

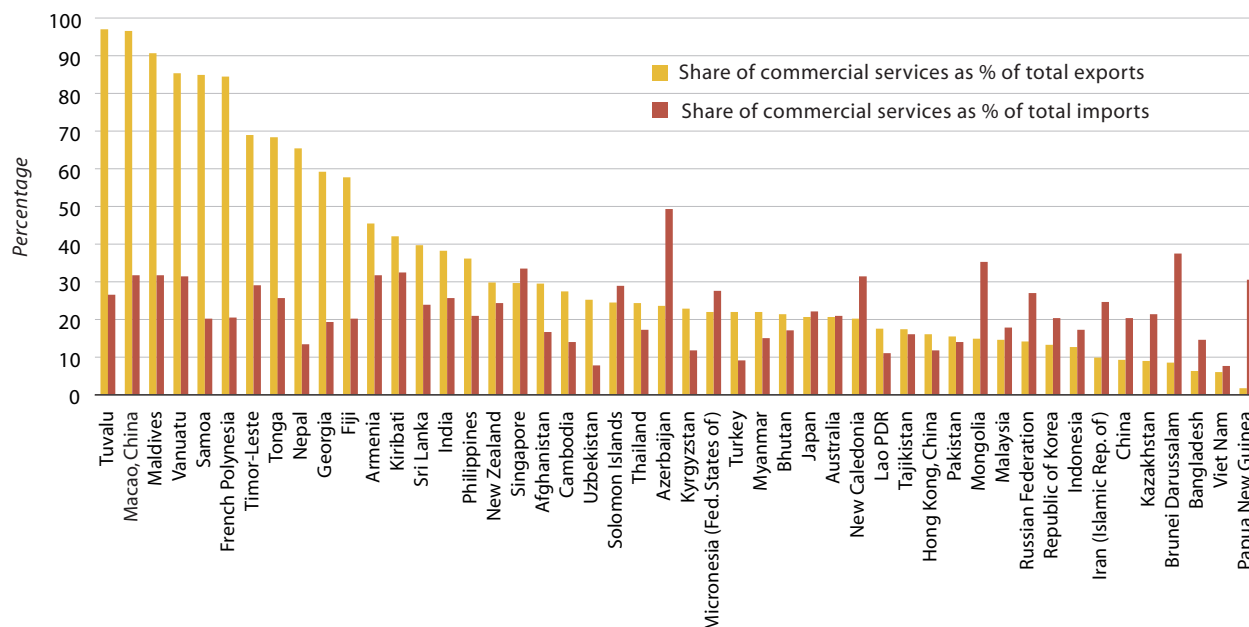


Commercial services trade recovery at risk

This chapter provides an update on trends and developments in commercial services trade in Asia and the Pacific. Commercial services have been an increasingly important trade sector globally and in Asia and the Pacific. Services trade now account for a significant share of total trade in many economies in the region¹ (figure 2.1). Small island economies often depend heavily on exports of commercial services (e.g. travel), while some landlocked developing countries' imports comprise 40% to 50% of services imports (e.g. transport services).



Figure 2.1 Exports and imports of commercial services as percentages of total exports and imports, by Asia-Pacific economy, 2017



Source: ESCAP calculations based on the WTO International Trade Statistics Database (accessed June 2018).

A. REGIONAL PERFORMANCE

Commercial services trade has picked up strongly since 2017, but growth moderation took place in the second half of 2018. After two years of sluggish performance in 2015 and 2016, commercial services trade, both in the Asia-Pacific region and globally, has returned to its post-crisis growth level. Driven mainly by the recovery of global demand, exports and imports of commercial services in Asia and the Pacific grew by 7.9% and 6.3%, respectively in 2017.² However, services trade growth was still below the average growth rate before the 2009 crisis (figure 2.2).

The half-year performance of commercial services trade in 2018 pointed to an upward adjustment, but growth softened when entered the second part of the year. During the first six months of 2018, exports by important exporting economies grew at a higher rate than the previous year's average, especially China and India (figure 2.3). Imports followed the same trend as exports. When entering the second half of 2018, services trade in Japan and Australia tended to stagnate, while trade in China, India and several

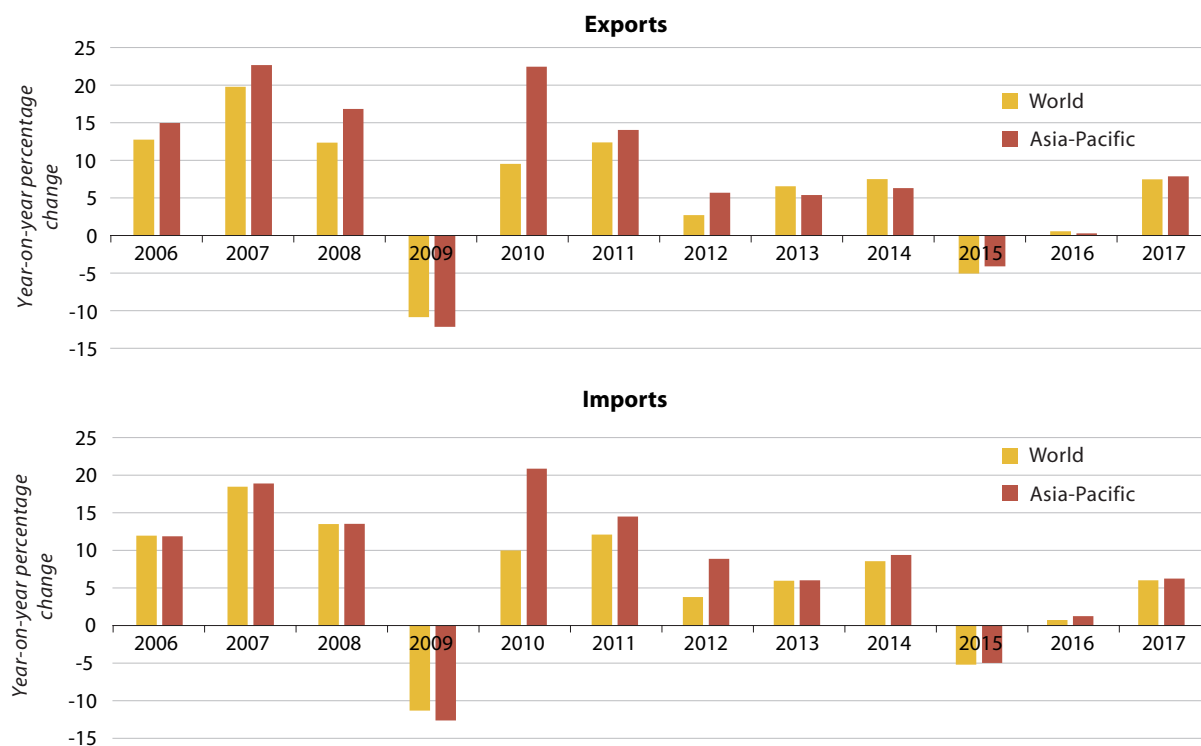
developing Asia-Pacific economies grew moderately. Most factors contributing to the slowdown of merchandise trade also affect trade in services. Higher costs of fuel passed on to consumers can reduce demand for transport and travel services. In addition, economic slowdown caused by concerns over a trade war may reduce demand for goods and services (chapter 4 discusses the issues in detail).

“The Asia-Pacific region accounted for 28% of world exports and a third of world imports in commercial services in 2017.”

The Asia-Pacific region is playing an increasingly important role in global services trade. In 2017, the region represented 28% of global exports and a third of global imports. It was the only region that significantly increased its share in global services trade from 2005 to 2017, and it remained the second-largest exporting region after the European Union. However, the region remains a net importer of services. The services trade deficit of the region in 2017 (7%) was almost the same level as that in 2005 (9%).

Figure 2.2

Growth in commercial services trade in Asia-Pacific economies and globally

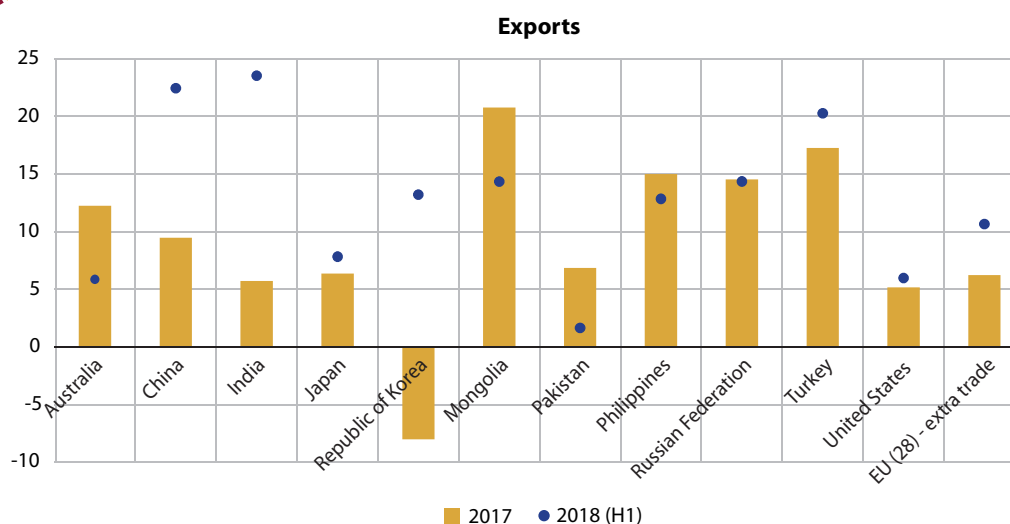


Source: ESCAP calculations based on the WTO International Trade Statistics Database (accessed June 2018).

Figure 2.3

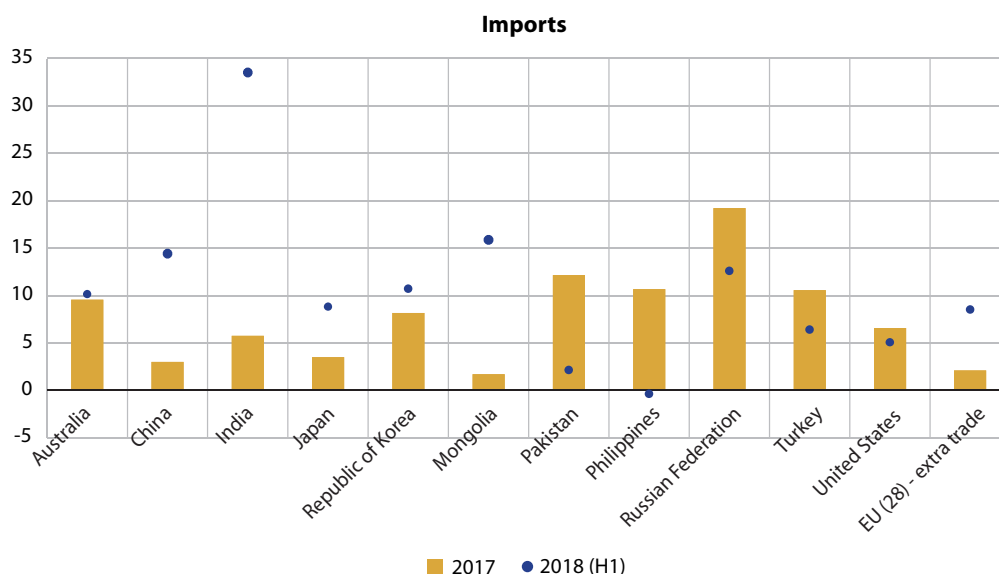
Year-on-year growth of commercial services trade in selected economies, 2017-2018

(Percentage)





(continued)



Source: ESCAP calculations based on the WTO Short-term Trade Statistics Database (accessed July 2018).

Note: Data are available only for selected countries in Asia and the Pacific. H1 refers to the first half of 2018.

B. SECTORAL PERFORMANCE

According to the *Balance of Payments and International Investment Position Manual*, sixth edition (BPM6) of the International Monetary Fund (2009), commercial services are divided into four broad sectors: (a) transport; (b) travel; (c) goods-related services;³ and (d) other commercial services. Other commercial services can be further disaggregated into seven subcategories: (a) telecommunications, computer and information services; (b) financial services; (c) charges for intellectual property; (d) construction; (e) insurance and pension services; (f) personal, cultural and recreational services; and (g) other business services. The “other business services” subcategory is usually the largest subcategory, representing almost half of the trade in this group.

“Travel and transport services represented half of the Asia-Pacific region trade in commercial services.”

In Asia and the Pacific, other commercial services have formed the largest component, accounting for

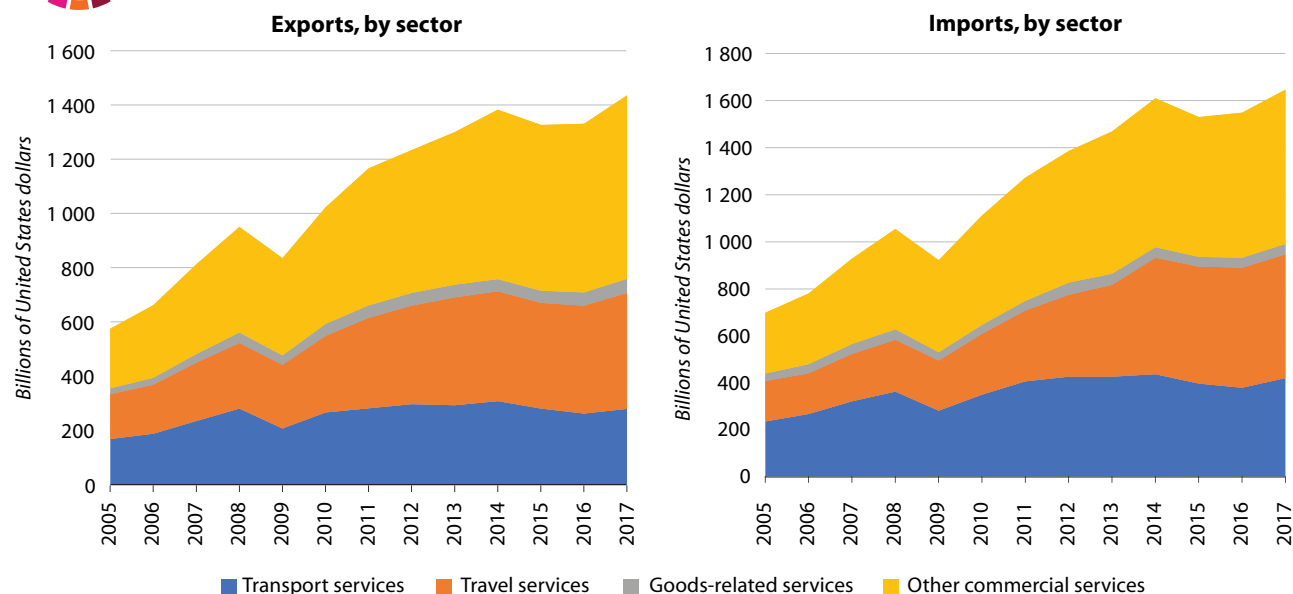
about half of total exports and 40% of imports in 2017 (figure 2.4). Apart from some traditional services, such as construction, other commercial services also cover a variety of modern services for which trade can take place through the use of information and communications technology. Examples of modern services include business, computers and information, finance and charges for intellectual property. Travel services represented about a third of total trade while transport services accounted around 20%-25%. In contrast, goods-related services only accounted for a marginal share of about 3%-4% (figure 2.4).⁴

Among the four categories, other commercial and travel services recorded a robust export performance during 2005-2017, growing at about 8%-10% per year (figure 2.5). In 2017 alone, other commercial services sector recorded the highest growth rate of 9%, followed by travel services at about 8%. Exports of transport services gained momentum in 2017 and recorded a growth rate of 6.5%, faster than its average growth rate of 4.5% during 2005-2017.

For imports, on the other hand, the two largest services categories grew modestly in 2017 compared



Commercial services trade in Asia and the Pacific, by sector, 2005-2017



Source: ESCAP calculations based on the WTO International Trade Statistics Database (accessed June 2018).

with their long-term average growth rate. In particular, imports of travel services grew by only 3% in 2017. In the Asia-Pacific region, China has been the most important importer, accounting for around half of the total travel imports. The demand slowdown in China in 2017 is a significant factor explaining the slowdown in travel imports. Similarly, imports of other commercial services grew by 6%, less than the long-term average of 8%. This was also due to the demand slowdown of large economies in the region, such as Japan, the Republic of Korea and Singapore. In contrast, transport services was the most dynamic import sector in 2017 with a growth rate of 10%, mainly the result of rising demand for shipping and transportation following the expansion of trade in goods.

“Trade recovery in 2017 was uneven across services subsectors.”

From 2005 to 2017, other commercial services recorded robust trade performance on average. Before the slowdown in the past two years, trade thrived across all subsectors of other commercial services. The most dynamic subsector during 2005 to 2017 was telecommunication services, which recorded an export growth rate of 12% per year.

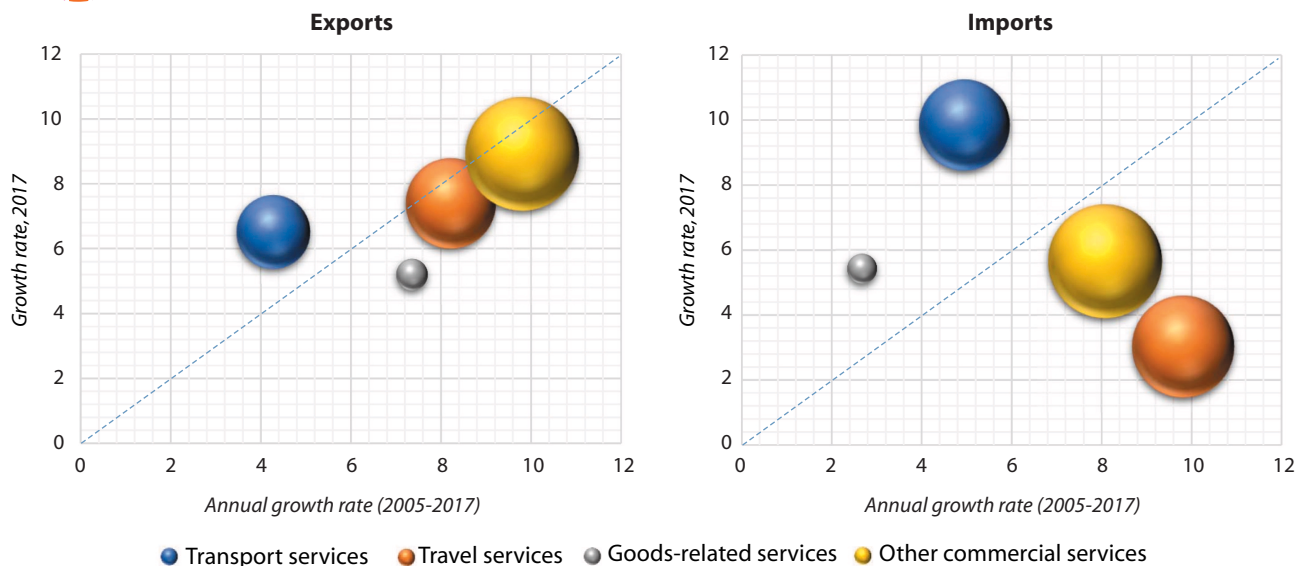
Imports showed the same trend, with telecommunication services as the fastest growing subsector during the 2005-2017 period. In contrast, trade in other business services, the biggest subsector of the group, stagnated. This indicates that the demand recovery in 2017 was concentrated in a few sectors, and that it has not yet trickled down to the recovery of business activities.

Consequently, the recovery in 2017 was uneven across the subsectors of other commercial services. Construction services and services-related to charges for intellectual property saw a strong recovery with double-digit growth rates in 2017, while other subsectors grew modestly (figure 2.6). A major factor in the outstanding performance of construction services was the implementation of infrastructure projects in many countries of the Asia-Pacific region, including projects related to China’s Belt and Road Initiative. The rapid expansion of charges for the use of intellectual property is tending to follow the global trend of technology-driven trade and economic growth. In Asia and the Pacific, developing countries – and particularly China, have been investing in technology and innovation with a long-term development objective of shifting from manufacturing-led to innovation-led export growth.

Figure 2.5

Growth of trade in commercial services, by sector

(Percentage per annum)



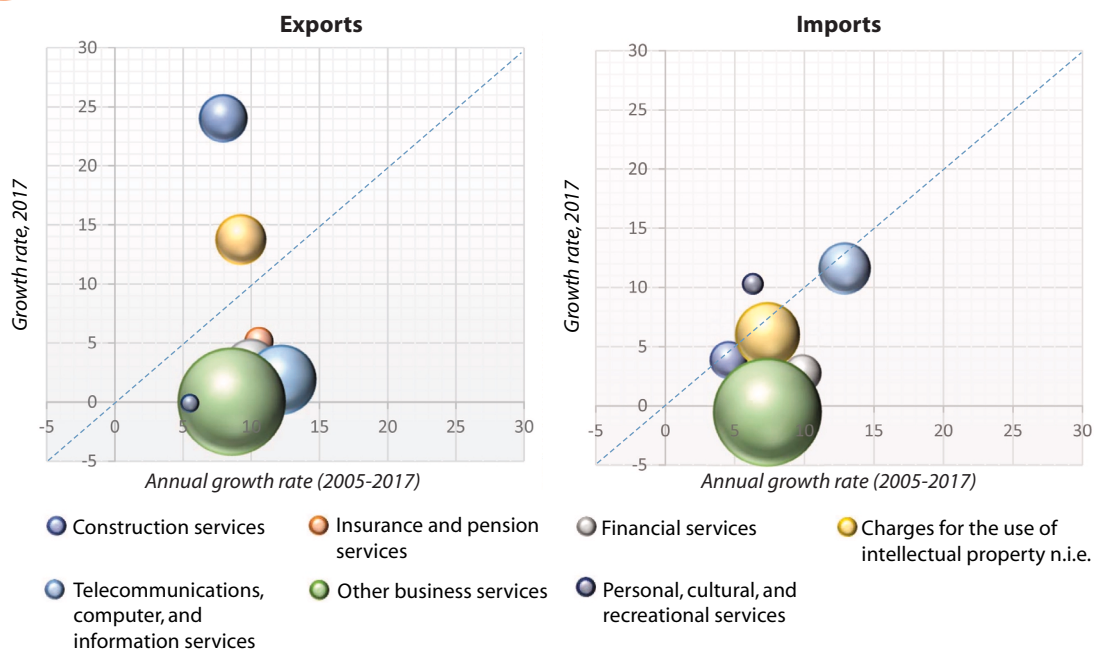
Source: ESCAP calculations based on available data from the WTO International Trade Statistics Database (accessed June 2018).

Note: The bubble size represents the share of each category in the Asia-Pacific region's total exports/imports in 2017.

Figure 2.6

Growth of trade in other commercial services, by subsector

(Percentage per annum)



Source: ESCAP calculations based on available data from the WTO International Trade Statistics Database (accessed June 2018).

Note: The bubble size represents the share of each subcategory in the Asia-Pacific region's total exports/imports in 2017.

C. SUBREGIONAL AND ECONOMY-LEVEL PERFORMANCE

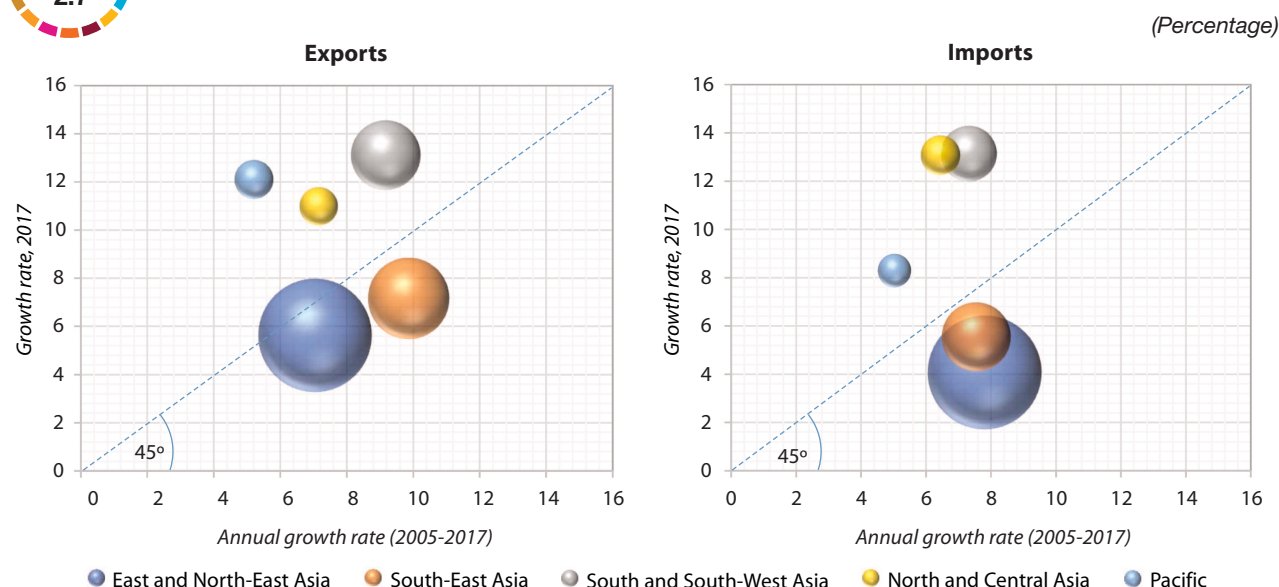
“Trade in services was concentrated within East and North-East Asia, which represented half of the region’s services trade.”

Similar to merchandise trade, the East and North-East Asia subregion dominates the Asia-Pacific

region’s services trade. In 2017, the subregion accounted for 47% and 55% of total exports and imports, respectively. The South-East Asia, and South and South-West Asia subregions followed in the second and the third place, respectively, in terms of their share in commercial services trade in Asia and the Pacific (figure 2.7). Together, they represented about 40% of the Asia-Pacific region’s total trade in services. Meanwhile, North and Central Asia, and the Pacific shared the remainder of trade.



Figure 2.7 Growth of commercial services trade, by subregion, 2005-2017



Source: ESCAP calculations based on available data from the WTO International Trade Statistics Database (accessed June 2018).

Note: The bubble size represents the share of each subregion in the Asia-Pacific region’s total exports/imports in 2017.

“Trade in South and South-West Asia and North and Central Asia was the most dynamic but was highly concentrated in the largest economy of each subregion.”

Trade in each subregion was concentrated in several specific countries. In particular, commercial services trade in North and Central Asia, South and South-West Asia, and the Pacific subregions was dominated by the largest economy of each subregion, i.e. Australia (75%),⁵ the Russian Federation (78%), and India (71%). Concurrently, the high concentration of trade in services was less pronounced in East and North-East Asia as well as in South-East Asia, where there were several important trading economies in

each subregion. However, there were also dominant economies: China and Singapore. In 2017, China accounted for 33% and 51% of exports and imports, respectively, in East and North-East Asia. Meanwhile, Singapore represented about 47% of the commercial services trade in South-East Asia.

In 2017, the trade recovery of smaller trading subregions outperformed the large ones. North and Central Asia, the Pacific, and South and South-West Asia experienced the most dynamic expansion in trade in services, with double-digit growth rates. The strong growth of the Pacific subregion was especially evident in its exports; it is positioned above the 45-degree line, indicating that there was a bigger improvement in 2017 compared with the past decade.

“South-East Asia benefited from China’s increasing demand.”

Figure 2.7 also shows that although all Asia-Pacific subregions exhibited a robust performance in trade in services from 2005 to 2017, trade in South-East Asia was exceptionally good as it exceeded the other subregions with a growth rate of 10% per year. On the import side, most subregional trade grew at about 7% per year during the same period, except for Pacific trade which grew slightly slower at 6% per year.

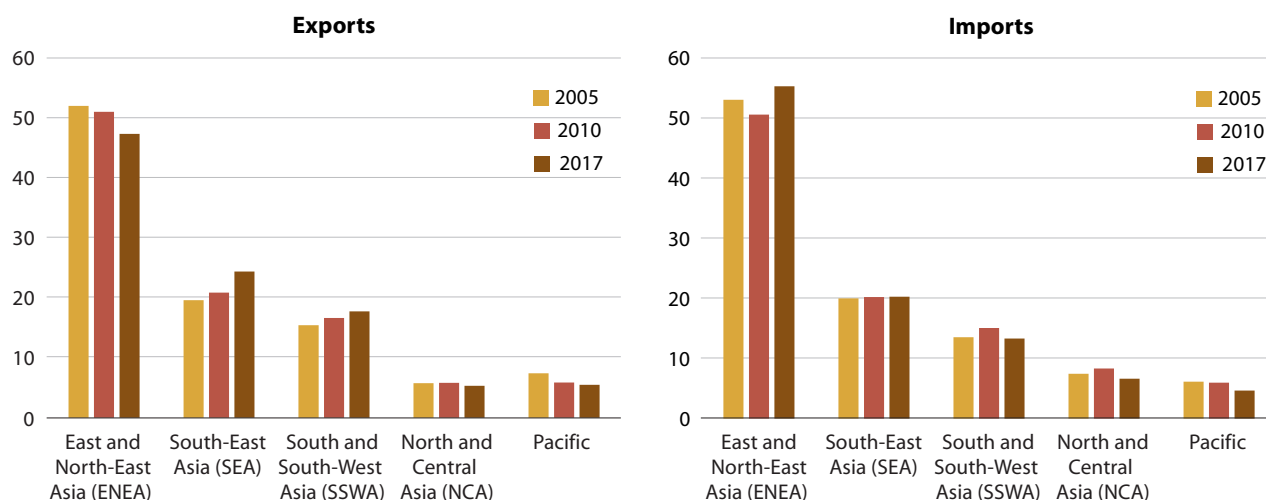
Since the 2008-2009 global economic crisis, there have been notable changes in the distribution of

commercial services trade in the region. A substantial increase was recorded in the export share of South-East Asia, from 20% in 2005 to 24% in 2017 (figure 2.8). The increased share of South-East Asia was mainly driven by rising import demand from East and North-East Asia, particularly China which generated considerable intraregional export opportunities for South-East Asian economies such as Singapore and Thailand. Another subregion whose export share has increased over the past decade was South and South-West Asia. Led by computer and information technology services exports from India, the subregion gradually increased its representation in the region’s total exports, which expanded from 15% in 2005 to 17% in 2017.



Share of commercial services trade, by subregion, 2005-2017

(Percentage)



Source: ESCAP calculations based on the WTO International Trade Statistics Database (accessed June 2018).

“Economy-level services-trade performance generally improved in 2017, resulting in a robust recovery in the region.”

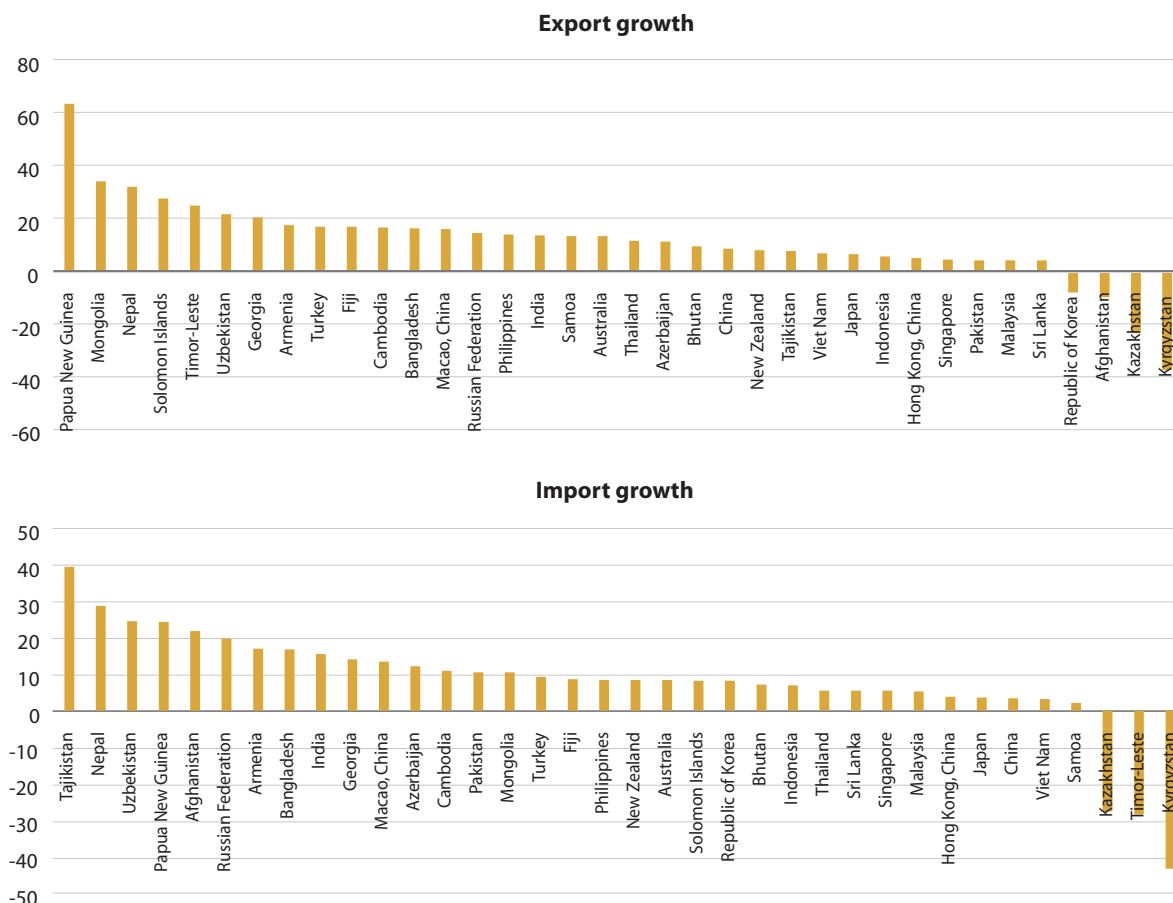
In 2017, most Asia-Pacific economies recorded a service-trade expansion, thanks to the improvement in global and intraregional demand. Twenty economies in the region achieved double-digit export growth rates in 2017; many were smaller economies such as Papua New Guinea, Mongolia, Nepal,

Solomon Islands, Timor-Leste and Uzbekistan, whose exports grew by more than 20% from the previous year (figure 2.9). A few economies experienced a decline in trade in services, including Kazakhstan and Kyrgyzstan. Afghanistan and the Republic of Korea also underwent export contraction in the same year, but their imports grew strongly. Overall, the skewness of trade performance toward positive development led to robust regional growth of commercial services trade in 2017.



Growth of services exports and imports, by Asia-Pacific economy, 2017

(Percentage)



Source: ESCAP calculations based on the WTO International Trade Statistics Database (accessed June 2018).

Note: Data in 2017 are not available for Brunei Darussalam, Islamic Republic of Iran, Kiribati, Lao People's Democratic Republic, Maldives, Micronesia, Myanmar, New Caledonia, French Polynesia, Tonga, Tuvalu and Vanuatu.

“More than 80% of commercial services trade in the region was concentrated in just 10 economies in 2017.”

“A remarkable trend in Asia-Pacific services trade during the past decade has been the rising roles of China and India.”

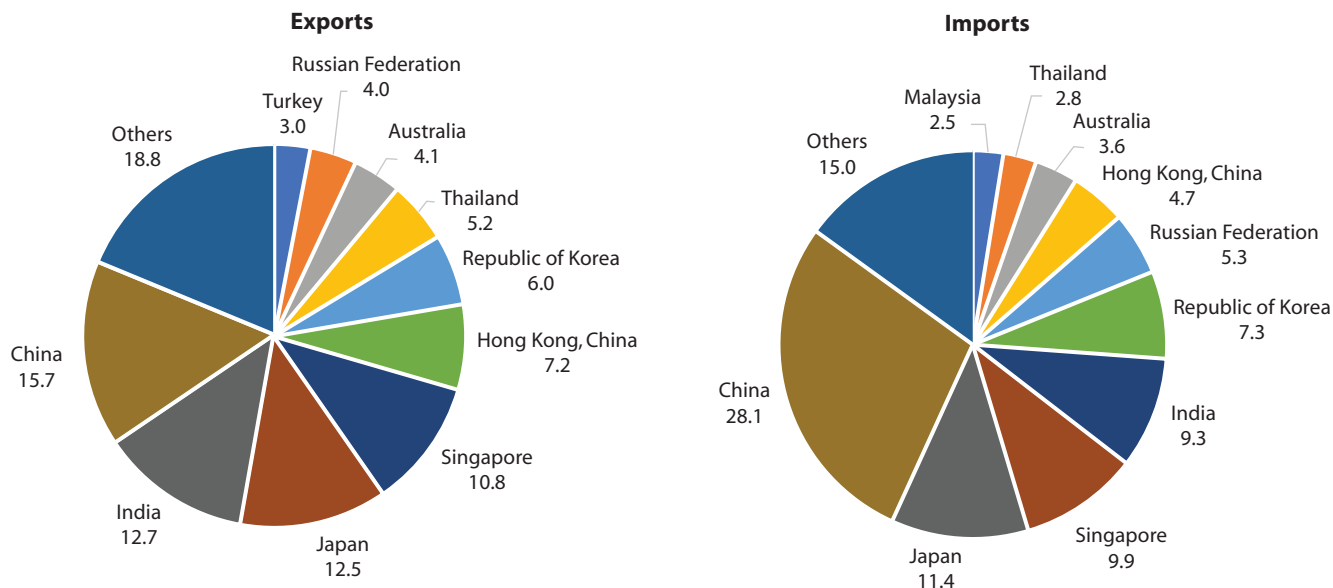
In 2017, commercial services trade in the region was concentrated in relatively larger economies. The top 10 trading economies represented about 85% of imports and more than 80% of exports in 2017. In particular, China, Japan, India and Singapore collectively represented more than half of the region's total exports of commercial services (figure 2.10). In terms of imports, China alone accounted for about 30% of the region's total imports.

China is the largest services exporter in Asia and the Pacific, accounting for 15.7% of the region's services exports in 2017. However, the most dynamic exporter in the region from 2005 to 2017 was India. Although remaining the second-largest exporter after China, India recorded a stronger export growth performance with its share in the region's trade rising by 4 percentage points during that period. On the import side, China has become the largest service



Shares of Asia-Pacific economies in the region's commercial services trade, 2017

(Percentage)



Source: ESCAP calculations based on the WTO International Trade Statistics Database (accessed June 2018).

Note: "Others" comprises an aggregate of the remaining Asia-Pacific economies that are not in the top 10 largest exporters/importers in the Asia-Pacific region.

importer in the region and the second-largest importer in the world. The rapid increase in demand by China raised its share of the region's imports by more than 16 percentage points during 2005 to 2017 (figure 2.11). The rising shares of China and India tend to diminish the importance of more advanced economies. The economy that experienced the largest decline was Japan, whose shares in services trade from the region decreased by 5-8 percentage points during 2005-2017.

However, the relatively advanced economies still play a superior role in the region's exports of high-skill and high-tech services, including charges for the use of intellectual property and financial services. Being a world leader in technology and innovation explains why Japan was a dominant exporter of charges for the use of intellectual property (table 2.1). Similarly, the leading role of Singapore and Hong Kong, China in financial services reflects the strong position of the two economies as the hub of global and regional financial services.

China, as a global assembly hub for multinational manufacturing companies, enjoys a strong advantage in goods-related services, which include manufacturing

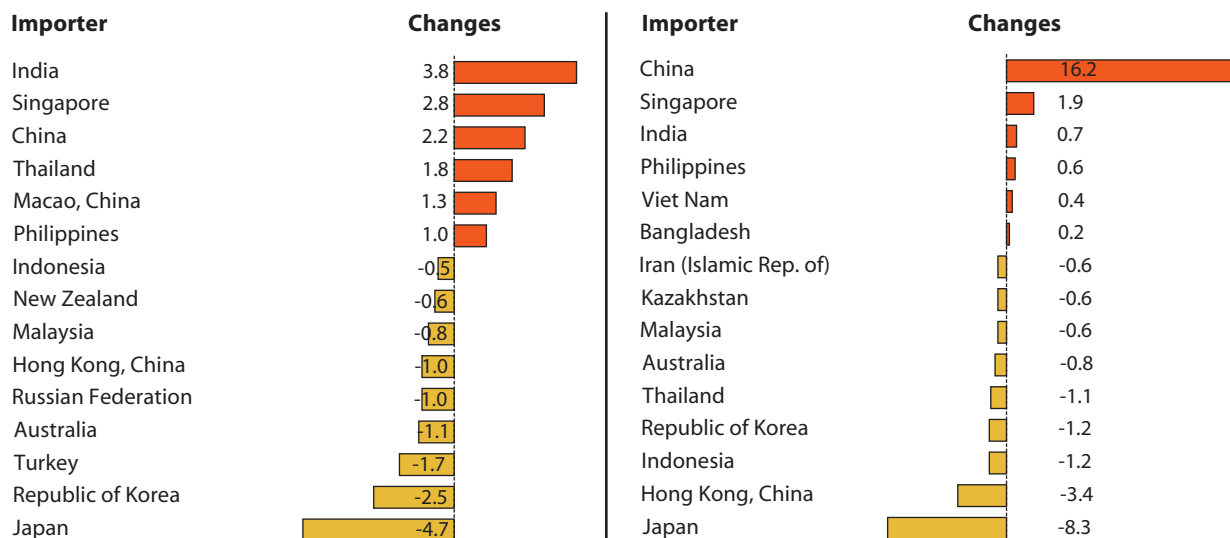
services, and maintenance and repair services. The country accounted for about half of the region's exports of goods-related services. China also took a leading role in the region's exports of construction, insurance, other business services and travel services. At the same time, India played a particularly prominent role in exporting telecommunications, computer and information services by contributing nearly half of the region's exports.

Notably, export opportunities in travel services, reflecting international tourism demand, were distributed more evenly than in other services. The region's five largest exporters of travel services presented about 48% of total travel service exports in the region, while that of other business services went beyond 60%. Studying the effect of trade on travel services usually shows a mixed picture. On the one hand, travel services potentially create significant amounts of foreign exchange income and jobs. On the other hand, trade in this sector could have adverse environmental impacts if not appropriately managed. Therefore, sustainable tourism has received attention in the 2030 Agenda for Sustainable Development (see box).



Figure 2.11 Changes in the distribution of commercial services trade in Asia and the Pacific from 2005 to 2017

(Changes in share in percentage points)



Source: ESCAP calculations based on the WTO International Trade Statistics Database (accessed June 2018).



Table 2.1 Top five exporters in the Asia-Pacific region, by services subsector, 2017

(Percentage of total Asia-Pacific exports)

Services	Top five exporters				
Goods-related services	China	Singapore	Taiwan Province of China	Russian Federation	Malaysia
Share	46.7	15.0	7.6	6.5	5.6
Transport services	Singapore	China	Japan	Hong Kong, China	Republic of Korea
Share	18.1	13.1	12.0	10.7	8.7
Travel services	Thailand	China	Australia	Macao, China	Japan
Share	13.5	9.1	8.8	8.4	8.0
Charges for the use of intellectual property	Japan	Republic of Korea	Singapore	China	Taiwan Province of China
Share	64.8	11.1	9.3	7.4	2.6
Construction services	China	Japan	Republic of Korea	Russian Federation	India
Share	41.0	17.9	16.1	8.2	3.9
Financial services	Hong Kong, China	Singapore	Japan	India	China
Share	27.6	27.5	14.4	6.2	5.1
Insurance services	Singapore	China	India	Japan	Hong Kong, China
Share	32.5	19.0	11.6	9.1	7.0
Other business services	China	India	Japan	Singapore	Republic of Korea
Share	21.0	20.1	13.8	13.0	7.2
Personal, cultural, and recreational services	Turkey	India	Japan	Republic of Korea	China
Share	16.7	16.3	11.5	10.2	8.5
Telecommunications, computer and information	India	China	Singapore	Philippines	Russian Federation
Share	44.7	22.6	5.1	4.7	3.9

Source: ESCAP calculations based on the WTO International Trade Statistics Database (accessed June 2018).



International tourism: Trends and implications for sustainable development

Tourism is an important economic sector in the Asia-Pacific region. International tourism contributes about 30% of total commercial services exports in the region. Tourism exports has been one of the most resilient and fastest growing components of trade in the region despite the effects of the global economic crisis in 2009.^a After the crisis, intraregional demand from developing economies in the region was robust, particularly in the case of China.^b According to the World Travel and Tourism Council (WTTC), travel and tourism accounted directly and indirectly for about 9.8% of GDP and 9.3% of employment in the Asia-Pacific region in 2017.^c The region attracted more than 320 million international tourist arrivals, generating nearly \$390 billion in tourism exports in 2017 (table). By 2028, tourist arrivals are expected to have nearly doubled to 562 million tourist arrivals per year (WTTC, 2018).

Table. Global tourism exports by region, 2015-2017

	Arrivals (billions of people)			Market share (%)		Receipts (billions of United States dollars)			Market share (%)	
	2015	2016	2017	2016	2017	2015	2016	2017	2016	2017
Europe	0.6	0.6	0.7	50.0	50.7	449.6	461.7	511.6	37.3	38.4
Asia and the Pacific	0.3	0.3	0.3	24.7	24.4	349.4	370.8	389.5	29.9	29.2
Americas	0.2	0.2	0.2	16.2	15.7	305.8	313.7	325.7	25.3	24.5
Middle East	0.1	0.1	0.1	4.5	4.4	58.2	59.0	67.8	4.8	5.1
Africa	0.1	0.1	0.1	4.7	4.8	32.8	33.4	37.8	2.7	2.8
World	1.2	1.2	1.3	100	100	1 196	1 239	1 332	100	100

Source: ESCAP calculations using United Nations World Tourism Organization data (accessed July 2018).

The Asia-Pacific region, which is an important exporter of international tourism, captured 25% of global tourist arrivals in 2017. Although the region's export share was still less than the share of Europe, the gap was narrowing due to the dynamic performance of the Asia-Pacific tourism industry following the 2009 global economic crisis. However, most of the exports are concentrated in large economies. In 2017, only seven economies in the region had a share greater than 5% of the entire region's exports in tourism. In contrast, the export performance of 30 economies, which accounted for 0.5% of the entire region's exports, were overshadowed by the export profiles of those seven large economies. This gap can be attributed to the lack of travel and tourism-related infrastructure between advanced and less developed economies in the Asia-Pacific region (World Economic Forum, 2017).

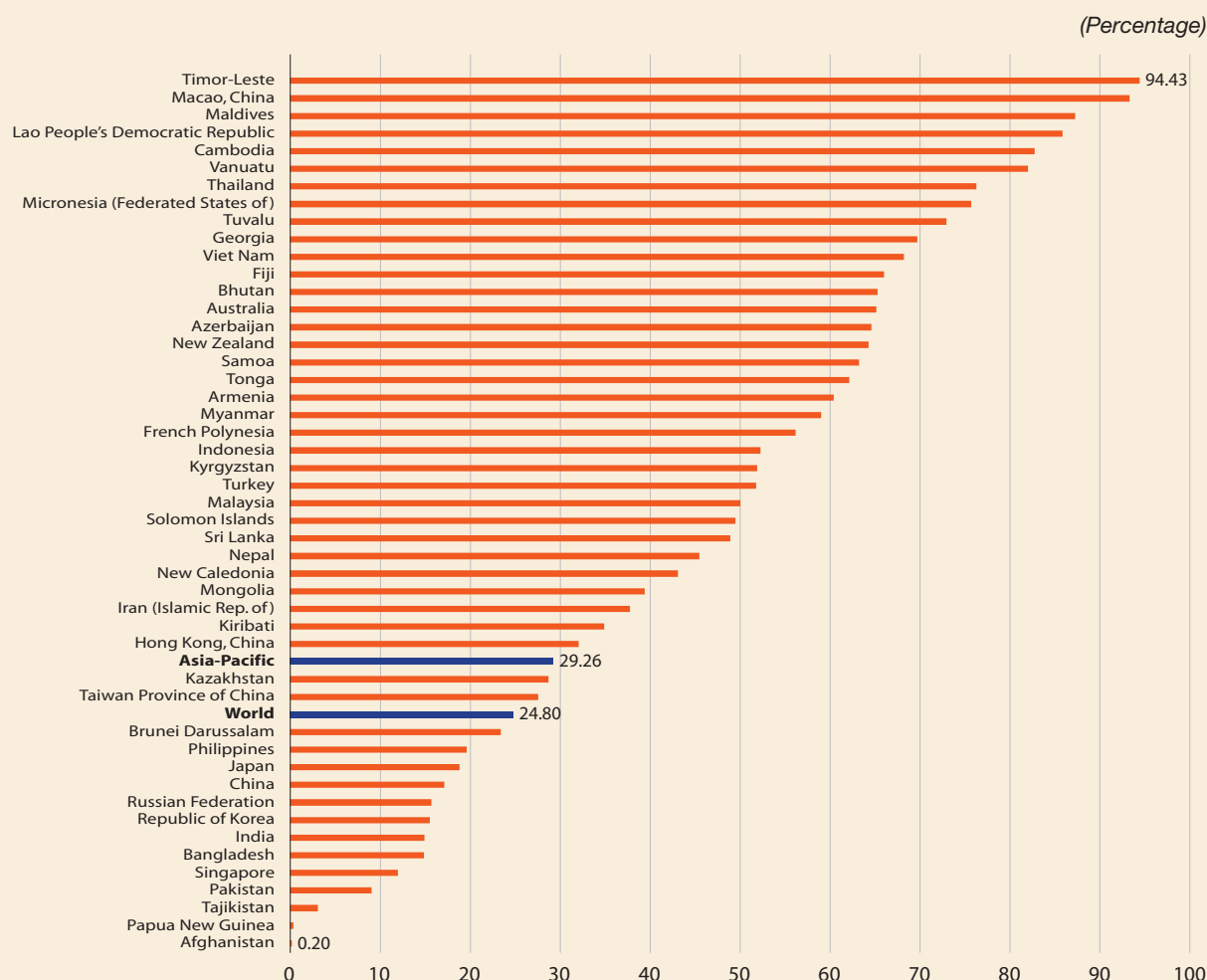
Although their market share is negligible, small developing economies are highly reliant on tourism as a primary source of income. Tourism accounted for more than 50% of commercial services exports in 26 economies of the Asia-Pacific region (figure A). Exports of tourism services accounted for more than 80% of total commercial exports in Cambodia, Lao People's Democratic Republic, Maldives, Timor-Leste and Macao, China.

The abundance of cultural and natural attractions as well as relatively lower costs gives the Asia-Pacific region high tourism export potential. Therefore, in order to maintain this potential, the region should assess the economic, environmental and social impacts of its tourism sector and should further develop the sector in a sustainable manner to ensure a steady inflow of tourists in the future.



(continued)

Figure A. Share of tourism in total exports of commercial services in the Asia-Pacific region, 2017

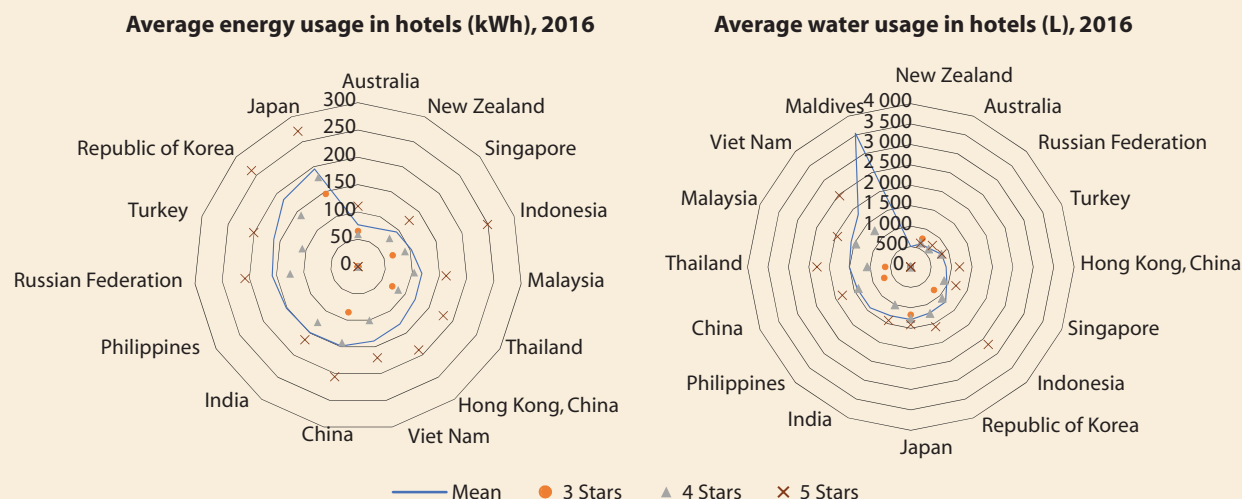


Source: ESCAP calculations using trade in commercial services data from the WTO Statistics Database (accessed July 2018).

While rapid growth in the number of incoming tourists stimulates an economy via the provision of jobs and the inflow of revenue, the failure to adopt sustainable tourism practices could potentially have long-term adverse impacts on the path towards sustainable development of an economy. For example, the tourism sector accounted for 8% of greenhouse gas emissions during 2009-2013. The rapid expansion of international tourism has led to increasing investment in large hotel lodgings in Asia-Pacific economies. While such investment increases export competitiveness in luxury tourism in the region, ESCAP research has shown that energy and water usage is generally higher in 5-star hotels than in less luxurious hotels in Asia-Pacific economies, regardless of the level of economic development (figure B). These trends indicate that to ensure sustainable and responsible tourism a new model of monitoring and managing tourism services is needed in Asia and the Pacific.



(continued)

Figure B. Energy and water usage per occupied room in Asia-Pacific hotels, 2016

Source: ESCAP calculations using the Greenview Cornell Hotel Sustainability Benchmarking Index, 2018 (accessed September 2018)

^a On average, global tourism exports grew by 4% per year from 2009 to 2016. During the economic crisis year, global tourism exports decreased by 5% in real terms, which was a moderate decline compared to the 11% fall in total exports.

^b China's international tourism imports grew almost 8%, making the country the largest tourism importer, accounting for about 21% of global tourism imports. Driven by the rapidly growing demand for outbound tourism from China, the Asia-Pacific region has become the world's largest importer of international tourism. The region's share in global imports of travel and tourism services was nearly 41% during the same period. Tourism imports by China alone accounted more than 50% of the region's total tourism imports.

^c The numbers include indirect contributions by the tourism sector. Direct contribution includes the impacts from spending on tourism-related sectors such as payments by residents and non-residents for hotels, air travel, travel agents and recreational services that deal directly with tourism. The tourism sector contributes indirectly to an economy through spending in tourism-related sectors, purchases of inputs such as food and beverages, and government spending on the promotion of tourism-related sectors, tourism marketing, tourism security and investment in the tourism sector such as new aircraft, and construction of new hotels etc. (WTTC, 2018).

^d Carbon Brief (2018).

D. INTRAREGIONAL TRADE IN SERVICES

From the value-added perspective, less than one third of the region's imports of commercial services have intraregional value added. Therefore, strengthening the competitiveness of services providers in the region as well as regional cooperation to remove services trade barriers, are keys to unlock the region's potential to export services and realize the intraregional trade opportunities.

Estimated using the trade in value-added data, about one fifth of the Asia-Pacific region's services value-

added exports were to countries in the same region, while about a third of the value-added imports were sourced from countries within the region. The low intraregional-trade intensity implies that the global demand for services remains outside the region. It also reflects the fact that regional value chains of services are less developed than those of goods (ESCAP, 2017).

In some subregions, however, export markets within Asia and the Pacific are important. The Pacific and South-East Asia subregions are highly dependent on exports to intraregional markets, especially those in



Share of intraregional exports of commercial services, by subregion, 2016

(Percentage of total exports)



Source: ESCAP calculations using trade in value-added data from the Asian Development Bank (accessed June 2018).

Note: The shares are estimated based on the set of countries for which data are available.

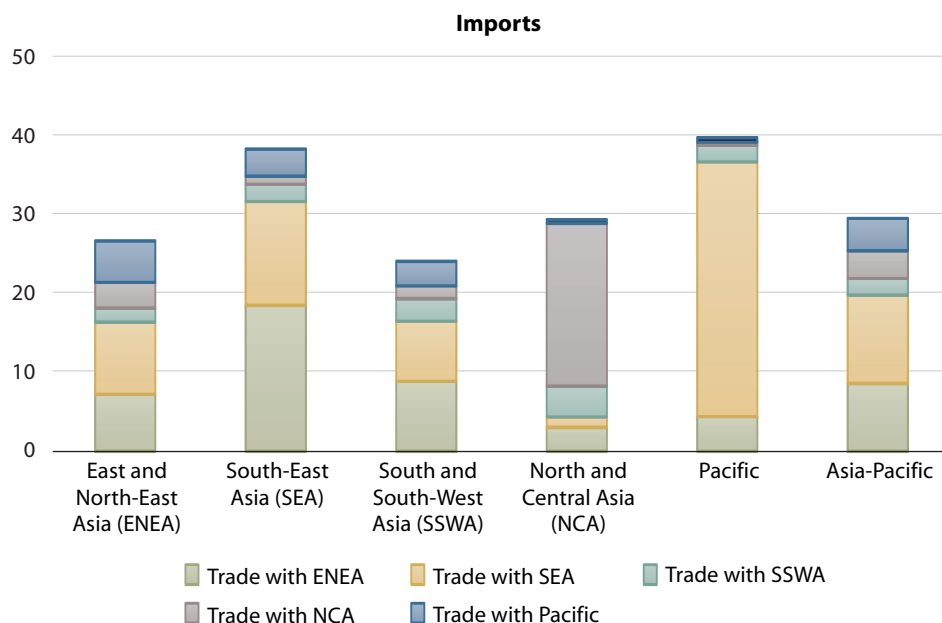
East and North-East Asia. Almost 50% of services exports by the Pacific subregion were destined for Asia-Pacific economies – about 78% of which went to East and North-East Asia. Similarly, about a half of the exports from South-East Asia went to the East and North-East Asia subregions (figure 2.12). The relatively high intraregional dependence of the Pacific subregion can be explained by travel demand from China. Exports to China alone accounted for a quarter of total services exports by the Pacific, more than 60% of which were travel services. South-East Asia's exports to China accounted for about 9% of the subregion's total exports, while exports to other economies in East and North-East Asia accounted for a further 12%. Travel demand from China and interconnectedness with economies in East and North-East Asia are significant factors in the relatively high intraregional-trade intensity of these two subregions.

Growing demand from East and North-East Asia has made that subregion a primary intraregional market. South-East Asia was a major beneficiary of this demand. About one third of the imports by East and North-East Asia was met by exports from South-East Asia – comprising mainly travel, transport and business services. The second-largest intraregional exporter was East and North-East Asia. These patterns confirmed the strong position of East Asian economies as the hub of regional trade both in goods and in services. In addition, intra-subregional trade was quite substantial within South-East Asia, indicating the interconnectedness of business activities among the ASEAN members. In contrast, the North and Central Asia subregion was the least integrated with other subregions. Most of the subregional demand was met by imports sourced within the subregion, mainly the Russian Federation (figure 2.13).



Share of intraregional imports of commercial services, by subregion, 2016

(Percentage of total imports)



Source: ESCAP calculations using trade in value added data from the Asian Development Bank (accessed June 2018).

Note: The numbers are estimated based on available data only. The Asian Development Bank dataset contains detailed data for only 60 economies – the rest are simply labelled as “Rest of the World” – of which, 25 are Asia-Pacific economies. The Asia-Pacific economies included are Australia, Bangladesh, Brunei Darussalam, Bhutan, Cambodia, China, Fiji, India, Indonesia, Japan, Kazakhstan, Kyrgyzstan, Lao People’s Democratic Republic, Mongolia, Malaysia, Maldives, Nepal, Pakistan, Philippines, Republic of Korea, Russian Federation, Sri Lanka, Thailand, Turkey and Viet Nam.

E. NEAR-TERM PROSPECTS

“Export growth in 2018 will be 5%-6% in terms of value, while import growth will show an increase of about 4%. In 2019, export growth may slow to 4.5% while imports may increase by 6.5%.”

Trade in commercial services has recovered from its two-year sluggish performance during 2015-2016, but the services trade in large economies of the Asia-Pacific region has moderated in the second half of 2018. Several factors will come into play in determining the prospects of trade in services in the Asia-Pacific region in 2019. Among others, the income growth of China and major services importing countries will provide opportunities to services exporters in the Asia-Pacific region. The costs of travel, information and communications will determine the opportunities for travel services and business services. In addition, removing services trade restrictions – such as foreign equity restrictions

and capital controls – would help to improve services trade prospects, while imposing restrictions will have a negative impact.

Similar to trade in goods, trade in commercial services is experiencing downside risks arising from trade tensions. Concern over the adverse impacts of trade war has disrupted the momentum of global demand recovery. In addition, as discussed in detail in chapter 4, the chance of trade wars spreading from goods to services cannot be ruled out. For example, conflicts related to the protection of intellectual property could affect trade in services related to research and development, design, information and computer technology between two trade partners.

Against the backdrop of restrained global demand due to trade tensions, ESCAP forecasts that services export growth in the Asia-Pacific region will slow down in the remaining months of 2018 and lessen further in 2019. Export value may grow by about 5%-6% in 2018 and 4%-5% in 2019 (figure 2.14).

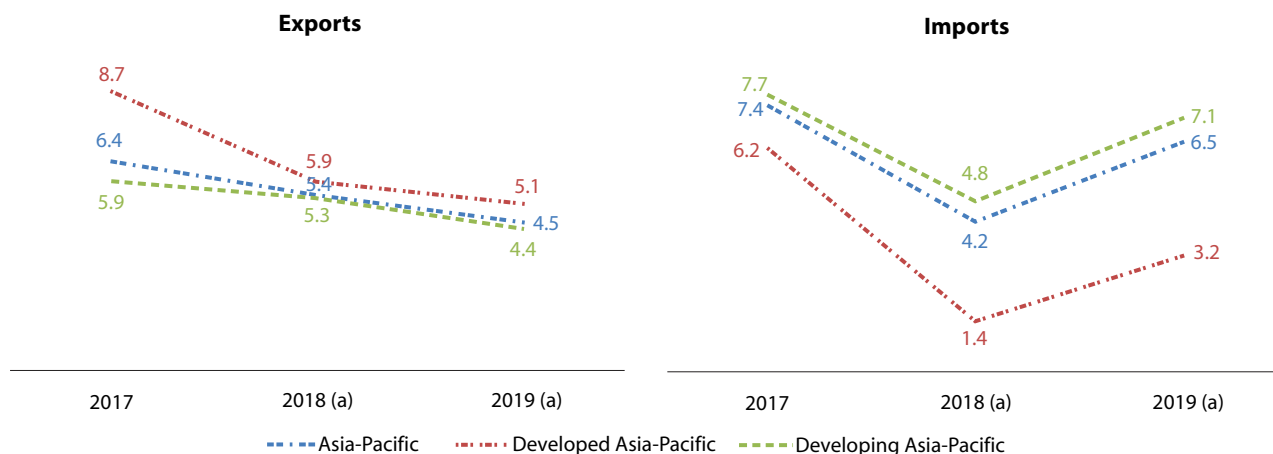
Import growth will also ease in 2018, but the robust demand within the region and the growing importance of new business models relying on

digitalization and connectivity could lead to upward adjustment in services imports by the region in 2019.



ESCAP forecast for services trade growth in Asia and the Pacific, 2018-2019

(Percentage)



Source: ESCAP calculations based on data from the Economist Intelligence Unit database (accessed October 2018).

Notes: The trade growth is trade-weighted, time-varying estimated growth of commercial services trade in the region.

(a) Projections based on available data as of October 2018.

Endnotes

- ¹ The figure is based on official trade statistics, which capture only the gross value of trade. Hence, the size of trade in commercial services tends to be underestimated. (See ESCAP, 2017, for details about the measurements of services trade).
- ² When countries have no reported data on trade in commercial services, the latest available data from the previous year are used. The countries that are missing aggregated data in 2017 include, i.e. Brunei Darussalam, Federated States of Micronesia, French Polynesia, Islamic Republic of Iran, Kiribati, Lao People's Democratic Republic, Maldives, Myanmar, New Caledonia, Tonga, Tuvalu and Vanuatu.
- ³ Goods-related services include manufacturing services using physical inputs owned by others, and maintenance and repair services. Manufacturing services using physical inputs owned by others are defined as the processing, assembly, labelling, packing, and other. Such processes are undertaken by enterprises that do not own the physical inputs involved. By definition, manufacturing services tend to capture processing exports that are part of the trade in global value chains.
- ⁴ According to WTO (2016), 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 therefore preliminary estimates and should be considered with caution.
- ⁵ New Zealand represented another 20% of trade in the Pacific subregion.

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