



Overview of Services Trade and Implications for Developing Competitiveness Roadmaps

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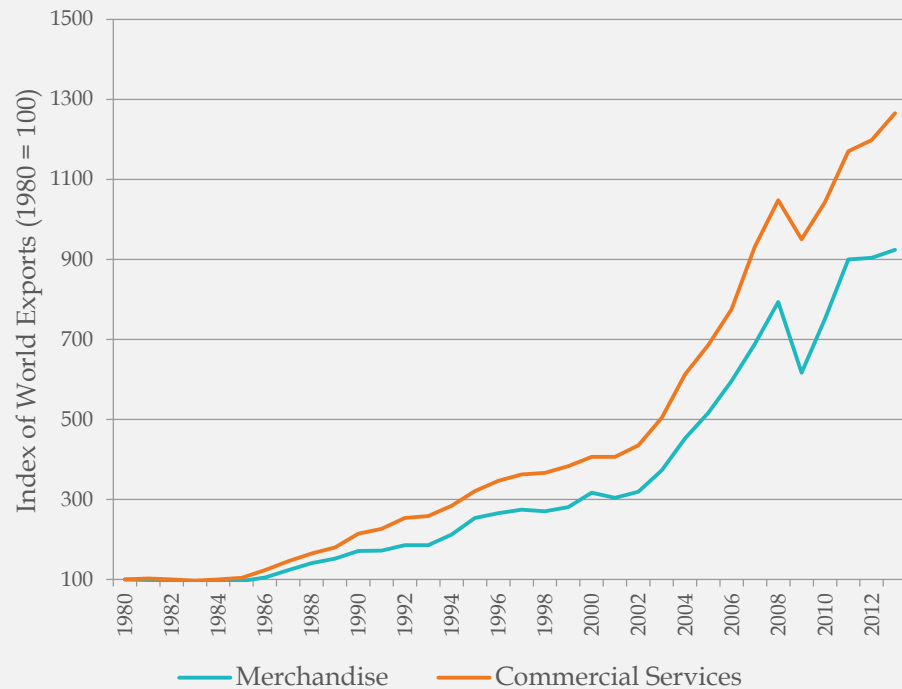
Service Industries Roadmap Workshop

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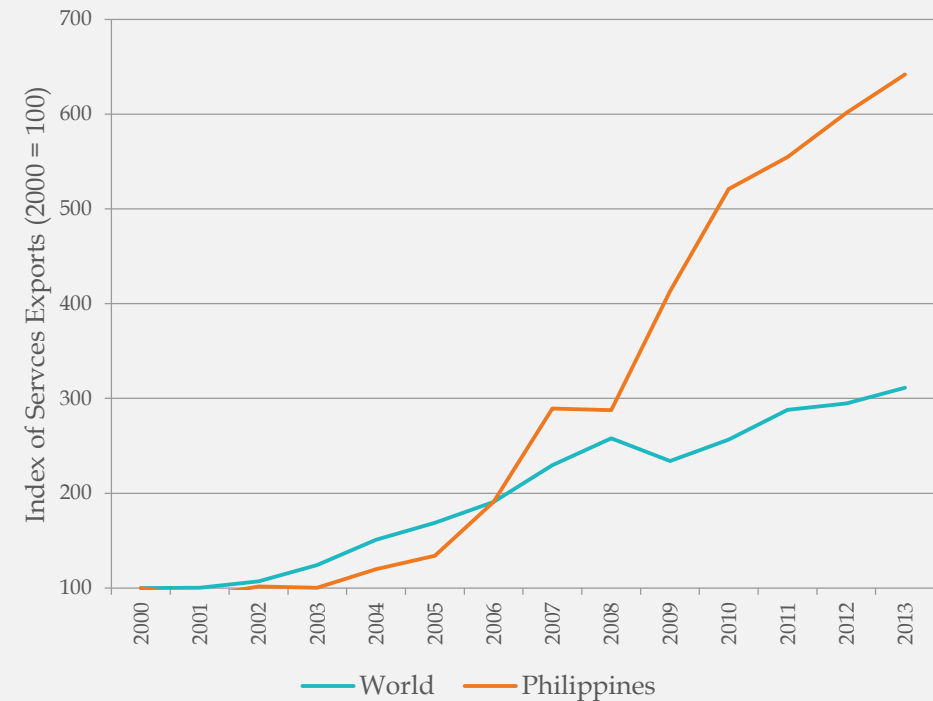
AIM Conference Center, Makati City

Trends in Services Trade

Global trade in services has grown faster than trade in goods.

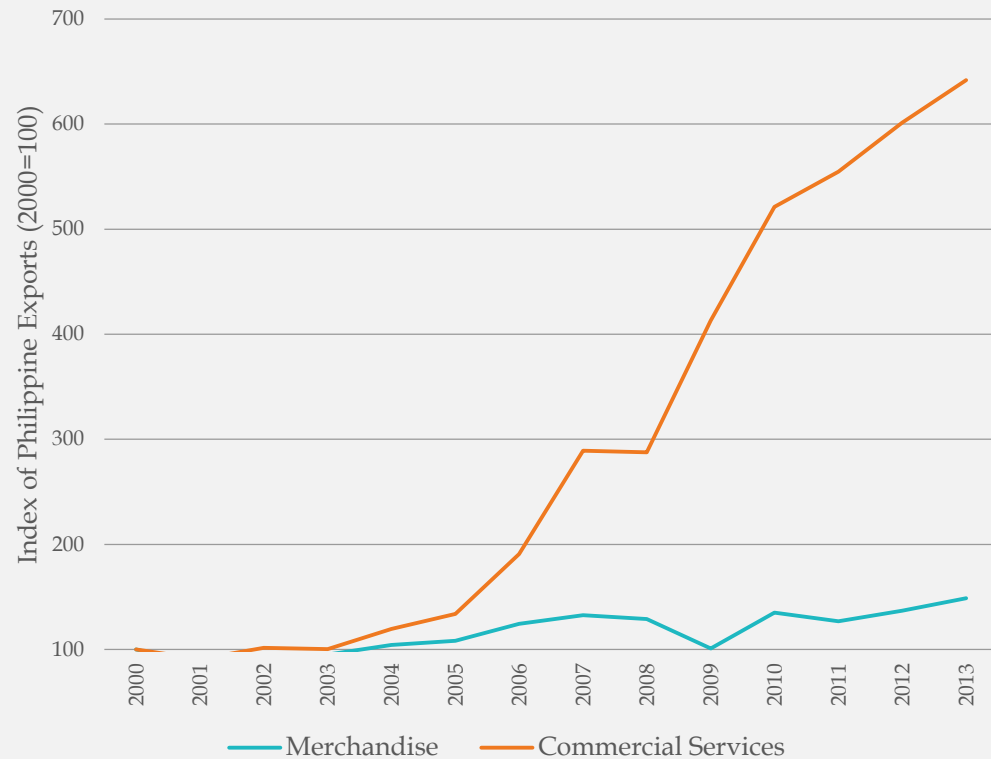


Summary:	Unit	Start (2000)	End (2013)	Growth
World	USD billion	1491.32	4644.38	211%
Philippines	USD million	3377.00	21671.44	542%

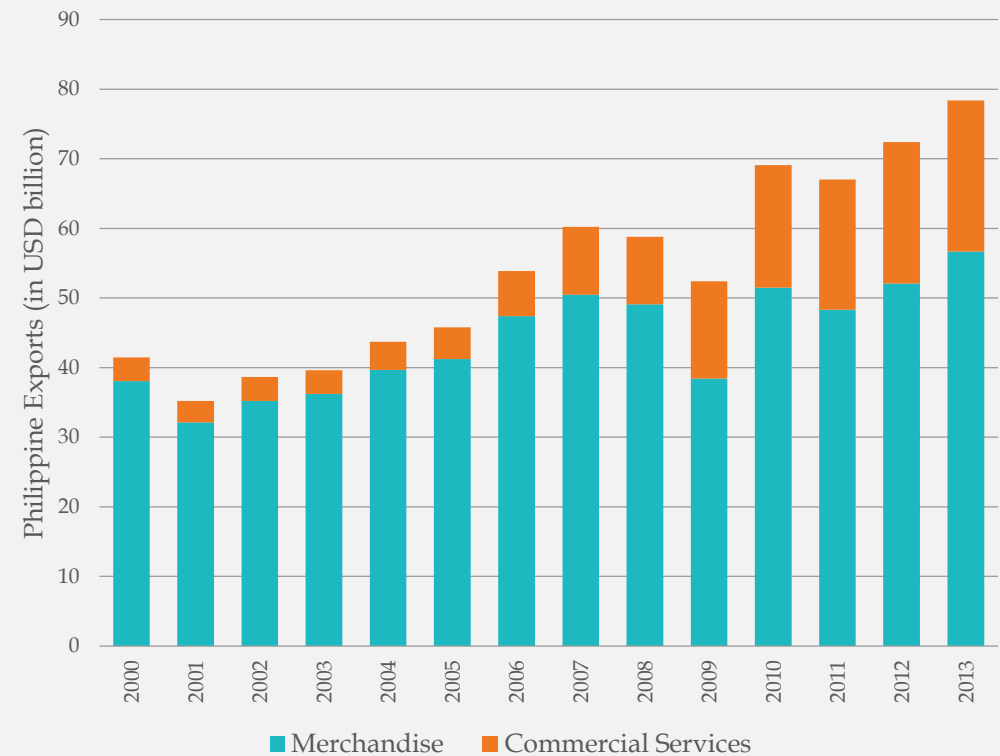


Trends in Philippine Exports

Summary:	Unit	Start (2000)	End (2013)	Growth
Merchandise	USD million	38078.25	56698.00	49%
Commercial Services	USD million	3377.00	21671.44	542%

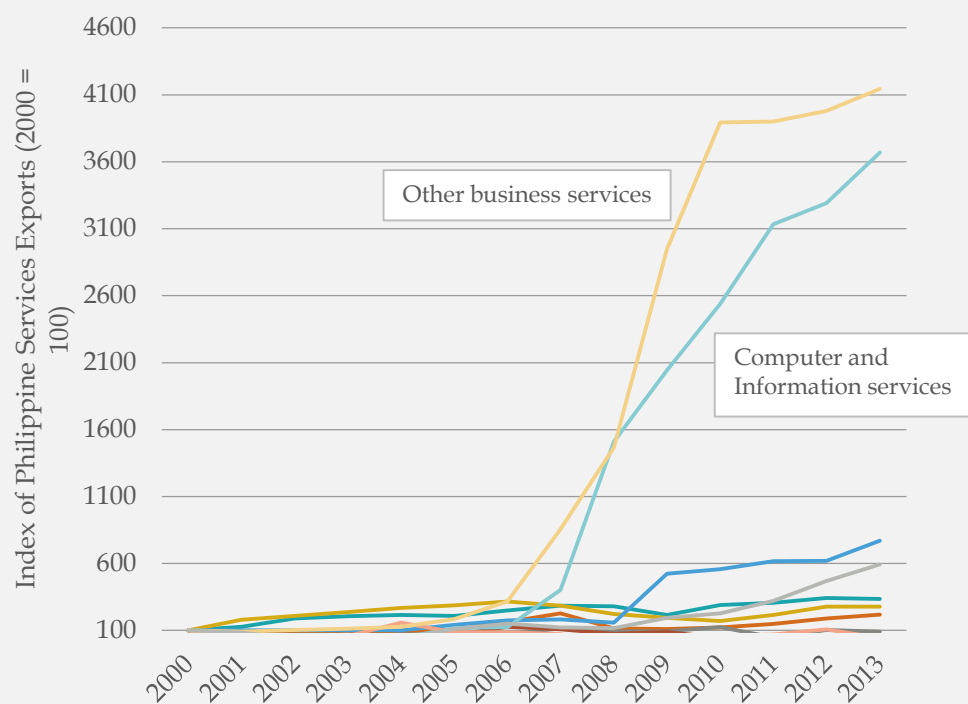


The share of services in total Philippine exports has tripled.

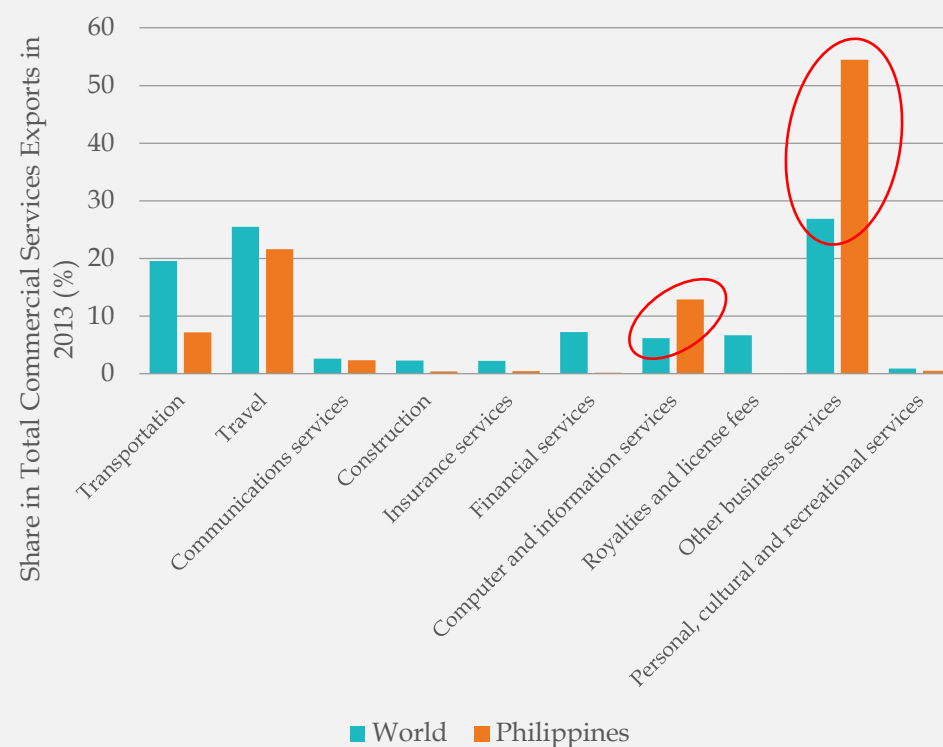


Services exports of the Philippines not diversified

Stellar growth in two sectors.



Revealed Comparative Advantage in two sectors, which made up 67% of total services exports in 2013.



How are services traded?

The supply of a service through any of four modes of supply:

Supplier Presence	Other Criteria	Mode
Service supplier <u>not present</u> within the territory of the Member	Service delivered <u>within</u> the territory of the Member, from the territory of another Member	(1) CROSS-BORDER SUPPLY
	Service delivered <u>outside</u> the territory of the Member, in the territory of another Member, to a service consumer of the Member	(2) CONSUMPTION ABROAD
Service supplier <u>present</u> within the territory of the Member	Service delivered within the territory of the Member, through the commercial presence of the supplier	(3) COMMERCIAL PRESENCE
	Service delivered within the territory of the Member, with supplier present as a <u>natural</u> person	(4) PRESENCE OF NATURAL PERSON

Example: Health Sector (1)

Mode	Trade in health services	Trade in ancillary services
Mode 1 Cross border supply	Telemedicine, including diagnostics, radiology	Distance medical education and training Medical transcription, back office Medical research tools and databases Medical insurance
Mode 2 Consumption abroad	Medical tourism, that is, voluntary trip to receive medical treatment abroad Medically assisted residence for retirees Expatriates seeking care in country of residence Emergency cases (e.g., accident when abroad)	All activities associated with health tourism (e.g., transport, hotel, restaurant, paramedical, local purchases) Local medical education and training of foreign nationals

Example: Health Sector (2)

Mode	Trade in health services	Trade in ancillary services
Mode 3 Commercial Presence	Foreign participation or ownership of hospital/clinic or medical facilities (e.g. capital investmen, technology tie-ups, collaborative ventures)	Foreign-sponsored education or training centers Foreign-sponsored medical research facilities
Mode 4 Presence of natural persons	Movement of doctors and health personnel for the purpose of commercial medical practice	Movement of doctors and health personnel for other purposes (e.g., education or training)

Source: Catteneo, O. 2010. Health without borders: International Trade for Better Health Systems and Services In: Catteneo, O , et al. eds. International Trade in Services: New Trends and Opportunities for Developing Countries. World Bank, pp.99-140. Washington DC: World Bank.

Relationship of modes

- International trade in a particular sector could go in both directions. For example, in health: Export via Mode 2 and 'Import' via Mode 3.
 - The modes of supply can either substitute for or complement one another in specific services. For example, in health:
 - Complements – 1 and 2; 1 and 4
 - Substitutes – 1 and 3 but not perfect substitutes
 - Barriers to services trade could be applied to the different modes of services transactions. When modes are imperfect substitutes or complements, effective trade (access) in (to) services requires the freedom to supply (use) a combination of modes.
- Consider mode(s) of supply in SWOT

Building the evidence base for services (1)

- Limitations of trade in services data (from BOP)
 - Not all sectors distinctly identified
 - ‘Other business services’ and ‘Personal, cultural and recreational services’ cover various sectors
 - ‘Travel’ covers goods and services acquired by travelers during visits of less than a year. Includes expenditures of students and medical patients (one-year rule does not apply)
 - ‘Royalties and fees’ do not refer to a particular sector
 - Do not distinguish among modes of supply
 - Educational and health expenditures (e.g. physician’s fees) related to Mode 2 would be recorded in ‘Travel’ while payment to teachers or doctors for services rendered abroad via Mode 4 (as independent professionals) recorded under ‘Personal, Cultural, and Recreational services’
 - Mode 3 (Sales by affiliates) and Mode 4 (intra-corporate transferees) not captured

Building the evidence base for services (2)

- Need to know (and show) how much trade is already going on in sector
 - Type of service supplied (note: 10 broad categories in BOP5 but 155 sub-sectors in WTO list)
 - Mode(s) of delivery
 - Clients (B2B, B2G, and B2C) and geographic markets
- Need to promote contribution/value of sector to policy-makers

Drivers of Services Competitiveness (Brockman, National Services Workshop)

1. Human Capital (talent, education, skills, ideas, culture of customer focus)
2. Investment in Intangible Assets (corporate IP including business methodologies) and supportive environment for Innovation
3. Enabling Digital and other Infrastructure
4. Quality of Institutions & Efficiency of Domestic Regulation
5. Connectedness with the International Markets (trade & investment reform, standards, mutual recognition)
6. Organised Services Business Advocacy and public/ private Stakeholder Consultation
7. Deliberate National Policy Focus

What can firms do to boost competitiveness (Brockman, National Services Workshop)

- **Skills** - How could you increase the availability and expertise of your services skills to ensure you are positioned to take advantage of regional and global business opportunities.
- **Costs?**
- **Value-Chain analysis on potential for upgrading**
- **R&D/Innovation** - What could you do to boost the ability of the Philippines services sector to increasingly improve productivity through innovation. Do you need a higher level of collaboration between the private sector, academia and Governments.
- **Policy and Regulatory Focus and Attention** - Do you need to achieve a higher level of support from the policy and regulatory institutions to help improve your access to global or regional opportunities
- **Promoting and facilitating Philippine services capability globally and regionally** - is there anything you - or other agencies/institutions can do to improve your “branding” either domestically or internationally

Some lessons on exporting services (1)

1. To succeed in higher-end exports, a country must be well endowed with human capital.
 - The success in services exports of the Philippines or India is attributed to the high quality and large pools of human capital.
2. Internet penetration in the trading partner matters more than that in the exporter. Firms exporting services need access to high-quality electronic infrastructure that does not necessarily need to cover the general population.
 - The state of the economy-wide electronic infrastructure does not by itself explain the success of developing countries in exporting services. India has been able to successfully export software services even with a low Internet penetration of 7 persons per 100.

Some lessons on exporting services (2)

3. Service exports in a developing country are driven by the quality of **service-specific** infrastructure, endowments, and institutions.
 - India and the Philippines excel in cross-border exports of skill intensive services.
 - Business services (usually traded cross border) rely on telecommunications infrastructure and are sensitive to institutions that influence contract enforcement.
 - Transport and travel services are intensive in the use of physical infrastructure and are also sensitive to institutions and border management
 - Mode 2 services exports such as travel, health tourism, and education services have benefitted from the quality of basic infrastructure

Some lessons on exporting services (3)

4. Cross-border service exports may be encouraged by outward FDI.
 - Newly internationalized Brazilian firms needed software capable of setting up and integrating systems, processing and storing data, etc. so they looked to Brazilian ICT companies as a first choice for those services.
 - A related phenomenon in financial services where bank internationalization is due to the "follow-the-client" hypothesis, according to which banks' cross-border expansion is a by-product of internationalization in manufacturing.
5. Inward FDI also seems to push service exports
 - India and the Philippines in BPO.
 - A factor that explains Malaysia's success in exporting services is liberalization especially in higher education and Islamic finance sectors.

Some lessons on exporting services (4)

6. Migrants have played an important role in service exports, and thus targeting service exports to migrants can be a starting point.
 - Exports of Brazilian and Egyptian soap operas and Indian movies were initially pitched at their respective diasporas before commanding wider internationally popularity.

In general, different services have different roles to play in the economy, have dissimilar market structures, are governed by different sets of regulations, and rely on different modes of supply in competing in the international market. Thus, the determinants of service exports are likely to vary across subsectors.

Source: Goswami, Arti Grover; Mattoo, Aaditya; Saez, Sebastian. 2011. *Exporting services: a developing country perspective*. Washington D.C. - The World Bank.

Thank you