

***MBA- III semester, Specialisation- Marketing Management, Paper - Service Marketing, Paper code- MC 02, TOPIC-GLOBAL TREND IN SERVICE-II***

*ii) Consumption Abroad: Mode 2*

Consumption abroad refers to services trade where the consumer of the service moves to the country that produces the service, as in the case of tourism. Mode 2 refers mainly to travel services, as given in the Bop, although there is likely to be some underestimation due to reasons such as e-commerce which make it difficult to separate out modes 1 and 2. In 1997, exports of travel services have increased faster than for mode 1, rising from US \$120 billion in 1985 to US \$ 430 billion, or 20 per cent of total services trade. Consumption abroad as measured by the travel services component of the Bop accounted for 1.5 per cent of world GDP and 6.3 per cent of global exports of goods and services.

*iii) Commercial Presence: Mode 3*

Commercial presence is when services trade involves the establishment of service operations in the consuming country as in the case of setting up bank branch offices or law offices overseas. It is analogous to foreign direct investment. Mode 3 covers juridical persons and legal entities that share characteristics of corporations, joint ventures, partnerships, and representative offices and branches. In existing BoP statistics, commercial presence is recorded in the form of data on international FDI flows and income stocks in financial accounts. However, FDI information alone does not provide an accurate picture of the total value of operations by service firms overseas. For instance, if a foreign affiliate is treated as a resident in the host country, the value of its services is not recorded in the BoP. An important supplementary measure of mode 3 based services trade is provided by the Foreign Affiliates Trade in Services (FATS) statistics. The FATS collect both inward and outward information on commercial presence through indicators such as sales, employment, and value added of majority owned enterprises located in foreign countries. Inward FATS statistics deal with the value of services provided by foreign affiliates established in the home country while outward FATS statistics deal with the value of services provided by foreign affiliates owned abroad by residents of the home country<sup>5</sup>. Gross output of foreign affiliates for 1997 is estimated at \$ 820 billion, or about 38 per cent of total services trade. The value of production by foreign affiliates constituted 2.9 per cent of world GDP and 12.1 per cent of world exports of goods and services.

*iv) Movement of Natural Persons: Mode 4*

This mode involves the delivery of the service through the temporary cross-border movement of service suppliers as in the case of software and construction services. There are two categories of such service providers, the self-employed and employees. The self-employed are individual foreign service suppliers who go overseas on their own to supply services. Employees are foreign natural persons employed by service suppliers to provide services, where the employer could be from the home or third countries. At present, mode 4 based services trade is captured in the Bop accounts under compensation for those established abroad. By this measure, world income from the compensation of employees stood at \$ 30 billion in 1997, or 1 per cent of total services trade and a meagre 0.1 per cent of world GDP.

**B) Geographic Profile**

Services trade is highly concentrated among a few developed countries and a few regions of the world. Developed countries account for 70 per cent or more of global services trade and this predominance holds across all four modes of supply. <sup>6</sup>Developing countries are relatively smaller players in services trade than in merchandise trade. Services trade between developed and developing countries occurs mostly in the context of modes 3 and 4 which relate to cross-border flows of capital and labour, respectively. The latter reflects the importance of capital and labour endowments in determining comparative advantage and the direction of trade and factor flows in services.

### **C) Sectoral Composition**

Trade data on commercial services is collected in the BoP for three broad categories of services, namely, travel, transport, and other services. Based on available BoP statistics, transportation services account for about one quarter of total services trade, travel services for about one third, and other commercial services for the remaining 40 per cent. A look at the relative growth performance of the three sub sectors further indicates a shift in composition towards “other” services and away from transport and travel services, with the former category recording relatively higher annual growth rates in recent years. Within the miscellaneous “other” services category, other business services, which include a variety of professional services such as advertising, legal, accountancy, technical, repair and maintenance, and other supporting services (many of which go unreported) account for 50 per cent of trade. Individual activities such as communication, finance, and insurance occupy a much smaller share of trade in this category.

### **D) Data Issues in Services**

While existing data clearly indicate the predominance of certain countries, subsectors, and forms of delivery in services trade, it is important to note that service sector data are subject to many shortcomings due to statistical, conceptual, and methodological difficulties in measuring this sector. There are major discrepancies between national income accounts and balance of payments statistics for the service sector. Such measurement problems and the resulting lack of comprehensive and accurate data on services are a major constraint to analysing services trade and investment flows.