

# Chapter 6

## Services Trade in Emerging Market Economies

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### ABSTRACT

*Global trade in services has increased significantly over last three decades. Earlier, the growth was confined primarily to trade among advanced economies. In more recent times, even developing countries – especially, the emerging market economies (EMEs) – have experienced substantial increase in services trade. Services trade still accounts for only a small share of national income in most EMEs. However, one important trend has been the rapid growth of information-intensive services (IISs). This chapter examines the growth and patterns of services exports and imports from and to a number of EMEs. The analysis indicates that the importance of services trade has been growing for most EMEs. Further, among the EMEs, China, India, and Korea are the most dominant players in services exports and imports. For China, both export and import shares have been rising while for India the export share has been consistently rising. This chapter further discusses some of the intuitively plausible explanations for the growth of trade in services in general and in IISs in particular. It also discusses some of the challenges associated with the growth of IISs trade.*

### INTRODUCTION

In recent decades, the world has experienced a significant increase in services trade. One of the most important aspects of this growth is the manifold increase in the share of emerging market economies (EMEs) in services trade. There are two parallel developments that have contributed to this trend. *First*, as these economies conduct market-oriented reforms and adopt economic liberalization policies, there is an increase in the demand for traditional services such as transportation and travel. *Second*, the unprecedented advances in information and communication technologies (ICT) have not only made certain service items tradable but also, through rapid proliferation, created an opportunity for the developing

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countries to trade those services. In particular, these technological advances have enhanced tradability of information-intensive services (IISs). These are the services that involve creating, processing, and communicating information. Because of ICT, these services do not require physical presence of producers and consumers in the same location, a trait that traditionally characterizes services. The low cost of these technologies seems to be a major driver of the increase in both demand and supply of IISs in developing countries.

The main objective of this paper is to examine the major trends and patterns of services trade in EMEs. A secondary objective is to investigate the importance and growth of trade in IISs in these economies. Although growth of services trade in EMEs could be necessary and beneficial for the overall growth of those countries, it may also create formidable challenges. It is of utmost concerns that the institutional framework to handle some of the challenges associated with services trade is in its nascent state even in the developed countries. As countries increasingly trade in IISs, cybersecurity enters into the realm of national security. The policies and measures to promote trade in these services should recognize this and work towards building a comprehensive framework to address these challenges. This paper discusses some of the challenges created by services trade, particularly IISs trade in EMEs.

Although there has been an emerging literature on services trade, the focus has been primarily on the developed countries. Only a handful of studies examine services trade in EMEs. A lack of reliable data has been a formidable constraint. This, in turn, is related to the issues on how to measure services and what constitute trade in services. However, as international organizations, such as World Trade Organization (WTO) and United Nations Conference on Trade and Development (UNCTAD), have started publishing detailed data on services trade, researchers have also embarked on studying trade in services using empirical data. Thus, a number of articles on this topic have appeared in last two decades or so.

There are several strands of this literature. There are some studies that examine the determinants of international trade and investment in services (e.g., Polese and Verreault 1989; Freund and Weinhold 2002; Grunfeld and Moxnes 2003; Kimura and Lee 2006; Co 2007; Mann and Civril 2008). There are others that focus on gains from trade in services in terms of productivity and growth (e.g. Mattoo et al. 2006; Hoekman and Mattoo 2008; Amity and Wei 2009). Further, some other studies discuss policy issues related to services trade (e.g. Bhagwati 1987; Hoekman 1996; Deardorff 2001; Hoekman et al. 2007; Deardorff and Stern 2008). Francois and Hoekman (2010) give a comprehensive review of these different strands of the literature. To the best of our knowledge, none of these studies provides a comprehensive account of growth and patterns of EMEs trade in services in general and EME trade in IISs in particular.

The rest of the paper is organized as follows. Section 2 presents an overview of trade in services. This section is divided into two subsections. In Subsection 2.1, we discuss the definitional framework for trade in services, as adopted by the General Agreement on Trade in Services (GATS). Subsection 2.2 includes a brief discussion on current trends and patterns of world trade in services. In Section 3, we focus on the EME trade in services in general and IISs in particular. It discusses in details the composition and growth of various IISs. Section 4 discusses some theoretically plausible intuitions behind the rapid growth of trade in services in EMEs. In Section 5, we discuss some of the challenges the EMEs face as the services trade grows. In particular, we discuss certain issues related to cyber security and trade negotiations. Our concluding remarks are included in Section 6.

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