INTRODUCTION
• Services are at the heart of the world economy
Economic development is accompanied by an increasing importance of the services sector.

- In the past ten years, emerging economies such as Brazil, China or India have seen an increasing share of GDP coming from services.
• Many services require a face-to-face interaction between the supplier and the consumer
  ➢ Trade in services is not directly comparable to trade in goods and more difficult to discuss.

• Services are intangible, they do not pass borders through customs.
  ➢ Trade in services is difficult to measure and hence analyse.

• Obstacles to trade in services are more complex than in goods trade.
  ➢ International cooperation on trade in services is more difficult.
• Access to competitive and modern services is crucial for economic development
  – Infrastructure services, business services, services necessary for human development.

• The importance of trade in services is rising
  – Trade in commercial services grew faster than trade in goods
  – Digitalization is eroding the proximity burden of services, boosting the potential for cross-border supply.
1. Services trade in numbers
2. Why services trade matters
3. Services trade in the future
4. What role for international cooperation on services trade policy?
SERVICES trade in numbers
Trade in services expanded faster than trade in goods since 2005

Goods: 4.6%
Services: 5.4%

(Average annual growth)
World trade in services worth US$ 13.3 trillion in 2017

Figure B.1: Commercial presence is the most important mode in trade in services
World trade in commercial services by mode of supply, 2017

Source: WTO estimates (2019).
Note: World trade is calculated as the average of world exports and world imports.
Figure B.2: Distribution and financial services are the most traded services\textsuperscript{3}

World trade in commercial services by sector, 2005 and 2017
Figure B.9: Developing economies rise in world trade in services but LDCs continue to lag behind

Share in world trade in commercial services by group of economies, 2005 and 2017

Source: WTO estimates (2019).
In developing economies, services trade is concentrated in the same 5 economies.

Source: WTO estimates (2019).
Note: Values differ from reported statistics by the above economies as they include an estimate of services exported or imported through foreign-controlled affiliates.
Figure B.11: The top five developing economies have modified their way of exporting services over time.

Services exports of selected economy groups by mode of supply, 2005-17

Source: WTO estimates (2019).
Services MSMEs in developing economies export less than large firms, but more rapidly than manufacturing MSMEs.

Figure B.14: Participation in services exports is positively correlated with firm size
Shares of direct and indirect services exports by firm size in developing economies.

Figure B.21: Firms owned by women are under-represented in services exports
Direct and indirect services and manufacturing exports by gender of firm owners and firm size in developing economies (Percentage of total exports)

Why services trade matters
Why Services trade matters

Services trade creates welfare gains for society through:

• a more efficient allocation of resources,

• greater economies of scale,

• increase in the variety of services available,

• more productive firms expand and grow.
Special Features of Services That Can Magnify the Gains from Trade

Beyond these usual gains, services have unique features that can amplify the gains from trade:

• Infrastructural and producer services play a critical role in the economy.

• Productivity of labour force depends on the quality of health and educational services.

➢ Greater access to foreign services = improved efficiency and productivity
The competitiveness of firms in all sectors benefits from services trade:

- Efficiency-enhancing competition in services.

- Services are key inputs for agriculture and manufacturing.
  - In India, services liberalization increased manufacturing firm productivity by around 12%.

- Manufacturing firms can raise their profits through demand complementarities (e.g. AppleCare).
  - Belgian firms that bundle services with manufacturing exports increased their export revenues by 25%.
But the relationship between services trade and manufacturing productivity is not uniform:

• Positive effect differs by sector and the income level of the economy.

• The institutional and regulatory environment of the importer matters.
Evidence on the effects of services openness

Empirical evidence:

• With full financial services liberalization, developing (developed) countries grow 2.3 (1.2) percentage points faster.
• There is a close link between telecommunications liberalization and higher GDP growth rates.
• Maritime services liberalization would reduce transport prices by 9 per cent.

Simulation and back-of-the-envelope estimates:

Table C.1: Welfare (per capita GDP) gains from services trade

<table>
<thead>
<tr>
<th>Source of estimate</th>
<th>Range or average</th>
<th>Remarks</th>
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<tbody>
<tr>
<td>CGE literature</td>
<td>Between 2 to 7 per cent</td>
<td></td>
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<td>Own calculations</td>
<td></td>
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<tr>
<td>a) Arkolakis et al. methodology (2012)</td>
<td>Average: 0.5 per cent</td>
<td>Country coverage: 43 economies</td>
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<td></td>
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<td>Time period: 2000-14</td>
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<tr>
<td>b) Feyrer (2019) methodology</td>
<td>Average: 6.3 per cent</td>
<td>Country coverage: 148 economies</td>
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<td></td>
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<td>Time period: 2000-14</td>
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</tbody>
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Aggregate employment effects seem to be small so far but a growing number of jobs is supported by services trade, also in developing countries:

**Figure C.11: Cross-border services exports support a high share of employment in developing countries**

Share of (services) jobs supported by services exports, 2015

*Source: OECD Trade in employment database. Estimates are for 2015. Services defined as divisions 45 to 98 of ISIC Rev. 4 (i.e. excluding utilities).*
But effects differ at subnational levels:

- Services are on average more skill-intensive leading to higher skill premia.
- Services firms tend to be much more clustered leading to higher regional inequality.
- Services employ on average more women and are less capital-intensive leading to lower gender gaps and opportunities for MSMEs.
Technology can reduce the face-to-face constraint of services

➢ Much larger distributive effects are possible in the future akin to the effects of automation but broader.

But the face-to-face constraint is not the only constraint limiting services:

• Policy constraints
• Need for human interaction in care professions
• Etc.
Services Trade in the Future

- Trade costs in services
- Future trends
- Simulations
Trading services internationally is **4.3 times** more expensive selling service domestically

- **Higher than** goods
- **Decreasing over time**
An important role for trade policy

Figure D.5: Policy-related factors account for a significant part of trade costs
Breakdown of bilateral trade costs in services and goods in 2016

Source: WTO estimates.

Note: Figure D.5 shows to what extent various factors contribute to explaining the bilateral variance in goods and services trade costs. "Other" represents the part of bilateral variation in trade costs that remains unexplained in our analysis. See Appendix D.1 for data sources, an explanation of the methodology and definitions of trade cost categories.
ICT connectivity is more important than in goods

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ICT connectivity: use of internet, fixed and mobile phone and broadband coverage
4 major trends likely to affect services trade in the future

- Demographic Changes
- Rise of Incomes
- Digital Technologies
- Climate changes

Consumers Preferences

Patterns of Specialization

Trade Costs

Size and composition of trade
1. Digital technologies .. Change how, who and what we’ll trade

- MORE cross-border trade ..
- NEW opportunities for SMEs and women
- SECTORAL SHIFTS
eg. transport and logistics vs 3D printing-related services; telesurgery
2. Demographic changes ... new opportunities for trade

Figure D.19: Expenditure on services differs by age group
Share of overall household expenditure in the United States, 2017

Source: WTO calculations based on US consumer expenditure survey.
Note: “Other services” include financial and business services, hotels, restaurants, renting, motor vehicle maintenance and repair, construction and insurance services.

EVIDENCE:
an ageing population
health services

a growing young population
education and digital services
3. Rising incomes .. More demand for skills intensive services

**Figure D.30: As income grows, countries increasingly consume skills-intensive services**

Positive relationship between income elasticity and skill intensity

*Source: Caron et al. (2014)*

*Notes:* Skills intensity is measured by the ratio of skilled labour to total labour input. It is computed including the factor usage embedded in the intermediate sectors used in each sector’s production. “Distribution, hotels and restaurants” includes wholesale, retail and repair services. “Recreational activities” include cultural and sporting activities. “Public services” include public administration, education, health and social work, and sanitation activities.
4. Climate Change ... sectoral disruptions

- Tourism: some destinations at risk and rise of ecotourism
- Transportation: Disruption of traditional routes
- Increasing demand for environmental-related services (including alternative energy services), insurance against climate risks
... services share (excluding mode 3) of global trade to rise from 20% to 30%.
... developing countries share in services trade to rise from 35% to 40%
WHAT ROLE FOR INTERNATIONAL COOPERATION ON SERVICES TRADE POLICY?
International cooperation - WTO

Figure E.3: GATS commitments differ across different groups of members
Average proportion of services sub-sectors subject to specific commitments under the GATS, by different groups of members

- Market opening commitments
- and regulatory disciplines

Note: Groups of members are based on definitions used in the WTO Secretariat report “Participation of developing economies in the global trading system” and WTO’s Statistics Database. The number of services sub-sectors is based on the Services Sectoral Classification List (WTO official document MTN.GNS/W/126). The schedule of the European Union (25) is counted as one, except for the categories of “original members” and “acceded members”, where the schedule of the then European Communities (12) is used, given that a number of the EU (25) members acceded to the WTO after 1995.
International cooperation - RTAs

Figure E.1: Services RTAs have grown significantly
Number of services RTAs notified to the WTO, by year of entry into force (left) and proportion of RTAs notified to the WTO that cover trade in services, by year of entry into force (right).

Source: WTO Secretariat, December 2018.
Figure E.8: RTA commitments go well beyond those undertaken in the WTO
Index of GATS+ commitments in services RTAs, by sector


Note: Based on commitments undertaken by 53 WTO members (counting the European Union (15) as one) in 67 services RTAs (Roy, 2014). The index score is brought within a scale of 0 to 100 for each sector, with 100 representing full commitments (i.e., without limitations) across all relevant sub-sectors. “GATS” reflects the index value for both GATS commitments and services offer in the DDA. “PTA” reflects the index value for a member’s “best” RTA commitments across all its RTAs. The score for EU commitments is for the EC (15).
RTAs have made deeper inroads into establishing regulatory disciplines

Figure E.9: GATS+ provisions on domestic regulatory measures have increased
Number of RTAs with GATS+ disciplines on services domestic regulatory measures

Source: WTO Secretariat calculations based on data extracted from Gootiiz et al. (2019) (based on 137 RTAs notified to the WTO from 1995 to 2018).
• Trade agreements have generally found it difficult to drive services trade reforms - Why?
• Complexity of services trade barriers and regulatory intensity of services may offer a potential explanation
• The context might be changing..
Prospects for further cooperation

• Simultaneous focus on market opening and regulatory governance
  – Supporting domestic regulatory capacity
  – Fostering interaction between trade and sectoral officials
  – Sequencing – a role for phased-in commitments

• Services a central element of trade policy

On-going discussions
Thank you for your attention!