

# Economics of Services Sector



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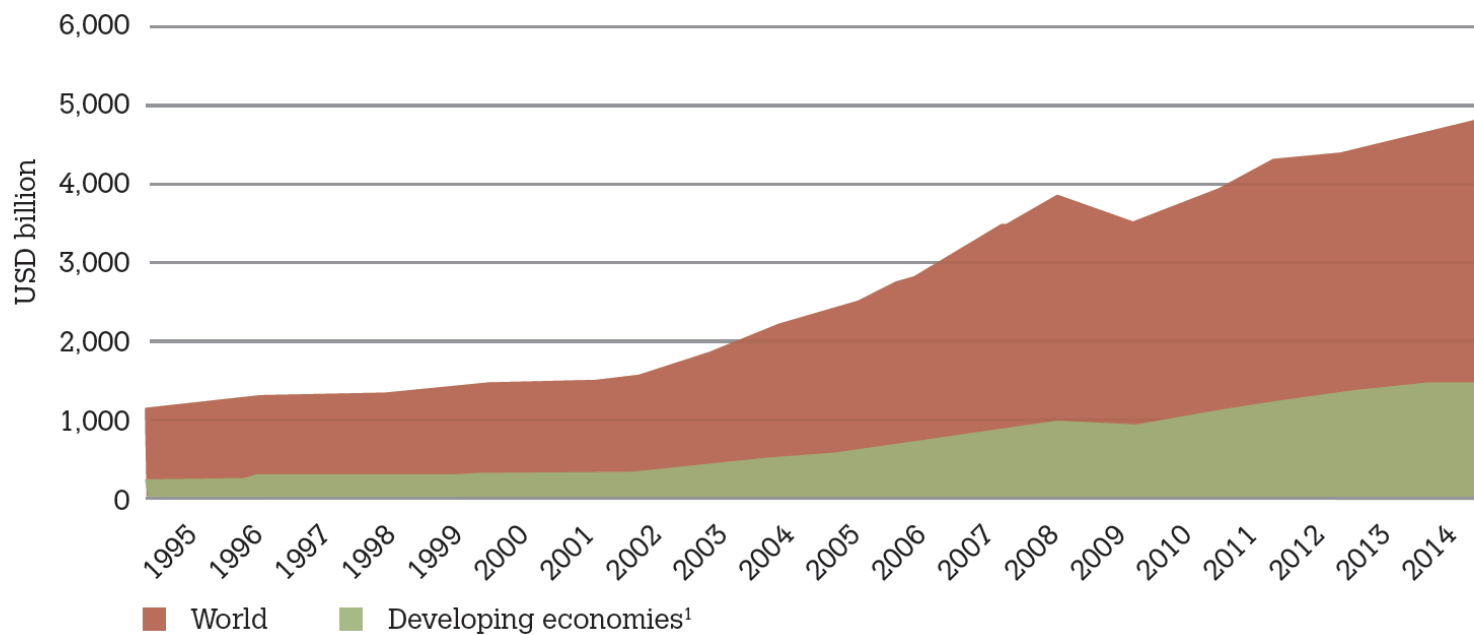
# Trade in Services

# 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**:

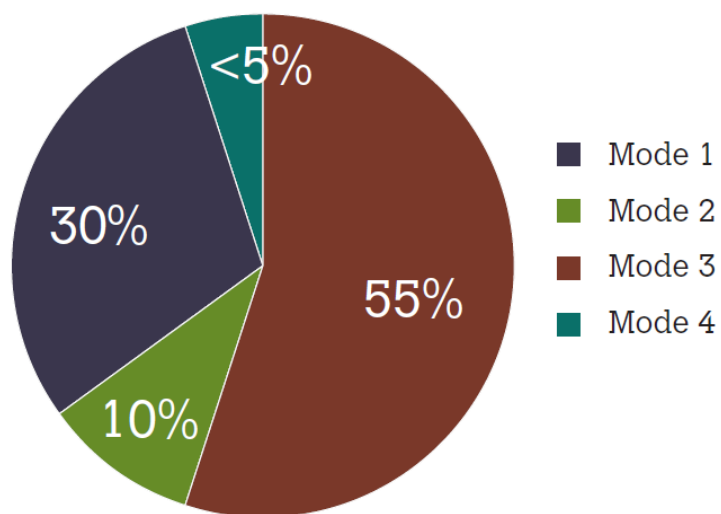
- **Mode 1: services supplied from one country to another** (for example, call centre services).
- **Mode 2: consumers or firms making use of a service in another country** (for example, through international tourism).
- **Mode 3: a foreign company setting up subsidiaries or branches to provide services 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

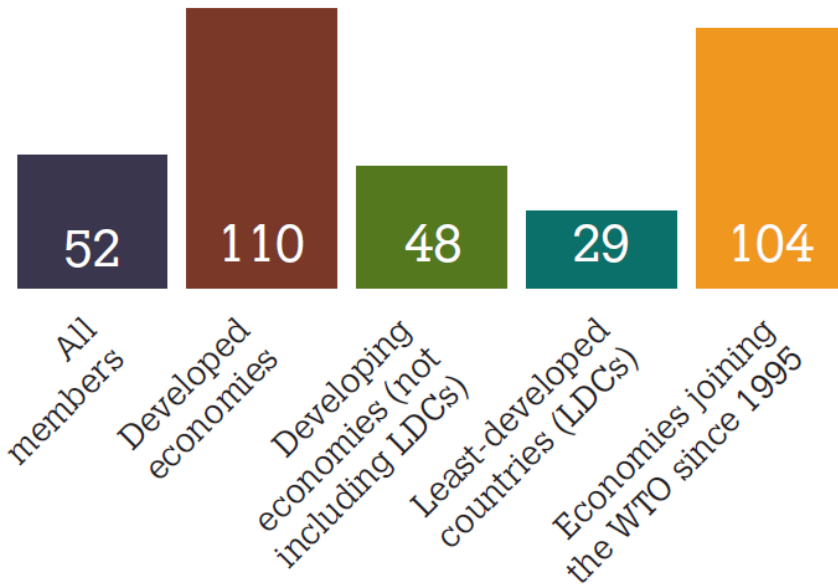


Source: WTO Secretariat.

- ❖ 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

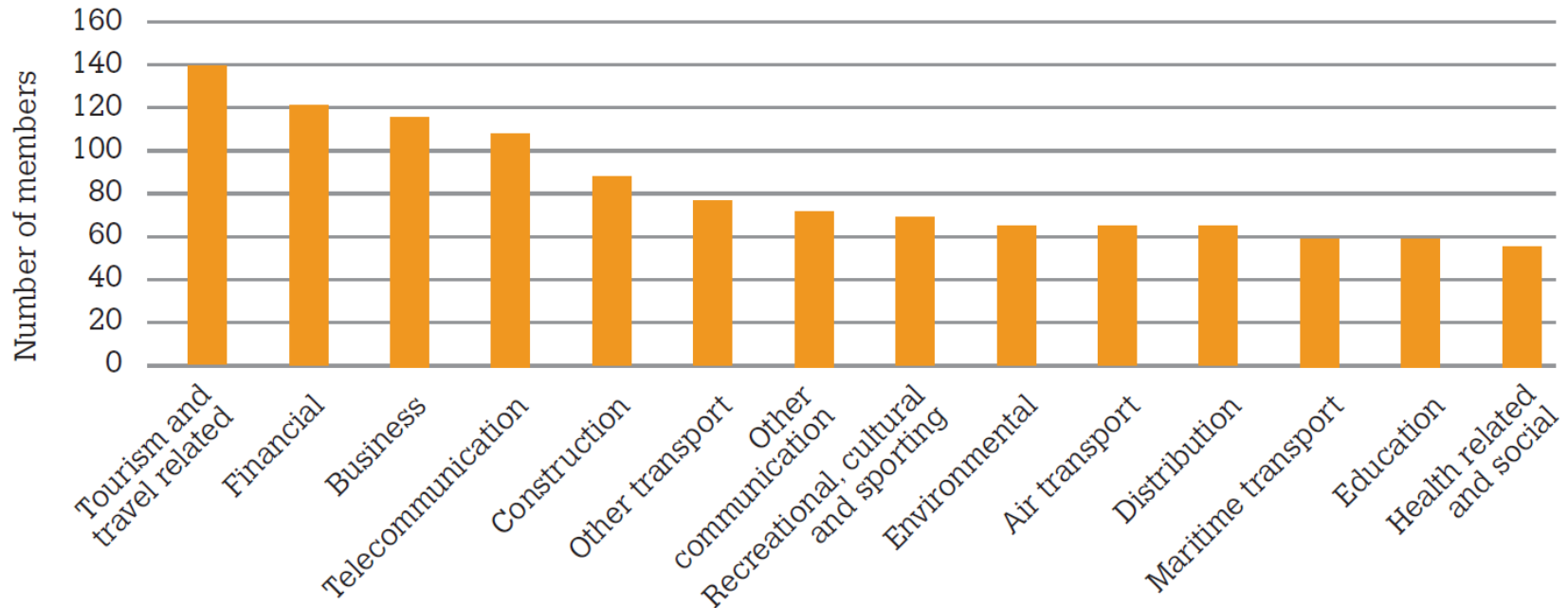


Source: WTO Secretariat.

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

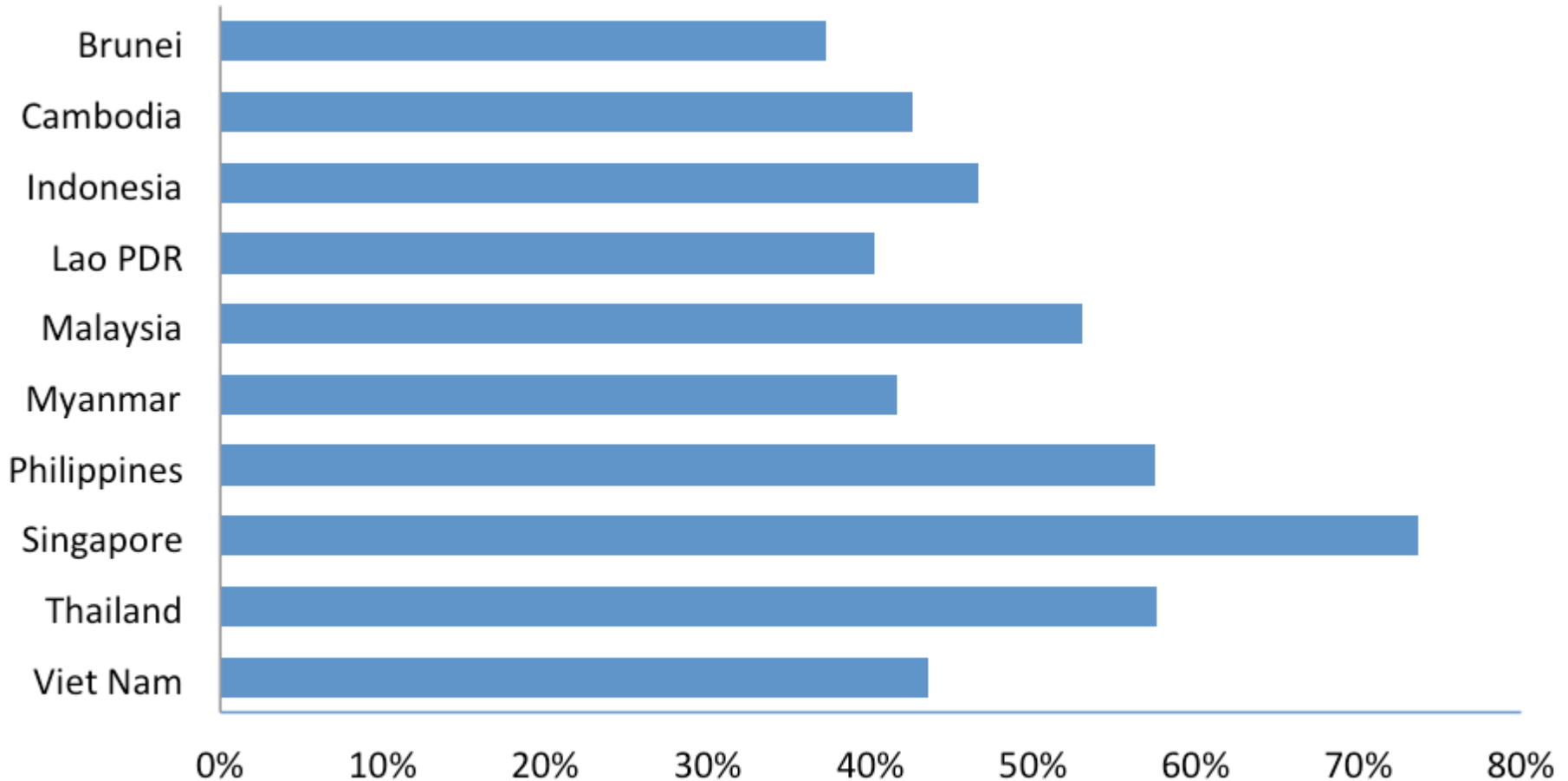
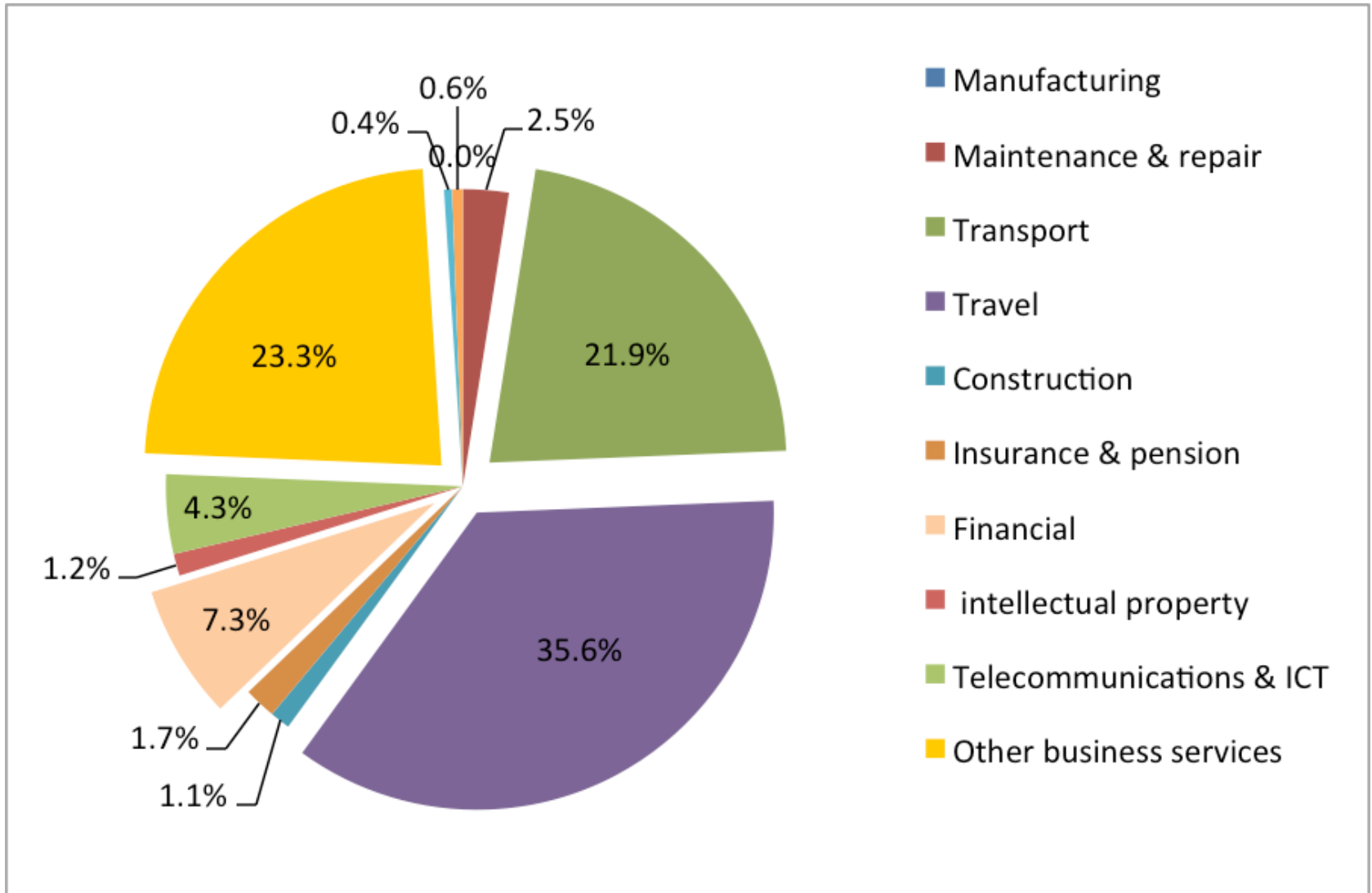


Chart 1  
Services as Percentage of GDP, 2016

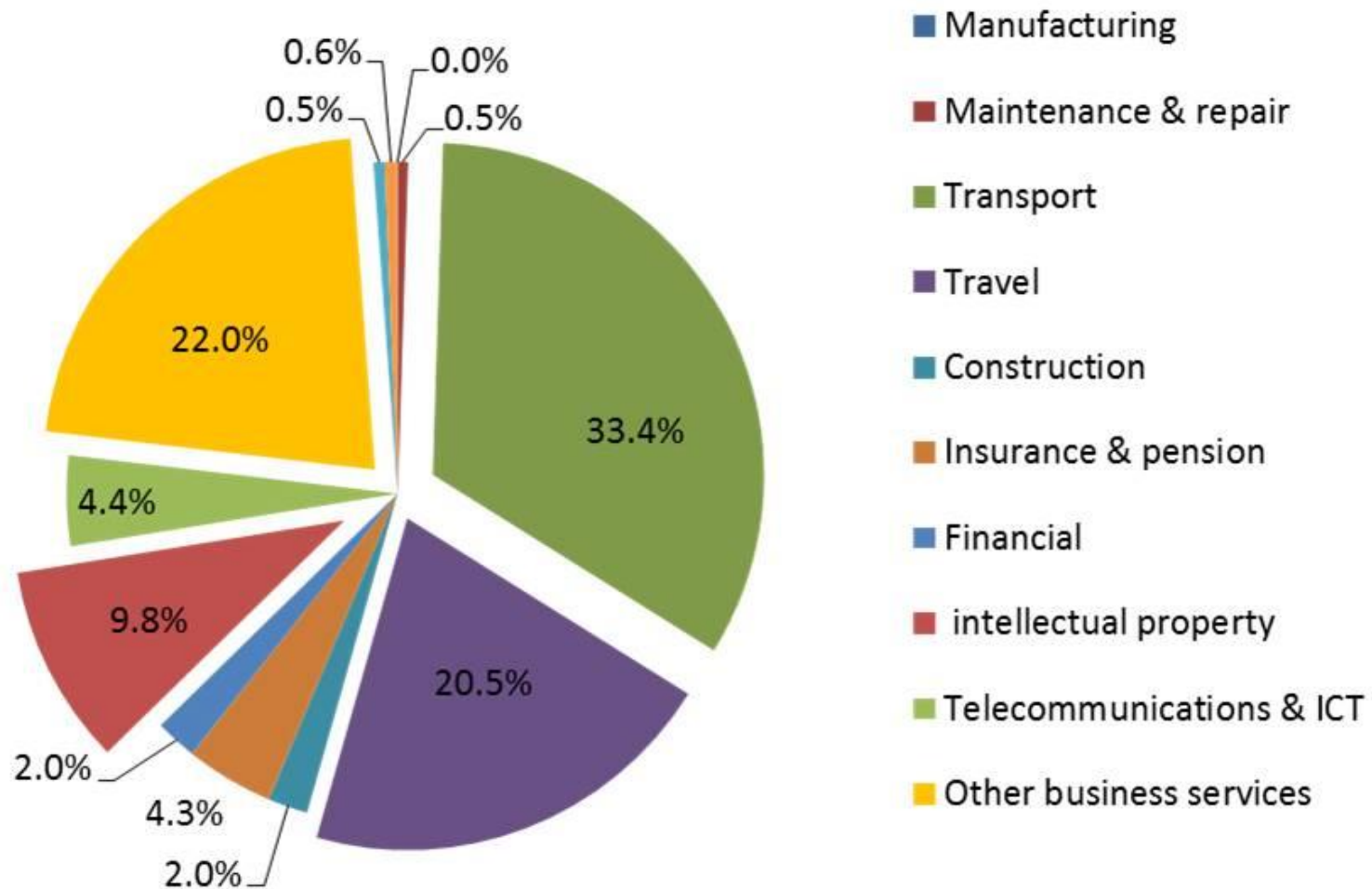
(Source: ASEANStats, 2015)

<https://asean.org/asean-economic-community/sectoral-bodies-under-the-purview-of-aem/services/>

# ASEAN Export by sectors

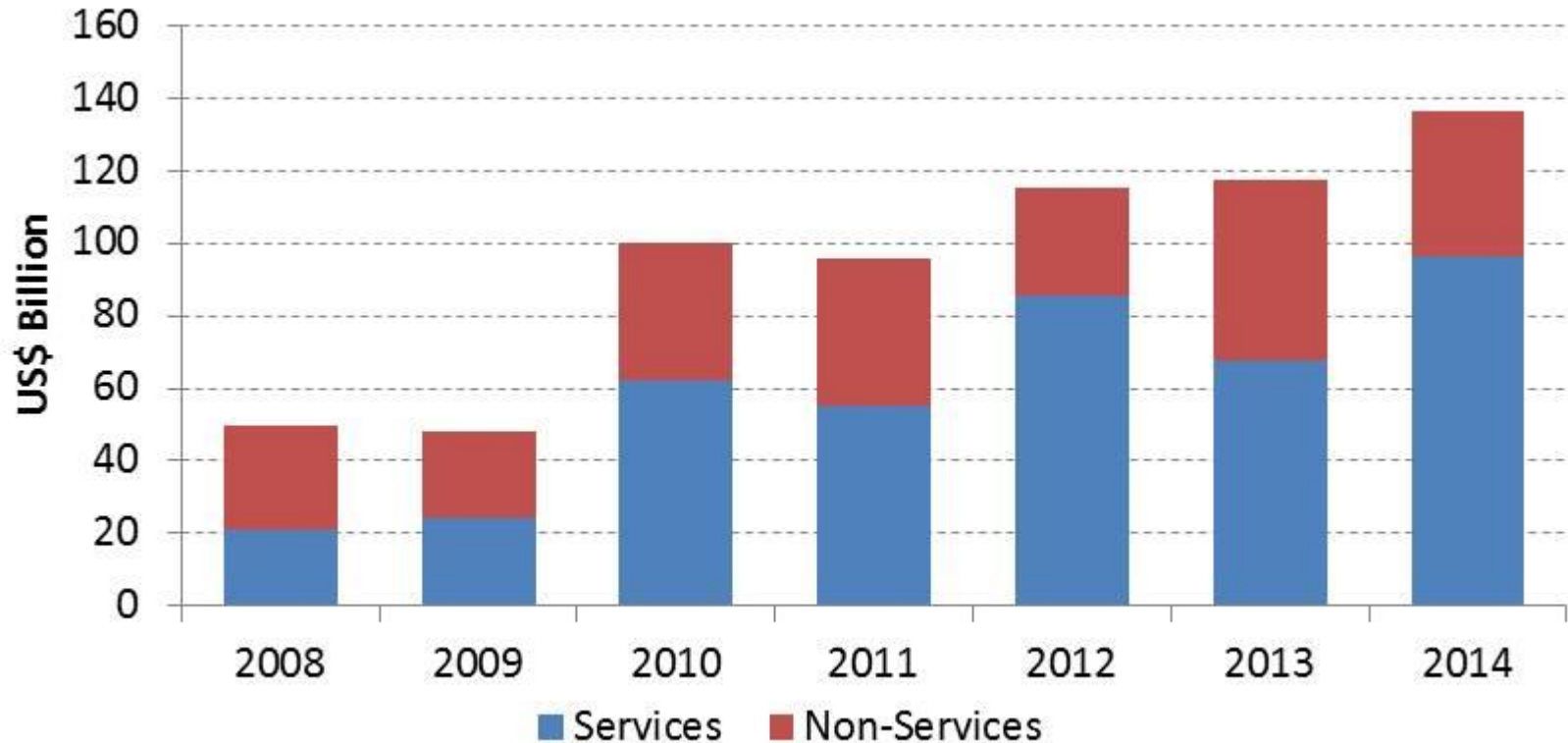


# ASEAN Import by sectors



Source: [https://www.iseas.edu.sg/images/pdf/ISEAS\\_Perspective\\_2019\\_54.pdf](https://www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2019_54.pdf)

# FDI inflows to ASEAN by sectors



Source: [https://www.iseas.edu.sg/images/pdf/ISEAS\\_Perspective\\_2019\\_54.pdf](https://www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2019_54.pdf)

# 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.