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EXPORTS OF SERVICES AND ECONOMIC GROWTH IN DEVELOPING COUNTRIES[1]

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Executive Summary

This paper illustrates the main trends in international trade in services during the last two decades of the last century, and explores quantitatively the nexus between GDP growth and exports of services, focusing particularly on the role of developing and transition countries. The Introduction briefly exposes some of the shortcomings and methodological problems affecting IMF Balance of Payments (BOP) statistics on international trade in services. The descriptive statistical analysis in Section 2 shows that services exports have been the most dynamic component of world trade and that the world market share of developing countries has been on the rise. However, a generalized deceleration in the expansion of world trade in services occurred in the late 1990s. The growth rate of services exports from developing countries slowed down, and their ability to import services also declined, with a negative impact on their development perspectives.

Section 3 focuses on the main exporters in each of the services sub-sectors among developing and transition countries. Most of them are either large semi-industrialized Asian countries or European transition countries that have achieved or conserved a relatively high level of industrial and technological development with respect to the rest of the non-developed world, but there are also cases of other developing countries showing a strong tendency to specialize in one or a few specific services sub-sectors.

Correlation analysis in Section 4 shows that, in the long run, services exports do have a positive impact on GDP growth in developing countries. Yet, for developing countries the services exports/GDP growth nexus is weaker than in the case of developed countries. Moreover, in most developing regions, the growth-enhancing impact of exports as a whole appears to have declined in the 1990s, although this decline appears to be due more to the merchandise component of exports than to the services component.

In the Conclusions, a tentative explanation for the aforementioned results is proposed. Export-oriented services activities in developing countries are often under the control of a foreign economic agent and tend to be poorly integrated with the rest of the domestic economy. Thus, their potential as engines for growth is relatively weak. Moreover, many previously inward-oriented developing countries, under conditions of financial duress, have diverted resources towards exports as a goal per se, rather than in the framework of a comprehensive long-term growth-maximizing strategy. Such opening-up reforms have ended up facing diminishing returns.

INTRODUCTION

It is a well-known fact that presently available official statistics on international trade in services are far from being exhaustive and comprehensive. The main reasons for this statistical inadequacy are threefold, all related to the peculiar nature of services as tradable economic activities, and to the relative novelty of multilateral attempts to evaluate and regulate international trade in this domain. The first, and most important, is that the GATS typology, based on four modes of supply, is not matched so far by existing statistics, especially with respect to mode 3 (commercial presence). As a result, most statistics on trade in services fail to capture local sales of services by foreign firms. *A fortiori*, they do not distinguish exports of services carried out by nationals or by foreign enterprises, respectively. The other two reasons stem from a divergence in classification criteria between existing statistics on trade in services and the GATS commitments (mostly based on the GNS classification[2]), and more broadly from the impossibility (so far) of matching statistically the GATS distinction among the four modes of supply[3] (see WTO 1997, part II).

The only comprehensive and consistent statistical source on international trade in services is constituted by the IMF Balance of Payments (BOP). More detailed sectoral statistics are available for most services sectors, but they are collected with sector-specific criteria and are not mutually comparable in a systematic fashion. Both BOP and sectoral statistics suffer from the drawbacks outlined above. Data on trade in services carried out abroad by foreign affiliates of transnational corporations are only available (for some services sectors) for the United States, the only country which reports these statistics on Foreign Affiliates Trade (FAT) on a regular basis. Statistical coverage on trade in services is improving, and the Inter-Agency Task Force on Trade in Services Statistics is developing a common manual which will represent a significant step forward in striving to improve coverage and accuracy of services statistics. However, statistical reporting on trade in services is not likely to match the breadth and precision of statistics on merchandise trade in the foreseeable future due, among other things, to methodological problems, a major one being the difficulty in distinguishing between price and volume data in services production and trade[4] (see WTO 2000, para V).

This paper will utilize as a source BOP data made available on-line by WTO and UNCTAD.[5] These data, in spite of their shortcomings, are consistent and internationally comparable, and can also usefully be related with other basic macroeconomic statistics such as total GNP, total exports, and the like. Besides data on trade in total services, BOP data on trade in services by sector are also available and will be utilized in some of the tables presented and commented on below.[6] Sectoral trade data refer to 10 services sectors (transport; travel; communications; construction; computer and information services; financial and insurance services; other business services; royalties and license fees; personal, cultural and recreational services; government services). Most IMF members report

[2] The GNS classification is largely based on the UN-CPC classification but deviates from the latter in telecommunication, financial, and transport services.

[3] The first reason (lack of reflection of mode 3 trade transactions in existing statistics) is in fact but the most relevant manifestation of the statistical inadequacies broadly referred to under reason three.

[4] It is more difficult than in the case of merchandise trade to determine to what extent an increase in trade for a particular services sector is due, respectively, to: changing in relative prices; diverging variations in the exchange rate and in inflation among trading partners; improvements in product quality; changes in infra-sectoral product composition; "true" quantitative increases in trade volumes (WTO 2000, p.17).

[5] Most BOP statistics on trade in services were reported according to the concepts and classification system of the 4th edition (1977) of the IMF Balance of Payments Manual (BPM-4). A transition is now occurring to the conceptual framework and the criteria of the 5th edition of the manual (BPM-5). With respect to BPM-4, BPM-5 is more disaggregated and relatively less discordant with respect to GNS.

[6] BOP data on trade in services by sector are not directly comparable to other sector-specific, such as the International Civil Aviation Organization (ICAO) for air transport, the International Telecommunication Union (ITU) for telecommunications, and the like.

aggregate trade statistics for transportation, travel, insurance[7], and other business services, but fewer report data for the other services sectors.

Comprehensive statistical studies on the role of developing countries' role in international trade in services are scarce. A recent, broad evaluation, based largely on US services import data, is presented in Langhammer (2002). However, I am aware of only one systematic statistical exercise on the evolution of international trade in services based on the IMF BOP database, which was carried out by the WTO Secretariat (WTO 2000). However, this paper differs from WTO 2000 in two fundamental aspects: it presents a longer-term view of main trends (from 1980 to 1999/2000) and, more importantly, it focuses mainly on developing and transition countries[8] (consistently with the UNCTAD mandate). To this respect, it might be worthwhile to stress again that in interpreting the economic meaning of the data presented and discussed below, of course, particular caution is warranted, taking into account the multiple statistical shortcomings mentioned above, *a fortiori* in the case of developing and transition countries. The evaluation of statistics on services exports stemming from developing countries in a "development perspective", in particular, requires additional prudence, as it is impossible at the present stage to disentangle systematically which share of increasing export receipts from a services sector in a developing country (i.e., tourism) accrues to national firms and which to foreign affiliates of TNCs. If the bulk were to be captured by the latter (as is often the case), it is clear that the positive development impact[9] of the expansion of that particular services sector would be far lower than if national firms were the main agents driving the sector's export-oriented growth.

TOTAL EXPORTS OF SERVICES BY COUNTRY GROUPS

Table 1, TOTAL EXPORTS OF SERVICES, presents data on total trade flows in services for various groups of countries. Table 1a refers to exports of total services, Table 1b to imports, and Table 1c to the balance of trade in services. For each flow the table shows the values of total services exports, imports, and exports in millions of dollars, the corresponding shares of world total, and the growth rates of exports for three different periods (1980–1990; 1990–1995; 1995–2000).[10]

Total exports of services (Table 1a)

International trade in exports worldwide has been expanding rapidly in the last decades of the 20th Century, growing on average much faster than both the world GNP and world merchandise trade.[11] In absolute terms, total exports of services more than quadrupled between 1980 and 2000, growing from US$337bn to US$1.4 trillion.[12] However, this expansion took place at a decreasing pace, with the rate of growth slowing down slightly in the early 1990s but more than halving in 1995–2000, with respect to the trend prevailing in the 1980s. If some kind of slowing down is inevitable for any new growth

[7] As the aggregate sectoral classification for these services is "insurance and financial services", the corresponding data presented below should be considered with caution, as for many countries the insurance sub-component is likely to be better reflected in official BOP data than the financial services component.

[8] In the remainder of this paper, unless "developing" and "transition" countries are specifically distinguished from each other, the term "developing countries" covers all countries not pertaining to the developed countries' group and, therefore, is equivalent to the alternative wording "developing and transition countries".

[9] Such a positive development impact might nevertheless be relevant, mainly in terms of the effects on employment and on the balance of payments. On the negative side, adverse impacts could manifest themselves as well, for instance with respect to the environment or to the depletion of non-renewable natural resources. As a general rule, a meaningful evaluation of the broad development impact of the export-oriented growth of a service activity in a developing country might only be possible, taking into account all these factors in the framework of a sector-specific country study.

[10] In this table, as in all other tables, growth rates refer to services exports in current US$. Therefore, they over-estimate the real growth rates by an amount equal to international inflation.

[11] During the 1990s, however, merchandise and services exports expanded at roughly the same pace.

[12] As these figures are in current US$, growth of export services worldwide is, in fact, lower but still quite remarkable.

trend starting from a very low basis, this statistical effect does not appear to be sufficient to explain such a marked slowdown, in particular for the most recent period. Therefore, it must be acknowledged that a real and pronounced deceleration in international trade in services did occur in the second part of the 1990s, along with the global deceleration of the world economy.[13]

In Table 1, in order to focus first and foremost on the divide between developed countries and the rest of the world, all countries were classified into two large groupings: "Developed countries" (DDCs) and "Developing countries" (DNCs).[14] Growth in total exports of services, starting from a much lower basis, has been faster on average in developing countries than in developed countries in all of the three sub-periods, allowing the former to capture an increasing share of world trade. It is also noticeable that, contrary to what happened in the DDCs, growth in services exports from DNCs actually accelerated in the early 1990s. However, in the latest period, the growth rate of total exports of services roughly halved, both in developed (from 6.7 per cent in 1990–1995 to 3.6 per cent in 1995–2000) and in developing countries (from 12.1 per cent to 5.9 per cent). These broad statistical trends are consistent with Langhammer's skeptical view: "Measured both in terms of growth and shares, world trade in commercial services has not risen spectacularly… in 1998 merchandise trade still comprised four fifths of world total trade…For developing countries, the contribution of service exports to their total trade was even declining…" (Langhammer, 2002, 297–298).[15] In fact, the most recent available data show that by the year 2000, the share of services in developing countries' total exports had actually declined to 14.6 per cent, lower than in 1995 (15.5 per cent) and even than in 1990 (15 per cent).

Among regional groups, there are important differences, although the decelerating trend is common to all developing countries. Exports of services from American DNCs grew less than the world average in the still-dynamic 1980s and, marginally, in the early 1990s. As a result, even with a modest relative recuperation in the slow-growing late 1990s, their share of world services exports was lower in 2000 (4 per cent) than in 1980 (5.1 per cent). The relative weight of services in Latin American total exports also declined, and by 2000 it was 2.5 percentage points lower than in 1990.

African DNCs, on the contrary, which had experienced a below-average services export performance during the 1980s, were the only regional group which managed to accelerate the dynamism of its services exports over the 1990s. As a result, Africa's share of total world services exports increased a bit, although it remained very low (2 per cent by the year 2000). It is also interesting to note that Africa is the only developing region where the relative role of services in total exports kept increasing during the 1990s: as result, by the year 2000, the share of services in total exports in Africa was 20.5 per cent, the highest among developing regions[16] and higher even than the average for developed countries.

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[13] The deceleration of international trade in services took place in correspondence to the quasi-universal – albeit progressive and still partial – implementation of the new GATS regime. Such a disappointing trend, so far, appears to run counter to the over-optimistic expectations pinned by many analysts on the growth-enhancing potential of the liberalization of multilateral rules on trade in services.

[14] Country groupings in Table 1 follow the UNCTAD database classification. According to this classification, the group "Developing countries" is constituted by developing countries in America, Africa, Asia, and Oceania, plus a fifth sub-group, "European developing countries", constituted by Malta and by some republics formerly belonging to Yugoslavia. The remaining formerly socialist European countries are classified in the UNCTAD database as belonging to a sixth sub-group, "Countries in Eastern Europe". Long-term series on trade in services in transition economies, and especially in the latter sub-group (which is, in fact, residual), are not consistent and historically comparable, due largely to the limited availability on trade in services in the former USSR. Therefore, data on the residual sub-group "Countries in Eastern Europe" are not presented in Table 1. Consistently, the sum of data referring to developed and developing countries is less than the world total.

[15] Langhammer refers to the 1989–1998 period.

[16] The share of services in total exports is higher in "developing Europe", but this region actually covers some formerly socialist, relatively industrialized transition countries (see note 13).

Asian DNCs expanded services exports at an over 14 per cent yearly rate up to the mid-1990s, but their performance slowed down markedly in 1995–2000 (less than 6 per cent per year on average). In spite of this marked slow-down, Asia's share of world total services exports in 2000 was 18 per cent, equivalent to more than twice the correspondent figure for 1980 and to 2/3 of total services exports from developing countries.[17]

Trends in the remaining two regional groups cannot be interpreted along the same lines. The group of Oceanian DNCs is just too small to allow for any generalization beyond the specific cases of each individual country. The group of European DNCs is essentially formed by semi-industrialized former socialist countries, and therefore, the severe drop in services exports recorded in the early 1990s is to be seen in the framework of the overall collapse of their economy. That collapse eventually gave place to a modest recovery, which barely allowed services exports to regain the nominal (absolute) level of 1990 by the end of the decade.[18]

Looking at two prominent groups of DNCs, namely major oil and manufacturing exporters, we see that up to the mid-1990s, the former were losing ground (in relative terms) as services exporters, while the latter were expanding at a very fast pace. More recently, however, under the impact of increases in oil prices and of the Asian crisis, among other factors, this trend has been reversed, at least temporarily. When developing countries are grouped according to income, it can be seen that growth rates of services exports are common to all of them up to the mid-1990s, but in the 1995–2000 period only low-income countries maintained growth rates over 10 per cent, while both middle-income and low-income countries experienced a marked deceleration. The fact that the relative performance of low-income countries with respect to other DNCs has been improving over time and that since 1990, it has been better than both the world and the DNC average, can be considered mildly encouraging. However, this trend does not apply to all low-income countries. Looking specifically to the performance of three specific groups of particularly disadvantaged countries (LDCs, heavily indebted poor countries, and land-locked countries),[19] it is apparent that the only one to exhibit satisfactory results is the group of land-locked countries. LDCs and heavily indebted poor countries, on the contrary, saw their already meager share of world trade in services shrink progressively over the 1980–2000 period.[20]

Total imports of services (Table 1b)

Due in part to the limited accuracy of statistical data (see below, comments on Table 1c), trends in international imports of services by very large groups of countries broadly mirror those in services exports but appear to exacerbate the already observed declining trend in growth rates. In the last sub-period (1995–2000), in particular, recorded imports of services worldwide grew by only 3.3 per cent per year, less than one half the growth rate of the preceding sub-period, which had already exhibited a deceleration with respect to the 1980s. This deceleration appears to have been due mainly to a severe slowdown in developed countries' services imports (from 6.3 per cent per year on average in 1990–1995 to 2.8 per cent per year in 1995–2000), but the correspondent decrease for developing countries (from 10 per cent to 4.8 per cent per year) was also steeper than in the case of imports. As the deceleration was sharper in the North, the share of developing countries in total world imports of

[17] A comparison between Asia's and Latin America's shares of world total services exports is particularly telling. The ratio between the two was less than 1.5/1 in 1980 but rose to more than 4/1 in 2000.

[18] Historical data series on trade in services in European developing countries suffer, to some extent, from the same limitations of trade data, referring to "countries in Eastern Europe", and therefore are to be interpreted in a purely indicative fashion (see note 13).

[19] As is well known, some countries belong to more than one of these sub-groups.

[20] To some extent, this result is a truism, as the groups of LDCs and heavily indebted poor countries are, by definition, composed of poor countries that are severely strained, both economically and financially. Conversely, if a country performs well, it will eventually lose the dubious privilege of belonging to these groups. Land-lockedness, on the contrary, is a permanent and non-modifiable feature that can constitute a relative but not an absolute constraint to development.

services increased moderately during the 1990s, and by 2000, it was back to its 1980 level (27 per cent).

Although possibly magnified by statistical imperfections, these figures indicate a significant decline in developing countries' ability to import services – most of which are absolutely necessary to sustain any kind of growth or developing path in the contemporary, increasingly globalizing world economy - in the late 1990s. The deteriorating trends are common to all developing country sub-groups[21] – although low-income and land-locked countries fared someway better than others – but are particularly pronounced in the case of Africa, in contrast with this region's relatively positive performance on the side of services exports.

Balance of trade in services (Table 1c)

The above-mentioned imperfections of available statistical information are made apparent by the large gap between world exports and imports of services, which appears to show a "positive" trend in the balance of trade in services for the whole world, which shifts from a deficit (up to 1995) to a surplus position (in 2000). With this caveat, Table 1c also shows a continuous decline in developing countries' services balance, which fell from US$42 in 1980 to US$36 in 1990 and to US$27 in 2000. This decline is almost exclusively the product of the quasi-disappearance of the services deficit in Africa (from over US$12 in 1980 to less than US$2 in 2000). The development implications of this trend are ominous, as Africa is the world region which – as its economic structure is the least diversified and articulated – is the most dependent on services (and goods) imports, while at the same time being also the least capable of financing such imports with its own resources. More broadly, for developing countries as a whole, the sign of these figures (if not the magnitude) probably reflects a true and important phenomenon which is still poorly understood. A tentative and very preliminary interpretative assumption is the following: During the late 1990s, indebtedness and crisis conditions, and the difficulty of obtaining access to multilateral development financing, contributed to an increase in many developing countries' urgency to cut imports and boost exports (even at the cost of sacrificing present and future growth perspectives), and to actively court foreign investors. The impact of these policies was also felt by services, where imports were sacrificed and exports further encouraged. TNCs also extended their commercial presence throughout the developing world, often according priority to foreign exchange generating services (i.e., in the travel sector, which includes tourism). However, the share of services exports which actually accrued to developing countries' enterprises, and to what extent the change in developing countries' balance of services actually reflects a true increase in international competitiveness, are complex questions which cannot be answered in a satisfactory manner in this note but might be tackled by future research.