



Analysing the Shifting Dynamics of Global Trade in Services

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Abstract: Services have emerged as the most dynamic component of global trade, exemplifying a structural transformation towards knowledge-intensive economies. This paper conducts the past three decades. Utilizing extensive datasets from reliable sources like the World Trade Organization (WTO), it examines the growth trajectories of service exports and imports across major economies and regions. The study highlights the ascent of developing nations as formidable participants in the global services trade landscape. It delves into the four modes of service supply established under the General Agreement on Trade in Services (GATS), assessing their relative dominance over time. Furthermore, the evolving composition of traded services is explored, spotlighting the transition from traditional sectors to modern services driven by digitalization and technological progress. The unprecedented disruption caused by the COVID-19 pandemic on services trade flows is also evaluated through empirical evidence. By synthesizing insights from prior scholarly works and substantiating findings with robust quantitative data, this research endeavors to provide a holistic perspective on the evolving dynamics of global services trade.

Keywords: Covid-19, Digitalization, General Agreement on Trade in Services (GATS), Global services trade

1. Introduction

The services sector has gained profound economic significance, contributing a substantial share to gross domestic product (GDP) and employment across both developed and developing nations. Concurrently, the role of services in international trade has expanded rapidly, catalyzed by factors such as digitalization, reduced trade barriers, and the inherent tradability of certain services. This trend underscores the urgency of comprehending the evolving patterns and dynamics governing global services trade.

Prior scholarly works have illuminated various facets of this phenomenon. The World Trade Report (2019) by the WTO emphasized services as the most dynamic component of international trade, with developing economies witnessing a remarkable surge in service exports. Loungani et al. (2017) noted that services trade

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has outpaced goods trade since 2008, buoyed by forces like digitalization and the increasing tradability of services. Miroudot and Cadestin (2017) identified modes like commercial presence and movement of natural persons as crucial enablers of global services trade. However, the disruptive impact of unprecedented events like the COVID-19 pandemic on services trade patterns remains an underexplored domain, necessitating further scrutiny.

Against this backdrop, the present study aims to conduct a comprehensive analysis of the evolving patterns of global international trade in services.

It seeks to achieve the following objectives:

- 1) To examine the trends in global services exports and imports across key economies and regions, illuminating the ascent of developing nations as major participants.
- 2) To assess the relative dominance of the four modes of service supply established under the GATS (General Agreement on Trade in Services), namely cross-border supply, consumption abroad, commercial presence, and movement of natural persons.
- 3) To explore the shifting composition of traded services, highlighting the transition from traditional sectors to modern services driven by digitalization and technological advancements.
- 4) To evaluate the impact of the COVID-19 pandemic on global services trade flows, providing insights into the resilience and vulnerabilities of various service sectors.

The profound implications of evolving services trade patterns extend across multiple domains. For policymakers, comprehending these dynamics is crucial for formulating trade policies, negotiating international agreements, and fostering an enabling environment for services exports. Businesses and firms operating globally require a nuanced understanding of market trends, competitive landscapes, and emerging opportunities in the services trade realm. Furthermore, accurate forecasting of services trade flows is pivotal for economic projections, investment decisions, and strategic planning by governments and international organizations.

By synthesizing insights from prior literature, analyzing extensive datasets, and interpreting empirical evidence, this research endeavors to provide a holistic and data-driven perspective on the evolving patterns of global international trade in services. The subsequent sections encompass a literature review, an elaboration of the research objectives and methodology, a thorough analysis and discussion of the findings, and pertinent conclusions and implications.

2. Literature Review

The increasing prominence of services in global trade flows has garnered significant attention from scholars and international organizations. The World Trade Report (2019) by the World Trade Organization (WTO) provided a comprehensive analysis of the global trade in services landscape. It highlighted services as the most dynamic component of international trade, driven by factors such as technological advancements, regulatory reforms, and the intrinsic tradability of certain service sectors. The report underscored the

burgeoning role of developing economies as significant participants in global services trade, with their combined services exports surpassing those of developed economies for the first time in 2018.

Loungani et al. (2017) conducted a study that delved into the factors propelling the rapid growth of services trade in recent decades. Their findings revealed that services trade has consistently outpaced goods trade since 2008, underpinned by forces such as digitalization, the increasing tradability of services, and the expansion of global value chains. Moreover, they noted that services tend to exhibit higher tradability compared to goods, suggesting further potential for growth in cross-border services trade.

Miroudot and Cadestin (2017) explored the role of the four modes of service supply established under the General Agreement on Trade in Services (GATS) in facilitating global services trade. Their analysis indicated that modes such as commercial presence (Mode 3) and movement of natural persons (Mode 4) have emerged as crucial enablers, particularly for developing nations seeking to enhance their services exports. Additionally, they highlighted the significance of digital technologies in enabling cross-border supply (Mode 1) of various services.

While the above-mentioned studies have provided valuable insights into the evolving patterns of global services trade, the disruptive impact of unprecedented events like the COVID-19 pandemic remains an underexplored domain. The present research aims to bridge this gap by assessing the consequences of the pandemic on services trade flows, thereby contributing to the existing body of knowledge.

3. Research Methodology

To achieve the stated objectives, this study employs a mixed-methods approach, combining quantitative analysis of extensive datasets with qualitative insights derived from relevant literature and policy documents.

3.1 Data Sources and Scope

The primary data sources for quantitative analysis include:

- 1) World Trade Organization (WTO) Statistics Database: Utilized for extracting time-series data on global services exports and imports, disaggregated by major economies, regions, and service categories.
- 2) United Nations Conference on Trade and Development (UNCTAD) Statistics: Employed to obtain data on the modes of service supply and composition of traded services.
- 3) International Monetary Fund (IMF) Balance of Payments Statistics: Leveraged to complement and cross-validate data from other sources.

The study's scope encompasses the period from 1990 to 2022, allowing for a comprehensive assessment of long-term trends and patterns. However, for certain analyses, the timeframe may be adjusted based on data availability and relevance.

3.2 Analytical Techniques

The quantitative analysis employs a range of techniques, including:

- 1) Time-series analysis: To examine the evolution of global services trade flows, export and import trends, and changes in service compositions over time.

2) Comparative analysis: To assess the relative performance and contributions of major economies and regions to global services trade.

Qualitative analysis is conducted through a critical review of relevant literature, policy documents, and reports from international organizations like the WTO, UNCTAD, and the World Bank. This approach aims to contextualize the quantitative findings, identify emerging trends, and draw insights into the broader economic, technological, and regulatory factors influencing global services trade dynamics.

4. Limitations

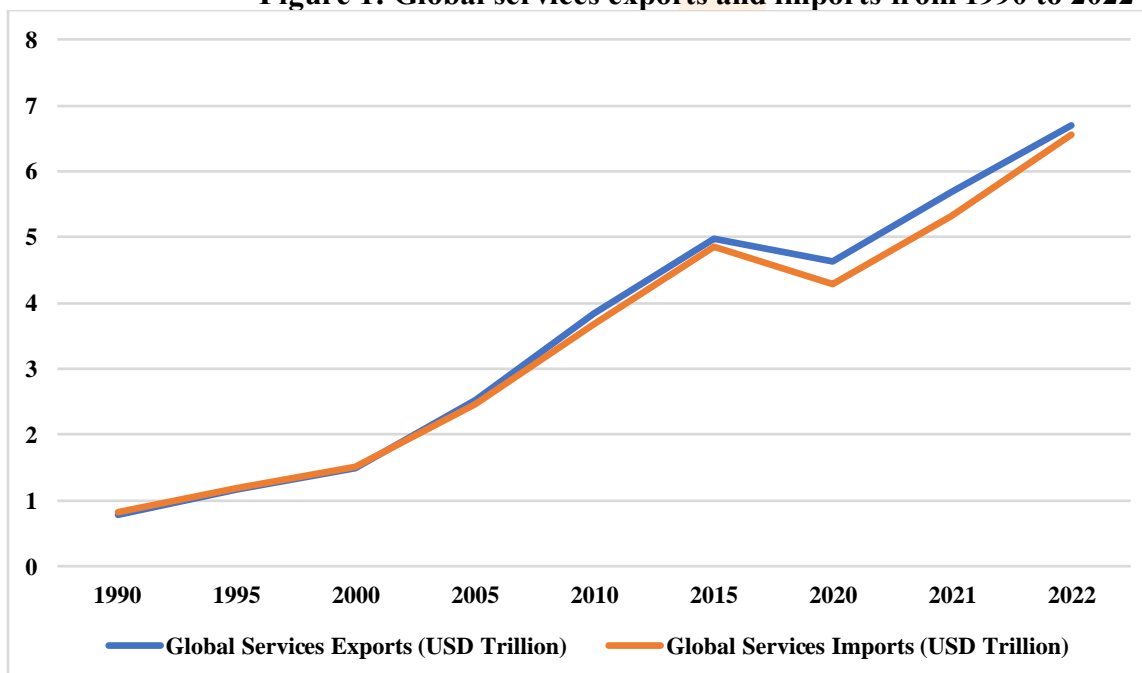
It is important to acknowledge the limitations of the study. Data availability and quality may vary across countries and service sectors, potentially introducing measurement errors or gaps. Additionally, the interpretation of findings is subject to the inherent assumptions and methodologies employed by the primary data sources. Furthermore, the COVID-19 pandemic's long-term implications on services trade patterns may not be fully captured due to the ongoing nature of the event and potential lags in data reporting.

Despite these limitations, the study strives to maintain methodological rigor, triangulate findings from multiple sources, and provide a comprehensive and evidence-based analysis of the evolving patterns of global international trade in services.

5. Analysis and Discussion

Global Services Exports and Imports: Trends and Patterns

Figure 1: Global services exports and imports from 1990 to 2022

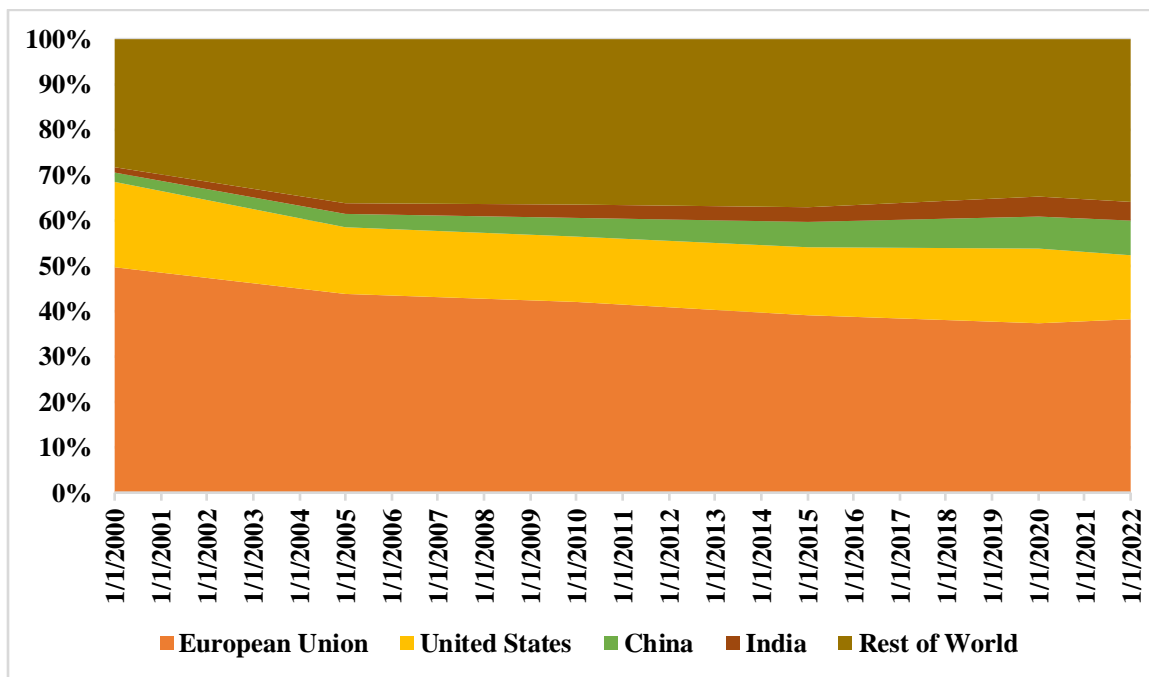


Source: Author's Construction

Figure 1 illustrates the remarkable growth trajectory of global services exports and imports over the past three decades. Both trade flows have exhibited a consistent upward trend, albeit with periodic fluctuations influenced by economic cycles and global events. A few key observations can be derived from the data:

- 1) Global services exports increased from USD 0.78 trillion in 1990 to USD 6.69 trillion in 2022, registering a compound annual growth rate (CAGR) of approximately 6.8% over the 32-year period.
- 2) Similarly, global services imports grew from USD 0.82 trillion in 1990 to USD 6.56 trillion in 2022, registering a compound annual growth rate (CAGR) of approximately 6.7% over the 32-year period.
- 3) While developed economies historically dominated global services trade, the share of developing and emerging economies has risen significantly. In 2022, developing economies accounted for around 30% of global services exports, up from just 16% in 1990.

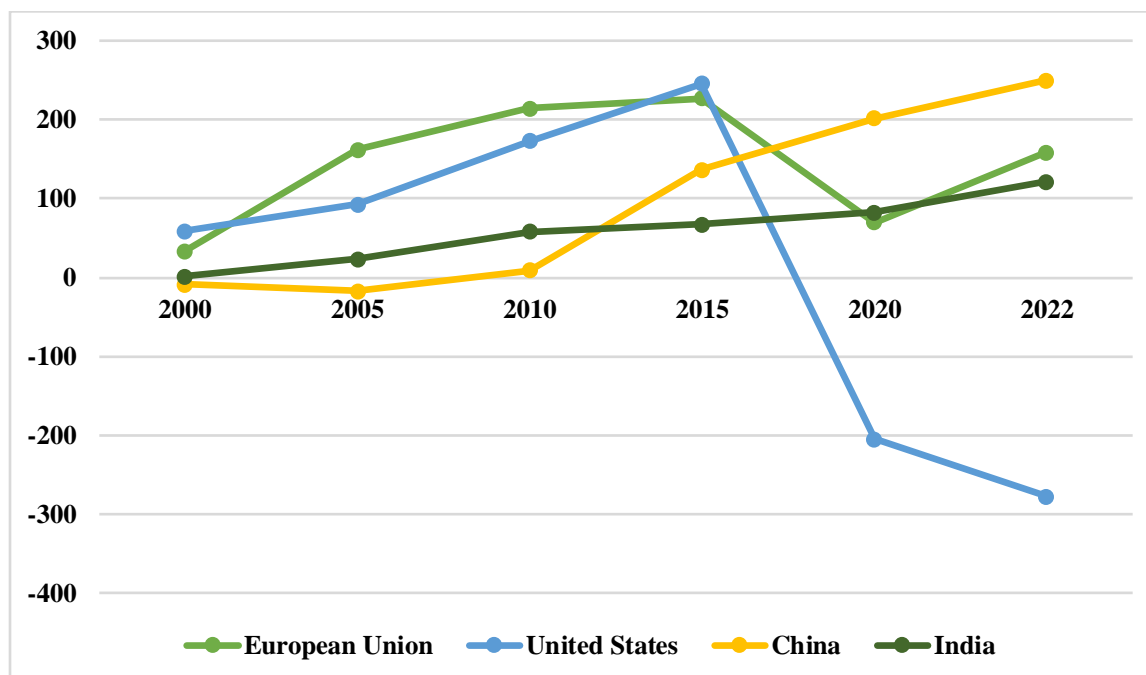
Figure 2: Services exports breakdown by major economies/regions over time



Source: Author's Construction

Figure 2 depicts the changing landscape of global services exports by major economies and regions. Several key trends can be observed:

- 1) The European Union remains the largest exporter of services, though its share of global exports declined from around 50% in 2000 to around 38% in 2022.
- 2) The United States has maintained a steady share of around 14-16% of global services exports over the past two decades.
- 3) Developing and emerging economies like China and India have witnessed remarkable growth in their services exports. China's share increased from just 2% in 2000 to over 7% in 2022, making it the third-largest services exporter globally.
- 4) India's services exports grew at a CAGR of nearly 14% from 2000 to 2022, propelling its global share from 1.3% to over 4%.

Figure 3: Evolving services trade balances (exports minus imports) for major economies

Source: Author's Construction

Figure 3 illustrates the evolving services trade balances (exports minus imports) for major economies. A few notable observations emerge:

- 1) The United States has consistently recorded a services trade deficit since the early 2000s, with the deficit widening significantly post-2010.
- 2) The European Union has maintained a services trade surplus throughout the period under study, though the surplus has narrowed in recent years.
- 3) Developing economies like China and India have transitioned from services trade deficits to surpluses, reflecting their growing competitiveness in the global services trade landscape.

Modes of Service Supply

The General Agreement on Trade in Services (GATS) establishes four modes of service supply across borders:

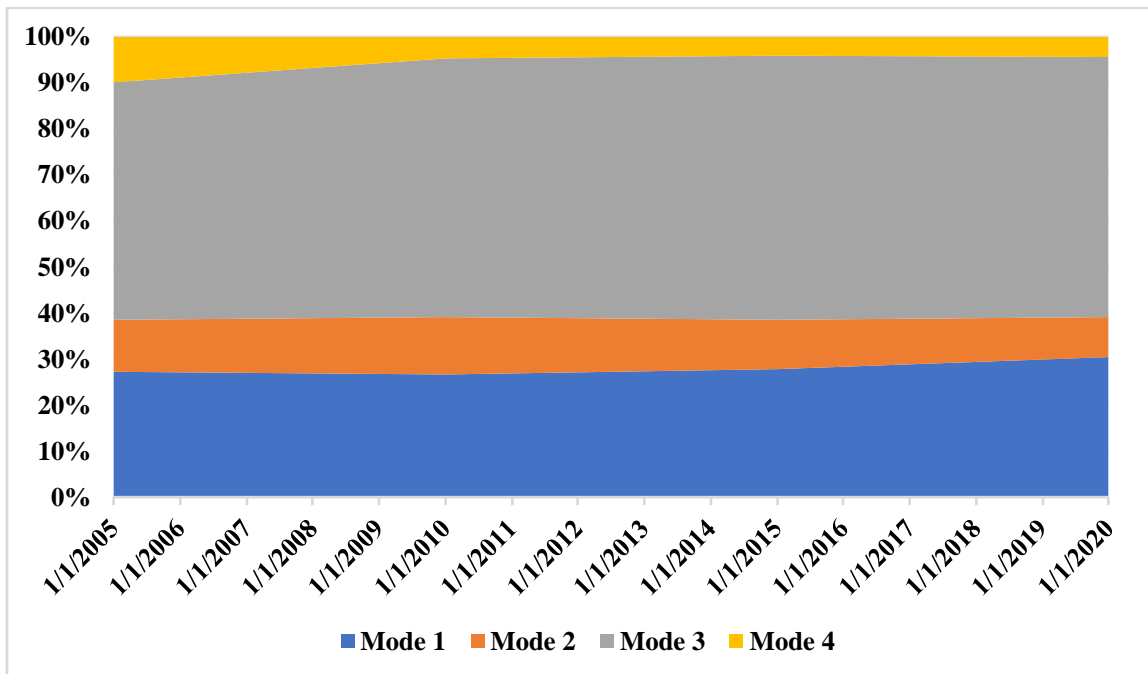
Mode 1: Cross-border supply (services supplied from one country to another)

Mode 2: Consumption abroad (consumers consuming services in another country)

Mode 3: Commercial presence (a service supplier establishes presence in another country)

Mode 4: Movement of natural persons (individuals traveling to supply services)

Figure 4: Global services trade breakdown by modes over time



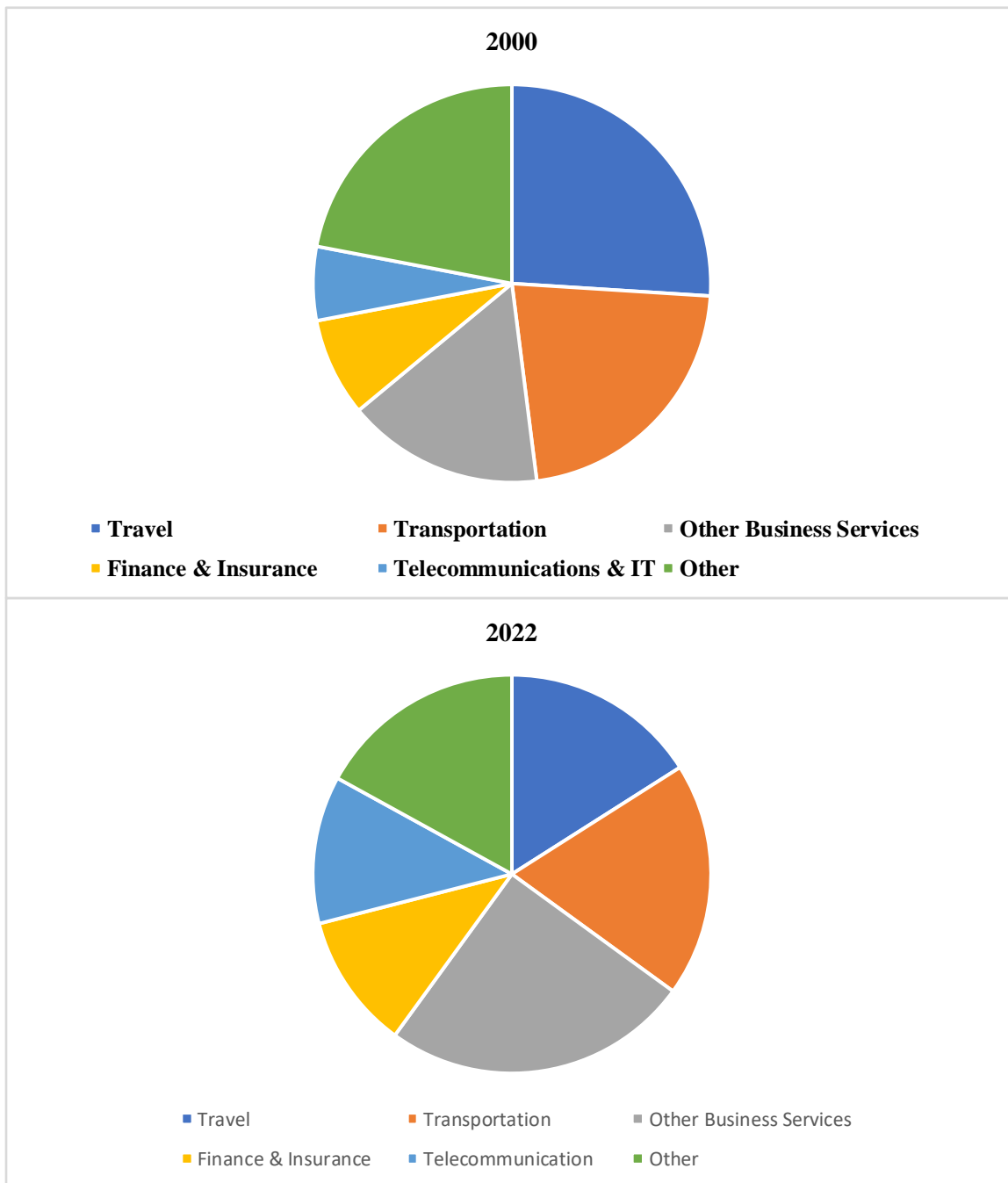
Source: Author's Construction

Figure 4 depicts the relative dominance of the four modes in global services trade. Several patterns emerge:

- 1) Mode 3 (Commercial presence) and Mode 1 (Cross-border supply) collectively account for the majority of global services trade, constituting around 80% in recent years.
- 2) The share of Mode 3 has grown over time, reflecting the increasing presence of multinational service providers establishing commercial operations abroad.
- 3) Mode 4 (Movement of natural persons) remains relatively limited, accounting for less than 5% of global services trade, owing to persisting restrictions on labor mobility and migration.
- 4) For developed economies, Mode 3 (Commercial presence) is the dominant mode of service supply, facilitated by their global footprints and foreign affiliates.
- 5) For developing economies like India, Mode 1 (Cross-border supply) has driven a significant portion of services exports, leveraging digitalization and remote delivery models.

Composition of Traded Services

Figure 5: Composition of global services exports by major categories in 2000 and 2022



Source: Author's Construction

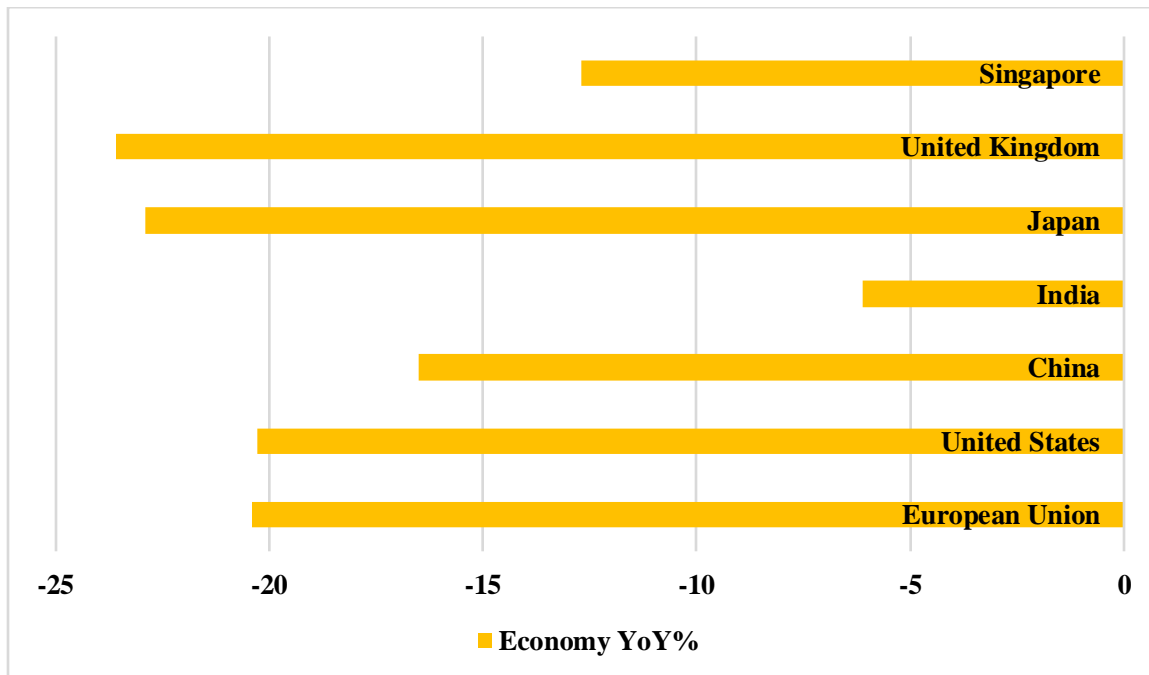
The composition of globally traded services has undergone a notable transformation over the past two decades, as illustrated in Figure 5. Key shifts include:

- 1) Traditional service sectors like travel and transportation witnessed a decline in their share of global services exports, from around 50% in 2000 to approximately 35% in 2022.
- 2) Modern service sectors such as telecommunications, computer and information services, financial services, and other business services experienced robust growth, collectively increasing their share from around 30% in 2000 to over 45% in 2022.

- 3) For developing economies like India and the Philippines, modern services like computer and information technology (IT) services, and other business services emerged as major export drivers, accounting for over 50% of their total services exports in recent years.
- 4) Travel services remained a significant component of services exports for several economies, particularly those with well-established tourism industries like Thailand, Greece, and Spain.

Impact of COVID-19 Pandemic

Figure 6: Year-over-year change in services exports for major economies in 2020



Source: Author's Construction

The unprecedented COVID-19 pandemic dealt a severe blow to global services trade, as evidenced by Figure 6. Some key observations:

- 1) In 2020, during the height of the pandemic, major economies witnessed substantial declines in their services exports, ranging from -15% to -25% compared to 2019 levels.
- 2) Travel and transportation services were among the hardest hit, with sectors like tourism and aviation facing existential challenges due to travel restrictions and lockdowns.
- 3) Modern services like telecommunications, computer, and information services exhibited greater resilience, owing to their ability to leverage digital platforms and remote delivery models.
- 4) The impact on services trade varied across economies, with those heavily reliant on travel and tourism exports experiencing more severe contractions.

While global services trade has shown signs of recovery since 2021, the long-term implications of the pandemic remain uncertain. Factors such as the pace of economic recovery, shifts in consumer behavior, and the adoption of digital technologies will shape the future trajectory of services trade flows.

6. Conclusion

This comprehensive study has shed light on the evolving patterns of global international trade in services over the past three decades. The analysis has revealed several salient trends and dynamics:

- 1) Global services trade has experienced remarkable growth, with exports and imports consistently outpacing the expansion of goods trade. Developing and emerging economies have emerged as formidable participants, gradually eroding the historical dominance of developed nations.
- 2) The modes of service supply have witnessed a transformation, with commercial presence (Mode 3) and cross-border supply (Mode 1) emerging as the dominant modes. Digitalization and the proliferation of multinational service providers have been key enablers of this shift.
- 3) The composition of traded services has transitioned from traditional sectors like travel and transportation towards modern, knowledge-intensive services such as telecommunications, computer and information services, and other business services.
- 4) The COVID-19 pandemic inflicted severe disruptions on global services trade, with sectors like travel and tourism facing unprecedented challenges. However, modern digital services exhibited greater resilience, underscoring the importance of technological adaptation and diversification.

The findings of this study hold significant implications for policymakers, businesses, and international organizations. Governments must prioritize the development of robust digital infrastructure, foster an enabling regulatory environment, and promote skill development to enhance their nations' competitiveness in the global services trade landscape. Businesses and service providers must adapt their strategies, invest in digital transformation, and explore new markets and delivery models to capitalize on the evolving trade dynamics.

Furthermore, international cooperation and coordination are crucial to facilitate the seamless flow of services across borders, address regulatory barriers, and ensure an equitable distribution of the benefits of services trade. Initiatives like the WTO's Trade in Services Agreement (TiSA) negotiations and the ongoing discussions on digital trade rules can play a pivotal role in shaping the future governance framework for global services trade.

While this study has provided a comprehensive analysis, there remains scope for further research. Future studies could delve deeper into the specific determinants and drivers of services trade patterns, explore the impact of emerging technologies like artificial intelligence and blockchain, and investigate the role of regional trade agreements in fostering services trade integration.

In conclusion, the evolving patterns of global international trade in services reflect the profound transformations underway in the global economy. As services continue to gain prominence, understanding and adapting to these evolving dynamics will be crucial for sustaining economic growth, fostering innovation, and unlocking new opportunities in the increasingly interconnected global marketplace.

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