Regional Workshop on Graduation for Least Developed Countries in Asia
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# Session 4: LDC Graduation and Services Trade – Development and opportunities

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# Outline

- Why do services trade matter for graduating LDCs?
- How did Asia-Pacific LDCs perform?
- Services trade opportunities
  - ☺ Services demand are increasing.
  - ☹ Challenges
  - 👍 Success stories
- Policy lessons

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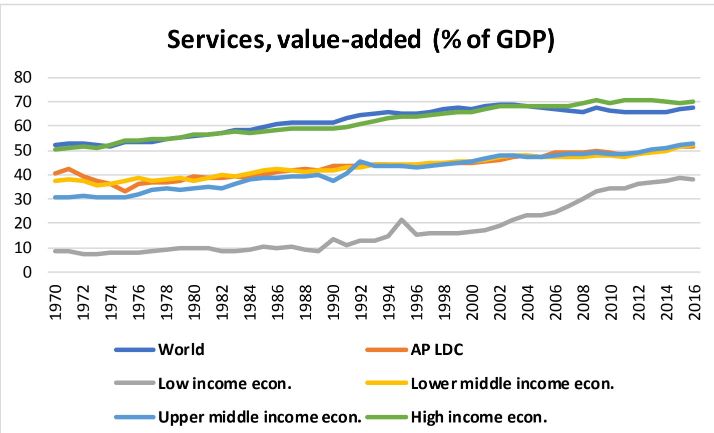
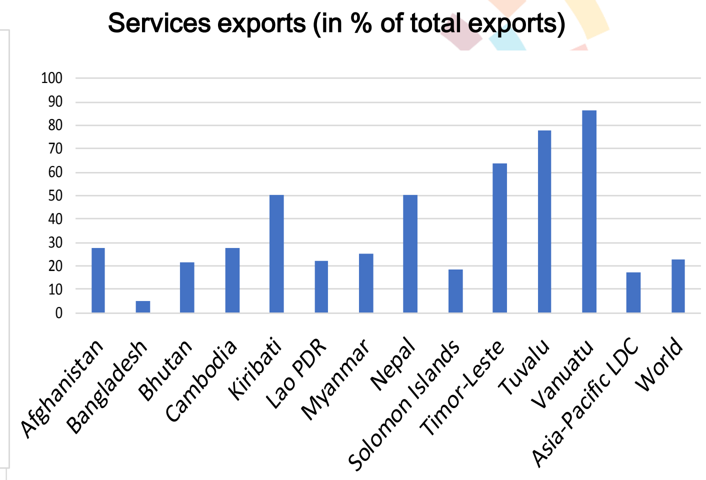
# Services trade and development

- Services provides an alternative engine of growth.
- Evidence of the development benefits is similarly emerging in LDCs as well as in developing countries




ESCAP's calculation using World Bank and WTO data.

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# Services trade performance

## Point 1: LDCs do export services.

Most of LDCs import more services than exports. However, some LDCs are net exporters of services.

### Services trade balance in percent of total services trade

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Afghanistan** | | | | 24.3% | 31.5% | 20.3% | 15.5% | -24.3% | -36.2% | -21.8% | -41.8% | -55.2% | -64.7% |
| **Bangladesh** | -52.7% | -42.9% | -47.5% | -53.1% | -53.4% | -53.9% | -55.6% | -58.9% | -60.5% | -63.7% | -63.0% | -58.2% | -59.9% |
| **Bhutan** | -50.1% | -18.7% | -24.9% | -39.7% | -28.0% | -33.8% | -36.5% | -31.4% | -17.1% | -19.9% | -21.0% | -13.7% | -12.6% |
| **Cambodia** | 25.5% | 25.2% | 28.7% | 30.3% | 36.0% | 40.1% | 33.2% | 34.1% | 31.8% | 33.4% | 33.4% | 31.0% | 33.3% |
| **Kiribati** | -60.3% | -56.3% | -57.9% | -57.0% | -60.7% | -60.3% | -63.8% | -58.5% | -57.2% | -65.8% | -75.8% | -68.7% | |
| **Lao PDR** | 73.1% | 73.6% | 74.3% | 55.7% | 48.5% | 31.0% | 23.6% | 24.8% | 18.5% | 21.2% | 13.9% | 14.5% | |
| **Myanmar** | -30.0% | -30.1% | -33.6% | -29.2% | -30.6% | -38.1% | -18.9% | -9.6% | 10.7% | 17.1% | 22.8% | 12.3% | |
| **Nepal** | -21.9% | -32.0% | -35.7% | -25.9% | -15.9% | -18.4% | 0.9% | -6.8% | -0.1% | -3.3% | -5.5% | -7.5% | -7.0% |
| **Solomon Islar** | -21.5% | -17.4% | -30.0% | -43.0% | -29.3% | -33.7% | -25.7% | -24.3% | -31.2% | -32.8% | -27.9% | -26.2% | -20.1% |
| **Timor-Leste** | | -27.4% | -24.9% | -63.6% | -84.9% | -87.3% | -93.1% | -87.8% | -74.3% | -70.7% | -73.7% | -75.6% | -60.8% |
| **Tuvalu** | -63.0% | -64.8% | -79.8% | -79.0% | -78.5% | -78.0% | -82.2% | -75.3% | -68.1% | -63.6% | -69.3% | -72.6% | -71.2% |
| **Vanuatu** | 32.6% | 35.8% | 43.0% | 27.3% | 38.9% | 37.4% | 32.0% | 34.1% | 39.3% | 38.3% | 22.1% | 36.7% | 45.9% |
| **LDC (world)** | -45.0% | -44.1% | -45.1% | -48.4% | -44.9% | -43.5% | -44.0% | -42.3% | -39.9% | -40.1% | -35.1% | -32.3% | -32.8% |

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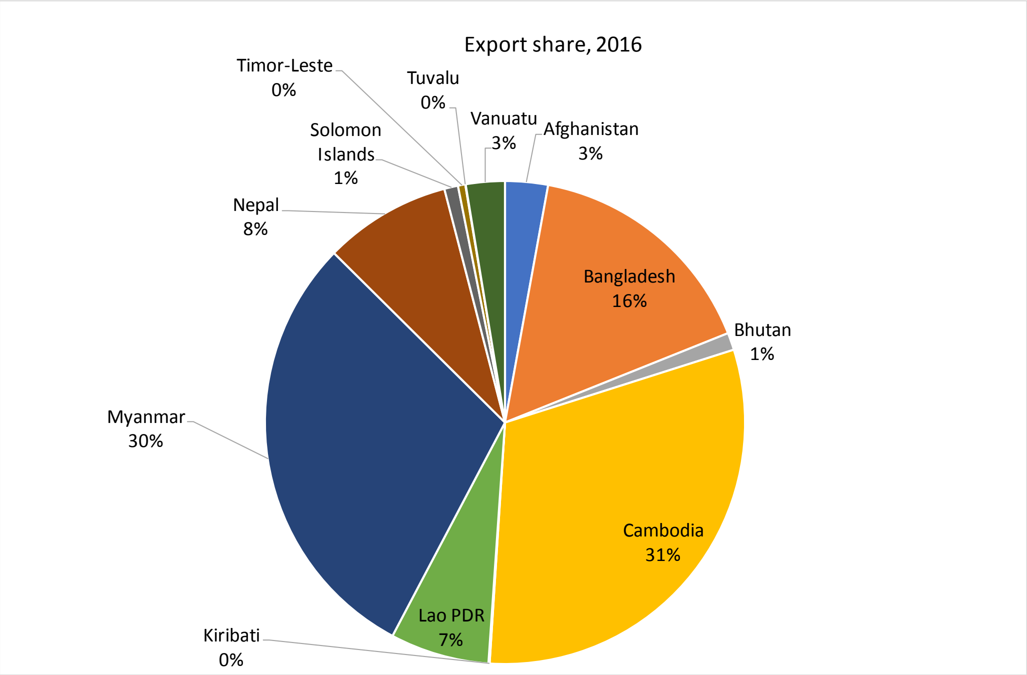
# Point 2: Service exports by AP LDCs grew rapidly.

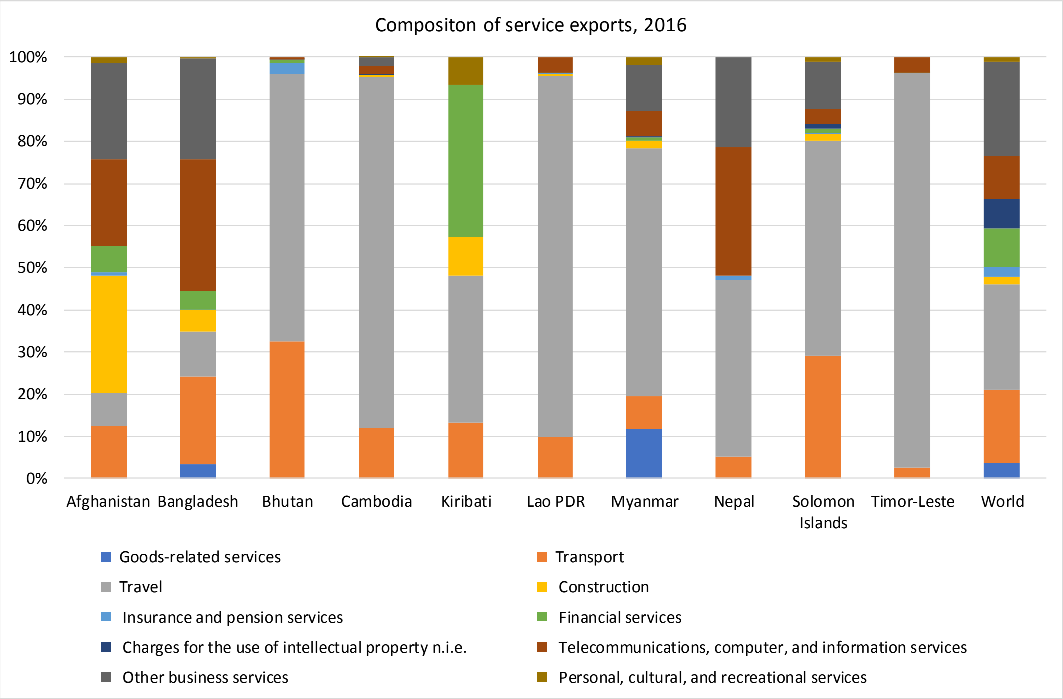
- LDCs contributed 0.7% of services exports to the world in 2016. The share increased from 0.4% in 2006.
- About one-third of the exports came from 12 LDCs in Asia and the Pacific.
- Services exports from AP LDCs grew from US$ 3 billion in 2006 to US$ 12 billion in 2016, growing much faster - at 14.5% per year - than total world services exports - at 5%.

# Cambodia, Myanmar, and Bangladesh are major exporters among AP LDCs.




ESCAP's calculation using WTO data.

# Point 3: Service exports from AP LDCs are common in travel, followed by transport.




ESCAP's calculation using WTO data.

# Services trade opportunity

- ☺ Changes in global trade landscape – more demand for services
- ☹ Services tend to be a highly protected sector.
- ? Export capacity

# Changes in global trade landscape are creating more demand.

## Digital technology:

- Shifting from trade in physical products to trade in services
- Increasing tradability of services
- Conducting digital trade demand inputs from services:
    - computer and information services,
    - telecommunications services,
    - postal services,
    - professional services.

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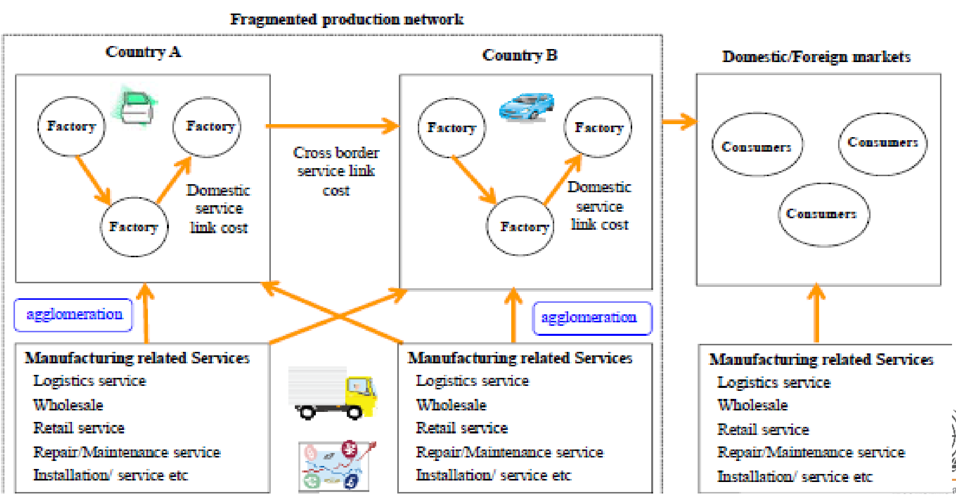
# Global value chains:

– GVCs (in goods and services) increase the demand for "coordination services"
  - Transport services as part of an efficient logistics package;
  - ICT services, together with communication infrastructure;
  - Financial services, especially insurance;
  - Business services (accounting, legal services, marketing etc.) are needed in each step of the chain.

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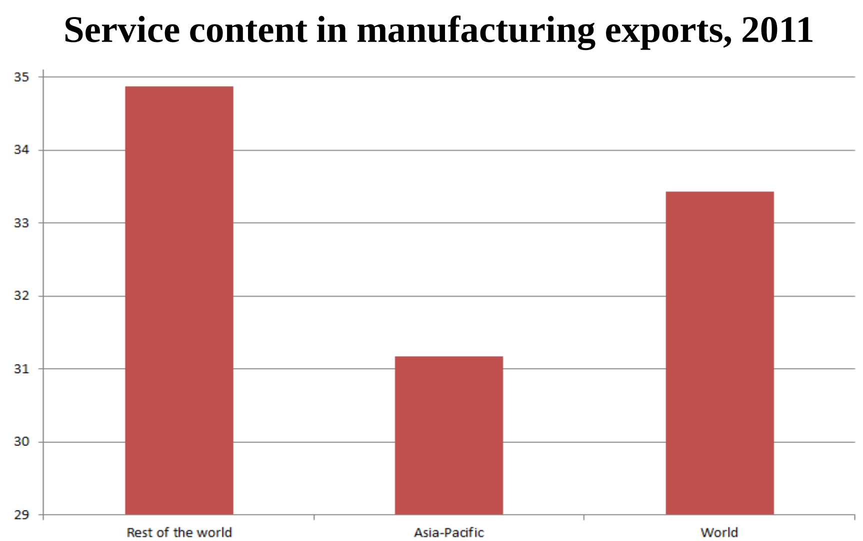
# Shifts in consumer behaviors:

- Customers increasingly demand that producers deliver a full package of goods and associated services.
- Services become a core element in the value-added process of manufacturing products, especially for high-value added exports.

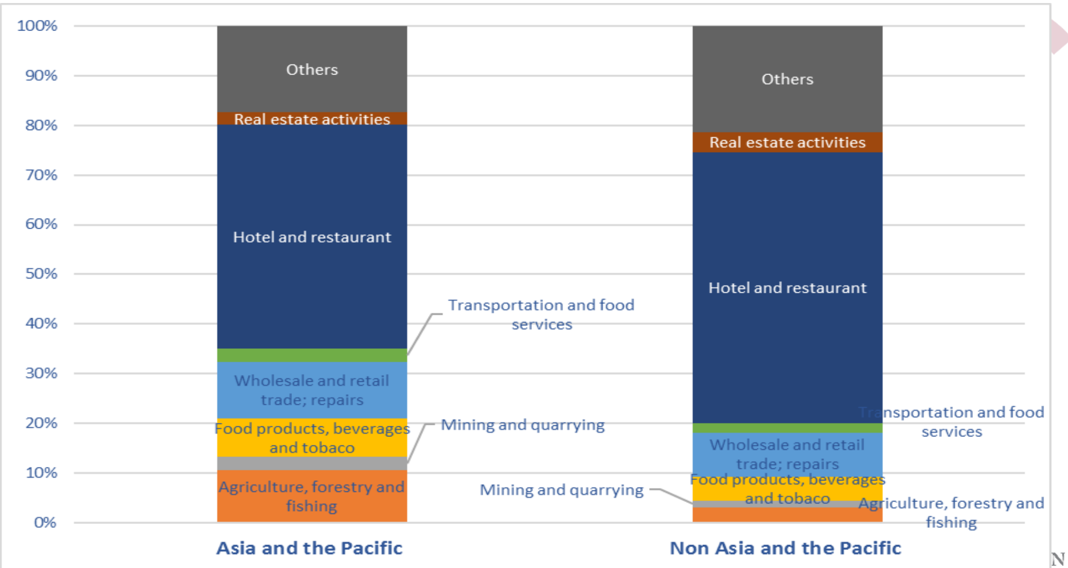



ESCAP's calculation using OECD-WTO TiVA. LDC data is not available.

# Shifts in consumer behaviors (ctd.):

- Similar to GVCs in goods, inputs from various services are important for staying competitive, upgrading, and differentiating in services value chain, even tourism.

## Travel and tourism export value chains, 2015

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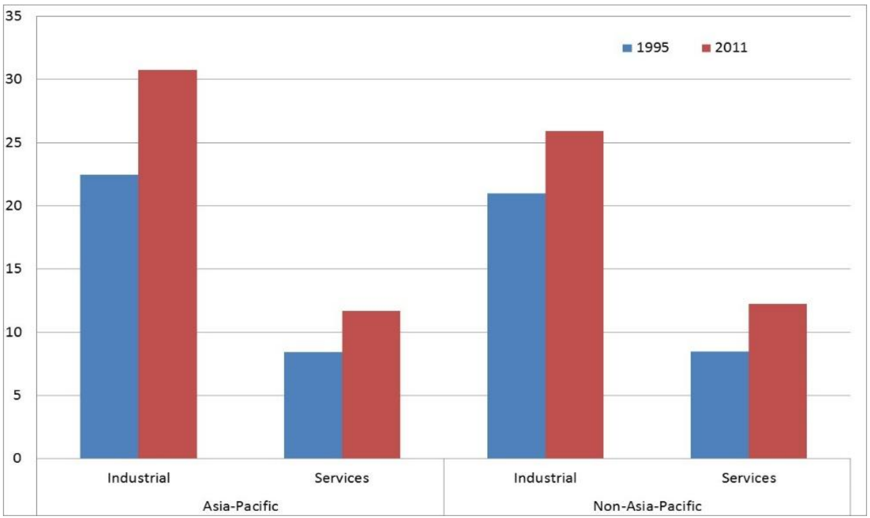
# Shifts in behaviors of service providers:

- GVCs in services exist.
- Imported inputs used in services exports grew fast.

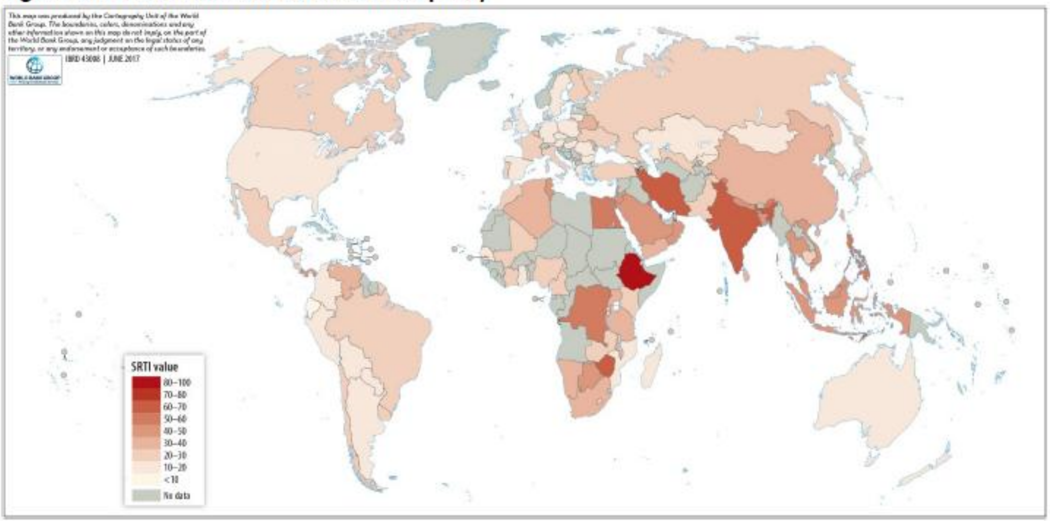
**Import content in industrial and service exports, 1995 and 2011**




ESCAP's calculation using OECD-WTO TiVA. LDC data is not available.

# Services are very protected (more than agriculture) around the world, including in LDCs.

**Figure 9. Restrictiveness of services trade policy**

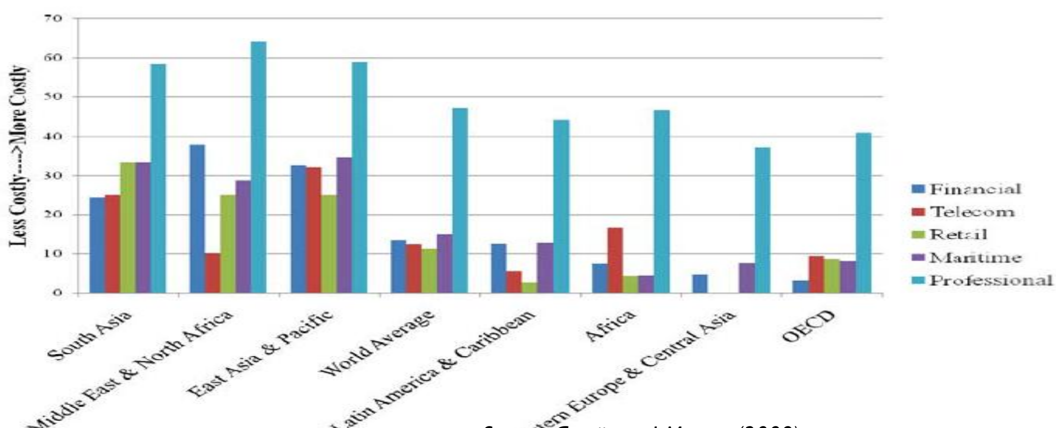



Source: Borchert, Gootiiz, and Mattoo 2014.
Note: This figure compares the restrictiveness of services trade policy across countries based on the World Bank Services Trade Restrictions Index, which ranges from 0 to 100. The World Bank Services Trade Restrictions Database covers 103 countries (79 developing) and financial, basic telecommunications, transport, distribution and selected professional services. The information for the database was collected between 2008 and 2010.

# Barriers to trade in services are difficult to quantify

- “At the border”: restrictions on commercial presence or FDI (mode 3), visa restrictions on inwards movement of natural persons (mode 4)
- Much of the barriers occur “behind the border” in the form of regulatory:
  - Overregulation
  - Absence of (transparent) regulation
  - Discretionary authority.
  - Major departure from the commonly accepted international practice

Figure 23: World Bank trade policy indices by sector.




*Source: Gootiiz and Mattoo (2009)*

Across sectors, professional and transport services are among the most protected industries in both industrial and developing countries, while retail, telecommunications, and even finance tend to be more open.

**Figure 10. Services trade restrictiveness by services sector and region**


*Source:* Borchert, Gootiiz, and Mattoo 2014.

*Note:* This figure compares the restrictiveness of services trade policy across countries based on the World Bank Services Trade Restrictions Index, which ranges from 0 (completely open) to 100 (completely closed). The information for the database was collected between 2008 and 2010.

# Success stories in Asian LDCs

# Bangladesh

## Nascenia Limited

- Exporting and undertaking off-shored work on software solutions
- Foreign clients are based in the United Kingdom, Sweden, Denmark, the United States and India

## Synesis IT Limited,

- A software developer and IT-enabled service provider
- The main export markets include the United States (Savvy Software Solutions, Inc., ChalkStream Capital Group, American Foundation of Aids Research) and Europe (Parkingware, Intellisor).

# Cambodia

## ACLEDA BANK Plc.

- Having commercial presence in Lao PDR and Myanmar,
- Accepting deposits from and providing financial services to non-residents
- The first bank in Cambodia to have been assigned ratings by S&P.

## Wings Over Cambodia

- Recreational tours and aerial photography services, video and aerial surveying.
- The company uses ultra-light aircraft to provide a competitive alternative to helicopter and fixed-wing charter companies.
- International clients included Animal Planet (United States), The Greater Angkor Project (Australia), Wildlife Conservation Society (United States), etc.

# Policy lessons

- Knowledge-intensive skills and the associated human resource development
- Compliance with international standards.
- Regulatory reform efforts
- Providing the infrastructure needed
- Liberalization and better regulatory practices are important factors behind the increase in effectiveness of services markets, services trade, and also goods trade.

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