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GLOBAL TRENDS IN SERVICES

Around the world, there has been a structural shift away from primary activities and manufacturing towards services. Services today account for over 70 per cent of production and employment in many advanced countries with producer services such as transport, communication, and distribution alone accounting for 20 per cent of GDP. In developing countries, services have similarly risen in importance, accounting for 40 per cent or more of total output in some countries and also constituting a significant share of total employment.

The growth in service sector output and employment has also been accompanied by increased internationalization of service sector transactions, driven by rapid advances in information and communication technology, the growing presence of multinational corporations and outsourcing of activities, and deregulation of services. According to the WTO, the value of commercial

services exports grew sevenfold between 1980 and 1999, from \$ 358 billion in 1980 to US \$ 933 billion in 1990 to \$1.4 trillion in 2000 while trade in merchandise goods recorded a fivefold increase over this same period. Between 1990-2000, world exports of commercial services kept pace with the

growth in merchandise exports, at an average rate of 6 percent per year.^{1,2} FDI in services has also expanded considerably in the past decade. By the end of the 1990s, FDI in services constituted about 40 per cent of the global stock of FDI. It consistently exceeded FDI in manufacturing during the 1990s. Overall, services trade represents about 20 per cent of global trade flows.³ Even this latter estimate is likely to underestimate the true value of services trade as it excludes the value of cross-border intrafirm services transactions, which have been rising rapidly in recent years.

Characteristics of Services Trade

Services have traditionally been viewed as being non-tradable, intangible, and non-storable. However, recent trends clearly indicate that services are tradable in various forms and that services trade is concentrated among certain countries, sectors, and activities. The following discussion highlights some of the main characteristics of services trade in terms of its modes of delivery, geographic, and sectoral profile.

A) Four Modes of Service Delivery

Services can be traded through various forms and modes of delivery, including transborder data and information flows and movement of capital, labour, consumers, and goods embodying services. The GATS conceives of services as being traded through four modes of supply, namely: cross border supply (mode 1) consumption abroad; (mode 2) commercial presence; (mode 3) and; movement of natural persons (mode 4).

i) Cross-border Trade: Mode 1

Cross-border trade is similar to the traditional notion of goods trade. In this mode, the service is embodied in a transportable media such as paper documents, computer diskettes, or digital form, and is transmitted via telecom links. In the balance of payments (BoP), mode 1 is represented mainly by services minus travel and government services, although this is not fully accurate due to overlap with other modes of services trade. Mode 1 based services trade has grown rapidly in recent years, in large part due to advancements in information technology and increased scope for transmission of information and transborder data flows. It grew faster than world GDP between 1985 and 1997. By 1997, cross border trade in services accounted for 3.1 per cent of world GDP and 13 percent of total world exports of goods and services. In value terms, it increased threefold during this period, from US \$ 270 billion in 1985 to \$890 billion in 1997. Even for countries with modest service exports, if one looks at indicators of relative specialization (ratio of mode 1 based services trade to total exports of goods and services), cross-border services trade features importantly. Given the growing potential for services trade via means such as e-commerce, telemedicine, and e-banking, mode 1 based services trade is likely to expand significantly in future.

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