

## SRC QUICK GUIDE # 6

# TRADE IN SERVICES

*An overview of international trade in services*

## SERVICES & TRADE IN SERVICES

When compared to goods, defining characteristics of services include:

- Intangibility**  
 Cannot be perceived by the senses due to the absence of a physical presence.
- Perishability**  
 Cannot be saved/stored for later use or returned/resold once used.
- Inseparability**  
 Cannot be separated from service provider since production and consumption occur simultaneously.
- Heterogeneity**  
 Offerings are unique and differ depending on how, when, where and by whom they are provided.

At the WTO trade in services is regulated and defined by the GATS:

**The General Agreement on Trade in Services (GATS)** entered into force in January 1995 and is one of the major outputs from the Uruguay Round. The GATS provides multilateral regulation for international trade in services among members of the World Trade Organization (WTO). Recognizing that the conventional definition of trade (which requires a product to cross the border) would exclude various international services transactions, the GATS defines trade in services more broadly according to four modes of supply.

### MODE 1

#### CROSS-BORDER SUPPLY

Services supplied from the territory of one member into the territory of another member. Examples: distance learning, tele-medicine, remote consultancies, etc.

*Mode 1 accounted for **27.7% (US\$ 3.7 trillion)** share of total trade in services globally during 2017.*

### MODE 2

#### CONSUMPTION ABROAD

Service consumer travels to another member's territory to obtain a service. Examples: tourists, study-abroad, students, patients, etc.

*Mode 2 accounted for **10.4% (US\$ 1.4 trillion)** of total trade in services globally during 2017. Tourism comprised the bulk of Mode 2 services trade (more than 60%).*

### MODE 3

#### COMMERCIAL PRESENCE

Service supplier establishes a territorial presence in another Member's territory to provide services. Examples: foreign owned hotel chains, overseas company subsidiaries/branches, etc.

*Mode 3 accounted for **58.9% (US\$ 7.8 trillion)** of total trade in services globally in 2017. Mode 3 was driven largely by financial services and distribution services.*

### MODE 4

#### PRESENCE OF NATURAL PERSONS

Service supplier of one member travels to the territory of another member to provide a service. Examples: visiting lecturer, overseas medical professional, consultants, etc.

*Mode 4 accounted for **2.9% (US\$ 0.4 trillion)** of total trade in services globally in 2017.*

## POSSIBILITY FOR A MODE 5?

Proposals are being made for a new modality of services trade under Mode 5. Mode 5 services, also known as ‘services in boxes’ or ‘servicification’ of trade in goods, aim to capture services which are incorporated into goods that are then traded (Antimiani and Cernat 2018). The role of services inputs in merchandise trade is becoming increasingly important. For example, although “services account for only 25% of total trade when measured on a balance-of-payments basis, they account for over 50% of world trade when assessed in value-added terms” (WTO 2021). The increasing importance of services in merchandise trade is reflected in productivity gains, global value chains, trade barriers (consider the role of logistics, transportation, and translation services), product differentiation (products are increasingly bundled with services to enhance consumer appeal), technological developments and other factors (Lanz and Maurer 2015).

## A STATISTICAL SNAPSHOT



Global trade in services through all four modes was valued at US\$ 13.3 trillion in 2017 (WTO 2019).

### Important share in global trade



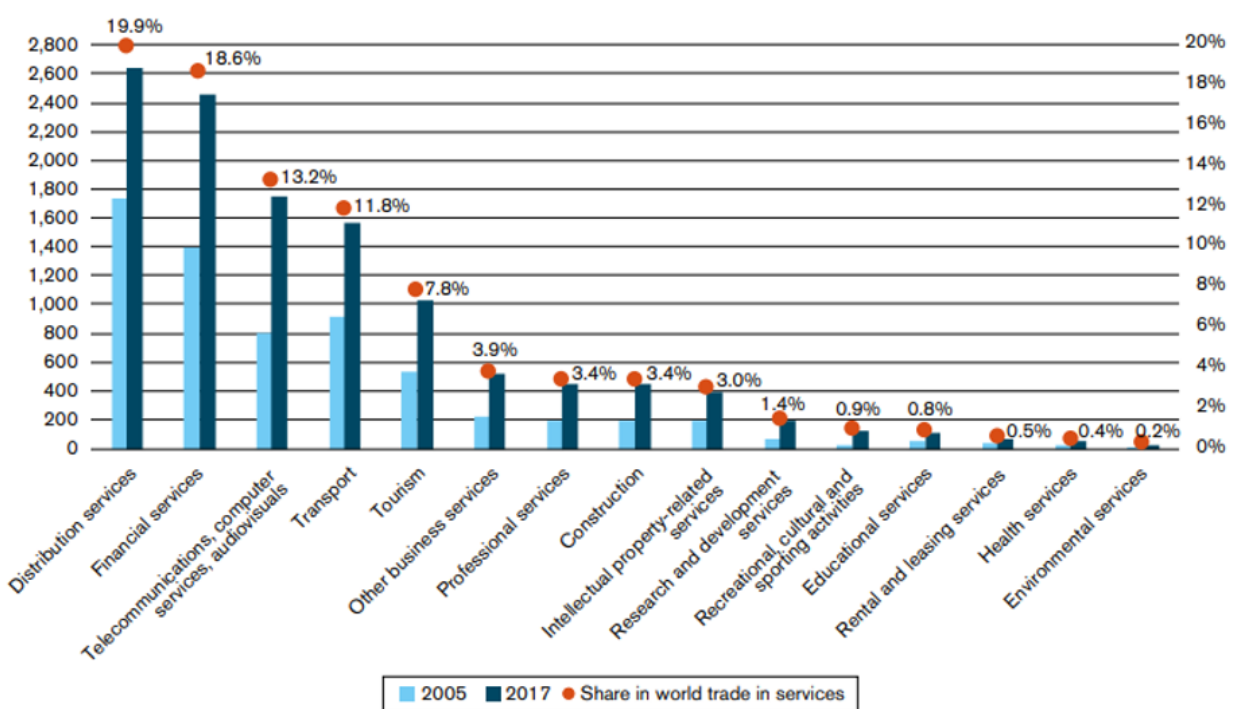
Services account for **24%** of total trade when measured using balance-of-payments, but when measured in value-added terms services represent more than **50%** of total trade (WTO 2021).

### Faster growth rate



Between 2005-2017 services trade grew faster than merchandise trade. On average services grew at a rate of **5.4%** per year compared to the **4.6%** growth rate experienced by merchandise trade (WTO 2019).

## World Trade in Commercial Services by Sector (2005 and 2017)



(WTO 2019)

### Increased developing country participation



Between 2005 and 2017 the share of developing countries in international trade in services increased by **10 percentage points**, accounting for **US\$ 3.4 trillion** in global services exports and **US\$ 4.5 trillion** in global services imports at the end of 2017 (WTO 2019). However, this increased participation is concentrated among 5 developing economies (China, Republic of Korea, Hong Kong, Singapore and India) accounting for **56.7%** of services exports and **58.1%** of services imports from developing economies (WTO 2019).

Drivers for increased developing country participation include:

- Structural economic diversification
- Trade diversification towards services
- Technological advancements creating new ways to trade services

(WTO 2019)

# ECONOMIC GROWTH & SUSTAINABLE DEVELOPMENT

Services account for more than **two-thirds** of global production and employment (WTO 2021)

Buckley and Majumdar (2018) found that:

- Services share of GDP in high-income countries reached **74%** in 2015 compared to **69%** in 1997. While for low-and middle-income countries the increase was even greater, reaching **57%** in 2015 compared to **48%** in 1997.
- The services sector is the biggest source of employment for most economies. In all OECD countries the services sector accounts for over **70%** of employment.

Beyond the statistics, the developmental importance of services trade can be seen through its contribution to economic growth and sustainable development:

## Rapid & Resilient Growth

Trade in services is expanding faster than merchandise trade and can help economies achieve faster economic growth (WTO 2019). Gabriele (2006) found that in the long run services exports have a positive impact on GDP growth in developing countries, but there is a need for export oriented services activities to be better integrated into the overall domestic economy. Trade in services has also been found to be more resilient than merchandise trade to shocks and financial crisis, due to a less cyclical demand, a lower dependence on external finance and innovative business models (Loungani et al. 2017).

## Sustainable Development

Services play an integral role in an economy's overall development. Consider for example infrastructural or producer services like water and electricity, transport, finance, telecommunications, and others which are necessary for the daily functioning of any economy. Consider critical services like health and education and their impact on human capital stock, labour productivity and output (WTO 2019 and World Bank 2002). Services have an important role to play in the achievement of the United Nations' Sustainable Development Goals.

## Enhanced Firms' Competitiveness

WTO (2019) outlines 3 ways in which services trade improves firms' competitiveness:

- (1) Competition from openness in services trade increases the productivity of services firms.
- (2) Manufacturing firms and other services firms that employ services as production inputs benefit from various productivity gains.
- (3) Bundling final products with services as a means of product differentiation.



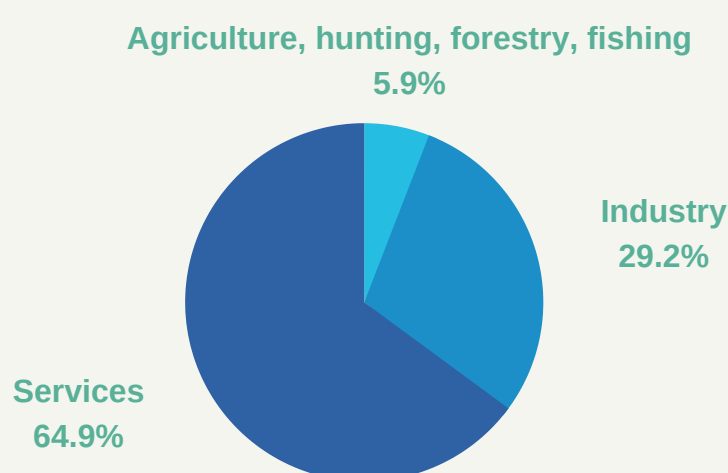
## Inclusive Growth

Developing economies are increasing their participation in global services trade. The services sector also holds potential for MSMEs and women. WTO (2019) found that services-based MSMEs have faster access to international markets due to technological advances, compared to MSMEs in the manufacturing sector. Similarly, technological advances allow female service providers the opportunity to overcome traditional mobility and time constraints (Remy and Brathwaite 2019). However, WTO (2019) notes that women are still underrepresented in the most traded services sectors.

# A SNAPSHOT OF CARICOM'S TRADE IN SERVICES

Following the Caribbean's structural economic transformation from an agrarian society towards services based economies, the services sector is a major driver of economic activity across the region. Most CARICOM Member States are now services-based economies heavily dependent on tourism and/or financial services, except Trinidad and Tobago, Guyana and Suriname which remain the region's commodity-based economies (Brathwaite, Nicholls and Remy 2020).

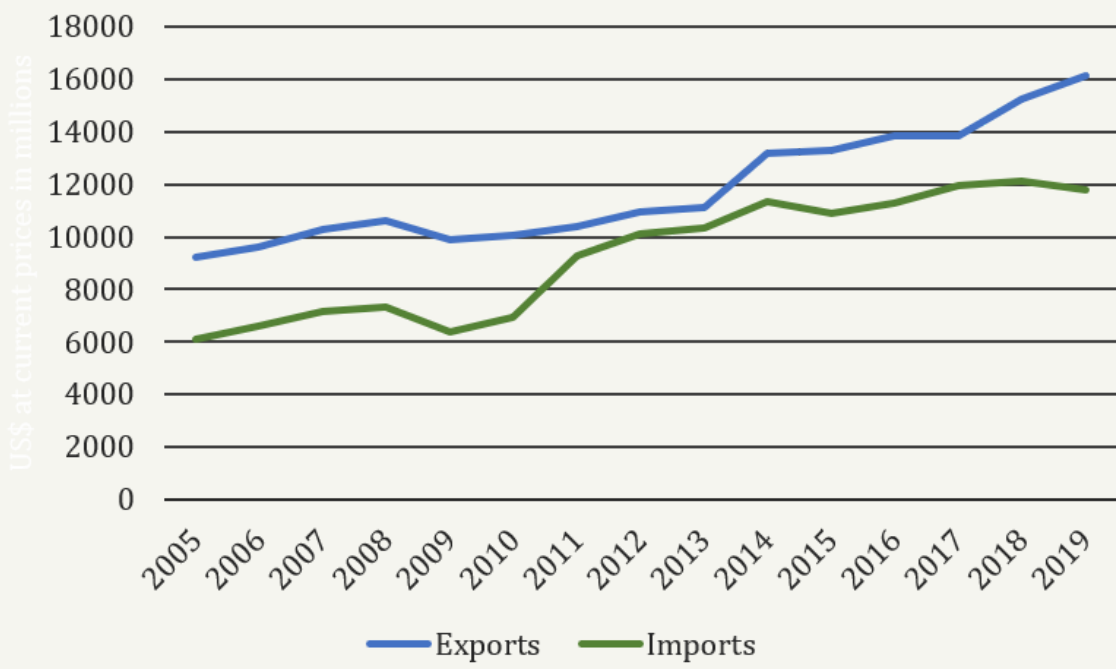
## CARICOM's Value Added by Economic Activity as at 2018



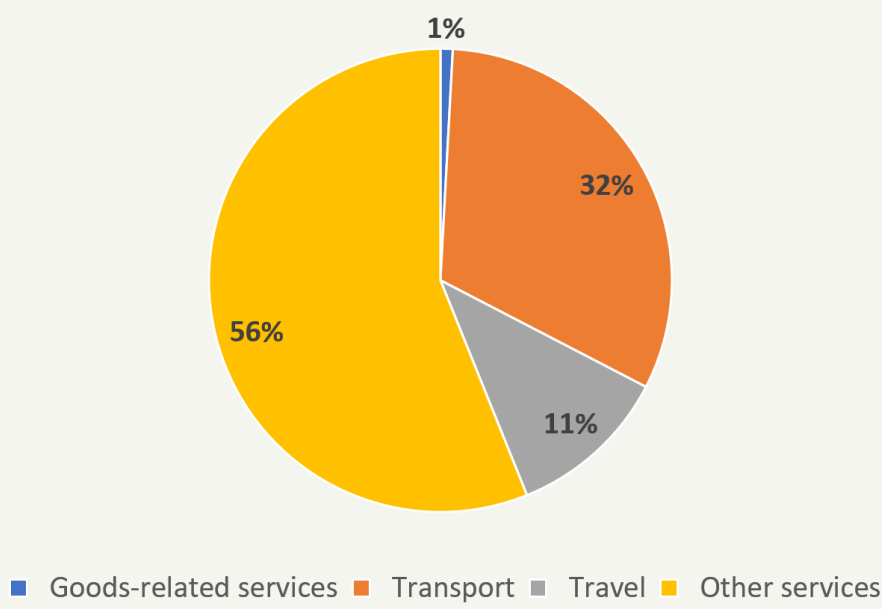
(UNCTAD STAT 2020)

## CARICOM's Trade in Services Profile

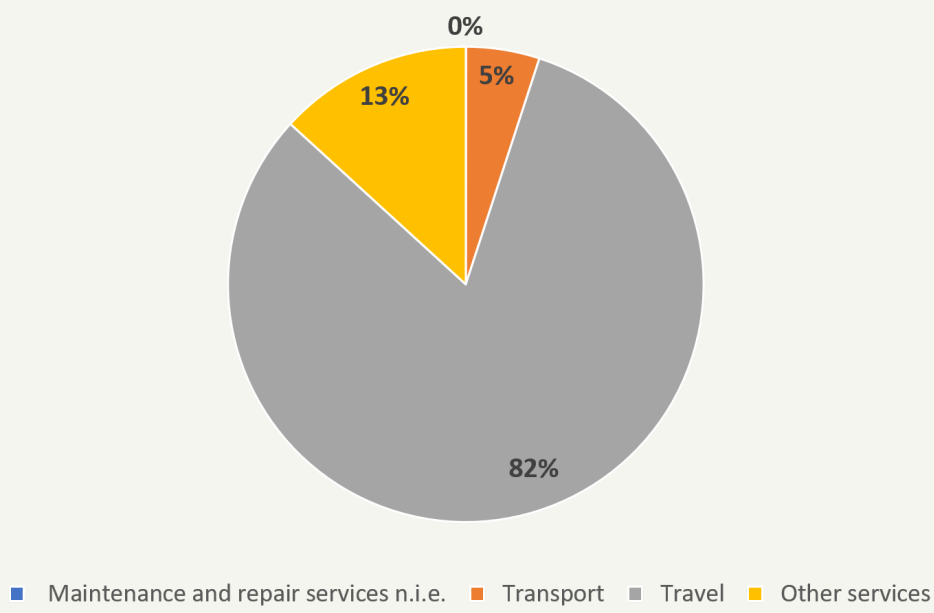
**CARICOM's Total Trade in Services 2005-2019**



**CARICOM's Services Imports (2019)**



**CARICOM's Services Exports (2019)**



(UNCTAD STAT 2020)



This SRC Trade Quick Guide provides an overview of international trade in services. This Quick Guide should not be seen as a holistic analysis, but rather an overview that can be used to gain initial insight.

## REFERENCES

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