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RSIS-WTO Parliamentarian Workshop

The Rising Tide: Trade in Services and Intangibles

By Jikon Lai

SYNOPSIS

Although trade in goods is an important component of global trade, trade in services is increasing in significance and requires the attention of policy makers to enhance its contribution to economic growth.

COMMENTARY

FOR ALL the focus on tariffs in the current 'tradewar', important though they are, 'goods' – the things on which tariffs are levied – are declining in significance in international trade.

Findings in a recent report published by the McKinsey Global Institute, '[Globalisation in Transition: The Future of Trade and Value Chains](#),' suggest global value chains that produce tangible goods have become less trade-intensive since 2007. Although the production of and trade in goods are still growing in absolute terms, the percentage of goods that are being traded across borders has diminished over time (from 28.1 per cent of gross output in 2007 to 22.5 per cent in 2017).

The Declining Importance of Trade in Goods

The report identified a couple of key reasons for the change. More and more of the goods produced in developing countries are being consumed domestically as these economies grow. There are also indications that multiple stages of production that previously spanned a number of countries are being consolidated within individual countries, thus reducing the need to import intermediate inputs.

This is reinforced by the observation, particularly in the automotive and electronics industries, that global value chains for the production of goods are becoming more regionally concentrated in order to improve proximity and ability to respond to market demand, and conversely tempering the drivers for global trade.

In contrast to the declining importance of trade in goods, McKinsey Global Institute and others (such as [Deloitte Insights](#), [Oxford Economics](#) and the [WTO](#)), have found that cross-border trade in services has been growing faster than trade in goods, and/or become an increasingly significant contributor to national GDPs.

Growing Importance of Trade in Services and Intangibles

In principle, trade in services can cover all possible types of services; at the [WTO](#), it refers to a wide range of activity that includes business and professional services, communication services, construction and related services, distribution services, educational services, energy services, environmental services, financial services, health and social services, tourism services and transport services.

However, in trade negotiations, we would generally find exclusions when it concerns 'services supplied in the exercise of governmental authority' (such as social security, health, education and other such services).

Although official statistics suggest that the gross value of trade in services is lower than trade in goods (approximately US\$5 trillion vs. US\$17 trillion in 2017), there are good reasons to believe that official statistics do not accurately capture activity that is taking place in this space.

Existing statistical collection frameworks were devised and are built around an era in which trade in goods dominated, and are consequently not currently well-suited to measure trade in services. For instance, much of what we currently count as trade in goods embodies significant elements that we might wish to attribute to trade in services (e.g. marketing) or other intangibles (e.g. R&D, branding).

Existing statistical reporting categories also do not capture new types of activities that have emerged, become commercialised and grown in recent years (e.g. cross-border provision of cloud computing services, media streaming services).

One could confidently assume that services and other intangibles comprise a much bigger component of cross-border trade than is currently measured by official trade statistics. In fact, the McKinsey Global Institute reckons that services are already worth more than goods in cross-border trade.

Need to Refocus on Trade in Services

Although trade in services is on the work programme of the WTO, it has been effectively neglected for a number of years. There has not been much progress beyond the [General Agreement for Trade in Services](#), which entered into force in 1995 following the Uruguay round of trade negotiations.

An attempt at cobbling together a Trade in Services Agreement (TiSA) among a group of like-minded countries under the aegis of the WTO appear to have stalled since the last round of talks in November 2016. On its [website](#), the European Commission – the European Union is a party to TiSA – stated that, ‘negotiations are now on hold and are expected to resume when the political context allows. There is no formally set deadline for ending the negotiations’.

Given its current and prospective significance, policy makers and national legislators, such as those who will be attending a WTO workshop in June 2019 organised by the S. Rajaratnam School of International Studies (RSIS), should revisit and identify ways to promote and facilitate on-going and future trade in services and other intangibles.

The immediate task for all trading economies would be to review and improve the production of statistics that capture trade in services to better inform public debate and policy-making. The revised [Manual on Statistics of International Trade in Services](#) adopted by the United Nations Statistical Commission in 2010 offers a starting point, and should be implemented by all statistical collecting agencies.

The Future is in Trade in Services

The challenge would lie in balancing the need for data against the cost and effort of collection, as well as responding to rapid changes in contemporary economies (such as the emergence of media-streaming services).

The second task is to pick up the pace in reducing existing barriers to trade, preferably on a global multilateral basis. Typical barriers to trade in services are restrictions on the establishment of foreign operations, the movement of people, technical standards, certification requirements and permits, or licence requirements.

Parties to TiSA should return to the negotiating table. Economies that are not yet a party to TiSA should give serious consideration to participating in negotiations. Any eventual agreement would not only liberalise trade, thus potentially enhancing economic performance, but also set standards and benchmarks for the future evolution of the global trading economy.

Trade in goods still comprise a significant proportion of global trade, but trade in services is where future, if not current, opportunities for significant economic growth lies. Policy makers would do well to rise above misguided arguments that have been presented in current debates on economic nationalism.

They should focus their minds on continuing to harness the wider benefits of economic multilateralism by reducing barriers to trade, especially trade in services, in order to further grow the economic ‘pie’ from which national debates about economic distribution can take place. The current sluggish state of economic performance in the global economy strengthens this call to action.

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