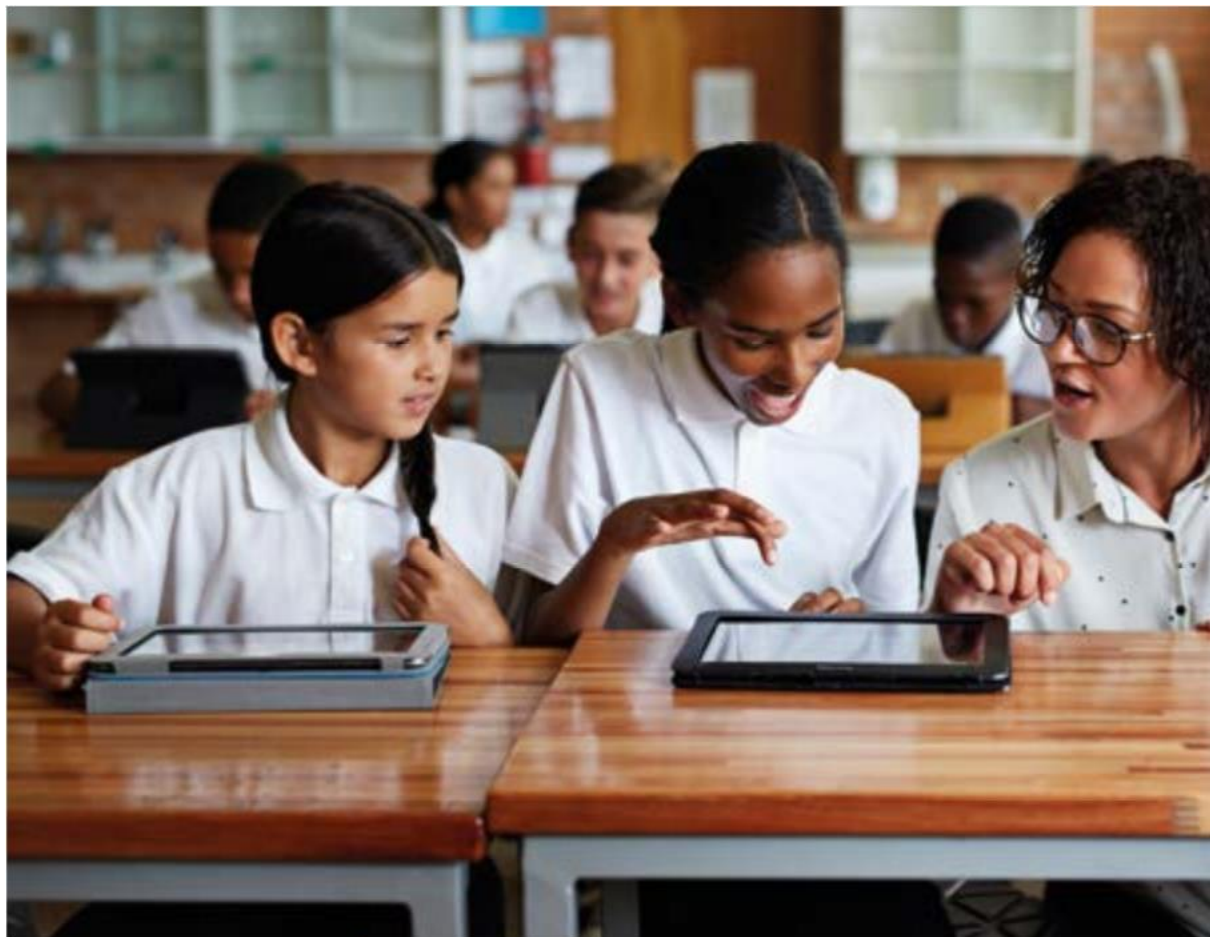


WORLD TRADE REPORT 2019

The future of services trade

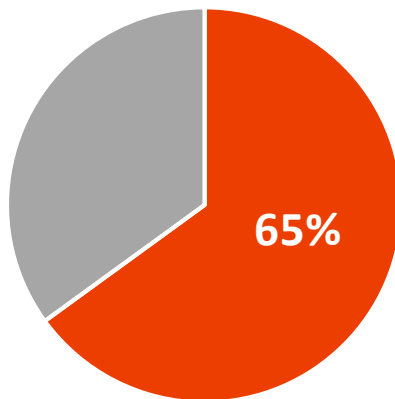
18 November 2019

INTRODUCTION

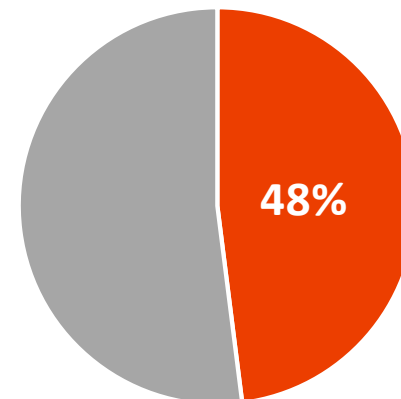


- Services are at the heart of the world economy

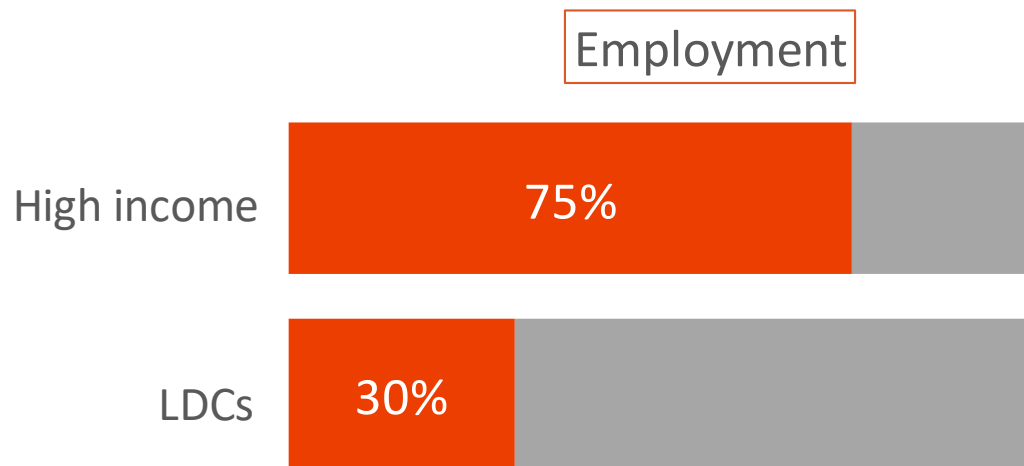
Global GDP



Global Employment



- 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.

OUTLINE

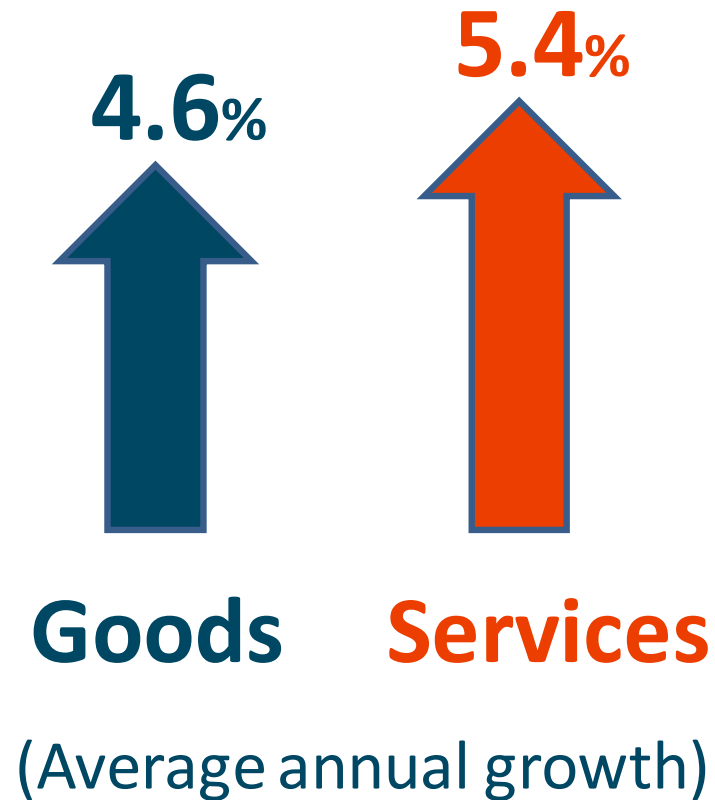
1. Services trade in numbers
2. Why services trade matters
3. Services trade in the future
4. What role for international cooperation on services trade policy?

SERVICES TRADE IN NUMBERS



SERVICES TRADE IN NUMBERS

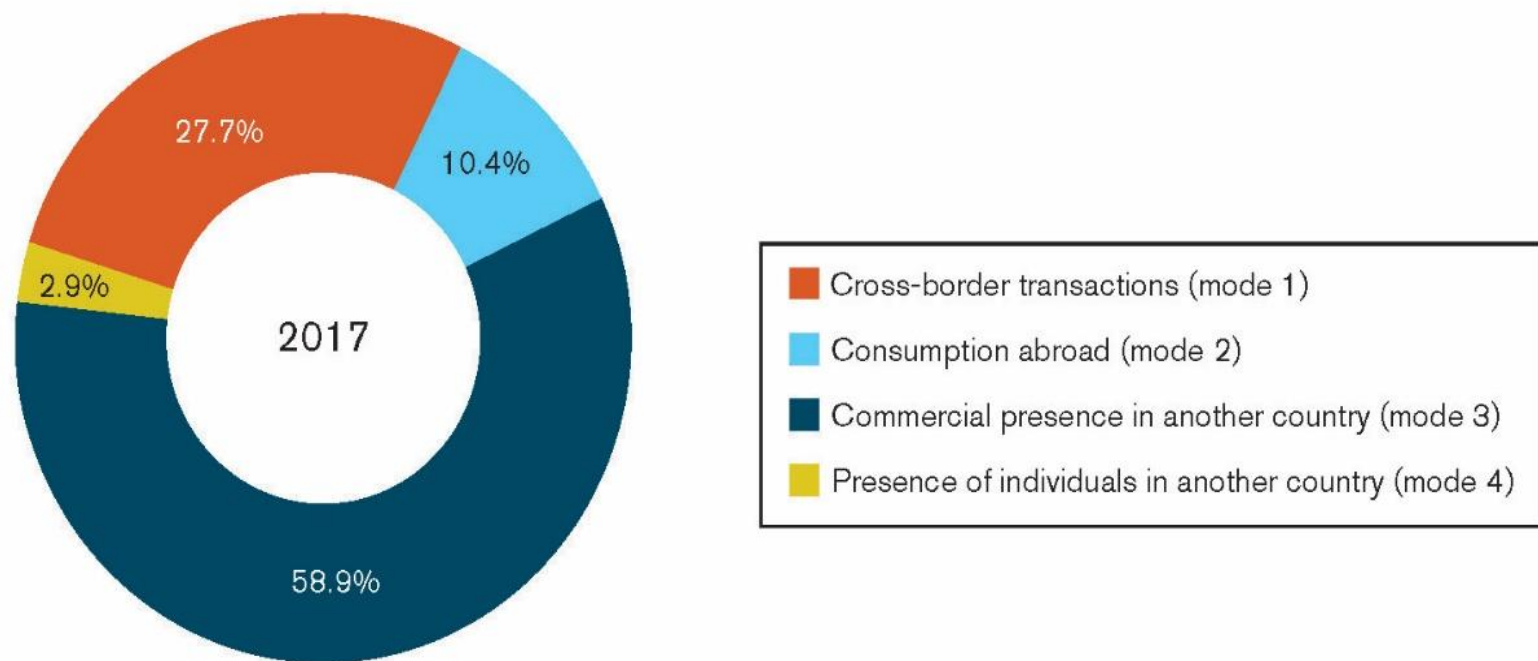
Trade in services expanded faster than trade in goods since 2005



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 services³

World trade in commercial services by sector, 2005 and 2017

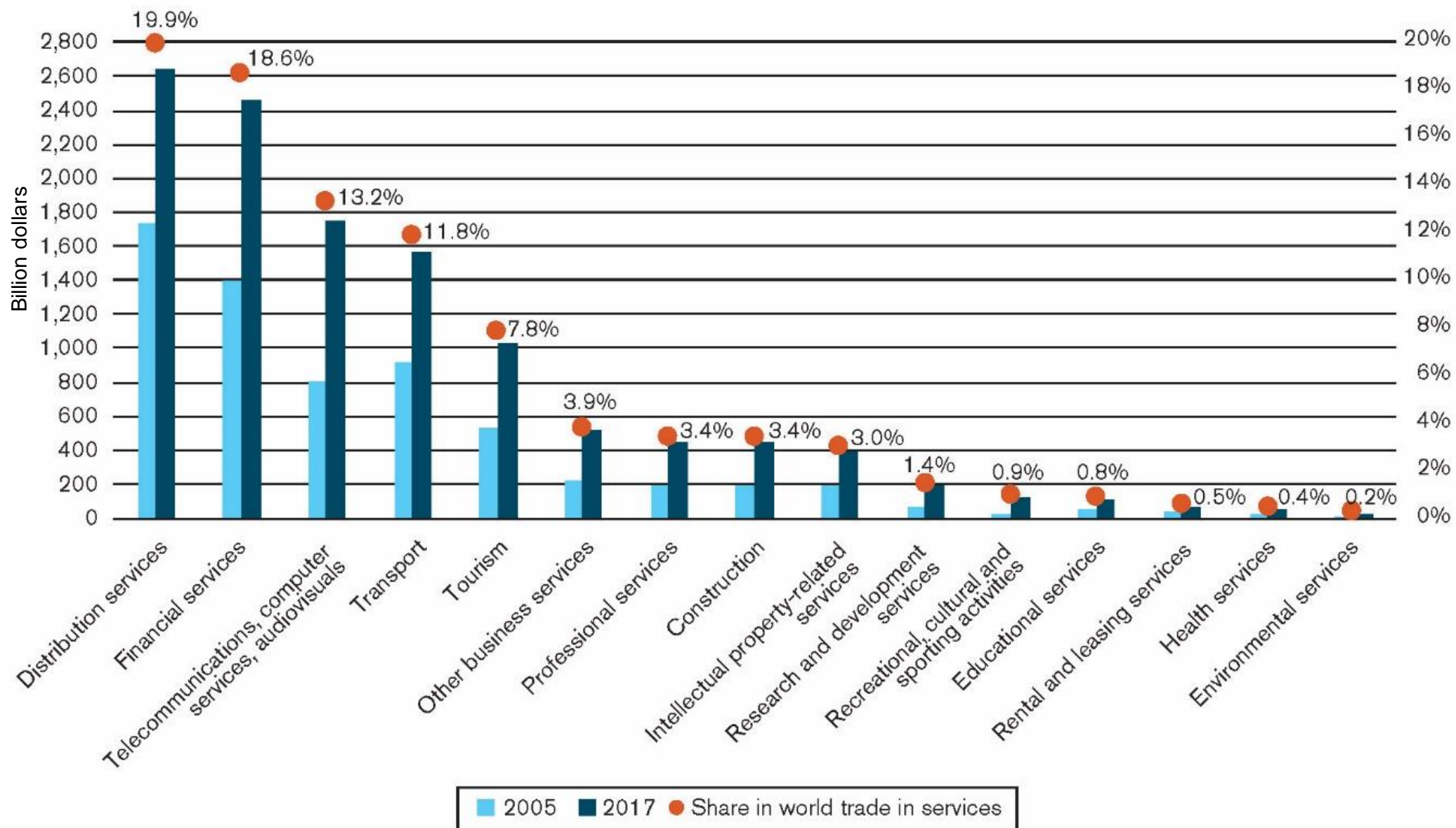
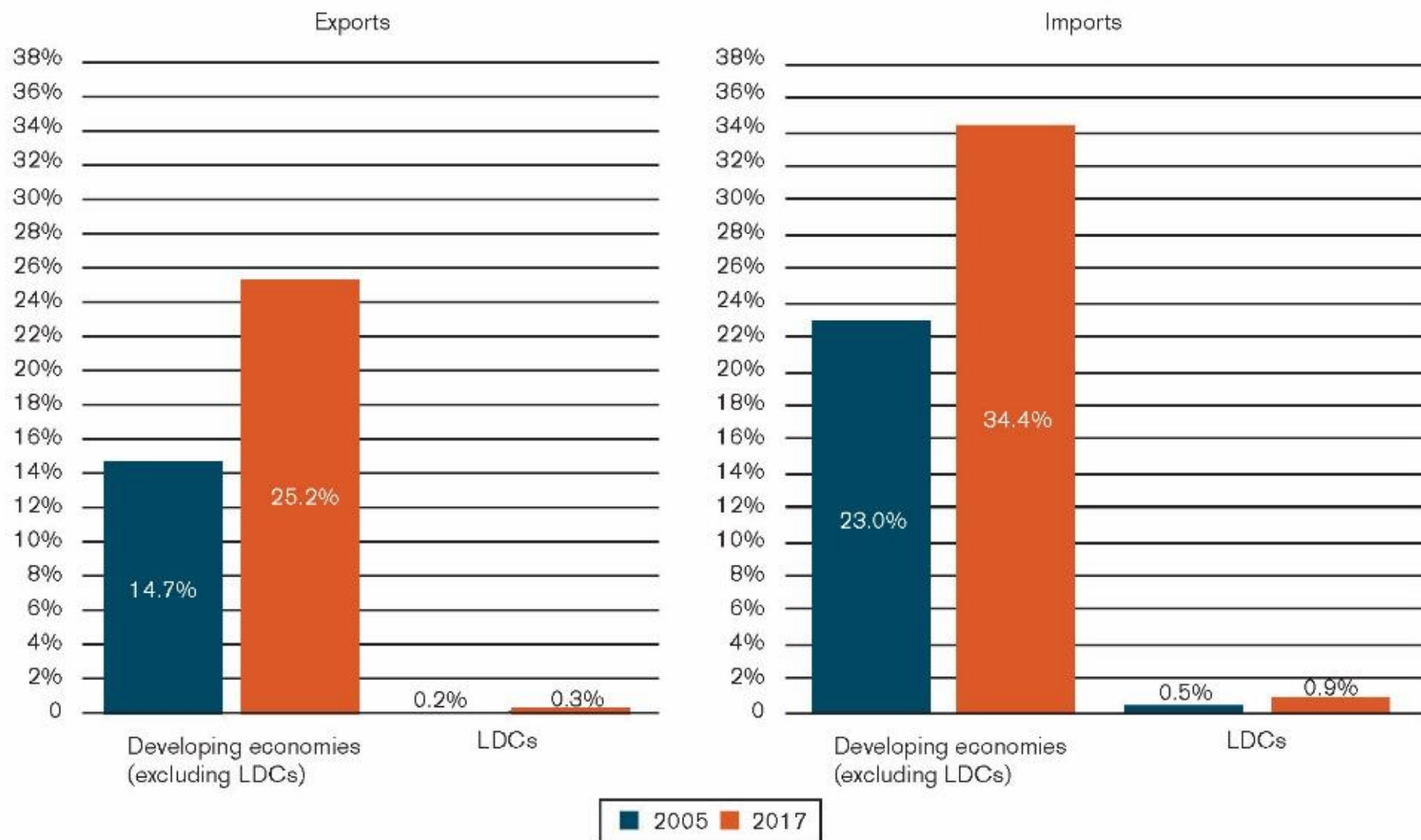


Figure B.9: Developing economies rise in world trade in services but LDCs continue to lag behind

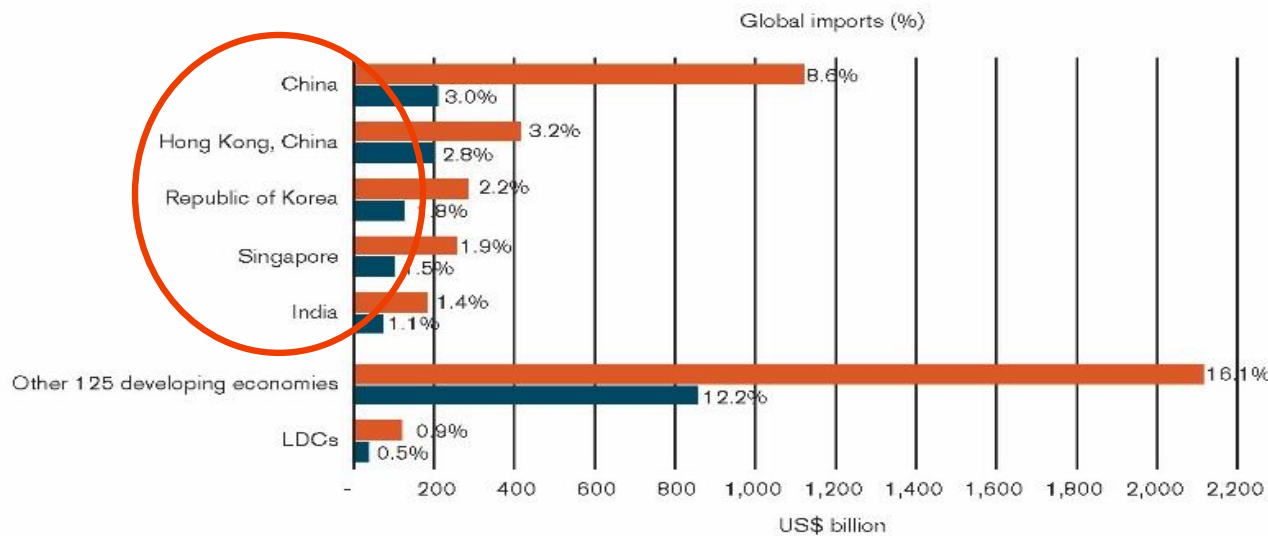
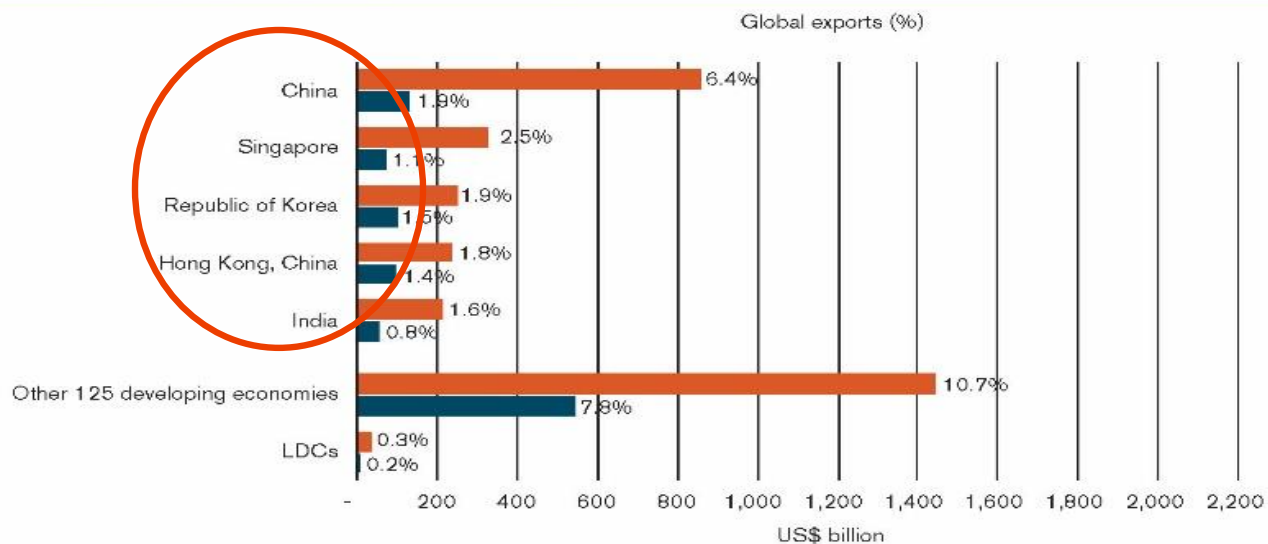
Share in world trade in commercial services by group of economies, 2005 and 2017



Source: WTO estimates (2019).

Figure B.10: Five Asian economies account for more than half of developing economies' exports and imports

Leading developing services exporters and importers, 2005 and 2017



■ 2005 ■ 2017

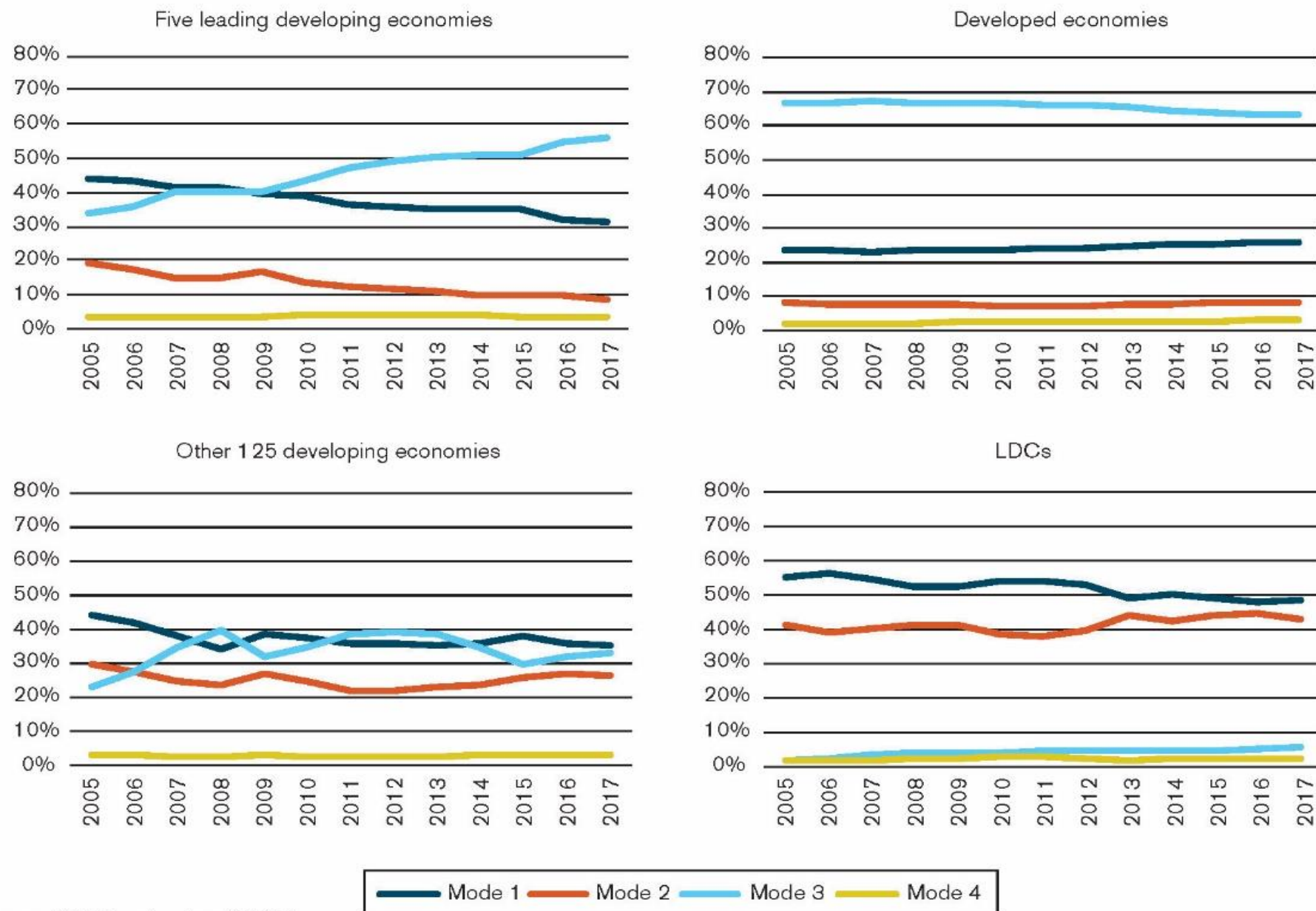
Source: WTO estimates (2019).

Note: Values differ from reported statistics by the above economies as they include an estimate of services exported or imported through foreign-controlled affiliates.

In developing economies, services trade is concentrated in the same 5 economies

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

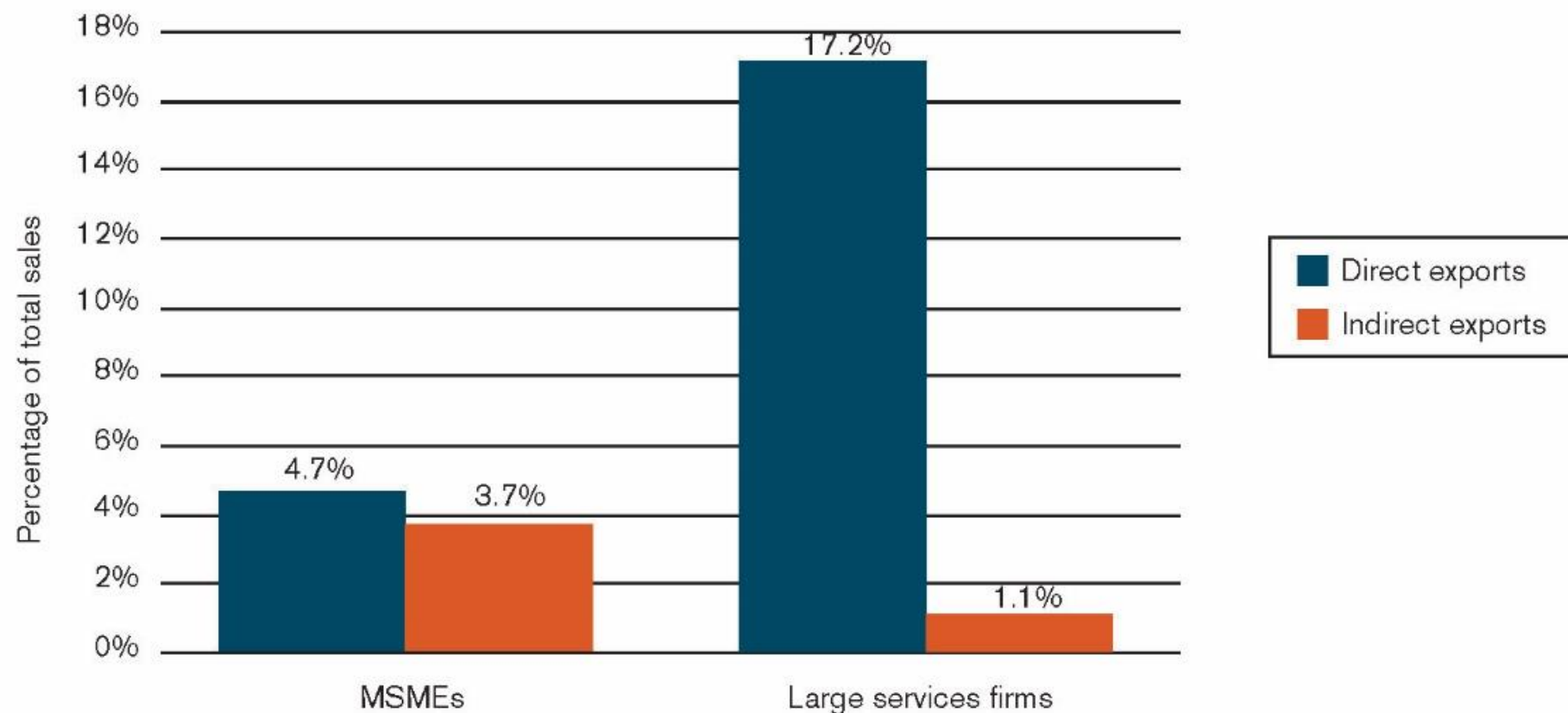


Source: WTO estimates (2019).

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

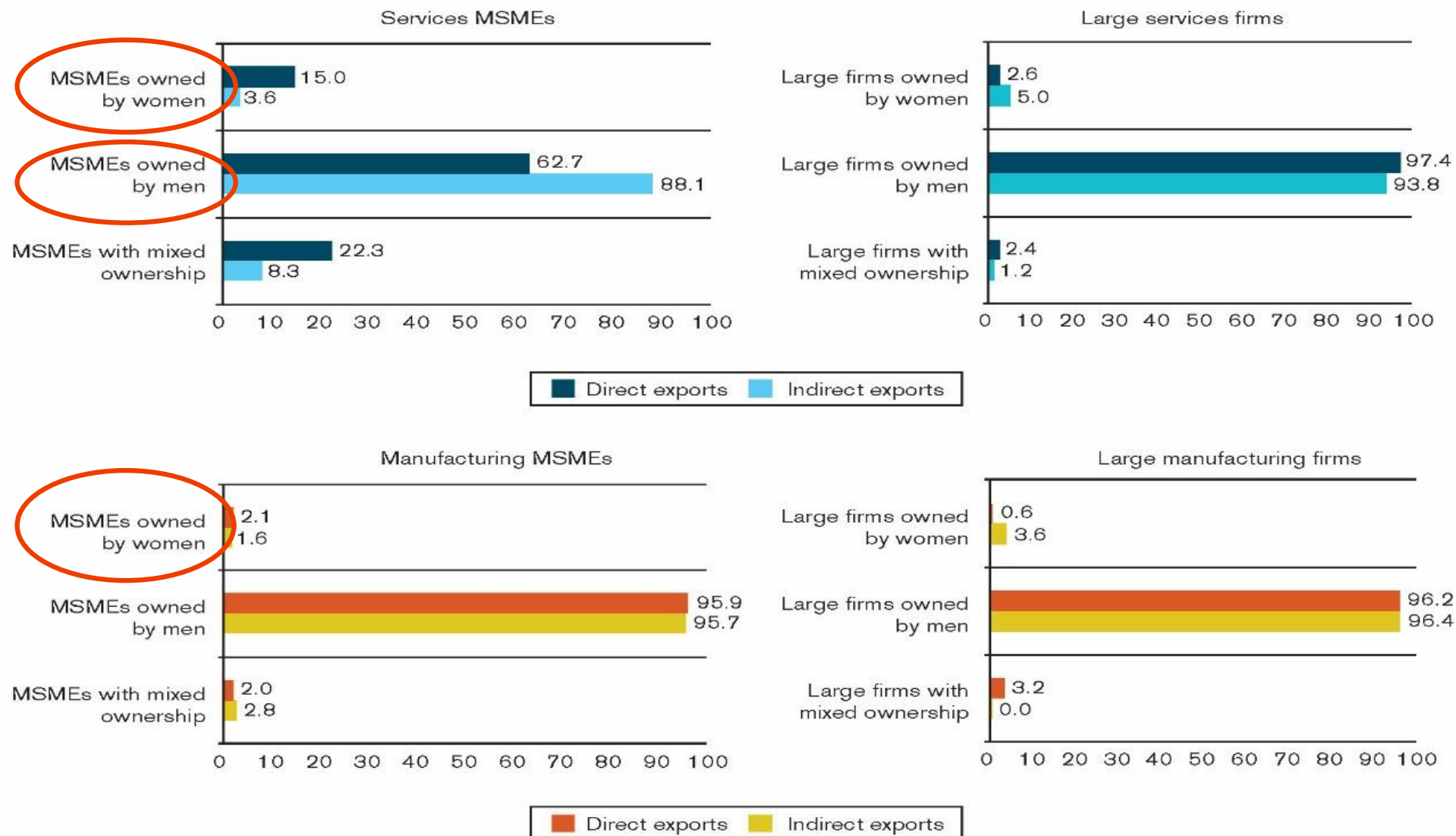
Shares of direct and indirect services exports by firm size in developing economies



Source: WTO estimates (2019) based on World Bank Enterprise Surveys.

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)



Source: WTO estimates (2019) based on World Bank Enterprise Surveys.

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

EFFECTS OF SERVICE TRADE ON FIRM COMPETITIVENESS

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%.

EFFECTS OF SERVICE TRADE ON FIRM COMPETITIVENESS

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

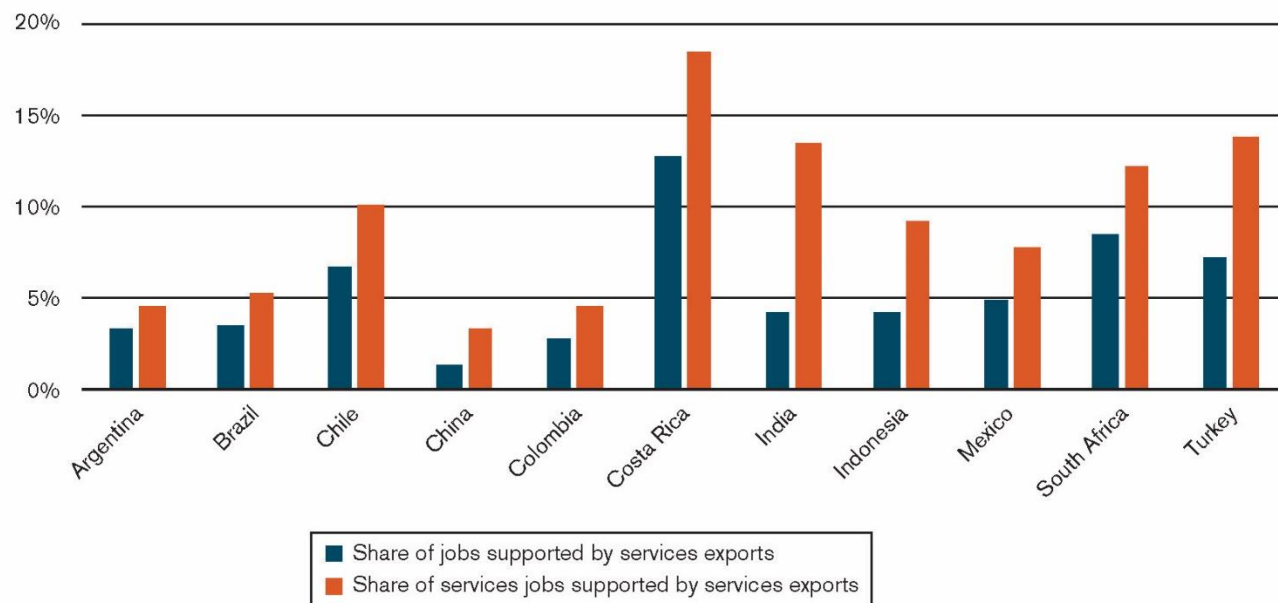
Source of estimate	Range or average	Remarks
CGE literature	Between 2 to 7 per cent	
Own calculations	Average: 0.5 per cent	Country coverage: 43 economies Time period: 2000-14
a) Arkolakis et al. methodology (2012)		
b) Feyrer (2019) methodology	Average: 6.3 per cent	Country coverage: 148 economies Time period: 2000-14

HOW ARE THE GAINS DISTRIBUTED

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



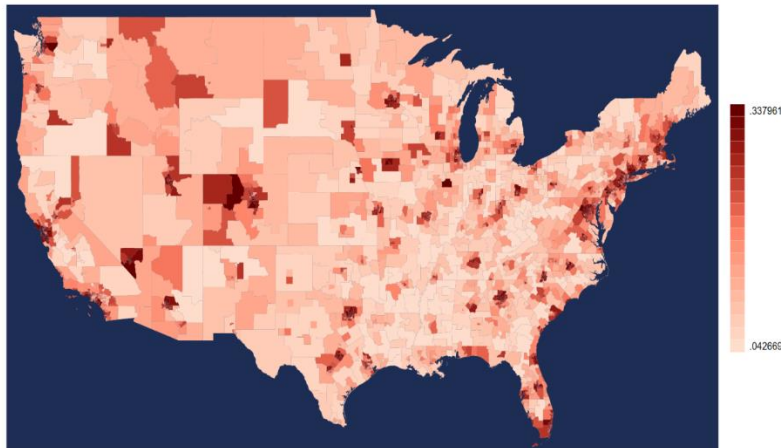
Source: OECD Trade in employment database. Estimates are for 2015. Services defined as divisions 45 to 98 of ISIC Rev. 4 (i.e. excluding utilities).

HOW ARE THE GAINS DISTRIBUTED

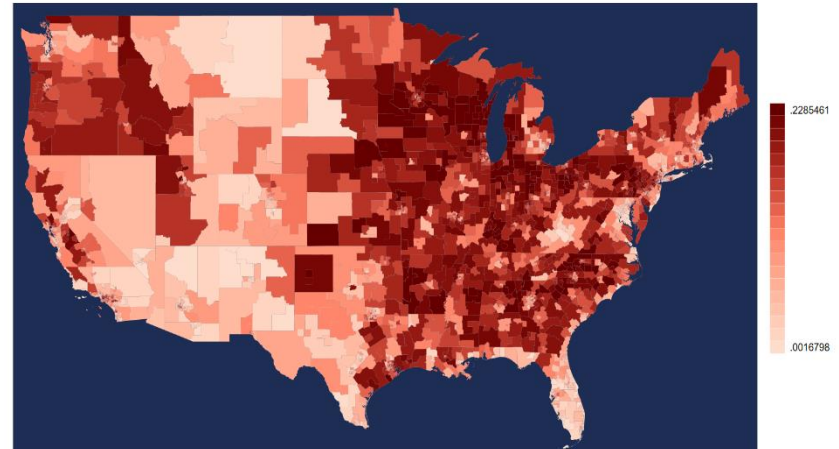
But effects differ at subnational levels:

- 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.

Professional Services
USA, 2016



Manufacturing
USA, 2016



- Services employ on average more women and are less capital-intensive leading to lower gender gaps and opportunities for MSMEs.

POTENTIAL FUTURE LABOUR MARKET EFFECTS

Technology can reduce the face-to-face constraint of services

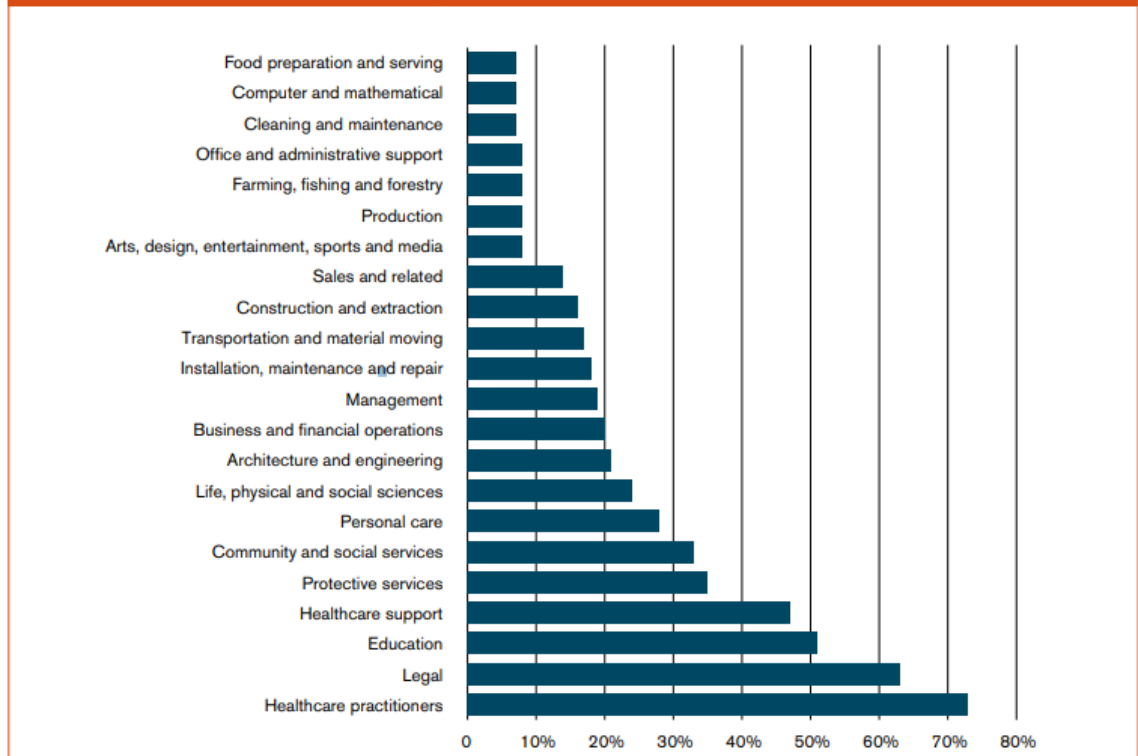
- Much larger distributive effects are possible in the future akin to the effects of automation but broader.

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

- Policy constraints
- Need for human interaction in care professions
- Etc.

Figure C.14: The share of professionals in services sectors with a license differs widely across industries

Share of professionals in a given service industry holding a license, United States, 2018



SERVICES TRADE IN THE FUTURE



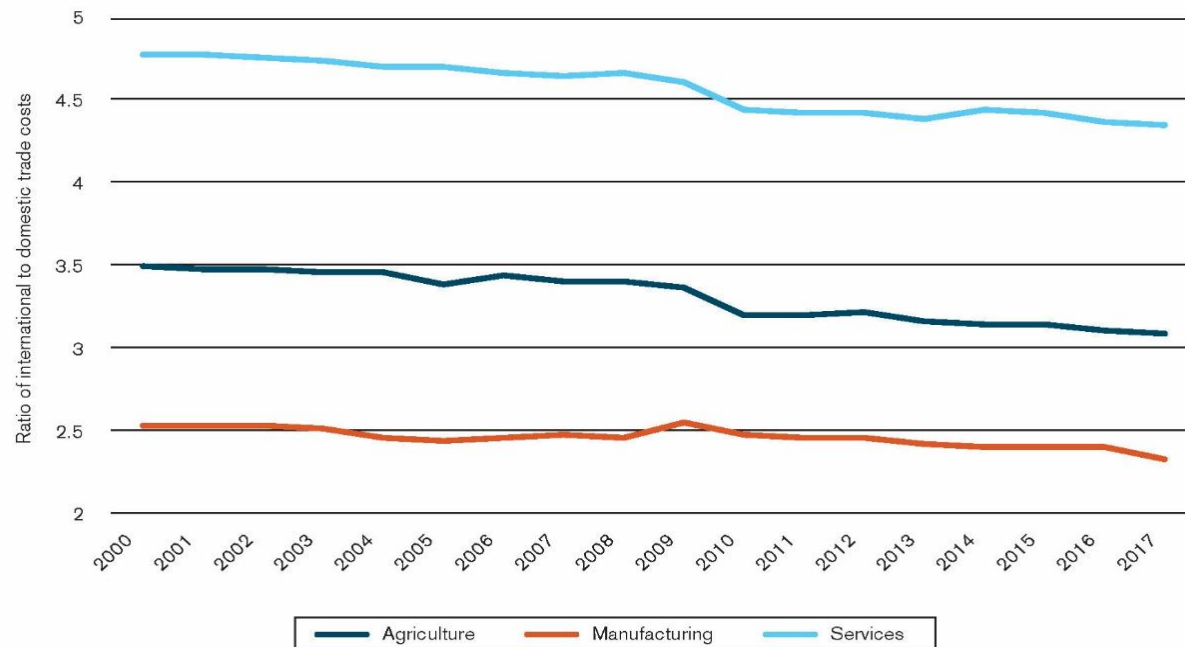
- Trade costs in services
- Future trends
- Simulations

Trade Costs in Services ... as measured looking at trade flows

Trading services internationally is **4.3 times** more expensive selling service domestically

Figure D.1: Trade costs are highest for services

Trade costs by broad sector, 2000-17



Source: WTO estimates.

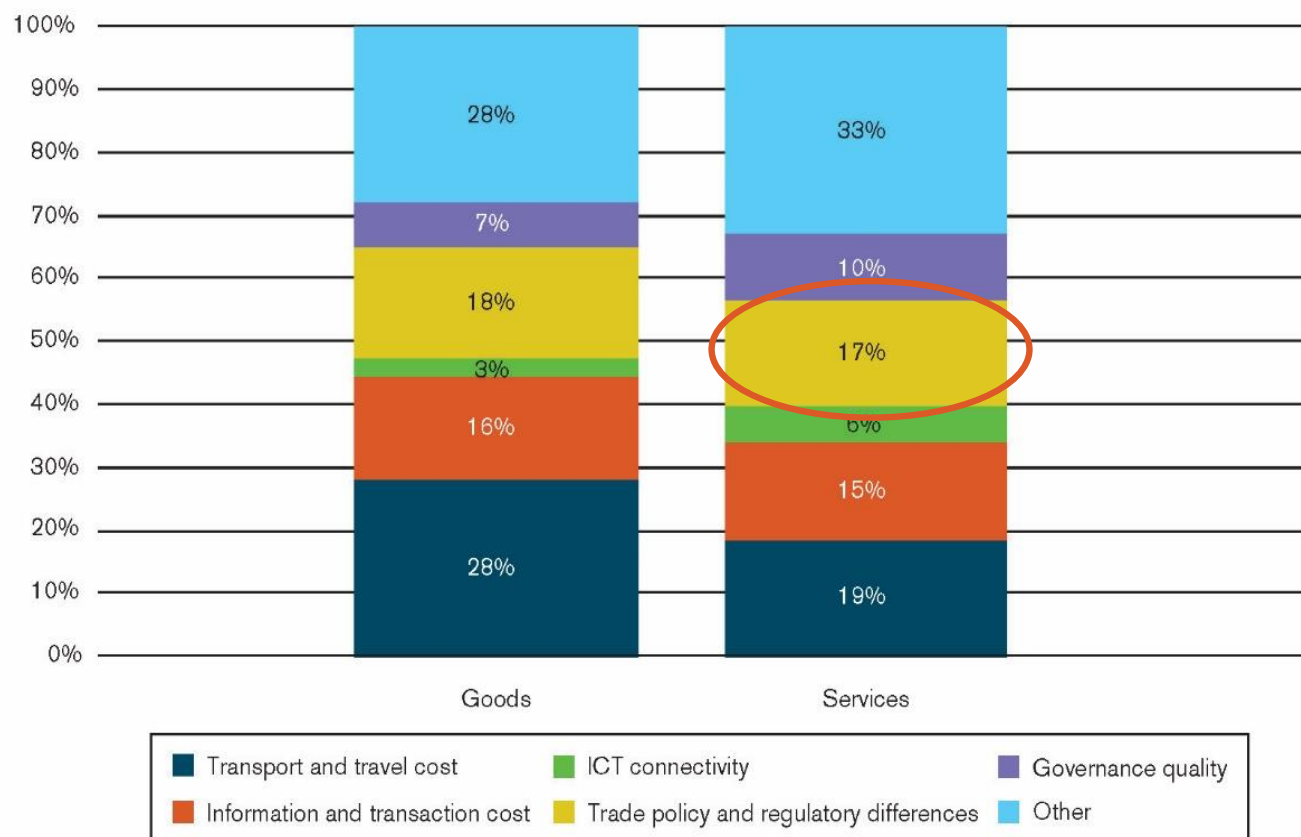
Note: The results are based on data for 43 economies. See Appendix D.1 for data sources and an explanation of the estimation methodology. The value of trade costs represents the ratio of international to domestic trade costs.

- 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



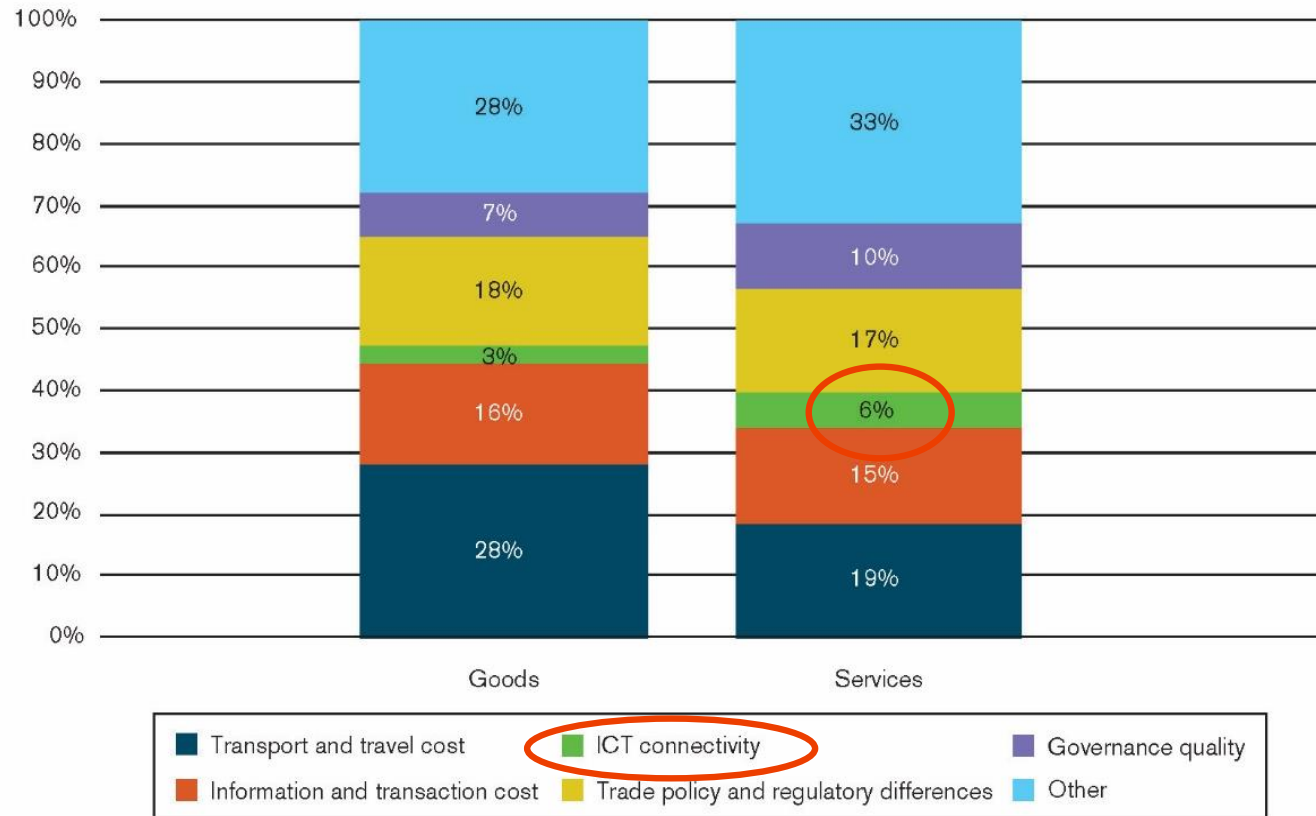
Source: WTO estimates.

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

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

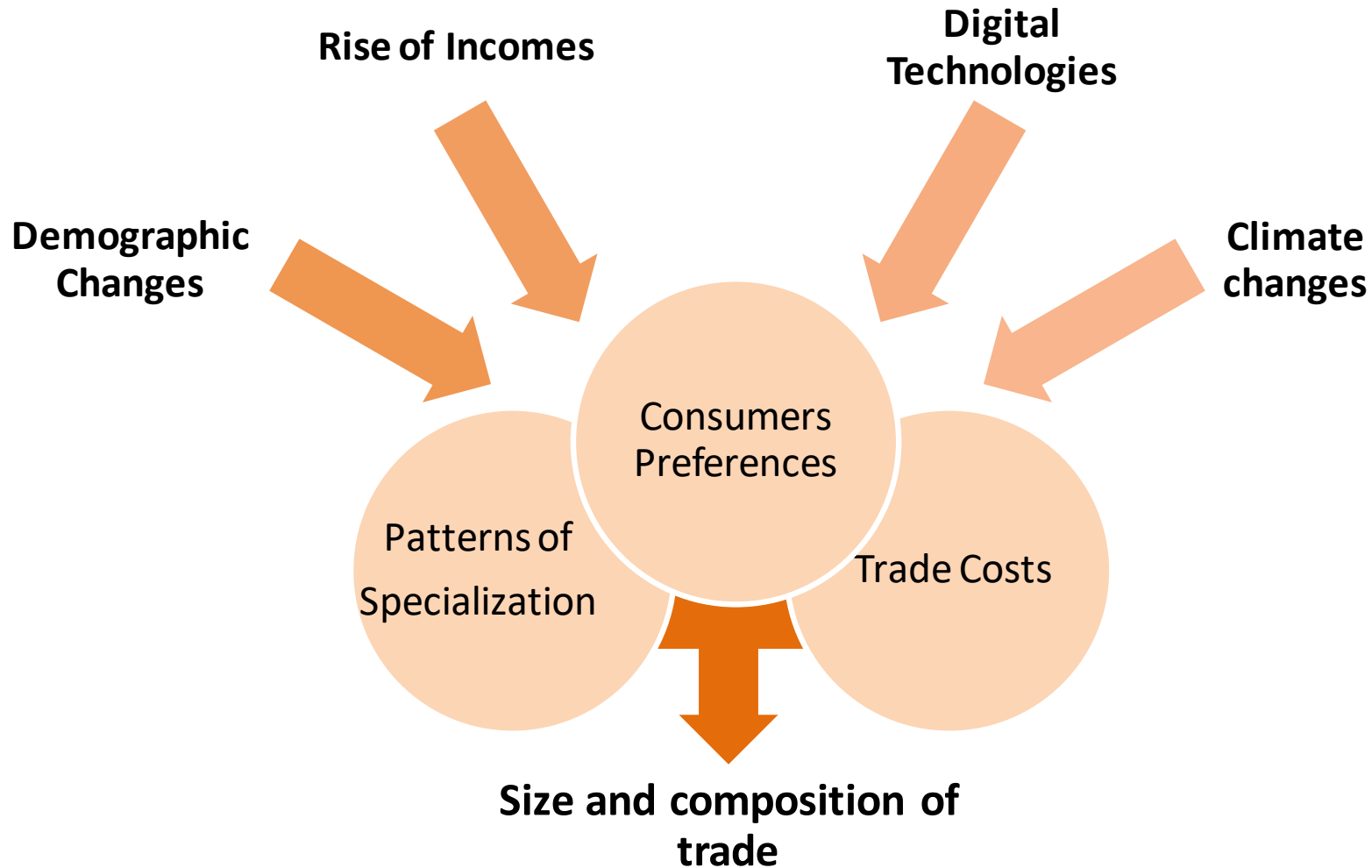


ICT connectivity:
use of internet,
fixed and mobile
phone and
broadband
coverage

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.

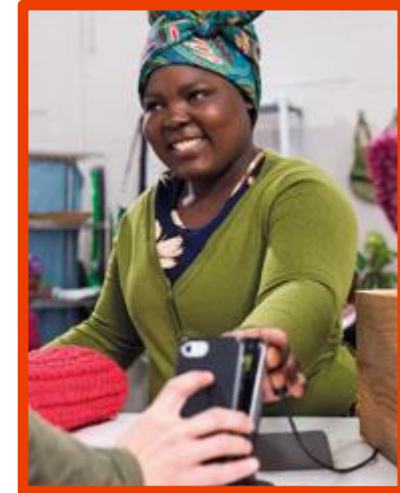
4 major trends likely to affect services trade in the future



1. Digital technologies .. Change how, who and what we'll trade

- MORE cross-border trade ..
- NEW opportunities for SMEs and women
- SECTORAL SHIFTS

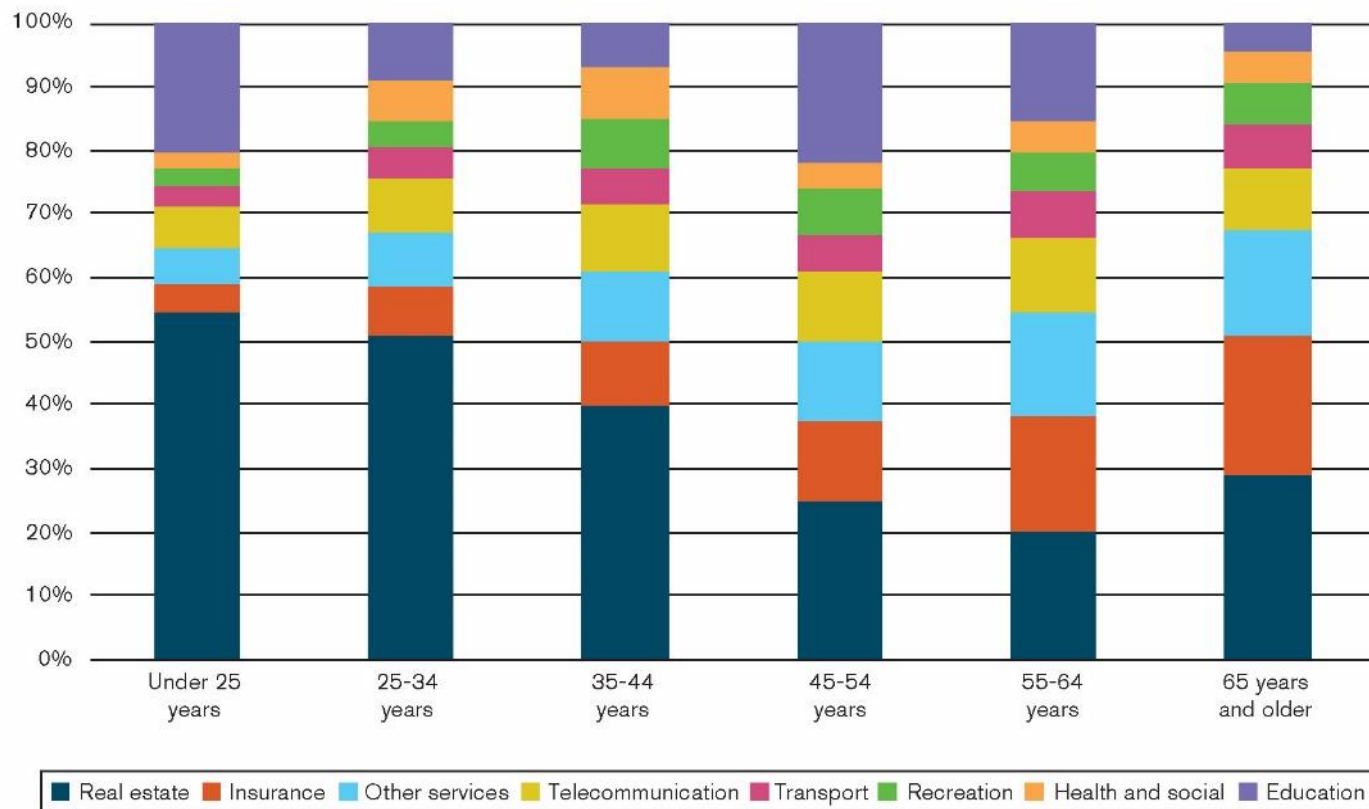
eg. transport and logistics vs 3D printing-related services; telesurgery



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:

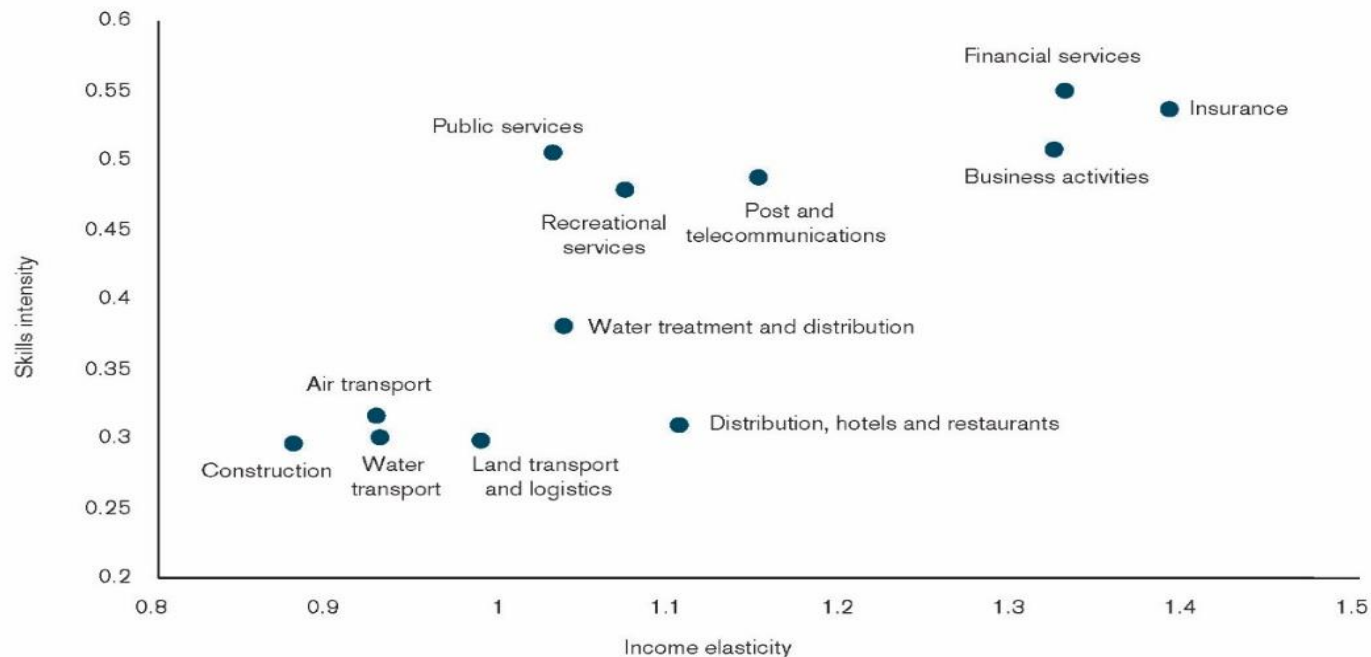
an ageing population →
health services

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



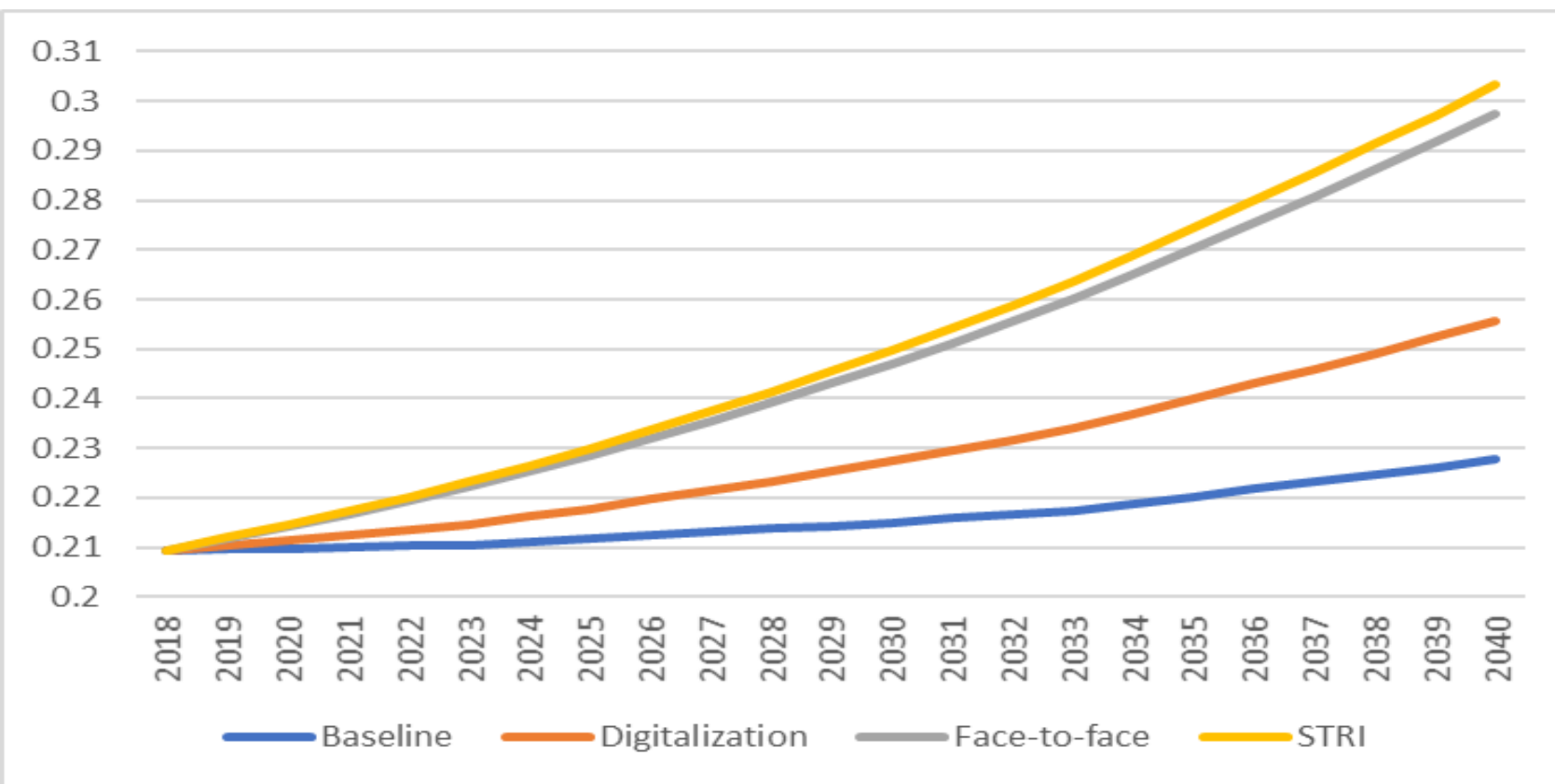
Source: Caron et al. (2014)

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

Simulations: WTO Global Trade Model



... 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?

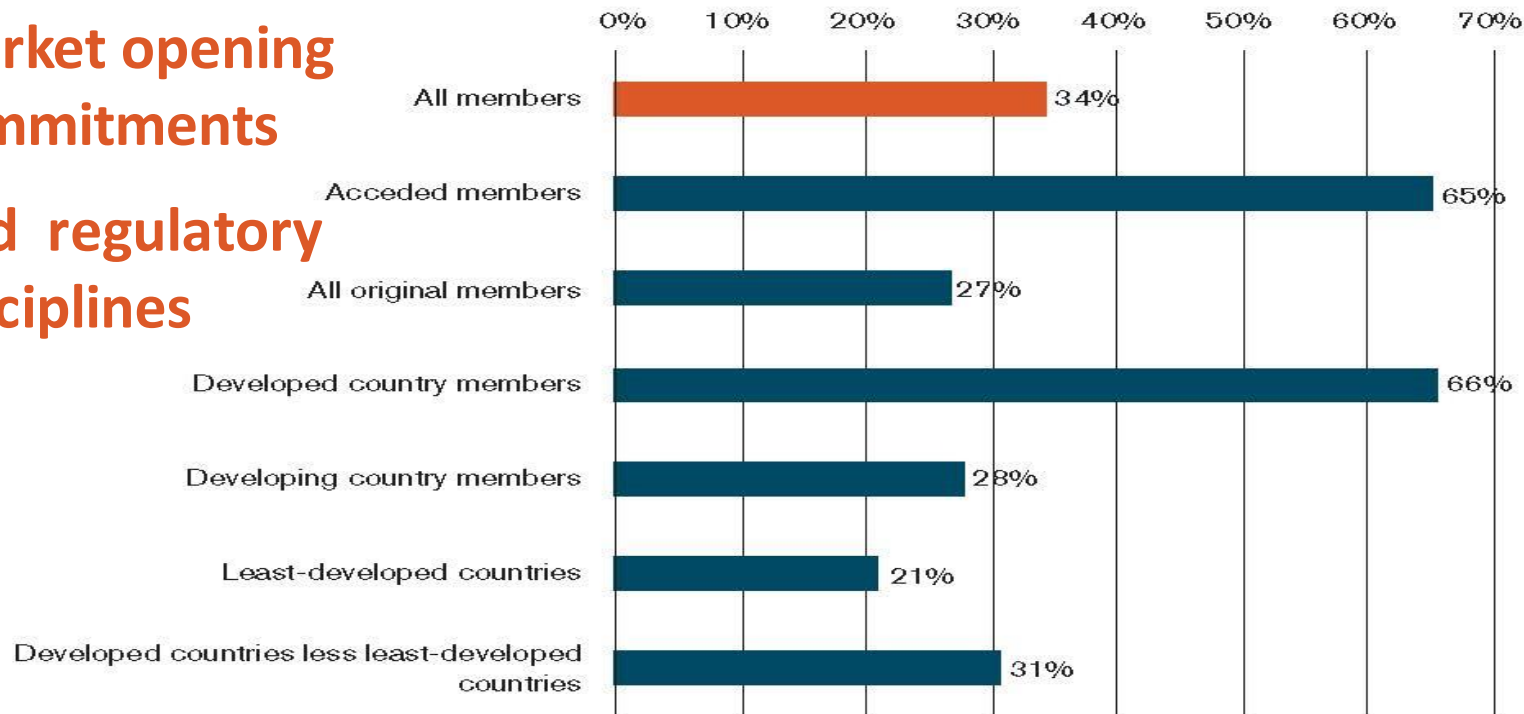


International cooperation - WTO

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**



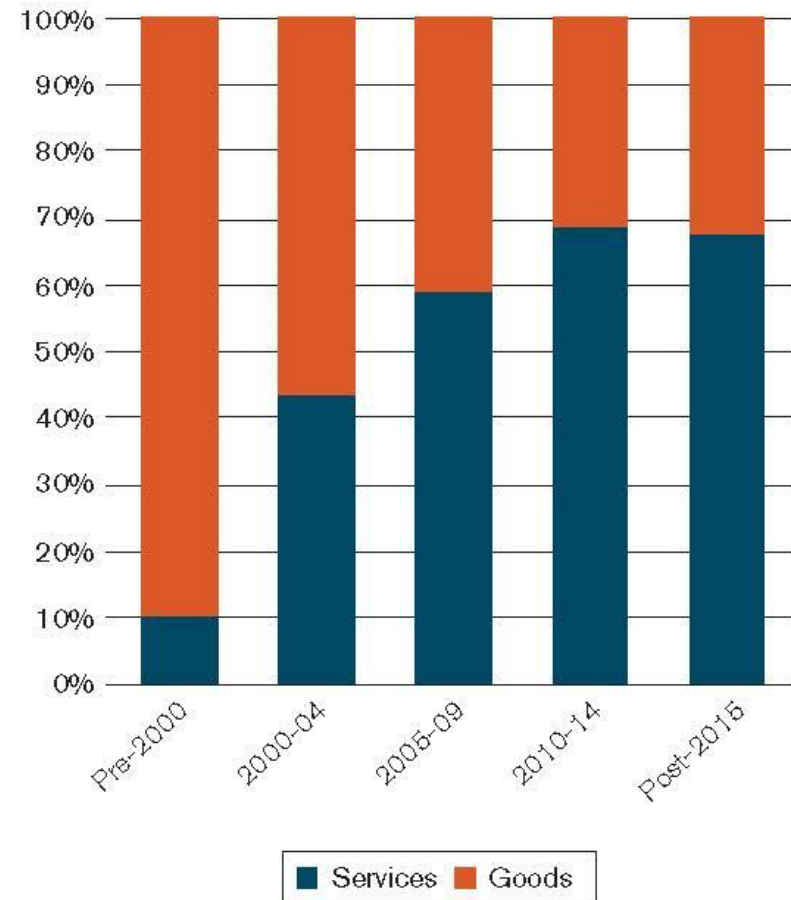
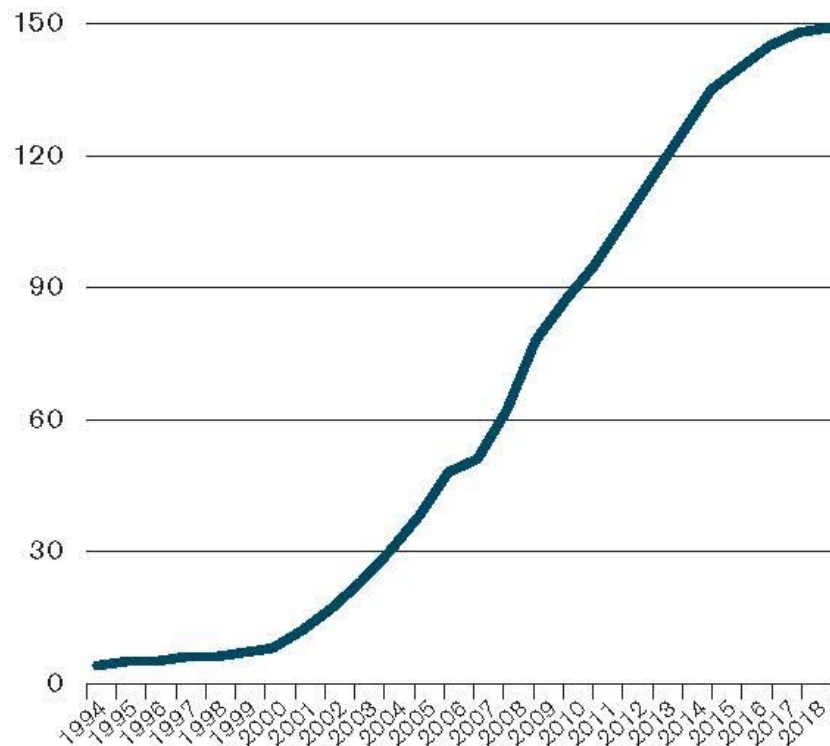
Source: WTO Secretariat, May 2019.

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/120).¹³ 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

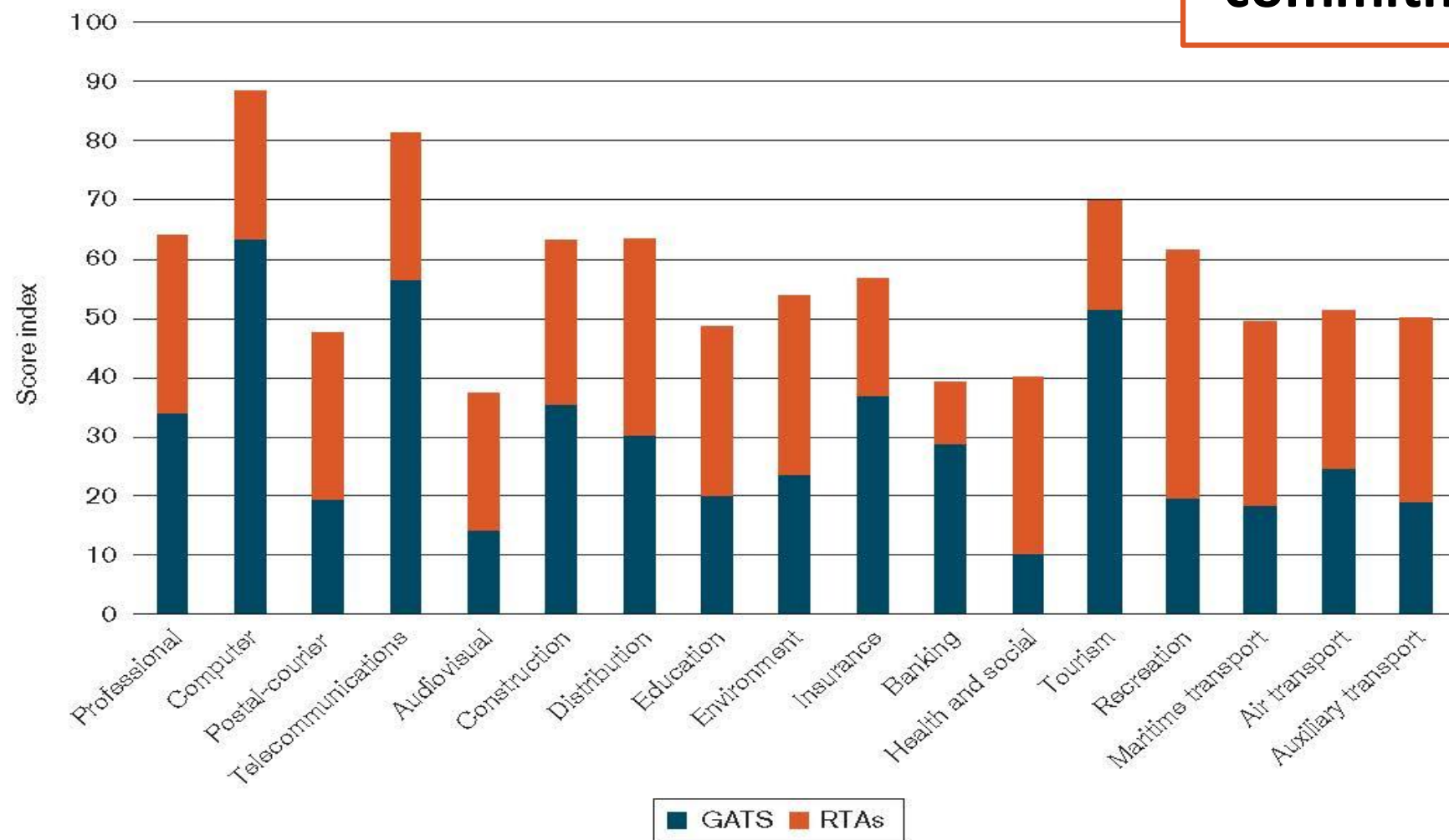
Number of services RTAs notified to the WTO, by year of entry into force (left) and proportion of RTAs notified to the WTO that cover trade in services, by year of entry into force (right)



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

GATS vs. RTA commitments



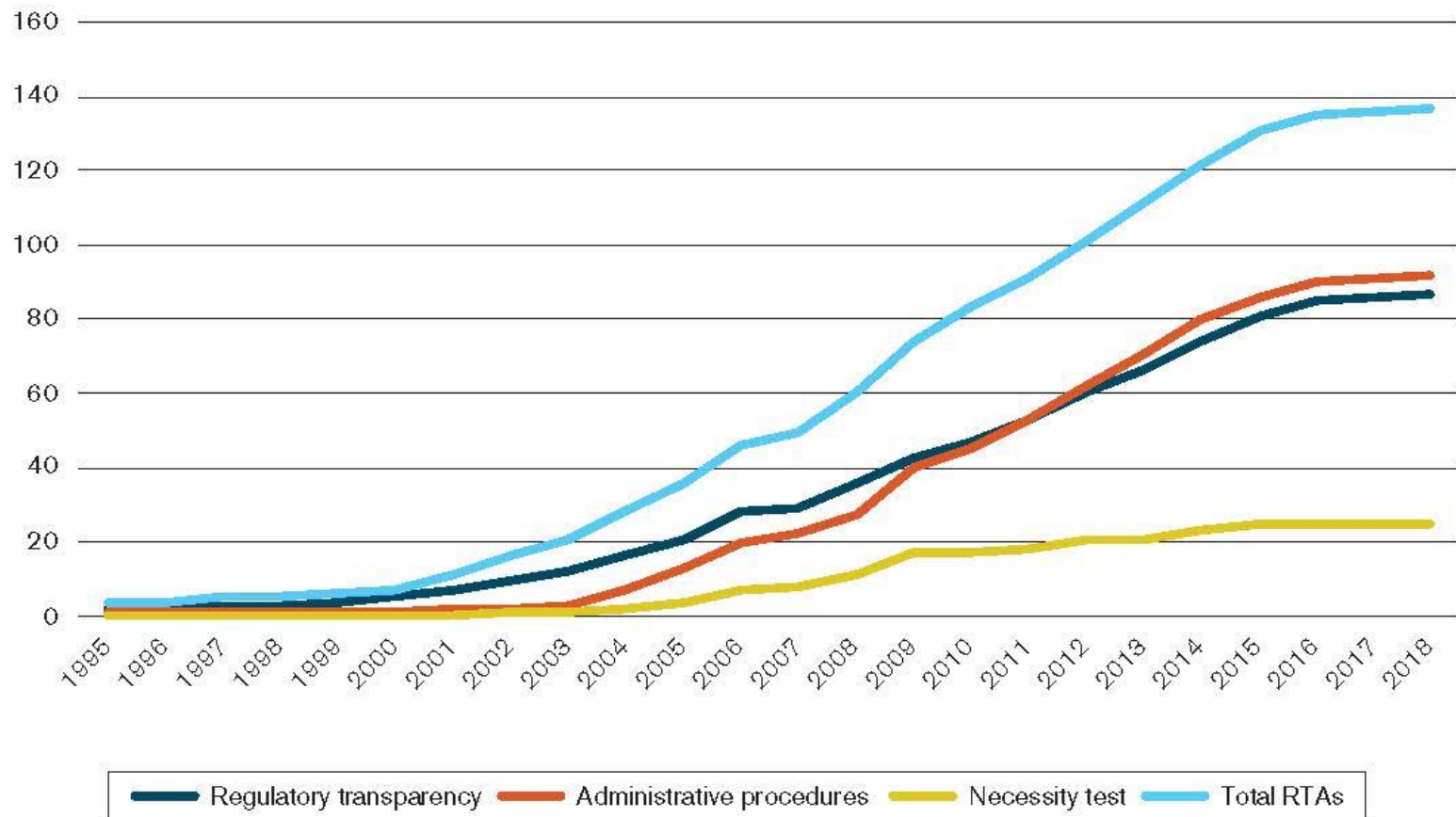
Source: WTO Secretariat, May 2019.

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 and services trade reforms

- 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!