

# The Crisis-Resilience of Services Trade: Cause for Complacency?

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Drawing on:

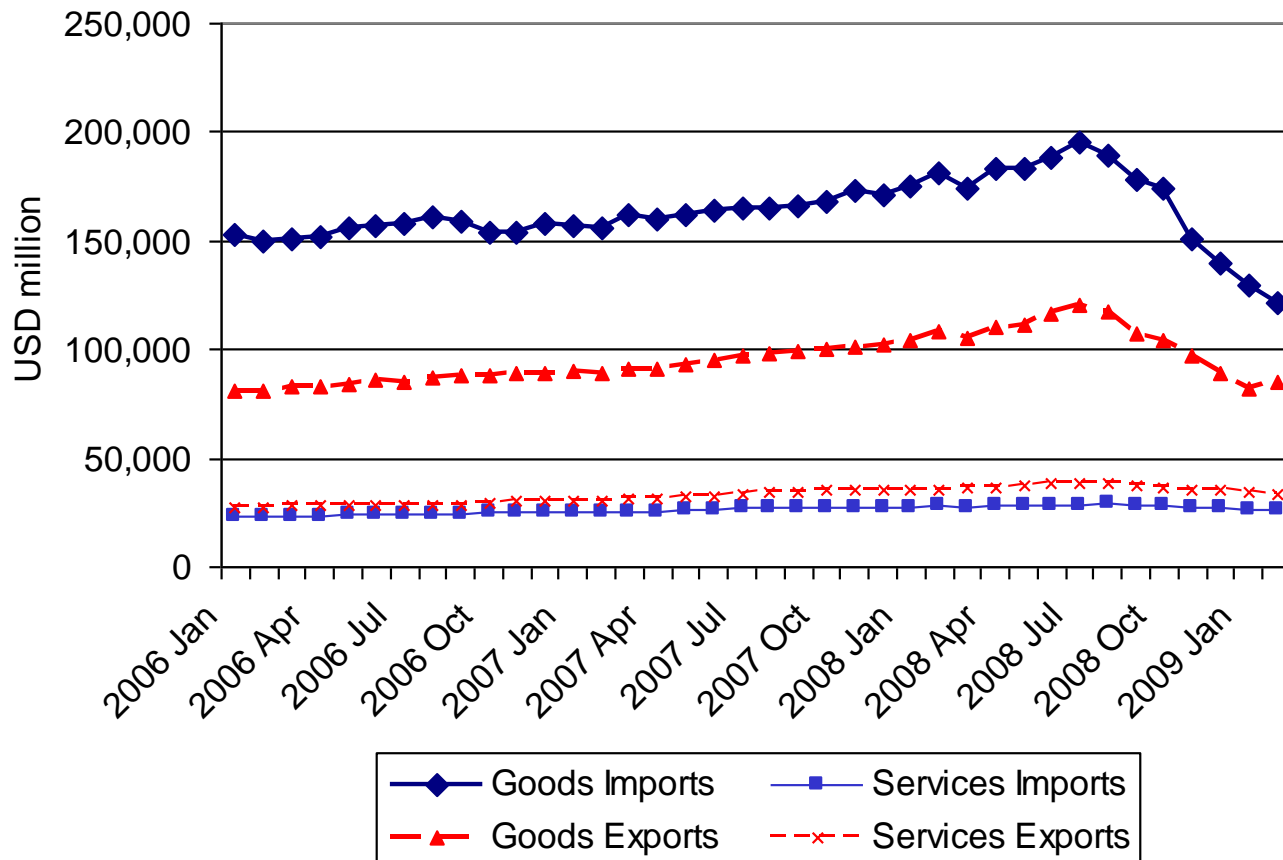
Ingo Borchert and Aaditya Mattoo (2009), The Crisis-Resilience of Services Trade, *World Bank Policy Research Working Paper* No. 4917.

# Structure of presentation

- Crisis-resilience of certain elements of services trade
- The reasons for resilience
- Causes for concern

# US Imports of services have proved much more resilient than imports of goods

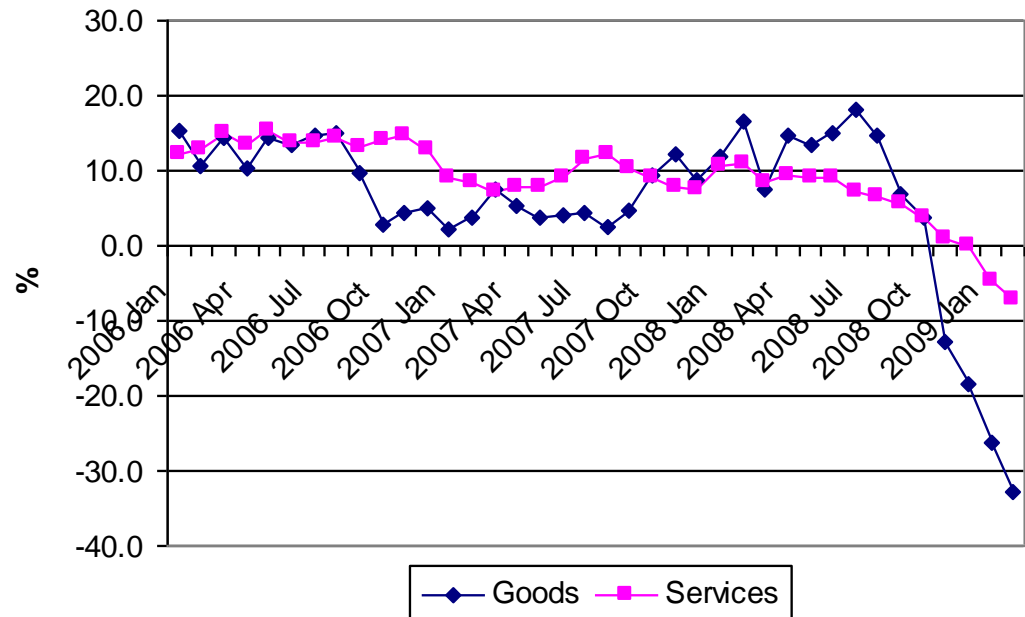
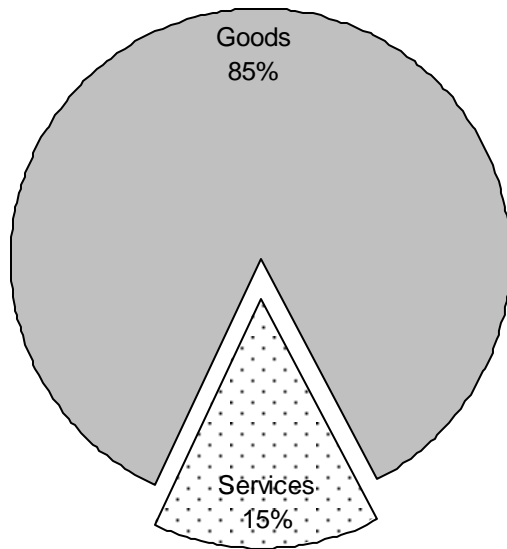
US Monthly Imports and Exports of Goods and Services,  
January 2006 – February 2009



Source: Borchert and Mattoo (2009).

# As of February 2009, US goods imports had declined year-on-year by 33 %; services imports by less than 7 %.

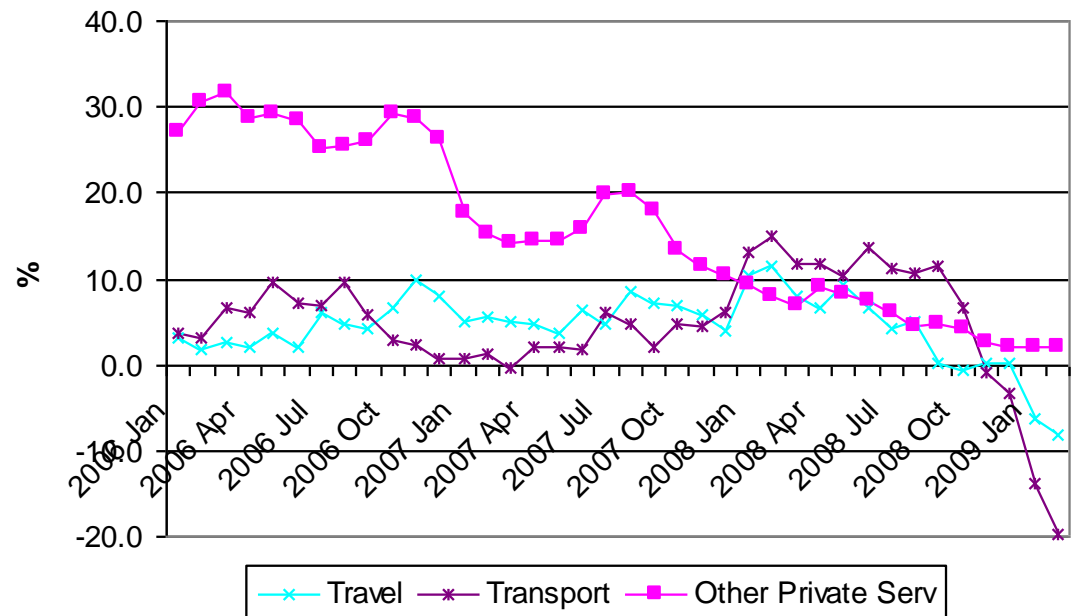
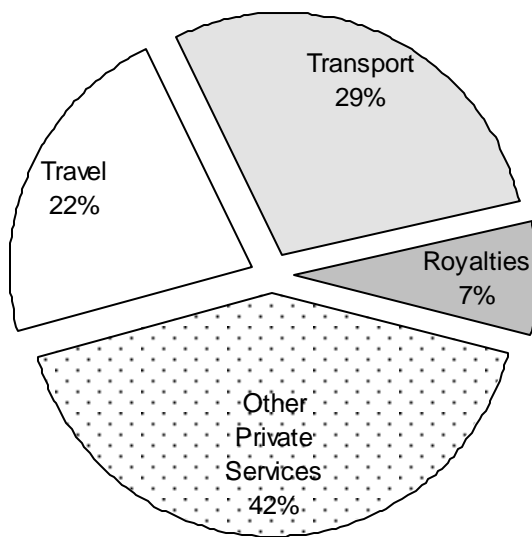
## US Monthly Imports of Total Goods and Services, Shares in Total Exports (2008) and Year-on-Year Growth Rates



Source: Borchert and Mattoo (2009).

# Within services, “other private services” have proved more resilient than transport and travel

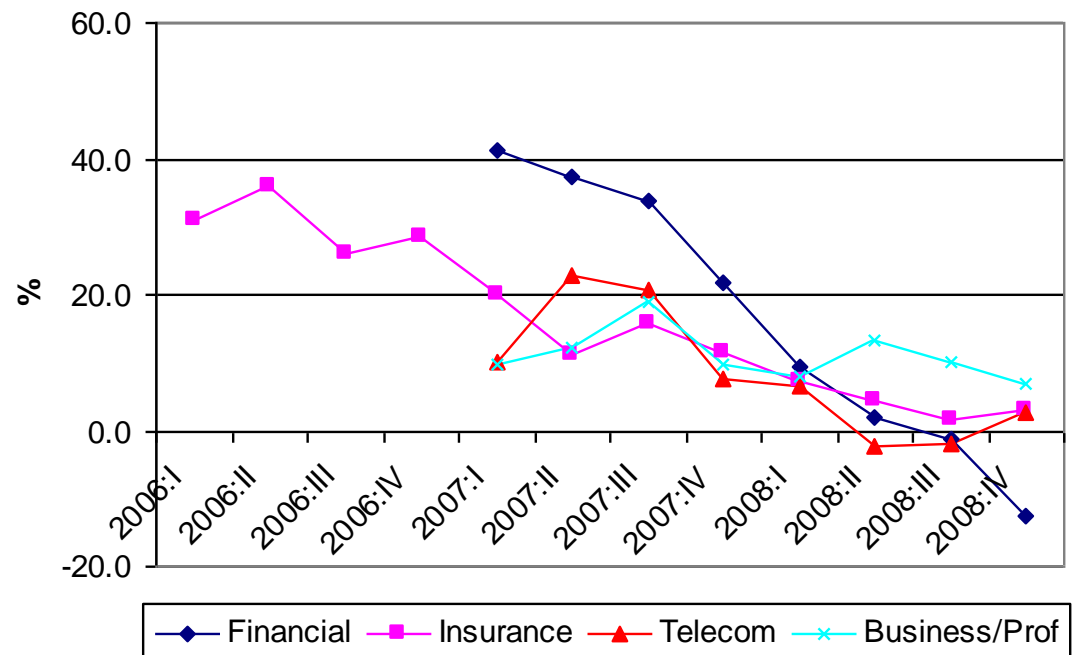
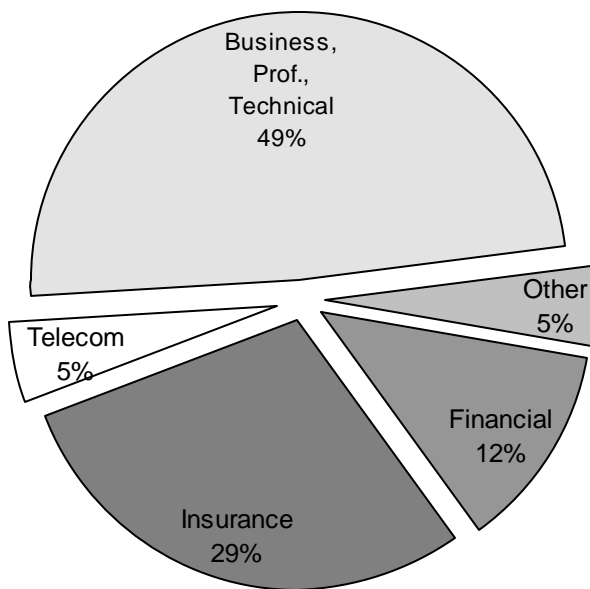
US Monthly Imports of Sub-Components of Services, Shares in Total Services Exports (2008) and Year-on-Year Growth Rates



Source: Borchert and Mattoo (2009).

# Within “other private services”, imports of financial services have shrunk, but insurance, telecom and business services are still growing

US Quarterly Imports of Sub-Components of Other Private Services, Shares in Total Private Services Exports (2008) and Year-on-Year Growth Rates



Source: Borchert and Mattoo (2009).

# Services trade is also relatively resilient in other OECD countries

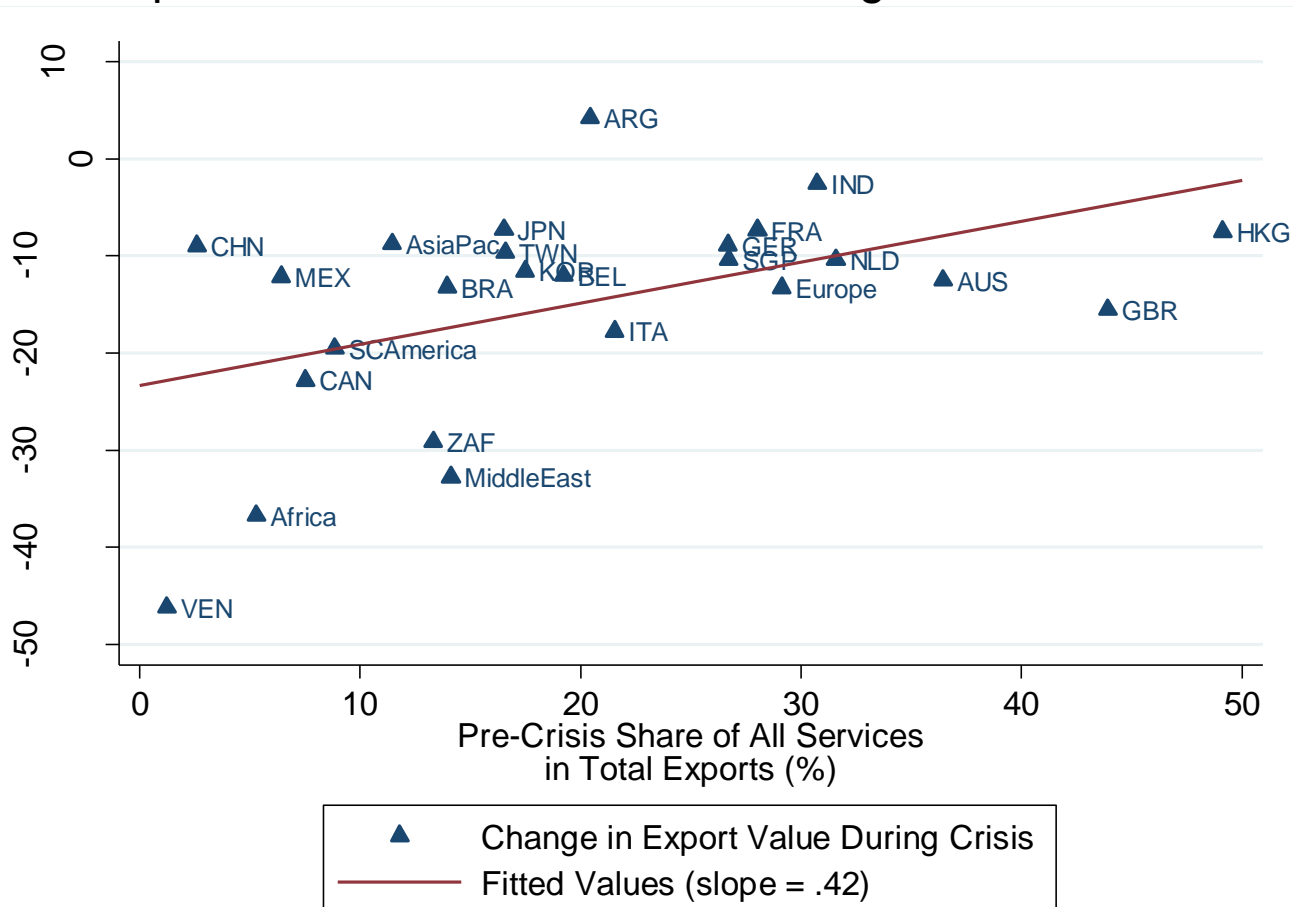
Quarterly Growth Rates of Goods and Services Imports of 29 OECD and 2 Non-OECD Countries



Source: Borchert and Mattoo (2009).

# Hence, exports of countries with higher shares of services have proved more resilient

Change in the Value and Growth Rates of Exports to the US and Share of Services in Exports, Selected Countries and Regions



Source: Borchert and Mattoo (2009).

# Why is services trade more resilient?

- Demand for imports is less cyclical:
  - Producer services (business process outsourcing) an integral part of production function of OECD firms
  - Also a way to cut costs in a very competitive environment
- Services trade is less external finance dependent
  - E.g. Indian firms are fully internally financed
- Not much action to restrict trade (so far)

# So far protectionist incentives have been weak

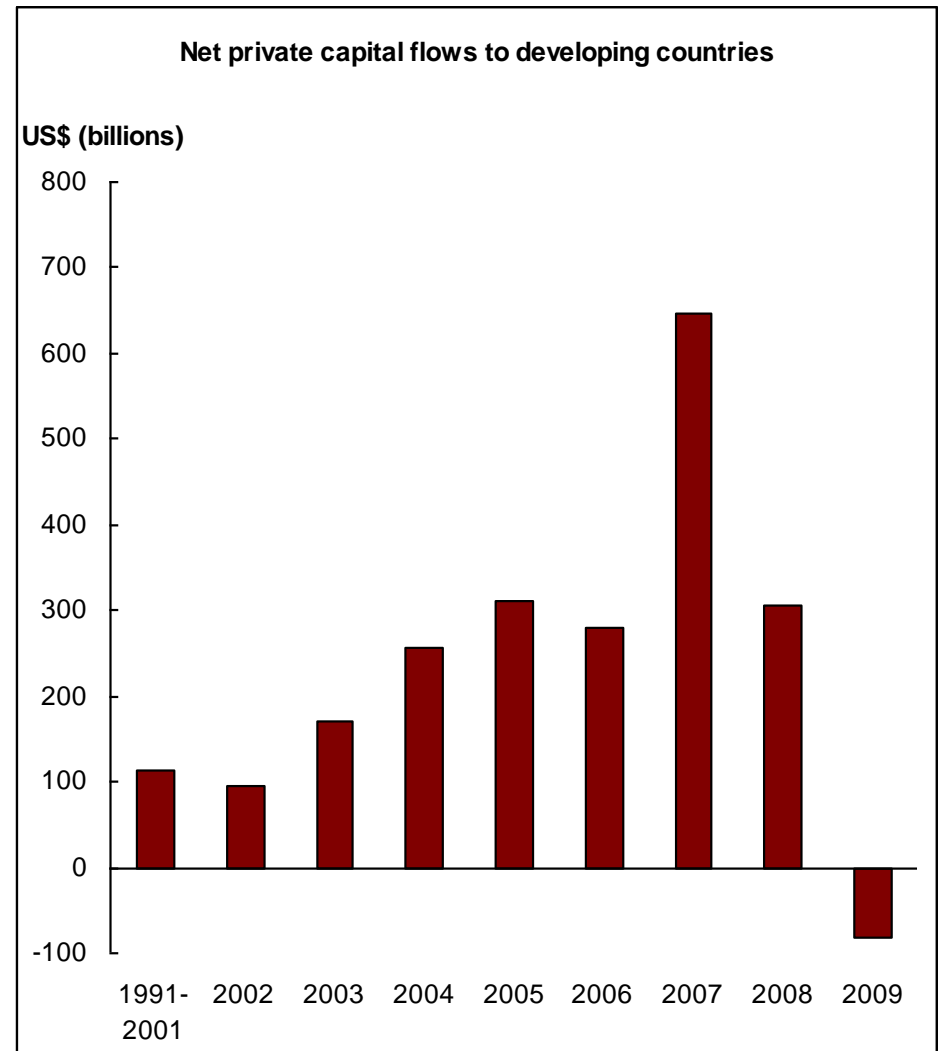
- Growing economic interdependence and reliance on imported intermediate services makes protection directly costly
- Dependence on foreign markets creates worries about retaliation (OECD dominates exports; several developing countries are among the most dynamic exporters)

# Potential Threat: Measures Not Adequately Covered by International Rules

- Financial bailouts and “financial nationalism” – potential crowding out of foreign borrowers.
- Widening boundaries of the state – thanks to the acquisition of firms – may introduce a national bias in firms’ choices regarding procurement and location of economic activity.
- Similarly, subsidies to private firms may be made contingent on national procurement, location and employment, e.g. restrictions on hiring foreigners by financial firms receiving bailout funds and changes in legislation re immigrants
- Similarly, the changing political and social climate may already be inducing “repatriation” of jobs

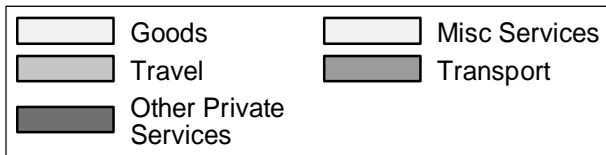
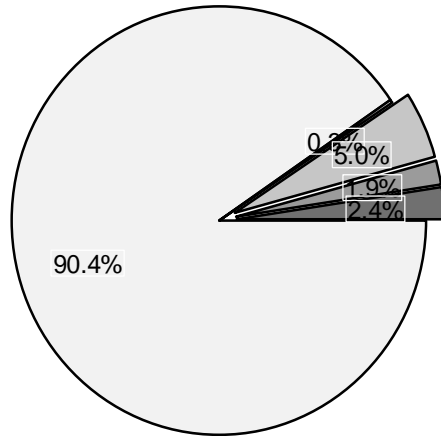
# Mode 3: Private capital flows to developing countries in steep decline

- Net private capital flows to developing countries will likely turn negative in 2009—a more than \$700 billion drop from 2007 peak
- After a peak in 2007 at a record US\$1.9 trillion, global FDI fell by roughly 15% in 2008. In 2009, FDI decline will be deeper and will spread to the developing world
- NB: No breakdown for services share

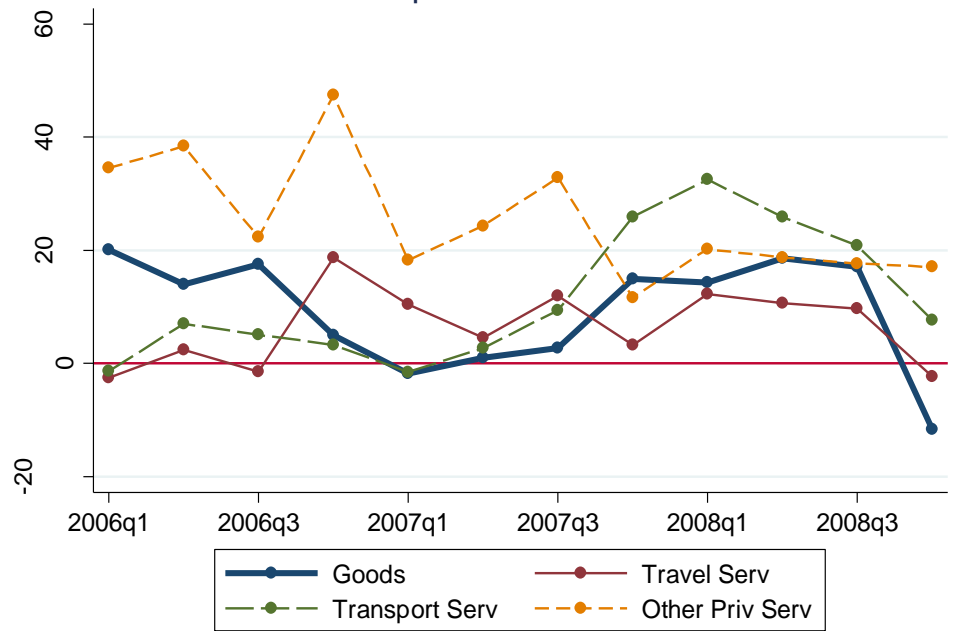


# South America

Composition of Imports from SCAmerica  
2008



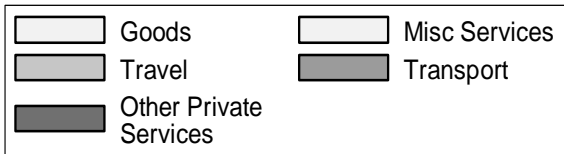
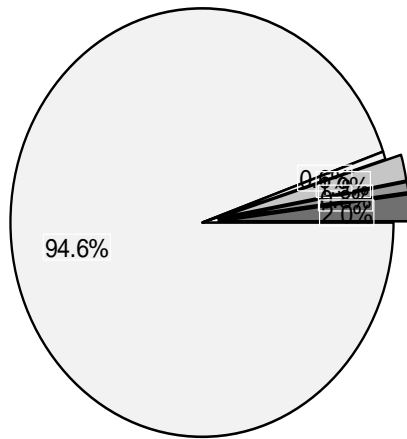
U.S. Imports from SCAmerica



Source: Borchert and Mattoo (2009).

# Africa

Composition of Imports from Africa  
2008



U.S. Imports from Africa

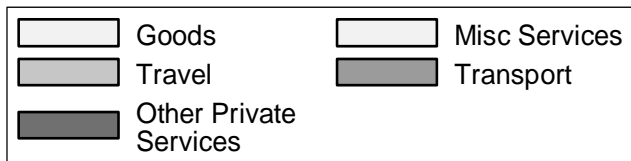
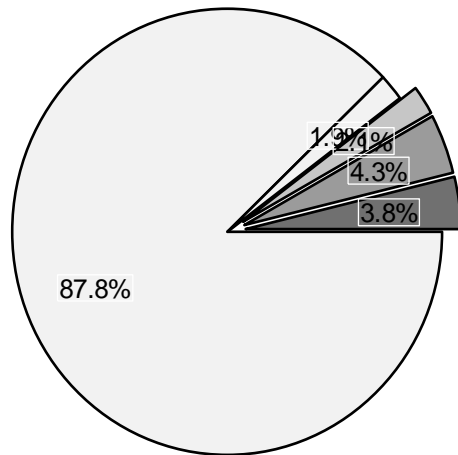


Source: Borchert and Mattoo (2009).

# Asia Pacific

Composition of Imports from AsiaPac

2008



U.S. Imports from AsiaPac

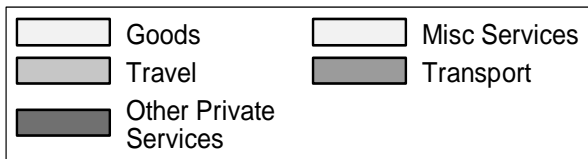
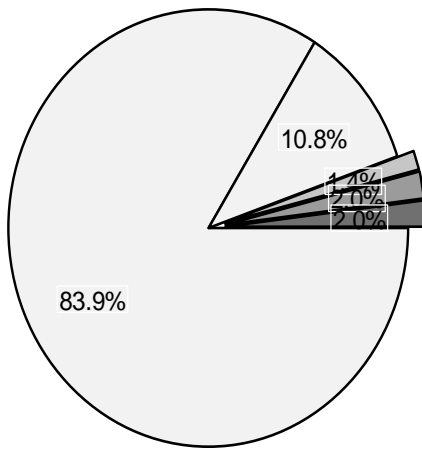


Source: Borchert and Mattoo (2009).

# Middle East

Composition of Imports from MiddleEast

2008



U.S. Imports from MiddleEast



Source: Borchert and Mattoo (2009).