CHAPTER

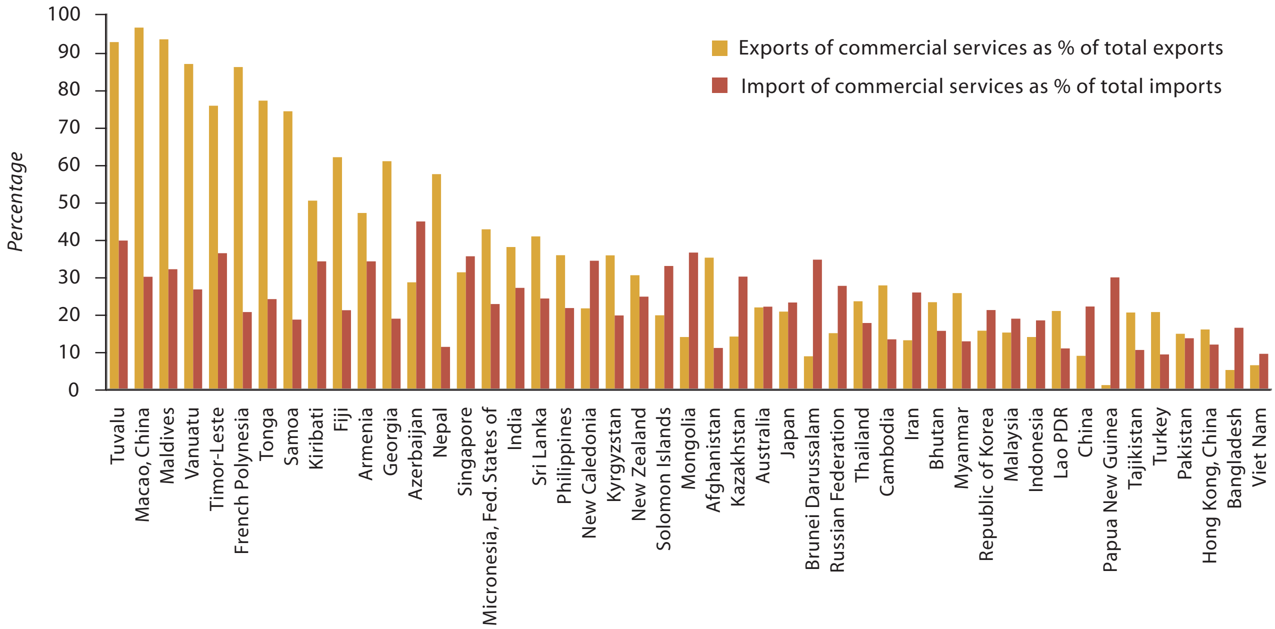
2

COMMERCIAL SERVICES TRADE: A MILD REBOUND

Commercial services trade has become essential for developed and developing countries to increase productivity in both agricultural and manufacturing sectors. Additionally, it is critical for building infrastructure and enhancing access to quality health, education and other important services. Commercial services are grouped into four major categories: transport, travel, goods-related services,[1] and other commercial services.

Both exports and imports of commercial services have increased in importance over the past decade. While official trade figures capture only the gross value of trade and tend to underestimate the size of trade in commercial services,[2] they now account for a significant share of total trade in many economies in the region (figure 2.1). Exports of small island economies often heavily depend on exports of commercial services (e.g. travel), while some landlocked developing countries' imports comprise 40% or 50% of services imports (e.g. transport).

Figure 2.1 **Imports and exports of commercial services as percentage of total exports and imports in Asia-Pacific economies, 2016**



Source: ESCAP calculations based on the WTO International Trade Statistics Database (accessed October 2017).

In section A of this chapter, regional and subregional trends in imports and exports of commercial services are presented. Trends in trade of commercial services at country level are presented in section B. New developments in commercial services sectors, including how differential sectoral performance can explain a fuller recovery of commercial services in the first quarter of 2017 are analysed in section C. An in-depth analysis of trade in the tourism services is presented in section D. Finally, the latest data on services trade restrictiveness is reviewed in section E.

A. REGIONAL AND SUBREGIONAL TRENDS

After a large decrease in commercial services trade in the Asia-Pacific region in 2015, trade in commercial services recovered modestly in 2016.[3] According to the WTO International Trade Statistics Database, exports and imports of commercial services in Asia and the Pacific in 2016 grew by 0.1% and 1.3%, respectively. At the same time, global export services grew 0.4%, while imports increased by 1.1% (figure 2.2).

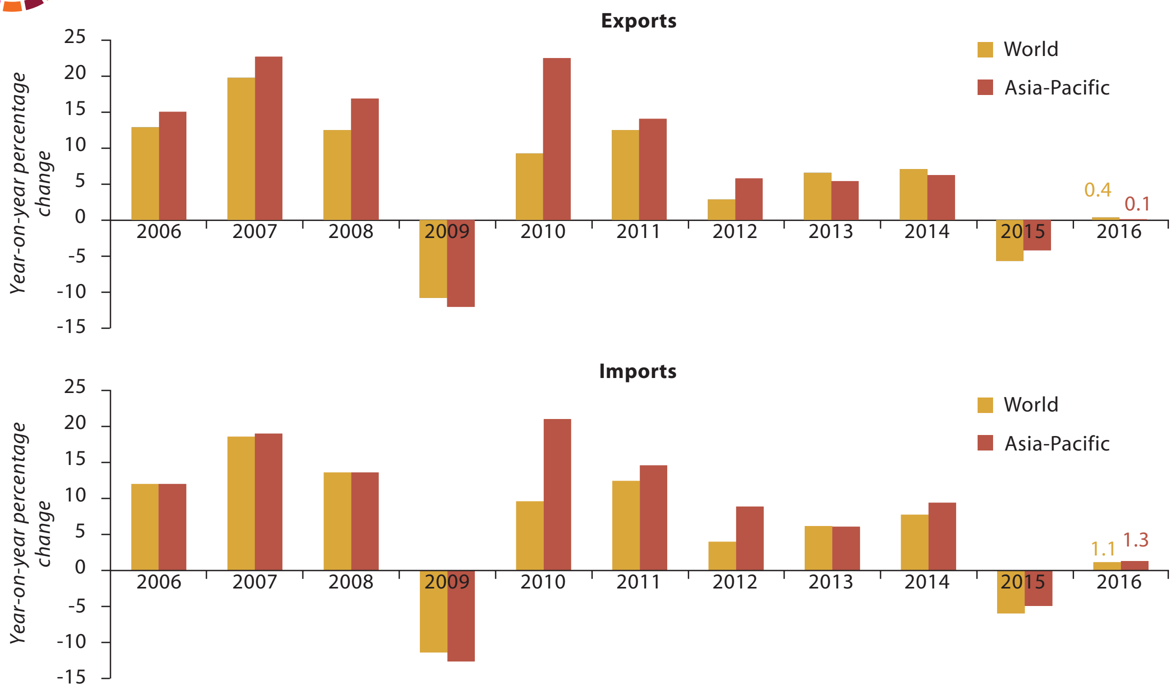
"2016 saw a mild recovery in Asia-Pacific's trade in commercial services, with exports increasing by 0.1% and imports by 1.3%."

The share of world trade in commercial services captured by the Asia-Pacific region has grown from 24.9% in 2005 to 30.3% in 2016. Nevertheless, the region is still a net importer of commercial services, recording a deficit of $221 billion in 2016.

"Asia-Pacific's share of world trade in commercial services has grown from 24.9% to 30.3% between 2005 and 2016."

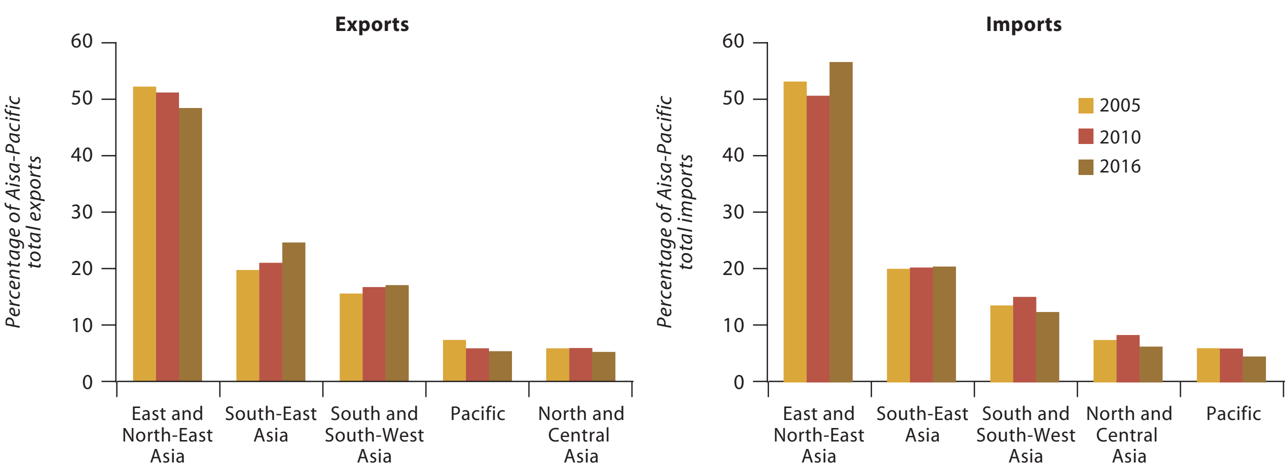
As figure 2.3 shows, there has been little change in the shares of commercial services imports and exports of the subregions at the aggregate level since 2005. The East and North-East Asia subregion continued to be the most important contributor to imports and exports of commercial services. South-East Asia maintained its second position capturing almost a quarter of the Asia-Pacific exports and one fifth of imports in 2016. South and South-West Asia's share in exports and imports moved in the opposite directions, but for both it kept its third position. North and Central Asia, and Pacific together contributed around 11% of the region's exports and imports.

Figure 2.2 **Growth in commercial services trade in Asia-Pacific economies and the world, 2006-2016**



Source: ESCAP calculations based on the WTO International Trade Statistics Database (accessed July 2017).

Figure 2.3 **Shares of commercial services trade, by subregion, 2005, 2010 and 2016**



Source: ESCAP calculations based on the WTO International Trade Statistics Database (accessed July 2017).

"East and North-East Asia continues to account for the largest shares of trade in commercial services of the Asia-Pacific region."

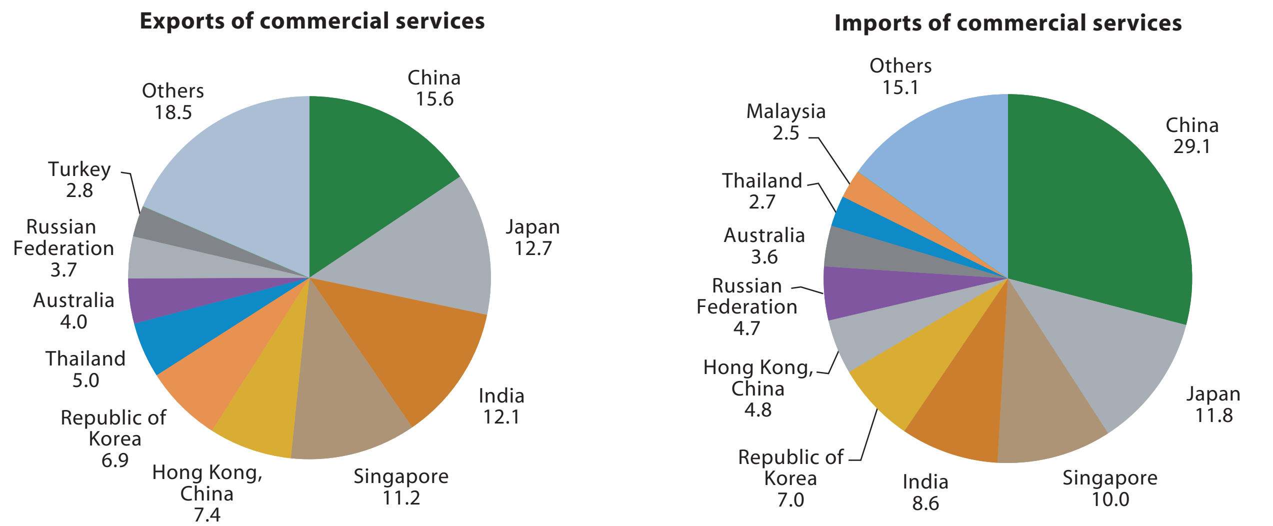
One characteristic of the commercial services trade, shared also with merchandise trade, is the significance of specific individual countries within most of the Asia-Pacific subregions. For instance, in 2016, Australia and New Zealand represented 96.1% of the total commercial services exports and imports of the Pacific subregion. In South and South-West Asia, India was the biggest exporter and importer, capturing 70.7% of the subregion's commercial services trade in 2016, while in North and Central Asia, the Russian Federation accounted for 74.1% of the subregion's amount. This phenomenon was less visible in the two other subregions, but they both also have dominating economies: China's share in North and North-East Asia was 44.9%, and the share of Singapore in South-East Asia was 47.5%. The high significance of individual countries means that these individual countries drive the overall subregional performance in commercial services trade.

B. ECONOMY LEVEL ANALYSIS

The aggregate trade data, however, did not reveal the level of geographical concentration nor disproportionate role of certain countries in the region. For example, exports from China, Japan, India and Singapore represented more than half of the region's total exports of commercial services (figure 2.4). In terms of imports, a group of seven economies (China; Japan; Singapore; India; the Republic of Korea; Hong Kong, China; and the Russian Federation) captured over three quarters of the region's imports of commercial services, with China alone representing nearly a third.

Figure 2.4 **Asia-Pacific economies' share of the region's total commercial services exports and imports, 2016**

(Percentage)



Source: ESCAP calculations based on the WTO International Trade Statistics Database (accessed July 2017).
Note: "Others" is an aggregate of remaining Asia-Pacific economies which are not in the top-ten of biggest exporters/importers in the region.

"During 2005-2016, China's share of the region's exports and imports of commercial services increased from 13.5% to 15.6%, and 12.0% to 29.1%, respectively."

Significant changes have occurred at the country level between 2005 and 2016. China's share of the region's commercial services exports increased from 13.5% to 15.6%. India's grew from 9.0% to 12.1% and Singapore's from 8.0% to 11.2%. These increases have crowded out the share of some of the other exporters. Japan's share decreased from 17.3% to 12.7% while the respective shares of the Republic of Korea and Turkey decreased from 8.5% to 6.9%, and from 4.8% to 2.8%. For imports, there were even more dramatic changes. Between 2005 and 2016, China's share of imports of commercial services increased from 12.0% to 29.1% of the region's total, crowding out several other economies. Notably, Hong Kong, China declined from 19.7% to 4.8% of region's total imports of commercial services.

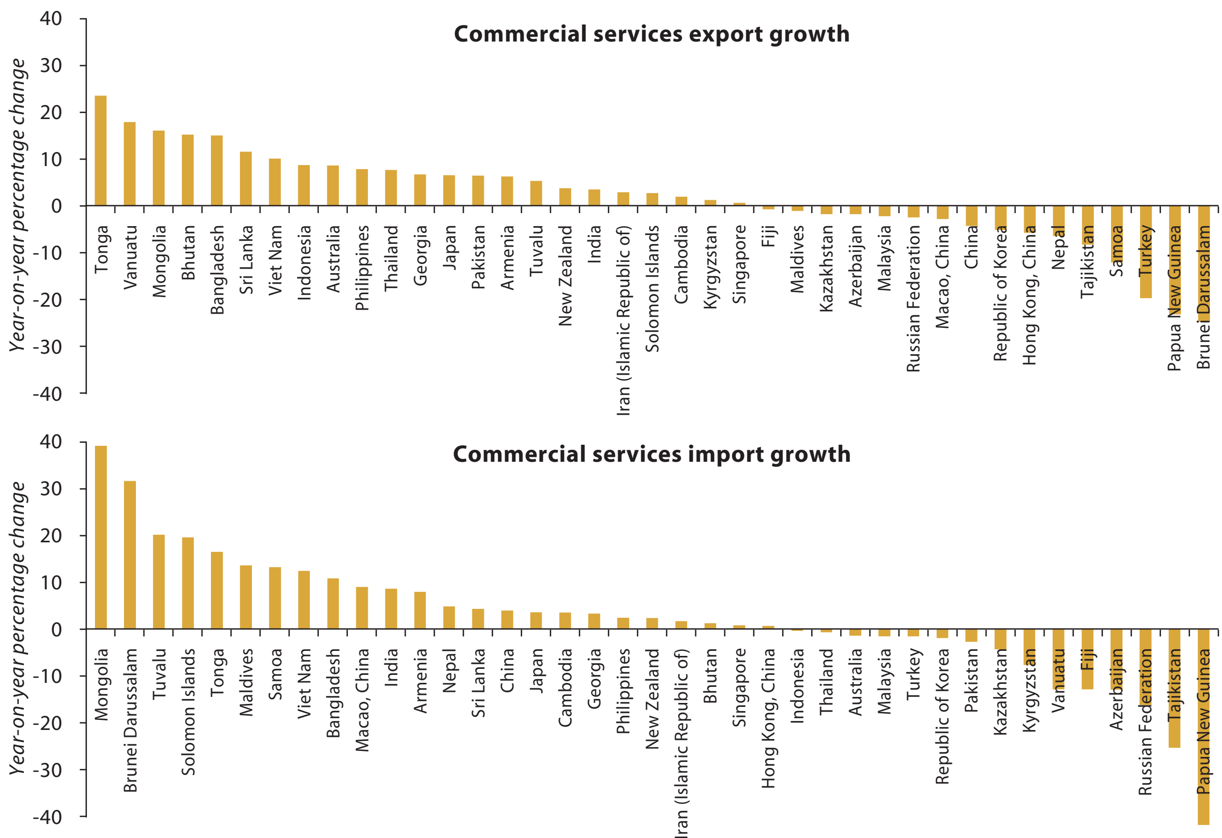
> *"Country-level services trade performance has been highly diverse in 2016, resulting in an overall mild recovery in the region."*

Trade performance in 2016 at the country level was highly diverse (figure 2.5). Some countries in the Asia-Pacific region enjoyed dynamic double-digit growth of both exports and imports (Bangladesh, Mongolia, Tonga and Viet Nam), while others experienced sharp export and import declines (Afghanistan, Azerbaijan, Fiji, Papua New Guinea, the Russian Federation, Tajikistan and Turkey).

In China, the region's largest exporter, exports of commercial services declined by 4.3%. Several other economies also experienced a marked export contraction, including Turkey (-9.6%); Hong Kong, China (-5.7%); the Republic of Korea (-5.0%); Macao, China (-2.8%); the Russian Federation (-2.4%); and Malaysia (-2.2%). However, Australia, Indonesia, Japan, the Philippines, Thailand and Viet Nam, improved their services export performance, as did the small emerging economies Bangladesh, Bhutan, Tonga, Vanuatu and Mongolia. Overall, these economies contributed to the weak but positive results for the region as a whole.

Similar to commercial services exports, the results for commercial services imports were mixed. On the positive side, China, Japan and India grew strongly in 2016 (3.8%, 3.4% and 8.4%, respectively). Several small economies also recorded high growths, such as Mongolia (38.9%), Brunei Darussalam (31.4%),

Figure 2.5 **Growth of services exports and imports, by Asia-Pacific economy, 2016**



Source: ESCAP calculations based on the WTO International Trade Statistics Database (accessed July 2017),
Note: Data are not available for Kiribati, the Lao People's Democratic Republic, Micronesia, Myanmar, New Caledonia and Uzbekistan.

Tuvalu (19.9%), Solomon Islands (19.4%), Tonga (16.4%) and Maldives (13.4%). Conversely, commercial services imports declined in some relatively large import markets, including the Republic of Korea (-2.0%), the Russian Federation (-16.3%) and Turkey (-1.7%). Some smaller countries also declined sharply, including Papua New Guinea (-41.9%), Afghanistan (-24.5%), Tajikistan (-25.4%) Azerbaijan (-13.0%) and Fiji (-13%). The overall distribution of year-on-year changes was bell-shaped, leading to a modest regional growth of commercial services imports of 1.3% in 2016.

C. COMMERCIAL SERVICES TRADE BY SECTORS

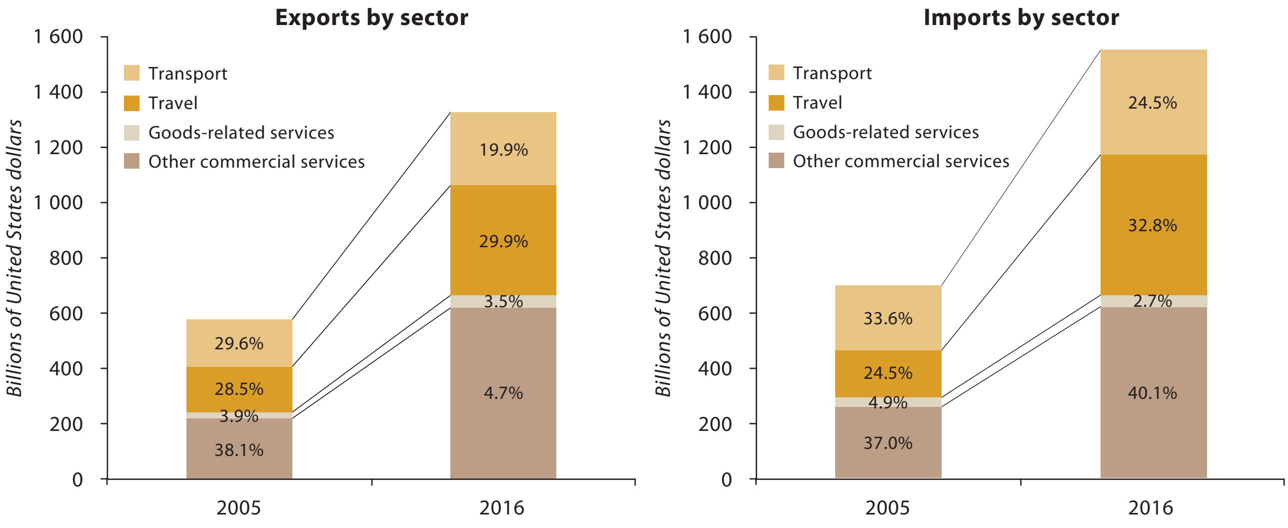
1. Longer term structural changes

As mentioned above, commercial services are divided into four broad sectors: (a) transport, (b) travel, (c) goods-related services, and (d) other commercial services.[4,5] Between 2005 and 2016, the region's exports of commercial services increased by 129.6% in nominal terms (figure 2.6). The "other commercial services" sector has been the fastest-growing component: its share in total exports increased by 8.6 percentage points. The share of "travel" also grew slightly. Due to the much faster export growth of "other commercial services" and "travel", the shares of "transport" and "goods-related services" decreased. Over the same period, commercial services imports grew by 122.3% in nominal terms. Similarly, "travel" and "other commercial services" were the two main drivers of this import growth. Their share increased by 8.3 and 3.1 percentage points, respectively, while the share of "transport" and "goods-related services" declined.

The 129.6% growth of exports of commercial services in Asia and the Pacific between 2005 and 2016 greatly exceeded the 85.1% increase worldwide. The region's share of exports of commercial services also went up from 22.3% in 2005 to 27.7% in 2016. The significant increase of China's demand for commercial services was a key factor in this growth.

"Asia and the Pacific performed better than the world average in all major sectors of commercial services between 2005 and 2016."

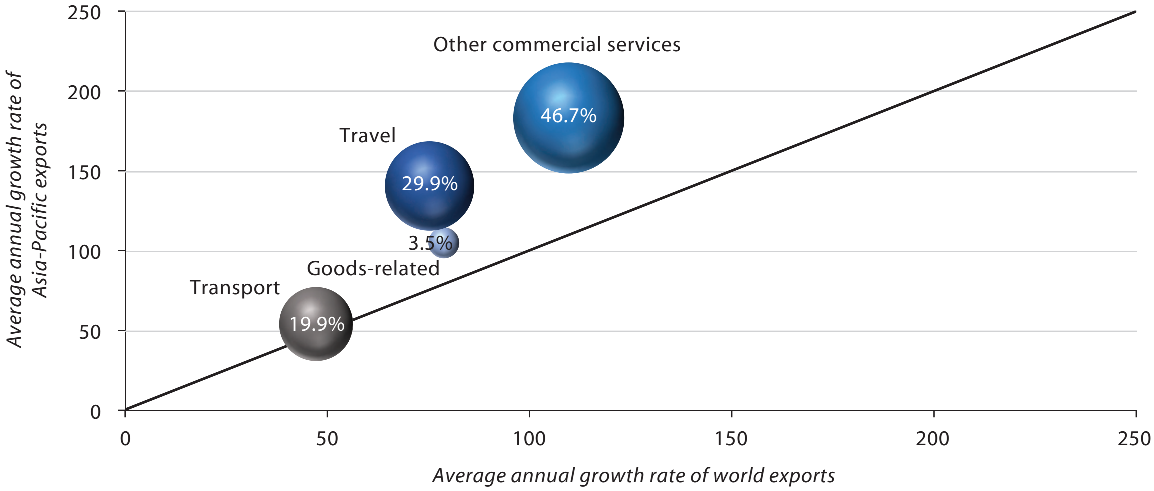
Figure 2.6 **Exports and imports of Asia-Pacific commercial services, by sector, 2005 and 2016[a]**



Source: ESCAP calculations based on the WTO International Trade Statistics Database (accessed July 2017).
[a] "Goods-related services" covers manufacturing services on physical inputs owned by others; maintenance and repair services; "Transport" includes sea, air and other modes of transport; postal and courier services; "Travel" is not broken down into further subcategories.

Asia and the Pacific performed better than the world average in all major sectors of commercial services between 2005 and 2016 (figure 2.7). Exports of "travel" and "other commercial services" grew in Asia and the Pacific by 141.0% and 181.7%, respectively, whereas they grew by only 74.7% and 109.5% globally. This export growth gap between Asia and the Pacific and the world is less significant for the "goods-related services" and "transport" sectors, but they also evidenced stronger growth. The "goods-related services" sector increased by 105.4% in Asia and the Pacific and 78.2% worldwide, while the region's exports of "transport" services grew by 54.8%, compared to 46.9% worldwide.

Figure 2.7 **Commercial services export-growth rate, by sector, during 2005-2016**



Source: ESCAP calculations based on the WTO International Trade Statistics Database (accessed July 2017).
Note: A geometrical average is used. The size of the bubbles represents the share of the respective service sector in Asia-Pacific total exports of commercial services in 2016. The equal growth rate between exports by the world and the Asia-Pacific region is represented by the diagonal, so the figure shows that export growth of the Asia-Pacific region was higher than that of the world.

2. Recent performance by sectors

Table 2.1 provides details on each broad services sector as well as individual services under "other commercial services" performance in 2016. Exports of "goods-related services" demonstrated stability in 2016, increasing at a rate of 1.8%. As monitoring of this category of services was introduced relatively recently (2010), some economies still have no capacity for reporting the data so the region's and global totals underestimate the volume of trade.

According to the World Trade Organization (WTO) (WTO, 2017), 2016 was a challenging year for transport sector globally. Asia-Pacific exports of "transport" services, based on a significant contraction for Republic of Korea, China and Japan, continued to decrease (-6.8%), faster than export globally (-4%). However, quarterly data suggests this contraction might be reversing.

Exports of "travel" services rose slightly by 2.4% in 2016, driven by increases in Japan (23.2%), Thailand (11.2%) and Australia (12.2%), but were offset by significant decreases in Hong Kong, China (-9.4%) and Turkey (-29.6%). As discussed in more detail in section D, Asia recorded the highest international tourist arrivals in 2016 and that contributed to overall "travel" export. WTO (2017) attributes increased travel within the region to enhanced air connectivity and cheaper airfares.

The exports of "other commercial services", the largest category, can be further disaggregated into seven subcategories: "telecommunications, computer and information services", "financial services", "charges for intellectual property rights", "construction", "insurance and pension services", "personal, cultural, and recreational services", and "other business services". From 2005 to 2016, the exports of these seven subcategories grew from

Table 2.1 **Commercial services export in Asia and the Pacific breakdown, 2005-2016**

	Export value ($ billion)		Growth in Asia-Pacific exports (%)		Share in Asia-Pacific exports (%)		Asia-Pacific shares in world exports (%)	
	2005	2016	2015	2016	2005	2016	2005	2016
Goods-related services	**19**	**43**	**0.0%**	**1.8%**	**3.5%**	**3.3%**	**22.1%**	**25.7%**
Transport	**141**	**249**	**-2.8%**	**-6.8%**	**25.9%**	**19.5%**	**24.3%**	**29.3%**
Travel	**150**	**374**	**13.5%**	**2.4%**	**27.6%**	**29.3%**	**21.8%**	**31.0%**
Other commercial services (total)	**234**	**611**	**-4.5%**	**1.7%**	**43.0%**	**47.9%**	**18.9%**	**15.0%**
• Telecommunications, computer and information services	32	120	2.0%	3.7%	5.9%	9.4%	16.1%	24.3%
• Financial services	23	70	0.6%	-1.1%	4.2%	5.5%	10.5%	16.7%
• Charges for the use of intellectual property n.i.e.	22	56	-0.8%	5.9%	4.0%	4.4%	13.5%	18.0%
• Construction	23	45	-15.6%	-11.5%	4.2%	3.5%	48.8%	50.9%
• Insurance and pension services	6	20	-3.5%	-2.8%	1.1%	1.5%	9.8%	16.2%
• Personal, cultural, and recreational services	5	9	-5.5%	3.1%	0.9%	0.7%	19.7%	19.5%
• Other business services	123	291	-12.4%	3.4%	22.6%	22.8%	23.4%	11.3%

Source: ESCAP calculations based on the WTO International Trade Statistics Database (accessed July 2017).

$234 billion to $611 billion in Asia and the Pacific, and saw a growth in 2016 of 1.7%.

Among the seven "other commercial services" subcategories, the Asia-Pacific region held the biggest share of world exports in "construction": 50.9% in 2016. "Other business services" represented the greatest export value at $291 billion, with its year-on-year growth of 3.4% largely driving the result of the "other commercial services" category. However, it should be noted that several Asia-Pacific countries did not record "other business services" subcategories properly.[6]

The subcategory of "telecommunication, computer and information" services has continued to increase. Since 2015, exports in this subsector have increased by 3.7% to $120 billion. India dominated the subsector in the region, representing 46.2% of regional exports of computer services, while China accounted for 21.2% of the share. Other major contributors to the regional growth were: the Philippines (year-on-year increase of 58.6%), Japan (16.5%), Australia (10.5%), Pakistan (10.9%) and Thailand (10.6%).

"India constituted 46.2% of the regional exports of computer services in 2016."

Among exports of "financial services" and exports of "insurance and pension services", small declines in 2016 were outweighed by the growth in other subcategories. Exports of "insurance and pension services" decreased by 2.8% in 2016, but this suggests a recovery in the region when compared with a more significant contraction of 3.5% in 2015. Singapore, the largest exporter of "insurance and pension services" in the Asia-Pacific region, experienced a growth of 4.8%. India, Japan and Hong Kong, China also grew by 8.1%, 7.8% and 6.4%, respectively. In China, internal demand for "insurance and pension services" was crowding out exports, which fell by 18.5%, as evident by a significant increase in the imports of the subsector, which increased by 46.3% in 2016.

The sharp decline of the "construction" subcategory, although significant, was less severe than in 2015. The three largest "construction" exporters were China (contributing to 28.4% of region's total exports), the Republic of Korea (24.5%), and Japan (21%). All experienced a decline of construction exports in 2016, 23.9%, 10.5%, and 12.5%, respectively. Despite the negative trend in the Asia-Pacific region, exports of constructions increased by 40.1% in India.

"Asia-Pacific's exports of construction services were 50.9% of global exports in 2016."

Both of the final two subsectors experienced strong growth, reversing the negative trends of 2015. "Charges for the use of intellectual property" grew 5.9% in 2016. Meanwhile, exports of "personal, cultural, and recreational services" increased by 3.4%. This last subsector, in particular, is gaining importance as it is partly responsible for some of the decline in some sectors of merchandise trade (box 2.1). Turkey, India, and the Republic of Korea are the three largest exporters in the region. Although exports from Turkey decreased by 15.3%, exports increased by double-digit rates in India, Japan, the Republic of Korea and the Russian Federation.

While disaggregated regional figures demonstrated a high level of dispersions between countries' trade performance, a sectoral breakdown can more clearly identify the sources of the recent recovery. As the "transport" sector contributes about 20% to the total commercial services exports in the region, its significant improvement towards the end of 2016 has been one of the main drivers of the recovery (figure 2.8). The commercial services export figures for the first quarter of 2017 continued to show signs of a full recovery in the Asia-Pacific region, with exports increasing a healthy 3.2% year-on-year, exceeding the world average of 2%.

"Quarterly data shows a continued recovery of trade in commercial services, with exports increasing 3.2% year-on-year in the region, exceeding the world average of 2%."

Figure 2.8 **Year-on-year percentage change of the Asia-Pacific services exports, 2016 Q1-2017 Q1**

Source: WTO Short-term Trade Statistics database (accessed August 2017). Available from https://www.wto.org/english/res_e/statis_e/short_term_stats_e.htm 2017.

Box 2.1

Personal, cultural and recreational e-services

While trade in services has grown considerably during the last few decades, one category of services in particular has benefited from the digital revolution and evolved dramatically: trade in personal, cultural and recreational services. The digital revolution is a consequence of the rapid expansion of Internet access and significant progresses in computer, software and telecommunication technologies. In Asia and the Pacific, the percentage of individuals using the Internet has skyrocketed: in China it grew from 1.8% in 2000 to 53.2% in 2016, in Japan from 30.0% to 92.0%, in the Republic of Korea from 44.7% to 92.7% and in Singapore from 36.0% to 81.0%. Furthermore, developing countries are leapfrogging from traditional fixed Internet connections into mobile Internet, which has also seen exponential growth rates in recent years.

Despite worldwide recognition of its importance, there are no official statistics on e-commerce and thus, no detailed data on personal, cultural and recreational e-services. Even though they are underestimated, proxies can be used to gauge the overall trend. For example, a selection of goods that were previously traded as physical goods, but which are now traded as digital services is a suitable proxy (see ESCAP (2016) for a thorough discussion on the methodology). A list of goods that can be digitized, essentially software and media products, would include books and printed materials (newspaper, postcards, catalogues, maps, etc.), sound media (CDs, cassettes, etc.), video games, films and software. While these goods saw their merchandise trade values decline starting from about 2008, the decline was likely offset by the growth of trade in their digital counterparts.

"The digital revolution is displacing trade in merchandise goods with trade in services."

In 2016, total trade of merchandise goods that can be digitized[a] in the Asia-Pacific region reached $45 billion, 264% higher than in 1996 but 25.2% lower than the peak of 2008. One of the major causes for this variation was the sound media subcategory: it grew by 555% between 1996 and 2008, before declining by 28.7% between 2008 and 2016 (see figure). While at first the digital revolution had supported the trade of merchandise sound media (via CD Players, Walkman, etc.), it then strongly affected it negatively as digital media stores developed. According to the Global Music Report 2017, global digital music industry revenues have overtaken the revenues of the physical music industry since 2014 (International Federation of the Phonographic Industry, 2017). Focusing on 11 Asian countries, a study by McKinsey and Company (2016) revealed that the digital music market in these countries increased by 8.8% annually between 2011 and 2015 (compared with only 0.4% worldwide). The situation is quite similar for films, which grew by 198.4% until 2008 before falling by 25.0%. The emergence of new digital competitors such as Netflix – which saw a twelve-fold increase in membership and a six-fold increase in revenue between 2007 and 2016 – has been the main factor.

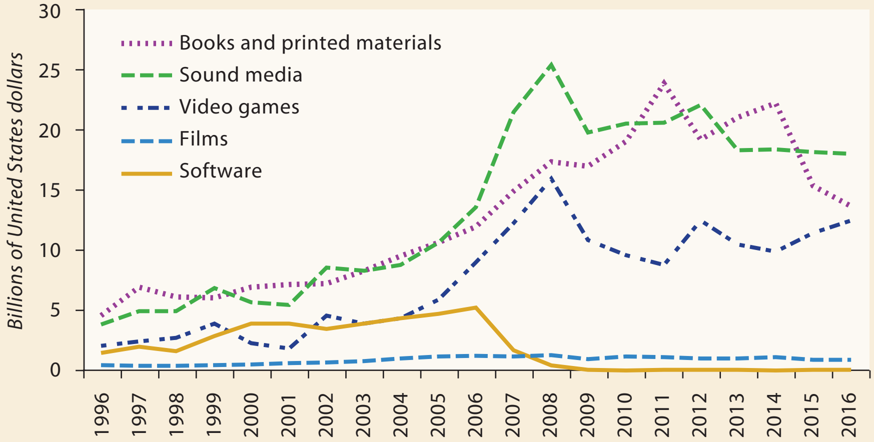
Printed media, software and games followed a similar pattern. The digital revolution has strongly impacted newspapers, postcards, calendars, commercial catalogues, maps and atlases. Initially, the digital revolution allowed book trade to grow via e-commerce (such as through Amazon.com) before starting to compete more directly through the development of tablets and e-readers. For instance, a PricewaterhouseCoopers study revealed that 15% of the books sold in Japan in 2014 were e-books (PricewaterhouseCoopers, 2015). Merchandise trade of software on physical storage (such as CDs and DVDs) developed rapidly between 1996 and 2006, before nearly disappearing afterwards, becoming almost totally digitized. Finally, video game exports and imports, which attained a peak in 2008 (up by 689% from 1996) remained relatively stable, but never again reached the level of 2008 due to online games, mobile applications and digital distribution platforms.

All of these changes must be seen in the context of "telecommunications, computer and information services", so they are another good proxy for estimating the development of trade in electronic services. Since peaking in 2008, the trade in these services grew by 86.2%. Moreover, the exponential revenue growth of the leaders in the fields of e-commerce, digital music, video streaming, e-books and mobile applications suggests that declining merchandise trade values of goods that can be digitized have been more than offset by the parallel trade in services.

Box 2.1

(continued)

Figure. Total trade of goods that can be digitized, Asia and the Pacific, 1996-2016



Source: UN COMTRADE Database (accessed July 2017).

[a] Goods that can be digitized are books and printer materials (HS 1996 code: 49), sound media (HS 1996 codes: 852410, 852432, 852439, 852451, 852452, 852453, 852460, 852499), video games (HS 1996 code: 950410), films (HS 1996 code: 3705, 3706) and software (HS 1996 code: 852431, 852440, 852491).

D. INTERNATIONAL TOURISM IN ASIA AND THE PACIFIC

Using country data from the United Nations World Tourism Organization (UNWTO) to estimate the number of tourist arrivals reveals that Asia-Pacific economies captured 29.8% of global tourist arrivals in 2016.[7] There were some 367.8 million arrivals to the region as a whole, 3.3% higher than in 2015 (356.2 million) and 38.9% higher than in 2010 (264.8 million).The largest share of those arrivals in 2016 was gained by East and North-East Asia (42.9%), followed by South-East Asia (30.7%), South and South-West Asia (14.7%), North and Central Asia (8.4%) and the Pacific (4.3%).

Since 2014, Asia and the Pacific region is a net importer of tourism services. In 2015, receipts and expenditures reached $391.4 billion and $538.4 billion respectively (figure 2.9). This tourism-trade deficit is largely related to China's deficit ($247.2 million): while Chinese expenditures abroad have kept increasing since 2005 (increasing by 432.4% between 2010 and 2015), receipts have remained relatively stable since the financial crisis of 2007-2008. The Russian Federation has the second highest deficit in the region ($26.5 million). However, it has been decreasing since 2013 because of the reduction of Russian tourists' expenditures abroad (a decline of 30.7% in 2015).

"The number of international tourists visiting Asia and the Pacific grew by 3.3% in 2016, mostly driven by visitors to East and North-East Asia and South-East Asia."

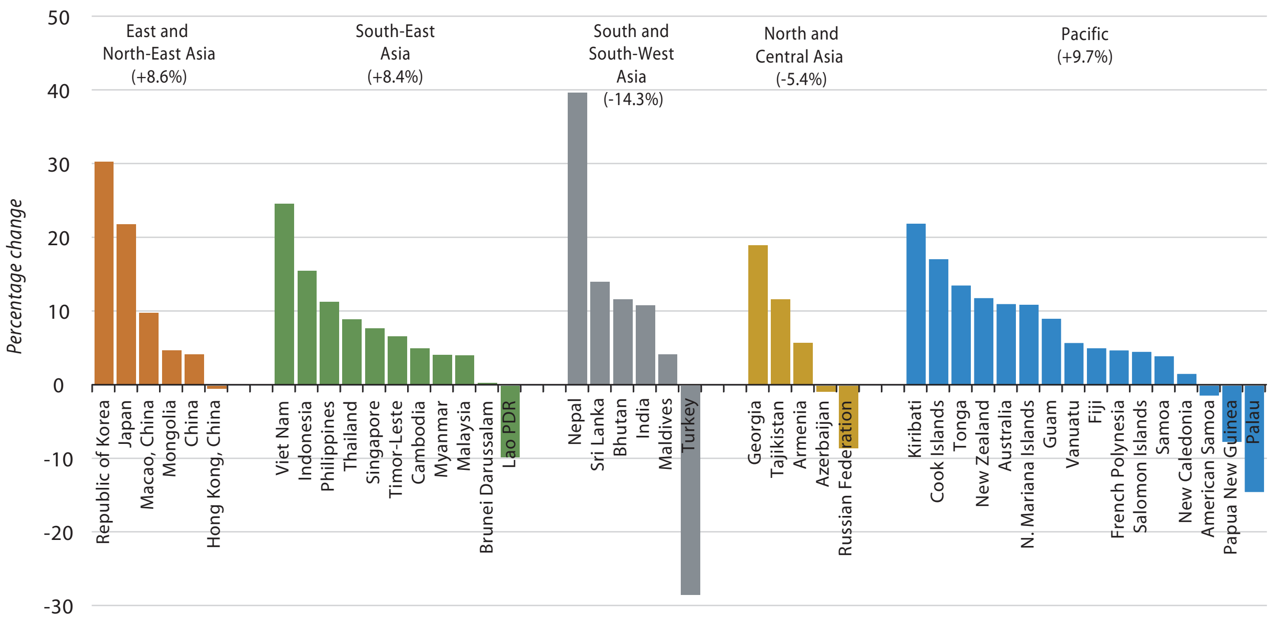
In South-East Asia, the tourism trade balance is largely in surplus, but it is very dependent on tourism in Thailand (81.2% of the surplus of the subregion was driven by tourism in Thailand in 2015). According to the UNWTO forecast, Thailand will become the world's third largest receptor of tourism spending in 2016 (surpassing France, the United Kingdom and China). In South and South-West Asia subregion, although Turkey's receipts are declining, the trade balance is also positive. Finally, the Pacific subregion has a strong and growing tourism-trade surplus.

Figure 2.9 **International tourist receipts and expenditures in Asia and the Pacific, by subregion, 2005-2016**

Source: ESCAP's estimation based on country data from UNWTO database (accessed July 2017).
Note: Data on international tourist expenditures in 2016 have not been reported at the time of report preparation. Data are not available for American Samoa, Guam, Democratic People's Republic of Korea, Nauru, Niue, Northern Mariana Islands, Tajikistan and Turkmenistan.

Overall, the number of international tourists visiting Asia and the Pacific grew by 3.3% in 2016, mostly driven by visitors to East and North-East Asia (an increase of 8.6%) and South-East Asia (8.4%) (figure 2.10). In East and North-East Asia, the major factor for growth was the increased number of visitors to the Republic of Korea (30.3%) and Japan (21.8%). In South-East Asia, 7 out of 11 countries showed a growth higher than 5%: Viet Nam (24.6%), Indonesia (15.5%), the Philippines (11.3%), Thailand (8.9%), Singapore (7.7%), Timor-Leste (6.6%) and Cambodia (5.0%). The Lao People's Democratic Republic experienced a significant decline in arrivals (-9.8%) which has been attributed by officials from the Lao People's Democratic Republic to three factors: first, incentives by the Thai Government for Thai nationals (who are the largest tourist arrivals) to take domestic holidays; second, more stringent measures to regulate illegal workers entering on tourist visas; and finally, rising prices (Laotian Times, 2017).

Figure 2.10 **Growth of tourist arrivals, by Asia-Pacific subregion and economy, 2016**



Source: ESCAP's estimation based on country data from UNWTO database (accessed July 2017).
Note: Data are not available for Islamic Republic of Iran, Democratic People's Republic of Korea, Kyrgyzstan, Marshall Islands, Federated States of Micronesia, Nauru, Niue, Pakistan, Turkmenistan, Uzbekistan and Tuvalu.

Most countries in the region (especially the Republic of Korea, Japan and Thailand) have benefited from the Chinese tourism boom of the last decade. In fact, according to UNWTO, the number of Chinese outbound travellers rose by 6% to 135 million in 2016. Chinese travellers targeted destinations within Asia and accounted for 15% of international tourist arrivals in Australia, more than 25% in Thailand and Japan, close to 50% in the Republic of Korea and 67% in Macao, China and Hong Kong, China. In 2016, China held a 21.8% share of world expenditures for overseas travel, and remained the second largest travel spender behind the European Union (UNWTO, 2016). However, it is expected that the number of Chinese tourists visiting the Republic of Korea will drop in 2017 in response to the country's decision to deploy the United States' Terminal High Altitude Area Defense (THAAD) missile system. The Government of China asked tour groups to cancel trips to the Republic of Korea (Financial Times, 2017).

Among the ten most popular tourist destinations in Asia and the Pacific in 2016, five were located in East and North-East Asia (table 2.2). China was the most popular tourist destination in Asia and the Pacific, accounting for 16.1% of international tourist arrivals in the region. After decreasing for eight consecutive years following the post global financial crisis, China's share of major tourist destinations in the region increased slightly in 2016.

"China was the most popular tourist destination in Asia and the Pacific in 2016."

In 2016, the share of tourist arrivals increased strongly in Thailand, Japan and the Republic of Korea. At the same time, the share for Turkey and the Russian Federation decreased sharply. Political instability, a rise in terrorist attacks and sanctions from the Russian Federation have been major contributing factors to the decline in tourism in Turkey, a major blow to a sector which contributed to 3.7% to the GDP and generated 2.3% of total employment (IMF, 2017). The decline of arrivals to the Russian Federation is harder to explain, as the decreased value of rouble was expected to make it a relatively more attractive destination for travellers. One reason, however, is the significant drop in the

Table 2.2 **Major tourist destinations in the Asia-Pacific region, 2010-2016**

(Percentage of total arrivals by destination)

	2010	2014	2015	2016
China	21.0	16.3	16.0	16.1
Thailand	6.0	7.3	8.4	8.9
Turkey	11.8	11.7	11.1	7.7
Malaysia	9.3	8.1	7.2	7.3
Hong Kong, China	7.6	8.2	7.5	7.2
Russian Federation	8.4	7.5	7.5	6.7
Japan	3.3	3.9	5.5	6.5
Republic of Korea	3.3	4.2	3.7	4.7
Macao, China	4.5	4.3	4.0	4.3
India	2.2	3.9	3.7	4.0
Others	22.6	24.7	25.3	26.7

Source: ESCAP's estimation based on country data from UNWTO database (accessed July 2017).

number of Ukrainian tourists due to political tensions between the countries (Pravda, 2016). Russian outbound tourism, however, experienced a sharp decline due to the exchange rate depreciation, decreasing by almost half compared to the previous three years (IPSOS, 2017). Other destinations are also gaining more weight. For instance, India is now the tenth most popular tourist destination. Its number of tourist arrivals grew by 155% since 2010. Elsewhere, the share of other destinations is continuing to grow.

In other subregions, where tourist arrivals are concentrated in the hub economies, situations vary. In South and South-West Asia, arrivals recorded a 14.3% decline. The considerable drop in Turkey (-28.5%) – which was receiving 62.7% of international tourists in 2015 in the subregion – has had a significant impact on the subregion as a whole. On the bright side, Nepal experienced a significant increase in arrivals in 2016 over 2015, when there was a dramatic drop in visitors due to twin earthquakes as well as an unofficial blockade along the Nepal-India border. India is Nepal's largest source of tourists, so this action severely dampened the number of visitors (Samiti, 2017).

The situation is similar in North and Central Asia: as a result of the decrease of international arrivals in Russian Federation (a decrease of 7.5%) – which captured 79.4% of the arrivals in 2016 – international arrivals declined by 5.4% in the subregion. Conversely, the number of international tourists visiting the Pacific grew by 9.7%, driven by the two most popular destinations in the subregion: Australia (11.0%) and New Zealand (11.8%).

In the case of the Pacific subregion, Kiribati, Cooks Islands, Marshall Islands and Tonga also experienced increases in arrivals in excess of 10%, whereas Palau and Papua New Guinea saw significant declines. While disaggregated data is not available, exports of commercial services represent a substantial portion of total exports of small island developing States (figure 2.1), hence the health of tourism is of importance for the countries' overall socio-economic development.

In conclusion, the travel arrival and receipts were positive for most countries in the region, culminating in a 2.4% increase in exports earnings and a 3.3% increase in arrivals in 2016. The main reasons behind odd declines were largely political in origin.

E. RESTRICTIONS ON TRADE IN COMMERCIAL SERVICES

Although the commercial services trade importance is clear, trade in services continues to be hindered by restrictions. In addition, services trade restrictiveness can detrimentally impact not just exports and imports of services, it can also negatively impact trade in downstream manufactured goods (Nordås and Rouzet, 2015).[8]

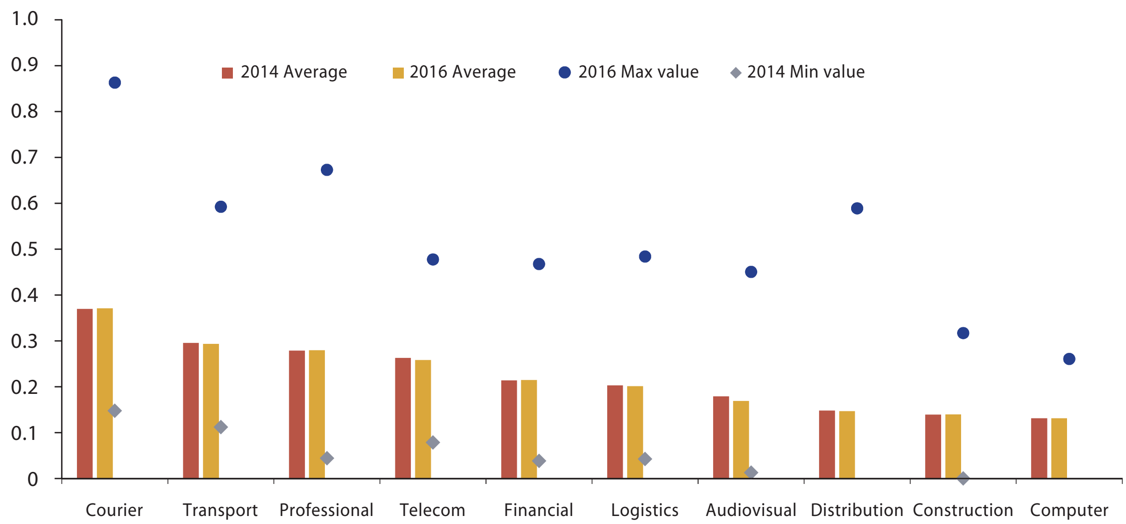
When compared to trade in goods, one distinguishing feature of the trade in services is that it is predominantly affected by "behind-the-border" measures, not necessarily related to trade policies. Capturing this fact, the Services Trade Restrictiveness Index (STRI) of the Organisation for Economic Co-operation and Development (OECD) evaluates five categories that hinder trade namely: (1) barriers to competition and public ownership, (2) regulatory transparency and administrative requirements, (3) restrictions on foreign ownership and other market entry conditions, (4) restrictions on the movement of people, and (5) other discriminatory measures and international standards.

Figure 2.11 demonstrates the variation of average STRI scores among sectors in nine Asia-Pacific economies in 2014 and 2016, along with the maximum and the minimum STRI scores in 2016. In 2016, the STRI scores ranged from 0.22 (computer) to 0.43 (courier). Since 2014, the average scores have, on average, stayed relatively unchanged. Most sectors remained relatively stable (varying between -0.5% and +0.3%) and two sectors have seen their restrictiveness falling by more than 1% between 2014 and 2016: audio-visual services (-3.4%) and telecom (-1.2%). This is a welcome development, since telecommunications services, in particular, are tied to e-commerce and digital trade – see box 2.1 above.

The analysis of services trade restrictiveness by country reveals significant differences between the nine Asia-Pacific economies, clearly showing a wide divide between developed and developing economies (figure 2.11). The sum of STRI sectorial scores in 2016 allows the identification of three types of countries: those with a cumulative score higher than 3.5 (India, Indonesia, China, the Russian Federation), those between 2 and 3 (Turkey, the Republic of Korea) and those lower than 2 (Australia, New Zealand, Japan).

Whereas it seems that only minor sectorial changes have occurred during the past two years (figure 2.11), several significant changes have occurred at the country level (figure 2.12). Between 2014 and 2016, the cumulative STRI decreased sharply in Japan (-7.0%), the Republic of Korea (-6.3%) and Indonesia (-6.1%). In these three countries, most of the sectors became less restrictive, audio-visual services having an important effect on Indonesian openness

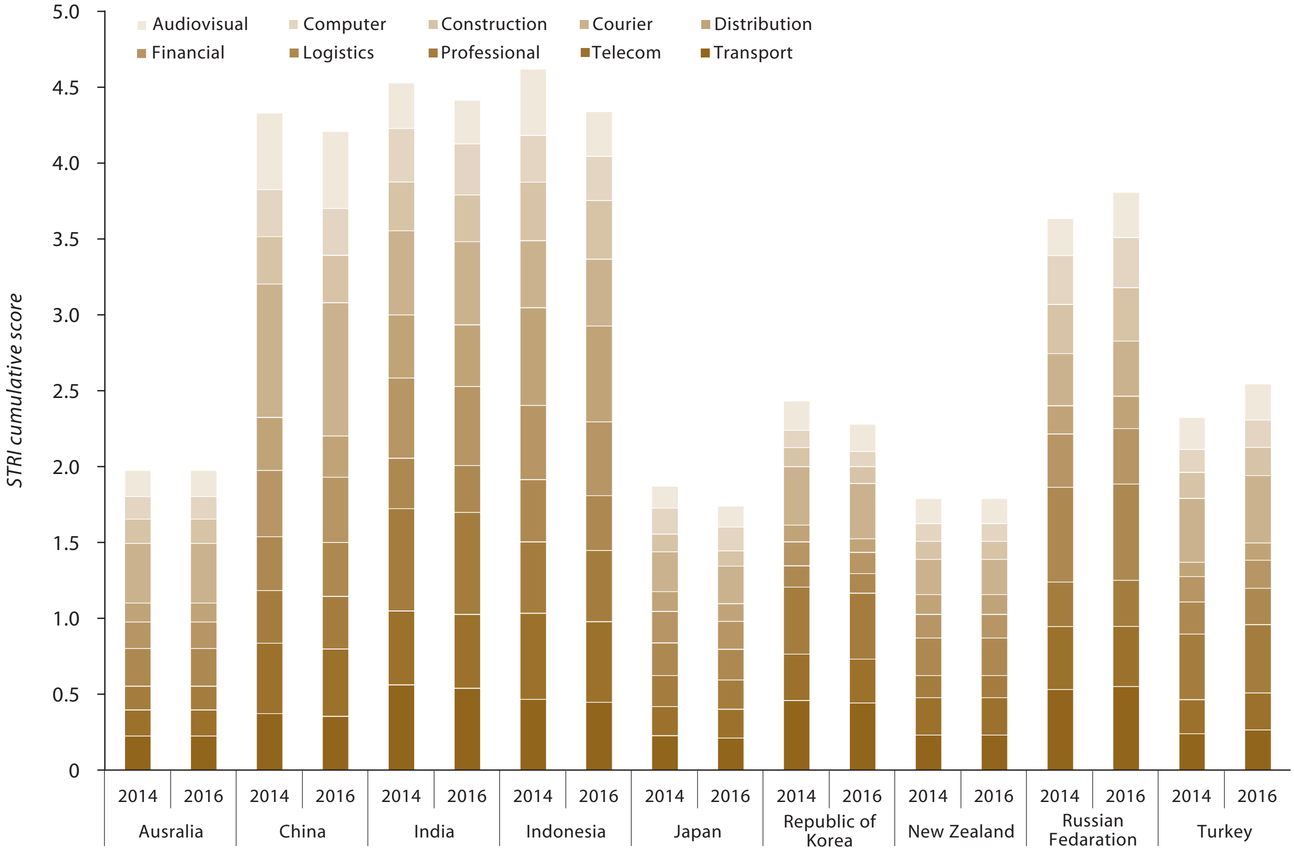
Figure 2.11 **Services Trade Restrictiveness Index score of selected sectors, 2014 and 2016**



Source: ESCAP calculations based on OECD, Services Trade Restrictiveness Index dataset (accessed July 2017).

Figure 2.12

Cumulative Services Trade Restrictiveness Index score of selected Asia-Pacific countries, 2014 and 2016



Source: ESCAP calculations based on Organization for Economic Cooperation and Development, Services Trade Restrictiveness Index dataset (accessed July 2017).

(-32.6%). The STRI also declined in China (-2.8%) and India (-2.5%). The decline in services trade restrictiveness concerned almost every sector in India, whereas in China, the distribution sector (-22.4%) was the main driver of the decrease. Conversely, two countries increased their restrictiveness during the past two years: Turkey (9.5%) and the Russian Federation (4.7%). In Turkey, the increase occurred in 2016 and affected the ten sectors studied, especially distribution (an increase of 19.4% between 2014 and 2016) and computer services (19.0%). In the Russian Federation, nine out of ten sectors became more restrictive, notably audio-visual (20.9%) and distribution (14.7%). However, the country also opened up the telecom services sector during this period. The STRI remained virtually unchanged in Australia and New Zealand between 2014 and 2016.

As trade in services continues to increase in importance, liberalization of service sectors should take a high priority in countries' trade policy. Greater liberalization could facilitate cheaper import of services and would help to increase the competitiveness of domestic service providers. Furthermore, as relative importance of tariffs in bilateral, plurilateral and multilateral trade negotiations gives way to non-tariff measures, so do behind-the-border policies of services sector. Finally, trade restrictiveness in services has the potential to negatively impact export-oriented businesses, and careful cost-benefit analysis should be carried out before implementation of any such policies – see box 2.2. Recognizing the increasing importance of the services sector, the region should continuously monitor its service trade policies and the level of restrictiveness that it entails.

Box 2.2

Services as an input for manufacturing global value chains in Asia and the Pacific

The success of countries participating in global value chains (GVCs) shows that imports can be important for export competitiveness. When firms in a country can outsource and offshore to reduce cost and get better quality inputs, their productivity expands and the firms become more competitive in the world market. The implications are significant. Import barriers can deny firms access to inputs they need to compete internationally. Thus, a consequence of protectionist policies aiming to protect domestic jobs in one industry can destroy export competitiveness and cause job losses in other industries through the input-output relationships with the protected industry.

Like goods, services can be inputs for the value creation of goods and other services industries. Services feature in almost every activity in GVCs. The four major stages of value addition, including development, processing, distribution and sales, require different services with different value-added level. For example, the research and development (R&D) services, design services and engineering services are intermediate inputs for the product development stage of a carmaker company. Logistics, transport and storage services are inputs for facilitating the just-in-time production process. Sale and after sale services such as wholesale and retail, marketing services, repairs and maintenance add intermediate inputs added value to a final product after production process. Telecommunication services, IT services and other business services are inputs to the operation of global businesses.

Are services inputs really a significant part of the production of industrial exports? Measuring trade in value reveals that services contributed nearly one-third of the value of industrial exports from Asia and the Pacific (Anukoonwattaka, Scagliusi and Mikic, 2015). A significant share of services content in industrial exports implies that the import costs raised by service-trade restrictiveness to protect jobs in domestic services may have substantial adverse impacts on the export competitiveness of manufacturing industries in the Asia-Pacific region.

Additionally, services contribute more substantially to the production of high-tech industries, such as chemical products, motor vehicles, computers and electronics. In the case of Asia and the Pacific, services contribute more to the exports of computers and electronics than others. About 36.6% of the export value of the industry come from services inputs. The importance of low cost and high-quality services inputs is then critical for the competitiveness in these industries in which GVCs are predominantly present.

Knowledge of what are the major services inputs to an industry enables governments to anticipate the negative impacts of services-trade restrictiveness on the country's competitiveness in GVCs. Trade and distribution services held a largest share in the value-added inputs of industrial exports from Asia and the Pacific. Wholesale and retail trade contributed 12.4% of the total inputs used in industrial exports (figure). Finance and insurance, R&D and other business services, and transport and storage services altogether account for 12.9% of the region's industrial exports. Transport and storage services, which is an important facilitator of GVCs, are the most import-intensive services inputs of Asia-Pacific industrial exports.

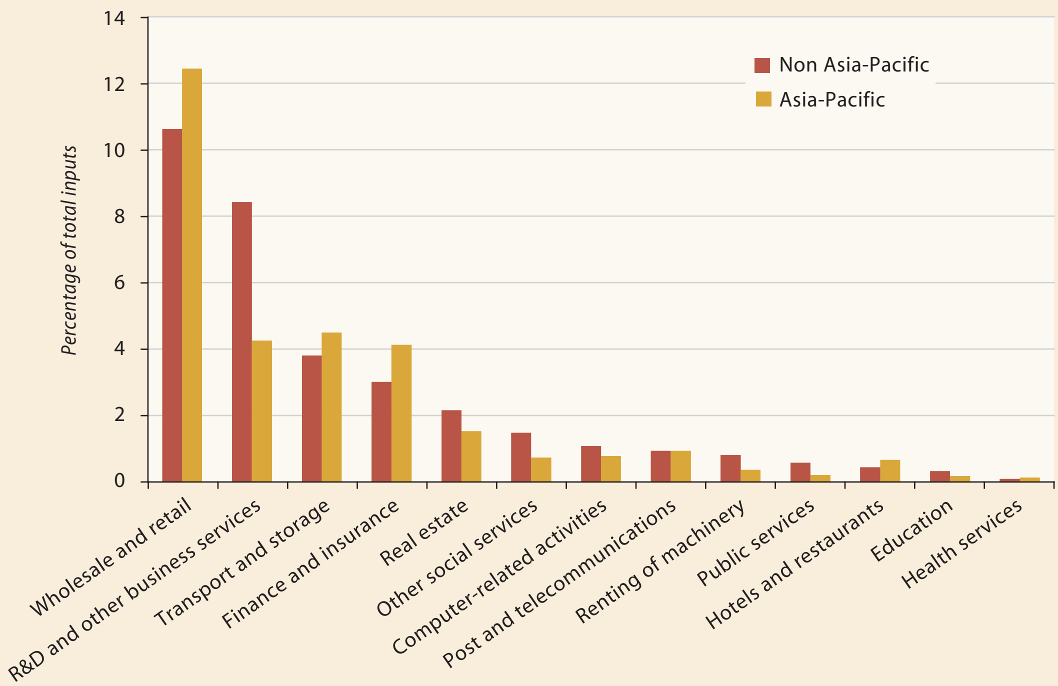
Transport and storage services, which is an important facilitator of GVCs, are the most import-intensive services inputs of Asia-Pacific industrial exports. In industrial exports from Asia-Pacific region, imports account 19% of the inputs provided by transport and storage services. The import intensity of construction, R&D and other business services follow with the import ratio of 17% and 15% respectively.

Industries integrated in GVCs are potentially most affected by barriers to services trade. Trade restrictiveness often means that the protected sector itself becomes less productive and less competitive. In the world that services and non-service sectors in different countries are increasingly interconnected, services trade restrictiveness may have consequences for downstream manufacturing firms, where services are crucial to international competitive performance.

Box 2.2

(continued)

Figure. Service inputs to industrial exports, 2011



Source: ESCAP's calculation based on available data from OECD-WTO TiVA Database (accessed July 2017).

F. CONCLUSION

This chapter explored subregional and sectorial trends in trade in commercial services, including a detailed overview of the tourism sector. Since 2005, growth in all the sectors of trade in commercial services in the Asia-Pacific region outperformed global averages. Furthermore, trade in commercial services in the region has significantly increased in importance relative to merchandise trade since 2005. Consequently, trade in services regaining momentum in late 2016 and early 2017 is a welcome sign for the region.

Overall, the performance of trade in commercial services was mixed among the countries in the region in 2016, resulting in only a modest recovery. A small number of individual economies, notably China, Japan, Singapore, India and the Republic of Korea continued to account for two thirds of commercial services trade. As such, these countries largely drive regional as well as subregional performance. At the same time, services as a share of total exports were relatively more important for small island developing States in the Pacific, comprising more than half of total exports in most countries, underlying the sector's importance for sustainable development in these countries.

The "other commercial services" sector was driving the growth in trade in services in the region, accounting for more than 46% of exports in commercial services in 2016, and experiencing a modest growth of 1.7% in 2016. Transport sector, which contracted by 6.8% in 2016, registered more than 3% growth in the first quarter of 2017, promising a strong recovery in 2017. Tourist arrivals were up 3.3% in 2016 in the region, with most countries seeing arrivals and receipts increasing. The main reasons behind odd declines were largely political in origin.

The impact of digital trade relative to merchandise trade was examined as a case study. Proliferation of Internet access means that some goods that were previously traded as merchandise goods, such as books and music, are now increasing traded as services, highlighting the need for better statistics to analyse international trade patterns.

Finally, trade policies affecting commercial services were discussed using OECD's Services Trade Restrictiveness Index. The index showed a gradual fall in barriers to trade in services over the last three years in the region for most countries covered. Liberalization of service sectors could help in increasing the competitiveness of domestic service providers as well as export oriented manufacturers due to the interconnectedness of value chains.

Endnotes

1 Goods-related services comprise manufacturing services on physical inputs owned by others and maintenance and repair services, not elsewhere specified. See also endnotes 2 and 4.

2 One reason is that many services are embedded in goods, see Lanz and Maurer (2015) for details.

3 Countries with no reported data on trade in commercial services are American Samoa, Cook Islands, DPR Korea, French Polynesia, Guam, Marshall Islands, Northern Mariana Islands, Niue, Palau and Turkmenistan. Data for Uzbekistan is not available except at the aggregate level.

4 Goods-related services include manufacturing services using physical inputs owned by others, and maintenance and repair services that are not included elsewhere. According to WTO, a number of economies are currently in the process of implementing international recommendations in the compilation of goods-related services, and statistics shown under this category are preliminary estimates. They should, therefore, be considered with caution.

5 Other commercial services comprise the following subcategories: construction; insurance and pension services; financial services, charges for the use of intellectual property, n.i.e.; telecommunications; computer and information services; personal, cultural and recreational services; and other business services.

6 Data are not available for Bhutan, Brunei Darussalam, Islamic Republic of Iran, Kiribati, Maldives, Federated States of Micronesia, Myanmar, Tonga and Tuvalu for every sector. Data are not available for Nepal and Samoa for financial services subsector; for Armenia, the Lao People's Democratic Republic, Nepal, Papua New Guinea, Sri Lanka, Tajikistan, Turkey, Viet Nam and Macao, China for charges for the use of intellectual property, n.i.e. subsector; for Nepal, Viet Nam and Macao, China for construction subsector; for Fiji and Tajikistan for insurance and pension services subsector; for the Lao People's Democratic Republic, Nepal, Sri Lanka, Viet Nam and Macao, China for personal, cultural and recreational services subsector; for the Lao People's Democratic Republic and Viet Nam for other business services subsector.

7 Countries with no data reports of international tourist arrivals are: Afghanistan, Bangladesh, Islamic Republic of Iran, Kazakhstan, Kirgizstan, Democratic People's Republic of Korea, Marshall Islands, Federated States of Micronesia, Niue, Pakistan, Turkmenistan, Tuvalu and Uzbekistan.

8 While quantifying trade in services is a difficult task, measuring its restrictiveness is even more challenging (Deardorff and Stern, 2008). For now, internationally comparable and annually updated data on policies that impact trade in services is virtually non-existent. In 2012, the World Bank released a Services Trade Restrictions Database of 103 countries, but, this data has not been updated since. Since 2014, OECD has started an initiative to annually update a service trade restrictiveness index (STRI) for a range of sectors on selected countries (including OECD and a few non-OECD members). The database has now been updated until 2016 for ten sectors – audio-visual services, computer services, construction, courier, distribution, financial services, logistics services, professional services, telecommunications and transport – and 44 countries, including 9 Asia-Pacific economies: Australia, China, the Republic of Korea, India, Indonesia, Japan, New Zealand, the Russian Federation and Turkey. The Services Trade Restrictiveness Index is updated for 22 sectors. In this chapter, professional services refer to the simple average of legal, accounting, engineering and architecture; audio-visual services refer to the simple average of broadcasting, motion pictures and sound recording; transport services refer to the simple average of air, maritime, road freight and rail freight; financial services refer to commercial banking and insurance; and logistics services refer to cargo-handling storage and warehouse, freight forwarding and custom brokerage.

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