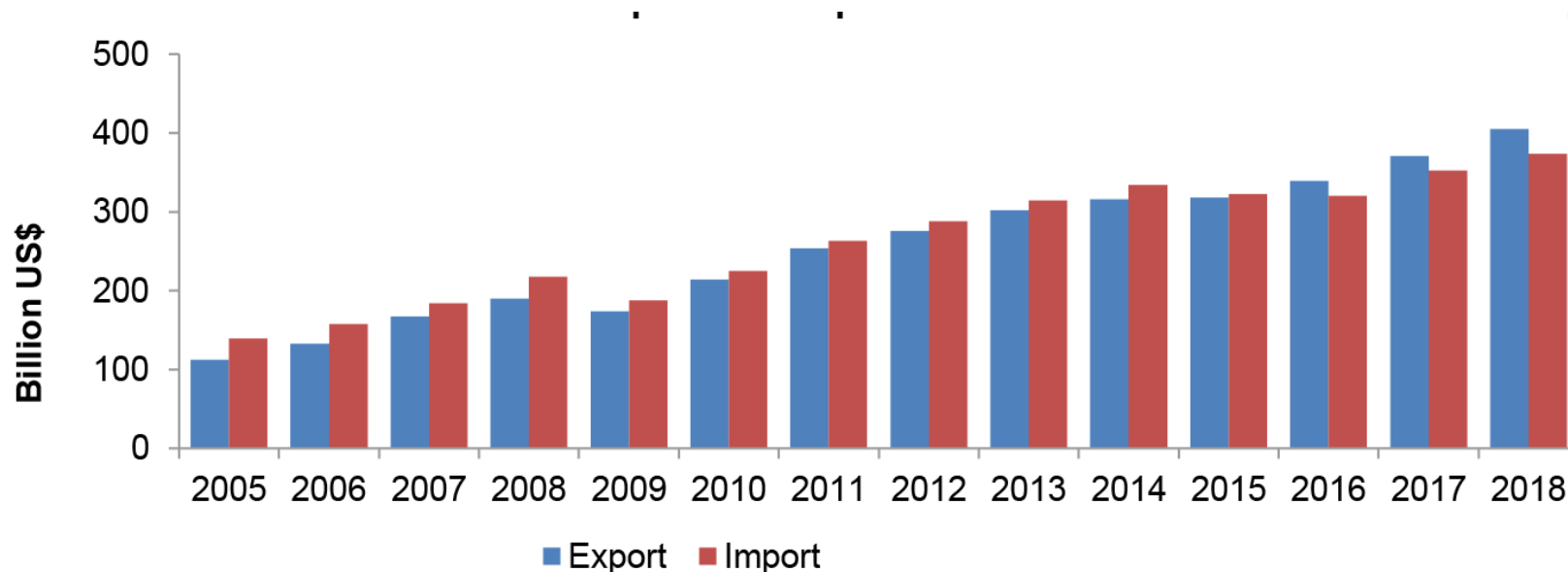
Source: <https://asean.org/our-communities/economic-community/services/>

Note: Using data from ASEANStats, 2019

- Services is a sizeable and continuously expanding component of GDP in ASEAN economies.
- As of 2018, services sector represents between 38% and 69% of ASEAN Member States' Gross Domestic Product (GDP).

# Service sectors in ASEAN member countries

## ASEAN's Export and Import of Services (Billions US\$)



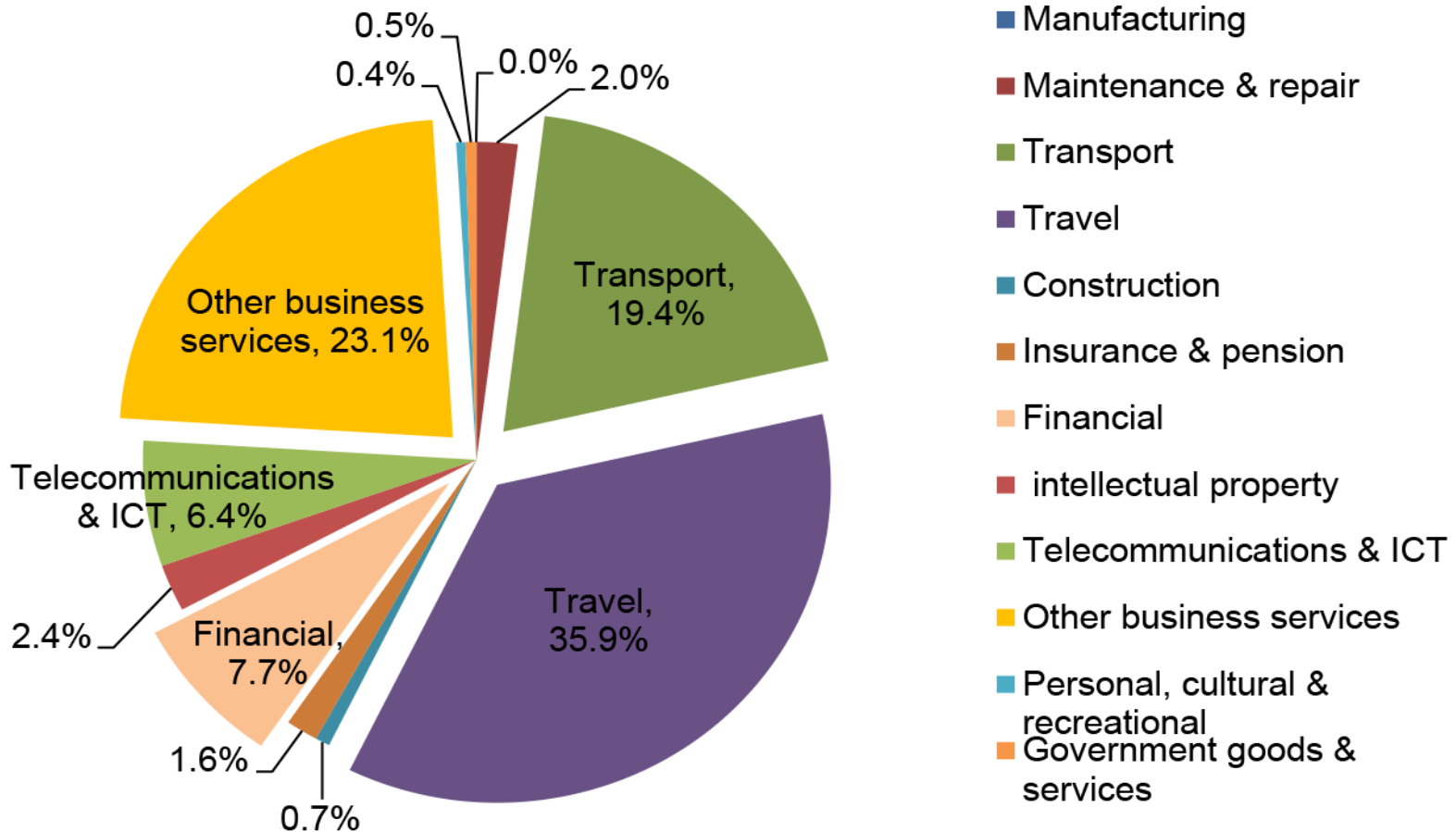
Source: <https://asean.org/our-communities/economic-community/services/>

Note: Using data from ASEANStats, 2019

- Travel, transport, and other business services dominate the export and import of services of ASEAN in general.
- ASEAN's export is dominated by travel services, while ASEAN's import is dominated by transport services.
- In the distant fourth place, ASEAN's export is also contributed by financial services, while ASEAN's import comes from charges for the use of intellectual property. These services sectors are classified based on the IMF Balance of Payments Manual, 6<sup>th</sup> Edition.

# Service sectors in ASEAN member countries

ASEAN's Services Export by Sectors (2018 Data out of Total Export of US\$ 404.9 billion)

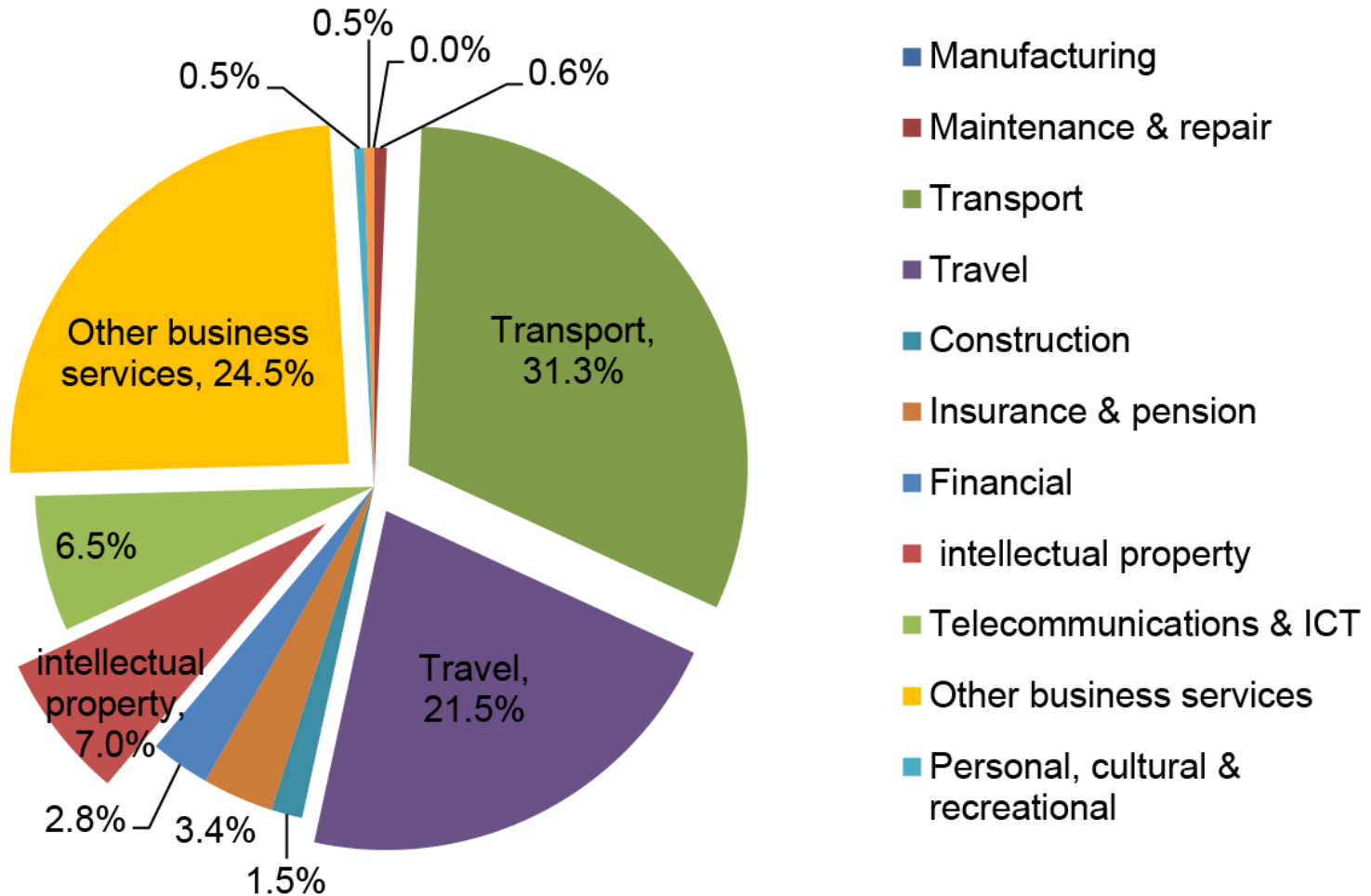


Source: <https://asean.org/our-communities/economic-community/services/>

Note: Using data from ASEANStats, 2019

# Service sectors in ASEAN member countries

ASEAN's Services Import by Sectors (2018 Data out of Total Export of US\$ 373.8 billion)

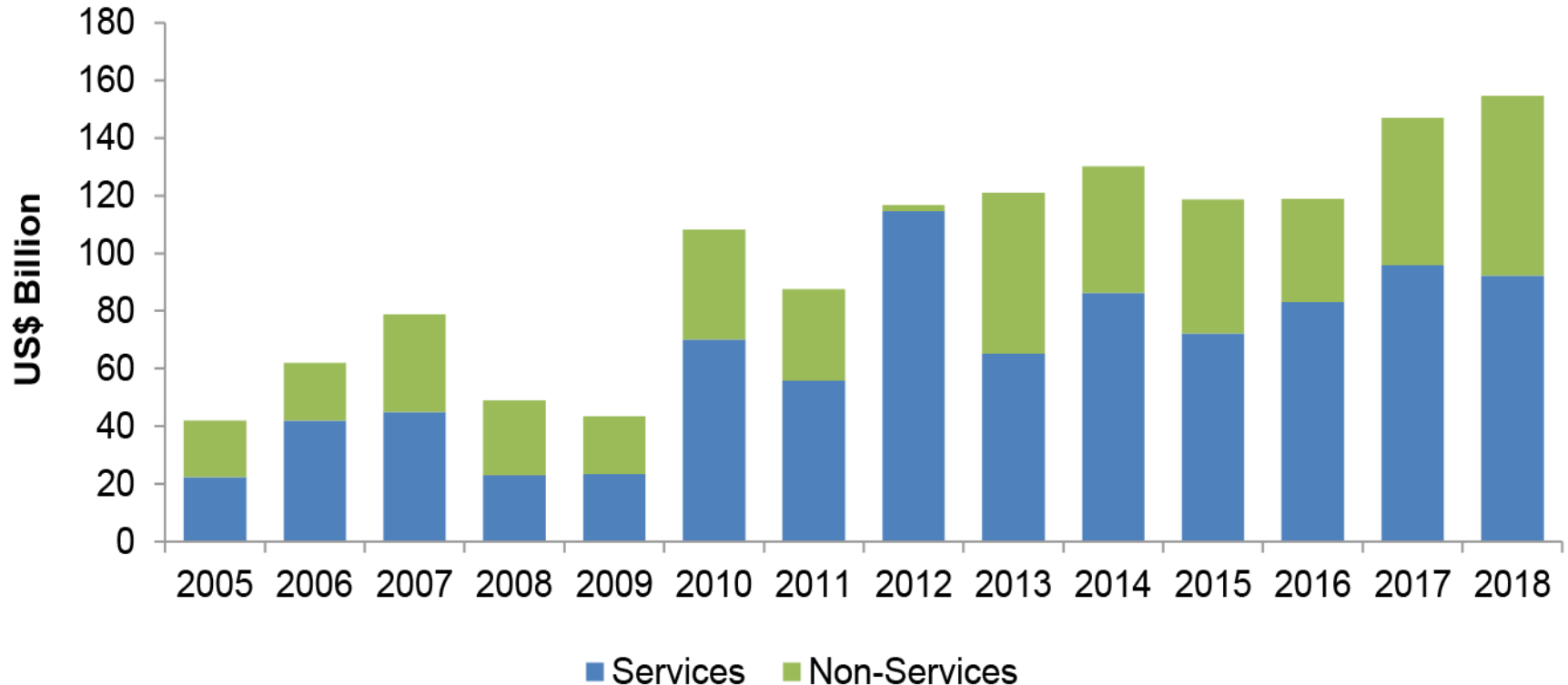


Source: <https://asean.org/our-communities/economic-community/services/>

Note: Using data from ASEANStats, 2019

# Service sectors in ASEAN member countries

## FDI inflows to ASEAN by sectors



Source: <https://asean.org/our-communities/economic-community/services/>

Note: Using data from ASEANStats, 2019

# Service sectors in ASEAN member countries

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# Service trade agreement in ASEAN

- ASEAN has pursued services liberalization since 1995, by expanding the scope and coverage of its commitments in the **ASEAN Framework Agreement on Services (AFAS)** that was used to guide services liberalization.
  - ✓ MRA on **Engineering Services** (9 December 2005)
  - ✓ MRA on **Nursing Services** (8 December 2006)
  - ✓ MRA on **Architectural Services** and Framework Arrangement for the Mutual Recognition of Surveying Qualifications (19 November 2007)
  - ✓ MRA on **Medical Practitioners** and MRA on **Dental Practitioners** (26 February 2009)
  - ✓ MRA Framework on **Accountancy Services** (26 February 2009) and subsequently as MRA on Accountancy Services (13 November 2014)
  - ✓ MRA on **Tourism Professionals** (9 November 2012).
- The shift from AFAS to **ASEAN Trade in Services Agreement (ATISA)** in 2019 is envisaged to advance services liberalization, and ultimately closer regional economic integration.