



AUGUR

Challenges for Europe in the world in 2025

Project no. SSH-CT-2009-244565

Collaborative Project

SP1-Cooperation

Working Paper

Global patterns of trade specialisation and club convergence: Past and current patterns of services trade specialisation

by Olga Pindyuk (WIIW)

Project co-funded by the European Commission within the Seventh Framework Programme		
Dissemination Level		
PU	Public	X
PP	Restricted to other programme participants (including the Commission Services)	
RE	Restricted to a group specified by the consortium (including the Commission Services)	
CO	Confidential, only for members of the consortium (including the Commission Services)	

AUGUR

Project no. SSH-CT-2009-244565

Inhalt

Introduction..... 5

General facts and trends..... 7

Conclusions and implications for AUGUR scenarios..... 22

Introduction

This paper gives an overview of trends in global services trade over the period of 1999-2007. Shorter period of analysis as compared with a similar merchandise trade paper is due to limitations of data in the detailed geographic breakdown required by the CAM model (19 world regions). We also look at the sectoral dimension of services trade in our analysis to account for patterns of specialization in different regions.

Before proceeding with the analysis per se, it is important to stress, that services have unique characteristics that greatly affect their tradability as compared with goods. The two most obvious characteristics include intangibility and non-storability. These characteristics mean that services typically require joint production, with customers having to participate in the production process. In order to capture these aspects and to allow for trade in services that also require joint production, the WTO classifies trade in services under four modes of supply:

- Mode 1 – Cross-border: services supplied from the territory of one country into the territory of another.
- Mode 2 – Consumption abroad: services supplied in the territory of a nation to the consumers of another.
- Mode 3 – Commercial presence: services supplied through any type of business or professional establishment of one country in the territory of another (i.e., FDI).
- Mode 4 – Presence of natural persons: services supplied by nationals of a country in the territory of another.

In our analysis, due to data limitations, we focus on modes 1 and 2 of services trade – it is these modes which are normally reported in the Balance of Payments statistics. According to some estimates, mode 3 accounts for up to a half of cross-border services transactions; still, we believe, the data at hand let us shed light on major trends in services trade. We will explore trends in the geographic structure of services trade by regions, and also sectoral specialization of different regions and its changes over time.

The data come from the TSD dataset¹, which contains data on annual bilateral services trade flows for 244 reporting countries and 244 partners, for the period of 1995-2007. The dataset is compiled from the OECD, Eurostat, UN, and IMF data (the latter data are only on trade with the World as a partner). OECD, Eurostat and UN provide data on bilateral services trade flows on dual breakdown, by partners and

¹ For the detailed description of the dataset see Francois, J., Pindyuk, O., Woerz, J. Trends in International Trade and FDI in Services: A Global Database of Services Trade. IIDE Discussion Papers, No 20090802, August 2009.

sectors (24 sectors and subsectors). The most comprehensive coverage of reporting countries among the three sources is the UN, which provides data on 190 reporters. Eurostat and OECD provide data for a limited number of reporters: Eurostat covers 27 EU members plus Croatia, Iceland, Japan, Norway, Turkey, Switzerland, and US; while OECD covers 28 countries (all the OECD members apart from Chile, Iceland, Israel, Slovenia, and Switzerland). Time coverage is the biggest in EUROSTAT, which reports data starting from 1995. IMF data cover 166 reporters and 28 sectors for the period 1995-2008. Data are annual for 1995-2008, with earlier data and 2008 data available for individual countries. In total we have 1,379,363 observations, 8% of observations are missing values, and 36% of observations are zero flows.

Sectors coverage is presented in Table 1. We have data for more than 20 economic activities according to the BOP classification. However, not all sectors have the same coverage in terms of time and trading countries. In general, the higher the level of disaggregation, the fewer observations we have.

Table 1. Services sectors classification in our dataset:

200: Total services
205: Transport
236: Travel
240*: Other Commercial Services (200-205-236-999)
245: Post and telecommunications
246: Post and courier
247: Telecommunications
249: Construction
253: Insurance
260: Financial intermediation
262: Computer and information
264: Information services
266: Royalties and license fees
268: Other business services
269: Trade and repairs
272: Renting machinery and equipment
273: Miscellaneous business, profession
274: Legal, accounting, professional

275: Legal
276: Accounting, auditing, bookkeeping
277: Business and management consulting
278: Advertising, marketing, polling
279: Research and development
280: Architecture, engineering, technical
282: Waste treatment and de-pollution
284: Other business services
286*: Unallocated other business services
287: Personal, cultural, recreational
291: Government services
999*: unallocated bilateral trade flows

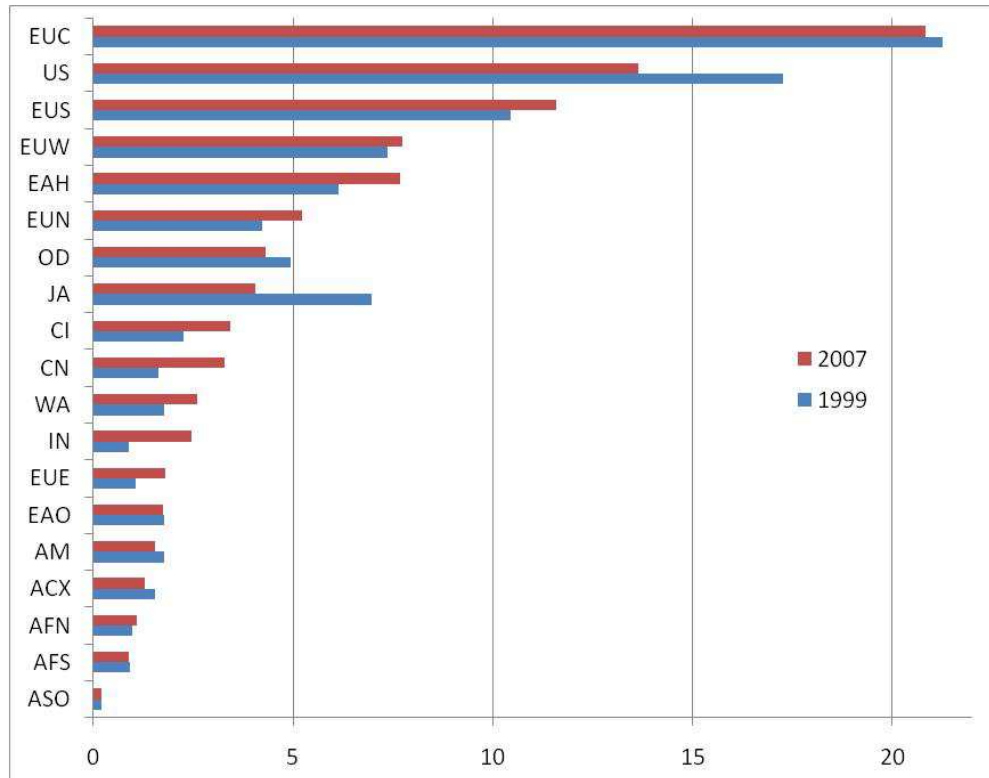
* We created these sectors

General facts and trends

Global services trade in 2007 was concentrated in the developed countries, primarily the EU (around 50% share), and US (14%) – see Figure 1. Other Developed countries and Japan accounted for about 4% each. However, there have been changes in the geographic structure of the global services trade as compared with 1999 – shares of Japan, US, and Other Developed countries have declined (most dramatically in case of Japan), while China, India, high-income East Asia and West Asia have been increasing their importance as global services exporters. Latin America, Africa and Other South Asia have negligible shares in the world services trade, and the situation has not changed much so far.

It is interesting to note difference in dynamics inside the EU: EUS, EUN, and EUE have achieved a noticeable increase in their shares in total services exports, while EUC and EUW have experienced virtually no change in their shares.

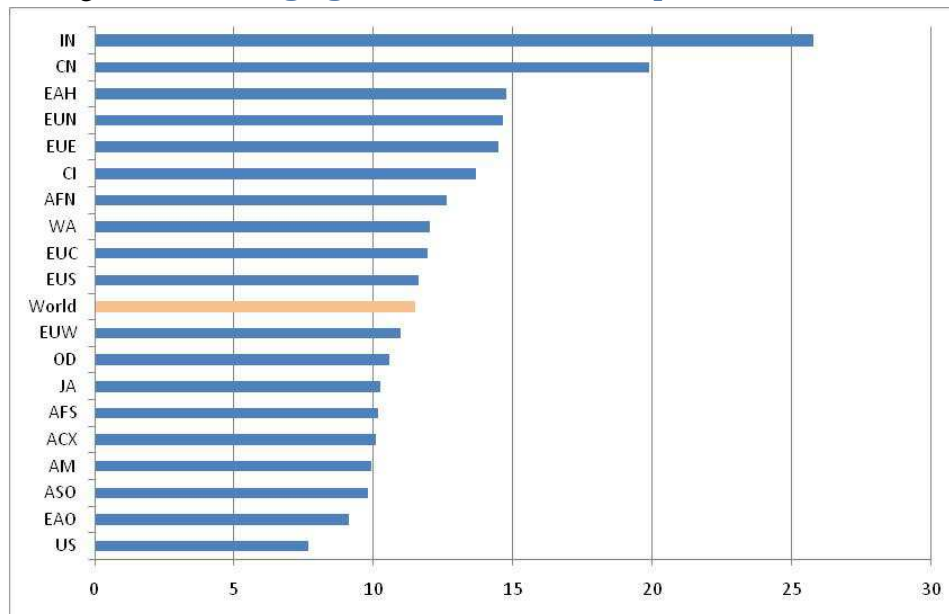
Figure 1. **Geographic structure of services exports, %**



Source: TSD

Figure 2, which shows average growth rates of services exports in 1999-2007, provides another dimension to the story. India and China stand out as countries with the fastest growth of services exports – striking 26% and 20% on average per annum respectively. High-income East Asia, Northern and Eastern Europe also experienced fast growth of their services exports - at about 15% on average per annum. The rest of the EU has been increasing their services exports at rates close to the World average one. The US has been the biggest laggard in terms of the average services exports growth rate.

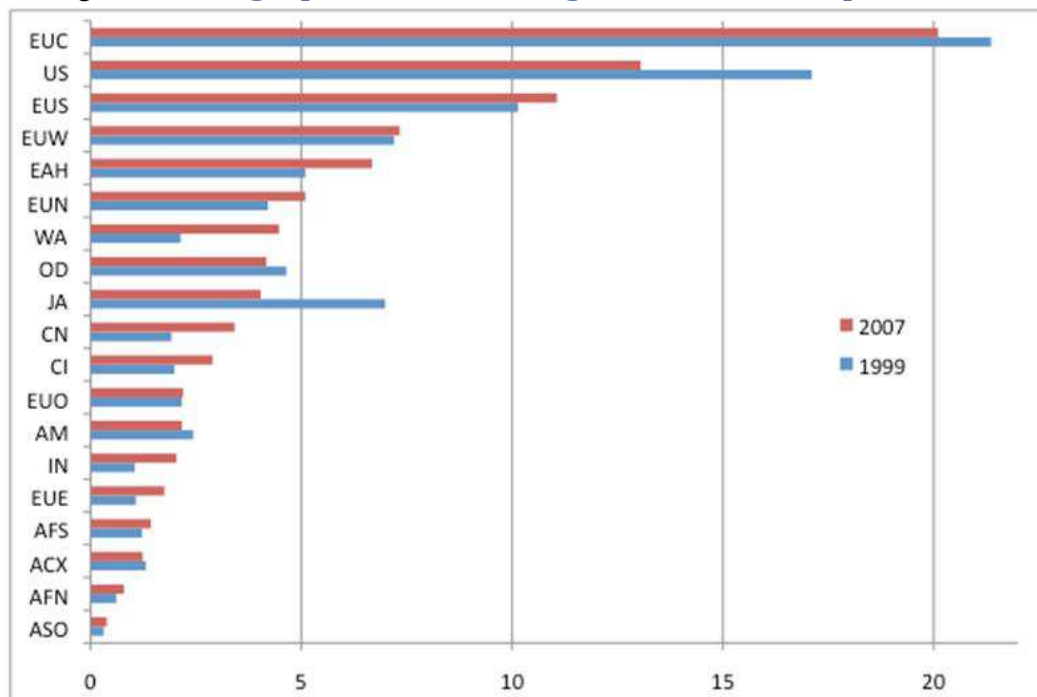
Figure 2. Average growth of services exports in 1999-2007



Source: TSD

Geographic structure of global services imports strongly resembles the exports one, with the EU accounting for the bulk of imports (see Figure 3). Similarly to services export dynamics, China, India, high-income East Asia and West Asia have been increasing global services imports shares since 1999. Inside the EU, it is again EUS, EUN, and EUE, which have been building up their services imports shares. Japan, US and Other Developed countries had their shares in global services imports decreased since 1999.

Some observations can be made looking at the services trade balances of the regions. Most regions have their services trade virtually balanced. It is developing countries, where discrepancies between levels of services exports and imports can be noticed – in particular, Other Africa, West Asia, and Other South Asia, where services imports in 2007 were more than 60% higher, than services exports. It is interesting, that India has been showing quite different dynamics as compared to other developing countries, having services trade surplus in 2007 at the level of 16% of services exports; this might be an indication of an emerging comparative advantage of India in services.

Figure 3. **Geographic structure of global services imports**

Source: TSD

Table 2 and Table 3 show geographical structure of services exports by the major regions covered – SEES, Europe, Americas, Africa, and Other – in 1999 and 2007. First disclaimer, which has to be made before analyzing these data, is that the data on Africa and Other countries lack detailed information on the regional breakdown of their services exports; therefore it is better to concentrate on three other regions with better trade partners' data coverage.

The most noticeable observation is that the Europe is a more integrated region compared to SEES and Americas. Thus, though services trade in the EU is lagging behind merchandise trade in terms of liberalization, it still appears to have the most liberalized services trade. Eastern Europe has experienced dramatic increase in the intra-regional trade since 1999, obviously tighter regional integration having been caused by the processes associated with the EU enlargement. As a result, of these trends, by 2007 Eastern Europe had the highest share of intra-regional trade in Europe.

In the US the share of intra-regional services exports is lower not only than the share of developed Europe, but also than that of Asia. However, the share of intra-regional exports has increased over 1999-2007, indicating strengthening of economic ties inside the region.

The more developed are the countries of South East and East Asia, the higher is their share of intra-regional services exports, with Japan having the highest share of 31% in 2007. All the members of the region increased their shares of intra-regional exports over 1999-2007, the increase being most profound in relative terms in China and high-income East Asia.

Table 2. Geographical structure of services exports by regions, 1999

Share of exports destined for

	SEEA	Europe	Americas	Africa	Other	Intra-regional	Extra-regional
South East & East Asia							
JA	25.4	10.9	20.6	1.2	0.4	25.4	74.6
CN	14.8	11.8	18.5	0.0	0.0	14.8	85.2
EAH	14.4	6.4	29.0	0.0	0.0	14.4	85.6
EAO	12.7	8.1	6.7	0.0	0.0	12.7	87.3
Europe							
EUC	3.3	44.5	14.6	1.0	0.6	44.5	55.5
EUN	4.7	46.0	16.8	0.7	1.2	46.0	54.0
EUW	9.1	46.3	30.3	2.8	1.1	46.3	53.7
EUS	2.8	42.7	15.1	0.4	0.6	42.7	57.3
EUE	0.1	43.6	3.0	0.0	0.0	43.6	56.4
Americas & Europ. Offsprings							
US	21.0	36.3	13.7	0.3	0.5	13.7	86.3
AM	1.4	16.5	45.5	0.0	0.0	45.5	54.5
ACX	1.2	7.2	53.4	0.0	0.0	53.4	46.6
OD	14.7	15.8	40.6	0.4	0.4	40.6	59.4
Africa+							
AFN	0.0	22.5	0.3	0.0	0.0	0.0	100.0
AFS	1.0	12.0	10.7	0.0	0.0	0.0	100.0
WA	4.1	19.9	0.6	0.0	0.0	0.0	100.0
Other							
IN	3.1	17.0	17.2	0.0	0.0	0.0	100.0
ASO	0.0	2.1	1.7	0.0	0.0	0.0	100.0
CI	1.2	7.5	0.3	0.0	0.0	0.0	100.0

Source: TSD

Table 3. Geographical structure of services exports by regions, 2007

Share of exports destined for

	SEEA	Europe	Americas	Africa	Other	Intra-regional	Extra-regional
South East & East Asia							
JA	30.6	16.4	26.4	3.3	1.2	30.6	69.4
CN	25.3	16.0	13.3	0.0	2.0	25.3	74.7
EAH	29.6	17.4	18.7	1.0	1.7	29.6	70.4
EAO	17.3	15.8	6.1	3.4	1.6	17.3	82.7
Europe							
EUC	6.9	58.1	14.9	4.2	2.4	58.1	41.9
EUN	11.2	43.2	17.7	3.2	3.4	43.2	56.8
EUW	9.3	53.0	20.1	6.8	4.0	53.0	47.0
EUS	3.7	52.4	14.1	2.8	2.2	52.4	47.6
EUE	15.7	60.0	7.5	1.4	5.0	60.0	40.0
Americas & Europ. Offsprings							
US	20.6	39.0	18.2	0.4	2.7	18.2	81.8
AM	0.7	30.1	12.0	0.0	0.1	12.0	88.0
ACX	1.2	19.1	35.0	0.0	2.1	35.0	65.0
OD	14.0	18.2	28.7	0.7	1.9	28.7	71.3
Africa+							
AFN	0.0	51.1	0.2	0.0	5.0	0.0	100.0
AFS	1.9	47.8	6.0	0.0	0.3	0.0	100.0
WA	7.1	34.8	0.3	0.0	8.5	0.0	100.0
Other							
IN	2.6	9.8	11.3	0.0	0.4	0.4	99.6
ASO	5.4	32.0	13.3	5.7	0.7	0.7	99.3
CI	1.9	19.9	3.9	2.0	10.5	10.5	89.5

Source: TSD

Table 4 shows how big shares of each exporter are at a given regional market. In Europe imports from the region itself accounted for more than a half of total imports in 2007, an increase by 11 p.p. as compared with 1999. The second biggest region exporting services to Europe is Americas (most imports from that region come from the US).

Europe, in turn, is an important player in the Americas' services market, accounting for about one third of the region's services imports, significantly more than share of intra-regional imports (21%). Share of SEEA in the American services imports was around 16%.

In the South East & East Asia, intra-regional imports have the biggest share in the total region's services imports (28%) as compared with other regions. Europe and Americas account for 17% and 18% of the region's services imports respectively.

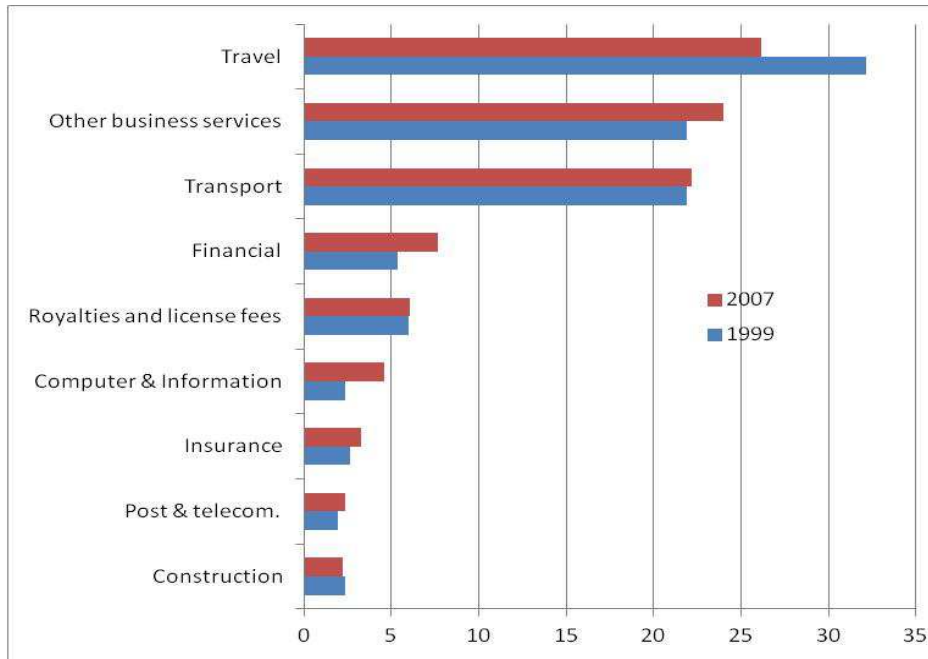
Table 4. Regional services export market shares, comparison between 1999 and 2007

	1999					2007				
	SEEA	Europe	Americas	Africa	Other	SEEA	Europe	Americas	Africa	Other
South East & East										
Asia	19.0	4.2	17.0	2.0	1.6	27.8	7.5	16.3	2.9	2.6
JA	6.9	2.6	10.7	2.0	1.6	7.1	2.1	6.3	2.5	0.5
CN	2.2	0.3	0.8	0.0	0.0	6.8	1.4	1.9	0.0	0.5
EAH	7.6	1.1	5.1	0.0	0.0	11.2	3.4	7.7	0.4	1.4
EAO	2.3	0.2	0.4	0.0	0.0	2.7	0.5	0.4	0.0	0.2
Europe	9.1	44.1	28.8	16.9	9.6	16.7	55.1	32.2	27.5	18.3
EUC	4.9	22.5	12.2	10.4	3.4	7.3	26.9	12.9	14.6	8.0
EUN	1.0	5.3	2.3	1.3	2.1	2.2	6.4	3.5	1.6	1.9
EUW	2.3	8.0	6.1	3.4	2.4	3.2	6.7	6.3	5.0	4.5
EUS	0.8	7.6	8.0	1.7	1.7	2.2	12.8	8.8	5.6	2.5
EUE	0.0	0.8	0.2	0.0	0.0	1.8	2.2	0.7	0.6	1.3
Americas & Europ. Offsprings	22.1	17.1	23.1	2.8	4.8	18.2	15.8	20.6	0.9	8.1
US	18.3	13.8	12.8	2.0	3.8	14.6	11.8	7.4	0.6	7.0
AM	0.2	0.9	0.9	0.0	0.0	0.1	1.4	2.2	0.0	0.1
ACX	0.1	0.3	2.5	0.0	0.0	0.2	0.6	3.2	0.0	0.2
OD	3.5	2.1	6.9	0.8	1.1	3.3	2.0	7.7	0.4	0.8
Africa+	0.5	1.1	0.3	0.0	0.0	1.6	4.1	0.4	0.1	1.5
AFN	0.0	0.3	0.0	0.0	0.0	0.0	0.6	0.0	0.1	0.1
AFS	0.1	0.4	0.3	0.0	0.0	0.2	1.2	0.3	0.0	0.0
WA	0.4	0.5	0.0	0.0	0.0	1.4	2.3	0.1	0.0	1.3
Other	0.2	0.7	0.4	0.0	0.0	1.6	2.9	2.3	4.0	6.8
IN	0.1	0.4	0.4	0.0	0.0	0.7	0.6	1.5	0.0	0.2
ASO	0.0	0.0	0.0	0.0	0.0	0.4	0.2	0.2	0.6	0.1
CI	0.0	0.4	0.0	0.0	0.0	0.5	2.1	0.6	3.4	6.5

Source: TSD

Next, we look at the sectoral structure of regional services trade. As Figure 4 shows, three services sectors, namely travel, transportation and other business services account for about 75% of global services trade. The general trend, however, has been an increase in the share of other business services and other producer-related services at the cost of travel services' share; in 2007, producer-related services accounted for more than half of the global services trade – 10 p.p. increase as compared with 1999.

Figure 4. Commodity structure of global services exports



Source: TSD

Regional breakdown of services trade by sector is shown in Table 5 and Table 6. We use the following approach to “reveal” specialization patterns of regions – if a share of a given region’s services sector in global exports of this sector is higher than share of this region in the total World services exports, then the region is assumed to tend to specialize globally in this type of services.

It appears, that the countries of SEEA in 1999 had a tendency to specialize in exports of transport services (in particular, high-income East Asia) and construction services (mostly Japan). Japan had a strong position in exports of royalties and license fees, accounting for about 10% of the global exports in this sector. Shares of the region’s exports of post and telecommunications, financial services, insurance, and computer and information services, on the contrary, were much lower than the share of the region in the total services exports. In 2007, the region kept its specialization in exports of transportation and construction services, with China significantly increasing its share in the global construction services exports. Japan kept its 10% share in the global royalties and license fees exports.

European region turns out to be quite heterogeneous in terms of its members’ specialization. Back in 1999, the region as a whole specialized in exports of travel and computer and information services (primarily EUS in the former, and EUN and EUS in the latter). Central Europe tended to specialize in construction services exports (accounting for about one third of the global trade in this sector), while Western Europe (i.e., UK) was a big exporter of financial and insurance services (22% and 14% of global trade respectively). Central Europe specialized most in post and telecommunications services. The European region is exporting relatively less actively royalties and license fees as compared to other developed countries.

In 2007, Europe increased its specialization in other business services and developed specialization in post and telecommunications services (primarily in EUC and EUE). EUS retained its specialization in computer and information services, and developed specialization in insurance (while EUW lost it).

Americas had strikingly strong specialization in royalties and license fees exports in 1999 (which might be linked to transfer pricing processes in tax optimizing MNCs in the US); other two sectors of specialization were insurance (mostly US and ACX), and post and telecommunications (ACX and OD). Other developed countries also tended to specialize in exports of computer and information services. By 2007, America preserved its specialization in royalties and license fees, but lost specialization in post and telecommunications and computer and information services. Vast growth of off-shoring in programming to India explains the latter – over 1999-2007, the share of India at the global market of computer and information services increased from almost zero to 21%. US instead increased its specialization in insurance services and developed specialization in financial services.

Two other regions have quite low presence at the global services markets with exception of already mentioned computer and information services exports by India, and also recently developed specialization in travel and construction services by West Asia.

Table 5. Share of regions in global services exports by sectors, 1999*Share in global exports*

1999	Transport	Travel	Post & telecom.	Construction	Insurance	Financial	Computer & Information	Royalties and license fees	Other business services	Total
South East & East Asia	19.6	14.9	10.9	22.5	7.8	9.4	9.1	17.3	18.2	16.5
JA	7.6	6.0	4.2	14.3	5.2	3.0	7.3	9.6	7.0	7.0
CN	1.0	2.6	1.8	2.4	0.5	0.1	0.7	0.9	2.0	1.6
EAH	9.7	3.7	3.6	2.7	1.9	6.1	1.0	6.0	8.0	6.1
EAO	1.3	2.7	1.3	3.0	0.2	0.2	0.2	0.8	1.3	1.8
Europe	44.5	48.3	41.3	46.8	40.4	46.9	54.8	34.0	47.6	44.4
EUC	20.8	21.9	16.9	31.8	15.2	17.8	15.0	12.1	20.6	21.2
EUN	7.3	3.6	4.0	3.1	2.1	1.1	7.1	2.5	5.9	4.2
EUW	6.1	6.8	8.7	1.1	14.3	21.5	9.7	8.1	9.1	7.4
EUS	9.1	14.5	9.4	9.2	6.9	6.0	22.3	10.5	10.9	10.5
EUE	1.1	1.5	2.4	1.5	1.9	0.5	0.8	0.8	1.0	1.1
Americas & Europ. Offsprings	22.8	25.7	31.3	17.2	42.2	17.9	28.5	45.9	18.6	25.5
US	14.8	16.3	14.2	14.5	20.7	14.7	16.8	38.8	12.1	17.3
AM	2.0	2.1	2.9	0.5	1.2	0.6	0.4	1.3	1.3	1.8
ACX	1.1	2.2	5.9	0.3	12.1	0.7	0.3	1.0	0.7	1.5
OD	4.8	5.1	8.4	1.8	8.0	2.0	11.0	4.8	4.6	4.9
Africa+	3.2	4.1	3.5	5.4	2.5	0.9	0.1	0.7	4.7	3.7
AFN	1.0	1.4	1.1	0.4	0.3	0.1	0.1	0.1	0.7	1.0
AFS	1.0	1.1	1.7	0.8	1.4	0.1	0.1	0.3	0.9	0.9
WA	1.3	1.6	0.8	4.2	0.8	0.7	0.0	0.3	3.1	1.8
Other	3.4	3.7	4.4	3.1	3.2	1.3	1.8	1.1	4.7	3.4
IN	0.5	0.5	0.2	0.4	0.5	0.1	0.2	0.1	2.4	0.9
ASO	0.3	0.1	1.0	0.0	0.1	0.0	0.0	0.0	0.1	0.2
CI	2.6	3.0	3.3	2.7	2.5	1.2	1.6	1.0	2.2	2.3

Source: TSD

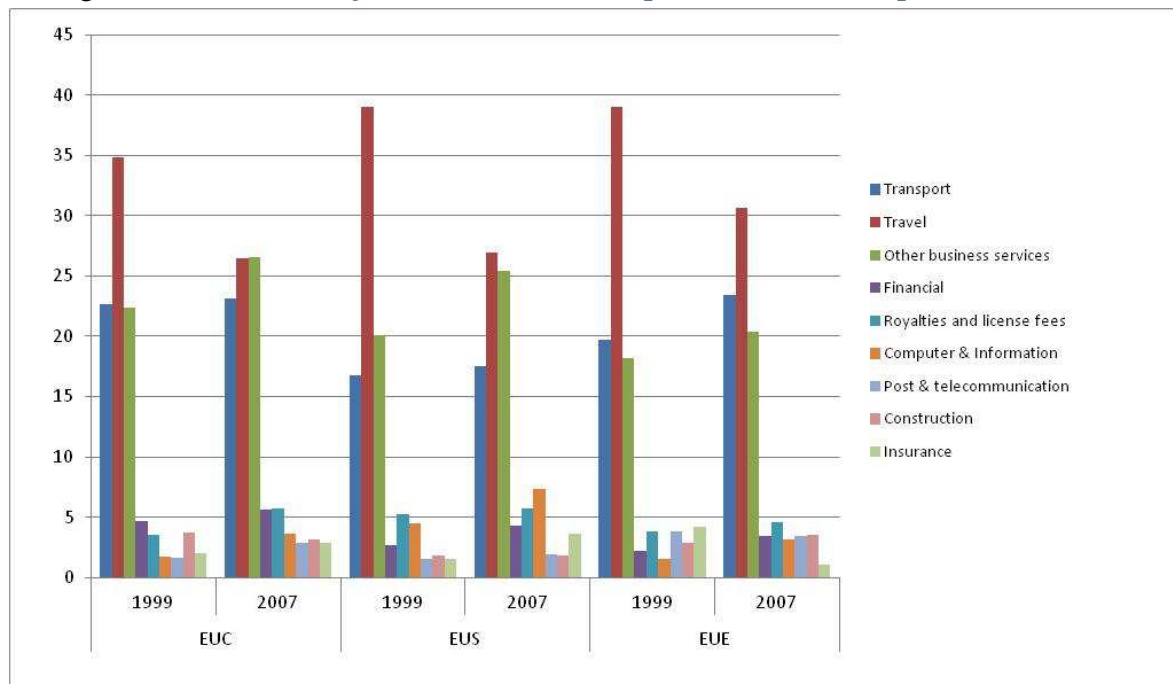
Table 6. Share of regions in global services exports by sectors, 2007*Share in global exports*

2007	Transport	Travel	Post & telecom.	Construction	Insurance	Financial	Computer & Information	Royalties and license fees	Other business services	Total
South East & East Asia	22.0	14.3	9.7	23.2	7.5	10.8	7.9	13.3	19.5	16.8
JA	5.7	2.6	1.1	11.8	3.2	2.1	2.0	9.8	4.0	4.0
CN	3.6	3.6	1.3	6.2	0.7	0.1	2.4	0.2	4.6	3.3
EAH	11.2	4.8	4.7	3.3	3.2	8.3	3.1	3.1	9.7	7.7
EAO	1.6	3.3	2.5	1.9	0.4	0.3	0.3	0.1	1.2	1.7
Europe	47.4	46.9	51.8	46.7	42.7	48.0	52.6	43.1	52.5	47.2
EUC	20.7	20.0	24.3	27.7	17.5	14.7	15.8	18.9	21.9	20.8
EUN	8.8	4.0	4.3	3.0	1.5	1.3	6.5	3.8	6.4	5.2
EUW	5.5	7.1	9.4	2.3	8.3	23.7	8.0	6.4	8.7	7.7
EUS	10.4	13.6	11.1	10.7	14.8	7.4	21.1	12.6	14.0	11.6
EUE	2.0	2.2	2.8	3.0	0.6	0.8	1.3	1.4	1.6	1.8
Americas & Europ. Offsprings	17.9	21.0	16.6	10.0	41.6	23.0	14.7	41.1	18.4	20.8
US	11.0	11.7	9.5	7.4	33.4	20.5	7.1	35.5	13.0	13.6
AM	1.7	1.7	1.5	0.3	0.9	0.5	0.6	0.3	1.8	1.5
ACX	0.8	2.2	1.6	0.3	1.8	0.3	0.3	0.1	0.2	1.3
OD	4.4	5.4	4.0	2.0	5.5	1.8	6.7	5.2	3.4	4.3
Africa+	4.1	7.8	5.5	9.7	2.8	0.7	0.3	0.5	2.8	4.6
AFN	1.2	1.9	1.3	1.4	0.2	0.1	0.1	0.1	0.4	1.1
AFS	0.8	1.5	1.7	1.0	0.3	0.4	0.2	0.1	0.4	0.9
WA	2.1	4.4	2.5	7.2	2.3	0.3	0.1	0.4	2.0	2.6
Other	5.6	5.0	7.3	5.8	2.3	2.9	23.7	2.4	5.3	6.1
IN	1.0	1.1	2.6	0.9	1.2	1.1	21.0	0.1	2.2	2.5
ASO	0.2	0.1	0.3	0.1	0.1	0.0	0.2	0.0	0.1	0.2
CI	4.4	3.8	4.4	4.8	1.1	1.7	2.6	2.3	2.9	3.4

Source: TSD

Figure 5 compares changes in structures of services exports of three different European regions – more developed Central Europe and less developed Southern and Eastern Europe. It appears that the regions tend to change in the same direction - decreasing shares of travel services and instead increasing shares of other business, financial, computer and information services, and royalties and license fees.

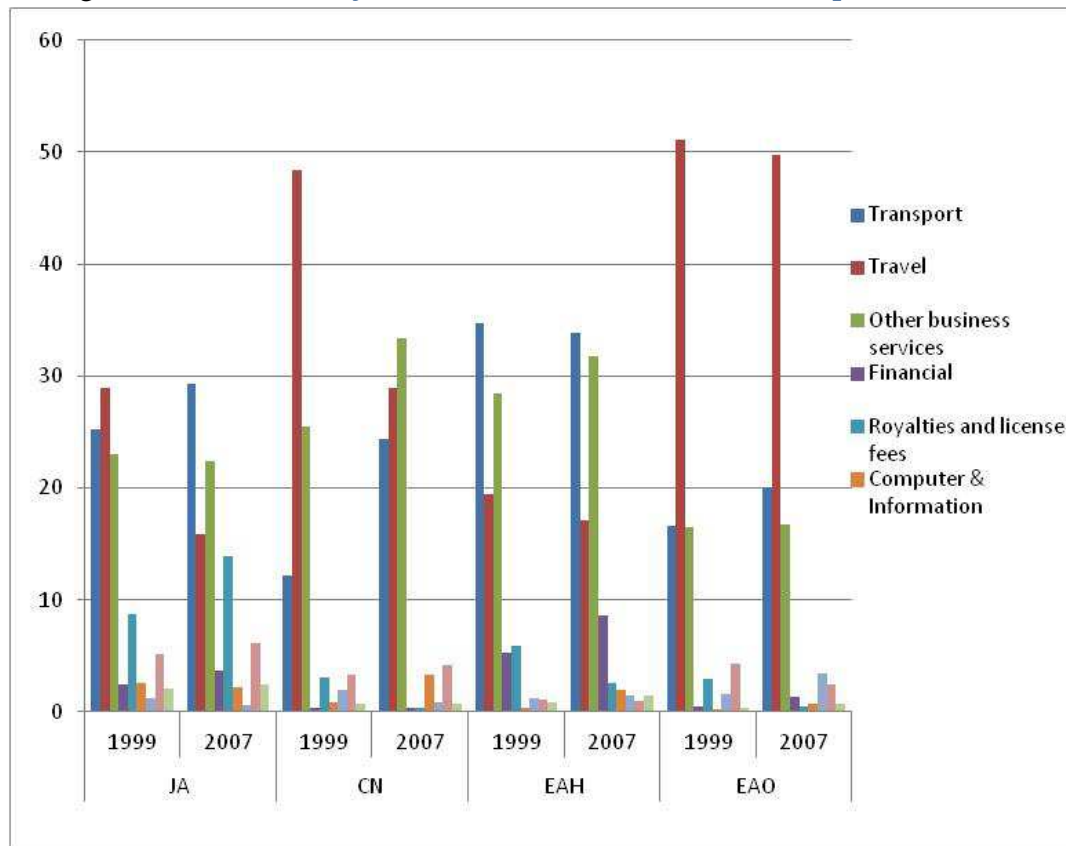
Figure 5. **Commodity structure of European services exports**



Source: TSD

In Asia (see Figure 6) – shares of travel services in exports increased in all the three sub-regions, the only exception was EAO, where the share of travel services in exports remained at the very high level of about 50%. However, services exports structures appear to be more heterogeneous than in the case of Europe: Japan has by far the highest share of royalties and license fees in its exports, while high-income East Asian countries have much higher share of financial services in their exports as compared with other sub-regions.

Figure 6. Commodity structure of Asian services exports

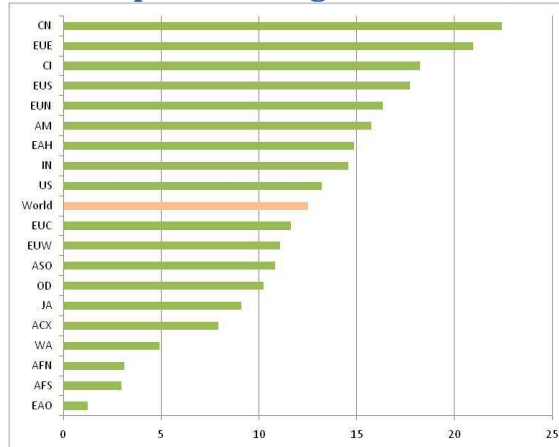


Source: TSD

A glimpse on exports growth rates in some sectors allows making extrapolating assessment of future trends in the global services trade (see Figure 7 - Figure 14).

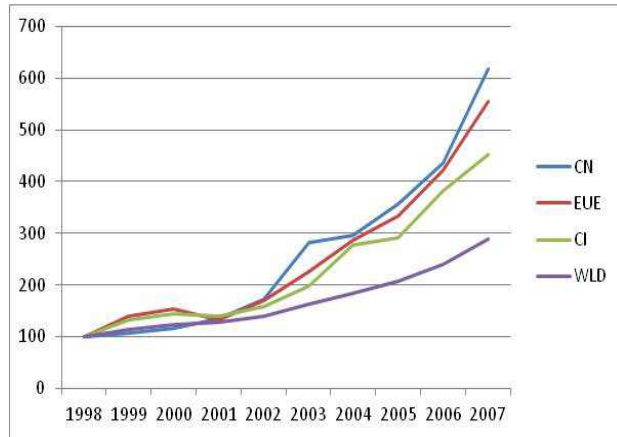
In other business services, it is China and Eastern Europe, which experienced the fastest exports growth during 1999-2007 – more than 20% on average per annum. CIS and Southern Europe increased their other business services exports at 18% average annual rate – 5 p.p. higher than the World on average. US, Japan and the low-income segment of developing countries had the slowest growth of exports in this sector. As index of other business services exports shows, exports growth in the three leading countries has not slowed down during the last years, on the contrary, there has been speeding up of growth.

Figure 7. Average growth of other business services exports during 1999-2007, %



Source: TSD

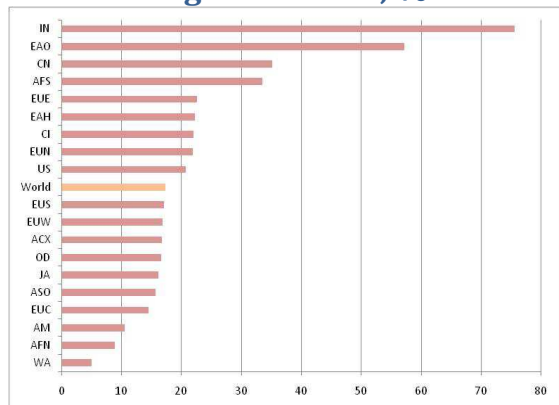
Figure 8. Index of other business services exports, 1998=100



Source: TSD

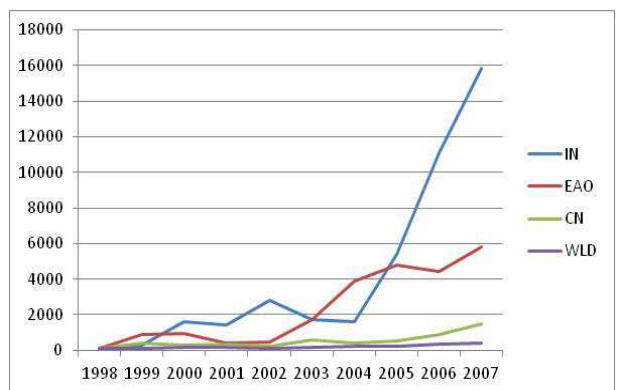
Interestingly, India has been a leader by the growth rate of financial services exports, followed by Other East Asia, China and Other Africa. Though these regions account for negligible shares of the current global exports of financial services, if this trend continues, they will increase their importance at the market quite fast. US, Europe and Other developed countries were increasing their financial services exports at the rate close to the global average one.

Figure 9. Average growth of financial services exports during 1999-2007, %



Source: TSD

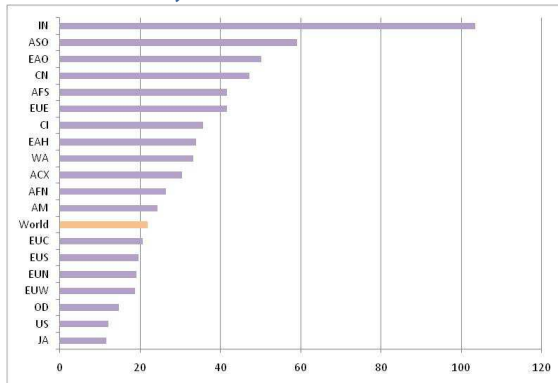
Figure 10. Index of financial services exports, 1998=100



Source: TSD

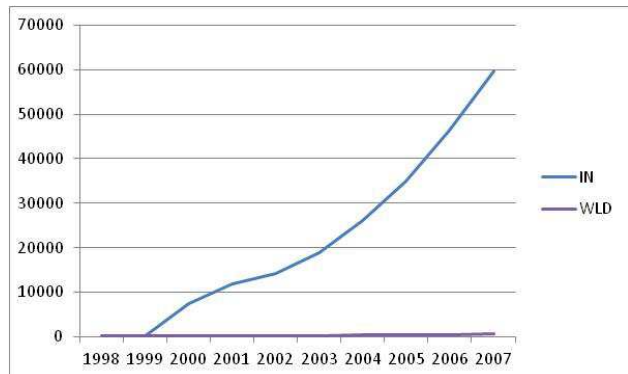
India is as well a confident leader in terms of exports growth rates at the market of computer and information services – the sector has been booming in the country, growing on average at about 100% rate per annum during 1999-2007.

Figure 11. Average growth of computer & information services exports during 1999-2007, %



Source: TSD

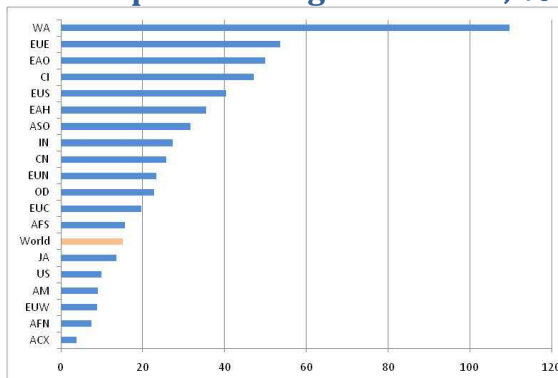
Figure 12. Index of computer & information services exports, 1998=100



Source: TSD

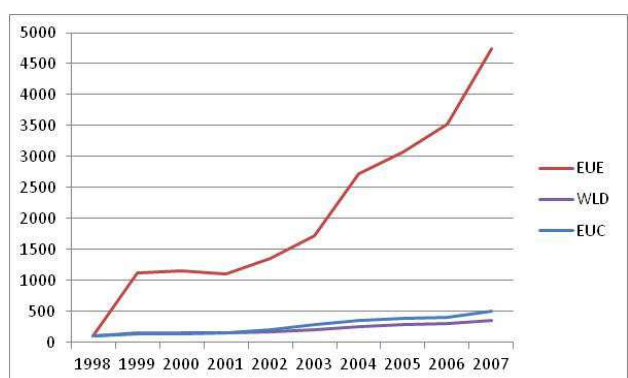
In royalties and license fees, it is West Asia which demonstrated skyrocketing exports growth at a rate exceeding 100% on average per annum. Eastern Europe, Other East Asia and CIS also increased their exports of royalties and license fees very fast – at about 50% on average per annum. Figure 14 shows comparison between Eastern and Central Europe in terms of royalties and license fees exports growth – during 1999-2007, value of the sector’s exports in Eastern Europe increased 10 times faster than in Central Europe.

Figure 13. Average growth of royalties & license fees exports during 1999-2007, %



Source: TSD

Figure 14. Index of royalties & license fees exports, 1998=100



Source: TSD

Conclusions and implications for AUGUR scenarios

Though the global services exports in 2007 were concentrated in developed countries, primarily the EU (around 50% share), and US (14%), there have been changes in the geographic structure of the global services trade as compared with 1999 – shares of Japan, US, and Other Developed countries have declined, while China, India, high-income East Asia and West Asia have been increasing their importance as global services exporters. India and China stand out as countries with the fastest growth of services exports during 1999-2007 – striking 26% and 20% on average per annum respectively. Though these regions at the moment account for low shares of global services exports, if a trend of skyrocketing services exports growth continues, they will increase their importance at the global services market quite fast. Such changes have been already happening in exports of some services sectors, the best example being India, that increased its share of the global market of computer and information services from almost zero in 1999 to 21% in 2007.

Future services trade developments will be largely depending on the liberalization of services trade and expansion of global production chains of MNCs and off-shoring.

Though free of import tariffs, services trade usually is subject to non-tariff barriers which impose significant trade costs on service providers. Even in case when services regulations are not discriminatory and were designed to meet legitimate economic or social objectives, they may they still hamper trade as regulatory requirements in a given export market are additional to the ones a service provider faces at home and other export markets. Several existing estimates of NTBs in services trade show that barriers to services trade are quite high, even in the EU, where the treaty establishing the European Community guarantees freedom of establishment of service companies and freedom to provide services on the territory of another EU Member State.

Recent studies also show growing importance of global value chains and off-shoring in international trade. Dynamics of many types of producer-related services is closely linked to developments in FDI and off-shoring activities.

Thus, different assumptions on barriers to services trade and capital flows will be used to model developments of services trade in different scenarios.

The **reduced government** scenario will most likely imply a slowdown in the services trade liberalization. Concurrently, investments will be more likely to flow to countries with already established business-friendly investment environment, thus implying hindrance to development of producer-related services trade in those regions, which will continue to have poor investment climate.

In the **US-China collaboration** and **regional liberalization** scenarios services trade liberalization will most likely occur inside regional groups, and global production chains will become increasingly fragmented. Thus, intra-group services trade is likely to develop faster than trade between regional groups.

The **global collaboration** scenario implies the lowest barriers to services trade and capital flows, and we expect global services trade grow the fastest under this scenario.