

Introduction

Services are shaping how trade contributes to economic growth and development

The world economy has in recent decades undergone structural shifts brought on by rapid technological developments that have made services one of the most dynamic sectors. The services sector has been the main source of economic growth since the 1990s and services today dominate the production and employment landscape of economies at all levels of development (Nayyar and Davies, 2023).

Subsectors such as logistics, finance and information and communication technologies (ICT) are essential to the functioning of modern economies. Services have long comprised many of the fastest growing sectors of the world economy – such as business services, healthcare, entertainment and ICT services. Examples of the types of services covered by the General Agreement on Trade in Services (GATS) are provided in Figure 1.

Beyond their rising importance in domestic economies, services are also an increasingly prominent feature of cross-border exchanges. Services had long been the most dynamic component of international trade and investment prior to the COVID-19 pandemic and the world has since borne witness to how services offer growing export opportunities, including for developing and least-developed economies, as digitalization and the ability to deliver services remotely remove barriers to trade which can arise from the limited size and challenging geography of economies and ease trade within and across borders.

Services were severely impacted by the pandemic, with business closures and social distancing measures exacting a heavy toll on the sector. Health-related measures adopted to

slow the spread of the virus, including restrictions on cross-border mobility, led to an unprecedented collapse of services trade, which declined across all regions. The impact was more severe for services involving face-to-face interactions. Services trade in the travel sector decreased 81 per cent year-on-year in the second quarter of 2020.

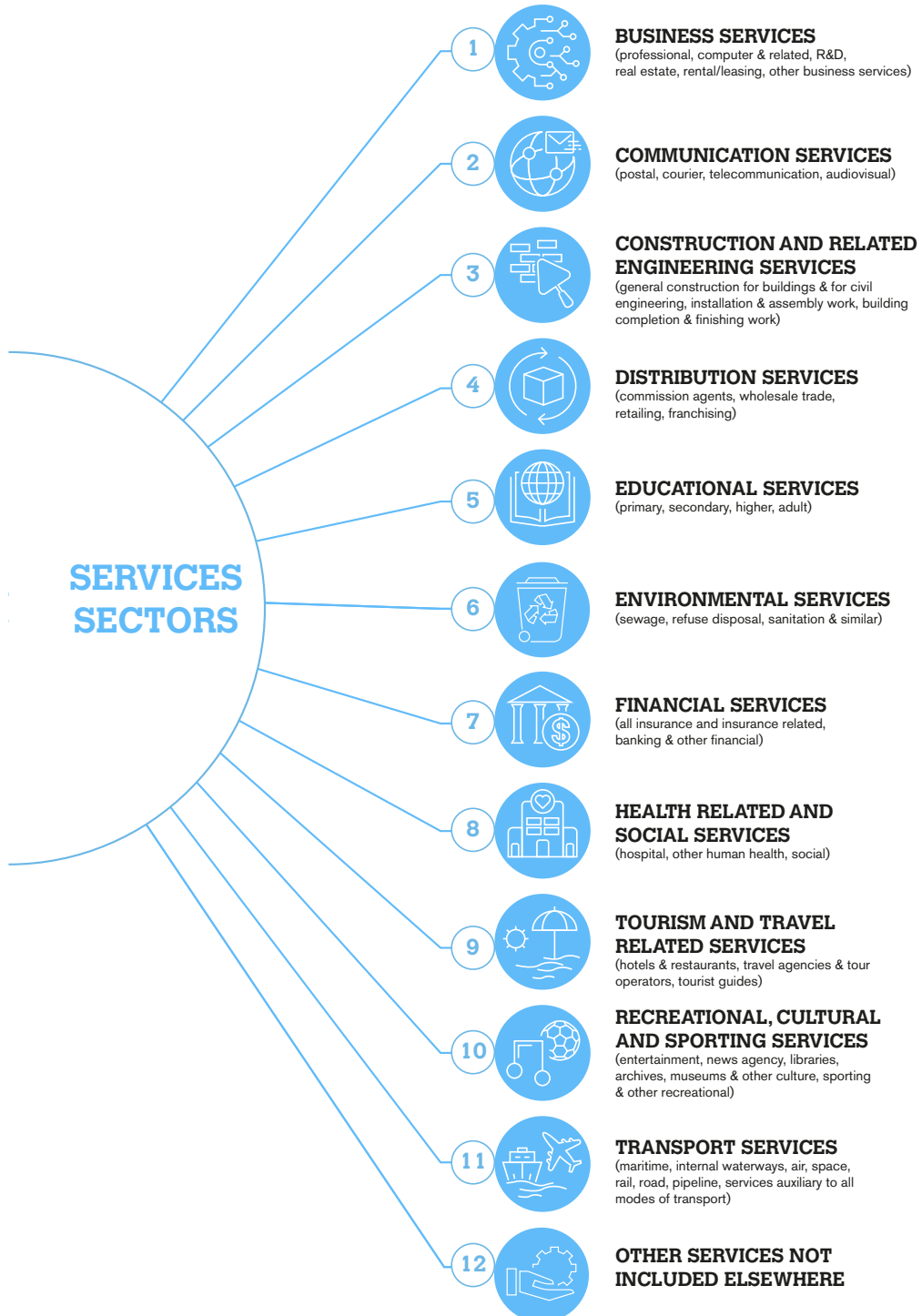
At the same time, ICT services were key in ensuring economic and trade resilience and in speeding up pandemic recovery efforts. A sustained rebound in services trade and investment will be critical to global recovery prospects.

Trade and investment policies in services are essential to harnessing the sector's growth and development potential. However, maximizing the benefits requires a rethinking of the central contribution that services trade plays in the development process. Furthermore, interest in tackling the barriers to trade and investment in the sector needs to be revived at the global level.

The ability of services firms and suppliers to operate outside domestic markets holds the key to promoting growth, deepening integration and speeding up efforts to diversify economies. Economic diversification can be fuelled not only by growing opportunities for services exports but also through the greater use (and sourcing) of competitively priced services as inputs in other sectors.

Services contribute centrally to the operation of cross-border production networks, such as regional and global value chains. When measured in valued-added terms, services account for 50 per cent of world trade.

Figure 1.
Services sectors and subsectors



Source: *Services Sectoral Classification List*, GATT document MTN.GNS/W/120.

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The economy-wide ubiquity of services means the sector plays a key role in the export competitiveness of businesses in all sectors. Productivity gains in extractive industries, agriculture and manufacturing are all shaped by the ease of access to efficient services and infrastructure. Improved access to quality and affordable services can enable developing economies to integrate globally.

Diversification can help to mitigate economic risk and trade volatility. Hence, a more varied range of services exports will increase resilience to unexpected economic events and promote the pursuit of more sustainable development paths (ADB, 2021a; UNCTAD, 2022). A fuller appreciation of the dual nature of services as intermediate inputs and final exports was largely absent, however, when the global services regime took shape during the Uruguay Round of trade negotiations.

Growth in the services sector amplifies the impact and relevance of government policies affecting cross-border trade and investment in services. Such policies, which span a wide

range of “inside-the-border” measures of a regulatory nature, are increasingly important determinants of foreign direct investment, economy-wide productivity gains and export performance.

This publication is a collaboration between the World Bank and the WTO. It is motivated by a shared view that the transformative properties associated with a more service-centric world economy and the contribution that trade and investment in services can make to economic growth and development warrant greater policy attention and revived international cooperation.

The publication aims to help mobilize additional support – and better assistance – for developing and least-developed economies in implementing services trade reforms and reaping the development gains from expanded trade and investment in services.

In arguing the case for reinvigorated international cooperation in services trade, it is important to remember that advancing the development prospects of countries and the welfare of their citizens remains the ultimate goal of policy reform. Trade, economic diversification and deeper integration provide key channels through which broader development aims can be pursued. Such a distinction matters substantively as a host of more purely domestic policies can be expected to condition the scope that exists to use trade and investment as development levers in services.

Simply put, the development payoff from expanded services trade stands to be magnified by supportive domestic business, regulatory and human capital ecosystems.

THE SERVICES SECTOR IS THE MOST DYNAMIC COMPONENT OF INTERNATIONAL TRADE

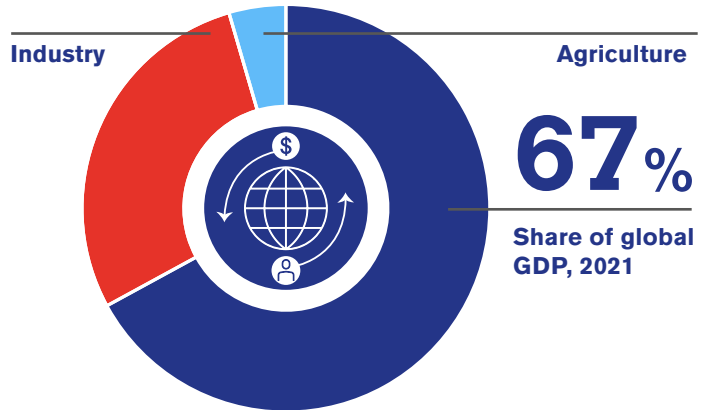


Services account for

50%

of global trade in value-added terms

Services sector is larger than agriculture and industry combined



Digitally delivered services exports were worth

US\$ **3.82 trillion** in 2022



54% of total global services exports were delivered digitally in 2022



+375% The increase in digitally delivered services exports since 2005