

# TRADE IN COMMERCIAL SERVICES SLIDING DOWNHILL

While service trade exhibited more resilience to negative shocks during the great financial crisis, together with less volatility historically, the uninterrupted weak performance of merchandise trade over the past five years and the struggle of the major developed and emerging economies to return to a higher growth path appear to have contributed to a decline both in the global and the Asia-Pacific region's services trade in 2015.

As repeatedly emphasized in the previous issues of APTIR, development of the services sector is crucially important to economic diversification and inclusive trade in the Asia-Pacific region. Therefore, with other areas of international exchange in trouble, the focus on service trade performance only sharpens and expands the need for more information on services performance. However, the monitoring of trade in services, especially in developing countries, suffers from several weaknesses including, most importantly, the lack of reliable and complete statistics.<sup>1,2</sup> Given these issues with the availability of data, the analysis

in this chapter remains mostly at the aggregate level. Nevertheless, it is possible to derive some important trends. First, services trade for which statistical data are available (which arguably is not more than half of the total international service transactions) remains below 30% of merchandise trade with a very mild rising trend during this period of slowed growth of both GDP and trade. Second, in contrast to global services trade, in the Asia-Pacific region services capture a lower share of merchandise trade, and even less (under 20%) on export side. Third, the Asia-Pacific region doubled the value of imports and exports of services between 2006 and 2015. Consequently, its share in global services trade has been increasing; however, it is still below the region's share in merchandise trade – just below 33% on import side and reaching 30% on the export side. These findings from a descriptive statistic go along with a picture of a perceived role of Asia as the manufacturing producer and exporter (i.e. factory Asia). Fourth, while overall services trade fell in 2015, both for the global economy and for Asia and the Pacific, larger declines were either recorded in services closely linked to merchandise trade (e.g. transport) or reflect the level of general economic activity (e.g. construction) than in other services sectors. Unfortunately, a lack of statistical data prevents tracing the sectoral performance at the intraregional or intra-subregional levels, but aggregate data show a mild recovery in some services activities, especially travel services. A more detailed exploration of selected sectoral trends is made wherever data allow, as in the case of the tourism sector.

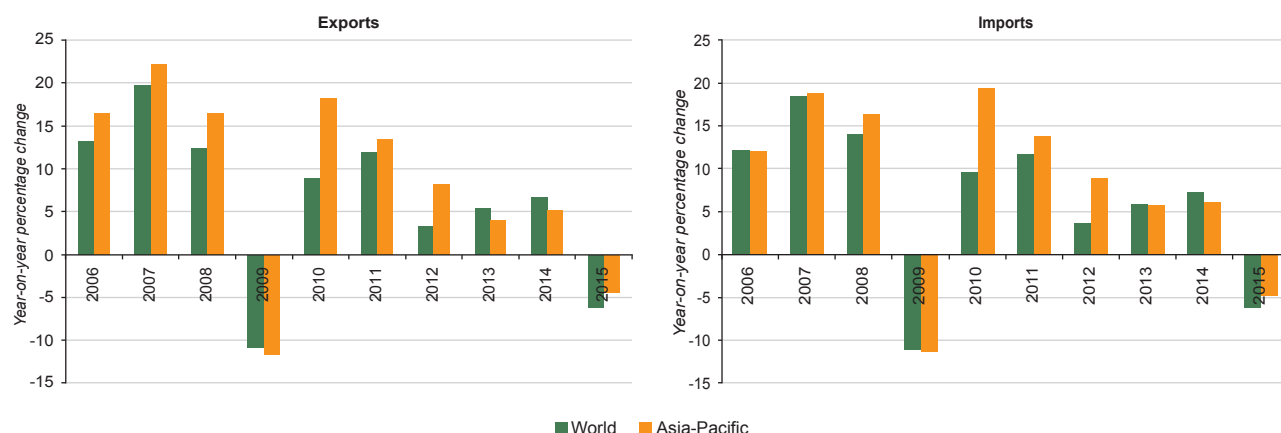
## A. THE RETURN OF SERVICES TRADE CONTRACTION

Despite the services trade exhibiting higher resilience to external shocks back in 2008/2009, the continued economic slowdown, and worsening economic and political uncertainty in 2015 triggered a strong contraction in commercial services trade flows. At the global level, growth of commercial services exports moved into a negative area when it fell by 6.1% for the first time after the 2009 global trade collapse.<sup>3</sup> The Asia-Pacific region followed this global trend by recording a drop in its commercial services exports and imports of 4.5% and 4.9%, respectively, in 2015 (figure 2.1). According to the WTO quarterly statistics database,<sup>4</sup> the downward trend of commercial services exports and imports of the region has been tampering off as export growth was -0.2% in the second quarter after a worse performance at -2.5% in the first quarter of 2016. Following four negative quarterly performances in 2015, in contrast to merchandise trade, imports started to grow at 2.7% and 4% in the first and second quarters of 2016, respectively.<sup>5</sup> As discussed in more details below, 2016 exports globally and in the region was affected by the transport services falling by more than the combined positive growth of other services categories.

*“The global economic slowdown has had a strong impact on commercial services trade in Asia and the Pacific in 2015.”*

**Figure 2.1**

**Growth in commercial services trade in Asia-Pacific economies and the world**



Sources: ESCAP calculation based on the WTO International Trade Statistics Database.

The region remains a net importer of commercial services, accounting for almost 33% of world imports, while contributing 29% to world exports in 2015. China alone represents more than a quarter of the region's total imports (figure 2.2). In terms of exports, China, India, Japan and Singapore account for about a half of the region's total exports.

*“The region accounts for about a third of global services trade but remains a net importer of commercial services.”*

In 2015, the global economic slowdown has started to have a more serious impact on services exporters. Most of the major exporters in the region faced significant export deterioration (figure 2.3). Weak business activity worldwide led to a drop in demand for transport services, financial services and other business services (consulting and technical/trade-related services). In addition, economic slowdown has threatened the prospects of travel services because tourists tend to reduce their expenditure during times of economic (and political) uncertainties, while business travel also declines proportionately to the economic slowdown (see more details in section D). Although the region's largest exporter, China, registered an increase in exports, its growth rate dropped more than five-fold from 12.4% in 2014 to 2.2% in 2015,<sup>6</sup> thus contributing to the weak results for the region as a whole. Exports fell mildly for India, Japan and Taiwan Province of China. Most of the other major exporters experienced a marked export contraction, including Macao, China (24.9%), the Russian Federation (21.3%),

the Republic of Korea (12.7%), Turkey (10%), Australia (9.4%) and Singapore (7.4%).

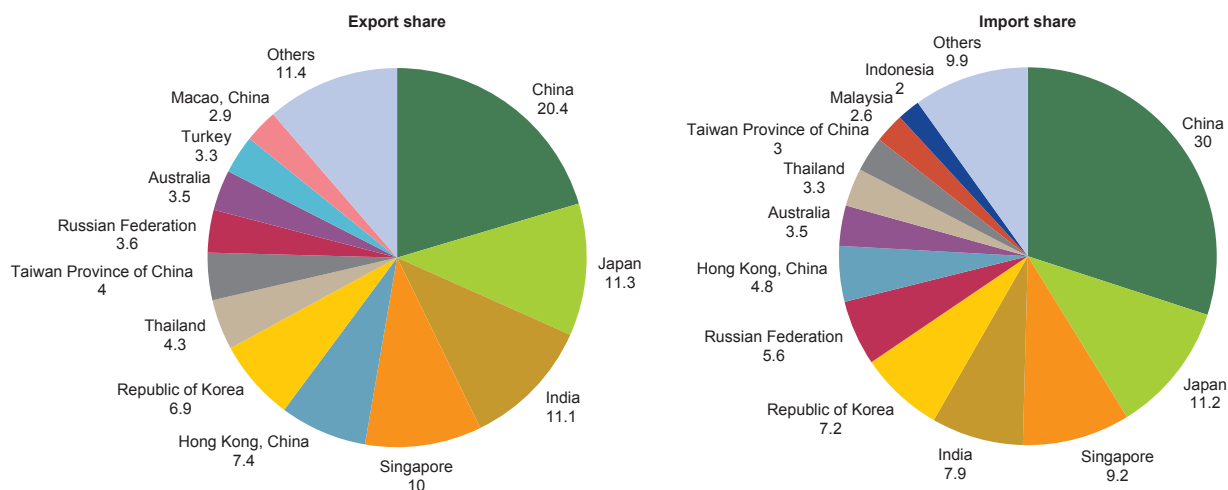
There were also glimpses of positive performances. Thailand and the Philippines, for example, recorded an improvement in their services export performance with growth of about 10%. This was driven by a recovery of growth in the tourism sector of Thailand while dynamic growth in “other business services”<sup>7</sup> was recorded in the case of the Philippines. Several small emerging economies also shared in this positive picture by managing to register relatively high growth in contrast to the region's mediocre performance. Tonga (21.5%), Sri Lanka (14.2%) and Mongolia (12.8%) are some examples; however, their export volumes were small, relative to other economies in the region and thus their successful export growth could not improve the region's average.

Intraregional demand for services has severely declined, reflecting the regional economic recession. Only three major importers – China; Hong Kong, China; and Taiwan Province of China – were able to maintain modest import growth in 2015 (3.4%, 0.2% and 3.8%, respectively), while others experienced import contraction – the Russian Federation (27%), Australia (14%), Malaysia (12%), Japan (8.7%), Indonesia (8.6%), Singapore (7.7%), Thailand (4.6%), India (3.5%) and the Republic of Korea (2%).

WTO (2016) has argued that exchange rate movements in 2015 – particularly the appreciation of the United States dollar against major world currencies, and the fact that trade statistics are recorded in United States

**Figure 2.2**

### Share of commercial services exports and imports in Asia-Pacific economies, 2015

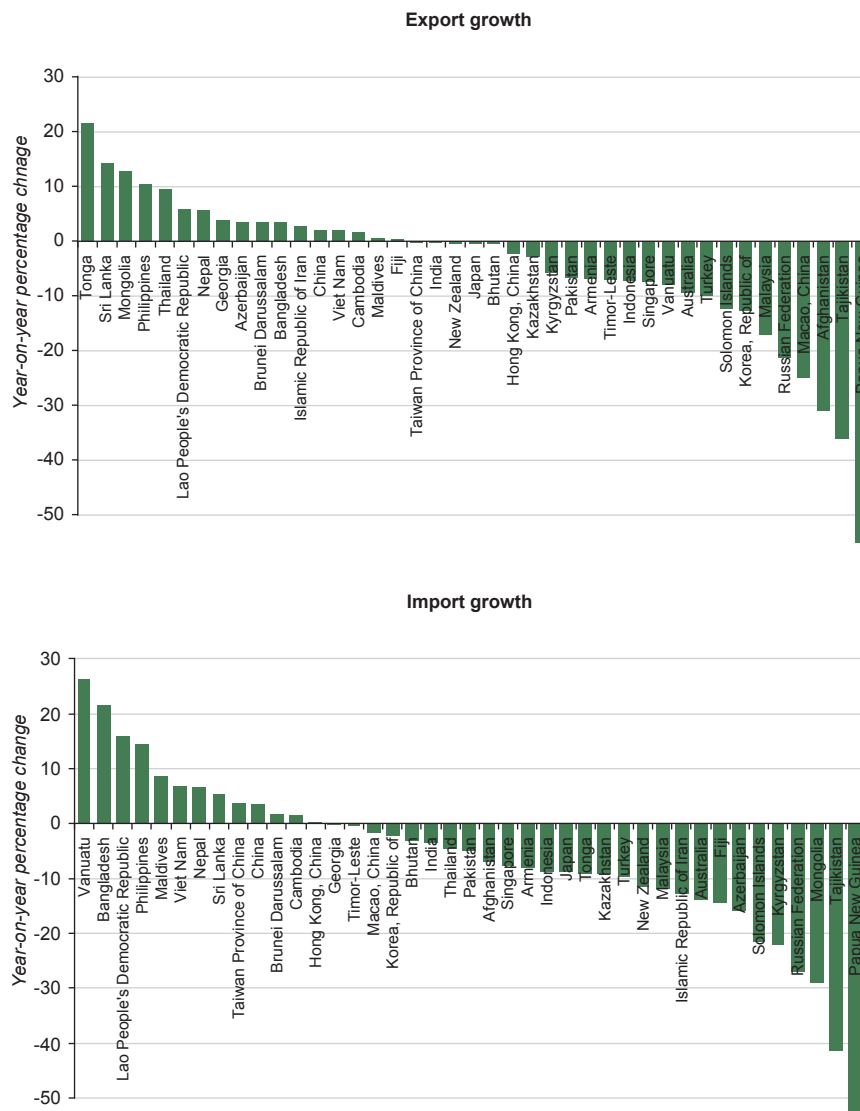


Sources: ESCAP calculation based on available data from WTO International Trade Statistics Database. Data on individual economies are available online in the ESCAP statistical database.

Note: “Others” is an aggregate of remaining Asia-Pacific economies with an individual share of less than 1.5% of total Asia-Pacific trade.

**Figure 2.3**

## Growth of services exports and imports, by Asia-Pacific economy, 2015



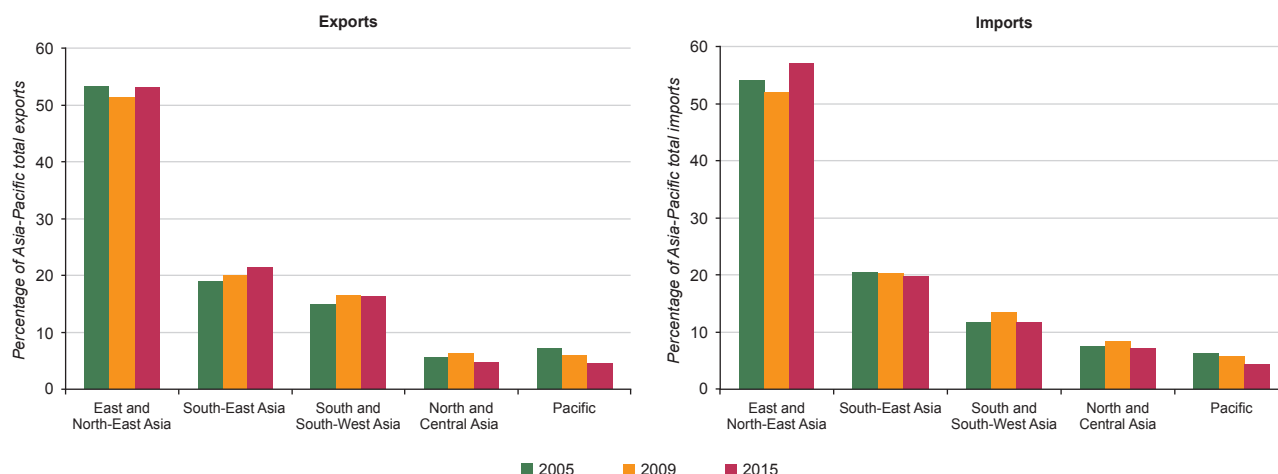
Sources: ESCAP calculation based on available data from WTO International Trade Statistics Database. Data on individual economies are available online from the ESCAP statistical database.

dollars – should also be taken into consideration when identifying factors that have influenced services trade performance. While all regions have been affected by exchange rate fluctuations, in several economies of the Asia-Pacific region the decline in both exports and imports (as shown above) was rather steep, indicating that some other factors might have been involved in addition to currency movements.

## B. REPOSITIONING OF MAIN PLAYERS IN SERVICES TRADE CONTINUES

Figure 2.4 provides a geographical breakdown of commercial services trade among the subregions

of Asia and the Pacific. At these aggregate levels, there has not been much change in the geographical composition of commercial services trade in Asia and the Pacific during the past decade. The East and North-East Asia subregion is still by far the most important contributor to the region's exports in commercial services, accounting for nearly 53% by this sector in 2015, of which China's contribution amounted to more than one third. South-East Asia, and the South and South-West Asia (dominated by India) followed with shares of 21.4% and 16.2%, respectively. North and Central Asia as well as the Pacific played a relatively minor role with shares of 4.8% and 4.6% of the region's exports, respectively. The subregional distribution of imports is similar.

**Figure 2.4****Shares of commercial services trade, by subregion**

Sources: ESCAP calculation based on available data from WTO International Trade Statistics Database (accessed June 2016). Data on individual economies are available online from the ESCAP statistical database.

However, to see any changes in the pattern one has to look at the details at the country level. In other words, there are changes in terms of country positioning. During the past decade, the importance of services exports for developing Asia-Pacific countries, especially China and India, has been growing. From 2005 to 2015, the share of China's exports increased from 14.8% to 20.4% of the region's total services exports, while India's share grew from 8.6% to 11.1%.

The growing share of China and India has been at the expense of some other traditional exporters, especially large ones, in the same subregion. In East and North-East Asia, the share of Japan in the subregion's total exports decreased substantially from 31.2% in 2005 to 21.3% in 2015, while the export shares of China and Macao, China increased from 27.7% and 2.7% to 38.5% and 5.4%, respectively. The other countries in East and North-East Asia maintained the same export shares. In South and South-West Asia, the rising share of India, from 58.2% to 68.3% of the subregion's exports, was mainly the result of a decrease in the export shares of Turkey (30.9% to 20.2%). The combined export share of the subregion's least developed countries (Afghanistan, Bangladesh, Bhutan and Nepal) as well as Maldives accounted for 3%.

Similar to trade in goods, large economies dominated subregional service trade performance in the Pacific as well. In 2015, Australia and New Zealand accounted for approximately 97% of the total exports and imports of the subregion's commercial services trade. While the Russian Federation contributed 76.2% of the exports from North and Central Asia, the remaining two subregions, South-East Asia, and East and North-

East Asia had a more even distribution among their economies. In South-East Asia, the largest contributor of exports of services was Singapore (46.4%).

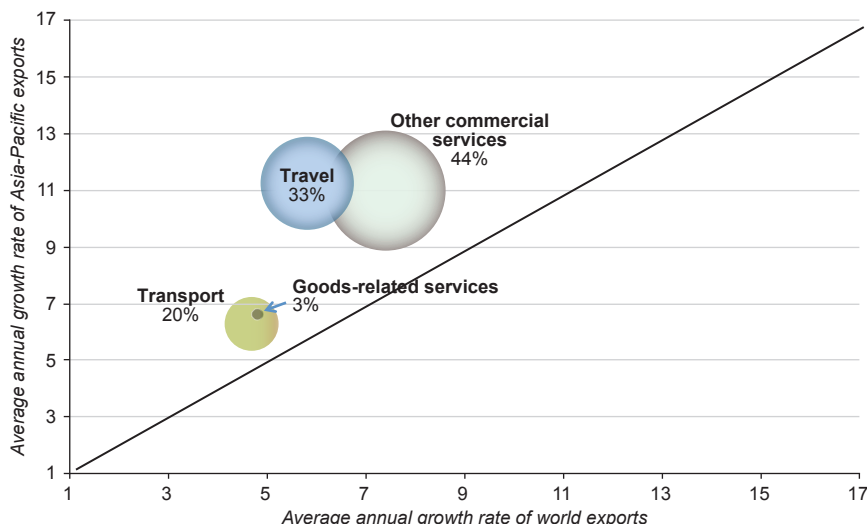
### C. DIVERGENT PERFORMANCE ACROSS SERVICE SUBSECTORS

For the purposes of statistical monitoring, commercial services trade is divided into four broad categories: (a) transport; (b) travel; (c) other commercial services;<sup>8</sup> and (d) goods-related services.<sup>9</sup> To identify changes in sectoral performance and repositioning of these services categories, it is necessary to observe their trade flows for longer than a year or two. However, because the above classification is still in the process of implementation by a number of countries, statistics shown under a "new" category of goods-related services are estimates that are considered preliminary and should be considered with caution. Furthermore, while it is possible to analyse the first three categories over a longer period, goods-related services statistics is available only for more recent years.

Taken as an aggregate, over the past decade, services trade performance in the Asia-Pacific region was robust in contrast to its weak performance in 2015 (and, partly, in 2016). Asia and the Pacific performed better than the world average in all major categories of commercial services (figure 2.5). Historically, the strong export-growth performance was driven in particular by other commercial services and travel services. From 2005 to 2015, the region's exports of travel services and other commercial services grew on average by 11% per year.

**Figure 2.5**

**Average export-growth rate, by subsector, 2005-2015, Asia-Pacific region compared with the rest of the world**



Sources: ESCAP calculation based on available data from WTO International Trade Statistics Database. Data on individual economies are available online from the ESCAP statistical database.

Note: A geometric 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 2015. 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.

During that period, the strong expansion of intraregional demand for imports from China was a key factor in this growth. Concerning the global exports, the region's share of travel services went up from 24% in 2005 to 37% in 2015. Similarly, the region captured an increased share of global exports of other commercial services, growing from 19% to 24% during the same period. In the case of transport services, the region's exports grew by 6% per year, almost two percentage points higher than the world average. The region's average export growth of goods-related services (seen as linked to the participation in global value chains) was about 7% per year, which was higher than the regional growth of goods export of about 5% during that period.

Imports of travel services by the region grew much faster than the world average, while the region's imports of other commercial services lagged slightly. The Asia-Pacific growth in imports of travel services was 14% annually on average from 2005 to 2015, compared with less than 7% for the world. The regional imports driver is found in the rising travel demand from China (see section D for more details). As a result, the region doubled its share of global imports of travel services, from 20% in 2005 to 39% in 2015. In contrast, the region's average import growth of other commercial services was around 4% per year while the average global import growth of these services was 7% per year. In the case of transport

services, the region's imports grew by approximately 7% per year, slightly higher than the world average. The goods-related services category captured only 2% of commercial services imports by the region.

*"Asia and the Pacific performed especially strongly in travel services as well as other commercial services exports, which were dominated by business services."*

As mentioned above, the new category of goods-related services has not been recorded properly in a number of countries, including relatively large service exporters and importers of the region such as New Zealand or Thailand.<sup>10</sup> The goods-related services cover maintenance and repairs, processing, assembly, labelling and packing, and as such focuses on a relatively narrow segment of service activity. First, this has made the share of goods-related services very small in most of the reporting countries, at about 2% to 3% of all commercial services trade, and second, the trade is concentrated on a handful of countries. In fact, 15 countries account for 95%-96% of total goods-related services exports and imports; with the European Union having a stake of more than 45% (WTO, 2016). On the export side, China held third place while another six regional economies were included in the top 15 globally, including one least developed country (Myanmar). On the import side, 10 out of the top 15 importers were from Asia (WTO, 2016).



However, cross-country comparisons reveal that for the top Asian exporter, China, goods-related services exports represented 8% of the country's commercial services exports in 2015 while accounting for only 0.3% of the country's commercial services imports. China was ranked eighth out of the top 15 importers and accounted for only 1.5% of total global goods-related services imports. This is in contrast to the findings for Hong Kong, China, where goods-related services

imports accounted for 15% of services imports and only 0.3% of the services exports. Hong Kong, China was also second among the top 15 importers and did not even feature among the top 15 exporters. This divergent pattern between the two economies clearly reflects the position of China as an assembly centre for manufacturing products that are then exported to Hong Kong, China for packaging and re-export.

### Box 2.1

#### Least developed countries of Asia and the Pacific and commercial services trade

Commercial services have been shown to have an important positive effect on development of industrial exports, economic efficiency and diversification (APTIR, 2015 and earlier issues). However, the share of services trade in total trade of least developed countries continues to be negligible. Several factors are involved here, most of which are related to the level of these countries' development, reinforcing a vicious circle. For example, poor infrastructure and a lack of skilled labour prevent the establishment and expansion of many technology and knowledge-intensive services; in turn, a lack of such services impairs the industrial and development prospects of a country. A similar impact comes from the lack of financial resources or inappropriateness of a regulatory regime. Furthermore, these economies are categorized by high share of informal activities, especially in this sector. Finally, lack of statistical capacity plays an important role too. Most least developed countries have lower statistical capacities to measure trade in commercial services, which are increasingly difficult to measure not only because of new international classification but because of the impact of digital trade as well. Hence their low share in commercial services trade is at least partly attributed to their difficulties in capturing all the services trade.

In the past decade, the share of least developed countries in world exports of commercial services doubled from 0.4% in 2005 to 0.8% in 2015 while on the import side the share rose from 1% to 1.6% (WTO, 2016). At the same time, the services trade of least developed countries grew on average much faster than for the rest of the world. According to WTO (2016), during 2005-2015, commercial services exports grew by 14% and imports by 11%, more than twice the rate of the rest of the world.

This growth was fuelled by only a few least developed countries and in a limited number of sectors. Most notably, in 2015 Asia-Pacific least developed countries contributed 36% of the exports by the whole group of least developed countries. Two Asian least developed countries with extraordinary growth in tourism, i.e. Cambodia and, in more recent years, Myanmar, have been largely driving the overall services export growth of the group of least developed countries. Furthermore, Bangladesh has become an emerging exporter of information and communications services, and it is seen as an attractive information technology (IT) and business processing outsourcing location (WTO, 2016). The country has emerged as a hub for freelance IT services, including simple data entry to more complex IT services, via online sites.

Overall, in 2015, least developed countries in the Asia-Pacific region exported commercial services worth \$13 billion, with Myanmar being the largest services exporter in the group with a share of 32%, followed by Cambodia at 30%. While tourism plays an important role in both countries, Myanmar services exports are more balanced across four services categories. Particularly notable is Myanmar's export of goods-related services with an above-average share, even from the perspective of more advanced developing country exporters.<sup>a</sup>

Globally, the least developed countries are net importers of commercial services, and recently their services trade deficit widened to reach \$39 billion in 2015, up from \$16.3 billion in 2005. Services categories record a very different balance. The transport sector and "other commercial services" sectors have experienced persistent trade deficits. In contrast, travel (tourism) has recorded an expanding surplus since 2005. Tourism is also the leading services sector in island least developed countries, accounting for more than 80% of total services exports by in some of them (see table next page).

Table. Exports of commercial services of the least developed countries, by category, 2015

(Millions of United States dollars and percentage)

Country	Value of exports	Share in commercial services							
		Goods-related services		Transport		Travel		Other com. services	
	2015	2010	2015	2010	2015	2010	2015	2010	2015
Afghanistan	799	...	0	10.1	4.5	4.2	13.2	85.7	82.3
Bangladesh	1 684	3	4.6*	14.2	24.2*	6.6	9.4*	76.2	61.8*
Bhutan	122	...	...	35.3	21.4	60	75.7	4.6	2.8
Cambodia	3 775	...	...	13.8	11.8	79.2	82.9	7	5.2
Kiribati	11*	...	...	17.1	10.3	37.3	26.5*	45.2	63.3*
Lao People's Democratic Republic	790	...	...	11.4	...	78.1	...	10.5	...
Myanmar	4 127*	17.2	28.4*	43.9	5.5*	21.3	39.1*	17.6	27*
Nepal	1 139	...	...	6.8	...	59	47	34.2	...
Solomon Islands	95	...	0	36	27.5	48.7	49.7	15.4	22.9
Timor-Leste	57	...	...	2.6	2.7	78.1	89.4	19.3	7.9
Tuvalu	...	...	...	9.1	...	73.7	...	17.2	...
Vanuatu	295	...	...	11.6	14.1	80.1	80.4	8.3	5.5
Least developed countries total	36 000	0.5	3.7	19.5	20.8	50.2	52.6	29.8	22.8
World	4 754 000	3.6	3.2	21.5	18.4	25	25.9	49.9	52.5

Source: Table A13 in WTO (2016), p. 103.

Notes: \* refers to 2014.

The improvement of the quality of data in recent years may have resulted in changes relating to the breakdown of exports of commercial services by category of services.

As a number of economies are currently in the process of implementing international recommendations on the compilation of goods-related services, these estimates are to be considered preliminary and should be taken with caution

<sup>a</sup> However, since the statistics for this category of services are still under development, all reports of goods-related services exports and imports should be considered with caution.

## 1. Changing composition of commercial service trade

While the region's total exports of commercial services increased more than twofold between 2005 and 2015 (figure 2.6), the share of other commercial services, dominated by business services, increased from 38% to 44% while the share of travel services climbed from 28% to 33%. The relatively faster growth of other subsectors has put pressure on transport services the demand for which has been threatened by the global trade slowdown during the recent past. The share of transport services thus declined from 29% to 20% between 2005 and 2015.

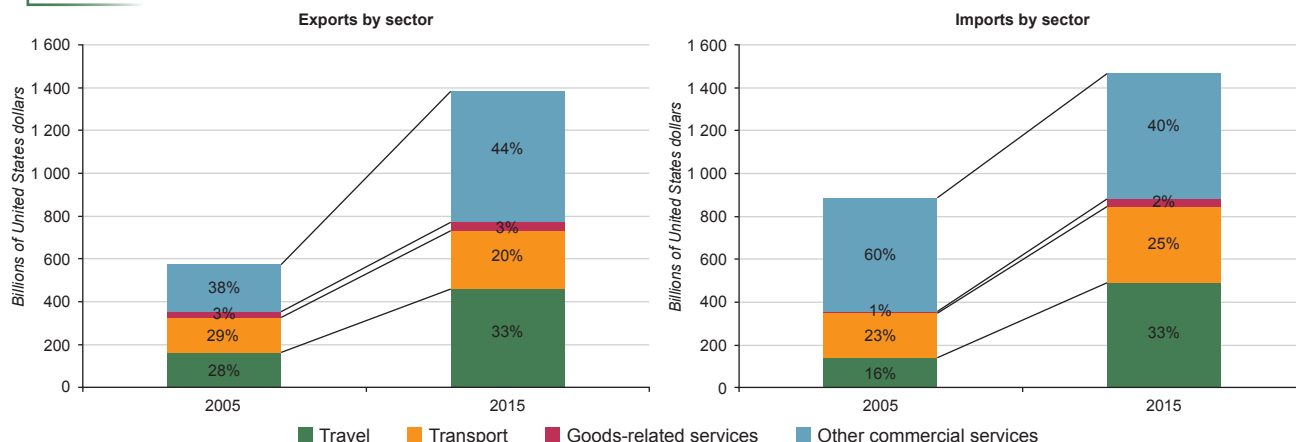
Commercial services imports increased at a slower rate than their exports in the observed period, (128% in total). Travel services have been a major import growth driver. The share of travel in imported services doubled from 16% in 2005 to 33% in 2015. In contrast to developments in the composition of exports (discussed above), the share of travel services

grew much faster on the import side<sup>11</sup> and ended up squeezing out the "other commercial services", which declined from 60% in 2005 to 40% in 2015. In addition, the largest component of "other commercial services" imports shifted from insurance and pension services to business services in the same period.

## 2. Trends within the other commercial services category

Given the dynamic growth of other commercial services, and its importance to the rest of the economy and trade (as discussed in APTIR 2014 and 2015) a detailed analysis of the components of this services category is made here. The breakdown of the exports and imports of other commercial services into seven subcategories is shown in tables 2.1 and 2.2. First, the changes in other commercial services exports are discussed. From 2005 to 2015, exports by this sector increased more than twofold from \$235 billion to \$609 billion. The Asia-Pacific region increased its overall share in global exports



**Figure 2.6****Commercial services trade of the Asia-Pacific region, by sector, 2005 and 2015**

Sources: ESCAP calculation based on available data from WTO International Trade Statistics Database (accessed June 2016). Data on individual economies are available online from the ESCAP statistical database.

**Table 2.1****Commercial services and other commercial services exports breakdown**

Services category	Export value (billions of United States dollars)		Growth in Asia-Pacific exports (%)		Share in Asia-Pacific exports (%)		Asia-Pacific share in world exports (%)	
	2005	2015	2014	2015	2005	2015	2005	2015
Goods-related	19	39	-2.0	-0.01	3.5	2.9	22.1	25.7
Transport	141	256	-0.2	-2.8	25.9	18.9	24.3	29.2
Travel	150	449	3.5	13.5	27.5	33.2	21.8	36.5
Other commercial services	235	609	10.2	-4.5	43.1	45.0	18.9	24.4
• Other business services	123	279	9.8	-12.4	22.6	20.6	23.4	26.6
• Telecommunications, computer and information services	32	113	8.1	2.0	5.9	8.4	16.1	23.7
• Financial services	23	67	11.4	0.6	4.2	5.0	10.5	16.1
• Charges for the use of intellectual property, n.i.e.	22	51	14.9	-0.8	4.0	3.8	13.5	17.0
• Construction	23	51	6.9	-15.6	4.2	3.8	48.8	57.2
• Insurance and pension services	6	19	20.8	-3.5	1.1	1.4	9.8	14.9
• Personal, cultural, and recreational services	5	8	17.8	-5.5	0.9	0.6	19.7	20.6

Source: ESCAP calculation based on WTO International Trade Statistics Database.

**Table 2.2****Commercial services and other commercial services imports breakdown**

Services category	Import value (billions of United States dollars)		Growth in Asia-Pacific imports (%)		Share in Asia-Pacific imports (%)		Asia-Pacific share in world imports (%)	
	2005	2015	2014	2015	2005	2015	2005	2015
Goods-related	9	33	1.9	-12.5	1.6	2.3	13.8	33.7
Transport	184	327	2.6	-16.0	33.0	23.1	27.1	30.0
Travel	133	475	33.4	8.6	23.8	33.5	20.4	39.1
Other commercial services	232	583	5.7	-10.0	41.6	41.1	20.9	26.4
• Other business services	17	286	6.4	-13.1	3.0	20.2	23.1	27.3
• Telecommunications, computer, and information services	21	55	25.3	-6.0	3.8	3.9	7	11.6
• Financial services	9	32	5.4	-12.8	1.6	2.3	4.4	7.6
• Charges for the use of intellectual property n.i.e.	44	93	2.9	-13.1	7.9	6.6	26.4	31.2
• Construction	14	39	3.4	-9.0	2.5	2.8	37.8	43.0
• Insurance and pension services	120	39	-3.0	-30.8	21.5	2.8	31.5	31.4
• Personal, cultural, and recreational services	5	10	10.0	-1.3	0.9	0.7	21.6	25.5

Source: ESCAP calculation based on WTO International Trade Statistics Database.

of other commercial services from 18.9% to 24.4%. In terms of subsectors, it still claims half of all global construction services exports.

However, this is not the largest or the most dynamic sector when it comes to importance to the region's exports. Other business services, while growing slowly in terms of value, still make up almost one half of the Asia-Pacific region exports of other commercial services. This category includes research and development, professional and management consulting services, and technical, trade-related and other business services. Rising by an annual average of around 10% since 2005, the share of developing economies in global exports of other business services reached 29.1% in 2015. Developing Asia continued to play the main role at 22.9%, with exports from India and China alone accounting for 10.2% of world exports. These two economies ranked first and second as preferred offshoring services locations. India's exports to foreign clients included a wide range of services, such as finance and accounting, auditing, book keeping and tax consulting services, customer services, medical transcriptions and various types of engineering services (embedded solutions, product design, industrial automation and enterprise asset management). Other Asian economies play a key role in business process outsourcing. The Philippines, for example, has specialized in call centres but it has also expanded into higher value-added services. Its exports of other business services increased by 15% in 2015 (WTO, 2016).

Telecommunications, computer and information services, while not the largest, are among the most dynamic export sectors. The rapidly growing exports of these services have resulted in the Asia-Pacific region gaining a significant increase in its share of global exports, from 16.1% in 2005 to 23.7% in 2015.

The region also gained a rising market share in world exports of finance and insurance services. The Asia-Pacific region's share in global exports of those categories increased by almost 5 percentage points to reach 16.1% and 14.9% in 2015, respectively. Export income from royalties and license charges for the use of intellectual property doubled, which translates into an increase of approximately 3 percentage points of the Asia-Pacific share in global exports. In terms of exports of personal, cultural and recreational services,<sup>12</sup> the region has maintained its share of global exports, which was slightly higher than 20% in 2015.

Despite overall growth, the share of developing economies in exports of commercial services continues

to lag behind in higher-skilled services, such as charges for the use of intellectual property, or insurance and pension services, and financial services. The lack of adequate high-skill labour points to the difficulty these countries face in competing in these areas, and resolving this problem is crucial to national development.

Travel services was also the only sector reporting positive import growth in 2015 (table 2.2). Yet, since 2005, there has been a dramatic development in not only travel services imports but also in goods-related services imports, which account for approximately 20% increases in the Asia-Pacific shares of global imports of both categories.

Despite the fact that the 2015 changes in every subcategory of other commercial services imports were negative, their growth over the past decade has been robust, with the total imports by this sector increasing by more than twofold from \$232 billion in 2005 to \$583 billion in 2015. The Asia-Pacific region increased its share of global imports of all other commercial services from 20.9% to 26.4% during that period. In terms of subsectors, it claims 43% of all global construction services imports. Other business services, the subcategory in other commercial services that showed the most dynamic growth of imports from 2005, comprise 20% of the region's imports of commercial services. Telecommunications, computer and information services imports increased more than double in terms of value, and gaining an increased share of global imports, from 7% in 2005 to 11.6% in 2015.

## D. INTERNATIONAL TOURISM IN ASIA AND THE PACIFIC

The 278 million international tourist arrivals to Asia and the Pacific recorded in 2015 captured 26.5% of global tourist arrivals.<sup>13</sup> The largest share of those tourist arrivals was gained by East and North-East Asia (40.2%), followed by South-East Asia (29.5%), North and Central Asia (10%), South and South-West Asia (16.4%) and the Pacific (4%). Most Asia-Pacific subregions have been net exporters of tourism services since 2006. The tourism-trade surplus is particularly high in South-East Asia as well as South and South-West Asia. Although East and North-East Asia is the only Asia-Pacific subregion with a trade balance in tourism services it is, in fact, the largest exporter and importer of tourism services with shares of 44.3% and 56.3%, respectively, of the region's total exports and imports, respectively, based on 2014 data on tourist receipts and expenditures.

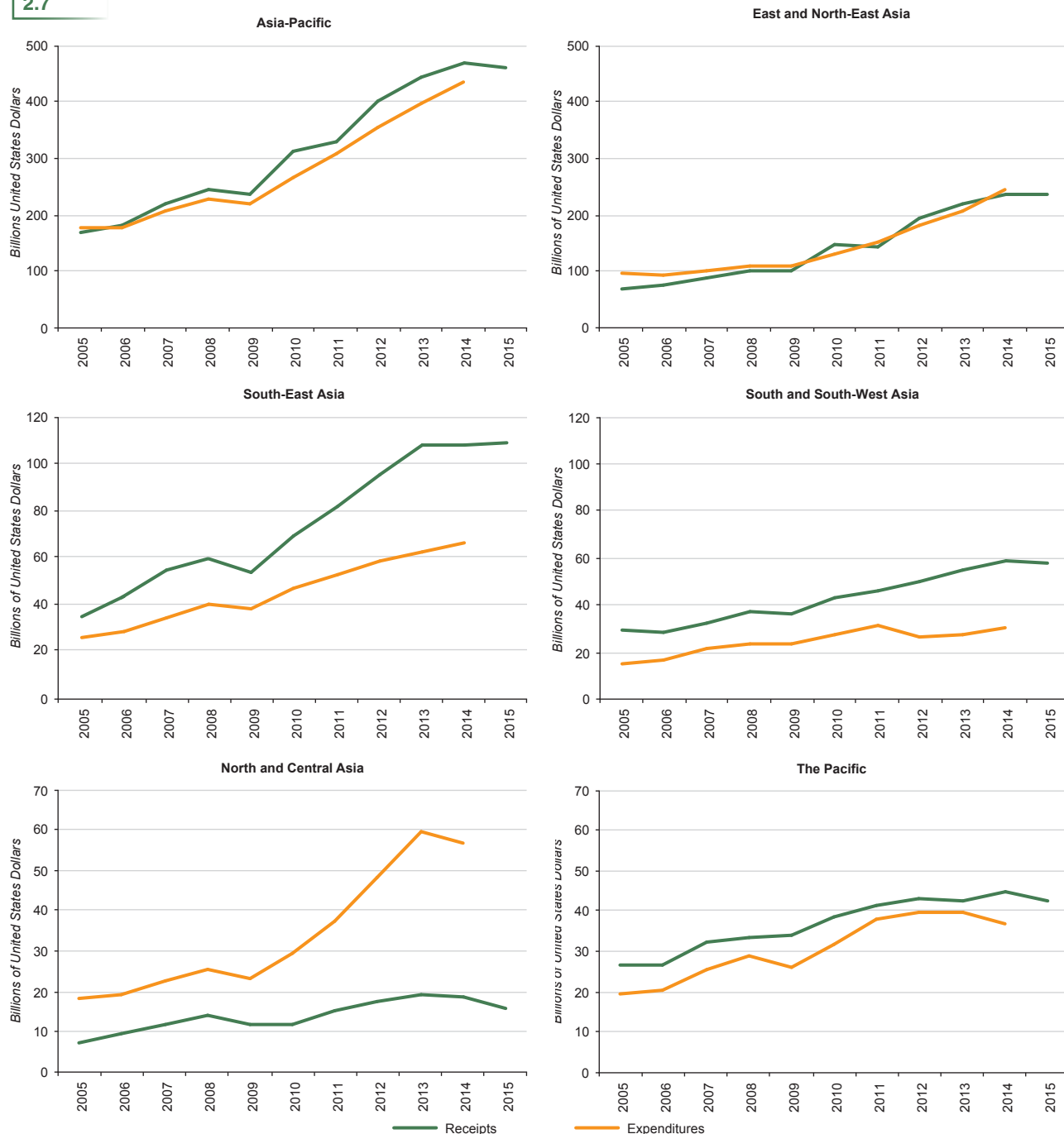
*“Although the number of tourist arrivals in Asia and the Pacific continues to grow, spending by tourists has declined.”*

However, the recent decline of tourism receipts has put the net export position of Asia-Pacific tourism services at risk. Followed the persistent slowdown

of the global economy and, more recently, China's economic rebalancing, there is a clear sign that tourists coming to the region are spending less in total. In 2015, while the numbers of tourist arrivals were still growing at 5.4%, the region's total tourism receipts fell by 1.6% (figure 2.7). Among the Asia-Pacific subregions, North and Central Asia faced the

**Figure 2.7**

**International tourist receipts and expenditures in Asia and the Pacific, by subregion, 2005-2015**



Sources: WTO, World Bank database (most recently accessed on 14 June 2016).

Note: Data on international tourist expenditures in 2015 have not been reported at the time of report preparation. Data on tourism receipts in 2015 are not available for Afghanistan, Bangladesh, Iran, Brunei Darussalam, Lao People's Democratic Republic, Myanmar, Tonga, Tuvalu, Cook Islands, French Polynesia, Kiribati, Marshall Islands, Federated States of Micronesia, New Caledonia, Palau, Papua New Guinea and Vanuatu.

largest drop in tourism receipts (16.6%), followed by the Pacific (5.3%).

In 2016, the region made a promising start by leading all other regions with an 8.3% growth rate in tourist arrivals during the first few months.<sup>14</sup> It remains to be seen whether the region will be able to maintain such dynamic growth through the remainder of the year, given that the economic slowdown in China and the Russian Federation – which have been major intraregional sources of tourist arrivals with the share of 16% and 9% of total inbound flows in the region in 2015 – persists. However, it is likely that intraregional demand for tourism services will soften during the rest of the year. According to the United Nations World Tourism Organization (UNWTO), projections for tourist arrivals at Asia-Pacific destinations remain generally positive at between 4% and 5%. Although China, the major source of tourism income for various Asia-Pacific destinations, is expected to maintain double-digit growth of its outbound tourism, it could be capped by the country's sluggish economic recovery in 2016.

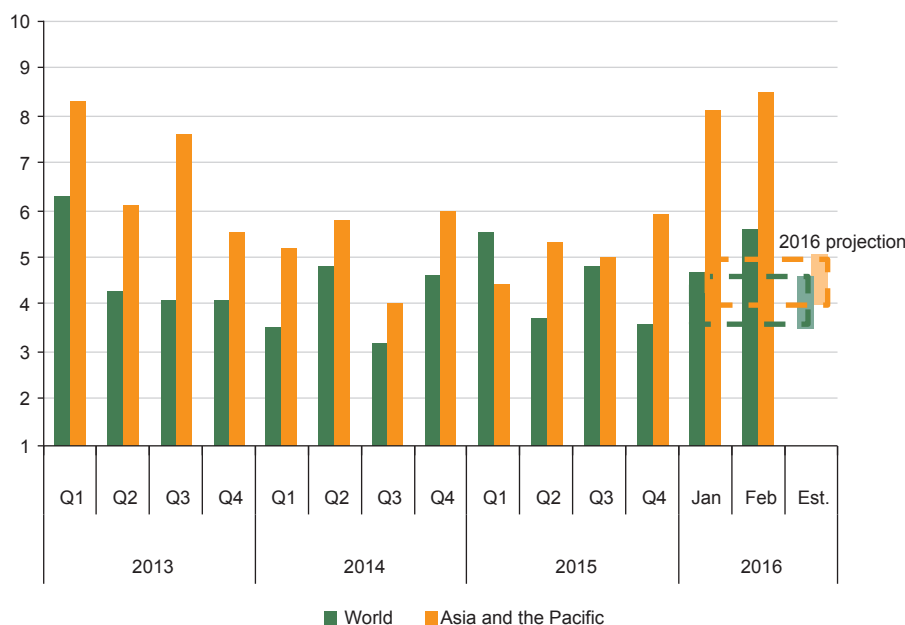
Nine out of 10 most popular tourist destinations were found to be in two subregions of East and North-

East Asia, and South-East Asia (table 2.3).<sup>15</sup> China was the most popular tourist destination in Asia and the Pacific, accounting for approximately 20% of international tourist arrivals in the region in 2015. However, China's share of major tourist destinations in the region has been decreasing since the post-financial crisis period of 2008-2009; in the meantime, its share of tourist arrivals has been increasing. This could be a reflection of China's shifting role from that of being a main destination for tourists to becoming a major source of tourists visiting other countries in Asia and the Pacific (particularly Japan and Thailand). According to UNWTO, Chinese outbound tourists based on departures increased 10% in 2015. Since 2013, China has become the most important source of tourists in the region, with a 29% share in 2014, instead of Hong Kong, China.

In general, international tourists visiting East and North-East Asia grew 4.3% in 2015, a significant decline from 7.3% in 2014. A major factor was the reduction of tourists visiting Hong Kong, China (-3.9%), Macao, China (-1.8%) and the Republic of Korea (-6.8%). These economies together comprised a 38% share of the subregion. In contrast, Japan experienced a significant

**Figure 2.8**

### Growth and projection of international tourist arrivals



Sources: UNWTO (2016), as of 12 June 2016.

Note: Number estimated by UNWTO under its classification of Asia-Pacific countries, excluding North and Central Asia.

According to the UNWTO classification, Asia and the Pacific includes four subregions: (a) North-East Asia (China; Japan; Republic of Korea; Mongolia; Hong Kong, China; Macao, China; and Taiwan Province of China); (b) South-East Asia (Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic; Malaysia; Myanmar; Philippines; Singapore; Thailand; Timor-Leste; and Viet Nam); (c) Oceania (Australia; Fiji; French Polynesia; Guam; Kiribati; Marshall Islands; Federated States of Micronesia; New Zealand; Niue; Palau; Papua New Guinea; Samoa; Solomon Islands; Tonga; Tuvalu; Vanuatu; American Samoa; Cook Islands; New Caledonia; and the Northern Mariana Islands); and (d) South Asia (Bangladesh; Bhutan; India; and the Islamic Republic of Iran). The current analysis is based on a limited selection of countries, with no reports of 2016 data yet for various key destinations around the world including the Russian Federation and Malaysia.

**Table  
2.3****Major tourist destinations in the Asia-Pacific region**

*(Percentage of tourist arrivals in the Asia-Pacific region)*

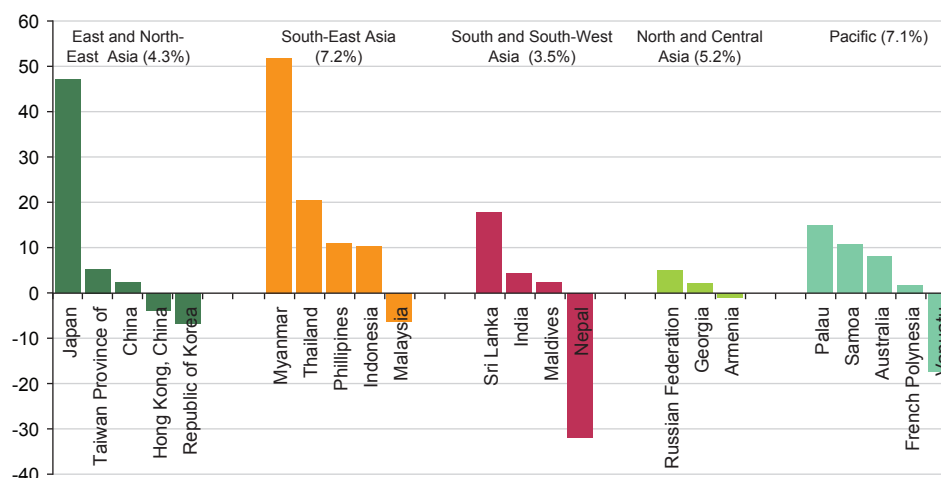
	2008	2009	2010	2011	2012	2013	2014	2015
China	28.8	28.1	27.1	26.3	24.7	22.3	21.0	20.4
Russian Federation	11.7	10.7	9.9	10.4	11.0	11.4	11.3	11.3
Thailand	7.9	7.8	7.8	8.8	9.6	10.7	9.4	10.7
Hong Kong, China	9.4	9.3	9.8	10.2	10.2	10.3	10.5	9.6
Malaysia	12.0	13.0	12.0	11.3	10.7	10.3	10.4	9.2
Japan	4.5	3.7	4.2	2.8	3.6	4.1	5.1	7.1
Macao, China	5.8	5.7	5.8	5.9	5.8	5.7	5.5	5.1
Republic of Korea	3.7	4.3	4.3	4.5	4.8	4.9	5.4	4.7
Singapore	4.2	4.1	4.5	4.8	4.8	4.8	4.5	4.3
Taiwan Province of China	2.1	2.4	2.7	2.8	3.1	3.2	3.7	3.7
Other Asia-Pacific economies	9.8	10.7	11.9	12.2	11.8	12.4	13.2	13.8

Source: ESCAP's estimation based on country data from UNWTO database, 2016.

expansion of tourist arrivals (47%), followed by Taiwan Province of China (5.3%) and China (2.3%) (figure 2.9). The depreciation of the yen and the easing of visa requirements have boosted the dynamic growth of international tourist arrivals to Japan. According to Otake (2016), for Japan 2015 was the first time in 45 years that the number of inbound tourists surpassed that of outbound tourists. For the South-East Asia, growth picked up dramatically to 7.2% in 2015. This increase was mainly driven by the robust growth of Thailand (21.4%), which holds the largest share of tourism in the region, while emerging destinations such as Myanmar still registered dynamic growth of 51.9%. Thai tourism bounced back to high growth in 2015 mainly because of an influx of Chinese tourists and the support of the Thai Ministry of Tourism with campaigns such as “Discover Thainess” and the promotion of second-tier cities and local cultures as well as traditions as well as ensuring tourist safety,

reducing illegal tourist businesses and encouraging intraregional tourism, particularly with neighbouring countries (Ngamsangchaikit, 2015).

For other subregions, tourist arrivals have tended to concentrate in the hub economy of the respective subregions. In South and South-West Asia, India attracted 69.2% of tourists travelling to the subregion (with the exclusion of Turkey) in 2015. In North and Central Asia, the Russian Federation was the dominant destination with an 89% share of total tourist arrivals in the subregion. Similarly, in 2015, 52.4% of the tourist arrivals in the Pacific came from Australia. Those key destinations experienced moderate growth rates of between 4.4% and 8.2% in 2015. However, small economies such as Sri Lanka and Palau recorded a relatively dynamic growth of inbound tourism in 2015, with growth rates of 17.8% and 15%, respectively.

**Figure  
2.9****Growth of tourist arrivals, by Asia-Pacific subregion and selected economy, 2015**

Sources: UNWTO (2016) as of 12 June 2016.



## E. CONCLUSION

The performance of the Asia-Pacific region's commercial services sector, following the global trend, dropped dramatically in 2015 compared with the previous year due to the global economic slowdown and global uncertainty. Export growth declined from 5.1% in 2014 to -4.5% in 2015, while import growth fell from 6.1% to -4.9% during the same period. However, the Asia-Pacific region maintained its share of global exports and imports (29.2% and 32.8%, respectively). Trade in Asia and the Pacific commercial services was dominated by a small number of countries, especially China, Japan, India and Singapore, that represented more than half of the region's trade. Specifically, business and travel services together accounted for about 53.4% of total commercial services exports. However, the continuation of China's economic slowdown together with global trade stagnation continue to create gloomy prospects for services exports in 2016 and beyond, especially in the tourism sector.

### Endnotes

<sup>1</sup> APTIR 2015 summarized the ongoing adjustments to collection and recording of international trade statistics to improve a capture of trade in services. The current classification used by UNCTAD and WTO as well as UN Service Trade Data Collection, aggregates the commercial services flows into four major categories (transport, travel, other commercial services, and goods-related services). These categories capture only trade realized through limited modes of supply defined in the General Agreement on Trade in Services (GATS), mostly through Modes 1 (cross border supply) and 2 (consumption abroad). Mode 3, also known as commercial presence, in principle is captured by so-called Foreign Affiliates Statistics (FATS), which are available only for a limited number of countries and only for recent years; thus, such services flows are not provided in this report. (for further details see <http://unstats.un.org/unsd/tradekb/Knowledgebase/50667/UN-ServiceTrade-Data-Collection>).

<sup>2</sup> The commercial services category in this report is defined as being equal to services minus government services, n.i.e. The commercial services category is further subdivided into goods-related services, transport, travel and other commercial services. The commercial services and their subcategories in this report are based on the newly-available classification in the sixth edition of the *Balance of Payments and International Investment Position Manual* (BPM6), published by IMF. Due to different editions of BPM being used, the numbers presented in

the Asia-Pacific Trade and Investment Report 2016 may differ from those presented in the previous volumes of APTIR. In order to deal with the lack of data on trade in commercial services in many economies in Asia and the Pacific, the analysis in this chapter uses data compiled from different sources, including mirror data. Data presented in this chapter are mainly sourced from data released by the WTO International Trade Statistics Database during the preparation of this report.

<sup>3</sup> Data related to Asia and the Pacific in this chapter include Asia-Pacific members of ESCAP as well as Taiwan Province of China, which is not a member of United Nations and ESCAP. Taiwan Province of China has been added to the data for the East and North-East Asia subregion.

<sup>4</sup> [https://www.wto.org/english/res\\_e/statis\\_e/daily\\_update\\_e/qrly\\_comm\\_serv\\_web\\_e.xls](https://www.wto.org/english/res_e/statis_e/daily_update_e/qrly_comm_serv_web_e.xls).

<sup>5</sup> Countries with no reported quarterly 2016 data on trade growth of commercial services are: Afghanistan, Bhutan, Cambodia, Fiji, Islamic of Iran, Kiribati, Kyrgyzstan, Democratic People's Republic of Korea, Lao People's Democratic Republic, Myanmar, Maldives, Marshall Islands, Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Tajikistan, Turkmenistan, Tuvalu, Uzbekistan and Vanuatu.

<sup>6</sup> China has always been the largest service exporter in Asia and the Pacific. In 2015, China's share of services exports in the region was approximately 20%, which was about nine percentage points higher than those of Japan and India in the region.

<sup>7</sup> See notes below on the classification of commercial services.

<sup>8</sup> 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; other business services; and personal, cultural and recreational services.

<sup>9</sup> 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 (2016), a number of economies are currently in the process of implementing international recommendations on the compilation of goods-related services, and statistics shown under this category are estimates that are considered preliminary and should therefore be considered with caution.

<sup>10</sup> A number of countries are still not reporting goods-related services as a separate item. In 2015, countries that

reported exports in commercial services in BPM6, but not exports in goods-related services, included: Bangladesh; Bhutan; Brunei Darussalam; Cambodia; Kyrgyzstan; Lao People's Democratic Republic; Maldives; Nepal; New Zealand; Papua New Guinea; Solomon Islands; Sri Lanka; Timor-Leste; Thailand; Tonga; Vanuatu; Viet Nam; and Macao, China. For the countries that reported this service item, the service category represented only a marginal share in total exports and imports of commercial services, in many cases less than 1%.

<sup>11</sup> This could be in line with the growing purchasing power of the region's middle class, many of whom now travel and shop abroad.

<sup>12</sup> According to the IMF definition, personal, cultural, and recreational services involving transactions between residents and non-residents are subdivided into two categories: (a) audio-visual and related services; and (b) other cultural and recreational services. The first category comprises services and associated fees related to the production of motion pictures (film or video tape), radio and television programmes (live or on tape), and musical recordings. Included are: receipts or payments for rentals; fees received by resident actors, directors, producers etc. (or by non-residents in the compiling economy) for productions abroad; and fees for distribution rights sold to the media for a limited number of showings in specified areas. Fees to actors, producers etc. involved with theatrical and musical productions, sporting events, circuses etc., and fees for distribution rights (for television, radio etc.) for these activities are included. The second category comprises other personal, cultural, and recreational services such as those associated with museums, libraries, archives and other cultural, sporting and recreational activities. Also included are fees for services, including provision of correspondence courses, rendered abroad by teachers or doctors.

<sup>13</sup> Countries with no 2015 data reports of international tourist arrivals are: Turkey, New Zealand, Bangladesh, Iran, Bhutan, Pakistan, Timor-Leste, Kiribati, Marshall Islands, Federated States of Micronesia, Niue, Papua New Guinea, Tuvalu, Azerbaijan, Kazakhstan, Kyrgyzstan and Uzbekistan.

<sup>14</sup> The analysis of Asia-Pacific tourism in 2016 is based on the limited number of countries reporting to UNWTO in May 2016. This excludes various key economies including the Russian Federation and Malaysia. Data at the time of report preparation are available only for the first few months of the year, which, for many countries, are low-season months, with some 80 million arrivals a month worldwide, and are often not representative of the full-year trend.

<sup>15</sup> The Russian Federation is the only country that is not in these subregions.

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