

# ASIA-PACIFIC TRADE AND INVESTMENT TRENDS 2019/2020

## *Trade in Commercial Services Outlook*





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## TRADE IN COMMERCIAL SERVICES OUTLOOK

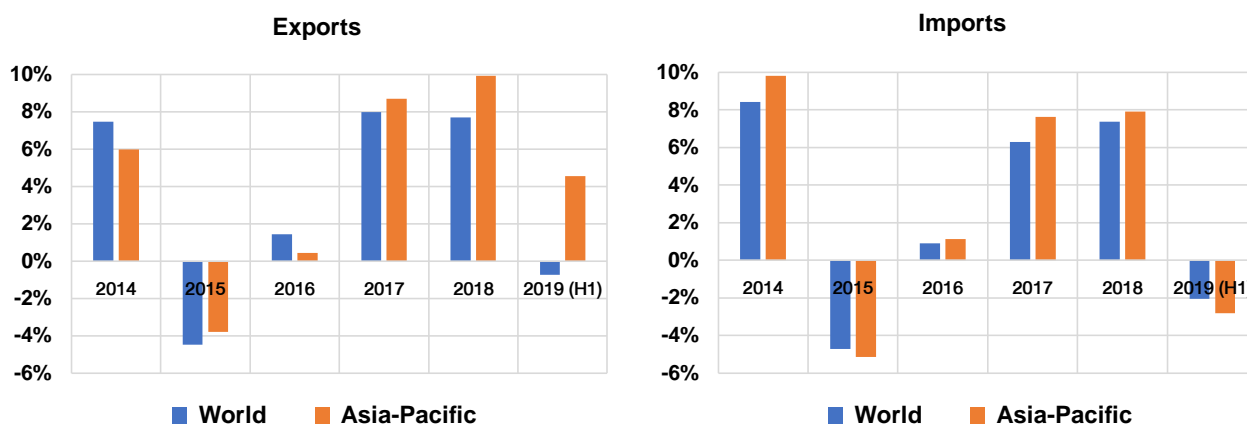
### *Highlights*

- Commercial services trade in Asia and the Pacific continued to be dominated by a few economies, namely China, Japan, India, Singapore, Republic of Korea and Hong Kong, China, accounting for over 70% of total trade in the region. Trade in travel, transport and other business services, including professional and trade-related services, also accounted for about 70% of total services trade.
- Commercial services exports in the Asia-Pacific region continued to outperform the rest of the world in 2019. However, export growth in 2019 is expected to be cut in half from the nearly 10% growth in 2018, as a result of the global economic downturn and unresolved trade and political tensions (figure 1).
- During the first six months of 2019, the region's exports grew only 4.6%, while imports contracted by 2.8% compared with the same period in 2018. China – the largest exporter in the region – has experienced much slower growth this year. Moreover, available half-year figures for transport, travel, information and communication technology (ICT), as well as financial services, all point towards the decline of services trade across all sectors in the region.
- By slowing down trade in goods and related business activities, the tariff war between the United States and China has produced significant adverse effects not only on trade in goods but also trade in commercial services. Transport services, other business services and goods-related services trade are among the most potentially affected.
- Services trade in the region is also poised to weaken as a result of growing tensions within the region. The ongoing dispute between Japan and the Republic of Korea has adversely affected their bilateral trade, particularly in travel and transport services. Meanwhile, the political unrest in Hong Kong, China has had substantial impacts on the economy's exports of travel and financial services – its main services exports. However, other economies such as Singapore and other financial hubs in China such as Shanghai and Shenzhen could benefit from this situation as redirected business and investment find their way across the region.
- Overall, services trade is expected to remain sluggish in 2020. However, the mid- and long-term prospects for ICT and business services remain bright: technological advances and mega-trends of global and regional economies will continue to deepen servicification, digitalization, and automation.

## TRADE PERFORMANCE IN 2018

Unlike merchandise trade,<sup>1</sup> commercial services trade in Asia and the Pacific continued its positive momentum going into 2018.<sup>2</sup> Indeed, after a sluggish performance in 2015/2016, services trade rebounded in 2017 and remained strong throughout 2018. Exports grew at 9.9% and imports at 7.9% year-on-year. The region's robust trade performance contributed to a slight acceleration of its 10-year average growth rate, and to a 6% reduction in its trade deficit from 205.4 to 193.1 million United States dollars. Moreover, the region's services trade also grew above the annualized post-crisis average<sup>3</sup> (4.4%) at 8.9% (figure 2) and faster than the rest of the world.<sup>4</sup> As a result, its share of global commercial services trade increased: exports advanced from 26.6% to 27.1% and imports from 31.9% to 32.1%.

**Figure 1. Commercial services trade growth – Asia-Pacific and world**



Source: ESCAP calculation based on statistics from WTO Database (accessed October 2019).

Note: 2019 (H1) reports on January to June 2019 figures.

Overall, commercial services trade in Asia and the Pacific continued to be dominated by its nine largest economies (China, Japan, India, Singapore, Republic of Korea, Hong Kong, China, the Russian Federation, Australia and Thailand – in order of the share of services trade), who were responsible for more than 80% of total trade. Trade growth in 2018 was also concentrated among the two largest economies in the region – China and India – which accounted for half of the regional trade growth (figure 3) and about a third of the total services trade.<sup>5</sup> Among others, a positive economic environment, continued servicification in developing economies and enhanced digital services demand helped to maintain a dynamic environment for services trade during 2018.

<sup>1</sup> See trends in merchandise trade in ESCAP (2019).

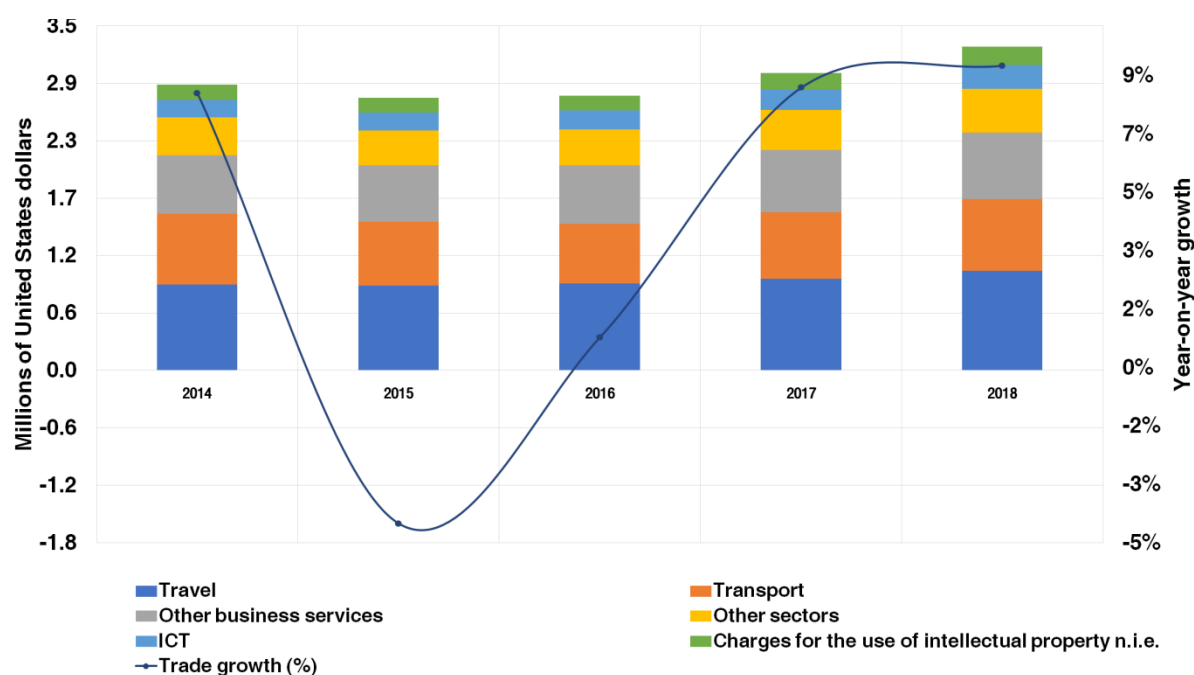
<sup>2</sup> When countries did not report data on commercial services trade, the latest available data point was used. The following countries were missing aggregated data for 2018: Federated States of Micronesia, French Polynesia, Kiribati, New Caledonia, Islamic Republic of Iran, Samoa, Tuvalu and Vanuatu. The Islamic Republic of Iran did not report data for 2017 either.

<sup>3</sup> The post-crisis period was considered to be 2011-2018.

<sup>4</sup> Exports and imports worldwide grew by 7.8% and 7.4%, respectively, in 2018. For details about trends and developments on world trade during 2016-2018, see WTO (2019a).

<sup>5</sup> In 2018, China accounted for 27.8% and 44.4% of export and import growth, respectively, and for 17.1% and 29.9% of services trade exports and imports, respectively. India accounted for 14.2% and 16.9% of export and import growth, respectively, and 13.2% and 10.1% of services exports and imports, respectively.



**Figure 2. Trade value by services sector and trade growth**


Source: ESCAP calculation, based on International trade statistics on commercial services from WTO Database (accessed October 2019).

Travel was the largest and most important contributor to export growth in 2018. It represented 29.6% of total services exports and contributed to 30.4% of the export value increase. The sector recovered from a 2016/2017 sluggish performance to record a 9.8% growth in 2018. China, the largest importer of travel services in the world, absorbed approximately 40% of regional tourism exports and its robust demand performance (8.7% import growth) helped fuel tourism export gains across Asia and the Pacific. Economies such as Japan, Thailand, Macao, China, Australia and Hong Kong, China, Turkey and the Russian Federation (listed by export value growth) represented more than 70% of the export increase in the region. Meanwhile, smaller economies that are heavily dependent on travel and tourism, such as Afghanistan, Timor-Leste, Nepal, Solomon Islands, Cambodia and Georgia (in order of export value) registered the fastest export growth.

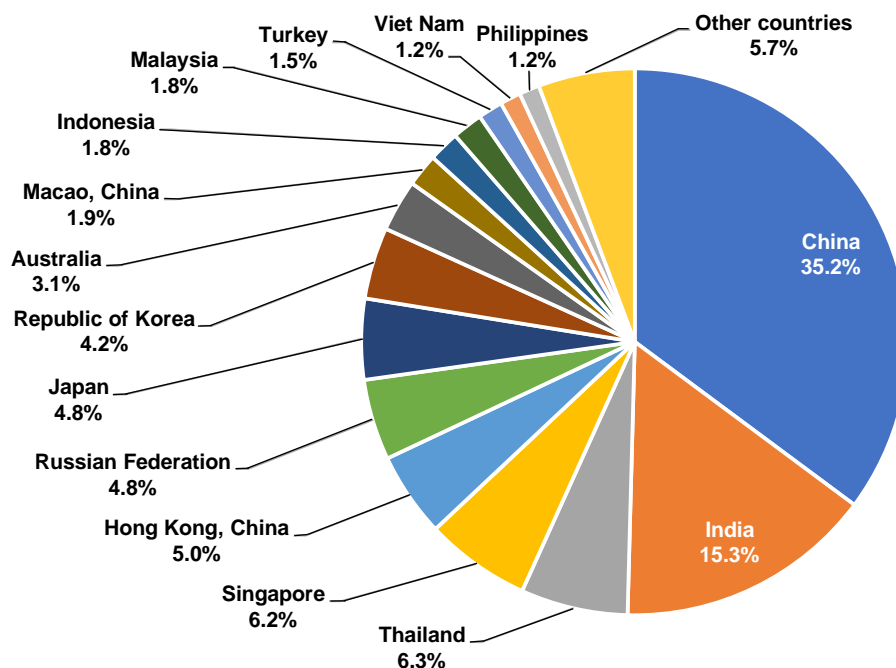
The Asia-Pacific region's merchandise trade expansion in 2018 also helped support sectors such as transport services and other business services,<sup>6</sup> which are closely tied to industrial activity and goods consumption.<sup>7</sup> These sectors represented 18.8% and 21.5%, respectively, of exports in the Asia-Pacific region, and remained the third- and second-largest service exporting sectors in the region. Most prominently, leading transport services exporters such as China, Singapore, Hong Kong, China and the Republic of Korea (listed by increase in exports value), as well as important transit nations such as Turkey and the Russian Federation, contributed the most to the sector's expansion. In contrast, Japan suffered a substantial contraction in transport services exports, which plunged by 15.2%. This loss – equivalent to 1.8% of the region's total transport services

<sup>6</sup> Other business services comprise trade related services, operational leasing (rentals), and miscellaneous business, professional and technical services such as legal, accounting, management consulting, public relations services, advertising, market research and public opinion polling, research and development services, architectural, engineering, and other technical services, agricultural, mining and on-site processing. See IMF (2019a) for more details.

<sup>7</sup> See ESCAP (2019) for more details on merchandise trade.

exports – was significant enough to moderate the sector’s growth from a potential 10.6%<sup>8</sup> to 7.3%. On the other hand, Singapore and Thailand – with 5.5% and 14.9% growth rates, respectively – joined China and India in reaping the most benefits of a 7.1% growth in other business services exports.

**Figure 3. Contribution to trade growth in 2018, by country**  
(Percentage of the Asia-Pacific region’s services trade value increase)



Source: ESCAP calculation, based on statistics from WTO database (accessed October 2019).

Note: Share of trade growth was calculated by dividing each economy’s services trade (exports and imports) value growth by the Asia-Pacific region’s services trade value growth.

Despite its relatively modest size (10.1% share of services exports), the information and communication technology (ICT) sector emerged as the second-largest contributor to export growth in 2018. The sector accounted for 19.2% of the export value growth, while also being the fastest-growing at 20% in 2018. Rising digitalization across industries has created strong demand for digital technology-related services and has helped the sector thrive. China and India dominated the region’s export performance with the two countries accounting for approximately 90% of the sector’s export value growth. In 2018, China’s exports of ICT services rose by a dramatic 69.5%, jumping from 4.7% in 2017, while India registered a five-year high of 7.1% in 2018, which was an increase of 1.1%. China’s unprecedented export growth is in conjunction with the Government of China’s investment and commitment on the development of ICT-technology industry and infrastructure. Looking at the charges for the use of intellectual property<sup>9</sup> (IP) n.i.e. sector (4.6% share of regional services exports) can also help to unveil the same dynamic regionally. While Japan, Singapore and the Republic of Korea have historically led IP-related

<sup>8</sup> Potential export growth rate for travel services in Asia-Pacific excludes Japan’s performance.

<sup>9</sup> Charges for the use of intellectual property are payments and receipts between residents and non-residents for the authorized use of proprietary rights (such as patents, trademarks, copyrights, industrial processes and designs including trade secrets, and franchises) and for the use, through licensing agreements, of produced originals or prototypes (such as copyrights on books and manuscripts, computer software, cinematographic works, and sound recordings) and related rights (such as for live performances and television, cable, or satellite broadcast). See IMF (2019a) for more details.

services (integral to ICT), China is quickly emerging as a key player, going from 2% to a 7.8% share of the sector's exports in the span of just a couple of years.

Another dynamic export sector in 2018 was financial services. The sector grew 11% across Asia and the Pacific, becoming the second-fastest export-growing service in 2018. However, trade in this sector is attributed mostly to Singapore (9% growth) and Hong Kong, China (16.5%), which captured approximately 60% of both the sector's exports and its increase in export value. Moreover, countries such as India (21.1% growth), the Republic of Korea (27.7%) and the Russian Federation (30.7%) posted considerable above-regional growth trend, helping the sector thrive.

Imports of commercial services followed the same trends as exports in 2018. Travel, transport and other business services were the largest services sectors and contributed the most to import growth. Notably, travel services recovered from a three-year stagnation to grow 7.7% and regain position as the most prominent sector in terms of import growth share. The most significant difference lies in the relative importance of ICT services. On the one hand, while ICT services were vital for the Asia-Pacific region's export expansion, its role in imports was moderate (6.6% share of import growth and 5% share of imports). Instead, transport services were the second-largest growth engine, registering a 9.3% increase. Finally, looking at each countries' relative share of imports, it is possible to identify a striking difference: China is responsible for 29.6% of the Asia-Pacific region's imports, which represents almost double its share of exports. This finding corroborates the importance of the Chinese market as a source for commercial services import demand from other economies, powering intraregional trade.

### 1. Subregional performance

#### **(a) East and North-East Asia**

East and North-East Asia (ENEA) is the largest subregion in commercial services trade. Four subregional economies are among the eight largest commercial services trading nations in the Asia-Pacific region: China (first), Japan (third), Hong Kong, China (fifth) and the Republic of Korea (sixth). Together, these economies account for 93.7% of ENEA's exports, while Macao, China and Mongolia follow with the remaining 6.3%. As a whole, in 2018, ENEA was responsible for 45.1% of regional exports and 52.9% of regional imports. Moreover, the subregion outperformed Asia and the Pacific as a whole, both in export and import growth, recording a 10.6% and 8.3% increase, respectively. China – the largest services exporter in the Asia-Pacific region – accounted for half of the subregion's trade and largely drove both subregional and regional trends.

ENEA's robust export performance in 2018 was headed by ICT services trade. Despite accounting for only 10.1% of subregional exports, ICT services contributed 28.8% of the subregion's export increase in 2018 after posting a remarkable 48.4% growth (figure 4). The sector's dynamic performance in 2018 was completely driven by China<sup>10</sup> and helped boost the subregion's export growth in 2018.

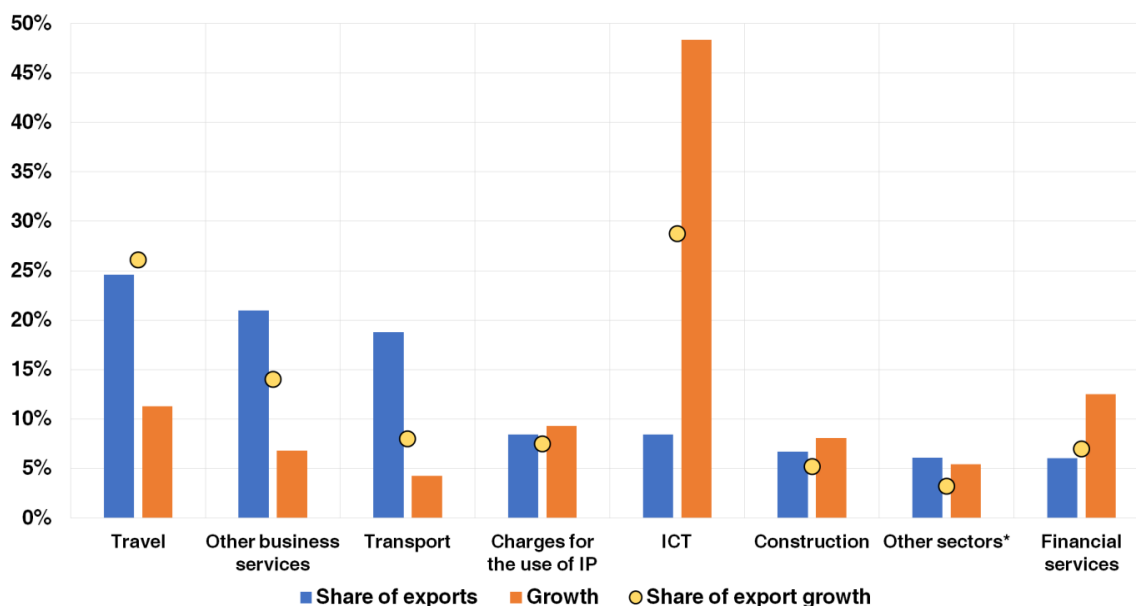
Travel services were another important driver of subregional export growth. Counting on its sheer size and robust performance (11.3% growth), travel services contributed 26.1% of the ENEA's export increase during 2018. After two years of stagnation, an increase in China's travel services imports – the most important source of outbound tourism in Asia and the Pacific (UNWTO,

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<sup>10</sup> China accounted for 99.7% of the export value increase in the subregion in 2018.

2019b) – distributed gains across the subregion. Japan was the fastest-growing exporter, registering a 20.8% growth rate, while the Republic of Korea was the second-fastest (14.6%). Economies that are deeply integrated with China – Macao, China (12.3% growth rate) and Hong Kong, China (10.2%) as well as neighbouring Mongolia (12.4%) – also registered strong travel services export performance. In contrast, China’s travel services exports remained stagnant in 2018, registering a modest 1.9% increase. This growth is in line with the country’s downward trend in travel services exports since 2013 when exports started to decline consistently on an average of 2.9% per year. The country has since then moved down from first- to fifth-largest Asia-Pacific region exporter, and is now behind Thailand, Australia, Japan and Macao, China (in that order).

**Figure 4. East and North-East Asia export performance, by sector, 2018**



Source: ESCAP calculation, based on statistics from WTO database (accessed October 2019).

Notes: “Share of exports” for other sectors was computed as the sum of each sector’s share of exports; “Share of exports growth” for other sectors was computed as the sum of each sector’s share of exports growth; “Growth” for other sectors was calculated as the weighted average of each sector’s growth with regard to their export share in the subregion.

\* “Other sectors” comprises: Goods-related services; insurance and pension services; and personal, cultural, and recreational services. These sectors represented less than 5% of the subregion’s exports.

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