F. Conclusions

Over the last few decades, services have become the backbone of the global economy and the most dynamic component of international trade. Services are increasingly easier to trade thanks in large part to digitalization. From online education to virtual law firms, technology is penetrating all services sectors, transforming services traditionally delivered face-to-face into remotely tradable services. Trade, long dominated by the exchange of goods, increasingly involves services, transforming the global economy in the process.

Despite the critical role that services play in the global economy, their significance in international trade is not always fully appreciated. This report tries to fill this gap by analysing how trade in services has evolved in recent years and how it may evolve in the future.

Traditional statistics on trade in services do not cover all four of the modes of services supply as defined by the General Agreement on Trade in Services (GATS). However, a new WTO experimental dataset includes GATS mode 3 – commercial presence – for the first time, thereby capturing the total value of services trade.

Our analyses show that commercial presence is the dominant mode for trading services globally, with distribution services and financial services being the most traded sectors. Some services, such as education, healthcare or environmental services, which currently account for a negligible share of trade, are rapidly growing in importance, attesting to the profound changes under way. Services also play a critical role in global value chains; according to our estimates, services value-added accounts for close to a half of world trade.

These changes can open new opportunities. Trade in services creates meaningful welfare gains for society through a more efficient allocation of resources, a greater variety and quality in the services that consumers and producers can purchase, and by allowing the more productive services firms to expand. In sectors like healthcare, education and finance, in particular, these gains can directly improve development outcomes. A geographically diverse range of economies, including many developing economies, has benefited from the recent expansion of trade in services. The share of developing economies in global services trade has increased by more than 10 percentage points since 2005, and although the participation of least-developed countries is small, their share has also been rising significantly. A large number of jobs, both in developed and developing economies, is supported by services exports. The decline in trade costs, thanks in large part to technology, allows more services to be traded cross-border, which particularly benefits developing economies and micro, small and medium-sized enterprises, which rely predominantly on this mode of supply.

This report, using a novel approach to estimate trade costs, demonstrates that trade costs in services nevertheless remain much higher than in goods, largely due to the "proximity burden" (i.e. the necessity for suppliers and consumers of services to be in close physical contact) of services and more complex policy regimes.

This report discusses three major trends that are likely to impact services trade and trade costs in the future, and estimates the extent to which services trade may change over the next 20 years.

First, digitalization is expected to further reduce the cost of services trade, making it possible to deliver services digitally that previously required face-to-face interaction, for example through telepresence in areas such as medical services. The distinction between goods and services activities is and will continue to become increasingly blurred, and the importance of data flows and intellectual property will continue to rise. Digitalization will also affect the way firms do business.

Second, demographic changes will have an impact on the composition of future services demand and patterns of specialization. While an ageing population in developed economies is likely to increase the demand for health services, a growing young population will increase the demand for online services. Rising per capita incomes in the developing world are expected to boost demand for skill-intensive services.

Finally, climate change and consumers' growing awareness of environmental issues are likely to disrupt supply and trade in some services, such as tourism and transportation, forcing companies to adjust. As a result, the market for environmental services is expected to grow significantly in the future.

Using a computable general equilibrium model to try and quantify the potential impact of these major trends on services trade, this report finds that reduced trade costs due to technological innovation, a diminishing need for face-to-face interaction, and a reduction of the policy barriers to services trade, are likely to increase the share of services in global trade by 50 per cent by 2040. If developing economies are able to adopt these new technologies, their share in global services trade could increase by about 15 per cent.

Assessing the full extent of the changes under way and trying to quantify their potential impact are, however, constrained by lack of data and research. For instance, there is still little evidence to date on labour market adjustments to services trade, and data on trade through commercial presence remains sketchy. Likewise, information on actual services policy regimes is unsatisfactory. Existing statistical and information tools need to be refined, and existing data gaps need to be filled, in order to enable a more accurate analysis of the changing nature, scope and effects of services trade and trade policies.

While technology is – and will continue to be – a key driver of services trade expansion, this potential will only be achieved if future technological changes are accompanied by intensified international cooperation. Despite the far-reaching, often unilateral, reforms that economies around the globe have undertaken over the past three to four decades to open services markets, trade in services still remains subject to higher barriers than trade in goods, suggesting that more can be done to drive market-opening successfully. In order to seize the opportunities offered by the changes currently taking place, new pathways will need to be found to advance global trade cooperation and make services a central element of trade policy.

Accompanying market opening negotiations with greater international cooperation on domestic regulatory measures may be one avenue to harness the potential of services trade. In most services sectors, market openings need to be supported and enhanced by adequate domestic regulatory measures, while strengthened regulatory measures and governance are a necessary condition for trade-openings to deliver on their potential economic benefits. Technical assistance and capacity-building would be crucial in this regard, as they may help countries to respond to the challenges and opportunities brought about by technology and the ensuing changes in services trade patterns.

Services trade can be a powerful engine of economic growth, development and poverty reduction, but for this to happen, international cooperation needs to be intensified.