

CHAPTER 2

SERVICES TRADE INSTRUMENTAL FOR TRADE RECOVERY

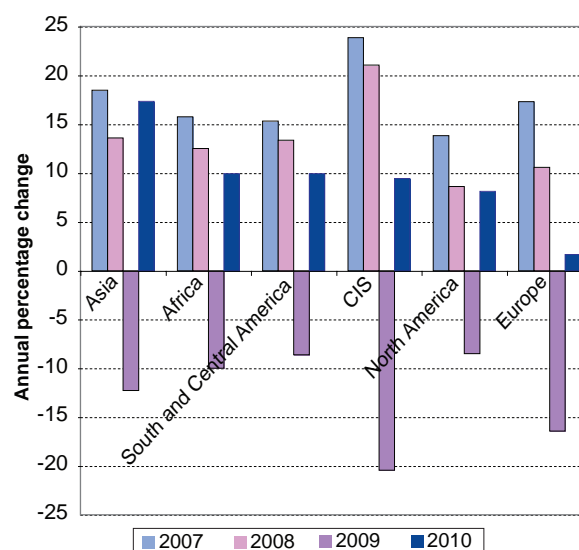
A. COMMERCIAL SERVICES TRADE SLOWLY RECOVERING

Commercial services exports are slowly returning to their pre-crisis level, with global exports climbing by 8.3% from \$3.4 trillion in 2009 to \$3.7 trillion in 2010. Asia,⁹ and the Pacific, in particular developing Asia, is again leading the recovery, with a growth rate of more than 20% in 2010. This strong rise came after a slump in commercial services exports by almost 12% in 2009. The Asian lead in services export recovery was shared by other developing regions and economies in transition while developed countries, including Japan with only 9% growth, lagged behind (figure 7). Economies in Asia that contributed to vibrant services export growth in 2010 were China (32%), Hong Kong, China (25%), Singapore (20%) and Australia (17%). Preliminary estimates by WTO (based on the first half

of 2010) indicate that exports from India, the Philippines and the Republic of Korea increased for each country by a robust 18% (WTO, 2011b).¹⁰

“Developing Asia is leading the recovery in exports of commercial services, with a growth rate of more than 20% in 2010”

Figure 7. Exports of commercial services, by region, 2007-2010



Source: ESCAP calculation, based on WTO International Trade Statistics online (downloaded 7 April 2011).

⁹ The WTO "Asia" category includes: Australia; Bangladesh; Bhutan; Brunei Darussalam; Cambodia; China; Fiji; India; Indonesia; Islamic Republic of Iran; Japan; Kiribati; Lao People's Democratic Republic; Malaysia; Maldives; Myanmar; Nepal; New Zealand; Pakistan; Papua New Guinea; Philippines; Republic of Korea; Samoa; Singapore; Solomon Islands; Sri Lanka; Thailand; Tonga; Vanuatu; Viet Nam; French Polynesia; Hong Kong, China; Macao, China; New Caledonia; and Taiwan Province of China. The ESCAP geographical classification of "Asia-Pacific" also includes countries from North and Central Asia (most of which are part of the CIS group in WTO statistics, i.e. Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Mongolia, Russian Federation, Tajikistan and Uzbekistan, plus three non-ESCAP members – Belarus, Moldova and Ukraine); however, they are featured separately in figure 7. Turkey is classified as Europe in the WTO regional classification, so that country has not been included in the figures for Asia in this section.

¹⁰ More details on services trade flows are provided in the tables in part III.

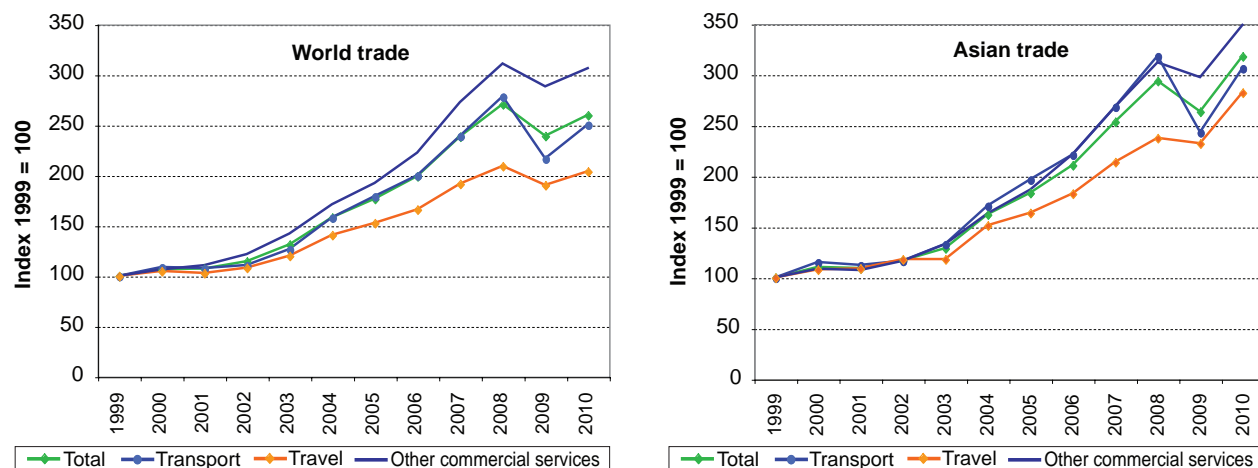
Because many commercial services are linked to goods trading the unprecedented collapse of merchandise trade during 2008/2009 triggered a fall in demand for such services. This was particularly the case with transportation services (figure 8), which recorded the sharpest drop in 2009, both in Asia and globally. While services trade in general showed more resilience than goods trade during the crisis, countries with a large export share of transport and other services directly related to the goods trade, were hit harder. Therefore, diversification is equally important in the service sector and needs to be pursued for an economy as a whole. Available statistics on the changes in services trade by sector indicate that travel

and other commercial services, which include categories such as business services and personal, cultural and recreational services, also witnessed a relatively big fall. The least affected services were "royalties and licence fees" (a component of other commercial services), and computer and information technology services.¹¹ In 2010, on average, global and Asian services exports managed to grow by 8% and 21%, respectively.¹²

¹¹ For more details, see WTO, 2010a.

¹² This is a slower growth rate than that recorded for merchandise exports, which jumped by 22% globally and 31% for Asia (see also WTO, 2010b).

Figure 8. Developments in global and Asian commercial services trade, by services sector



Source: ESCAP calculation, based on data from WTO International Trade Statistics online (downloaded on 7 April 2011).
 Note: For the list of countries covered under "Asia" see footnote 9.

B. CHARACTERISTICS OF ASIA-PACIFIC SERVICES TRADE

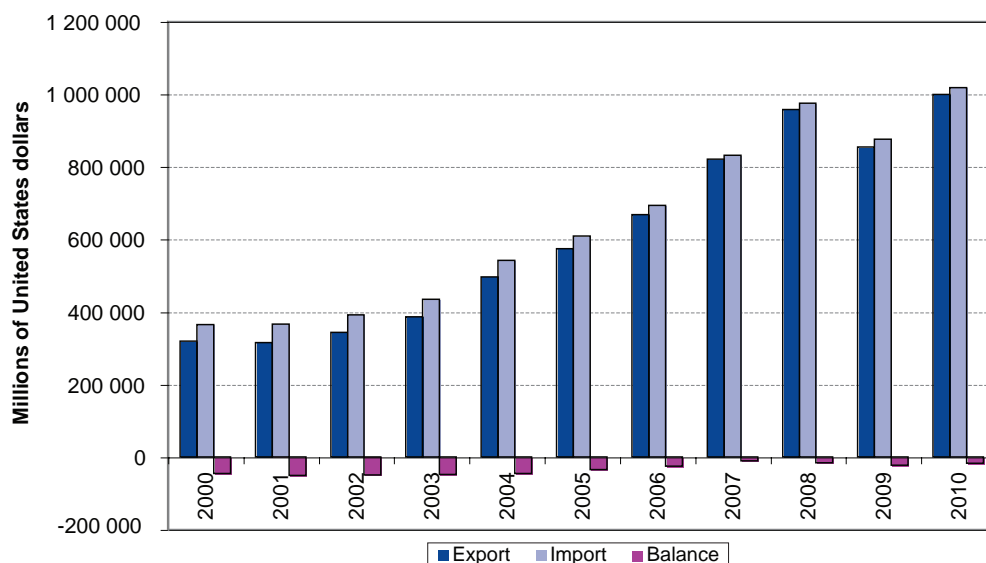
Statistical data on services trade are much less developed than those on merchandise trade, thus preventing a similar depth of descriptive analysis.¹³ Nevertheless, some time-series statistics exist, allowing tracking of the sectoral and geographical

composition of commercial services trade between Asia-Pacific economies and the world.¹⁴ In contrast to merchandise trade, the region has run a deficit albeit small with the world in services trade (figure 9). The global economic crisis worsened the situation by causing a slightly larger fall in exports than in imports in 2009.

¹³ Better collection and dissemination of services trade statistics is highly desirable. The revised edition of the Manual of Statistics on International Trade in Services (2010) was prepared for that purpose by the United Nations Statistics Division (available from <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010.htm>). see also ARTNeT Services Trade Platform (<http://www.artnetontrade.org>).

¹⁴ Much of the services trade actually takes place through Mode 3 (commercial presence abroad), which involves foreign direct investment. There are, however, almost no data on Mode 3 transactions for developing countries. Similarly data on Mode 4 (temporary movement of services providers) are not readily available. Therefore, the focus in this section is on so-called commercial services trade (i.e. Modes 1 and 2, as defined under the WTO General Agreement on Trade in Services).

**Figure 9. Asia-Pacific^a total exports, imports and trade balance
in commercial services, 1998-2009**



Source: Calculated by ESCAP, based on data from WTO International Trade Statistics online (downloaded on 7 April 2011).

^a Asia-Pacific is defined as Asia, Commonwealth of Independent States economies and Turkey, following the WTO classification. See footnote 8.

***“Commercial services exports
are less than
one fifth of merchandise exports”***

The Asia-Pacific region has earned its status as the most successful region in export-led growth. The region has used its comparative advantage in manufacturing production to get integrated into the world economy by building the "Factory Asia" associated linkages with other economies in and outside the region, as explained in chapter 1. Increasingly, this has required developing the services sectors, and some economies in the region have improved their capacities to supply and trade in

various commercial services. However, the ratio of commercial services exports to merchandise exports in the Asia-Pacific region remains about five percentage points lower than at the global level; it neared the 20% mark only in 2009 when merchandise exports fell much faster than exports of commercial services (table 7). In 2010, this ratio fell both at the world and the regional level due to the fact that manufacturing exports recovered much faster than services exports.¹⁵

¹⁵ There is also a possibility that data on services exports in 2010 are not captured fully in these statistics. See tables in part III for coverage of individual economies.

Table 7. Ratio of services to merchandise exports, Asia and the Pacific and world

(Percentage)

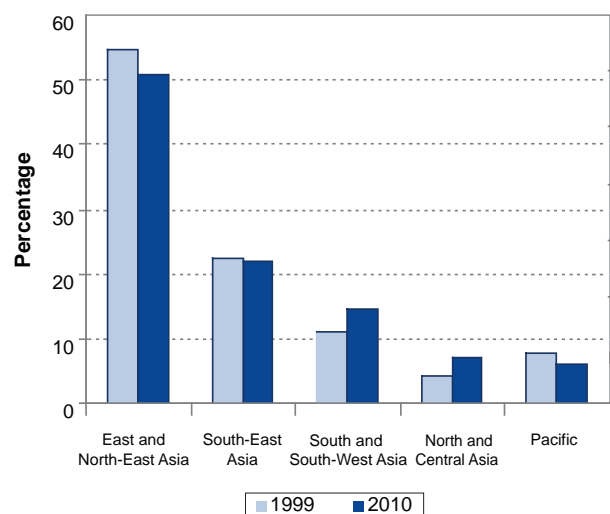
	1999	2005	2006	2007	2008	2009	2010
Asia and the Pacific	17.57	17.06	16.99	18.01	18.04	19.96	18.41
World	24.39	23.80	23.38	24.35	23.83	27.03	24.04

Source: ESCAP calculation, based on data from WTO International Trade Statistics online (downloaded on 7 April 2011).

“While services are playing an increasing role in Asia-Pacific trade, their importance differs widely among individual subregions”

While services are playing an increasing role in Asia-Pacific trade, their importance differs widely among individual subregions due to the heterogeneity of the region. Figure 10 compares the importance of each subregion in regional services trade during 1999-2010. East and North-East Asia remained the largest contributor to the region's services trade (just under 51% in 2010). South-East Asia ranked second, providing around one fifth of the regions' trade in services. The largest increase is registered in the regional share of South and South-West Asia (more than 30%, mostly due to India), but it still remains only the third largest contributor to regional services trade at 15%. Similarly, North and Central Asia's services trade share increased by more than 60%, (mainly because of the importance of transportation services in landlocked economies), allowing this subregion to pass the Pacific in fourth position in 2010. The fact that the regional share of Pacific economies' commercial services dropped is particularly worrying, as it may reflect a loss in competitiveness in the supply of

Figure 10. Subregional share of commercial services trade in total Asia-Pacific trade in services

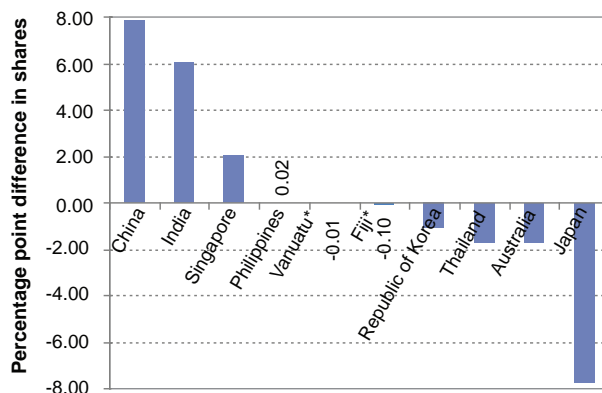


Source: ESCAP calculation, based on data downloaded from WTO International Trade Statistics online (downloaded on 7 April 2011).

tourism and related services, which are important drivers of economic growth and employment.¹⁶

Similarly, at the individual economy level there are winners and losers in terms of captured share of total Asia-Pacific and world exports of services. Between 1999 and 2010, the share of India doubled, while China almost doubled its share of regional exports of commercial services, to reach 11% and 17% share, respectively. Japan's share, on the other hand fell by one third of its 1999 share, and it lost its top ranking to China (see figure 11 and tables in part III for more details). The increase in the services exports by China and India also resulted in a several-fold increase of their share in world services exports during the period under review; estimates for 2010 show that China and India captured 6.1% and 3.9%, respectively, of world services exports. Those two countries were ranked as the third and sixth leading exporters in 2010.¹⁷ Australia, Japan, the Republic of Korea and Thailand currently all contribute smaller shares to regional services exports than in 1999. The position of some small Pacific island economies, such as Fiji and Vanuatu, also worsened.

Figure 11. Changes in shares of regional services exports, by selected economy, 2010 over 1999



Source: ESCAP calculation, based on WTO International Trade Statistics online (2010) (downloaded on 7 April 2011).

* Calculation of change in export shares is based on the difference in 2009 over 1999 for Fiji and Vanuatu.

¹⁶ It may, however, also be a reflection of the incomplete statistics for this subregion.

¹⁷ The rankings are based on world trade excluding intra-European Union-27 services exports.

“The share of computer and information services in total Asia-Pacific services exports has increased over time, while the share of other business services has hardly changed”

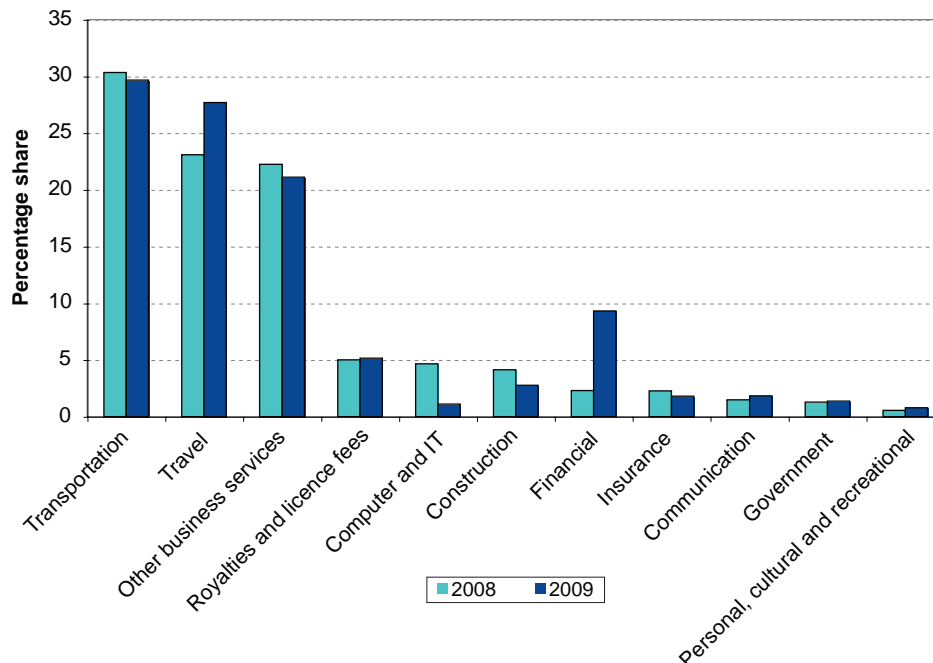
Between 2000 and 2008, there were no dramatic shifts in sectoral services trade by the region (figure 12). On the winning side, only computer and information technology (IT) services, and construction services increased their share, while financial services and travel were clear losers. Small increases in the shares of other business services and insurance sectors are also noted, while other sectors (e.g. transportation) have undergone virtually no change in the rankings based on aggregated statistics. However, looking at the export and import patterns separately (see chapter 2 annex, figures II.1 and II.2), there are some important additional findings:

(a) The share of imports of transportation services has actually increased by 7.5%, but because there was a mild decline on the export side, the average trade share did not change much;

- (b) The travel services' share of imports declined by 25%, driving the total trade share of travel services down;
- (c) Construction services increased on both the export and the import side;
- (d) The share of computer and IT services registered the highest increase on export side of all service sectors – almost an eight fold increase to capture 7.8% share in 2008. The share on the import side remained at less than 2%;¹⁸
- (e) Three sectors that posted relatively less dynamic growth (i.e. transportation, travel and other business services) cover two thirds of both exports and imports of commercial services.

¹⁸ See also WTO, 2011b, for comments on the success of Asia in increasing its share of world exports of computer and information services, from 15% in 2000 to 27% in 2009. India is the second leading exporter of computer and information services.

Figure 12. Changes in sectoral composition of services trade for Asia-Pacific economies, between 2008 and 2009



Source: United Nations Service Trade Database (accessed in May 2011).

Overall, the sectoral changes in services trade in Asia indicate a beginning of a move away from trade in traditional labour-intensive services towards trade in services that require higher levels of skilled labour, innovation and creativity. These latter types of services are beneficial to increasing the overall flexibility and productivity of a national economy. They also tend to be less volatile, unlike traditional services activities (such as transportation, construction and travel), which proved to be much more vulnerable to the economic crisis. However, these traditional services sectors are still the major employers and are linked to the rest of the economy through strong multiplier linkages. In the next section, a more detailed focus is on two of these traditional services – tourism and construction – as well as computer and information services, which show the most dynamic growth on the export side.

C. FOCUS ON SELECTED SERVICE SECTORS

1. International tourism remains one of the largest services sector

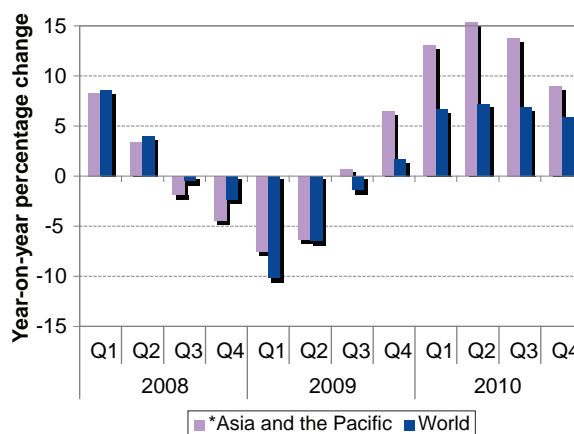
International tourism is one of the 12 sectors covered by the WTO General Agreement on Trade in Services (GATS) and is also often covered in RTAs.¹⁹ However, it does not feature as a self-standing service activity in trade statistics, but is reflected in travel services. In national accounts it does not often appear as a well-defined category, even though it is an important source of income and employment for many developing and least developed countries, especially in Asia and the Pacific. While the global economic crisis, pandemic threats, and factors related to disasters and international security in 2009, reduced demand for international tourism services overall, the Asian and Pacific region was not affected as badly as some other regions. However, 2010 brought a welcome change in business and leisure travel trends, in both the global and regional economies.

¹⁹ GATS includes sector 9, known as "Tourism and travel related services", which is broken down into four subsectors: hotels and restaurants (including catering), travel agencies and tour operators services, tourist guides services, and other.

"In 2010, Asia's tourism sector experienced a very dynamic rebound with international tourist arrivals up by 12.6%, compared with 6.7% for the world as a whole"

The recovery of world tourism started in the third quarter of 2009, and has since continued unabated. According to the United Nations World Tourism Organization (UNWTO), in 2010 the number of international tourists increased by 6.7%. In that year, Asia's tourism sector experienced a very dynamic rebound with international tourist arrivals up by 12.6%, compared with 6.7% for the world as a whole (figure 13). Asia and the Pacific region captured almost 22% of the total global international tourist arrivals, with more than half of that linked to visits to North-East Asia, while Oceania's share fell to just 5% of the region, and is now equal to the share of South Asia. The most dynamic growth in international tourist arrivals was recorded in China, while Australia, Macao, China as well as some small islands (such as the Maldives), recorded gains in travel receipts.

Figure 13. Recent changes in international tourist arrivals



Source: UNWTO World Tourism Barometer online (downloaded in April 2011).

Note: *Asia and the Pacific comprises the following economies: Australia; Bhutan; Cambodia; China; Cook Islands; Guam; Fiji; French Polynesia; Hong Kong, China; India; Indonesia; Japan; Kiribati; Macao, China; Maldives; Malaysia; Marshall Islands; Myanmar; Nepal; New Caledonia; New Zealand; Niue; Northern Mariana Islands; Pakistan; Palau; Papua New Guinea; Republic of Korea; Samoa; Singapore; Solomon Islands; Sri Lanka; Taiwan Province of China; Thailand; Tonga; Vanuatu; and Viet Nam.

While there are no detailed and long-term data series on the geographical breakdown of travel services, this category appears to be contributing towards an expansion of intraregional trade in Asia. According to WTO (2011b), more than 60% of China's travel receipts were sourced from Asian economies, in particular Hong Kong, China, as well as Japan, the Republic of Korea and Taiwan Province of China. More than two thirds of the Republic of Korea's travel exports were destined for other Asian economies, with more than 30% of those exports going to Japan. In the case of Hong Kong, China, the share of Asia is even higher (more than 84%), with China being the largest recipient of exports of travel services. Asian economies accounted for around 77% of Japan's travel exports and 60% of Australia's travel receipts in 2008. In reporting Asian economies, travel exports to the European Union-27 represented between 6% and 9% of the total, while the share of the United States ranged between 5% and 12% (see tables in part III).

Asia and the Pacific shared the fastest recovery in international tourism with the Middle East in 2010, but the prospects for 2011 do not look that bright. In February 2011, UNWTO forecast reduced growth for all regions, with Asia and the Pacific still expected to perform well (table 8). However, given that the forecast was made prior to the spreading social and political protests in many Middle East countries, and before the earthquake and tsunami disaster struck Japan, the figures might need to be adjusted downward.

Table 8. Tourist arrivals – rates of growth for 2010 and 2011 (forecast)

(Percentage)

Region	2010	Forecast for 2011
World	6.7	4-5
Europe	3.2	2-4
Asia and the Pacific	12.6	7-9
Americas	7.7	4-6
Africa	6.4	4-7
Middle East	13.9	7-10

Source: United Nations World Tourism Organization, Barometer February 2011, available from www.unwto.org/facts/eng/pdf/barometer/UNWTO_HQ_Fitur11_JK_2pp.pdf.

2. Construction services adversely affected

GATS lists construction services as construction and related engineering services within sector 3, with five subsectors (general construction work for buildings, general construction work for civil engineering, installation and assembly work, building completion and finishing work, and other). As in the case of other services, there is no perfect one-to-one correspondence between the GATS classification and statistics on trade in construction services. In trade statistics, construction services (based on the Extended Balance of Payments Services classification), are associated with two subcategories: construction abroad and construction in the home economy (i.e. the economy preparing the statistics). Services related to engineering and architectural design are part of business services. In the WTO International Trade Statistics, however, commercial services trade includes only three subcategories: transportation, travel and other commercial services. Other commercial services include several groups, including construction services.

“By the end of 2009, world exports of construction services had declined by 13%, and construction was the most affected services sector after transport and finance”

The contraction in construction services in 2009 was expected, in view of the firm link between this sector and general economic conditions. However, given that most construction services are based on long-term contracts, contractors have better opportunities to mitigate the effects of a downturn in the short term. This expectation is confirmed by the data presented by WTO (2011b). While trade in other services sectors started to contract immediately in the last quarter of 2008, world construction services exports continued to grow by 11%. The effects of the crisis started to show only gradually in early 2009. However, by the end of that year, world exports of construction services had declined by 13% and construction was the most affected services sector after transport and finance (WTO, 2011b). The same happened in Asia and the Pacific (table 9), where construction services trade declined drastically in 2009 after a period of dynamic growth.

Table 9. Export and import of construction services by Asia and the Pacific

(Billions of United States dollars)

	2000	2002	2004	2006	2008	2009
Import	9.7	12.5	17.2	24.1	37.1	15.5
Export	9.7	10.0	15.0	20.2	36.5	15.5

Source: United Nations Services Trade database, available from <http://unstats.un.org/unsd/servicetrade/default.aspx> (downloaded on 11 April 2011).

Note: Values in 2009 were affected by the fact that only 17 countries in the region have reported data to the United Nations Statistics Division as compared with, for example, 28 countries reporting in 2008.

WTO (2011b) also reports that the drop in construction services trade was the largest in the CIS region, and somewhat less in other subregions of Asia and the Pacific. The CIS result is driven by the change in the Russian Federation's construction exports, which dropped by 30% in 2009. Other regions performed better and recorded smaller declines. Exports, both by European and Asian countries, decreased by some 11%. In particular, European Union-27 exports fell by 11%, while those of China and Japan declined by 8% and 10%, respectively.

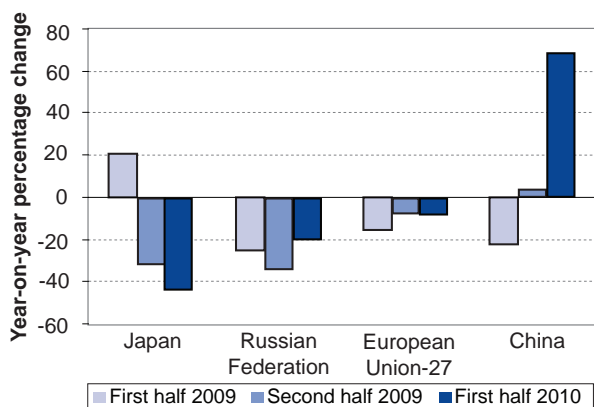
Available short-term data on leading exporters suggest that a recovery started in some economies but is lagging in others. In the first half of 2010, China's construction services exports grew by 69% compared with the same period in 2009 (figure 14). By contrast, European Union-27 construction services exports continued their downward trend. Financial turmoil in

the United Arab Emirates, the first partner country for Japanese contractors, resulted in a drop in Japan's construction services exports by 32% in the second half of 2009, and by 44% in the first six months of 2010. Finally, the Russian Federation's exports of construction services were down by 20% in the first half of 2010.

3. Computer and information services registered fastest export growth²⁰

Exports of computer and information services recorded the highest global and regional growth during 2000-2008 at 19% and 27%, respectively, while CIS recorded export growth of 50% on annual average. Developed markets did not perform very well; for example, Europe (which accounts for more than half of the world's exports) recorded a 20% increase while North America lagged behind (8%).

Figure 14. Exports of construction in selected leading economies, first half, 2009-first half, 2010



Source: WTO (2011b).

“India’s exports of computer and information services account for some 70% of Asia’s exports”

During that period, Asian economies increased their share in world exports of computer and information services from 15% to 26%. India, a leading country in IT services outsourcing, climbed to rank as the second largest major exporter of computer and information services. According to WTO estimates, in 2008, India's exports were worth \$36 billion, accounting for some 70% of Asia's exports of computer and information services. Most of India's computer services exports

²⁰ All the statistics in this subsection are taken from WTO, 2011b, and the section leans heavily on section E in that study.

were destined for the North American markets. While the portion of exports destined for Asia was, by comparison, much lower (6.5%), it showed an upward trend, particularly in the case of East Asia.

Other economies in Asia, such as Singapore, the Philippines and Malaysia, also emerged as computer services suppliers. China, however, showed the fastest growth and its software industry expanded significantly. By the end of 2008, there were more than 16,000 software and related services providers in China, employing 8.5 million people. China's computer and information services exports have increased by 43% on annual average since 2000. In 2008, the United States was China's first export destination, followed by ASEAN countries. Exports to those two markets accounted for more than 53% of China's total exports. In other subregions, the Russian Federation has seen exports of its computer services rise annually by more than 52% on average since 2000.

“The most impressive growth was recorded by China, where the software industry expanded significantly”

As noted before, the computer services industry fared relatively well during the recent global economic crisis (globally export fell by 6% only in 2009). This was mostly due to constant demand for cost-efficient technologies required for the further development of software in sectors such as manufacturing, finance, insurance and healthcare. A continued need to address rising IT security concerns globally, also contributed to the strength of demand for these services.

Subregions, however, did not perform equally strong. In 2009, Asian exports of computer and information services decreased only slightly, by 2%, while India's exports were estimated to have declined by 5%. Other emerging exporters in the region, such as China and Singapore, saw modest growth. In the case of the Philippines and Malaysia, exports of computer services grew by 11% and 41%, respectively, despite the crisis. The CIS countries faced the sharpest fall, with the Russian Federation's exports dropping by 21% in 2009.

Preliminary data for the first half of 2010 show that exports by all leading exporting economies recovered, with growth acceleration occurring in emerging computer and information services. For example, China's exports increased by 43% while the Russian Federation's exports appeared to have recovered following their drop in 2009.

D. INTRAREGIONAL TRADE IN COMMERCIAL SERVICES STILL LIMITED

Data on bilateral trade in services among Asian economies are very limited. Those that are available have been collected in a matrix to show the level of intraregional trade (table 10). Disaggregated data exist for six economies (see also tables in part III): Australia, Japan, Republic of Korea, Russian Federation, Singapore and Hong Kong, China. Unfortunately, however, because these data do not include the same partners for all reporting economies, the matrix is not symmetric. What is immediately evident on both the import and export sides is that most Asia-Pacific services trade is conducted with economies outside the region (e.g. the European Union and the United States). The Russian Federation conducts about 95% of its services trade with countries outside the Asia-Pacific region; other economies are trailing behind, with Hong Kong, China, being the least dependent on non-regional markets.

“Most of the Asia-Pacific services trade is conducted with economies outside the region but there is potential for increased intraregional trade in at least some services sectors”

Japan, the Republic of Korea and Singapore are among the more important destinations in the region for services exports. Australia's largest regional partners on the import side are Japan, Singapore and Hong Kong, China, and on the export side, China, India and Japan. It is not surprising that the largest regional partner of Hong Kong, China, is China, followed by Japan and Australia. Japan, on the other hand, disperses its regional trade relatively evenly among the important services traders, with China and

Table 10. Geographical breakdown of imports and exports in selected Asia-Pacific economies, 2008

(Percentage)

Imports

To	Imports													RoW
	Australia	Hong Kong, China	Japan	Republic of Korea	Russian Federation	Singapore	China	India	Indonesia	Philippines	Malaysia	Thailand	USA	
Australia	—	3.44	4.84	1.04	0.14	8.87	2.69	1.15	1.79	0.69	1.88	3.39	18.19	51.89
Hong Kong, China	5.21*	—	8.21*	1.74*	—	5.56*	26.46*	1.34*	0.74*	0.95*	1.55*	2.35*	14.64*	31.25*
Japan	2.51*	3.98*	—	4.79*	0.32*	5.4*	5.44*	0.37*	1.09*	1.16*	0.89*	1.87*	28.74*	43.44*
Republic of Korea	—	—	10.07	—	—	—	11.08	—	—	—	—	—	24.94	53.91
Russian Federation	0.04*	0.11*	0.55*	0.63*	—	0.14*	2.31*	0.37*	0.01*	0.01*	0.09*	0.79*	5.22*	89.73*
Singapore	2.19*	3.1*	4.97*	1.36*	—	—	2.79*	1.67*	—	—	—	—	17.61*	66.31*

*2007

Exports

To	Exports													RoW
	Australia	Hong Kong, China	Japan	Republic of Korea	Russian Federation	Singapore	China	India	Indonesia	Philippines	Malaysia	Thailand	USA	
Australia	—	3.07	4.54	3.46	0.19	7.38	8.92	5.58	1.94	0.85	2.81	1.81	11.59	48.12
Hong Kong, China	2.51*	—	6.8*	2.65*	—	2.95*	24.44*	0.82*	0.78*	0.74*	1.23*	0.95*	21.05*	35.08*
Japan	1.29*	0.21*	—	5.92*	0.39*	7.74*	6.33*	0.91*	1.23*	1.08*	0.26*	3.28*	27.1*	44.26*
Republic of Korea	—	—	12.06	—	—	—	16.15	—	—	—	—	—	20.07	51.72
Russian Federation	0.2*	0.32*	1.49*	1.3*	—	0.24*	2.21*	0.6*	0.02*	0.07*	0.07*	0.11*	8.13*	85.29*
Singapore	4.12*	4.42*	8.01*	3.35*	—	—	5.36*	3.05*	—	—	—	—	12.46*	59.23*

*2007

Source: Calculated by ESCAP based on data downloaded from United Nations Service Trade database (accessed in December 2010).

Note: RoW: rest of the world.

Singapore holding slightly larger shares but still not more than 8%. Available data for the Republic of Korea services trade show that China and Japan account for similar shares, between 12% and 16%. As noted above, the Russian Federation trades only about 5% of its services with Asia-Pacific partners. China, Japan and Hong Kong, China, are among the larger regional trading partners of Singapore.

The region's relatively low level of bilateral flows of services trade, and the high growth rate of total services trade, signal a potential for increased intraregional trade in some services sectors. It is interesting to note that India does not feature very high on the list of partners in intraregional services trade. However, in a recent development, India has begun

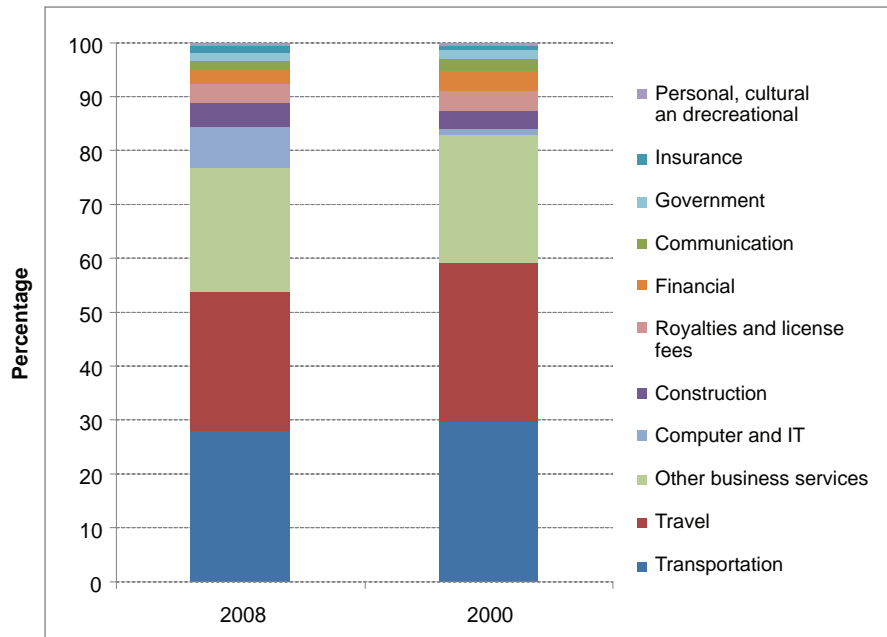
outsourcing some of its own outsourcing services (in particular, call centres) to the Philippines (see box 5.2 in part II, chapter 5).

One reason for the limited level of intraregional trade in services may be that, despite the large number of RTAs signed among the economies in the region (many of which include services), liberalization of trade in services still appears to be lagging behind; many of these agreements are classed as GATS minus agreements.²¹ Unilateral regulatory reforms and binding commitments under RTAs to remove "behind-the-border" barriers are necessary in order to achieve growth in intraregional trade in services at similar rates as growth in total services trade.

²¹ More precisely, of the 56 RTAs involving OECD countries in 2010, 80% contained GATS-minus features. These include: (a) Japan's bilateral trade agreements with Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand; and (b) Singapore's bilateral trade agreements with Australia, India, EFTA, Republic of Korea, New Zealand and the United States. See Miroudot and others, 2010.

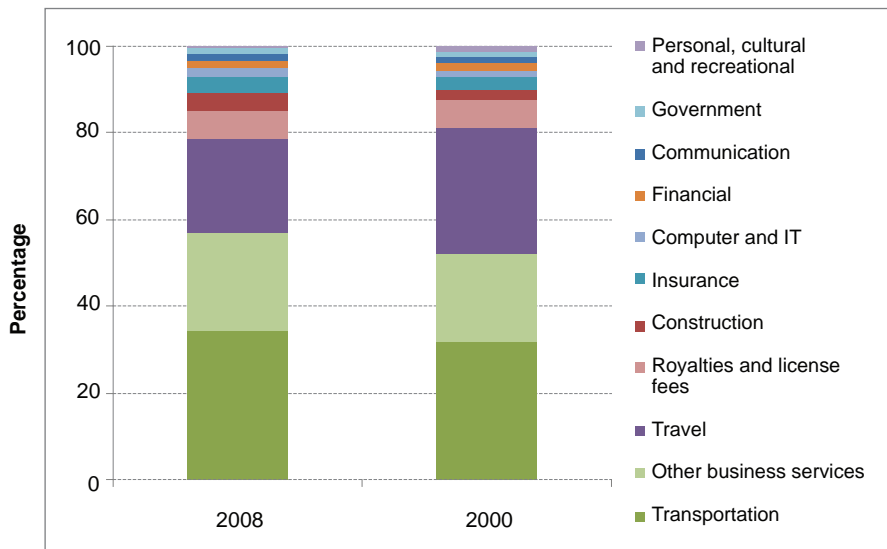
Annex

Figure II.1. Sectoral composition of services exports, Asia and the Pacific



Source: ESCAP calculation, based on data downloaded from UN Service Trade database (accessed in December 2010).

Figure II.2. Sectoral composition of services imports, Asia and the Pacific



Source: ESCAP calculation, based on data downloaded from UN Service Trade database (accessed in December 2010).