



UNIVERSITI PUTRA MALAYSIA

***DETERMINANTS OF SERVICES EXPORTS AND THEIR IMPACT ON
ECONOMIC GROWTH IN SELECTED ASIAN COUNTRIES***

SITI ASIAH AHMAD

FEP 2015 4



**DETERMINANTS OF SERVICES EXPORTS AND THEIR IMPACT ON
ECONOMIC GROWTH IN SELECTED ASIAN COUNTRIES**

By

SITI ASIAH AHMAD

**This is submitted to the School of Graduate, Universiti Putra Malaysia
in the fulfillment of the requirements for the Degree of Master of Science**

September 2015

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DEDICATION

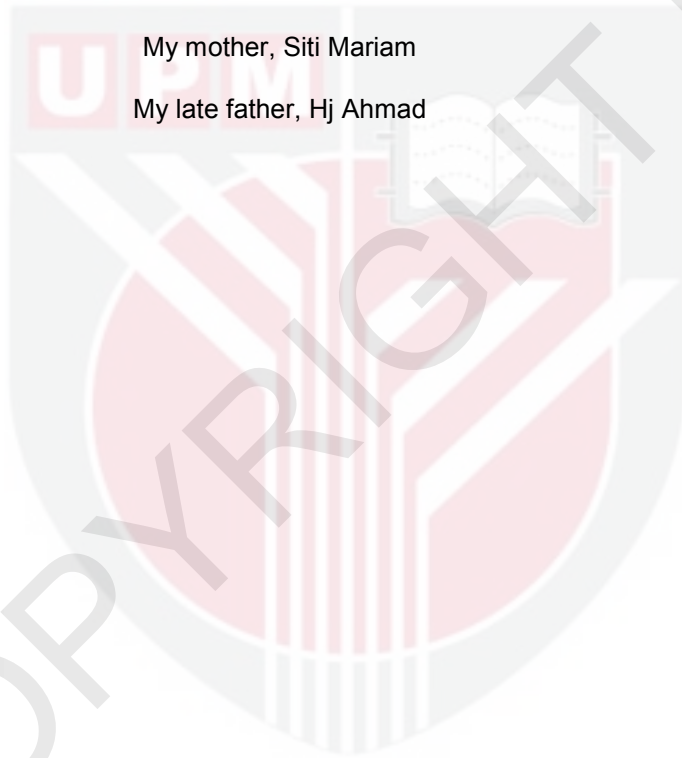
Special dedication to my beloved kids,

Kamal Aizam, Kamal Aizim, Kamal Ainisa and Kamal Aisy

My husband, Kamaruzaman

My mother, Siti Mariam

My late father, Hj Ahmad



Abstract of thesis to be presented to the Senate of Universiti Putra Malaysia in fulfilling the requirement for the degree of Master of Science

DETERMINANTS OF SERVICES EXPORT AND THEIR IMPACT ON ECONOMIC GROWTH IN SELECTED ASIAN COUNTRIES

By

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September 2015

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In recent decades, services sector has been identified as a new engine for economic transformation in both developed and developing countries. Services trade, in particular, is regarded as a new source of income, especially for developing countries. Even though services trade only represent 20.2 per cent (2010) to total world trade, interestingly, recent trend shows that the share for developing countries in services trade increased to 32 per cent (2010) as compared with only 20 per cent in 1990. In addition, the share of services exports to total exports is increasing from 18 per cent to 30 per cent for the period of 1990 and 2010. Although, most of the developing countries are still net importers for services, there is a widespread belief among scholars and policy makers that there is great potential for services exports to grow further as new source of income for developing countries.

The main purpose of this study is to empirically examine the determinants of services export and its impact on economic growth by using panel data in selected Asian countries. To achieve the first objective, static linear panel data model is applied through fixed and random effects model. Meanwhile, the second objective was tested by using panel dynamic OLS (DOLS) to capture the dynamic linkages among the selected variables. Annual data covering the period from 1985 to 2012 was utilized. The selected Asian countries are China, Hong Kong, South Korea, India, Iran, Indonesia, Malaysia, Philippines, Singapore, Thailand, Kuwait, Saudi Arabia and Turkey.

The findings indicates that services exports in Asian developing countries are influenced by exchange rate, foreign income, foreign direct investment (FDI), value added of services, and communication facilities. As for second objective, it can be concluded that all of the macroeconomic variables tested are co-integrated in the long run. A services export also has a significant and positive impact on economic growth.

The findings implies that the Asian developing countries have the opportunity to compete in exporting services globally provided that these countries could exploit their potential especially through stable exchange rate, promotion of services sector and other sector which are using services as intermediate input and also by enhancing the communication facilities. Moreover, since services exports found to a significant determinants of economic growth, Asian developing countries should focus more on developing appropriate policy measures to increase the productivity of the services sector.



Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia
sebagai memenuhi keperluan untuk ijazah Master Sains

**FAKTOR-FAKTOR YANG MEMPENGARUHI EKSPORT PERKHIDMATAN
DAN KESANNYA KE ATAS PERTUMBUHAN EKONOMI DI NEGARA-
NEGARA ASIAN TERPILIH**

Oleh

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Dalam dekad terkini, sektor perkhidmatan dikenal pasti sebagai sumber pertumbuhan baru bagi transformasi ekonomi di negara maju mahupun membangun. Perkhidmatan perdagangan, khususnya, adalah sebahagian daripada sumber pendapatan baru terutamanya bagi negara-negara membangun. Di sebalik sumbangan perdagangan perkhidmatan sekitar 20.2 peratus (2010) kepada jumlah perdagangan di dunia, menariknya, aliran terkini menunjukkan sumbangan negara-negara membangun dalam perkhidmatan perdagangan meningkat kepada 32 peratus (2010) berbanding dengan hanya 20 peratus pada tahun 1990. Di samping itu, sumbangan eksport perkhidmatan kepada jumlah eksport turut meningkat dari 18 peratus kepada 30 peratus bagi tempoh 1990 dan 2010. Walaupun kebanyakan negara membangun adalah pengimport bersih bagi perkhidmatan, terdapat keyakinan yang meluas di kalangan penganalisis dan pembuat dasar bahawa terdapat eksport perkhidmatan mempunyai potensi yang besar untuk terus berkembang sebagai sumber pendapatan baru bagi negara-negara membangun.

Oleh itu tujuan utama kajian ini adalah untuk mengkaji secara empirikal faktor-faktor penentu yang boleh mempengaruhi eksport perkhidmatan dan kesannya ke atas pertumbuhan ekonomi dengan menggunakan data panel negara-negara membangun Asia terpilih. Untuk mencapai objektif pertama, model "Static Linear Panel Data" digunakan melalui model "Fixed and Random effect". Sementara itu, Objektif kedua diuji dengan menggunakan model "Panel Dynamic OLS" (DOLS) untuk mengenalpasti hubungan dinamik antara pembolehubah dipilih. Data tahunan bagi tempoh 1985-2012 telah digunakan dalam kajian ini. Negara-negara Asia yang terpilih dalam kajian ini ialah China, Hong Kong, Korea Selatan, India, Iran, Indonesia, Malaysia, Filipina, Singapura, Thailand, Kuwait, Arab Saudi dan Turki.

Keputusan empirikal kajian ini menunjukkan bahawa eksport perkhidmatan di negara-negara membangun Asia dipengaruhi oleh kadar pertukaran wang, pendapatan asing, pelaburan langsung asing (FDI), nilai ditambah bagi perkhidmatan dan kemudahan komunikasi. Bagi objektif kedua, didapati semua pembolehubah makroekonomi yang diuji adalah saling bersepadu antara satu sama lain dalam jangka masa panjang. Eksport perkhidmatan

sebagai satu pembolehubah juga memberi kesan signifikan dan mempunyai hubungan yang positif dengan pertumbuhan ekonomi.

Kajian ini sekali gus menunjukkan bahawa negara-negara membangun di Asia mempunyai peluang untuk bersaing dalam eksport perkhidmatan di peringkat global dengan mengambilkira potensi mereka terutama melalui matawang yang stabil, promosi dan galakan perkhidmatan dan sektor lain yang menggunakan perkhidmatan sebagai input perantaraan dan juga untuk meningkatkan kemudahan komunikasi. Dapatan kajian juga menggambarkan bahawa secara bebas, eksport mempunyai kesan yang signifikan dan positif kepada pertumbuhan ekonomi. Oleh itu corak ekonomi negara-negara membangun di Asia dilihat sedang berubah dari negara perindustrian kepada negara berasaskan perkhidmatan memandangkan ia adalah lebih stabil dan munasabah dari segi pengurusan kos dan kemampuan jangka panjang.

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This thesis was submitted to the Senate of the Universiti Putra Malaysia and has been accepted as fulfillment of the requirement for the degree of Master Science. The members of supervisory committee were as follows:

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TABLE OF CONTENTS

| | Page |
|---|-------------|
| ABSTRACT | i |
| ABSTRAK | iii |
| ACKNOWLEDGEMENT | v |
| APPROVAL | vi |
| DECLARATION | vii |
| LIST OF TABLES | xiii |
| LIST OF FIGURE | xiv |
| LIST OF ABBREVIATIONS | xv |
| CHAPTER | |
| 1. INTRODUCTION | |
| 1.0. An Overview | 1 |
| 1.1. Background of the Study | 2 |
| 1.1.1. Contribution of Services Sector to Gross Domestic Products | 2 |
| 1.1.2. The Pattern of Trade in Services | 6 |
| 1.1.3. The Performance of Services Exports in Asian Countries | 13 |
| 1.2. Problem Statement | 14 |
| 1.3. Research Question | 15 |
| 1.4. Research Objectives | 15 |
| 1.5. Significance of the Study | 15 |
| 1.5.1. Practical or Policy Implications | 15 |
| 1.5.2. Complementing Existing Literature | 15 |
| 1.6. Organization of the Chapters | 16 |
| 2. REVIEW OF LITERATURE | |
| 2.0. Introduction | 17 |
| 2.1. Conceptualizations of Services and Services Trade | 17 |
| 2.1.1. Characteristic of Services | 17 |
| 2.1.2. Characteristic of Services Trade | 19 |
| 2.1.3. Services Trade: Comparative Advantage and Gain from Liberalization | 21 |
| 2.2. Theoretical Review | 21 |
| 2.2.1. International Trade Theories | 21 |
| 2.2.1.1. Mercantilism | 22 |
| 2.2.1.2. Adam Smith's Theory of Absolute Advantage | 22 |
| 2.2.1.3. David Ricardo's Comparative Advantage Theory | 23 |
| 2.2.1.4. Hecksher-Ohlin's Factor Endowment Theory | 23 |
| 2.2.1.5. New Trade Theory | 24 |
| 2.2.1.6. Export Base Theory | 25 |

| | | |
|-----------|--|----|
| 2.2.2. | Application of Trade Theory to Services Trade Flow | 25 |
| 2.2.3. | Economic Growth Theory and the Export- Led Growth Hypothesis | 26 |
| 2.3. | Empirical Review | 27 |
| 2.3.1. | Determinants of Trade Flows | 27 |
| 2.3.2. | Determinants of Services Trade | 29 |
| 2.3.3. | Trade Led Growth and Export Led Growth | 32 |
| 2.3.4. | Services Trade Growth and Services Exports Growth | 34 |
| 2.4. | Summary and Gap in the Literature | 35 |
| 3. | RESEARCH METHODOLOGY | |
| 3.0. | Introduction | 37 |
| 3.1. | Model 1: The Determinants of Services Exports | 37 |
| 3.1.1. | Theoretical Frame work | 37 |
| 3.1.2. | Model Specification | 38 |
| 3.1.3. | Variables' Description and Measurement | 39 |
| 3.1.4. | Empirical Methodology | 41 |
| a. | Static Linear Panel Data Analysis | 41 |
| b. | Pooled OLS, Fixed Effects and Random Effects | 43 |
| c. | Hausman Test | 44 |
| 3.2. | Model 2: The Impact of Services Exports on Economic | 45 |
| 3.2.1. | Theoretical Frame work | 45 |
| 3.2.2. | Model Specification | 46 |
| 3.2.3. | Variables' Description and Measurements | 47 |
| 3.2.4. | Empirical Methodology | 48 |
| a. | Dynamic Ordinary Least Squares (DOLS) | 48 |
| b. | Unit Root for panel Data | 49 |
| c. | Panel Data Co-Integration | 52 |
| d. | Estimation in Panel Co Integrating Frameworks | 53 |
| 3.3. | Data Sources | 54 |
| 3.4. | Summary | 55 |
| 4. | FINDINGS AND DISCUSSION | |
| 4.1. | Introduction | 57 |
| 4.2. | Results for the First Model: Determinants of Services Exports | 57 |
| 4.2.1. | Descriptive Statistics | 57 |
| 4.2.2. | Static Linear Panel Data Model | 58 |
| 4.2.2.1. | Specification Test | 59 |
| 4.2.2.2. | Services Exports Determinants Based on Random Effect Model | 60 |
| 4.2.2.3. | Discussion of the Findings | 60 |
| 4.2.3. | Summary | 62 |
| 4.3. | Results for the Second Model: Services Exports and Economic Growth | 62 |
| 4.3.1. | Descriptive Statistics and Correlation Analysis | 62 |

| | | |
|-----------|--|-----------|
| 4.3.2. | Panel Dynamic OLS (DOLS) Estimation Result | 63 |
| 4.3.2.1. | Panel Unit Root Tests Result | 64 |
| 4.3.2.2. | Panel Cointegration Test | 65 |
| 4.3.2.3. | Long Run Relationship between Services Exports and Economic Growth Based on DOLS Estimator | 66 |
| 4.3.3. | Summary of the Results | 67 |
| 4.4. | Conclusion | 69 |
| 5. | CONCLUSION AND POLICY IMPLICATION | |
| 5.1. | An Overview | 71 |
| 5.2. | Summary of Empirical Findings and Policy Implication | 71 |
| 5.3. | Limitation and Future Research Direction | 72 |
| | REFERENCES | 75 |
| | APPENDICES | 87 |
| | BIODATA OF STUDENT | 88 |

LIST OF TABLES

| Table | | Page |
|--------------|--|-------------|
| 1.1 | GDP Value and share by kind of Economic Activity 1990-2013 | 3 |
| 1.2 | The Share of Services Value Added in Asian Developing Countries, 1990 and 2013 | 5 |
| 1.3 | Services Exports by Region and Group of Economies, 1990-2013(Millions USD) | 9 |
| 1.4 | Share and Average Growth Rate of Services Imports by Region and Group of Economies, 1990-2013 (Millions USD) | 11 |
| 1.5 | Share of Services Export in Asian Developing Countries | 13 |
| 2.1 | Trade in Services and Mode of Supply | 20 |
| 3.1 | Summary Description of the Variables | 41 |
| 3.2 | Summary Description of the Variables | 48 |
| 3.3 | Summary of Data Sources | 55 |
| 4.1 | Descriptive Statistics for Key Variables | 56 |
| 4.2 | Correlation Coefficient between the Variables | 57 |
| 4.3 | Pooled OLS, Random Effects and Fixed Effects | 58 |
| 4.4 | Random Effects GLS Model | 59 |
| 4.5 | Summary of Descriptive Statistics | 62 |
| 4.6 | Correlation Matrix | 62 |
| 4.7 | Panel Unit Root Test Result (Level) | 63 |
| 4.8 | Panel Unit Root Test Result (First Difference) | 64 |
| 4.9 | Pedroni Panel Cointegration Test Result | 65 |
| 4.10 | DOLS Estimates of the Long Run Effects of Services Exports on Economic Growth for Two Model | 66 |

LIST OF FIGURES

| Figure | | Page |
|--------|--|------|
| 1.1 | The Share of Services Sector by region (Percentage) 1990 and 2013 | 4 |
| 1.2 | Percentage Annual Growth Rate of Services Sector by Group of Economic, 1990-2013 | 6 |
| 1.3 | Exports, Imports, and Trade Balance of Services, 1990-2013 | 7 |
| 1.4 | Average Growth Rates of Exports and Imports of Services, 1990-2013, Developed and Developing Countries | 8 |
| 1.5 | Average Growth Rate of Merchandise and Services Exports, 1990-2013 by region | 8 |
| 1.6 | Share (2013) and Average Growth (2001-2013) of Services Exports by Component, Developed and Developing Economies | 10 |
| 1.7 | Percentage Annual Growth Rate of Services Exports and GDP, Developed and Developing Economies, 1981-2010 | 12 |

LIST OF ABBREVIATIONS

| | |
|--------|--|
| WTO | World Trade of Organization |
| ICT | Communication Technology |
| GATS | General Agreement On Trade In Services |
| GDP | Gross Domestic Products |
| CPC | Central Product Classification |
| GATT | General Agreement on Trade and Tariffs |
| UNCTAD | United Nations Conference on Trade and Development |
| FDI | Foreign Direct Investment |
| NTT | New Trade Theory |
| OLS | Ordinary Least Squares |
| MNC | Multinational Companies |
| DOLS | Dynamic Ordinary Least Square |
| BLUE | Best Linear Unbiased Estimator |
| SIC | Schwarz Information Criteria |

CHAPTER 1

INTRODUCTION

1.0 An Overview

In recent decades, the services sector has been identified as the new engine of growth for this millennium in most developed and developing countries because of a widespread belief that an efficient services sector is highly important for trade and economic growth. In general, the services sector provides crucial support to other sectors in the economy and industries as a whole—for instance, through finance, transportation, communication, wholesaling, communications and other business services. Besides its contribution to economic activities, increased trade in services and the availability of various subservices may also boost economic growth by improving the performance of other industries, as services can serve as key intermediate inputs, especially in an increasingly globalized world economy.

This current scenario was supported by Mattoo and Stern (2007), who claimed that international trade and investment in services are becoming an increasingly important part of global commerce. A recent trend shows that world exports of commercial services have registered relatively higher growth of 7.9% as compared with trade in goods (6.6%) in the past two decades (WTO, 2010). In terms of share, services trade represents about 20% of total trade globally. This phenomenon has a greater impact on countries focused on additional income generation from the external sector. Nonetheless, the value of merchandise trade is generally two to three times higher than that of services trade. Despite the relatively low level of international trade in services, many believe that this may grow in future and contribute significantly to the growth of the domestic as well as the global economy. The main factors in facilitating and stimulating services trade are technological developments and the liberalization of services. Advances in technology, and especially in information and communication technology (ICT), have increased the tradability of some services, facilitating, for instance, web-based services such as those for finance, education, health and government among others. Moreover, since the first round of General Agreement on Trade in Services (GATS) negotiations in 2000, many countries are seen to have substantially liberalized services (in multilateral as well as in regional trading arrangements), which have become increasingly tradable and account for a larger share of GDP in most countries.

The issues of international trade and economic growth have gained substantial attention from scholars and policy makers, especially with the implementation of trade liberalization policies in developing countries across the world. Mattoo, Rathindran and Subramaniam (2001) asserted that if liberalization of trade in goods, which typically accounts for less than half of GDP in most countries, can have an effect on economy-wide growth, and then there should be comparable gains from liberalization of services. Trade in services can improve not only the performance of the services sector but also the economy as a whole by serving as an intermediate input to other sectors (Arnold, Javorcik and Mattoo, 2006). Despite the increasing importance of services trade in the global economy, the

literature remains limited, especially in respect of the determinants of services trade and its impact on the growth of domestic economies. The present study seeks to fill that void by exploring the determinants and growth impact of services trade in selected Asian countries. The sections that follow will detail the background of the services sector in the global economy, a statement of the problem and the significance of the present study.

1.1 Background

1.1.1 Contribution of Services Sector to Gross Domestic Product (GDP)

Services are essential for a dynamic modern economy, either as a final output or as an intermediate input to other sectors. This recent development aligns with the new era of globalization and technological advance. Accounting for 67.9% of GDP in the world (see Table 1.1), services play a vital role in national economies. The trend towards developing a so-called 'knowledge-based' or 'service' economy has to varying degrees stimulated the increasing importance of the services sector around the world. In 2013, total world value added amounted to US\$53,767 billion, an almost twofold increase from the 1980 figure of US\$21,889 billion. In the services sector, value added increased by 159.9% to record US\$36,513 in 2013 (from US\$14,047 in 1980). During the same period, the contribution of the industrial sector has gradually diminished to 28.6% in 2013 (from 31.5% in 1980). The agriculture sector, though important in ensuring sufficiency of food supply, contributed only 3 to 5% in the same period.

From a regional point of view, services dominated value added in developed economies, with a share of 75.0% in 2013 as compared with 68.2% in 1980. In contrast, the industrial sector share shrank to 23.6% in 2013 from 30.0% in 1980 while agriculture contributed only about 1 to 3% to total value added (see Table 1.1). The scenario is different in developing economies, where both services and industrial sectors account for a significant share of the economy. This is because most of the developing economies transformed to an industrial base in the early 1970s and at the same time strengthened their services sector to support activities in the industrial and agricultural sectors. However, the services sector still leads in terms of value added with a share of 53.2% in 2013, increasing from 47.5% in 1980. In the same period, the agriculture sector's share shrank to 7.9% from 11.9% in 1980 (see Table 1.2).

Table 1.1
Value added and share by kind of economic activity, 1990 -2013

| Year/ Group of country | USD billion | | | | Per cent | | | |
|------------------------------|-------------|----------|----------|-------------|------------------------|----------------------------|---------------------------|------|
| | Total | Services | Industry | Agriculture | Share: Servic es | Shar e: Indus try | Share: Agricul ture | |
| world | 1980 | 22,607 | 14,664 | 7,110 | 833 | 64.9 | 31.5 | 3.7 |
| | 1985 | 25,474 | 16,911 | 7,591 | 972 | 66.4 | 29.8 | 3.8 |
| | 1990 | 30,117 | 19,992 | 9,010 | 1,115 | 66.4 | 29.9 | 3.7 |
| | 1995 | 33,296 | 22,477 | 9,660 | 1,160 | 67.5 | 29.0 | 3.5 |
| | 2000 | 39,036 | 26,432 | 11,265 | 1,339 | 67.7 | 28.9 | 3.4 |
| | 2005 | 44,773 | 30,479 | 12,776 | 1,519 | 68.1 | 28.5 | 3.4 |
| | 2010 | 50,093 | 34,068 | 14,284 | 1,741 | 68.0 | 28.5 | 3.5 |
| | 2013 | 53,767 | 36,513 | 15,372 | 1,882 | 67.9 | 28.6 | 3.5 |
| Developed Economies | 1980 | 18,137 | 12,545 | 5,269 | 323 | 69.2 | 29.1 | 1.8 |
| | 1985 | 20,339 | 14,314 | 5,658 | 367 | 70.4 | 27.8 | 1.8 |
| | 1990 | 23,850 | 16,837 | 6,613 | 400 | 70.6 | 27.7 | 1.7 |
| | 1995 | 26,113 | 18,771 | 6,952 | 391 | 71.9 | 26.6 | 1.5 |
| | 2000 | 30,191 | 21,860 | 7,878 | 453 | 72.4 | 26.1 | 1.5 |
| | 2005 | 33,250 | 24,474 | 8,313 | 464 | 73.6 | 25.0 | 1.4 |
| | 2010 | 34,566 | 25,797 | 8,287 | 483 | 74.6 | 24.0 | 1.4 |
| | 2013 | 35,838 | 26,895 | 8,452 | 491 | 75.0 | 23.6 | 1.4 |
| Developing Economies | 1980 | 3,670 | 1,744 | 1,487 | 438 | 47.5 | 40.5 | 11.9 |
| | 1985 | 4,171 | 2,122 | 1,518 | 531 | 50.9 | 36.4 | 12.7 |
| | 1990 | 5,139 | 2,619 | 1,897 | 623 | 51.0 | 36.9 | 12.1 |
| | 1995 | 6,550 | 3,360 | 2,474 | 716 | 51.3 | 37.8 | 10.9 |
| | 2000 | 8,160 | 4,193 | 3,136 | 832 | 51.4 | 38.4 | 10.2 |
| | 2005 | 10,603 | 5,494 | 4,118 | 991 | 51.8 | 38.8 | 9.3 |
| | 2010 | 14,402 | 7,607 | 5,603 | 1,191 | 52.8 | 38.9 | 8.3 |
| | 2013 | 16,684 | 8,876 | 6,495 | 1,312 | 53.2 | 38.9 | 7.9 |

Source: UNCTAD Statistics Online Database Website, 2014

As depicted in Figure 1.1, the share of services value added was dominated by the developed economies, which contributed about 43.2% in 1990. Among the developed economic regions, America and Europe were the main contributors with shares of 43.0% and 40.1%, respectively, the rest coming from Asia and Oceania. In 2010, the contribution of developed economies to the services sector had shrunk to 73.7%. America became the most dominant region with a share of 45.0%, while Europe region recorded a lower share of 39.7%. At that time, Asia and Oceania contributed 12.2% and 2.6%, respectively.

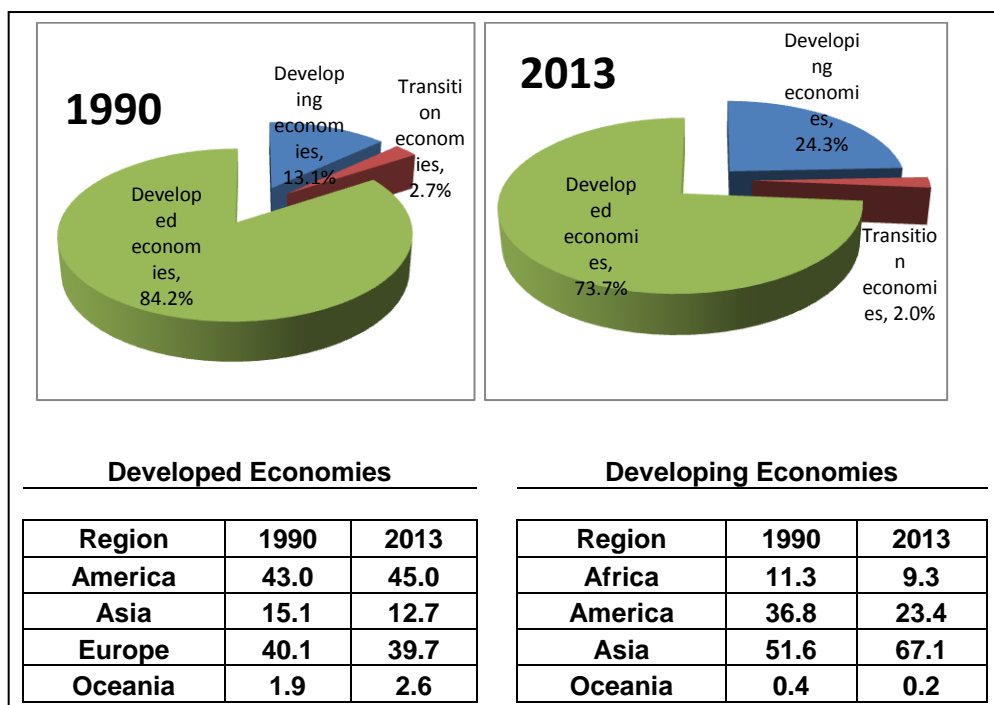


Figure 1.1 The Share of Services Sector by Region (percentage), 1990 and 2013

Source: UNCTAD Statistics Database Website, 2014

Note: Asian developing economies consists of 40 countries altogether¹

Against this, the developing economies contributed a share of 13.1% in 1990, dominated mainly by the Asian region (51.6%). In 2010, the contribution of developing economies to services value added increased to 24.3%. Among developing economic regions, Asia is the most dominant, accounting for 67.1% of the services sector. By looking further into the Asian developing countries, as depicted in Table 1.2, China is the largest contributor for services sector in this region with a share of 34.7 in 2013 (in 1990 was 15.4%). It is followed by India (13.5%) and Korea (10.6%). Other countries which hold more than one per cent share of services value added in Asian developing countries are Hong Kong, Indonesia, Iran, Republic of Korea, Kuwait, Malaysia, Philippines, Saudi Arabia, Singapore, Thailand and Turkey. These countries contribute 31.6 per cent to total services value added in the region.

¹ See Appendix 1

Table 1.2
The share of services value added in Asian developing countries, 1990 and 2013

| | Country/year | 1990 | 2013 |
|-----------|------------------------------|-------------|-------------|
| 1 | China | 15.4 | 34.7 |
| 2 | Hong Kong | 5.8 | 3.7 |
| 3 | India | 9.8 | 13.5 |
| 4 | Indonesia | 4.4 | 3.5 |
| 5 | Iran | 3.6 | 1.8 |
| 6 | Republic of Korea | 15.9 | 10.6 |
| 7 | Kuwait | 1.0 | 1.0 |
| 8 | Malaysia | 1.6 | 1.8 |
| 9 | Philippines | 2.2 | 1.5 |
| 10 | Saudi Arabia | 5.2 | 3.5 |
| 11 | Singapore | 2.4 | 2.1 |
| 12 | Thailand | 3.7 | 2.3 |
| 13 | Turkey | 10.6 | 6.4 |
| 14 | 13 Selected Countries | 81.5 | 86.2 |
| 15 | Other countries | 18.5 | 13.8 |
| 16 | Total Asian | 100 | 100 |

Source: UNCTAD database, 2014

In addition, Figure 1.2 shows the annual growth rate of the services sector by group of economies for the period 1990–2010. It can be seen that the growth of the services sector in developing economies during that time was higher than in developed economies, except for the years 1990, 1998, 1999, 2001, 2002 and 2003; growth peaks in 2007 at more than 20%. It is interesting that, although most countries experienced global recession in 2009, the developing economies still posted positive growth for the services sector as compared to developed economies (which recorded negative growth).

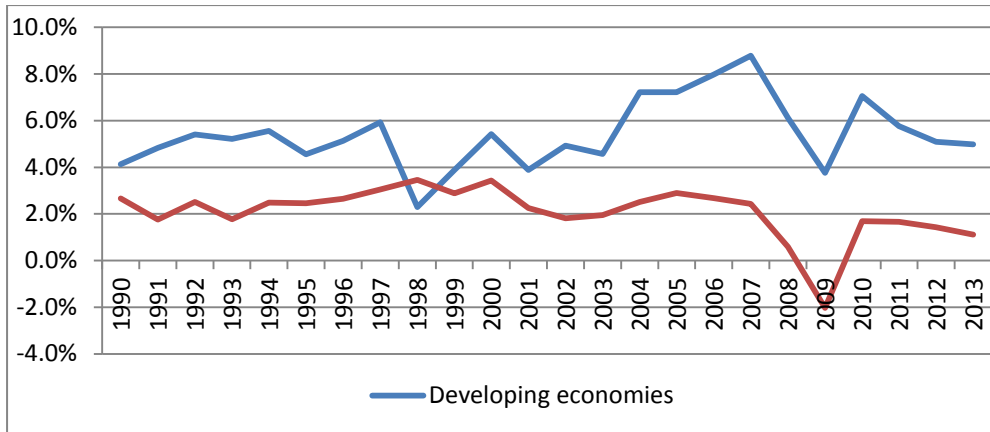


Figure 1.2 Annual Growth Rate of Services Sector by Group of Economies, 1990–2013

Source: UNCTAD Statistics Database Website, 2014

1.1.2 The Pattern of Trade in Services

Globally, services trade accounted for 20.4% of total trade in 2010 (World Bank, 2011). As shown in Figure 1.3, world trade balance recorded a marginal surplus, most of it contributed by the developed economies. With exports of services larger than imports, developed economies remained net exporters for services trade while developing economies continued to register a deficit in services. Here, we can see that developing economies have not yet exploited the potential of the trade in services even though their services sector grow larger year by year.

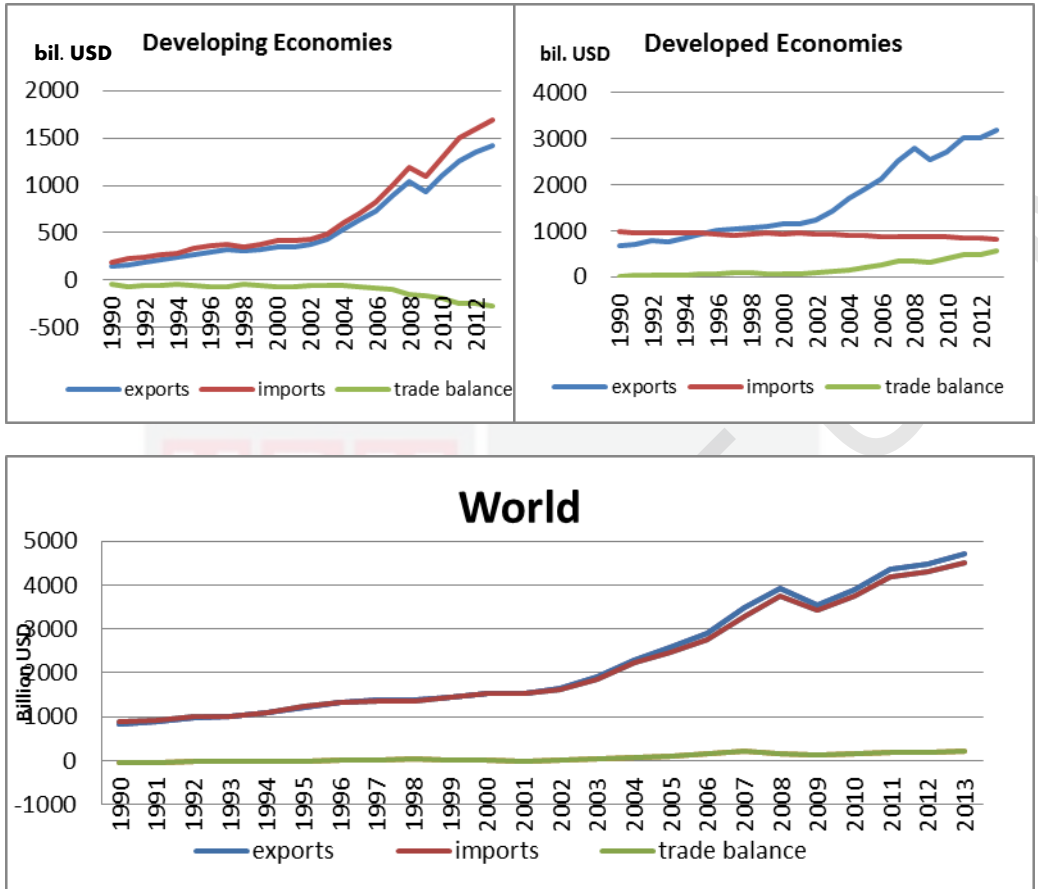


Figure 1.3 Exports, Imports and Trade Balance of Services, 1990 –2013
 Source: UNCTAD Statistics Database Website, 2014

Figure 1.4 illustrates the average growth rate of exports and imports of services for developed and developing economies between 1990 and 2013. Average growth rates for exports of services in developing economies showed acceleration of 10.8% for that period, despite accelerating imports. On the other hand, although developed economies contributed the greater part of exported services, the average shows smaller growth of 8.5% in the same period.

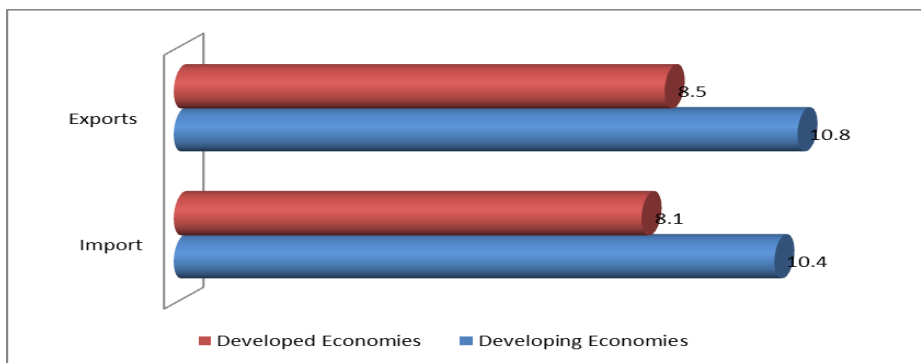


Figure 1.4 Average Growth Rates of Exports and Imports of Services, 1990–2013, Developed and Developing Economies

Source: UNCTAD Statistics Database Website, 2014

As compared to merchandise, the average growth rate for services exports seems lower for developing economies (see Figure 1.5). However, when examined by region, Asia is found to account for the largest part of the developing economies, recording double digit growth of 11.9%. In the same period, merchandise exports also achieved steady growth of 12.0%, while developed economies recorded an average of 7.7% and 6.6% for merchandise and services exports, respectively.



Figure 1.5 Average Growth Rates of Merchandise and Services Exports, 1990–2013, by Region

Source: UNCTAD Statistics Database Website, 2014

As depicted in Table 1.3, services exports were dominated by the developed economies with a share of 67.6%, although the share of services exports for developing countries has generally seen significant increase over the last two decades. The latest figure (2013) recorded by this group of countries is 30.1% as compared with 18.1% in 1990. In the developed economies, Europe is the main regional contributor (2013: 67.2%), while among the developing economies; Asia is more predominant with a share of 81.2 % in 2013.

Table 1.3 Share of Services Exports by Region and Group of Economies, 1990–2013 (Millions USD)

| Year/Region | 1990 | 1995 | 2000 | 2005 | 2010 | 2013 |
|--------------------------------------|-------|-------|-------|-------|-------|-------|
| World | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Developing economies | 18.1 | 22.4 | 23.1 | 24.6 | 29.7 | 30.1 |
| Transition economies | 2.0 | 1.5 | 1.6 | 2.2 | 2.7 | 2.7 |
| Developed economies | 79.9 | 76.1 | 75.3 | 73.2 | 67.6 | 67.2 |
| Share to Developing economies | | | | | | |
| Developing: Africa | 14.4 | 10.3 | 9.4 | 9.5 | 8.0 | 6.7 |
| Developing: America | 21.0 | 16.7 | 17.6 | 14 | 11.7 | 22.8 |
| Developing : Asia | 64.0 | 72.5 | 72.7 | 76.1 | 80 | 81.2 |
| Developing : Oceania | 0.5 | 0.4 | 0.3 | 0.5 | 0.3 | 0.3 |
| Share to Developed economies | | | | | | |
| Developed : America | 25.2 | 26.4 | 28.7 | 23.0 | 24.0 | 24.1 |
| Developed : Asia | 6.9 | 8.0 | 7.5 | 6.5 | 6.4 | 5.7 |
| Developed : Europe | 66.0 | 63.4 | 61.6 | 68.4 | 67.5 | 68.1 |
| Developed: Oceania | 1.9 | 2.3 | 2.1 | 2.1 | 2.2 | 2.1 |

Source: UNCTAD Statistics Database Website, 2014

Figure 1.6 shows the share of services exports for developed and developing countries by component for 2013, along with the average growth in services exports for the years 2001–2013. In terms of share, we can see that developed economies dominated more in modern services, especially for other business services, royalties and license fees, and financial, computer and communication services. On the other hand, developing economies rely on traditional services, mostly travel and transport. However, in terms of trends, developing economies showed a faster momentum than developed countries. Most of the components show favourable average growth at more than 10%, indicating that developing economies have sought to strengthen their services exports as one of source of income.

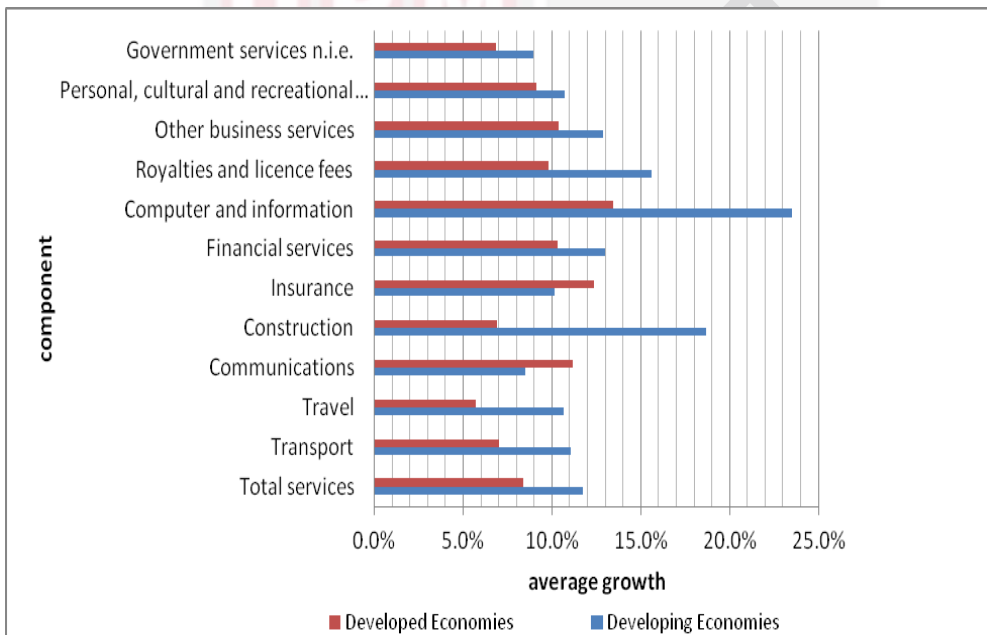
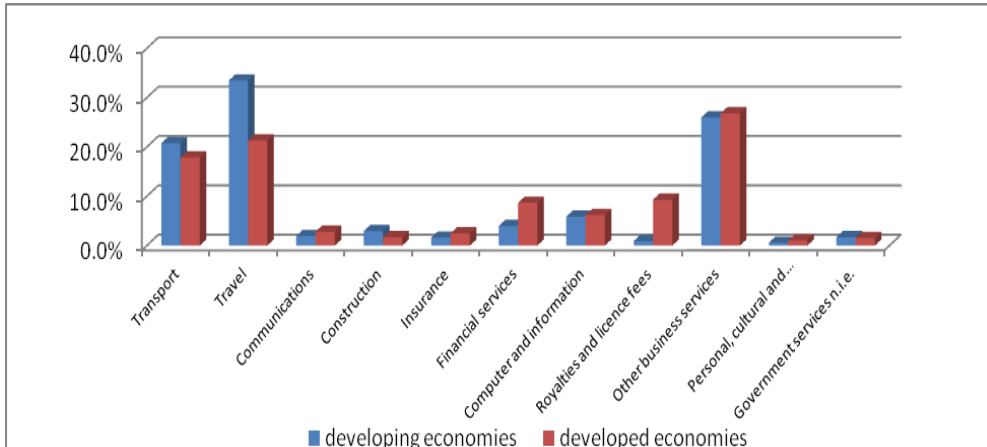


Figure 1.6 Shares (2013) and Average Growth (2001–2013) of Services Exports by Component, Developed and Developing Economies

Source: UNCTAD Statistics Database Website, 2014

From the services imports perspective, it can be seen that the trend of growth and share is similar to that of services exports. In 1990, the share of services imports for developed economies accounted for 74.4%, decreasing to 58.1% in 2013. This differs from the situation in developing economies, where the contribution of services imports increased by more than 10 percentage points from 22.1% in 1990 to 37.7% in 2013 (see Table 1.4).

Table 1.4 Share of Services Imports by Region and Group of Economies, 1990–2013 (Millions USD)

| Year/Region | 1990 | 1995 | 2000 | 2005 | 2010 | 2013 |
|--------------------------------------|-------|-------|-------|-------|-------|-------|
| World | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Developing economies | 22.1 | 27.1 | 27.4 | 28.4 | 35.2 | 37.7 |
| Transition economies | 3.5 | 2.2 | 1.9 | 2.8 | 3.4 | 4.1 |
| Developed economies | 74.4 | 70.7 | 70.7 | 68.8 | 61.4 | 58.1 |
| Share to Developing economies | | | | | | |
| Developing: Africa | 15.6 | 11.5 | 9.9 | 11.0 | 11.6 | 10.1 |
| Developing: America | 19.5 | 17.0 | 17.8 | 13.6 | 13.0 | 13.8 |
| Developing : Asia | 64.4 | 71.1 | 71.9 | 74.9 | 74.9 | 75.7 |
| Developing : Oceania | 0.4 | 0.4 | 0.3 | 0.5 | 0.5 | 0.4 |
| Share to Developed economies | | | | | | |
| Developed : America | 22.3 | 20 | 24.6 | 21.8 | 22.0 | 21.6 |
| Developed : Asia | 13.7 | 13.8 | 11.0 | 8.1 | 7.8 | 7.0 |
| Developed : Europe | 61.4 | 63.7 | 62.1 | 67.8 | 67.6 | 68.5 |
| Developed: Oceania | 2.6 | 2.5 | 2.2 | 2.3 | 2.7 | 2.9 |

Source: UNCTAD Statistics Database Website, 2014

Given the development of the services sector and services trade in developing economies, especially in Asia, it would be interesting to understand the determinants of services exports and how it give an impact on economic growth. Within three decades, the contribution of the services sector in this region increased in line with growth momentum; the trend analysis above provides evidence that the share of services exports also has augmented during this period.

The trend analysis of services exports and economic growth (see Figure 1.7) suggests that services exports seem to be growing constantly faster than economic growth, especially for the developed economies. This differs from the developing economies, where services exports and economic growth seem to develop in tandem. In the case of developed economies, which are broad-based and fundamentally strong, GDP performance does not rely on any single sector.

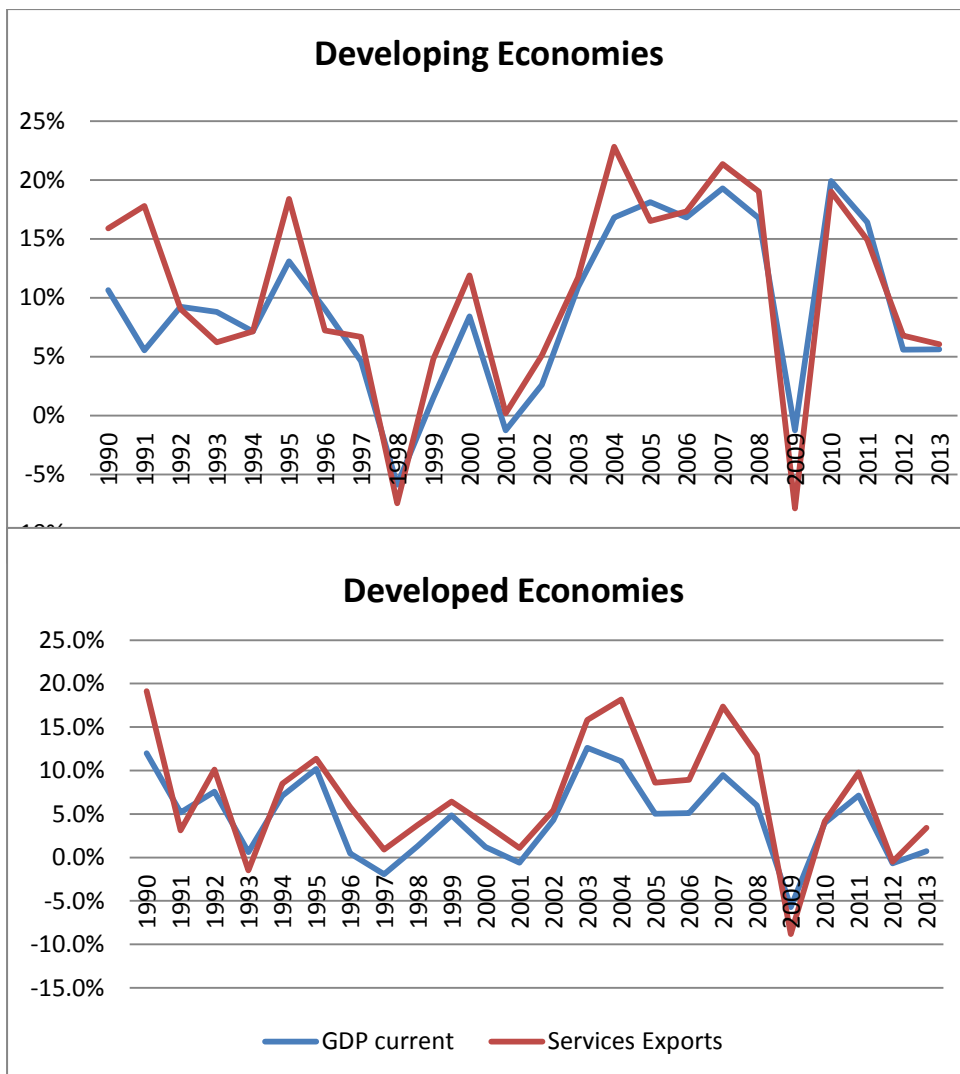


Figure 1.7 Percentage Annual Growth Rates of Services Exports and GDP, Developed and Developing Economies, 1990-2013

Source: UNCTAD Statistics Database Website, 2014

As one source of income, services exports have become dominant, especially those related to modern services such as business, professional, financial and ICT services. As for developing economies, since most are more dependent on traditional services such as travel and transport, we can see that their services exports depend on the demand for such services. For instance, in 1998, when GDP performance was shrinking because of the ASEAN financial crisis, services exports remained steady, supported mainly by the performance of the travel sector. In contrast, for the period 2006–2008, the performance of services exports was lower than GDP owing to higher commodity prices, while

in 2009, with the global economy experiencing recession worldwide, we can see that services exports performance was in line with GDP.

1.1.3 The Performance of Services Exports in Asian Countries

In Asian developing countries, services exports recorded a value of USD1120.3 billion in 2013, increased by 10.7 per cent from USD95.6 billion in 1990. As portray in Table 1.5, 13 selected Asian countries contribute more than 80 per cent from total services exports of Asian countries. Among the highest contributors were China, India, Hong Kong, Singapore and Korea. Therefore based on the highest share and the availability of data, this study will focus on them.

Table 1.5 Share of services exports in Asian Developing Countries

| Year/Country | 1990 | 2013 |
|-------------------------------|--------|--------|
| 1 China | 6.1% | 18.4% |
| 2 India | 4.8% | 13.5% |
| 3 Hong Kong | 19.1% | 11.9% |
| 4 Singapore | 13.4% | 10.9% |
| 5 Korea, Republic of | 10.7% | 10.1% |
| 6 Thailand | 6.7% | 5.3% |
| 7 Turkey | 8.4% | 4.2% |
| 8 Malaysia | 4.0% | 3.6% |
| 9 Indonesia | 2.6% | 2.0% |
| 10 Philippines | 3.4% | 1.9% |
| 11 Saudi Arabia | 3.2% | 1.0% |
| 12 Iran (Islamic Republic of) | 0.5% | 0.6% |
| 13 Kuwait | 1.3% | 0.5% |
| 14 Selected countries | 84.3% | 83.9% |
| 15 Other countries | 15.7% | 16.1% |
| 16 Total Asian | 100.0% | 100.0% |

Source: UNCTAD database 2014

1.2 Problem Statement

Since the 1990s, the services sector has emerged as the fastest growing sector in both developed and developing countries. The significant growth of the services sector's contribution to GDP and international trade has attracted the interest of scholars and policymakers on its potential role in the economic growth of developing countries (Li, Greenaway, & Hine, 2003). Moreover, the increasing importance of services for both the domestic and global economy has led to the implementation of GATS with the launch of the World Trade Organization (WTO) in 1995. Since the inception of the General Agreement on Tariffs and Trade (GATT) system in 1947, the world trading system has mostly focused on issues relating to trade in goods, as a large part of international trade involves physical goods, with services accounting for a much lower share. UNCTAD (2014) reports indicate that world trade in goods has increased significantly in the last decade, rising from less than US\$8 trillion in 2003 to more than US\$18.5 trillion in 2013. In addition, a similar trend has been observed in the case of services trade, which increased from US\$2 trillion in 2003 to about US\$4.7 trillion in 2013.

Although services trade has generally been growing faster, it is apparent that growth rates remain quite different across regions. In general, developed countries account for about half of global trade in goods and about two-thirds of trade in services. Developed countries account for most of the demand (imports) and supply (exports) of world trade in services, especially in computer and information services, financial services, royalties and license fees and communication services (UNCTAD, 2014). For both developing and developed countries, export of services has been increasing in most sectors since 2008. While export growth has often been higher for developed countries in the medium term since 2008, export growth in developing countries has generally been higher since 2011 in most of the service sectors. Services exports have been increasing in most sectors, especially since 2011, and it is of interest to note that their exports of services have grown much faster than those of developed countries, especially in personal, cultural and recreational services, construction services, insurance services, computer information services, other business services and travel.

Despite this impressive performance, developing countries' presence in the global market as suppliers of services is generally more limited, as international markets are largely supplied or dominated by developed countries. This obviously explains why most developing countries incur a deficit in the services account while sustaining a surplus in the merchandise account. This makes it a matter of urgency for developing countries to find ways of enhancing the contribution of services exports and eventually expanding their presence in the international services market. Some studies have highlighted how reform in the exported services sector could contribute positively to the sector's performance, eventually benefiting overall development (OECD, 1996). Although services contribute more than 50% to GDP in most developing countries, the sector's role on the external front has been quite unsatisfying, and is not clearly known in developing (especially Asian) countries.

1.3 Research Question

The present study seeks to address two main research questions:

- What are the determinants of services exports?
- What are the impacts of services exports on economic growth of the selected Asian developing countries?

1.4 Research Objectives

The objectives of this study are:

- i. To identify the determinants of services exports in selected Asian developing countries.
- ii. To examine the impact of services exports on the economic growth of selected Asian developing countries.

1.5 Significance of the Study

Since the pioneering theoretical models of international trade, many studies have examined issues related to trade flows, focusing largely on trade in goods and services (aggregated). Despite the growing importance of the services sector and the rapid internationalization of services, very few studies have explored issues related to trade in services in isolation. The existing literature on services focuses mainly on the growth impact of the services sector, determinants of services trade, determinants of services FDI and the growth impact of services FDI. There is little rigorous empirical work on the determinants of service trade (exports and imports) or the impact of services trade on economic growth. The present study makes two main contributions as elaborated below.

1.5.1 Practical or Policy Implications

This study focuses empirically on services exports in order to assess the determinants of services exports and their impact on economic growth. Such analysis is crucial not only from an academic perspective but also for policy. The findings should provide insights for policy makers as many developing countries are involved in WTO, with regional arrangements and liberalization of services trade as one key focus. It is apparent that many developing countries are reluctant to liberalize their services sector because of uncertainty about competitiveness and its growth impact. Findings from the present study may to some extent provide some insights on policy implications for developing countries as a whole. The present study would also serve as platform for more studies to be undertaken on issues relating to service trade in the future.

1.5.2 Complementing the Existing Literature

The present study should contribute by complementing the existing literature, especially with regard to the growth effects of services trade, as there are currently only a few studies of this issue (e.g. Francois & Schuknecht, 2000; Li et al., 2003; El Khoury & Savvides, 2006; Gabrielle, 2006; Mishra, Lundstrom, & Anand, 2011; Lorde, Francis, & Drakes, 2011; Dash & Parida, 2013; Alege &

Ogundipe, 2013). A similar scenario arises in respect of the determinants of services exports or services trade (e.g. Sapir, 1981; Freund & Weinhold, 2002; Kimura & Lee, 2006; Choi, 2010). Future researchers can gain from the outcome of this research, as potential researchers who are keen to investigate the services and trade sectors can utilize the literature review and the outcome of this study. They might also investigate its limitations to define new research dimensions and questions. In short, this study can be of value to future researchers and market analysts by virtue of its coverage of both academic and commercial issues.

1.6 Organization of the Chapters

The organization of this thesis is as follows. Following Chapter One, which has described the background of the study, problem statement, research objectives and significance, Chapter Two presents a review of the theoretical and empirical evidence on the determinants of services exports and the impact of services exports on economic growth. Chapter Three describes the theoretical framework, model specification, estimation procedures, variables and data sources. Chapter Four presents and discusses the findings. Chapter Five provides a summary of the study and suggests policy measures to enhance the contribution of the services sector to GDP, employment and the export sector.

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