III. TRADE IN COMMERCIAL SERVICES

The Highlights

IN THIS CHAPTER:

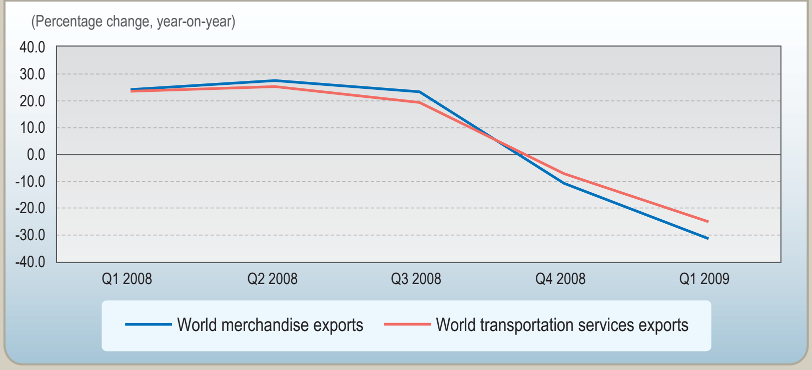
Transportation services

The economic crisis has severely hit sea transportation

In 2008, world exports of transportation services increased by 16 per cent, to US$ 890 billion. Exports grew by more than 20 per cent on average year-on-year during the first nine months of 2008, but in the last quarter, they dropped dramatically in all countries. In Japan and the European Union, they declined by 9 per cent. Singapore recorded a drop of 15 per cent. Exports from Hong Kong, China remained positive, rising by 2 per cent, while US exports of transportation services stagnated.

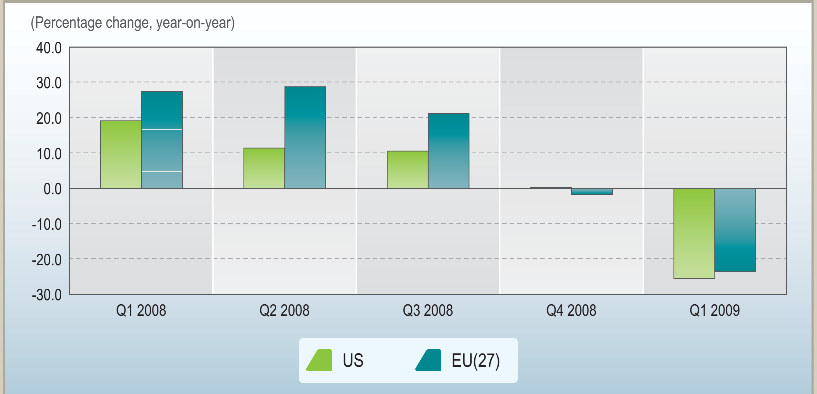
The economic crisis had an immediate effect on sea transport, which accounts for more than 40 per cent of world exports of transportation services. As the global demand for goods declined, the demand for sea transportation services, mainly freight transport, fell significantly. The Baltic Dry Index (BDI),[1] which measures the changes in the cost of transporting raw commodities by sea, reached a record level in Spring 2008, reflecting a high demand for raw materials. However, by December it had dropped by 94 per cent.

Chart III.1
World exports of transportation services and world merchandise exports, Q1 2008 - Q1 2009



According to preliminary data, this negative trend accelerated in the first months of 2009. The United States reported a year-on-year decline of 23 per cent in exports (and 22 per cent in imports) in the period January - May 2009. EU exports are estimated to have declined by 26 per cent in the first quarter of 2009, while Japan's fell by 36 per cent between January and April compared with the same period in 2008. Exports of the Republic of Korea, which had grown by over 40 per cent on average in the first nine months of 2008, fell by 31 per cent in the first quarter of 2009. In the same period, transport exports from Hong Kong, China declined by 17 per cent (the number of containers handled in its ports fell by 18 per cent). No quarterly Balance of Payments statistics are available for China, but US and EU imports from China show a downward trend.

Chart III.2
United States and EU(27)
Imports of transportation services from China, Q1 2008 - Q1 2009



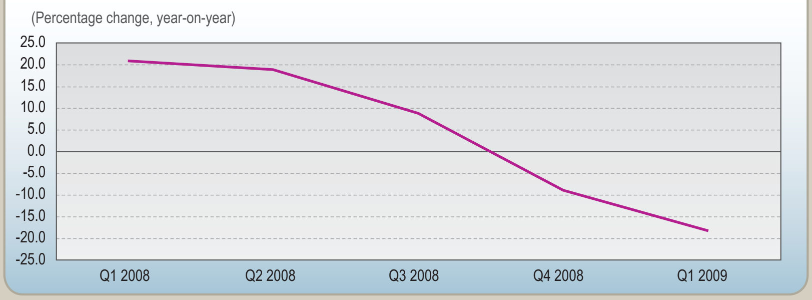
Source: US BEA and EUROSTAT.

1 The Baltic Dry Index is a daily average of prices for shipping of raw commodities in dry bulk cargoes on different international shipping routes. The index fluctuates according to the shift in world demand for raw materials. Declining demand resulting in lower transportation prices will push the index downwards while increased demand will lift the index.

International travel is facing difficult times

International travel, whether for leisure or for business, is the second services sector, after transport, most severely affected by the global crisis. Quarterly data show that world travel receipts were buoyant in the first two quarters of 2008, increasing 20 per cent on average year-on-year. In the third quarter, their growth decelerated, and in the last quarter of the year they declined by 9 per cent. World travel exports are estimated to have dropped by 18 per cent in the first quarter of 2009.

Chart III.3 World travel exports, Q1 2008 - Q1 2009



By the beginning of 2009, virtually all regions had been affected by the economic crisis. In Europe, the European Union travel exports fell by 24 per cent year-on-year in the first quarter of 2009. Turkey, which had enjoyed one of the most rapid growth rates in 2008 (19 per cent), saw its travel receipts fall by 11 per cent in the first quarter. In North America, US travel exports contracted by 9 per cent, while in Canada, they plummeted by 24 per cent. In Asia, Thailand's exports decreased by 26 per cent while in Australia the decline was 18 per cent. In Africa, Egypt and Morocco's travel receipts dropped by 17 per cent and 30 per cent respectively.

The outlook for the sector in 2009 as a whole is bleak. In addition to the adverse economic conditions, the growing fear of the influenza pandemic A (H1N1) might have a negative impact on international travel. The World Tourism Organization forecasts a global decline of 4 to 6 per cent of international tourist arrivals in 2009.

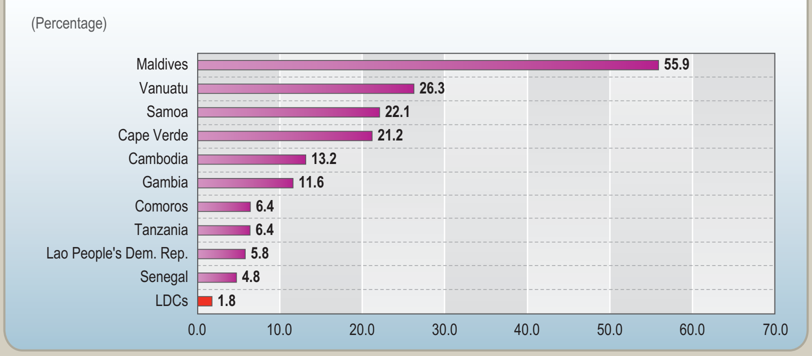
Tourism in the least-developed countries (LDCs) has been severely affected

Preliminary data confirm that tourism in the LDCs has been severely affected by the economic downturn. For those countries that are dependent on tourism revenues, the impact of the crisis may be dramatic. For the Maldives, where travel exports account for 56 per cent of GDP, travel receipts are expected to decrease by more than 20 per cent in 2009.

Chart III.4 Maldives - Travel exports and international tourist arrivals, 2007-2009 forecast

Source : Maldives Monetary Authority and UNWTO.

Chart III.5 Ratio of travel exports to GDP in selected LDCs, 2007

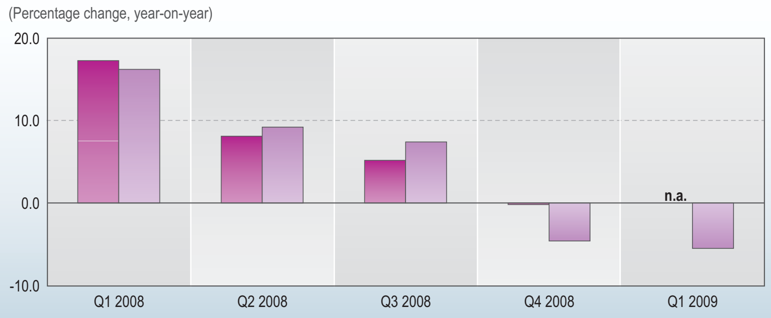


Cambodia is the largest travel exporter among LDCs. In 2007, travel receipts accounted for 75 per cent of the country's total exports of commercial services and 13 per cent of its GDP.

During the last quarter of 2008, Cambodia's travel exports stagnated, reflecting the progressive decline in the number of international tourists.

The economy reported a drop of 6 per cent year-on-year in international tourists in the first quarter of 2009.

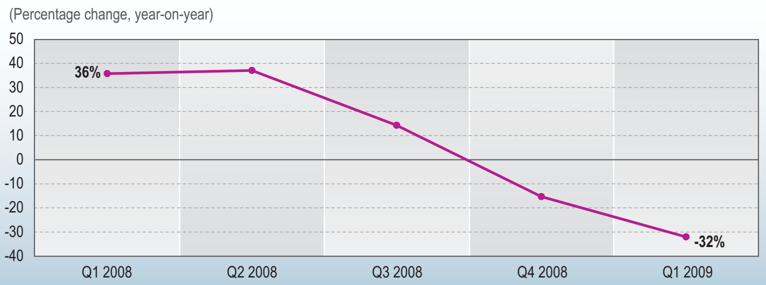
Chart III.6 **Cambodia - Travel exports and international tourist arrivals, Q1 2008 - Q1 2009**



Source: IMF and UNWTO.

Cape Verde, graduating from the LDC group at the end of 2007, is also suffering the repercussions of the recession. Its travel exports, which accounted for 21 per cent of GDP in 2007, plummeted from a year-on-year increase of 36 per cent in the first quarter of 2008 to a decline of 32 per cent in the first three months of 2009.

Chart III.7 **Cape Verde - Travel exports, Q1 2008- Q2 2009**



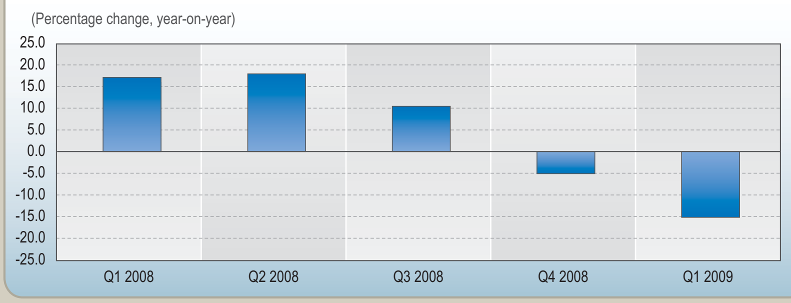
Source: Bank of Cape Verde.

Other commercial services

Other commercial services have not been as badly affected by the economic downturn

World exports of other commercial services increased by 11 per cent in 2008, to US$ 1935 billion, recording their lowest growth since 2002.

Chart III.8 **World exports of other commercial services, Q1 2008- Q2 2009**



This category of services has shown more resilience to the economic recession than transportation services and the travel sector. With an average year-on-year increase of 18 per cent in the first two quarters of 2008, world exports of other commercial services were less dynamic than exports of transportation services. However, their fall following the economic crisis was less severe declining by 5 per cent in the last three months of 2008. In the first quarter of 2009, however, exports were estimated to have declined by 15 per cent globally.

In 2008, the Russian Federation recorded the highest increase in exports, rising by 34 per cent, and mirroring the growth rate of 2007. Thanks to sustained growth in 2008, the Russian Federation has become the tenth-largest exporter of other commercial services, rising from 13th place in 2007. Business, professional and technical services, which account for more than half of the country's exports of other commercial services, were mainly exported to the European Union, the United States and Switzerland.

Exports of financial services have plummeted

The decrease in exports of other commercial services is largely due to the turmoil in the financial sector. Having recorded the fastest growth within this category in 2007 (32 per cent), world exports of financial services are estimated to have increased by only 2 per cent in 2008, due to the sharp year-on-year drop in the last quarter of 2008 (a decline of 19 per cent). According to preliminary estimates, in the first quarter of 2009 the global decline in exports of financial services is estimated at 26 per cent.

In the Balance of Payments, exports of financial services comprise mainly fees and commissions earned by resident banks (and other financial institutions) arising from financial asset management activities and transactions in financial instruments with non-residents. These commissions are primarily related to the value of the managed assets. Following the crisis in the financial markets, the value of assets under management has fallen sharply. This has translated into a net reduction in the commissions and fees earned by resident banks, and thus a collapse in exports of financial services.

Chart III.9 World exports of financial services, Q1 2008 - Q1 2009

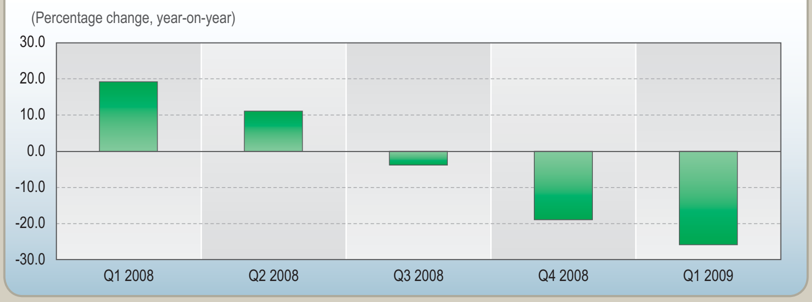
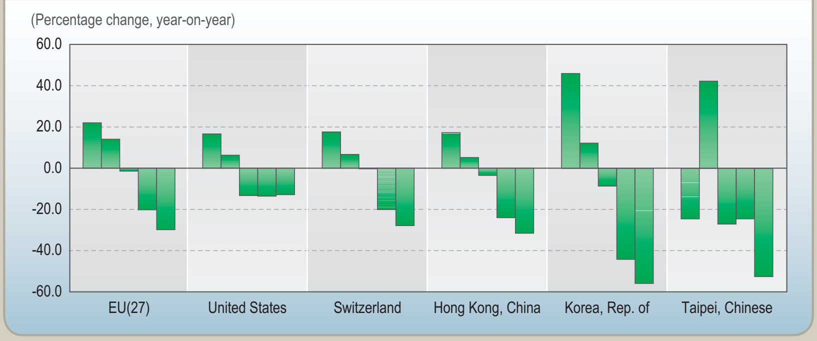


Chart III.10 Quarterly exports of financial services of selected leading exporters, Q1 2008 - Q1 2009



The repercussions of the financial crisis are clearly visible in the data of leading exporters of financial services. In Switzerland (including financial services indirectly measured) and the European Union, exports of financial services fell by 20 per cent year-on-year in the last quarter of 2008. In the United States, where the financial crisis originated, exports of financial services declined by 14 per cent in the same period. Preliminary figures for the first quarter of 2009 show a further decline in exports for the leading exporters, ranging from 13 per cent for the United States to an estimated 30 per cent for the European Union. However, some of the sharpest declines in the first quarter of 2009 were recorded in Asian economies, such as in Hong Kong, China (a drop of 32 per cent), Chinese Taipei (53 per cent) and the Republic of Korea (56 per cent).

Measuring construction

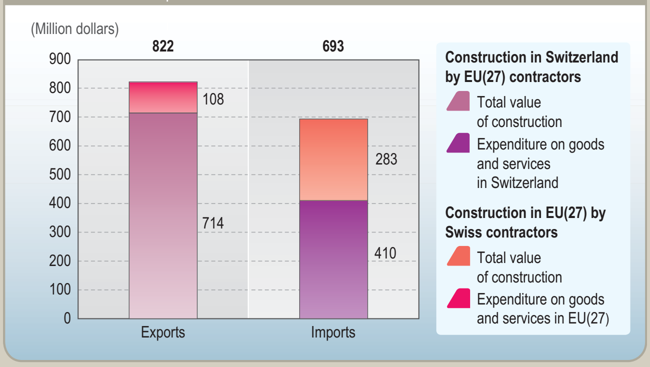
Interpreting construction data is problematic

In the Balance of Payments, construction covers work performed on construction projects and installation of employees of an enterprise in locations outside the economy of this enterprise. However, interpreting construction trade solely based on Balance of Payments data is problematic for two reasons: residency criteria and definitions used for compiling this item. In general, a one-year guideline and/or the importance of external operations are used for defining residency. For construction, the latter are, for instance, based on the size of projects, the location from which the construction project is conducted (the economy of the contractor or in the economy where the project is taking place), availability of separate accounts for these external operations, defining where income tax is payable etc. In other words, compilers should specify if the external operations of contractors are substantial enough to constitute a branch abroad. When they are not branches, the transactions will be recorded as trade in services in the Balance of Payments. If they are branches, they will be captured by other sets of statistics covering resident-to-resident transactions (foreign affiliates statistics). Economies using residency criteria in a flexible way allocate transactions differently: some will classify most or all international construction projects (however long they last, including large-scale projects) as trade in services, as defined in the Balance of Payments (e.g. Japan), whereas others will only consider smaller projects (in general using solely the one-year guideline; larger-scale projects being covered in foreign affiliates statistics, e.g. EU members).

With respect to the definition of construction in the Balance of Payments, all economies record in principle the gross value of construction (i.e. inclusive of the value of all goods, services, labour inputs and the operating surplus). Goods used by construction companies for their projects are therefore included. This implies that the "true" services component tends to be over-estimated. Also, practice differs in the way economies record the costs of materials, services and labour bought within the economy where the construction is taking place. Historically, they were not recorded under construction (many economies are still applying this treatment, e.g. Australia) whereas, according to the most recent guidelines, these costs should be reported under "construction". This "new" treatment means that for a compiling economy, credits (exports) record both the total value of the construction taking place abroad plus the costs incurred by foreign contractors in the compiling economy for construction projects taking place in this compiling economy. Debits (imports) cover the total value of foreign construction projects taking place in the compiling economy plus the compiling economy's expenses abroad for projects taking place abroad. In other words, data disaggregated into construction abroad (credits and debits) and construction in the compiling economy (credits and debits) provide a sounder basis for analysing trade in construction, which is actually the treatment encouraged in recent statistical guidelines.

The chart illustrates this data issue by presenting trade in construction by the European Union, which is the only set of countries to provide separate data for construction abroad and construction in the economy where the service is taking place. Data are presented for EU construction taking place in Switzerland, and Swiss construction projects taking place in the European Union. EU exported construction to Switzerland in 2007 was worth US$ 820 million, of which US$ 713 million corresponded to the gross value of contracts of EU contractors in Switzerland and US$ 107 million to goods and services acquired by Swiss contractors for construction projects taking place in the European Union. Similarly, the European Union imported US$ 694 million of construction from Switzerland, of which US$ 283 million was the gross value of contracts sold by Switzerland to the European Union and US$ 411 million corresponded to goods and services acquired by EU contractors for construction projects taking place in Switzerland.

Chart III.11 EU(27) trade in construction with Switzerland, 2007



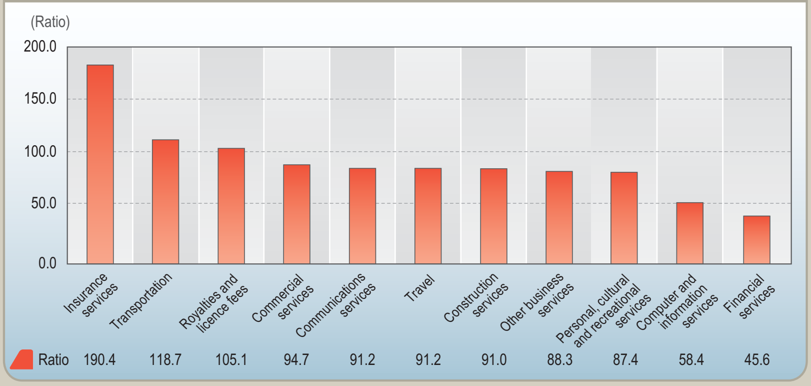
Asymmetries in trade in commercial services

Discrepancies exist in trade flows in services

In theory, world exports and imports of services (the total level and for specific services items) should match each other. In practice, this is never the case. Discrepancies between the respective trade flows can be quite significant. Reasons for this include misallocations, missing values, the way estimates are produced, and different data collection systems. These differences are often interpreted as an indication of the poor quality of data.

For travel or other commercial services, for example, world imports tend to be lower than world exports. This supports the general argument that services export statistics are more reliable than import statistics – due to the fact that a small number of large exporters are easier to monitor than numerous importers of various sizes. World imports of financial services cover only 46 per cent of world exports. One reason for this is that for certain types of financial and fund management services, only exporters may be fully aware of the exported "fees".

Chart III.12
Discrepancies between world exports and imports data, ratio of exports to imports, percentage, 2007



However, there are instances where the reverse is true. For transportation or insurance services, for example, recorded world imports are much larger than world exports. This may be due to different methodologies and data sources employed by countries to estimate these services. To improve data quality, these discrepancies should be addressed at the national level through bilateral reconciliation exercises, especially with major trading partners.