Executive summary

This co-publication by the World Bank and the WTO is motivated by a shared view that the structural changes associated with a more service-centric world economy and the central contribution that expanded trade and investment in services can make to economic growth and development warrant greater policy attention and revived international cooperation. An important aim of the publication, and a key reason for its joint nature, is to recall the benefits of advancing the negotiating agenda on trade in services, and the opportunity costs of not doing so. Accordingly, the publication aims to foster reflection on how best to mobilize additional support – and better assistance – for developing and least-developed economies in implementing services sector 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 efforts. 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 policy reforms, spanning areas as diverse as education and training, trade facilitating infrastructure – both physical and digital – and sound regulatory frameworks can affect the degree to which trade and investment in services can serve as development levers. Simply put, the development payoff from expanded services trade stands to be magnified by supportive domestic business, regulatory and human capital ecosystems.

While it is important to consider reforms to services trade in a broader development setting, this publication does not delve extensively into the development dimension of services per se. Rather, it draws attention to the role that can be assigned to deepened international cooperation, and thus to trade policy, negotiations and agreements in the sector, in helping secure the far-reaching development dividends associated to domestic reforms and increased trade in services.

The sheer diversity of the services sector suggests that policy reforms need to pay close attention to – and be informed by – differences in the nature and roles that various services play, in the multiple ways they are traded, in the intensity of the regulatory scrutiny they command, in the broad range of public policy aims their supply pursues and in the political economy forces they put in play. Such differentiation helps explain why services sector governance rarely – if ever – proceeds on a one-size-fits-all basis. It also explains why domestic reforms anchored in trade agreements typically proceed in a progressive manner.

Despite challenges linked to characteristics that are intrinsic to services and to the sector's heterogeneity, a deepened commitment to supportive domestic business environments and to trade openness in services form indissociable parts of a comprehensive growth-enhancing policy agenda. The world economy has in recent decades undergone structural shifts that have brought services to the forefront. Services account for the largest share of global economic activity, generating more than two-thirds of GDP, employ the most workers and are the source of most new job creation, especially for female and young workers. Services spur growth through the key intermediation role they play as inputs into the production of other services and goods, such that the benefits of boosting the competitiveness of services and goods markets are mutually reinforcing.

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, and hence a more varied range of services exports, will increase resilience to unexpected economic events and promote the pursuit of more sustainable development paths.

Beyond their rising importance in domestic economies and their key role as intermediate inputs, 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 arising from the limited size and challenging geography of some economies.

Expanded trade and investment in services can spur productivity growth and act as a key channel for the dissemination and adoption of new technologies and know-how. A conducive business climate for domestic and foreign services providers therefore improves the overall efficiency of resource use. By contributing to improved performance in the sector, services trade policies also represent a critically important means of achieving the United Nations Sustainable Development Goals, contributing in the process to alleviating poverty and increasing shared prosperity.

Elevating the policy attention paid to services requires that domestic and international policies be brought up to speed with the reality of the global services economy. For trade policy-makers, this means intensifying cooperation to overcome obstacles that hinder trade and investment in services. At the domestic level, continued efforts need to be directed to putting in place business and regulatory environments conducive to the supply of more efficient and competitively priced services. At the global level, stepped up cooperation could entail renewed efforts to provide greater transparency and predictability to services trade regimes, building on advances registered in the latest generation of deep preferential trade agreements. Moving in this direction could provide a major boost to restoring the primacy of the multilateral trading system in matters of services trade governance at a time when calls for its reform and reinvigoration have gained wide currency.

Key messages

The publication delivers six key messages.

1. Services trade is highly dynamic and offers important opportunities for developing economies

Services trade has been the most dynamic component of world trade for the last 15 years. Such dynamism provides developing and least-developed economies significant opportunities for export-led growth, economic diversification, inflows of foreign direct investment (FDI) and integration into global value chains.

Services trade promotes greater inclusiveness, particularly for female and young workers and entrepreneurs as well as micro, small and medium-sized enterprises (MSMEs). In 2021, 59 per cent of employed women worked in the services sector, and 9 out of 10 services firms were MSMEs.

Today, the services sector generates half of employment worldwide and two-thirds of global GDP – more than agriculture and industry combined.

These changes in the structure of the global economy challenge long-held perceptions of services as a less desirable path to economic growth and development compared to manufacturing.

2. The growth in services trade is a result of mutually reinforcing factors

The growth in services trade has resulted from the interplay of a number of mutually reinforcing factors. These include not only policy reform efforts to make domestic service markets more contestable (e.g. competitive) but also the accelerating pace of technological change.

Intermediate services (i.e. inputs in the production of other goods and services) play an increasing role in sustaining trade growth through economy-wide improvements in efficiency and facilitating cross-border production.

3. Trade in services has become more digitalized

Fuelled by advances in information and communications technologies (ICT), exports of commercial services almost tripled between 2005 and 2022, with exports of digitally delivered services experiencing the fastest growth, increasing almost four-fold.

During the same period, developing economies accounted for an increasing share of global services trade, as least-developed economies' exports of commercial services grew more than four-fold between 2005 and 2022, while those of other developing economies more than tripled.

The expansion of developing economies' exports is increasingly tied to services supplied across borders through digital means. And developing economies account for an increasing share of non-traditional service exports. Such gains belie the export pessimism that long permeated earlier discussions of services trade and tended to limit developing country engagement in negotiations, particularly at the WTO.

4. Services are central to tackling the most pressing global challenges

Significant opportunities in the services sector still remain to be seized by developing countries. Barriers to trade remain an obstacle in different sectors and modes of supply. However, services trade policy has an important role to play in reducing trade costs, improving the performance of services, attracting FDI, boosting supply-chain resilience and increasing manufacturing productivity and exports.

In this regard, services trade policies play a key role in strategies to promote development. Moreover, there is a growing acceptance that services – and services trade – will prove central to tackling the most pressing global challenges These include benefits offered by a rapidly digitalizing global economy, facilitating timely access to critical goods and services in response to pandemics and natural disasters, addressing food security by adopting the latest technology in agricultural practices, facilitating the transition to a decarbonized global economy, and designing and deploying green technologies.

5. Improved commitments on services trade can bring key benefits

Although services sector reforms are chiefly undertaken by governments at the domestic level through autonomous policy measures, binding commitments in trade agreements represents a key policy complement. While services trade barriers impose significant costs, uncertainty stemming from the absence or relative paucity of binding commitments carries additional costs. Improving the level of binding commitments in services trade can send positive signals to investors about one's business and investment climate.

Encouraging WTO members to bind their best commitments from preferential trade agreements could provide a major boost to multilateral trade diplomacy – without requiring any additional liberalization undertakings – as commitments undertaken in preferential settings are typically implemented on a non-discriminatory (i.e. most-favoured-nation treatment) basis.

The complementary role played by legally binding commitments in trade agreements can help to prevent protectionist backsliding and lock-in prevailing degrees of openness. The scope for unduly discretionary or arbitrary trade action can be reduced through increased transparency and policy predictability. Economies stand to benefit from the significant development gains of reviving the WTO's market access negotiations on services.

6. An Aid for Trade roadmap for services can help tackle key challenges

Adapting international cooperation to the new realities of services trade calls for increased levels of Aid for Trade. This support should be directed to strengthening the capacity of developing economies to design and implement services trade reforms and supply competitive services to global markets. Many developing and least-developed economies find it difficult to conduct domestic policy reforms and negotiations in services trade – not least because of the diverse nature of the service economy, the regulatory intensity that characterizes it, constraints in policy formulation and regulatory enforcement as well as in supply-side capacities.

An approach in which Aid for Trade support underpins efforts to enhance international cooperation, reduce trade costs and improve the transparency and predictability of trading conditions could provide momentum to the services trade policy agenda – particularly at the WTO.

A "trade in services for development" initiative could help to mobilize a coherent Aid for Trade package in services, targeting five key challenges: (i) addressing data gaps in services trade; (ii) supporting greater participation of developing and least-developed economies in policy discussions on trade in services; (iii) strengthening regulatory frameworks and institutions; (iv) promoting diversification, notably that offered by digital services trade; and (v) addressing key supply-side constraints and improving the services-related skills of workers.